

## **Cashless Economy: Review on the impact of demonetization on small and medium businesses**

Ms. Shweta Roy,  
Guest Faculty,  
Impact College, Patna

**Abstract:** Demonetization is the removal of a certain type of money from circulation. The old currency unit must be removed and replaced with the new currency unit whenever the national currency is changed. The first demonetization of currency took place in 1946, and the second one in 1978. The current Modi government demonetized cash for a third time on November 8, 2016. There was pandemonium caused in all social classes, whether high, middle, or lower. While some people applauded the move because it was thought to be a way to combat black money, many people are suffering as a result of it. Here, we examine the immediate effects of demonetization on the Indian economy and determine the likely effects on small and medium-sized businesses.

**Keywords:** Demonetisation, Small & Medium businesses, Cashless Economy

### **1. Introduction**

For several months prior, the Indian economy has been working on a cashless economy. To allay public and corporate worries about India's plans to create a cashless economy; critics have urged the government to address the issues of small businesses that have been reluctant to adopt technology. In our technologically advanced society, a cashless economy is both feasible and desired.

The advantages of a cashless budget have been widely publicised, yet many people and businesses are still wary. Since barter agreements gave way to markets and money, the financial system has undergone a number of changes. Information and communication technology (ICT) advancements have produced new applications for technology in human endeavours. Rapid advancements in digital technology and its applications have improved people's lives and increased the prosperity of organisations. A shift in society toward digital platforms in the digital economy is not primarily being driven by traditional digital economy corporate practises. Along with topics including entertainment, health, education, business, and politics, public participation in governance is taken into account.

The use of ICT infrastructure makes transactions possible in a cashless society. The development of the internet and technology has made electronic money, a form of currency,

legal. A cashless society relies entirely on electronic technologies to conduct all transactions in order to do away with the need for actual money. The objectives of this effort include promoting openness and trust in financial transactions. Policymakers, experts, and businesses all over the world already predict that a currency-based economy will eventually collapse.

Rich countries are also increasingly adopting the trend toward a cashless economy. A cashless economy where electronic money takes the place of legal tender has been proposed in a number of publications. Globally, a rising number of nations are implementing digital economic systems. In this study, a cashless payment system will be investigated to discover what impact it has on the market for small businesses. The three sections of this study are Sections 1, 2, and 3. The first section is a brief explanation of cashless economies. The impact of cashless regulations on small and medium-sized businesses is extensively examined in the second section. The paper's conclusion emphasises the importance of a strong legislative framework for safeguarding small companies from the swift transition to a cashless future.

## **2. Literature Review**

A cashless economy is one in which products and services are traded electronically, according to a variety of publications. It is the adoption of ICT tools for use in business dealings.

The Basel Committee acknowledged that it can be challenging to accurately define electronic money but recognised that it combines economic and technological traits.

According to European Central Bank, electronic money is broadly defined as a prepaid bearer instrument that can be widely used to make payments to entities other than the issuer without necessarily engaging bank accounts in the transactions.

Das stated that using cash as a form of payment is expensive for the government in his article "Cashless Payment System in India- A Roadmap." The nation must transition away from a cash-based payment system and toward an electronic (cashless) one. This will assist to improve financial inclusion, lower the cost of currency management, track transactions, detect fraud and tax evasion, among other things, and integrate the parallel economy into the mainstream.

According to Omotunde, Sunday, and John-Dewole, a cashless economy is one in which purchases may be made without the need to physically carry currency as a form of payment for goods and services, instead using credit or debit cards.

Ajay asserted that, in addition to their simplicity and safety, electronic payments have a wide range of additional advantages. Automated electronic payments contribute to increased bank deposits and thus more money for economic activities.

### **3. Objectives**

- To have a better knowledge of the notion of a cashless economy and how it has progressed.
- This project's goal is to learn more about India's transition to a cashless society, which started with demonetisation.
- To identify the possible advantages and disadvantages of a cashless economy for small and medium-sized businesses in India.

### **4. Research Methodology**

This study solely relies on secondary sources of data because the main goal of the article is to analyse how India's abrupt changes in the economy will affect small businesses. In order to conceptualise the cashless economy and its influence on the MSME segment, secondary data have been gathered from a variety of published sources, including periodicals, journals, newspapers, and pertinent websites. The analysis has made use of descriptive statistics.

### **5. Cashless Economy**

Below are some key dates for card payment advancements or advancements in cashless economy.

This historical timeline shows us that there have been significant technology developments in different payment systems over the years, and they are most definitely not slowing down. It began with innovations focused solely on cash, then moved on to credit and debit cards. Especially when you take into account the time that would be spent building these behind the scenes, this expansion has happened very quickly. The introduction of chip and pin into the UK took place nine years after the first testing began, which is a terrific illustration of how difficult it can be to bring a highly original product like this to market.

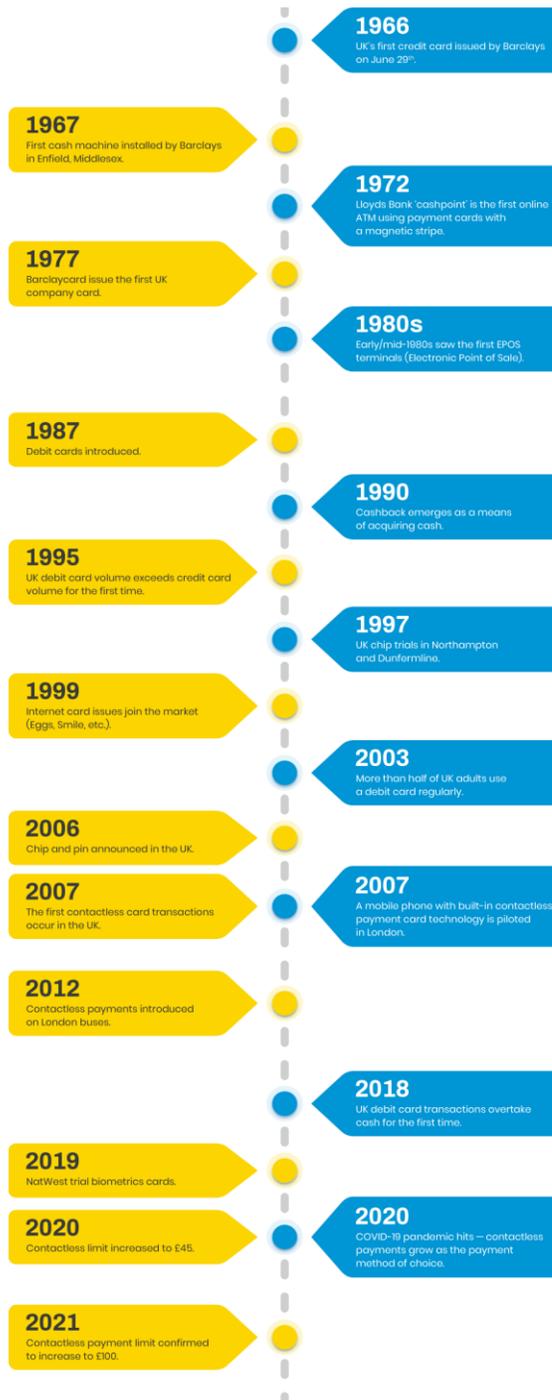


Figure 1: Advancements in cashless economy

## **6. Demonetization impact on different sectors in INDIA**

The RBI's confirmation that the majority of the notes that were demonetised were returned to the central bank finally supports the long-held suspicion that the unilateral executive decision to ban specific notes not only fell short of its stated goal of exposing hidden wealth but also had some unintended negative effects on the economy. According to the RBI annual report for 2017–18, which was published on Wednesday, 99.3% of the withdrew notes—or nearly all the outlawed banknotes—were returned to the central bank.

The government abruptly discontinued issuing 500 and 1000-dollar bills on November 8, 2016, without making proper provisions for replacement. Every economic agent was given a set amount of time to deposit their old notes with banks and exchange them for new ones. Due to the tremendous pressure this put on the banking system, there were longer lines outside of banks for nearly two months.

The sudden decision affected the Indian economy in two different ways: by reducing the supply of money and by limiting the availability of cash as a crucial input for certain economic activities, like the purchase of inputs in the agricultural sector, it reduced aggregate demand and increased aggregate supply. Growth dropped to 6.7%, the lowest level in four years.

## **7. Conclusion**

This conversation began with the worldwide trend and idea of a cashless economy, then moved on to India's efforts to create a cashless economy and a digital culture. MSMEs' post-demonetization problems became a topic of discussion. Policymakers, academics, and business organisations all over the world are very interested in exploring the prospect of transitioning to a cashless economy. A cashless economy is simply an application of information and communication technology (ICT) and electronic gadgets for a transparent and ethical economic environment in a technologically advanced society. To complete the cycle of a digital transaction, consumers' and business owners' attitudes must shift, financial infrastructure must be developed, and there must be widespread understanding at the firm level. The backbone of the economy, the micro, small, and medium-sized firms operate under a lot of restrictions. Any decision made without taking this segment into account would have a negative effect.

On how the policy would impact the economy, stakeholders should be consulted. Owners of micro and small businesses should not be excluded. By making the required infrastructure accessible and inexpensive, they should be inspired. They should be properly equipped with the knowledge and skills necessary to adopt and use the policy's associated technologies. While further reforming the economy, policymakers should create strict measures for this sector's survival.

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