

## **CASHLESS ECONOMY IN RURAL INDIA: CHALLENGES AND OPPORTUNITIES**

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### **Abstract**

The integration of digital payment systems into India's rural economy stands as a pivotal juncture in the nation's quest for financial inclusion and modernization. Residents of rural areas showing a tendency to consider transitioning to a cashless society, indicating some level of interest or openness. However, despite this inclination, various concerns such as security risks, lack of infrastructure, limited access to banking services, and unfamiliarity with digital payment systems can still act as significant barriers. These factors collectively contribute to hesitancy or reluctance among rural residents to fully embrace cashless transactions.

Therefore, while there may be a willingness to explore cashless options, the presence of multiple deterrents underscores the complexity of encouraging widespread adoption in rural communities. There has been a noticeable adoption of digital payment systems, indicating a changing trend in consumer preferences and financial habits. The transition to cashless transactions signifies a growing reliance on technology and electronic payment solutions for conducting various financial activities.

In conclusion, while the journey towards a cashless economy in rural India is beset with challenges, it also embodies a beacon of hope for inclusive development. By addressing infrastructure gaps, enhancing digital literacy, and fostering trust in digital financial systems, stakeholders can unlock the transformative potential of digital transactions in rural India, driving economic empowerment and societal progress.

**Keywords:** Cashless Transactions, Financial Inclusion, Cashless Economy, Digital Payment, Infrastructure, Rural Economy.

## **Introduction**

In a cashless economy, transactions are conducted electronically rather than with physical currency. This includes methods like credit/debit cards, mobile banking, digital wallets, and online transactions. To promote and bolster a cashless economy, it's crucial to foster the habit of conducting transactions without cash. India's economy is predominantly agrarian and rural, with a significant unorganized sector. About two-third of the population reside in rural areas, where the majority of the challenges in transitioning to cashless transactions for the coming decade are concentrated. The informal sector, which is the largest employer in India, relies primarily on cash.

An inclusive system that encourages cashless transactions would be an organic progression from current policies aimed at enhancing financial inclusion. A significant portion of transactions in the country involve small-scale exchanges for goods and services. Millions of individuals lack access to bank accounts, the internet, or the necessary infrastructure to comprehend and utilize online payment methods. Therefore, there's a pressing need for widespread implementation of digital services to facilitate digital transactions in small towns and rural India. Moreover, the low literacy rates and inadequate internet connectivity, alongside a lack of basic amenities, pose significant barriers to the adoption of cashless transactions.

To transition India's economy into a digitally advanced nation and shift from cash to cashless transactions, the Government of India launched the digital India campaign in 2015. Digitizing transaction is considered the most effective approach toward achieving a cashless economy. Additionally, the burgeoning fintech sector, fuelled by advancements in technology, holds the promise of delivering tailored solutions to address the unique needs of rural consumers and businesses. This transformation can be facilitated by promoting electronic payment methods, enhancing financial infrastructure, and cultivating digital transaction habits among the populace. The government's decision to implement demonetization in 2016 was another step toward advancing the cashless economy. The government needs to ensure essential amenities in rural areas and prioritize infrastructure development. Promoting financial literacy is essential to onboard more individuals onto digital platforms. Linking all welfare initiatives with bank accounts is a crucial strategy. A robust banking foundation is indispensable for transitioning towards a cashless economy. However, despite these

efforts, there remain various challenges and opportunities on path to a cashless economy.

## **Literature Review**

**Bansal (2017)**, The Indian government aims to modernize the banking system from traditional branch base practices to technology driven cashless banking. It provides ample opportunities such as enhancing mobile and internet penetration, increasing disposable income, urbanization, attracting foreign investment, and implementing economic and taxation reforms to boost digital transactions. However, challenges such as poor internet connectivity in rural areas, digital illiteracy, cyber security concerns, and a highly fragmented unorganized economy need to be addressed.

**Rajak (2017)**, The Indian government is steering the economy towards a cashless system after demonetization to tackle the issues of black money. While there is a vast potential for digital activities in the country, the current program has not been entirely satisfactory. Certain measure needs to be implemented by the government to ensure a cashless economy in the near future.

**Aparna et. al (2018)**, There is a significant opportunity for training and awareness programs to educate rural communities about cashless transactions and their importance in economic development.

**Bawaree (2018)**, A cashless economy brings benefits to the public, suggesting that the Indian government should raise awareness about electronic payment methods and techniques.

**Dimri et. al (2018)**, The significant rural population, delayed technology adoption, insufficient awareness among potential users, underutilization of available technology, effective marketing of e-delivery channels, and security concerns are major obstacles impeding the transformation of India's cash-rich society into a cash-lite one.

**Kousalya et. al (2018)**, Ensuring financial security in digital payment channels is crucial for promoting the idea of a cashless economy. A significant barrier to the rapid adoption of alternative payment methods is the penetration of mobile internet, as point of sale terminals rely on mobile internet connections. Additionally, bank charges on card-based transactions be perceived as a hindrance.

**Priyanka (2019)**, The world is swiftly transitioning towards digitalization, evident in various aspects of our lives such as shopping, education, banking, and bill payment. Nowadays, many people favour electronic transactions over carrying physical cash. This reduced reliance on cash is characteristic of a cashless economy.

**Chauhan (2019)**, A cashless economy can aid in curbing black money, decreasing cash-related crimes, and enhancing the economic growth of our nation. However, challenges in implementing this policy include cybercrime, high illiteracy rate, public attitudes and lack of transparency and efficiency in digital payment system.

**Sharma (2019)**, A cashless economy can aid in curbing black money and counterfeit currency, combating terrorism financing, reducing cash-related crimes, and enhancing economic growth through increased resource mobilization and formalization of the economy. However, significant challenges hinder the realization of a cashless economy, including cyber fraud, high illiteracy rates, entrenched mindsets, lack of trust in electronic transaction insufficient awareness about the benefits of digital banking, a large informal cash-dependent economy, and inadequate digital infrastructure in remote areas.

**Kumar et. al (2020)**, Key challenges that could impede the implementation of a cashless economy policy include cyber fraud, high illiteracy rates, societal attitudes, and deficiencies in transparency and efficiency within digital payment systems.

**Sirisha et. al (2021)**, Most consumers favour credit and debit cards as the most convenient payment method, followed by mobile wallets. Factors such as privacy, security and convenience influence consumers towards cashless transactions. Additionally, there is sufficient awareness among consumers regarding information security in cashless transaction.

**Chandel (2022)**, Initiating a cashless economy in India marks a positive stride toward economic growth. This endeavour aims to underscore the challenges and opportunities of a cashless economy by embracing digital payment methods, enhancing electronic financial infrastructure, and fostering increased digital transaction among the populace to promote a cashless system in India.

**Shireesha (2022)**, The Digital India initiative by the government of India is a pivotal endeavour aimed at transforming India into a digitally empowered society and a knowledge economy.

**Sharma (2023)**, Cashless transactions provide benefits like quicker transactions, cost reduction, and decreased fraud risks. Nevertheless, transitioning to a cashless society necessitates addressing challenges such as corruption and the requirement for traceability in financial transactions.

## Objectives of The Study

The main objectives of the present study are:

- To identify different methods used in cashless transactions.
- To examine the various challenges and opportunities in a cashless economy.
- To project the perception of rural people on a cashless economy.

## Research Methodology

For this study qualitative and quantitative both research methods are used. The data for the present study was collected from primary as well as secondary sources. Primary data was collected through a self-structured questionnaire. A sample size of 86 respondents who are user of cashless transactions from rural areas of Uttarakhand state was taken into consideration. Secondary data was collected through various sources like research journals, government websites, newspaper and annual reports & publications etc.

## Data Analysis and Interpretation

**Table - 1 : Demographic Profile of Respondents**

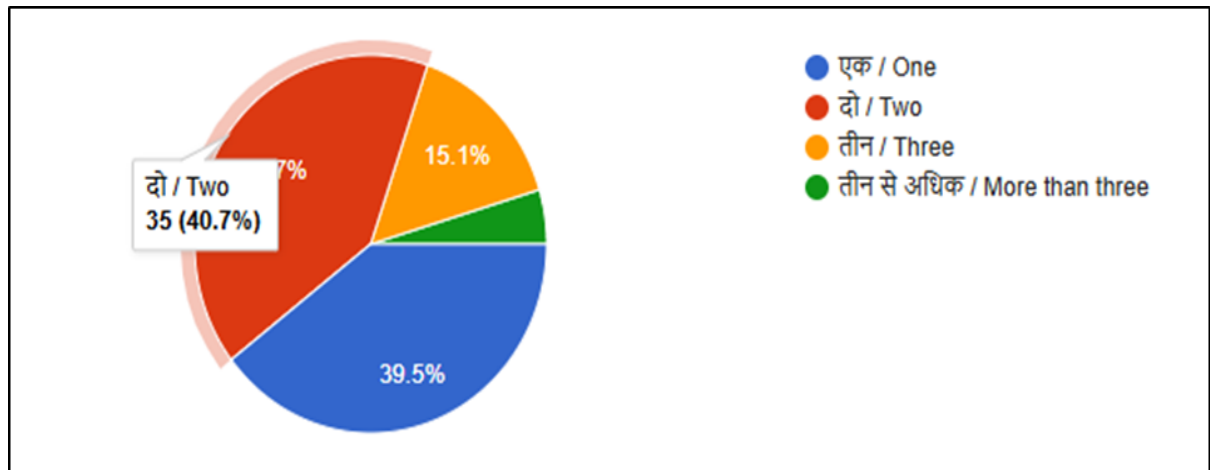
FACTORS	CATEGORY	FREQUENCY	PERCNETAGE
Gender	Male	38	44.2%
	Female	48	55.8%
Age	Below 20 Years	14	16.3%
	21 Years to 30 Years	40	46.5%
	31 Years to 40 Years	26	30.2%

	Above 40 Years	6	7%
Marital Status	Single	58	67.4%
	Married	27	31.4%
	Other	1	1.2%
Educational Qualification	Highschool	2	2.3%
	Intermediate	12	14%
	Graduate	14	16.3%
	Post graduate	44	51.2%
	Professionals	12	14%
	Other	2	2.3%
Occupation	Self-employed	7	8.1%
	Private employee	23	26.7%
	Government employee	5	5.8%
	Students	40	46.5%
	Other	11	12.8%
Monthly family income	Below Rs. 10,000	14	16.3%
	Rs. 10,000 to Rs. 25,000	27	31.4%
	Rs. 25,000 to Rs. 50,000	19	22.1%
	Above Rs. 50,000	26	30.2%
Total		86	100%

Source: Primary data through survey

**Interpretation:** It is clear from Table-1, most of the respondents are female (55.8%) and among them 46.5 % of respondents in the study belongs to the age group 21 to 30 years followed by 30.2% who belongs to the age group of 31 to 40 years. Majority of respondents are unmarried (67.4%) and majority of 51.2 % of respondents have completed their post-graduation and among these respondents 46.5% of respondents falls in the category of student followed by 26.7% to private employee. 31.4% of respondent's monthly income lies between ₹ 10,000 to ₹ 25,000 followed by 30.2% have more than ₹50,000 as monthly family income.

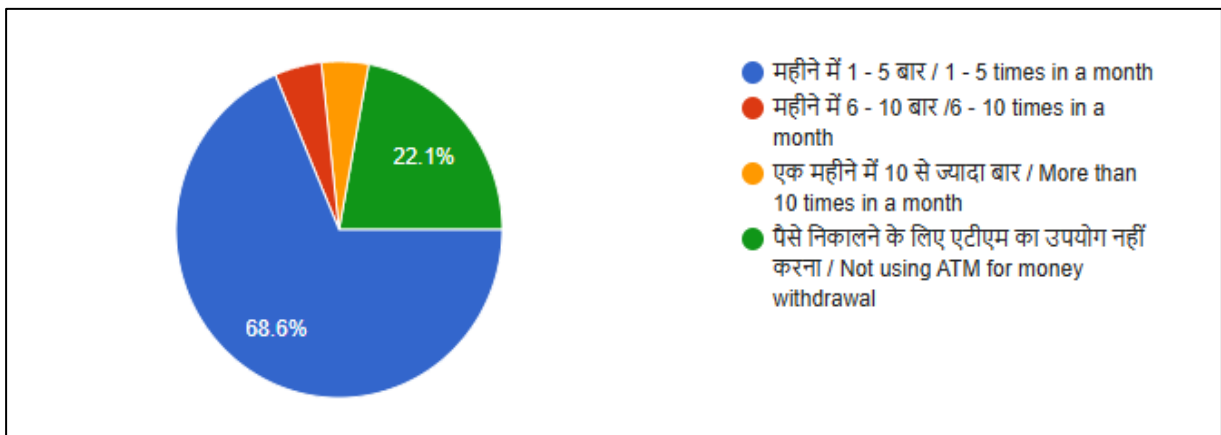
**Graph - 1 : Bank Account Holding of Respondents**



Source: Primary data through survey

**Interpretation:** the above graph depicts that 39.5% of respondents have one bank account and most of the respondents, 60.5% have more than one account. This indicates that a significant portion of the respondents prefers to have multiple accounts.

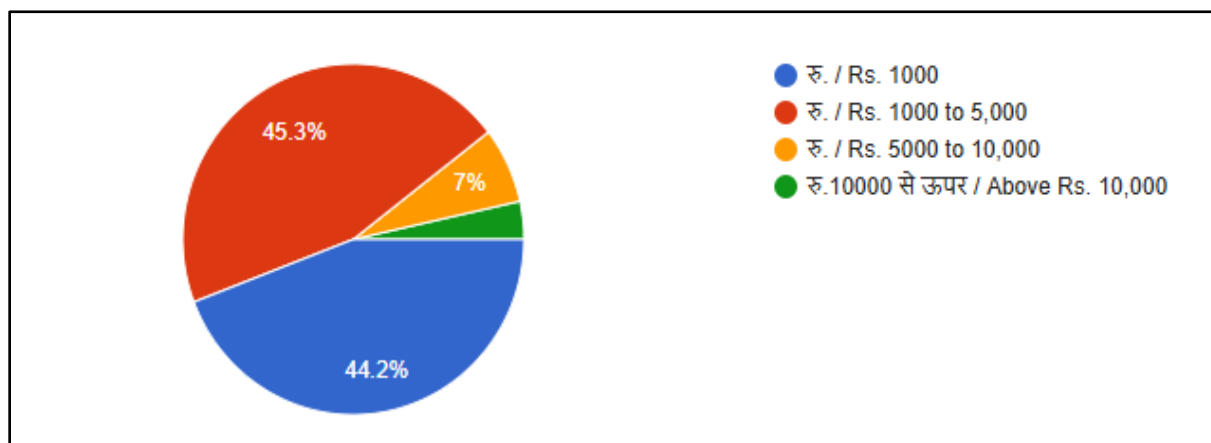
**Graph - 2 : Frequency of Cash Withdrawal from ATMs**



Source: Primary data through survey

**Interpretation:** The graph displays the frequency of money withdrawals from ATMs among respondents. It reveals that the majority, 68.6%, withdraw money 1-5 times a month, followed by a less percentage of respondents withdraw money more than 5 times in a month from ATMs. While 22.1% do not withdraw money from ATMs at all. This suggests that a significant portion of respondents rely on ATMs for their cash needs, while a smaller percentage either prefer other methods or have less frequent cash requirements.

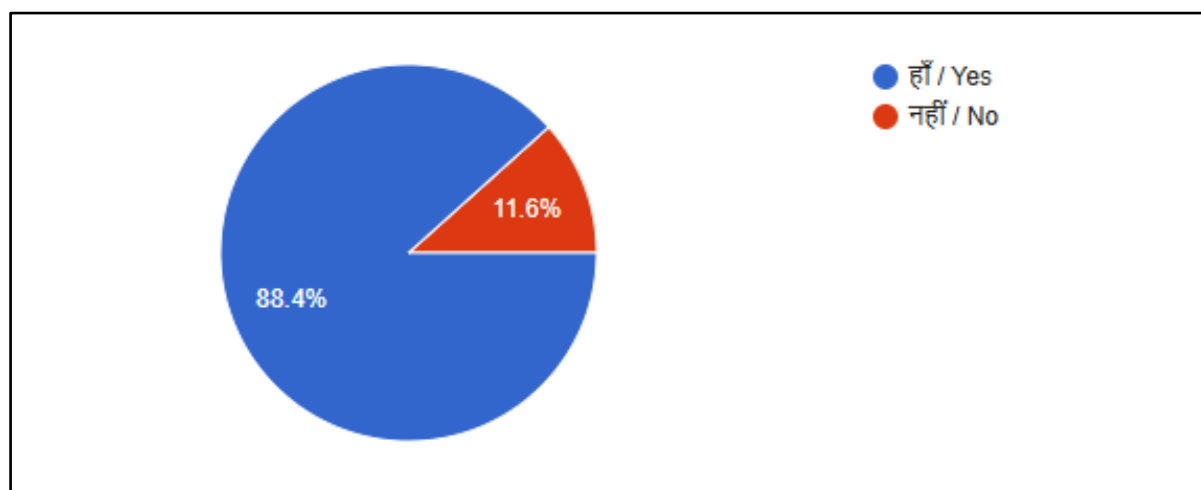
**Graph - 3 : Cash holding Among Respondents**



Source: Primary data through survey

**Interpretation:** The graph highlights the distribution of cash holdings among respondents specifically, it indicates that 44.2% of respondents have Rs. 1000 in cash on hand, and 44.3% are having Rs. 1000 to Rs. 5000 in their hand. This suggests that a significant portion of respondents have relatively small amounts of cash in hand, with fewer individuals having larger amounts with them as cash.

**Graph - 4 : Awareness Towards Cashless Economy**



Source: Primary data through survey

**Interpretation:** Above chart shows that, there is a high degree of awareness among the rural people about 88.4% of the respondents are aware of introduction of cashless economy in India. As an impact of awareness regarding cashless economy most of the people are using cashless transactions these days.



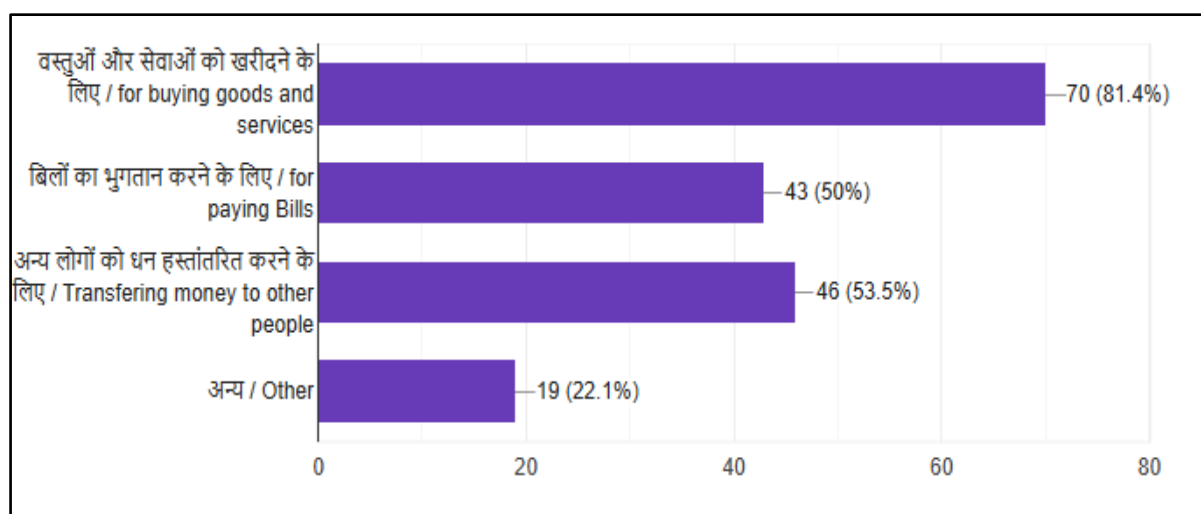
**Table - 2 : Frequency of Using Cashless Transactions**

Frequency of Cashless Transactions	No. of Reponses	Percentage
Daily	49	57%
Weekly	22	25.6%
Monthly	14	16.3%
Quarterly	1	9.3%
Total	86	100%

Source: Primary data through survey

**Interpretation:** Table-2 indicates that 57% of respondents carried out cashless transactions daily, 25.6% of respondents using weekly and rest of the respondents are doing cashless transactions monthly and quarterly. It is evident from the data collected that now rural consumers are using cashless transactions frequently to complete their day-to-day requirements.

**Graph - 5 : Purpose of Using Cashless Transactions**



Source: Primary data through survey

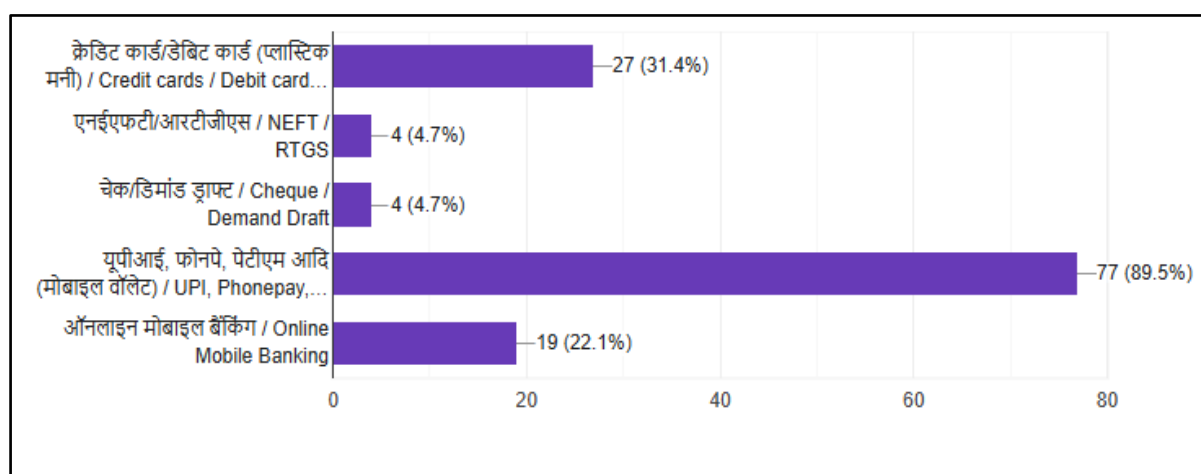
**Interpretation:** Above chart shows that among all the respondents 53.5% of the respondents use cashless transactions to transfer funds to other people followed by 50% of the respondents used for paying bills and among all of these the majority of the 81.4% of respondents have used cashless transactions for buying goods and services.

**Table - 3 : Methods of Cashless Transactions**

Methods Available for Cashless Payment	No. of Responses	Percentage
Credit/Debit Cards (Plastic Money)	27	31.4%
NEFT/RTGS	4	4.7%
Cheque/Draft	4	4.7%
UPI (Mobile Wallet)	77	89.5%
Online Mobile Banking	19	22.1%
Total	86	100%

Source: Primary data through survey

**Graph - 6 : Methods of Cashless Transactions**

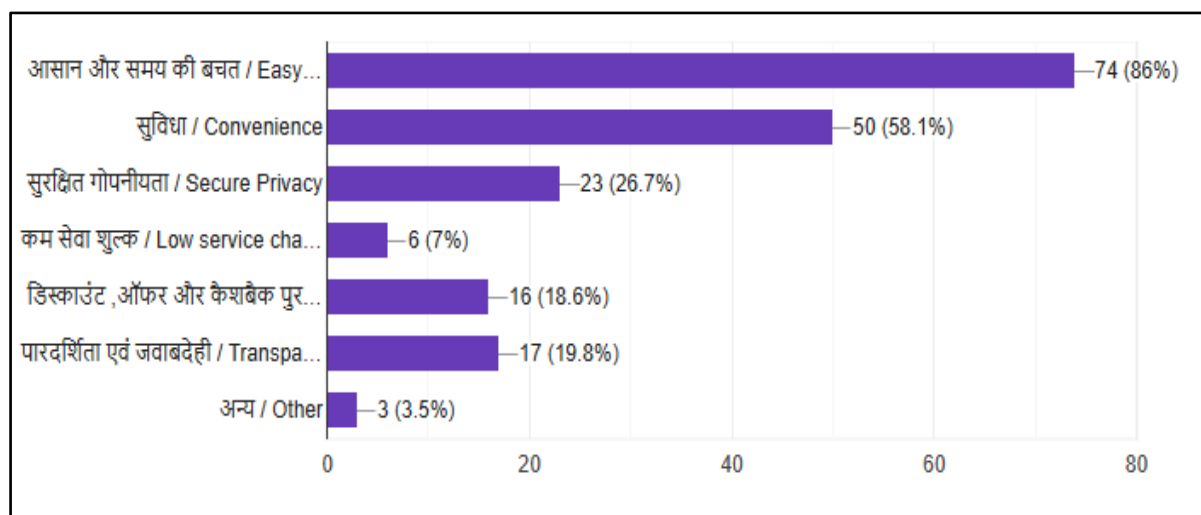


Source: Primary data through survey (Table-3)

**Interpretation:** It is evident from the above table that out of 86 responses, majority of 89.5% opted UPI (Mobile Wallet) as most favourable method of cashless transaction, followed by 31.4% made through Credit/Debit cards, 22.1% choose Online mobile banking as a method of cashless transaction. This data underscores popularity and widespread acceptance of UPI as a preferred cashless payment method, likely due to its convenience, ease of use, and widespread adoption across various platforms and

services. This shift reflects a broader trend of society’s increasing reliance on cashless payment methods, driven by factors such as technological advancements, convenience, and the desire for greater financial security.

**Graph - 7 : Reasons for Adopting Cashless Transactions**



Source: Primary data through survey

**Interpretation:** The diagram above suggests that financial inclusion isn’t the sole reason for transitioning from a cash-based economy to a cashless system; there are additional factors at play. From the data it is evident that majority of 86% respondents found cashless transaction easy and time saving, followed by 58.1% of respondents benefited by convenience, 26.7% of respondents marked cashless transactions safe and secure.

**Table - 4 : Monthly Spending through Cashless Methods**

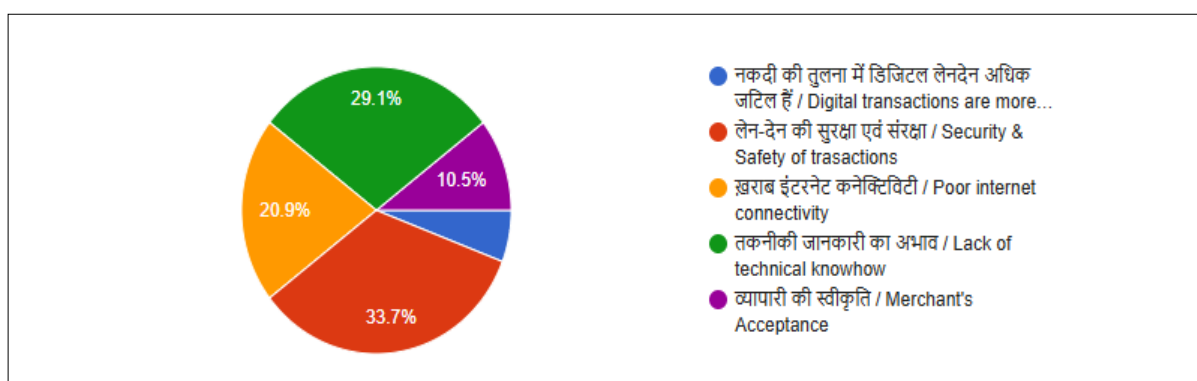
Monthly Spending	No. of Responses	Percentage
0-10%	16	18.6%
10-20%	22	25.6%
20-50%	25	29.1%
More than 50%	23	26.7%
Total	86	100%

Source: Primary data through survey

**Interpretation:** From the given table-4 it is indicated that, majority of % respondents spend 10% to 50% of their income in a month using cashless method of payments and

rest 26.7% of respondents are spending more than 50% of their transactions through cashless methods. It can be concluded that now people in rural areas are doing their transactions by using cashless method of payment instead of using cash. There is a discernible shift in the behaviour of people in certain areas towards favouring cashless methods of payment over traditional cash transactions. This shift may be influenced by factors such as convenience, security, and the proliferation of digital payment options in the marketplace. Overall, observation implies a notable transformation in how transactions are carried out in these areas, reflecting the evolving landscape of modern payment practices.

**Graph - 8 : Major concerns of Moving towards Cashless Transactions**



Source: Primary data through survey

**Interpretation:** Now, people in rural areas also doing transactions digitally and in majority they are willing to switch toward cashless method of transactions. The residents of rural areas are moving towards adopting a cashless society, but concerns about safety & security of transactions, lack of technological knowledge, poor internet connectivity, merchant's acceptance of taking digital transactions related issues still deter them from embracing cashless transactions entirely.

The majority of respondents are in favour of offering awareness programs and training campaigns to educate people about cashless transactions. This indicates a consensus among the surveyed individuals regarding importance of providing information and guidance to promote the adoption of cashless payment methods.

## Conclusion

The study indicates that India has a significant distance to cover before achieving a cashless economy. Success in this vision relies on widespread adoption of cashless

transactions across the nation. Following the footsteps of developed countries, India must take essential measures to transition its economy towards cashless. The findings suggest that UPI payments are the preferred method among rural populations for cashless transactions, followed by credit/debit cards, mobile banking etc.

Cashless transactions offer numerous advantages, including convenience, efficiency, security, low service charges, discounts, cashback offers, transparency and accountability. However, they also present challenges such as transaction security, poor internet connectivity, and limited technological literacy. A significant segment of the population resides in rural areas with lower literacy rates. It's imperative for the government to conduct regular financial literacy campaigns to educate the populace about the advantages of cashless transactions. Furthermore, substantial infrastructure development is necessary to realize the vision of digitalization. Despite these obstacles, it's imperative for the government to prioritize digitalization efforts to ensure universal access to cashless transactions for all individuals.

As a rapidly advancing nation, India possesses substantial potential for growth. Currently, there's a notable shift in people's attitudes towards digital transactions. Research indicates that a significant portion of rural residents is familiar with and actively engaging in cashless transactions.

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