

Demonetisation and the Retail Market Perceptions: A Survey of the Vegetable Vendors in Siliguri

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Abstract

Demonetisation is probably the biggest financial reforms in India since the early 90's. The sudden announcement of demonetisation on 8th November 2016, withdrawing the legal tender of 500 and 1000 rupee notes was primarily aimed with an objective to capture the unaccounted money and make an end to the parallel economy of 'black money'. Though the announcement of demonetisation was sudden, its indication could be traced in various schemes introduced by the Central Government to pull back the black money. While many discussions and works were undertaken regarding its effect on the economy, a consensus can be achieved on the fact that the demonetisation in deed affected the consumer behavioural patterns in India, at least for a while.

This paper shows the comparative results of two surveys conducted by the researcher, one within 10 days of demonetisation and the other in November 2017 to check the uniformity of perceptions of retail vegetable vendors of Siliguri regarding demonetisation and its effects. A definite change of perception was identified which indicates a difference between the expected and actual results of demonetisation.

Introduction:

Demonetisation remained the hottest financial topic of debate for the financial year 2016-17. On 8th November, 2016, the Prime Minister of India announced withdrawal of the legal tender of all existing 500 and 1000 rupee notes with immediate effect. It was also announced that citizens could avail the option of depositing the old 500 and 1000 rupee notes to banks and can redeem the value in newly issued notes within 31st December 2016. Heavy panic of demonetisation was instantly observed in the long ques in front of banks for depositing the old notes. Some temporary threshold limits of deposit and withdrawal were also imposed by the Reserve Bank of India in order to cope with the huge demands. Demonetisation is, however not a new phenomenon in India. Previously in 1946 and 1978, similar reforms were undertaken by the Central Government. However, this time the main objective of demonetisation was said to be different and that is why it took away the limelight in international financial markets. The primary objective of the government was to pull back the unaccounted money into the banking system and make an end to the black or shadow

economy. If looked upon carefully, demonetisation was not a sudden decision and its indication can be traced back in the other tax amendments made during the last couple of years including the Income Declaration Schemes.

It has always been an argument whether it is ethical to harass the honest ones who form the larger section of the population, in order to catch a few. The basic fundamental of jurisprudence reinstates this fact saying, “let a hundred guilty be acquitted, an innocent should not be punished”. Demonetisation affected every level of the society in one way or the other. Initially the decision was welcomed by many considering its claimed objectives. The popularity of the prime minister added by substantial marketing of the government policies led to high perceived value of demonetisation at the time when it was announced. Citizens suffered a lot waiting for hours in front of banks, but supported demonetisation estimating the consequences. The perceived value of demonetisation was increased in the mind of the poor, expecting a betterment in their life-style with the money ‘illegally stored by the rich’.

Literature Review:

As said earlier, demonetisation had been the biggest financial issue in 2016-17. Mallikarjuna (2017) referred to a report of Nihilent Analytics where 66% of the respondents showed support to the decision of demonetisation and believed that demonetisation will help to curb black money and reduce terrorism funding.

Joshi, Desai and Belim (2017) worked on the effect of demonetisation on small retailers. They concluded that small Retail businesses were negatively affected by demonetisation. Liquidity, material buying and loss of business were identified as the biggest problems of demonetisation.

Abidi and Joshi (2017) coined demonetisation as a “black swan event” and contended that demonetisation led to unbelievable suffering to the most helpless part of the society including the labours in the unorganized sector, small farmers and small & medium industries which employ millions of people.

Objective:

The primary objective of this paper is to

1. Understand the immediate perceived value of demonetisation to the small retailers.
2. Understand the perceived value of demonetisation to the small retailers after one year of the reform.
3. Evaluate the changes in the above, if any.

Research Methodology:

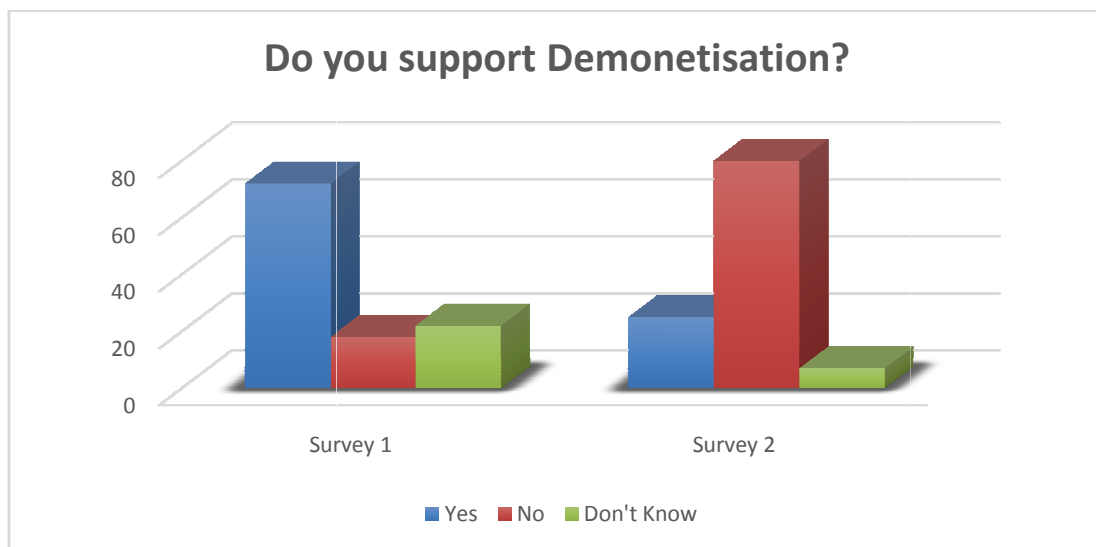
The study was undertaken through two different surveys, conducted at around a gap of one year. The first survey was conducted between 14th to 19th November 2016 while the second one was conducted between 10th to 20th November 2017. In the first phase, 120 vegetable retailers from four retail markets in Siliguri (Subhashpally Market, Bidhan Market, Town Station Market and Shivmandir Market) were surveyed as per the researcher's convenience. However, in the second phase, only 112 of them could be identified and questioned. The remaining eight samples were rejected for the sake of expediency. The retailers found it difficult to respond in a questionnaire and therefore they were asked open-ended questions and on the basis of their answers, the surveyor filled them up.

Survey Results:

The two studies taken up by the researcher revealed the followings answers.

1. Do you support demonetisation?

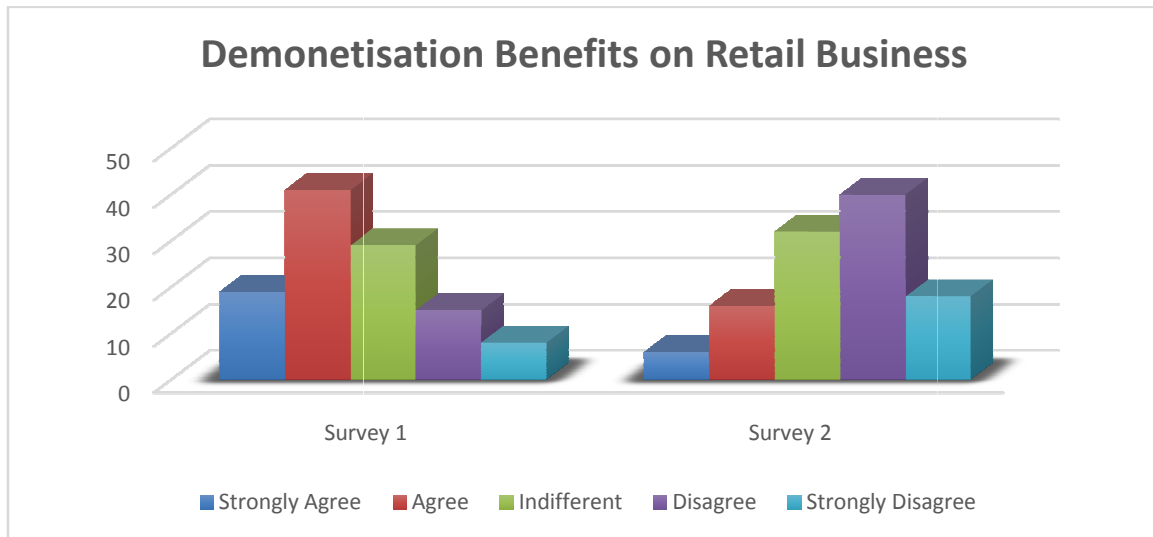
This question was asked to the respondents in both the surveys.



A clear shift of the perceptions can be observed from the respondents in this question. In the first survey, 64% of the respondents supported the decision of demonetisation whereas 16% were against it and the rest 20% remained undecided. This shows that demonetisation received an immediate welcome from the small vegetable retailers in Siliguri. However, the second study reveals a completely different state of the perceptions. Here, only 22% showed their support for demonetisation and 71% went against it. This complete shift of the scenario indicates that the expectations of the vegetable retailers during the announcement of demonetisation could not be lived up to. Even if it is assumed that those who remained undecided in the first survey, provided

negative responses in the second, a heavy shift of from “YES” to “NO” can still be easily recognized.

2. *Will demonetisation benefit your business in the coming days? (Survey 1)*
Has demonetisation benefited your business in last one year? (Survey 2)

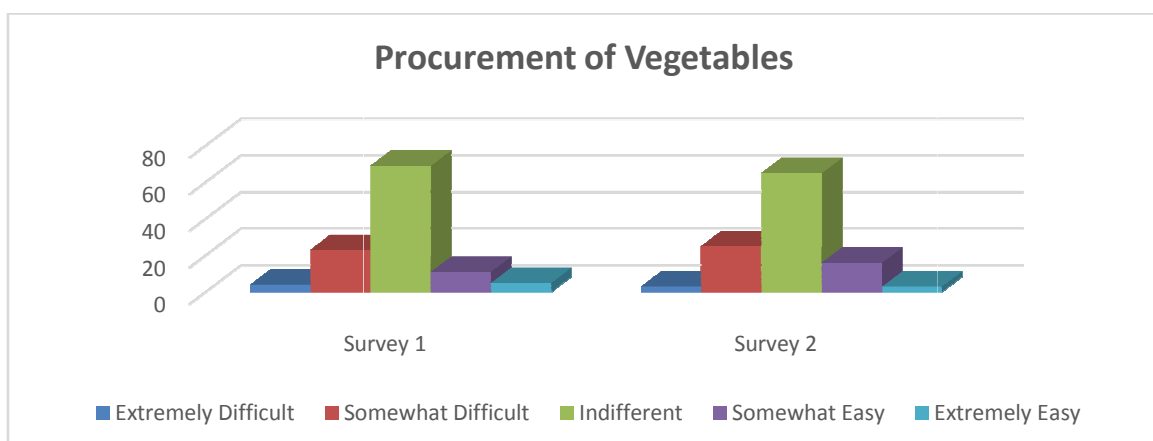


In the first survey, the researchers found the vegetable retailers to be hopeful about the positive impact of demonetisation on their business. Nearly 54% of the respondents were of the expectation that demonetisation will benefit their business in the coming days. However, around 20% were afraid of the outcomes, probably considering the immediate loss they suffered.

Just like the first question, a shift in the paradigm was observed in the second study. Around 52% of the respondents said that demonetisation in fact had a negative impact on their business and another 29% believed that demonetisation failed to make any good for their business.

3. Procurement of Vegetables:

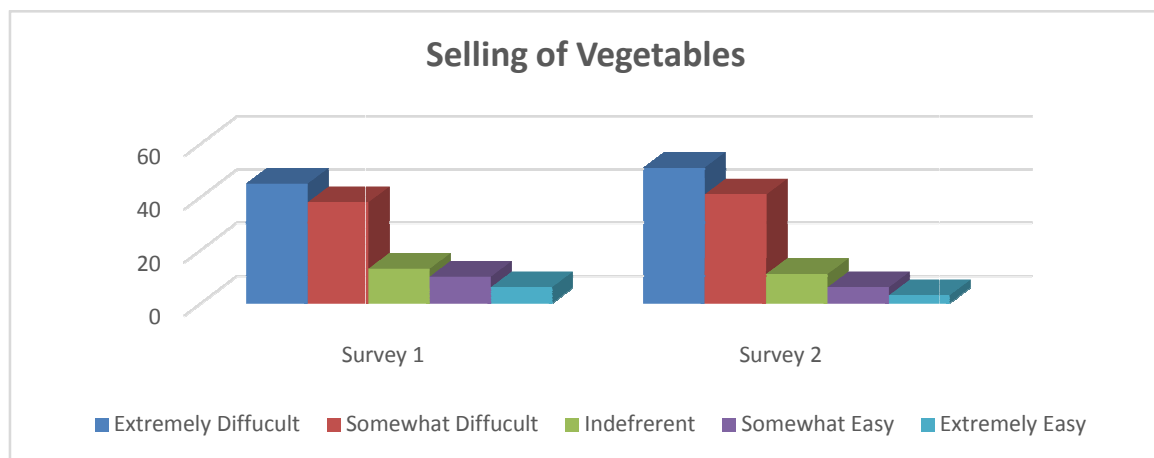
- i. *How difficult it is to procure the vegetables after demonetisation? (Survey 1)*
- ii. *How difficult it had been to procure the vegetables after demonetisation? (Survey 2)*



The next question aimed to evaluate the difficulties faced by the vendors to procure their trading items, i.e. – vegetables. Unlike the first two questions, here both the surveys provide identical results. In the both the survey, majority of the respondents believed that demonetisation did not have any impact, positive or negative, on the system of procuring the materials. In the first survey, 61% respondents did not feel any impact of demonetisation on procurement process of trading items and this slightly decreased to 58% in the second survey. Further open-ended questions made by the researcher to analyse such responses revealed that even though the big currency notes were banned, the old notes were being accepted at the auctions even after demonetisation in order to reduce the difficulties of the market. In an informal interview with the wholesalers, the researcher identified that the wholesalers used these notes mostly to pay the transporters who in turn used them in Petrol Pumps which were accepting the old notes.

4. Sell of Vegetables

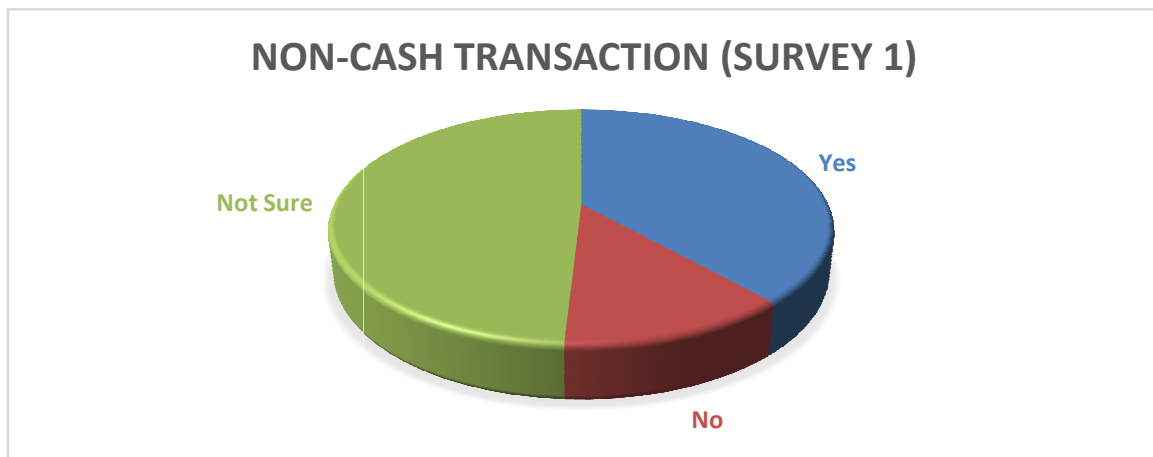
- i. *Are you facing problems in selling the vegetables since demonetisation? (Survey 1)*
- ii. *Did you face problems in selling the vegetables after demonetisation?(Survey 2)*



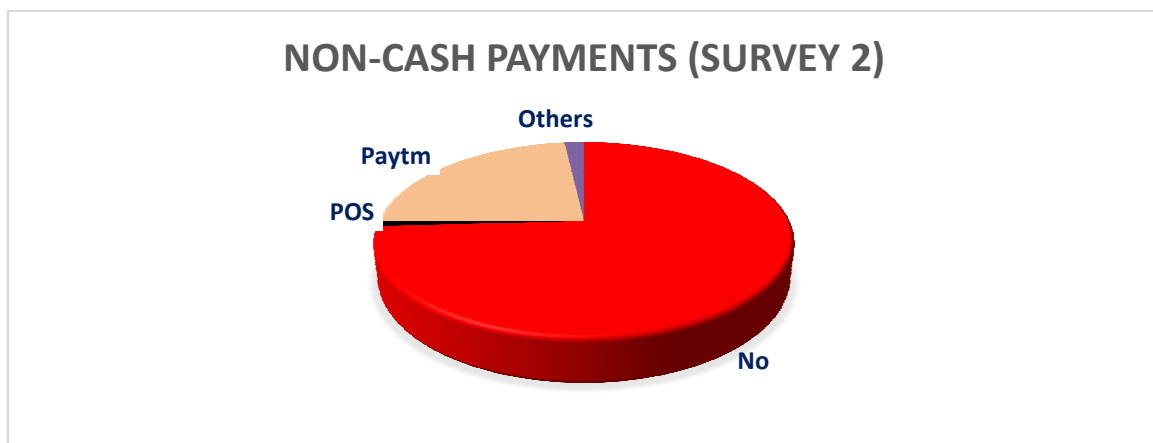
Though procurement of vegetables was not a problem, the other part of the economic cycle, i.e. – the selling of such vegetables was indeed a difficulty. Both the surveys project identical results indicating an extremely difficult selling environment. Overall, 74% of the respondents found it difficult to sell the vegetables after demonetisation in the first survey and this increased to 82% when the researcher went to survey after one year.

5. Cashless Transactions

- i. *Do you plan to implement non-cash means of payments? (Survey 1)*
- ii. *Do you accept non-cash payments? (Survey 2)*



When asked about implementing non-cash means of payment, only 12.5% gave a negative response while 49% could not be able to give a confident reply. Through open-ended questions, it was identified that the major reasons behind such dilemma included the operational aspects of POS and Smart-phone applications, the additional cost of purchasing the infrastructure etc.



Again, the second survey results brought a bit of surprise as 74% of the total respondents did not opt for any non-cash means of transactions. In other words, they still accept physical cash as the only mode of payment. The primary reasons behind this were definitely those pointed out in the first survey. In addition, remonetisation of the economy eased the business as adequate cash was released in the market afterwards. 26 respondents however stated that they accept payment through PAYTM and only 1 of them bought POS machine. This is because PAYTM comes for free as an application and is more easy to operate since the customer is required to complete the payment process. The retailer has nothing to do but to receive the confirmation message of the money received at his end. On the other hand, a POS machine is required to be operated by the seller himself and therefore did not attract the vegetable retailers.

Analysis:

The results of the two surveys, if studied together, provides an easy understanding of the changes in perception about demonetisation. It is quite surprising given the fact that the currency notes which were invalidated, are not the most popular ones in the vegetable retail market in West Bengal. In Bengal, people being mostly non-vegetarian, transact in the large currency notes mostly for buying non-veg items (which are comparatively expensive) from the market. Nevertheless, the results reveal that the effects of the shock was no less observed in the vegetable market and a clear shift in the perceptions indicate an obvious difference between the expectations and reality. It was observed that the vendors did not face much trouble in procuring the vegetables. However, immense problems were faced in selling the items in the retail market. Yet, retailers expected the situation to change very fast and sales to rise but unfortunately, that did not actually happen. This affected the overall business and led to a clear change in the perception regarding demonetisation.

The first survey, taken up within 10 days from the date of demonetisation, basically reflects the opinions based on expectations of the retailers. On the other hand, the second survey which was undertaken on the first anniversary of demonetisation, consists opinion based on the experience of one year. Reconciling the two, it can be easily observed that the difference between initially expected results and the actually experienced results of demonetisation played a crucial role.

Demonetisation also aimed to lower paper-based transactions. However, this survey does not come out with any hope for the policy-makers in this aspect as well. After the demonetisation, most of the sample vendors were in an unsettled mind and considering non-cash mediums of transactions. Further, some of them started accepting payments through mobile phones. This indicates that there definitely was initial consideration of non-cash transactions in the retail vegetable markets. However, as time progressed, market was remonetised with new 2000 rupee and 500 hundred rupee notes and the fear of spending physical cash available to the buyers was faded away. This reduced hoarding of physical currency and the temporary cash crunch was resolved. Consequently, as the buyers started paying in cash, the requirement of implementing non-cash medium of payment was no more observed. This was revealed by the second survey where cash was found to be the sole medium of transaction for a significant portion of the vendors.

Limitations and Future Scope:

This study aimed to examine the perception of demonetisation to the retail market operators and highlights a paradigm shift in a span of one year. It should be kept in mind that even the RBI was worried of bad results in the market and anticipated that the market may not be stable before two to

three quarters. Since these quarters fell within the time gap of this two studies, there is always a scope of another shift of perception once the market obtains stability.

Another limitation in this respect is the political interferences. Demonetisation, which was more of an economic decision, became a political agenda. The ruling political party in West Bengal and that in Delhi had different outlooks and stands on this decision. This might affect the perceptions since more or less all the retail markets have trade unions influenced by a political party that was clearly against the decision of demonetisation. Over and above, no statistical method has been used to justify the analysis.

Since the market has become much stable now, similar surveys may be further undertaken to check whether the latest perceptions hold true or there comes another change with the use of advanced statistical tools.

Conclusions:

Life is always a cost-benefit analysis. The decision of demonetisation, backed by well-planned and explained reasoning through an effective line of promotion, faced very little protest and disapproval from the citizens. The biggest projected objective of demonetisation was to bring back the black money into the economy. This was highly appreciated by the common man without having proper knowledge of the international laws relating to exchange of financial information. People, in spite of the extreme suffering, welcomed the decision with the hope of a better future. However, wherever an economic reform receives a mass welcome due to expectation of something very extraordinary, there is always a risk of not living up to it. Demonetisation was not an exception to this rule. As stated earlier, demonetisation was not a new phenomenon and a well-practiced economic reform. But the strategy taken by the Indian Government was more backed by marketing than by infrastructure. As a result, actual results could not match with the expectations. Recent information of the Reserve Bank of India indicates that nearly 99% of the total invalidated currency notes were received back. This also indicates that the decision could not match the expectations and predictions of the policy makers. It can be concluded that demonetisation might have its benefits, but the implementations were not smooth enough because of the infrastructural difficulties which led to hoarding of cash. The changes in perceptions of the retailers who interact with the ultimate consumers leads to the observation that demonetisation was a costly decision to the common man.

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