

The Implementation of Demonetization in India: Learnings & Suggestions

By Raju Rao

Abstract

The last quarter of 2016 and first quarter of 2017 has seen the policy and implementation of demonetization in India. There have been different viewpoints and opinions on it from economists, the citizens and the business and political class.

Notwithstanding whether the policy was right or not or if it had benefits or pitfalls, many questioned the efficacy of its implementation.

- What processes did the government follow in its implementation?
- How were the challenges met considering the special nature of this project?
- Were standards in project management followed?
- Did the government have the requisite organisation structure for implementing such an initiative?
- Would implementation have been different if the strategy had been better planned?

This paper will study and analyse the project of 'Demonetization' by comparing with PMI standards, the organisation structure in the government and the practices in the bureaucracy. Lessons learned from an analysis of the demonetization effort and its implementation would help in managing similar initiatives and would serve as a case study in project management

Keywords: Demonetization, Implementation, program management.

Introduction

There have been many voices on the issue of recent decision and implementation of Demonetization in India. Some of the well-known economists in the world have opposed it and have stated that it will not serve its intended purpose. Others, including some economists, industrialists and laypersons have shown support and have opined that despite the hardship it is for the greater good.

Many who have lauded the demonetization policy have been critical with its implementation. It is recognized that strategy formulation is outside the purview of project managers as their role is to implement the strategy in the best way and ensure

results are achieved. An analogy would be when a country decides to defend its borders or go to war. The decision to do so is taken by the government which is political whereas the implementation is done by the armed forces who carry it out irrespective of whether the decision is deemed correct or not. In a similar vein, this paper will not deal with the question whether demonetization has been beneficial or not but will focus on evaluating the implementation of the demonetization initiative and whether it could have been in a beneficial way with the help of project management standards and practice.

Is it a project / program?

PMBOK 5th edition defines a project as a temporary endeavor undertaken to create a unique product, result or service”.

Program Management Standard 3rd edition defines a program as “a group of related projects, sub projects and related program activities which are managed in a coordinated way whose benefits are not available from managing them individually”.

The Demonetization initiative can be considered a large program which consists of sub programs at the state, union territory or zone level with projects with for various Banks responsible for receiving and disbursing currency notes. There would also be projects for printing of notes at the Mints and sub-programs/projects for calibration of ATMs. In addition, we have a large sub program for advocacy and promotion of non-cash transactions.

Objectives, Benefits & Effects

Program Objectives

Three Objectives were mentioned on Nov 8,2016 when the demonetization was announced.(2)

- Fighting the menace of black money. This is the primary emphasis of the program.
- Dealing with counterfeit currency of these high denomination currency notes.
- Help counter the terrorist activities being funded by these currency notes.

As the demonetization process continued, the goal became less about fighting corruption and more about transitioning India to a “cashless” economy which was further re-stated as a “less-cash” strategy.

Program Benefits (Expected)

In addition to the objectives mentioned some benefits that can be expected from the demonetization exercise will include

- Improved funds flow in banking sector

- Get more people to have a bank accounts
- Get more citizens to go cashless
- Change the mindset towards bank based transactions thereby getting more funds into the formal economy.

Effects

The demonetization exercise affected businesses, the poor and the economy as a whole in different ways. Corporate houses and business probably had less problems compared to small and medium enterprises. This was so since in case of the former most of their activities and payments takes place through the formal financial economy and uses net banking. The latter had worse consequences where, due to lack of cash, factory owners were unable to make payments to their daily / weekly workers.

The agriculture sector in India has also been affected since most of the rural parts of the country are employed in the agricultural sector. Most of the agriculture supply chain in the country is based on cash, and with a cash crunch, the prices of vegetables and fruits went down and resultant losses due to wastage. While the government was encouraging people to go cashless and use other forms of payments like plastic money and net banking, this had no meaning as many Indians did not have even bank accounts. Small road-side vendors, who again work just with cash, are also faced difficulties due to the cash crunch. (2) Another problem faced by these workers is the time spent standing in lines. Since these workers rely on their daily earnings to make a living and require it even for food.

Challenges in Implementation

Secrecy

To maintain secrecy the announcements were made at the last moment and the plan was divulged to very few persons or organizations, not even to banking institutions. Planning for the event beforehand became virtually impossible. (1)

Comments: Was it necessary to maintain this level of secrecy? Is it possible if some persons in some agencies example senior managers and certain section of banks could be involved in it much earlier giving them more time to plan? Such questions are debatable, as this would be mean those with an interest in converting unaccounted money to legitimate modes would get a warning. Already, there are reports in the press that selective persons in the political and business establishment had the tip-off and they made use of the advance notification to their advantage.

Speed

The announcement of demonetization was made on Nov 8 and there was hardly any time for the persons involved in its implementation i.e. bank employees, logistics transporters and their staff to and the lay public to prepare for it and were caught unaware. This became more crucial due to lack of preparation, resources and panic from the people which made it even more difficult for concerned organizations to service them. (3)

Logistics

Due to the short time available, logistics for transferring currency from mint to various distribution points and to banks became very difficult and resulted in cash unavailability in banks and ATMs.

Moving Goalposts

The main objective of the demonetization exercise apparently changed from rooting out black money to promoting cashless transactions or using less cash in dealings. This made it difficult and confusing for people to understand and support the real purpose of the program.

Organization Structure

Organization Structure of the Government

Ordinarily, organization structure in the government is functional or hierarchical though the government also uses a projectized structure or implements project in a mission mode. Some examples include ISRO, the space research organization, many public sector organizations e.g. BHEL and special projects like the AADHAR program.

Comments: However, in the case of the demonetization initiative, a projectized or mission mode structure does not seem to have been followed; it was largely functional consisting of three major institutions.

- Reserve Bank of India
- Ministry of Finance ,Govt of India
- The Banking system comprising various banks in public,private and cooperative sector.

Program Management Structure

A program management structure would be most appropriate for the demonetization initiative and in the government, this has been represented most often by steering committees and a “nodal structure”. Examples could be found when implementing programs in the development sector within state government for example in education and health.

However, a program management structure in any of its forms followed in the government does not seem to have been followed in the case of demonetization initiative.

A suggested organization structure for the Demonetization initiative is shown in Fig 1

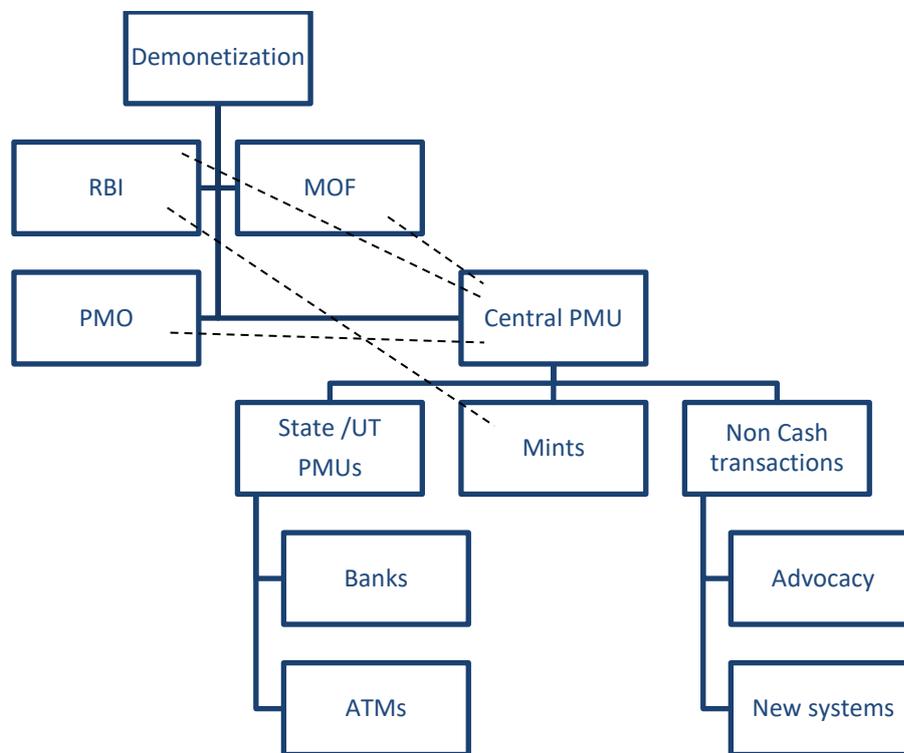


Figure 1: Organization structure

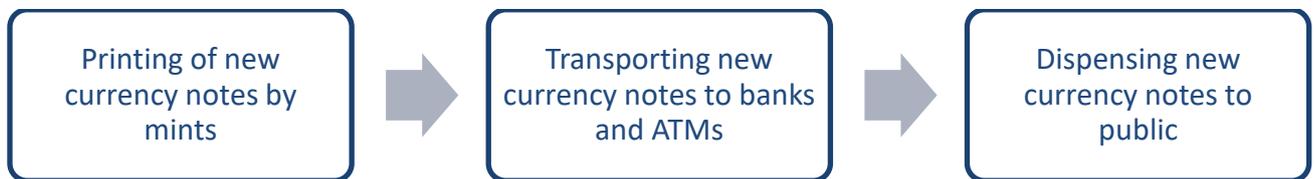
Legend: RBI Reserve Bank of India MOF Ministry of Finance, GOI PMO - Prime Minister’s Office PMU – Program Management Unit. Note: One PMU for each State / UT or Groups of States / UT

Process of Demonetization

The process of demonetization can be viewed in terms of following different phases of activity, one not necessarily in sequence or connected with the other. However, during implementation it would be beneficial to schedule them appropriately considering possible inter connections and this is depicted in a later section of this paper.

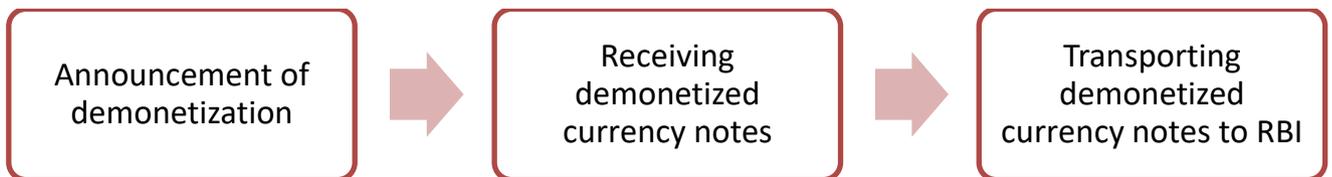
A) Printing and disbursing of new currency

New currency notes were printed in denomination of Rs 2000 and Rs 500 to supplement and augment the existing supply of notes in the banking system. These notes had to be moved from the mint to the ATMs and Banks across the country. The challenge here is one of logistics and its complexity increased considerably considering that only a short time was available from announcement of demonetization to the actual disbursement of new currency notes as demonetized notes were depleting the currency supply in the country. Once available to the banking system, the dispensing of new currency notes through ATMs and banks. Again, this by itself could be challenging in the demonetized situation because of the panic withdrawal of funds and resultant long queues, particularly considering that many ATMs and banks were often devoid of cash balance.



B) Demonetization - receiving old currency and returning them to RBI

The demonetized currency had to be returned within a specific time period or else it will become untenable and illegal. This put a tremendous strain on the banking system to accept demonetized system within a short period often times with people getting into panic situations



C) Using Non – cash transactions

While going cash less by itself is a separate initiative and can be done independent of the demonetization exercise, it nevertheless provides an incentive for avoiding the use of cash in many transactions. This step is a much larger initiative and requires educating many laypersons in basic financial and banking practice, improving the digital capability of the country and promoting the use of cash less transactions in a significant way.

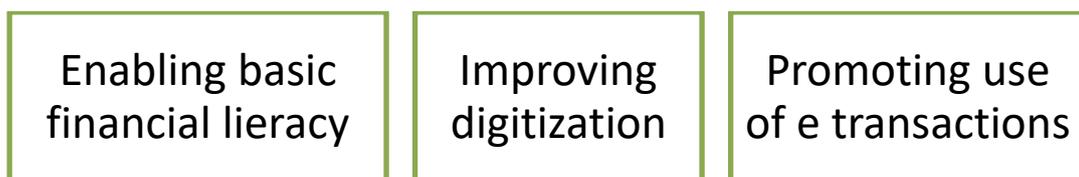


Fig 2 a, b and c: Demonetization process

Best Practices - Project / Program Management

Applying standards

This part of the paper explores the use of project management standards from PMI i.e. PMBOK 5th Edn and Program Management Standard 3rd Edn.

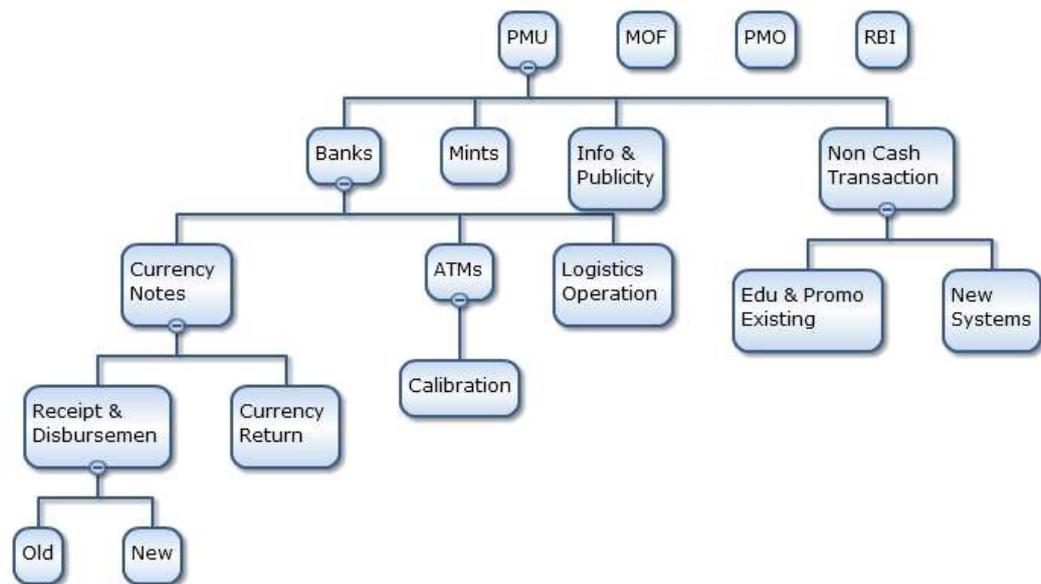
Comments: A review of various reports from government agencies as well as various articles and data on the internet does not seem to show the use of formal standards in implementation of demonetization.

Work Breakdown Structure

Fig 3 shows a typical and suggested Work Breakdown Structure

PMU - Program Management Unit. This could be a part of RBI or a separate entity with participants from RBI, Ministry of Finance (MOF) and the PMO.

Banks - Public, Private or Cooperative sectors



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Fig 3: Suggested Work Breakdown Structure

The scope of PMU will include

- Information dissemination to various stakeholders and publicity to the lay public. This unit will also be responsible for transmittal of instructions or policy updates from RBI and the government.
- Education, Advocacy and Promotion of Non-cash transactions within the country.

Scheduling

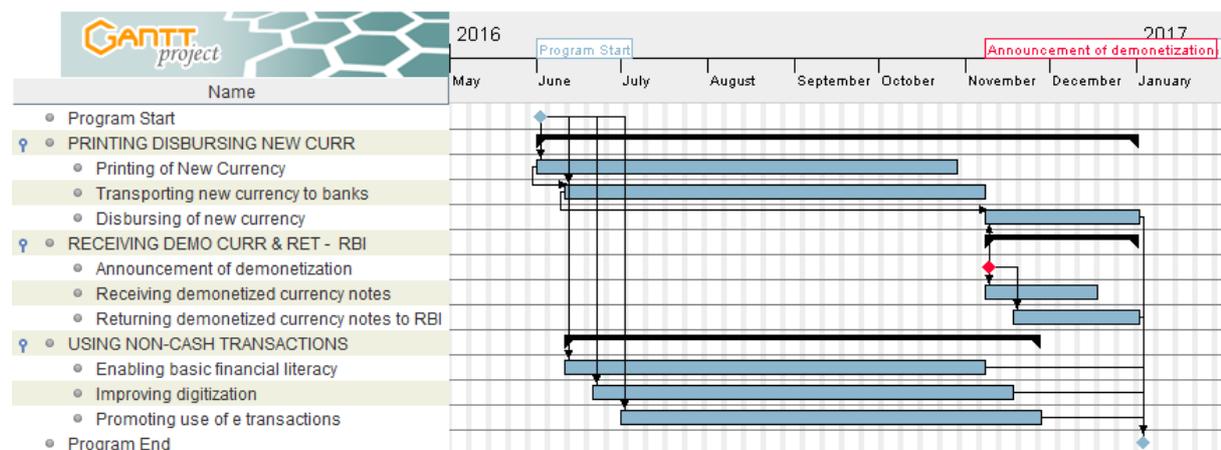


Fig 4: Suggested schedule - Demonetization program

The schedule in Fig 4 shows that the planning should have started much before the announcement of demonetization. Planning also needs to be done for education, advocacy and promotion for using non - cash transactions.

Stakeholders

Major stakeholders include

- People - Middle (2) / Upper (1) / Lower (3) economic Class
- People - Urban (1) Rural (2)
- Banks – Public sector Private Cooperative
- Government / Statutory bodies - Ministry of Finance RBI / PMO / Political parties
- Logistics Operators

A stakeholder analysis as in Fig 5 is a useful technique to prioritize stakeholders and decide methods to manage them during the program and projects

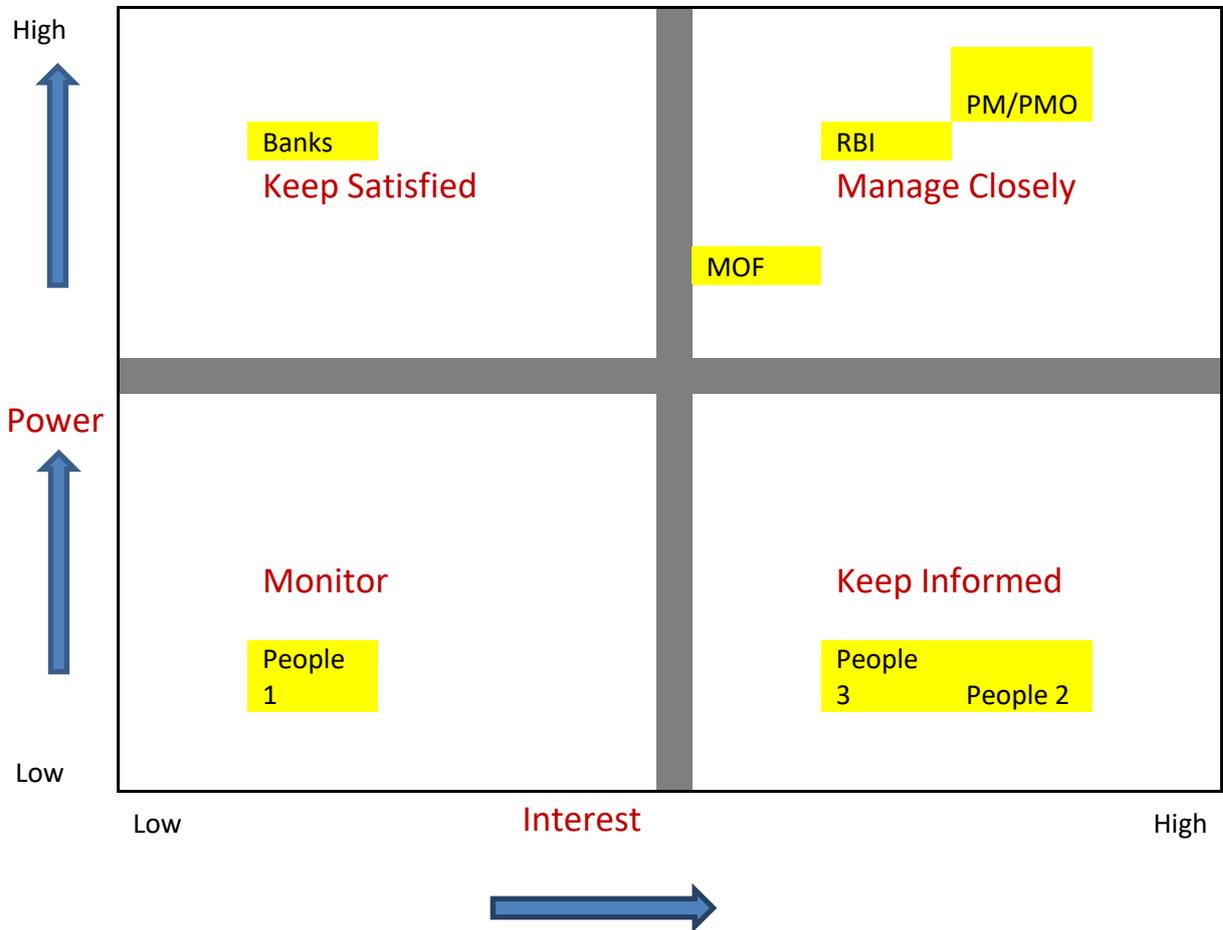


Fig 5: Stakeholder Analysis - Demonetization

Crisis and Complex Project Management

The combined effect of secrecy and the resultant requirement of speed makes such programs / projects examples where crisis management and complex project management principles and practices need to be deployed.

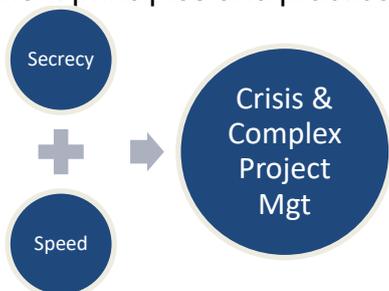


Fig 6: Crisis & Complex project management

Conclusions

- 1) The demonetization initiative does not seem to have been structured as a program or in the form of a mission mode. Instead the usual functional or hierarchical structure in governments has been used. While this could be useful in operational situations it is not the best approach for a project based initiative particularly considering the requirements of speed and secrecy.
- 2) The initiative could be implemented as a large program with sub programs at the state and UT level with various projects not only for banks but also bringing ATMs up to speed and in advocacy and promotion of cash less transactions.
- 3) In terms of best practices of project management and application of standards this paper has considered the use of a WBS, preparing a schedule and stakeholder analysis. It has looked at the organization structure for the whole program.
- 4) Crisis Management and Complex project management would be a good application for such a program / projects.
- 5) The next steps will be to look at Risk management, a communication plan and resource management.

Acronyms

RBI - Reserve bank of India
PMO - Prime Minister's Office
UT - Union Territory
GOI -Government of India
PMU - Program Management Unit
ISRO - Indian Space Research Organization
BHEL - Bharat Heavy Electricals Ltd

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Raju Rao, PMP, SCPM, OPM3 Cert Professional is Founder and Principal consultant - Xtraplus Solutions, a PM consulting and training company based in Chennai, India. Mr Rao has a B.Tech degree in Chemical Engineering from the University of Madras, India; an Advanced PM certificate from Stanford University; and a certificate from IIM Calcutta. He has about 40 years' experience in engineering, process and project management and has been an active member of PMI for several years. He held leadership positions in both the 1st and 2nd edition projects of OPM3 and has been involved in development of several PMI standards and awards.

Mr Rao has been a visiting and adjunct faculty for engineering and business schools in India. He has presented numerous papers in global congresses and is the coauthor of two books - *Project Management Circa 2025* published by PMI and *Organizational Project Management* published by Management Concepts, USA. Raju has been a President of South India section of AACE International and is the founder of the Indian Project Management Forum.

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