

Has Demonetization in India Achieved its Objectives? A Comprehensive Review after 8 Years



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Prime Minister of India, on 08 November 2016, surprised not only citizens of India but also the whole world by demonetizing, Rupees (₹) 500 (US\$7.50) and ₹1000 (US\$15) notes (bills), removing them as legal tender from that day. According to Indian Prime Minister this move has been resorted to fight the menace of black money, corruption, terror funding and counterfeit currency. In one stroke 86% of all currency in use has been taken out of the monetary system. 8 years have gone by after demonetization and during this period a lot of discussion has taken place about whether demonetization has achieved its objectives or not. While some view demonetization as a failed exercise, others see that as a reasonably successful one, especially in the long term.

Keywords: Demonetization, Black Money, Terror Funding, Counterfeit Currency, Cashless Economy, Monetary System

1. Introduction

In a decision which surprised the whole world, on November 08, 2016, Indian Government demonetized ₹500 (US\$7.50) and ₹1000 (US\$15) notes. According to the prime Minister, the stated intention behind this decision is to remove the black money from the monetary system, eliminate corruption, combat terrorism, and root out fake currency. This decision has resulted in 86% of the total currency in the country being taken out of circulation. This decision was welcomed by many while others have opposed it, calling it detrimental to the economy and poor. In the immediate aftermath this decision has caused a great deal of suffering to people, businesses and corporations across length and breadth of India. Though the initial problems abated with passage of time, most people still are not clear whether the Government of India has been able to achieve its objectives, or this measure is a failure.

This paper is a review of the effects of demonetization in India and discusses whether Government of India could achieve their stated objectives. Part one begins with the introduction, part covers methodology, part three deals with the history of demonetization, part four deals with the 2016 demonetization in India, part five discusses if demonetization in India has been planned well, part six deals with effects of demonetization in general, part seven deals with the effects of demonization on small and medium enterprises, part eight explains the effect on rural communities, part nine is a detailed discussion on whether demonetization has been able to achieve its stated objectives, part ten discusses the situation at the end of 2016 and now (2024), part eleven brings out the lessons learnt and part twelve concludes the paper.

2. Methodology

This paper is a qualitative study (revisit) of 'Demonetization in India' using secondary sources. A lot of research has been published between 2017 to 2018 covering various aspects of demonetization. However, there is not much of research in the recent past to evaluate the outcome of demonetization in India in 2016. Demonetization had supporters and critics in equal measure. The data from a large number of secondary sources has been analyzed to arrive at comprehensive findings, as we look back at demonetization, after almost a decade.

3. Demonetization

Demonetization is the process of rendering the exiting currency useless by removing it from being a legal tender. Ghana, Myanmar, Soviet Union, Zimbabwe, Venezuela, Nigeria and Zaire tried demonetization as a means of arresting spiraling inflation, controlling corruption, and black money, but failed. During 1982, Ghana demonetized their Cedi 50 with the aim of controlling black money and strengthening the financial system by encouraging people to participate in formal banking system. However, this attempt failed and has only resulted in people losing faith in their banking system and moving to foreign currencies. The attempt by Nigerian government during 1984 to bring economic stability of a debt-ridden economy by demonetization failed resulting in social tensions forcing President Muhammadu Buhari to resign. Myanmar, under Military dictatorship of General Ne Win demonetized their currency thrice in 1967, 1985 and 1987 to end back money and corruption, usher socialism and increase the tax base, but these moves failed and resulted in lots of bloodshed and several deaths of both Burmese citizens and ethnic minorities like Indians. During 1991 Soviet Union under Mikhail Gorbachev demonetized Ruble 50 and 100 with the aim of ending black money in the system. These notes accounted for a third of all notes in circulation, and

this resulted in a coup in August and in fact became a major factor that resulted in the collapse of Soviet Union. Once again on 24 July 1993 the Russian central Bank chairman Victor Gerashenko announced that all bank notes printed before 1993 were to be invalid with effect from 26 July 1993. This move was supposed to control inflation. The extent of inflation can be seen from the fact that just two years ago in 1991, the exchange rate between US dollar and Rouble was at par and in 1993 the exchange rate was 1 US dollar was equal to 1000 Roubles. Russia was total cash economy. The banking system was not very popular, there were no credit cards, and much of the trade was using the barter system. In such a scenario, both demonetization attempts failed. Zimbabwe's spiraling inflation forced government to print one hundred trillion-dollar notes and subsequent demonetization in 2015. This was to control hyperinflation which was 231,000,000%. Zimbabwe replaced their dollar with a basket of foreign currencies. This had a temporary positive effect of curbing inflation, but in the long term the country continued to face challenges due to their dependency on foreign currencies. In Zaire, Dictator Mobutu Sese Seko's attempt in 1993 was a failure that led to his ouster four years later in 1997. (Business-Standard, 2016, Kartikeyan, 2017, Dobson, 2016, Grow, 2016)

Demonetization has succeeded in some countries. In 1996 Australia successfully replaced the existing paper notes by making them non-tender for legal purposes, with polymer bank notes, to stop counterfeiting. The \$ 5 denomination notes were issued in 2016 and \$ 10 in 2017. In 2002 the countries that became part of European Union successfully demonetized their currencies after accepting Euro as the legal tender. United States has successfully demonetized their higher value currencies like \$1000, \$5000, \$10,000 in the past. They stopped printing \$1000 in 1946, but they were in circulation till the Federal Bank recalled them in 1969.

Indian Government tried demonetization on two occasions in the past, once in 1946, just before independence and again 1978. In 1946, the colonial government demonetized to penalize the merchant houses trying to conceal their fortunes made by supplying goods for war effort. In 1978, the Janata party government in power demonetized ₹1000, ₹5000 and ₹ 10,000 notes, which were introduced in 1954 for curbing counterfeit notes and black money, but the move failed to achieve the desired result.

4. Demonetization in India in 2016

On November 8, 2016, at 8.20 PM, Prime Minister of India, Narendra Modi announced that all ₹500 and ₹1000 notes in circulation, will no longer be legal tender from midnight that day saying that this move was to eliminate black money, curb corruption, fight terrorism and fake currency notes from 'enemies across the border. While making this announcement the Prime minister gave 50 days' time from November 10, 2016, to December 30, 2016, to people holding ₹500 and ₹1000 notes to deposit them in banks, without any limit. The government's plan was to issue a new series of ₹500 (\$7.50) and ₹2000 (\$30) notes with additional security features would be issued starting from November 10, 2016. As part of demonetization some curbs were imposed on withdrawal of money from banks. Individuals with a bank account could only withdraw ₹10,000 (\$150) per day, and ₹20,000 (\$300) per week, and it was promised that the limit would go up in the coming days. Individuals holding demonetized notes could exchange their old notes to the tune of ₹4,000 (\$60) from any bank. People without a bank account could exchange the old currency notes at any post office by providing proof of identity, like Aadhaar card or PAN (Permanent Account Number of Income Tax) card. ATMs were expected to function from November 11, 2016, but cardholders can only withdraw ₹2000 (\$30) per day. However, provisions were made to accept demonetized notes at government hospitals, pharmacies to avoid inconvenience and suffering to patients and for 72 hours at railway ticket booking counters, petrol, and diesel and CNG gas stations of public sector companies, consumer cooperatives, and milk booths. He also said that demonetized notes will be accepted at crematoria and burial grounds. Arrangements were also made at international airports facilitating travelers to exchange or get currency up to ₹5,000 (\$75) (The Wall Street Journal, 2016).

Reserve Bank of India (RBI) governor and secretary to Economic Affairs department, Government of India, explained that fighting fake currency and terrorism are also the main reasons behind this move. The secretary, in support of his argument said that between 2011 and 2016, Indian economy has expanded by 30%, currency under circulation has seen an overall growth of 40%, but the ₹500 and ₹1000 in circulation have grown 76% and 109% respectively. He attributed this to fake currency. (The New Indian Express, 2016). According to RBI bulletin of November 04, 2016, the total currency in circulation in India was estimated to be ₹17.97 trillion (\$260 billion). ₹500 (\$7.50) and ₹1000 (\$15) notes comprised of 86% of all currency notes in circulation are worth ₹15.45 trillion (\$210 Billion). ₹500 accounted for 47.8% in value and ₹1000 another 38.6 % (RBI, 2016).

5. Was the Demonetization in India Planned Well?

For such an operation, secrecy is of paramount importance. But trying to maintain secrecy may have led to a lack of any advance planning. The demonetization was implemented without proper planning. People were trying to withdraw cash to meet their daily expenses in smaller denominations of ₹100 (\$1.5), but there was not enough cash with banks in smaller denominations or new notes. The requirement of smaller denomination notes could have been anticipated and estimated. The supply of new ₹500 and ₹2000 currency notes was slow and erratic.

Banks were not prepared for a task of this magnitude. The processes established at the banks to exchange old notes turned out to be very bureaucratic, ineffective, time-consuming and resulted in long ques. To exchange money people had to go through three counters at the bank, one to get a form to fill personal details, second to present a copy of identification document and third to get the currency, which took many hours. At many places fights broke out between the customers and bank staff and among customers. In some unfortunate incidents, a reported 33 people lost their lives while standing in the queue for collecting their own money, till November 18, 2016 (The Indian Express, 2016).

Another issue was related to poor planning with the ATM machines. India had a total of 200,000 ATM machines for dispensing cash. These machines were designed for the old notes, and could not dispense new ₹2000 and ₹500 notes, which are smaller in size. All the ATMs had to be recalibrated and refitted to dispense new notes. (The Hindu, 2016). Finally, all ATM machines could only be recalibrated by December 30, 2016.

6. The Effects of Demonetization in General

India has become the world's third largest economy in terms of Purchase Power Parity after US and China, and the fastest growing economy in the world in 2016. Cash was the medium of exchange for 90% of all transactions in India. Unregulated sector, which uses cash as medium of transactions, and normally not taxed, contributed 45 % to Indian Economy. Balance 55% is contributed by the organized sector paying taxes. The employment figures are skewed with the unregulated sector employing 75% and the regulated sector 25%. Demonetization is a very strong action because India is a cash-based economy. And taking 86% of that cash out of the market undoubtedly had a profound effect on the country's economy and led to total chaos.

In the initial days, many incidents were reported in the media where banned notes in black money were thrown into rivers or cut into pieces and burnt, or just thrown into garbage dumps (Business Standard, 2016). The supply of new ₹2000 and ₹500 notes was very slow and not properly planned. Though the government printing presses were operating 24X7, they could not meet such a huge demand. The logistics of transporting so much of cash across length and breadth of a country as big as India has proved to be a daunting task. The shortages continued for a long time, resulting in ever lengthening queues in front of banks and ATMs.

Apart from the shortage of ₹500 and ₹2000 notes, non-availability of lower denomination notes of ₹100 or ₹50 has aggravated the problems for common man, as most vendors were unwilling to provide the change for ₹2000 note. This has resulted in a peculiar situation, where people could not use the new ₹500 and ₹2000 notes for their daily purchases, due to non-availability of smaller denomination notes. Unfortunately, according to some news reports this has led to many undesirable incidents. In one incident, a newborn has died as the parents could not get the required money in new notes from the banks and the doctor refused to accept and treat using old currency. (Huffington Post, 2016).

Though estimates vary, by the end of 50 days on December 30, 2016, it is reported that more than 100 people died due to demonetization and its aftereffects (DNA India, 2016). However, in many cases this was not conclusively proved that all these deaths were due to demonetization and some people feel that the underlying causes are different. Depositing the currency notes into the banks turned out to be another problem. Many people were caught depositing old notes in 'Benaami' (other people or nonexistent people) accounts, by offering a part of it.

Rich people with huge cash rushed to buy gold and ornaments pushing the gold prices from ₹40,000 (\$600) to ₹60,000 (\$900) per 10 grams overnight. This continued till the government came into action, the next day. Immediately after the announcement, rich people paid 50% premium for converting their cash into gold. The prices of gold however started falling after November 09, 2016, due to demonetization (Oswal, 2016).

The stock market has experienced a steep fall. Between November 08, and November 22, the indices of Bombay stock Exchange (BSE) fell by 5.9% and National Stock Exchange of India (NIFTY) by 6 %, following this announcement by Prime Minister (Market Realist, 2016). Demonetization has resulted in lower number of customers in the shopping malls. Cigarette sales came down by 30 to 40%. E- Commerce companies experienced a sharp decline in sales immediately after the announcement. 'Cash on delivery' is the popular way of payments with E-commerce customers in India. E commerce company's orders went down by 30 % for Cash on Delivery orders (DNA India, 2016).

Weddings got postponed. Demonetization has happened during the wedding season in India. Many weddings have been called off. Following the initial spurt, gold jewelers reported that their sales have come down by as much as 60%. Normally most of the transactions in gold and jewelry shops happen in cash and this is one industry where a lot of tax evasion takes place. Jewelers have accepted old notes till November 09, 2016, morning, showing backdated sales. The jewelry sales have already been affected due to the new requirement of having Income Tax Permanent Account Number (PAN) card details on sales above transactions over ₹200,000. However, there is huge unorganized market in jewelry where transactions mainly take place in cash and this sector was greatly hit (Kelker, 2016).

In the essential items list, long ques were witnessed outside petrol pumps. Some petrol pumps tried to make a fast buck by not offering any change. Essential commodities like oil and pulses experienced a drop of 25% (Sally, 2016). No doubt rich people were caught unaware, but the effect was also harsh on poor people and rural India. The micro business-like milk vendors (Dooshopkeepersd tea vendors (Chai walas), vegetable vendors, restaurants and small shop keepers were most hit. Smaller businesses like these reported 50% decline in sales over night. Many of them have no bank account. They keep their savings generally in ₹500 notes. Most rural folks and urban poor do not have any bank accounts. That made it difficult to carry on with their daily lives. Cab drivers, small shop owners refused to accept ₹500 and ₹2000 notes. The poor both from rural and urban India bore the brunt of this step. Many daily wages laborers lost their livelihood, as the employers did not have the cash to pay them. Many daily wages labor had to move back to their villages from urban areas.

However, some entrepreneurial activities, though corrupt and questionable, flourished overnight. Some people started accepting cash in demonetized notes at a deep discount of 25 to 50%. Some real estate dealers have been reported to accept banned cash at a very deep discount and encourage people to buy their apartments. A few people started operating services like standing in a que at a bank or ATM, for an account holder for a fee. Many account holders and hoarders of black money came out with ingenious solutions to deposit their money in banks.

On the positive side, demonetization has resulted in a great increase in the use of Credit and debit cards. Demonetization had led to a huge fall in human trafficking, though temporarily. Unfortunately, there are reports that this has gone up since introduction of ₹2000 notes.

There were numerous reports from urban and rural areas alike where tiny businesses owners, like vegetable sellers, tea shops, who are mostly illiterate and never used electronic payment systems, have successfully adopted new cashless transaction systems like Paytm, which augurs well for future cash less economy. In fact, companies like Paytm have reported 60% growth in their business after demonetization.

Many experts including economists, bankers and organizations like financial institutions, banks from all over the world predicted that Indian GDP would slow down but the GDP growth for the third quarter ending December 2016, has shown a robust growth of 7.1%, (Central statistics office in Forbes, 2017). India's growth story continued, and India has become the 5th largest economy in the world by 2023.

7. Effects on Small and Medium Business

Small and Medium enterprises in India contribute 8% of GDP, while employing nearly 80 million people. Some of them are too small to be able to spend money on tax and other legal compliances. Lack of banking infrastructure also adds to their problems. According to Government of India's 4th census on Micro, Small, Medium enterprises (MSME), 55% of all MSMEs, as on 2007-2008, some 20.018 million are in rural areas and 16.158 million in urban areas, according to them 2.10 million more have been added till 2014-15, in the same proportion (4th MSME census, 2015). Most of the rural MSMEs pay cash for most of their transactions on a weekly basis. Due to the cash crunch following demonetization, most units have stopped their activities or reduced their business volumes drastically.

However, one positive effect of demonetization is that it has certainly forced the MSMEs to move away from cash transactions to formal banking or cashless transactions. Unfortunately, a number of them have gone out of business, due to lack of liquidity, non-availability of finance and lack of staying capacity in absence of cash flowing from customers.

8. Effects of Demonetization on Rural Areas

India is predominantly rural. 70% of the population lives in rural areas and most of them are poor. Rural areas rely entirely on cash. Compared to urban areas in India, the rural areas suffer the lack of banking infrastructure which caused major problems. The density of banks and ATMs in India is skewed. Reserve Bank of India report on 'Financial inclusion in India' reveals very interesting statistics. As on June 15, 2015, urban India with a population of 235 million has 43,910 bank branches, whereas rural and semi urban India with 1.065 billion people have only 82,794 branches. Branches for 100,000 population happens to be 7.8 and 18.7 for rural / semi-urban and urban areas respectively. Further each rural or semi urban bank serves 12,863 people compared to 5,351 people served by urban branches (RBI, 2015). Added to this lower density of bank branches, many of them operate only on a day or two in a week. This has further aggravated the problem of rural population.

India has nearly 300 million farmers and most of them have small holdings. Farmers during demonetization could not buy seeds fertilizers and pesticides. Almost all transactions of farmers are cash transactions, mostly in ₹500 and ₹1000 notes. Typically, the farmers follow a cycle. First, many borrow money from local money lenders to start their activities like buying seeds. With demonetization, this money supply has been cut off. The seed vendors and fertilizer vendors stopped accepting old notes. New notes were not available. Many unscrupulous seed and fertilizer vendors demanded higher prices for accepting demonetized ₹500 notes for selling seeds. As the farming season started farmers were thrown into a hopeless situation. There were protests in some rural areas and Government of India was quick to provide some relief by allowing farmers to buy seeds from government agencies using old notes in denomination of ₹500 after producing identity proof. Another major problem farmers faced is that they could sell their produce in local markets, as small traders or middlemen at local mandis (markets) to whom they normally sell, did not have cash to buy them. In some places farmers were asked to accept payment for their produce in old notes or wait for payment till the situation improved. Both choices were hard on poor Indian farmers. So dire was the situation that in many cases, farmers decided to throw their produce in dustbins or on roads as they did not have the money to transport to the local market and the prices that were offered were so low that they could not cover their transportation costs (Sally, Bhonsle and Krar, 2016). Immediate aftermath of demonetization was very hard on Indian farmers and rural areas.

9. Has Demonetization Achieved its Objectives?

9.1 Black Money

Many people believe that demonetization has not been able to eliminate black money as expected. The total volume of ₹500 and ₹1000 in circulation was ₹15.4 trillion (\$240 billion). According to reports ₹14.97 trillion (US \$ 220 billion) out of ₹ 15.4 trillion (\$240 billion) or 97 % of the demonetized ₹ 500 and ₹1000 has been deposited in the banks as on 30 December 2016. This belied the hopes and estimates of the Government of India that ₹5 trillion (\$70 billion) of black money will not be deposited in the banks and hence will not come back into the system. (NDTV, 2017; The Indian Express, 2017; Bloomberg, 2017)

However, it is not difficult to see why demonetization has not made an effective impact on black money. According to analysts, only 6% of the illegal money is in the form of cash. A major part of it is stashed away in tax heavens like Panama, Swiss banks etc. According to a report 'The drivers and dynamics of Illicit Financial flows from India 1948-2008', by Kar (2010), chief Economist at Global Financial integrity, India lost \$213 billion during that period due to illicit outflows. The

report found that on the average \$22.7 to \$27.3 billion was leaving India between 2002 and 2007. The report also says that the money illegally stashed abroad by Indians represents 72% of the underground economy and 50 % of the GDP.

The second form of black money is in the form of stable international currencies like US dollar and Pounds. Many Indians with black money have been accumulating US dollars, Euros and other currencies from local markets. According to some estimates, these two, money sent abroad and accumulated in international currencies account for 85% of all black money in India. Then a vast amount of unaccounted money is invested in real estate. It is not far from truth, if one says 95% of all real estate deals have a black money component. If one considers all the above, then as believed less than 6% of the black money is in the form of cash (Rajesh Chakraborty, 2016).

On the other hand, introduction of ₹2000 note is also an issue of debate. It is a well-known fact that higher denomination notes help people hoard money. If the aim of demonetization is to fight black money generation, then Government's rationale that expected future inflation as the reason for issuing ₹ 2000 notes does not sound very convincing.

Notwithstanding this, demonetization coupled with various measures by government not to allow any currency transaction above ₹ 200,000 (US \$ 2900), promoting digital transactions had a long-lasting effect in reducing the amount of black money generated during the last 6 years.

However, for demonetization to be successful in the long run the Government needs to cut the sources of black money creation. During year 2014-15, in India only 36.5 million out of 1.25 billion population filed income tax returns, which is just 1.7%. Out of this 36.5 million, only a miniscule 0.55 million paid tax more than ₹500,000 (\$9000), which accounted for 57% of the total tax collected. Government efforts since demonetization are bearing fruit in this regard as the number of income tax returns filed increased to 72.8 million during 2024, for the Financial year 2023-24.

9.2 Reducing Corruption

India is one of the most corrupt countries. It ranks at 79 in Transiency International's Corruption Perception Index, out of 176 countries for the year 2016. During the last 5 years from 2012 to 2016 it has improved its score, but only marginally, from 36 to 40. It is an irony that demonetization, which was to eliminate corruption, has given birth to some new forms of corruption. After demonetization, some enterprising Indians have tried to convert their black money into white money using the following 13 different ways. First donating to temples, as the government declared that no questions will be asked about the money given as donation to temples, many cases were reported where people deposited old currency with temple priests with the arrangement that they will pay 20% commission to the priests for the service of converting the banned currency into new notes. A sting operation by ABP news brought this to public attention. The second was by depositing the money back dated in co-operative banks in rural areas where transactions are carried out and recorded manually. Third is using other poor people to deposit the money in their accounts, as the government said that deposits up to ₹300,000 (\$4500) in any account would not be questioned. The fourth one was giving interest free loans to poor people in old currency. The fifth one is using Jan Dhan accounts from the scheme launched by the government to encourage poor people to open bank accounts, where deposits up to ₹ 100,000 are asked no questions. The sixth is mafia buying old notes by paying 15% to 80 % of value in ₹100 notes. The seventh is employers paying advance salaries for 3 to 8 months, but less than 2.5 lakh to avoid detection, and keeping debit cards of employees with them. The eighth is booking expensive AC 1st class train tickets in old currency and cancelling them later to get a refund in new currency, as it involves paying a small cancellation fee. The ninth is using professional money laundering firms, some of them run by chartered accountants. The tenth is buying gold on back dated transactions. The eleventh one is using farmers to convert demonetized notes by paying a commission, as agricultural income is not taxed. The twelfth is making contributions to political parties as this is not questioned and trying to get political favors and the last is depositing them in the bank and be prepared to face consequences (Vij, 2016).

Further there were widespread reports of bankers involving in corrupt practices by helping the corrupt people move their money. 27 senior officers from public sector banks were suspended for irregularities committed by them. Hordes of new cash in ₹2000 notes were recovered from businessmen and other people from different parts of the country and investigations revealed collusion between bank officials and these corrupt players. Axis bank has been accused of violating the RBI guidelines. It was found that ₹100 crore (\$15.3 million) was found deposited in 40 fake accounts. Income tax department raided Axis Bank branch in New Delhi to investigate the irregularities (Mehta, 2017). 50 officers from private and public Banks and RBI have been found conspiring with money launders (The Hindustan Times, 2016)

After the demonetization announcement till December 31, 2016, according to the information collected by Income Tax department, 60,00,000 bank accounts had deposits of more than ₹2,00,000 (\$3000) and the total value of money deposited into such accounts is more than ₹7 lakh crores, (\$103 billion). The Income Tax department has issued notices to all these people asking them to explain the sources of their money. The Income Tax department is also scanning the gold and jewelry sales that have happened on the day of announcement of demonetization. Government of India also came out with a different scheme called 'Pradhan Mantri Garib Kalyan Deposit Scheme 2016 (Prime Minister's fund for welfare of poor, 2016). As per this scheme anyone with undisclosed income can pay a tax, surcharge and penalty totaling up to 49.90%, then deposit 25% in the above scheme which carries no interest and is locked in for a period of 4 years. This scheme was open till March 31, 2017. But the moot point is whether they have the resources to complete their investigations and the will to prosecute the guilty. There is no evidence any prosecutions based on these investigations in the last 8 years.

Notwithstanding the Prime Minister's announcement, expecting to fight corruption with only one measure like demonetization, is too much to expect. Corruption in India is endemic, organized and deep rooted. Unless the government takes other measures and seriously plug all the loopholes, it is impossible to reduce the corruption, leave aside eliminating it. First

the legal framework must be strengthened, with stringent punishments for corrupt people and make indulging in corruption more expensive for individuals than their gains through corrupt activities. Second, the law enforcement organizations must effectively implement the law in letter and spirit. Third and more important is to bring culprits to justice fast. It is not uncommon for cases in Indian courts to drag on for years. The Indian Prime Minister statement on December 16, 2016, that 'Demonetization is only the first step towards eradication of corruption' and 'not the last step' is as acknowledgement that demonetization alone cannot root out corruption and many other actions are needed (Hindustan Times, 2016).

In the Corruption Perception Index of Transparency International for the year 2023, India ranks at 93 out of 180 countries, with a score of 39. This proves that demonetization had no effect on corruption in India over the last 8 years.

9.3 Terror Funding

India faces two types of terrorism. The first one is exported from the neighboring countries normally seen in Jammu & Kashmir and other broader states in Northeast, and occasionally in other cities and towns. The second type of terrorism is by left leaning organizations like Maoists and Naxalites, prevalent in underdeveloped parts of India. Terrorists and Maoists use different sources of funding. While terrorists depend on hawala (illegal) operators and fake currency from neighboring countries, Naxalites thrive on levies and extortion from local people. Demonetization appears to have worked well against terror funding and terrorist activities.

Terrorism: Indian government has informed the Supreme Court of India that demonetization has been successful in reducing number of terrorist activities. Lending credence to that is the reduced number of terrorist activities reported in the state of Jammu and Kashmir after demonetization. The hawala cash transfers to terrorists and separatists in Kashmir have come to a grinding halt. According to intelligence sources the call traffic between hawala operators have come down by 50% and terrorism related violence has come down by 60% after note ban, with only one major blast taking place till January 07, 2017. This in turn has dramatically brought down the number of incidents of stone throwing, protesting security forces in the Kashmir valley (Times of India, 2017).

Maoist/ Naxalites: Demonetization has certainly hit these organizations very hard as they have stored the funds collected in ₹500 and ₹1000 notes. There is ample evidence to show that their funds are drying up and this has a dampening effect on these organizations. It is public secret that Maoists collect levies from contractors building roads and mining companies to the tune of ₹1500 crore (\$229.4 million) every year (Times of India, 2017). According to reports, intelligence intercepts of communication between leaders of organizations indicated that they were severely hurt due to note ban as the money they collected by extortion has become useless. One of the banks' accounts has shown a deposit of billions of rupees, suspected to be the money from these organizations, which is being investigated. A record number of 469 Maoists have surrendered after November 08, 2016, demonetization, which the government says is the effect of the funds drying out.

However, couple of terrorists were caught with new currency in ₹ 2000 notes, highlighting the fact that demonetization is only a temporary measure and this needs to be coordinated with other long-term measures and conventional means. No doubt demonetization has dealt a severe blow to the terrorists Maoists/ Naxalites by making their reserve funds useless, but this is not by any means a death blow. This has to be pursued further with other quality counter terrorism methods (DNA India, 2016). The abrogation of article 370 by Government of India (and subsequent upholding by Supreme court of India in December 2023) had great effect on curbing terror funding in Kashmir.

9.4 Fake or Counterfeit Currency

Counterfeiting currency is as old as printing of the currency itself. Initially it was started by individuals or groups of people to benefit themselves. But starting from Second World War, nation states have become involved in counterfeiting the currency of their enemies, with the aim of destabilizing their economies. Hitler started this with 'Operation Bernhard' by counterfeiting British pounds. In the recent past some countries have extended this to promote and support terrorist activities in other countries. In India ₹167 crore (\$24.4 Million) fake currency was seized by law enforcement authorities between 2011 and 2015. According to National Crime Records Bureau, in 2015 ₹43.8 Crore (\$6.7 million) worth of Fake Indian currency notes were seized. Analysts feel that only 16 fake currency notes are detected out of every 250 notes. While no one has clear estimate of the volume of fake Indian currency in circulation, a study by Indian Statistical institute and national Investigation agency estimated the volume to be of ₹ 400 crores (\$58.5 million) (The new Indian Express, 2016), major part of which is believed to be funding terror activities in J&K (The Corner, 2017).

This is one area where demonetization has achieved major success. The data from Reserve Bank of India (RBI) shows that during the financial year 2023, Rs 7.98 crores worth of Counterfeit currency was detected, which was 68% lower than the counterfeit currency in the financial year 2014. Demonetization is one time measure and to control the fake currency, Government of India needs to include more safety features against counterfeiting into the new notes.

9.5 Cashless Economy

India in 2016 was a predominantly cash based economy. Cash economy accounts for 12% of Indian GDP and is four times that of Brazil and South Africa (Kahn, 2016). The federal government is putting sincere attempts to push a cashless economy. Following demonetization, A task force has been established under the leadership of NITI Ayog (National Institution for Transforming India) CEO to promote cashless economy in India. 50 million volunteers are working in rural areas to enroll people and small businesses into e-economy. Individuals or businesses enrolling were offered an incentive of ₹100. ₹ 340 crore (\$52 million) have been set aside to give prizes to new adopters by holding lucky draws. Still, it is proving to be a daunting

task. Till December 23, 2016, only 55,000 merchants and 2.5 million individuals enrolled in cashless transactions. The biggest stumbling block is not having bank accounts linked to the identification card called Aadhaar card. Another issue that is acting against cashless economy is many uneducated urban or rural poor are not comfortable with using PIN as security feature. Using fingerprints seems to be more acceptable to rural people. Only 5% Indians use digital cash for transactions, but unavailability of cash post demonetization has forced many rural business, small and tiny businesses in urban areas and individuals to take adopt digital payments.

In 2014 the government promoted Jan Dhan Yojana, to ensure that each family had at least one bank account. These accounts were permitted to be operated with zero balance. The aim is to achieve financial inclusion of the marginalized section. This push resulted in 22 crore (220 million) bank accounts being opened by people in rural areas till November 2016. But unfortunately, according to the World Bank the dormancy rate of bank accounts is a high 43%. Only 15 % people in India use bank account to receive or make payments, while the figure is 40% for China and Brazil.

Soon after demonetization, surprisingly even uneducated and poor people have started adopting cashless transactions. Uneducated street side vendors started using digital payment methods like Paytm and Ola Money. This behavioral change from uneducated and underserved sections of the society in rural, semi urban and urban areas from augurs well for India for the future. Indian rural population proved when it comes to technology they are as good as their educated urban counterparts.

Demonetization has forced many people to open bank accounts. According to estimates 3 million new accounts have been opened at all banks within a week after demonetization. State Bank of India, the largest public Bank, with 17,097 branches, half of them in rural areas has been opening 50,000 accounts per day. E-payment companies like Paytm saw a huge growth in adoption of digital wallets (Kumari, 2017). Paytm reported a three-time surge in its customer base, 14 million new accounts in November 2016 alone. According to Economic Times, rural users constituted half of Indian Internet users by the year 2020. The number of users is expected to go up from existing 120 million to 315 million in rural areas of India. (Singh, 2016). This will undoubtedly help increasing cashless transactions in India. But demonetization has created awareness and is motivated people to adopt cashless transactions. This in turn will have an impact on fighting corruption, controlling evasion of tax and control on terrorism in future.

9.6 Human Trafficking

Another unintended benefit of demonetization is in human trafficking. Human trafficking is prevalent in many parts of India. Mafia kidnapping innocent little girls and women and selling them into flesh trade or as child brides is common in some parts. These girls are transported to other places, beaten up and are forced to accept prostitution. They are sold like cattle in the underground markets. Girls and women are sold for ₹4lakhs (\$12,000) to 5 lakhs (\$15,000) Assam, Bihar, Jharkhand states, Bangalore, Chennai and Hyderabad cities are most notorious places for human trafficking. A study by Global March against child labor estimates the annual market for human trafficking is huge in India. According to information from rescue workers after November 8, 2016, these activities has come to a complete halt, as middlemen did not have the ₹1000 or ₹500 notes used in these transactions. Brothels have shut down as there was no currency available according to Nobel laureate Kailash Satyarthi. This may not be long before the human traffickers become active again as soon as new ₹2000 notes become widely available (Postcard, 2016). If further steps are taken by the government, the menace of human trafficking can be effectively largely curbed, though may not be 100%.

10. The Situation at the end of 2016 and now (2024)

97% of all ₹ 500 and ₹ 1000 demonetized notes have been deposited in the banks also means that most of the back money in the system has also been deposited in the banks by the holders in some way or other. Government of India through their enforcement agencies, was supposed to have processed the identification of suspicious deposits and Income Tax (IT) department issuing notices to the people involved.

Government also came out with a different scheme called 'Pradhan Mantri Garib Kalyan Deposit Scheme 2016 (Prime Minister's fund for welfare of poor, 2016). As per this scheme anyone with undisclosed income can pay a tax, surcharge and penalty totaling up to 49.90%, then deposit 25% in the above scheme which carries no interest and is locked in for a period of 4 years. This scheme was open up to March 31, 2017. IT department has issued advertisements in news media telling people who were supposed to have deposited Black money in bank accounts that they have all information about their deposits and advised them to make use of Pradhan Mantri Garib Kalyan Deposit Scheme 2016, before it comes to an end. They have cautioned suspected defaulters that the 'count down has begun' and saying that their information will be kept confidential. But anyone not making use of this opportunity to come clean will have to pay tax, surcharge and cess amounting to 77.25% and are also liable for penalty, prosecution and enforcement actions (Times of India, 2017). In 2022, According to a union minister Mr. Ashwini Vaishnav Rs 1.25 lakh crores were recovered after demonetization.

11. Findings and Lessons Learnt

- India is not only the world's third largest economy in terms of PPP, but also fastest growing economy in the world with a growth rate of 7.1 for the year 2016. However, the economic development may not be sustainable in the long term unless the black money which accounted for 25% of the economy at that time was controlled.
- India in 2016 was a cash-economy where 90% of transactions took place in cash. In such a situation decision to demonetize ₹500 and ₹1000 notes, which form 86% of the total currency in use is undoubtedly a bold step by the Prime Minister of

India. These old currency notes are to be replaced with new ₹500 and ₹2000 notes.

- Scholars, businesses, financial institutions were equally divided on this issue of demonetization. World Bank, IMF and many other organizations supported the demonetization move, but many others like Harvard Professor Nobel laureate Amartya Sen opined that this move would hurt Indian poor and economy. On the other hand, supporters felt that this is a very good measure taken at the right time.
- For demonetization to succeed, surprise is the most important element. It is believed that, though the decision was made quite some time ago in May 2016, the Prime Minister and his team succeeded at keeping the secret, while preparing for the implementation and thus achieve the desired impact.
- According to the Prime Minister, the demonetization decision has been taken with clear objectives of eliminating black money, reducing corruption, fighting terrorism by cutting of supply of funds and eliminating fake currency.
- Undoubtedly demonetization announcement has led to total chaos. The restrictions imposed on withdrawal of money or exchange from banks and ATMs adversely affected the life of common man and more importantly poor people.
- The supply of new ₹500 and ₹2000 has been quite slow and government and currency printing presses could not meet the demand despite operating 24X 7. This has resulted in long lineups in front of banks. The Prime Minister requested 50 days to bring back the situation to normal, but this has taken much longer, but understandably.
- The prime minister requested the people to bear the hard ships and give him 50 days that will help him fight corruption. By and large people of India trusted the Prime Minister and cooperated with him. Barring some minor incidents, no major incidents of social unrest have been reported. This proves the common man in India is fed up of corruption and black money and is willing to support any measure that can help in reducing or eradicating.
- The prime minister did achieve some measure of success on the objectives, but to a varying degree.
- On the black money front the result is mixed without much success. While the government expected that ₹5 trillion (\$70 billion) black money would not enter the system, everybody was surprised to see ₹ 14.97(\$240 billion) trillion out of ₹ 15.17 trillion (\$260 billion) being deposited in banks. To that extent the government did not achieve its objective.
- The success part of it is, while the underground money has come back into the system, where the government enforcement agencies can track, recover taxes, penalties and prosecute the black money hoarders. The unsuccessful part is it could not prevent the black money entering the system, which was the aim. There was no evidence during the last 6 years, (2016 – 2024) of government agencies taking legal action and prosecuting the people who amassed black money, that has come back into the system.
- However, in the long term this may prove to be successful, if the government can plug the loopholes that result in creation of black money, increase in tax base and succeeds in reducing the corruption. Government of India's efforts post 2016 in making India cashless economy is succeeding and indirectly helping curb black money.
- On corruption in India, the demonetization did not have much of effect. Indians proved ingenious in getting around the system to beat the demonetization itself. Corruption in India is endemic and prevalent at all levels of the society. Unless a serious and holistic approach is taken with effective legal and enforcement mechanisms, making indulging in corruption much more expensive than not involving in it, it is difficult to eliminate or even reduce corruption. Demonetization itself, as explained in the main body of this paper, has resulted in generating a lot of corruption. This clearly proves that demonetization is not a silver bullet to reduce or end corruption. At best this could be one of the many actions that are needed to control corruption.
- Demonetization has achieved the objective of fighting terrorism, as terrorist activities have come down after demonetization. However, it will not be long before terrorist organizations will be able to mobilize funds and restart their activities. The government must be able to capitalize on the current success with high quality conventional mechanisms and prevent terrorists from gaining strength again.
- Government may also do well to wean away the Maoists and Naxalites from their organizations and bring them into the mainstream.
- In eliminating counterfeit currency demonetization has been most successful. However, this will be a success in the short term as it will not be long before the new fake currency hits the market. Government of India's decision to issue ₹ 2000 note will make it more attractive for agencies involved in counterfeiting be it domestic or 'from across the borders.
- One benefit demonetization has accrued to the society is putting a stop to human trafficking, at least temporarily. This is an opportunity the government of India might choose to exploit and ensure that human trafficking is curbed with an iron hand
- Further the robust growth of 7.1 in GDP reported after demonetization proved that demonetization had only a marginal effect on the growth disproving some of the famous economists. India also retains the position as world's fastest growing economy for the current year. In 2023 India has become the fifth largest economy and also fastest growing economy in the world.
- Demonetization has propelled Indian economy in the direction of cashless economy. This will help India reap great benefits in the long term.

12. Conclusion

Demonetization of ₹500 and ₹1000 notes is a strong step in a country where 90% of all transactions are carried out in cash. Demonetization was carried out with specific objectives elimination black money, curbing corruption, cutting of terrorism

funding, try to eliminate counterfeit currency notes and promote cashless digital transactions. Looking back 8 years later, outcomes of demonetization has been a mixed bag.

Demonetization has created temporary problems like deflationary impact, disruption in liquidity situation, problems to unorganized sector in short term. Also, while demonetization could control counterfeit notes and terrorism funding to a major extent, it did not have a great immediate impact on black money and corruption. But in long term, coupled with other measures the government of India is contemplating like moving to cashless transactions, demonetization will help India achieve its objectives.

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