

**DEMONETIZATION: CURBING THE PRACTICE OF HOLDING  
UNACCOUNTED MONEY AND MOVING TOWARDS E- MONETIZATION**  
(An Empirical Study on Local Shopkeepers of Sagar City of Madhya Pradesh)

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**ABSTRACT**

*"I promise to pay the bearer the sum of one thousand rupees/five hundred rupees" undersigned by the RBI governor on notes, seemed dubious the day when the demonetization of two high denominated Indian currencies i.e. 1000 rupee-note and 500 rupee-note was announced by the Prime Minister of India. It was bound to hit the economic system of the nation as the whole country faced the problem of liquidity. The recent move of demonetization in India has certainly affected the local traders adversely in all the regions of the country but the change in their practice of holding unaccounted money was not studied so far. The present study is about the small shopkeepers of a region, change in their accounting practices and their problems in shifting towards e-monetization i.e. cash less mode of payment after the accomplishment of the demonetization process in India. The study is empirical in nature and is based on primary as well as secondary data. Primary data has been collected through schedule of 15 questions filled by the enumerators from the 40 shopkeepers dealing in daily needs, jewelry, hardware, mobile & accessories and baked materials established in four major areas of Sagar city of Madhya Pradesh and secondary data has been collected from websites of NPCI & RBI and various other sources. To categorize and quantify the collected data, five point Likert scaling technique has been used and to check the goodness of fit, Kolmogorov-Smirnov (K-S) test has been applied. For the interpretations, percentage technique has been used wherever found necessary. The study concludes that the recent move of demonetization in India has caused a significant decrease in unaccounted income of the local shopkeepers of select region and the entire e- monetization at present will not stop tax evasion in the country.*

**KEYWORDS:** *Demonetization, Unaccounted Income/Money, E-Monetization, Black Money..*

**Introduction**

"I promise to pay the bearer the sum of one thousand rupees/five hundred rupees" undersigned by the RBI governor on notes, seemed dubious the day when the demonetization of two high denominated Indian currencies i.e. 1000 rupee-note and 500 rupee-note was announced by the Prime Minister of India as he said, 'these notes are just papers from tomorrow'<sup>1</sup>, and even in subsequent period until the re-monetization took place, it remained in question. Between November 8 midnight and December 30, 2016, there was a hue and cry among the common men as well as the prominent figures of the country. Many a citizens as well as politicians criticized this move of the government and the government too failed to have anticipated the complexities and catastrophic effect of the move in short term. However the period of affliction was for a short span, it jolted the entire economic system of the nation. Following the announcement, there was a rush at banks and ATMs, to exchange old notes and

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<sup>1</sup> Bhatt, A.Last, F. M. (2016, November 9). Watch PM Narendra Modi's Entire Speech On Discontinuing 500, 1 000 Rupee Notes. NDTV. Retrieved from <http://www.ndtv.com/indianews/pm- modi- speaks- to- nation- tonight- at- 8- pm- 1622948>.

withdraw new currency (Roy, Debayan, 2016).<sup>1</sup> Moreover there was a series of notifications on daily basis for withdrawal limits and exchange limits. Due to fast changing instructions by the government during that period, it appeared that the government and the central bank were severely unprepared to manage the whole situation (Gupta, Dinesh Kumar, 2017).<sup>2</sup> The government justified by saying that the demonetization drive was to thwart the entry of forged currency, to uproot the parallel economy and to curb corruption, therefore every step was taken with confidentiality. The two withdrawn denominations represented 86% of the currency in circulation (RBI, 2016).<sup>3</sup> The government suspected the major chunk of this to have been hoarded as unaccounted money by the tax evaders. This is the reason why only these two denominated currencies were chosen for demonetization. It was bound to hit the economic system of the nation as the whole country faced the problem of liquidity.

India is basically a cash-driven economy and more than 90 % transactions are settled in cash (Patil, 2016).<sup>4</sup> With the knowledge of such fact, it may not have been easy for the government to take initiative for the demonetization move. It has been observed across the countries where the very move had been exercised, that it is one of the risky measures to diagnose the limped economy as it succeeded in a very few countries. At most places there were reported some dire side effects besides the failure of the move. Going 70 years back into the history of Indian economy, it is found that this remedy has already been applied in 1946 and then in 1978 but two of the times it did not come out with a panacea to curb black money and to preclude the circulation of counterfeit currency in the country. It is evident that the present government proscribed the currencies and expedited the process of exchange with the certain limits sagaciously.

The process of demonetization this time was good or bad can be just the matter of an individual's opinion but its success or failure can be measured on the ground of impact on GDP, parallel economy at large, tax collection, counterfeit currency, cashless transactions and the most importantly the prevailing practices of keeping unrecorded money and evading tax on it. The issue of concern from the government's side is the transparency in income disclosure by an individual or a firm. This is more or less about the citizen of the country, whether he is salaried or self-employed, who expects the government to follow the rectitude policy but he himself gets indulged in wrong practices on the pretext of the failure of the government to put equilibrium in the society in terms of employment generation and community development, corruption of bureaucracy, flaw in monitoring the policies, rising inflation and consequently excessive pressure to earn more and more. The real issue is how the common man been affected by the drive as the current demonetization has adversely affected the poor, wage labourers, small businesses, farmers and other minorities (Shariff & Khan, 2016).<sup>5</sup>

#### **Statement of Problem**

The recent move of demonetization in India has certainly affected the local traders adversely in all the regions of the country but the change in their practice of holding unaccounted money was not studied so far, as known to the present authors therefore; it becomes necessary to study it. It has also been observed that traders are moving towards digitalization after demonetization and there is also a need to spread more awareness about it but what challenges these shopkeepers are facing in the same regard have not been reported yet. Even the complexities left after the accomplishment of demonetization exercise before this stratum, also need due study. And, above all the awareness about this exercise of demonetization and its consequences, matters a lot to know why they do not or why they should move towards e-monetization now. Therefore, the present study is about the small shopkeepers of a region, change in their accounting practices and their problems in shifting towards e-monetization i.e. cashless mode of payment after the accomplishment of the demonetization process in India.

<sup>1</sup> Roy, Debayan. (2016, November 22). *Demonetisation Rush at Banks has Cashiers 'Weeping', Say Bank Unions*. News18.com. Retrieved July 2, 2017, from News18.com: <http://www.news18.com/news/business/demonetisation-rush-at-banks-has-cashiersweeping-complain-bank-trade-unions-1314593.h>

<sup>2</sup> Gupta, Dinesh Kumar. (2017, March 12). *Demonetization and Its Overall Impact*. Retrieved July 2, 2017, from <https://ssrn.com/abstract=2931740>.

<sup>3</sup> Reserve Bank of India. (2016). *Withdrawal of Legal Tender Status for ₹ 500 and ₹ 1000 Notes : RBI Notice*. Retrieved from [https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=38520](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=38520)

<sup>4</sup> Patil, A. (2016, December 25). *History of Demonetization - Case Studies*. Retrieved from [ssrn.com: https://ssrn.com/abstract=2996104](https://ssrn.com/abstract=2996104)

<sup>5</sup> Shariff, A., & Khan, A. U. (2016, November 16). *Why Demonetization Will Not Eliminate Black Money or Corruption*.

### Significance of Research

There have taken place a very few studies after the financial year started on April 1, 2017 post demonetization. This study is meant to fill the gap between the anticipated effects and the current impact of demonetization on the general public especially small shopkeepers. It is also supposed to help understand the complexities faced by the small traders to adopt digital payments system so that corrective measures can be taken on ground level. It is expected to show the true picture of the accounting practices adopted by the local shopkeepers. Results of the study can be generalized to the state level as study is based on a city of Madhya Pradesh and it may also lead to further studies.

### Objectives

- To know the level of awareness of the select group about the demonetization move and its consequences over the Indian economy
- To analyze the accounting practices adopted by the select group pre and post demonetization
- To understand the challenges experienced by the select group post demonetization
- To study the complications faced by the select group to shift towards e-monetization and to review their knowledge over the advantage of online transactions.

### Organization of Paper

This paper is structured into the following sections: (Section 1 Introducing the background and statement of problem followed by significance and objectives of the study) Section 2 provides a review of the past and recent literature on the impact of demonetization move in India on small traders and others, awareness of digital transactions among them and similar measures taken in other countries, with the identification of research gaps; Section 3 presents the sample framework and outlines the hypotheses; Section 4 describes the methodology and data collection process, with the statement on research ethics; and Section 5 presents the analysis, empirical results and findings. Finally, it has been concluded by summarizing and discussing the outlook for further studies.

### Literature Review

#### During November and December 2016

This was the time in which demonetization in the country was on operative mode, that is why all the studies were done without the data and facts but with the experiences and facts of previously taken such move in India or outside India.

**CARE Ratings (2016)** in its report, highlighted that demonetization will abolish parallel economy, stop the circulation of fake currency for a short span and restrict the anti-social activities like smuggling however money supply, the prices on consumer goods, real estate and property, gold and luxury goods and automobiles will decline consequently, the demand will also fall. Agriculture and related sector, **small traders**, SMEs, services sector, households, political parties, professionals like doctor, carpenter, utility service providers, etc. and retail outlets will have adverse impact and apart from these, GDP and banks will also be affected. **Digital transactions will be on boom** and people will search alternative modes of payment.

**NIPFP<sup>i</sup> (2016)** marked the prospective impact of demonetization in short run in terms of decline in cash transactions, adverse effect on demand of **daily needs**, fruits, vegetables, transportation services, etc., increase in credit in the market, fall in property prices and augmentation in tax collections. If the cash replacement is done within a period of one to two months, even then agriculture, automobiles and construction sector will be adversely affected in short term. In medium term, due to the increase in deposits, banks will be capable to create more credit in the economy. Certain sectors including banking will face transition issues as well; means it cannot be conceived as the success of the drive as the deposit of hidden money will soon be withdrawn and banks cannot lend it out.

**Ramdurg & Basavaraj (2016)** threw the light on the history of the demonetization in the world as well as in India. They showed that Zimbabwe, Soviet Union, Myanmar, Australia, Ghana, Nigeria, Zaire, Pakistan and North Korea have also fallen in queue of using demonetization as a measure to cure their economy; some for controlling hyperinflation, some for curbing black money and corruption and some for removing counterfeit currency. In India as well it is the third time but this time it had various objectives which were needed to be achieved. They further did the analysis of pros and cons of the demonetization move and finally concluded that it should not be repeated albeit it benefitted for the economy and now such measures should be taken which can sustain the dividends of the demonetization exercise in long run.

**Mali (2016)** talked about the reasons of demonetization in India and major effects of it. He then reported that due to demonetization online retail stores temporarily stopped cash on delivery facility, disbursement rate of microfinance institutes slowed down, Micro Businesses were affected adversely and e-wallet firms gained good business. At last, he gave a concluding remark that in spite of affecting some sectors favorably and adversely, demonetization will aid to control black money in the country in long run.

**Singh & Singh (2016)** collected the experiences of demonetization from various countries viz. Russia, North Korea, Zaire, Myanmar, Ghana and Nigeria and compared these with the recent move of demonetization in India. They also compared the performance of Indian stock market with Asian stock market one month post demonetization. While estimating the probable consequences of the move, they reported that Indian stock market has fallen down in almost all major sectors, bank rates and interest rates are expected to reduce, bank deposits and credit allowance are supposed to increase and demonetization along with GST would curb black money in the country. They also reported the short term and long term effects of demonetization move and with experiences of other country, it was concluded that the move failed to fix a debt-burdened and inflation-ridden economy.

**Patil (2016)** did a case study on demonetization moves taken in Zimbabwe, Russia and India. He found that demonetization process in Zimbabwe, from 15 June to 30 September in 2015, was to stabilize the hyperinflation where prices went three times a day but the process was reported failure as hyperinflation turned into deflation and citizens of the country lost the trust in banking system. Similarly, demonetization exercise conducted in Russia in 1991 fell flat and the government lost the trust of the general public however it was done to fight parallel economy, as country experienced 300% rise in inflation. Russia repeated this move in 1998 by removing three zeroes from the currency and this time it was successful. In India, on 12 January 1946, government banned Rs. 500, Rs. 1000 and Rs. 10,000 notes as a part of demonetization to punish black money hoarders but all the money was converted therefore, the objective of the move could not be achieved. Subsequently, in 1978 Indian government again banned Rs. 500, Rs. 1000 and Rs. 10,000 notes to combat corruption, black money and terrorism but this time too the move was not as successful as it was supposed to be. He concluded that one should always learn from history and such measure like demonetization should be applied only in extreme cases and that too with careful planning. He also mentioned some proposed benefits of the recent demonetization move in India.

Thus, it was identified that reports of CARE and NIPFP described the expected impact of the move as these studies were done in very earlier phase of it whereas the studies of Ramdurg & Basavaraj, Singh & Singh and Patil just compared the move in India with that of other nations but worth noting point is that first two studies and study of Mali assented that small traders, micro businesses and trades related to daily needs will be adversely affected however the claim was not made on the basis of any evidence.

#### **During January, February and March 2017**

This was the period when demonetization process had then ended and financial year of Income Tax was about to end.

**Krishnan & Siegel (2017)** along with their team surveyed 28 slum neighbourhoods in Mumbai city of Maharashtra and reached over the conclusion that most of the respondents were aware of the demonetization drive and reacted to it positively however there was a slight drop in income which was correlated with their changing expenditure and savings. It was also found that Paytm was commonly used as cashless method of payments and more than half of the respondents assessed the move in a positive manner.

**Zhu et al. (2017)** studied the issue of recent demonetization in India more closely by basing their study on 90 households belonging to the four rural regions of Sunderbans, West Bengal in India. They basically used econometric model to understand the causal impact of demonetization on consumption purchases, non-consumption expenditures and borrowing activities. They found that consumption-related purchases and instances of loans have increased and borrowing has reduced post demonetization among the selected group. They also highlighted the short run loss of welfare of selected sample in terms of losses to savings due to time lost in bank queues, reductions in earnings due to being engaged with banks instead of being employed and losses to income from receiving old notes, to be exchanged subsequently. They also mentioned long run loss due to increase in consumption related expenditure and decrease in sale of agriculture produce. They, at last, concluded that selected households did have immediate loss of welfare but they tried alternative strategies too to rid their

unwanted currency notes and local credit markets can help households leverage for short-term adjustments to macroeconomic shocks.

**Paramahansa & Eliot (2017)** discussed the long-term benefits and short-term costs of demonetization. They also showed benefits as well as the negative face of cashless economy and the effects of demonetization on circulation of currency, GDP, black money, corruption and taxation.

**Gupta (2017)** mentioned the major targets of government behind demonetization move and also discussed its pros and cons. He called it a less-cash strategy instead of cashless plan and also admitted that post demonetization, e-payments and digital payments have augmented. While expressing the benefits of cashless system, he inferred the country moving towards rematerization. Finally, he consented that despite much difficulty, this drive was welcomed by the general public and the author also hoped that the public will adopt cashless modes of payment in coming time. The studies of Krishnan & Siegel and Zhu et al. were based on the experiences of the households whereas the studies of Paramahansa & Eliot in Economic Survey and Gupta mainly discussed the pros and cons of cashless economy and demonetization though Gupta and others claimed that modes of cashless payment have increased but there was no base of it.

#### After April 1, 2017 till date

This is the period when the long term impact of demonetization move started casting its shadow and there can be seen a consensus amongst the people over the post demonetization effects.

**Ligo (2017)** made an attempt to seek influence of demonetization on unorganized sector, taking the sample of 20 traders and 100 customers from Pathanamthitta district of Kerala. The author then found that gender of the respondents relate neither with change in shopping behavior nor with awareness of payment apps and nor with reason for not using mobile apps. Conclusion was that unorganized sector had adverse effect of demonetization move as afterwards majority of regular customers shifted to different shops and change in their behavior was also observed however customers need to be more digitally literate.

**Pandey & Nema (2017)** analyzed the impact of demonetization on common people, taking the sample from Allahabad city of Uttar Pradesh with reference to the socio-economic profile of the selected respondents. After analysis, they reported that the factors casting impact of demonetization on common people and their socio-economic profile are associated and interpreted that the demonetization move was an initial step to fight corruption and albeit people have moved towards digitalization post demonetization, a lot more needs to be done in the same regard. The study of Ligo is quite relevant for the present study as the author chose unorganized sector and customers and on the basis of data collected and analysis done, adverse effect of demonetization was reported and awareness of digital payment modes was observed low homogeneously study done by Pandey and Nema expressed the need of digital literacy among the common people.

#### Hypotheses Development

**Table 1: Decrease in Unaccounted Income after Demonetization Move**

Nature of Business	Not at all	Very less	Less	Much	Very Much	Total
Daily Provisions	2	2	3	3	5	15
Jewellery	1	2	0	2	1	6
Hardware	1	1	2	2	1	7
Mobile & Accessories	1	1	2	3	1	8
Baked Materials	1	2	0	1	0	4
<b>Total</b>	<b>6</b>	<b>8</b>	<b>7</b>	<b>11</b>	<b>8</b>	<b>40</b>

The collected primary data compiled in Table 1 shows at first glance the experience of the selected sample over the question of decrease in unaccounted income of the shopkeepers after the demonetization exercise, which states that the unaccounted income after demonetization move has decreased much. It arises a question over the goodness of fit of the above set of data to the assumed distribution. Therefore, it leads to formulate the following null and alternate hypotheses respectively:

$H^{01}$  : The set of data showing much decrease in unaccounted income of the shopkeepers after demonetization move follows the assumed distribution.

$H^{a1}$  : The set of data showing much decrease in unaccounted income of the shopkeepers after demonetization move does not follow the assumed distribution.

**Table 2: Extent of Complete E-Monetization to Stop Tax Evasion**

Nature of Business	Not at all	Very less	Less	Much	Very Much	Total
Daily Provisions	1	2	1	3	8	15
Jewellery	0	0	0	1	5	6
Hardware	0	0	0	5	2	7
Mobile & Accessories	0	0	1	4	3	8
Baked Materials	0	0	0	2	2	4
<b>Total</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>15</b>	<b>20</b>	<b>40</b>

Table 2 compiled from the collected primary data shows that the complete E-Monetization will stop tax evasion very much in the opinion of the selected sample. Here, a question arises over the goodness of fit of the above set of data to the assumed distribution. Therefore, it leads to formulate the following null and alternate hypotheses respectively:

- $H^{02}$  : The set of data showing that the complete E-Monetization will stop the tax evasion very much follows the assumed distribution
- $H^{a2}$  : The set of data showing that the complete E-Monetization will stop the tax evasion very much does not follow the assumed distribution

### Methodology

The present study is empirical in nature and both the methods; qualitative and quantitative have been used herein. It is based on primary as well as secondary data having adopted simple random sampling technique. Hypothesis has been tested on the basis of non-parametric test on 5 % level of significance and interpretations have been made thereof.

### Data

For collecting primary data, schedule of 15 questions was prepared and two enumerators were set to have that filled from the four main areas of Sagar city of Madhya Pradesh, namely Gopalganj, Katra, Civil Lines and Sneh Nagar and secondary data was retrieved from the websites of NPCI and RBI, journals, newspaper articles and working papers of concerned institutions.

### Study Period.

Questions asked from the respondents in schedule were related to the post demonetization effects on their trade practices till date therefore, the study period is of six months i.e. from January 2017 to June 2017. Moreover the secondary data has also been collected of the same period.

### Sample Size

Sample of 50 small local shops of Sagar city of Madhya Pradesh state of India was selected for the study but out of these only 40 filled the schedule fully; therefore sample size for the present study is 40. The shops dealing in daily needs, jewelry, hardware, mobile & accessories and baked materials were targeted for the study.

### Tools & Techniques Used

To categorize and quantify the collected data, five point Likert scaling technique has been used and to check the goodness of fit, Kolmogorov-Smirnov (K-S) test has been applied. For the interpretations, percentage technique has been used wherever found necessary.

### Justification

Sample of only small shopkeepers dealing in the most frequent transactions nature of business was chosen after having done an informal survey about the majority of the nature of shops in the selected region, as relevant to the research gaps sought and the problem stated in the study. As the calculation of the total population was quite difficult and time consuming, simple random sampling technique was adopted on the basis of the consent of the shopkeepers to answer the required questions of the schedule prepared. As the collected data is qualitative in nature, non-parametric test was required for the study. K-S test was chosen on being more appropriate in case of small sample size i.e. less than 50.

### Statement on Research Ethics

Researcher has been unbiased while choosing the respondents and they were promised not to disclose their and their shop names. Assurance of confidentiality encouraged them to give consent to answer all the concerned questions of the schedule. Enumerators were instructed to assist the

respondents in case the respondents find difficulty. This is to state that the present study is purely original and neither full nor any part of it has been published or presented anywhere else. All the sources have been duly cited and plagiarism has also been made checked.

### Analysis and Findings

Under five point Likert scale, points are allotted as follows: 1,2,3,4 and 5 to the options, Not at All, Very Less, Less, Much and Very Much respectively.

**Table 3: Calculation of the Maximum Absolute Difference for the Testing of H<sup>01</sup>**

Points	Observed Frequency	Observed Probability	Expected Probability	Observed Cumulative Probability (OF)	Expected Cumulative Probability (EF)	D <sup>ii</sup> = OF-EF
1	6	0.150	0.2	0.150	0.2	0.050
2	8	0.200	0.2	0.350	0.4	0.050
3	7	0.175	0.2	0.525	0.6	0.075
4	11	0.275	0.2	0.800	0.8	0.000
5	8	0.200	0.2	1.000	1.0	0.000

The maximum value of  $D_{cal}^{iii} = 0.075$  which is point 3. The table value  $D_n$  for sample size 40 at significance level of 5% is 0.21.

Since the calculated value is less than table value hence, H<sub>01</sub> is accepted. It means that it can be certainly said that there is much decrease in unaccounted income of the shopkeepers after the demonetization drive. This is what the government expected from the demonetization move.

**Table 4: Calculation of the Maximum Absolute Difference for the Testing of H<sup>02</sup>**

Points	Observed Frequency	Observed Probability	Expected Probability	Observed Cumulative Probability (OF)	Expected Cumulative Probability (EF)	D = OF-EF
1	1	0.025	0.2	0.025	0.2	0.175
2	2	0.050	0.2	0.075	0.4	0.325
3	2	0.050	0.2	0.125	0.6	0.475
4	15	0.375	0.2	0.500	0.8	0.300
5	20	0.500	0.2	1.000	1.0	0.000

The maximum value of  $D_{cal} = 0.475$  which is point 3. The table value  $D_n$  for sample size 40 at significance level of 5% is 0.21.

Since the calculated value is more than table value hence, H<sub>02</sub> is rejected. It indicates that the views of the selected sample over the complete e-monetization to stop the tax evasion are not consistent with the normal distribution, which means that all the shopkeepers of the city, state or nation do not think the complete e-monetization to put a check on the problem of tax evasion however the sample reported adverse to that.

**Table 5: Extent of Reduction in Black Money in the Country due to Demonetization**

Nature of Business	Not at all	Very less	Less	Much	Very Much	Total
Daily Provisions	3	8	3	1	0	15
Jewellery	0	1	2	2	1	6
Hardware	1	0	0	5	1	7
Mobile & Accessories	1	1	1	3	2	8
Baked Materials	0	1	1	1	1	4
Total	5(12.5%)	11(27.5%)	7(17.5%)	12(30%)	5(12.5%)	40(100%)

Table 5 shows that out of the sample of 40 shopkeepers, 12.5% shopkeepers think that demonetization has not at all reduced black money in the country, 27.5% shopkeepers say that demonetization has reduced very less black money in the country, 17.5% shopkeepers opine that demonetization has reduced less black money in the country. 30% shopkeepers accept that demonetization has reduced much black money in the country and only 12.5% shopkeepers consider that demonetization has reduced very much black money in the country. As only 12.5% shopkeepers support the statement that demonetization has not at all reduced the black money in the country, it can be interpreted that mostly shopkeepers are aware of the consequences of the demonetization move over the Indian economy.

**Table 6: Real Income Disclosure to Government by the Shopkeepers**

Nature of Business	Yes	No	Total
Daily Provisions	7	8	15
Jewellery	2	4	6
Hardware	4	3	7
Mobile & Accessories	1	7	8
Baked Materials	1	3	4
<b>Total</b>	<b>15(37.5%)</b>	<b>25(62.5%)</b>	<b>40(100%)</b>

Table 6 depicts that only 37.5% shopkeepers agree to that all shopkeepers do not disclose their real income to government and 62.5% shopkeepers do not agree to this statement out of the sample of 40 shopkeepers. It clearly cites that majority of the shopkeepers disclose their real income to government.

**Table 7: Major Change in Accounting by Shopkeepers after Demonetization move**

Nature of Business	Increase in Taxable Income	Decrease in Savings	Decrease in Cash Sales	Increase in Payments through Cheque	No Change	Total
Daily Provisions	0	3	4	4	4	15
Jewellery	0	1	4	1	0	6
Hardware	1	1	3	0	2	7
Mobile & Accessories	0	1	6	0	1	8
Baked Materials	0	1	3	0	0	4
<b>Total</b>	<b>1(2.5%)</b>	<b>7(17.5%)</b>	<b>20(50%)</b>	<b>5(12.5%)</b>	<b>7(17.5%)</b>	<b>40(100%)</b>

Table 7 shows the biggest change in the accounting of the shopkeepers after the jolt of demonetization. Only 2.5% favours that the major change is the increase in taxable income, 17.5% considers the decrease in savings a major change, 50% say that cash sales has decreased significantly, 12.5% find increase in payments through cheques as a big change and the remaining 17.5% states that there is no change after the demonetization process is completed. Here, it can be understood that decrease in cash sales and savings and increase in cheque payments hints that the practice of holding unrecorded income has mitigated however taxable income has not increased significantly.

**Table 8: Problems faced by the Shopkeepers after Demonetization Process**

Nature of Business	Increase in Credit Transactions	Shortage of Small Notes & Coins	Incapability in Online Transactions	Increase in Old Notes	All of the Above	Total
Daily Provisions	2	1	3	5	4	15
Jewellery	0	0	0	2	4	6
Hardware	3	1	0	0	3	7
Mobile & Accessories	3	1	1	2	1	8
Baked Materials	1	0	0	0	3	4
<b>Total</b>	<b>9(22.5%)</b>	<b>3(7.5%)</b>	<b>4(10%)</b>	<b>9(22.5%)</b>	<b>15(37.5%)</b>	<b>40(100%)</b>

Table 8 highlights that out of the selected sample, 22.5% respondents find that there was an increase in credit transactions post demonetization, only 7.5% experienced the shortage of small denominated notes and coins post demonetization, 10% of them found themselves incapable in online transactions, 22.5% respondents faced the problem of increase in old currency notes and the rest 37.5% respondents nodded to have experienced all such problems. It is clear by the study that the shopkeepers faced the aforesaid problems immediately after the demonetization announcement and the major problems were increase in credit transactions and increase in old currency notes.

**Table 9: Extent of Effect of Demonetization on the Business after Demonetization Process**

Nature of Business	Not at all	Very less	Less	Much	Very Much	Total
Daily Provisions	5	4	2	3	1	15
Jewellery	0	1	0	1	4	6
Hardware	1	0	0	4	2	7
Mobile & Accessories	0	1	2	3	2	8
Baked Materials	0	0	0	0	4	4
<b>Total</b>	<b>6(15%)</b>	<b>6(15%)</b>	<b>4(10%)</b>	<b>11(27.5%)</b>	<b>13(32.5%)</b>	<b>40(100%)</b>



Table 9 shows that 15% of the selected respondents say that their business was not at all affected due to demonetization exercise, another 15% think that their business was very less affected, 10% respond that their business had less effect of demonetization, 27.5% admit that their business was much affected and the remaining 32.5% claimed that their business was very much affected due to demonetization, in which jewellers and bakers were majorly included. It can be interpreted on the basis of the above data that the business of jewellery, bakery and hardware was affected more than that of others due to demonetization.

**Table 10: Shifting of Shopkeepers towards Online Transactions after Demonetization move**

Nature of Business	Yes	No	Total
Daily Provisions	4(26.67%)	11(73.33%)	15(100%)
Jewellery	1(16.67%)	5(83.33%)	6(100%)
Hardware	1(14.29%)	6(85.71%)	7(100%)
Mobile & Accessories	2(25%)	6(75%)	8(100%)
Baked Materials	1(25%)	3(75%)	4(100%)
<b>Total</b>	<b>9(22.5%)</b>	<b>31(77.5%)</b>	<b>40(100%)</b>

Table 10 shows that only 22.5% shopkeepers out of the sample of 40 have moved towards online transactions for their business and the rest 77.5% still remain confined to offline mode of transactions. It can also be noticed that the shopkeepers dealing in daily provisions business have moved towards online mode of transactions for their business more than others, i.e. 26.67% out of 15 shopkeepers whereas 16.67% jewellers out of 6 jewellers, 14.29% and 25% bakers out of 4 bakers have admitted that they have moved to online mode for their business transactions after demonetization. Thus, it is interpreted that majority of the shopkeepers have still not adopted digital mode for their business transactions.

**Table 11: Extent of E-Monetization in Favour of Country Interest**

Nature of Business	Not at all	Very less	Less	Much	Very Much	Total
Daily Provisions	1	3	1	3	7	15
Jewellery	0	0	0	3	3	6
Hardware	0	0	0	5	2	7
Mobile & Accessories	0	0	0	3	5	8
Baked Materials	0	0	0	2	2	4
<b>Total</b>	<b>1(2.5%)</b>	<b>3(7.5%)</b>	<b>1(2.5%)</b>	<b>16(40%)</b>	<b>19(47.5%)</b>	<b>40(100%)</b>

Table 11 shows that only 2.5% respondents think that e-monetization is not at all in the interest of the country, 7.5% find it very less in the interest of the country, other 2.5% say that it is less in interest of the country whereas 40% and 47.5% of the sample of 40 respondents find it much and very much in the interest of the country respectively. On the basis of the present data it can be understood that mostly shopkeepers are ready to move towards e-monetization i.e. cashless monetary system.

Below, Table 12 compiled from the data retrieved from the website of the National Payments Corporation of India (NPCI) depicts the volume and value of online transactions through various modes of payment namely RTGS<sup>iv</sup>, NEFT<sup>v</sup>, CTS<sup>vi</sup>, IMPS<sup>vii</sup>, NACH<sup>viii</sup>, UPI<sup>x</sup>, USSD<sup>x</sup>, Debit & Credit Cards at POS<sup>xi</sup>, PPI<sup>xii</sup> and Mobile Banking. The figures show that from November 2016 to December 2016, the crucial period of demonetization process, the volume as well as value of online transactions from all modes except Mobile Banking has increased 671.5 million to 957.5 million in volume and Rs.94004.2 billion to Rs.104055.3 billion. Further, in January 2017 both volume and value decreased to 870.4 million and Rs.97011.4 billion respectively however there was increase in transactions in terms of volume as well as value in case of IMPS, UPI and USSD, as promoted by the government during that phase. In February 2017, all the online payment modes reported decrease in aggregate volume as well as value, i.e. 763.0 million and Rs.92594.5 respectively but in March 2017, all the payment modes except USS149589.1D increased the aggregate number of online transactions to 893.9 million and the value to Rs. 149589.1 billion. In the month of April, some modes lodged decrease and some increase in volume and value, consequently overall number of transactions and their value came down to 853.1 million and Rs.109602.2

billion respectively whereas in the month of May, except NACH and CTS, all modes of payment went up to 858.5 million and Rs.111109.3 billion in terms of volume and value respectively. A few modes had increase and a few decrease in volume as well as value, resulting total volume and value to 844.7 million and Rs. 113745.2 billion respectively in June 2017. Despite some fluctuations, the total number of online transactions and their value have increased to approximately 25.8% and 21% respectively from November 2016 to June 2017. Thus, it can be interpreted that the countrymen whether sellers and buyers are moving towards e-monetization in the country and the measure of demonetization has accelerated the pace of it. Table 13 brings out the extent of the problems faced by the local shopkeepers if they wish to shift towards online mode of payments. Questions were asked over the problems viz.

**Table 12: Electronic Payment Systems (Volume in Million & Value in Billion)**

Data for the period	RTGS		NEFT		CTS		IMPS		NACH		UPI		USSD		Debit at POS		PPI		Mobile Banking		Total	
	volume	value	volume	value	volume	value	volume	value	volume	value	volume	value	volume (in thousand)	value (in Rs. thousand)	volume	value	volume	value	volume	value	volume	value
Nov-16	7.9	78479.2	123.0	8807.8	87.1	5419.2	36.2	324.8	152.5	606.6	0.3	0.9	7.0	7302.6	205.5	352.4	59.0	13.2	72.3	1244.9	671.5	94004.2
Dec-16	8.8	84096.5	166.3	11537.6	130.0	6811.9	52.8	431.9	198.7	626.8	2.0	7.0	102.2	103718.4	311.0	522.2	87.8	21.3	70.2	1365.9	957.5	104055.3
Jan-17	9.3	77486.1	164.2	11355.1	118.5	6618.4	62.4	491.2	158.7	541.4	4.2	16.6	314.3	381760.2	265.5	481.2	87.3	21.0	64.9	1206.7	870.4	97011.4
Feb-17	9.1	74218.8	148.2	10877.9	100.4	5993.9	59.7	482.2	150.5	592.0	4.2	19.0	224.8	357055.2	212.3	391.5	78.4	18.7	56.2	1080.0	763.0	92594.5
Mar-17	12.5	123375.8	186.7	16294.5	119.2	8062.8	67.4	564.7	182.1	829.4	6.2	23.9	211.2	337962.4	229.7	416.2	90.0	21.5	60.8	1499.9	893.9	149589.1
Apr-17	9.5	88512.2	143.2	12156.2	95.3	6990.6	65.1	562.1	212.6	905.2	6.9	22.0	188.9	301650.5	231.1	431.4	89.2	22.3	61.0	1443.8	853.1	109602.2
May-17	10.4	90170.5	155.8	12410.8	97.1	6745.9	66.7	585.6	194.4	692.4	9.2	27.7	192.6	316723.7	233.4	450.8	91.3	25.3	64.9	1940.7	858.5	111109.3
Jun-17	9.8	92812.6	152.3	12694.2	91.9	6409.9	65.8	596.5	197.3	708.6	10.2	30.7	198.9	313277.0	232.4	468.2	84.7	24.1	77.1	1584.7	844.7	113745.2

Source: NPCI Website, June 2017

**Table 13: Extent of Problems Experienced by the Shopkeepers in Online Transactions**

Total	Baked Materials	Mobile & Accessories	Hardware	Jewellery	Daily Provisions	Nature of Business	Problem of Understanding					Problem of Net Connectivity					Problem of Security					Unsuitable for Petty Payments					Awareness of Customers							
							N	VL	L	M	VM	Tot.	N	VL	L	M	VM	Tot.	N	VL	L	M	VM	Tot.	N	VL	L	M	VM	Tot.				
3	0	1	0	0	2	N																												
13	3	1	3	1	5	VL																												
12	0	4	1	2	5	L																												
9	1	1	3	2	2	M																												
3	0	1	0	1	1	VM																												
40	4	8	7	6	15	Tot.																												
3	0	0	0	1	2	N																												
15	3	0	4	3	5	VL																												
8	0	2	2	0	4	L																												
12	1	5	1	2	3	M																												
2	0	1	0	0	1	VM																												
40	4	8	7	6	15	Tot.																												
7	2	2	1	1	1	N																												
11	1	3	2	2	3	VL																												
10	0	3	1	1	5	L																												
7	1	0	1	1	4	M																												
6	0	0	2	2	2	VM																												
40	4	8	7	6	15	Tot.																												
5	1	1	0	1	2	N																												
7	1	0	1	0	5	VL																												
8	1	2	1	2	2	L																												
10	0	4	3	1	2	M																												
10	1	1	2	2	4	VM																												
40	4	8	7	6	15	Tot.																												
4	1	0	1	0	2	N																												
17	1	5	2	5	4	VL																												
7	1	1	1	1	3	L																												
8	0	0	3	0	5	M																												
4	1	2	0	0	1	VM																												
40	4	8	7	6	15	Tot.																												

Understanding of the online system, net connectivity, security of the payments, suitability for petty payments and awareness of the consumers, out of the sample of 40 shopkeepers, 7.5% respondents say that they not at all face the problem of understanding the online payment system, 32.5% feel very less problem of understanding it, 30% face less problem of understanding it, 22% find much problem of understanding and only 7.5% feel very much problem of understanding. Therefore, there exists the problem of understanding the complexities of the online payment system however majority of the respondents find not at all, very less and less problem in understanding.

On the issue of net connectivity, 7.5% think that there is not at all the problem of net connectivity, 37.5% say that there is very less problem of connectivity, 20% feel less problem of connectivity, 30% find much connectivity problem and only 5% face very much problem of net connectivity. It is evident that 92.5% respondents face the problem of net connectivity at the extent of very less, less, much and very much. Hence, it appears to be a major problem.

As far as it is concern about the security of payment, 17.5% respondents say that it is not at all a problem, 27.5% face very less such problem, 25% find less problem of security, 17.5% face much problem over security issue and 15% respondents find very much problem of security of payment. As 82.5% respondents face this issue at the extent of very less, less, much and very much, this is again a matter of concern. Over the question of unsuitability for petty payments, 12.5% respondents do not consider it a problem at all, 17.5% face very less such problem, 20% say it a less problem, 25% claim to have much problem of this nature and the rest 25% find very much problem in making frequent and small

amount payments. 87.5% respondents somewhere and some level do not find online mode suitable for petty payments therefore, it is a major problem.

In matter of awareness of consumers, 10% shopkeepers say that it is not at all a problem, 42.5% find very less of such problem, 17.5% say it is a less problem, 20% face much problem of this kind and the rest 10% respondents face very much of this problem. As 90% respondents feel the awareness of the consumers a problem related to online mode of payments very less, less, much and very much, it becomes a serious problem in adopting online mode.

### Conclusion

The study concludes that the recent move of demonetization in India has caused a significant decrease in unaccounted income of the local shopkeepers of Sagar city of Madhya Pradesh as **H01** is accepted, which means that the collected data follows the assumed distribution. There is a strong probability that it is alone sufficient to have an overview of the entire state of Madhya Pradesh as the sample passes goodness of fit test (vide Table3). Decrease in savings and cash sales and increase in payments through cheques also indicate in the same regard (see Table7). Thus, it can be said that all the small shopkeepers in the state have experienced decrease in unaccounted income post demonetization ignoring the particular region's specific differences.

It also concludes that the entire e-monetization at present will not stop tax evasion in the country as H02 is rejected, which means that the collected data does not pass the goodness of fit test (vide Table4) however 47.5% respondents and 40% respondents claim e-monetization to be much and very much interest of the country respectively (see Table11). The study also reports that the shopkeepers of Sagar are aware of the consequences of demonetization move as only 12.5% respondents claim that demonetization has not at all reduced black money in the country and others have admitted the adverse impact of demonetization on black money in the country (see Table5). It also reports that the major problem experienced by the shopkeepers post demonetization was the significant increase in credit transactions and old currency notes however 37.5% respondents faced all the problems asked in the schedule (see Table8) and that the business of Jewellery, hardware and baked items was affected more adversely in comparison to other business like daily provisions and mobile & accessories (see Table9).

The study highlights the shift towards e-monetization as data collected from NPCI & RBI shows that from November 2016 to June 2017, there has been marked growth of 25.8% in the number of online transactions and growth of 21% in the total value of such transactions through various electronic modes (vide Table12) though only 22.5% respondents of the sample studied have adopted online mode for their business transactions, despite being small percentage, it indicates that they have started shifting towards e-monetization (see Table10), that may be due to the problems experienced by the shopkeepers, which consist of the problem of net connectivity, problem of security of the amount, problem of unsuitability for petty payments and the problem of unawareness of the consumers (Table13). These restrict the shopkeepers to move on to the digital mode for their business transactions, the sooner these problems are sorted out, the earlier the small shopkeepers will adopt the online platform and then entire e-monetization can be expected.

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#### Endnotes

- i National Institute of Public Finance and Policy
- ii Absolute Difference
- iii Calculated Statistic of K-S test;  $D_{cal} = \max |OF_i - EF_i|$  where,  $OF_i$  &  $EF_i$  are the observed cumulative probability and expected cumulative probability respectively for the  $i$ th value of the random variable
- iv Real Time Gross Settlement
- v National Electronic Funds Transfer
- vi Cheque Truncation System
- vii Immediate Payment Service
- viii National Automated Clearing House
- ix Unified Payments Interface
- x Unstructured Supplementary Service Data
- xi Point of Sale
- xii Prepaid Payment Instrument