

IMPACT OF DEMONETIZATION ON MSME SECTOR: CHALLENGES AND PROBLEMS

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ABSTRACT

The demonetization decision was implemented by the government to bring transparency, economy and accountability. The SMEs sector is largely run by contract and daily wage workers. The MSME sector has been hit hard as most mobile workers keep their bank accounts at work. Since the onset of the financial crisis, the MSME s sector is struggling to achieve healthy growth rates and revive the economy. MSME sector faced with huge financial losses due to poor planning of demonetization most closed their units when sales fell. The result demonstrated that the demonetization significantly influence challenges of MSME sector. It is demonstrated that the demonetization significantly influence problems of MSME sector. The research demonstrated that the challenges significantly influence problems of MSME sector. For this, the government should also take initiatives to create awareness about digitization and digitization among illiterate people and in rural areas.

KEYWORDS: Demonetization, Challenges, Problems and MSME Sector.

INTRODUCTION

The Prime Minister of India announced the price revision action in India at 8.30 pm on 8th November. Indian Prime Minister announced that all Rs 1,000 and Rs 500 notes will become obsolete on 8 November 2016. After the bank working hours, the bank is left with no possibility of wrong action. On March 31, 2016, 500 and 1000 notes accounted for 86.4% of the total value of notes in circulation by the Reserve Bank of India, which was reported at Rs 14 trillion. Most of the money in these 500 and 1000 notes was considered counterfeit money injected into the economy and used to finance terrorist activities. 2016, November 8 midnight India canceled 86.4% of its money base. The government is trying to tackle the three problems affecting the Indian economy (counterfeit money in the currency, fake money and terrorism funds) through a single action called currency lending. To overcome the shortage of money among the people of the country due to the monetary policy, a measure was taken to introduce Rs 2000 rupees which did not help. Those who bought goods at small prices were left without the help of a huge economy. People used to stand in long queues in banks to withdraw money.

Due to this, medium, small and micro enterprises and their employees are facing difficulties in meeting their family needs. Medium, small and micro traders faced problems in their daily business due to devaluation. The SMEs sector is largely run by contract and daily wage workers. The MSME sector has been hit hard as most mobile workers keep their bank accounts at work. Since the onset of the financial crisis, the MSME s sector is struggling to achieve healthy growth rates and revive the economy. Growth depends on capital investment for the economy and if there is lack of capital, the growth of MSMEs is hampered. The financial crisis caused by the decline in

monetary value restricted the growth of the MSME sector. Therefore, the research attempts to find out the impact of devaluation on the challenges and problems of the MSME sector.

REVIEW OF LITERATURE

Manpreet Kaur and Kanwaljeet Singh (2019) responded that the main benefits of demonetization were improved national environment, financial inclusion, improved consumption, less cash economy and investment system. An influential factor determining attitudes towards demonetization is financial inclusion and a less cash economy.

Malarvizhi (2018) discovered that most of the authorities of Small Business Units were despondent about the execution of demonetization because they faced defeat due to cash crunch and had a great crash on their small business activities and their regular of living.

Gupta (2017) analyzed the crash of demonetization on MSME sector. The research identified that MSME sector was scarcely strike by demonetization due to their larger dependence on inflexible cash.

Vij (2017) has found that the retail business sector is very badly affected due to demonetization. Small traders were completely dependent on money. Hence, that demonetization impacted retail sector very badly.

Frank, et al. (2017) conducted a study among small-scale retailers regarding the impact of demonetization. This study was carried out in the city of Madhya Pradesh. The study found that overall retailers were happy with the demonetization outcome.

According to Tiwari and Tiwari (2017), small-scale and cottage industries have gained an important place in the Indian economy. Indian economy depends on its contribution in total industrial production, employment capacity and exports. Large scale businesses are mostly based on cashless transactions and small scale businesses are mostly dependent on cash. Due to this money crisis has arisen. Due to this, small units of money have lost value in the currency exchange process.

Mathur and Arora (2017) claimed that demonetization is a surprise move. Demonetization in the Indian economy affected the consumption activity. Demonetization has affected the Indian retail industry due to lack of liquidity in the economy. The impact of demonetization is felt the most as unorganized retail and small traders are transaction cash.

Bhattacharyya, et.al (2016) attempted to tackle all the three issues affecting the economy such as counterfeit currency in circulation, parallel economy and terror financing. Those who bought goods at small prices were left without the help of a huge economy. People used to stand in long queues in banks to withdraw money. The research aims to comprehend the impacts of demonetization on small and marginal traders in their daily business and modern ideas that they have undertake to rise above the problem.

Govil (2017) conducted a conceptual study of demonetization. The author found that demonetization would be good for finance and development sectors, while demonetization could have a negative effect on luxury goods, consumer goods, real estate and allied sectors. Demonetization will help in reducing inflation, better tax compliance, eradicating black money and reducing corruption.

Jain & Kamath (2017) conducted a conceptual research to identify counterfeit currency, tax non-compliance and criminal activities. Government of India took decision to demonetize

some currency notes. Also, Government of India introduced new currency notes. It is also believed that the situation will not change due to demonetization by the government unless the attitude of Indians to pay taxes changes.

Shirley (2017) performed a conceptual research to find out the impact of demonetization. The author asserted that less than 5% of the Indian economy is cash in total black money. The Government did not take proper planning during demonetization to reduce the hardships faced by the common man. Demonetization affected the Indian economy, the common man and the international scene.

Rani (2016) analyzed the benefits of demonetization through a conceptual study. Devaluation was initially negative in the market. But then demonetization led to the adoption of a cashless economy. Demonetization helped people to find new business avenues. Demonetization also helped curb black money.

Gajjar (2016) analyzed the benefits of demonetization through a conceptual study. Black money significantly affects the social, political and economic outlook. The author found that demonetization will curb the problem of black money and demonetization will send a message to the society about the seriousness of the Government.

RESEARCH GAP

A number of studies on demonetization can be seen from the above review of literature. Most studies of demonetization address the pros and cons. Gupta (2017) analyzed the crash of demonetization on MSME sector. The research identified that MSME sector was scarcely strike by demonetization due to their larger dependence on inflexible cash. Since demonetization took place in November 2016, few studies have focused on its benefits and MSME sector's attitude towards it. Therefore, the present research was done to fill this gap.

FRAMEWORK

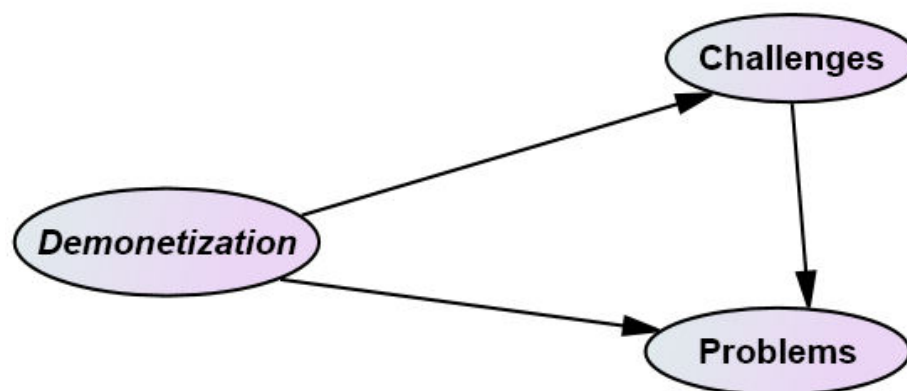


Figure 1: Conceptual framework

Limited research has been conducted related to Demonetization, challenges and problems. Hence, the study attempts to fill this gap by estimating the impact of demonetization on challenges, and problems of MSME sector. Below are my proposed hypotheses.

H1: Demonetization has significantly influences challenges of MSME sector.

H2: Demonetization has significantly influences problems of MSME sector.

H3: Challenges has significantly influences problems of MSME sector.

NEED FOR THE STUDY

The findings of this study will help MSME sector. This study will help to know whether the MSME sector is affected by demonetization. This study also will help to identify the impact of demonetization on challenges, and problems of MSME sector. Findings from this study can help MSME sector reduce challenges and decrease their problems.

OBJECTIVES

- To discover the influence of demonetization on challenges of MSME sector.
- To found the influence of demonetization on problems of MSME sector.
- To identify the influence of challenges on problems of MSME sector.

MATERIALS AND METHODS

In order to explore the impact of impact of demonetization on challenges and problems of MSME sector a descriptive research design is employed by the researcher. Data is collected from MSME sector in Chennai, Tamilnadu through a well-designed questionnaire. This descriptive research design is employed to explore the relationship between demonetization, challenges and problems.

QUESTIONNAIRE DESIGN

Data is collected from MSME sector in Chennai, Tamilnadu through a well-designed questionnaire. The questionnaire construction for this study is divided into four parts. The first part of the questionnaire is a demographic profile of the MSME sector, the second part is demonetization, the third part is challenges of MSME sector, and the fourth part is problems of MSME sector. The first part is set up as a category and the other three as a measuring scaling technique.

Table 1: Questionnaire Construction

S.No.	Variable	Items	Author
1	Demographic Profile	10	---
2	Demonetization	12	Self Design
	Shortage of Money	4	
	Worker Absenteeism	4	
	Less Cash Economy	4	
3	Challenges of MSME sector	4	
4	Problems of MSME sector	4	

RELIABILITY

Pilot study was done to confirm that the results of this research questionnaire are reliable. The questionnaires are verified by involving 50 authorities of MSME. Based on the authorities of MSME opinion, some changes are made in the questionnaire. Cronbach's alpha tool is employed

to test the reliability. All the variables of this questionnaire are above 0.70. The results show that it is reliable. This means that the questionnaire has a high reliability value.

Table 2: Reliability of the research

S.No.	Variable	Items	Cronbach's Alpha
1	Demonetization	12	0.87
2	Challenges of MSME sector	4	0.90
3	Problems of MSME sector	4	0.94

Source: Primary data

SAMPLING TECHNIQUE

In this study, purposive sampling technique has been applied to collect the primary data from MSME sector in Chennai. In this way 50 MSME sector are approached to collect the primary data.

STATISTICAL TOOLS

Path analysis is used to estimate model by probing the relationship between independent variable (Demonetization) on dependent variable (Challenges of MSME sector and Problems of MSME sector). The researcher has employed the path analysis for influence of impact of demonetization on challenges and problems of MSME sector.

Table 3: Model Fit Indication

S.No.	Model Fit Indicators	Calculated Values in the Analysis	Recommended Values (Premapriya, et al. 2016)
1	Chi-Square	43.331	---
2	p	0.372	> 0.050
3	GFI	0.981	> 0.90
4	AGFI	0.992	
5	CFI	1.000	
6	NFI	0.998	
7	RMR	0.026	< 0.080
8	RMSEA	0.012	

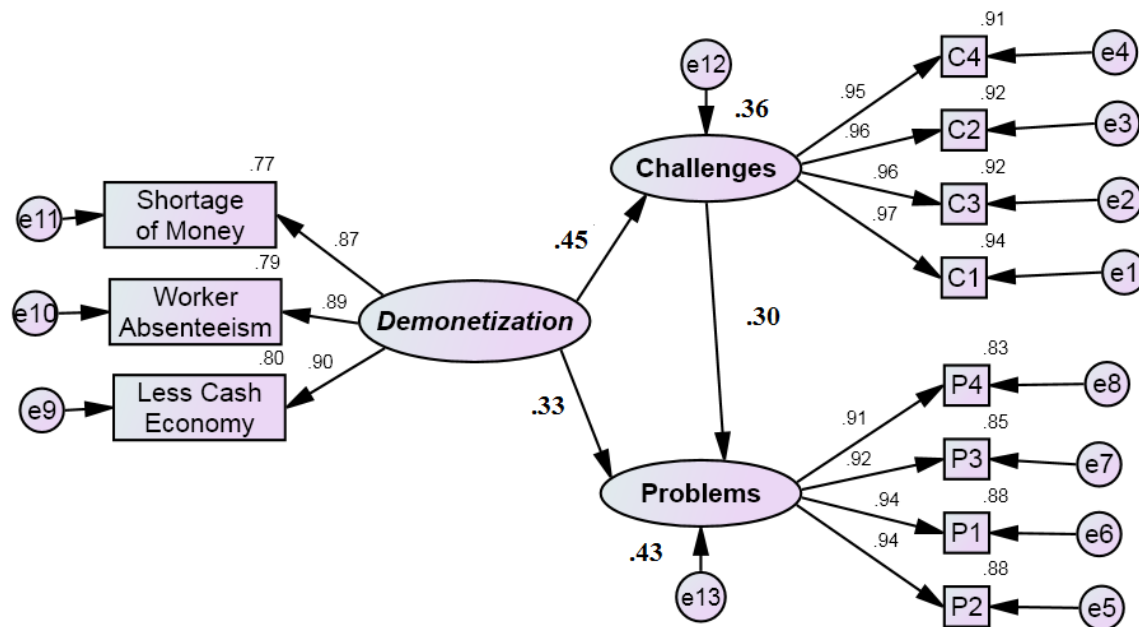
Source: Primary data

The table 3 presents the mode summary of impact of demonetization on challenges and problems of MSME sector. The Chi-square value is 43.331 with $p > 0.05$. The result illustrates the model fit statistics such as RMSEA, RMR, NFI, CFI, AGFI and GFI. RMR and RMSEA are within than the recommended limit i.e., RMR and RMSEA is less than 0.08 (Indra, Balaji and Velaudham, 2020; Velaudham and Baskar, 2016). NFI, CFI, AGFI and GFI are within than the recommended limit i.e., NFI, CFI, AGFI and GFI is greater than 0.90 (Kantiah Alias Deepak and Velaudham, 2019; Velaudham and Baskar, 2015). All the model fit statistics imply a better model fit (Premapriya, et al. 2016; Victor and Velaudham, 2020).

Figure 1.2: Impact of demonetization on challenges and problems of MSME sector

H₁: Demonetization significantly influences challenges of MSME sector.

The result of the table demonstrated that the C.R. value is 14.988; β value is 0.452 and p value is significant. The value of β is 0.452 that demonetization explains 45.2 percent of the challenges of MSME sector. Therefore, the hypothesis is accepted. Hence, the result demonstrated that the demonetization significantly influence challenges of MSME sector. Malarvizhi (2018)



found similar result.

Table 4: Regression Weights

DV		IV	Estimate	S.E.	C.R.	Beta	p
Challenges	<---	Demonetization	0.630	0.042	14.988	0.452	0.001
Problems	<---	Demonetization	0.586	0.053	11.018	0.333	0.001
Problems	<---	Challenges	0.162	0.020	8.144	0.295	0.001

Source: Primary data

H₂: Demonetization significantly influences problems of MSME sector.

The result of the table demonstrated that the C.R. value is 11.018; β value is 0.333 and p value is significant. The value of β is 0.333 that demonetization explains 33.3 percent of the problems of MSME sector. Therefore, the hypothesis is accepted. Hence, the result demonstrated that the demonetization significantly influence problems of MSME sector. Frank, et al. (2017)) found similar result.

H₃: Challenges significantly influences problems of MSME sector.

The result of the table demonstrated that the C.R. value is 8.144; β value is 0.295 and p value is significant. The value of β is 0.295 that challenges explains 29.5 percent of the problems of MSME sector. Therefore, the hypothesis is accepted. Hence, the result demonstrated that the challenges significantly influence problems of MSME sector. Gupta (2017) identified that MSME sector was scarcely strike by demonetization due to their larger dependence on inflexible cash.

The result demonstrated that the demonetization significantly influence challenges of MSME sector. Malarvizhi (2018) found similar result. It is demonstrated that the demonetization significantly influence problems of MSME sector. Frank, et al. (2017)) found similar result. The research demonstrated that the challenges significantly influence problems of MSME sector. Gupta (2017) identified that MSME sector was scarcely strike by demonetization due to their larger dependence on inflexible cash.

CONCLUSION

The demonetization decision was implemented by the government to bring transparency, economy and accountability. MSME sector faced with huge financial losses due to poor planning of demonetization most closed their units when sales fell. The result demonstrated that the demonetization significantly influence challenges of MSME sector. It is demonstrated that the demonetization significantly influence problems of MSME sector. The research demonstrated that the challenges significantly influence problems of MSME sector. For this, the government should also take initiatives to create awareness about digitization and digitization among illiterate people and in rural areas.

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