



Research Article

Impact of Demonetization on Small and Medium-Sized Businesses

Saidulukelothu¹, Dr. Dinesh Chandra²

¹Research Scholar, Sunrise University, Alwar

²Professor, Sunrise University, Alwar

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Address for Correspondence Saidulukelothu

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Abstract:

ResearchGate, SSRN, Google Scholar, and Academia were used to conduct a systematic literature review on digital payment systems used by bank customers. Key words included digital banking, internet banking, digital payment, customer adoption, perception, and conceptual framework. In order to conceptualize the research, we scanned and read all of the relevant literature. The adoption of a digital payment system was researched using ABCD analysis, which was also utilized to build a search proposal. The evaluation method uncovered both individual and societal elements that play a role in the rising popularity of digital payments among banking clients. Various research gaps were identified in the area of digital payment strategy adoption, and various suggestions were made to increase the rate at which consumers adopted digital payment methods. Systematic investigation has shown a distinct image of the digital system adoption by banking consumers. The research also found that there is a connection between customers and individual and demographic aspects, as well as between consumers and different strategies to improve use patterns. Increasing the number of consumers is one of the goals of Digital India, and its implementation will help the country get there. Systematic reviews are a kind of academic paper.

Keywords: Cashless transactions, digital currency, and the Indian economy

Introduction

Throughout the 2016–17 fiscal year, demonetisation was the primary source of controversy about the economy. All current 500- and 1000-rupee notes were declared illegal currency by the Prime Minister of India on November 8th, 2016. It was also stated that, until December 31, 2016, residents may exchange their old 500- and 1000-rupee notes for freshly issued notes at participating institutions. Demonetisation caused immediate and widespread chaos, as seen by the enormous lines at banks to deposit old currency. The Reserve Bank of India temporarily placed threshold

limitations on deposits and withdrawals in order to meet the enormous demand. However, demonetization has been happening for quite some time in India. The Central Government has implemented comparable changes twice before, in 1946 and 1978. But this time around, the stated goal of demonetisation was believed to be different, and as a result, it stole the show on global financial markets. The government's principal goal was to bring the black or shadow economy to an end by reintroducing the unaccounted-for funds into the banking system. Throughout the 2016–17 fiscal years,

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It was also stated that, until December 31, 2016, residents may exchange the value of their old 500- and 1000-rupee notes for brand-new ones at participating banks. Demonetization caused immediate and widespread chaos, as seen by the enormous lines at banks to deposit old currency. The Reserve Bank of India temporarily placed threshold limitations on deposits and withdrawals in order to meet the enormous demand. However, demonetization has been happening for quite some time in India. Before, in the federal government last attempted major policy changes in 1946 and again in 1978. The focus of foreign financial markets was diverted away from demonetization this time since its principal aim was claimed to be different. The government's main goal was to reduce bring the black or shadow economy to an end by reintroducing the untraceable funds. Throughout the 2016–17 fiscal year, demonetization was the primary source of controversy about the economy.

On 8th The Prime Minister of India announced the demonetization of all Indian currency in November 2016. Replace all 500- and 1000-rupee notes in circulation immediately with new ones. It was also shared with the public that locals may deposit their old 500- and 1000-rupee notes to a bank and get back the face value of the bills. during the first 31 days of a freshly issued notest December of 2016. The demonetisation fear spread rapidly seen in the enormous lines at the banks as people were depositing their old bills. a momentary dividing line The Reserve Bank of India introduced deposit and withdrawal restrictions to help address the situation. in light of the enormous needs. However, demonetization has been happening for quite some time in India. Before, in the federal government last attempted major policy changes in 1946 and again in 1978. This time, though, it was said that demonetization's

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It's a tool for economic policymakers to administer trade and industry in a way that supports sustainable development. Budgetary objectives can't be achieved without officials familiar with a wide range of options. The American economy has been fixated on the idea of a cashless society for a while now. Critics of the government's efforts to establish a cashless economy have urged it to address the challenges affecting small firms that have been hesitant to embrace the technology in order to alleviate public and corporate worries. A cashless economy is not only possible but also desirable in today's technologically sophisticated world. Many individuals and companies are still hesitant, despite all the rhetoric about the advantages of a cashless budget.

There have been many shifts in the financial system ever since markets and money replaced barter arrangements. New technological applications in human endeavors have become conceivable because to developments in information and communication technology. The rapid development of digital technology has resulted in several positive social and economic outcomes. The transition toward digital platforms is not being driven by conventional business methods in the digital economy. The public's involvement in government is considered alongside other factors, such as the

entertainment, health, education, business, and political industries. In a cashless society, financial dealings are made feasible by the widespread use of information and communication technologies. The proliferation of the internet and other forms of digital technology have legitimized the use of digital currency. A cashless society is one in which all transactions are conducted digitally, without the need of physical currency. Among the goals of this initiative is to increase transparency and confidence in monetary dealings. Global policymakers, academics, and corporations have all predicted the inevitable failure of a currency-based economy.

The broad use of electronic banking in the 1990s ushered in an era in which less and fewer individuals carried substantial amounts of cash. The use of electronic payment methods has skyrocketed since 2010. The World Payments Report found that in 2013, the overall value of non-cash transactions was \$358 billion, a 7.6% increase from the previous year. The movement toward a cashless economy is also gaining traction in wealthy nations. Several articles have advocated for a cashless economy in which digital currency replaces traditional currency. There has been a recent uptick in the number of countries adopting fully digital economic systems. This research will examine the effects of a cashless payment system on the SMB sector of the economy. Section 1, Section 2, and Section 3 make up the inquiry. The first part offers a quick summary of what cashless economies are and how they work. The first part offers a quick summary of what cashless economies are and how they work. The second half of the presentation focuses on how regulations prohibiting the use of paper money have affected small and medium-sized enterprises. In light of the imminent transition to a cashless society, the study concludes that a robust regulatory framework is necessary to protect small businesses.

Literature Review

Himanshu Kushwaha (2018) Demonetization refers to the practice of taking currency out of

circulation and denying it legal tender status. The term "demonetization" refers to the removal of legal tender status for certain monetary units. The banknotes will not be accepted as payment. A currency's legal tender status may be revoked, or "demonetized," when the government decides to do so. The introduction of a new national currency requires demonetization as a prerequisite. Demonetisation, in other words, may be seen as a shift of currency in which new units of money replace the old. New currency notes or coins of the same or other denominations may be issued. In India, the rupee has been devalued three times. The first demonetisation occurred on the Saturday, January 12, 1946; the second on the Monday, January 16, 1978; and the third on the Tuesday, November 8, 2016. The purpose of this research is to examine the meaning and causes of demonetisation, as well as its effects across different industries. The good and bad effects of demonetisation on the Indian economy are also explored in this paper. Since this is descriptive research, we gathered all of our information from secondary sources including newspapers, periodicals, and websites. When further theoretical background was needed, books on the subject were consulted.

Ajay Kumar Asthana (2022) In this context, "demonetization" refers to the process of withdrawing a particular currency from circulation. It is standard practice for a government to gradually phase out its previous currency before introducing its new one. There have been three instances of demonetization in India's history: 1946, 1978, and 2016. On November 8th, 2016, the current Modi government demonetized cash for a third time. There was turmoil across all socioeconomic strata. While the shift was welcomed by some who hoped to see less illicit money in circulation, it had unintended consequences for others. In this article, we analyze the immediate consequences of demonetization on the Indian economy and speculate on its impact on micro, small, and medium-sized businesses.

Shukla, Bal Govind and Gupta, Hariom (2018)

using Allahabad City as a case study, the authors of a paper titled "An Exploratory Study of Business Students' Perspectives on Demonetization in India" They analyzed primary sources and came to the conclusion that public support for government initiatives is high. Government initiatives whose overarching goal is to eliminate corruption, black money, and related dangers domestic terrorism and naxalite activity. An Exploratory Study of Business Ethics," by Bal Govind Shukla and Hariom Gupta (2018). The Impact of Demonetization on Indian Students, Focusing on Allahabad City. In the past, study's basic data and found that citizens enthusiastically support government efforts to improve government initiatives whose overarching goal is to eliminate corruption, black money, and related dangers domestic terrorism and naxalite activity.

Lai Siliang (2023) The major objective of this study is to investigate the results for the nation's MSMEs. The administration is quite pleased with the prospect of a cashless monetary policy and the demonetization of high-denomination banknotes. One of the most sustainable and ethical business practices of the future is shifting away from a cash-based economy and toward one that relies more and more on electronic payment systems. In a cashless economy, monetary exchanges are conducted without the physical transfer of money. Here, you may use your debit or credit card to make a payment. It's a kind of economics in which transactions aren't always referred to as monetary transactions. Instead of using cash, which may be easily stolen, cashless transactions reduce the risk of theft and other crimes. People who regularly make purchases using alternative payment methods tend to carry less cash around than those who do not. This eliminates the financial motivation for thieves to conduct such crimes.

Poonam (2022) Many changes have been wrought upon every economy in the modern world. The Indian economy has undergone several reforms and changes from ancient times, including economic and technical reforms in 1990. The decision to devalue the currency in

2016 was equally significant. On November 8, 2016, it was taken by the Honorable Prime Minister Modi. "Notebandi" is what the average person calls it. The primary motivation for this choice was the need to decrease corruption, limit the flow of illicit funds in the economy, and halt money going toward supporting terrorist activities. The global economy is showing signs of instability after this statement. There have been reports of lengthy wait times at banks and ATMs in order to convert money. Many areas took a severe beating and were adversely impacted. Economists and academics had mixed opinions to this judgment, with many siding with its proponents. A little later, Modi repeated his earlier assertion that this move will bring digitization to the economy. Because of this, the "cashless v/s less-cash" war has started. However, the effectiveness of digital payment methods is improving.

Research Methodology

In this research, we will be analyzing digital payments and reviewing the existing literature on the topic. Articles from ResearchGate, SSRN, Google Scholar, and Academia were used as sources for this analysis. This includes

using some of the news stories and theses that can be found in Shodhganga. Therefore, all of the information presented in the report is tertiary at best.

The research process consists of four steps.

1. Articles will be looked for employing keywords in search engines.
2. Using the inclusion/exclusion method to classify articles.
3. The articles will be used in a preliminary examination process.
4. At the study's conclusion, the remaining papers will be reviewed to determine the conceptual framework for investigating the impact of digital payments and to provide an optimal strategy for enticing consumers to use digital payment methods.

As a result of our research, we have a firm grasp on the idea and significance of digital payments, have zeroed in on the most important aspects influencing the adoption strategy for digital payments, identified the research gap, and proposed an appropriate conceptual framework for the study.

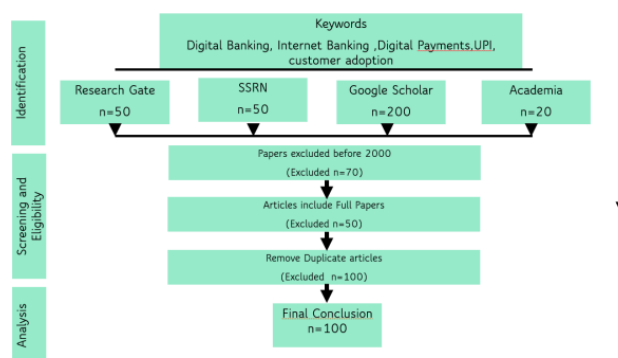


Figure 1: Summary of Literature review steps S

Reasons of Demonetisation:

Black money:

The Indian government's decision to demonetize large amounts of currency was a daring and innovative move that would have far-reaching effects on the country's shadow economy. This action enables the tracing of black-market funds

and the individuals who possess them. Large sums of cash in the form of currency notes are often held by a small number of enterprises, including those dealing in real estate, jewelry, foreign currency, and private money lending. A parallel economy was born out of the country's flood of untraceable cash. These funds have made their way into the bank accounts either

directly or indirectly.

To hit the fake currency rackets:

The demonetization was a waste of counterfeit currency. Terrorist financing in Jammu and Kashmir, Naxalite-affected areas, and the North-Eastern states may be stopped if the biggest denominations of money are removed from circulation. Racketeers have abandoned their false cash, and new high-security currency notes make forgery impossible. Demonetization was a targeted strike against counterfeit bills in circulation. Those counterfeit bills are now worthless scraps of paper thanks to demonetization.

Online transactions:The stated goal of demonetization was to hasten the transition to a digital or cashless economy. The shift toward cashless or low-cash transactions will improve direct tax revenues since more income will be reported. As the use of cash diminishes, other payment methods will increase in popularity. There will undoubtedly be a significant uptick in demand for electronic payment methods such as online transactions, payment through apps, E-wallets, E-banking, the use of debit and credit cards, etc.

To hit Maoists:This action rendered Maoist money useless. According to news accounts, Maoists in Baster, Chhattisgarh, were carrying about more than 7,000 rupees in cash. These currencies are now worthless scraps of paper.

Rise in GDP:It is expected that the long-term advantages for GDP growth would surpass the short-term transitory effect of demonetisation, which has severely affected industries like as real estate and property, construction, and household spending in general. By FY2018-19, we should see GDP growth of 9 percent.

Sector-wise impact of demonetization:

Real estate and Property: The note prohibition would have a significant impact on this industry. much construction companies have closed down as a result of demonetization since they relied on cash transactions rather than bank transfers or checks for much of their operations. Due to the

widespread use of cash as a payment method, small and medium-sized construction companies are hit more than other industries. The most vulnerable are disorganized construction companies. Due to an unanticipated dip in sales, builders will be strapped for cash unless they take drastic measures to entice customers. The resale market and the land market would be particularly hard hit by demonetisation since cash is so central to both industries. Due to demonetisation, most of the currency in circulation has been removed from circulation.

Gems & Jewellery:Customers often pay in cash when buying jewelry, hence demonetisation has had a significant effect on this industry. Due to demonetisation, consumers have less disposable income with which to buy luxury items like jewelry. The demand for jewelry was negatively affected, particularly at smaller stores in the unorganized sector. In order to make up for the loss of business caused by the prohibited notes, several jewelers began selling gold at above-market rates. This led to income tax raids. In addition, numerous jewelers have received notices. Demonetisation has had a devastating effect on this industry since most customers there prefer to pay in cash.

Banks:The banks have been the most reliable institution throughout the demonetisation process, not to mention the most successful. With the government mandating the replacement of all old currency with new, banks now have more funds available for lending. Many banks have decreased their interest rates on both deposits and loans.

Hospitality and tourism:The Indian tourist sector has been hit hard by demonetisation since so much of it relies on cash transactions. The practice of using illicit funds to finance lavish overseas vacations has mostly petered out. Local tourism will also feel the effects of the monetary constraint. The informal economy is hit most by the decline in cash transactions, but restaurants also feel the effects of this trend.

Luxury items: The effects of demonetization on

this industry will be profound. Most people's black-market funds are used for frivolous purchases. The note prohibition will have a devastating impact on the luxury goods and services industries, including the fashion, electronics, and automobile industries.

Automobiles: The car sector has also felt the effects of demonetisation. Customers prefer paying in cash when purchasing a two-wheeler, which has led to a significant drop in demand compared to four-wheelers and luxury autos. A dramatic drop in sales has been recorded by various dealers in the pre-owned automobile market, another sector hit hard by demonetisation. There are no remuneration standards in this sector.

Conclusion

The decision to devalue the old currency and replace it with the new one came as a complete shock to the populace. The change was made to address issues with counterfeit cash, bribery, and financing for terrorism. It's possible that India's recent decision to demonetize its old currency is a step toward a paperless economy by targeting unreported funds with a "surgical strike." There was a major cash shortage in banks and ATMs throughout the nation after the demonetisation, which had a negative impact on many different types of small businesses, as well as the agricultural sector and the transportation sector. Long lines formed outside of banks and ATMs throughout India as individuals tried to exchange their old cash after the government's decision to restrict their use. About 86% of the entire value in circulation was denominated in obsolete money, which was worth a total of Rs 14.2 trillion. Whether via direct or indirect methods, the black money has been accounted for and paid substantial taxes and penalties. With more people embracing electronic payment methods like E-wallets and apps, online transactions using E-banking, plastic money, etc., the Indian economy stands to benefit from demonetization. In the long run, the economy will benefit from demonetization.

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