

Study Title

The title of the study is “**Evaluation of Effect of Demonetization on Small Scale Industries in Karnataka**”.

Background information and context:

Money is the backbone of the modern economy that is based on market and exchange. The increase in volume of transactions indicates the rate of growth of the economy. Though the world is in the process of fast movement towards a digital economy, yet in many developing countries, including India, money plays a major role as a medium of exchange. The monetary policy of a country monitors the volume and growth of money supply as per the development requirements of the economy without affecting the stability.

Now the Government’s decision of demonetization of the currency through withdrawal of notes of 500 and 1000 denomination on November 8th 2016) from circulation has raised many issues and has created many hurdles in the path of the smooth growth of the economy. The major objectives behind this move were- (a) eliminating black money; (b) reducing the prevalence of counterfeit currency, which is allegedly used to fund terrorism against India itself; and (c) curbing corruption and criminal activity of various kinds that have been facilitated by the 500-rupee and 1000-rupee banknotes.

India has adopted this strategy earlier also. But the India of 1946 and even 1978 cannot be compared to the economic behemoth it is today. According to data from the IMF and World Bank, India is projected to be the sixth largest economy in 2017, up one place from seventh, in 2016. It is the second largest emerging market, after China. A large part of this economy consists of agriculture, small business and petty traders who work in the informal sector where about 95 percent of transactions are in cash. On the eve of demonetization, In terms of value, as per the annual report of Reserve Bank of India (RBI) of 31 March 2016 stated that the total bank notes in circulation valued to ₹16.42 trillion of which nearly 86% (around ₹14.18 trillion were ₹500 and ₹1,000 banknotes. This indicates that the high denomination currency was significantly large in circulation.

The Small scale industries sector comprises of micro and small scale industries, which includes automobiles, electrical and electronics, chemicals, food and intoxicants, leather, paper and printing, rubber and plastic, textiles, wood and others enterprises. According to Directorate of Industries and Commerce Karnataka has 382269 small scale industrial units upto 2014-15 and provided employment to 2277122 people. These small scale industries

depend upon cash for their regular transactions, as it provides high and quick liquidity, besides convenience.

In this context, it is imperative to analyse the impact of demonetization on small industrial sector whose survival is largely dependent on everyday transactions in local and surrounding markets. This sector of the economy deals with local people where cash transactions are very large in size both in rural and urban areas. Their dealings in short period purchases of raw materials and in retail sale are in the form of cash. A large section of the producers and consumers here have very low literacy level and digital transactions are beyond their reach. It is likely that the policy has its first hit on these small scale producers in local markets. Hence the present study is taken up to address this issue in particular.

Evaluation-Scope and objectives

The present study attempts to assess the impacts of demonetization on small scale industries in Karnataka. The state has 3.82 lakh small scale industries employing about 22.77 lakh people. Scope of this study is limited to small enterprises selected from the sample region. Analysis in this study covers the impact on production, trade and income of SSIs.

Objectives (Inclusive not exhaustive)

1. To analyse the need for and the context of demonetization in India
2. To study the nature and volume of transactions of small scale industries in the study area
3. To examine the impact of demonetization on the volume of production and market transactions of the producers in this sector
4. To examine the impact on employment of workers in the industries after demonetization
5. To assess the short and long term gains and losses to the enterprises in this sector

Research questions

- What is the nature of small industries and their volume of cash transactions over a unit of time- day/week/month?
- What is the first reaction of these small entrepreneurs to the sudden decision taken by the Government?
- What were the difficulties faced by them in the initial stage?

- What are the coping strategies adopted by them to meet the emergencies in initial stages?
- How things have moved for them during different phases of the demonetization policy?
- What is the overall impact of this policy on the production and profits and growth of these enterprises in near future?
- What are their future prospects about the market and their sustainability in the long run?

Evaluation Methodology and sampling approach:

The study is mainly based on primary data but secondary data will also be used according to the needs of study. As the nature of the study is quick analysis based on small sample, the methodology is designed to suit the requirements of the study. In order to assess the impacts of demonetization before and after approach will be used.

The secondary data will be collected from

- Desk reviews
- Government Departments – Directorate of Industries and Commerce, Directorate of Economics and Statistics
- News papers and other sources.

Primary data will be collected through

- Pre designed and pre tested schedule addressed to the sample respondents.
- Focussed Group Discussion
- Field discussions and observations

Sampling

Sampling structure is designed to get a disaggregated assessment of the impact of the policy on small producers in rural and urban areas incorporating issues related to development.

Data base used for sample selection is from the Directorate of Industries and Commerce, published by Directorate of Economics and Statistics. Number of SSIs is highest in Bangalore Urban with 91314 units and hence this district is selected for the study, besides Bangalore Urban district also represents urban area. In order to represent rural and backward regions of the state one district, Kalaburgi, from Hyderabad Karnataka region has been randomly

selected. Bangalore North Taluk from Bangalore Urban district and Chittapur and Gulbarga taluks from Kalaburgi districts have been chosen to identify SSIs and conduct field survey. The Sample design of the study is given below.

Sample Design:

Criteria	District	Taluks	Number of SSIs	10% of samples	Rounded off to
Urban	Bangalore	Bangalore North	2199	219.9	220
Rural	Kalaburgi	Chittapur Gulbarga	116 78	11.6 7.8	12 8
Total			2393	239.3	240

Indicators for assessment

1. Level of education
2. Level of production (month/year)
3. Volume of sales (quantity and monetary terms)
4. Volume of purchases- (before and after)
5. Level of income – (before and after)
6. Level of savings and investment (before and after)
7. Level of borrowings (before and after)
8. Number of employees (before and after)

Statistical tools and techniques

Statistical techniques like, percentages, ratios, mean and standard deviation, x2 test and charts and graphs will be used to analyse the data and assess the impact. In order to present the impact of demonetization a socio-economic evaluation matrix may be developed. The study will also conduct few case studies to obtain in-depth details of impacts on SSIs.

Deliverables and Time schedule

- Work plan about the study immediately after the acceptance of the inception report.
- Report about data collection and data entry
- First draft report
- Executive Summary and Final report.

Time Schedule

45 days after the approval of the TOR.

- Work plan submission – 15 days after agreement
- Data collection - 15 days from work plan approval

- First draft of the report submission - 15 days after field data collection
- Final Report submission - as agreed after first draft approval

Administrative arrangements

The core team should comprise of the following members (the list is inclusive not exhaustive) should have the minimum technical qualifications/experience as stated below:

Sl No.	Subject experts requirement	Educational Qualifications	Experience in Relevant field (In years)
1	Principal Investigator	A master in Economics	5
2	Member 1	A social scientist , preferably with a Masters in Social Work/Psychology	5
3	Member 2	A data analyst/Statistician	3

Consultant Evaluation Organizations not having these kind of personnel will not be considered as competent for evaluation.

Qualities Expected from the Evaluation Report:

The following are the points, only inclusive and not exhaustive, which need to be mandatorily followed in the preparation of evaluation report:-

1. By the very look of the evaluation report it should be evident that the study is that of the Department of small scale industries and Karnataka Evaluation Authority (KEA) which has been done by the Consultant. It should not intend to convey that the study was the initiative and work of the Consultant, merely financed by the Department of small scale industries.
2. Evaluation is a serious professional task and its presentation should exhibit it accordingly.
3. The Terms of Reference (ToR) of the study should form the first Appendix or Addenda of the report.
4. The results should first correspond to the ToR. In the results chapter, each question of the ToR should be answered. It is only after all questions framed in the ToR are answered, that results over and above these can detailed.
5. In the matter of recommendations, the number of recommendations is no measure of the quality of evaluation. Evaluation has to be done with a purpose to be practicable to implement the recommendations

Cost and schedule of budget releases:

- a. The **first installment** of Consultation fee amounting to 30% of the total fee

shall be payable as advance to the Consultant after the approval of the inception report, but only on execution of a bank guarantee of a scheduled nationalized bank, valid for a period of at least 12 months from the date of issuance of advance.

- b. The **second installment** of Consultation fee amounting to 50% of the total fee shall be payable to the Consultant after the approval of the Draft report.
- c. The **third and final installment** of Consultation fee amounting to 20% of the total fee shall be payable to the Consultant after the receipt of the hard and soft copies of the final report in such format and number as prescribed in the agreement, along with all original documents containing primary and secondary data, processed data outputs, study report and soft copies of all literature used in the final report.

Taxes will be deducted from each payment, as per rates in force. In addition, the evaluating agency/consultant is expected to pay service tax at their end.

Contact person for further details:

Managing Director, KSSIDC, Karnataka Udyog Mitra, 3rd Floor, Khanija Bhavan (East Wing), No 49, Race Course Road, Bangalore-560001, India Tel: 080-22282392/22285659/22286632, Fax: 080-22266063, md@kumbangalore.com, karnatakaudyogamitra@gmail.com, crmenquiries@kumbangalore.com will be the contact persons for giving information and details for this study.

The entire process of evaluation shall be subject to and conform to the letter and spirit of the contents of the Government of Karnataka Order no. PD/8/EVN (2)/2011 dated 11th July 2011 and orders made there under.

