

Demonetization in the India Context: Drives Micro, Small and Medium Enterprises (MSMEs) Growth Back

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Abstract

On 8th November 2016, 8:15 pm the Indian Prime Minister announced invalidity of Rs.1000 and Rs.500 notes. There are many reasons for the nation's demonetise their local currency best example is controlled black money. The government of India took a step to curb for the black money in India. "Demonetization means withdraw of a particular form of currency from circulation.". MSMEs are the engine of economic growth but many problems are encountering the MSMEs sector like marketing, technology, and finance now the new issue is demonetization this process will impact on Indian MSMEs. Managing Finance is the biggest task of MSMEs. Based on reports 55% MSMEs are using cash base transactions. Demonetization will impact on the growth of MSMEs like production will disturb impact on cash transactions, delay of loans, increase the high cost of interest and face challenge pay to their suppliers.

Key Words: Demonetization, MSMEs, Liquidity, Employment, High cost of credit.

1. Introduction

Historically our country India has been many of self-employed and not of employees. MSMEs sector includes Khadi, Village, and Coir Industries. MSMEs are employing especially village and rural people, and they are higher than big business in our country. MSMEs are playing a vital role like in nation building, providing employment; helps develop business skills, economic and social development and often acting as a nursery of entrepreneurship. This sector is providing highest employment for people after the agriculture. This sector recognized critical status for both central and state level in India. In India majority of the income generation comes from MSMEs sector. The MSMEs sector is the largest contributor of employment and Gross domestic product (GDP) anyone can start the MSMEs business with minimum capital. The key advantage of this sector is its employment potential at low capital cost. The MSME sector in India is highly heterogeneous regarding the enterprises, a variety of products and services and levels of technology. This sector not only plays a critical role in providing employment opportunities also helps in the industrialisation of rural, backward areas reducing regional imbalances and reduction of poverty and migration of people. Although the sector has shown impressive potential, it is also facing some challenges to its growth primarily finance is the biggest constraint for developing this sector. The MSME sector plays in an important way to the growth of the Indian economy with a vast network of over 36.17 million units, creating employment of about 80 million people the sector manufacturing more than about 6000 products, contributing about 45% to manufacturing output and 40% of exports directly and indirectly (MSME annual report 2012). There are two types of enterprises registered and unregistered enterprises. The registered enterprises are 1.54 million only 4.3 almost 96% enterprises are unregistered enterprises micro is 95%, small is 4.85%, and 0.2% are medium enterprises in India.

As per MSMEs act 2006 Definition of MSMEs

S. No.	TYPE OF ENTERPRISE	MANUFACTURING SECTOR (Investment in Plant & Machinery)	SERVICE SECTOR (Investment in Equipment)
1.	Micro	Does not exceed Rs. 25 lakh Rupees	Does not exceed Rs.10 lakh rupees
2.	Small	More than Rs.25 lakh rupees but does not exceed Rs.5 crore rupees	More than Rs.10 lakh rupees but does not exceed Rs.2 crore rupees
3.	Medium	More than Rs.five crore rupees but does not exceed Rs.10 crore rupees	More than Rs.2 crore rupees but does not exceed Rs.5 crore rupees

Source: Ministry of MSMEs, Govt of India.

Advantages of MSMEs Sector

There are many benefits from MSMEs sector in India they are:

- Providing 75% employment in India.
- Need small Capital.
- Reduce people migration one place to another place.
- Reduce Regional Imbalances.
- Proper use of local raw materials.
- Manufacturing variety of products.
- Export Promotion.
- Source for foreign exchange income.
- Little burden on Imports and
- Creates income and wealth.

2. Objectives of the study

- To know the concept of MSMEs in India.
- To understand the concept of demonetization.
- To study the effects of demonetization to MSME sector in India.
- To suggest the alternative methods for MSMEs sector overcome Demonetization.

3. Research Methodology

The study is based on the secondary data information. The secondary data collected from the relevant publications from MSMEs Ministry, Web sites, different Articles, journals, and books, etc.

4. Demonetization in India

In demonetization process, the old unit of currency must be retrieved, and there will be replaced with a new currency. The demonetization is one of the excellent tools to curb the black money.

Definition of Demonetization

There are many pertaining definitions for demonetizations such as:

- “Withdraw a form of currency from circulation.”
- “The process of removing a running currency from circulation.”
- “To withdraw money or coins from use.”

The first demonetization in India in the year 1946. After post-independence, the high denomination currency of Rs 1000, Rs 5000 and Rs 10,000 was demonetised in 1978 for the fight against black money. On 8th November 2016 at 8:15 pm our honourable prime minister announced the invalidity of Rs 500 and Rs 1000. This decision is impacting all the people in India. The many people in India they are not depositing money their accounts because of afraid of income tax. The Rs 500 notes introduced in October 1987 and Rs 1000 introduced November Rs 2000. These are the biggest notes in India. The notes are around 86% are cash circulation in our country.

The primary goals of demonetization in India

- For eliminating black money.
- To Control Terrorism.
- To control corruption.
- Discourage of a cash system and
- Encourage cashless economy.

The general impact of demonetization

Surprise demonetization sent shocks the south Asia country the hand cash will be a deficit.

- Effects on consumer goods.
- Demonetization impacted more on poor and illiterate people.
- Work loss due to standing in the queue for money exchange or withdraw.
- Impact on Agriculture.
- Effect on banks they are unable to replace the sufficient money.
- This effect kills business temporarily.
- Effect on demand.
- The demonetization has been an immediate impact on Indian economy.
- Demonetization impacts certain long-term industries.
- Decreases the liquidity.
- The Indian economy will lose more GDP.
- Most hit by real estate and construction and
- The burden to Government |Supply of Swiping Machines.

5. Effects of Demonetization on Indian MSMEs Sector

In India, total 36.17 million MSMEs enterprises but they are not getting sufficient credit for their business requirement. Article Published Times of India (July 20, 2012) due to financing problems every day 79 MSMEs are falling in sickness. Managing finance is the most challenging task for every

business. Finance is the cause of all other problems. About the MSMEs sector, they need cash for many stages they are more impacted on demonetization impacted and leads to the impact of the sustained growth of MSMEs. Many MSMEs businesses are not upgraded and not using online banking and mobile banking many of them do not have bank accounts many transactions dealing with cash only. Because of business runs immediate cash. Most of the workers need quick cash. Based on study's MSMEs business need 50,00 per week.

Services at Glance

1.	Total no of ATMs in India	Rs 2.5 lakhs
2.	Total bank branches in India	Rs 1.1 Lakhs
3.	Total post offices in India	Rs 3.6 Lakhs
4.	Total currency of Rs 500 and Rs 1000	Rs 14.21 lakh Crores

Source www.rbi.gov.in

Transactions up to Financial Year up to 2015 in India

S. No	Payment type	FY 07	FY 08	FY09	FY10	FY11	FY12
1	Cash payment Transactions	2.8%	3.1%	2.9%	2.8%	3.5%	4.1%
2	Electronic transactions	2.6%	3.0%	3.8%	4.5%	5.6%	6.8%
3	Cash transactions	90.6%	90.0%	89.7%	89.5%	87.9%	86.6%
4	Cheques and DD transactions	4.1%	3.9%	3.6%	3.2%	2.9%	2.9%

Source: Euro Monitor, Ambit Capital Market.

There is a much time is requiring for replacing the currency take of normal circulation India. The demonetization impacted badly on Indian MSMEs sector. According to the MSMEs fourth census (2006-2007) In our country, 55% of MSMEs are unregistered MSMEs in the village using cash basis business many of MSMEs turnover is just few money. Impacted MSMEs Business seriously.

- Declines Sales.
- Goods sell low price.
- Production disturbs.
- Loans not available.

- Interest rates will increase.
- Impact on EMIs.
- Reduce GDP.
- The burden on the purchase of raw materials.
- Delay of worker's payments.
- The burden on Transportation.
- Face challenge pays money for their suppliers.
- Impact on MSMEs exports and
- The production will disturb.

How to overcome the effect of Demonetization on MSMEs in the Indian Context?

➤ Alternative payment methods

- E-wallets (Like Paytm).
- Online banking.
- Debit cards.
- Credit cards.
- Cheques and
- Demand drafts.

➤ Advantages of alternative sources

- Transactions will be very quick.
- Saves time.
- Need not go to banks and ATMs.
- Encourage cashless transactions and
- Paperless transactions

➤ Challenges for Government After Demonetization

There are many problems will face the government after demonetization these are:

- The government should supply sufficient cash to banks and ATMs.
- Banks should open zero accounts for people.
- Banks should debit card and credit cards.
- Training programs should conduct for the cashless economy.

- Educate illiterate people.
- Should Supply Sufficient Swiping Machines for business.
- Should give subsidy for Swiping Machines and
- Should be implemented no taxes for swiping cards.

6. Conclusion

The MSMEs sector is the important employment source of people. Every person cannot get the job, but many individuals with small capital are starting MSMEs business creating employment themselves and giving the opportunity to some people. However, many problems are encountering for their sustainability. Finance is the biggest problems for their sustainability lack of finance many MSMEs are not performing right the financing problems are severe issue relates to this sector. Recently the government announced ban of big notes this is one of the most dangerous problem impacts on their sustainability the business cannot run successfully. Due to this issue, they may face many challenges sometimes they may close their business. The government should more focus on this sector and give subsidies to survive this sector because 70% people are from this sector lack of money creates many problems for their business, these leads to reduce our nation's GDP.

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