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## **Demonetization: It's implication on small scale industries**

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### **Abstract**

Demonetization is a process of replacement of old currency unit with a new currency unit, here old currency are retired and replaced with a new currency. The motive of this study is to ascertain the implication of demonetisation, by Indian government in 2016, on small scale industries /business and also try to find out conditions faced by small industries during the time of demonetisation and how they are rise above with it as the days are passing by.

**Keywords:** Demonetisation, small scale industry

### **Introduction**

Demonetisation is a supervisory action by which a country declares the circulating currency of the same is no more a legal tender. In Nov 2016, the Indian government decided to demonetize the 500- and 1000- rupee notes, the two high value notes its currency system; these notes accounted for 86 percent of the country's circulating cash. Indian economy is primarily cash based economy. India has been country of handicraft and small scale industries. The small scale industrial units are the roots and fruits of economic activities. They provide way of life to more number of people. With less amount of capital investment, this sector contributes more towards GDP, provides more employment opportunities, offers unique product and service offerings, and serves customers with personal attention. Though the large and medium types of industries make the infrastructure and skeleton of an economy, the blood, flesh and skin of a flourishing economy is made up of small scale industrial units. Since the ancient India, the small scale industry has been largely regarded as a culture for uplifting the weaker sections of the population whether it is handloom weavers, handicraft workers, rural women spinning at home.

The main causes behind this idea of demonetization were to stop the fake currency and thereby funding terrorism. Apart from that promotion of digital cashless transaction which will help to furnish Indian digital economy, was another aim.

### **Objective of the Study**

- To know the impact of demonetisation on small scale industry.
- To study the crisis faced by small scale traders after implications of demonetization.
- To find out solutions, for overcoming from the demonetization impact for small scale industries.

### **Research methodology**

Descriptive research method is used to collect data for this paper. This study is based on the secondary sources; information has been collected by going through various journals, reports and news papers.

### **Review of literature**

Jai Bansal (2017) <sup>[4]</sup> explain his article that demonetization is a surgical strike on Indian black economy like black money, fear of terrorism, duplicate/fake notes, unorganised sectors, real estate, share market, etc. The Indian economic is based on the three major sectors i.e. agriculture sectors, manufacturing sectors and service sectors.

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After demonetization, only agricultural sector shows positive improvement while other two sectors – manufacturing and service sectors were crashed down. He also focuses on impact of demonetization in different sectors of Indian economy.

Dr. Pappu Kumar Rajak (2018) [2] defined the financial impact of demonetisation in Indian economy with the help of pros and cons model. With the help of the model, he is able to define the drawbacks of the demonetisations while implemented in Indian economy and positive financial impacts in long run economy as well.

CD Equisearch Pvt ltd (2017) [1] - In this paper, they have focuses on effects of demonetization on various sectors. The act of demonetisation move as a dark shadow on small scale industries, Agro based industries, tourism and hospitality industry in India. Cash crunch has adversely affected the liquidity of currency exchanges in the country.

Boney Bose (2018) [3] explain in his article about the impacts of demonetisation in small scale merchants. He focuses on impact, merits and demerits of demonetisation with Indian merchant prospects.

An implication of Demonetisations stands for positive and negative effects on small scale industries.

### **Positive effects of Demonetisations on Small scale Industries**

#### **Digitalisation in practice**

With the implementation of demonetisation, cash available in the market are starting to withdraw by the bank. This practice generates the problem of cash crunch. Hence, Digital modes of financial transaction come into the practice due to the scarcity in cash (liquidity) in market. It will help to small scale industries to get their payments instantly to their bank account as well pay to their force on time.

#### **Small scale Industries and E-commerce**

With the starting of making India vision of government and implication of demonetisation, small scale industries also getting registered with e-commerce. Small industries in digital marketing with the facilities of cash on delivery have to spend more on realisation of payment along with the waiting days. Online /digital payment modes will resolve this issue and tends to growth of business on account of demonetisation.

#### **From cash economy to digital Economy**

Indian economy is cash based economy. More than 45% of small scale industries are contributes in Indian economy. Demonetisations help them to convert from cash to transaction to digital transactions. So with the implications of the demonetisations cash economy is converted into digital economy.

#### **Making Indian economy more stable**

Demonetisation works as most effective tools for Indian economy. Number of small scale industries and firms are being registered for taxation. tax collection will increase which ultimately help in the stabling of economy. So Demonetisation will help economy become more formal and stable in the long run.

#### **Increases National income**

With the help of the demonetisation all the industries are showing their real income to the banks and they are paying

tax. Due to this national income increases.

### **Negative effects of demonetisation on Small Scale Industries**

#### **Small scale industries and demonetisation**

Due to the implementation of demonetisation, small scale industries were totally ruined and vanished from the market. These industries required free flow of cash / liquidity of funds to run their business smoothly and to achieve their daily target.

#### **Business and business operation**

So as India faced crisis of cash, small business units were not able to pay its workers on time. Workers also had to stand in long queues to withdraw / exchange money in ATMs / Banks which had reduced working hours of business operation.

#### **Industries suffered from great loss**

Small businesses had to restrict their business activities and many of the small businesses undergone great losses with the demonetisation process. As the Daily business activities were based on cash transaction like purchase of material, wages, labour, transport extra.

#### **Impact on Index of Industrial Production**

Demonetisation have Immediate bad effect is the IIP (Index of Industrial Production) will get affected. Due to the implication of demonetisation immediate production and manufacturing of small industries affected which tends to minimise the contribution in all over industrial production.

#### **Psychological and physical harassment**

People in rural and urban areas may take this as mentally and physically harassment. They had to stand in a long que for changing their currency, which affects the working operation and their capacity to work.

#### **Recommendations and suggestions**

- Digital literacy booth / campaigning should be run to educate people and make them friendly with various digital modes.
- Sufficient stock of new currency should be maintained at least a day before implementation of demonetisation.
- Expanded cash limits withdrawal for cash driven Small industries and also increase the daily cash limits from ATM.

As these industries are cash based and so far away from the digital transaction. So to pull them from cash to digital, i.e. RTGS and NEFT, there should be removal of service tax at least 3-4 transaction.

#### **Conclusion**

The main objective of demonetisation was to remove black money from the Indian market and gives new dimensions to the Indian economy. This strategy was implemented without adequate precaution and proper planning. The execution of this process also failure as there is no new currency available in the bank/market. Demonetisation has left a negative impact on the small and medium enterprises in job creation and rural consumption. Mostly small scale industries affected by demonetisation process. Lack of cash leads to decline in sales and production.

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