

IMPACT OF DEMONETISATION IN EDUCATION SECTOR

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ABSTRACT

One of the key advantages of demonetisation is that it can create a level-playing field for aspiring and deserving students, who are unable to pay capitation fee (donations), which has been prevalent in the Indian private education system. Money in the education ecosystem flows in many forms. Imagine a student paying the fee to an institute. This fee has multiple components—admission fee, tuition charges, transportation charges, hobby activities fee, money for uniform, to name a few. The aggregated amount paid by parents is disbursed in different bank accounts based on the various fee elements mentioned herewith. This payment by parents is in part cheque or demand draft or digital, and in part cash. Here upon, with the demonetisation of Rs 500 and Rs 1,000 bank-notes last month, a lot of hassles will get sorted for both the institutes as well as parents. On parts of both ends, the cash management gets eliminated and there is total management system accountability for the money trails. Auto debit to the payer account and credit to the receiver account ensures that there are no chances of any revenue leakage in the system. In addition, it will ensure that capital expenditure and operational expenditure accountabilities are assigned to the right heads rather than facing issues of reconciliation. One of the key advantages of the demonetisation step is that it will create a level-playing field for aspiring and deserving students, who are unable to pay capitation fee, which has been widely prevalent in the Indian private education system. Capitation fee is a transaction whereby an institute that provides educational services collects a fee that is more than what is approved by regulatory norms. In simple words, this is the money paid to the educational institute by parents of such students who have underperformed in their academics, but who get admission based on capitation fee. It is commonly called donation, and some times the amount is more than 100% of the usual fee.

Key words: Indian private education system, digital payment system

One of the key advantages of the demonetisation step is that it will create a level-playing field for aspiring and deserving students, who are unable to pay capitation fee, which has been widely prevalent in the Indian private education system. Capitation fee is a transaction whereby an institute that provides educational services collects a fee that is more than what is approved by regulatory norms. In simple words, this is the money paid to the educational institute by parents of such students who have underperformed in their

academics, but who get admission based on capitation fee. It is commonly called donation, and some times the amount is more than 100% of the usual fee. Now, going forward, the amount of unaccounted wealth with many such parents is likely to considerably reduce, resulting in increased opportunities for those students who are capable, but previously edged out by capitation-fee-paying students. The next wave of the demonetisation impact is on the larger education ecosystem, where the management of campus vendors will go digital. Among other things, it will bring in discipline in payment management. Another change we are going to see is campus spend by students—transactional costs for canteen, monthly food bill, buying stationary, getting academic notes arranged and so on.

Demonetisation will also lead to a high proportion of people changing their purchase habits and increasingly using online payment wallets, credit and debit cards, to carry out transactions. The education sector will benefit from the efficiencies brought by this new payment infrastructure, in terms of fee payments, benefiting both educational institutions and parents/students. Demonetisation, it is expected, will result in a large proportion of unaccounted/black money going out of circulation. This, in conjunction with the cash collected due to recent spate of bank deposits, will help the government increase its expenditure on key public sectors, including education. Making of world-class campuses is possible only when the money is available on the table. With the same becoming accountable, the dream of achieving Ivy League standards by educational institutes will get closer to being realised.

IMPACT OF DEMONETIZATION ON EDUCATION SECTOR IN INDIA

Demonetization has become a household name over the last few weeks in India. It's like a tsunami that suddenly came and has swept across the nation and has had left impact that will last long.

While the impact of this change on economy has been discussed and were obvious, here let's discuss and analyze the impact of demonetization on education sector in India.

Impact on Private Vs Government Institutes

Private institutions: characterized by higher fees, better perceived facilities and comfortable environment. Also associated with private institutions are very high admission charges and donations in the name of some charity or development and capitation fees. In India it's a known fact that many of these institutes preferred to get the admission charges and donations in black money and there were no receipts provided against it. This practice has been widely covered and condemned in media but still managed to exist.

With demonetization the hoarders of black money will be discouraged and I feel that the practice of donations and admission fees involving black money should also be. When parents and institute management both will fear black money this practice should, if not ceased, should curtail by some degrees.

In long term, there should be sanity and transparency in the operations of institutes and should overall bring down the cost of education. I also feel those who do not cease the bad practices might eventually be forced to leave the market as I see the government keeping a tight leash on black money.

Government Institutes

It's an opportunity of sorts for govt. funded institutes as they can attract a lot of students as black money starts impacting private schools. If the govt funded institutes improve on quality of education and better utilization of allotted funds, they can turn out to be the winners.

I only see positive for govt funded institutes

Loans and overseas education

By any guesstimates, a large portion of money that goes in overseas education has a black component in it. I foresee that as hoarding of black money is slowed or stopped, there could be some impact in the number of students going overseas for studies who could have got admission just on the power of money.

On the other hand, as we foresee loan interest rates going down, less privileged but deserving students can also look forward to overseas education. This will be a definite boon for students from lower strata of society who often have to set aside their bigger dreams for lack of funding.

This is also true for higher education as there are many students in India who are unable to pursue their dreams of education but with lowered interest rates should now be able to fulfil that.

Emergence of new work streams

Demonetization with its final aim of cashless society will give rise to many new employment avenues. There will be an increase in demand of professionals who will play a role in the cashless economy, like payment gateways, POS machine sellers, operators, mechanics, security professionals, application designer and many more.

So overall I foresee that demonetization will bring in more cheers than boos for education sector in India. This one step will eradicate many a problems and pave path for many reforms and for a brighter and better future of Indian students

UNDERSTANDING DEMONETIZATION AND ITS IMPACT ON THE EDUCATION SECTOR

On 8 November 2016, as the world waited with bated breath for the outcome of the U.S. presidential elections, Prime Minister Modi unleashed a surgical strike on the shadow economy in India by announcing demonetization. Overnight, 86 percent of the money circulating in the Indian economy, in the form of Rs.500 and Rs.1000 notes, was declared invalid. Demonetization has been exercised twice before in our country. In 1946, Rs1,000, Rs10,000 banknotes were withdrawn. In 1954, Rs1,000, Rs5,000, and Rs10,000 notes were reintroduced

but again demonetized in January 1978. But none of the earlier attempts at demonetization has been as significant.

Why Did the Government Launch Demonetization?

The demonetization scheme is aimed at delivering three main benefits:

1. Reduce the amount of unaccounted funds held in the form of 'cash' in the economy.
2. Stem the menace of counterfeit currency.
3. Block the sponsorship of criminal and terrorist activities in the country.

The value of Rs.500 and Rs.100 notes in circulation before demonetization was Rs. 14 lakh crore. It is estimated that the latest move by the Indian Government will wipe out 3 lakh crore rupees as people fail to exchange (or declare) their existing stockpile of the old Rs.1000 and Rs,500 notes for the new Rs.2000 and Rs.500 notes.

It is also hoped that the controlled access to cash for the next few months will force Indian sellers and buyers to move to non-cash modes of payments. We are already seeing a surge in debit and credit cards transactions and digital payment portal registrations since the announcement of demonetization four weeks ago.

Impact of Demonetization on the Indian Economy

Economists are divided on the nature and extent of the impact of demonetization on the Indian economy.

- Lower interest rates: Under the demonetization initiative, there are limits on the amount of cash that can be withdrawn from the bank and ATM's, but there are no restrictions on the amount of cash that can be deposited. As of 15th November 2016, banks in India had already received 1.5 lakh crore in cash deposits.

These large cash deposits are pushing interest rates down. Some banks have already lowered the interest rates offered on fixed deposits (FD), and others are likely to follow. While lower interest rates is not good news for the people who prefer to invest in bank FD's, the interest rates on loans are also likely to head south, and that's good news for borrowers.

- Reduced fiscal deficit

The Government has categorically stated that large unaccounted amounts of cash deposited would be subject to scrutiny by the income tax authority and penalised accordingly. It is expected that the government's earnings via tax collection will rise significantly.

Also, all the black money that does not get deposited in banks before the demonetization deadline will be treated as profit for the RBI and be transferred to the central government as a dividend. This means that the government will have a lower fiscal deficit (fiscal deficit is the amount of money the government spends on various public schemes versus the amount of money it earns via taxes and investments) for the current financial year. A reduced fiscal deficit is good news for the Indian economy.

- Lower inflation

It is estimated that demonetization will reduce the supply of money in the Indian economy by 16 to 17 percent. With lesser cash chasing the same amount of goods and services, we are likely to see a drop in the inflation rate over the next few months, which is beneficial for the common man. While production levels will also drop to adjust to the reduced demand, it is estimated that overall the percentage drop in inflation is likely to be higher than the percentage drop in production.

- Minimal impact on GDP

Economists predict that despite the large impact on day to day purchase transactions, the demonetization initiative will have little impact on the country's growth rate. Thanks to an average monsoon and bumper farm production, the government expects the GDP to grow at 8% in 2016-17.

- No Impact on Rupee-Dollar Exchange Rate

As per economists, the recent fall in the rupee versus the U.S. dollar has been largely due to the U.S election results and other global cues, rather than as an impact of demonetization. Almost all global currencies have weakened against the dollar in recent weeks.

IMPACT ON EDUCATION

The impact of monetization on the education sector is likely to be minimal. Some of the foreseeable fallouts of demonetization on the Indian education sector are as following:

- The fall in interest rates may make bank education loans cheaper by a few basis points.
- The real-estate has been hit the hardest by monetization. With real-estate becoming more affordable investors in the education sector may feel that it is a good time to build new educational institutions or expand existing educational brands.
- The biggest impact in the education sector would be greater transparency in the admission process. Private institutes of higher learning such as engineering colleges will find it difficult to accept cash donations in exchange of admissions.
- Similarly, coaching centres and private tutors, who mostly prefer to accept the tuition fee in cash, will now be forced to accept other forms of payments such as cheques, NEFT bank transfers, and digital payments.

How does the demonetisation affect different sectors?

- As Indians struggle to come to grip with the second de-monetisation of currency since independence (the previous one was in 1978 and restricted to Rs1,000, Rs5,000 and Rs10,000 notes), the scale and scope of this action is significantly bigger.
- The demonetisation move seems to have widespread support from ordinary people; however there are pockets of hardship despite attempts by the government to exempt crucial needs such as hospitals, tolls, chemists, crematoria and petrol pumps.

- Let analyse the sectors that will be most affected by de-monetisation because of the high level of cash spending.
- Real Estate will be one of the most affected sectors. Everyone believes the same and hence the Nifty Realty Index closed at 175.2, down 11.60%. It is a popular bet in the fresh and resale market dominated by black money holders. The number of buyers will come down and low demand will bring about lower prices in the short term. However, it will subsequently help in improving the sector's prospects. Unorganised builders will be most affected and the sector will drag down cement and ceramic sectors also along with it.
- Gold prices: As investors rushed to invest in safe havens, Gold Futures touched a high of Rs31,376 and was trading at Rs30,500 up 2% on Wednesday evening. Local shops have stopped selling gold in exchange of old notes and prevailing prices are Rs31,800 per 10gm against Rs30,700 per 10gm on Tuesday. "It will create havoc for a little while and the economy will also destabilise. But overall, it is going to be good for the country.
- Jewellery industry will thrive as people will have more trust on jewellery than currency notes," says Gitanjali Gems Chairman and Managing Director Mehul Choksi. However S Subramaniam, CFO of Titan Company contradicted saying "The Indian jewellery market will be the worst hit with the ban on Rs500 and Rs1000 currency notes. This is due to the preference of shoppers to pay amounts over Rs2 lakh in cash."
- Banks: Banks are the back bone of this entire process and also the biggest beneficiaries. Post complete exchange of currencies, banks should benefit from higher deposits and transaction volumes, lower cash handling costs and greater acceptance of digital channels. There are likely to be secondary benefits for the insurance, asset/wealth management companies through higher financial savings. While the Nifty closed 1.31% down, Bank Nifty closed higher by 0.09% giving a confirmation of the same.
- Entertainment/Restaurants: One of the most common areas, where undisclosed income is utilised, is the entertainment and restaurant industry. There are plenty of restaurants out there that accept Credit and Debit Cards. Since a majority of the transactions are in cash form in here, it will be exciting to see how people react to it. Will they continue to opt for entertainment at the same scale that they did earlier?
- Beauty parlours: This has been a booming industry that works largely on cash. In the past few years, beauty parlours have mushroomed on almost every street of urban and semi-urban India. Although a few of the larger, organised parlours do accept credit and debit card payments, most

parlours transact mainly in cash because it is often seen as a luxury spending fuelled by unaccounted income.

- **Tourism:** Favourite foreign Tourist Destinations of Indian people like Thailand, Singapore, Malaysia, Maldives, Hawaii, Vietnam, Sri Lanka, Nepal, China, Indonesia and Dubai will see negative impact in tourism revenues all black money sponsored trips will come to a halt. Indian Local Tourism will also get affected as they lose large chunks of the pay-in-cash-only clientele. Illegal foreign currency conversion is also reported to be badly hit, because they were big acceptors of Rs500 and Rs1000 denomination currency.
- **Luxury items** will have a drastic negative impact. Majority of the people spend their undeclared income on such products. After the decision, it is likely that all luxury segments like clothing, electronics, luxury car, furnishing and allied business will take a hit. Media and hospitality industries are also likely to get affected.
- Sectors that we feel will not be affected are– Pharma, FMCG, Education, Agriculture, Hospitals, Energy and Telecommunication.

Impacts of Demonetisation On Education Sector

Ever since the Government of India announced the demonetisation of Rs 500 and Rs 1000 bank notes on November 8, 2016, the pros and cons of this move by the government has been the sole topic of discussion to most of us. Ceasing the usage of these notes as a form of legal tender has surely affected our daily routine. It has most definitely had huge impact on businesses, trade, and many more sectors of the country. The effects of demonetisation cannot be understated.

Positive impacts on education sector:

- The decision of the central government to withdraw high-value bank notes to curb unaccounted cash will hurt education institutions that accept donations or capitation fees for admissions.
- Accepting and accounting donations will become difficult because of the demonetisation drive. Education sector was not immune to the Indian theory of 'you can buy everything with money'. This move of demonetisation will definitely curb this mentality of many in the country.
- Nursery admissions, private education institutions and professional higher education including medical and engineering are the segments which accept donations widely. For the first time, these segments are going to feel the impact in a big way.
- Private educational institutions take huge amount of donations in Cash which is 40% to 50% more than the fees of the course. We expect that demonetisation will impact the recipient.

- Admissions in private educational institutions and medical college admissions comes tagged along with donations without a glitch. The donations in medical colleges is usually more than 100% of the fees. Demonetisation will impact both admissions and also the receipt.
- MBBS seats in some colleges goes for Rs40 lakh to Rs60 lakh, while MD seats has a range of Rs 2 crore price tag on it. Similarly, engineering and management stream seats have a price tag between Rs 2 lakh to Rs 10 lakh each.
- This move can change the course of expensive education which can be made more affordable devoid of the capitation fee.
- The seats in the so-called "management quota" will not be up for sale by the institutions, instead will be in the hand of meritorious students.

Negative impacts on the education sector:

- However, some in education sector feel that this effect on capitation will linger may be only for a year or two. After that black money hoarders will find one way or the other like Gold to launder their money into education sector.
- Some feel that the fee control by state government and no donations may also hinder the quality of institutions.

Impact on higher education overseas

- Since some parents use black money to fund student expenses for those who are studying abroad, the flow of Indian students to foreign countries may also dwindle.
- This move may impact the US and UK education market as these are top destinations for Indians and the fees are relatively high in these countries.

CONCLUSION

Demonetisation and the subsequent increase of payments through the banking system for purchases by the population will increase tax collection by the government from 4% to a higher proportion of the population. Even if one were to assume similar levels of system leakages, as previously, in terms of use of tax money towards creating public infrastructure, the extra tax collection should lead to a higher level of government expenditure towards sectors, including education. This can help improve physical infrastructure and facilities, increasing salaries of teachers and staff, and provide an overall lift to the sector in India. Some aspirants are of the view that the situation will settle down in six months and if that does not happen, the foreign education plan may get affected for a segment of aspirants. Since unaccounted cash is largely used for living abroad, the situation will worsen if the current atmosphere prevails even after six months. Education-related overseas expenditure was \$1.98 billion in 2015-16, according to Reserve Bank of India data and more than 250,000 Indian students were studying abroad at any given point of time. That is it for the education sector. This is how we think demonetisation will affect education system in the country and those who are aspiring to study abroad. Let us know your thoughts in the comments section below.