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Digital Payment Adoption on Local Small Businesses in Urban and Semi-Urban Areas of Kathmandu Valley

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Abstract: The global financial ecosystem has been completely transformed by the quick development of digital technologies, especially with the emergence of digital payment systems, including point-of-sale (POS) platforms, mobile wallets, internet banking, and QR code payments. The adoption, use, and effects of digital payment systems among small and medium-sized businesses (SMEs) in the Kathmandu Valley's urban and semi-urban districts are examined in this study. Data were gathered from 103 small enterprises using a mixed-method approach that included structured questionnaires, interviews, and observations. Results show that although digital payment usage is dominated by platforms like eSewa and IME Pay, infrastructural and digital literacy constraints continue to cause discrepancies across urban and semi-urban locations.The results of digital payments have a positive influence on both operational and financial performance, and the respondents indicated that 50 % agreed or strongly agreed regarding sales volume, 37.9 % agreed or strongly agreed regarding operational effectiveness, and a significant portion remained neutral. 50.5 % agreed regarding customer satisfaction, 86.4 % agreed/ strongly agreed on payment security, and 78.7 % agreed regarding record keeping. Furthermore, the survey revealed that service companies are more involved in digital payment training and that companies with moderate revenue have higher adoption rates. The Kruskal-Wallis H test indicates that while digital payments significantly influence all financial and operational performance metrics, the level of digital payment usage notably impacts customer satisfaction, operational efficiency, and record management. These results emphasize the necessity of executing targeted interventions to enhance digital literacy, improve infrastructure, and build trust in digital payments, especially in semi-urban regions, to bridge the digital divide and encourage inclusive financial development.

Keywords: Digital payments, Digital literacy, Digital financial inclusion, SMEs, Technology Acceptance Model.

Declaration: There is no conflict of interest, and all research ethics are followed.

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Introduction

The global financial ecosystem has seen substantial changes due to the rapid development of digital technology, especially the emergence of digital payment systems. These systems, including point-of-sale (POS) systems, mobile wallets, online banking, and QR code payments, have revolutionized how transactions are carried out across a variety of industries (World Bank, 2022). Digital payments have many benefits for nearby small companies, such as less cash handling, quicker transaction processing, increased financial transparency, and simpler access to credit and financial services. (OECD, 2020). The COVID-19 pandemic has expedited migration to digital transactions by promoting contactless and remote payments in several economies. (UNCTAD, 2021).

Due to increased customer demand for cashless transactions, better internet connectivity, and smartphone availability, small businesses in urban areas have seen a considerable increase in the use of digital payments (Magar et.al. 2023). By providing subsidies, training courses, and assistance for technology infrastructure, governments and financial institutions have also been instrumental in promoting the use of digital payments (RBI, 2021). Urban firms can more successfully incorporate digital payments into their everyday operations since they are frequently more exposed to these initiatives and have better access to digital platforms, fintech tools, and client groups that prefer online or mobile payments.

In contrast, semi-urban and peri-urban areas face more complex challenges. Small businesses in these regions often operate with limited resources, lower digital literacy, and inadequate access to banking infrastructure (Poudel et.al. 2021). Moreover, concerns regarding cybersecurity, lack of trust in digital systems, and inconsistent internet connectivity hinder broader adoption. Even though mobile payment platforms are accessible, the knowledge and confidence to use them effectively remain low among many entrepreneurs in these areas (Kumar et al., 2020). These disparities contribute to a digital divide, limiting the benefits of digital financial inclusion for businesses operating outside urban cores.

Many local small businesses still significantly rely on cash transactions, even in metropolitan and semi-urban areas where digital payment solutions are becoming more widely available and promoted. Claiming that digital payments improve financial inclusion, operational efficiency, and business growth, governments, financial institutions, and fintech companies have made investments in digital infrastructure and awareness campaigns. (World Bank, 2022; RBI, 2021).

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Paradoxically, however, a lot of small company owners are still dubious or hesitant to use these technologies, citing issues with digital literacy, transaction costs, system dependability, and client cash preferences (Kumar et al., 2020). The purpose of this study is to evaluate how quickly small and medium-sized businesses (SMEs) in the Kathmandu Valley's urban and semi-urban districts are adopting digital payments. It also looks at how the incorporation of digital payment systems affects client purchasing patterns, corporate expansion, and overall operational effectiveness. The study also examines the degree of digital literacy among small business owners and pinpoints the main obstacles technological, infrastructural, and behavioral that prevent them from fully using digital financial solutions.

Literature Review

The transfer of value from one party to another by digital or electronic means without the use of actual cash is referred to as "digital payment." It includes a broad range of financial technologies that enable safe and easy transactions, such as point-of-sale (POS) systems, mobile wallets, internet banking, QR code payments, and unified payment interfaces. (Bhattarai et.al,2023). The idea has its roots in the larger field of financial technology, or fintech, which aims to improve the provision of financial services through automation and innovation. The potential of digital payments to enhance financial systems' effectiveness, transparency, and inclusivity is becoming more widely acknowledged, especially in developing nations (World Bank, 2020). User behavior towards digital payment systems is explained by theoretical underpinnings like the Technology Acceptance Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT), which highlight perceived utility, usability, and enabling circumstances as crucial adoption drivers (Venkatesh et al., 2003). Adoption of digital payments by small firms can improve access to formal financial services, save operating costs, and increase customer satisfaction, all of which promote growth and sustainability (OECD, 2021). However, obstacles like limited digital literacy, security worries, and infrastructure constraints still prevent widespread adoption, especially in rural and semi-urban areas (Kumar et al., 2020).

The term "digital payment usage" describes how frequently and practically people or organizations use platforms like mobile wallets (eSewa, Khalti), banking apps, QR codes, and point-of-sale (POS) systems to conduct electronic financial transactions. It shows the degree to which digital finance is actually incorporated into day-to-day operations as well as the behavioural intention to use it (Venkatesh et al., 2003). Due to the growing availability of smartphones, internet connectivity, and fintech advancements,

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the use of digital payments has increased globally, especially in urban regions of developing countries (World Bank, 2020).Particularly for small and medium-sized businesses (SMEs), the use of digital payments enhances transaction speed, record keeping, customer service, and overall operational efficiency in the business setting (OECD, 2021). However, a number of variables, including customer demand, transaction costs, security concerns, and digital literacy, frequently influence usage levels (Davis,1989). The Unified Theory of Acceptance and Use of Technology (UTAUT) and the Technology Acceptance Model (TAM) are popular frameworks for evaluating factors that influence actual usage behavior, such as perceived utility, ease of use, and facilitating situations (Davis, 1989; Venkatesh et al., 2003). Despite the promise, a lot of SMEs, particularly in semi-urban areas, report using digital payments infrequently because of cognitive and infrastructure constraints (Kumar et al., 2020). Therefore, creating inclusive financial institutions and advancing digital economies requires an understanding of how digital payments are used.

Technology Acceptance Model (TAM)

One of the most popular models to describe the uptake and use of digital technologies, such as digital payment systems, is Davis's (1989) Technology Acceptance Model (TAM). According to TAM, a user's attitude towards utilizing a technology is determined by two main factors: perceived usefulness (PU) and perceived ease of use (PEOU). This attitude then affects the user's actual usage behaviour. TAM offers a fundamental lens to evaluate how entrepreneurs view the advantages of digital payment platforms in the context of small companies in the Kathmandu Valley's urban and semi-urban districts. (such as speed, convenience, and record-keeping) and the ease with which they can be incorporated into their regular business processes. Adoption is more likely for many micro and small businesses if the digital payment system is perceived as improving business outcomes and lowering complexity. TAM also underscores the importance of external variables such as digital literacy and prior experience, which shape users' perceptions of usefulness and ease (Chaudhary, 2024). Given the relatively diverse digital exposure in Nepal's semi-urban markets, TAM offers a robust framework to study behavioral intent and actual usage of digital payment technologies.

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Research Gap

Despite the literature on digital finance and payment technology is expanding, little empirical study has been done on how these advances impact small enterprises in developing nations like Nepal, especially at the micro level. Previous research has mostly concentrated on metropolitan areas or national statistics, frequently ignoring the advantages of urban versus semi-urban economic environments (Bhattarai et.al, 2023; Venkatesh et al., 2003). While global frameworks such as the Technology Acceptance Model (Davis, 1989) and UTAUT (Venkatesh et al., 2003) have been extensively used to comprehend the adoption of technology, but their use in Nepal's localized entrepreneurial context is still limited. Furthermore, there has been limited research on how social trust, infrastructure constraints, and digital literacy impact the actual usage patterns of small businesses. Even though platforms like eSewa and Khalti have seen rising popularity, the extent to which digital payments translate into operational improvements and financial inclusion for small businesses is yet to be rigorously examined. This research seeks to address this gap by assessing both adoption patterns and the real-world impacts of digital payment usage on small business growth, efficiency, and customer behavior in both urban and semi-urban zones of the Kathmandu Valley.

Research methodology

In order to thoroughly investigate the uptake and effects of digital payment systems among small enterprises in the districts of Kathmandu, Bhaktapur, and Lalitpur, this study uses a mixed-method research design that combines both descriptive and analytical techniques. Based on their significance to the adoption of digital payments, 100 small retail establishments, supermarkets, food vendors, and service providers were chosen for the study using purposive sampling. Key informant interviews (KIIs) with digital wallet agents, structured questionnaires, and observational checklists will be used to collect primary data, along with on-site procedures verification through these methods. Regression analysis and descriptive statistics will be used to analysis quantitative data using SPSS 27.00.

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Table 1: Digital payment behaviour

Type of Business * Digital Payment Platform Crosstabulation

		Digital Payment Platform					
		e-sewa	Khalti	Fonepay	IME Pay	Banking QR Codes	Total
Type of Business	Retail Shop	7	3	10	9	4	33
	Grocery Store	10	1	2	0	1	14
	Restaurant	6	0	2	1	0	9
	Service	13	7	2	19	6	47
Total		36	11	16	29	11	103

According to the table, eSewa (36) and IME Pay (29) are the most popular platforms among the 103 companies that use digital payments, followed by Fonepay (16), Khalti (11), and Banking QR Codes (11). All platforms are controlled by retail stores and service providers, with service companies strongly favouring eSewa (13) and IME Pay (19). Interestingly, eSewa is the primary platform used by grocery retailers (10), whilst eSewa and Fonepay are the main platforms used by eateries. This suggests that different business types have different preferences for platforms, with eSewa being the most widely used across industries.

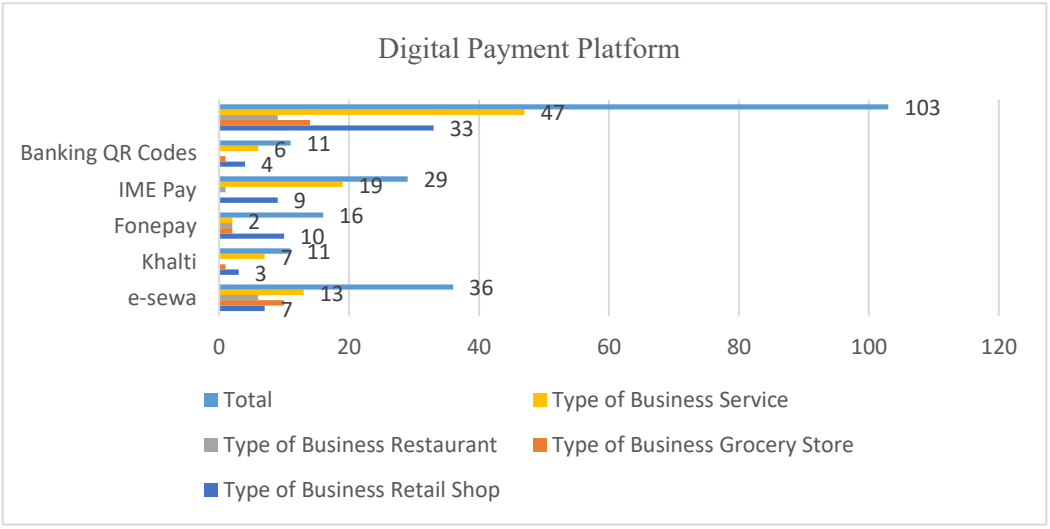

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Table 2: Digital payment Security

Count				
		Digital Payment security		
		Yes	No	Total
Type of Business	Retail Shop	11	22	33
	Grocery Store	0	14	14
	Restaurant	0	9	9
	Service	4	43	47
Total		15	88	103

According to the crosstabulation of Type of Business and Digital Payment Security, 43 firms indicate "No" to security, while service businesses (47) express the greatest worry about security. In contrast, grocery stores (14) and restaurants (9) give little attention to digital payment security, while retail retailers (33) have more balanced worries, with 11 supporting security. The result implies that while other organizations might not place as much emphasis on security, service businesses are more sensitive to security risks, probably as a result of higher transaction volumes.

Table 3: Digital payment training

		Digital Payment Training			
		Yes	No	Self-learned	Total
Type of Business	Retail Shop	16	5	12	33
	Grocery Store	3	6	5	14
	Restaurant	2	1	6	9
	Service	24	7	16	47
Total		45	19	39	103

Service businesses (47) had the most training participants (24), indicating a higher investment in learning digital payment systems, according to the Table of Type of Business and Digital Payment Training. While grocery stores (14) and restaurants (9) have fewer training participants, retail outlets (33) also exhibit considerable training adoption (16). The outcome indicates that service businesses are more proactive in

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digital payment training, likely due to their higher transaction volumes, while smaller businesses rely more on self-learning.

Table 4: Monthly turnover digital payment usage

		Digital Payment Usage				
		less than 6 months	6month- 1 year	1-2 year	more than 2 year	Total
Monthly Turnover	less than NPR 50000	0	0	0	2	2
	50000-100000	2	15	5	29	51
	100000-300000	0	2	12	8	22
	Above 300000	0	0	6	22	28
Total		2	17	23	61	103

According to the chart, companies with monthly revenue between NPR 50,000 and NPR 100,000 (51) are the most likely to use digital payments, particularly over an extended period of time (29 utilising >2 years). Higher turnover companies (100,000–300,000 and over 300,000) exhibit moderate adoption, indicating that integration may take longer for larger companies. The results show that companies with a moderate turnover rate embrace and maintain digital payments more quickly than those with a higher turnover rate.

Table 5: Digital payment impact on sales volume

Sales Volume					
		Frequency	Percent	Valid Percent	Cumulative Percent
	Disagree	6	5.8	5.8	5.8
	Neutral	45	43.7	43.7	49.5
	Agree	52	50.5	50.5	100.0
	Total	103	100.0	100.0	

According to the table, 43.7% of respondents are indifferent, 5.8% disagree, and 50.5% of respondents agree that digital payments have significantly increased their sales volume. This indicates that most companies believe the implementation of digital payments has a favourable influence on sales volume, underscoring the usefulness of digital transactions in improving corporate success.

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Table 6:Digital payment impact on transaction costs

Transaction Costs	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	21	20.4	20.4	20.4
Disagree	30	29.1	29.1	49.5
Neutral	32	31.1	31.1	80.6
Agree	19	18.4	18.4	99.0
Strongly Agree	1	1.0	1.0	100.0
Total	103	100.0	100.0	

Just 19.4% of respondents agreed or strongly agreed that the use of digital payments has decreased transaction costs, while the majority (49.5%) disagreed or strongly disagreed. This suggests that, despite the widespread use of digital payments, many companies still do not see a discernible decrease in transaction costs, perhaps as a result of operational or implementation difficulties.

Table 7:Digital payment impact on operational efficiency

Operational Efficiency	Frequency	Percent	Valid Percent	Cumulative Percent
Strongly Disagree	6	5.8	5.8	5.8
Neutral	58	56.3	56.3	62.1
Agree	29	28.2	28.2	90.3
Strongly Agree	10	9.7	9.7	100.0
Total	103	100.0	100.0	

37.9% of respondents agree or strongly agree that digital payments have increased operational efficiency, whereas the majority of respondents (56.3%) are neutral. This implies that although digital payments are thought to have some advantages, their effect on operational efficiency may not be widely acknowledged, perhaps as a result of differing degrees of integration or acceptance among companies.

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Table 8:Digital payment impact on customer satisfaction

Customer Satisfaction					
		Frequency	Percent	Valid Percent	Cumulative Percent
	Neutral	51	49.5	49.5	49.5
	Agree	40	38.8	38.8	88.3
	Strongly Agree	12	11.7	11.7	100.0
	Total	103	100.0	100.0	

52.5% of respondents agree or strongly agree that digital payments have improved consumer satisfaction, compared to nearly 50% who are neutral about the effect. This suggests that although there has been some positive feedback, not all firms may fully benefit from digital payments in terms of customer happiness.

Table 9:Digital payment impact on maintaining business records

Maintaining Business Records					
		Frequency	Percent	Valid Percent	Cumulative Percent
	Neutral	22	21.4	21.4	21.4
	Agree	36	35.0	35.0	56.3
	Strongly Agree	45	43.7	43.7	100.0
	Total	103	100.0	100.0	

Significantly, 78.7% of respondents agreed or strongly agreed that digital payments improve the efficiency of managing business documents. The remaining 21.4% are neutral, indicating that although digital payments are generally advantageous for record management, various businesses may have varied experiences.

Table 10:Digital payment impact on payment security

Payment Security					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	14	13.6	13.6	13.6
	Agree	51	49.5	49.5	63.1
	Strongly Agree	38	36.9	36.9	100.0
	Total	103	100.0	100.0	

There is a significant degree of confidence in the security of digital transactions, as seen by the substantial majority (86.4%) who agree or strongly agree that digital payments are more secure than cash. The remaining 13.6% are neutral, indicating that although security is an important consideration, some business sectors may still have reservations.

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Table 11:Digital payment impact on behaviour intention

Behavior Intention					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Neutral	21	20.4	20.4	20.4
	Agree	37	35.9	35.9	56.3
	Strongly Agree	45	43.7	43.7	100.0
	Total	103	100.0	100.0	

A sizable majority (79.6%) agree or strongly agree that they would advise other companies to use digital payments, indicating a favorable opinion of its advantages. Although there is considerable support, some businesses may still be reluctant or unsure about adoption, as evidenced by the remaining 20.4% being neutral.

Table 12:Digital payment impact on operational and financial performance

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Sales Volume	103	2.00	4.00	3.4466	.60599
Transaction Costs	103	1.00	5.00	2.5049	1.04669
Operational Efficiency	103	1.00	5.00	3.3592	.88400
Customer Satisfaction	103	3.00	5.00	3.6214	.68766
Maintaining Business Records	103	3.00	5.00	4.2233	.77879
Payment Security	103	3.00	5.00	4.2330	.67452
Behavior Intention	103	3.00	5.00	4.2330	.76957

Adoption of digital payments is strongly correlated with better business outcomes, according to the descriptive statistics. While transaction costs (M = 2.50) have greatly decreased, sales volume (M = 3.45) and customer satisfaction (M = 3.62) have improved somewhat. High ratings for operational efficiency (M = 3.36), keeping company records (M = 4.22), and payment security (M = 4.23) show that digital payments have a beneficial impact on both financial and operational performance with little variation (low standard deviations).

Table 13:Impact of digital payment intensity on operational and financial performance

	Kruskal-Wallis H	df	Asymp. Sig.

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Sales Volume	8.92	3	0.030
Transaction Costs	3.37	3	0.338
Operational Efficiency	23.35	3	0.000
Customer Satisfaction	18.50	3	0.000
Maintaining Business Records	46.89	3	0.000
Payment Security	1.61	3	0.657
Behavior Intention	1.46	3	0.693

The impact of digital payment intensity on operational and financial performance varies significantly, according to the Kruskal-Wallis H test. Digital payment intensity has a significant impact on operational efficiency ($p = 0.000$), customer satisfaction ($p = 0.000$), and keeping business records ($p = 0.000$), but there are no significant differences in transaction costs ($p = 0.338$), payment security ($p = 0.657$), or behaviour intention ($p = 0.693$). These findings demonstrate how different company outcomes are impacted by the intensity of digital payments.

Table 14:impact of digital payment usage on operational and financial performance

	Kruskal-Wallis H	df	Asymp. Sig.
Sales Volume	26.90	3	0.000
Transaction Costs	21.13	3	0.000
Operational Efficiency	16.73	3	0.001
Customer Satisfaction	32.37	3	0.000
Maintaining Business Records	26.65	3	0.000
Payment Security	51.10	3	0.000
Behavior Intention	34.67	3	0.000

The influence of digital payment usage on operational and financial performance varies significantly across all variables, according to the Kruskal-Wallis H test ($p < 0.05$). Increased use of digital payments has a positive impact on business performance outcomes, as evidenced by significant effects on sales volume ($p = 0.000$), transaction costs ($p = 0.000$), operational efficiency ($p = 0.001$), customer satisfaction ($p = 0.000$), keeping business records ($p = 0.000$), payment security ($p = 0.000$), and behaviour intention ($p = 0.000$).

Findings: The results of this study are consistent with international research highlighting the revolutionary role that digital payment systems play in enhancing business performance. Key company outcomes like operational effectiveness, sales volume, customer satisfaction, transaction cost reduction, record

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maintenance, and Behavioural intention are all greatly impacted by the intensity of digital payment adoption. This aligns with OECD (2021), It makes the case that digital payments improve financial processes for SMEs, decrease manual handling, and increase transparency. Likewise, the Model of Technology Acceptance (Davis, 1989) and UTAUT (Venkatesh et al., 2003) give theoretical support for the idea that perceived utility and usability are important factors influencing the adoption of technology.
Previous findings that electronic payment systems decrease delays and enhance service quality are supported by the substantial association between the use of digital payments and operational efficiency.(World Bank, 2020). Singh and Ghosh's (2022) finding that cashless transactions satisfy consumer need for convenience in urban markets is echoed by increased sales volume and customer satisfaction. The favourable correlation with record keeping demonstrates how digital payments enable precise financial recordkeeping, in line with OECD (2021) as well as improving financial inclusivity (UNCTAD, 2021). However, Kumar et al. (2020) pointed out that SMEs in underdeveloped economies suffer integration expenses and hidden fees that counteract potential savings, which is shown in the limited impact on transaction cost reduction. Furthermore, semi-urban firms exhibit lower adoption rates as a result of low digital literacy and infrastructure gaps, supporting Deloitte's (2021) finding that there is a digital divide between urban and semi-urban locations.

The results also show that adopters have a high Behavioural intention to advocate digital payments, supporting the theory put forth by Venkatesh et al. (2003) that social influence and favourable circumstances encourage sustained technology adoption. However, cybersecurity issues continue to be significant, particularly for service companies, underscoring the need for more robust institutional safeguards (RBI, 2021). Overall, by looking at micro-level effects in Nepal's Kathmandu Valley, this study fills a contextual gap and supports international research.

Conclusion: The operational and financial performance of small and medium-sized businesses (SMEs) in the Kathmandu Valley is greatly improved by digital payment methods, according to the study's findings. The results support theoretical models like the Technology Acceptance Model (Davis, 1989) and UTAUT (Venkatesh et al., 2003) by showing significant improvements in operational efficiency, sales volume, customer satisfaction, record maintenance, payment security, and behavioral intention as a result of digital

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payment adoption. However, the report also identifies enduring obstacles, such as low levels of digital literacy, insufficient infrastructure in semi-urban areas, and minimal impact on transaction cost reduction, and continuing cybersecurity-related trust difficulties. Addressing these barriers through targeted training, infrastructure development, cost reduction strategies, and stronger institutional support is essential for bridging the urban-semi-urban divide and fostering inclusive digital financial ecosystems.

Overall, this research emphasizes that while digital payment usage positively influences SMEs' operational and financial outcomes, maximizing its benefits requires concerted efforts from policymakers, financial institutions, and technology providers to enhance accessibility, security, and affordability across all business contexts in Nepal.

Further Research: In order to better understand adoption motivations and challenges, future research should concentrate on performing longitudinal and comparative studies spanning urban, semi-urban, and rural locations, combining sector-specific analysis and consumer perspectives. Further insights into improving digital financial inclusion and maintaining SME growth in developing economies like Nepal will come from analyzing the role of cutting-edge technologies like block chain and AI-driven finch solutions, as well as evaluating the efficacy of institutional and governmental support policies.

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