

CASHLESS RURAL ECONOMY – A DREAM OR REALITY ?

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It has been nine months to the historical step towards demonetisation of currency notes worth '1000 and'500. It was anticipated that demonetisation would propel the economy from a highly cash based one to a more cashless payment economy. Taking into consideration the pros and cons of demonetisation the objectives of the research paper are to review the impact of demonetisation on the rural economy, and to examine the fulfilment of government's motive to make rural India a cashless economy and to identify the opportunities and challenges that exist in making a cashless rural economy. The paper is based on secondary data collected from various print and media sources. Conclusions are made based on the graphs and percentile methods used to analyse the data. Based on the findings, it identifies schemes like PDS and MNREGS which could be hopefully used in making the dream of cashless economy more of a reality.

Keywords : *Rural Development, Rural Economy, Cashless economy, Demonetisation, Bank Branches.*

Introduction

India is known as an agricultural country, as agriculture is the major source of income for the village population. The country's economy is largely dependent on agriculture. This sector also contributes most to the overall economic development of the country. It has been few decades that there is thrust on rural reconstruction and development, causing a rapid transformation in the Indian rural economic structure. To begin with, thrust for development was laid on agriculture, industry, communication, education, health and allied sectors. Later on, realizing that accelerated development could be provided only if governmental efforts were adequately supplemented by direct and indirect involvement of people at the grass root level, the thrust shifted. Thus on 31st March 1952, an organization known as Community Projects Administration was set up under the Planning Commission to administer the programmes relating to community development then (GOI, n.d.). The community development programme, inaugurated on October 2, 1952, was an important landmark in the history of the rural development in India. Later this programme underwent many changes and was handled by different Ministries. In 1999, the Ministry of Rural Areas and Employment was renamed as Ministry of Rural Development. Since

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then, this Ministry has been acting as a facilitator bringing change in the rural areas through implementation of number of programmes which are aimed at poverty alleviation, employment generation, infrastructure development and social security.

The Ministry's functions for attainment of objectives like giving livelihood opportunities to men, women, and other vulnerable sections with focus on Below Poverty Line (BPL) households. One hundred days of guaranteed wage employment in every financial year is provided to demanding households to improve their livelihood security. Provisions have been made for up-gradation of existing roads and to create new roads for all-weather rural connectivity to unconnected rural habitations and to provide market access. Provisions have also been made for providing basic housing and homestead to BPL households in rural areas; providing social assistance to the elderly, widow and disabled persons; urban facilities in rural areas for upgrading quality of rural life; capacity development and training of rural development offices; promoting involvement of voluntary agencies and individuals for rural development; and restoring lost or depleted productivity of the land (GOI, n.d.). One of the major objectives of the Ministry is to alleviate rural poverty and ensure improved quality of life for the rural population especially those below the poverty line.

These objectives are achieved through formulation, development and implementation of programmes relating to various spheres of rural life and activities, from income generation to environmental replenishment. In the financial year 2016-17, a budget outlay of Rs. 86,000 crores has been provided under the Plan head to the Department of Rural Development. The rural segment is growing at a rate of 8-10 per cent per annum and is expected to add US\$ 100 billion in consumption demand by 2017 (The Economic Times, 2016, p.3). The rural economy has been growing, but the major mode of transactions has always been cash.

Objectives

- To review the impact of demonetisation on rural economy.
- To examine the fulfilment of government's motive to make rural India a cashless economy.
- To identify the opportunities and challenges that exist in making a cashless rural economy.

Research methodology

The paper is based on secondary data. The data has been collected from internet sources, articles newspapers, etc. Graph and percentile methods have been used to analyze the data.

Findings

Demonetisation and Rural India

Demonetisation is an act by which government of a nation bans the circulation of one or more than one currency unit of its status as a legal tender. Thus, process of demonetisation is largely done keeping in mind the goal of unearthing Black Money accumulated through corrupt means (Kumar, 2017). The Indian government banned 500 and 1,000 rupee notes as a demonetisation drive on 8th November, 2016. Many from the rural parts of India were struggling to pay for basic goods like food and fuel in the absence of other currency notes, an effective banking and exchange system.

As pointed out earlier in the paper, major part of India's rural economy is powered by cash transactions with a small number of people having bank accounts or operating one even if they have an account. In most of the parts there are only one or two bank branches among a group of villages. The villagers, mostly women, quaked at gates of the bank branches on 11th November, Friday to exchange old and defunct currency notes for new 2,000 rupee notes. But to their dismay the new notes had not arrived. The situation was so poor that people even chose not to go to the doctor even if ill, as they had no money to pay. Being an agrarian economy, India's 50 percent workforces are farmers. Agriculture is a highly cash centric activity in India as both the input and output channels work predominantly on cash transactions. Sale, transport, marketing and distribution of harvest to *mandis* is cash-dependent. Farmers nationwide suffered a setback due to cash shortage and a fall in the demand for vegetables in wholesale markets. They were not able to purchase good quality seeds from market and ended up using old seeds from the last year's harvest further lowering their incomes in the next harvest season.

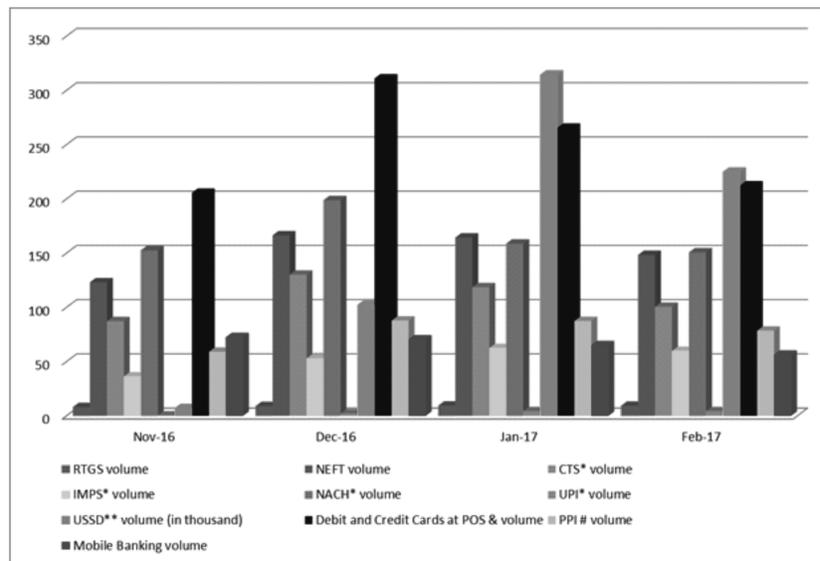
According to CLSA report, 68% of transactions in India are cash based. Demonetisation in a way forced the rural population to at least have a bank account. But the major mode of transaction still remained as cash. It was evident that merely possessing the will to use cash alternatives was not enough.

The shift to Cashless economy

The World Bank estimates that just about 35% of the population above the age of 15 has an account at a formal financial institution (Demirguc-Kunt, Klapper, Singer & Van Oudheusden, 2015). Less than 9% of the population older than 15 years has a debit card and

less than 2% has a credit card. Among the non-cash instruments used, cheques are the most prevalent. More than 8% have used a cheque within the last few months to make a payment. Around 2% of the population has used mobile phones to receive money, or has been involved in an electronic payment in the last few months. These numbers are significantly lower when broken down for rural, bottom 40%, and female population segments. “A survey of PMJDY customers conducted by Micro save found that only 33% of all beneficiaries were ready to use their Rupay cards. The others were confused by the PIN and activation procedures. Inconsistent electricity and sporadic internet access further eroded customers’ trust in ATMs and POS machines, with one failed transaction enough to make an entire village swear off formal financial institutions” (Qazi, 2016).

Graph-1. Electronic Payment Systems (India) -Representative Data as on July 11, 2017

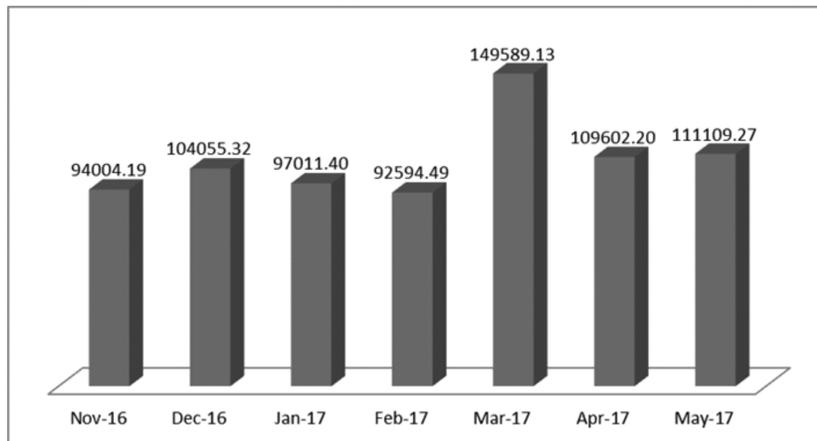


Source: Reserve Bank of India, 2017

Graph 1 represents the data of electronic payments system in India. It does not cover all transactions across all banks, but card payments data for four major banks, mobile banking figures for five banks and prepaid payment instruments (PPI, meaning mobile payment gateways such as Pay TM and Free Charge) data for eight non-bank issuers have been considered as representative for analysing trends in payments (IANS, 2017). It can be found that online banking using the National Electronic Funds Transfer (NEFT)

platform reduced consecutively in January and February 2017, while that of Immediate Payment System (IMPS) increased in December 2016 and January 2017 but declined in February. Debit and credit card transactions for four major banks do not show a major difference between November 2016 and February 2017—205 million swipes transacting Rs 35,200 crore in November 2016 to 212 million swipes transacting Rs 39,200 crore in February 2017 (RBI, 2017; IANS, 2017).

Graph-2. Electronic Payment Systems (India) - Representative Data of Value of transactions as on July 11, 2017



Source: Reserve Bank of India, 2017.

The above graph shows that the value of electronic payments or digital transactions nationwide declined marginally (1.5%) to Rs 92.6 lakh crore in February 2017 from Rs 94 lakh crore in November 2016 and have increased again in March 2017. In the months of April and May 2017 there has only been a marginal increase (1.35%) in the value of transactions according to representative data (provisional) on electronic payments released by the Reserve Bank of India (RBI, 2017).

As per a report in Hindustan Times only 2.5 million in rural India have gone digital after demonetisation. And the World Bank's Global Findex shows that Indians are significantly less familiar with digital banking – the use of credit or debit cards, making transactions using mobile phones, and using the internet to pay bills – than their peers in middle-income nations. This still leave us with the same question, will the rural economy become a cashless economy?

Discussion

In last nine months, India has been looking forward to a better economy. The call for demonetisation was huge, it did change the way we viewed banking services like ATMs and internet banking. Payment banks started gaining momentum; cashless transactions have become a way of life for the urban settlers. When we started looking into the concept of rural cashless society, it was necessary to find what the government planned or wanted. There have been active governmental forces that work towards development of the rural sector and many of their programmes have been able to make a positive change in the rural society. There are better livelihood opportunities and better services available to the deprived class, but the challenge lies in bringing all of them into the cashless umbrella and this is inevitable if the motive is making cashless rural India. The literature review suggests that most of the researchers and reporters have felt that the scope is little, many of them cited the reasons like lack of basic banking infrastructure, lack of awareness and illiteracy to be major hurdles to attain a cashless economy in rural sector. One of the limitations of the study is also the same; most of the secondary data wants to prove that the cashless economy will always be a dream. The investigations in this line led us to find that the number of cashless transactions had increased during the period of demonetisation only to decrease after a period of time, but still it is more than the amount of transactions that were made before November 2016. Out of different modes of electronic payments the debit and credit card Point of Sales (POS) method of transaction was most preferred among the consumers.

Further investigation threw light upon the real challenges that were faced by the rural economy. RBI data related to the number of ATMs in the rural areas showed that apart from the 100 odd ATMs established by private banks, the number of other bank ATMs have decreased. Other challenges identified were related to behavioural aspects of a rural bank customer. There were few challenges related to the basic infrastructure availability like internet and POS machines at small shops in rural setup. Can these challenges be overcome? As we looked more into the challenges, we started finding opportunities. There are many opportunities that could be worked to turn the situation in a favourable one for the nation. A few of them are identified and presented in the next part of the paper; it includes improving the schemes and programmes that are initiated by the government for the benefit of rural population. This opportunity if explored in the right direction could be the life line to bring true cash less economy in rural India.

Challenges and Opportunities

Few challenges that can be listed out are as following:

Inadequate Infrastructure: Smart phone penetration, internet connectivity, electricity, banking services are not adequate (table 1). The point-of-sale (POS) terminal penetration in India is still very low. Moreover, the number of ATMs available are also disappointing.

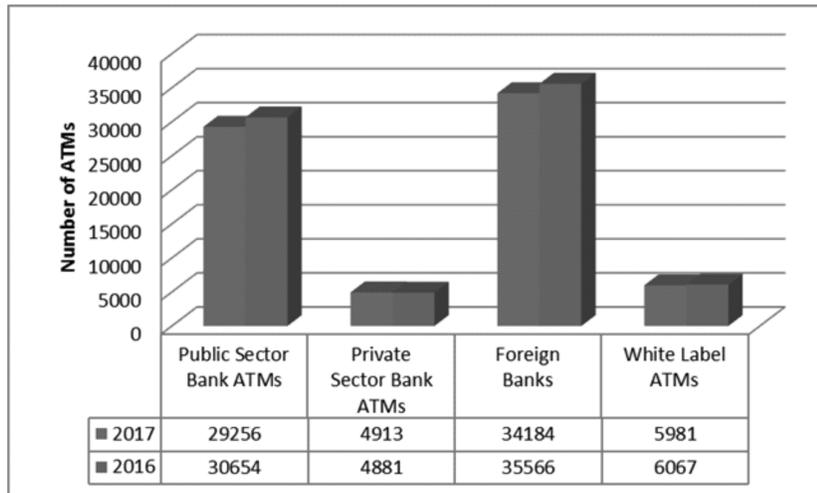
Table-1. Region wise deployment of ATMs for the quarter ended March, 2017
Comparative data of September 2016 and March 2017

Sr. No. of Banks	Name of the Bank/ Entity	2017			2016		
		Rural Centres	Rural Centres	Sep 2016 to Mar 2017	Total	Total	Sep 2016 to Mar 2017
Scheduled Commercial Banks							
Public Sector Banks							
1	Allahabad Bank	226	231	-5	1974	1220	754
2	Andhra Bank	666	773	-107	6606	3778	2828
3	Bank of Baroda	1949	2191	-242	17162	10441	6721
4	Bank of India	1782	1801	-19	11889	7807	4082
5	Bank of Maharashtra	504	550	-46	2750	1868	882
6	Canara Bank	1948	1963	-15	17004	10026	6978
7	Central Bank of India	1095	1755	-660	8384	5330	3054
8	Corporation Bank	691	784	-93	4946	3131	1815
9	Dena Bank	441	463	-22	2194	1509	685
10	Indian Bank	715	798	-83	5217	3207	2010
11	Indian Overseas Bank	871	994	-123	5589	3704	1885
12	Oriental Bank of Commerce	545	600	-55	4175	2599	1576
13	Punjab and Sind Bank	418	513	-95	1663	1281	382
14	Punjab National Bank	2875	2748	127	15369	9841	5528
15	Syndicate Bank	1075	1133	-58	5726	3786	1940
16	UCO Bank	869	887	-18	3798	2662	1136
17	Union Bank of India	1306	1401	-95	12415	7151	5264
18	United Bank of India	709	699	10	2801	2088	713
19	Vijaya Bank	372	380	-8	3210	1725	1485
20	IDBI Bank	413	459	-46	6301	3392	2909
State Bank Group							
21	State Bank of Bikaner & Jaipur	451	463	-12	3131	2030	1101
22	State Bank of Hyderabad	362	364	-2	4004	2380	1624
23	State Bank of India	8042	7776	266	83914	49859	34055
24	State Bank of Mysore	329	329	0	2194	1426	768
25	State Bank of Patiala	480	479	1	2093	1523	570
26	State Bank of Travancore	122	120	2	3232	1734	1498
Total		29256	30654	-1398	237741	145498	92243

Private Sector Banks							
1	Axis (UTI) Bank Ltd.	1593	1543	50	25036	13448	11588
2	Bandhan Bank	2	2	0	556	261	295
3	Catholic Syrian Bank Ltd.	9	7	2	496	247	249
4	City Union Bank Ltd	134	124	10	2668	1378	1290
5	Development Credit Bank Ltd.	36	27	9	951	490	461
6	Dhanalaxmi Bank Ltd.	28	29	-1	685	373	312
7	Federal Bank Limited	139	130	9	3013	1607	1406
8	HDFC Bank Ltd.	897	1058	-161	22778	12016	10762
9	ICICI Bank Ltd.	797	578	219	25943	14295	11648
10	IDFC Bank Ltd	1	1	0	40	17	23
11	IndusInd Bank Ltd	112	108	4	3819	1935	1884
12	Jammu & Kashmir Bank	348	285	63	1487	1037	450
13	Karnataka Bank Ltd.	149	142	7	2445	1319	1126
14	Karur Vysya Bank Ltd	152	195	-43	3145	1693	1452
15	Kotak Mahindra Bank Ltd	49	81	-32	4239	2044	2195
16	Lakshmi Vilas Bank Ltd.	63	113	-50	1767	926	841
17	Ratnakar Bank Ltd.	24	39	-15	703	373	330
18	South Indian Bank Ltd	112	152	-40	2377	1306	1071
19	Tamilnad Mercantile Bank Ltd.	245	244	1	1631	1048	583
20	Yes Bank Ltd.	23	23	0	3520	1756	1764
Total		4913	4881	32	107299	57569	49730
Foreign Banks							
1	CITI Bank	15	30	-15	1084	558	526
2	DBS Ltd.	0	0	0	60	30	30
3	Deutsche Bank	0	0	0	64	32	32
4	FirstRand Bank	0		0	0	5	-5
5	HSBC	0	1	-1	197	111	86
6	RBS (ABN AMRO)	0	0	0	0	13	-13
7	Standard Chartered Bank	0	0	0	498	246	252
Total		15	31	-16	1903	995	908
53	Total (Banks)	34184	35566	-1382	346943	204062	142881
White Lable ATMs							
1	Tata Communications Payment Solutions Ltd.	3167	3528	-361	10479	8881	1598
2	Hitachi Payment Services Pvt. Ltd.	332	278	54	657	637	20
3	Muthoot Finance Ltd	23	23	0	367	193	174
4	BTI Payments Pvt. Ltd	2252	2131	121	3950	4024	-74
5	Vakrangee Limited	117	90	27	496	309	187
6	Riddhi Siddhi Bullions Limited	12	15	-3	248	192	56
7	AGS Transact Technologies Ltd	78	2	76	237	86	151
8	SREI	0	0	0	6	2	4
Total (WLAs)		5981	6067	-86	16440	14324	2116
Grand Total		40165	41633	-1468	363383	218386	144997

Source: Reserve Bank of India, 2017.

Graph-3. Region wise (Rural) deployment of ATMs for the quarter ending March, 2017. Comparative data of September 2016 and March 2017



Source: Reserve Bank of India, 2017.

Graph 3 represents the change in number of ATMs from September 2016 to March 2017. The data shows that there has been a substantial decrease in the public sector bank ATMs in the rural areas. The number of ATMs closed are 1398, 1382 and 86 of public sector banks, foreign banks and white label ATMs¹ respectively while the private sector banks have increased the number of ATMs by 32. Thus, it can be inferred that the rural population is not able to benefit from the banking services that are available to population at large.

Digital illiteracy: The rural population is less aware of digital world and computer/smart phone. The erratic internet connection and power supply makes it difficult for them to perform a digital transaction at ease.

Trust deficit: There has been a generation past that has dealt only through cash, the old members of the community like merchants, traders and money lenders have always trusted their cash. It is a very difficult proposition to make people trust digital transaction as they do on cash.

Nature of Rural economy: Rural economy is mostly informal, so cash suits better than digital transaction. There are short cash borrowings among neighbours and relatives, bartering of goods and

services, and loans. Therefore, cash is considered the best option to avail these small benefits of living among the villagers.

There are other barriers too like mindset, habits and language. Most of the digital transactions have English as a medium of transaction, thus making it difficult for the rural people to comfortably use the mobile or internet banking facilities.

India has about 6,50,000 villages and about 850 million consumers inhabit in them, making up for about 70 per cent of population and contributing around half of the country's Gross Domestic Product (GDP). Consumption patterns in these rural areas are gradually changing to increasingly resemble the consumption patterns of urban areas. Some of India's largest consumer companies like Dabur and HUL serve one-third of their consumers from rural India. Owing to a favourable changing consumption trend as well as the potential size of the market, rural India provides a large and attractive opportunity to make digitized transactions. This scenario provides Government with an important opportunity to bring the rural economy into the cashless economy umbrella.

There are large number of nodal points of interaction between a citizen and the Government. One of the opportunities Government has is to make cashless transactions mandatory for certain payments and make it mandatory for certain services exceeding a certain amount. For example, payment for passports can be made mandatory through cashless modes like online payments or mobile wallets. While payment of various taxes can be made mandatory through electronic payment systems. Incentives in the form of tax rebate can be given to households that make the payment of salary to unorganized sector (domestic help, sweepers, gardeners, milk vendor, vegetable vendor, etc.). This will do two things, one, the households will have an incentive to go cashless and two, large portion of the unorganized sector will be financially included. Apart from the incentives and mandatory prescriptions of cashless mentioned above, there are some direct Government programmes and initiatives where it can create a large platform for cashless transactions.

There are two broad areas where the Government can promote cashless transactions. They are as following:

1. Mandatory electronic payment methods for receiving PDS benefits: The Public Distribution System (PDS) evolved as a system of management of scarcity and for distribution of food grains at affordable prices. Over the years, PDS has become an important

part of Government's policy for management of food economy in the country. PDS is supplemental in nature and is not intended to make available the entire requirement of any of the commodities distributed under to a household or a section of the society (GOI, n.d.). The beneficiaries of this programme are the Above Poverty Line (APL), Below Poverty Line (BPL) and the *Antyodaya* card holders. According to the Wadhwa Committee Report (2007) "PDS is inefficient and corrupt." The poor people never get the PDS food grain in proper quantity and quality. To curb the malpractices within the PDS system a simple pre-loaded card just like a gift card or a debit card can be used at POS. This will capture the data of quantity received and amount paid and help to keep a tab on the operations of the PDS stores. Moreover, the number of intended PDS beneficiaries are around 1.9 million, making it an opportunity to bring them all under cashless transactions (<http://dprcg.gov.in>).

2. One of the major factors whether a household will use cashless instrument or not will depend upon if their receivables are in cashless form (through bank accounts) or not. It becomes an important determinant because if the receivables to a household are only in the form of cash, then to make cashless payments, the household will have to first deposit the money into their bank account, which will incur extra cost and time. Given that 90% of the workforce in India is in the unorganized sector and almost the entire rural population is in the unorganized sector, the chances of rural household receiving payments through non cash instruments are minimal. Therefore, this acts as a natural barrier in using cashless transactions in rural parts. Again Government has an opportunity here to encourage cashless transactions through Mahatma Gandhi National Rural Employment Guarantee Scheme (MNREGS). Even though most of the payments in MNREGS are through bank accounts or post office, there is still room for improvisation as its beneficiaries are large in number.

Conclusion

Thus, it can be concluded that there is enormous potential that rural economy in India can become a cashless economy. The rural population is ready to learn, with one person receiving benefit soon the rest of the village will follow. Keeping the consumption patterns and the recent trends into mind the government can plan for implementation of basic support system like, incentivizing the use of internet through free data and smart phones, distribution of laptops to students taking higher education in nearby towns. Undisturbed internet connectivity and better availability of POS

should be ensured through sound infrastructure. Another way is by creating awareness about digital transactions and financial literacy among rural people by partnering with different educational organisations and NGO's. It can also provide multi-lingual online payment platforms i.e. mobile apps in regional languages for ease of transactions. Finally, by using the schemes and policies implemented by Ministry of Rural Development to bring the population under electronic payment system, the government can make the cashless rural economy a reality from dream.

End Note

1. In its attempt to hasten financial inclusion across the country, the RBI in 2011 declared to allow all non-banking entities to set up and operate their own automated teller machines (ATMs) known as White Label ATM's . The white-label ATM (WLA) would allow non-banking companies to set up and run their own ATMs, under a pact with a sponsor bank and a network provider. WLA operators can also earn extra revenue through advertisements and value-added services. Further, it allows autonomy of operators on deciding locations and creating their own brand with fixed annual targets mandated by RBI. Customers of any bank can use such white-label ATMs, but they will have to pay a fee for using the service. All transactions through these ATMs will be charged. These ATMs will not come under the ambit of the RBI guideline which mandates five free transactions on ATMs of other banks. White-label ATMs accepts only cards issued by banks and does not accept cash deposits (General Knowledge Today, n.d.).

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