

## THE IMPACT OF DEMONETIZATION ON MSM ENTERPRISES IN INDIA

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### **ABSTRACT**

Indian Economy has far been a victim of black money and corruption. In a grand move that has taken the country by surprise. Scrapping of high value notes to curb black money circulation in the economy is seen as a major step to reduce corruption & poverty as quoted by Prime Minister Narendra Modi. The MSME sector is an important pillar of Indian economy as it contributes greatly to growth of Indian economy with a vast network of around 30 million units, creating employment of about 70 million, manufacturing more than 6000 products, contributing about 45% to manufacturing output and about 40% of exports, directly and indirectly. Small Businesses both in urban & rural areas will feel the heat as these are mostly run via cash transactions. Businesses with cash transaction will now have to rely on funding from other sources and might end up paying a lot more. Demonetization is not a surgical strike; it is carpet bombing. It impacts everyone. In case of SMEs, most will be unsure of payments coming from customers for some time; this, as liquidity in the form of unaccounted currency has dried up. The micro and small enterprises which by their very nature deal largely in cash purchases as well as other transactions find it extremely difficult to cope in the absence of availability of ready cash in carrying their operations. This paper focuses on the impact of demonetization on MSM sector. Suitable cures have also been discussed to overcome these problems.

**Key words:** Demonetization, MSME, Black Money.

### **INTRODUCTION**

India has amongst the highest level of currencies in circulation at 12.1% of GDP. Cash on hand is an estimated at around 3.2% of household assets, higher than investment in equities, or roughly around \$ 220 billion. Of this cash, 87% is in the form of Rs 500 and Rs 1,000 notes or roughly Rs 14 lakh crore (\$190 billion). A significant portion of the household cash on hand is generated by economic transactions that are not reported to tax authorities or generated through corruption. Scrapping the higher denomination money would either result in these being brought into the system or the money just disappearing. The present paper highlights the probable consequences of this decision on various economic variables and entities.

Demonetization for us means that Reserve Bank of India has withdrawn the old Rs 500 and Rs 1000 notes as an official mode of payment. Demonetization is the act of stripping a currency unit of its status as legal tender. On 28 October 2016, the total currency in circulation in India was Rs. 17.77 lakh crore (US\$260 billion). In terms of value, the annual report of Reserve Bank of India of 31 March 2016 stated that total bank notes in circulation valued to Rs.16.42 lakh crore (US\$240 billion) of which nearly 86% (i.e. Rs. 14.18 lakh crore (US\$210 billion)) was 500 and 1000 rupee notes. In

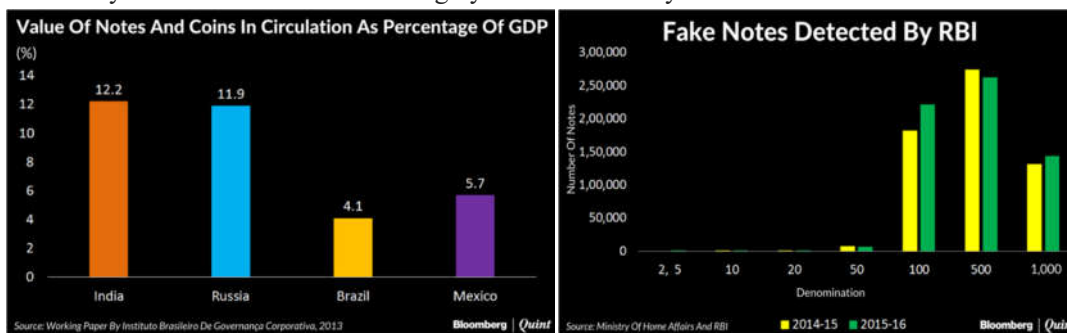
terms of volume, the report stated that 24% (i.e. 2,203) of the total 9,026.6 crore banknotes were in circulation.

In an important move, the Government of India declared that the five hundred and one thousand rupee notes will no longer be legal tender from midnight, 8th November 2016. The RBI will issue Two thousand rupee notes and new notes of Five hundred rupees which will be placed in circulation from 10th November 2016. Notes of one hundred, fifty, twenty, ten, five, two and one rupee will remain legal tender and will remain unaffected by this decision. This measure has been taken by the PM in an attempt to address the resolve against corruption, black money and counterfeit notes. This move is expected to cleanse the formal economic system and discard black money from the same. The reasons of it are as under:

#### **Black Money in the Economy;**

- To lower the cash circulation in the country which is directly related to corruption in our country;
- To eliminate fake currency and dodgy funds which have been used by terror groups to fund terrorism in India;
- The move is estimated to scoop out more than more than Rs 5 lakh crore black money from the economy.

Similar measures have been taken in the past. In January 1946, currency notes of 1000 and 10,000 rupees were withdrawn and new notes of 1000, 5000 and 10,000 rupees were introduced in 1954. The Janata Party coalition government had again demonetized notes of 1000, 5000 and 10,000 rupees on 16 January 1978 as a means to curb forgery and black money.



#### **OBJECTIVES OF PAPER**

- To examine the impact of demonetization on Indian economy.
- To analyze the current the immediate impact of demonetization on MSME in India.
- To workout the probable consequences of the demonetization.

### **RESEARCH METHODOLOGY**

The paper is based on secondary data. Data has been collected from the secondary sources such as websites of the RBI, various news paper, magazines, journals, articles, research paper, publication of various board and various committee reports submitted to the Government of India has been taken for this study.

### **EFFECTS OF DEMONETIZATION**

#### **ORDINARY INDIVIDUAL**

The common man has had to bear the economic hardship as 90 percent of all transactions are paid in cash. Millions of people are crowding the banks and queuing outside ATM centers to deposit their cash, revealing that India has a long way to go before it fully transitions into a digital financial

economy. In spite of expanded digital access to bank accounts, a very small percentage of the population has been able to operate without withdrawing cash or visiting the bank regularly. This is due to lower level of digital financial literacy.

## INFORMAL ECONOMIC SECTOR

India's massive informal economic sector comprising of domestic help, contract laborers, daily wage workers, farmers, fishermen, micro-entrepreneurs etc. runs almost entirely on cash. These groups of people typically do not have a formal bank account. Cash is their only means of receiving income and making payments. The demonetization has led to a situation of cash crunch in the economy which has created a huge disruption on work and daily lives of these people with severe adverse impacts on their livelihoods and well-being. The small service providers like auto-rickshaws, road-side eateries, local kirana stores etc. are being abandoned for cab aggregators, online food home delivery, and online grocery respectively. These informal services providers although being very large in numbers, are not part of the digital economy and are losing business. The demonetization has led them to compromise on their work and stand in long queues outside banks for their own hard-earned cash. However, through demonetization, the wealth produced and saved by the poor can be brought into the formal banking system. The "dead capital" which was not available in the formal economy is now being turned into "live capital".

## RURAL POPULATION

The effects of demonetization have been even more worrying in the rural parts of the country which are even more dominated by cash and which have limited physical accessibility to banks and other financial institutions. Visiting physical bank branches in rural areas still remains a time consuming and costly exercise for many. Other digital financial services like ATMs and POS machines at shops are limited in number and crippled with infrastructural issues. Ordinary rural residents are placed in great stress with nowhere to go.

## RURAL MSMEs

The data on MSMEs, as per the latest available Fourth Census of MSME, 2006-07, reveal that there are 200.18 lakh unregistered rural sector units, and they make up over 55 per cent of such enterprises in India while urban MSMEs are 161.58 lakh. The bulk of the MSMEs in India have turnover in just a few lakhs of rupees and maximum of MSMEs are dominated by the micro enterprises. Majority of their transactions are on cash. With uneven spread of bank branches and ATMs among rural and urban regions, the micro and small enterprises operating in rural areas are adversely affected. The demonetization made impossible for them to get cash in lower denominations for their daily operations.

## NBFC MFIs AND THEIR CUSTOMERS

There are a large number of micro financing institutions (MFIs) in India, catering to the financing needs of rural and semi-urban Indian population. Customers, typically individuals (women, daily wage workers, farmers), small traders and retailers, mainly operate on a cash basis due to informal and trifling nature of the amounts involved in such transactions. Loan installments from some such customers are usually collected on a weekly and sometimes on daily basis. Demonetization has halted, albeit temporarily, business transactions of these individuals which are now running on a daily credit basis, and more importantly has led to a domino effect on employees/daily wage workers and other

customers of non-banking financial companies-micro financial institutions (NBFC-MFIs) whose livelihood is based on cash payments. Such customers do not have bank accounts and/or sufficient means to either exchange currency in their possession into notes of acceptable denomination, or make a transition to cashless means of finance. This is adversely affecting their daily businesses/lives which in turn is affecting the timely repayment of loans taken by them from NBFC-MFIs. These loan defaults have led to temporary increase in non-performing assets of NBFC-MFIs which generally rely on borrowing from banks for further lending. The adverse affect on the overall asset quality of NBFC-MFIs will eventually trickle down to banks and other financial institutions and May subsequently; affect the Indian economy as a whole

## **E-WALLET COMPANIES**

The demonetization promotes cash-less economy and increase in use of digital financial services. The e-wallet companies have seen a rapid surge in the number of transactions and traffic on their web and app-based platforms which are mostly driven by urban and metropolitan parts of the country.

### **Impact of Demonetization on economy**

#### **1. Uprooting the parallel economy**

This historic move is primarily expected to remove black money from the economy as they will be blocked since the owners will not be in a position to deposit the same in the banks. This move will stall the circulation of large volume of counterfeit currency at least for some time and will curb the funding for anti-social elements like smuggling, terrorism, espionage, etc. We can already see these effects taking shape from people with black money throwing currency into rivers like Ganga and Yamuna. There is also a downfall in the terrorist activities in Kashmir valley. All this and more has been credited to the withdrawal of 500 and 1000 INR currency notes from market.

#### **2. Impact on money supply, short term and long term**

With the older 500 and 1000 Rupees notes being scrapped, until the new 500 and 2000 Rupees notes get widely circulated in the market, money supply is expected to reduce in the short run. To the extent that black money (which is not counterfeit) does not re-enter the system, reserve money and hence money supply will decrease permanently. However gradually as the new notes get circulated in the market and the mismatch gets corrected, money supply will pick up.

#### **3. Impact on banks**

Since, the 500 and 1000 Rupee notes which now cease to be legal tender are to be deposited or exchanged in banks (subject to certain limits). This will automatically lead to more amounts being deposited in Savings and Current Account of commercial banks. This in turn will enhance the liquidity position of the banks, which can be utilized further for lending purposes. This will definitely enhance the cash flow for the banks and markets both.

#### **4. Impact on Prices**

One major impact of this is going to be seen in cases where the goods are priced on the basis of demand. Price level is expected to be lowered due to moderation from demand side. This demand driven fall in prices could impact two major categories i.e; Consumer goods and Real Estate. Consumer goods prices are expected to fall only marginally due to moderation in demand as use of cards and cheques would compensate for some purchases. Real Estate and Property prices in this sector are largely expected to fall, especially for sales of properties where major part of the transaction is cash based, rather than based on banks transfer or cheque transactions. In the medium term, however the prices in this sector could regain some levels as developers rebalance their prices (probably charging more on cheque payment).

#### **5. Impact on Demand**

Now that we have seen the impact on prices due to changing demand, the overall demand is expected to be affected to an extent. The demand in following areas is to be impacted particularly for sectors like Consumer goods, Real Estate and Property, Gold and luxury goods where people used to use cash for transactions.

#### **6. Effect on the GDP**

Gross Domestic Product (GDP) is the broadest quantitative measure of a nation's total economic activity. The GDP formation could be impacted by this measure, with reduction in the consumption demand. However with the recent rise in festival demand is expected to offset this fall in overall impact. Moreover, this expected impact on GDP may not be significant as some of this demand will only be deferred and re-enter the stream once the cash situation becomes normal.

#### **7. Increase in usage of Online Transactions and alternative modes of payments**

With cash transactions facing a reduction, alternative forms of payment have seen a surge in demand. Digital transaction systems, E wallets and apps, online transactions using E banking, usage of Plastic money (Debit and Credit Cards), etc. will definitely see substantial increase in demand. This should eventually lead to strengthening of such systems and the infrastructure required. This has been seen as one of the driving factors to propose this change

#### **8. Impact on other economic entities**

With cash transaction lowering in the short run, until the new notes are spread widely into circulation, certain sections of the society like Agriculture and related sectors, Small traders, SMEs, Services Sector, Households, Political Parties, Professionals like doctor, carpenter, utility service providers, etc. and Retail outlets, etc. could face short term disruptions in facilitation of their transactions. These segments are expected to have the most significant impact post this demonetization process and the introduction of new notes in circulation because the nature, frequency and amounts of the commercial transactions involved with these sections of the economy necessitate cash transactions on more frequent basis.

#### **9. Impact on black money hoarders**

The driving force behind this historical decision was to eradicate black money. A recent study had pegged India's black market economy at over Rs 30 lakh crore or about 20 percent of total GDP. This is even bigger than the GDP of countries like Thailand and Argentina. Hence, this historic decision will surely impact the black money hoarders and will surely bring the economy back on track slowly and gradually.

#### **10. Impact on political parties**

With nearly five state elections in 2017, demonetization has stunned political parties. Especially, in large states like Punjab and Uttar Pradesh, cash donations are a huge part of "election management" this is a big move. In one stroke, big parties will find themselves hamstrung as cash hoards are often undeclared money. Parties will have to completely rejig campaign strategies in light of expected cash crunch.

### **EFFECT OF DEMONETIZATION ON MSME**

The small and medium-sized enterprise (SME) sector, as we understand, is a big chunk of the economy, contributing to eight percent of the GDP whilst employing more than 80 million people year on year. Before we analyze the impacts of demonetization on the industry, we must understand how we reached this stage in simple words. Most SMEs are traditionally-operated, family-run businesses. Broadly, there are two kinds of players in the market in this segment. One, the businesses that were formed because their promoters saw the opportunity early on before anyone else could and went on to become successful businesses quickly.

The other is the players who joined the race and could do reasonably good because of the vast underserved market. Traditional mindset and early success convinced them to not upgrade or change

the way they do their business and therefore they continued to remain in the SME sector and not scale beyond a point.

Whilst all of this was happening, the Indian economy was growing and, at a macro level, policies were made to keep a check on several aspects and this led to introduction of various licences and their approvals and therefore compliance. Taxes increased in percentage and forms. India is known for its frugal mindset, and since we are quick at spotting what others cannot we can come up with very innovative solutions to problems.

An SME entrepreneur has been a master at this art. He was quick to spot ways to get through with the compliances and taxes and the officials were happy to receive the unaccounted benefits. Soon it was also noted that the return on investment on taxes paid was meager and there always were alternatives available to a frugal mindset. This gave rise to the parallel economy of black money. It's a classic case of poor processes at the government level.

Processes are always interlinked and therefore whilst constructing them one has to look at all the sub-processes they will impact. Processes need a monitoring and audit mechanism that is independent and cannot derive benefits from allowing incorrect ways in the system. All of these aspects somehow were missed.

### **CASH BASED TRADE SETTLEMENT- A LIMITING FACTOR**

It is observed that cash based transactions are impeding the growth opportunity for many SMEs in India. Some of them are:

- SMEs are always at the receiving end till they realise the sales proceeds. It is not uncommon to find many SMEs are paid in cash even if they are not willing to. As a result, they keep all the transactions in cash.
- Cash denominated business limit the scope for growth as it will remain entrepreneurial.
- It restricts the transparency to select few, depriving the rest in the company unaware about the financial status of the company. Such practices discourage attracting the talent, a precursor for propelling growth.
- The credit rating of such entities always remains poor. The books of accounts do not reflect upon the true state of affairs.
- Always there is conflict with bank due to inability to make full disclosure. As a result the majority of SMEs look to raise funds from private moneylenders or expensive mortgages.
- Cash based transactions makes financial control a non-issue and thus exposing to the risk of internal control failure.

### **DEMONETISATION- A GAME CHANGER**

So far SMEs just resigned to fate and ignored the necessity of proper accounting and disclosures may be due to peer pressure, insistence of buyer or industry practice Demonetisation will encourage financial transactions more transparent. That in turn will increase the confidence among the participants in the trade. It will enhance the visibility of your business to other stakeholders, bankers, creditors and buyers. In many ways, this will help the business to grow in sustainable basis.

Present decision of the Government to ban high denominated currencies is a great opportunity for SMEs in India to break-away from the past practice of cash based settlement of trade transactions. It

will be forcing entire operating environment to become transparent and SMEs in India should embrace it

SMEs have to anticipate at least 50% reduction in business for the rest of this financial year and realign their business strategy accordingly to control both fixed and variable costs. However in the long run, due to transparency in the dealings and reflection of the same in the actual accounting ( due to reduction in cash transactions), SME sector going to reap the benefits of demonetization. But next few months are very crucial for SMEs.

Since the demonetization move was announced on November 8, it has been a tough time for our small-scale enterprises, which however, despite facing severe payments challenges, are largely applauding the anti-corruption and anti-counterfeiting effort. But now they can expect some good news. The Prime Minister last week said that banks had already received deposits worth Rs 5 lakh crore and so they would soon give loans at a cheaper cost. Bankers are also of a similar view. They say the massive spike in deposit base will bring down the cost of funds for them and the benefit will be passed to the customers.

Small scale units highly depend on private financiers for bridging gap between bank fund and actual expenses, Si borrows for paying sales tax, TDS,ESI,PF bills, monthly installments to banks, wages. Post demonetization private financiers have disappeared, banks are still busy in handling cash, and now the scenario is banks are unwilling and avoiding to take TOD requests while private financiers have gone out of market. Due to lack of funds SSIs are bouncing monthly installments, suppliers cheque, delayed tax payments ,Resulting to bad CIBIL scores( CIBIL scores are guiding book for banks to fund), VAT offices are blocking e-sugam forms, way-bills for goods movement, sending penalty notices and messages ,having not been able to pay for TDS,esi, PF offices are also sending notices with penalties ( it's like wounded further getting knife cuts) net result of demonetization is SSI s are really hard pressed for funds. Ministry must act and inform bankers to fund SSIs liberally for next two years; Banks must not take CIBIL ratings to considerate funding as rating system itself is flawed.

- Demonetization is not a surgical strike; it is carpet bombing. It impacts everyone. Replacement not only takes time, it also slows down the spending process as everyone tries to protect the newly acquired currency to secure themselves from the uncertain future. In case of SMEs, most will be unsure of payments coming from customers for some time; this as liquidity in the form of unaccounted currency has dried up. If customers don't pay, SMEs will protect what they have and that will mean they purchase less and produce less. Purchasing less will mean further slowdown for the people who provide them with raw material and producing less will mean shortage of supply leading to inflation on what is available.
- Reforms in the form of incentives is what we see will happen soon. The government is aware of the first point and will take measures to restart the money wheel rolling in the market again. This could happen in several forms, early announcement of GST and BTT, elimination or drastic reduction of Service Tax and VAT until either GST is introduced or something else. Taking steps on taxes will encourage people to spend without having the fear of tax, which is currently seen as systematic 'loot' with minimum or no returns.
- Improvement in government procedures and monitoring of the monitor. This will happen as a measure to avoid generation of black money in new currency. The government will redesign processes to acquire licenses and approvals with ease, and older redundant requirements will be abandoned. Tax and other compliance officers will need to be monitored to ensure that policing does not give birth to 'under-the-table settlement' culture again.



- Visible use of collected money in banks on development of infrastructure that brings benefits to people quickly. 'Quick' is the keyword. We will see money invested in aspects that bring quick results for all classes. The current change has got quick pain with a promise of long-term gain but we have to remember that a large section of our society will need quick gains to survive before they can enjoy the long-term benefits.
- SMEs will invest in self-development and improvement in terms of technology, infrastructure and training to self-utilise the increased profitability with unaccounted income now becoming a part of the books that are taxable.
- SMEs and businesses now by design will have two options. Pay tax or spend on doing more for scaling up and this will have a spiral effect on the overall improvement in the economy.

There are loads of positive and negative impacts of the current move. No one currently can be sure of the future and this uncertain environment is certainly not good. Outcomes in uncertainty depend on the mindset and, currently, whilst people are taking it positively, they definitely are starting to realise possible pitfalls too if measures are not taken at the right time. Communication will be the key to ensure stability. The war against black money has not started yet. Demonetization is only a war cry that declares the start of a war.

The lopsided rural-urban spread of ATMs and bank branches has snuffed out economic activity in rural India, with micro, tiny and small enterprises finding it impossible to get cash in 100-rupee notes for their daily operations. Consider this statistic: every bank branch in a rural and semi-urban centre caters to more than double the number of people in an urban and metropolitan centre. According to a December 2015 Reserve Bank of India report on “financial inclusion in India”, each rural and semi-urban bank branch serves 12,863 people compared with an urban and metropolitan branch which serves just 5,351 people. The spread of ATMs too is skewed in favor of urban centers. Delhi, for instance, has 9,070 ATMs, more than Rajasthan, the largest state in terms of size. Now, juxtapose this with the spatial distribution of micro, small and medium enterprises. The data on MSMEs, as per the latest available Fourth Census of MSME, 2006-07, reveal there are 200.18 lakh unregistered rural sector units, and they make up over 55 per cent of such enterprises in India. Urban SMEs are 161.58 lakh. The data from 2007-08 to 2014-15, compiled from the Entrepreneurs Memorandum filed by MSMEs in District Industries Centres, suggests that 22.10 lakh units were added during this period. It doesn't say if they are rural or urban, but even if they were evenly spread, it does not change the broad picture.

Zoom out to a particular state, for instance, Tamil Nadu. It has a million-plus tiny and small unit. “There will be no production for a month-and-a-half. Many units in Chennai are still recovering their losses from the previous year when the city was flooded during the monsoon. While it is certain we will not register any sale, it is even more certain banks will debit the EMI from bank accounts on existing loans,” which employ over 15 million workers in all. “Inadequacy of bank branches is one primary reason why cash dominates small businesses. Many rural branches are open for just a day or two in a week. People consider bank postings in rural India as a punishment,” “The smaller the enterprise, the bigger the problem. Anecdotal reports suggest that manufacturing value addition has come to a standstill,” The RBI report suggests that between 2001 and 2015, the number of bank branches in urban and metropolitan centres more than doubled from 20,713 to 43,716. In rural and semi-urban centres, it has increased, but not at such pace. During the period, the number of branches in rural and semi-urban centres has risen from about 44,905 to 82,358. In 2015, there were 7.8 branches for one lakh people in rural India, but 18.7 branches in urban India. The biggest problem, according to V K Agarwal, former president of Fisme, is that the fine distinction between unaccounted cash and black money is lost. “Money that is derived from illegal activity is harmful, but money circulated in small businesses only adds to economic activity,” he says. Bulks of the MSMEs



in India have turnovers in just a few lakhs of rupees. Within MSMEs, medium sized enterprises do not account for even one per cent of the segment. “Medium sized enterprises can easily tide over the cash crunch. But most tiny and micro enterprises are proprietor-owned and are managed by just one person. They are in terrible shape,” “MSME is a very heterogeneous sector. In the unorganized MSME segment, it takes a long time to even realise that businesses are being shut. It is too late by then,”. While the sector appreciates the need to move to a cashless economy, it needs time. “How can you move to Paytm in a week or a fortnight? It will take a couple of years,” he says.

“The government must realise that the small-scale sector will certainly pick it up (move to e-payments). But it is a gradual process. Also, it is important to acknowledge that money generated in business is not irregular. Certain issues cannot be pushed so much that the system chokes and the outcome is distorted,”

### **Demonetization & Its Impact on MSME**

In a grand move that has taken the country by surprise. Scrapping of high value notes to curb black money circulation in the economy is seen as a major step to reduce corruption & poverty as quoted by Prime Minister Narendra Modi. The issue of black money in the past has been in debate vehemently during a number of elections, mostly pointing towards the cash stacks hidden in Switzerland & other foreign countries. However in the recent past the focus on the same closer home has helped the government raise nearly \$10 billion through a tax amnesty for Indians to declare hidden income and assets.

### **Impact Analysis on MSME Enterprises**

1. **Liquidity** – The immediate impact will be on liquidity. Businesses dealing with large amount of cash can no longer use the currency to drive business.
2. **Loan Demand** – To fill up the gap and run business smoothly the demand of loans or funding from bank and other financial institutions will increase.
3. **Loan Dis-approval** – Businesses dealing with cash will have difficulty in getting funding as the Balance sheet will give a different story, making them unqualified for loans. Moreover Banks will be reluctant and extremely cautious as they would want to avoid NPA's.
4. **High Cost** – Even if one can avail funding through other institutions, the cost of lending will be much higher.

### **Impact of Demonetization on employment**

Demonetization has created a cash crunch that has sent the small-scale units, which form 78 per cent of the readymade garments sector, into disarray Demonetization move has threatened large scale unemployment in small industries sector.

The associated chambers of commerce in India (ASSOCHAM) said that the government needs to take some follow up like reducing taxes substantially. ASSOCHAM president Sunil Kanoria categorically said that demonetization has negative impact as well because Industries are suffering and people are losing jobs.

The government must take some follow up measures such as increasing spending on infrastructure and social sector.

The society of Indian Automobile Manufacturers (SIAM) claimed that car sales took a dip in the month of November soon after the decision of demonetization.

Meanwhile a report on the problems faced by the casual workers engaged in small and medium scale industries (SMEs) on daily wages says that demonetization has shut the doors of many factories for them as there is no cash to pay them for their labour.

Most casual workers are migrants, unskilled or partially skilled. A large number of them working in Delhi-NCR come from the impoverished districts of Uttar Pradesh and Bihar, mostly men who leave their families behind. They live in the rural islands that still dot an area being swallowed by high-rise housing estates.

These migrant men and women are among the 92 per cent of India's workforce employed in the informal sector, which generates about half the country's gross domestic product, according to the National Commission for Enterprises in the Unorganized Sector. Casual workers enjoy no job security or benefits of labour regulations and about 79 per cent of them live below the official poverty line.

With 7 million workers, the textile and apparel industry is the second-biggest employer in India - after agriculture - and about 80 percent of these workers are temporary. They are paid almost entirely in cash, currently in severe short supply, despite Reserve Bank of India governor Urjit Patel saying on December 7, 2016, that there was no shortage of currency nationwide.

For the textile and apparel industry, November to January is peak season, a time when factories normally send out vehicles to pick seasoned workers off the street. In these three months, garment factories produce merchandise for the spring-summer lines of fashion houses in the West.

This year is different. Demonetization has created a cash crunch that has sent the small-scale units, which form 78 per cent of the readymade garments sector, into disarray. Nearly 80 per cent of the workforce in this sector is employed as casual, off-rolls labour, and they are paid entirely in cash.

Two cycles of fortnightly payment have gone past since November 8, 2016, and the units and workers managed to tide over the cash crunch-mostly by using old currency notes. But now, there is anxiety about where the factories are going to find the cash to pay these workers.

#### **No jobs as units downsize**

Owners of the small-scale units say they have no choice but to downsize because the seasonal and unpredictable nature of the business and its economies do not allow for permanent staffing and formalized modes of payment to labour.

A small to mid-scale entrepreneur, who did not wish to be named, said in an average November-December, he would have at least 1,500 workers at his factory; of them 75 per cent temporary. He has, post demonetization, cut the numbers to 500.

"We are in a wait-and-watch mode, but if the liquidity crunch remains, we will downsize even more. And others (in the field) are saying that too," he said. "Productivity has taken a huge hit and if a single link in the assembly line drops, the whole process collapses," he added.

## **CONCLUSION**

RBI statistics shows that 80 percent of monetary circulation in India consisted of Rs. 500 and Rs. 1000 notes. This demonetization is putting more than 80 percent of the country's monetary economy under suspicion of black money. This creates confusion between "unaccounted money" and "black money". The government's move towards demonetization aims to convert black money into white money but inclusive growth can be achieved only if this money is used for development purposes. However, the government is withdrawing subsidies, and reducing expenditure on development

sectors. The development contemplated is in the sense of smart cities and cashless economy. But for India to be a cashless and digital economy, sufficient time and efforts are required. The process cannot be completed over night or fortnight or within months. One of the real aims of Modi's monetization is **social engineering**. The one that is very interesting effect of this demonetization is that is boost the Indians to make use of digitalization. Even the small sellers are using paytm to accept the small payments. It may become the starting point to convert the dream of Digital India into reality.

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