



Msmes And The Upi: A Post-Pandemic Analysis

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Abstract

The paper tends to illustrate the impact digital service providers like the Uniform Payment Interface (UPI) had on India's micro-, small, and Medium-scale enterprises. This follows the broader impact digitalisation had on the economy of these enterprises during Covid-19 pandemic. This paper focuses on evolving post-pandemic scenario given these enterprises have adopted online payment modes on a large scale. It has been shown that despite advantages of the UPI, there are certain challenges these businesses face in properly adapting to the technology. These challenges exist at many levels. In conclusion, it has been pointed out that to overcome these challenges, there is a need for policy overview, without which it will be difficult to ascertain an all-encompassing digitalisation of the economy.

Introduction

Digitization of economy has opened up new avenues and thrown up new challenges for the Indian businesses. With the UPI¹, there has been a transformation in how transactions take place in India. According to a report published in Indian Express, value associated with the UPI transactions has touched one trillion dollars². From the large corporations to micro-, small and medium enterprises (MSMEs), it has led to a boom in cashless transactions. This amplified during the Covid-19 Pandemic³. Due to surge in infection caused by

¹ According to the Investopedia, an online repository of financial terminology, A Unified Payment Interface (UPI) is a single-window mobile payment system developed by the National Payments Corporation of India (NPCI). It eliminates the need to enter bank details or other sensitive information each time a customer initiates a transaction. (Source: <https://www.investopedia.com/terms/u/unified-payment-interface-upi.asp>)

² <https://indianexpress.com/article/explained/how-upi-transaction-values-crossed-1-trillion-in-2021-22-7846316/>

³ Coronavirus disease (COVID-19) is an infectious disease caused by the SARS-CoV-2 virus. The first case was reported in China in December, 2019. It spread to whole world leading to tremendous loss of lives and livelihood. (Source: <https://www.who.int/health-topics/coronavirus>)

person-to-person contact, various governments worldwide went into a lockdown, including India.⁴ People suffered catastrophic losses and grappled to adapt to this 'new' normal. Amidst the chaos, the UPI and other e-banking services proved the proverbial silver lining for many businesses. Many large and small businesses switched to the e-mode for the transactions. For large businesses and corporations, adapting to new modes of online payment did not prove much difficult for they had the required resource-pool and support system to ensue the transition. The MSMEs also transitioned but came with many obstacles and hindrances.

Moreover, these MSMEs did not have luxury of choice, for many it was question of survival. So, the UPI helped these business to wade through difficult times but not without exposing certain structural challenges these enterprises face in adopting to digitalisation. It has been three years since the first case of Covid-19 struck the World, yet its effect is still felt. The UPI introduced an alternate finance system for the MSMEs in these tough times. This paper will explore how the UPI continues to shape the course of action for the MSMEs.

What is UPI?

Internet Banking became a staple of Indian economy after Demonetization⁵. Yet Internet Banking has been around since 1990s. Everything in banking started to change from the first online banking launched by ICICI Bank in India in 1996 to the next two decades. The UPI is also an extension of the same incentive in a more ambitious way⁶. In simple words, the UPI is Uniform Payment Interface. In simple words it is gateway for online payments, and tends to make banking faster and more accessible. It aims to make banking a seamless process. India has seen an explosion in this sector in last few decades. With Indian IT sector making waves worldwide, the digital payment services like the UPI are an attempt to showcase India's growing influence in this field. The UPI applications enable transactions and provide the facilities of e-wallets, loans, recharge, payment of bills, etc., to the consumers. The UPI is all about making transactions fast and easy. It has been touted as key to financial inclusion. And tends to help the users in more than one ways. It is one of the most vibrant product of the Digital India Campaign. ⁷ It is an innovation ingeniously developed for instant payment option. UPI works with a technology known as Open API (application programming interface). API is a type interface where parties can be linked together easily. There is

⁴ Ibid

⁵ On November 8, 2016, the Government of India announced demonetisation of 500 and 1,000 currency notes in order to reign in laundered money and money illegally deposited in off-shore banks.. (Source : <https://indianexpress.com/article/india/six-years-demonetisation-look-what-happened-changed-8255652/>)

⁶ <https://pdfs.semanticscholar.org/a558/c2257a257fbc58315a9cbc1d09c40d36a90a.pdf>

⁷ Goswami, H. (2016). Opportunities and challenges of digital India programme. *International Education and Research Journal*, 2(11), 78-79.

no access restriction for users. The UPI is based on Open API platform. It has been designed in a way which together serves three major purposes: 1) is a mobile application 2) it is linked to the AADHAR number; to make it work without internet; and 3) is extremely easy to use. It has also provided great opportunity for innovation and fin-tech companies to integrate easily and offer value-added services. The concept of anytime, anywhere banking distinguishes traditional banking and mobile banking. The way digital payments work depends on how seamless the services are. Since its inception, the UPI has already become part and parcel of life of common Indians. From small dhabas, saloons, restaurants, fruit and vegetable vendors to travel and tour, multi-national corporations working in India have become a convenient tool for financial transactions. Cheap internet, devices and easy access for business owners have fueled its increase.

In addition to above, Demonetization (2016)⁸, and the Covid-19 pandemic⁹ had a huge impact on the boom of digital platforms. India had set on the path of Digitalisation of Economy in the 90s. Calamities like the Covid-19 and decisions like the Demonetization accelerated the process. Discussing the impact of Demonetization on this is beyond the scope of this paper. Here the main focus lies on how Covid-19 played a key role in amplifying its usage, especially among the MSMEs, and what lies ahead.

Impact of Covid-19 on MSMEs

The micro-, small-scale and medium-scale enterprises suffered most during the pandemic in India. These enterprises suffered losses during the lockdown due to supply chains being hit. Across the industries huge losses have been reported. Covid-19 not only lay bare the glaring inequities of contemporary economic policies but also the Digital Poverty of the masses.¹⁰ In India, this was most visible in Agriculture-related sectors and the Manufacturing sectors that suffered massive blows due to lockdown. Also, the burnt was borne by the MSMEs and the informal sector. In a drastic turn of events, people were on the cusp of losing everything. This became the reality for several small and micro businesses who were dealt a hit on their survival.¹¹

Both domestic demand and supply was hit. In face of the surmounting troubles, the UPI services helped many MSMEs to avert crisis. However, since the Lockdown has been lifted, new scenarios are getting visible vis-a-vis the same.

⁸ Ibid (5)

⁹ Ibid (3)

¹⁰ Barrantes, R. (2007). Analysis of ICT demand: what is digital poverty and how to measure it?. *Digital Poverty: Latin American and Caribbean Perspectives*, 29-53.

¹¹ Sahoo, P., & Ashwani. (2020). COVID-19 and Indian economy: Impact on growth, manufacturing, trade and MSME sector. *Global Business Review*, 21(5), 1159-1183.

UPI and the MSMEs : Post-Pandemic Analysis

The UPI helped many businesses to remain afloat. Since the transactions became easy and banking conceivable, the businesses suffered a little less than they could have. It does not mean small or medium scale businesses did not suffer any loss. The UPI only made certain aspects of the businesses easy, in many cases, things got worse. According to a report, many small and medium ventures suffered catastrophic losses. More people slipped to the BPL (Below Poverty Line)¹². The UPI acted as a buffer of sorts for complete shutdown of businesses, many cash-dependent ventures switched over to the UPI due to contact-less principle laid down by the government. Half because of adaptation, half because of Pandemic, the UPI evolved to become a necessary part of even the small businesses. The transactions have become smoother. The problem is with digital literacy. People are sceptical in using the platforms.

Moreover, how MSMEs performed in Urban spaces versus how they performed in rural spaces is something one needs to look at. Why focus on this? Without talking about the rural and urban settings, one cannot get a clearer picture of how well the UPI performed. Most of the MSMEs are rural or depend on rural edifice. In Rural India, several informal sector jobs and small businesses overlap. UPI can help bridge the rural-urban divide and help the rural crafts and designs gain national, and in possible scenario and with right investment, international status. It proved beneficial for consumers, as well as businesses, to manage all their payments online. It helped small kiriyana stores to keep the shops running, it helped retail stores to smoothly run the business. It also helped small vendors and food stalls owners to earn money without fear of contacting infection (due to cash). Also, with the help of Social Media Platforms like the Instagram and Facebook, many small businesspersons managed to carve out a niche for themselves. The UPI facilitated many such businesses going pan-India, some even going international. And these business included homemade food, local arts, jewellery, journals, diaries, local crafts, and even digital products. This has helped a large number of start-ups to gain momentum in the country.

The UPI has bought a revolution in fin-tech sector. It augurs well for the Digital India ambition of the State. So much so that the Indian Government has struck a deal with several Governments to make the Indian gateways an international dominion. ¹³ India can strengthen its role as a key player in the global economy by facilitating open payment systems to support growing global collaboration for technology and financial providers. The banking and technology sectors, tourism and hospitality, would b

¹² https://www.business-standard.com/article/economy-policy/230-million-indians-pushed-into-poverty-amid-covid-19-pandemic-report-121050600751_1.html

¹³The Indian Government struck a deal with the Singapore authorities for use of the UPI. It is also in talks with the European Union members for the same. (Source: <https://indianexpress.com/article/explained/explained-economics/upi-singapore-paynow-integration-significance-8457391/>)

enefit most from the global acceptance of new, more inclusive global payment systems. This helped small and medium businesses in several ways.¹⁴ As mentioned earlier, there are certain challenges to this ambition. According to the International Labour Organization (ILO), small businesses operating in the informal sector have limited abilities and resources to manage the effects of the pandemic on their operations (ILO, 2020). The right support for business growth such as access to loans and boosting the entrepreneurship ecosystem was truncated by the economic impact of COVID-19 in developing countries. And India was no exception to this. India is one of the countries where many MSMEs engage in many enterprises. And the Covid-19 impacted the way these engagements got hindered.ⁱ

Rural vs Urban Scenario

Why focus on this? In Urban areas where the administrative sectors are spatially closer, it gets easier to avail the facilities like UPI. Here the connectivity is more readily available and opportunities are more. In rural landscapes, impediments are experienced at involvement rate. There is lack of acceptance of digital banking services due to associated myths and lack of digital literacy. The government aims to digitize the entire banking infrastructure and favor digital transactions over traditional transactions such as checks, withdrawals, etc. However, this campaign faces several problems, the two most important of which are: the infrastructure is very backward and most rural parts of India do not even have the basic forms of internet, which is a basic need. digital bank. The second, almost 65 percent, of mobile phone users in India are smartphone users. Most rural users do not even have basic knowledge of smartphones or ATMs and rely solely on basic banking tools. such as checks, withdrawals, etc.¹⁵

Digital Literacy and Rural India

The Indian State laid out a plan to cover every village in India concerning digital connectivity. It aims at bringing last village in India under Internet connectivity, namely the 4G/5G coverage.¹⁶

India has more than 5 percent using Mobile phones, cellular phones, but a proportion of the population still does not use smartphones. Even if people own one, covering all families residing in the villages is insufficient. This became an impediment in online education as well, divulging on this aspect is beyond the scope of this paper. This has emerged as one of the main reasons for the Rural MSMEs to lag in the Digitization race.

¹⁴ Omar Ramon Serrano Oswald & Jappe Eckhardt (2022) New champions of preferential trade? Two-level games in China's and India's shifting commercial strategies, Review of International Political Economy, DOI: [10.1080/09692290.2022.2060278](https://doi.org/10.1080/09692290.2022.2060278)

¹⁵ Ibid (6)

¹⁶ https://www.business-standard.com/article/economy-policy/govt-investing-30-bn-in-creating-4g-5g-infra-in-rural-india-it-minister-122092201263_1.html

In addition to lack of smartphone access, there is a lack of awareness and trust regarding the UPI. The media's role and influence of Social Media and all the sensationalism associated to online scams contributes to the fear. The Youth in Rural India tend to be more sure about these platforms. The elder generation still lacks proper know-how of how to use these platforms (this is true for the senior citizens in the urban dwellings as well). Even among the youth, largest demographic in India, not everyone has the required skill-set, and trusts on these platforms, whether urban or rural. Though this is changing at a fast pace.

There should be concerted efforts in tending to this problem and walking effectively with it. Though India has around a million of cellphone users. Not all of them use or afford smartphones. It is still a luxury for many Indian households that they cannot afford.

Bank connectivity and Rural India

Around 2.5 million people in rural areas of India have enrolled themselves in cashless transactions and around 55,000 merchants have moved into a digital platform for payments.¹⁷ There is still a commitment to maintaining the efficiency of digital transactions and formulating a cashless economy specifically in rural areas to maintain common understanding standardization and reap the benefits of a cashless economy. .

This faces some serious serious issues though. There is a large proportion of rural population that does not possess bank accounts or has inadequate access to banking facilities, As stated in the above passage, many are sceptical to use the online banking services due to several reasons and tend to rely on the traditional banking system. The State wants this project to reach far and wide and has taken many steps in this direction.

For instance the initiative of the Aadhar Pay undertaken by the Government,¹⁸ has led to decline in number of enrollments in MGNREGA scheme¹⁹. People in rural areas struggle with the basic documentation, it is far-fetched to assume that the transition to online banking is some years project. It will take an overhaul at the grass-roots level for the banking in rural areas go full-fledged digital.ⁱⁱ

Reach and Accessibility

Accessibility is a major issue when adopting the digital mode of finances. And it is not accessibility in terms of devices only. Many of the micro and small industries suffer from a lack of proper tools, software and financial support to carry on their operations, Small businesses need to act faster to adapt their business models to

¹⁷ <https://journals.sagepub.com/doi/pdf/10.1177/2394901519825912>

¹⁸ Ibid (9)

¹⁹ <https://thewire.in/rights/aadhaar-payments-compulsory-nrega>

survive; Conversely, large companies can afford to wait longer with resource stocks to see what's working in the market before changing their business models. This became quite evident during Pandemic, disruption was more evident in micro- and small industries than the large corporations.

The situation tends to get a little more complicated. Large Corporations need not worry about the core business much due to the multiple chains working in multiple locations. Most of the MSMEs are alluded this safety net and tend to be localized. They cannot afford to move business on the cue. This also became why the MSMEs in various urban and sub-urban pockets went haggard in online mode, and even during the Demonetization, it was the MSMEs enrolling themselves in the online mode much quickly than the large corporations or well-established business enterprisesⁱⁱⁱ. They could not manage further risks. And were dependent on local consumption trends for their survival.

Cashless Transactions : Easier said than done?

As much as the UPI has promoted Financial and digital Inclusive, cash is still the main form of payment. Certain reasons like Rural-Urban divide, lack of resources and accessibility to proper tools and equipment are some reasons. Yet these are not the only reasons.

According to the RBI report^{iv}, the transactions may have increased tremendously but have not led to decreased cash circulation. If anything cash remains in circulation, especially for transactions exceeding 50,000. Also, many UPI gateways like the PayTm (that have transcended the banking properly) do not offer more than one lac loans. Other gateways also suffer from these lagging. There is also issue of Internet stability in the country. Issue of transaction limit, online hacking and certain security concerns that keep cash the predominant mode of circulation and payment.

Transaction Limit

Platforms like PayTm do not allow transaction above 1 lac. There is transaction limit for other platforms as well. This in turn means that a limited number of financial exchanges are possible with the UPI. This means that the business-people remain dependent on cash and other traditional banking services for undertaking large transactions.

Internet situation in India

India has not a reliable network in many far-flung areas even though the government has talked about bringing every village under connectivity²⁰. Hence businesses in these areas cannot rely on UPI payments for all the transactions, all the times. That is why dependency on cash is still strong

²⁰ Ibid (16)

This is however not a rural concern only. Even in city connectivity can default either on Bank's or the Gateway's sides. Then there is issue of internet shutdowns in conflict zones like the North-east and Kashmir. Given the precarity of situations there, these regions cannot afford to rely on online transactions. Kashmir suffered an Internet shutdown almost six months after the Article 370's revocation.^v In such scenario, one cannot switch to cashless modes without some serious concerns. Also, political diversity in the country can lead to communal clashes, and riots or other political volatility leads to an Internet shutdown. In such situations, cash is still the main mode of payment.²¹

This puts MSMEs in a fix. Their businesses tend to be affected by all of the above. These disruptive trends in the form of connectivity and political volatility instill a precautionary attitude within the merchants and business owners when transitioning to these modes of online payment.

Security Concerns

Digitalisation has brought several security challenges for the state, vendors, merchants, and consumers. Main concern remains privacy. Online platforms are susceptible to many cyber security issues. It involves a certain degree of risk for small and micro enter[prises to give their financial details. They are more at risk of being targeted. Any untoward incident can lead to losses from slight and temporary to heavy and lifelong savings being given up. Statistical evidence supports that these apprehensions are not totally out of place. With hackers and cyber-criminals getting advanced with the newer technologies, more accounts are prone to online hacking

This has been particularly problematic. In Year 2022, almost daily a hundred customers receive spam calls, phishing mails, dubious links in SMS and emails, this renders accounts vulnerable. Many MSMEs do not have access to robust anti-malware technologies, and with reports of people being duped of their money makes these transactions a little more unsafe. Reliance on PIN-based locks is also prone to leaks. This makes online banking a particularly easy-to-break into locker than the actual bank. It is much harder to break into actual accounts, it is much easier to gain access into the online accounts. For small business holders, this can be devastating—one wrong pin, one wrong click, one peek while typing the pin and all savings lost. The security wall safeguarding these portals are regularly upgraded and well-maintained. Yet the risks remain. Safety is the most important and necessary thing. Complete security between sender and receiver should be better. Reading the data from the smartphone to the server must be strongly encrypted. Likewise, sending or receiving money should not be complicated for security reasons. It must be simple, practical and equipped with all safety features.

²¹ In the face of revocation of Article 370 in August, 2019, Jammu and Kashmir faced an internet shutdown spanning six months.

Also, the security concerns remain in tracking down the illegal and illicit transactions between the consumers and vendors. Tracking down the payment trail is much easier in online transactions. This induces a feeling of being under the surveillance every time. Online transactions are a part of digital footprint. It is both a negative and a positive aspect for the MSMEs.^{vi}

Conclusion

Some sectors vouch for the UPI today. It has become one of the most successful aspects of Digital India Campaign. Millions of Indians use the UPI gateways for their day-to-day payments. Indian State has high hopes pinning on this service as a testament to growth of India's IT sector.

This does not, however, come without challenges. A range of issues confront the total implementation of the UPI as a substitute for the cash. There are certain inequities, accessibility issues and other set of challenges that make it difficult for this becoming a reality.

The policy implication could be that the government should provide the infrastructural support needed for open banking, multiplying the impact of financial integration. In addition, government and regulators should provide citizens with knowledge and information about basic finance and various digital modalities for seamless implementation.

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Endnote

ⁱ Covid-19 led to a decline in trade and exports. Many micro- and small industries ran out of capital to support themselves. It also led to the growth of hybrid economy-where both online and offline factors contributed to the growth of the country.

ⁱⁱ It is not only banks in rural areas that suffer from certain structural and infrastructure-related issues. This is true for the banks in Urban and semi-urban areas as well

ⁱⁱⁱ Large corporations did not suffer disruptive losses like the MSMEs even though these also suffered losses

^{iv}https://www.business-standard.com/article/economy-policy/currency-in-circulation-rises-by-83-since-demonetisation-in-2016-rbi-data-123010200439_1.html

^v The Article 370 granted a special status to the erstwhile state of Jammu and Kashmir. It was repealed in August, 2019

^{vi} Tracing the digital footprint of the consumer is a two-way street. It can be used to track the fraudulent and underhanded payments. On the flip side, it leaves consumer data vulnerable and something as personal as financial transaction is not free from this.