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RESEARCH ARTICLE

IMPACT OF DEMONETIZATION ON UNORGANIZED BUSINESS SECTOR OF GOA

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ABSTRACT

The story of Demonetization is not new to the Indian economy as there have been several instances in the past when the demonetization was actually practiced in India. The government of India in the beginning of second half of 20th century i.e. in 1954 had demonetized the currency followed by the same repeated again by the government in 1978 when currency notes of small (100 and 500) and high denomination (1000) were demonetized by the government which was an act towards scrapping off the corruption practices in the country. The practice may seem very attractive at first to curb the black money that goes unaccounted from the Indian economy but rather the Central Board of Direct Taxes (CBDT) in the beginning of second decade of twenty first century had recommended that the demonetization would not have the estimated impact on the economy due to the fact that large number of people in the economy possess less than 10 percent of the wealth in the form of liquid cash whereas the remaining is kept in the form of valuables, properties that are unaccounted for while showing the tax returns, etc. In November 2016 the Central Government headed by Prime Minister Shri. Narendra Modi took a decision to demonetize the currency with the purpose to strike at the heart of terrorism funded by such black money. The present paper attempts to trace the Impact of Demonetization on the Unorganized Business sector of Goa.

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INTRODUCTION

Demonetization is no longer a new word to the common man. Around the world the concept of demonetization has been circling during economic turnovers as a result of shuffle in the business operations due to depression and other factors that push the economy on downward path where aggregate demand inclines downwards. The activities involving too much of economic turnaround eventually leading to instability in the prices may often indulge the governments to go in for demonetization. Explained in simple terms demonetization is taking off the official designation of currency as legal tender that is used as medium of exchange for undertaking various transactions of both merchandise and services¹.

Methodology and Data Collection

Authentic Primary Data was collected from the respondents through a pre-structured questionnaire. The questionnaire was designed to shed light on the aspects of demonetization that affect the Unorganized Business Sector in Goa. The Sample Survey was conducted through which a sample of 100 respondents were selected randomly for the purpose by following the Simple Random Sampling technique of sampling.

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The Episode of Demonetization in India

Under the leadership of Janata Party in 1978 the demonetization was brought into operation the first being initiated in the year 1946 where there was no much impact found. Here however, the government withdrew the old currency and replaced it with new currency as a means to stop the circulation of counterfeit money and also along with it the black money in the system. However, in India on 8th November, 2016 Prime Minister Shri. Narendra Modi just moments before midnight made an announcement that effective from 9th November, 2016 the high denomination notes of Rs. 500 and Rs. 1000 will cease to be legal tender and also added that money earned through legal mode will be safeguarded. The Government had set following objectives while implementing Demonetization some of which are mentioned here:

To tackle the counterfeit note

- Blocking the financing for hazardous anti national activities such as terrorism and other related activities.
- To put an end on black money in the Indian economy by the way of enabling people to disclose their income via Income Declaration Scheme 2016 to disclose money from all sources the 90 percent of which will be taxed but no legal action will be initiated against the individual.

¹<http://www.investopedia.com/terms/d/demonetization.asp>

- Movement towards cashless transactions of people from cash to non-cash (cashless) which will boost the digital exchange of money thus prohibiting the black money since entire digital transactions will be on the radar of the income tax department which will be summarily checked.

The end game is that once demonetization was formally announced both at first by the Prime Minister and later on by the Reserve Bank of India (RBI) Governor Shri. Urjit Patel the old high denomination notes of Rs. 500 and Rs. 1000 ceased to be legal tender and henceforth new notes of Rs. 500 and Rs. 2000 were circulated throughout the country so as to facilitate the flow of requisite amount of money at the disbursal of banks for the maintenance of liquidity with the banks. However, the hardships were faced by the people specially to those dealing in small currency notes transactions required for small and medium business operations were affected the most.

The Advantages and Disadvantages of the Demonetization

The demonetization targeted at the following good effects on the Indian economy:

Decline in Black Money

It is certain that almost majority of the people in the economy who are engaged in various types of trades and activities possess black money. This is the money that is undeclared by the people while filing income tax returns and also while paying their taxes people hide this money in various forms. The demonetization will mark a significant blow to black money holders as they will have to declare their illegal holding of money in whatever form through the scheme implemented by the government called as "Income Declaration Scheme 2016" where the central government has provided an opportunity to the public to disclose their black money and deposit it in their bank account on which no legal action will be taken on public but 90 percent of the black money deposited will be taxed.

Stopping Counterfeit Money

There is large amount of counterfeit money being circulated by the individuals which is not in the interest of the society as this adversely affects the economy and there is loss of purchasing power of the individuals who unknowingly hold these counterfeit money which is passed on to them in one or the other form.

Cashless Economy

Majority of the economies around the world are not fully digitalized in the sense of transactions taking place. The international trade is undertaken by the businesses around the world that are segregated into small, medium and large enterprises. Small and Medium Enterprises generally deal with cash transactions as their scale of operations is limited to certain extent as opposed to large enterprises who undertake bulk trade and enjoy economies of scale and can transact in digital money terms via online wire transfers and similar nature of modes of payments through their respective customers. As majority of the customers prefer banking services and online modes of payments therefore this activity

of the government will try to bring down the cash transactions and will promote cashless transactions.

Increase in Capital Accumulation/ Capital Formation

The intended effect of the demonetization is that it will make the people holding black money to deposit the same in their respective bank accounts the particular proportion of which will be taxed by the government and a large pool of money may be built up which will be used for nation building and for growth and development of the economy.

Ban on funding for Anti-National activities

Lot of money that is held by the people either accounted for or unaccounted for is spent on anti-national activities such as promoting terrorist activities and other associated activities disrupting the peace of the nation.

Decrease in General Price Levels

Since the driving out of existing currency with people by new currency will make people searching for new cash denomination notes the aggregate demand for goods will go down as the cash in hands will be less and so will be the purchasing power of the people hence the general price levels will come down.

Unorganized Sector in Goa

The name itself speaks about the nature of this sector which is classified according to work conditions. There is no formal registration of this sector with the government sector however it plays a very crucial role in the Indian Economy at macro level and in Goan Economy at micro level as it includes small scale operations, private businesses, etc. These consists of businesses such as Xerox, local fruits and vegetable vendors, tea stalls, etc. These operate on daily basis by undertaking small transactions that are often resorted to by small and medium consumers who deal with cash every day and often are accustomed to digital forms of payment for the purchases that they make. Following Table 1 shows the effect of demonetization on such small businesses.

Table 1. Impact of Demonetization on different types of Businesses

| Type of Business | Number of Customers before Demonetization | Number of Customers after Demonetization | Loss of customers |
|--------------------|---|--|-------------------|
| 1)Xerox | 50 | 45 | 10% |
| 2)Tea Stall | 40 | 16 | 60% |
| 3)Sweet stall | 30 | 28 | 7% |
| 4)Fruit vendor | 25 | 22 | 12% |
| 5)Vegetable vendor | 15 | 12 | 20% |
| 6)General store | 45 | 26 | 42.22% |
| 7)Recharge shop | 70 | 23 | 67% |
| 8)Fish seller | 30 | 30 | 0% |

RESULTS AND DISCUSSION

Analysis from the sample drawn 10 from each business a total of 80 respondents have revealed the effect that they had to face due to demonetization. Of the 8 unorganized businesses total of 3 businesses were the worst affected due to demonetization namely Recharge shop vendors witnessed 67% downturn by

the customers due to demonetization, followed by Tea stalls who got hit with 60% reduction in customers and General stores lost 42.22% customers. The other businesses who were comparatively less affected are Vegetable vendors 20%, Fruit vendors 12%, Xerox shops 10% and lastly Sweet stalls saw 7% decrease in customers. Fish sellers on the other hand saw no change in customers purchasing fish and therefore they were unaffected by this demonetization move of the government.

Conclusion

In the end it can be concluded that the impact of demonetization is spectral in nature in the sense it has slightly affected certain unorganized businesses, more severely hit some small number of businesses and even very few have been unaffected by this move. Therefore, it can be said that the demonetization has affected those unorganized businesses that had large frequency of daily customers whose only mode of transaction was cash and no card or other modes of payments. These people were left in dilemma post announcement of demonetization as they had to wait to acquire cash in their hand to transact in the market.

Thus we can say that unorganized business sector shouldered on the arms of only cash transacting customers has been severely affected whereas others that had customers with other modes of payment have survived.

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