

## **Cashless Economy: The Impact of Demonetization on Small and Medium Business**

**Dr. Ajay Kumar Asthana**

*Associate Professor*

*Dept. of Economics S.M. College Chandausi*

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### **ABSTRACT:**

*The term "demonetization" is used to describe the elimination of a certain currency from circulation. When a country introduces a new currency, the old one must be phased out and the new one should be introduced. In India, demonetization has been done three times till now, namely in the years of 1946, 1978 and 2016. The current Modi Government demonetized currency for a third time on November 8th, 2016. There was an upheaval in the elite, middle, and lower classes alike. Some applauded the change because they believed it would help reduce black money, but others have been negatively affected. Here, we examine the direct and immediate effects of demonetization on the Indian economy and predict how it would affect small and medium-sized enterprises.*

**KEYWORDS:** *demonetization, currency, cashless, economy, small, medium, business.*

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### **I. INTRODUCTION:-**

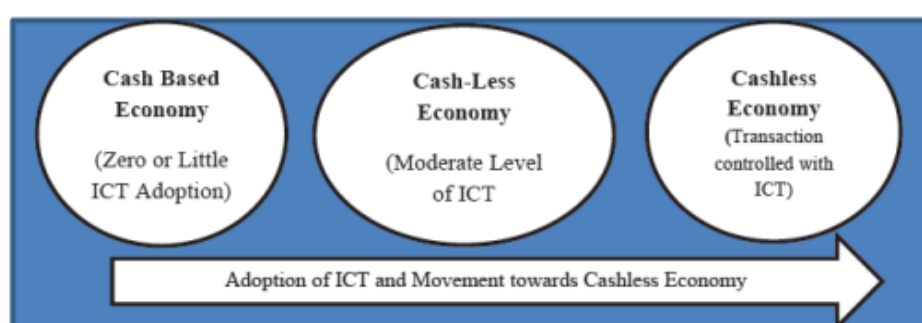
If economic officials want to foster long-term growth, they can use trade and industry administration as a tool. To realise the budget's objectives, officials need to be fluent in a wide range of tactics. Over the course of the past several months, the Indian government and economy have been working toward a cashless society. To allay public and corporate concerns about India's plans to create a cashless economy, critics have urged the government to address the worries of small businesses that have been slow to adopt technology. In today's technologically advanced society, a cashless economy is not only possible but also very desirable. While many businesses and individuals have been encouraged to adopt a cashless budget, many still have reservations. Since the advent of markets and formalised money, the monetary system has undergone a number of transformations. New technological uses have emerged as a result of developments in ICT (information and communication technology). Rapid advances in digital technology and its applications have improved people's lives and contributed to the success of businesses. The shift toward digital platforms in the digital economy is not being driven primarily by traditional digital economy business activities. Subjects including showbiz, medicine, economics, and politics are examined alongside public participation in governance. The use of information and communication technology infrastructure facilitates cashless economic transactions. As the internet and other forms of technology have developed, so too has the practise of using digital currencies such as bitcoins as legal tender. In a cashless society, all transactions are conducted digitally, eliminating the need for physical currency. One of the aims of this effort is to increase trust and openness in the financial sector. Global governments, experts, and businesses are preparing for the eventual end of a currency-based system. Because of the advent of widespread use of electronic banking in the 1990s, most people nowadays no longer need to carry cash. Since 2010, the number of electronic payments has exploded. According to the 2013 World Payments Report, the total value of all non-cash transactions increased by 7.6 percent, reaching \$358 billion (2015). Even in developed countries, there is a growing preference for electronic transactions. Multiple sources have advocated for a monetary system where only digital currency is accepted as legal tender. Digital economic systems are being adopted by a growing number of nations. This study will investigate the effects of a cashless monetary system on the small business sector. Our inquiry consists of three parts: Sections 1, 2, and 3. In the first part, we cover the basics of cashless economies. The second half of the talk focuses on the effects of cashless regulations on micro and small businesses. In order to shield small firms from the rapid transition to a cashless future, the report concludes by stressing the importance of a strong regulatory framework.

### **OBJECTIVES OF THE STUDY**

- To have a better understanding of the notion of a cashless economy and how it has progressed.
- The purpose of this project is to investigate India's move to a cashless economy, which began with demonetization.
- To determine the potential benefits and potential drawbacks of a cashless economy for Indian small and medium-sized businesses.

## CONCEPT OF CASHLESS ECONOMY

In a cashless society, the movement of actual money is restricted rather than halted. Adewale defines a "digital payment market" as "the gradual or dramatic transition from the usage of physical currency to the system" in the context of an economic development payment service. Everything from billboards to corporate advertisements, from local to global trade, and from personal relationships and activities are all included in the term "public and private" (2012). In a cashless payment system, customers can pay for goods and services and make financial transactions with the help of their electronic devices. Both parties to a transaction need to have access to these services. You can put it toward things like mortgage payments, tuition, hotel stays, and more. Numerous methods exist nowadays for making purchases without physically exchanging any money. Possibly before the rest of the world has even tried it, Sweden will have a cashless society. The idea of moving toward a cashless society has been discussed in Sweden for some time. Everywhere that takes online payments, you can pay with your debit or credit card. Besides the United States and Norway, cashless societies are being considered in Belgium, France, and the United Kingdom. Changing our cash-based economy into a cashless one will take some time. The development of ICT has put us in this difficult position (ICT). The transition from a cash-based to a cashless economy is seen in Figure 1



**Fig. 1: Evolution of Cashless Economy**

A cashless society drastically decreases the flow of money rather than doing away with it altogether. According to Adewale, "a digital payment market is described as a progressive or drastic transition in an economic growth payment service from the usage of physical currency to a system." Everything from advertisements to private homes to neighbourhood businesses to international trade to individual relationships and pastimes falls under the umbrella term "public and private" (2012). In a cashless economy, people can buy and sell products and services electronically, as well as send and receive payments. In order to complete any kind of business, you'll need constant access to these resources. This card can be used to pay for a wide variety of goods and services, including but not limited to utilities, tuition, lodging, and tenancy deposits.

Mobile banking, Internet banking, telephone banking, electronic cards, point-of-sale (POS) devices, automated teller machines (ATMs), and other cashless payment solutions are all available today. It's possible that Sweden's cashless economy was in place first. Sweden has long desired to become a cashless society. If a business allows electronic payments, you can pay with a debit or credit card. Other countries have started to investigate the possibility of a cashless society, not just Norway and the USA. The United Kingdom, Belgium, France, and Denmark are among these nations. The change from a cash economy to a cashless one will not happen suddenly. This is the current situation due to developments in information and communication technologies (ICT). The transition from a cash-based to a cashless economy is illustrated in Figure 1.

## INDIA'S TRANSITION TO A CASHLESS ECONOMY

The move toward a cashless society was not made lightly. The government approved a raft of new initiatives in February of that year to promote the use of digital payment methods and discourage the use of cash. In his Man Ki Baat speech in May 2016, Prime Minister Narendra Modi advocated for the elimination of cash transactions. He also stressed the significance of using technological aids like smartphones, tablets, and computers. The government of India is working toward its goal of financial inclusion through a multi-pronged effort that includes the distribution of RuPay cards and a mechanism for the voluntary disclosure of hidden assets. It was on November 8th, 2016, that the government of India demonetized its 500 and 1,000 rupee notes, hastening the transition to a cashless society. Some misconceptions about the new economy have spread after cash was abolished. Those who rely heavily on cash transactions are at greater danger. It will take a lot of effort to transition from a cash-based economy to a cashless one. As a result of growing usage of ICTs for payment and settlement and persistent problems within the banking sector, India has moved toward a cashless economy. The Planning Commission reports that in 2009, low-income families received only 27% of PDS money. The

purpose of honest business dealings is to raise tax revenues while decreasing illegal operations like the black market, money laundering, and welfare commissions.

All expenditures associated with administration will be kept to a minimum. The Reserve Bank of India spent a whopping Rs. 27 billion in 2015. One of the long-term goals is to update and improve the payment system. Others include putting an end to all unlawful economic activity and moving businesses from the underground to the mainstream economy. While the current debate about a universal basic income and the shifting economic landscape may make some things easier, the task at hand is far from straightforward (UBI).

### **TAKING THE NEXT STEP: GOVERNMENT INITIATIVES**

A cashless economy has made some headway as a result of government's efforts prior to Nov 08, 2016. The Modi government also unveiled two schemes, Lucky Grahak Yojana and Digi Dhan Vyapaar Yojana, in December 2016, for customers and traders alike to promote mobile banking and e-payments. Almost all retail transactions in India are paid for with cash, which severely limits the government's ability to collect taxes. The number of Ru-Pay transactions in India increased from 12.0 million in January 2017 to 28.0 million in May 2018, as did the value of e-wallet transactions, which increased from INR 2.05 billion in 2016-17 to INR 5.32 billion in 2017-18, as well as the number of UPI transactions, which increased from 0.09 million in July 2016 to 6.37 million in March 2017, and the number of USSD transactions, which increased from 6000 in November 2016 to 138000 in June 2018.

The 2017 budget focuses on ten key areas to improve the efficiency, responsibility, and openness of existing infrastructure. In an effort to expand the digital payment ecosystem and make cashless transactions more convenient, the government plans to construct more than one million additional post terminals.

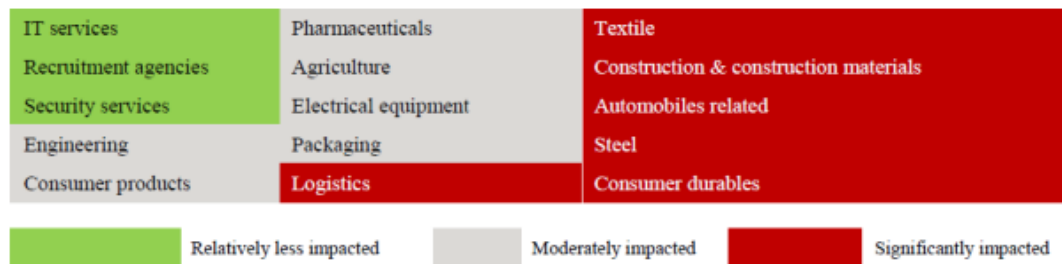
### **SMALL AND MEDIUM-SIZED BUSINESSES:**

Ecological and Economic Growth in Small and medium-sized businesses (or SMBs) contribute to a more equitable distribution of national revenue than large organisations do while also creating jobs, reducing regional inequities, and industrialising rural and undeveloped areas. This industry encompasses a wide range of companies, goods, and services, and makes important contributions to India's economic growth. Since its inception, it has been widely hailed as a powerful tool for accelerating progress. It's possible that SMEs can have more of an impact than huge corporations can because of their size.

Politicians and economists alike viewed this sector as vital to realising their desired economic outcome. Small and medium-sized enterprises (SMEs) in India account for roughly 40 percent of the country's total exports, managing 32 million units and providing jobs for 70 million people. This leads to reduced economic disparity. This has far-reaching consequences for how society evolves. It is projected that by 2022, small and medium-sized businesses (SMBs) will have played a crucial role in increasing manufacturing's contribution to GDP from 16 to 25 percent. India's government and lawmakers have responded with new programmes like "Make in India" and "Startup India" to try to solve the problem. Through legislation and programmes, the federal government is making significant investments in protecting and assisting small companies. SMBs are notoriously difficult to categorise because there is no universally accepted definition for them (SMEs). India's small-scale industries, formerly known as micro, small, and medium-sized firms (MSMEs), now go by the designation "small and medium enterprises" (SME) (SSI). The Small and Medium Enterprise Act of 2006 required the categorization of small businesses according to their investment in machinery and equipment.

### **SMALL & MEDIUM ENTERPRISES SURVIVAL AND GROWTH IN A CASHLESS ECONOMY**

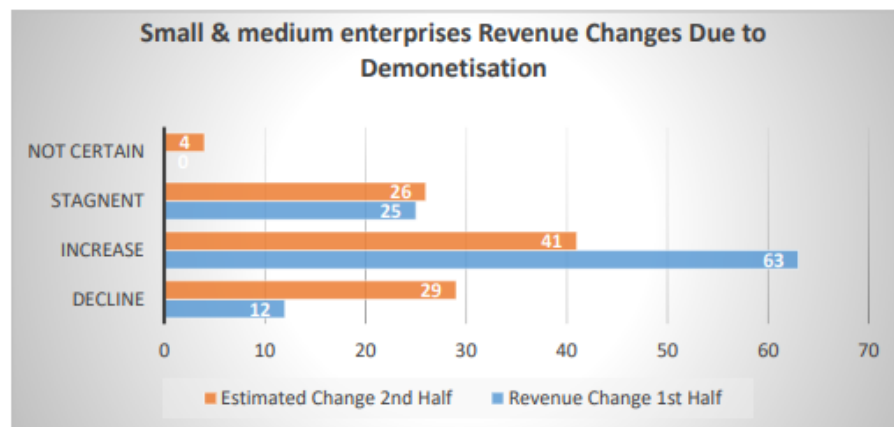
It is important for small businesses to understand how cashless regulations will affect them before committing to a cashless economy. Which tools are indispensable for thriving in this altered setting? Anyone can transact in cash because it is recognised as a medium of exchange by the government. The effects of demonetization on micro- and medium-sized businesses have been substantial. Many consumers and businesses cannot use electronic money since it is usually linked to a bank account. They might be technologically illiterate as well. Understanding how they make ends meet and identifying where they may need to make changes is helpful. However, this hasn't always resulted in smooth sailing. The economy suffers a temporary setback as a result of the demonetization process. IT and security services were not affected by the new economic waves, while businesses like textiles (construction and building materials), vehicle logistics, and consumer durables felt the effects strongly (consumer electronics). Temporarily, demand dropped because the informal economy was unprepared to handle digital currency. Look no further than Figure 2 to see how demonization has impacted numerous companies.



**Fig. 2: The Effects of Demonetisation on Different Industries**

Source: CRISIL, Press Release January 5, 2017 | Mumbai

Small and medium-sized businesses have felt the effects of both demonetization and the cash limitation. As a result of demonetization, people in India are adopting a cashless society in the hopes that its effects will be short-lived. Three-quarters or more of those surveyed felt confident in making that prognosis. One hundred and one small and medium-sized enterprises across the country were surveyed by CRISIL between November and December 2016, and the results showed a significant decrease in the use of cash transactions. After demonetization, 41% of customers of small and medium-sized enterprises switched to cheques or electronic payments. Businesses of all sizes, especially smaller and medium-sized ones, are increasingly turning to cashless methods of payment. The textile, agricultural, metal, consumer durable, construction, and automotive industries are just few of the many that have historically relied significantly on monetary transactions. The percentage of unorganised players expecting income decline in the second half of the year is nearly four times as high as the percentage of organised players expecting income decline, at 1 in 10. According to our poll, almost 40% of participants expect conditions to improve in the second half of the current fiscal year, while 29% foresee deterioration (Fig3).



**Fig. 3: Changes in Small & medium enterprises Revenues as a Result of Demonetisation**

Source: CRISIL, Press Release January 5, 2017 | Mumbai

The shift to cheque or electronic payments has significantly impacted the way transactions are completed for SMEs located in Tier 2 cities and smaller towns (42% of respondents), suggesting that the move is not limited to large metropolitan areas. The cash-heavy nature of small and medium-sized firms in rural locations means that their sales will likely suffer more than in larger cities and Tier 1 cities. Second-half revenue losses are predicted to be less severe in metros and Tier 1 cities than in Tier 2 cities and smaller towns (which are expected to lose revenue in both halves). Greater success is predicted for the south and west, whereas the north and east are predicted to struggle. Comparatively, only 25% of small and medium-sized enterprises in the west and south are projected to experience negative growth (year-on-year) in the second half of current fiscal year.

### THE WAY FORWARD

There have been some short-term hurdles for the economy as a whole, but there have also been some positive moves from various sections. It is imperative that the policy be implemented without jeopardising their survival. Small and medium-sized businesses should take the following steps to successfully adopt a cashless policy:

**Education:** In a country where literacy rates are still low, poor sensitization is a key challenge. There is a need to educate the general public about the importance of policy.

**Infrastructure:** Investment in ICT is crucial for the growth of a culture able to make full advantage of information and communication technologies. Take into account the potential for misuse and cyber-attack. The funds ought to be protected at all costs. There needs to be a strict legislative framework in place to handle fraud and other payment-related issues. Users need to be updated on any new technological advances as they happen. This will allow them to maximise the system's potential. Having reliable internet and sufficient wifi is crucial in today's increasingly cashless economy and digital payment system. NGOs and HEIs should work with the government to provide free consulting services so that everyone can gain from this shift.

## II. CONCLUSION

We then moved our focus to India and its efforts to adopt a cashless economy and digital lifestyle. Throughout the discussion, worries were voiced regarding how demonetization will affect small and medium-sized businesses. Globally, politicians, researchers, and businesses are considering the feasibility of cashless economies. In a culture where technology is pervasive, a cashless economy is used to ensure a clutter-free and open financial system. In theory, a cashless economy has the potential to eradicate both corrupt practices and illicit financial activity. The government would be unable to introduce a cashless economy due to a lack of operational processes. Government initiatives, aided by demonetization, have increased the feasibility of a cashless economy. There are a number of obstacles to this effort, including cultural norms, a lack of education, and an inadequate power system. Though numerous government efforts have already been made, more are needed to ensure success. Indians may be better able to prepare for the worst-case situation if they are informed of the benefits of a cashless economy through legislation and the development of financial infrastructure. As a result of their inability to process digital currency, small companies were hit hard by the sudden rise of the cashless society. However, the positive response from business owners has facilitated the transition to digital transactions. Businesses in rural areas are especially encouraged to embrace a digital mindset. Businesses and customers need to adjust their mindsets, new financial infrastructure needs to be built, and information needs to be disseminated throughout the business world in general for the digital transaction cycle to be completed. However, there are still many challenges that small and medium-sized firms must overcome. Small and medium-sized enterprises (SMEs) should be involved in the policy's execution. As a result, it's important to not disregard the needs of entrepreneurs running smaller operations. Reforming the economy is a massive undertaking that needs much preparation from policymakers.

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