

Cashless economy: The impact of demonetization on small and medium businesses Enterprises

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ABSTRACT

The major objective of this research is to analyse the effect on Indian small and medium-sized businesses of the country's cashless monetary policy. The government is thrilled with the demonetization of high-denomination currencies. One of the most sustainable and ecologically beneficial ways to do business in the future is to shift from a cash-based economy to one that relies increasingly on electronic payment systems. As a result of the country's recent decision to demonetize its currency, the general public will be forced to perform all of their monetary transactions online. Demonetization's quick adoption harmed the MSME sector, which likes to conduct its business in the traditional manner. To be successful in a cashless era, this company will need tight regulatory oversight. Economic changes would have a detrimental impact on the economy if MSMEs were not present. An electronic monetary philosophy is a result of both dealers and customers using digital infrastructure more often. The study's results demonstrate how a cashless society would impact India's small and medium-sized businesses. SMBs may confront difficulties in a cashless environment, as well as alternative solutions, according to the article. The outcomes of this inquiry were analysed using secondary data and simple statistical approaches.

Keywords: Demonetisation, Small & Medium enterprises, Digital habits, Electronic Payments, Cashless Economy

Introduction

Trade and industry administration is a weapon in the armoury of economic policymakers trying to create sustainable development. A wide array of strategies must be mastered by policymakers in order to accomplish the budget's goals. The Indian economy has been focusing on a cashless economy for the preceding many months. Critics have called on the government to address the concerns of small firms that have been unwilling to embrace technology in order to relieve public and corporate misgivings about India's intentions to develop a cashless economy. A cashless economy is both practical and desirable as we live in a technologically sophisticated civilization.

A cashless budget's benefits have been heavily touted, although many people and corporations remain hesitant. There have been several shifts in the financial system since barter agreements gave way to markets and money. Advances in ICT (information and communication technology) have led to new applications for technology in human undertakings. Rapid breakthroughs in digital technology and its uses have made people's lives better and organisations more prosperous. Conventional digital economy business practises aren't the primary elements driving a movement in society toward digital platforms in the digital economy. Public engagement in governance is considered alongside themes such as entertainment, health, education, business, and politics.

Transactions in a cashless economy are made feasible through the employment of ICT infrastructure. The growth of the internet and technology has led to the legalisation of electronic money as a sort of currency. To obviate the necessity of real money, a cashless society depends on electronic technologies to perform all transactions. This initiative's goals include encouraging transparency and confidence in financial transactions. The demise of a currency-based economy is already being anticipated by policymakers, experts, and enterprises throughout the globe. E-widespread banking, which became widely available in the 1990s, marked the beginning of a time when most people no longer carried currency. Payments made through electronic means have increased dramatically since the year 2010.

Non-cash transactions of \$358 billion grew by 7.6 percent in 2013 over 2012, according to the World Payments Report (2015). The trend toward a cashless economy is becoming more prevalent in wealthy nations as well. Several publications have suggested a cashless economy in which legal tender is replaced by electronic money. An increasing number of countries throughout the globe are adopting digital economic systems. A cashless monetary method will be examined in this research to see what effect it has on the small company market. Section 1, Section 2, and Section 3 are the three sections of this investigation. There is a brief discussion of cashless economies in the first section. The second part of the lecture takes a close look at how cashless laws influence small and medium-sized organisations. A robust regulatory framework is emphasised in the paper's conclusion to protect small businesses from the quick shift to a cashless future.

Literature Review

Products and services are exchanged electronically rather than via the use of real money in a cashless economy. ICT integration is the process of incorporating new technologies into existing corporate processes. E-currency is difficult to transfer because of the complexity of both the technology and the economics involved, according to the Basel Committee (1998). According to the European Central Bank (ECB) in 1998, e-money may be used to make payments to anybody other than the issuer without the need for a bank account. According to Jain 2006, computerised payments would make it easier to trace down errant funds. Businesses, banks, and the general public in India would all benefit from this. In addition, he drew attention to the importance of electronic payments and communication networks throughout his remarks. Ajay (2014) points out that electronic payments bring a lot of other advantages in addition to ease of use and security. Electronic payments are expected to boost the quantity of money accessible for economic activities. Using cash as a payment method is too expensive for the Indian government, according to Das (2010) in his essay "Cashless Payment Service in India- A Roadmap." There must be a cashless payment system in place for the nation to prosper. The expenses of currency administration, transaction monitoring, tax evasion and fraud detection, and the integration of the parallel economy into the main economy will all be reduced as a result of this. According to "Credit cards: Modern Payment System," an article by Vincent (2005), there are several benefits to using a credit card, for both companies and people. Credit and debit card payments are preferred in a "cashless economy" (2013).

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 demonetisation..

To determine the potential benefits and potential drawbacks of a cashless economy for Indian small and medium-sized businesses.

Research Methodology

Due to a lack of data, this study is unable to examine the effect of cashless policies on Indian small businesses in a rapidly changing economic context. It was necessary to gather secondary data in order to comprehend the cashless economy and its implications for small and medium-sized businesses (SMEs). Descriptive statistics were used in this investigation.

Concept of Cashless Economy

The flow of actual money is curtailed rather than stopped in a cashless society. "A digital payment market is described as a gradual or dramatic shift in an economic development payment service from the use of physical currency to the system," says Adewale. "Public and private" encompasses everything from billboards to company ads, from local to worldwide commerce, and from personal connections and activities (2012). For example, users may purchase goods and services and exchange money with others using their electronic devices in a cashless payment system. These services must be available to both parties involved in a transaction. Use it to pay utility bills, school fees, hotel bookings, and rental payments.

Today, cashless payment techniques include mobile banking, Internet banking, telephone banking, electronic cards (POS), implanted electronic devices (ATMs), and many more. Sweden may have a cashless society before the rest of the world has even tried it. For some time now, a cashless society has been on the radar in Sweden. The debit and credit card options are available at all businesses that accept digital payments. Countries beyond Norway and the United States, including as Belgium, France, and the United Kingdom are considering a cashless society. The shift from a cash-based to a cashless economy will take time. Due to advances in information and communication technology, we now find ourselves in this predicament (ICT). Figure 1 depicts the shift from a cash-based economy to a cashless one.

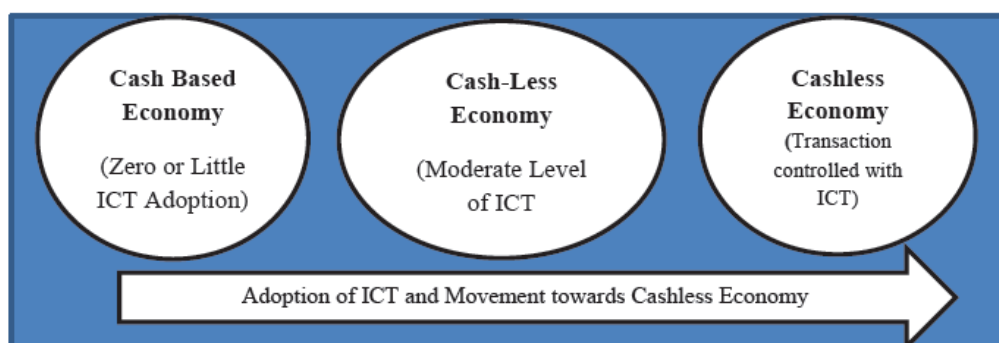


Fig. 1: Evolution of Cashless Economy

Rather of eliminating the movement of money altogether, a cashless society reduces it significantly. 'A digital payment market is described as a progressive or drastic change in an economic growth payment service from the use of physical currency to a system,' says Adewale. 'Public and private' includes anything from ads to residences to small local enterprises to global commerce and even personal relationships and hobbies (2012). Electronic devices may be used for everyday transactions, such as purchasing

goods and services or exchanging money with others, in a cashless economy. Access to these services is a must for each transaction. Paying for anything from utility bills to school fees to hotel bookings to rental payments may be done with this card.

Today, cashless payment options include mobile banking, Internet banking, telephone banking and electronic cards as well as implanted electronic devices (POS), ATMs, and more. Prior to any other country, Sweden may have already implemented a cashless economy. An entirely cashless society has long been an aspiration in Sweden. You may use your debit or credit card to make a purchase anywhere that accepts digital payments. Other than Norway and the United States, other nations have begun exploring the idea of a cashless society. These countries include Denmark, Belgium, France, and the United Kingdom. Transition from cash-based economy to a cashless one does not happen overnight. Because of advances in information and communication technology, this is the current scenario (ICT). Figure 1 shows that cash-based countries are gradually moving toward a cashless economy.

India's Transition to a Cashless Economy

It was not an easy decision to implement a cashless society. In February of that year, the government approved a slew of new programmes to encourage the use of digital payments and discourage the use of cash. In May 2016, Prime Minister Narendra Modi urged cashless transactions in his Man Ki Baat address. He also emphasised the importance of digital tools like cellphones and other electronic gadgets like tablets and laptops. Financial inclusion is the objective of India's government, which has launched a wide-ranging campaign that includes the use of RuPay cards and a voluntary disclosure mechanism for undeclared funds. A cashless society was expedited after India's government demonetized its 500 and 1,000 rupee notes on November 8th of 2016.

A number of illusions have been disseminated about the new economy in the aftermath of the demonetization of currency. More at risk are those who earn and spend the bulk of their income in cash. To get from a cash-based economy to a cashless one, you'll need to put in a lot of work. The cashless economy in India is a result of both chronic difficulties in the banking system and the widespread use of ICTs in payment and settlement. In 2009, just 27% of PDS funds went to low-income families, according to the Planning Commission. Increasing tax income while reducing criminal activities like the black market, money laundering, and welfare commissions are the goals of transparent commercial transactions.

Administration costs will be kept to a minimum. A staggering Rs. 27 billion was spent in 2015 by the Reserve Bank of India on currency issuance and management. Modernizing and improving the payment system is only one of many long-term goals, along with ending all illegal economic activity and transferring business activities from the informal to the formal sector. What may be made simpler by economic change and the present debate over a Universal Basic Income remains a difficult endeavour (UBI).

Taking the Next Step: Government Initiatives

Despite government efforts, we've seen some progress in the implementation of a cashless economy. Customers and merchants that use digital payment instruments for personal consumption expenditures will be rewarded with cash awards under two new programmes announced on December 15th, 2016. All personal consumer spending in India is conducted in cash, which severely restricts government revenue collection and taxation. Russian Ru-Pay transactions rose from 3.85 million to 16 million on November 8th, e-wallet transactions rose from 17 million to 63 million, UPI transactions rose to 48238, USSD transactions rose to 1263, and PoS (point-of-sale) transactions rose from 50.2 million to 98.1 million.

There are 10 primary areas in the 2017 budget that deal with increasing the speed, accountability, and transparency of the systems in place. More than one million more post terminals will be built as part of the government's effort to extend the digital payment ecosystem and make cashless transactions more convenient. More than 2,73,919 camps were held across the Philippines by the Ministry of Labor and Employment and the States Administration to help unorganised employees open 24,54,009 bank accounts, according to the country's official statistics..

Small and medium-sized businesses: A Balancing Act in Economic Growth

These small and medium-sized firms not only provide jobs, but they also aid in industrialising rural and underdeveloped regions, minimise regional disparities, and ensure a more equitable distribution of national income than major corporations do. They are a broad variety of businesses and products and services in this sector, and it contributes significantly to the overall development of the Indian economy. It has been largely considered as a development accelerator since its beginnings. Because of their smaller size, SMEs may have more influence than large enterprises. This industry was judged critical to achieving a certain economic goal by politicians and academics.

About 40% of Indian exports are made up of small and medium-sized businesses (SMEs), which run 32 million units and employ 70 million people. As a result, there is less economic inequality. It has a profound effect on the development of society. By 2022, it is expected that small and medium-sized enterprises (SMBs) would play a significant role in raising the GDP contribution of

manufacturing from 16 to 25 percent. The Indian government and parliamentarians have developed new initiatives like Make in India and Startup India to address this issue.

The federal government is investing a lot of effort into protecting and supporting small businesses as a consequence of legislation and programmes. Without a widely accepted standard, it is difficult to classify small and medium-sized businesses (SMBs) (SMEs). Previously known as micro, small, and medium-sized enterprises (MSMEs), India's small-scale industries have undergone a name change (SSI). Classifying small firms was based on their investment in equipment and machinery, as mandated by the Small and Medium Enterprise Act of 2006. Table 1 provides a more in-depth breakdown of MSMEs.

Table 1: According to the MSME Act of 2006, small businesses are classified

<i>Form</i>	<i>Manufacturing enterprises</i>	<i>Service enterprises</i>
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	More than Rs. 25 lakh and up to Rs. 5 crore	More than Rs. 10 lakh and up to Rs. 2 crore
Medium	More than Rs. 5 crore and up to Rs. 10 crore	More than Rs. 2 crore and up to Rs. 5 crore

Because little changes in the economy may have a great impact on S&M firms, they play a significant role in our culture and geography. Economic growth can only be achieved if entrepreneurial development and aid are given top priority. This means that policies like the cashless policy have consequences that need to be considered.

Small & medium enterprises Survival and Growth in a Cashless Economy

Before adopting a cashless economy, small businesses must be aware of how cashless rules affect them. What are the most important resources for prospering in this new environment? Since cash is a legal tender, anybody may handle it. Demonetisation has a significant impact on small and medium-sized enterprises. Electronic money is often tied to a bank account, therefore a large number of people and small businesses are left without a bank account. There is a possibility that they are also technologically inept. It's useful to know how these people pay their bills and what adjustments need to be made in order to stay afloat.

Despite this, things haven't always gone as planned. There is a short-term downturn in the economy as a result of demonetization. New economic waves had minimal impact on IT or security services but had a significant impact on industries such as textiles (construction and building materials), automobile logistics, and consumer durables (consumer electronics). The unorganised sector's incapacity to deal with digital money momentarily stifled demand. To observe how demonization has affected many businesses, look no further than Figure 2.

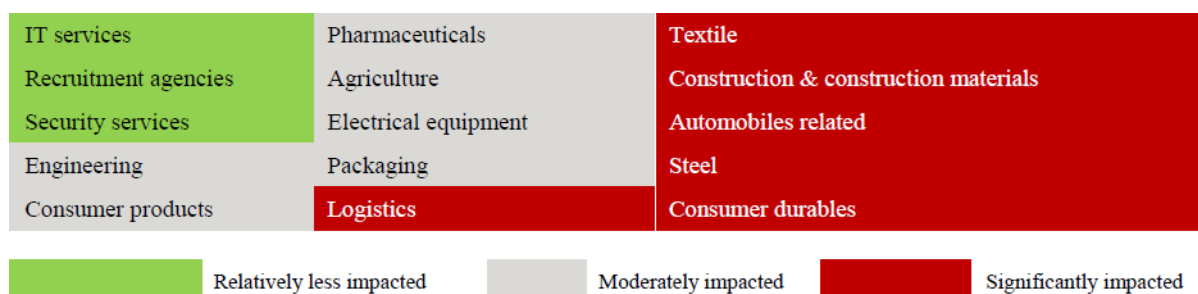


Fig. 2: The Effects of Demonetisation on Different Industries

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

While it's true that the cash restriction has had an effect on the commercial operations of small and medium-sized firms, demonetisation has had an even more profound impact. People in India are embracing a cashless society in response to demonetisation, believing it would only have a temporary effect. More than three-quarters of those polled predicted that business will resume as usual by June 2017. There has been a noticeable shift away from cash transactions among the small and medium-sized businesses surveyed by CRISIL, which included more than 1100 businesses nationally between November and December 2016. Small and medium-sized businesses report that 41% of their consumers have converted to cheque or electronic payment after demonetisation. Small and medium-sized enterprises are already using non-cash transactions on a regular basis. Traditional

industries that rely heavily on cash transactions include textiles, agriculture, metals, consumer durables, construction, and automobiles. One-tenth the number of organised players forecast negative income growth in the second half of the year, compared to three-fifths (37 percent) of the unorganised group. 40% of respondents anticipate things to become better while 29% expect things to get worse in the second half of the current fiscal year, according to our survey (Fig3).

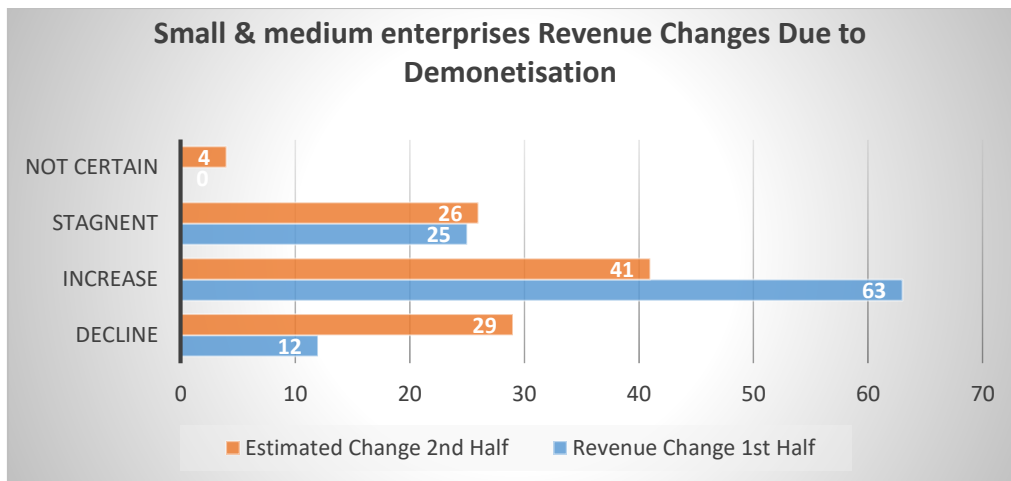


Fig. 3: Changes in Small & medium enterprises Revenues as a Result of Demonetisation

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

For small and medium-sized businesses (SMEs) located in Tier 2 cities and smaller towns, the change to cheque or electronic payments (42 percent of respondents) has had a significant impact on the way transactions are performed, showing that the transition is geographically agnostic. Due to a larger dependence on cash, the sales of small and medium-sized businesses are expected to be more adversely affected in smaller towns than in metro areas and Tier 1 cities. Metros and Tier 1 cities are expected to lose revenue in the second half at a lower rate than Tier 2 cities and smaller towns (which are expected to lose revenue in both halves). It is expected that the areas in the south and west would do better than those in the north and east. Small and medium-sized businesses in the east and north are expected to have negative growth (year-on-year) in the second half of this fiscal year, compared to just 25 percent in the west and south.

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 information and communication technology (ICT) is essential for the development of a civilization that can effectively use information and technology. Address the risk of a cyberattack and the chance of it being abused. The safety and security of the money must be assured. A stringent legal structure should be in place in order to deal with cases of fraud and other issues related to payment. Users should be kept up to speed on the latest technical developments. They will be able to get the most out of the system as a result of this. When it comes to a cashless economy and digital payment system, having access to the internet and having enough wi-fi is a need. Non-governmental organisations (NGOs) and higher education institutions (HEIs) should collaborate with the government to offer free consulting services so that everyone may benefit from this change.

Conclusion

While discussing cashless economies, we shifted our attention to India's efforts to implement a cashless economy and digital habits. Concerns about the effect of demonetization on small and medium-sized enterprises were raised throughout the conversation. Cashless economies are being considered by policymakers, academics, and enterprises throughout the world. Cashless economy is utilised to provide a transparent and clean economic environment in a technology-dominated society. The use of a cashless system, which is widely recognised, may eliminate both corruption and money laundering. A lack of operational procedures will prevent the government from implementing a cashless economy.

Demonetization has made a cashless economy more attainable due of government programmes. Culture, literacy, and the state of the nation's electrical grid all stand in the way of this endeavour. The government's efforts must continue if it is to succeed, despite the fact that many have already been made. Legislation and the development of financial infrastructure might help Indians prepare for the worst case scenario by educating them about the advantages of a cashless economy. Small businesses were severely impacted by the rapid shift to a cashless society because of their incapacity to cope with digital money. Despite this,

entrepreneurs' favourable response has made the shift to digital transactions easier. Those that operate in rural areas have an even greater need for adopting a digital attitude.

For the digital transaction cycle to be fully completed, companies and consumers alike must change their thinking, financial infrastructure must be constructed, and general information must be transmitted throughout the corporate sector as a whole. Despite this, small and medium-sized businesses face a number of difficulties. When it comes to this decision, you'll regret it if you don't think about it. It is important to incorporate SMEs in the policy's implementation, for example. This means that small business owners should not be overlooked.. Reforming the economic sector requires careful planning on the part of policymakers.

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