



IMPACT OF DEMONETISATION ON SME SECTOR

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ABSTRACT

Demonetization has negatively impacted job creation by hurting small and medium enterprises (SMEs). Demonetization is the act of stripping a currency unit of its status as legal tender. It is a process of removing a currency from general usage or circulation of money in a country. Demonetization is an act where the old unit of currency gets retired and replaced with a new currency unit. It can also be considered as withdrawal of a specific currency from market. The paper is based on secondary data collected from different newspapers and online sources, mentioned in references. India's previously booming economy has now ground to a halt. All indicators sales, traders' incomes, production, and employment are down. Small producers, lacking capital to stay afloat, are already shutting down. India's huge number of daily wage workers can't find employers with the cash to pay them.

Key words: demonetization, economy, small traders, etc

INTRODUCTION

When a currency note of a particular denomination ceases to be a legal tender it is termed as demonetization. But since our government is replacing the old Rs 500 notes with newer ones and doing away with the Rs 1,000 notes, it would be more appropriate to call the move as 'scrapping'.

The great impact of this move of the Central Govt on Indian Society and Economy. The first impact shall be that people will have lower expenditure power. With that they will not be able to purchase luxurious things.

There shall be no ostentatious expenditures on marriages and other ceremonies. So the society will grow lesser materialistic and people more prudent. With the fake money

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destroyed, Indian economy will see a big boom and the so far booming real estate sector shall fall on the ground.

The things shall be cheaper. Indian Currency shall get respect at the international market. There shall be a great check on the terror-related funding and therefore on terrorist activities. Corruption shall be down to a great extent as people will stop the tendency of accumulating money using wrong means.

It will a bridge the gap between the haves and the have-nots. However, there may be some difficulties for a couple of months. But this inconvenience shall be temporary and for short-term.

OBJECTIVES:

- 1) To study the impact of demonetization on the SME sector.
- 2) To bring out the effect of demonetization on the growth of the SME sector
- 3) To bring out the government procedure of demonization on SME sector.
- 4) To know how demonetization effects the technological advancement of SME sector.

RESEARCH METHODOLOGY

The given research paper is based on the secondary source of data collected from various newspapers and magazines, journals on finance and latest news.

IMPACT OF DEMONETIZATION ON SME

The small and medium-sized enterprise (SME) sector is a big chunk of the economy, contributing to eight percent of the GDP whilst employing more than 80 million people year on year. 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.

While much attention has been focused on the manner in which demonetization has inconvenienced the general public, the sudden invalidation of 86% of Indian cash may create a short-to-medium-term impact that is brutal for small businesses. The importance of Micro, Small, and Medium Enterprises (MSMEs) cannot be overstated. According to the estimates of the Ministry of MSME, the sector generates around 100 million jobs through over 46 million units.



Where GDP growth moderation due to demonetization is estimated at 50bps at the lower end to as much as 300bps at the higher end, it can be presumed that the impact on MSMEs will be higher than the rest of the economy due to their greater dependence on hard cash. Their virtuous cash cycle begins from an expense base that is almost exclusively cash-based. This then incentivizes the business to earn revenues in cash as well.

The following are the impact that demonetization will have on the SME sector

- Demonetization is not a surgical strike; it is carpet bombing. It impacts everyone. Replacement not only takes time, it also slows down the spending process as everyone tries to protect the newly acquired currency to secure them from the uncertain future. In case of SMEs, most will be unsure of payments coming from customers for some time; this as liquidity in the form of unaccounted currency has dried up. If customers don't pay, SMEs will protect what they have and that will mean they purchase less and produce less. Purchasing less will mean further slowdown for the people who provide them with raw material and producing less will mean shortage of supply leading to inflation on what is available.
- Reforms in the form of incentives is what we see will happen soon. I am positive that the government is aware of the first point and will take measures to restart the money wheel rolling in the market again. This could happen in several forms, early announcement of GST and BTT, elimination or drastic reduction of Service Tax and VAT until either GST is introduced or something else. Taking steps on taxes will encourage people to spend without having the fear of tax, which is currently seen as systematic 'loot' with minimum or no returns.
- Improvement in government procedures and monitoring of the monitor. This will happen as a measure to avoid generation of black money in new currency. The government will redesign processes to acquire licenses and approvals with ease, and older redundant requirements will be abandoned. Tax and other compliance officers will need to be monitored to ensure that policing does not give birth to 'under-the-table settlement' culture again.
- Visible use of collected money in banks on development of infrastructure that brings benefits to people quickly. 'Quick' is the keyword. We will see money invested in aspects that bring quick results for all classes. The current change has got quick pain with a promise of long-term gain but we have to remember that a large section of our society will need quick gains to survive before they can enjoy the long-term benefits.

- SMEs will invest in self-development and improvement in terms of technology, infrastructure and training to self-utilize the increased profitability with unaccounted income now becoming a part of the books that are taxable.
- SMEs and businesses now by design will have two options. Pay tax or spend on doing more for scaling up and this will have a spiral effect on the overall improvement in the economy.

There are loads of positive and negative impacts of the current move. No one currently can be sure of the future and this uncertain environment is certainly not good. Outcomes in uncertainty depend on the mindset and, currently, whilst people are taking it positively, they definitely are starting to realise possible pitfalls too if measures are not taken at the right time. Communication will be the key to ensure stability. And, while I am impressed with the bold step taken by the prime minister, I am also concerned about the mammoth task ahead of him to make this a success, because in my mind the war against black money has not started yet. Demonetization is only a war cry that declares the start of a war.

FINDINGS:

- Demonetization will require a wholesale rethink by participants in the parallel economy. Businesses need to think about first entering the banking system, second digitizing, and third full declaration. Big resets to practices and mindsets will need to happen for this coming as this move does just months before the planned implementation of GST.
- Undercutting legitimate, competitive businesses through lower pricing via cash dealings will probably end or at least reduce. This will improve the overall competitiveness of MSMEs generally. Enterprises with organized systems and planning processes will make the transition sooner, giving themselves a tangible advantage, thus taking the already substantial contribution of 38% to GDP or even higher.
- On the capital front, many MSMEs faced difficulties in credit appraisal before demonetization due to the large volume of unaccounted transactions. Once the initial setback phase is over and businesses streamline their processes and accounting, they will be able to access credit markets more efficiently and at better pricing, thus lowering their cost of funding.
- On the labour front there may be some longer term pain. Smaller businesses are dependent on migrant labour, which is frequently moving across India. Many of these

workers either do not have proper IDs or have IDs that are not valid in the state in which they work. The lack of income in the immediate aftermath of demonetisation will force them out, thus hurting the business continuity and adding to hiring and training costs.

CONCLUSION:

The demonetisation undertaken by the government is a large shock to the economy. The impact of the shock in the medium term is a function of how much of the currency will be replaced at the end of the replacement process and the extent to which currency in circulation is extinguished. While it has been argued that the cash that would be extinguished would be “black money” and hence, should be rightfully extinguished to set right the perverse incentive structure in the economy, this argument is based on impressions rather than on facts.

If the money disappears, as some hoarders would not like to be seen with their cash pile, the economy will not benefit. On the other hand if the money finds its way in the economy it could have a meaningful impact. However experiences from different countries shows that the move was one of the series that failed to fix a debt-burdened and inflation-ridden economy.

De-monetisation has already affected the micro, small and medium enterprises. Since the bulk of transactions in this sector are cash-based, a liquidity crunch will likely cause a slowdown in economic activity. In the medium and long-term, however, there is reason for optimism. The inflow of deposits should logically allow for lower interest rates, spurring investment in this sector. Further, the shift towards cashless transactions will encourage registration among such enterprises and allow them to benefit from central and state schemes and incentives. The access to low cost capital should also improve if there is a significant shift to a digital and cashless economy.

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