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Impact of Demonetization on Small and Medium Scale Enterprises -2016

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ABSTRACT

The small and medium-sized enterprise (SME) sector, as we understand, is a big chunk of the economy, contributing to eight percent of the GDP whilst employing more than 80 million people year on year before the impacts of demonetization on the industry. Most SMEs are traditionally-operated, family-run businesses. Broadly, there are two kinds of players in the market in this segment. One, the businesses that were formed because their promoters saw the opportunity early on before anyone else could and went on to become successful businesses quickly.

INTRODUCTION

The Reserve Bank of India manages currency in India and derives its role in currency management on the basis of the Reserve Bank of India Act, 1934 and a new redesigned series of Rs 500 banknote, in addition to a new denomination of Rs 2000 banknote is in circulation since November 10, 2016. The new redesigned series is also expected to be introduced to the banknote denominations of Rs 1000, Rs 100 and Rs 50 in the coming months.

The term demonetization is not new to the Indian economy. The highest denomination note ever printed by the Reserve Bank of India was the Rs 10,000 note in 1938 and again in 1954. But these

notes were demonetized in January 1946 and again in January 1978, according to RBI data. Since less than 5 percent of population in India had access to such notes and most banks never had such currency notes, demonetization did not have a big impact on the country. The decision was taken to curb the illegal use of high denomination currency which was used for corrupt deals in the country.

However, with the latest round of demonetization, the common public and bankers are undoubtedly facing hardship since more than 85 percent of currency in circulation has been rendered illegal in one single stroke. Demonetization is surely hampering the current economy and will

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continue to do so in the near term and will also impact India's growth for the coming two quarters but will have positive long lasting effects. The question that arises is why demonetization was required at this point of time. There are certain pros and cons of demonetization.

One of the biggest benefits of this move is that it is going to drastically affect the corrupt practices. People who are holding black money in cash will not be able to exchange much as they would be in a fear of getting penalized and prosecuted by the authorities. Enemies of the country which are involved in counterfeit currency and terrorism will not be able to continue it further for quite some time at least.

The smuggling of arms and dealing with the terrorist will not sustain further as all of the money will be on record now. Secondly, the banking system will improve as it will slowly head towards a cashless society. Cashless society will increase credit access and financial inclusion. The existing white money of people will be known to the government and it will remain with banks so that it can be put on loan, and interest can be generated from it (though interest rates

would fall) with a corresponding fall in Inflation.

Need of the Study

The demonetization has its own impact on local consumption of visible and in visible goods in the current market. As the money will not circulate in the country its future may slow down at economy. The currency is necessary for individual as well as to small and medium scales business activities as of known to ever one but e-transactions are also making best solutions in some cases. Economic activities in several manufacturing units where the economic cycle is short but heavily dependent on cash came to a halt on November 8 2016 due to cash crisis. The government, meanwhile, seems to have moved the goalposts: The claimed objective of the exercise has apparently changed from rooting out black money to promoting cashless transactions. But India is also a country where finding novel, workable solutions to problems – commonly known as jugaad — is par for the course. While long lines multiplied in front of banks and ATMs (several people claimed to have had heart attacks while standing in them), ways were found to deal

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with the situation. By December 31, the visible impact was a Parliament at near paralysis as politicians took potshots at each other, a plethora of banking riches coming back into the system.

Scope of the study

The scope of the study shall be limited to research topic “The role of small and medium scale enterprises in the growth and development of a nation’s economy. The nature, frequency and amounts of the commercial transactions involved within these sections of the economy necessitate cash transactions on a more frequent basis. Thus, these segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation.

Limitations of the study

The limitation of this study is finance which will lead to using small sample for projection of the research not also forgetting the time constraint. Another limitation is the attitude of respondent in giving out confidential information and the level of literacy of some of the owners of the business.

Objectives of the study

- To know how small scale industry can put with a small budget.
- To determine the impact of SMEs on the growth and development of the economy.
- To examine whether small and medium scale can support for cashless transactions.

Statement of the Problem

On November 8, the government announced its decision to discontinue the legal tender status of Rs 500 and Rs 1000 notes. The original objectives were stated as: eliminating fake currency; inflicting losses on those with black money; and disrupting terror and criminal activities. Later, new objectives were tacked on: enabling growth in bank credit, turning India into a cashless economy.

Review of Literature:

Mr. Anwar Shirpurwala, Executive Director, MAIT

“MAIT compliments Prime Minister Modi for his action against corruption and black money and strongly

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supports the Government in its mission of transformation of India. We applaud the decision taken by the government to eradicate black money. The move taken by the govt. clearly indicates that we will be depending more and more on the ICT. This move has been possible because of the availability of technology and multiple means of financial transaction. This also calls for the Govt to further look for means of increasing IT penetration, thus enabling every citizen to use technology tools and services for cashless transactions. Govt. should continue to give more emphasis on technology led schemes and programs for the betterment of the economy growth.”

Mr. Sameer Grover, Founder and CEO Crownit

“Crownit drives large volumes of business to local merchants and facilitates payments for those merchant. It has an option of hassle free cashless transaction and is the best way to deal with the present situation. This demonetization move by the Modi Government is extremely bold and refreshing. India is now on direct path to fully digital economy to ensure corruption free country which we are proud of.”

Mr. Mayank Bhangadia, Co-founder and CEO Roposo

“This step taken by Sir Narendra Modi is path-breaking and revolutionary, as it sets a great example on how to bring change boldly and effectively. We as a nation have to fight corruption and what a way to begin! This bold move is just another instance of the Modi government’s vision of corruption free India.”

Mr. Rajeev Jain, Chief Financial Officer, Intex Technologies (India) Ltd.

“A full-blown war, not just a surgical strike, has been declared by the Indian Government against black money. Withdrawal of high denomination currency notes of Rs. 500 and Rs. 1000 is a very powerful measure to swipe off the unaccounted wealth and corruption that has crippled the Indian democracy for four decades. Rise in the gold price and spurt purchasing signify trivial repercussions of this move. Out of the current Indian population estimated at 123 crore, only a minimal fraction of 2.87 crore individuals filed their income tax return and even lower, one percent or 1.25 crore, paid taxes in FY 2014-15. This is certainly an alarming figure to quote, especially

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considering that we are a progressive nation.

With the PM's announcement, the honest tax payers will get their fair play. Rapid increase in traffic, frequent foreign travels, business favours and other affluence corroborated large-scale tax evasion. The nation's biggest crackdown will certainly check black money and cross-border monetary transactions of counterfeit currency. This will curb corruption to a large extent and also ease the life of common citizens. Unequal monetary distribution among income groups will also be addressed to some extent, eventually leading to financial inclusion of the under-privileged."

Mr. Manish Sharma, President CEAMA

"Demonetizing high denomination notes is a bold step towards the vision of Digital India. For the consumer durables industry, in the interim this might cause inconvenience to small consumer durable players located in the hinterlands as the reach of banking system is still basic. However, in the long run this is likely to drive several benefits for the economy.

With the advent of cashless economy both NPAs and demand for working capital

credits is likely to increase and thus banks will have a key role to play here.

Moreover with the limited tax arbitrage between organized and unorganized segments the industry will see a faster shift from unorganized to organized segment.

Usage of digital currency and online payment systems driven by UPI, wallets and cards will be on the rise as customers will increasingly opt for e-commerce platforms. It will further position improve India's stature as a corruption-free, transparent nation globally, enabling higher capital flow (FDI/FII). CEAMA congratulates the government on this significant move."

Mr. Rahul Gochhwal, Co-founder, Trupay

"During the changeover period of phasing out old currency notes we really believe that a lot of people will move towards digital payments options due to curbs on roll out of new currency. A big chunk of population will move towards digital payments not out of choice but perforce with this bold move by Mr. Modi."

Research Methodology

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The study is undertaken both by primary and secondary sources of data and information. For secondary sources of data and information more reliance is placed on available standards literature comprising referred journals, articles, books, reports etc., but primary sources of data have been collected by using a questionnaire through the Small and medium scale business units of , Andhra Pradesh.

A sample of 115 respondents has been collected from Kurnool, Guntur, market committees. A questionnaire has been prepared to collect the necessary

information. The questionnaire was selected in order to establish a better understanding between the small and medium scale business units. The research is carried out through convenient sampling.

The questionnaire consists of 20 questions included to various aspects of effect of demonetization, growth in sales, currency transactions, and support of banks, mode of payment and other causes. Care was taken to see that the information gathered was valid and reliable.

Data Analysis & Interpretation

Respondents participated for conducting the study on Demonization

Sno	Business Units	No.Of Respondents	No. of Respondents in %
1	Small Scale	62	53.9
2	Medium Scale	33	28.6
3	Others	20	17.5
	Grand Total	115	100

The study is conducted on 115 Small & medium scale business units. Majority of

business units discussed about their problems and interests on e- payments. The research has drawn many findings about the impact of demonetization.

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Small & Medium Scales units Support for Demonetization decision

S.No	Support for Demonetization	No Of Respondent	No. of Respondents in %
1	Yes	94	81.7
2	No	21	18.3
	Grand Total	115	100

Interpretation:

Majority of 81.7% of respondents accepted that the decision made by government of India is correct and the prime minister Mr.Narendra Modi took “a bold, even visionary, step” with demonetization in attempting to combat the black economy

and counterfeiting, and cutting financial support to terrorism. In another twist, the government appears to be no longer pushing demonetization as a “cashless” plan. It has now become a “less-cash” strategy. That is as it should be; the world doesn’t have a cashless economy so far.

Support for Cashless transactions through E-Banking

S.No	Response of E-Banking	No Of Respondent	No. of Respondents in %
1	Strongly disagree	42	37
2	Disagree	17	15
3	Can't say	12	10
4	Agree	38	33
5	Strongly agree	6	5
	Grand Total	115	100

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Interpretation:

37 % of small and medium scale business units are not yet showed their interest on cashless payments through E- Banking etc; because the cash transaction will give some advantages for their business practices even though some of the business

CONCLUSION

These demonetization measures have had significant and immediate impact on the state of the Indian economy. These measures are also expected to result in long-term impact on certain industries and sectors. These measures have resulted in a significant decrease in liquidity in the short term, which is expected to ease gradually with the introduction and circulation of the new currency notes. As a result of these measures and increased deposits with banks, the bank deposit base has increased significantly, and financial savings are expected to increase as a result of the shift from unproductive physical asset based savings to interest-bearing financial assets. This, in turn, is expected to enhance the liquidity position of banks, which can be leveraged for lending purposes. An increase in the deposit base

units say that they are comfortable with E-Transactions. so, expectedly, life came to a near standstill and much misery ensued when people found themselves unable to use their own money. Even when the money was in a bank account, limits on ATM withdrawals compounded the problem further.

may also enable banks to lower the blended cost of funds as higher CASA (current accounts, savings accounts) deposits enable replacement of higher borrowing costs and decrease overall cost of funds. With cash transactions impacted by a decrease in liquidity, alternative payment methods, such as e-wallets, online transactions using e-banking, debit and credit card usage have increased significantly. This will increase usage of such payment systems, and enable a shift towards an efficient cashless infrastructure.

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