

Impact of Demonetization on Dharavi's Informal Businesses

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An old name plate outside a warehouse in Dharavi's Kala Killa area identifies the room as a leather tannery. However, the warehouse is now occupied by dealers of a food business, after the leather tannery, owned by J.K. Enterprises, closed down three months ago due to severe cash crunch following demonetisation. Kavita Kharat, owner of J.K. Enterprises, was forced to close her leather business as she had no money to pay labourers, or to procure raw material. Her family friend now runs a foods business from Kavita's leather tannery.

Continuous cash crunch since November 2016, when the Union government withdrew high denomination currency from the market, has led several of Dharavi's businesses to close down within the past six months.

Dharavi-one of Asia's largest slums-was a self sufficient economic powerhouse until recently. It has been home to about 2,000 plastic factories, 3,000 clothes factories and over 3,000 leather factories and several chips and *papad* manufacturing units, cloth dyeing units, manufacturers of imitation jewellery, electronic goods such as air conditioning units and fans, pottery, cane art and milk products. These function from within rickety shanties measuring not more than 10x10 feet in size.

However, according to estimates of Dharavi own businessmen, atleast 50% of these 8,000 odd business have closed down in the past six months after demonetisation, plagued with the twin problems of severe cash crunch and massive labour exodus.

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IMAGE CREDIT: UDRI

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Shutting down of such micro, informal businesses has rendered close to 10,000 people jobless in the past few months, as each business employed a minimum of 4 or 5 labourers.

Ataullah Ansari, who sews children's clothes with ten other tailors in a small shanty at Kadar maidan, said most of his colleagues have left Mumbai and travelled to their hometowns. He said, “There is less work these days. Earlier we would work over time. Now the clothes we make are lying here in the room. There is no demand for our goods.”

Zuber Shaikh, who is one of the luckier businessmen still doing well, said, “We traded in cash and have a lot of money handy at all times. After demonetisation, we did not know what to do with so much money, so we paid off all debts. Since then, we have not been able to recover that liquid cash. About 40% of the 3,000 odd clothes factories closed in the first three months after demonetisation, as there was no money to pay salaries, rent of the stores and electricity bills month after month. These businessmen have got jobs in the service sector now.”

Businessmen say there is no more free flowing cash in the market for businesses in the unorganised sector to thrive. After introduction of the Goods and Services tax (GST), suppliers of raw material insist on trading with receipts. Taufik Khan and Ansar Khan, who make plastic goods such as bowls, dishes and electric switchboards, in makeshift warehouses near Mahim station said, “Our sales decreased by 50% after demonetisation, and 80% after GST.” Taufik employed 5 labourers until February 2016, and then fired three of them, as he could not afford their salaries. Speaking to Hindustan Times, he said, “Money needs to start flowing freely in the market like it used to, otherwise we have no future. Due to sustained cash crunch, I have pending payments from as far back as March 2017.”

Similarly, the owner of a small leather business in Kala Killa, who did not wish to be named said, “I had to close down my business in April. It was not registered and all transactions used to take place in cash. Since demonetisation, dealers of raw materials insist on check transactions, and receipts for all payments. Since I could not sustain it, I closed my business, and have now taken the dealership of an electronic store. But people do not see that employment due to my business used to feed ten families.”

Yet another setback from demonetization to Dharavi's businesses, has been the wastage of goods following a dip in consumer demand post demonetisation. Rajesh Bagde makes small wallets for women in a shanty near Kala Killa. Pointing to a pile of polished goat leather he sulks that it has now gone bad, so he may have to sell wallets made from that pile at cheaper rates. He said, “This leather is a year old now and it has hardened. We didn't use it because owing to a dip in consumer demand, we don't need to make as many wallets everyday. Wallets made from this leather will get spoiled sooner, so I will have to give a discount on them.”

Similarly, Ataullah Ansari, who sews children's clothes and sells them to hawkers at Bandra and Dadar said, “Styles run out of fashion quickly, so the cloth that was in demand six months ago is not sold anymore. We are still sewing clothes from cloth bought eight months ago.”

However on the other hand, business has been unaffected for the few registered companies trading in the leather business. These continue to thrive because they are able to produce receipts of all transactions, whether it is procurement of raw material, or sale of finished goods. Wahaj Khan, owner of Wahaj Khan and Sons Leather goods said, “Our business has not been affected at all, by GST or demonetisation, as it is registered, and I pay taxes.”

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According to Khan, several small household level businesses have closed down or are not able to purchase the same quantity of raw material as they used to. “Raw leather needs to be consumed immediately, otherwise it gets hard. It is being produced in the same quantity as before (demonetisation), However, its demand has reduced after small businesses closed, and hence it is available cheaply for us.” Khan said. Khan exports goods outside India and also takes bulk orders for gifts in the corporate industries.

Similarly, Rajkumar Khandare, dealer in suede leather said, “My business is doing well. There is a dip in sales and none of our customers pay on time anymore, but businessmen plan for such days, and have to have backup savings.”