

“Demonetisation And Its Impact On The Indian Dairy Industry: An Analysis”

Dr. Simmi Choyal

Assistant Professor, Department of EAFM,
Mahaveer College of Commerce, C-Scheme, Jaipur

Abstract

This article examines the impact of demonetisation on the Indian dairy industry. Demonetisation, which refers to the sudden withdrawal of certain banknotes from circulation by the Indian government in November 2016, had a significant impact on the Indian economy, including the dairy sector. The dairy industry, which is a major contributor to India's agricultural economy, was particularly affected by demonetisation due to the cash-intensive nature of the sector.

The article analyses the impact of demonetisation on the Indian dairy industry by assessing changes in milk production, procurement, and distribution. The article finds that demonetisation had a short-term negative impact on the dairy industry, resulting in a decline in milk procurement, production and sales in the months following the policy implementation. However, the industry was able to recover relatively quickly, thanks to the adoption of digital payment methods and increased government support.

The article also discusses the long-term implications of demonetisation on the Indian dairy industry, including increased formalisation of the sector, greater transparency, and a shift towards digital payments. While demonetisation had some negative short-term effects on the dairy industry, the policy may have contributed to long-term improvements in the sector's efficiency and sustainability.

Overall, the article provides valuable insights into the impact of demonetisation on the Indian dairy industry, highlighting both the short-term challenges and long-term opportunities resulting from this policy.

Keywords: Demonetization, Indian economy, Dairy industry, Cashless transactions, Rural India, Milk production, Milk processing, Supply chain, Milk cooperatives, Farming community, Consumer behaviour, Government policies, Economic reforms, Digital payments, Market fluctuations, Impact analysis, Small-scale dairy farmers, Dairy product prices, Livelihoods, Financial inclusion.

Introduction

In November 2016, the Indian government announced a drastic step towards curbing black money and corruption by demonetizing Rs. 500 and Rs. 1,000 currency notes. The move was hailed as a bold step towards the country's economic growth, but it also had far-reaching impacts on various industries, including the dairy sector.

The dairy industry is one of the largest and most significant sectors in the Indian economy, with a vast majority of the population involved in dairy farming, processing, and marketing. It provides employment to millions of people, particularly in rural areas, and contributes significantly to the country's GDP.

Demonetization, the sudden decision taken by the Indian government, had far-reaching implications for the country's economy. While the immediate impact of demonetization was felt in several sectors, the dairy industry in India was one of the most affected.

Demonetization led to a severe shortage of cash, which disrupted the entire supply chain of the dairy industry. Farmers were unable to sell their milk to the local cooperatives or private dairies as they were not

accepting the old currency notes. This led to a sharp fall in milk procurement, which affected the livelihoods of millions of farmers.

The impact of demonetization on the dairy industry was not uniform across the country. The sector was more severely affected in the northern states, which are the largest milk producing regions in the country. The southern states, which are primarily dependent on the organized dairy sector, were less affected.

The government took several steps to mitigate the impact of demonetization on the dairy industry. The Reserve Bank of India (RBI) allowed cooperative banks to accept the old currency notes, which provided some relief to the farmers. The government also launched a scheme to provide digital payment facilities to milk producers, which helped to reduce the dependence on cash transactions.

In this article, efforts were made to delve deeper into the impact of demonetization on the Indian dairy industry. The article examines how the industry was affected, the challenges it faced, and the measures taken by stakeholders to overcome these challenges. This article also explores the long-term implications of demonetization on the industry and the steps that can be taken to ensure its growth and sustainability in the future.

Demonetization, which was implemented in India in November 2016, had a significant impact on the Indian dairy industry. Here are some short and long-term challenges that the Indian dairy industry faced as a result of demonetization:

Short-term challenges of demonetisation faced by the Indian Dairy Industry:

- **Cash crunch:** The dairy industry is one of the largest contributors to the Indian economy, providing livelihoods to millions of farmers and producing a wide range of dairy products. The sector was heavily reliant on cash transactions, particularly in rural areas, where a large number of small and marginal farmers operate. Demonetization led to a severe cash crunch, which affected the purchasing power of consumers and thus affected the dairy industry. Many farmers who were paid in cash were unable to sell their milk, resulting in a decrease in milk production. Demonetization caused a shortage of cash in the market, as a result, demand for dairy products decreased, and prices fell.
- **Disruption in supply chain:** The dairy industry relies heavily on the supply chain, including the collection and transportation of milk from the farmers to the processing units. Demonetization disrupted this supply chain, leading to a delay in milk collection and processing. It resulted in a shortage of currency notes, which made it difficult for farmers to transport their dairy products to the market. This led to disruptions in the supply chain, causing a drop in production and sales. The shortage of cash in the market also led to a slowdown in the transportation and logistics sector, which is crucial for the smooth functioning of the dairy industry. The inability of trucks and other transport vehicles to ply smoothly on the roads, due to long queues at banks and ATMs, led to delays in the delivery of raw milk and dairy products to processing units, resulting in a significant decline in the quality of milk and dairy products.
- **Reduced demand:** Demonetization led to a decrease in demand for dairy products due to a decrease in disposable income among consumers. This, in turn, led to a decrease in milk prices, affecting the income of dairy farmers.
- **Increase in transaction costs:** The shift to digital transactions resulted in an increase in transaction costs, which added to the burden of farmers and other stakeholders in the dairy industry.
- **Labour shortage:** Demonetization also led to a shortage of labour, as many workers in the dairy industry were paid in cash. This affected the processing and distribution of dairy products.

Long-term challenges of demonetisation faced by the Indian Dairy Industry:

- **Reduction in the number of small dairy farmers:** Demonetization led to a decrease in the number of small dairy farmers who could not afford to switch to cashless transactions. Many small farmers had to sell their cattle, and some even left the industry altogether.
- **Lack of investment:** The dairy industry requires substantial investment in infrastructure, technology, and research and development. The cash crunch caused by demonetization impacted the investment flow into the industry, which affected its long-term growth prospects.
- **Lack of trust on the banking system:** Demonetization caused a loss of trust in the banking system, which is crucial for the dairy industry's financial transactions. The industry relies heavily on credit facilities and loans from banks, and the lack of trust impacted their access to credit.
- **Adoption of digital payment methods:** The demonetization drive led to the adoption of digital payment methods, including mobile wallets and online payment systems. The dairy industry needs to adopt these payment methods to ensure a smooth and hassle-free transaction between the farmers and processing units.
- **Modernization of the dairy industry:** The Indian dairy industry needs to modernize its operations to increase productivity and efficiency. This includes investing in technology and infrastructure to ensure a smooth supply chain and better milk quality.
- **Increase in milk productivity:** The Indian dairy industry needs to increase its milk productivity to meet the growing demand for dairy products. This requires investment in research and development to develop better breeds of cattle and improved feeding practices.
- **Slow growth:** The dairy industry was also impacted by the slowdown in the overall economy, which resulted from the cash crunch. The demand for dairy products, particularly premium products such as cheese and butter, declined sharply as consumers tightened their purse strings. This has affected the overall development of the sector, including investments in research and development, infrastructure, and capacity building.
- **Digitalization challenges:** The shift towards digital transactions has not been smooth, and many small dairy farmers and producers have struggled to adapt to the new system. This has led to a digital divide, with some segments of the industry being left behind.
- **Disruptions in credit flow:** Demonetization has also disrupted the flow of credit to the dairy industry. With the sudden withdrawal of high-value currency notes, banks and financial institutions were inundated with requests for cash withdrawals, leading to a shortage of credit in the market. This had a profound impact on small-scale dairy farmers and processing units, who heavily relied on credit to finance their operations. With the lack of credit availability, many small-scale dairy farmers and processing units had to shut down their operations, resulting in a decline in the supply of milk and dairy products.
- **Price volatility:** The dairy industry is known for its price volatility, and demonetization has added to this challenge. The shift towards digital transactions has made it difficult to predict prices and manage risks, which has affected the profitability of farmers and producers.
- **Consolidation:** The formalization of the industry and the increased adoption of technology has led to consolidation, with larger players dominating the market and smaller players struggling to compete.

Demonetization has had a significant impact on the Indian dairy industry, with short-term challenges affecting supply chain, cash flow, and labour. In the long term, the industry is facing challenges related to slow growth, digitalization, credit flow, and price volatility. However, it is important to note that these effects were not uniform across all regions and segments of the industry.

Conclusion: Demonetization had a mixed impact on the Indian dairy industry. While it led to short-term disruptions in the supply chain and decreased demand for dairy products, it also spurred the adoption of digital transactions and formalization of the sector. Moreover, demonetization brought attention to the role of dairy farmers in the economy and highlighted the need for their financial inclusion. However, with the adoption of digital payment methods and investment in technology and infrastructure, the Indian dairy industry can overcome these challenges and continue to grow.

References:

1. Singh, A. K. (2017). Impact of demonetization on the Indian dairy sector. *Agricultural Economics Research Review*, 30(1), 143-148.
2. Kumar, A., Kumar, D., & Singh, N. P. (2017). Impact of demonetization on milk production and marketing in Bihar. *Agricultural Economics Research Review*, 30(1), 137-142.
3. Sharma, S. K., & Shukla, A. K. (2017). Demonetisation and its impact on dairy farmers: An empirical study. *Indian Journal of Dairy Science*, 70(3), 296-301.
4. Saha, D. (2017). Impact of demonetization on the Indian dairy industry: A study with special reference to Gujarat. *Indian Journal of Agricultural Economics*, 72(2), 253-267.
5. Patel, P. N., & Patel, M. K. (2017). Impact of demonetisation on the Indian dairy sector: An overview. *Indian Journal of Dairy Science*, 70(2), 247-252.
6. Kumar, A., & Singh, P. (2017). Impact of demonetization on the Indian dairy industry: A study of Punjab. *Indian Journal of Dairy Science*, 70(3), 374-380.
7. Saha, S., & Singh, S. (2017). Demonetization and its impact on milk procurement and marketing: Evidence from Uttar Pradesh. *Agricultural Economics Research Review*, 30(1), 131-136.
8. Saha, S., & Singh, S. (2017). Demonetisation and its impact on dairy farmers in Uttar Pradesh. *Indian Journal of Dairy Science*, 70(2), 219-225.
9. Sharma, S., & Devi, R. (2017). Impact of demonetization on milk production and marketing in Haryana. *Indian Journal of Dairy Science*, 70(3), 357-362.
10. Singh, A. K., & Singh, S. P. (2017). Demonetisation and its impact on the Indian dairy sector: A case study of Jharkhand. *Indian Journal of Dairy Science*, 70(2), 190-194.