

IMPACT OF DEMONETISATION ON MSME'S SECTOR IN INDIA

Dr. Mahendra kumar pattankar
Asst, Prof. Dept, of Commerce
GFG College Mudgal

ABSTRACT:

The French were the first to use the word Demonetize, in the years between 1850 -1855. Since then many countries have used the word. India has demonetized before: First time on 12 Jan 1946 (Saturday), second time on 16 Jan 1978 (Monday), though it did not have a great impact of economy in 1946. Third time on 8th November 2016 (Tuesday) this one with *around* 86% currency in the economy becomes demonetized currency. It could impact generally on public in general and in particular on micro and small business people in India.

As we know agriculture is the backbone of the Indian economy in the same manner Micro and Small business sectors are the backbone of the big industries in India this fact cannot be discarded by us, and thus

Demonetization is a radical in this regard the present study is one of ant work to study the impact of demonetization in India with primary data study.

Key words: Demonitisation, MSME, Indian economy

Meaning of Demonetisation

Monetary step in which a currency unit's status as a legal tender is declared invalid. This is usually done whenever there is a change of national currency, replacing the old unit with a new one. The old unit of currency must be retired and replaced with a new currency unit. The opposite of demonetization is remonetization where a form of payment is restored as legal tender.

'Demonetization' Why?

To answer this question there are multiple reasons why nations demonetize their local units of currency. Some reasons include combating inflation, to combat corruption, and to discourage a cash system. In 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes to eradicate counterfeit currency, fight tax evasion, eliminate black money gotten from money laundering and terrorist financing activities, and promote a cashless economy for small and marginal businessman. By making the larger denomination notes worthless, individuals and entities with huge sums of black money gotten from parallel cash systems were forced to convert the money at a bank which is by law required to acquire tax information from the entity. If the entity could not provide proof of making any tax payments on the cash, a tax penalty of 200% of the tax owed was imposed.

Two times in 1946 and 1978 demonetisation happens in India and 500, 1000 and 10000 Rs. note have been demonetised and after some years of demonetisation 10000 Rs. note was again launched in market. Same in 1978 during the time of Janta government led by PM morarji desai this step was taken. 500, 1000, 10000 Rs. notes were demonetised. After which 10000 Rs was totally stopped in market.

a) Importance of study: The present study is so important to know the psychology of small entrepreneurs to demonetization of high value currency in India, after the courageous decision of our honorable Indian Prime Minister Sri.Narendra Modi on 8th November 2016 that the demonetization of Rs. 500 and Rs.1000 and substituting with introduction of Rs.2000 new currency in India.

b) Statement of the problem: Today though India experienced two demonetizations in past but the present situation is quite different from the past historical situation in size of demonetization currency in circulation, peoples consent about currency in circulation, present problems of small businessmen, hoarding of wealth, corruption, fake currency etc. The present study is concentrated on the problems of demonitisation on small and micro entrepreneurs in India.

c) Objectives:

India has experienced three times in 1946, 1978 and on 08thNov.2016demonetization effects, but the effects of third time demonetization are quite different from the previous two. Because the present demonetization currency is in circulation up to 86% and its impact is meager one as compared to the problems of substitute currency introduction of high value currency that is 2000 rupees note is problematic one for the 99% of the people who run their business, consumption and income on hard cash base only, hence present study is not only concentrated on demonetization problem but also on the problems of Marginal(Micro) Small and Medium Entrepreneurs of India because most of them are either illiterate or ignored about modern system of business and moreover their number is more than 90% in India because the mall system of business is new in India as compared to other modern developed nations. Hence demonitisation is forcefully step towards them to adopt cash less business in India.

- 1) To study the difficulties in day-to-day business activities of small and marginal businessmen.
- 2) To study the problems of people in payment of price of small product.
- 3) Opportunities of modern technology to run cash less business in small business.

d) Hypothesis:

- 1) People accepted hopefully to meet the need of demonetization intention.
- 2) Informal businessmen adversely affected by the introduction of high value (2000) currency rather than the demonetization of rupees 500 and 1000 currency.
- 3) Micro and Small businessmen specially informal businessmen hesitate to adopt modern cashless transactions.

e) Research methodology

The present study is based on primary data collected from both formal and informal workers in Gulbarga city with random sample survey method restricted to one hundred(100) businessman based upon pre drafted simple questioner method. And the secondary data collected from various newspapers, magazines, radio, T.V.etc.

f) Review of literature:

Review of literature restricted to the present happenings of the Indian Economy soon after the demonetization decision of the Government of India.

1. Demonetization will bring a paradigm shift in real estate sector.

According to CEO of Fire Capital, **Om Chaudhry**, demonetization of Rs.500 &Rs. 1000 will change dynamics of real estate sector in India; this will lead to reduction in the cash element in acquiring land, which is the biggest problem for the people who engaged themselves in real estate business players like him operating in India.

SOURCE: TIMES PROPERTY Dec 17, 2016

2. Growth will be slow due to demonetization

According to chief operating officer and chief economist at BSE Brokers Forum V Aditya Srinivas during a discussion on the after effects, in India and world economy, of the demonetization policy said that National GDP will fall below 6% in the aftermath of the demonetization. Srinivas said this will happen because a large sum of money has been removed from circulation, inhibiting purchases of fast moving consumer goods, which are usually purchased in hard cash.

SOURCE: THE TIMES OF INDIA Nov 18, 2016

g) Analysis of impact of demonetization in survey area:

The present study based on the pre drafted questionnaire method hence the following tables explain the impact of demonetization of 500 and 1000 currency and also introduction of high value (2000) currency.

Table-1
Formal and Informal businessmen's views on demonetization

Sl.No.		Supports	%	Opposes	%	Total
1)	Formal businessmen	30	60%	20	40%	50
2)	Informal businessmen	42	84%	08	16%	50
	Total	72	72%	28	28%	100

Source: primary data.

As the above table-1 states that the majority of the formal businessmen up to 60 percent of businessmen support the demonetization but the supporters' majority is in informal businessmen 84 percent of the informal businessmen accept the demonetization as a need of hour of the nation that the black money should be curbed through such actions. Only 28% of the people think that demonetization will not reduce the size of black money.

Table-2
Problems faced by both formal and informal businessman

Sl.No.		severe	%	moderate	%	no problem	%	Total
1)	Formal	00	00%	27	54%	23	46%	50
2)	Informal	40	80%	02	04%	08	16%	50
	Total	40	40%	29	29%	31	31%	100

Source: primary data.

The above table-2 indicates that the problems faced by formal businessman is not at all serious one as zero percent of them agreed with this at the same time the informal businessman percentage is up to 80 percent it indicates that though the informal businessman supporting percentage is up to 60% (Table-1) but their problems are so severe that they could not meet the required business activity due to the introduction of high value (2000) currency which is difficult to split it in units for them and also they can't do business in bulk quantity or in bulk income at one time, due to their small income slab they are not supposed to do this. Thus the second hypothesis is true.

Table-3
Faith in demonetization objective fulfillment

Sl.No.	Type of businessman	Yes	%	No	%	Total
1)	Formal	16	32%	34	68%	50
2)	Informal	48	96%	02	04%	50
	Total	64	64%	48	48%	100

Source: primary data.

The above table-3 states that 32% of formal businessman agree with the objectives of demonetization and 68% of them say that the eradication of black money could not be met by demonetization of currency because the most of the black money is not in hard cash but in other forms of property such as gold, real estate, jewelry, etc which could not be disturbed through demonetization process. In this way the first hypothesis is also true among the informal businessman as majority of them up to 96% of them believe that the black money may vanish from the society through demonetization but in actual practice what the informal businessman argue which is true in reality **the time alone can answer to this question so wait and watch.**

SUGGESTIONS:

To eradicate the black money from the society it is not sufficient act, in addition to demonitisation their should be restrictions on property ownership, wealth ownership, enhancement of employment opportunities for youth is essential one, introduction of transparent transaction process through modern technology should be introduced and training to adopt those measures should be given, measures have to be introduced in this regard.

The present study indicates that though the poor and informal business are adversely affected by the demonetization but still they kept faith in abolition of black money through this act. This is depicted from table-1 and table-2. This shows that the present scenario of the economy with full falls measures of economic transaction makes the people to support the government policies towards making their business viable and transparent.

Small and Micro and even medium size business should be protected, incentives towards their growth definitely provide strong and broad base for the big industrialists growth in India.

CONCLUSION:

Ultimately after the research work I may say that the demonetization should be done very often and often in the society and at the same time people should be forced to use cash less means to perform their business and consumption activity. In this regard the present Government initiated the first foot through Jan Dhan Yojana, and also the illiterate people should be given proper training in this regard through practical knowledge as they are habituated by mobile phones even though they could not know the operating system but they are performing the needful act of receiving and doing calls to others when they needed to do so in the same manner one should be given training to perform business transaction with cash less means then only one can say that the micro and small business can survive and grow in big size.

Instead of measures to enhance big mall system business the small tiny business men should be protected then only many people with sufficient wealth for survival can protect the social and economic

harmony which is very essential for the developing economy like ours. This may protect the interest of mass of people with equal distribution of wealth.

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