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**ANALYTICAL STUDY ON DEMONETIZATION EFFECTS ON MICRO, SMALL AND MEDIUM ENTERPRISES  
WITH SPECIAL REFERENCE TO CHIKKAMAGALUR DISTRICT**

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**ABSTRACT**

*Small and Medium Scale Enterprises (SMEs) has proved to be a major intervention in resolving the problems of poverty and unemployment in most developing countries. The act of demonetization is expected to have a marked impact on various sectors. The sectors which are based on cash transactions will witness more disturbances. Therefore, an attempt has been made to analyze the impact of demonetization on various prominent sectors of Indian economy that are automobile, pharmaceutical, agriculture and consumer market sector etc. The MSMEs are very helpful to remove the regional imbalances if it is established in the underdeveloped areas. Micro, Small and Medium Enterprises (MSMEs), including khadi and rural enterprises, credited with generating the highest rates of employment growth. In this paper a detailed analysis made to covers the performance and growth of MSMEs in Karnataka with special Reference to Chikkamagalore District.*


**KEYWORDS**

economic impact, demonetization, small medium enterprises, government procedure, Finance, Economic Development.

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E49, E51.

**INTRODUCTION**

 Small and Medium Scale Enterprise (SME) has proved to be a major tool adopted by the developed nations to attain socio- economic development. In recent time, small scale industrial sector is considered to be the backbone of modern day economy. Established Enterprise and Economic Development Agencies to encourage promote and coordinate investment activities in the State with a view to stimulating economic growth. One of such developmental strategies is the industrial development and expansion of Small and Medium Scale Enterprises (SMEs). Nevertheless, despite the efforts and contributions of past and present government towards promoting SMEs in Karnataka State. The major advantage of the MSMEs is its employment potential at low cost of capital. The labour intensity of the MSMEs sector is much higher than that of the large enterprises. MSMEs are playing a vital role in creating a high value of employment at meager cost of capital in comparison to large industries, helping in establishment of industries in economically backward regions and truncating regional inequalities, promising justifiable dispersion of national income and wealth. It is well known that the MSME sector provide the maximum opportunities for both self-employment and jobs after agriculture sector. Research in Chikkamagalore District shows that entrepreneurs in rural areas start new businesses due to the quest for financial autonomy; passion; power and determination to succeed.

**REVIEW OF LITERATURE**

**CHARON SINGH (2016)**, RBI chair professor said that this step will result in positive and negative impacts on the society. He concluded that this will also bring up India's rank as it reflects that our country is against corruption and wants to eradicate it. Moreover, the output in agriculture and many more industries was reduced due to scarcity of cash.

**PATIL (2016)**, Due to demonetization the credit cost dropped quickly which led to increase in raising money for investment purpose. As Rs 500 and Rs1000 notes were declared invalid people were forced to deposit their currency in banks to get it changed with new currency notes. Thus they were able to raise loan to be used for investment in business.

**K, VASANTH, MAJUMDAR M., K. KRISHNA (2012)**, in their paper have stated that since several successful models of the sustainable SME are gradually evolving, networks of SMEs would become essential for addressing the systemic problems under lying the industrial ecology, enterprise resilience, and global supply chain sustainability.

**SRINIVAS K T, (2013)**, has studied the performance of micro, small and medium enterprises, and their contribution in India's economic growth and concluded that MSMEs play a significant role in inclusive growth of Indian economy.

**ACCORDING TO MD AND CEO, ICICI BANK**, Chanda Kochhar who told ET now, "this move will definitely bring about a whole amount of transition to no cash or low cash kind of transactions". Narayana Murthy, founder of the Infosys, welcomed the Government's move in its fight against corruption. Murthy also added that "the dishonest will have to suffer absolutely that is the right thing". International Monetary Fund (IMF) issued a statement supporting Modi's efforts to fight corruption by the demonetization policy.

**CONCEPT OF MICRO, SMALL AND MEDIUM ENTERPRISES**

An appropriate definition of Micro, Small and Medium Enterprises and their proper classification in a national or international context offers a varied perspective. The term 'MSME' is normally used to describe small industrial or business units in private sector. MSMEs have been classified differently in different contexts in terms of their nature of assets and scale of production etc. while others have defined those units in term of employment generation, shareholder funds, scale of investment or sale of products etc. The definition according to the World Bank is that, a business classified as MSMEs when it meets two of the three criteria – Employee strength, size of assets or annual sales. Micro, Small and Medium Enterprises in rural areas is similar to businesses in the urban areas. A rural entrepreneur operating an enterprise is an individual who resides in the rural area and establishes a business venture in the community that contributes to the economic development of his or her rural area. Also most of the micro enterprises belonging to the unorganized / informal sector are facing an adverse impact in their day-to-day operations and close to 47% of them could end up closing down in the second half of the current financial year.

**DEMONETIZATION**

Demonetization refers to an economic policy where a certain currency unit ceases to be recognized or used as a form of legal tender. In other words, a currency unit still loses its legal tender status as a new one comes into circulation. The government can take such decisions to stop the circulation of a denomination of notes or coins in the economy.

The government from time to time formulates fiscal policies that are meant to spur economic growth. A lot of black money circulates in the economy, and most of it is unaccounted for because the sources of income are not known to the government. It can be money generated through illegal trade or unauthorized funding. To mop up this money out of circulation, the government can demonetize so that the money holders are forced to deposit the cash with the banks or lose their wealth. It is a strategy that has worked quite well for some countries.

**ADVANTAGES OF DEMONETIZATION**

1. Eradicate the use of fake currency.
2. Tackle with corruption due to currency upholds.
3. Withdrawal of old currency and bring unaccounted money back into the banking system by a considerable increase in bank deposits. With this the idle money becomes productive.
4. Encourage digital payment modes to reach the target of a cashless society.
5. Reduction of illegal activities.
6. Reduced tax avoidance by encouraging higher tax payments.

**PROBLEMS FACED BY MSMEs**

Problems faced by MSMEs, the MSMEs while obtaining finance, and while performing their operations face various difficulties, which need to be addressed. These problems have been listed below:

- (a) High level of interest rate
- (b) High fees/charges
- (c) High collateral demanded
- (d) Huge paperwork involved
- (e) Disclosure requirements
- (f) Own contribution requirements
- (g) Lack of availability of adequate and timely credit
- (h) Limited access to equity capital.
- (i) Problems in supply to government departments and agencies;
- (j) Procurement of raw materials at a competitive cost;
- (k) Problems of storage, designing, packaging and product display;
- (l) Lack of access to global markets;
- (m) Inadequate infrastructure facilities, including power, water, roads, etc.;
- (n) Low technology levels and lack of access to modern technology;
- (o) Lack of skilled manpower for manufacturing, services, marketing, etc.;
- (p) Multiplicity of labour laws and complicated procedures associated with compliance of such laws;
- (q) Absence of a suitable mechanism which enables the quick revival of viable sick enterprises and allows unviable entities to close down speedily.

**OBJECTIVES OF THE STUDY**

1. To analyze the performance of MSME sector in the present scenario.
2. To analyze the Micro, Small and Medium Enterprises Development in Karnataka.
3. To understand the economic impact of demonetization from the perspective of small medium enterprises.
4. To study the demonetization affected badly to micro, small and medium enterprises.

**HYPOTHESIS**

1. There is no significant relationship between MSME sector and their industrial growth.
2. A belief of 'Education' as an enabling factor is independent of Lack of Technological Skills as a problem in Small and Medium Scale Enterprises.
3. Dual role of Small and Medium Scale Enterprises is independent of their age as an effectual variable.

**STATEMENT OF THE PROBLEM**

The Government's recent policy of demonetization has impacted the small medium enterprises in the short run. The Small and Medium Scale Enterprises (SMEs) today face so many problems like financial, marketing and transportation. The Economic Times (2017) reported the statement that nobody has liquidity to do off-the-bill transactions. As retail segment generate cash transactions, there might be reduction in their sales. The highlight of the study is to appropriate use of technical analysis in order demonetization effects on micro, small and medium enterprises.

**SCOPE OF THE STUDY**

It sets out the reasons why promoting Micro, Small and Medium development and survival of rural communities which is rift with rural – urban migration and it considers successes and challenges of Micro, Small and Medium Enterprises in Karnataka. This article deals with the performance of MSME sector in the present scenario. Of Micro, Small and Medium Enterprises in Karnataka. This study government will be able to know about the future conditions of the economy. This study will also helpful for the Indian citizen because they would be able to know the present and future condition of the economy and they can take rational decision on their income and expenditure. The MSME sector which provides large number of jobs for the unskilled and unorganized manpower especially in rural areas could not bear with the cash crunch though only for a short time as long term effect are out of the scope of this study.

**LIMITATIONS OF THE STUDY**

The limitations of the study are: This study has covered only the Chikkamagalore District Karnataka state. Only Short Term Effect the research has limited its scope in examining only the short term effect of Development in Micro, Small and Medium Enterprises. And this study has focused the development of micro, small and medium enterprises.

1. Study is confined only to the Micro, Small and Medium Enterprises Development in Karnataka – Chikkamagalore District.
2. The study of this analysis was mainly based on primary and secondary data.
3. The study is analysis was analyzing the performance of MSME sector in the present scenario.

**NEED OF THE STUDY**

Demonetization has been used as a micro, small and medium enterprises. - economic policy by the government to regulate or modify the economic affair of the country in keeping certain objective to tackle issues affecting the economy like a parallel economy, financing and corruption, etc. Government attempt to assess the behavior of the economy as a whole and to seek ways in which its aggregate performance might be improved. Due to demonetization various economic and social impacts aroused which was not ascertained before the implementation of Demonetization. All the Financial Institutions providing credit to the Micro, Small and Medium Enterprises have their own set of criteria which they use against evaluation of a loan application of an MSME.

**TOOLS OF ANALYSIS**

The collected primary data are analyzed by using the mean, standard deviation, cross tabulation and chi square test.

**DATA SOURCES AND METHODOLOGY OF THE STUDY**

The study involves a critical analysis of Development of some micro, small and medium scale enterprises in the state of Karnataka. And this study gives importance to, present scenario, Development and employment generation in Karnataka State.

**RESEARCH METHODOLOGY**

This study is concerned with the examination of Analytical Study On Demonetization Effects On Micro Small Medium Enterprises with Special Reference to Chikkamagalur District. The purpose of methodology is to describe the process involved in research work. The study is analytical in nature. It makes use of both primary data and secondary data.

Micro Small Medium Enterprises who are the main source of primary data collected through a well-structured questionnaire. The current study is based on sample of 75 respondents from Chikkamagalur District. Questionnaire and schedule are used as data collection tool for collecting necessary information from the respondents. The statistical tools like percentage, ranking, mean score, standard deviation are used for analyzing the data collected from the respondents.

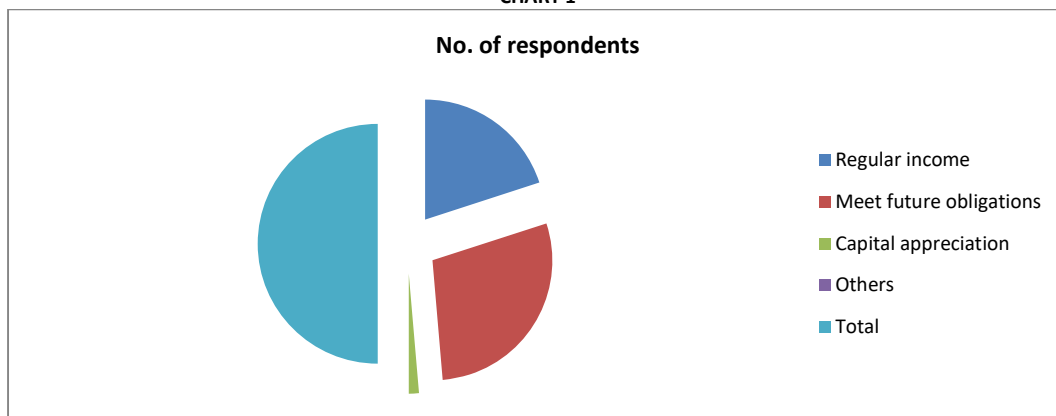
**DATA ANALYSIS AND INTERPRETATION**

**TABLE 1: EDUCATION QUALIFICATION OF RESPONDENTS**

Educational qualification	No. of respondents	Percentage (%)
Under graduate	3	1.02
Graduate	50	34.33
Post graduate	15	12.50
Professional	07	4.55
<b>Total</b>	<b>75</b>	<b>100%</b>

Source: primary date.

**CHART 1**

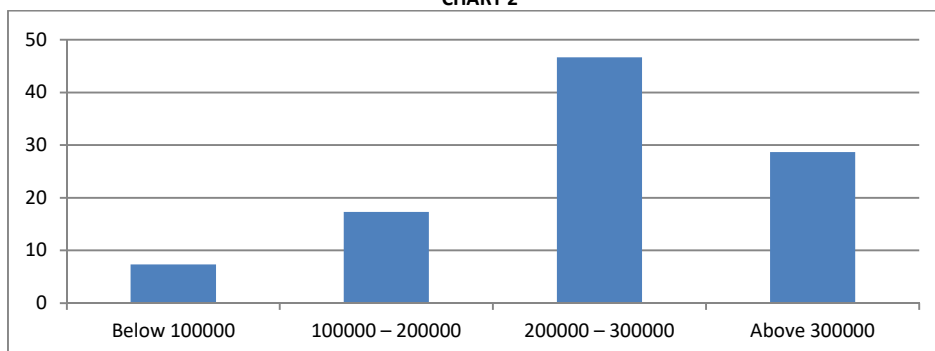


Interpretation: from the above table it is clear that 34.33% of respondents are graduates, very less 1.02 % are under graduates.

**TABLE 2: ANNUAL INCOME OF RESPONDENTS**

Annual income	No. of Respondents	Percentage (%)
Below 100000	05	6.66
100000 – 200000	13	17.33
200000 – 300000	33	44.00
Above 300000	24	32.00
<b>Total</b>	<b>75</b>	<b>100%</b>

**CHART 2**

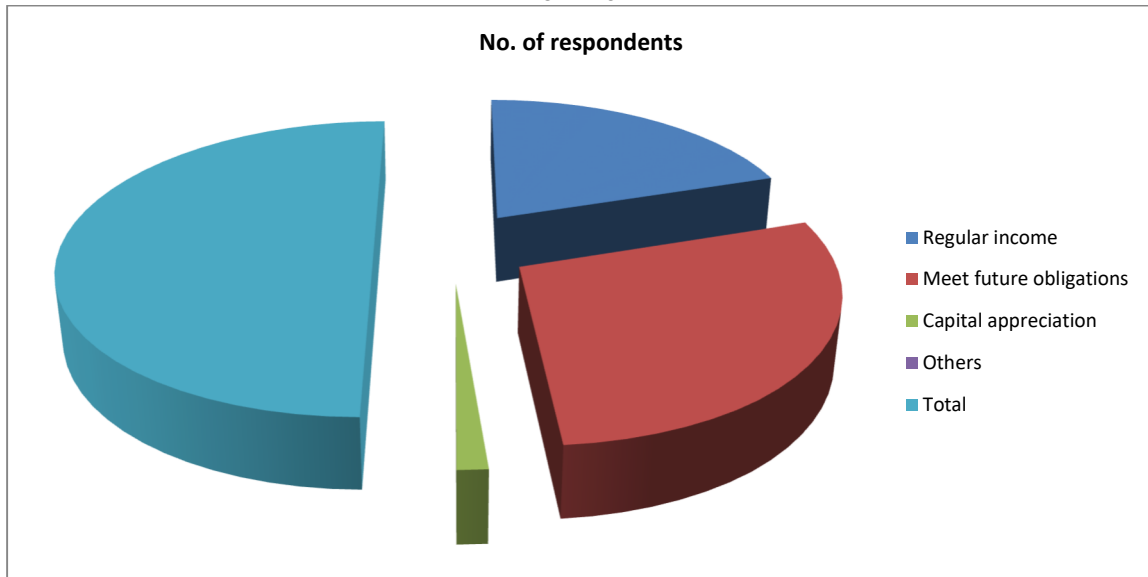


Interpretation: 44.00% of respondent’s annual income is between 200000 – 300000 and followed by 32.00% respondent’s income is above 300000.

TABLE 3: RESPONDENTS PURPOSE OF THE DEMONETIZATION

Purpose of Demonetization	No. of respondents	Percentage (%)
Regular income	30	40.00
Meet future obligations	43	57.33
Capital appreciation	02	2.66
Others	00	0.00
Total	75	100%

CHART 3

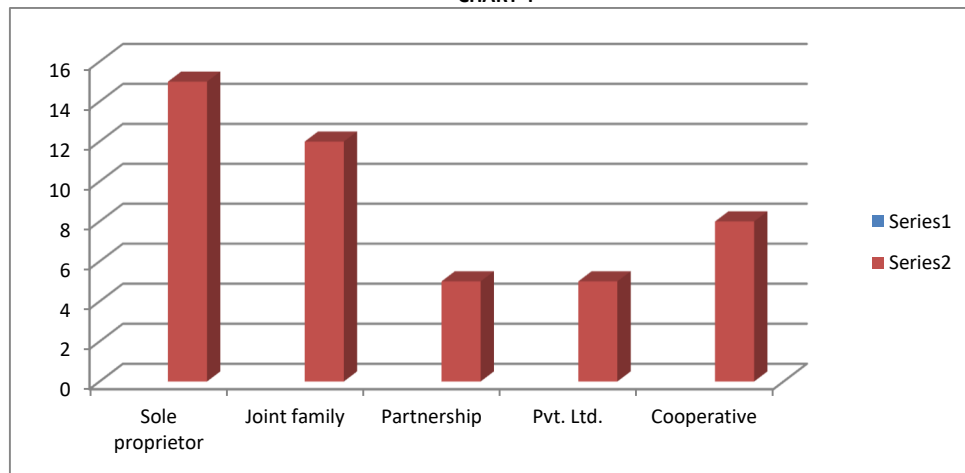


Interpretations: 57.3% of respondents investing to meet future obligations and 40.00% respondents are looking for regular income.

TABLE 4: FORM OF ORGANIZATION OF THE SMALL MEDIUM ENTERPRISES

Sl. no	Sole proprietor	Joint family	Partnership	Pvt. Ltd.	Cooperative	total
01	15	12	5	5	8	40

CHART 4



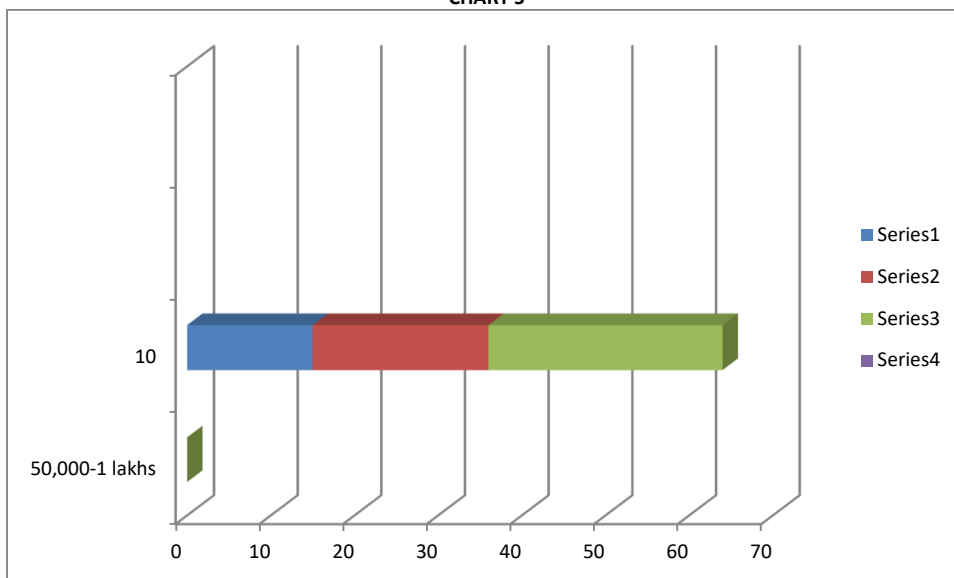
Interpretations

15 of respondents are willing Sole proprietor.12 of respondents are willing Joint family, 08 of respondents are Cooperative, 5 of respondents are willing and 05 Pvt. Ltd.

TABLE 5: EDUCATION OF MICRO SMALL MEDIUM ENTERPRISES

Level	Post-grad	diploma grad	Nil certificate	total
10-20	2	8	5	15
21-30	5	2	2	9
31-40	8	8	4	20
41-50	2	0	0	2

CHART 5



**Interpretations**

15 of respondents are willing to post – grad, 20 of respondents are willing to nil certificate and finally only one diploma grad 02 of respondent are willing.

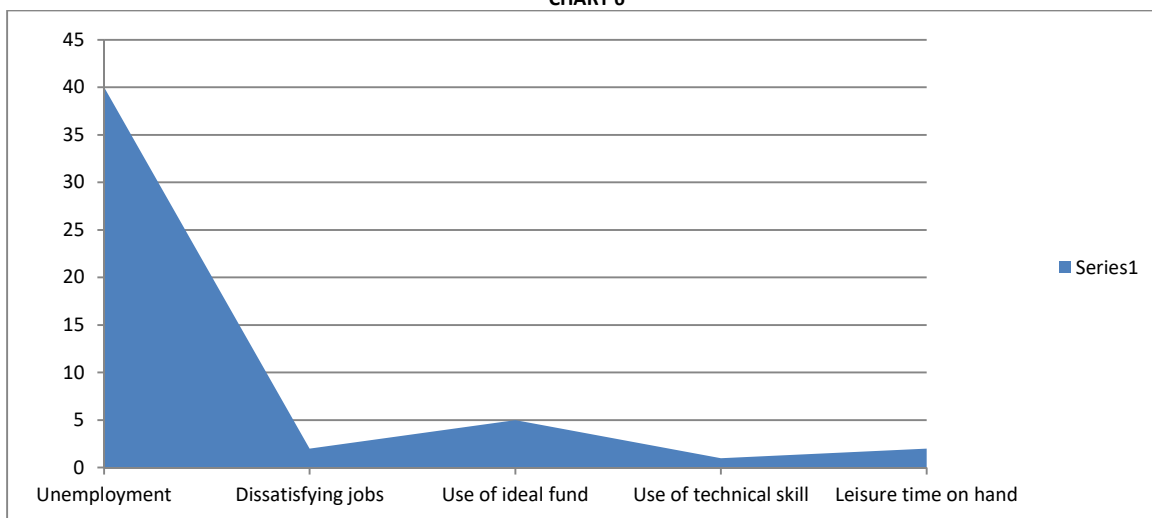
**TABLE 6: WHICH WERE THE COMPELLING REASONS FOR STARTING THE SMALL MEDIUM ENTERPRISES**

Si.no	Unemployment	Dissatisfying jobs	Use of ideal fund	Use of technical skill	Leisure time on hand
01	40	2	5	1	2

**Interpretations**

40 of respondents are willing to Unemployment and 05 of respondents are willing to Use of ideal fund and 02 of respondents are willing to Dissatisfying jobs and 01 of respondent Use of technical skill

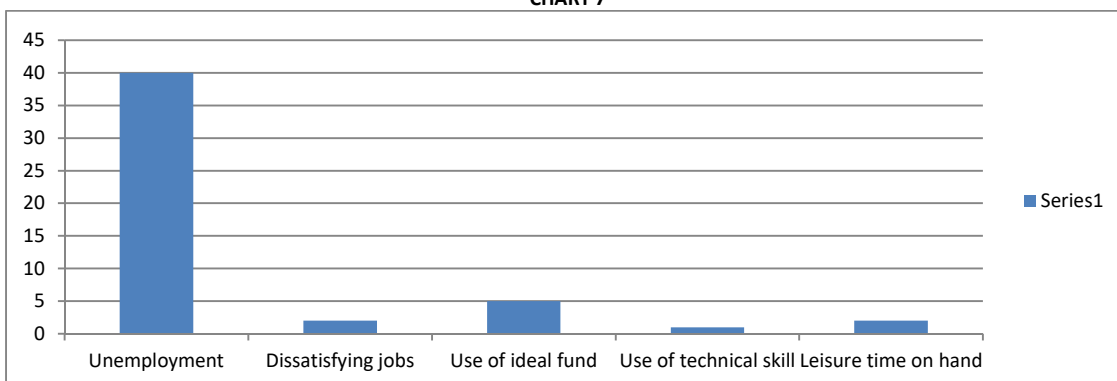
CHART 6



**TABLE 7: WHAT WERE THE INFLUENCING FACTORS OF STARTING THE SMALL MEDIUM ENTERPRISES**

Si. no	Success Stories	Previous Association	Inherited Property	Advice of Family	Others	total
01	30	6	3	10	1	50

CHART 7



**Interpretations**

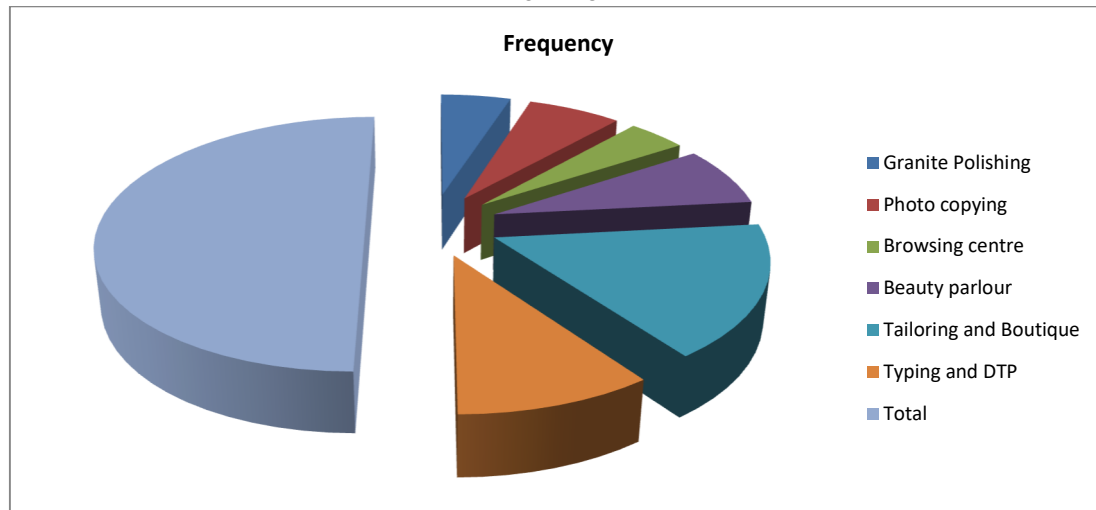
30 of respondents are willing to Success Stories and only one others out of 50 respondents.

TABLE 8: TABLE SHOWING SERVICE ENTERPRISES

Sl. No	Nature of Service	Frequency	Percentage
01	Granite Polishing	12	10.00
02	Photo copying	16	13.33
03	Browsing centre	10	08.33
04	Beauty parlour	18	15.00
05	Tailoring and Boutique	40	33.34
06	Typing and DTP	24	20.00
	<b>Total</b>	<b>120</b>	<b>100</b>

Source: Survey data

CHART 8



#### Interpretation

Among the Small Medium Enterprises service tailoring and Boutique consists of 33.33percent of the respondents followed by typing and Desk Top publishing (20percent). Remaining service enterprises constitute only less than 50percent of the respondents. Granite Polishing is offered by 10percent of the respondents.

#### FINDINGS AND RECOMMENDATIONS

1. Development in the state. Based on the results of the finding, the following recommendations were made.
2. Government should provide more capital funding to the young ones who present viable business ideas in order to reduce the rate of unemployment in Karnataka.
3. The government should also provide enabling environment in terms of constant power supply to encourage SMEs in KARNATAKA.
4. Training should be organized for the owners of small and medium scale enterprises in Karnataka state so as to boost their business performance.
5. Set up of digital literacy booths outside banks majorly in rural regions.
6. More printing of smaller currency notes.
7. Increasing penetration of banks in rural areas.
8. Expanded cash limits for Cash driven sectors.
9. A Public Procurement Policy for MSMEs as envisaged in the Micro, Small and Medium Enterprises Development Act, 2006 may be introduced at the earliest. The policy may set a goal for government departments and PSUs to reach, over a stipulated period, a target of at least 20 percent of their annual volume of purchases from micro and small enterprises (MSEs), and mandate them to report their achievements and Development in this regard in the annual reports.
10. The study of the growth of the MSMEs in India in terms of units, fixed investment, production and exports revealed that highest positive correlation observed among total MSMEs.
11. MSMEs Development It is not that easy to overcome in short period. The need of the hour is to upgrade technology and skill development. Of course other issues are also there for MSME.
12. The MSMEs are providing more employment per unit. If this contribution is to be sustained, then their uniqueness needs to be nurtured in an overt and explicit manner. Majority of entrepreneurs in Karnataka State, had knowledge and skills in their tie and dye enterprises and believed that skills coupled with innovations in their finished product was essential for sustainability of their enterprises.
13. Successful entrepreneurs in this current study were less likely to rush into decision making, concerned about the risk involved in their business ventures, prudent in allocating resources and spending income accruing to their tie and dye enterprises.
14. There are a number of challenges and problems that confronts owners of MSMEs in rural areas such as poor infrastructure, poor road network, high cost of loans from financial institutions, epileptic power supply, low levels of education, inadequate family planning methods characterized by high birth rates and poor health facilities. When the Indian financial intuitions financial helpful to MSMEs in that circumstances MSMEs we be growth.

#### CONCLUSION

The Demonetization-2017 had been aimed at curbing the corruption, tax erosion and fighting against the duplicate currency in circulation. This action of Indian government has effects on all sectors of economy; some of them had positive and others faced negative effects on their respective businesses. There may be long term and short term effect of Demonetization. This study has covered only short term effect of Demonetization. Bring down money related asset incorporates a deflationary Effect: With the more established five hundred and a thousand Rupees notes being rejected, till the new five hundred and 2000 Rupees notes get wide flowed inside the market, fiscal asset is anticipated to be lessened inside the short run. We tend to expect the accessibility of property inside the optional market that is intensely reputed to claim an outsized cash part worried, to endure inside the short term, which can progressively enhance interest for private property inside the essential market.

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