



## Impact of Demonetization on Small Scale Business

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### ABSTRACT

The Indian economy is experiencing a shock, because of a major decision taken by present government. The term demonetization leads a transition from cash to cashless economy. E-Commerce is going to play a major role in future business scenario. Today every common man has mobile connection and they prefer mobile phone for doing shopping and business transactions. Recent researches in India show the huge acceptance and success of digital mode of payments. In India fine dining has been accepting digital payment methods since long through credit and debit cards, but road side restaurants were only dependent on cash transaction.

### Introduction

Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form or forms of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency.<sup>1</sup> The first time that Govt. of India has gone for demonetization of high value currency. It was first implemented in 1946 when the Reserve Bank of India demonetized the then circulated Rs.1000 and Rs 10000 notes. The Government then introduced higher denomination banknotes in Rs 1000, Rs 5000 and Rs 10000 in January 1978. On Nov.8, 2016, Rs 500 and Rs1000 were demonetized that time 87 Percent of this cash is in the form of Rs 500 and Rs 1000 notes in our country. The objective to minimising corruption, to completely verify & remove counterfeit currency and to destroy the financial activities used by terrorist. The intention was no doubt appreciable but this scheme has shown a great impact on Indian economy as positive and negative. Its almost cash transaction oriented economy in almost all small business. Decision of demonetization on millions of Indians are suffered from many hated incidence specially in the vast areas of rural economy such are several deaths happened due to inconvenience caused for the rush to exchange cash to banks, ATM s, jewellery shops etc. There was a shortage of newly designed notes in the banks which caused to create unhealthy atmosphere among the small business holders and as well in market.

India's GDP and industrial production decreased, service sectors affected in a bad manner, micro-business and seasonal business hampered due to huge cash shortage. It is also interesting to note that this was not

The Indian Govt. had demonetized Rs 1000, Rs 5000 and Rs 10000 notes to counter black money in the economy. The main focus of this paper is small scale businessmen and how they have affected because of this decision. Many reports stated that small scale businessmen have immensely affected after demonetization because of the cash crunch and lack of infrastructure like digital payment system etc. Small traders in retail sector (grocery shops etc), service sector (restaurants, nursing homes etc.), gems and jewellery, small traders in agricultural products, SMEs, small dealers, professionals like doctors, lawyers etc, have highly affected because of demonetization during last one year.

Problem Statement Typically, most of the small businessmen have between Rs 1 lakh and Rs 10 lakhs of cash in hand. The only exceptions are owners of tannery and gems businesses. They keep a couple of crores of



rupees in hand because these businesses are entirely run on cash. So, in the first four-five days of demonetization, the small businesses tried to figure out what to do with the old notes of Rs 500 and Rs 1,000. They could deposit Rs 2.5 lakhs in their accounts and also in those of members of their families. By and large, small enterprises didn't encounter much of a problem in disposing of their cash in a legal way. In the second stage small business owners have seen they don't have money to pay suppliers, transporters, loaders and labourers. Payments to them constitute a large percentage their expenditure. They didn't have money because they had deposited it, but banks didn't give them money in return. It is then they realised that they faced a depressing future. In worst case, rules regarding withdrawal and deposit of money were being changed all the time. The most important thing for business is predictability. A businessman takes corruption in his stride, whether in Bihar or the Northeast. About 7% to 8% of people are employed in government and corporate sectors. Of the remaining 92%, take out 60% of those who are farmers or linked to the rural economy, though they too work on cash and not cheques. The remaining 32% or a little more is employed in small scale enterprises and depends on cash. Demonetization has had an adverse impact on a lot of those who don't have black money. Chemotherapy in cancer treatment is opted as a last resort. This is because chemotherapy also kills healthy cells. To eradicate black money, the micro, small and medium enterprises were thus hit badly.

#### **Literature Review:**

G. Ganesan et.al.(2017) conducted a study on the impact of demonetization on Indian Economy. This study depicts that there is a positive effect of demonetization in long run. It also states that agricultural sectors, real estate sectors are affected by this move in the short run but there must be a positive growth in the long run. Geeta Rani(2016) researched on the effect of demonetization on retail outlets. This study states that at initial stage shopkeepers faced huge problems and the markets were very much affected by the cash crunch but this move also compelled the shopkeepers and consumers to adopt cashless means which will create a sound or hassle free transaction process in the future.

Ashok K.Nag(2016) revealed in his paper „Lost due to demonetization“ how this vacuum cleaning of money supply affects negatively the businessmen, wage earners, self employers as well as GDP of the country

#### **Objective of study**

- 1 - To find out the impact of demonetization on increased usage of E-wallet.
- 2- To study the digital payment methods have adopted by the businessmen.
- 3 -To study whether digital payment methods have adopted by the businessmen has significantly increased or not.

#### **RESEARCH METHODOLOGY**

The data used for the present study is primary in nature. In order to collect primary data, self-administered questionnaire was used. The questionnaire was administered to about 150 people. The respondents included 91 males, 59 females. Snowball sampling approach was adopted in order to collect the primary data; however questionnaire was administered diligently to avoid biased errors. The respondents were the customers of few selected road- side small restaurants at Jalna, Maharashtra.



**Demographic Profile of the Sample Respondents**

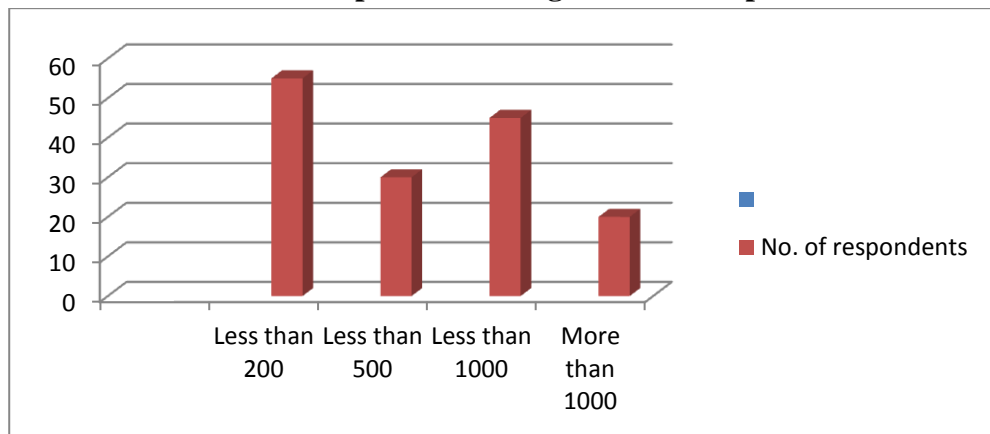
	Age	No. of respondents (n-150)	Percentage
	18-25	55	36.36%
	26-30	32	21.33%
	31-50	33	22%
	50&above	30	20.00%
	<b>Gender</b>		
	Male	91	60.66%
	Female	59	39.33%
	<b>Marital Status</b>		
	Single	70	46.66%
	Married	80	53.33%
	<b>Education</b>		
	Illiterate	20	13.33%
	Below 10th	30	20.00%
	Under Graduate	61	40.66%
	Graduate	39	26.00%
	<b>Income</b>		
	Below 10,000	51	34%
	10,000-25000	32	21.33%
	25000-50000	27	18%
	50,000 and Above	40	26.66%
	<b>Occupation</b>	51	34%
	Student		
	House Wife's	19	12.66%
	Salaried Class	35	23.33%
	Daily Wager	45	30%
	<b>7 Eating out side</b>		
	Less than 200	55	36.66
	Less than 500	30	20.00
	Less than 1000	45	30.00
	More than 1000	20	13.33
	<b>8 Mode of Payment</b>		
	Cash	60	40.00
	Debit card / Credit card	27	18.00

e-wallet	28	18.66
UPI based	35	23.33
<b>9 Do food vendor accept E-Payment</b>		
1- No	80	53.33
2-Yes	40	26.66
3-Some times	30	20.00

The above table shown demographic profile of the respondents. The sample size chosen for the study was of 150 respondents which includes 91 males and 59 females. (39.33%) of the sample belongs to the age group of 18-25 years and 36.36% belongs to 26-30 years age group.

Large numbers of respondents (53.33%) were married and the rest (46.66%) were single. It is evident from the table that (34%) of respondents were students, 23.33% belonged to salaried class, (12.66%) of respondents were housewife and rests were daily wagers. Majority of respondents (13.33%) were illiterate and major part of the sample lied in the income group of below Rs. 10000. Large number of respondent (36.66%) were spent less than 200 Rs. on out side eat and very few (13.33%) were spent more than 1000 Rs. Most of respondent(40%) were spent their money through traditional way of cash and next in line mode was UPI based which was used by (23.33%) respondents.

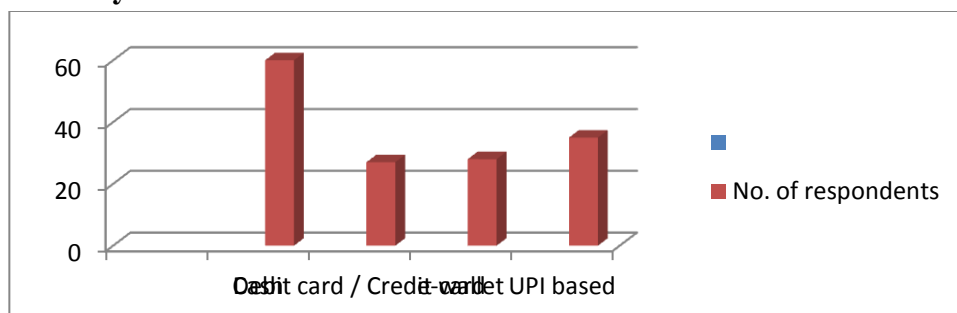
**1- Spent for Eating outside - Respondents**



**Inference:**

It is clearly evident from the figure no. 1 that people mostly spend more than rs.200 on eating out at road side. It shows their spending habits, next follower was in less than 1000 category, at last number was category was more than 1000.

**2 - Mode of Payment**





**Inference:** After demonetization, it is proved that people shifted from traditional format to another way of payment like e-way through. The researcher was asked during the survey that which electronic mode among all, they prefer most. It is clearly realised that most of respondents think of another way payment, after cash they trusted on UPI based, e-wallet, and Debit/Credit card. It could be observed from the figure - 2 that majority of the respondents (60%) are using e-way of payment instead of cash. The candidates find these modes of digital payment more lucrative and benefitting like cash back discount.

### 9 - Do food vendor accept E-Payment

**Inference:**

Demonization has a both side positive and negative impact on all Indian Market as well to all fields of an economy. The respondents were asked during the survey regarding mode of payment. All respondents want to do digital payment at times of payment but not all the time possible, some food vendor not continue themselves to accepted e-payment. 53.33 % food vendor still does not push their traditional way of payment method, They accepted only cash, only (26.66 %) food vendors are ready to accept new mode of payment.

**CONCLUSION** - Through the survey it was much cleared that some road side vendors had been shifting from cash payment to e-way specially through Mobile payment option like UPI, e-wallet, some are uses cards. The entire research work revolves around figuring out the impact of demonetization on the consumer spending and payment method. The study aimed to measure the effect on individuals who earn incomes in cash and spend it in cash. The research findings reveal that among the e-wallets majority of respondents are using UPI based application for make payment. Vendors and respondents both are using mobile commerce and it is being used as the next generation mode of business. There are many options are emerge after demonetisation instead of cash payment in the modern economy like BHIM, UPI based applications, debit cards, credit cards and mobile wallets. There are many unique characteristics of e-payment make them differ from cash.

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