Indian Economy · GS - III

Digital payment infrastructure can promote financial inclusion only when small merchants and underserved regions are integrated into the formal payment ecosystem. Analyse the significance of targeted incentives for expanding UPI adoption among small businesses.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 20/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Digital Public Infrastructure, NPCI, UPI, small merchants, QR-code adoption, soundboxes, financial inclusion, transaction formalisation, regional disparities, digital literacy, cybersecurity, merchant costs, last-mile connectivity.

Model Answer

Introduction

India's Unified Payments Interface (UPI) has transformed retail digital payments. However, uneven merchant acceptance and digital infrastructure gaps continue to limit its reach, particularly among small businesses and underserved regions.

Significance of Targeted Incentives

1. **Merchant onboarding:** Incentives for QR codes and soundboxes can reduce initial adoption costs for small merchants.

2. **Regional inclusion:** Targeting Tier-3 to Tier-6 towns, the North-East, Jammu and Kashmir and Ladakh can address geographical disparities.
3. **Business formalisation:** Digital transaction records can improve financial visibility and facilitate access to formal credit.
4. **Consumer convenience:** Wider UPI acceptance reduces dependence on cash and improves transaction efficiency.
5. **Digital entrepreneurship:** Small retailers can participate more effectively in the expanding digital economy.
6. **Transaction growth:** Incentives linked to eligible transactions can encourage sustained usage rather than merely one-time onboarding.

Challenges

- Limited digital literacy and connectivity in remote areas.
- Cyber fraud, phishing and social engineering risks.
- Dependence on smartphones, electricity and reliable internet.
- Merchant concerns regarding transaction costs and technical support.
- Risk of incentivising QR installation without ensuring regular usage.

Way Forward

The government and NPCI should combine financial incentives with digital literacy, cybersecurity awareness, grievance redressal and reliable last-mile infrastructure. Impact assessment should measure active merchants, transaction frequency and regional inclusion.

Conclusion

Targeted UPI incentives can strengthen India's digital public infrastructure by bringing small merchants into the formal economy. Their success will depend on sustained usage, trust, affordability and equitable access.

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