

ANALYSIS OF THE RESULTS OF DEMONETIZATION ON THE RURAL ECONOMIC SITUATION

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Abstract

Cash is the primary mode of payment in the Indian agriculture - based economy, which is highly unstructured. Cash is the primary means of payment for the majority of residents residing in rural communities. A major blow to rural people's livelihoods was dealt by the Prime Minister's decision to demonetise on November 8th, 2016. The objective of this research was to determine the rural effect of demonetisation and the cashless digital economy.

In this paper, secondary data from diverse sources such as the Internet, newspaper articles, and published reports are examined. The impact of demonetisation on rural communities has also been discussed.

A first stage in the fight against widespread corruption is the implementation of demonetisation. Demonetisation preparations, on the other hand, were uneven, with disastrous results for rural residents. Encouraging laws and capabilities of authorities and anti-corruption agencies are necessary to adopt cashless economies with a holistic strategy.

Keywords – Demonetization, Farming, Rural Economic Development, Daily Wage Labourers, Cashless Economy

Introduction

The term "demonetization" refers to the process of removing a currency unit's status as a valid form of payment from circulation. Either the introduction of new currencies of the same denomination or the entire replacement of the old currency with the new one is required for the process of demonetisation. There are many different motivations behind why countries choose to demonetize their monetary units. On 8th Nov, 2016, the gov't of India implemented demonetisation in an effort to eradicate black money and transform India into a paperless and digital economy. According to the annual report published by the RBI, the total amount of bank notes in distribution was approx. 17 lac crores, with the majority of these notes being of the old top 2 denominations. According to the most recent official tally, which was made public by the RBI On the 14th of Dec. 2016, available earlier notes with a value of approx. Rs. 13 lac crores had been deposited by customers up till the 15th of December 2016. The Prime Minister of India, Narendra Modi, emphasised that "the volume of currency in circulation is directly linked to the extent of corruption."

As a result, decreasing the amount of cash that is circulating would result in less corruption. The Government of India is of the opinion that the recent currency demonetisation was necessary for the following three primary reasons:

1. To put an end to the funding of terrorist organisations,
2. To address the issue of counterfeit high value currency mostly of Rs. 500/- & Rs. 2000/- note,
3. To make black money stored in cash worthless

Inflation will be kept in check, banks will be recapitalized, interest rates will be reduced, and the economy will be stimulated by capital inflows. Tax benefit and channelling funds to create appropriate funds have evolved as a way to bring back black money into the system in India's cash-based agrarian economy, which is highly disorganised.

Chaos and unrest have spread across rural and urban India after the government's decision to demonetize top 2 bank notes of the country's currency to fight against corruption and black money.

Despite the fact that more than 80% of all activities in India are done in cash, the public's initial reaction to demonetisation was generally positive. As a result, millions of people missed valuable work time waiting in line to exchange their old currency notes; workers experienced financial hardship due to the delay in receiving their wages; farmers were unable to obtain crop loans; and as a result, the supply of commodities in rural markets decreased. Countless people's frustration as they wait in long lines at banks and ATMs to get their own money speaks volumes. In spite of this, there have been just a few incidences of violence in response to the growing anger over the issue. Farmers and low-wage workers in rural areas were particularly hard hit, with conditions getting even worse.

Digitization of transaction data was another step taken by the administration. More than half of our population of approx. 850 million people lives in rural areas. Cashless transactions are where the bulk of the difficulties lie during this decade's remaining lifecycle. Rural users are expected to make up a significant portion of the market by the coming years, they may account for around half of all online users. The number of residents residing in rural areas who are online is likely to rise from the current 110 million, to about 350 in 2020 i.e. more than 90% of rural residents. The fundamental issue is that India has not engaged in any digital transactions. People need bank accounts, but branch expansion has been slow. As a result of this context whether or not demonetization is a good thing Rural India now has a chance to join the digital economy.

Literature review

There is a plethora of information accessible regarding the effects of demonetisation on many different section of the economy, including agriculture, in newspapers, magazines, on the internet, and on other social media platforms. However, there is no empirical data to support the claim that demonetisation has had any effect on agriculture or related sectors. Bisen, et al. (2017) undertook an initial study to examine the reaction of demonetisation on various groups, including farmers, shops and customer. Small and

marginal farmers were found to be the most affected by the demonetization of the Indian rupee in terms of sowing, purchasing inputs, and selling agricultural commodities. Farmers who deal in perishables were hit worse than those who deal in grains, as per usual. However, grain wholesalers in markets and merchants in fruit and vegetable markets were the most hit by the economic downturn. Those with lesser incomes and not familiar with other payment methods except cash (such as online/UPI) were the most adversely impacted by the cash crisis.

Most crops pollinate themselves, so producers/farmers don't need to buy new seeds every year, which means that the seed sales are fewer than typical, according to Chand & Singh (2017). Farmers' access to inputs was hampered, according to Bisen et al. (2017). For the purchase of inputs, the farmers did not use either a check or any of the digital payment platforms. In the current Rabi season, fertiliser sales were 7.5% and 7.0% lower than in the corresponding periods in 2014-15 and 2015-16, respectively, according to the Fertilizer Monitoring System (FMS) in the Department of Fertilizers under the Ministry of Chemicals, Petrochemicals and Fertilizer. In addition, the poll showed that farmers have been hindered by the lack of new currency denominations in villages and remote areas, private input dealers' refusal to take previous high-denomination currency, and the far placement of government agro-input agencies.

Objective of the Study

1. To have a better understanding of India's rural economy and the plight of farm users and daily wage workers.
2. In order to analyse the effects of demonetization and the digital economy on rural person's usability, accessibility, and availability,
3. To find out how demonetisation has affected peasant communities and low-wage workers.
4. To examine the positive and negative effects of the demonetization process.

Research Methodology

Most of the information in this study is derived from reviews of secondary data that has been published in a variety of formats. Data was gathered from a variety of sources, including the internet, newspaper stories, and reports published in a variety of formats. A number of interviews with rural residents in various parts of the country were conducted to better understand their perspectives on the effects of demonetisation.

The Effects of the Demonetisation of Currency on the Rural Economy

India's rural population makes up to 75% of the country's overall population, while the country's urban population makes up to 36%. (Census, 2011). India's agriculture sector is the backbone of the country's economy and requires a huge amount of investment.

17 percent of India's Gross domestic product is accounted for by the agricultural and allied industry, which employs nearly half of the country's workers. In terms of total social economic growth, it is the primary source of employment. Agro products such as tea, coffee, spices, and tobacco are also exported from the country, which provides raw resources for key industries such as cotton, textile, and sugar. When it comes to the regional livelihoods, cash and co-operative banks form the foundation.

Rural communities rely heavily on cash for all activities, including the sale, transportation, marketing, and delivery of ready-to-eat produce to Mandis. Although ATMs and Cards have become incredibly common in urban India, there has been little or no use of them in the rural areas. In rural areas, the use of technology-based payment systems is restricted. The agrarian and cottage industries have suffered greatly as a result of this fundamental disparity. Citizens of rural areas who held a large quantity of both banned bank notes encountered a lot of difficulties because replaced currency notes were not available. Many rural residents had no concept what banking was, which had an indirect effect on them. Every Indian was affected by the demonetization, but the agricultural sector was particularly hard struck. Due to a widespread cash crisis and a decline in the wholesale market demand for vegetables, farmers suffered a setback. There were some farmers who could no longer afford to sell their crop yield, which included cotton, soybean, sugarcane, rice, maize or others who were able to sell their crops at a lower price.

In different agricultural seasons, millions of countries farmers rely on liquid fund for activities to purchase seeds, fertiliser, and fuel. Farmers don't have to buy seeds every year since Rabi seeds are self-pollinating. The purchase of new High Yield Variety Seeds was suggested, although because of lack of funds, few farmers who were willing to participate cannot as demonetisation made it impossible for them to do so. The majority of them could not afford to buy market-available inputs. Several farmers replanted their fields with last year's crop seeds rather than investing in new, higher-quality seeds. At high interest rates, farmers were obliged to purchase goods as loan or seek credit from unofficial financing options. There were no money lenders willing to lend to small farmers, because of a limit on withdrawals. Although the monsoon rains were adequate, farmers were nonetheless eager to put money extensively in Rabi season 2016 because drought struck them in 2014 and 2015, respectively. Cropping states including Maharashtra, Punjab, Gujarat, etc had barely finished their Rabi sowings by November 2016 (an increase of 8.8 percent from 2015), while most of the land were still under Rabi cultivation. Agriculture, planting patterns, production, and markets were all directly impacted. Demonetization and the subsequent cash crisis left the agriculture industry unable to acquire funding for the upcoming crop cycle's harvesting and seeding. After demonetisation, most marketplaces saw a 4–5 percent decline in the arrival of perishables like vegetables and fruits, as well as a price drop.

Many steps were taken by the government to alleviate the plight of farmers. There was a first-of-its-kind restriction on the amount of money farmers may withdraw from their bank accounts each week. Different states or national gov't outlet, as well as many agricultural studies institutes, were permitted to accept old Rs.500 notes from farmers in order to purchase seeds. It was difficult for farmers to exchange money since just a small percentage of them had PAN cards (Planning Commission of India, 2014).

NABARD (National Bank for Agriculture and Rural Development) said that it would grant Rs.19680 crores (about \$3.07 billion) to cooperative banks to assist farmers in planting winter crops over the coming months.

In addition, local wholesale marketplaces in different states have used the Online network to sell their produce by taking payments in different modes. Rural banks were already overburdened with exchange duties, so this didn't help. Many people were unable to access their bank accounts, and cash dispensing machines were operating at a reduced capacity because of the lack of customers. People in rural and semi-urban areas of the country had a greater difficulty with the implementation of the demonetisation because of the lower number of banks and cash dispensing machines. Lack of access to branches and cash dispensing machines was not the problem, however the restriction on the amount of money that could be withdrawn. However, due to the withdrawal restriction and distance from banking institutions, a farmer cannot take time away from his hectic schedule even for a single day in order to go to the bank and retrieve his money. People in rural India spend a great deal of time waiting in winding lines at banks and cash dispensers. Dealers used by rural black money hoarders to exchange higher-value currency notes for lower-value currency notes caused havoc. Brokers leveraged regular people's KYC to funnel money into uneducated people's Jan Dhan Accounts all around the country. For a few months, the rural economy was compelled to operate on a postponed payment and barter basis. The primary crops of rice, wheat, and others were employed as a medium of exchange. The decline in the economy was caused by the exodus of many rural small business owners from the market.

The rural and national economies rely on agriculture, although it is not the main source of income. Along with the general village economy, the associated agricultural businesses such as tractor makers and farm equipment makers were also affected by the demonetization. Cash shortages and a lack of digital payment options in rural areas have had a short-term impact on rural consumers' purchasing power. As a result, everything from mobility to consumption goods to perishables like fruits and vegetables saw a decrease in demand. Prices dropped as a result of a decrease in demand. The lack of output in the third quarter is expected to lead to a reduction in supply, which could lead to a rise in prices in the following quarters. In the current situation, a line of credit is the only alternative option available. People began trading on a credit basis in the belief that the liquidity issue would improve and allow them to release their cash flow. Consequently, prices rose as consumers recognised the interest on their borrowing. Overall, rural sector prices rose sharply.

The Effects of the Demonetization of Currency on Unorganized Sectors

People in rural areas are disproportionately employed as daily wage labourers in unorganised sectors. Lending institutions, daily wage earners, smaller businesses, labourers, pensioners, etc. felt the effects of demonetisation. Many unorganised workers were unable to make a living because of the labour shortage. So, they were unable to pay their daily expenses and suffered from health problems as a result of their mental and physical exhaustion. Many people lost their lives as a result of the unofficial economy's credit crunch. Agricultural workers and local craftspeople suffered when farmers were strapped for cash. Wage payments to National Rural Employment Guarantee (NREG) employees have been consistently delayed across the country. Because bank employees had been unable to report to work for weeks, getting paid their meagre salaries became much more difficult. In addition to MNREGS and ICDS, the only other means of subsistence for many individuals was NRHM. There were few or no options for non-agrarian jobs in a rural economy already decimated by the effects of demonetisation. The same was true for pensions, which provided a security and relief to many of elderly and impoverished widows and orphans. People who live on the edge of poverty were in a precarious position in such situation. Due to marriage, health, and property concerns, many people had a hard time withdrawing money from their bank accounts. People went into depression, a few died, and a lot of marriages had to be cancelled because their families couldn't get their savings out in one go for things like weddings and other significant occasions. Reverse migration of workers was also a result of demonetisation. Those without financial institutions such as post offices or banks, including the most defenceless and defenceless among us were disproportionately affected by the fight against black money.

The benefits of implementing demonetisation

In the long run, the effects of demonetisation were also seen in rural areas. People in rural areas were first unable to access cash since high-value notes were prohibited and the government set a cap on ATM and bank cash withdrawals. This resulted in a reduction in the amount of money people had available to spend, which in turn reduced their costs. Demonetisation had an effect on India's GDP, which is driven by consumption. Bank deposits by those who owed black money resulted in an increase in the government's savings since they were forced to pay taxes on the money. Consequently, banks can lend enough money to the borrowers because of the increased liquidity in the financial system.

In the end, the quantity of liquidity in the economy grew and rate of interest were lowered, which was projected to stimulate agricultural investment in the country. It was expected that as investment increased, agricultural output would rise along with it, resulting in an increase in employment and, subsequently, in household income. Consumption of products and services will rise as people's expendable incomes rise, resulting in an increase in GDP.

Cashless economies and the difficulties they present in rural areas

An approx 94% of all transactions in India's rural sector are made with cash. Workers and businesses in the unorganized/informal sector prefer to do transactions in cash. Cash withdrawals are the most common usage of ATMs, and they are not used to settle online transactions. Instead, about 90% of ATM cards are used to make cash withdrawals. In urban and semi-urban areas, many cardholders indicate minimal rural penetration. The majority of POS terminals are located in urban and semi-urban environments. Rural India's mobile broadband and coverage is still quite limited.

People in village areas of India are unable to use plastic money because of their low literacy levels.

However, in recent years, many private sector banks have been progressively expanding their rural footprint. Some of the most prominent private lenders in India, including ICICI and HDFC, have been increasing their footprint in hitherto untapped markets for the past five years. Over a three-year cycle, the RBI has instructed banks to give priority to opening branches in underserved rural areas. For a year, the central bank will grant credit for new branches that open at a rate higher than 26%. The use of mobile van-based branches to reach out to previously unbanked communities is an excellent example of how technology may help promote financial inclusion. Branches in rural areas benefit from lower rentals on land, However, the expenses of maintaining and employing employees outweigh the benefits. A large number of banks have opened branches in rural areas due to RBI regulations requiring at least 25% of all new branches to be located there.

Conclusions and Suggestions for Further Study

In the fight against corruption, black marketing, and the financing of terrorism, demonetization serves as the first stage. However, preparations for demonetisation were skewed, and the impact on the Indian populace, especially in rural regions, was devastating. The folks who were being hunted did not appear on the streets; instead, they were seen leaving their places of employment and residence. This decision had a significant impact on the parallel market. In the wake of a surprise declaration and a lack of preparation, the public was left feeling a sense of uncertainty and anxiety.

To demotivate the accumulation of illegal liquid fund, the government should implement Demonetisation on a regular basis and repeat the process at appropriate intervals. NGO's and Social platform can become vital in promoting the use of computerized financial institutions.

Examining the Rural Economy's Response to Demonetization 7321. In any case, the government must take into account the impact that such policies may have on the average citizen. To meet the requirements of the impoverished, an alternative source of funding should be established. Increasing the number of NGO's tasked with the role of Bank Mitras (friends) who can provide assistance to banks and post offices in establishing a cashless rural economy is an essential requirement. In order to spread the digital rural economy, rural social infrastructure like as youth clubs, mahilamandals, and panchayat institutions needs to be reactivated. People must be taught about financial inclusion and the digital economy by workers of different sections such as health care workers, teachers, development officers, Anganwadi workers, etc.

The Digital India Campaign, like the Pulse Polio Campaign, can be carried out on a large scale in India twice or three times a year. It's a good technique to spread the message of digital India in rural areas. Using the Jan Dhan Aadhaar Mobile (JAM), may help promote a digital transactional mind-set. It's expanding over the country, and soon it will be in every nook and cranny. Using JAM mode, the government sends out a significant number of transfers. People in rural areas will be more aware of digital transactions as a result of this. Making cashless payment tools available, accessible, acceptable, affordable and well known to promote financial inclusion. The government should ensure that rural residents have access to the needs of life and prioritise the construction of new infrastructure. Drives through schools, universities, and Panchayats, for example, could aid in spreading the word about the benefits of cashless transactions.

Increasing the number of people who use digital platforms requires them to be financially literate. Paying with a credit card or a bank account, rather than with cash, should be promoted. This subject of digital economy must be taken up by Gram Panchayat Institutions' Gram Sabhas (village councils).

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