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De-monetization and its impact on agriculture sector in India

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Abstract

The agricultural sector is the backbone of India's economy. It accounts for 75% of the country's GDP and is directly affected by the decision to demonetize high-value currency notes. This has put a strain on the country's agricultural sector. Since most of the farmers rely on cash for their day-to-day transactions, the sudden decision to demonetize these notes has affected the income level of farmers. Small and medium-sized enterprises (SMEs) are also affected by the demonetization. Due to the demonetization of Rs.500 and Rs.1,000 notes, farmers had a hard time paying for various essential services, such as fuel, electricity, and fertilizers. They also faced various other problems such as withdrawal of money, cash for purchase of seed, and labor payment. Some of the factors that led to this were the lack of technological development and illiteracy in rural areas.

The primary mode of payment for the agricultural sector is cash. During the time of demonetisation, a large number of farmers did not have a bank account. This resulted in them resorting to illegal transactions and practices to meet their cash requirements. The decision to demonetize high-value currency notes has caused various economic sectors to feel the impact of the move. One of these is the agriculture sector, which has been severely hit by the sudden withdrawal of cash. The government should immediately address the issue of cash shortages and supply of currency notes.

Keywords: Demonetization, agriculture, allied industries, currency, farmers

1. Introduction

According to Oxford dictionary definition, demonetization refers to the withdrawal of legal tender from the use of it. On November 8, 2016, India's government demonetized the notes of Mahatma Gandhi. In addition, it introduced new Rs 200 and Rs 500 banknotes. This move is expected to help the government in various ways. Some of these include curbing inflation, taking in black money, preventing corruption, and encouraging digital transactions.

It affected the Indian economy, particularly the agricultural sector, which heavily depends on cash transactions. Here's an overview of its impact on agriculture:

1. Cash Crunch and Farmer Incomes

Immediate Disruption

Farmers depend on cash for buying inputs like seeds, fertilizers, and pesticides. Demonetization occurred during the sowing season for rabi crops, leading to a shortage of cash and disruption in procurement.

Fall in Prices

Due to reduced cash liquidity, demand for agricultural produce at local markets (mandis) fell, resulting in lower prices for crops. Farmers, unable to get fair value, faced financial stress.

Impact on Perishable Goods

Farmers dealing in fruits, vegetables, and dairy products, which are time-sensitive, were especially affected as they could not wait for the return of liquidity, resulting in substantial wastage and income loss.

2. Rural Credit and Informal Financing

Dependence on Informal Credit

Farmers in rural areas often rely on informal sources of credit, which are cash-based. Post-demonetization, these sources dried up or became more expensive, making it harder for farmers to access capital.

Cooperative Banks

Cooperative banks, which cater largely to the rural population, were restricted from exchanging demonetized currency for some time. This created a bottleneck in access to credit and banking services for farmers.

3. Supply Chain Disruptions

Transportation and Marketing

The agricultural supply chain relies heavily on cash transactions for transport and labor. With limited cash, transport and logistics were affected, causing delays in getting produce to markets.

Loss of Employment

Many agricultural laborers, who work on a daily wage basis, were paid in cash. Due to cash shortages, wages were delayed, leading to unemployment or reduced income for rural workers.

4. Long-Term Effects

Shift to Digital Payments

In the long term, demonetization accelerated the use of digital payment systems and formal banking channels in some parts of rural India. However, the adoption of digital payments remained slow due to infrastructure and literacy barriers in many rural areas.

Agricultural Input Sales

Some evidence suggests that in the following seasons, the sale of agricultural inputs like fertilizers and seeds was lower than usual, affecting productivity.

5. Government Measures

The government took certain measures to mitigate the impact on farmers, such as allowing the use of old currency notes for buying seeds and certain agricultural inputs. Additionally, banks were instructed to ensure that farmers had access to adequate credit.

Objectives of the Study

1. To study impact of demonetization on agricultural sector.
2. To know the history of demonetization in India
3. To study changes in transaction process after demonetization.

Demonetization

Demonetization is the process / act of stripping a currency. Unit of its states is a change of national currency. The current form or forms of money is pulled from circulation and retired often to be replaced with new notes or coins. Sometime, a country completely replaces the old currency with new currency.

India experienced process of demonetization thrice-

1. First on 12th January 1946.
2. Second on 16th January 1978 &

3. Third on 8th November 2016

- The demonetization of Rs500 and Rs 1000 Rupee notes adversely effected on farmers.
- There was Rabbi Season at the time of demonetization process.
- No. of farmers were unable to get cash for purchase of seeds, fertilizers
- Demonetization adversely affected sown area
- Cash in the prime element in transaction in India
- Lack of seeds resulted in productivity
- Lack of cash resulted in adverse effect on prices of major crops.
- Large number of farmers live in the under economy Delayed sowing may affect the crops Already wheat outcome was decreased in northern India
- India's 273 million farmers live mostly in the cash economy
- Many of farmers are unable to get enough cash to buy seeds and fertilizers for their winter crops; because winter crop is the main source of cash to buy seed and fertilizers for many farmers.

Impacts of Demonetization on Agriculture

Three years after demonetization, it is revealed that the farmers were badly hit by the note ban. Demonetization had made 86 per cent of existing currency (in denominations of Rs 500 and Rs 1,000) illegal tender. The farmers, particularly the smaller ones, depend on cash for the purchase of seeds and fertilizers.

1. Due to the lack of cash, millions of farmers were unable to purchase seeds and fertilizers ahead of the rabbi season.
2. It is found that when demonetization was implemented, the farmers were either selling their kharif yield or sowing rabbi crops. Demonetization rendered all the cash they had in hand useless. This drastically affected the farmer
3. Demonetization also affected big farmers as they had to pay wages to the laborers working on their fields. But they went cash-strapped after demonetization.
4. Due to the shortage of cash, about 1.38 lakh quintals of wheat seeds of the national seed corporation were not sold.

As per PIB report Effects of Demonetization on farmers is as follows

Total quantity of certified/quality seeds sold to the farmers in the Country was 304.04 lakh quintals in 2015-16 increased to 348.58 lakh quintals in 2019-20.

Total quantity of fertilizers sold to the farmers in the Country were 92.99 lakh Metric Tons in November and December, 2015 increased to 99.63 lakh Metric Tons in November and December, 2016. State-wise details of rabi and kharif crops sown in table – 1.

The national growth rate of crop sector in 2014-15 was -3.7 per cent, in 2015-16 was -3.2 per cent and in 2019-20 were 6.9 per cent.

In the year 2019-20, growth rate of crop sector was increased to 6.9 percent

Table 1: State-wise crop sown in Rabi season from 2014-15 to 2015-16 and 2019-20 to 2020-21 (Area in 000 ha.)

(Area in 000 ha.)				
State	2014-15	2015-16	2016-17	2017-18
Andhra Pradesh	2026.00	2247.0	1892.00	2154.00
Assam	868.80	852.7	865.21	874.00
Bihar	3305.64	3190.7	3222.06	3132.50
Chhattisgarh	869.81	809.9	874.30	756.90
Gujarat	1715.00	1426.0	1685.00	1856.00
Haryana	3195.40	3199.0	3138.30	3138.00
Himachal Pradesh	374.08	382.8	390.83	381.88
Jammu & Kashmir	386.08	337.7	347.09	356.03
Jharkhand	657.64	634.9	884.02	973.89
Karnataka	3098.00	3444.0	2611.70	3296.00
Kerala	46.05	48.4	44.98	46.38
Madhya Pradesh	10888.19	10907.0	11602.17	11213.00
Maharashtra	5796.00	5552.0	6494.60	5185.50
Orissa	752.45	667.6	639.67	570.58
Punjab	3596.20	3588.5	3565.40	3573.80
Rajasthan	7462.02	6941.2	7349.68	6906.41
Tamil Nadu	1213.21	1242.2	1069.69	1292.43
Telangana	968.00	681.0	1275.17	1389.00
Uttar Pradesh	12281.00	11506.0	12119.00	12088.00
Uttarakhand	420.12	408.3	408.00	398.00
West Bengal	2464.20	2597.1	2473.92	2638.48
Others	535.13	572.7	586.85	604.04
All-India	62919.03	61236.9	63539.64	62824.82

This information was given by Minister of State for Ministry of Agriculture & Farmers Welfare.

6. Conclusion

The decision of central government to demonetize Indian currency notes eradicated some social problems like Corruption, Black Money, Counterfeiting and terrorist funding. Due to demonetization Indian farmers mainly small farmers get worst hit and they faced lot of problems related to finance, cash etc. In one hand India economy is depend on cash transactions and in other hand new era of digital/cashless transactions is taking place, but for effective implementation of digital or cashless transaction there is need of education and promotion among the people about these things. This paper is found that without any promotion or study Government taken this step of demonetization and due to these Indian farmers faced worst situation. As per PIB report Sown area is also disturbed due to demonetization.

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