

TITLE:

MSME SECTOR OF INDIA:

PRE & POST DEMONETISATION PHASE

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MSME SECTOR IN INDIA: PRE AND POST DEMONETIZATION

ABSTRACT

The importance of MSME has been recognized in recent years in developing and developed nations for its significant contribution to socio-economic objectives such as higher growth of employment, output, promotion of exports, and fostering entrepreneurship. MSMEs largely operate in the informal sector (97% of MSMEs operate in the informal sector) and comprise many daily wage earners. Many of these firms depend on informal financial institutions as well as money lenders for easy availability of credit. These channels do not ask for collateral which minimizes documentation hassles. The MSME sector however faces operational problems because of its size and nature of the business and therefore is more susceptible to economic shocks. The MSME sector, in recent years, has exposed its vulnerability to two major shocks, namely, Demonetization and goods and service tax (GST). This research paper analyzes the impact of demonetization on MSMEs (introduced on 8th Nov 2016 by the Government of India). For this research, primary data has been sourced from a sample of 25 people from Kolkata. The secondary data has been sourced from various peer-reviewed publications, government websites, and relevant newspaper articles. To explain the concept of demonetization, the help of a macroeconomic IS-LM model has been taken. The paper examines how demonetization has exposed the gaps in the existing informal financial and banking sectors because of their greater reliance on cash and raised the need for a formal financial sector.

Keywords: MSME, DEMONETIZATION, FINANCIAL SECTOR, CREDIT, IS-LM MODEL, GROWTH

1. INTRODUCTION

Micro, small, and medium-scale enterprises (MSME) are the backbone of the economic structure in most of the developing countries. According to Dr. S Chandrasekaran and Sri M. Narayanan (2020), in India, there are around 63.4 million MSME units which contribute around 6.11% of the manufacturing GDP and 24.63% of the GDP from service activities as well as 33.4% of India's manufacturing output. MSME is capable of employing around 120 million people and contributes around 45% of the overall exports from India. About 20% of the MSME sector are based in rural areas. So these enterprises are promoting sustainable and comprehensive development as well as generating large-scale employment, especially in rural areas.

Now let's move over to another important aspect of this research paper, which is, demonetization, a cleaning exercise that is generating numerous benefits to the economy since 8th Nov 2016. On that day, the Government of India announced the issuance of the new Rs.500 and Rs. 2000 notes in exchange for the demonetized Rs. 500 and Rs.1000 banknotes. However, it has been noticed that inadequate liquidity due to demonetization has caused gross disruptions in all sectors of the economy. Since MSMEs usually rely on unsecured loans from friends and associates, drying up of the liquidity impacted the sales of MSMEs significantly because of greater reliance on cash. Moreover in India, the digital transaction culture is yet to catch up with all the sectors and sections of the society. These points are further explained in this paper.

2. OBJECTIVES

The main objective of this study is

- A. To understand MSMEs contribution to the economy
- B. Effects of demonetization, to be explained with the help of macroeconomic IS-LM model
- C. To understand why the drying up of liquidity affected MSME sectors the most
- D. To evaluate the current status of the MSMEs from the data collected from 25 MSMEs in Kolkata.

3. RESEARCH METHODOLOGY AND DATA SOURCE

This research paper is based on both primary and secondary data sources. The primary data has been collected by interviewing the small business owners through the questionnaire method. The secondary data has been collected from the annual reports of the Reserve Bank of India, Government of India (GOI) Portals, and MOSPI (Ministry of Statistics and Programme Implementation).

The data collected has been represented diagrammatically. The demonetization has been explained with the help of a macroeconomic model, the IS-LM model. The four aspects of MSME have been analyzed: contribution to employment generation, to GDP, investment, and export. For this, both primary and secondary data have been used. The primary data has been sourced from the micro, small, and medium businesses in Kolkata because of the time constraints. The aim is to adopt a bottom-up approach to understand the situation across India. For the analysis, only the verified data has been used and the sources of those data have been kept anonymous.

4. LITERATURE REVIEW

Nalabala Kalyan, Kumar, Sardar, Gugloth. (2011). This study focuses on the growth pattern of the MSME, employment generation (1992-2009). It reveals the early symptoms and steps involved in industrial sickness. The study presents an ample amount of knowledge about the various credit schemes sponsored by the government.

Nalabala Kalyan, Kumar. Sardar, Gugloth. (2011). The competitive performance of micro, small, and medium enterprises in India has been discussed in the Asia Pacific Journal of Social Sciences, pp.128-146. MSME sector is the backbone of the economy. However, their competitive survival is often challenged by regulatory hurdles and limited access to formal financing.

Sudha Venkatesh, K. Muthiah. (2012) 'SMEs in India: Importance and Contribution', Asian Journal of Management Research, Volume 2, issue 2, 2012 emphasizes the importance of non-auxiliary, autonomous MSME for developing nations. SMEs play an important role in community development. It cultivates a vibrant ecosystem of autonomous enterprises that are responsive to the local needs and it is directly linked to economic resilience.

Venkatesh and Muthia (2012) found that the role of SMEs in the industrial sector is growing rapidly and they have become a thrust area for future growth. This research emphasized that the development of the SME sector is necessary for the economic well-being of the nation as it plays a crucial role in poverty eradication through job creation. Alongside, it also fosters entrepreneurship.

Srinivas, K. T. (2013) in his paper titled 'Role of micro, small and medium enterprises in inclusive growth' concluded that the MSMEs have been termed as the engine for the growth of the Country. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. Poor infrastructure & lack of marketing linkages are the key reasons for the poor growth of the MSMEs in India. The support provided by the state as well as the Central Government is not adequate for the upliftment of the MSMEs in India. Therefore the entrepreneurs in India & Govt. should take some initiatives to further development of these MSMEs in India.

Srinivas, K. T. (2013) Role of micro, small, and medium enterprises in inclusive growth. International Journal of Engineering and Management Research, 3(4), 57-61. talks about the contributions of MSMEs to regional development and economic diversification. As it acts as a critical link in the supply chain of large industries, it also plays an important role in enhancing the global competitiveness of the economy.

Rao and Apparao (2013) studied MSMEs' contribution to GDP, employment, and the role of MSMEs in the supply chain of large businesses. They found that most of the MSMEs face the problem of a shortage of finance to advance business growth. MSMEs require a lot of setup capital, liquid capital & investment capital to survive and grow in this competitive business world. Often enterprises have to liquidate their capital to manage the day-to-day expenses, which restricts them from streamlining their production processes and expanding their markets. Thus, limited resources limit the potential of the SMEs, backlashing global competitiveness.

W.G Bonga (2014) analyses the challenges faced by SMEs in the internationalization of their products and suggests some strategies that can be employed at both individual and national levels. It also suggests a simplified

regulatory framework, good governance, accessible finance, proper infrastructure, and availability of foreign market information to help SMEs in the promotion of their exports. Some of the major challenges in the way of increased exportation are lack of adequate finance, inadequate market research, and analysis, inability to understand competitive conditions, lack of expertise to enter a foreign market, unfamiliar export procedures, etc. government assistance, initial focus on few selected markets, realistic commitments, understanding employment policies, and reduction of regulatory burden are a few of the suggestions.

Bonga, Wellington Garikai (2014) 'challenges faced by SMEs on exportation and possible strategies.' Social Science Research Network. The SMEs mostly cater to the local needs. Due to a lack of connectivity in rural areas, they are unaware of the global marketplaces and their opportunities. In addition to that, often enterprises have to liquidate their capital to manage the day-to-day expenses, which restricts them from streamlining their production processes and expanding their markets.

Arvind Kumar Singh, (2014) studies the role of entrepreneurs in the development of SME business given the current challenges faced by the sector. After mentioning some of the key highlights of the MSME sector, the study discusses the major initiatives undertaken by the Indian government to revitalize the sector.

Singh, Arvind Kumar and Singh, Karan Veer (2014). 'MSMEs challenges and opportunities: The key to entrepreneurship development in India.' International Journal of Engineering and Management Sciences. Vol. 5(1). 2014. pp 22-28 talks about the initiatives undertaken to simplify the regulations - providing tax exemptions to small business owners. "Startup India" (2016) is one such initiative that creates a favourable environment for budding entrepreneurs.

Ali and Husain (2014) conducted a study to show the status of MSMEs in India. There are situations where there is a need for credit from banks, the rural sector faces competition from multinational companies, lack of knowledge in technology due to the non-availability of effective training and skill development programs. Foreign banks are not taking interest in sanctioning loans to the MSME sector.

Mishi, Saurabh, and Rikin (2016) examined the major issues in the financing of MSMEs in Indian context, such as information asymmetry facing banks and the efficacy of measures such as credit flow for MSMEs; whether transaction lending will be adequate to address the information issues or would lending have to be based on a relationship with the MSME, using both 'hard' and 'soft' information and whether the size and origin of the bank affect the availability of credit to the MSMEs.

Singh (2018) indicated that tax evasion and corruption restrict economic development. Demonetization is a step to ensure an honest tax regime, better tax collection, and low dependence on borrowing. This initiative has significantly increased the collection of tax revenues which are now being directed toward the development of social overhead capital, which can aid the limitations in the MSME sector of India.

5. ANALYSIS

5.1 DEMONETIZATION BEFORE 2016

Demonetization of currency is the loss of legal tender status of the face value of a coin or paper currency in the economy. It is an act where the old unit of currency gets retired and replaced with a new currency unit. Alternatively, it is the withdrawal of a specific currency from the market. Though this act creates a cash crunch in the economy during the short run, it has other beneficial sides too.

India is not new to demonetization. Demonetization has been implemented thrice in the past. (1946, 1978 and 2016). The very first demonetization that took place in India was in **1946**. The currency notes of Rs 1000 and Rs 10,000 were banned. The ban didn't have much impact because such higher denominations were not accessible to the common people. Both the notes were reintroduced in 1954 along with an additional introduction of Rs 5000 currency.

The second demonetization came in **1978**. This time Rs 1000, Rs 5000, and Rs 10,000 notes were banned. The main motive was to eliminate black money from the economy. So, it can be stated that the Government of India has introduced this movement thrice to curb black money transactions. The repercussions were similar with people dying of shock, exceptionally long lines at the bank, and the middle class being hit.

The latest was on 8th Nov 2016. The piggy banks transformed into savings accounts, as the people were forced to increase their bank balance instead of stacking their money in different corners of their houses.

5.2. MOTIVE BEHIND DEMONETIZATION

Considering all three demonetization movements, it can be inferred that the primary motive behind demonetization was

- Stripping the economy of its 'black money. According to the National Institute of Public Finance and Policy, 2017, 85% of the total currency in circulation caused cash shortages.
- Force people to pay taxes for the unaccounted cash pile. According to the National Institute of Public Finance and Policy, 2017, 9.1 million taxpayers were added to the slab.
- Reduce interest rates in the banking sector
- Promote the digital India movement
- Make India a cashless economy.
- Curbing terrorism. It was discovered that some terrorist organizations were using fake Indian currency to fund their projects. Demonetization addressed such issues.

5.3. IS-LM model showing the impact of demonetization

Demonetization is an act by which liquidity of money in an economy is reduced i.e. money supply is reduced.

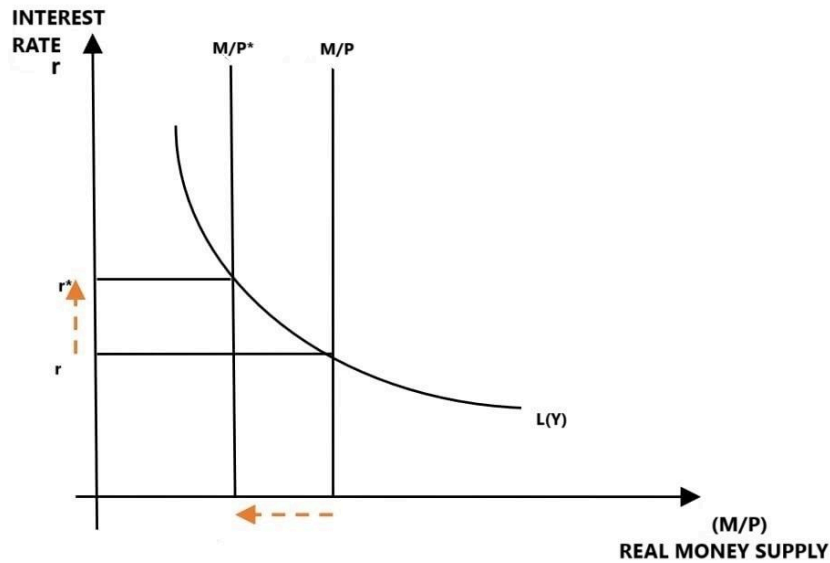


Fig. 1. IS-LM model demonstrating the effects of contraction of real money supply (M/P)

As real money supply changes from (M/P) to $(M/P)'$, the interest rate (r) also increases from r to r^* .

According to the theory of liquidity preferences, the supply and demand for real money balances, i.e. $L(R)$ determines the interest rate. The supply curve for real money balances is vertical because it doesn't depend upon interest rate. The demand curve is downward sloping because a higher interest rate lowers the quantity of money demanded. The supply curve for real money balances shifts leftwards (M/P to M/P^*) because of a cash dry-up. So there is a hike in interest rates.

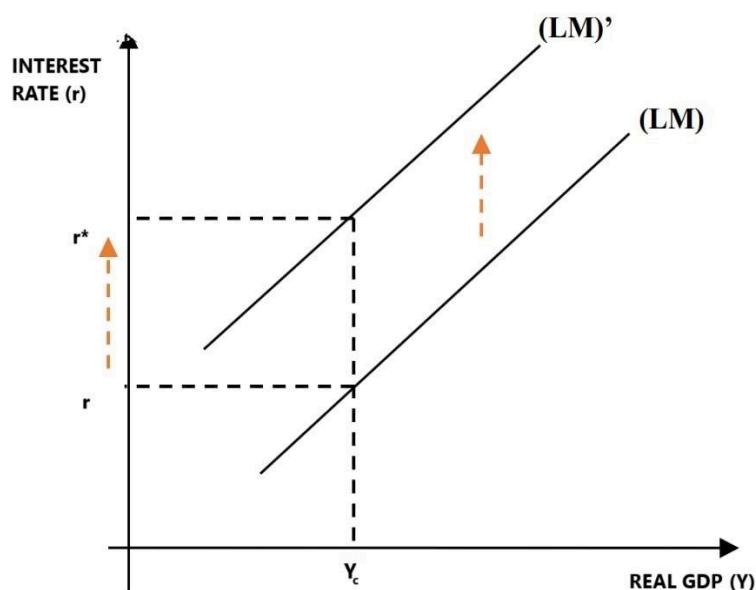


Fig 2. Contraction in real money supply causes an upward shift in LM curve

The above figure captures the shift of the LM curve to the left representing the rise in the interest rate (r) with constant national income (Y_c). Now with the rise in interest rate (cost of borrowing rises), investors invest less i.e. investment falls. As a result planned expenditure ($C+I+G+NX$) will fall, with actual expenditure remaining constant.

The fall in the planned expenditure can be expressed using the Keynesian cross model.

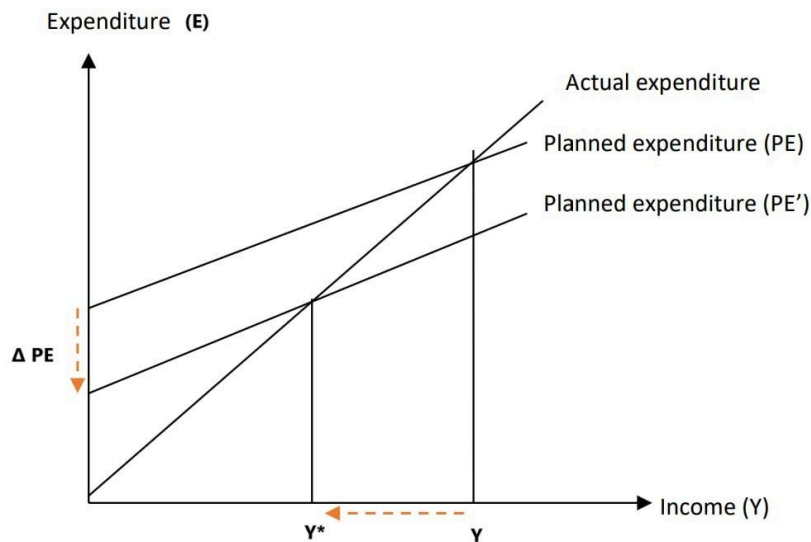


Fig 3. The fall in the planned expenditure demonstrated with the help of the Keynesian cross model

As the interest rate increases, the investment falls and consequently, planned expenditure also falls (rightward shift in planned expenditure, PE to PE'). As a result of which income, Y (or output) falls.

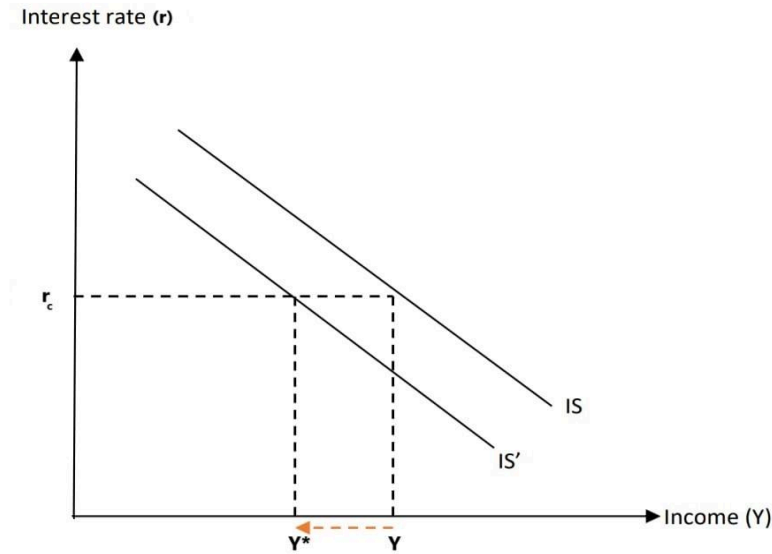


Fig 4. IS curve shifts leftward as income falls

The leftward shift in the IS curve (IS to IS') represents a fall in national income, Y (or output), interest rate remaining constant.

Finally the goods market and money market equilibrium can be shown by the following

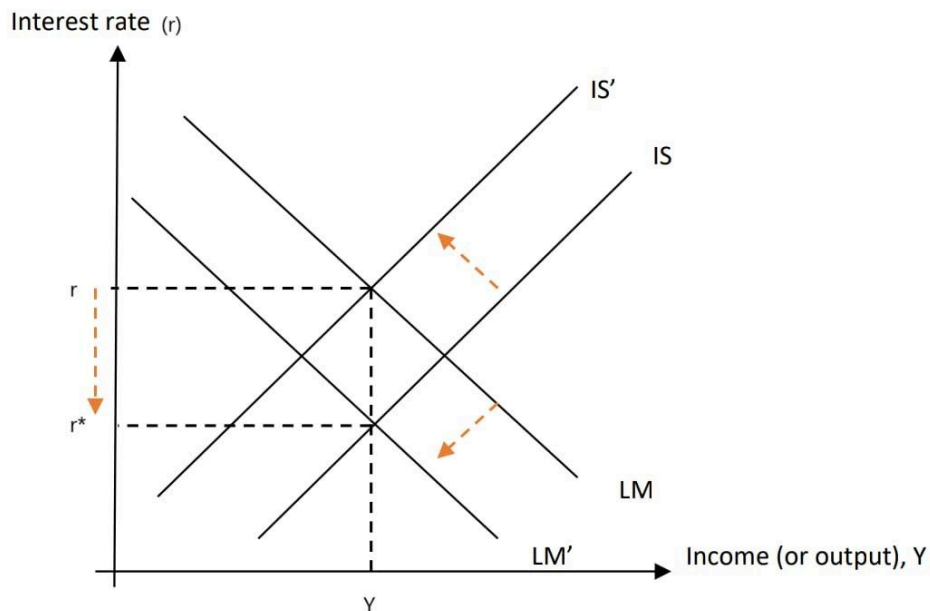


Fig 5. Goods market and money market equilibrium through IS-LM model

The rate of interest falls and the income remains the same (without considering the multiplier effect).

Since demonetization reduces the interest rate keeping the income constant, therefore theoretically investments should rise as interest rate and investments are

inversely related. Unfortunately in reality it faces a lot of other factors which in turn have both positive and negative impacts on an economy. These negative impacts are noted later on in this paper.

5.4. Effect of change in interest rate in the factors directly affecting MSME

5.4.1. Indian Financial Sector

The above IS-LM model depicts that the interest rate will be reduced due to a reduction in money supply. The stock market is affected due to the fall in interest rates. There will be a rise in stock prices since stock prices and money supply are related. In India, after the demonetization, a marginal decline in the stock market was noticed but since then the stock market has shown a consistent upward trend. Liquidity is expected to move to mutual funds as investment.

Due to lower interest rates, commercial banks will be able to take loans at a lower interest rate from the central bank (alteration in discount rate). Thus there will be huge cash flow in the banking system.

5.4.2. Indian Banking Sector

One of the main objectives of the demonetization scheme was to inject cash into India's mainly state-owned banking sector. The public sector banks (PSBs) were infested with 'non-performing assets (NPA)', primarily business loans that are not being repaid or paid only sporadically. Because the threat from the NPAs is so large, India's banks have cut down their lending to India's business houses. The paucity of lending rate in turn threatens economic growth. The result was a decline in key sectors including industrial production, IT, and merchandise export.

5.5. Definition of MSME

Micro, small, and medium enterprises as per the MSMED Act, 2006, are defined based on their investment in plants and machinery and equipment for enterprises providing services.

The present ceiling on investment for enterprises to be classified as micro, small, and medium enterprises are as follows:

MSME at a Glance		
Classification	Manufacturing enterprises	Service enterprises
Micro	Rs.2.5 million/Rs.25 lakh	Rs.1 million/Rs.10 lakh
Small	Rs.50 million/Rs.50 crore	Rs.20 million/Rs.2 crore
Medium	Rs.100 million/Rs.10 crore	Rs.50 million/Rs.5 crore

Table. 1. MSME at a Glance, Source: <http://msme.gov.in/mob/home.aspx>

5.6. MSME before demonetization

The “Startup India” campaign of the Government of India recognizes entrepreneurship as an increasingly important strategy to fuel productivity growth and wealth creation in India. India ranks third in the number of new firms created. The new firm creation has gone up dramatically in India since 2014. As mentioned in Thirukural, chapter 76, verse 753, while the number of new firms in the formal sector grew at a compounded annual growth rate of 3.8 percent from 2006-2014, the growth rate from 2014 to 2018 has been 12.2 percent. As a result, from about 70,000 new firms created in 2014, the number has grown by about 80 percent to about 1,24,000 new firms in 2018.

Reflecting India’s new economic structure, i.e. comparative advantage in the Services sector, new firm creation in services is significantly higher than that in manufacturing, infrastructure, or agriculture. A 10% increase in registration of new firms in a district yields a 1.8% increase in GDP. Thus, entrepreneurship at the bottom of the administrative pyramid – a district – has a significant impact on wealth creation at the grassroots level. This impact of entrepreneurial activity on GDP is maximal for the manufacturing and services sectors.

The birth of new firms is very heterogeneous across Indian districts and sectors. Moreover, it is dispersed across India and is not restricted to just a few cities. Literacy and education in the district foster local entrepreneurship significantly. For instance, the eastern part of India has the lowest literacy rate of about 59.6 percent according to the census of 2011. This is also the region in which new firm formation is the lowest.

The level of local education and the quality of physical infrastructure in the district influence new firm creation significantly. Finally, policies that enable ease of doing business and flexible labor regulation enable new firm creation, especially in the manufacturing sector. As the manufacturing sector has the greatest potential to create jobs for our youth, enhancing the ease of doing business and implementing flexible labor laws can create the maximum number of jobs in districts and thereby in the states.

5.7. Reason why MSME sector was hardest hit by demonetization

Due to demonetization, there was a reduction in the money supply. So a major obstacle to the growth of MSMEs is their inability to access timely and adequate finances as most of them are in niche segments where credit appraisal is a major challenge.

Many of these firms depend on informal channels because of easy accessibility and availability of credit without any documentation hassles and mortgages, even though the rate of interest on such loans may be very high. The challenges faced by MSMEs in accessing finance are due to a lack of comprehensive formal documentation relating to accounts, income, and business transactions. As a result, loans are provided to the MSMEs mainly through appraisal of their collateral rather than assessing their true business potential. About 97% of the MSMEs operate in the informal sector, and their share of the informal sector in the gross output of MSME is about 34%. As per National Accounts Statistics 2012, the share of the informal sector (unregistered) manufacturing MSME in total GDP is estimated at around 5%.

However, the year-on-year (YoY) growth of bank credit to the MSME sector decelerated gradually during 2015 to 1.6 percent in April 2016 before exhibiting some recovery till October 2016. The deceleration in credit growth during

2014-16 was partly due to an overall slowdown in economic activity, rising non-performing assets (NPAs), and reclassification of food and agro-processing units from MSME category to agriculture sector (as per the revised priority sector lending guidelines, issued to banks in April 2015).

The term 'small' in 'small borrowers' has been redefined from time to time. Currently, accounts with a credit limit of Rs. 200,000 are taken as small borrowable accounts (SBAs).

There has been a fall in the share of SBAs in total loan accounts and amounts since the 1990s. However, real bank credit per SBA has been on the rise in rural areas; this is contrary to the trend in urban areas. Secondly, gender disparities in bank credit too appear to have been on a decline in rural areas. On average, for every 100 SBAs held by rural men, rural women held about 32 accounts in 2015. As against this, urban women held only 16 loan accounts per every 100 accounts held by urban men. Thirdly, the ratio of bank credit per capita (under SBA) for rural women to urban women has also been largely on a rising trend.

5.8. MSME growth pre-demonetization phase

Any person who intends to establish a micro, small, or medium enterprise engaged in providing or rendering services, production, or manufacturing of products shall file part 1 of the entrepreneur memorandum (EM 1) District Industries Sector. After the beginning of the project, the entrepreneur shall file EM 2.

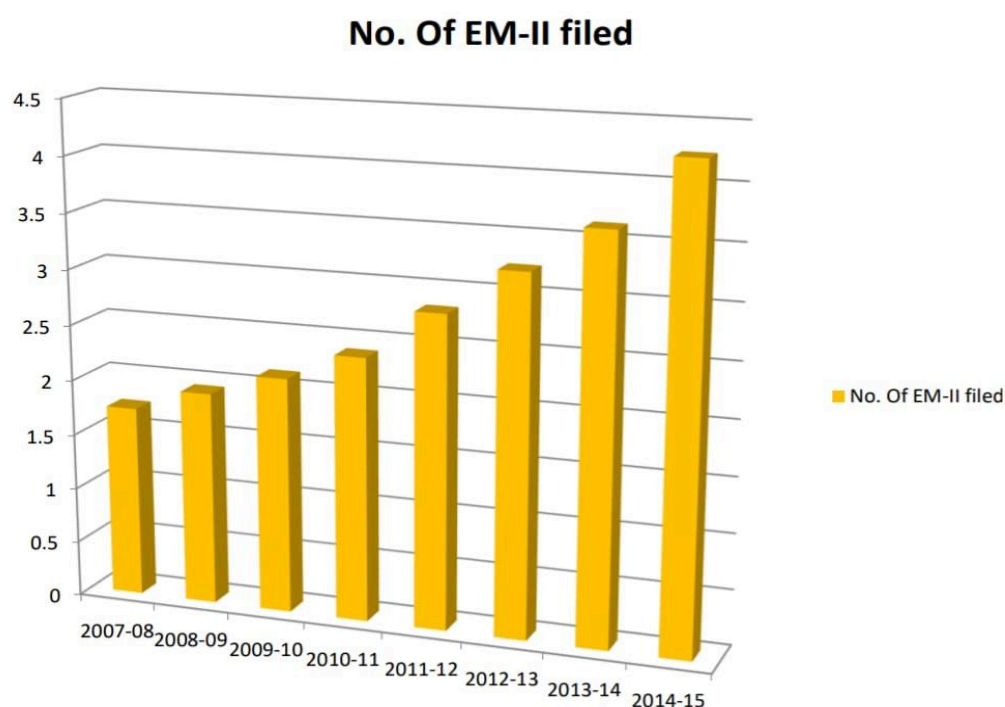


Chart 1. Number of EM II filed through 2007-2015,
Source: Annual report 2015-16, ministry of small micro and medium enterprises,
government of India

The number of EM-IIIs filed has been increasing at a very steady rate for almost 8 years, till demonetization. Hence, it can be stated that this sector possibly had bright prospects.

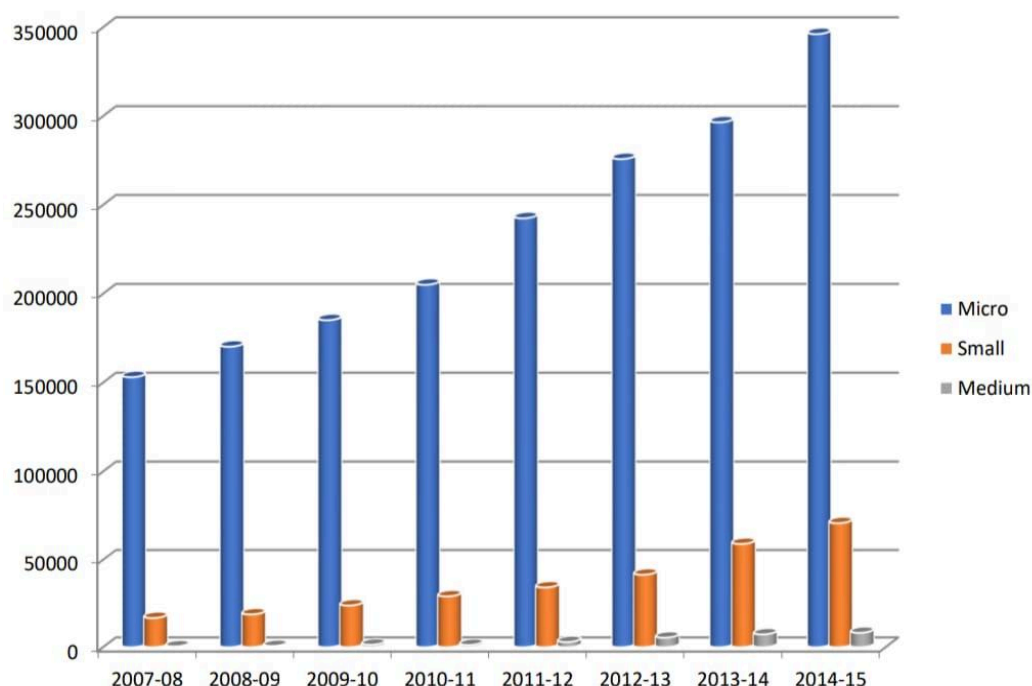


Chart 2. Number of EM II by the type of enterprise,
Source: the State/UT commission rates/Directorates of Industries & MSME-Development institutes

The number of MSMEs filing EM 2 has shown a consistent growth rate of around 11% every year till 2010- 2011. The highest growth during recent times was recorded during 2011-2012 (18%). Hence, it can be observed that the MICRO enterprises were growing enormously.

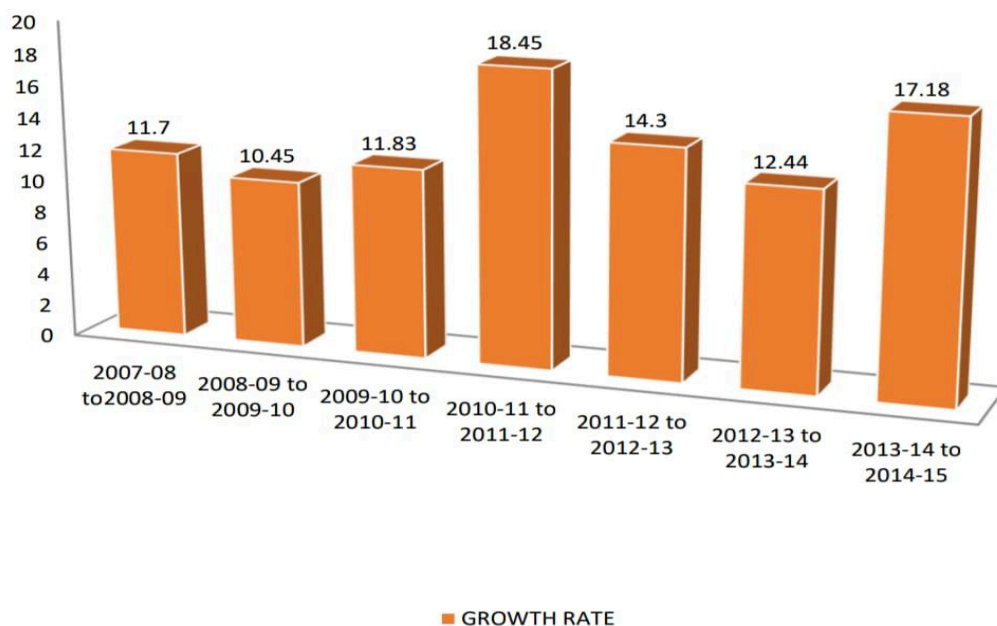


Chart 3. Growth Rate

Source: Rate of growth in filing EM-II during 2007-08 and 2014-15

Here is another table to represent that the number of enterprises, employment and investment in fixed assets in India show an increasing trend in India.

Status of MSME Units				
S.NO	YEAR	TOTAL WORKING ENTERPRISES (IN LAKHS)	EMPLOYMENT (IN LAKHS)	MARKET VALUE OF FIXED ASSETS (IN CRORES)
1	2006-07	361.76	805.23	868543.79
2	2007-08	377.36	842	920459.84
3	2008-09	393.7	880.84	977114.72
4	2009-10	410.8	921.79	1038546.08
5	2010-11	428.73	965.15	1105934.09
6	2011-12	447.64	1011.69	1182757.64
7	2012-13	467.54	1061.40	1268763
8	2013-14	488.46	1114.29	1363700.54

9	2014-15	510.57	1171.32	1471912.94
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Table 2. Status of MSME Units, Source: Annual Report on MSME 2015-16

In this table, it can be seen why a labour-abundant country like India needs to have more MSMEs. It is shown that the number of people employed in the MSMEs grew substantially over the years. The growth of the MSME sector is making backward and forward linkages strong, inviting more investments in this sector. Moreover, the amount of market value of fixed assets increased too. This shows that a sector like the 'MSME should be more encouraged by the government as its growth helps many others too. It is clear from the table above that the number of enterprises; employment and investment in fixed assets in India show an increasing trend over the period.

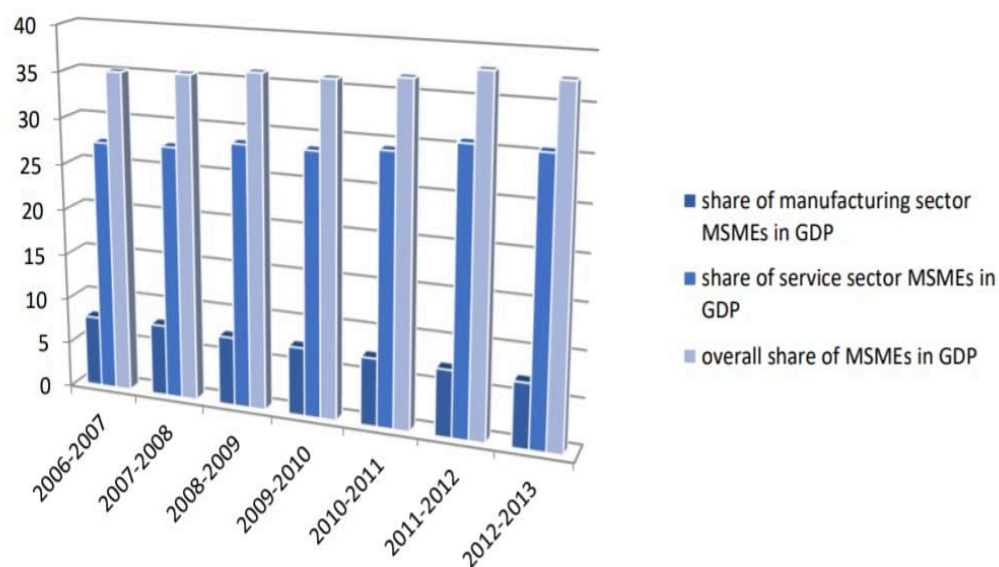


Chart 4. Contribution of MSME sector to GDP before demonetization

Source: 1. 4th all India census of MSMEs 2006-07

2. National account statistics (2014), CSO, MoSPI3. Annual survey of industries (annual report 2015-16)

The above table as well as the chart depict the contribution of the MSME sector to total industrial production and GDP over seven years. The MSME sector constitutes an inevitable portion of GDP and for this reason, it needs the attention of the policy makers. The statistics show that the contribution of MSMEs to GDP is ever-increasing.

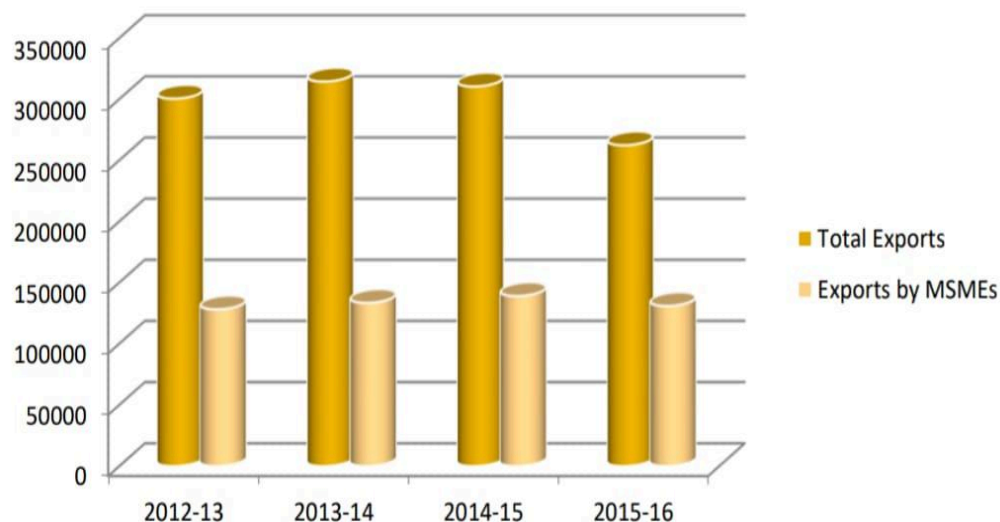


Chart 5. Share of MSME export in total export through year 2012-16

Source: Reserve Bank of India

Even in these two charts (chart 4 and chart 5) it can be seen that the contribution of the MSMEs is way more than that of the rest of the sector making its importance significantly greater. Over the years MSME reached a level of the optimum utilization of available domestic resources and produced quality products and services. The sector contributes much to the industrial growth of the country. The sector accounts for more than 90% of the percent Industrial units in India and it has been increasing impressively for the last many years. MSME had an impact on various issues of the economy such as industrial progress, job creation, entrepreneurship, economic empowerment, etc. MSME made possible an inclusive and balanced growth. Around 50% of MSMEs are owned by rural people hence increasing the standard of living of people. Among various items of MSME exports, gems, jewelry, carpets, textiles, leather, etc. are highly labor intensive and depend heavily on cash for working capital requirements and payment towards contractual laborers. Hence export shipments of these sectors could have been impacted by the demonetization.

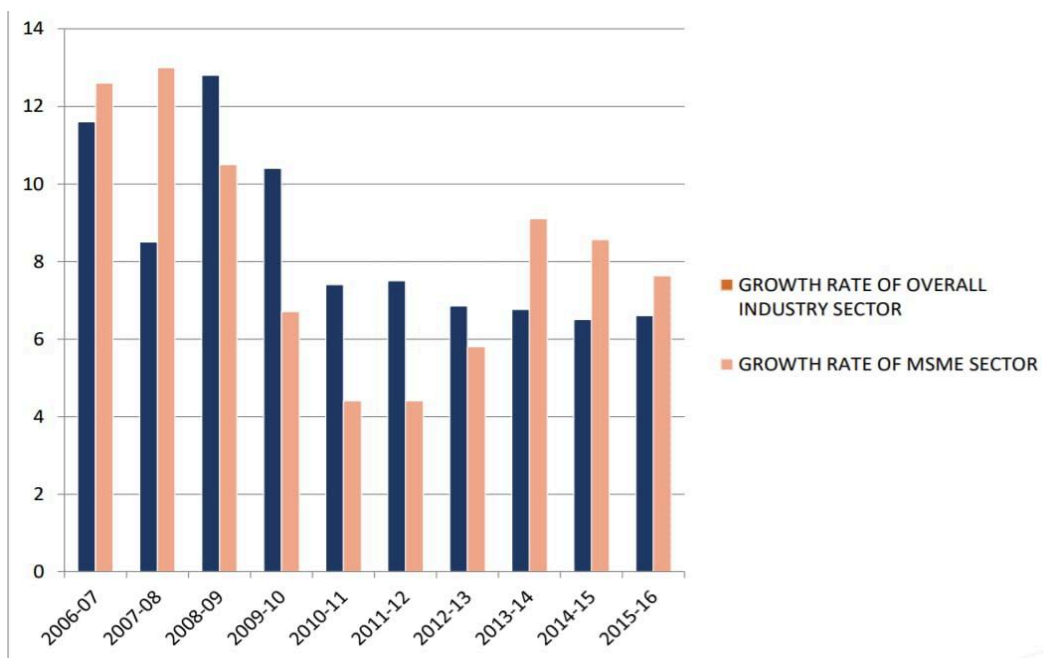


Chart 6. Comparison of MSME viz-a-viz Overall industry, Source: Reserve Bank of India

Now, to sum up, the prospects of MSME were:

- **Employment generation:** In the field of retail, manufacturing, and service sectors, MSMEs are generating ample amounts of employment.
- **Focus on customer satisfaction:** MSMEs are more customer-satisfaction oriented. MSMEs produce goods based on the needs of the consumer i.e. they focus mainly on taste and preferences, liking and disliking of the consumer.
- **Minimization of regional imbalance:** MSME is capable of reducing regional imbalance. It will create more employment opportunities in rural areas and finally minimize inequality in the nation.
- **Development of export:** In the international market, there will be a higher demand for wooden items and other homemade articles, which will improve the export condition of India.
- **Attraction of foreign investment:** MSME will attract more and more foreign investors to invest in India.

5.9. MSME after demonetization

In recent years, there has been a noticeable slowdown.

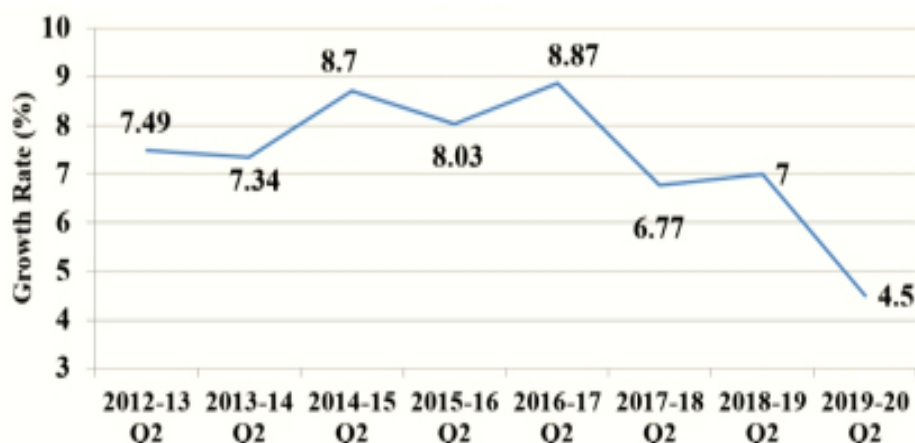


Chart 7. GDP growth rate (%) 2011-12 in India during 2012-2020 (Q2),
Source: Ministry of Statistics & Programme Implementation (MosPI), GOI

India was enjoying a more or less stable GDP growth rate during 2012-16, however, a sharp decline in the growth rate, after demonetization is noticeable in the above chart. The GDP growth rate fell from 8.87% to 4.5% making it significantly hard to recover.



Chart 8. Real GDP growth and growth in real investment during 2008-09
Source: Ministry of Statistics & Programme Implementation (MosPI), GOI

In the above chart, it is shown that the real GDP and the growth in real investment have fallen too. This fall affected several sectors as observed in the following

chart and the unemployment rate has risen notably.

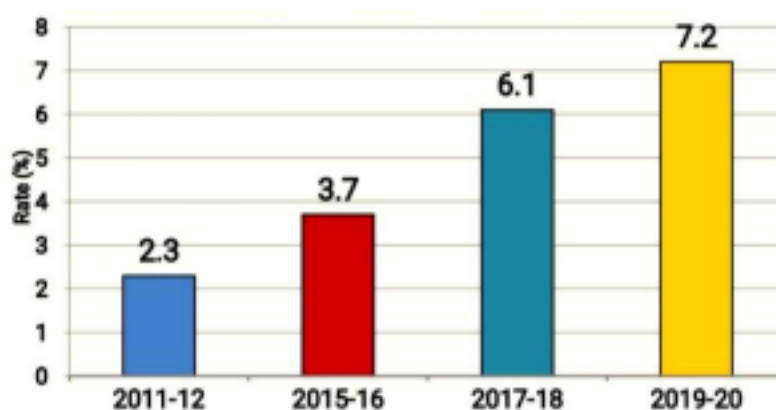


Chart 9. Growing unemployment (%) during 2011-2020

Source: NSSO, CMIE reports

This rise in the unemployment rate is one of the main problems faced by the Indian government now.

5.10. Primary data (Collected-Dec, 2019) showing the demonetization phase of MSME:

From the Kolkata population, a sample of 25 enterprises has been considered to work on. The collected information is illustrated in the following table.

Illustrated primary data table

	Micro	Small	medium
Neither affected nor unaffected	0	0	0
Affected	2	1	0
Unaffected	4	7	8
Severely affected	3	0	0

Table 3. Illustrated primary data table, Source: Primary data

Diagrammatic representation of the collected primary data (sample size 25)

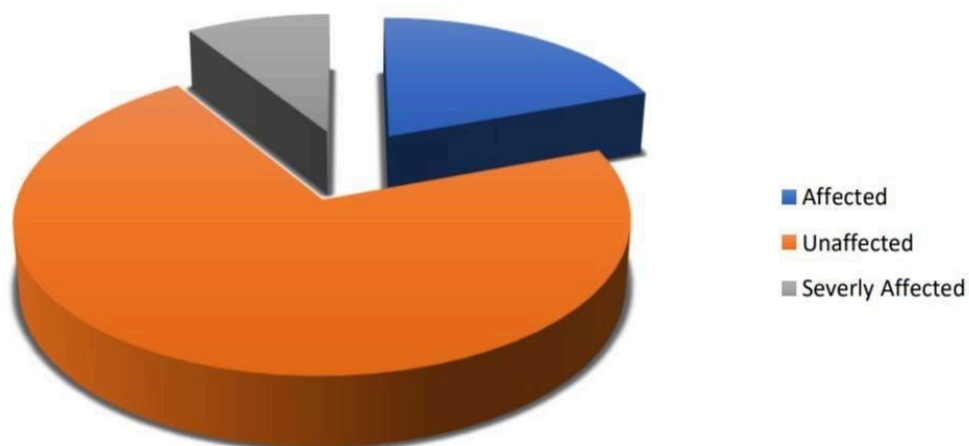


Chart 10. Diagrammatic representation of table 3.

5.11. Inference

Looking at the data received so far, it can be stated that the demonetization in India (2016) has not worsened the economic condition of small-scale and medium-scale enterprises that were availing the formal banking sector services. However, the ones who were not, for example, the micro-enterprises, street-side food stalls, and other cash-dependent industries were severely affected.

The owner of medium-scale, who had some access to digital platforms, shifted to online transactions. Few gave away the cash to their subordinates as an "advanced salary", while some helped them by exchanging their cash with new denominations. So it can be stated that, in the case of medium-scale enterprises, it was not the owners but the employees who were adversely affected. Enterprises that relied on cash for day-to-day transactions were severely affected. On the other hand, those who had to liquidate their capital found a loophole. According to the interviewees, the effect of demonetization was eventually dampened after the introduction of GST.

5.12. Policy Implication

Government Measures in educational infrastructure to promote literacy can spur entrepreneurship and consequently local wealth creation. A curriculum of digital literacy should be added to it as well.

An economy's competitiveness is dependent on the efficient allocation of limited resources. Hence, production processes must be streamlined. To compete with enterprises, both home and foreign, MSMEs are required to respond promptly to evolving marketing needs and innovations, for which digital connectivity and digital literacy are essential. Investment in the social overhead capital in rural

areas can improve connectivity and encourage entrepreneurial activity. These initiatives coupled with sustained growth in aggregate demand can empower local communities by driving sustained national development.

6. Conclusion

The four aspects of MSME that have been analyzed are - its contribution to employment generation, GDP, investment, and export. In the last few years, there has been tremendous change in the national & State level for consolidating this sector. "Startup India" (2016) is one such initiative that creates a favorable environment for budding entrepreneurs. Most of the MSMEs face the problem of a shortage of finance to advance business growth. MSMEs require a lot of setup capital, liquid capital & investment capital to survive and grow in this competitive business world. Often enterprises have to liquidate their capital to manage the day-to-day expenses, which restricts them from streamlining their production processes and expanding their markets. However, their contribution to regional development and economic diversification is beyond measurable. As it acts as a critical link in the supply chain of large industries, it also plays an important role in enhancing the global competitiveness of the economy which makes it important for economists to understand its challenges and identify strategies to curb them.

For this, both primary and secondary data have been used. The primary data has been sourced from the micro, small, and medium businesses in Kolkata because of the time constraints. The aim is to adopt a bottom-up approach to understand the situation across India. The primary data has been collected by interviewing the small business owners through the questionnaire method. One of the interviewees from Sundarban mentioned that small businesses in Sundarban were hit hard. The cash-dependent apiculturists were uninformed for days after demonetization was announced. The lack of access to a proper banking system broke their spine. Overnight, their hard-earned savings, hidden underground, lost face value. Their business hit snooze as they were not able to transact in the market. The mud craftsmen from Krishnanagar, weavers and craftsmen from Kopai, Shantiniketan, and dokra ornaments sellers from Bishnupur faced similar issues. The urban parts were not as adversely affected as the rural regions. The future impacts of demonetization in these regions are uncertain.

India was enjoying a more or less stable GDP growth rate during 2012-16, however, a sharp decline in the growth rate, after demonetization has been noticed. The GDP growth rate fell from 8.87% to 4.5% making it significantly hard to recover. The real GDP and the growth in real investment have shown a sharp decline as well. Since 2016, India has been facing growing unemployment, which can be blamed on demonetization. A growing MSME sector makes backward and forward linkages strong, inviting more investments. Based on this theory, as soon as the micro industries in Sundarban, Shantiniketan, and Bishnupur get affected, the other medium and large-scale industries are bound to face the ripple effects. The small industries are the only source of raw materials

for these industries. Hence, the impacts are eventually expected to cascade up affecting the large industries, compromising the global competitiveness of the economy. The declining real GDP growth rate is an indicator of such a downfall.

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