

## Demonetization: A step towards modified India

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### Abstract

The paper discusses about the move of demonetization taken by Central Government of India on 8<sup>th</sup> November, 2016 with respect to its reasons and effects on different sectors in India. The sectors cover Micro Businesses, E-Wallet businesses, online retail stores and so on. The paper is based on secondary data collected from different newspapers and online sources, mentioned in references.

**Keywords:** demonetization, reasons of demonetization, sectors in India

### Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market.

### The birth of a paper currency in India

Before we start with the discussion of demonetization which took place on 8<sup>th</sup> November, 2016 we will look into history of birth of paper currency as how use of paper currency had been started in India.

Until the 18th century, people in India used to use silver and gold coins to carry out their day to day transactions. But then some European companies established their own banks in the region to carry out their business transactions, like the Bank of Hindustan in Calcutta. They introduced the very first versions of Indian paper notes which then boosted the further popularised the use of paper notes. The Bank of Bengal went on to release notes that featured a small image of a female figure meant to represent the idea of “commerce,” as well as the bank’s name and the denomination in three scripts: Urdu, Bengali, and Nagri.

However, it was only after the Paper Currency Act of 1861 that the British colonial government really got involved in producing money, establishing the paper currency as we know it today. Money was now to be issued by the state alone, not banks.

### Demonetization in India before November, 2016.

The act of demonetization 2016 is not happening for the first time in India, but before it, has happened twice, first in the year of 1946 and then in the year of 1978. In January 1946, Rs1,000 and Rs10,000 banknotes were withdrawn but the same Rs1,000, Rs5,000 and Rs10,000 notes were reintroduced in 1954, and were again demonetized in January 1978.

The second demonetization has taken place in the year of 1978 by the Janata Party government. It had decided to withdraw Rs1,000, Rs5,000 and Rs10,000 notes by issuing an ordinance on the morning of 16 January that year.

The objective behind the all the acts of demonetization happened in past and happened recently is common reduction of black money, corruption and removal of fake currency.

### Demonetization- November, 2016

On Tuesday, 8<sup>th</sup> of November, 2016 Prime Minister of India Narendra Modi announced the demonetization of Rs. 500 and Rs. 1000 notes with effect from midnight, making these notes invalid. The major reasons behind this move were controlling black money, controlling fake currency and controlling corruption.

### Reasons of Demonetization

According to The Reserve Bank of India, the most important reason for the demonetization of 500 and 1000 rupees note was the rise of fake currencies of the same notes, and also the higher occurrence of black money in the economy. “The fake notes are being used for illegal activities by anti-nationalists like terrorists and India being a nation of a cash-based economy, the circulation of fake currency continues to be a threat. But it has been taken care by Government that the public that a person who changed his higher value cash will get exactly the equal amount in lower denominations.

### Effects of Demonetization

Demonetization created effect on different sectors in different manners resulting into boom for some sectors like E-Wallet businesses and somewhere resulting into temporary slowdown like micro businesses like vegetable vendors or some small seasonal businesses, where most of the transactions are on cash basis. Selected sectors have been covered for the study which, according to me, can have major effects of demonetization.

### a) Online retail stores temporarily stopped cash on delivery facility

Successful online retail stores in India like Flipkart, Amazon, Snapdeal and other online retailers have either temporarily stopped offering cash on delivery services. According to a research firm named Redseer Management, about 70% of the e-commerce orders are still paid for in cash. Such a move may temporarily impact the volume of business because cash on delivery is the most popular mode of payment for shoppers in India, industry experts said. Flipkart Ltd, Snapdeal and

Shopclues have put a cap on the maximum value of cash-on-delivery transactions, while Amazon India has temporarily stopped cash on delivery, the companies said in statements. The companies are instead encouraging consumers to resort to payments through debit and credit cards enabled by the point of sales devices carried by delivery personnel. According to industry experts, the absence or an upper limit on cash on delivery may lead to cancellations or clog logistics networks. There are many orders which are in the pipeline to be delivered and for which mode of payment is cash on delivery. But unless a new model where wallet transaction replaces cash on delivery, many of them may not be executed, or clog the logistics network with significant delays in delivery.

**b) Disbursement Rate Microfinance Institutes’ slow down**

Micro finance institutions (MFIs) are important institutes which provide financial assistance to micro businesses. Such MFIs have seen their disbursement rate slowing after the government’s decision on demonetization of the notes of Rs 500 and Rs 1,000. The MFIs have acknowledged that the move may result in a delay in collection of instalments from the clients in the near future. Demonetization and unavailability of cash can also have an impact on disbursement especially cash disbursement.

**c) Effect on Micro Businesses**

Indian Micro Small and Medium Enterprises (MSME) sector contributes considerable share in India’s GDP. But amongst all the three, medium sized enterprises have share of around one per cent and they generally use online mode for their payment and receipts. But Small and Micro, especially micro businesses faced lot of problems as most of the transactions take place on cash basis, because many people are not that educated and tech-savvy. So the move on demonetization has hampered micro businesses in a bad manner resulting into slowdown in micro enterprise sector.

**d) E-wallet firms could gain good business**

A digital wallet is an electronic device which allows an individual to make electronic commerce transactions like payment of bills or online bookings etc. An individual's bank account can also be linked to the digital wallet. The examples of wallet in India are- Paytm, PayU India, MobiKwik, and Freecharge and so on. Such E-wallets are expected to be the biggest beneficiaries of the decision of demonetization taken by central government.

**Conclusion**

Demonetization though it has created some positive and some negative impacts on different sectors but in long run it definitely will have positive impact in controlling black money and fake money.

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