

Effects of Demonetisation on The Financial Transactions of SME's and Start-ups

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Abstract

Demonetisation is a radical monetary step in which a currency unit's status as a legal tender is declared worthless. This is the process of replacing old currency to new currency. However, in the days following the demonetisation, banks and ATMs across the country faced severe cash shortages. The cash shortages had harmful effects on the financial transactions of businesses, agriculture, and transportation. Post demonetization in India, high percentage of start-ups is experiencing a slowdown in receivables and transaction flow, a survey has revealed. The key segments of the economy where cash transactions play a vital role are real estate, gems and jewellery and the informal sectors. These sections are Agriculture and related sectors, Small traders, SME, Services Sectors, Households, Professionals like doctors, carpenters, utility service providers, etc. The present study aims at analysing the effects of demonetisation on SMEs and start-ups in Jaipur. This research paper would analyse such effects of demonetisation based on various changes and fluctuations regarding the different parameters like financial transactions of SME's and start-ups in the market.

Keywords: *Demonetization, SME's (Small Medium Enterprises), Start-ups, Real Estate.*

Introduction

Demonetisation is the act of stripping a currency unit of its status as legal tender. The demonetisation of 500 and 1,000 banknotes was a policy enacted by the Government of India on 8 November 2016, ceasing the usage of all ₹500 and ₹1,000 banknotes. The government claimed that the demonetisation was an effort to stop counterfeiting of the current banknotes purportedly used for funding terrorism, as well as a hold back on black money in the country. Demonetisation would clean the complete economic system; increase the size of economy and revenue base. The demand for point of sales (POS) or card swipe machines has increased. E-payment options like PayTM and PayUMoney has also seen a rise.

Impact on Indian SME

There is an impact undoubtedly on SME in India. Post demonetization of higher value currency notes in India, high percentage of start-ups are experiencing a slowdown in receivables and transaction flow. Customers were paying the bills in the old currency notes. It was reported that there is a declination of 34% in customer transaction, no impact on 21%, 13% increment of customer transaction while 33% did not have customer's transaction flow. Except, and of course start-ups like PayTM whose business shot up post demonetization, plenty of B2C start-ups are

envisaging new offers and schemes to tackle the cash crunch among customers. It was found in the survey that 86% of the start-ups and SMEs saw demonetisation to have a positive impact in the long run. The small and medium-sized enterprise (SME) sectors a big chunk of the economy, contributing to eight percent of the GDP whilst employing more than 80 million people year on year. 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. The other is the players who joined the race and could do reasonably good because of the vast underserved market. Traditional mind-set and early success convinced them to not upgrade or modify the way they do their business and therefore they continued to remain static in the SME sector and not scale beyond a point. Though 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 rules and regulations and therefore compliance. Taxes increased in percentage and forms. India is known for its frugal mind-set, and since we are quick at spotting what others cannot we can come up with very innovative solutions to problems. Processes are always interlinked and therefore as constructing them one has to look at all the sub-processes they will impact. Processes need a monitoring and audit device that is independent and cannot derive benefits from allowing incorrect ways in the system. All of these aspects somehow were missed.

Review of Literature

The present review of literature puts emphasis on various factors which effects the financial transactions of SME's and Start-ups business, the agenda behind the whole money campaign is to reduce black money and also to heighten digital India program by promoting digital transactions, which in turn helps the nation in having more liquidity in banks. Review of existing empirical studies has revealed that Rajasthan's capital Jaipur, famous for its gem and jewellery sector, has seen a sharp decline in business. Jewellers say their trade has come down by almost 50-60 per cent in the last 10 days or so because the gems and jewellers businessman confirm their deals in cash. Nikhil Kumar (2016), who is a start-up enthusiast and a part of UPI – Unified Payment Interface program, explained how incorporation of unified payment interface, which is a new way to transfer money between bank accounts in India, can make banking less burdensome by actually letting money transfer happen instantly between the banks. Rohith Veerajappa (2016), who is the co-founder of Wow Labz, an outsourced product development company, based out of Bangalore, He believes India has to move towards being a cashless nation, encouraging people to transact via banks and hence bringing everyone's income and expenditure under the scanner. Vinay Khattar, (2016-17) head of research at Edelweiss Securities, states real estate and jewellery sectors, though, would be the worst-hit because these are the preferred investments of Indian consumers for their black money. Typically, the high cash component provided working capital for many builders and its absence could hurt their financials.

Demonetisation could be a benefit in cover for SMEs

According to Ministry of Micro, Small and Medium Enterprises, SME sector contributes 45% of the country's industrial output, 40% of India's exports, employs 60 million people, creates 1.3 million jobs annually and produces high quality products for the Indian and international markets. Apart from a few sectors like Automotive and select engineering there are no other sectors that can take pride of being stout, dependable and quality focused SMEs which can make for a good supply chain contributor to the sector. India has lately begun to understand that SMEs are the prime sector which help to increase GDP of the country. Demonetisation has impacted the SME sector in its present form. In the short-term there will be a lot of uncertainties in this sector but in long term there will be positive effects. In the medium to long-term a lot of SMEs will come into the 'formal' economy.

Statement for the problem

Businesses are evaluating alternate methods of conducting business. SMEs do need cash at a transactional level. For examples, salaries of workers and contractors are primarily paid in cash. So, the issue from the SME's and Start-ups perspective is How to increase the financial transactions and how to help the rural areas and floor shop people? And the research problem with this reference is to find the relationship between the different independent variables like; credit savings, black money, financial transactions and etc.

Objectives of the study

- 1) To understand the exact nature of effect of financial transactions on the SME's and Start-ups.
- 2) To explore the possible remedies for the issues affecting financial transactions.
- 3) To investigate the major factors responsible for the declination of the businesses.
- 4) To explore the future factors to increase the financial transactions in Jaipur city.

Research Methodology

The paper is based on secondary data. The data has been collected from internet, journals, published articles and online reports.

Conclusion

From the literature survey it was found that several factors influence the SME sector and Start-ups of India. The banks have been working to make sure that as much as possible we move the currency to the smaller areas and to as many set of customers as possible. Now of course the whole industry collaborative effort is moving and ATMs are gradually getting calibrated. According to the Research, ATM activity will increase much more. The banks have also done camps at various places both rural, urban, semi urban both those which are far away so that people do not have to travel to the branches. The banks have also taken a few mobile vans and converted them into mobile branches. So the paper said that there is a lot of currency in the country but yes Indians have to keep two things in mind one is that the movement of currency

does involve its own transportation challenges, security, movement and so on and therefore that is what RBI and the banks are doing. The demonetisation drive has been a focus area for banks in the past one week. It is too early to gauge but one should look at some other rub off effects as well. The rub off effect is that gradually as an economy more and more people are now trying to use digital channels and electronic channel. Banks are installing POS machines by the thousands, the value of debit card transactions have gone up, the value of m-commerce transactions have gone up, the value of interest banking transactions have gone up. Digital payment companies and on-demand delivery firms, though, have benefited both from the cash shortage and the government's step towards cashless transactions.

This paper has attempted to present a range of issues relating to negative and positive impacts on SME's. While Prime Minister Narendra Modi's announcement drove millions to the banks to exchange the invalidated notes, payments companies Paytm and Freecharge saw a surge in adoption of their digital wallets. For hyper local delivery companies, demonetisation has come as blessing from heaven.

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