

CASH TO CASHLESS ECONOMY: CHALLENGES AND OPPORTUNITIES ABOUT MSME SECTOR IN INDIA

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Abstract

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital costs than large industries but also help in the industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth.

Demonetisation is a tool for gearing a cashless economy. In India, before demonetizations, 98% of total economic transactions in the volume are done by cash. It is a matter of fact whether India would be able to transform itself into a cashless economy or less-cash economy after demonetization.

Keywords: *MSME, Demonetisation, Entrepreneurs, Public Distribution System, Government to Person (G2P).*

Introduction

Cash may be any form of currency such as banknotes and coins that are issued by the Government of that country. Cash act as one of the most important media of exchange. The function of cash is a continuous process. **Consumer** spends cash to fulfill their basic need such as food, clothing, shelter, education, etc. **Entrepreneurs** earn cash in the form of profit, which is further used for business expansion. It is also distributed among investors and also kept as a reserve for contingencies. **Employees** or workers get cash for their services rendered by them.

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A cashless economy is a system where any type of money transaction is done through digital ways such as credit cards, debit cards, electronic fund transfer such as NEFT, mobile payment gateways such as PayTM. This will leave very little scope for the flow of hard cash in the economy.

In India, before demonetizations, 98% of total economic transactions in the volume are done by cash. It is a matter of fact whether India would be able to transform itself into a cashless economy or less-cash economy after demonetization.

Table 1: Top Cashless Country

Sl. No.	Name of Country	Cashless Transaction (In Percentage)
1.	Singapore	61%
2.	Netherlands	60%
3.	France	59%
4.	Sweden	59%
5.	Canada	57%
6.	Belgium	56%
7.	United Kingdom	52%
8.	USA	45%
9.	Australia	35%
10.	Germany	33%
11.	South Korea	29%
12.	Spain	16%
13.	Brazil	15%
14.	Japan	14%
15.	China	10%
16.	India	2%

Source: Master Card Advisor's Measuring Progress toward a Cashless Society.

Table-1 shows that it is a big challenge for a country like India to go for a cashless economy where a large number of populations don't know various methods of cashless payment. Still, there are many hurdles in making India a cashless economy. A larger number of populations are still out of touch from the banking net, and even not in a position to reduce their dependency on cash. 90% of the total workforce, which produces nearly half of the output in the country, works in the unorganized sector.

It will not be easy for the informal sector to become cashless, and this part of the economy is likely to be affected the most because of the ongoing currency swap. There is a general preference for cash transactions in India, merchants prefer not to keep records to avoid paying taxes and buyers find cash payments more convenient. Demonetisation is a tool for gearing a cashless economy.

On 8th November 2016 demonetization was announced which banned currency notes of INR 500 and INR 1000, which accounted for nearly 86% of total currency circulated in India. Indian economy is heavily dependent on cash and now it has been on the way to gear up for a cashless economy. The Pradhan Mantri Jan Dhan Yojna (PMJDY) was launched on 28th August 2014. Till 30th August 2017 total account opened under the PMJDY was 30.09 crores and issued 22.75 crores **RuPay** card. There are more than 40 crores smartphone users and 15 lacks POS machines in India that can be used as a digital way of transaction.

There are both direct as well as indirect benefits of going cashless for India which are given below-

Under Direct Benefits

(a) High Maintenance Costs: As per the Reserve Bank of India (RBI), the provisional estimates of the amount of currency in circulation (as of June 2016) stand at INR 16.61trillions, out of which only 5% of the currency is with the bank. From April 1994 to June 2016, the currency has shown a yearly growth rate of 17%, while the share of bank currency has remained around 5%. In 2015 RBI and commercial banks annually spend around Rs 21000 crores (\$3.5

billion) in currency operation cost, while citizens of Delhi alone spend Rs 9.1 crores and 60 lacks hours in a collection of cash. Given these costs, moderate growth of cashless transactions by 5% a year will save more than INR 500 crores annually.

(b) Financial Records and Tax Collections: Various sources say that percentage of Black Money in India is around 30% of GDP as per Business Standard newspaper; while Schneider in the year 2006 estimated between 23% - 26% of GDP as black money and thus significant both in terms of value as well as a percentage of GDP. Some recent estimates considered between 40%-75% of the GDP. India is among the low tax collection countries. Economic Index of Freedom data estimated that the tax burden in India (tax revenue as a percentage of GDP) is 17.6%, which is lower than the global average of 25%. In 2016 -17 individual taxpayers in India increased by 9.1 million. It shows an 80% increase in taxpayers after demonetization.

Indirect Benefits

Some important indirect benefits are given below -

(a) Financial Inclusion: Only 60% of the Indian population is covered by the banking system which is still low in India despite recent improvements. The Pradhan Mantri Jan Dhan Yojana which was launched in August 2014 boost bank account opening in Indian banks which is 27.31 crores to date, and 2 crores accounts opened after demonetization. The biggest challenge to financial inclusion is that the accounts opened under such schemes mostly lie dormant.

(b) Stopping Leakage: A cashless economy could stop leakages. In 2009, the Planning Commission estimated that only 27% of Public Distribution System (PDS) expenditure reached the targeted low-income groups. Digitalization makes the Government keep a record of all transactions on government-to-person (G2P) payments can have a significant impact on the economy as a whole in terms of efficiency, safety, and transparency. It also brings previously unbanked beneficiaries into the fold of formal financial services by channeling a regular flow of money into their accounts. Shreds of evidence from other countries show that it would be already in operation. In South Africa, over 80% of beneficiaries receive government transfers into an account and the percentage

is as high as 88% in Brazil. Mexico's shift to digital G2P payments led to a cut in spending on wages, pensions, and social benefits by 3% annually. Compared to this, G2P payments comprised less than 10% of total transfers for India.

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. MSMEs not only play a crucial role in providing large employment opportunities at comparatively lower capital costs than large industries but also help in the industrialization of rural and backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country.

Overview of Small Scale Industries & Micro Small and Medium Enterprises Sector

Performance of MSME sector in India is assessed mainly with the followings -

- (a) By conducting of periodic All India Census of the Sector.
- (b) By collecting the number of Entrepreneur Memorandum Part-II (EM-II) filled at DICs. (*Replaced with Udyog Aadhaar online filing system since September 2015*).

The latest census conducted was the 4th All India Census of MSME. The census was conducted concerning the year 2006-07, wherein the data was collected till 2009 and results published in 2011-12. The results made use of Economic Census, 2005 (EC, 2005) conducted by Central Statistics Office (CSO), Ministry of Statistics and Programme Implementation (MoSPI) for activities excluded from 4th All India Census of MSMEs 2006-07 for the non-registered sector, namely Wholesale or Retail Trade, Legal, Educational and Social Services, Hotel and Restaurants, Transports, Storage and Warehousing (except cold storage). The comprehensive result of the 4th All India Census of MSMEs is presented below-

Table 2: Growth and Performance of MSMEs

Sl. No. (I)	Characteristics (II)	Registered Sector (III)	Non-registered Sector (IV)	Economic Census 2005 (V)	Total (VI)
1.	Size of Sector (In Lacs)	15.64	198.74	147.38	361.76
2.	No. of Rural Units (In Lacs)	7.07 (45.20 %)	119.68 (60.22)	73.43 (49.82%)	200.18 (55.34%)
3.	No. of Women Enterprises (In Lacs)	2.15 (13.72%)	18.06 (9.09%)	6.40 (4.34%)	26.61 (7.36%)
4.	Total Employment (In Lacs)	93.09	408-84	303.31	805.24
5.	Per Unit Employment	5.95	2.06	2.06	2.23
6.	The total original value of Plant & Machinery (In Lacs)	10502461	9463960	-	19966421
7.	Per unit original value of	6.72	0.48	-	-

	Plant & Machinery (In Lacs)				
8.	Total fixed investment (In Lacs)	44913840	24081646	-	68995486
9.	Per Unit fixed investment (In Lacs)	28.72	1.211	-	-
10.	Total Gross Output (In Lacs)	70751027	36970259	-	107721286

Source: MSME Annual Reports.

Table 3: Performances of SSI/MSME, Employment, and Investment

Sl. No.	Year	Total Working Enterprises (In Lacks)	Employment (In Lacks)	Market Value of Fixed Assets (In Crore)
(I)	(II)	(III)	(IV)	(V)
1	2006-07	361.76	805.23	868,543.79
2	2007-08	377.36	842	920,459.84
3	2008-09	393.7	880.84	977,114.72
4	2009-10	410.8	921.79	1,038,546.08
5	2010-11	428.73	965.15	1,105,934.09
6	2011-12	447.64	1,011.69	1,182,757.64
7	2012-13	467.54	1,061.40	1,268,763.67

8	2013-14	488.46	1,114.29	1,363,700.54
9	2014-15	510.57	1,171.32	1,47,912.94

Source: MSME Annual Reports.

Table: 4 Contribution of MSME Sector in GDP and Output

(At 2004-05 Prices)

Year	Gross Value of Output of MSME Mfg Sector (In Crore)	Share of MSME sector in total GDP (%)			Share of MSME Mfg Output of total Mfg Output (In Percentage)
		Mfg Sector MSME	Service Sector MSME	Total	
2006-07	1198818	7.73	27.40	35.13	42.02
2007-08	1322777	7.81	27.60	35.41	41.98
2008-09	1375589	7.52	28.60	36.12	40.79
2009-10	1488352	7.45	28.60	36.05	39.63
2010-11	1653622	7.39	29.30	36.69	38.50
2011-12	1788584	7.27	30.70	37.97	37.47

2012-13	1809976	7.04	30.50	37.54	37.33
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Source: MSME Annual Reports.

Table- 4 shows that MSME is the backbone of the Indian Economy. The Indian small and medium enterprise (SME) sector holds about 8% share of the country's GDP, with 45% contribution to India's manufacturing GDP and 40% to exports from India. This makes an important contribution to India's economic growth. The Indian SMEs conventionally do their business and depend much on cash transactions such as payment of vendor, supplier, and receiving of payment preferred cash transaction. In cash transactions, there are lots of drawbacks, need extensive bookkeeping, and more chances of error due to manual work. Business deals take more time due to a cash transaction is a physical movement of cash from one place to another place. Indian SME's should move towards to digitalization to compete in the globalization era.

Cashless (Digitalisation) Helps Indian SMEs

MSMEs should strive for improvement and perfection at each stage of growth. Technology and innovation play a major role in ensuring this for SMEs. Businesses that use technology manage to move ahead, and those that don't, remain stagnant and fade out sooner or later. Here are some advantages of digitalization or going cashless for MSME in India:

Faster, Safer Payment Cycles: Physical cash movement involves security threats, and withdrawing/ depositing cash in banks is another time-consuming task. By digitization, there is no need for cash deposits and cash withdrawals.

Legal Implications: In cash transactions, there is less transparency, lots of bookkeeping is maintained to keep the cash transaction records. The tax department can question any time, if they found any discrepancies in the records.

Operational Efficiency: Digitalisation aids in enhancing business efficiency. There is Enterprise Resource Planning (ERP) software available today that is

designed for small businesses. These can enhance business efficiency and maximize the ROI without high-cost implications.

Wider Marketing Avenues: Today is the era of the internet, by the end of 2017 the internet user will reach to 500 million active users. The MSME know has the digital way to market their offerings, businesses can reach out to consumers beyond their geographical location, and go global over time.

How MSME's can go with Cashless

Net Banking: Net banking includes three services for MSME to make payment- NEFT (National Electronic Funds Transfer), IMPS (Immediate Payment Service), and RTGS (Real Time Gross Settlement) RTGS is used for a minimum amount of INR 2 Lacks, there is no minimum limit for the other two services.

Plastic Money: Plastic Money includes Debit Cards and Credit cards issued by various banks to their customers. Prepaid cards are also issued by banks, which is a good option instead of cash and cheques.

Unified Payments Interface (UPI): In this system, money can be sending and received by using a smartphone. There is a UPI app provided by various banks that are linked with your bank account, to the mobile number registered with the bank. By using this app you can send or receive the payment without remembering bank details every time. This is a one-touch payment system.

Aadhaar Payment App: The MSME's need is an Aadhaar linked bank account and a smartphone with internet connectivity, a biometric reader, and Aadhaar Payment App to get instant credit into the bank account. There is no need for POS and the merchant is not charged for using this payment method.

E-Wallets: Entrepreneurs in MSME can adopt e-wallets to receive payments for their products and services and also to make payments to suppliers. Paytm, MobiKwik is some examples of e-wallets in India.

Point of Sale Machines (POS): POS machine where customers swipe their credit/debit card with a pin for making payment. POS machine is provided by various banks to their customers. This is the most popular form of payment in India.

Online Stores: MSMEs should launch their online stores because there is a bright future in online stores, which will replace offline stores for the sale of their product and service. Amazon, Snapdeal, Flipkart. By integrating their online store with a payment gateway, online sales can be done on the business website. This will not just help make the SMEs go cashless, but also make their entry possible into markets beyond their physical location. Also, payment gateways are more secure. CC Avenue, Citrus Pay, and PayPal are some highly used payment gateways in India.

Challenges of Cashless in MSME: In India, a large section of the Indian population is still unbanked. About 90% of the workforce is working in an unorganized sector and there is still a preference for cash in comparison to other payments mode.

After demonetization, India is rolling back to using cash as its primary mode of financial transactions. Govt has taken several steps to promote consumers to go for digital, but it would be more effective, if Govt take several steps to make MSME also digital as like consumers.

Given that there are about 50 million MSMEs in the country contributing to over 20 percent of employment and a third of GDP, this is a segment that might make the difference between the success and the failure of the government's Digital India mission.

Table: 5 Share of Medium, Small & Micro Enterprises

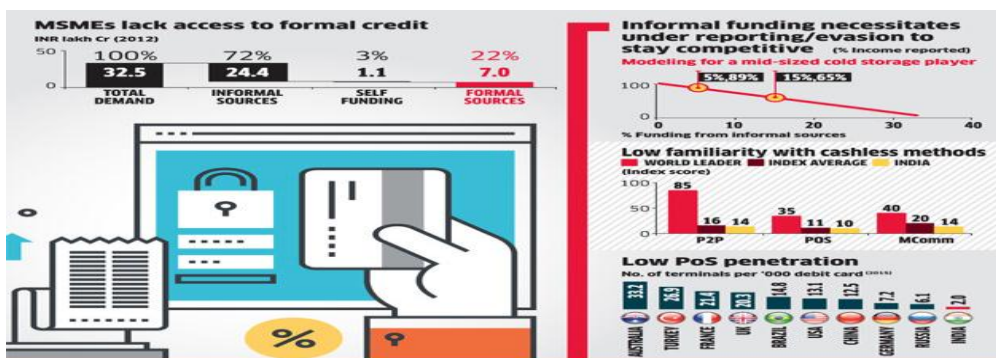
(In number of units, employment, fixed assets and gross output of MSMEs)

Share	Medium	Small	Micro
Percentage in Units	0.17%	4.89%	94.94%
Employment	4.6%	25.2%	70.2%
Fixed Assets	12.5%	49.8%	37.8%
Gross Output	10.7%	45.1%	44.2%

Source: MSME Annual Report 2015-16.

Table -5 shows the share of Medium, Small, and Micro Enterprises. It shows that majority of shares are shared by micro and small enterprises.

MSME’s Resistance towards Cashless: BCG survey shown in the given chart depicts the facts of problems to create a cashless environment. Out of the 1700 plus consumers surveyed by BCG of post demonetization, 22% indicated their preference for digital payment methods within six months compared to only 11% earlier. In contrast, the majority of the 50 plus MSMEs with which BCG conducted a deep discovery interview indicated a preference for reverting to cash.



Source: Chart 1 : Through BCG Survey.

Profitability Concern: MSME's avoid digital payment; it shows actual growth and their profits, which leads them to pay actual taxes. MSME's main source of credit is informal means cash received from various informal sources. Only 20% of the fund required is met from formal sources. The majority of MSMEs are proprietorships which make credit rating difficult and reduces access to credit. Informal funding is primarily in cash and hence encourages cash operations.

Ease of Doing Business: MSMEs largely choose cash as a route to avoid unclear compliance laws, complex tax norms, and harassment by local authorities. Approximately 2% of MSME's revenue costs to fulfill the existing laws.

Cashless is Unattractive: MSMEs perceive no benefit in going cashless.

Higher Convenience of doing Business in Cash: MSMEs feels more convenience doing business in cash due to complex compliance rules, complex tax structure, and low ease of doing business.

Low Awareness of Digital Payment: The majority of MSMEs lack knowledge of digital payment methods. They also lack the knowledge of Smartphone usage, and it incurs high cost.

Poor or Unavailable Infrastructure: The transaction failure rate is high in India due to poor mobile networks. POS machines are costly so less pos penetration in the market.

Today, many MSMEs companies and workers are not receiving payments through banks. There are two important reasons for the employer to resist payment from the bank because it would need to make a contribution in PF and ESI and pay minimum wages. If employers are ready for these payments, they are fearful to do so for harassment.

As the workers' concern, they do not want to take home low salaries. In PF and ESI, their contribution will be deducted from their salaries. ESI facilities cannot be enjoyed by the worker of MSME, the employee of a large company can only take advantage of ESI facilities. MSMEs are nurseries for entrepreneurship that make remarkable contributions to GDP, manufacturing output, exports, and employment. Demonetization marked a paradigm shift in digital payment and

has brought substantial change in the economic environment which provides various opportunities for MSMEs.

The government has taken several steps for MSMEs to promote digital payments. To take advantage of income tax on digital turnover, the finance ministry had explained out a benefit of a lower income tax rate under section 44 AD for SMEs.

Table 6: Benefits of Digital Payment with Rebates in Tax

Particulars	100% Cash Turnover (In Rs)	60% Digital Turnover (In Rs)	100% Digital Turnover (In Rs)
Total Turnover	2 crore	2 crore	2 crore
Cash Turnover	2 crore	0.80 crore	Nil
Digital Turnover	Nil	1.2 crore	2 crore
Profit on cash Turnover@8%	16 lakh	6.40 lakh	Nil
Profit on digital Turnover @ 6%	Nil	7.20 lakh	12 lakh
Total profit	16 lakh	13.60 lakh	12 lakh
Deduction in u/s 80c	1.5 lakh	1.5 lakh	1.5 lakh
Taxable Income	14.50 lakh	12.10 lakh	10.50 lakh
Tax Payable	2,67,800	1,93,640	1,44,200
Tax saving	Nil	74,160	1,23,600

Source: Zee Business, 21.12. 2016.

Table-6 signifies that MSMEs business transactions majorly done with digital payment have benefited with more rebates in tax.

Another initiative taken by Govt is the launching of **the Digidhan Vyapar Scheme** between 9th November 2016 to 13th March 2017. This scheme is for promoting merchants who accept digital payment with the amount of a minimum of Rs 50 and a maximum of Rs 3000. Around 7000 merchants are rewarded every week. The reward amount was 5000 and 2500. And there was also a mega draw. Training cum workshops are organized by Noida MSMEs to train workers in the industrial areas on a digital transaction. The workshop focuses on generating awareness that how to convert cash transactions into cashless ones. Google India has set a target of creating an online presence for 20 million MSMEs in India on its various platforms by 2017. A mobile application named “Google My Business” was launched by Google India in 2015.

Suggestion

- (1) The first step of the journey from cash to cashless is to upgrade the infrastructure which suits the needs of the Indian Economy. At the end of July 2016, India had a total of 1.44 million points of sale terminals (POS) installed by various banks. And 200,000 ATM (RBI data). For India that is still not enough. In several areas, POS penetration is much lower and needs lots of improvement.
- (2) India has one of the largest smartphone users in the world, but about 34.8 % of Indians only can assess the internet.
- (3) Another issue is internet speed. On average internet speed, India is ranked 105th in the world. According to AKAMI (The CDN services provider for media and software delivery). The average broadband speed is 4.1 Mbps. The time taken per transaction is so high in the urban area. It should be smooth for the users.
- (4) There is a need for building trust and awareness towards digital payment. In India a large number of people uses internet, but when the matter comes for making online payment, they step backward. It is due to unawareness of how to make digital payments. Digital payment is a very new concept in the

Indian Economy, Indian youth are somehow aware of this due to interaction with their youth groups. The elders were unaware of these because at their time internet was not there. There is a need to introduce the concept of money as something which has value but does not need to be tangible.

(5) Cyber security is another aspect because it keeps people away from digital transactions. There are many cases of data leaks of debit/credit cards. Many frauds are done by making clones of credit/debit cards. In India privacy laws and data protection are inadequate.

Conclusion

The government has introduced several schemes for the promotion of digital transactions. These schemes somehow attract people for digital payment, due to the unavailability of cash in the market. After a few months of easy availability of cash in the economy, the people again prefer cash transactions. A large no of the population is unaware of these schemes.

Therefore, the government should create awareness and educate people about digital payment. Government should think about digitization incentives and making laws to use digital transactions compulsory. The government's telecom and technology companies have to come with more solutions for the transitional phase of India shifting cash into a cashless economy.

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