



## **A study on rural inclusive growth: With reference to demonetization and cashless economy**

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### **Abstract**

Inclusive growth is a strategy to develop economical backward rural areas where the growth will be achieved through certain instrumentalists so that the benefits reach the largest section of the society and that the maximum number of people is able to derive benefits from the developmental activities. The Appropriate Technology is considered to be a key-enabler to achieve sustainable livelihood, reduction of drudgery and improvement of quality of life for the underprivileged section of the rural masses, within the limited natural and financial resources, at a lower cost and with less impact on the environment. By banding the Rs.1000 and Rs.500 notes it leads to multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash and Counterfeit currency accumulated over a number of years from the system, and also it paved the way for implementing cashless or less cash society in the medium to long run. While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a cashless economy; really it is a great boost for digital India, Multinational companies and Business centers which are excising in urban areas. The demonetization of higher valued notes and cashless economy are Siamese twins and they cannot be separately achieved. but the Demonetization and transferring from Cash to cashless/less cash economy should be achieved in the phased manner and step by step process instead of forcing it on people overnight without expanding/providing banking infrastructure like rural banking, rural ATM'S and Swiping machines to every nook and corner of the country, internet connectivity with high speed at cheap rate and unbroken power supply.

**Keywords:** inclusive growth, demonetization, cashless economy, technology

### **Introduction**

Demonetization "Demonetization is the act of stripping a currency unit of its status as legal tender. Demonetization is necessary whenever there is a change of national currency. The old unit of currency must be retired and replaced with a new currency unit." Remonetisation is quite opposite to demonetization in which a payment type is restored as legalised tender. Normally, there may be a lot of reasons behind the demonetization including to combat inflation, to depress a cash system and to overcome corruption.

India is a developing country with around 6, 00,000 villages, Indian rural economy is an important segment of the ecosystem and accounts for around 70 per cent of employment and 50 per cent of GDP with agriculture being the main driver followed by services and manufacturing. It is largely unorganized and hence those working in rural India or consuming in this economy are a different category of economic agents driven by different factors. The economy is quite complex in so far as the fact that cash dominates in terms of transactions and while there has been some imposition of the use of kisan credit and debit cards and ATMs, dependence on technology driven payments system is very limited. It also become a haven for routing black money both in terms of seeking tax exemptions by channeling funds, to convert to legitimate funds. But a lot of black money gets into land and 'apparent rural activity', the access of banks in rural areas is remarkable. Sudden tightening of liquidity is likely to impact demand across many sectors in the near term.

With 86 per cent of the currency in circulation becoming unusable for commercial transactions we believe that the sectors with a higher incidence of cash transactions will suffer the most, including real estate, luxury items, jewelry, retailing, logistics, consumer durables, SME/rural lending, etc. Transaction difficulties are expected to be more pronounced in the rural geographies due to poor access to banking services. Nearly 30 per cent rural household debt and 33 per cent of rural credit is from the unorganized lending sources. The move shows clear intent and determination of the Government to curb black money and promote a shift towards cashless economy.

### **Need for inclusive growth in India**

Inclusive growth is necessary for sustainable development and equitable distribution of wealth and prosperity. Achieving inclusive growth is the biggest challenge in a country like India. In a democratic country like India, bringing 600 million people living in rural India into the main stream is the biggest concern. The challenge is to take the levels of growth to all section of the society and to all parts of the country. The best way to achieve inclusive growth is through developing people's skills.

### **Factors held responsible for inclusive growth in India**

1. India is the 7<sup>th</sup> largest country by area and 2<sup>nd</sup> by population. It is the 12<sup>th</sup> largest economy at market exchange rate and 4<sup>th</sup> largest by PPP. Yet, India is far

away from the development of the neighborhood nation, i.e., China.

2. The exclusion in terms of low agriculture growth, low quality employment growth, low human development, rural-urban divides, gender and social inequalities, and regional disparities etc. are problems for the nation.
3. Reducing of poverty and other disparities and rising of economic growth are the key objectives of the nation through inclusive growth.
4. Studies estimated that the cost of corruption in India amounts to over 10 per cent of GDP.
5. Achievement of 9 per cent of GDP growth for country as a whole is one of the boosting factor which gives the importance to the Inclusive growth in India.
6. Inclusiveness benchmarked against achievement of monitor able targets related to (i). Income & Poverty, (ii) education, (iii) health, (iv) women & children, (v) infrastructure, (vi) environment.

### **Challenges of inclusive growth in India**

'India' is the new global buzzword. The economy growing at a phenomenal rate, combined with a flourishing democracy is making people sit up and take notice across the world. Yet, it is at cross-roads today. It is far from reaching its true potential. The country remains shackled in corruption, red tape, age old social barriers and a puzzling lack of transparency. Growth is not uniform across sectors; and large cross-sections of the populace remain outside its purview. Several social, political and economic factors need to be tackled for sustaining a high rate of growth, as well as to make this growth inclusive. Elimination of child labour, women empowerment, removal of caste barriers and an improvement in work culture are just a few of the things the Indian society needs to introspect on. Tackling corruption in high places, removing the ills of the electoral system, shunning politics of agitations and keeping national interest above petty politics may not be too much to ask of the country's policy makers. Rapid growth in the rural economy, well planned and targeted urban growth, infrastructure development, reforms in education, ensuring future energy needs, a healthy public-private partnership, intent to secure inclusivity, making all sections of society equal stakeholders in growth, and above all good governance will ensure that India achieves what it deserves.

Information and communication technology (ICT) should be used to enable solutions over a common platform and help in efficient planning and management of public utilities such as power, water, broadband, internet telephony and transport. Technology can help reduce the disparity between rural and urban India. Common Service Centers (CSCs) are an example of how technology can be used for extending services like primary healthcare, banking and education to the rural population. Better planning, foresight and judicious use of technology will help to achieve inclusive growth, sustain it and get closer to becoming an economic super power. Rural Electrification schemes, Accelerated Power development resuscitation programs, PMGSYSs and SARDPs are examples of good governance and improving infrastructure in rural centers. The approach paper to the 12<sup>th</sup> five year plan has focused on science, engineering and technology and has

proposed that the funding allocation from 0.9 per cent GDP in the 11<sup>th</sup> five year plan be enhanced to 2 per cent by the end of 12<sup>th</sup> plan.

### **What is Demonetization?**

The recent step of declaring the existing stock of Rs.1000 and Rs.500 notes as illegal tender has addressed multiple issues with one stroke. Most importantly, it has straight away wiped out most of the illegal cash accumulated over a number of years from the system.

### **Demonetization will have a direct impact on These Issues:**

- Inflation
- Counterfeit currency circulating in the country has ceased to be of any value.
- It would curb the menace of corruption and terrorism as the existing black money was in a large way responsible for promoting the same.
- It would bring back a lot of money outside the system back into the financial system which can be used by the banks for onward lending for commercial activities.
- This would not only improve the profitability of banks, but would also pave way for reduction of interest rates and partly address the problem of NPAs.
- It will help cleaning the process of election funding bringing more transparency and fairness in the manner of conduct of Elections.
- In due course of time, it would significantly help in improving tax collections as public would prefer to deal in white transactions by paying legitimate taxes.
- In respect of currency which is not deposited back in the banks a space would be created wherein outstanding liability of RBI can be extinguished paving way for additional resources for the Government for being used for public purpose in phases without impacting inflation.

### **Positive impacts of demonetization**

#### **Black money tracking**

This move will help the government to track unaccounted black money or cash on which income tax has not been paid. Individuals who are sitting on a pile of cash usually do not deposit the amount in the bank or invest anywhere as they would be required to show income or submit PAN for any valid financial transactions. They would hide it somewhere and use it as and when necessary. Banning high-value currency will impact people who will have no option, but, to declare income and pay tax on the same or destroy the cash somehow.

#### **Reduction in illegal activity**

Banning high-value currency will halt illegal activity as the cash provided for such activities has no value now. Black money is usually used to fund the illegal activity, terrorism, and money laundering.

#### **Eradication of counterfeit currency**

Fake/forgery/copy/reproduction currency circulation will come to a halt in a single shot. Corrupt officers, money launderers are under threat as Income tax department is taking all the measures to track such people.

### Tax Payment

Most of the businessmen who have been hiding some income are ready to pay advance tax as current year's income. Tax payers who have been hiding some income can come forward to declare income and pay tax on the same. Individuals are required to submit PAN for any deposit above Rs 50,000 in cash, which will help tax department to track individuals with high denominations. Also, deposit up to Rs 2.5 lakh will not come under Income tax scrutiny.

### Jan Dhan Yojana

Now individuals are depositing/deposited enough cash in their Jan Dhan accounts which they were reluctant to do so a few days back. The amount deposited can be used for the betterment of the country.

### What is Cashless Economy?

Cashless economy is generally corruption free, there are lots of benefits for being cashless (doesn't mean being poor). Cost of handling cash is high; it is in the favor of economies to go cashless. No liquid money is used by the society. A cashless economy is a system where any type of money transactions are done through digital means like debit cards, electronic fund transfer, mobile payments, internet banking, mobile wallets, and other newly evolved payment channels, this will leave very little scope for flow of hard cash in economy. The change of currency notes and resultant cash crunch in the system has led to a new opportunity for the country i.e. to move towards a cashless or less cash society in the medium to long run. Hon'ble Prime Minister, in his "Mann ki Baat" address to the nation has emphasized the need to use alternate methods of payments without relying heavily on cash. While India has come a long way from introduction of electronic funds transfer, the newer forms of payment have been developed in the recent years which hold significant potential to move towards a less cash economy. These includes

- Unified Payments Interface (UPI) which enables a person to transfer funds to any other person registered on UPI through mobile phone connected to internet;
- Digital wallets, such as SBI Buddy wherein money can be loaded to your mobile wallets (e-batua) and transferred to any other person using mobile numbers or bank details;
- Pre-paid, Debit or Credit Cards which can be used at ATMs, Point of Sales (PoS) Machines by swiping the cards;
- Aadhaar Enabled Payment Systems (AEPS) wherein funds can be transferred using Aadhaar numbers seeding with bank accounts; thumb impression of identity and
- Unstructured Supplementary Service Data (USSD) wherein funds can be transferred from mobile phones without requiring access to internet connection by dialing \*99#.

There is a need to spread widespread knowledge and allay the fears amongst the public to use these facilities. Government of India has already initiated a major drive for sensitizing public to make maximum use of these avenues. India already has in placed one of the finest payment infrastructures in the world. Simultaneously, issues like connectivity, security and ease of transactions, data protection and user charges are also being addressed. In the long run, this would provide a significant

boost to the economy as more and more informal methods of business transactions migrate to the formal sector paving way for greater transparency, financial inclusion (both on deposits and credit side) and better tax compliance.

### Will it succeed Narendra Modi's cashless economy in India?

- First of all, its Indian economy and Modi's economy, since one day or another, modi will become part of History, but India will always remain.
- Secondly, he is trying to reduce dependence on cash transactions and thereby increase dependence on banks. 100 percent cashless economy is not possible, however, whenever possible if people start using debit/credit cards and e-banking, the dependence on cash will automatically reduce. More and More transactions will get routed through banking system and so more and more transactions will become accessible to the government authorities.
- First and foremost reason being the huge population of India
- A dominant part of society that is still not used to technology and stuff that makes them to hesitate. It's true that there are people who don't even trust the value of such transactions and they can't be blamed for that.
- India is yet to attain the coverage of network required for the same. Trying for cashless economy at this point is linking jumping before learning to stand.
- Even in big cities like Bangalore, shops or petrol bunks etc are still reluctant to accept cash less transactions below a minimum value(mostly 200). For small transaction people nevertheless would prefer cash only.
- Attitude of the buyer as well as seller should be changed which means attitude of not just few but all people should changed simultaneously which is not just hectic but almost impossible in a short time
- With lot of options involved for cashless transactions like credit/debit cards, paytm, mobile banking etc, a ubiquitous method from govt. Is necessary for replacing the dominant cash based economy.

### Will India become a cashless economy?

- Yes, Narendra Modi's initiative DIGITAL INDIA and demonetization help up an extent. Not only Mukesh Ambani introduce JIO 4G Helps to provide high speed internet. It help to easy flow of e-commerce. India have a big chance to cashless economy in future.
- Depends on readiness of citizens like me and you for accepting cashless transactions and on merchants to accept cashless modes of payment i.e. the plastic money.

### Negative impact of cashless economy

- **Rural & Poor Masses:** The big one is that poorer people are less likely to have access to financial services, and are more likely to use cash in their daily lives. Unless they were granted free or cheap access to financial services, they'd be at a disadvantage in being able to purchase things in a cashless economy.
- **It is the end of secrecy:** What if everything transaction you did was recorded in a central server and an unethical

person had access to it.

- **It could lead to a new divide - the digital divide:** Just like the 21st century turned smokers into the new untouchables, there is a possibility that those transacting in cash (read digital divide) would be discriminated against.
- **It could reduce our mathematical skills:** Ask your father how many phone numbers he could remember 20 years back. He probably could dial 20 numbers without referring to his phone diary. How many numbers do you remember? Cash less also means less counting and lack of practice dulls the mind.
- **It would make skimming money easier:** Did you know that the telephone industry can increase its profits by thousands of crores if it raised call rates by 10 paise. Payment companies can achieve the same thing if all transactions move to cashless. They could increase charges by .01 per cent and no one might notice.
- **It could cause us to lose track of spending:** When you have paper money it is easier to set limits on how much you wish to spend. With a card or an e-wallet, you keep swiping and after a while you will probably end up not looking at the notifications or statements. This is how consumers in the US end up running unsustainable credit card debt.
- **It reduces the privacy:** Government can track all kind of transaction/spending, where cash comes and goes. Then we lose our privacy.
- **Related to Cyber fraud and hacking:** The entire economy will fall down. Thus with a strong security system in the online processing to avoid hacking and cyber fraud.

#### Suggestion for rural cashless economy

- First and foremost thing to set up more number of rural banking with digital mode of system along with Swiping machine and ATM and other Infrastructure to provide easy access by the rural masses.
- To Create the Door to Door Awareness and Training program for both rural masses and rural business people through college students like NCC, NSS, Rogers & Rangers and other Volunteers Including Teaching staff.
- To maximum utilization of media for awareness and safety measures to use Cashless Rural economy.
- To make use of both Government and Non Government Organization to create awareness and also remove their fear of cyber fraud and hacking mind set to safety of Cashless economy.
- Government should assure the safety and Security, when anything went wrong and quick settlement of the problem.
- Internet connectivity with high speed at cheap rates, more bandwidth availability, High cyber security supported by strong and powerful laws against cybercrimes.

#### Conclusion

Rural India, we have 40 thousand bank branches in villages.

Average number of customer a branch needs to handle is around 12000. That also means that there are many villages without a bank branch. To make an economy cashless we need to make all the citizens aware about the facilities offered by the banks like debit card, net banking etc. But a large part is still not aware of these facilities. Local villagers not educated because they have not awareness about electronic and bank transaction. Many of them do not have an easy access to a bank branch. Yes, a large urban population is shifting towards this mode of cashless transaction, but it is too early to think of India as a cashless economy. The cashless economy should be achieved in the phased manner and step by step process instead of forcing it on people overnight without expanding/providing banking infrastructure to every nook and corner of the country, internet connectivity with high speed at cheap rate and unbroken power supply. The demonetization of higher valued notes and cashless economy are Siamese twins and they cannot be separately achieved. to achieve demonetization we need Fully expanded banking system, New monetary system, New money supply system, Uninterrupted power supply for the entire country. To achieve Cashless economy we need Internet connectivity with high speed at cheap rates, more bandwidth availability, High cyber security supported by strong and powerful laws against cybercrimes, cyber trespassers and hackers, High literacy rates, Simplified tax system, Restrictions on holding and carrying physical currency notes, New banking system. One day or the other day in near future there is a chance for cent per cent cashless economy transaction to achieve inclusive rural growth through Digital India is possible all over India and it will make India is a one of super power nation in the World.

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