Achieving A Cashless Rural Economy

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Government should assure basic necessities in rural areas and focus on developing infrastructure. Special drives through schools, colleges, Panchayats etc. can help create awareness about cashless/ banking transactions. Financial Literacy is a must for bringing more and more people to digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged. Linkage of all welfare activities with bank accounts is a very strategic step

Worldwide there is tremendous interest among policy makers to explore the possibility of moving towards a cashless economy. However, cash still continues to remain the predominant form of transaction. Recording financial transactions has many advantages. First, it aids the Government to collect appropriate tax revenues; second, it can effectively detect, and help curtail, illegal transactions; third, it will give us a better estimate and understanding of the huge unorganized sector in India; and last, but not the least, it will help plug the 'leakages' in various government programmes.

With cashless transactions, almost all transactions will leave a digital footprint. A system that encourages and incentivizes the 'buyer' to pay through cashless instruments (increasing use of bank to bank transactions without involving the physical currency) will have higher financial transparency. This is perhaps the most direct way of battling issues in corruption and black money in India. Digital footprints have other major advantages. It can make public delivery systems much more efficient. In 2009, the Planning Commission estimated that only 27 per cent of Public Distribution System (PDS) expenditure reached the targeted low-income groups. Digitalization of transactions is the best way to move towards cashless economy. Such a cashless economy may be achievable by promoting electronic money instruments, developing financial infrastructure and spreading digital transaction habits among people. Government's demonetization drive is also supposed to benefit cashless economy. Still there are several constraints as well as prospects in the journey towards cashless economy.

In the contemporary scenario, our nation is set to emerge as one of the world's most thriving and promising economies. India is largely an agrarian based rural economy with a predominant unorganized sector and 68.84 per cent of India's population living in rural areas. The informal sector accounts for 20 per cent of the GDP and 80 per cent of employment. Rural areas are home to two thirds of the country's population of some 870 million people where much of the challenge lies in achieving cashless transactions for the rest of the decade. It is estimated that rural users will constitute about half of all internet users in 2020. Number of connected rural consumers is expected to increase from 120 million in 2015 to almost 315 million in 2020. Currently, the age group of 18 to 50 years constitutes around 160 million people with 30 per cent internet penetration. It is

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interesting to note that rural growth is expected to significantly outpace growth in urban centers.

Over 93 per cent of people in rural India have not done any digital transactions. So the real potential lies there. The government has taken steps, including announcing zero balance accounts for poor people, but growth of bank branches has been low as margins are slender for most lenders. In 2001, India had 5.3 bank branches per 100,000 people in rural areas. Today, that stands at only 7.8 branches, according to RBI data.

Indirect Benefits

There are three distinct yet important indirect benefits from promoting cashless transactions in India. These are:

- It will promote financial inclusion;
- It will keep records of financial transactions; and
- It will lower transaction costs involving any two parties engaged in a financial transaction.

While the last observation is in general true for any economy, the first two are particularly relevant for India. Gangopadhyay (2009), shows that more than half the Indian population is not financially included. There are about 7.8 bank branches for every 100,000 people in India, less than 3 branches per 100 square kilometres. For rural India, the numbers are less than 1 branch per 100 square kilometres. In particular, 45 per cent of the rural, 28 per cent of the urban and 38 per cent of all households in India, admit that access and availability are the main factors determining their choice of a particular bank. While it is necessary for financial inclusion that every household should have access to a bank, mere physical access to a bank is, of course, not sufficient. This is particularly important given that more than 90 per cent of the workforce in India is in the unorganised sector, and physically accessing banks would mean huge opportunity costs for them (measured in terms of daily earnings).

Informal sector is the largest employer in India and runs on cash primarily. An enabling system that promotes cashless transactions would, therefore, be the natural extension of the existing policies directed towards financial inclusion. Government has announced incentives like cutting down on service charge and other levies on debit/credit card transactions. The government's initiatives over the past year or so have been focused on promoting e-payments, plastic transactions, cashless payments. It is, indeed, the future for the Indian economy. The question, however, remains whether India is ready for such an overhaul of its cash-driven economy especially in rural areas. RBI figures for July 2016 show that banks had issued 697.2 million debit cards and 25.9 million credit cards to customers after deducting withdrawn or cancelled cards. It is important to note that number of cards does not equal number of individuals holding those cards. Usually urban residents have multiple cards and the trend is seen now in rural areas as well. Further, cards are used for 3 primary purposes–withdrawing money from ATMs, making online payments and payments at point of sale (POS) terminals at shops, restaurants, fuel pumps etc. Merely 26 per cent of India has internet access, and there are only 200 million users of digital payment services. India's modern banking system maps neatly onto social and spatial inequalities. Only 18 per cent of all ATMs are deployed in rural India. The RBI's own research finds that states with a higher female population and a more rural populace show lower levels of financial inclusion.

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Rural India Understanding Cashless Transcation

A report by Google India and Boston Consulting Group showed that last year around 75 per cent of transactions in India were cash-based while in developed countries like the US, Japan, France, Germany etc it was around 20-25 per cent. Due to demonetization, business for mobile or e-wallet companies has boosted by up to four times. Much of the cash transactions in the country are small exchanges for goods or services and the penetration of PoS terminals is not enough. Millions of people still don't have a bank account, access to PoS sale points, internet or infrastructure to understand and use online payment methods etc. So we need a large scale penetration of digital services and PoS terminals to facilitate digital transactions in small towns and rural India. In July this year, 881 million transactions were made using debit cards at ATMs and PoS terminals. Out of these, 92 per cent were cash withdrawals from ATMs. The principal purpose for cards in Indian setup is thus a means to withdraw cash.

Another big hurdle is the unachieved targets for digital India. Mobile internet penetration is crucial into deeper pockets since PoS works over mobile internet connections. Earlier, banks used to charge money on card-based transactions which has now been pointed out as a hurdle.

Also, the low literacy rates in rural areas along with lack of internet access or even basic utilities makes it very difficult for people to adopt to digital transactions.

Challenges of a Cashless Rural Economy

- **Currency dominated economy:** High level of cash circulation in India. Cash in circulation amounts to around 13 per cent of India's GDP.
- **Transactions are mainly in cash:** Nearly 95 per cent of transactions take place in cash. Large size of informal/unorganized sector entities and workers prefer cash based transactions. They don't have required digital literacy.
- **ATM use is mainly for cash withdrawals and not for settling online transactions:** There are large number of ATM cards including around 21 crore Rupaya cards. But nearly 92 per cent of ATM cards are used for cash withdrawals. Multiple holding of cards in urban and semi-urban areas show low rural penetration.
- **Limited availability of Point of Sale terminals:** According to RBI, there are 1.44 million PoS terminals installed by various banks across locations at the end of July 2016. But most of them remain in urban/ semi-urban areas.
- **Mobile internet penetration remains weak in rural India:** For settling transactions digitally, internet connection is needed. But in India, there is poor connectivity in rural areas. In addition to this, a lower literacy level in poor and rural parts of the country, make it problematic to push the use of plastic money on a wider scale. This is being overcome by application BHIM (Bharat Interface for Money) launched by the Prime Minister which will work on USSD i.e without mobile internet.

Private sector banks have been steadily increasing their rural presence. An analysis of their financial year 2014 annual reports shows that on an average, rural areas have accounted for 50-65 per cent of their new branches. Top private lenders ICICI Bank, Axis Bank, HDFC Bank and Yes Bank have been expanding their presence in unbanked and under banked areas over the past five years. RBI has asked banks to prioritize opening of branches in unbanked rural centers (Tier-V and VI) over a three-year cycle of 2013-16. It has asked them to allocate at least 25 per cent of the total number of new branches to these areas. Also, the central bank will give credit for the branches opened in excess of the 25 per cent for a year, which would be carried forward for achieving the criteria in the next year.

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The focus is to make the branches a single-point interface for all services. Technology is a great enabler for financial inclusion, which includes Branch on Wheels, a mobile-van-based branch that aims at providing banking services to a cluster of remote unbanked villages. However, one of the main problems faced by a rural branch is the time it takes to break even due to unavailability of business. The cost of running a rural branch is close to Rs.4 lakh a month against Rs.9 lakh in a tier-1 city. Meanwhile, public sector banks are not far behind when it comes to rural expansion. In FY14, SBI opened 1,053 branches, 57 per cent of which were in rural and semi-urban areas. And, though rural branches benefit from cheaper real estate rents, the cost of servicing and staffing balances out the benefits. However, since RBI mandates 25 per cent of new branches in rural areas, banks have aggressively ventured into rural areas.

Prospects and the Road Ahead

When 86 per cent of currency notes in a country of 1.3 billion people are rendered illegal tender in a matter of hours, it is bound to create a short term disruption in daily lives. Particularly so, since much of India's economic activity still takes place in the informal sector with no cheque payments, resulting not just in widespread direct and indirect tax evasion but also an inability to assess the true state of the economy. For instance, while farmer's income is not taxed, most of them now have a Kisan Credit Card, first launched in 1998, and no-frills Bank accounts whose creation has been scaled up by the present Government. But the agricultural economy is still controlled by middlemen and traders who only make cash payments to farmers while reaping a profit from the difference in prices

The Jan Dhan Aadhar Mobile (JAM) can encourage digital transaction culture. It is spreading to reach each remote corner of the country. Aadhaar was introduced in 2009, and within seven years the project has enrolled 1.07 billion people, or about 88 per cent of the country's population. A large number of government transfers (DBT) are made through JAM mode. This will help people to get digital transaction awareness.

There are a large number of nodal points of interaction between a citizen and the Government. The role of the Government in these cases will be to make cashless transactions mandatory for certain payments and make it mandatory for certain services exceeding a certain amount which has already been initiated. For example, payment for passports can be made mandatory through cashless methods (online payments or bank drafts). Also, payments of various taxes (income, sales or excise duties) can be made mandatory through cashless modes. In addition, a tax rebate (of say 1 per cent to 2 per cent) on payments made by households as salary to unorganized sector (domestic servants, sweepers etc) can boost cashless payments. 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 modes mentioned above, there are some direct government programmes and initiatives where it can create a large platform for cashless transactions.

Bottlenecks which need to be factored in policy formulation are the lack of acceptability and the other is high transaction costs. However, it is worthwhile to note that, even if these two constraints were to be removed, cashless transactions will not be automatic. The framework for recommendation must eventually address the 5 A's of promoting financial inclusion through cashless payment instruments which are availability, accessibility, acceptability, affordability and awareness.

Government should assure basic necessities in rural areas and focus on developing infrastructure. Special drives through schools, colleges, Panchayats etc. can help create awareness about cashless/banking transactions. Financial Literacy is a must for bringing more and more people to the digital platform. Digital payment or payment through banks, instead of paying cash should be encouraged. Linkage of all welfare activities with bank accounts is a very strategic step. A strong banking base is the basic prerequisite for the cashless economy. The path forward is clear: a nationwide financial literacy campaign accompanied by a medium-term strategy to improve access to, and awareness of, electronic payments. Targeted financial education programmes can improve financial skills and credit management, and increase account ownership in rural India. ❑

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