

“A STUDY ON IMPACT OF DEMONETIZATION ON MERCHANT’S – ISSUES & CHALLENGES”

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ABSTRACT

Demonetization is a tool of Government to eliminate the currency. It is a process by which a series of currency will not be legal tender. On 8th November 2016, Government of India had announced that rupees 500 and 1000 rupee note will not be a legal tender. As a result of the withdrawal of Rs 500 and Rs 1000 notes, there occurred huge gap in the currency composition as after Rs 100; Rs 2000 is the only denomination. Absence of intermediate denominations like Rs 500 and Rs 1000 will reduce the utility of Rs 2000. Effectively, this will make Rs 2000 less useful as a transaction currency though it can be a store value denomination. The goal of demonetization move in India is to make the economy stronger and eliminate the parallel cash economy which is unaccounted and untaxed. According to the statistics available from the Reserve Bank of India, 87% transactions in India are cash transactions and this loophole is used by corrupted people to build a parallel economy with unaccounted money. This parallel economy helps in terror financing which in turn hampers the growth and development of country. Demonetization is the legal process of devaluing a piece of currency or changing the value of a particular denomination of currency to nil. However, demonetization plan made country's citizens face lot of pain due to those long lines in the queues, hurdles in everyday life, constraints in the finance; especially those employed find it difficult to exchange currencies. The demonetization process affects all levels of people and their lives including farmers, middle and low class people, retailers, wholesalers and Small scale industries etc., Though the process of demonetization laid down impact on business activity for small traders but the sentiments for government's move of demonetization was welcomed by small traders and they adopted as new technology in payment mode by accepting more plastic money and virtual wallet. A systematic review of literature was conducted by using an archival method. The study is executed on the basis of primary data. The data will be collected from 100 respondents from T.Narasipura taluk , Mysuru district & Kollegal taluk, Chamarajanagar district using convenient sampling. The main objective of this study is to find out various issues and challenges faced by merchant due to the demonetization in their business activity and customer response in having cashless transaction with the traders. The major findings reveal that due to the cashless transactions there is a difference in business before and after demonetization. On the basis of consumer segments has beard some loss of business but indicated that they were moving towards adoption of new technology. The concept of demonetization came into effect for the goodness of India, but it failed to find its purpose rightly. In sharp contrast, the others believe it is a purely misleading, decision, based on no or poor understanding of black economy.

KEYWORDS

Demonetization, retailers, wholesalers, transaction, consumer

INTRODUCTION

In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. After one and a half year of Demonetization, Indian Economy seems to have done away with all the negative impacts of Demonetization. The Economic Survey of India 2017-18, careful review of Demonetization which was announced one and a half year back, has found that the cash-to-GDP ratio has stabilized. It suggests a return to equilibrium: The Economic Survey says that India's GDP is set to grow at 7 to 7.5 percent in 2018-19. This is an increase from its prediction of 6.75 percent growth this fiscal year. The Economic Survey has cited exports and imports data to claim that the demonetization effect was now over.

The dynamics and behaviors of micro and small merchants are unique and different. The nature of a merchant's business also indicates the propensity to adopt digital payments. The proportion of customers paying in cash decreased due to post demonetization. However, the small trader has to go to bank several times in a week to pay his suppliers who prefer cash transactions and also to get sufficient cash. This segment is more likely to be influenced by peer behavior, e.g. high likelihood of adoption if business merchants within a local market adopt digital payments. Given their focus on margins, the merchants are extremely cost conscious and are most likely to adopt digital payment if it either (i) adds economic value to their business in form of a higher income, or (ii) reduces their burden and risk of handling large volumes of cash.

Small businesses and households struggled to find cash and reports of daily wage workers not receiving their dues surfaced. The rupee fell sharply against the dollar. This study aims to know the demonetization process affecting the small traders in large scale those who are providing essential goods and service to the people. This analysis helps to know how and what ways the demonetization process affect the sellers, shop owners, street vendors, small and medium enterprises. The respondents from various small traders are grouped into three major categories for the purpose of analysis such as essential products, need based and service renders.

CONCEPT OF DEMONETIZATION

The term demonetization is not new to the Indian economy. Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency: The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency. Coming back to 2016, It ensured in the cash-dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day.

HISTORY OF DEMONETIZATION

The first currency ban:

In 1946, the currency note of Rs 1,000 and Rs 10,000 were removed from circulation. Rs 500 and Rs 1000 notes were introduced in 1934 and after four years in 1938, Rs 10,000 notes were introduced. The ban really did not have much impact, as the currency of such higher denomination was not accessible to the common people.

The second currency ban:

That came in 1978; the then Prime Minister of India Morarji Desai announced the currency ban taking Rs 1000, Rs 5000 and Rs 10,000 out of circulation. The sole aim of the ban was to curb black money

generation in the country. It is a part of a series of measures which Government has taken and is determined to take against anti-social elements.

The third currency ban:

On 8 November 2016, the Government of India announced the demonetization of all Rs.500 and Rs.1000 banknotes of the Mahatma Gandhi Series. The government claimed that the action would curtail the shadow economy and crack down on the use of illicit and counterfeit cash to fund illegal activity and terrorism.

WHO ARE THE MERCHANTS?

Merchant is defined as a person or company engaged in the business of selling or trading goods. He is a person who trades in commodities produced by other people. It involves the sale of merchandise from a single point of purchase directly to a customer who intends to use that product. Merchant are worked in a small, independently owned business. Historically, a merchant is anyone who is involved in business or trade.

Merchants can be classified into two categories:

- A wholesale merchant operates in the chain between the producer and retail merchant, typically dealing in large quantities of goods. In other words, a wholesaler does not sell directly to end-users. Some wholesale merchants only organize the movement of goods rather than move the goods themselves.
- A retail merchant or retailer sells merchandise to end-users or consumers (including businesses), usually in small quantities. A shop-keeper is a retail merchant.

IMPACT OF DEMONETIZATION ON MERCHANTS

The impact of demonetization has been measured with special reference to medium-to-long run, domestic consumption will be stable owing to India's strong economic base and favourable demographics. The Government's recent demonetization move has definitely impacted the merchants in the short term due to lack of liquidity in the economy. As the Indian small traders segment generates a lot of cash transactions, there might be reduction in the sales. Demonetization has resulted in visibly reduced low in business but this effect is temporarily and will turn around in few weeks as more currency circulates in the system and improves the purchasing power and appetite of the consumers. The long-term growth story of the Indian small trader sector continues to be one of resilience and growth.

However, the impact is felt more by the small traders and the unorganized segment, rather than the organized segment. However, the use of plastic money and transactions through online payments will continue to release the money into the small trader segment markets. Also, as more retailers encourage alternative/digital payment solutions, the market ecosystem will become more transparent and structured going forward.

Advantages / positive impact

- It influences more shoppers to start using plastic money in the long term.
- This trend will rise substantially in the long term as such payment methods become more mainstream.
- It will help or encourage the shopkeepers as alternate digital payment solution in market place to become more transparent and structured.
- Due to this method white transactions can see more than the incidence of black money acceptance.
- E – Wallets are the new form of paying & receiving money in secured manner by using Debit Card, Credit Card or Net Banking. It will lead to more cashless economy which may take the transaction cost down and resulting in more productivity.

- E – Commerce is expanding steadily in the country. It's a welcoming move to create a way for Digital payments.

Disadvantages / Negative impact

- As the merchants or small trader generates a lot of cash transactions, there might be reduction in the sales. This impact is being felt largely by small traders, because most of shops in rural area are based on cash, it is going to impact them.
- Some experts believe that demonetization could impact the country's economic growth significantly in the short term.
- The currency demonetization has caused consumption to fall at the rate of 30% - 40% in small trading.
- Can't collect previous dues from customers.
- Reduce purchase & hold low currency for essential needs due to insufficient cash.
- Due to the credit availability the spending level of activity is decline.

REVIEW OF THE LITERATURE

Some important studies which are relevant to the present study have been discussed below:

Tokunga (1998) et al., conducted the study on growing literature towards the possibility of changes in spending behaviour as a result of moving to new technological instruments other than cash. There are many digital systems for cash in the modern economy ranging from cheques, debit cards, pre-paid cards, credit cards, net banking and mobile wallets. When compared to cash, these digital methods are considered as differ in a number of key characteristics such as temporal separation or degree of the extent to which a purchase, sales and the payment of these transactions take places. In view of the cost to the retailer of administering credit card payment systems, the retailer's overall profit position may be enhanced by converting a larger proportion of credit card sales to cash sales.

Handelsman and Munson (1989) et al., this study explained the "Switching behaviours from credit card to cash payment among ethnically diverse retail customers". It discussed the importance of the credit card sales constitute an important revenue source for many retailers. Particularly needed is a better understating of the propensity to switch over from credit card to cash payment and the incentive required to initiate switching. The usage and the administration of credit cards are influenced very much by the infrastructure of the country and hence, credit card companies have to modify their marketing and administrative procedures rather than following a standardized approach. The research shows that credit card is extremely useful to those people who use it as to increase their purchasing power through the plastic card.

Worthington (1995) et al., this study reveals "The cashless society", where clumsy and expensive-to handle coins and notes are replaced by efficient electronic payments initiated by various types of plastic cards is a tantalizing prospect for the twenty-first century. Credit cards are being gradually revolutionized by various factors: introduction of customers– friendly technology, a competitive marketing environment, the rise of the financially sophisticated consumer who avoids paying interest and the emergence of new competitors. Some of the interested parties stand to gain more than others if the cashless society becomes a reality. The plastic card payment product is analyzed under the three headings of pay later, pay now and pay before and a view is offered as to the future prospects for each type of plastic card in contributing to the development of the cashless society.

Maganty (1996) et al., the study explained on the "Changing Dimension" of people thought towards acceptance of new technology. This study discusses the emerging trend and importance of debit card in daily lives of Indian society. Debit cards are expected to be in use in places where most transactions are done by cash or cheque in supermarkets, petrol stations, convenience stores. The study shows that the growth of service industry in the country, electronic fund transfer, point of services offer a large potential

for banks to cutting down cost associated with the paper based clearing and payment services. The introduction of debit cards can take place subsequently and the objective should be to attain a critical mass in issuing number of such cards so that the operation becomes cost effective. These cards are designed for customers who like paying by plastic card but do not want credit.

According to Mrs. Porinita Banerjee and Mr. Vasimraja Sayyed (2016) et al., the study focused on highlighting the short term & long term impact of demonetization on the various organized and unorganized sectors depending upon the extent of cash availability, credit availability, spending & government finances. It is pretty clear that demonetization has impacted the e-commerce industry. Due to demonetization consumers are buying more products through online instead of retail shop due to cash crunch. They stated that medium and large scale businesses are unaffected by such ban where as small scale establishments were deeply affected by demonetization. Hence, it can be concluded that demonetization has opened up mammoth opportunities for the ecommerce industry and it will prove huge boon for digital payment market.

Jai Bansal (2017) et al., the study discussed that demonetization is a surgical strike on black money, terrorism, fake currency, unorganized trading, real estate, share market, etc. Though demonetization came into effect for the goodness of India, it failed to find its purpose rightly. This may be due to the sudden, unplanned strategies undertaken for demonetization. He explains the positivity of the price of money, inter-temporal monetary economies and bilateral trade with money as a medium of exchange. He also focuses on demonetization impact on Indian economy's different sectors. If one critically examine the process of demonetization, boons and banes of demonetization, key impacts on various sectors that necessary to put the economy on a high growth path that would generate more jobs and make housing in the urban area more affordable to the poor.

Statement of Problem

The study aims to understand the importance and impacts of demonetization on the merchants and the change that has arisen in their daily business and innovative ideas that they have undertaken to overcome this problem. In order to conduct this study a survey of 100 respondents were taken into account.

- ✓ Most of the respondents are not ready spare their business time, while collecting the data it was very difficult to get the proper responses from the respondents.
- ✓ There are chances of mis-judgment looking at the vastness of this topic.
- ✓ It seems that sample size is too small, on the contrary if we increase the sample size, the entire process becomes lengthy and time consuming.
- ✓ The study has been carried out in a stipulated time period.
- ✓ The latest data were not available pertaining to the specific issues of the study.

Objectives of the study

This study is undertaken with following objectives:

- ✓ To understand the importance of demonetization
- ✓ To study the effects of Pre & Post demonetization on shopkeepers
- ✓ To analyze the challenges faced by merchants due to demonetization
- ✓ To study the impact of demonetization faced by shopkeepers

HYPOTHESES OF THE STUDY

To achieve the objectives of the study, the following research hypotheses are formulated.

Hypothesis 1: There is no significant impact of demonetization on merchants.

RESEARCH METHODOLOGY

This paper analysis is executed on the basis of primary data and secondary data. The scope of the study is limited to demonetization on merchants issues and challenges, mainly in 4 selected places.

- ❖ Primary data collected by the respondents through structured questionnaire in the Mysore & Chamrajanagar and T. Narasipura & Kollegal to administered targeted respondents.
- ❖ Secondary data collected from the websites, books, journals and periodicals, sources of news. It is help full to frame questionnaires.

Sample Description: The sample consisted of 100 respondents

The respondents were selected on the basis of convenient sampling method which is non-probability sampling technique; structured questionnaires consisting of single response & multiple choice questions were administered, all respondents returned the filled questionnaires, resulting in a response rate of 100%.

Collected data was coded & entered in the SPSS 16 software & raw data were classified into suitable tabular forms for analysis. Statistical tools like frequency, percentage analysis etc., Chi – square method was applied to test the hypothesis. The test is strongly recommended for Demonetization variables which in this study is included.

ANALYSIS RESULTS

[1] The Demographic profile of the Respondents: the sample respondents, as shown in the table 1, were well distributed across gender groups with a majority number of male respondents. This may be due to the nature of work, where the male takes the prime responsibility of the shop keeper undertakings. Majority of the respondents (58%) were in the age group of 26 - 40 years. The family size of the respondents is in between the 3 - 5 members per family. Majority of the respondents (42%) education level is degree. The sample in the study fairly represents the demographic profile of 4 selected places.

TABLE 1 DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Factors	Variables	Sample size	Percentage
1. Gender	Male	93	93 %
	Female	7	7 %
2. Age	15 - 25	15	15 %
	26 - 40	58	58 %
	41 – 55	24	24 %
	55 & above	3	3 %
3. Family size (members per family)	0 - 2	4	4 %
	3 - 5	74	78 %
	5 – 7	19	19 %
	8 - 10	3	3 %
4. Education level	Illiterate	0	0
	Higher primary	12	12 %
	High school	30	30 %
	Puc/Diplomo	8	8 %
	Degree	42	42 %
	Master Degree	8	8 %

2] The Socio Economic profile: As shown in the table 2, Most of the respondents are doing their transactions in cash only and had a income of monthly is 10000 – 20000, Majority of the respondents (70%)

has supported the cashless method after the demonetization & 34 % of respondents feel that the awareness & usage about the digital system of truncations are not still effective thus it creates more difficult to use this methods to self & an customer too. More than 78% respondents feel that it is more difficult to the illiterate people. The sample in the study shows that, majority of respondents' socio economic condition of their life is decreases due to sudden implementation of demonetization.

TABLE 2 SOCIO ECONOMIC PROFILES OF THE RESPONDENTS

Factors	Variables	Sample size	Percentage
1. Categories of Merchants	Gift / Fancy store	15	15 %
	Electronic / Mobile shop	18	18 %
	Cloth merchants	6	6 %
	Provision stores / food	23	23 %
	Pharmacy	10	10 %
	Watch shop	4	4 %
	Book shop / stationary shop	13	13 %
	Any other	11	11 %
2. Income per month	10000 - 20000	54	54 %
	Below 50000	27	27 %
	70000 - 80000	11	11 %
	90000 & Above	8	8 %
3. Supported cashless payment	Pre - Demonetization	30	30 %
	Post - Demonetization	70	70 %
4. Payment method	Cash only	72	72 %
	Paytm	6	6 %
	Cash & Credit / Debit card	9	9 %
	Mobile Banking / Digital card	4	4 %
	Informal store credit	1	1 %
	All the above	8	8 %
5. Not accepting cashless payment	Customers don't demand this method	25	25 %
	Method is cost prohibitive	4	4 %
	Method is unreliable	10	10 %
	Unaware of this method	34	34 %
	Method is difficult to use [Self & Customer]	27	27 %
6. Difficult for illiterate to use	Yes	22	22 %
	No	78	78 %

[3] IMPACT OF DEMONETIZATION ON MERCHANTS: An analysis of the table 3 reveals that respondents are widely accepted that they have positive impact on small traders & helps to develop the welfare of society by the digital system of cashless transactions. Nearly 51% of the sample respondents say demonetization can create digital & encourage their business. Even though the small trader facing a number problems like lack of sales, scarcity of currency & payment to suppliers etc., they consider this digital system can accepted. Thus in the study, 77% of respondents were accepted that demonetization is good for business out the total sample of 100 respondents.

TABLE 3 IMPACT OF DEMONETIZATION ON MERCHANTS

IMPACT	No. of Responses [N = 100]	% of Respondents [N = 100]
1. Positive impact on merchants		
YES	49	49 %
NO	51	51 %
2. Demonetization is economically good for business & society		
Agree always	28	28 %
Agree sometimes	49	49 %
Disagree	17	17 %
Disagree always	6	6 %
3. Major problems faced after demonetization		
Lack of sales	35	35 %
Long queues in banks	8	8 %
Payment to supplier's	17	17 %
Scarcity of currency	21	21 %
Business was worse off	3	3 %
All the above	7	7 %
Specify other [Never]	9	9 %

TESTING OF HYPOTHESES

For the purpose of testing, the following null hypotheses and alternative hypotheses are formulated.

TESTING OF HYPOTHESES

H₀₁: “There is a significant impact of demonetization on Merchants”.

H_{a1}: “There is no significant impact of demonetization on Merchants”

Table 4. Chi- Square Tests of Impacts of demonetization on Merchants

Sl. no	Factors	χ^2 value	df	Table value
1	Positive impact of demonetization.	0.040	1	3.841

*p ≤ 0.01 (Significance at 1%); *p ≤ 0.05 (Significance at 5%)

For testing of hypothesis Chi-Square test is used. As per table 4, reveals the respondents positive impact of demonetization on merchants. The table values of Chi – square for 1 degree of freedom is at 5% level of significance is 3.841 & the calculated value is 0.040. Since the calculated value is less than the table value, the null hypothesis is accepted. “There is a significant impact of demonetization on merchants” stands proved.

DISCUSSION

The results of this study indicate that demonetization & cashless transaction plays a major role for improvement of business economically good & also it tries to reduce corruption & black money. Majority of the respondents feels that a more awareness should create between the people about this digital system. And also found that major drawback in cashless transaction are there is more transaction charges, lack of trust, server support is not good, Malpractices & hidden charges etc. The results for the hypothesis indicate that

the more than ½ (51%) number of respondents are says its good impact on business & society. This implies that there exists of present digital system of transactions is a one of welcoming concept in our country.

FINDINGS

1. It evidenced that the majority of respondents are in the age group of 26 - 40 years. And the majority of respondents are male & working as small traders. Their transactions are low in cost so they use more cash transaction than the cashless transactions.
2. The small traders are suffered & faced more problems on their business, they can get sufficient cash, payment to suppliers, and lack of sales, there was a decline in business due to the competitors who use cashless payment.
3. It reviews that the majority of the respondents are Degree holder & monthly income is between 10000 – 20000. More number of the shop keepers are feels demonetization as created a positive impact on small traders.
4. The analysis shows that Majority of the respondent's opinion is lack of knowledge & unaware of this digital system between the peoples. And also peoples are not interested to usage cashless payment due to the transaction charges & trust on network.
5. The analysis revealed that Majority of the respondents are started to use this cashless payment system after the announcement of demonetization. More number of shop keepers feels there is a difficult to use by illiterate people in rural areas and also it does reduce black money.
6. The analysis revealed that Majority of the respondents are severally impacted by the demonetization because there no provision of digital payment mode like swiping machine, mobile payments, mobile banking etc. Some of people they accepted this demonetization is economically good for business & society.

SUGGESTIONS

Demonetization is considered as an effective tool to removes the corruption and black money. It creates a transparent economy & helps for national development. This method is consider as good for nation but its effects more to middle class people. Initially on the announcement of the demonetization effects on market were painful but if the shopkeepers, customers & public adopt cashless means such as paytm, debit card use, internet banking to buy the goods it will gain more business transactions effectively and also create some awareness about the digital transactions. By adopting the cashless means economy will be sound in coming time and Indian Economy will get benefits of early and hassle free transactions. Demonetization effect will be positive in coming time for Indian Economy. By adopting the cashless means certainly there will be a check on black money. This decision is an innovative promotional step towards the Small traders.

CONCLUSION

Demonetization is an established practice in monetary policy to tackle black money and attempt to resolve against corruption, black money and counterfeit notes. On the basis of analysis, we understood that the decision of demonetization was widely accepted by the traders but its planning and implementation was not at all satisfactory. People who operate on small scale were hit the most because their sales faced huge fall suddenly. But now most of the traders are using pay tm and other digital methods. As a measure the government can promote and make available more online facilities to small traders. The idea of demonetization is good but it has to be taken into consideration to be taken towards the awareness more effectively. Not all black money is in cash, and not all cash is black money. Small farmers, sellers, merchants, daily wage labourers and traders are suffering because of lack of proper planning, intelligence and foresight such as recalibration of ATM machines. People are facing problems because the limit of withdrawal has not been kept at a higher level. The most important factor in advocating merchant deployment is going to be customer behavior and demand, factors that are already pushing digital adoption. While the recent demonetization has pushed the digital acceptance in the immediate term, the sustainability

of this behavior will depend predominantly on the provider and ecosystem responses that will make the attribute of digital payments similar to cash payments, i.e. frictionless. A better solution would have been to shift the balance of economic decision making away from the state to firms and consumers.

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