

IMPACT ANALYSIS OF DEMONETIZATION AND DIGITALIZATION OVER MICRO, SMALL AND MEDIUM ENTERPRISES IN INDIA

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Abstract: Demonetization in 2016 by the Government of India came down as a blow to the Micro, Small and Medium Enterprises (MSMEs), large part of which is comprised by unorganized firms. *Prima facie* evidence suggests severe impact with the decline of more than 70% in business activity because of high dependency of unorganized small firms on cash. Abolishing legal validity of high value currency notes was a bold step against the black money, corruption, counterfeit currency and terrorism and provides a push to the economy towards digitalization. But sudden decline of 85% currency in circulation led to huge loss of demand for the MSMEs which resulted in high revenue loss and job cut. Although government has launched new schemes to provide boost to the MSMEs but the future depends on the proper implementation of such schemes and the success of digitalization process. The paper focuses on the demonetization and digitalization process and its effect on the MSMEs in the short as well as in the long run.

Keywords: Demonetization, Digitalization, Black Money, MSMEs, Unorganized Firms.

Introduction: Micro, Small and Medium enterprises play a dominant role in the economic activity of a nation. They act as a 'useful vehicle for growth', provide employment creating opportunities and constitutes majority of the industrial workforce. MSMEs have significantly contributed in the India economic structure where they contribute 45% to the total manufacturing output and 40% to the exports from the country and generate more than 100 million jobs. In India's case MSMEs face a challenge of inadequate credit flow which was extended with the recent step of demonetization by government of India. Although the step was focused to curb terrorism, counterfeit currency, and corruption (Economic Survey 2017), but the spill over effects are borne by the MSMEs with the huge decline in the currency in circulation. Demonetization encouraged the digitalization of finance sector in India which also created a challenge for MSMEs as they have to adapt to the changing demands of the time. This paper focuses on the effect of demonetization process on the MSMEs. The paper is comprised of four sections. Section I deals with the classification of MSMEs in India. Section II provides an overview of the demonetization process undertaken by the Central Government in 2016. Section III and IV discusses the impact of decline in credit flow and the measures taken by the government to revive the MSMEs respectively.

MSMEs in India: MSMEs are regarded as an important and integral part of the industrial sector in a nation. They act as a catalyst for social and economic development (Khan and Dalu 2015). They are important for economic growth, employment generation and also to provide basic needs to the population. They act as a medium for diversification in industrial production and in exports.

MSMEs have special role to play in Indian economy which has capital as a scarce resource while labour is present in abundance. MSMEs can lead to efficient use of the scarce capital. In India, structure of small and medium industries have been changing over time and they are now divided under two heads i.e. manufacturing and services enterprises and are now classified as a micro, small or a medium enterprise as according to table 1(as per MSMED Act,2006).

Table 1

Classification	Manufacturing Enterprises (Investment limit in Plant & Machinery)	Service Enterprises (Investment limit in equipment)
Micro	Upto Rs 25 lakhs	Upto Rs 10 lakhs
Small	More than Rs 25 lakhs and upto Rs 5 crores	More than Rs 10 lakhs and upto Rs 2 crores
Medium Enterprises	More than Rs 5 crores and upto Rs 10 crores	More than 2 crores and upto Rs 5 crores

Source: MSME Development Act, 2006

Indian MSME sector has heterogeneity embedded in it in terms of technology used, registered and unregistered units, product variety, investment limits etc (Manna and Mistri 2017). Despite facing the challenges and the slowdown in the economy, MSMEs are performing progressively and are playing crucial role in maintaining the growth rate substantially high.

Demonetization and Digitalization Process in India: Since the Government proposed demonetization of 500 and 1000 rupee notes followed by slow remonetisation wherein exchange of currency was restricted for sometime in an event where old notes could be deposited for a limited period, it led to people switch their transaction to digital means. Digital banking companies have also risen to the challenge, setting up shops in more convenient places to allow people to sign up and use their money as per their wish.

This digital reform also delivered laudable results with one of the villages namely 'Akodara', about 60 miles away from the northern city of Ahmedabad was recognized as India's First Digital and Cashless village. E-wallet firms like Paytm, etc. observed their largest gush in transactions to an extent that the small vendors, roadside vegetable sellers, autorickshaw drivers among the others also made transactions through them. Government of India along with the Reserve Bank also encouraged people to make use of digital means. They introduced an application called BHIM that could help people transfer money via e-sources. Other services were also introduced by the government that helped people transfer funds even if they did not possess smart phones by making use of their Aadhar numbers. The National Automated Clearing House have reveal clear surge in the overall digital transactions in India from 1196.97 billion in 2014-15 to 3715.09 billion in 2015-16 and to 5787.17 billion from April 2016 to January 2017. Aadhar Mapper Enabled Services have also shown a clear leap in their volumes from 118.11 million in 2015-16 to 175.50 million in the first quarters of fiscal year 2017-18. In line with all the measures taken by the government, one may anticipate the country to break its stereotypical dependence on cash transactions.

Literature Review and Impact: MSMEs in India lack reliable and efficient infrastructure, technology and adequate credit flow (Bala M H). With more than 94% of the industries established in unorganized or informal sector, cash dependency is very high as large portion of the workforce is constituted of daily wage earners. Majority of the workforce in the sector is either skilled or semi-skilled and doesn't possess a bank account. The worst effect of demonetization is borne by this floating working population.

The demonetization of high value currency notes led to almost 85% decline in currency in circulation which caused disruptions in all the sectors of the economy, where MSMEs being the worst affected. *Prima facie* evidence suggests severe impact with the decline of more than 70% in business activity (Edelweiss report- Edel pulse). Resultant cash crunch has rattled the sector with the expected decline of almost 37% in revenue growth in the unorganized segment as compared to organized segment in the sector.

Inadequate liquidity in the economy led micro and small enterprises being temporarily shuttered which in turn raised the unemployment levels. There has been a loss of 1.5 lakh jobs between October 2016 and January 2017 (Labour Bureau). Along with the adverse impact on job creation, decline in the currency in

circulation has also led to reduction in consumption expenditure which severely affected the MSME sector. The brunt is borne mainly by agriculture, cement, fertiliser, textiles and retail (Assocham). Constant job creation didn't occur because of inadequate credit flow and further implementation of GST has ruined the situation. It has been a double whammy for the industry (The Hindu).

There has been huge decline in the sales of MSMEs which led to losses in the post demonetization scenario. As demonetization was more or less focused in making the financial sector more digitalized, it also pushed the MSMEs sector in adapting the cashless ways for transaction purposes. MSMEs have started shifting towards cheque or electronic payment system since demonetization (The Indian Express). With the change in the way of functioning, digitalization push and new support schemes from government, MSMEs are expected to revive soon in the near future.

Measures by the Central Government: Government of India has always been working to encourage the MSMEs and to make them self-sufficient as MSMEs do act as engine for economic growth and has employment generation capacities. Recent initiatives and schemes implemented by central government for the MSMEs:

- **ASPIRE (A Scheme for Promoting Innovation and Rural Entrepreneurship):** The scheme intends to promote rural entrepreneurship and innovation by setting up a network of technology centres, incubation centres. It is designed to provide necessary skill set for setting up business enterprises and also to facilitate the market linkages available to entrepreneurs and to provide hand holding for a critical period to ensure self-sustainability (MSME Handbook 2016). Important components of schemes are Livelihood Business Incubators (LBI) under National Small Industries Corporation (NSIC), KVIC or Coir Board and Technology Business Incubators (TBI) at twin levels, i.e. supporting existing incubation centres operated currently under different Ministries and Departments of the Government of India or Institutions including National / Regional level institutions of GOI / State Governments to set up such centre dedicated to incubation and enterprise creation in the area of Agro based Industries.
- **PMEGP (Prime Minister's Employment Generation Programme):** The credit linked subsidy program of union government was introduced by merging the two schemes i.e. Prime Minister's Rojgar Yojna and Rural Employment Generation Programme. Main objectives of the scheme includes providing continuous and sustainable employment to a large segment of traditional and prospective artisans, increase the wage earning capacity of artisans, generate employment opportunities in rural as well as urban areas . All the nodal branches of the banks under PMEGP have been connected through Central Plan Scheme Monitoring System (CPSMS) under PFMS (Plan Financial Management System) to monitor the flow of funds.
- **Revamped Coir Udyami Yojana (CUY) & Coir Vikas Yojana (CVY):** Central Sector Schemes being implemented by the Coir Board namely "Rejuvenation, Modernization and Technology Up - gradation"(REMOT) and "Coir Plan (General)" Scheme, have been re-named as Coir Udyami Yojana (CUY) and Coir Vikas Yojana (CVY) respectively. CUY is a credited linked subsidy scheme in coir sector, aims to integrate and develop coir units. The scheme provides 40% as Govt. subsidy, 55% as Bank loan and 5% beneficiary contribution for setting up of coir units with project cost up to Rs.10.00 lakh (revised from Rs.5.00 lakh). Coir Vikas Yojana (CVY) envisages training for men & women coir workers and providing subsidized Ratts to women workers apart from providing assistance for setting up and expansion of coir units (MSME Handbook 2016).
- **Micro and Small Enterprises Cluster Development Programme (MSE-CDP):** The programme uses cluster development approach as key strategy for enhancing the productivity and competitiveness as well as capacity building of Micro and Small Enterprises (MSEs) and their collectives in the country. It also helps in creating and upgrading infrastructural facilities in the new/existing industrial areas/ clusters of MSMEs.
- **Credit Guarantee Scheme (CGTMSE):** The scheme helps in tackling the major challenge faced by the MSMEs i.e. credit flow. MSMEs can acquire loans up to Rs. 100 lakhs without collateral/ third party guarantees. CGTMSE has been set up to strengthen credit delivery system and facilitate flow of credit to the MSME sector. Objectives include better management of risk, faster recovery of dues and enhancement of the profitability.

- **Digital Initiatives:** Government has also launched digital initiatives like e-Office initiative (promotes more transparent and paperless work in the ministries), Mobile Friendly Website, Web portal for MSME Naukri, Web portal for MSME Shopping, Laghu Udyog Samachar.
- Recently, central government has also announced incentives (under the Foreign Trade Policy) worth Rs 8,450 crore to boost the exports mainly from labour-intensive MSMEs and to promote the employment generation and value-addition. Incentives were meant to reduce the negative impact of GST. With the incentives, union government has also extended hand to support the Export Credit Guarantee Corporation to enhance insurance cover to exporters, particularly MSMEs (The Hindu).
- Land reservation in the industrial estates has enabled the small and medium enterprises to have increased access to common infrastructure.

Conclusion: Demonetization surely came down as a blow to MSMEs with the decline in job creation, output, employment and exports. They, being an essential and integral part of the industrial structure, need special attention for their development and enhancement. Inadequate credit flow has led to decline in the overall growth of the sector but the corrective measures and extended credit support to the enterprises can surely help them to revive. Demonetization along with the digitalization support could help the sector to become more formal and stable in the long run. Cluster development approach will support job creation and will also lead to regional development with focus on specific geographic locations. Proper implementation of Goods and Service Tax will increase the competitiveness among MSMEs, enhance flexibility, reduce the cost of doing business and provide them a level playing field. Despite such measures in place, Union government still has a major role to play for sustainable growth of MSMEs and for achieving the target of making India a “powerful export-oriented country”.

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