



## EFFECTS OF DEMONETIZATION ON SELECTED SMALL BUSINESS UNITS IN COIMBATORE CITY

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### ABSTRACT

Ever since the onset of the financial crisis, the economy has been struggling to revive itself and achieve a healthy growth rate. The growth of SSIs depends on capital investment to a great extent and if there is lack of flow of capital. Its growth will be stunted. Demonetization has brought in financial crunch and has limited the growth of the sector. With this backdrop the study was taken up to analyse the socio-economic status, views on demonetization and mode of payment used by the SBUs before and after demonetization in Coimbatore district. Sixty samples were selected from the universe by adopting incidental purposive sampling technique on July 2108. The study revealed that after demonetization majority of them used digital mode of transactions for their daily business activities. But they cannot fully depend on fully digital system for all purposes and need of some percentage of money for daily usages.

**KEYWORDS :** Demonetization, Small Business Units, Capital

### Introduction

India's vision of emerging as an economic power in the 21<sup>st</sup> century can be realized through the promotion and development of the small and medium enterprises. The Number of SMEs in India is estimated to be at 42.50 million, registered & unregistered together, a staggering 95% of the total industrial units in the country. It employs about 106 million, 40% of India's workforce next only to the agricultural sector and produces more than 6000 products. Currently around 6.11% of the manufacturing GDP and 24.63% of Service sector GDP, 45% of the total Indian manufacturing output, 40% of the total exports, accounts for 16% of bank lending, current fixed assets at INR 1,471,912.94 crore and has maintained an average growth rate of over 10% (Msme.gov.in/KPMG/CRISIL.CII- 2018).

The market forces will determine the systems and manner of production. The allocation of resources within the sector must be governed by the criteria of efficiency, productivity and competitiveness. The Small Scale Industries will have to move from a regime of protective environment to a competitive environment. Small scale industrial units feel apprehensive about globalization and the impact of the agreements with World Trade Organization (WTO). The growth experience of the Asian Tigers (Hongkong, Singapore, Korea and Taiwan) has to some extent, promoted India to go for export orientation. But more important influence is on the perception of the small enterprises and their employment role as an instruction for an easier management of the social system.

On November 8<sup>th</sup> 2016, India's prime minister made an uncheduled announcement to the nation that all the Rs. 500 and Rs. 1000 bank rupee notes as invalid. There are various reasons for this why the prime minister suddenly took the decision to demonetize the local unit of currency. The main reason for this is to eradicate inflation, corruption and other crimes, tax evasion, counterfeiting, to discourage the cash dependent economy and to facilitate trade. Demonetization helps the people not to involve in any ill legal activities like cash seize, money laundering and black money holders who are trying to convert it in to white money. Demonetization is the process of devaluing the currency to zero. The major sector which was affected by demonetization is small scale businesses which do not have even swiping machines, much flow of cash including the small vendor who sells vegetables and fruits on the street. Joblessness has been reported in many sectors such as agriculture, small and medium manufacturing units, unorganized sectors like retail, real estate. In this context, a micro level study assumes immense significance to assess the impact of demonetization on selected small business units in Coimbatore city.

### Objectives of the study

- To study the socio-economic profile of the SBUs respondents
- To detect the views on demonetization after implementation.
- To find out the mode of payment used by the SBUs before and after demonetization

### Hypothesis

- Respondents are young, educated and wealthy.

- Mode of payment by the respondents is independent of demonetization

### Earlier studies

Mohsin, F., & Sahni, S. (2017) revealed the impact of Government's demonetization effort on the cash intensive areas of the economy including everyday shopping for food and supplies. The study was an attempt to examine different components involved in vendor's selection decisions and their role in purchase decisions. The study based on primary data collected through a self-constructed questionnaire from the population of 150 respondents. The study was carried out at local markets located at Faridabad and South Delhi and the information collected was depicted by the graphs and tables.

Purvi Mathur and Dr. Ritu Arora (2017) studied that demonetization move has affected the Indian retail sector due to lack of liquidity in the economy. It has also resulted into the low footfall in shopping malls, more use of plastic money and electronic payment. The impact is felt more by the small traders and the unorganized retailing segment as their transaction is in cash. But it is estimated that Indian economy can grow considerably after curbing the counterfeit money and increase in the economic activity. The study analyzed the impact of demonetization on the Indian retail sector both organized and unorganized.

Vaibhavshankar Soni et.al (2017) demonstrated demonetization is one of the important tools used by the government of India to tackle the obstacle mainly named as black money as well as the other motive as to increase the impact of plastic money and E – Transaction within the business and for other activities. Small scale industries act as the backbone of the Nation. The economic development of the Nation widely depends upon the status of this Small scale Unit. The study analyzed the impact of demonetization on Indian economy and the changes and agendas linked with the demonetization.

### Methodology

The primary data collected from 60 small business units in Periyayakkanpalayam, Karumpukadai and Saibaba Colony were selected from the universe by adopting incidental purposive sampling technique. The required data was collected by administering a pre-tested interview schedule during the period July 2018. Besides averages & percentages, techniques like Chi- Square Analysis, Garrett's rating scale were used.

### Results and Discussion

#### SOCIO-ECONOMIC STATUS OF THE RESPONDENTS

The study assessed the socio-economic status on the basis of age, gender, marital status, education, area of dwelling, type of family, occupation and income of the sample respondents. A total of 60 respondents were surveyed as; **Gender:** The study observed that majority of the respondents were male dominated (65 percent). **Age** is an important socio-economic factor which determines individual's standard of living and attitude. Majority of the respondents were in the younger and effective category. **Marital Status** shows that majority of

them were married (75 percent). **Education** could be observed that most of them were educated and only few of the respondents were illiterates. **Type of family** does not play any role among the selected respondents for this particular study. **Area** of dwelling, since they were from urban area, most of them could earn higher level of income compared to the respondents from semi-urban area. **Occupational status** shows majority of them (28 percent) were doing the job of vegetable vending followed by 20 percent of them occupied in running baby shops. Further 10 percent each of the respondents were running medical shop and textiles and boutiques to earn their living. **Income** details of the sample reports was surprising to note that around 30 percent of them could earn between Rs.50,000/- Rs.75,000/- which indicates that respondents were sincere and hard working in their activities.

### VIEWS ON DEMONETIZATION

Respondents were asked to rank their views on demonetization after its implementation. The views were listed and the respondents were asked to rank these views in their order of priority. The ranks were then converted into percent position and from the percent position the individual scores were determined on a scale of 100 points by using Garrett's Rating Scale. The average scores and the ranks corresponding to each view are presented in table.1

**Table-1**  
**Views on Demonetization**

Views on demonetization	Ranks	Scores
Demo of how to make use of Internet, Mobile banking and ATM's	4	3.73
Sufficient Circulation of smaller denomination of currency	1	3.98
Cash Management in ATM's	2	3.8
Increase the usage of ATM's in the rural Areas	5	3.71
To Ensure everyone should have a bank account	6	3.66
Increase in daily cash with drawl limits from ATM's	3	3.75
Incentives for RTGS and NEFT	7	3.61
Increase in the limit for service tax exemption	8	3.58

Source: Estimation Based on Field Survey

The major views on demonetization given by the respondents were 'sufficient circulation of smaller denomination of currency' (1<sup>st</sup> rank), followed by 'Cash Management in ATMs' (2<sup>nd</sup> rank), and 'increase in daily cash withdrawal limits from ATMs' (3<sup>rd</sup> rank). The least rank was given by the respondents were 'Increase in the limit for service tax exemption' (8<sup>th</sup> rank). In short, the respondent's expressed that to increase the ATM centres and withdrawal per day limits and to demonstrate how to utilise the digital transaction by all people, so that the benefits of demonetization would reach each and every person in the society.

### CHI-SQUARE ANALYSIS

In order to investigate the association between demonetization and mode of payment (Cash, Cheque, Credit, Debit, Transfer Payment, Net banking, Mobile Banking and NEFT/RTGS) of the respondents, Pearson's chi-square test was done. The null hypothesis framed was:

H<sub>0</sub>: Mode of payment by the respondents is independent of demonetization.

H<sub>a</sub>: Mode of payment by the respondents is not independent of demonetization.

The calculated chi-square values are shown in table 2.

**Table-2**  
**Association between Demonetization and Mode of Payment**

Variable	Chi-Square Value	Degrees of freedom	Asymptotic Significance	Inferences
Cash	78.003	1	.000	Reject H <sub>0</sub>
Cheque	16.834	1	.000	Reject H <sub>0</sub>
Credit	5.772	1	.016	Reject H <sub>0</sub>
Debit	19.889	1	.000	Reject H <sub>0</sub>
Transfer payment	5.557	1	.018	Reject H <sub>0</sub>
Net banking	13.615	1	.000	Reject H <sub>0</sub>
Mobile banking	13.615	1	.000	Reject H <sub>0</sub>
NEFT/RTGS	3.875	1	.049	Reject H <sub>0</sub>

Source: Estimation based on Field Survey

The study found that there is significant association between before and after demonetization and mode of payment of the respondents at one percent level. Before demonetization majority of the respondents used cash as the mode of transaction for their business purposes and after demonetization majority of them used digital mode of transactions for their day-to-day business activities.

### Conclusion

Small scale business constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. This sector has been regarded as engine of economic growth and social development in many developed and developing countries. Though the process of demonetization laid down impact on business activity for small traders but the move of demonetization was affected the small traders business activities. The study found that before demonetization majority of them used cash as mode of payment for their day to day business activities but after the implementation of demonetization they are forced to do transaction through digital mode. The study recommended that, first the government should demonstrate that how to utilise the digital transaction by all people, so that the benefits of demonetization would reach each and every person in the society.

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