

LONG TERM IMPACT OF DEMONETIZATION IN INDIA ON SMALL RETAILERS IN RAJASTHAN WITH SPECIAL REFERENCE TO CASHLESS TRANSACTIONS

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ABSTRACT

The paper aims to study the impact of Indian “demonetization” after five years of its implementation, November 8, 2016, on the local retailers in the state of Rajasthan. Almost 86 percent of the currency in circulation was demonetized and it affected the retailers, among others, immensely. On top of dealing with demonetized currency for transactions, the lack of knowledge as well as tools required for digital transactions made the transition from cash to cashless model a real challenge. After five years many changes have been observed in the Indian economy like direct tax to GDP ratio has seen a trend reversal, increase in digital transactions and less dependency on cash. Therefore, the study aims to assess if there have been changes for small retailers too. The main objective of the study is to understand the implications of demonetization, during the past five years on the local retailers in Rajasthan and to assess the changes, if any, in their business transactions pre- and post-demonetization.

Keywords: Demonetization, Indian Economy, Retailers, Cashless Transactions.

Introduction

On November 8, 2016, Honorable Prime Minister of India announced demonetization of big currency notes i.e., ₹ 500 and ₹1000 notes, which accounted for approximately 86 percent of the currency in circulation. This news shook the whole country and had an effect on all the sectors in India. Today, after five years since the announcement there has been changes in various sector pertaining to the decision. According to a report by *ZeeBiz WebTeam*, “5 years of demonetization! How it impacted Indian economy?” (2021), Demonetization has led to an increase in digital transactions, permanently i.e., people who switched to cashless transactions have not switched back to cash transactions. Also, since 2017, digital transactions have beaten traditional transactions in terms of level and growth. Also, India’s direct tax to GDP ratio has seen a trend reversal from 2017 and has increased from 5.4% in 2016 to 6% in 2019, as shown in table 1. This ratio had previously been going down and had fallen by 1% between 2008 and 2016.

Table 1: India’s Direct Tax to GDP Ratio

Year	Direct tax-to-GDP ratio (in %)	Amount (in ₹)
2017	0.2	40,000 crores
2018	0.8	1.25 trillion
2019	1.0	1.89 trillion

Source: 5 years of demonetization! How it impacted Indian economy? (2021), ZeeBiz WebTeam

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Compared to the trend that prevailed, demonetization has increased the direct tax-to-GDP ratio by 0.2 per cent, 0.8 per cent and 1 per cent amounting to Rs 40,000 crore, Rs 1.25 trillion and Rs 1.89 trillion in direct taxes in 2017, 2018 and 2019, respectively.

India has also become less dependent on cash since demonetisation. The YoY growth of notes in circulation in the financial year 2015-16 over 2014-15 was 14.51% which amounted to currency worth ₹ 16.41 lakh crore in circulation. At this rate, by the end of the year 2020-21 it would have increased to ₹ 32.62 lakh crore. But the actual increment was much less amounting to ₹.28.26 lakh crore by the end of 2021.

Small Retailers in India

Retailing can be defined as selling or marketing goods to final consumer. According to a report titled Retail Industry in India, published in November 2021, by India Brand Equity Foundation, India is the world's fifth-largest global destination in the retail space.

The retail industry of India accounts for over 10% of the country's gross domestic product (GDP). It also accounts for 8% of the employment in the country.

The High Court of Delhi, in 2004, defined 'retail' as a sale for final consumption or to the ultimate consumer. William J. Stanton defines, "A retailer or retail store is a business enterprise which sells primarily to the ultimate consumers for non-business use".

According to U.S. Small Business Administration (SBA), (2006) retailer that is "independently owned and operated but is not dominant" is "small" retailer.

Literature Review

Demonetization in India is taken for curbing malpractices such as funding of illegal activities, counterfeit currency and tax evasion. It benefitted the country as there were accounts in which currency notes in excess of specified limits were deposited which was unaccounted income. This led to tracking such individuals or units. Also, the cashless transactions as an alternative will help in building an efficient payment infrastructure (Veerakumar, 2017).

Nongsiej and Debnath (2017) concluded in their paper that one of the purpose of Demonetization was to prevent money laundering and to promote online transactions for better accountability. They also found that it is considered as a tool to clean up the Indian economic system and will have benefit in long term.

Bansal and Kumar (2014) in their study titled, Small Retail Enterprises (SREs) and Their Role in Building Neighbourhood Community in India, concluded that the small retailers contribute to the economy as well as society. They offer employment in local communities and place identifiers in society. They suggested that to help these small retailers survive against the larger retailers, people should support and shop from such small businesses and retail establishments as they add positively to the society.

Victor and Imtiaz (2018) in their study relating to effect of Demonetization on Retail Industry in Lucknow region found that demonetization had a negative impact on retail sector. They reported that benefits that came with announcement include fall in interest rates due to low liquidity. Also, rise in digital transactions shows that the Indians have begun to transact digitally more often than before. But, apart from these positives, as per the reports of banks to the Financial Intelligence Unit in the fiscal year 2017 show that number of suspicious transactions has increased almost six fold in one year i.e., from 61,361 to 361,214. In addition, detection of fake notes rose 20% from previous year's figure.

Unorganised retailers saw a decline in footfall to their shops due to demonetisation. The traders as well as customers agreed that there has been a change in buying behavior post demonetisation. Another conclusion that was drawn from the study by Koshi (2017) was that the customers need to be educated on using the payment apps and also safety and security of transactions need to be ensured.

Objectives

- The main objective of the study is to understand the implications of demonetization, during the past five years on the small retailers in Rajasthan.
- The study also aims to understand how switching to cashless transactions has affected the small retailers and the process of the transition.

Research Methodology

Research Method: Survey

Area of Study

Universe for this study comprises of the local retailers in four of the major cities of Rajasthan: Ajmer, Jaipur, Jodhpur and Udaipur.

Sampling Size: 186 units

Survey Instrument: Schedule

Data Analysis

- **Demographic Profile of the Respondents**

As Chart 1 shows, majority of the respondents in the study are between the age forty to sixty years, closely followed by those who are in the age group of 20 – 40 years which accounts for another 39% of the total. So, almost 80% of the respondents are of age 20 to 60 years.

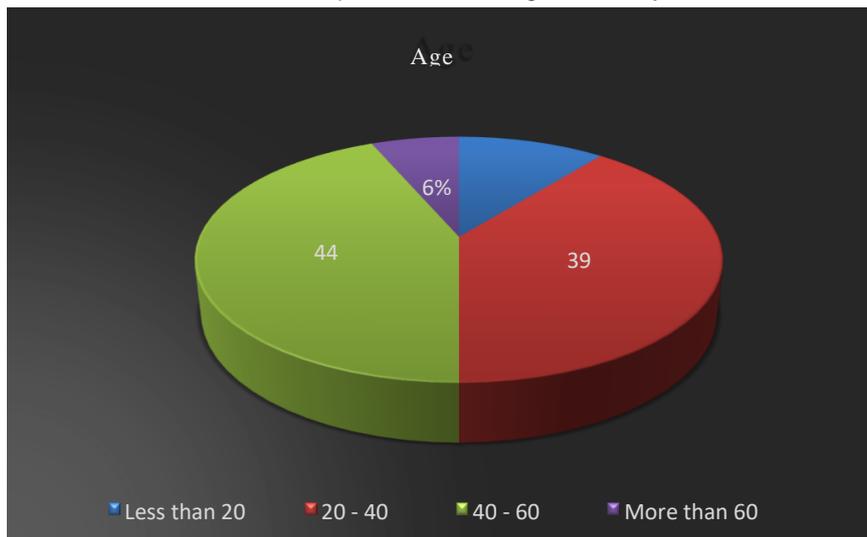


Chart 1: Age of the Respondents

Source: Primary Data

Also, more than 90% of the respondents in the study are males, as depicted in chart 2.

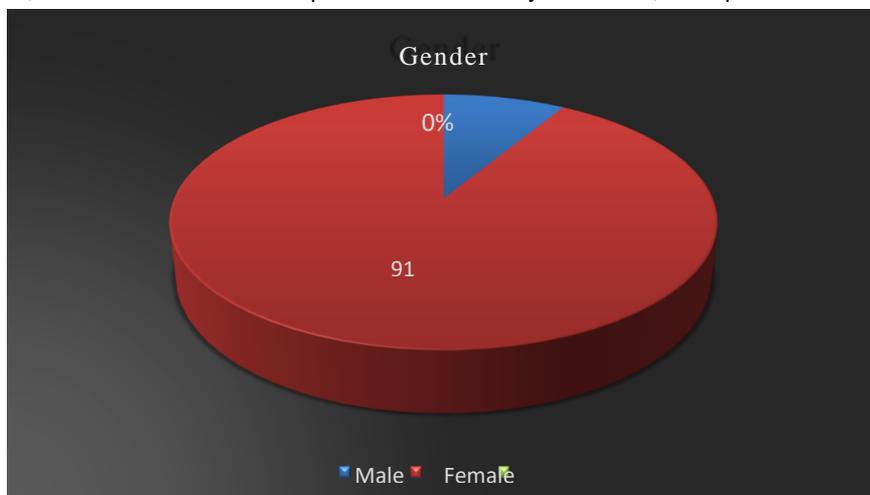


Chart 2: Gender of the Respondents

Source: Primary Data

Almost 65% of the respondents have an annual income of above ten lakhs rupees (chart 3), among which almost 23% of the respondents earn more than fifteen lakhs rupees annually.

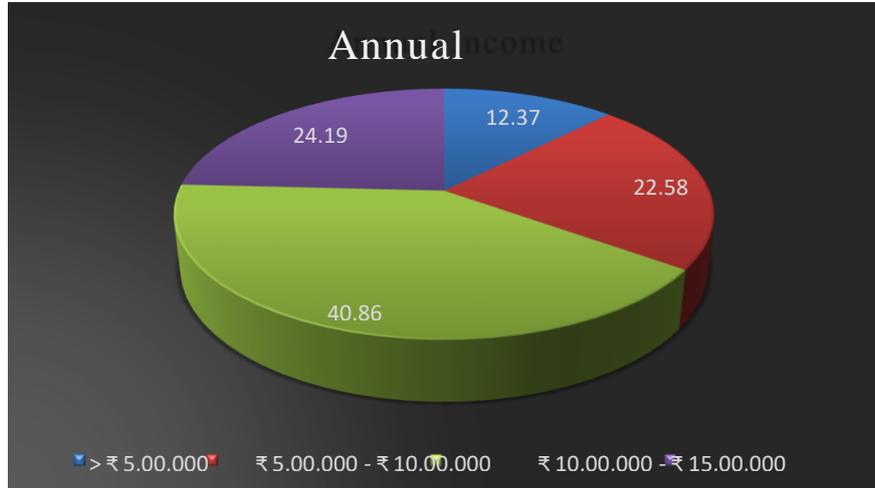


Chart 3: Annual Income of the Respondents

Source: Primary Data

Only 13% of the total respondents earn below five lakh rupees per year.

- **Demonetization and Cashless Transactions**

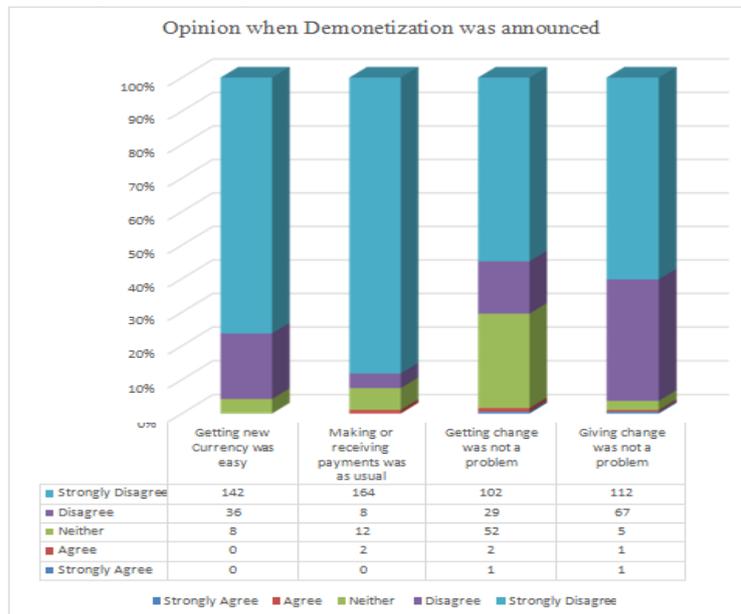


Chart 4: Opinion of the Respondents about demonetization

Source: Primary Data

To understand the situation from the start, respondents were asked to rate some statements on the basis of the situations during the time when demonetization was announced. More than three fourth of the respondents Strongly disagreed when asked if it was easy to get new currency at the time of announcement. Also, around 90% of the respondents found it difficult to make or receive payments during that time. More than 50% of the respondents found it difficult to give or get change.

When asked about how frequently they use cashless mode of transactions, majority of the respondents (37%) use it sometimes closely followed by those who use it most of the times (35%), as depicted in chart 5.

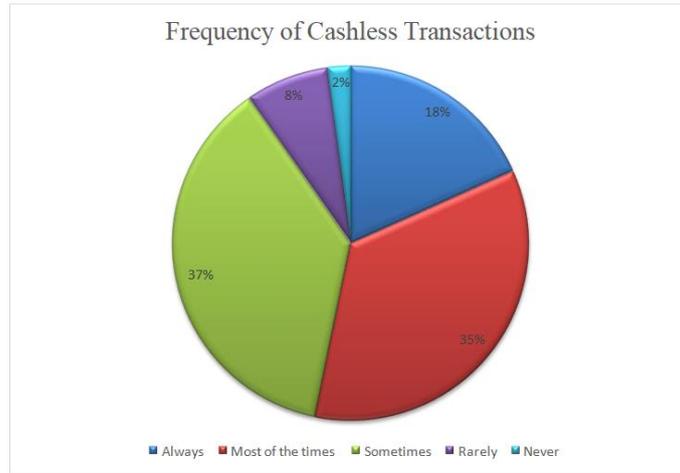


Chart 5: Frequency of Cashless Transactions

Source: Primary Data

Only 18% of the total respondents use cashless mode of transaction every time and 2% of the respondents never use cashless mode for their transactions.

• **Correlation Analysis**

The results of correlation test as depicted in Table 2, show that there is a significant positive correlation among age and their willingness to switch to cashless transactions ($r=.82, p < 0.01$) as well as their ease in switching ($r=.71, p < 0.01$), this may be due to the reason that younger people are more digitally experienced and acquainted. So, the null hypothesis **H01** *Age has no effect on willingness to switch to cashless transactions, is rejected*

The study also shows strong positive correlation ($r=.78, p < 0.01$) among respondent's annual income level and their willingness in switching to the cashless transactions. This shows that the respondents who have higher income level were more willing to switch to digital transactions than those who have lower income. This may be due to the need of basic tools for the digital transactions like bank account, a digital payment etc., So, the null hypothesis **H02** *Income level has no effect on willingness to switch to cashless transactions, is rejected*

Table 2: Correlation Analysis

	Age	IL	EL	ECT	WCT
Age	1	.569*	.404**	.709**	.820**
Income level (IL)		1	.521**	.612	.775**
Education level (EL)			1	.736**	.791**
Ease in switching to Cashless Transactions (ECT)				1	.899**
Willingness to switch (WCT)					1

Source: Primary Data

Another finding from the test result is that there is a significant strong positive correlation among respondent's education level and their ease in switching to the cashless transactions ($r=.74, p < 0.01$) and their willingness to switch ($r=.79, p < 0.001$). This shows that more educated people are willing and have adapted to the digital transactions easily in comparison to less educated.

The null hypothesis **H03** *Education level has no effect on ease in switching to cashless transactions, is rejected*

The study also revealed that there is a very strong positive correlation ($r=.90, p < 0.01$) among ease in switching and willingness to switch to cashless transactions.

H04: *Ease in switching to cashless transactions has no effect on willingness to switch to cashless transactions, is rejected*

Opinion on Demonetization and Cashless transactions After five Years

When asked if the respondents feel that demonetization still has an effect on retailers after five years on the basis of their experience the answer was not very clear as almost equal number of respondents declined and said that they don't know, depicted in chart 6.

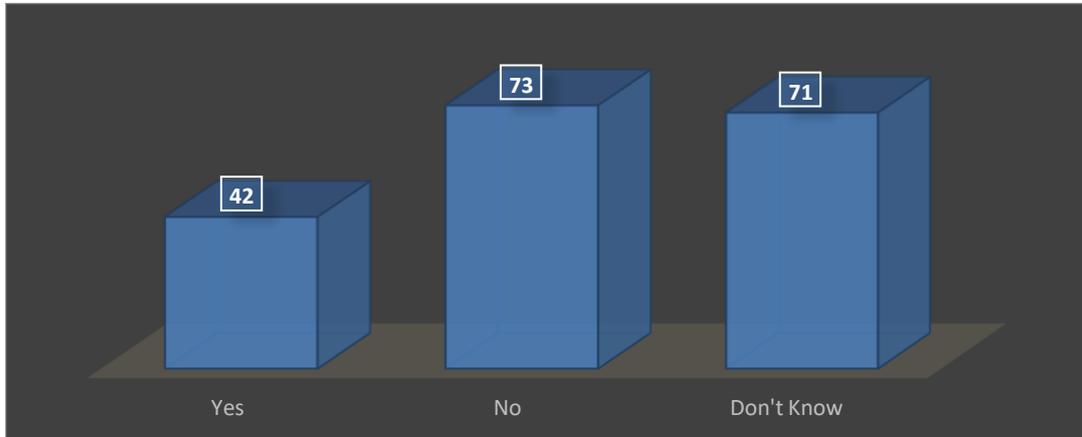


Chart 6: Presence of Demonetization's Effect after five years

Source: Primary Data

On asking about the cashless transactions on the basis of their experience in past five years, majority of the respondents (49%) agreed that they believe that they consider online transactions to be safe but on the other hand majority of the respondents (48%) do not consider that the process of cashless transaction is easy.

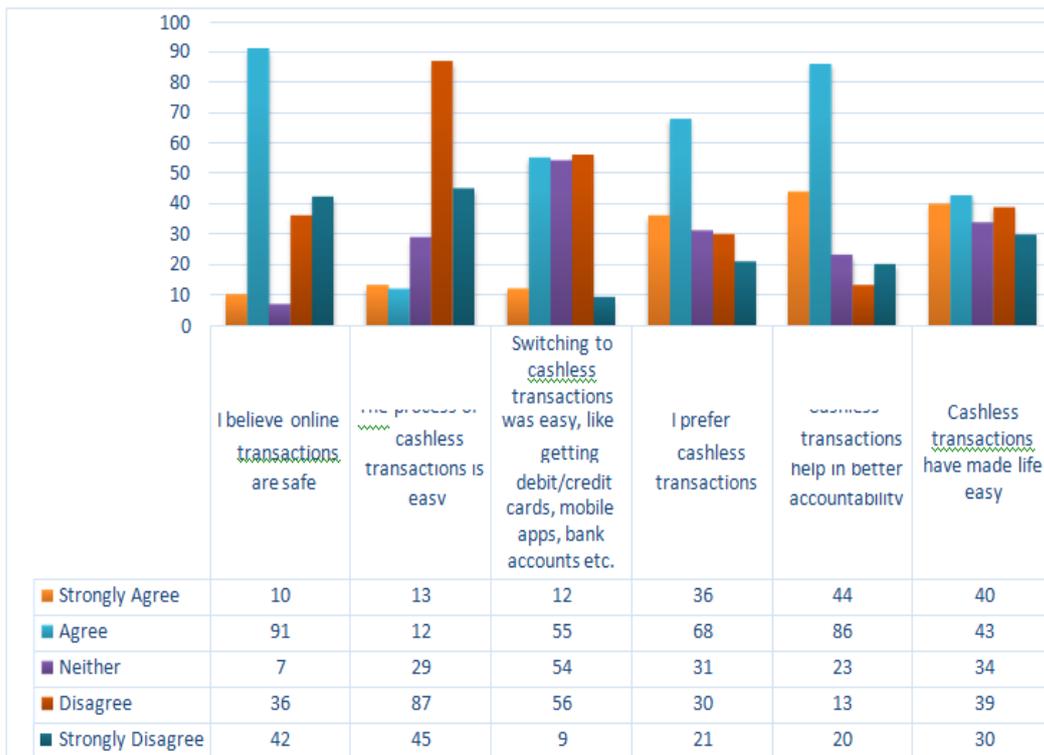


Chart 7: Opinion on Cashless Transactions

When asked about the process of switching to cashless transactions, like, getting debit or credit cards, mobile apps or scanner codes etc., there were mixed responses with almost equal number of respondents agreeing, being neutral and disagreeing.

Almost 70% of the respondents agree that cashless transactions help them in better accountability. Lastly, when asked about whether cashless transactions have made their life easy, majority agreed but the neutral and disagreeing respondents' numbers were also close.

H0s: *Cashless transactions have no impact on small retailers, is rejected*

Conclusion

The study suggested that when demonetization was announced, it became difficult for the small retailers to get new currency, or to give or receive payments and also it became difficult to give or get change. Mostly retailers are using cashless mode of transactions and the frequency of such transactions is moderate.

The study suggested that younger people are more digitally experienced and acquainted and therefore more willing to switch to cashless transactions. Also, there was a strong positive correlation among respondent's annual income level and their willingness in switching to the cashless transactions. This may be due to the need of basic tools for the digital transactions like bank account, a digital payment etc. Results also show that more educated people are willing and have adapted to the digital transactions easily in comparison to less educated. The study also revealed that there is a very strong positive correlation among ease in switching and willingness to switch to cashless transactions.

The study results show that we cannot clearly and strongly discriminate whether demonetization still has an effect on retailers after five years. It suggests that not everything can be defined as black and white. There is a middle ground which suggests that the effect is moderate.

About cashless transactions majority of the respondents believe that online transactions are safe but on the other they do not consider the process of cashless transaction easy. Almost 70% of the respondents agree that cashless transactions help them in better accountability. And have made their life easy.

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