

DEMONETISATION

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- As an exercise in change management



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Demonetisation was announced by our Prime Minister Shri Narendra Modi on 8th November, 2016, at 8p.m. in his address to the nation. It is sure to be remembered as a major historic and economic Indian event of twenty first century. It was announced that bank notes of ₹500 and ₹1000 denominations (hereinafter referred to as *Specified Bank Notes or SBNs*) would lose their legal tender status with the expiry of that day. Elaborate operational guidelines were simultaneously issued for exchange of the existing notes of these denominations with the public, keeping in view the need to minimise the inconvenience to them. The objective of the move was to eliminate the menace caused by Fake Indian Currency Notes (FICN) and Black Money and to curb corruption and terror financing.

Great expectations and repercussions were associated with the move. In the past about three months, the printed media had run so many editorials, news reports, interviews and detailed articles and the visual media had presented so many special programs, discussions, interviews and reactions of people. There were bouquets and brickbats.

The exercise can be viewed both from economic and administrative angles. The economic aspect has so far been projected, in a nutshell, as 'short term pain and long term gain'.

But the triggering and cascading effects of future economic or political events in India or in the Globemay make it difficult to predict or measure the long term economic effects of this exercise in a standalone sense. Therefore a peripheral review of the exercise, involving the administrative aspects alone, has been attempted here.

The magnitude and intensity of the noises for about two months since November 8, 2016 were one of a kind of experience due to the mind boggling figures involved. The chaos and dislocation that prevailed and their continuous and highlighted coverage in print and visual media made us feel like:

- ✱ as if we were in Greece during the peak of its debt crisis in 2015 or
- ✱ as if we were in Britain soon after Brexit verdict in 2016 or
- ✱ as if we were on 1.1.2000, bogged down by some Y2K-noncompliant software and the worst of fears of noncompliance proved true or
- ✱ as if all the above were afflicting simultaneously.

On the lighter side, it was like watching the Bug your Mom day episode of Miss Spider's Sunny Patch Friends cartoon series where the intentions were to gift but the gifts were getting trashed and smashed during the preparatory process!

Magnitude of the exercise

- ✱ The exercise involved taking about 86 per cent of currency notes out of circulation at one stroke. In figures, it amounted to ₹15.44 lakh crores.
- ✱ New series of bank notes of 2,000/- denomination was introduced for circulation on November 10, 2016 and new 500 series in a few days thereafter.
- ✱ About 2 lakh cash dispensing ATMs had to be recalibrated so that they could read and dispense the new currency notes.
- ✱ Due to the required secrecy of operation, large scale printing of new notes and entire recalibration of ATMs could be done only after the announcement of demonetisation.
- ✱ Currency gradually put back in circulation amounted to about 9.2 lakh crores. (Source for currency figures : The Hindu dated January 19, 2017)

✱ It took at least fifty days for normalcy to restore.

✱ The exercise involved a population of about one hundred and twenty five crores.

✱ Last but not the least, digital payments were not a common feature yet and most of the transactions were being done in cash.

Moves launched by Governments for the benefit of nation will be fruitful and effective only when the citizens participate in them honestly and wholeheartedly. As a case study, I am presenting here briefly my experiences and thoughts as a participant and as an observer.

Participation

On the morning of 10th November, 2016, the first working day of banks after the announcement of the move, there were serpentine queues in front of bank branches. I stood in a queue for about two hours to exchange my SBNs. As I didn't have more than ₹4000 of SBNs, I didn't have to stand again for exchanging or for depositing in the account. Also as the first week of the month was over already, my cash requirements were small and manageable. The real cash crunch was felt in December when ATMs were still dry or with serpentine queues and bank branches hung 'no cash' boards within a few hours of opening the branch. In this period I had two unsuccessful ATM trials and one unsuccessful branch visit. A successful ATM operation gave me one ₹2000 note. So I embarked upon noncash exercise to the extent possible. Certain payments were already being done by me digitally. Additionally, I made Aavin milk card renewal payment and Indane gas cylinder refill payment online in December, 2016. Though they involved an additional charges of ₹20 and about ₹21 respectively (a rebate of ₹5 has been announced since for online booking of cylinder which will reduce the net additional charges to about ₹16), it gave me an immense relief from cash needs and a satisfaction that I participated in the 'less cash' exercise being advocated by the Government. For cable TV and newspaper services I paid through cheques which the service providers accepted readily. Whenever I visited vegetable shops I enquired with them eagerly whether they had installed POS machines, though the stock reply always was that they were in the process. Altogether my cash expenses for December, 2016 was only about one fourth of my monthly routine expenses. When I went to my bank branch on 31st December to withdraw money, it was near normalcy but for some daily limit, and the staff told that it was the case since the past two days. So the cash woes ended for me at the end of fifty day grace period mentioned by the Prime Minister.

DEMONETISATION

Further, to make my digital payment capabilities complete, I installed mobile banking applications in my cellphone, which I had not been inclined to do so far! I tested various options in mobile banking payments successfully.

When UPI (united payments interface) based mobile payment app BHIM (Bharat Interface for Money), named after Dr. Babasaheb Bhimrao Ambedkar, was launched by Prime Minister on December 30, 2016, I installed that too and made test transactions for various services provided therein. All of them went through successfully except payment through Aadhar number, which seemed to be not yet functional. Thus participation in the exercise was painless in my personal experience.

Observation

As digital payment infrastructure had not yet sufficiently penetrated into rural areas and into retail trades and a majority of the people had not adapted themselves to digital payments still, there was some general dislocation since 9th November, 2016, the start day of the exercise. People had to chase their money mostly, stand in queue for a long time to draw money and sometimes had to be disappointed when 'No cash' board was displayed before their turn.

Additionally, in specific cases, the dislocation was more pronounced, as follows:

- Workers, including migrant labourers, either lost their jobs or got wages in SBNs.
- Families with infants, kids or studying children felt the pinch of inadequate cash while facing sudden expenses.
- Families of patients had to suffer cash crunch while meeting conveyance, attendant or incidental expenses, though they could pay hospital bills and medicines in demonetised currencies, as per Government guidelines.
- Families who had to conduct marriages in the first week of demonetisation were pushed to hair splitting reworks for meeting their pending payments and lost their bargaining power in certain expenses. Since 21st November, families were allowed to draw ₹2.5 lakh for marriage, subject to certain

conditions.

- Tourists, especially foreign tourists, had to spend their times in queues, in the first few days. Foreign tourists could get pre-paid Instruments in exchange of foreign exchange tendered since 11th November as per RBI notification.
- Bank employees, irrespective of the cadre, had to work for unusually longer hours. After some bouquets in the first week they had to face the ire of the resenting public.
- Cash intensive microfinance activities suffered from cash shortage and the beneficiaries lost their earning power.
- Lending institutions suffered generally due to lower intake of loans and delayed payment of installments.
- Diplomatic missions in India of some foreign countries voiced the difficulties they were facing due to restrictions imposed on the cash flow needed to perform their duties. Government subsequently made some special arrangements for them.
- Nepal's envoy pointed out that Nepal's difficulties with demonetisation in India was far more extensive than other countries. Nepalis who had treated high-value Indian currencies as the standard currency for saving, had to face hardships. They were pleading for some Nepal-specific rules to help the people hit by the note ban, as late as January 2017.

Incidental institutional revenue loss

- Following demonetisation, the Government had withdrawn toll collection on the national highways from November 9 to December 2 midnight. Ratings agency ICRA estimated that the 115 toll projects of the National Highways Authority of India (NHAI) operated by private players lost an estimated ₹1,100 crore over a 24-day period, considering an average daily collection of around ₹40 lakh per toll project. (Source: The Hindu dated January 19, 2017)
- Government waived off parking fee at all airports for a fortnight as the airports had no electronic mode of payment and people had been finding it difficult to pay in cash. For

In 2014, our President, Shri Pranab Mukherjee, in his presidential address to the nation, on the eve of 67th anniversary of our Independence, he mentioned that "I sometimes wonder: has our democracy become too noisy?..... Is it not the time to restore the grandeur and glory of our institutions that have sustained and nourished our beautiful democracy? Should not Parliament again become the great hall of sombre thought and well-debated legislation?"

an indication, this amount of loss at Chennai airport alone might have been ₹1 crore, considering a monthly revenue of ₹2 crore. (Source : The Times of India dated November 14, 2016)

- * Repayments of installments of retail loans were allowed to be postponed by two months.
- * There was some decline in freight bookings in trains.

Extreme misfortunes of certain families:

- * At least a dozen people breathed their last while standing in queues before bank branches or ATMs. This is just a symbolic figure as per media reports as early as November 16, 2016 and authenticated total figures are not available.
- * At least a couple of demonetisation related suicides were reported.

On the positive side, there were some incidental institutional revenue gains:

- * Passenger air ticket and train ticket bookings picked up.
- * Property Tax collections increased as these were accepted in SBNs. An analysis of the Ministry of Urban Development revealed that 22 corporations across the country collected an amount of ₹855 crores till 19th November, 2016 as against ₹274 crores collected in the entire month of November 2015. (Source : Business Standard dated November 21, 2016) the airport has no electronic mode of payment the airport has no electronic mode of payment the airport has no electronic mode of payment the airport has no electronic mode of payment
- * Payments through cards and installation of POS machines picked up.

For individuals and families, there were some incidental nonmonetary gains toolike drops in liquor sales and crime rates!

Complications due to counteracting forces

These forces started operating swiftly, with all their ingenuity, the moment the move was announced.

- * They thronged jewellery shops and purchased jewellery to their hearts' content with SBNs, in the four hours when

these notes were still legal tender, that is, upto 12 midnight of 8th November, 2016. Against heavy demand, gold jewellery was sold at a premium of as high as ₹34,000 per 10 grams, as against the then prevailing prices of around ₹30,900.

- * Since SBNs were allowed for purchasing tickets from counters for air travel and train journey till certain dates, unscrupulous elements rushed to book these tickets in a desperate attempt to park the old notes for a refund by subsequent cancellation of the booking. As a remedial measure, DGCA instructed airlines to strictly make sure that customers booking through counters at airports using SBNs were not able to cancel or get any refund for such tickets. Railways stopped cash refunds for cancelled tickets worth ₹10,000 and above and announced that refunds will be only through cheque or ECS [electronic clearing service].
- * Some contractors were making payments to labourers by and large in SBNs by way of advance wages.
- * Unscrupulous elements stashed huge cash in the hands of common people directing them to exchange or to deposit and withdraw for handing over back for a commission. The impoverished looks of some people standing in the queues in contrast with bunches of SBNs in their hands presented a telltale picture. The record upsurge in aggregate balance in Jan Dhan accounts by ₹21000 crores in two weeks since November 9, 2016 which put the weekly average increase at ₹10500 crores was in stark contrast with the weekly average increase of ₹311 crores between March 31 and November 9, 2016 (Source : Financial Express dated November, 24, 2016). It was unfortunate that those common people had neither been forewarned by authorities nor educated by media about the illegality of the operation. RBI notification cautioning public regarding misuse of exchange facility was issued on Nov 22, 2016.
- * Handful of bank officials acted in connivance with some miscreants and were suspended for having indulged in fraudulent practices in the process of exchange or deposit into account of SBNs.
- * Cash withdrawal limit of ₹24000 per week from Savings Bank account was also protested as being inadequate.
- * When people were struggling to get a single ₹2000 note, some influential people and middle men possessed so many bundles of them amounting to lakhs and crores which were exposed during IT raids.

DEMONETISATION

* On the day of submission of this article, viz. February 1, 2017, there was a news report that Government Agencies had intercepted four consignments of ₹2000 notes between December, 2016 and January, 2017 from areas near Malda district and that counterfeiters had expertly replicated half of the security features of the new ₹2000 notes.

These sadly remind us the proverbs of 'old wine in new bottle' and 'remedy being worse than the disease'.

Noisy democracy

Our present President Shri Pranab Mukherjee, in 2010, during his tenure as Finance Minister, observed that perhaps Indian democracy had become a bit noisier.

In 2014, in his presidential address to the nation, on the eve of 67th anniversary of our Independence, he again mentioned that "I sometimes wonder: has our democracy become too noisy?..... Is it not the time to restore the grandeur and glory of our institutions that have sustained and nourished our beautiful democracy? Should not Parliament again become the great hall of sombre thought and well-debated legislation?"

The noise referred to was disruption of parliamentary proceedings, in both the cases. It is to be noted here that, in between 2010 and 2014, the roles of ruling and opposition parties had changed, but the noise had not changed!

Again, on January 25, 2017, in his address on the eve of the sixty-eighth Republic Day of our nation, President pointed out that "We have a noisy democracy. our legislatures lose sessions to disruptions when they should be debating and legislating on issues of importance." This time the reference was to the total disruption of parliamentary proceedings in the aftermath of demonetisation.

Political parties and media (including WhatsApp) were producing tremendous noise regarding demonetisation! Following voices could be heard through the noise:

- * If elimination of corruption was Government's aim, measures should have been started at the levels of politicians and bureaucrats. The common people not connected with black money needn't have been put into inconvenience.
- * The cash component of black money is only between six to ten percent and the bulk of the black money is held in gold, real estate or other form of assets.

* When all or most of the money is going to be back into the system as deposits the exercise can only help to whiten the black money.

* If source is claimed as household saving by women and children over the years and if people project sentimental and traditional reasons for having kept the huge cash in home, it is going to be difficult for the authorities to dispute or disprove the source.

* If high value notes were demonetised to reduce the ease of hoarding cash, new currency note of higher value, viz. ₹2000 is going to make the hoarding easier!

Government was enforcing the exercise in a convergent and focused way without any looking back. Over the counter exchange of SBNs ceased after midnight of November 24, 2016. Deposit of SBNs into accounts came to an end with December 30, 2016. Exchange facilities for general public (with sufficient explanation for the delay) at the counters of the Reserve Bank of India until March 31, 2017 and for NRIs till June 30, 2017 are still current as of date.

There was divergence from the original stand only on two counts:

1. On whose initiative did the exercise start?

It was presented midway through the exercise that demonetisation was after all RBI's initiative.

2. What are supposed to be the main benefits of the exercise?

Moving towards cashless economy (or a less cash economy) and digitalisation of payments were suddenly presented as the main benefits.

Since the exercise was nevertheless the combined decision of Government and RBI (in whichever order), the first shift in stand did not evoke much noise. But the second one invited roars and made people wonder whether the entire exercise was after all driven by the powerful software industry.

Monetary crimes vis-a-vis digitalisation

It is relevant to recollect here two well known major heists that took place in 2016 and reported in the print media elaborately. One is a heist of physical cash in a movie like operation and another is one of the largest cyber heists in history.

The brief outlines of the two incidents are as follows:

Thieves broke open the roof of a parcel van attached to the Salem-Chennai Express and stole ₹5.78 crore cash, which was part of a consignment of soiled currency being transported by the Reserve Bank of India for destruction. The theft was detected several hours after the train arrived at its destination in Chennai Egmore.

Hackers successfully ordered the New York Fed to transfer \$81 million from Bangladesh central bank funds to accounts in the Philippines through international payment system SWIFT. New York Fed's systems were designed to flag transfers to people and jurisdictions subject to sanctions but not to block a transfer if it had passed the authentication process on the SWIFT messaging network.

While reduction in cash circulation will help to lessen crimes of the sorts of first example, the second one suggests that digitalisation of payments is not a panacea for eliminating money laundering.

Views of Experts

- Finance Minister Shri Arun Jaitley called the demonetisation decision as an obvious disruptive reform which would change India's retrograde status quo of cash transactions and tax evasion. He emphasised that reducing cash might not eliminate crime and terrorism but it could inflict a serious blow to them.
- Former Finance Minister Shri P. Chidambaram's assessment was that demonetisation would not kill black money and corruption. In his view, even a natural calamity might not have caused so much trouble as the exercise. He also commented that demonetisation has produced "only a mouse" in terms of black money after digging a mountain.
- Former Prime Minister and economist Dr. Manmohan Singh called the decision a monumental disaster. He further observed that the sufferings of ordinary people for 50 days as a result of demonetisation could have a disastrous effect on the poor and the deprived.
- Economist and Nobel Laureate Dr. Amartya Sen, in his interview to The Hindu, expressed concern about serious job losses. He pointed out that the structural change to cashless society needed a more orderly transition than via

demonetisation.

- French economist and Nobel Laureate Mr. Jean Tirole stated that demonetisation could not catch the corrupt money right away, though it would make future corruption more difficult. He also stated that cashless economy is a good thing, but poor people's heavy reliance on cash has to be addressed before that.
- Micro credit pioneer and Nobel Laureate for Peace, Mr. Muhammad Yunus, hailed demonetisation for bringing the rural and unorganised sector to banking fold and told that cashless economy is a boon.
- Former RBI Governor Dr. Subbarao viewed demonetisation as the most disruptive policy innovation undertaken in India since the 1991 reforms and told that the opportunity should be exploited for embracing technology.

Conclusion

Since effects of demonetisation are going to linger for quite some time, covering it comprehensively is well nigh impossible. I conclude the article with the following earnest observations:

- Documentation of the change management aspects of present demonetisation exercise by Government will be helpful for their future decisions.
- Our democratic institutions like political parties and media may be acquainted with Costing and Management principles like Management by Objectives and Management by Exceptions so that they channelise their valuable resources optimally towards achieving their stated and committed goals. This will reduce the noise in the democracy as wished by our President.
- When things are getting a bit unwieldy, we may have to go to the roots. Individual discipline may be the solution in such cases. We may hope that discipline radiates and integrates from individuals to family to society to nation.
- The present momentum gathered towards digital payments needs to be sustained and improved. 

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