Government's challenge after demonetisation: Keeping unaccounted money handlers at bay

By *Rahul Sachitanand*, ET Bureau | Nov 13, 2016, 06.14 AM IST

Post a Comment

From Zaveri Bazaar in Mumbai to Sadar Bazaar in Delhi and Krishna Rajendra Market in Bengaluru, businessmen sweated on the fate of their enterprises.

In 12 hours, there couldn't have been a starker difference to jeweller Hansraj Mehta's fortunes. At 9 pm on November 8, just hours after Prime Minister Narendra Modi announced the demonetisation of Rs 500 and Rs 1,000 notes, his store in north Mumbai was besieged by customers buying all that was available, paying with wads of currency, seeking to convert cash into more agreeable holdings in gems and jewellery.

The next morning was just the opposite — an almost empty store, with barely a dozen walk-ins and just a couple of low-value purchases. "There's lots of cash floating around and people are now scared they will lose their money in this fight against black money," says Mehta. "We expect to be back in business next week."

Also read: Why you may no longer need to keep a stash under your pillow or in it

For the next couple of days, the bustling market where this store is located — and thousands across the country — where cash is the primary source of income, will see business dealings plummet. From Zaveri Bazaar in Mumbai to Sadar Bazaar in Delhi and Krishna Rajendra Market in Bengaluru, businessmen sweated on the fate of their enterprises.

A dealer of PVC pipes in the Bengaluru market, who bills Rs 1.5 crore a month and is dependent on cash for 80% of his payments, spent most of the week waiting for customers. "In three days, I had barely 10 customers walk in and of those just five made small orders," he grumbles.

Across the country, businessmen saw the rise and fall of their enterprises. Nikhilesh Dhawan's business too took a pounding. A Samsung dealer in Jagatpuri in Delhi saw just three or four customers making purchases a day after the big announcement, paying by cheque; in happier times, 80% of his purchases were in cash. About 10 km away, in upscale Khanna Market, Rajesh Luthra, promoter of RK Vision, a consumer electronics store, sold goods worth Rs 31 lakh until midnight, doubling his daily sales.

Otherwise fussy customers bought air purifiers, refrigerators and LED televisions in a tearing hurry to dispose of their cash. After that storm, a lull quickly descended on Wednesday, with barely 15 bills raised, compared with over 100 on a normal business day.

Also read: Demonetisation effect: Most political parties are in a tizzy, but it may not be a level playing field

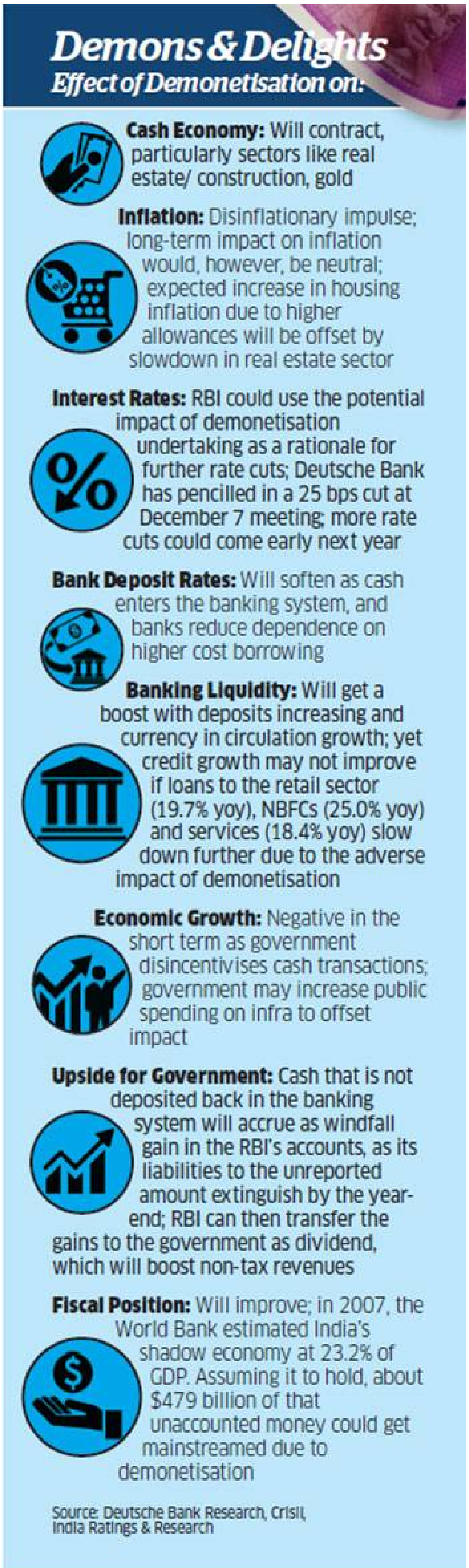
Honey, Have You Shrunk the Money?

As businessmen, heavily reliant on cash, fretted about their wildly swinging fortunes, most people on the street spent much of Thursday and Friday standing in queues trying to get their hands on these new notes or figuring out how to manage with the limited, legal currency at their disposal. Pradeep Kumar, a painter in suburban Mumbai, spent three hours on Thursday evening and a couple more on Friday before being able to finally withdraw money to pay his dues.

For all of Wednesday, Kumar managed with Rs 60, before empty pockets compelled him to queue up. "This is a disservice to the poor who have to waste hours during a work day hunting for money," Kumar says.

Also read: Why your neighbourhood ATM is shut or running out of cash in a few hours

This pain is amplified away from big cities. In the small town called Ezhukone in Kerala, about 20 km from Kollam, Anitha Radhakrishnan, a 59-year old retired employee, uses cash to pay for her daily milk, vegetables and fish. Following the sudden demonetisation, she was left with Rs 259, with which she had to manage all her immediate purchases, with neither her neighbourhood grocer nor the pharmacist wired to accept cards or digital payments. To make ends meet, she pleaded with an auto driver to ferry her to and from the chemist to buy medicines she and her husband urgently required.



She held on to her last few tenners and a desperate hope that the ATM-less Wednesday would pass without incident or emergency.

Also read: Bara Sarafa Bazaar: Indore's jewellery market by day and street-food hub by night groans amid poor liquidity conditions

Hoard Unlimited

If Radhakrishnan spent her time wondering how to manage with little cash, Manish Kumar (name changed), in his cramped office in the Mumbai suburb of Andheri, is wondering how to dispose of the cash he has hoarded. An agent for the local road transport office, he keeps up to Rs 5 lakh in a locked cupboard in office and more at home. He has managed to buy some jewellery and electronics goods, but faces tough choices ahead. With fixed deposits over Rs 2.5 lakh facing tough scrutiny, that's another avenue shut, for now.

Away from the chaos of managing too much or too little cash, experts divided on the efficacy of the long-term game out black money and counterfeiting of high-value notes. "It will tackle black money, corruption, terror money and counterfeiting — multiple with one stone," Shah, chairman of financial services company. "I call it gutsy because it's a move that any political party will know will be difficult and there will be plenty of reasons not to implement."

Also read: Zaveri Bazaar: After a few hours of manic rush, business has been muted in India's largest bullion market

Dhruv Phophalia, MD with Alvarez & Marsal, a management consultancy, calls this a great one time action to cleanse the system. While this is a great first move, the Modi government needs to do much more to back this up. "Thus requires several follow-ups, especially tightening and better enforcement of PMLA (Prevention of Money Laundering Act) and deterrence in the form of far stricter punishment to be effective."

A clampdown on black money may be meaningless with this one-off move. While this may serve as a strong notice of intent, the government faces a series of difficult choices ahead, targeting large sectors such as real estate, which are flush with these funds. "It is important to ensure the chain of black money doesn't return," says Mritunjay Kapur, partner, KPMG India, a management consultancy. In the longer term, to achieve this, the government needs to build on a range of initiatives, including GST, access to bank accounts with initiatives such as Jan Dhan and technology enablers such as Aadhaar, to make a fist of its fight against black money.

Also read: Demonetisation: Money launderers may never have it so good — or so bad

If the demonetisation has been a bigbang announcement with some immediate repercussions, it may take more gumption in the long term to strike a body blow in the fight against black money and indeed counterfeit currency. This is because a large chunk of this illicit money is squirrelled away in the form of real estate and jewellery or even overseas, away from the prying eyes of regulators. "People with malicious intent usually catch up with these changes and are quickly go one step ahead," says Reshmi Khurana, managing director, Kroll India, a forensics specialist.

"As India moves more towards a 'white' economy,' liquidating holdings overseas and stamping out counterfeiting, which thrived on operating in a cash-rich economy, must be key long-term goals."

Also read: Demonetisation could clean up the restaurant business

(Additional reporting by Malini Goyal)