

CASHLESS ECONOMY: THE IMPACT OF DEMONETIZATION ON SMALL AND MEDIUM BUSINESSES

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ABSTRACT

The Indian economy is heavily reliant on the Small and Medium Enterprise (SME) sector. This industry employs millions and generates 8% of the country's gross domestic product. There must be careful consideration of the possible economic consequences of a big economic action like demonetization. SMEs in India are typically owned by members of the same family. There are two main segments in the SME market. Entrepreneurs that seized the chance and acted rapidly to begin and become successful soon founded profitable businesses. Businesses who entered the market late yet were able to succeed because of the enormous untapped potential. Small and medium-sized businesses (SMEs) believed that they could continue to operate in the same way and yet experience success without needing to expand or make large expenditures.

KEYWORDS: *Cashless Economy, Digital Economy, Demonetization*

INTRODUCTION

Despite the fact that small and medium-sized enterprises (SMEs) in India continued to operate in a siloed environment, the overall Indian economy was developing and expanding. Multiple permits, approvals, and other checks were introduced as a result of the government's need to keep an eye on a number of different areas, which added another layer of complexity.

If you're a company that doesn't waste money, you'll have an advantage over your competitors. Small and medium-sized businesses (SMEs) have a long history of finding creative methods to avoid paying taxes and licencing fees. The main strategy was to bribe government officials with a variety of benefits.

Another key factor contributing to the rise of tax cheating among small businesses was the fact that our tax system does not precisely reward voluntary participation by providing low rewards to honest tax payers. Businesses were able to easily circumvent the system due to shoddy implementation and improper procedures. As a result, a parallel economy spawned massive amounts of "black money." As a strategy to combat the black money problem, the government decided to demonetize every currency in the country.

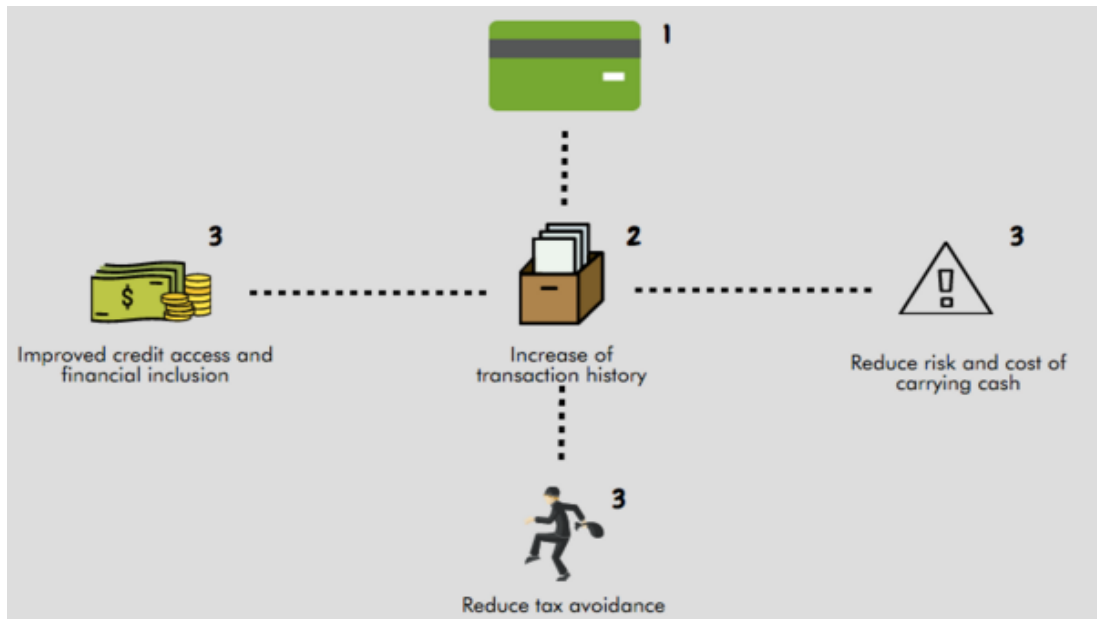


Figure 1 : Dimensions of Cashless Economy

Because cash transactions are the most regularly utilised means of transacting, removing roughly 86% of the circulating currency was a risky move that required bold thought and execution.

Rather than comparing it to a precision hit on the economy, demonetization should be compared to a carpet bombardment. It might take a long time to replace money since everyone wants to buy more and spend less because of the uncertainty.

Due to demonetization, small and medium-sized enterprises (SMEs) have been badly damaged. Businesses are hoarding their cash while they wait for the currency availability issue to improve, as cash flow has dried up to a trickle. As a result, fewer items and resources are being purchased across the whole procurement and production cycle.

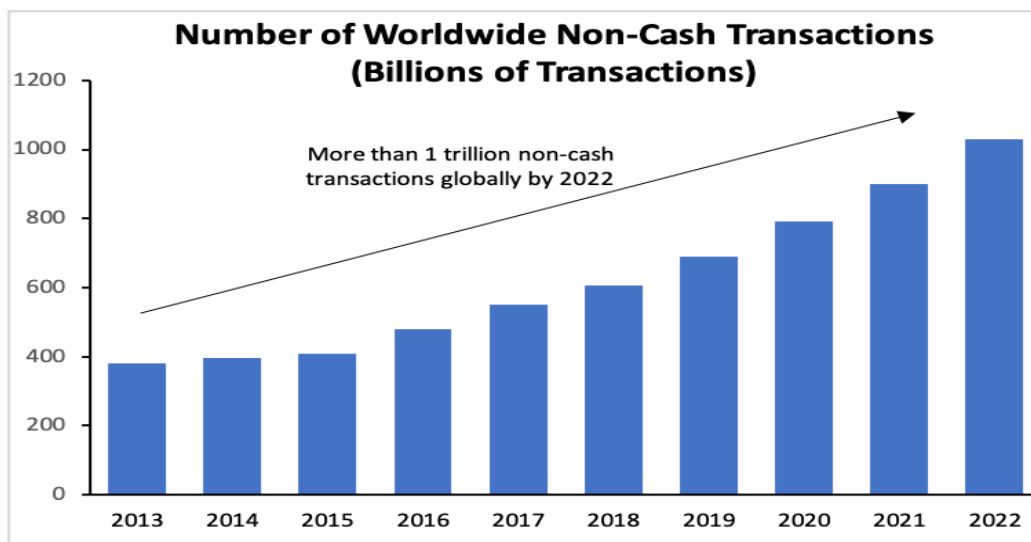


Figure 2 : Data Analytics

Growing Apprehension

There must be a free and ample supply of cash available in the financial system for the government and the Reserve Bank of India. At the earliest opportunity, all limits on ATM and account withdrawals should be lifted.

Financial and trade and commerce reforms are also high on the government's priorities. Despite the introduction of GST and BTT, the implementation of GST may be delayed due to demonetization.

Concerns raised by small and medium-sized firms (SMEs) and others regarding the licencing and approvals procedure must be addressed by the government. A single-window clearance system and other steps that make it easier for enterprises to get up and running in the shortest amount of time are needed now more than ever. Scrap any additional procedures that need several apps and expensive processes.

In order to attain the maximum degree of tax compliance, tax procedures and filing techniques must be made easier and the taxation structure made more user-friendly, as well. It's time to put a stop to the practise of settling differences amicably across the table.

Taxes collected by the government must be used in a transparent way to improve infrastructure. People who pay taxes should be certain that their money is being put to good use for the benefit of the country as a whole. At the earliest opportunity, normalcy must be restored.

There are both positives and negatives to demonetization. As this is an unprecedented action in terms of scope, even specialists are unable to predict the consequences quickly. After two months of demonetization, the country's economy is still in limbo.

The government must do all in its power to assuage people's anxieties and build faith in small and medium-sized enterprises as well. It's possible to attain this goal through consistent and appropriate communication between the parties involved. Transparency must be maintained, and the public must be informed of demonetization-related developments via all available means and channels of communication.

'CASH,' a mystical phrase ingrained in the psyche of Indians since ancient times, is still in high demand today. India must become a cashless economy, and this can only happen if every Indian client has the choice to pay electronically, whether through their mobile phone, laptop, or some other device. Cash has played a significant part throughout Indian history in a wide range of industries from agriculture and related industries to biotechnology and the automotive and cement industries to consumer durables and e-commerce. Instead than relying on antiquated technology to do business, it's time to implement cutting-edge "cashless" payment methods.

To have a "Cashless Economy," one must replace the physical flow of national currency with digital platforms like online transactions, the adoption of plastic cards, and Internet banking (Praseetha et al., 2019). Even if the money is no longer banned from use, the necessary method for slowing the use of cash currency is still in place. Digital transactions are becoming increasingly important, and as a result, the general public now has another option for solving their problems (Alibekova et al., 2020). In order to adapt to the new cashless society, one must leave behind the old ways of doing business. As a result, the Indian government has established several efforts, such as Digital India, to limit the usage of cash and increase the emphasis on

digital transactions while entertaining the public's minds. Because of the significance of a Cashless India, the Indian government has made it a top priority to educate the public about the dangers of cybercrime and online fraud. Additionally, banks are essential since they are accountable for all transactions, whether cash or non-cash based.

In the newest stage, we observe a new degree of change in the way payments are made and received. As a result of the shifting nature of everyday infrastructure operations, we've seen shifts in policy. Everyone should be aware that India's future is a "cashless economy" for the benefit of the whole population (Athique, 2019). If the government is serious about raising public awareness, it may decide to reduce or eliminate cash in favour of plastic notes in the future. Demonetization, which was widely embraced, was the key catalyst for the widespread adoption of a cashless economy.

Customers are increasingly embracing cell phones to pay for products and services, a step toward Digital India that the government recognises. Consumers in India must be equipped with digital information in order for the country to undergo transformation. This is a well-known need of the Indian government. Rural India is the key emphasis. People in India aren't aware of the benefits of switching to a cashless economy, thus technology has to be evaluated and applied. Because agriculture employs the vast majority of India's population, the country must take new measures to advance in this area. People are hesitant to switch to a cashless economy because of their concerns about their personal information and security. In India, walled-based and UPI-based media have both been launched for online payment. UPI-based mobile payment applications are supported by the government as it moves toward a cashless economy. Internet banking and mobile payments, for example, are also likely to be promoted by banks. There's no need to leave your house to make a transaction; everything may be done from the comfort of your own home (Menon & Ramakrishnan, 2019). Our research focuses on how India's banking system is evolving to become a cashless economy with an emphasis on digital transactions in the future. As a result of this research, we will be able to determine just how widespread cashless transaction knowledge currently is.

There are two ways to do this:

Paying for products and services electronically rather than with cash is known as the "cashless economy," but the term does not imply that there is no such thing as a cash economy.

Historical Perspectives

Due to technical advancements and regulatory changes, there has been an increase in the number of payment options available in the digital age. As we move toward open innovation, the Internet of Things (IoT) will play an increasingly important role in uniting our nation's residents. With the use of IoT, several cities have transformed into Smart Cities for this study's purposes. It is possible to become self-sufficient in IT and AI in the long term with the assistance of the government, which will play an increasingly important part in the future. Open innovation and Internet of Things (IoT) literature is also reviewed in the study. As a result, the ability to form relationships and trust, the ability to learn, and the ability to openly innovate should be closely linked for development (Scuotto et al., 2016).

In the early days of cashless transactions, e-banking and e-payment were not widely recognised. The use of internet payment methods allowed the authorities to maintain tabs on those with hidden wealth, but at the time, most individuals were unaware of the tools available and were thus unable to use them effectively. This study examines the progress of India's cashless transaction system from 2006 onward. A new method can be introduced into the market for modernization and speedy payment remittances by the government using the full potential of technology. Additionally, the e-banking system guarantees that banking services are used optimally for both banks and clients, resulting in better access to funds. New payment methods will be enabled via communications networks, according to the author (Maurya, 2019).

In order to bring about a digital revolution, more and more analogue information has been transferred into digital channels. With the help of universally agreed-upon standards, the digital revolution is helping society as a whole (Pearson, 2010). Everything from cellphones to music players to cameras now uses digital standards. We also must manage terrorist funding so that the money flow will assist in locating black money, unaccounted assets, etc. Every country's payment system will soon be completely digital as a result of significant advancements in technology. In this present era of digital convergence, wireless is seen as the most important aspect. Cloud-based applications aren't just for mobile devices; they're also making it feasible for people to work digitally (Teece, 2018).

ICT has had a profound effect on the global economy, allowing it to develop at an unprecedented rate (Fang et al., 2016). People's lives have been changed and made more convenient as a result of a rapid development in the industry. There have been a lot of technological advancements that have spread over the world because of the Internet. The term "Internet banking" (IB) was used to denote a move away from the usage of cash in favour of electronic transactions (Nguyen, 2020). The research makes use of the Technologies Acceptance Model (TAM), a theory outlining how people come to embrace and make use of new technology. Internet banking's adoption is the main topic of this study, and descriptive studies are not used (Hanafizadeh et al., 2014).

Need of Electronic Fund Transfers

There would be a rise in employment and a decrease in money-related fraud because of the cashless policy, according to the Indian government. Customers will now be able to save more money in their bank accounts. Because they would have less money, they will be more likely to reveal their true income, which will cut income tax fraud dramatically. Because it is a safe method of payment, it will encourage international investors to invest in the country (Grimes, 2003). In other nations, this step was taken in the correct direction when it was first introduced. It was assumed that this would hasten the transition to a more contemporary payment system. As the number of banks grows, transaction costs come down, and the great security of carrying cash is compromised less and less. With this bank, consumers may learn about the sector in a more efficient manner. An important factor in pushing for a cashless economy is the possibility of financial loss. Even though Indians have long utilised electronic payment methods, the retail industry is still heavily dependent on cash transactions. In the retail industry, they consider it to be a more secure and easy method of physical operation (Chundu Venkata Rao, 2014).

The continuous improvement of banking systems, products, and services aids in the transition to a more unified environment for the financial services industry. We focus on the MBPS (Mobile Banking & Payment System) component in this article because it is directly linked to

digitalization. Because of this, they focused on important gaps, as well as possibilities as well as obstacles associated with the deployment of e-banking (Devlin, 1995). To summarise, the report recommends a whole new mobile banking system known as the Multitasking Banking and Payment System (MBPS), which uses artificial intelligence to allow several banking and payment operations to be completed with just a single click. As a result, there are a variety of consequences and constraints that make it difficult to plan for the future. This is just hypothetical study, and as a result, no testable hypotheses have been developed. Through different digital banking channels, we hope to develop and present MBPS in order to gain entry into an innovative and competitive digital market. There will be huge development and possibilities in the near future when mobile communication will exceed other digital channels and goods. MBPS is a significant step in that direction (Shaikh et al., 2017).

Demonetization's Effect on Cashless India

Investigation of various factors for lack of digital transactions in India and finding the available qualities that need to be altered is necessary in order to fill up the gap in the Indian economy. The goal is to learn more about the journey's future course and to get new perspectives. The focus is on the individuals who decide whether or not digital payment methods are accepted, thus a thorough investigation of the many factors is carried out (Gupta et al., 2012). There is a substantial influence on the Indian economy due to the increasing use of electronic wallets and other forms of online payment. Online payments have benefited greatly from demonetization, and this has a direct impact on payment volume growth rates on a daily basis. Many obstacles must be addressed while implementing digital transactions in India. In the contemporary Indian economy, it has been seen that digitization is making progress. There are many individuals in rural parts of India who are in desperate need of modern amenities in order to advance and contribute to the country's economy (Kumar & Puttanna, 2018).

Demonetization of 500 and 1000 rupee notes in India led to the coining of the term "cashless economy" in November 2016. Media accounts on the history of demonetization in India compared to other rising nations were analysed for comparison. Corruption, black money, and terrorism funding can flourish because of the fact that 80 percent of money transactions are predicated on physical movement. This is a cashless dilemma, which implies that only a little amount of cash is used and the majority of the transactions are carried out using various technological means (Adil & Hatekar, 2020).

Everyone in India hopes for a cashless society. There are advantages and hurdles to putting it into practise, and India may run into problems in any situation. After India's demonetization in November 2016, the justification for moving toward a cashless economy gained traction. To ensure that the desired outcomes are incorporated in the strategy, everyone must participate appropriately. As a result of this campaign, tax payment collection soared because there was no way to avoid it. The entire exercise was geared toward pushing online payment methods as critical to the smooth operation of India's economy. That's already begun, and it'll be easier than ever to reach Digital India's aim (Khurana, 2017).

The implementation of measures aimed at increasing India's economic growth will have a tremendous influence on society. The consequences that would raise India's market worth must be prioritised. When it comes to going from a cash economy to one that doesn't, there will be both positive and bad effects (Yucha et al., 2020).

A major shift in financial systems is needed in today's world with an emphasis on Digital India. As technology has advanced in recent years, the financial industry has been able to draw large numbers of people out from the bottom of its pyramid. Artificial Intelligence (AI), Blockchain, Internet banking, and smartphones have helped the whole financial sector move forward (Carlsson, 2004). As a result, the banking sector in India and throughout the world flourished. The term "Fintech" has been coined by industry specialists. Financial technology is the combination of two words: finance and innovation. Everyone in the financial industry saw it as a great chance to take advantage of all the positive results. In the Indian context, Digital India, e-governance, demonetization pushed for the adoption of fintech solutions to enhance the Indian economy in the framework of Digital India. Internet access and data facility became a facilitator for fintech. Despite the rapid expansion of mobile and Internet users in urban and rural regions, India has seen a vast scale of technology-based tools backed by the rapid growth of mobile and Internet users. Literacy and credit counselling can persuade the masses that financial services can have a long-term influence on people's lives, which will help lift them out of abject poverty (Liao et al., 2019).

It is also necessary to examine the present IT infrastructure for security reasons and to look at scams related to digital transactions in order to move toward a cashless economy. In order to make the transition from a conventional to a new economy, banks need a solid defence against cybercrime. A robust financial system is important for the introduction of digital transactions, and fraud control is required. Anti-fraud measures should be enforced in order to improve the Indian economy. Artificial intelligence (AI) must be integrated into the system to solve crime security issues as the country strives to become a digital India through various platforms (Attigeri et al., 2018).

Mobile and plastic money adoption

As the cost of smartphones continues to come down, more and more Indians of all economic levels are gaining access to mobile phones. Since telecom companies in rural and urban India were charging too little for data and calls, this was a no-brainer. Digital money and mobile wallets have opened up new avenues for financial inclusion in rural India thanks to mobile phones (Suebtimrat, 2020). For the "cashless economy," this article explains the telecom industry's current shift toward mobile money or digital payments in the Indian market. Also, this report helps the sector and the government better understand how digital payment systems work and what the obstacles are connected with them. The rural populace at the base of the pyramid will be able to use mobile money to execute various mobile services. It must be a part of the country's growth through using mobile payments for financial inclusion (Mukhopadhyay, 2016).

Global business attractiveness and socio-economic growth are being bolstered by the rise of e-commerce. Not just in India, but also in adjacent nations, the technology has advanced. We found that young people and those in the 25-35 age range are quite happy with the convenience and security of digital currency. According to the report, there has been an increase in the use of e-commerce among small and medium-sized businesses (SMEs) (Humbani & Wiese, 2017). MSME, which has an interest in the Internet of Things, manages a considerable portion of the company's stock. In spite of this, older generations are wary of using the internet because of the dangers of cybercrime they see. For the development of online system channels in every area, these insights are useful (Jehangir et al., 2011).

CONCLUSION

The purpose of this research is to find out how India's MSMEs would be affected by a cashless monetary policy. With the demonetization of high-denomination currency, the government's cashless economy project begins. The concept of a "cashless economy" refers to a financial system in which the usage of physical cash is minimised through the use of electronic payment methods. For a short period of time, all economic activity is slowed down and transactions are required to be made in digital form. The MSMEs like to do all of their transactions in the traditional manner, and the unexpected move toward demonetisation had a significant impact on the MSMEs. For this group to thrive in a cashless economy, strict rules must be implemented. Small and medium-sized enterprises (MSMEs) play a mediating function in economic growth, and ignoring them would have severe consequences. Digital infrastructure is being adopted by dealers and customers, which will lead to a digital economic culture. The study's goal is to find out what impact a cashless economy would have on India's micro, small, and medium-sized businesses. A cashless world presents a number of obstacles and opportunities for small businesses, and this report explores those issues. Secondary data is employed in the analysis, which is then put through a basic statistical process.

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