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## Driving India's \$5 Trillion Ambition: The Role of Digital Payments in Transforming the Unorganised Sector

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### ABSTRACT

This paper explores the transformative role of digital payments in India's unorganised sector within the broader context of the nation's \$5 trillion economy vision. The unorganised sector, comprising nearly 45% of India's GDP and employing around 90% of the workforce, faces significant challenges including limited financial inclusion, digital literacy gaps, infrastructural inadequacies, and behavioral resistance to cashless transactions. Leveraging digital payment systems, particularly the Unified Payments Interface (UPI), has significantly improved transaction efficiencies, enhanced transparency, and fostered formalisation, enabling micro, small, and medium enterprises (MSMEs) to gain better access to credit and financial services. The digitalisation efforts have also contributed to increased tax compliance and government revenues, amplifying economic growth prospects. The paper further examines policy and regulatory frameworks shaped by the Reserve Bank of India, National Payments Corporation of India, and government digital inclusion initiatives that support the scaling of digital payments. Despite advancements, challenges such as cybersecurity threats, rural-urban and gender digital divides, and the persistence of cash dependency remain. Recommendations include enhancing digital infrastructure, multi-



stakeholder collaboration among fintechs, banks, and technology companies, and targeted capacity building and awareness drives. Ultimately, integrating the unorganised sector with digital finance emerges as a strategic imperative to realize inclusive, sustainable growth and achieve India's \$5 trillion economic ambition.

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## Introduction

India's vision of becoming a \$5 trillion economy represents a transformative national ambition, first articulated by Prime Minister Narendra Modi during his 2019 Independence Day address (GKToday, 2024). The aim is to propel India into the ranks of leading global economic powers by expanding its gross domestic product (GDP) from approximately \$2.94 trillion in 2019 to \$5 trillion over a period initially targeted for 2024–25, but now projected closer to 2027 due to pandemic-related delays (GKToday, 2024; IBEF, 2025). Achieving this vision requires consistently high annual GDP growth rates, sustained policy reforms, and expansive investment in infrastructure, industry, and digitalization (GKToday, 2024).

The \$5 trillion economy roadmap emphasizes multifaceted strategies, including a capex-led growth model, aggressive promotion of manufacturing through initiatives like "Make in India," increased digitalization, and sectoral reforms across agriculture and services (Study IQ, 2024; PIB, 2018). As of July 2025, India's GDP is estimated at \$3.39 trillion, positioning the country as the world's fifth-largest economy, with further projections estimating the \$5 trillion milestone could be surpassed by 2027 (IBEF, 2025). This ambitious target has driven an uptick in policy interventions, with the government raising capital expenditure to 4.5% of GDP in 2023–24 and investments reaching a decadal high of 34% of GDP, all aimed at fostering a globally competitive, inclusive, and resilient economic environment (Study IQ, 2024).

The unorganised sector remains a cornerstone of India's economy, both in terms of its contribution to gross domestic product (GDP) and employment generation. As of 2023–24, the unorganised sector contributed nearly 45% to India's GDP, reflecting its critical role in keeping the economic engine running (PIB, 2025; Tribune India, 2025). This sector encompasses a wide array of small and medium enterprises, household businesses, street vendors, and daily wage earners, most of which function outside the realm of formal regulation and social security provisions (Vajiram & Ravi, 2025). Their aggregate



output is vital not just for sustaining livelihoods but also for fulfilling the diverse consumer and service needs across rural and urban landscapes (Vajiram & Ravi, 2025).

Employment in the unorganised sector is similarly extensive, accounting for approximately 74–90% of the total workforce in India as of 2025 (PIB, 2025; Tribune India, 2025; NEXT IAS, 2024). Recent statistics indicate that nearly 12.9 crore (129 million) people were employed in India's unorganised sector as of the second quarter of 2025, underscoring its unmatched significance in job creation (Times of India, 2025). The predominance of unorganised employment is a hallmark of both agriculture and non-agricultural activities and highlights the persistent challenge of informalisation in India's economic structure (Vajiram & Ravi, 2025; NEXT IAS, 2024). Thus, fostering growth, productivity, and formalisation within the unorganised sector is essential for inclusive and sustainable economic development as India aspires to achieve its \$5 trillion economy vision.

### **Objectives of the Study**

1. To analyze the contribution and significance of the unorganised sector in India's journey towards a \$5 trillion economy.
2. To examine the adoption, challenges, and potential of digital payment systems in the unorganised sector.
3. To identify barriers affecting digital financial inclusion among unorganised sector stakeholders.
4. To evaluate the impact of digital payments on income generation, transparency, and formalisation within the unorganised sector.
5. To provide policy recommendations for enhancing digital penetration and economic empowerment in the unorganised segment.

### **Scope of the Study**

The study focuses on the unorganised sector across India, covering a variety of sub-sectors such as micro-enterprises, self-employed workers, daily wage earners, street vendors, and small traders. It examines trends in digital payment adoption between 2020 and 2025, capturing both rural and urban perspectives. The analysis addresses socioeconomic, infrastructural, and behavioural factors, drawing insights from government policies, stakeholder interviews, secondary data, and recent academic findings. The broader context links these findings to India's \$5 trillion economy vision and highlights the need for inclusive digital growth.



The unorganised sector in India is defined as comprising all unincorporated private enterprises owned by individuals or households, primarily operating on a small scale with fewer than ten workers, and often functioning outside the regulatory purview of the government (National Commission for Enterprises in the Unorganised Sector, 2008; Wikipedia, 2013). Its main characteristics include ease of entry and exit, local or family-based ownership, limited capital investment, labor-intensive operations, use of traditional technology, informal employer-employee relationships, absence of social security benefits, and low job security for workers (Wikipedia, 2013; Blog iPleaders, 2020). Employees in this sector typically face irregular employment, lower wages, a lack of employee benefits, and minimal legal protection (Vedantu, 2025).

Regarding size, the unorganised sector constitutes a substantial portion of India's economy and workforce. As of 2025, it is estimated to contribute approximately 45% to India's GDP and provides employment to nearly 90% of the total workforce (Tribune India, 2025; Vajiram & Ravi, 2025). This sector includes agricultural laborers, cottage and small-scale industries, street vendors, construction workers, artisans, and home-based workers (CBWE, 1999). These enterprises typically employ fewer than ten people, are largely unregistered, and play a crucial role in providing livelihoods for millions.

One of the most significant challenges faced by the unorganised sector in financial inclusion is the limited access to formal financial institutions and digital payment systems. Major barriers include low levels of digital literacy, lack of necessary technological infrastructure, irregular income patterns, absence of formal documentation, and widespread mistrust of digital platforms (Vajiram & Ravi, 2025; Vedantu, 2025). Moreover, the sector's vast and fragmented nature, predominance of cash transactions, and reluctance to formalise due to regulatory compliance costs further hinder efforts to bring these workers and enterprises into the ambit of financial inclusion and digital payments (Vedantu, 2025; Wikipedia, 2013).

Barriers to the adoption of digital payments in India's unorganised sector are multifaceted. One major challenge is the digital literacy and awareness gap. Many individuals in this sector have limited familiarity with digital technologies and payment systems, which impedes their ability to effectively use platforms like UPI and mobile wallets (FIA Global, 2025). This gap is compounded by language barriers, as many digital payment interfaces are primarily offered in English and a few major regional languages, leaving out a significant portion of users who speak less common dialects (World Journal of Advanced Research and Reviews, 2025).



Trust and security concerns also significantly deter adoption. Unorganised sector actors often fear fraud, data theft, and misuse of personal information, diminishing their confidence in digital platforms (FIA Global, 2025). Additionally, infrastructure limitations such as inconsistent internet connectivity, lack of access to affordable smartphones, and high data costs restrict the ability of many small-scale merchants and workers to transact digitally (World Journal of Advanced Research and Reviews, 2025; FIA Global, 2025). Furthermore, behavioral and cultural resistance play a role, where entrenched preferences for cash transactions persist due to habit, perceived ease, and anonymity of cash, as well as a distrust of formal financial intermediaries (Payments CMI, 2025). This resistance is heightened in rural and semi-urban areas where cash remains deeply embedded in economic activities.

Barriers to adopting digital payments in India's unorganised sector include significant challenges related to digital literacy and awareness. Many individuals and small business owners lack the necessary skills and knowledge to effectively use digital payment platforms such as UPI or mobile wallets, partly due to language limitations and inadequate user-friendly interfaces that fail to cater to diverse regional languages and educational levels (FIA Global, 2025; World Journal of Advanced Research and Reviews, 2025).

Trust and security concerns also contribute heavily to reluctance in digital payment adoption; fears of fraud, data privacy breaches, and security vulnerabilities inhibit confidence among unorganised sector participants (FIA Global, 2025). Infrastructure limitations such as poor internet connectivity in rural or remote locations, limited access to affordable smartphones, and high data costs further discourage consistent use of digital payments (World Journal of Advanced Research and Reviews, 2025; FIA Global, 2025). Additionally, deep-rooted behavioral and cultural resistance sustains a preference for cash, driven by habit, ease of use, perceived anonymity, and distrust of formal financial systems, especially in semi-urban and rural environments where cash remains dominant (Payments CMI, 2025).

Digital payments offer numerous opportunities and benefits for India's unorganised sector, notably in reducing transaction costs by enabling instant, low-cost, and secure fund transfers compared to traditional cash or banking methods (IJCRT, 2025). The introduction and widespread use of UPI, for example, have significantly lowered the operational costs for micro-enterprises by eliminating the need for physical cash handling and reducing reconciliation efforts (Bluekraft, 2025).

These digital systems also enhance transparency and formalisation of business transactions. By creating a digital audit trail, they reduce cash-based informal activities and encourage the registration and formal



reporting of incomes, fostering greater trust and integration with formal financial institutions (BIS, 2024). This formalisation is crucial as it allows small businesses and informal workers to build credible digital footprints, which in turn improves their access to credit from banks and microfinance institutions, enabling productive investments and business expansion (Bluekraft, 2025).

Moreover, digital payment adoption leads to improved tax compliance and government revenues, as transaction digitization minimizes tax evasion and leakage. This streamlines revenue collection, supporting public investment in infrastructure and social welfare programs, further strengthening the economy (BIS, 2024; Bluekraft, 2025). The combined effect of these benefits not only boosts productivity and financial inclusion in the unorganised sector but also contributes toward realizing India's \$5 trillion economy vision.

India's digital payment ecosystem is governed by a robust policy and regulatory framework primarily shaped by the Reserve Bank of India (RBI), the National Payments Corporation of India (NPCI), and various government schemes. The RBI's establishment of the Payments Regulatory Board (PRB) in 2025 marked a major regulatory shift, replacing earlier supervisory structures to enhance accountability, uniformity, and security across all payment systems (Maximus Infoware, 2025). The PRB oversees licensing, regulation, and supervision of payment systems, ensuring secure, reliable, and accessible payment infrastructures that foster innovation while protecting users. NPCI, as the umbrella organisation for retail payment systems like UPI, plays an instrumental role in driving interoperability, standardisation, and inclusive digital financial services (Ujjivan SFB, 2025).

Government initiatives under the Digital India programme and financial inclusion missions complement this framework by promoting digital literacy, expanding internet connectivity, and incentivising digital payment usage among underbanked populations (EY, 2025). Key schemes such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) and digital onboarding drives have significantly enhanced both banking penetration and digital transaction volume. However, the dynamic growth of digital payments requires continuous adaptation in legal and policy environments to address emerging challenges such as data privacy, cybersecurity, and consumer protection (RBI Digital Lending Directions, 2025; Maximus Infoware, 2025). Consequently, a supportive legal framework that balances innovation promotion with stringent security and compliance measures remains essential for the sustained progress of India's digital payment ecosystem.



Digitalisation plays a pivotal role in India's ambition to become a \$5 trillion economy by enhancing productivity growth across sectors. The country's investment in Digital Public Infrastructure (DPI) — including Aadhaar for identity, UPI for payments, DigiLocker for document storage, and Account Aggregator for data sharing — has driven significant efficiency and inclusivity in economic activities (Economic Times, 2025). Digital payments alone accounted for transaction volumes equivalent to 55% of India's GDP as of early 2023, highlighting their crucial role in accelerating economic transactions, reducing friction, and enabling seamless business operations (Economic Times, 2025). Such digitalisation leads to higher productivity, reduced informal activities, and better resource allocation, fueling GDP expansion.

Formalising unorganised enterprises through digital finance enhances their access to formal credit and financial services, which historically have been limited due to lack of credit histories or formal records (IJFMR, 2023). The electronic footprints created by digital payment usage enable lenders to assess creditworthiness, thereby unlocking working capital and investment opportunities. This formalisation fosters greater participation of micro, small, and medium enterprises (MSMEs) in the broader economy. The multiplier effects of this process ripple through increased employment generation, as MSMEs scale up operations and hire more workers, and through exports as formal supply chains become more efficient and globally competitive (Economic Times, 2025; IJFMR, 2023).

India's digital payments ecosystem faces significant cybersecurity threats as it scales rapidly. Between 2023 and 2025, fraud incidents such as phishing, account takeovers, synthetic identity fraud, and ransomware attacks have surged sharply (Economic Times CISO, 2025). For instance, UPI-related frauds rose 85% in FY 2023-24 with losses exceeding INR 1,000 crore, while increasingly sophisticated attacks exploit vulnerabilities in APIs, use AI-driven phishing, and target third-party service providers, posing complex security challenges (India's Fintech Fraud Patterns, 2025). Regulators and fintech firms are prioritizing multi-layered security protocols, real-time behavioral analytics, and AI-based threat detection to combat these risks (EY, 2025).

The digital divide remains a critical issue, with stark disparities between rural and urban areas concerning internet availability, digital literacy, and device accessibility, disproportionately affecting women and marginalized groups (SPR Foundation, 2024). Rural populations face infrastructural deficits like poor network connectivity, and cultural constraints limit women's digital participation, resulting in uneven digital payments adoption and financial inclusion gaps (EY, 2025). Additionally, an over-dependence on cash persists in many parts of India due to habit, trust in cash transactions, and limited digital



infrastructure, presenting a challenge to fully balancing cash and digital ecosystems (Economic Times CISO, 2025). Ensuring a seamless coexistence through hybrid payment models remains vital to avoid exclusion and enable gradual digital transition.

## Recommendations

### Policy Suggestions for Boosting Digital Adoption:

1. Strengthen the digital payments infrastructure with further investment in reliable networks and affordable devices to enhance accessibility in rural and semi-urban regions (Payments CMI, 2025).
2. Develop user-friendly, multilingual payment interfaces including offline and USSD payment modes to bridge literacy and connectivity gaps while reducing usage friction (Gr4vy, 2025).
3. Promote public-private partnerships incentivizing fintech innovations aligned with financial inclusion, ensuring regulatory support for emerging technologies like AI-driven fraud prevention and biometric authentication (EY, 2025).

### Role of Fintech, Banks, and Tech Companies:

- Fintech firms must continue expanding customizable, low-cost digital payment solutions tailored for micro and small enterprises (Gr4vy, 2025).
- Banks should deepen rural outreach via digital service points, agent networks, and innovative credit models using digital footprints to enable access for unorganised sector participants (Payments CMI, 2025).
- Tech companies need to collaborate across ecosystems to ensure interoperability, security, and seamless user experiences, while driving data privacy compliance to build trust (EY, 2025).

### Capacity Building and Awareness Drives:

- Large-scale awareness campaigns targeting digital literacy, fraud prevention, and benefits of cashless transactions should be deployed through community centers, NGOs, and local influencers (Gr4vy, 2025).
- Digital skills training for both merchants and consumers, especially women and marginalized groups, will accelerate adoption and sustained usage (Payments CMI, 2025).



- Incorporate digital payments education into vocational training and government welfare programs, creating a holistic ecosystem for financial empowerment (EY, 2025).

These integrated approaches ensure inclusive and sustainable growth towards the \$5 trillion economy target by expanding digital payment penetration in the unorganised sector.

## Conclusion

The research highlights the crucial role of digital payments in transforming India's unorganised sector, contributing significantly to productivity growth, transparency, and financial inclusion. Despite challenges like digital literacy gaps, infrastructure limitations, and cybersecurity risks, digitalisation fosters formalisation of informal enterprises, enhances access to credit, and promotes compliance, thereby boosting economic activity and supporting India's \$5 trillion economy goal (Payments CMI, 2025; JAMS, 2025). However, the persistence of cash dependency and concerns among small vendors regarding taxation require careful policy calibration to sustain adoption and build trust.

Looking ahead, integrating the unorganised sector into the digital financial ecosystem demands a multipronged strategy: continuous capacity building, improved digital infrastructure, tailored policy interventions, and supportive regulation to protect users and foster innovation (European Economic Letters, 2025). Strengthening these areas will empower small businesses, amplify employment generation, and increase MSME competitiveness, making digital payment adoption a strategic pillar of India's economic ascent.

In conclusion, the unorganised sector's digital inclusion is not merely a financial or technology agenda but a foundational driver of economic growth, formalisation, and resilience crucial to realising the \$5 trillion economy vision (Payments CMI, 2025). The pathway forward combines technological innovation with inclusive policies and grassroots engagement, ensuring that digital transformation translates to broad-based prosperity and sustainable development.

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