

# IMPACT OF DEMONETISATION ON SOCIAL DEVELOPMENT SECTOR

## CEO's Note



It might be a political debate on whether the demonetisation move was a masterstroke or gross implementation failure, yet the impact of the same on the social development sector cannot be ignored. The daily wage earners, labourers, small traders who belong to the unorganised sector and reside out of the formal economy, were unable to manage their daily expenses. As a result, the consumption which is essential for the growth of the local economy took a severe dent,

thereby resulting in less spending on healthcare, education and environment friendly activities.

Already, it is being observed that various sectors are experiencing a slowdown which is adversely effecting their profits and operations. Although, there is no substantiated data, yet it is expected that there will be significant impact on CSR spending. Even with the larger companies, the fall in revenue in the two quarters will decline CSR funding for a short period of time. In view to the liquidity slow down, it should definitely effect the implementation of the initiatives at ground as it would be typically difficult to mobilize the resources. In the longer run, NGOs will have to encourage online donations and crowd funding mechanisms to ensure that there is adequate cashflow in the social development sector.

## Overview

The Government of India's move to demonetise higher currency notes on 8th November jolted the nation and led to financial crisis, which is yet to be resolved. Following the chain of events, massive queues were witnessed outside post offices, banks and ATMs putting normal life almost to a standstill. The repercussion of the demonatation was majorly felt among the lower and middle income class, especially the daily wage earners whose livelihood took a setback. Few even lost their lives standing in the long queues for hours when ATMs ran dry.



Experts suggested that the GDP growth in the last quarter and the first quarter in the next year will take a hit and it will take some time for the situation to return to normal. However, the impact cannot be underestimated with just GDP percentage points. Rather there is no accounting for the suffering of common man including street vendors, shop owners, rickshaw-pullers, etc. who are unable to meet their daily needs due to lack of cash. For almost a month, India ran on credit with taxis, rickshaw drivers, dhabas, caterers, barbers, maids, doctors, vendors and hawkers already facing the difficult choice to either work or sit at home.

## Retrospection

### DECODING THE RUPEE.

INDIA IS THE WORLD'S 2<sup>ND</sup> LARGEST PRODUCER AND CONSUMER OF CURRENCY NOTES



INDIA USES AROUND 22,000 METRIC TONS OF PAPER EVERY YEAR TO MANUFACTURE CURRENCY NOTES



TILL JUNE 2016, THE RBI SUPPLIED 21.2 BILLION BANKNOTES AND PRINTING COSTS CAME TO AROUND \$502 MILLION



### \*\* - MINIMISING THE IMPACT \*\* -



Ensuring deposition of old notes is completed as soon as possible.



Promote electronic transactions even for those without smartphones.



Enabling convenient modes of transactions from bank accounts and e-wallets.



Enabling the 15 million-plus retail touch points across the nation to receive electronic payments.



Promoting cashless economy, especially targeting the rural areas by bringing the gram panchayats within the banking system.

## Is India Ready To Be A Cashless Economy?

From being the world's second largest producer and consumer of currency notes, India plans to become cashless when even the developed nations are yet to achieve that status. Nearly, 70 per cent of the Indian population resides in the rural areas which are devoid of the basic civic amenities like safe drinking water, sanitation, healthcare, education, food and shelter. India might have more than 100 crore mobile phones, but digital literacy and financial literacy is still lagging behind.

The move by the central government to demonetise and remonetise was aimed to curb black money and the parallel economy that existed in India. However, the impact of the same on the common man, especially those belonging to the base of the economic pyramid was severe. From loss of lives to loss of livelihood, the sufferings are endless. India has a vast informal economy, which employs more than 90% of the country's workforce. Agreements here are verbal, the payments in cash and workers tend to have few, if any, guarantees or benefits. Many were even left with empty stomachs as plastic money wasn't an option for the 233 million Indians didn't even have bank accounts, forget about credit/debit cards. The question from the experts to the government was simple, what percentage of black money is actually stored in cash?

With livelihood taking a hit, there were several other impacts such as on agriculture, healthcare, transportation, consumption, education, etc. India's retail transactions account (involving day-to-day activities) for Rs. 40 lakh crores out of which 95 per cent is in cash. Estimations suggest that the move is likely to cost India a whopping Rs. 1.28 lakh crores with enterprises set to loose around Rs. 61,500 crore in the transition phase. The daily wage earners who will be standing in the queues for withdrawal of cash in the 50 days are likely to forgo Rs. 15,000 crore. All these are big numbers suggesting huge dent in the growth of the economy, especially rural economy. But, will the situation become normal in the next year with no bank branches or absence of banking system in the 7 lakh villages of the country?

The positives outcome of this move is that more money has flown in the banking system which will enhance lending for social projects. Curbing of black money will also reduce inflation in the economy. In the long run, it will lead to higher tax collection, better business environment, lesser corruption and increased transparency. However, there are some immediate steps which are required to ensure India first becomes a less cash economy and then a cashless economy. These are majorly promotion of digital literacy among the masses, enabling mechanisms that promote electronic transactions like e-wallets and card payments, adequate support from the telecom sector and encourage businesses to not to pay wages in cash.

It is expected that social development sector funding will be affected. However, as most of the CSR donors pay through cheques or bank transactions funding will only be limited if the revenues take a hit. Although, measures needs to be taken by both civil society organisations as well as businesses to ensure projects are not stalled due to lack of funds during this transition phase. Finally, it can be said that if India has to become cashless, it will require adequate efforts from all stakeholders in the ecosystem. Let's encourage simple, language agnostic, low cost modes of payments and also incentivise them to make the nation adapt to this sudden change.

## Food for Thought

- According to estimates by the Centre for Monitoring Indian Economy (CMIE), the cost of demonetisation during the 50-day window till December 30, 2016 (the deadline for converting all your old banknotes into new ones) would be Rs 1.28 lakh crore.
- Former Prime Minister Morarji Desai also took the same decision in year 1978 to demonitise Rs. 1000, Rs. 5000 and Rs. 10,000 to combat corruption and black money. But years later, the nation has the pool of Rs. 65000 crore black money.
- The black marketing of demonitised currency comprises exchange of Rs. 500 note for Rs. 400 and Rs. 1000 note for Rs. 800. Hence, without much loss it can be easily converted into Rs. 100 notes.

## Tweets of the Month



## Fiinobserivation of International Days

**World Toilet Day**  
November 19th, 2016



**International Day for the Elimination of Violence against Women**  
November 23rd, 2016



## About Fiinnovation

Fiinnovation, a research-based organization, is an integrated solution enabler in the CSR and sustainability domain. It is focused towards enhancing quality across organization value chain through meaningful innovation thereby ensuring sustainability. It is Asia's first proposal research laboratory wherein research is focused primarily on four sectors, which include health, education, livelihood and environment. The practices CSR Portfolio Management (CPM), CSR-CSO Partnership, Initiative Design, Initiative Management, Monitoring and Evaluation, Impact Assessment and Sustainability Reporting help provide simple solutions to their partners.

Fiinnovation  
24/30, Ground Floor, Okhla Industrial Estate, Phase III, New Delhi - 110020  
Phone: 011-42332200 | Fax: 011-42332205

www.fiinnovation.co.in

