

## A Case Study of MSMEs in India: Navigating the Transition to a Cashless Economy

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### **Abstract**

The aim of this study is to determine how India's MSMEs would be affected by the country's cashless monetary policy. Demonetization of high group monetary forms sets off the public authority's march toward a credit-only economy. A credit-only economy fosters a flawless and sophisticated monetary culture while limiting the use of real money by offering optional channels for making installment payments. For a while, demonetization eases back all financial transactions and credits to use advanced mode for exchanges. The unexpected action by the demonetisation badly hit the MSME region since MSMEs like to conduct all of their trades in a regular manner. In a credit-only economy, rigid receptive methods are demanded from this segment in order to get by. Negative effects would come from monetary change that ignores MSMEs; this is why it is important to intervene in monetary development. Vendors and customers are currently adopting sophisticated framework, which will eventually create an advanced financial culture. The review's objective is to determine any possible effects on India's small- and medium-sized businesses of a credit-only economy. Additionally, it explores the challenges MSMEs would face in a credit-only economy and suggests some viable solutions. Basic factual devices are used for examination, and the review rely on optional information.

### **Introduction**

A financial management method called a money-related strategy is used to achieve long-term monetary growth. Policymakers are cautious in their efforts to sometimes take on new steps to regulate the economy. The Indian economy has been focusing on becoming a credit-only economy throughout the recent period. In order to address the concerns of individuals and organizations, especially private businesses that have been slow to embrace innovation, India's efforts to transition to a credit-only economy must be acknowledged by experts. A credit-only economy is a sensible and optimal option for financial transactions in a technologically advanced era. The advantages of a credit-only economy have been strongly emphasized, yet many individuals and institutions are unaware that this way of thinking is advantageous to everyone. The current financial system came into being as a result of a series of journeys that began as simple trade agreements and evolved into business sectors and monetary forms. Advances in information and communication technology (ICT) have led to mechanical applications in human activities. Rapid advancements in computer technology and its applications have benefited people's lives and economic activities all around the globe. The

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advanced economy includes more than just conventional business practices; it also includes a shift in the public's perception of technological advancements. It encompasses many aspects of modern living, such as leisure, health, education, business, legislative concerns, and local government assistance. A credit-only economy is one in which financial transactions are conducted using ICT and sophisticated framework; innovation also simplifies financial transactions. With the use of electronic currency as legitimate money for trade and the advent of data innovation, the financial system is moving in a new direction.

### **Review of Literature**

Many sources define a cashless economy as an economic system where goods and services are transacted electronically. ICT integration into business contacts is what it is called.

The Basel Committee (1998) noted that it is difficult to precisely define electronic money but also that it includes technological and economic issues.

The European Central Bank (ECB) defined electronic money as a prepaid bearer instrument acting as an electronic store of monetary value on a technical device that can be widely used for making payments to entities other than the issuer without necessarily involving bank accounts in the transactions (ECB, 1998).

According to Jain (2006), e-payments would be able to identify black money. Banks, financial institutions, enterprises, and the typical Indian individual will all be able to make the greatest use of the available money thanks to quick payments and transfers that fully use technology. Additionally, he underlined the significance of electronic payments, electronic payment modalities, and electronic payment networks.

Ajay (2014) thinks that there are other more benefits of electronic payments in addition to convenience and security. Automated electronic payments help to increase bank deposits, increasing the amount of money available for business activities.

The country must transition from a cash-based to a cashless (electronic) payment system because Das (2010) argued that using cash as a form of payment is an expensive proposition for the government in his paper, "Cashless Payment System in India- A Roadmap." This will help to lower the expenses associated with managing currencies, monitor transactions, find tax cheats, and integrate the black market economy into the mainstream economy.

Vincent (2005) outlined how credit cards operate and are settled in India in his article, "Credit cards - Modern Payment System," and came to the conclusion that both customers and companies benefit from them.

### **Objectives of the Study:**

1. Understanding the idea of a cashless economy and how it has evolved
2. To assess India's move toward a cashless society, which started with demonetisation.

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3. Find out the possible impacts and probable issues that a cashless economy can have on MSMEs in India.

**Research Methodology:**

This study is solely dependent on secondary data in order to analyze how cashless rules affect small companies in India in the setting of a fast shifting economic environment. To understand the cashless economy and its impact on the MSME sector, secondary data was acquired from a number of published sources, including publications, journals, newspapers, and relevant websites. Descriptive statistics were used in this investigation.

**Meaning of Cashless Economy:**

In a cashless economy, physical money is used in transactions less often rather than never at all. A cashless economy is described by Adewale (2012) as a gradual or abrupt change in an economy's entire payment system away from the use of physical cash and toward the systemic adoption of other nonphysical cash modes of payments in the settlement of all types of transactions, including all commercial, residential, personal, local, and international trade in both public and private life. Customers may use their mobile devices to carry out basic tasks like paying for goods and services and sending money to another person via the cashless payment system. Both parties to a transaction must have access to these skills. The digital payment choices don't only apply to business transactions; they also include, among other things, energy bills, school fees, hotel bookings, and rent payments.

A cashless system enables you to save money digitally and use it as necessary. Users get a card or a digital payment method from a bank or financial institution. A variety of terminals with card readers and computerized instalment systems are available at use locations. Placing the card into the terminal or entering a computerized instalment code and following the instructions basically completes the transfer of money and completion of trades. Card readers (terminals) are positioned at all points of sale (such as candy machines, cafés, and coffee shops). It is not susceptible to theft, injury, or calamities since there are no transactions that are really tied to money. Instead of bringing actual cash to the store, a card or pre-paid installment quickly and accurately receives the whole amount free from the exchange. The client's account gets cleared of the money.

**Moving Towards a Cash-less Economy in India:**

A cashless economy did not just suddenly appear. The government approved a slew of initiatives in February 2016 to promote digital payments and a move away from cash. Prime Minister Narendra Modi encouraged people to utilize cashless transactions in his Man Ki Baat address in May 2016. The usage of cellphones and other modern devices was another way he highlighted the significance of digital culture. The creation of Jan Dhan accounts, the establishment of a statutory basis for Aadhaar, the implementation of direct benefits transfer, the implementation of GST, the introduction of RuPay cards, and a voluntary disclosure scheme for unaccounted funds are just a few of the major initiatives the government has started to promote financial inclusion. The government quickly transitioned to a

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cashless economy by demonetizing the 500 and 1000 rupee notes on November 8, 2016. Numerous misunderstandings about the new economy have emerged as a result of the economic slowdown brought on by demonetisation. Those who earn and spend the majority of their income in cash would be more severely affected by this effect. It will need coordinated efforts to go from a cash-based economy to a cashless one. A cashless economy in India is the result of both enduring issues with the banking system and the pervasive use of ICTs for payment and settlement. Only 27% of PDS spending, according to the Planning Commission, went to the designated low-income segment in 2009. Clean and open business practices not only boost tax revenue but also cut down on criminal activities including the shadow economy, money laundering, and commission in social institutions. Economic management costs must be maintained to a minimum. The Reserve Bank of India spent Rs. 27 billion on managing and issuing currency in 2015.

### **Governmental Programs**

The governmental authority offered a development of steps to reach a credit-only economy and enhance computerized installment culture. On December 15th, 2016, it announced two programs, Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana, to reward consumers and sellers who employ cutting-edge payment methods for personal use. As of now, about 95% of India's personal usage use trades take place in cash, creating a very large informal sector and limiting the state's ability to impose and raise official rates. The number of Ru-Pay card exchanges per day in the country increased from 3.85 lakh on November 8 to 16 lakh on December 7; the number of e-wallet exchanges increased from 17 lakh to 63 lakh; the number of UPI exchanges increased from 3721 to 48238; the number of USSD exchanges increased from 97 to 1263; and the number of PoS (retail location) exchanges increased from 50.2 lakh to 98.1 lakh. One of the ten focus points for Budget-2017 is advanced economy, which lays forth speed, responsibility, and simplicity in the framework. The public authority came to the conclusion that an additional 1,000,000 new post terminals needed to be installed by March 31, 2017, as part of the agreement to expand the computerized installments eco-framework and support the shift to credit only exchanges. To establish 24.54 lakh ledgers for unruly experts, the States' Administration and the Ministry of Labor and Employment organized 2,73,919 camps.

### **MSMEs: As a Managing The function in Growth in the Economy:**

The micro, small, and medium-sized enterprises (MSMEs) not only play a crucial role in providing businesses with amazing opportunities at almost lower capital costs than large ventures, but they also aid in the industrialization of provincial and backward regions, reducing local inequalities and ensuring more equitable distribution of public pay and abundance. In terms of the scale of the undertaking, the types of goods offered, the management provided, and its dedication to public development files, this segment is a crucial component of the Indian economy. It is constantly discussed as an energizing aspect of economic growth. Small, medium-sized, and independent businesses have more to offer than large corporations. This section was seen by the arrangement's creators and analysts as essential for achieving the stated financial goal. With 32 million units, 70

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million business-valuable open doors, an item variety that includes more than 6000 varieties, 45% of full assembly output, and around 40% of product produced directly and indirectly, the MSME sector has established a solid reputation in the Indian economy. Its role is also recognized in reducing financial inequality. It is the primary driver behind the financial turn of events. It is undeniably true that the MSME sector can help with comprehending the goal of the suggested production strategy to increase the percentage of manufacturing in GDP from 16% to 25% by the end of 2022. With new agreements like Make in India, Startup, Skill India, Zero Defect, and other initiatives, the public authority and strategy producers started chipping away at it. The public authority is now entirely concentrating on insurance and the expansion of the MSME sector with strategies and plans. There is no universally accepted definition of MSMEs, and the standards for arrangement vary from time to time from nation to country. This group in India was once known as restricted scope companies (SSI), but it is now known as MSMEs. The independent corporation based on an interest in hardware and plant has a detailed description under the Micro, Small, and Medium Enterprise Act of 2006.

#### **MSMEs' Survival and Development in a Cashless Society:**

Understanding how the cashless policy impacts the small business sector is more important than ever before we move toward a cashless economy. What resources are necessary for the new habitat to prosper and grow? Cash is accepted as legal tender, and everyone knows how to use it. All MSME sector sectors are now susceptible as a result of demonetization. Although many people and small companies lack bank accounts and may not be literate enough to use computers, electronic money is often linked to a bank account. It is important to comprehend how these people pay their bills and what lifestyle alterations are necessary.

MSMEs in Tier 2 cities and smaller towns have experienced a significant shift to cheque or electronic payments (42 percent of respondents), demonstrating that the transformation is geographically agnostic and, as a result, has more implications for the way transactions are carried out in small cities and towns. MSMEs in smaller towns are expected to suffer more than those in metro and Tier 1 cities due to their reliance on cash. Just a quarter of those in metros and Tier 1 cities see a decline in revenue in the second half, compared to a third of those in Tier 2 cities and smaller towns. The cash-rich north and east are expected to underperform compared to the south and west. In contrast to 25% in the west and south, one-third of MSMEs in the east and north are expected to have negative year-over-year growth in the second half of this fiscal year.

#### **Conclusion:**

This discussion started with the idea of a cashless economy as a global trend, then moved on to India's attempts to create a cashless economy and digital culture. Throughout the conference, issues regarding MSMEs in the wake of demonetisation were brought up. Policymakers, scholars, and business organizations all around the world are keen to look at the possibility of switching to a cashless economy. Simply put, a cashless economy is the use of information and communication technology (ICT) and electronic devices to create a transparent and ethical economic system in a society that is controlled by technology. It is commonly accepted that a cashless society would lessen

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money laundering and corruption. The government's transition to a cashless economy will fall short of producing the expected benefits due to a lack of execution plans. But following demonetisation, the government took steps to prepare for a cashless society. Sensation, literacy, the availability of electricity, and peoples' customary practices continue to be barriers in this attempt. Although the government's effort has achieved great strides, more must be accomplished in order to reach the objective. Good action plans may aid in preparing for the worst via legislation, the construction of financial infrastructure, and a significant effort to create awareness and acceptance of the cashless economic system among Indians.

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