

EFFECT OF DEMONETIZATION IN AGRICULTURE SECTOR

By

***Mehjabeen & **Saravanadurai A**

**Research Scholar, Department of Economics, Periyar University, Salem, Tamilnadu, India.*

***Associate Professor, Department of Economics, Periyar University, Salem, Tamilnadu, India.*

Abstract

The demonetization in India was a cardiac arrest which leads to cash crunch in almost all the sectors inclusive of the Agriculture Sector. The growth rate in the sector tightened to 0.2% in 2014-15 and grew not more than 1.2% in 2015-16 mostly because of continuous drought. It's affecting various sectors, especially agriculture. Farmers and small vendors faced many problems. The seasons like Rabbi and Kharif are suffering through a cash crunch. Demonetization shadowed over the agriculture sector through Indirect taxes by making an impact on wholesalers and farmers. Farmers weren't able to buy seeds, fertilizers, agriculture equipment's by cash as their cash was locked in the banks and the cash in hand was having no use unless it is exchanged with the new currency. The Indian farmers are not used to smartphones and digital technologies as most of them just use their phone for making phone calls. They faced trouble to do their transaction using apps such as Paytm, phone pay etc. The bank interest rates dropped which, reduced the capital cost that in turn led to farm mechanization. Cash crunch made some horticulture farmers' lives pathetic as onion prices touched the peak. Agricultural growth in India contracted 0.2% in 2014-15 and grew not more than 1.2% in 2015-16, largely because of back-to-back droughts.

Keywords: *agriculture, demonetization, kharif, rabbi, rural economy, horticulture.*

Introduction

Demonetization is to announce a currency status from legal tender to invalid cash. Demonetization is done when a nation needs to change its cash. New monetary forms are given by getting back to back the old monetary forms. The point of demonetization is to dispense with dark cash, control tax avoidance, and control fear-based

oppressor financing action while elevating the nation to turn into a cashless economy. At present, 80 percent of exchanges in India is finished with the money economy, 20 percent is utilizing charge and MasterCard and other electronic installment frameworks. While contrasting with other created nations our nation is slacking in utilizing

electronic installments. The demonetization of bank cash is certainly not another thing in India. India has demonetized the monetary forms before on twelfth January 1946 and on sixteenth January 1978 and as of late on 08th November 2016. The administration announced the old Rs.500, 1,000 and 10,000 notes as not legitimate delicate. According to the Reserve Bank report, they gave Rs.143.97 Crore of new notes and notes esteeming Rs.134.9 Crore was traded. Rs.9.07 Crore was not displayed and considered as demonetized. Be that as it may, there were numerous escape clauses and open finishes in the choice taken by the administration. After demonetization, the administration presented new notes of 1,000, 5,000, 10,000 Rupee in 1954. By and by, on sixteenth January 1978 the Janata Party government again demonetized Rs. 1,000, 5,000 and 10,000 banknotes. Albeit at first the number of days for permitting stores was constrained to three days, the RBI expanded the course of events for stores if there were legitimate reasons. The complete number of notes in the course was worth Rs.145 Crores (1.45 billion) and out of that solitary Rs. 595.5 million had been submitted to the banks by the people and the measure of Rs.649.5 million saw as in

the control of banks yet the rest of the measure of 160 million worth notes were not displayed.

Few other countries also attempted Demonetization say, United States of America (1969), Great Britain (1971), Ghana (1982), Nigeria (1984), Myanmar (1987), Soviet Union (1991), Zaire (1997), Australia (1996), Zimbabwe (2010), North Korea (2010) and Pakistan (2015),

Only Australia and USA was able to make an effective voyage and rest all countries like Nigeria, Zimbabwe, Zaire, North Korea, Soviet Union, Ghana, Soviet Union, Pakistan and Myanmar were unsuccessful.

The failures were because of many reasons. Ghana couldn't make it due to the burden that brought about individuals lost confidence in the monetary approaches of the nation. Nigeria failed because demonetization didn't get any progressions the economy, demonetization directed to many disputes among political parties which suffered the citizens. In Myanmar, the citizen faced several problems for the exchange and lost their trust in the government in the Soviet Union. In Zaire, there was an economic instability which could be recovered in the year 2000. In Congo,

the product prices increased after demonetization. The value of the currency was dropped by the US \$0.5 in Zimbabwe. North Korea showed no positive impact as the prices of goods increased.

Whereas, in demonetization made Australia business-friendly. The USA could maintain prevent the spread of black money in the system which was a crucial problem (Laveena 2017).

The objectives of the study

- To understand the background of demonetization in India
- To understand the negative and the positive effect of demonetization in the agriculture sector in India.
- To conclude the impact of demonetization on the agriculture sector.

Importance of the study

Demonetization aimed to limit the parallel economy in India that includes, terrorism, circulation of forged currency, corruption, etc. India's 65.97% of the population live in rural areas and they prefer cash transaction. It leads to a large amount of the unaccounted money to flow into the system. It leads to terror activities as

the goods and services involved in these activities are financed through this unaccounted money (Laveena 2017). Demonetization has led to a cashless system such as Paytm, Phonepe, and Google-pay etc. to boost in the system. It could be a way to authenticate and to track each transaction, risk of carrying cash and getting loot. India's population which depends on cash alone was reported to be 233 million and the reason for it is not only the mere knowledge about it and less banking facilities but also fewer market points that accept the cashless transaction or debit/ credit cards. Sellers favour liquid currency note.

Demonetization has impacted the agriculture sector. The traders faced inconveniences in a cashless transaction as they are habituated to the physical transaction. Around 86% of the currency has been devaluated which badly affected the agriculture sector. Banking facilities are not prevailing in the rural area and only 20% of the peasants have pan cards as there are few banks with all the technologies. Therefore, these farmers are exploited by the middle man as a transaction more than 50,000 Rupees requires pan card many farmers were unable to follow the transaction it.

Merchants were not able to buy the agricultural goods from farmers due to lack of money. Farmers stored the produces which is perishable. It led to an increase in demand.

Hence, the impact of demonetization was; replacement of cost currency, development of private wealth, low GDP growth rate, tax improvement financial crisis, bills settlement issues, increased wastage of perishables, lack of modern equipment, Economic condition slowed down after demonetization, Low revenue level, Lack of awareness of digital transactions, Lack of ATM's and digital payment facilities, High Rate of Interest, Inadequate amount of cash, Lack of Transport facility, demand increased and supply decreased, Unemployment issues/job losses, Increase in perishable commodities prices, Inactive circulation of cash. Demonetization also brought a revolution for a cashless economy and the trend in plastic money, mobile wallet and net banking started rising during that time. (Sheneela 2020). Keeping all these things in view we conducted this study to know the magnitude of its benefits and drawbacks on the rural economy of India.

The negative effect of Demonetization on Farmers and rural agriculture

Many activities of farmers got affected due to demonetization. It was hard to adjust in a new cashless system as the rural economy depends on mostly liquid cash. The purchasing power of the farmers gone down due to unavailability of transactable currency note and cash in hand. They were unable to pay for seeds, fertilizer, pay towards the labour cost. Therefore, they used old seeds rather purchasing new seeds for plantation. Hence, it led to delayed sowing. Prices went high and demand went down in the vegetable wholesale market hence, it led to the reduction of sales and high wastage. Vegetables such as onion faced a high inconvenience due to demonetization. They were paid in check by the wholesaler and mandi commission agents for their (yield) products as their money was stuck in the banks and turn farmers were also not able to do the transaction and Ancash their cash due to inadequate banking system. Loan holders were badly affected as they were unable to make enough income and still had to pay interest. Banks i.e. cooperative banks where the money of most of the rural loan holders was stuck, were never prioritized. They issued loans to

only those farmers who had cleared their previous loans before. Farmers lost their faith in the banking system. Hence, they were forced to ask for the favours to private money lenders who charged high-interest rates for exchange of their currency. It led to unaccounted money flowing back in the system through an informal market. As a result, the GDP growth rate was very low during this period. (Ansh 2019, Ayash 2017, Laveena 2017, Sheneela 2020).

More than 263 million people in the villages depend on cash for their daily transaction. Cash is used for transportation, marketing and distribution of crops produces to mandis. Kisan credit and debit card are used less in the villages as it follows a technology-driven payment system. People in the rural area had enough 1000 and 500 Rs. Currency note and they faced a lot of problem due to non-availability of the currency note. The unexpected announcement of changing currency notes that too introducing high power money brought to distress in the country especially in the rural sector. Villagers were not prepared for that. Farmers did not procure any new seeds and used old seed which resulted in less germination and low productivity. They had no option

rather than taking loans from informal credit sources which, has a high-interest rate. They were not in the position to take loans from money lenders because of limitations on withdrawals. There was a drought in 2014-15 so they openly invested in 2016 in rabi season when the country received monsoon. It resulted in 74 lacks hectors land under cultivation in this year which was 8.8% more than the area cultivated in 2015. Crop producing states such as Punjab, Tamil Nadu, Maharastra, Karnataka and Gujarat has been 20% only completely sown. It resulted in indirect effect in sowing pattern, market, cultivated area and productivity. Demonetization created an environment odd unsecured financing for the unorganized agricultural sector for harvesting and sowing activities.

Horticulture crops i.e. vegetables and fruits faced a drop in its prices and market by 4 to 5% after the tenure of demonetization. Tomato supply increased in December than in November in 2016. Due to excessive supply prices fell and the farmers faced a huge loss. There was 6.02% increase in Rabi crop productivity. The government tried to relief farmers by crediting crop loans which had been already sanctioned to their account

with the withdrawal limit of Rs. 25000/week. Farmers could purchase seed using old 500Rs.currency note from any government-aided bodies. These reliefs didn't comfort the farmers from grief as most of them had no PAN Cards. NABARD pledged to spend Rs.19680 Crores for crops sown in winter. ENAM i.e. Electronic National Agricultural Market was implemented by 250 local wholesale-market and 10 states. It led to the overloading of banks and people faced problems to withdraw the money due to under-capacity of the ATMs.

People like Artisans, housewives and daily-wagers were not able to perform transactions from the money they earned using their skills and saved it in a traditional way which was not black money. Far located fewer ATMs with long queues, limiting the amount of withdrawal made by the farmers to sacrifice many of his productive days to spend for it.

Some brokers used the KYC of common people with the help of some hoarders for tapping money into Jan-Dhan account of illiterate villagers.

Batter system had been observed during the time. Rice and wheat were the currency of the transaction. The country suffered a slowdown in the

economy due to the shutdown of many small businesses in rural areas.

Micro Finance Institutions (MFI) was badly affected as the loan holders were women with the loan amount of 10000 to 50000 Rs. Due to operational paralysis in the rural sector, the collection had been fallen and payment had been overdue. Credit appraisal standards were feebled therefore; required sales targets had not been retrieved due to the friction in the market share. Hence, the MFI showed reluctance to go cashless.

The cash crunch also affected the allied sectors of the rural economy i.e. tractor and farm equipment manufacturers. It was not easy to opt for the electronic payment system which brought demand crunch in the sector resulting in the fall in price. Credit basis transaction had been observed in the hope of liberating of cash flow soon.

The Reserve Bank of India ordered to issue new currency note but were not allowed to accept the exchanges of old currency to District Central Cooperative Banks and Primary Agricultural Societies from 14th of February 2016. It forced the villagers to go to cities for getting their money exchanged as the rural population depends on cooperative banks more.

Large deposit made RBI question the depositors (marginal farmers) about the source of fund. It made the DCCBs seize the unaccounted funds. Later, many PACS and DCCBs temporarily stopped working as they were unable to take the banking activities like the supply of fertilizers through distribution shops, collection of loans, dividend and interests payments, distribution of cash etc. which was crucial for the village economies to keep functioning. RBI's decision hampered summer crop harvest and winter crop sowing. Interrupted cultivation paralyzed the traders as they could make the payments in cash and sales of the produces. Farmers were unable to store the produces due to insufficient storage facilities, buy seeds and pay the labourers which, led to anxiety among the bankers and the farmers' groups in states of Uttar Pradesh, Gujarat, Maharastra, Karnataka and Tamil Nadu. It led to protest in Kerala and Tamil Nadu from November 2016 to January 2017.

People in unorganised sectors such as small businessman, landless labourers, marginal farmers, servants, pensioners, daily wagers etc were badly affected as they were not able to earn their livelihood and meet the daily basic needs. They were jobless

resulting disturbance on health and stress. The financial crisis led to deaths and suicides. There was a delay in the wage payments of MNREGS or MGNREGA, ICDS and NRHM workers because of bank staffs went for the strike. A similar situation was faced by widows, social security pension, people with the adverse condition, property disputes, marriage, festivals and poor health as they were not able to withdraw the lump sum money. Poor labourer lost their employment in bigger villages and tried returning to their respective villages. Hence, demonetization has adversely affected the poor and innocent people (Shahare 2017).

The positive the effect of the Demonetization on farmers

The government was able to finish the irrigation project to increase the area under irrigation so that average two crops per season instead of the single crop could be grown by the farmers. The interest rate of banks fell to a larger extent which was likely to reduce the capital cost that could enable farmers for farm mechanization. Farmers are also consumers who were benefited by the low price of the product. The government was able to conclude pending electricity-generating project

and farmers were benefited by it for irrigating their lands through drip irrigation. The national portals increased the accessibility of the farmers' market. Now the farmers can get a better price for their products (Sheneela 2020).

Ban on trading high-value currency note has reduced the use of cash resulted in the low expenditure by the villagers. Taxes were imposed on black money which had to be deposited in banks. There was a reduction in the interest rate due to an increase in the money supply and improvement in the investment was forecasted in the agriculture sector which could, in turn, enhance the GDP (Shahare 2017).

Conclusion

We could see the positive impact was very low in the rural economy compared to negative impact.

Demonetization didn't show any impact of unaccountable money flow into the system as the farmers were charges huge tax by the village money lenders for their exchange of old currency note to new currency note. The inadequate banking system was the main cause of it. On the positive side, we could see that the government could able to finish the irrigation and electricity generation project which would help the farmers to cultivate more number of crops per season. Demonetization was an impulsive decision which could have been more planned so that it would have not affected the lives of the poor villagers. The government would have facilitated more points of online transaction in the villages. There could have been plans for how to facilitate PAN card to the farmers and some training to deal with the online transaction.

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ABOUT THE AUTHOR



Mehjabeen is a Ph.D Research Scholar in the Department of Economics at Periyar University, Salem, Tamilnadu, India. She holds masters in economics, master's in business administration and masters in journalism and mass communication from reputed universities in India. She has a rich experience of 8 years into teaching and research. She served as an Assistant Professor for various colleges affiliated to both international and national universities. She has worked for many big research projects towards sustainable agricultural development. She also worked as a supply chain management consultant. She was a subject matter expert for subjects such as economics, business management etc. She has presented research papers in various national seminars. She is a writer and a poetess and follows it as a hobby. She writes for several magazines and blogs.



Dr A Saravanadurai is an Associate Professor in the Department of Economics at Periyar University, Salem, Tamilnadu. He has been associated with the university from the year 2000. His Area of Specialization are; Agricultural Economics, Rural Economics, Econometrics Rural Development. He has guided 11 PhD scholars and 60 MPhil scholars. He has 68 paper publication both national and international journals. He authored 3 books and presented around 130 papers in national and international conferences. He has organized many seminars and endowment lectures too.
