

# Did note ban induce firms to adopt digital payment?

It did, but another round of survey is needed to assess whether the change in behaviour is permanent in nature, write **Bornali Bhandari, Mridula Duggal and Ajaya K Sahu**

The Government of India (GoI) announced the withdrawal of legal tender notes of ₹500 and ₹1,000 denominations on November 8, 2016. As per the GoI notification dated November 8, 2016, this was necessitated to tackle counterfeiting of Indian banknotes, effectively nullify black money hoarded in cash and curb funding of terrorism with fake notes. Further, on November 12, 2016, the Reserve Bank of India (RBI) issued a press release stating that while efforts to change currency were afoot, the public was encouraged to switch to alternative modes of payment such as prepaid cards, Rupay/credit/debit cards, mobile banking and internet banking. This would help alleviate pressure on the physical currency and nudge citizens towards digital payment methods.

The objective of this article is to discern any sustainable change in the transaction behaviour of the firms due to demonetisation. The Business Expectations Survey (BES) done by the National Council of Applied Economic Research (NCAER) offered a tool to assess the behavioural change of firms, if any, due to this experiment. The survey was carried out in March 2017 to understand behavioural patterns of the different modes of transactions by firms for various payments and receipts before demonetisation (October 2016), during demonetisation — that is, the period where cash withdrawal restrictions were in place (November 2016 and January 2017) — and after demonetisation (March 2017). The table shows us the key results for all firms.

## Pre-demonetisation (October 2016)

During this period, approximately 40 per cent of firms reported they had made payments for raw materials, monthly bills and vendors through cheque. About 55 per cent of firms had made payment of taxes via the electronic/digital mode and 27 per cent of firms had paid taxes by cheque only. In case of payment of wages and salaries, 30



per cent of firms had used cheque only, another 30 per cent had used electronic/digital form and six per cent had used cash only. The rest of the firms had used a combination of modes to make payments. Cheque was the preferred mode for receipts as per firms' self-reporting.

## During demonetisation (November 2016-January 2017)

In this period, a higher percentage of firms were using either a electronic/digital payment form or a combination of cheque and electronic/digital mode for payments and receipts, compared to what they were doing in October 2016. For example, 31.1 per cent of firms were making payments for raw materials via cheque and electronic/digital form during this period,

## DISTRIBUTION OF MODE OF TRANSACTIONS IN THE THREE PERIODS (PER CENT OF FIRMS)

Percentage of responses	PAYMENTS					RECEIPTS
	Raw material purchase	Payment of monthly bills	Payment of wages/salaries	Payment of taxes	Payment to vendors	Receipts from distributors/wholesalers/clients
<b>OCT 2016</b>						
Cash only	1	1.1	6.1	0.2	0.9	0.2
Electronic/digital form only	6.9	15.0	30.6	54.8	9.8	8.9
Cheque only + cash & cheque	59.4	51.7	41.7	28.5	53.8	52
Cheque & digital + cash & digital + all three	32.8	32.2	21.7	16.6	35.4	38.7
<b>NOV 2016-JAN 2017</b>						
Cash only	1	1.1	4.8	0.2	1.1	0.7
Electronic/digital form only	9.2	16.1	33	56.6	12	10.2
Cheque only + cash & cheque	50	47.4	39.9	29.7	52.9	48.5
Cheque & digital + cash & digital + all three	39.8	35.5	22.2	13.4	34.0	40.6
<b>MAR 2017</b>						
Cash only	1	1.1	4.3	0.2	0.2	0.2
Electronic/digital form only	10.6	18.4	35	58.6	13.3	12.2
Cheque only + cash & cheque	48.1	44.9	41.3	27.3	51.0	46.5
Cheque & digital + Cash & digital + all three	40.3	35.6	19.4	13.9	35.4	41.0

SOURCE: NCAER Business Expectations Survey April 2017

compared to 17.8 per cent in October 2016.

## Post demonetisation (March 2017)

The BES survey showed that firms did not change their behaviour between December 2016 and March 2017. The percentage of firms using electronic/digital mode had steadily increased between October 2016 and March 2017.

## Impact on small firms with annual turnover less than ₹1 crore

Of the smallest firms, 17.6 per cent were making payments in the cash-only mode in October 2016; the figure declined to 9.2 per cent in March 2017. The percentage of firms using cheque only and cheque and cash for payments increased from 37.3 per cent in October

2016 to 41.5 per cent in March 2017. The percentage of firms using electronic/digital means only to make payments increased from 8.1 per cent in October 2016 to 15.4 per cent in March 2017. The percentage of firms using cheque and digital plus cash and digital and all three means to make payments increased from 27.1 per cent in October 2016 to 33.9 per cent in March 2017.

On the margin, the GoI was successful in inducing businesses to adopt digital modes of payment. However, the process of remonetisation was still ongoing in March 2017. Another round of survey is needed to assess whether the change in behaviour is more permanent in nature. These results are subject to the usual caveat that the BES is a

survey that measures sentiments. Moreover, it only captures evidence from firms in the organised sector in six metro cities. We do not know about behavioural patterns of firms, especially small and informal ones located in small towns and cities. This analysis does highlight the need for detailed data, which would enable a greater understanding of the Indian firms' behaviour in various aspects to aid the development of appropriate policies.

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