



IMPACT DEMONETIZATION ON MSMEs

-A hard path to reach the ripe fruit of profit

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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. India's GDP growth has slumped to a three-year low of 5.7 percent in the first quarter of the current fiscal year. The unemployment rate remains stubbornly high. The Goods and Services Tax and demonetisation were meant to transform the economy, but are presently cited as roadblocks that have disrupted growth. 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. Totally MSMEs have lost their shelter due the effect of demonetization. In this backdrop the researcher is thought to through a light on this aspect, for the reason the topic has been chosen.

Key words: *demonetization, economy, small traders, etc*

Introduction:

While much attention has been focused on the manner in which demonetisation 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. With 38% contribution to the nation's GDP, 40% to overall exports, and 45% of manufacturing output, they clearly form the backbone of the economy. 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.

Objectives:

- 1) To study the impact of demonetization on the MSME sector.
- 2) To bring out the effect of demonetization on the growth of the SME sector
- 3) To give suggestions for the development of MSMEs.

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 MSME

The micro, small and medium-sized enterprise (MSME) 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)

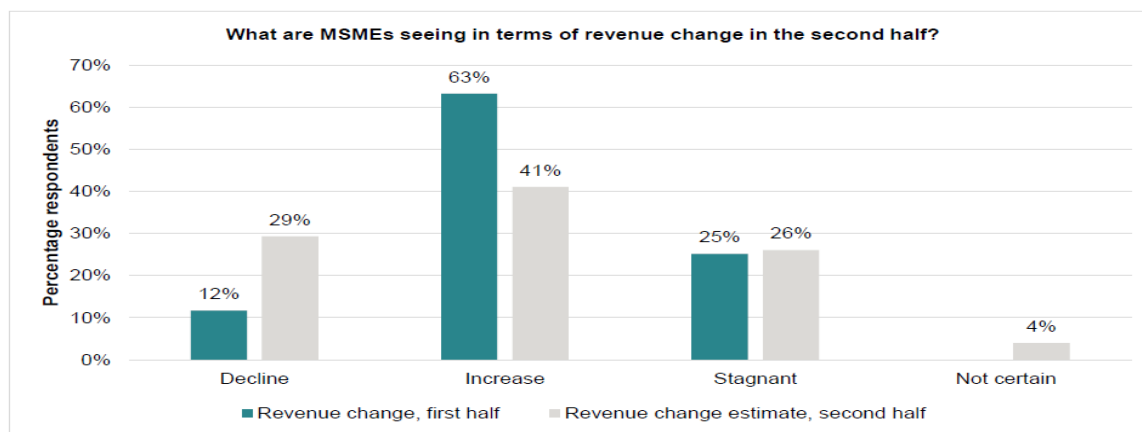
cannot be overstated. According to the estimates of the Ministry of MSME, the sector generates around 100 million jobs through over 46 million units.

Chart 1. Labor Turnout due to Demonetization by MSMEs



The above chart depicts about the number of workers turnout after demonetization. Documents accessed under RTI reveal that MNREGA demand has spiked by 300% after demonetization indicating severe rural distress and fleeing of migrant workers (labour) back to villages seeking work after factories and MSME businesses. After a month of demonetization around 40% workers were went as jobless. It is quite clear from the above table that within two months around 84 lakhs workers are ruled out from the work because of this demonetization kind of surgical stroke.

Chart 2. MSMEs revenue volatility due to the impact of Demonetization



The above chart crystallizes about the MSMEs revenue volatility after demonetization. Around 41 percent of micro small and medium enterprises (MSME) in India witnessed a shift away from cash to digital payments and cheques after the government's move to demonetise higher denominations, according to a survey conducted by

Crisil.AshuSuyash, Managing Director and CEO, CRISIL says, "It is heartening to see this marked shift to cheque or electronic payments, especially in the traditional, cash-intensive sectors such as textiles, agricultural products, electrical equipment, steel, consumer durables and automobiles."

The survey, which covered more than 1,100 MSMEs between November 24 and December 24, found that almost half of the MSMEs with annual revenue of Rs 2 crore or less saw a substantial shift away from cash transactions. Whereas, only a third of the MSMEs with revenues above Rs 25 crore witnessed a greater shift towards digital payments. MSMEs usually perform better in the second half of the fiscal year between October and March. But due to the cash ban, these enterprises may not see any growth this fiscal.

Table 1: Export Performance of Major Labour Intensive Sectors

Sector	Workforce (Nos. in Million)	Labour/ Capital Ratio*	Exports				
			% Share in Exports	Growth, y-o-y (%)			
				Oct- 2016	Nov- 2016	Dec- 2016	Jan- 2017
Gems and Jewellery	5.2	38.1	15.9	21.8	-12.8	27.9	-4.5
Readymade Garments	0.6	41.8	6.3	10.7	-2.9	-0.3	2.1
Leather and Leather Products	0.3	27.3	2.0	-1.7	6.4	-3.1	-10.3
Meat, dairy and poultry products	0.1	17.7	1.6	11.5	0.6	-45.7	-15.4
Handicrafts and carpets	7.3	-	1.3	14.1	0.6	-1.2	0.3
Cotton Yarn/ Handloom Products etc.	4.3	-	3.7	-9.0	0.5	7.8	9.8

* Ratio of wages to fixed capital as provided in Annual Survey of Industries (ASI).
Source: ASI, various industry associations, Directorate General of Commercial Intelligence and Statistics (DGCI&S).

About 36 million micro, small and medium enterprises (MSMEs) contribute around 40 per cent of India's exports and provide employment to over 80 million persons. Within the MSME sector, gems and jewellery, carpets, textile, leather, handlooms and handicrafts are highly labour intensive sectors and more dependent on cash for their working capital requirements. Contractual labour in both the wearing apparel and gems and jewellery sectors

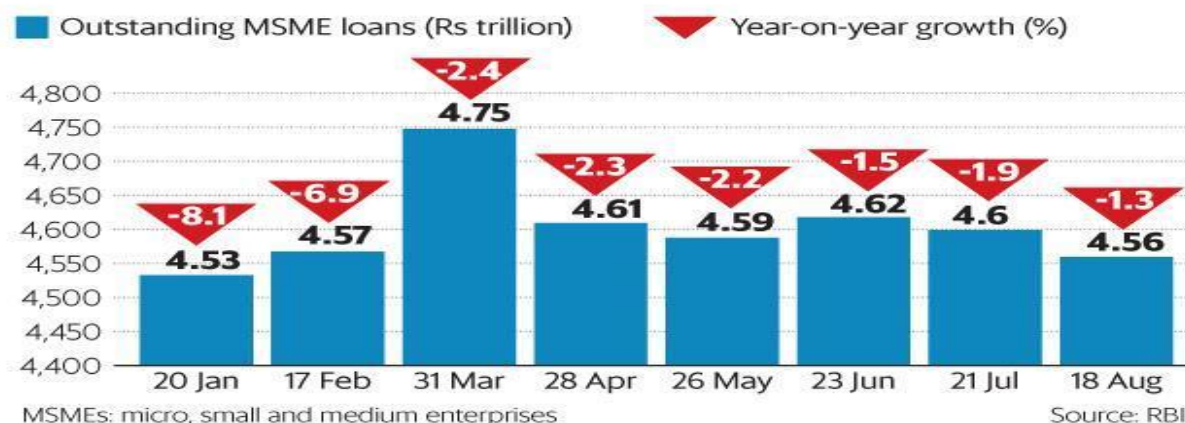
reportedly suffered as payments from employers became constrained. The cash shortage also adversely affected informal sources of finance. Reflecting these factors, export shipments of gems and jewellery, readymade garments, meat and dairy products, and handicrafts and carpets either declined or recorded a lower growth in November 2016 as compared with October 2016. While sectors such as readymade garments and cotton yarn exhibited an increase in exports in January 2017, exports of sectors such as gems and jewellery, leather and leather products, and meat, dairy and poultry products contracted in January 2017 (Table 1).

The cotton sector – already impacted by low demand from China since 2014-15 – faced some domestic supply constraints after demonetization. As farmers preferred to postpone their sales due to lack of cash, cotton arrivals dropped by 30 per cent in November (Indian Cotton Federation). Consequently, shipments of cotton bales also remained below order books in that month. About 70 per cent of India’s cotton exports are shipped during October-March every year. The industry expected an export of six million bales of cotton in the current cotton year (October 2016-September 2017), but these are now expected to be lower.

Chart2. Outstanding loans to MSMEs

LOAN BOOK

Outstanding loans to MSMEs were at Rs4.56 trillion as on 18 August.



Banks are redrawing their strategies on funding micro, small and medium enterprises (MSMEs), expecting the transition to the goods and services tax (GST) will improve their credit profiles and enhance their borrowing capacity. MSME loans have been de-growing for the past few months as the sector faced issues owing to demonetisation and later the

transition to GST. However, the de-growth, which had peaked in the months following demonetisation, has been showing signs of stabilising. According to Ajay Srinivasan, director at Crisil Research, the SME loan book growth of banks is expected to be in the range of 5-7% annually in the next 2-3 years. On the other hand, non-banking financial companies would increase their SME lending book at a much faster rate of 20-25%.

Conclusion:

India can learn from near-cashless economies like Sweden how to incorporate best practices in the Indian environment. Though it's not possible to go cashless in a limited time, efforts can be made to move towards a less-cash economy. To realise the goal of reducing corruption and making people pay taxes by giving a push to digital economy, the government needs to do well in providing basic services to citizens, such as infrastructure, drinking water, sanitation etc. There is also the need to improve internet penetration, which is currently around 19 per cent. However, there is huge potential in terms of expected web users reaching around 730 million, second after China, largely driven by rural India. The need of the hour is to bring smart solutions to the challenges of a digital economy with special focus on accessibility, equality, affordability and most importantly a safe cyber space for building trust among people and MSMEs.

Demonetization 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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