

# A study of the impact of Demonetization on MSME

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**Abstract -** The paper describes the role of small business and the major problems faced by the small sector units as well as the assistance provided by the government to small business, particularly in the rural and hilly areas. The youth find the job market tough and think about the idea of setting up a small business. It seek the solution how to start, where to locate and how to procure machinery and materials needed for the business, how to raise money and market. It focuses on governments assistance for a business such as start-up India and other such programs. They find a business at small scale and may become successful ahead. It also highlights the impact of demonetization on the business. Unorganized sectors are undergoing liquidity crisis. Their growth has come to a standstill. They fail to get the credit from banks for the want of extending credit capacity caused by a heap of NPAs, although they contribute a major part of GDP for the economic growth of India.

**Index Terms -** Unorganized sector, demonetization, liquidity, credit, NPA, GDP.

## INTRODUCTION

As per the Ministry of Labour and Employment, “unorganized sector means an enterprise owned by individuals or self-employed workers and engage in the production of sale of goods or providing service of any kind whatsoever, and where the enterprise employees workers, the number of such workers is less than ten. Unorganized workers mean a home-based worker, self-employed worker or a wage worker in the unorganized sector and includes a worker in the unorganized sector who is not covered by any acts mentioned in schedule II of the unorganized workers social act 2008. Unorganized sector is generally not governed by the rule and regulation that are laid by the government regarding the condition of employment. Jobs in the unorganized sector are very low paid. No paid leaves, provident fund holidays and medical

benefits are given to the employees. They are characterized by low productivity, compared to formal sector, lower wages to workers, poor working conditions, excessive seasonality of employment, absence of social security measures, negation of social standards, poor human capital base (in terms of education, skill and training) as well as lower mobilization status of the work force, any effective legal action against it is seen as a step of impairing. The sector covers most of the rural labour and a substantial part of urban labour. It includes activities carried out by small and family enterprises, partly or wholly with family labour. In this sector wage-paid labour is largely non-unionized due to casual and seasonal nature of employment and scattered location of enterprises. This sector is marked by low incomes, unstable and irregular employment, and lack of protection either from legislation or trade unions. The unorganized sector uses mainly labour intensive and indigenous technology. The workers in unorganized sector, are so scattered that the implementation of the Legislation is very inadequate and ineffective. There are hardly any unions in this sector to act as watchdogs. But the contributions made by the unorganized sector to the national income, is very substantial as compared to that of the organized sector. It adds more than 60% to the national income while the contribution of the organized sector is almost half of that depending on the industry. Compared to females, more males are found to be working. The difference in participation rates is very large in urban areas: for every 100 urban females, only about 15 are engaged in some economic activities. In rural areas, for every 100 rural women about 25 participate in the employment market. By knowing the status with which a worker is placed in an enterprise, it may be possible to know one dimension — quality of employment in a country.

**OBJECTIVE OF THE STUDY**

It is to promote, facilitate and develop the unorganized sectors. They are the backbone of the economy in a developing country like India. The sector contributes to 45% of India’s total industrial employment, 50% of India’s total export and 95% of all. When they grow, the economy of the country grows as a whole and flourishes. one’s business registered under it avails a lot of benefits in terms of taxation, setting up business, credit facilities, loans etc.

**RESEARCH METHODOLOGY**

The present study is of descriptive in nature and is based on secondary data collected from Govt. of India’s Annual Report, Indian economies financed.net, RBI Report, books and websites.

**DATA ANALYSIS & DISCUSSION**

A recent study by the Reserve Bank of India (RBI) has noted that the Unorganized sectors have been adversely hit by Demonetization which had a significant impact on the overall credit of the sector. It added that the small business power faces operational problems due to its size and nature of business and is therefore, relatively more susceptible to various shocks to the economy.

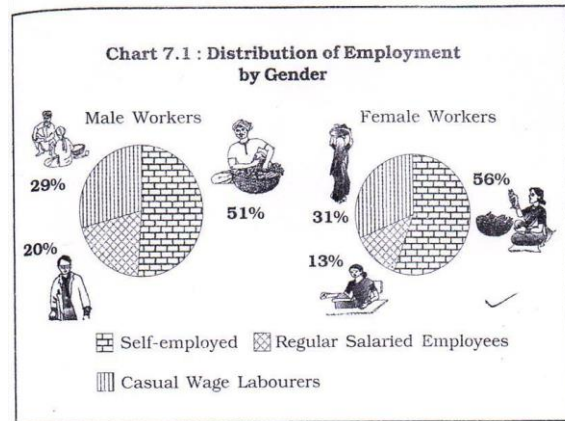
“A major obstacle for the growth of small business is their inability to access timely and adequate finance as most of them are in niche segments where credit appraisal is a major challenge,” the report said.

It added that about 97% of the workforce operate in the informal sector and their share of informal sector in gross output of it is about 34%. As per National Accounts Statistics, 2012, the share of informal sector manufacturing MSMEs in total GDP is estimated at around 5%.

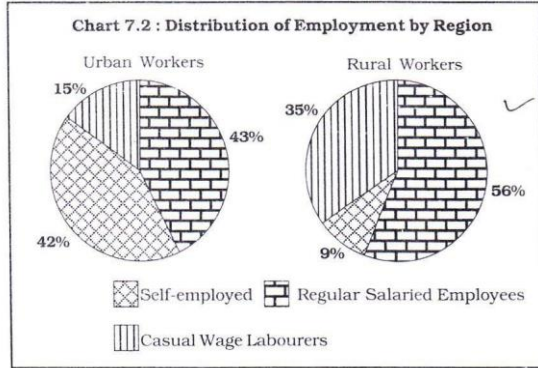
“A large number of these firms depend on informal channels because of easy accessibility and availability of credit without any documentation hassles and mortgages even though the rate of accessing finance are due to lack of comprehensive formal documentation relating to accounts, income and business transactions. As a result loans are provided to the small business mainly through appraisal of their collaterals rather than assessing their true business potentials” it added.

However, the year on year (YOY) growth of bank credit to the unorganized sector decelerated gradually during 2015 to 1.6% in April 2016 before exhibiting some recovery till October 2016. The deceleration in credit growth during 2014-16 was partly due to overall slowdown in economic activity, rising nonperforming assets (NPAs) and reclassification of food and agro-processing units from small businesses category to agriculture sector (as per the revised priority sector) lending guidelines, issued to bank in April 2015). On the exports front the report added that unorganized sector contributes around 40% to India’s total export (GOI 2018). Recognizing significant contribution of small business, the government has put in place several measures in its Foreign Trade Policy (FTP) to promote exports by MSMEs. “Among various items of MSMEs exports, gems and jewellery, carpets, textiles, leather handlooms and handicrafts items are highly labour intensive and depend heavily on cash for working capital requirement and payments towards contractual labourers. Hence, exports shipments of these sectors could have been impacted by demonetization,” it added.

It enables us to know the attachment a worker has with his or her job and the authority she or he has over the enterprise and over other co-workers.



It is noticed that self-employment is a major source of livelihood for both men and women as this category accounts for more than 50 per cent of the workforce in both diagrams. Casual wage work is the second major source for both men and women, a little more so for the latter (31 per cent).



In Section 7.2, we learnt that there are about 473 million workers in the country. There are about 30 million workers in the formal sector. Can you estimate the percentage of people employed in the formal sectors in the country? About only six per cent (30/473x 100)! Thus, the rest 94 per cent are in the informal sector. Out of 30 million formal sector workers, only 6 million, that is, only about 21 per cent (30/6x 100) are women. In the informal sector, male workers account for 69 per cent of the workforce. When we compare the distribution of workforce in rural and urban areas in Chart 7.2 you will notice that the self- employed and casual wage labourers are found more in rural areas than in urban areas. In the latter, both self-employment and regular wage salaried jobs are greater. In the former, since majority of those depending on farming own plots of land and cultivate independently, the share of self- employed is greater.

*Trends in Employment Pattern (Sector-wise and Status-wise), 1972-2012 (in %)*

Item	1972-73	1983	1993-94	1999-2000	2011-2012
Sector					
Primary	74.3	68.6	64	60.4	48.9
Secondary	10.9	11.5	16	15.8	24.3
Services	14.8	16.9	20	23.8	26.8
Total	100.00	100.00	100.00	100.00	100.00
Status					
Self employed	61.4	57.3	54.6	52.6	52.0
Regular Salaried Employees	15.4	13.8	13.6	14.6	18.0

Casual Laborers	Wage	23.2	28.9	31.8	32.8	30.0
Total		100.00	100.00	100.00	100.00	100.00

**FINDINGS**

The Unorganized sector suffered severe hardships due to the twin impact of demonetization. This single whammy led to distress and defaults on bank loans. As a corollary many of these units shut down and numerous of others were forced to lay off employees. The government in conjunction with Reserve Bank of India, launched a series of measures to alleviate their distress.

1. Shackling the operation of e-commerce giants Flipkart and Amazon.
2. Setting up of an improving cell for the unorganized sectors.
3. RBI's announcement of a onetime restructuring for existing stressed small businesses
4. To set up a panel under former Securities and Exchange Board of India (SEBI) Chairman U.K. Sinha to suggest long term structural and institutional changes to catalyze small business growth.
5. RBI Governor Shakti Kant Das has promised to meet with MSME sector representatives to get a clearer idea of their problems.
6. Ensuring the quality of products for exports, technology up gradation incubation, credit linked capital subsidy, UID linked schemes.
7. Collateral free loans from banks.
8. 50% subsidy on patent registration.
9. 1% exemption on the interest rate on overdraft.
10. Concession on power utility bill.
11. Eligible for industrial promotion subsidy.
12. Protection against delayed payment.
13. Reimbursement of ISO certification charges.

**CONCLUSION**

It is too little and too late. These measures are announced after many units have shut down or beyond repairs. The remedial measures should have been executed right after demonetization. There is no initiative to reform or provide more moxie to the trade receivables discounting system, which has financed MSME receivable of only Rs. 2400 crores till October

2018. It is well known that mostly unorganized sectors are umbilically attached to the supply chain of large corporations and are subject to their capricious payments records leading to lengthening working capital cycles and an uncertain bank loan repayment record. It is therefore, surprising that there was a sidestep to this problem which alone could have helped in restructuring a large chunk of MSME loans. According to data from the Directorate General of Commercial Intelligence and Statistics, the export value of MSME related products in 2017-18 was \$ 147.4 billion, or 48.5% of total export.

However, unorganized sector has acquired a prominent place in the socioeconomic development of the country contributing to the overall growth of GDP, employment generation and exports. Its performance has a direct impact on the growth of the national economy, having emerged as the engine of growth for Indian Industry. It has been globally recognized as a vital component of a domestic economy.

Since the late 1970s, many developing countries, including India, Started paying attention to enterprises and workers in the informal sector as employment in the formal sector is not growing. Workers and enterprises in the informal sector do not get regular income; they do not have any protection or regulation from the government. Workers are dismissed without any compensation. Technology used in the informal sector enterprises is outdated; they also do not maintain any accounts. Workers of this sector live in slums and are squatters. Of late, owing to the efforts of the International Labour Organization (ILO), the Indian government has initiated the modernization of informal sector enterprises and provision of social security measures to informal sector workers.

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