

The De-digitisation of India*

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The Modi government began to justify the demonetisation of currency notes in November 2016 in terms of the desired shift towards a “cashless economy”, once it became evident that all the other goals were not going to be met. It is also possible, as has been suggested by those familiar with the workings of “Catalyst” – the joint venture between USAID and the Indian Ministry of Finance, funded by major global banks and information technology companies and their foundations – that this was always an underlying motivation for the drastic exercise, since it would force the Indian population willy-nilly into greater use of cashless transactions because of the sheer physical absence of cash.

Ever since then, the central government has left no stone unturned to promote and incentivise non-cash transactions, and also to restrict or penalise cash transactions. Measures have ranged from the purely coercive (simply not putting enough currency notes back into the system, putting limits on cash withdrawals from bank counters and ATMs, banning cash transactions of more than Rs 300,000) to the threatening to the placatory (reducing or eliminating charges for such transactions when dealing with official agencies, offering to speed up the installation of Point-of-Sale machines) to the incentivising (tax benefits and discounts for certain transactions, periodic lucky draws for those who have made cashless transactions).

In December 2016, the government announced 11 such incentives; by the time the Union Budget was presented on 1 February 2017, several more had been added. These included two new schemes (a Referral Bonus Scheme for individuals and a Cashback Scheme for merchants) to promote the BHIM (Bharat Interface for Money) app that uses a combination of a mobile phone, Aadhaar number and biometric identification to enable transactions.

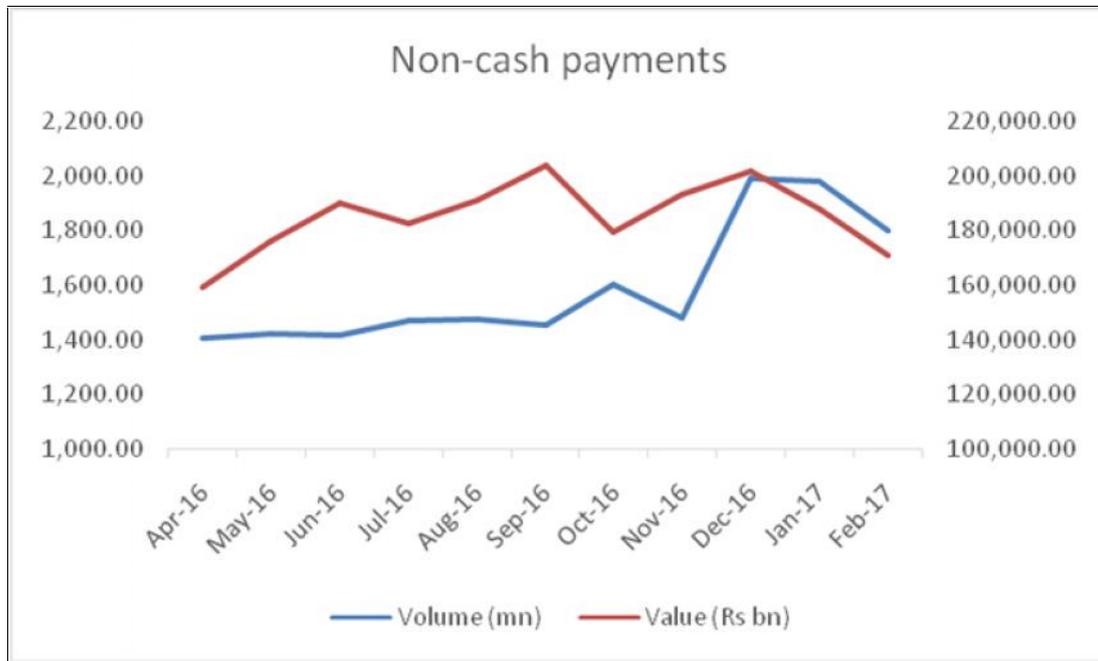
However, thus far at least, this combination of carrots and sticks has met with relatively little success. This is scarcely surprising for anyone who is familiar with the ground realities in most of the country, although it appears to have been unexpected and unwelcome news for the government.

The Indian economy has been and continues to be hugely cash-dependent, largely because of the dominance of informal economic activities and the close interaction and even interdependence of formal and informal sectors. Simply forcing digital transactions does not make an enterprise “formal” or viable; rather it tends to add to costs and therefore to reduce viability. The sheer inadequacy of basic infrastructure and connectivity in most parts of the country (including in most urban areas) makes it difficult even for those wishing to go cashless to manage all their transactions in this manner. And if these were not sufficient impediments, the major concerns with cyber-security, with the possibilities of data and identity theft, and with potential monitoring surveillance and harassment, along with loss of privacy all operate to make complete reliance on digital transactions unlikely for the majority of the population.

So it was to be expected that, as the currency crunch eased to some extent, people would revert to cash spending – and that is exactly what seems to have happened. Chart 1 tracks the monthly trajectory of all forms of non-cash payments taken

together, in volume and value terms. (It should be noted that even these numbers are probably over-estimates as they involved some double counting. For example, when money is transferred through a NEFT transfer from a bank account to a mobile wallet and then that e-wallet is used to make purchases, all of those transactions are counted.)

Chart 1



It is evident that in the month of December 2016, when the cash crunch from demonetisation was at its peak, the volume of cashless transactions predictably zoomed. Interestingly, the total value of transactions rose only marginally, indicating that people were cutting back on overall spending. However, even by January 2017, even though the extent of remonetisation at that point was only around 50 per cent of the currency that had been taken out of circulation on 8 November, both volume and value of cashless transactions were on the decline, and this decline continued into February.

Within the broader push to cashless, there are certain types of transactions that have been especially valorised by recent policy – the relatively small retail purchases that make up the vast bulk of transactions in the country. The government’s push to promote digitised economic activity has been based on pushing these in particular: credit and debit cards, mobile wallets and mobile banking. Companies associated with these forms of payment were also the most excited about the demonetisation as they smelled the future profits, coming out with full-page newspaper ads praising the Prime Minister for this bold move and other media content seeking to “cash in” on the absence of cash.

Yet their exuberance might be short-lived, if the more recent trends are an indication. As Charts 2a and 2b indicate, in both volume and value terms, the use of credit and debit cards (at point of sale, not for ATM use) and mobile banking peaked in December 2016 and has come down thereafter. Meanwhile, mobile wallets peaked only a month later in terms of number of transactions and never really increased that

much in terms of total value of these transactions. Given the rather tenuous business model of the e-wallet business, it will be interesting to see how long it can rely on optimistic investors and lenders to fund its continuing losses.

Chart 2a

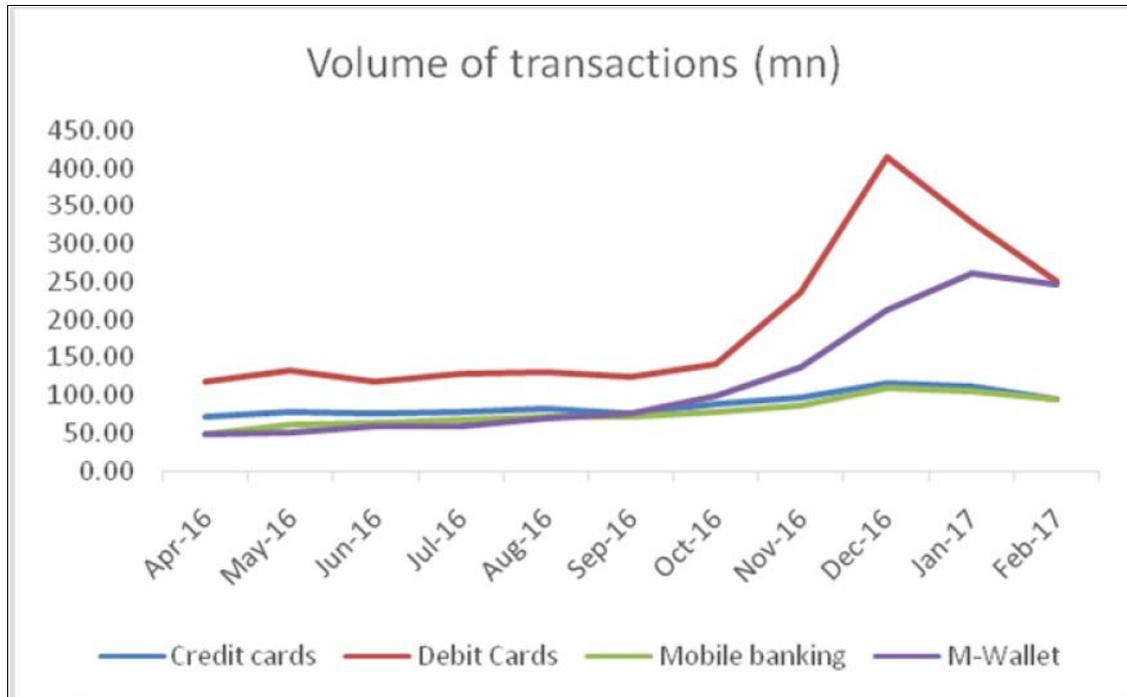
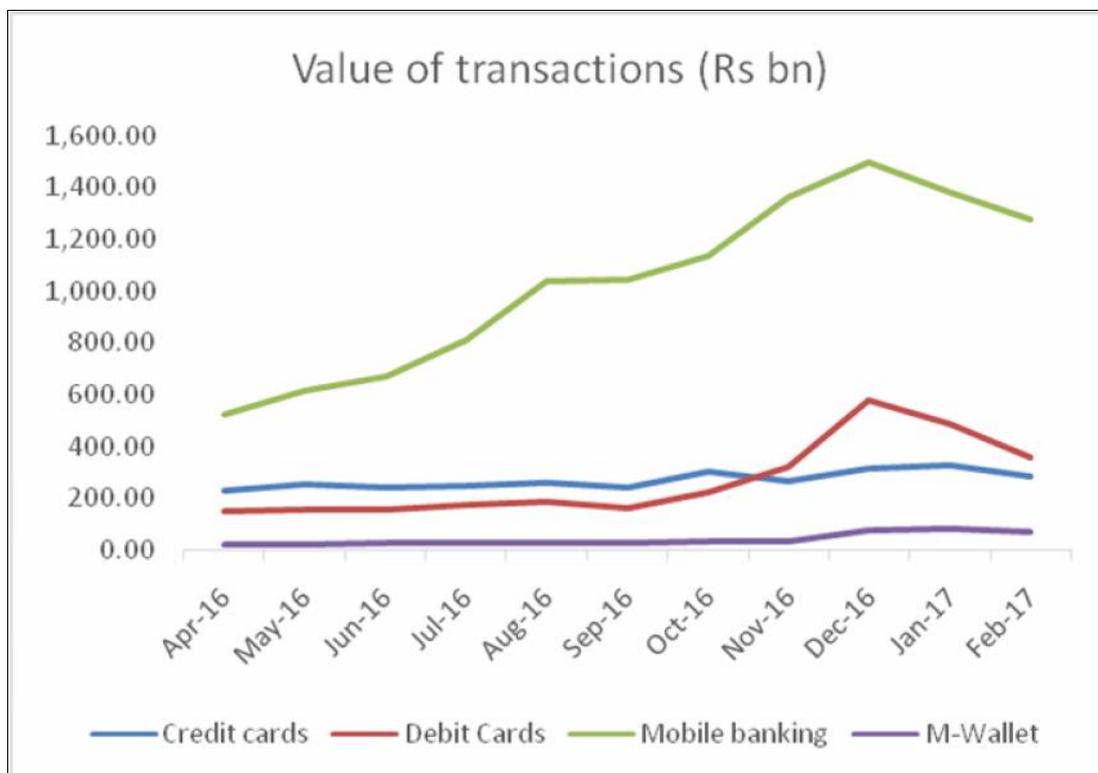
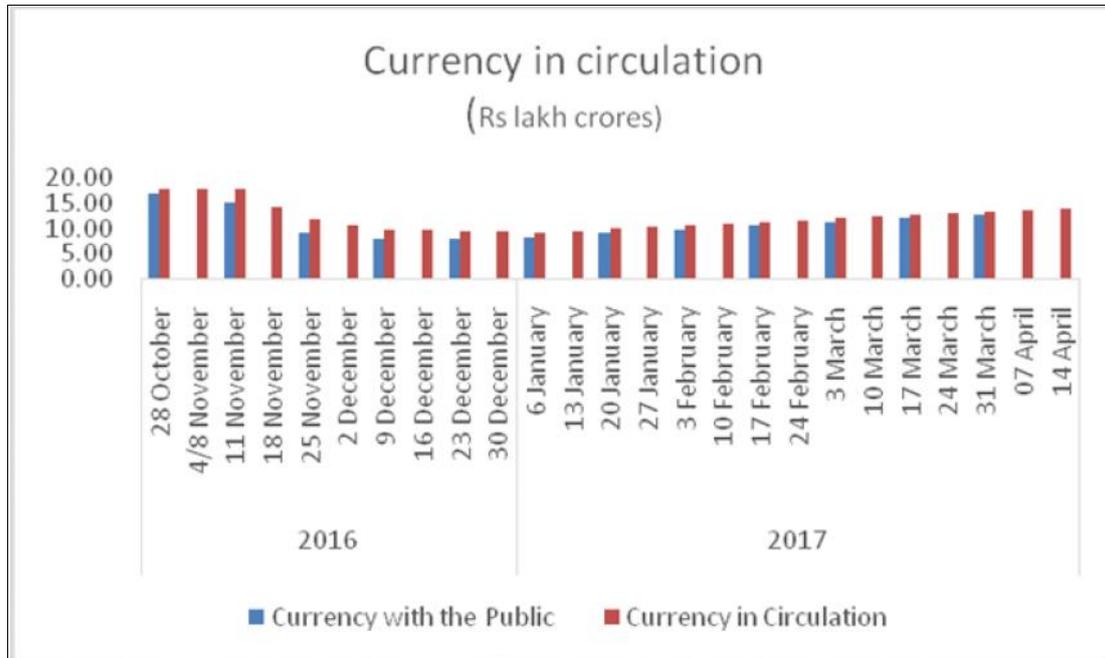


Chart 2b



Clearly, therefore, people still prefer to use cash – not because they are “corrupt” or engaging in criminal activities, but because cash is convenient, universally accepted, does not depend on technology, infrastructure and connectivity, maintains privacy and does not expose the person to the possibility of cyber-fraud. Most of all, cash transactions are “free” in the sense that a person is not charged simply for the act of transacting, which she would be in all these other forms of payment.

Chart 3.



But that is what makes the still slow pace of remonetisation a real concern. As Chart 3 shows, even in mid-April 2017, currency in circulation was still less than 80 per cent of what it had been on 8 November 2016. And currency with the public at the end of March was less than 75 per cent of its 8 November level. But it should have been quite feasible to achieve much greater remonetisation by now given the capacity of the printing presses. There is no reason why there should still be so much cash shortfall, other than the government’s apparent disinclination to allow more currency notes into the system so as to force people into going cashless. Given the constraints outlined earlier, this operates as an unnecessary limit on economic activity, which will continue to affect small and medium enterprises as well as the vast bulk of Indian workers.

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