IIMB-WP N0. 534

WORKING PAPER NO: 534

How to Make the Gold Monetisation Scheme Successful

Charan Singh
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 5600 76
Ph: 080-26993818
charansingh@iimb.ernet.in

Amrutha Das
PGP Student
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560076
amrutha.das15@iimb.ernet.in

Chaitanya Kansal
PGP Student
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560076
chaitanya.kansal15@iimb.ernet.in

Pallavi Kamath
PGP Student
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560076
pallavi.kamath15@iimb.ernet.in

Rinusha K Rajan
PGP Student
Indian Institute of Management Bangalore
Bannerghatta Road, Bangalore – 560076
rinusha.rajan15@iimb.ernet.in

Year of Publication – January 2017

How to Make the Gold Monetisation Scheme Successful

Abstract:[1]

Since times immemorial, India has been a leading consumer of gold in the world with an ever-increasing demand for the metal. However, due to a shortage of domestic gold, the country has largely been dependent on gold imports to meet this demand, resulting in large current account deficits. In 2015, the Government launched the Gold Monetisation Scheme (GMS), a substantial modification of the erstwhile Gold Deposit Scheme and Gold Metal Loan Scheme to mobilise gold in Indian households and historical gold reserves lying with religious institutions like temples. Nevertheless, Government sources confirm that only 3.1 tonnes have been mobilised successfully under GMS until July 2016, which is abysmally low compared to the amount of gold estimated to be lying idle in households. Through a literature survey, field visits and structured interviews with multiple stakeholders, this study attempts to identify and analyse the challenges that inhibit the scheme from realising its full potential. The study concludes with recommendations to enhance adoption of the scheme by both households and temples.

Keywords: gold, gold monetization schemes, temple gold, tapping household gold

[1]The authors would like to thank the following for their inputs - Rajesh Khosla, Rakhi Khanna, Subramaniam S, Srivatsava Ganapathy, Harshad Ajmera, Anand Merlecha, Kamal Merlecha, K Unnikrishnan, K C Chakrabarty, K. Mahendran, Himadri Bhattacharya, Debajit Saha, S. Ananth, Srinivas Gali, Amy Mowl, Prashanth Upadhyay, Sarun Selvanathan, and Sharada Shimpi.

India shares an important relationship with gold, one that is timeless and complex. Ranging from Hindu mythology to various cultural traditions, gold is deeply embedded in Indian psyche, and its emotional and sentimental attachment further adds to the complexity of gold. Indian temples are famous, historically, for the use of gold in adorning the sanctum sanctorum and maintaining gold reserves in treasury. In erstwhile India, according to tradition, dedicated temples were built by kingdoms and it was a practice for royal families to set aside a part of their trade revenues for the temples, leading to temples maintaining gold in reserves. The trend to donate gold to temples continued for long in India and Indians continue to donate gold at places of worship.

Gold is popular amongst Indian households, since it is an asset which can be conveniently bequeathed, is transferable can be used in difficult times and also serves as hedge against uncertainty, including inflation. To meet the growing demand of gold, given India does not produce gold, substantial amount of gold was imported. In recent years, with increasing level of per capita incomes, the major repercussion of this increased imports resulted in ballooning current account deficit (CAD). The Government had to undertake remedial and corrective measures in early 2013 to curtain import of gold. Consequently, the import of gold declined from 1,078 tonnes in 2011-12 to 1,037 tonnes in 2012-13 and further to 664 tonnes in 2013-14 on account of several measures undertaken by the Government.[2] However, the decline in imports was accompanied by higher smuggling of gold.

In order to reduce import of gold in India, the Government had implemented several policies like Gold Control Act, 1962 which recalled all the gold loans provided to banks and banned forward trading in gold to reduce speculation in the asset (GC Act was abolished on June 6, 1990) to the 80:20 rule (mandating gold traders to export 20 per cent of their total imports) in 2013. The Government recently recognized that a solution to this enduring appetite for gold lies not in restricting gold imports, but tapping gold held within the country.

[2]Economic Survey, Government of India 2014

In November 2015, to tap gold within the country, government launched three gold schemes – Gold Monetization Scheme, Gold Sovereign Bond Scheme and Gold Coin and Bullion Scheme (RBI, 2015). Through these schemes, in addition to targeting individuals, the Government is pursuing temples with renewed focus to mobilize gold reserves.

The objective of introducing the schemes is to mobilise gold held by households and institutions in India and to facilitate its use for productive purposes, as well as, in the long run to reduce country's reliance on import of gold. This study evaluates the success of the Gold Monetisation Scheme (GMS) launched by the Government in November 2015 and traces reasons for its slow take-off. The study examines as to how the scheme has been received by religious institutions and what are the challenges that temples faced in adopting the same. The study discusses these reasons and makes recommendations so that GMS is acceptable to both the investing population and religious institutions.

The paper is organised as follows - a brief review of literature is presented in Section II. Select and only relevant cross country experience is presented in Section III. Section IV discusses history of gold related schemes in India. Section V discusses salient features of new gold schemes launched by the Government. Section VI analyses the performance of GMS. Section VII presents a summary of key findings from our primary surveys, interviews and field visits. Finally, conclusions and recommendations are presented in Section VIII.

Section II: Review of Literature

Gold, as a subject has always caught the attention of academicians, central bankers and industry experts alike. Reddy (1997) has extensively discussed how important gold is in the Indian system. Trivedi and Behra (2012) provide comprehensive details on how gold prices in India are related to macroeconomic variables. Kollure (1981) conducted an empirical investigation for the period 1968-1980 and concluded that gold is held as an instrument to hedge against inflation. Similarly, Anand and Tulin (2014) argue that substantial gold demand is its use as a hedge against inflation and there is a strong correlation between gold imports and inflation expectations of households in India.

EPW Research Foundation (2005) argued that Gold imports accounting for nearly 1.5 per cent of GDP are in fact unproductive holding of assets and government should consider in position of import duty and wealth tax to wean away public from invest in gold. Paranjape (2005) details the benefits of holding gold and specifically mention that “those unfortunate Indians” who do not have access to other markets conveniently save in gold. Vaidyanathan (1999), elegantly argued about the consumption of gold in India examining in depth the factors that lead to gold accumulation. He argues that gold is a highly liquid store of value and represent command over resources both had home and abroad while physical depreciation is negligible and given a well-developed world market it is a very attractive asset.

Gold, being an integral part of the socio-economic fabric of the Indian households, has always evoked a strong sense of cultural and sentimental attachment, making its consumption and investment in India very distinct from that in other countries (World Gold Council, 2014), and the gold demand in India cannot be compared with any other country (RBI, 2013). This claim, can be made particularly while comparing the investment pattern and general attitude of people towards gold in Turkey, where the government has successfully managed to leverage gold to play a crucial and innovative role in the Turkish economy. Turkey has a small yet growing gold mining industry with a developed post-production supply chain. This gold market has been bolstered by effective and well-developed industrial policies and infrastructure, which are the key reasons which have helped incorporate gold as a part of Turkey’s financial system (World Gold Council, 2015a).

India bought 200 metric tonnes of gold from International Monetary Fund in November 2009 which helped in rising the proportion of gold in India’s reserves, given the strategic importance of gold as a reserve asset (Subbarao, 2011). Subramanian (2010) observes that the purchase of gold from the IMF was considered as a master stroke which deemed India from the sad legacy of 1991 when gold had to be pledged to Bank of England. The RBI is moved to buy gold was a former looking policy which provided diversification in its portfolio (Karunagaran, 2011).

Indian temples are estimated to have 3,000 tonnes of gold which is two-thirds of the US bullion depository holdings (Burke, 2015). Most of it is lying idle in temple vaults. It is also estimated that about 2,000 tonnes of gold is with rich temples in India (Narasimhan, 2016).

Section III: Select Cross Country Experience

Before we move into an analysis of the schemes launched by the Government of India, it is useful to look at how other governments have addressed demand for gold in their respective countries.

United States of America

In an interesting evidence, on April 5, 1933, American President Franklin D. Roosevelt signed Executive Order 6012 "forbidding the hoarding of gold coin, gold bullion and gold certificates within the continental United States" which in effect, criminalised the possession of gold by any "individual, partnership, association or corporation". This order was introduced during the peak of the Great Depression, and the stated reason for its introduction was that the Depression has caused the "hoarding" of gold by individuals, which had stalled economic growth and prolonged the Depression.[3]

The Federal Reserve Act (1913) required that 40 per cent of all currency notes issued by the Federal Reserve be backed by gold deposits.[4] At that time, the Federal Reserve had already hit the limit on the value of currency notes it was allowed to issue with its gold holdings, and thus was unable to print more money. The Order 6012 effectively made it illegal to hold gold in any form, and any wilful violation of the Executive Order or its regulations would attract a fine of not more than $10,000 or imprisonment of not more than 10 years, or both.[5] Thus, the Executive Order 6102 illustrates how a government can use coercive measures to introduce discipline into gold purchasing and hoarding habits in its country.

---

[3] Peters, G and Wooley, J (1933)
[4] Simmons, E. (1936)
[5] Peters and Wooley (1933)

Turkey

Turkey, the fourth largest consumer of gold in the world, accounts for nearly six per cent of global consumer demand. Several economic situations including the depreciation of the Turkish Lira and the consistently high rate of inflation between 1997 and 2003 have resulted in Turkish households accumulating ‘’under-the-pillow “gold to the tune of an estimated of 3500 tonnes.[6]

The gold mining industry has expanded from producing 2 tonnes in 2001 to 33.5 tonnes in 2013. The entire value chain of gold fabrication, consumption and recycling added at least US $3.8bn to Turkey’s economy in 2012. Turkey’s jewellery industry certainly benefits from booming exports.

Turkey’s Gold Monetization Scheme

The gold monetization scheme in Turkey has been a success primarily due to appropriate infrastructure and framework in place, details of which are as follows –

- Turkey has a large number of London Bullion Market Association (LBMA) accredited refineries which adhere to global standards and results in Turkey importing gold in large quantities annually – part of which is used to meet local demand and the rest of it is re-exported. These refiners and even jewellers are setup as gold collection centres, and have world class facilities.
- The establishment of the Istanbul Gold Exchange helped support gold industry by successfully linking the precious metals market and financial markets, helping in seamless tradability of gold.
- As a part of the policy framework establishment, Turkish central bank implemented the Reserve Option Mechanism by which commercial banks could hold part of their domestic currency reserves (up to 30 per cent of the total deposits) in either gold or foreign currency.[7] This option makes gold market risk free (i.e. devoid of fluctuations related to the international price of gold) as the market risk of the gold would be borne by the investors. This then helped boost gold reserves, mobilize stock of Turkey’s gold and made banks

[6] Bullion Bulletin, 2015.
[7] Oduncu, Arcelik and Ermisoglu, 2013

more profitable as costs reduced and liquidity improved (Oduncu, Akcelik and Ermisoglu, 2015).

- Banking regulators in Turkey allowed banks to buy and sell gold coins and jewellery.

All the above steps led to a vibrant market in gold as banks in a bid to tap this market, offered innovative products like gold accumulation plans, gold structured products, interest bearing fixed term gold savings accounts and a similar range of other lending products.

Other innovative ideas include gold-dispensing ATMs to ease the process for consumers to buy hallmarked gold and launch of mobile apps ‘Gold Send’, allowing people to gift gold through one of the gold-dispensing ATMs. Individual investors are on the look- out for competitive rates from the scheme, but at the same time will have faith in the scheme only if the purity of gold deposited by them is verified by internationally accredited laboratory in their presence. Hence, large number of LBMA accredited laboratories in Turkey.

These continued efforts resulted in a huge amount of the ‘under-the-pillow’ gold to be mobilized and monetized under the scheme. The gold thus mobilized has also been used in gold-for-gold participation schemes, which is basically financing lending in the real economy.

Turkey’s experiment clearly shows that making gold as part of financial system and then bolstering this entire system with internal resources and the right infrastructure is the key to making the gold monetization scheme work. The scheme could incentivise all stakeholders in the entire process (individual commercial banks, central bank and the government) for participating in the scheme and ensure that right infrastructure and frameworks are in place for the success of scheme.

Section IV: History of Gold Related Schemes in India

In India, the Government has been experimenting with gold monetisation schemes for nearly two decades. In this section, we summarise key features and drawbacks of gold-related schemes launched by the Government in the past.

Gold Metal Loan Scheme (1998)

The Gold Metal Loan Scheme (1998) authorised banks to import gold into the country to extend gold loans to jewellery importers and exporters (later extended to include jewellery manufacturers as well). The interest charged on the loans was linked to international gold interest rate. Jewellers could avail these loans by providing a Stand-By Letter of Credit (SBLC) or Bank Guarantee (BG). Banks, in turn, were required to lay down a detailed lending policy with the approval of their Board, and assess their overall risk profile before extending such loans.

Gold Deposit Scheme (1999)

The Gold Deposit Scheme (GDS) was announced in the Union Budget of 1999-2000 with a view to bring privately held gold into circulation in the economy. Customers could deposit their gold in any form (bars, coins, jewellery, etc.). The maturity period was fixed at three to seven years. Premature encashment could be availed in cash or gold after the initial lock-in period had elapsed. Banks were free to decide this initial lock-in period and interest rate. Banks were allowed to utilise gold collected by them under the scheme by giving it out on loan to jewellers/ exporters, or sell it in the open market domestically or to other nominated banks.

Reasons for failure of the schemes

As per the "*Report of the Working Group to Study the Issues Related to Gold Import and Gold Loans by NBFCs*", two factors responsible for the failure of GDS were (i) high melting costs of gold deposited under the scheme, and (ii) high ticket size.[8] The GDS required a minimum deposit of 500 grams, which is much more than the amount of gold held by an average Indian household. Lack of infrastructure to melt the deposited jewellery, testing its purity, and converting it to gold bars was also cited as a reason for failure of schemes. Faced with high costs, banks were unable to offer an interest rate high enough to attract customers. Also, any ornament deposited under the scheme was melted and therefore could not be returned in its original form to the depositor, something that was met with limited acceptability in the Indian context. Thus, the schemes were eventually replaced with new schemes in November 2015, which are described in the next section.

[8]Reserve Bank of India (2013)

Section V: Salient Features of the new Gold Schemes

The new gold schemes introduced by the Ministry of Finance, Government of India on November 4, 2015 included the Gold Monetisation Scheme (GMS), the Sovereign Gold Bond and the Indian Gold Coin. The key objective of these schemes is to mobilize idle gold in the country and reduce reliance on imported gold.

Gold Monetization Scheme

This scheme, which is a modification of the erstwhile Gold Deposit Scheme and the Gold Metal Loan Scheme, intends to mobilize idle gold lying in Indian households and religious institutions, and facilitate its use for productive purposes in the economy. The scheme allows depositors to deposit gold in a 'Gold Savings Account' with participating banks and earn interest (denominated in grams of gold) on their deposits. Hence, a depositor shall be able to benefit from the interest accrued on his/her gold deposits, as well appreciation in the price of gold. On maturity, the depositor would get back the gold deposit with interest in the form of gold bars (of 995 fineness) or in cash, as desired by the depositor. The depositor has a choice to make deposits for short term (1-3 years), medium term (5-7 years) or on long term (12-25 years) basis.[9]

Banks, which act as facilitators for the scheme, may utilise the deposited gold by - (a) selling or lending it to jewellers, (b) selling or lending it to MMTC for minting gold coins, or (c) selling it to other designated banks which are participating in the scheme. As an incentive for investors, no capital gains tax will be levied on appreciation of value of gold deposited or on interest earned from depositing gold under the scheme.

Sovereign Gold Bond

Sovereign Gold Bonds are government securities, issued on payment of Indian rupees denominated in grams of gold and are substitutes for holding physical gold. Minimum investment in bonds is 2 grams and the limit is capped at 500 grams. These bonds will be made available through commercial banks and designated post offices, both in demat and paper form. Typical tenure for a

[9] Ministry of Finance, Government of India (2015a).

bond is 8 years, with exit options in the 5th, 6th and 7th year.10 The bonds are allowed to be traded on stock exchange or be used as collateral for loans and carry sovereign guarantee on principal amount and interest earned.

Indian Gold Coin

As a part of Gold Monetization Scheme (GMS), MMTC has been authorized to manufacture Indian Gold Coins using the gold that has been domestically mobilized under the GMS. The coins minted under this scheme will be of 24 carat purity and 999 fineness, hallmarked as per BIS standards.[11] These coins will initially be available in denominations of 5 and 10 grams, and a 20 grams bar/bullion will also be made available.[12] These coins carry unique anti- counterfeit features and tamper proof packaging as security features, helping easy recycling for the buyers of these coins. These coins will be distributed at designated MMTC outlets. As of July 2016, the Indian Gold Coin was being sold only through Indian Overseas Bank, and that too through limited number of branches. The Indian Gold Coin is now available over 120 cities and 375 branches, and MMTC centers.[13]

Section VI: Performance of Gold Monetisation Scheme

The amount of gold held in India is estimated at 21,000 tonnes (WGC, 2014). But, according to data available as of July 14, 2016, eight months since the scheme was launched in November 2015, total gold collections under GMS from temples and households was a meagre 3.1 tonnes. Further, majority of this collection had come from temples rather than from households. Till April 2016, around 1.5 tonnes had been claimed to be mobilized under GMS from temples ever since its launch in November.[14] This is much less compared to the amount of gold estimated to be with these temples (see Annex 2).[15] Also, so far only eight temples – four from Tamil Nadu and others from Jammu Kashmir, Andhra Pradesh and Maharashtra - have invested in the scheme.

[10] Ministry of Finance, Government of India, 2015b
[11] For a description of the relationship between ‘caratage’ and ‘percentage purity’, see Annexure 1.
[12] Ministry of Finance, Government of India, 2015c
[13] Ministry of Finance, Government of India, 2016
[14] Press Information Bureau, Government of India, 2016
[15] Despite our efforts, estimates of gold held in Temples was not available in official publications and hence had to rely on a newspaper report.

As on April 2016, only 47 CPTCs have been granted license by the Bureau of Indian Standards (BIS) to collect and test deposits under GMS (Bhayani, 2016). For the scheme to work, banks, refineries and CPTCs are required to enter into tripartite agreements that define responsibilities of each party. As of now, only 17 CPTCs have entered into such agreements (Bhayani, 2016). Also, according to Secretary, Association of Gold Refineries and Mints, slow accreditation of new refineries by BIS is impeding the offtake of the GMS.[16]

Section VII: Evaluating Success of GMS: Methodology and Insights

We used the following techniques/ instruments to analyse the performance of the Gold Monetisation Scheme:

1. Focussed semi-structured interviews conducted with key stakeholders including:
    a. Consumers (7)
    b. Local jewellers and pawnbrokers (7)
    c. National gold retail outlet (1)
    d. Banks (5)
    e. Gold refineries (1)
    f. CPTC (1)
    g. Researchers (2)
    h. Commodity market experts (3)
    i. Temple trustees (3)
    j. Devotees (7)
    k. Scholar (1)
    l. World Gold Council
2. First-hand experience of the end-to-end process flow of the GMS using real gold samples.
3. Online survey on social media forums to gauge people's views across religions and demographics on their sentiment towards utilisation of gold held by religious institutions (153 responses).

Key insights from each of these initiatives are summarised in following sub-sections.

[16] Roychoudhury Arup, 2016

Key Insights Related to Household Gold

1. Customers: Prevalent Misconceptions

There is lack of financial literacy as Gold consumer's survey revealed that, due to the absence of mass awareness campaign, many people were not aware of the scheme though there were campaigns for Sovereign Gold Bond and India Gold Coin.

The Income Tax Act permits holding up to 500 grams of gold. Scheme leverages the idea of depositing gold than selling it. Depositors are afraid of being questioned by tax authorities regarding the source of funds that financed their gold purchases. Also, there are no records of inherited gold. Hence stakeholders expect amnesty/ 'no questions asked' policy for deposits made under the scheme.

Nevertheless, 50 per cent gold demand is from rural areas where tax repercussion fear is absent due to IT exemption on agricultural income. Though the scheme does not currently target heirloom jewellery, majority exhibited reservation regarding people's willingness to part with gold due to emotional attachment as large amount of gold in households is inherited.

In the interviews, it was gathered that while there exist an estimated 21,000 tonnes of "above-the-ground" gold in India, it is unfair to expect the scheme to achieve a similar figure of gold mobilisation in the first year itself. The interviews revealed that policymakers had estimated that the scheme would garner 5 tonnes in the first year, 15 tonnes in the second year, and finally stabilise to garnering 200 tonnes from the fifth year onwards. Some experts during the interview observed that as is commonly believed by the market, the scheme is not a method to reduce country's gold imports but only a temporary respite, based on the term for which depositors deposit their gold in the scheme. Experts that were interviewed estimate that the scheme will help reduce current import of 800 tonnes of gold to 200 tonnes. Another view as that large amount of gold is already monetised with commercial banks and pawn brokers in terms of gold loans, where gold is a collateral.

2. Jewellers: Debatable Role

Local jewellers use inaccurate and primitive techniques and as per assertions by World Gold Council, 70 per cent of Indian hallmarked jewellery is not hallmarked accurately.[17] Therefore, purification and testing for the scheme should be done by commercial banks themselves – via bank accredited testing centers. Fire assaying method (6 hours process) and X-ray Fluorescence Spectrometer method (45 min process) are the techniques used with a facility for the customer to see the process.

The jewellers are not part of the scheme as yet but are willing to participate in the scheme, provided there is an assured and stable supply of gold in the country. Jewellers claim that 30 per cent of the gold used in jewellery in the country today is recycled gold and they are willing to act as Collection and Testing Centers for the Scheme subject to accreditation by the government (A 'P.C. Jewellers' outlet in Delhi is the first and only non-government collection center).

The banks offer different rates of interest to jewellers based on their risk profile and credibility. For instance, large retail jewellery outlets enjoy a 2.0-2.5 per cent interest rate for gold on lease, whereas small jewellers pay an interest rate of 5-6 per cent. Through GMS however, when small and large jewellers will participate in the scheme alike, there will be a uniform rate of interest which will be offered by banks, which will prove to be expensive for large jewellers but economical for the small jewellers.

Gold pricing structure across stores is not standardised and have variations with respect to making charge, wastage, and overall pricing between different jewellers. In the experiment conducted by us, the significant loss, besides the usual price fluctuation, a deduction of 4.5 per cent as wastage was incurred during exchange of a gold ring within a week of purchase, at the point of purchase itself showed how consumer was at the jeweller's mercy.[18] These could be

[17] World Gold Council, 2015b
[18] Two of the co-authors undertook this experiment of buying gold and then selling it, and experienced this loss themselves.

reasons why people don't prefer gold exchange for currency. Also, the cash is returned only after a few days and not immediately.[19]

3. CPTCs and Banks

Trust Deficit between CPTCs and Banks

There is delay in scheme's full throttled function as banks have not yet signed up with CPTCs. In the interview, the following reasons emerged for the standoff between banks and CPTCs:

- Banks feel that CPTCs are undercapitalised and hence pose a financial risk. They thus seek a certain percentage of gold as guarantee from the CPTCs. But, involvement with multiple banks for a CPTC makes this infeasible.
- There is a probability of a discrepancy between gold content as measured by the CPTCs and refineries as the assaying techniques at CPTCs cannot detect Platinum Group Metal (PGM) traces. This issue is further compounded by the fact that India has only one LBMA certified refinery (MMTC-PAMP).

Economic viability for banks

In our interviews with various experts, we received contrasting inputs on whether the GMS represents a profitable proposition for banks. One of the experts we interviewed felt that the GMS allowed a decent spread of 3.25-3.75 per cent for the banks – this was based on a calculation which assumed that jewellers will be comfortable in paying an interest rate of 6.0-6.5 per cent on gold they avail from banks on loan, and that banks will be required to pay an interest rate of 2.75 per cent to depositors under the GMS (thereby, banks' spread = 6.0-6.5 per cent minus 2.75, that is 3.25-3.75 per cent). Another expert, however, believed that the spread of 3.25-3.75 per cent was not enough to cover the logistic expenses of running the scheme such as processing fee, insurance, transportation costs, transaction costs etc. Hence, the question of economic viability of the scheme for banks remains unanswered. Another finding was the asset-liability mismatch, with gold deposits being short-term and gold loans being long term, as a factor that needs to be addressed.

[19] As informed by the pawnbroker who was interviewed for the purpose of this study

Lack of a Standard Operating Procedure (SOP) for banks

The banks do not have standardised operating and accounting guidelines so far, creating ambiguity in the system. Also, the gold that has been mobilised by the scheme till now lies idle with banks (which are bearing the carrying costs) and the process of how the gold can be auctioned to the jewellers has yet to be finalised.

CPTCs are not designed to handle retail customers

The entities that have been recognised as CPTCs by the BIS were erstwhile hallmarking centers for jewellers– they are not equipped to deal directly with consumers. The CPTC in Bangalore is located on one of the most crowded streets in Bangalore with no parking facility available nearby. The CPTC itself was located on top of a mechanical workshop, and was not noticeable as there was no board installed outside it. Such factors may result in people, especially women, not wanting to visit the CPTC to deposit gold.

Absence of CPTCs in major metropolitan cities in India

Across India, only 48 assaying and hallmarking centres which have been granted the BIS license to operate as CPTCs.[20] While metropolitan cities like Bengaluru and Chennai have only one CPTC in the entire city, cities such as Vishakhapatnam and Hyderabad have no CPTC at all. Similarly, in states like Punjab, Rajasthan and Madhya Pradesh, where there is high affinity for gold, there are no CPTCs at all. Such low CPTC coverage in the country may hinder the pan-India adoption of the scheme.

Key Insights Related to Temple Gold

1. **GMS gives little return on investment, and hence not an attractive option**

   Banks with better investment options for gold like gold loans, gold deposits etc. need at least a marginal return on equity of 15 percent for its activities to sustain. But there has not been any financial activity with higher returns on these deposits than the existing rates. Private Banks

[20] Ministry of Finance, Government of India, 2015.

with higher risk adjusted return on assets are not interested to be part of such a scheme. Also, the cost of infrastructure (minting, transportation, security) is not very attractive for the banks.

2. **Poor marketing and communication of the scheme**

   The limited bank branches authorized for GMS don't advertise it well. At times, even bank employees that we interacted with were not aware of the scheme.

3. **Concerns with future taxation**

   Temple authorities, despite government assurances, are concerned with future taxation issues and are silent about the quantity of gold held with them.

4. **The religious sentiment around deposited gold**

   In case of Temples, 90 per cent of religious donations are as jewellery, and melting them can be against religious sentiments of the donors and trustees of Temples. Yet, some others support melting it for welfare activities. Generally, 'used Gold' in the form of jewellery, is donated by lower income groups. Some of the gold reserves in temples like in the famous Padmanabhaswamy Temple (Kerala) are of archaeological, historical and cultural significance and has to be preserved, for the values of such artefacts is substantially large than metal content.

5. **Resentment that gold in other religious institutions is not being monetized**

   Government has not maintained a secular stand by not approaching churches, dargahs, Gurudwaras and other religious institutions for the scheme. A temple trustee representative whom we interviewed even claimed that such differentiation called for implementation of Uniform civil code for places of worship.

6. **Trends in Gold deposits across regions**

   Gold purchase and religious donation's behaviour vary considerably across India. It is high in South followed by Central, West, North and East regions of India, respectively.

7. Demographics of Temple donators

Since Indian households primarily patriarchal by nature and are headed by men, empirical distribution of contributors to temples is believed to be more dominated by men in the above 45 years age group. Only about a quarter of donors are believed to be from the below 40 years age group.

Key Insights Related to Temple Gold (from Survey)

An indicative survey administered online, received 153 responses, mainly from metro cities but had the following limitations:

1. Survey was accessible only by a class of people who has access to internet, and
2. Only 14.5 percent of respondents had ever donated gold at places of worship and 92.8 percent of them were less than 35 years of age.

Key insights are as follows:

1. Besides temples, other institutions also receive gold, which adds to the scope of gold monetization scheme.
2. More than 50 per cent respondents thought gold within religious institutions was used for adorning the deity and for decoration of the place of worship and hence should not be monetized.
3. 40 per cent of the respondents felt that gold was kept safe in locker of Temples for future generations.
4. More than 70 per cent respondents agreed that religious institutions must forego deposited gold for GMS (Table 1).
5. More than 64 per cent of respondents said it would not hurt their sentiments if the donated gold would be used for GMS (Table 1). As the sample size of devotees who had themselves donated gold as offering is small, this aspect would require further investigation.
6. More than 80 per cent of respondents said they would support GMS if they are assured that monetized gold would be used for social welfare (Table 1).

Table – 1: Summary of responses to on-line Survey

Metric	Agree (%)	Neutral (%)	Disagree (%)
Religious institutions must forego deposited gold for Govt. GMS	70.08	14.53	15.38
Religious sentiments shall be hurt if authorities use gold for monetisation scheme	25.64	10.25	64.10
GMS shall be more agreeable if the cash generated is used for social welfare	86.67	3.30	9.91

Source: Annex 3.

The detailed tabulated survey results can be found in **Annex 3.**

Section VIII: Conclusions and Recommendations

Monetisation of gold involves mobilising gold accumulated by Indian households to ensure that it plays a growth oriented role in providing financial resources for development of Indian economy. This concept is not new in India, but was implemented earlier without much success.

The gold monetisation scheme as launched by the Government of India in November 2015 is an improvised version of the erstwhile gold schemes, making it much simpler for prospective depositors to participate in the scheme, making it a win-win situation for both the government, and the end consumers.

Formulation and successful implementation of a policy around gold can never be easy task because of sentimental value of gold for an Indian. Thus, sustained efforts from all key stakeholders (governments, jewellers, central banks etc.) are a must if the Government has to be successful in mobilising gold under the schemes. Having launched the scheme in November 2015, and not been able to successfully mobilize enough gold since then, it is imperative for the government to identify gaps in policy formulation and implementation on gold, and ensure that such identified gaps are addressed, to encourage confidence and participation from households without which the policy will not be able to achieve its intended objective of reducing dependence on imports of gold.

There is little international experience on tapping gold within the economy except that from Turkey but the following differences between the Indian and Turkey models of gold monetisation highlight issues regarding model's replicability in India - Turkey's model does *not* have CPTCs as intermediaries – as refineries and banks work directly with each other to make the scheme work; Gold Collection Days at banks, organised by refiners to compensate for lack of expertise in regularly handling gold; and despite both countries' insatiable appetite for gold, the economy and maturity of the gold industry in the two countries are very different (Table 2).

Table 2: Comparison of Gold Ecosystem in India and Turkey

Parameter	**India**	**Turkey**
Savings rate	33 per cent	Less than 15 per cent
Classification of gold as an Asset	At par with real estate, equity	At par with government securities
Under–the-pillow gold	21,000 tonnes	5,000 tonnes
No. of LBMA accredited refineries	1	3

Based on the research and field visits, we recommend the following to drive the scheme better:

1. **Need for a pilot study in select regions of India to test different models for implementing the scheme**

   There are sharply contrasting views on inclusion of CPTCs as a part of the delivery model of the GMS. Hence, we recommend that a pilot study be conducted to test which model is more suitable in the Indian context. This can be done by running the scheme in two sample sets of cities – one, where CPTCs act as intermediaries between banks and refineries, and two, where banks and refineries work directly by having refinery owned collection centres act as the intermediaries in place of CPTCs.

2. **Need to make CPTCs customer friendly**

   CPTCs, as they exist at present, have been designed to primarily serve as hallmarking centres for jewellers, and are not equipped to handle retail customers for GMS deposits. Thus, CPTCs that are located in crowded industrial zones and lack customer amenities (parking space, seating lounge, proper lighting) need to be revamped to inspire trust and comfort for individuals, especially women.

3. **Need to design a Marketing Campaign for Gold Monetisation Scheme to enhance financial literacy**

   Field surveys revealed that consumers have various misconceptions and apprehensions regarding GMS. Therefore, there is need to launch a marketing campaign to popularise the scheme. The campaign must emphasise that investments in GMS are exempt from capital gains tax and income tax. It should also emphasize that married women, unmarried women, and men (married or unmarried) can deposit 500, 250 and 200 grams of gold respectively without attracting income tax enquiries. Also, the scheme's standardised pricing model and flexibility to choose mode of redemption (metal or cash) should be highlighted. Further, depositing gold under GMS should be portrayed as a 'sensible investment' and an 'act of nation building', rather than a 'sign of financial distress'.

4. **Consider offering an option to redeem deposits on *Akshaya Tritiya* or *Dhanteras* day**

   There is need to leverage occasions such as *Akshaya Tritiya* and *Dhanteras* which are considered auspicious for buying gold in India. To promote participation in the scheme, the Government could consider allowing consumers to schedule redemption of their gold deposits on such festive auspicious occasions.

5. **Consider creation of an association of Banks, Refiners and CPTCs**

   It is observed that there is lack of trust between banks, CPTCs and refiners. Therefore, it is recommended to create an association with representatives from CPTCs, banks and refiners which can help to resolve issues between different parties so that the scheme can be implemented effectively.

6. **Need to ensure transparency in use of funds mobilized under GMS**

   There is scepticism on utilization of money obtained from GMS by temple authorities. Therefore, the Government would need to follow transparent procedures like publishing details of gold deposits and revenue raised from GMS. Similarly, fund allocation to various activities because of the scheme must be in public domain to inspire trust among trustees/devotees about the reasons for liquidating their gold holdings

7. **Need for a regulatory body of jewellers**

   There is substantial price variation across jewellers in terms of making, wastage charges and other hidden costs both during purchase and resale of jewellery. The non-uniformity in the pricing structure of gold and jewellery at retail level emphasises a need for a regulatory body to oversee the jewellers' business. There is also a need to encourage a self-regulatory body of jewellers.

8. **Need to make the scheme more attractive for the banks**

   Banks were apprehensive about the economic viability of the GMS. To make the scheme more attractive for them, they may be allowed to use gold deposited under GMS to satisfy the RBI's CRR (as a substitute for cash) and SLR requirements. Banks should also be allowed to directly sign agreements with large refineries such as MMTC PAMP and India Gold Mint where larger volumes of gold (especially temple gold) get deposited. This will result in cost efficiencies through economies of scale.

9. **Need to involve institutions other than temples in GMS**

   Various social, charitable and religious institutions, other than temples, also receive gold donations. These institutions must also be encouraged to become a part of the scheme.

In general, successful implementation of GMS requires addressing issues related to consumer behaviour and preferences, and calls for all stakeholders to come together to create a robust ecosystem for the Scheme that minimises inefficiencies and takes care of the interests of all parties involved. There is need to revisit the schemes and address issues that are inhibiting gold held by households in India.

References

Anand, R. and Tulin, V. (2014), "India's Current Account Deficit from the Savings-Investment Perspective", India: Selected Issues, IMF Country Report No. 14/58, February.

Bhayani, R. (2016) "RBI Decision Clears Hurdle for Temples". Business-standard.com.

"Bureau of Indian Standards- Hallmarking Scheme". (2016) www.bis.org.in. Sept. 2016.

Bullion Bulletin (2015), "Q&A with Erkan Kilimci, ED, Central Bank of Republic of Turkey", 12th India International Gold Convention, Bullion Bulletin.

Burke, Jason. (2015), "India Shows its Metal with Plan To Open Gold Mines Across Country". The Guardian.

Economic Survey (2014), "International Trade", Report, February 2014.

Economic Times (2016). "Government mobilises 3.1 tonnes of gold under monetisation scheme".

EPW Research Foundation (2005), Burden of Gold Imports, Economic and Political Weekly, June 18, 2005.

Franklin D. Roosevelt (1933) "Executive Order 6102—Requiring Gold Coin, Gold Bullion and Gold Certificates to Be Delivered to the Government," Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=14611.

Government of India (2015), "A&H Centres Qualifying to act as CPTC", Online, http://finmin.nic.in/swarnabharat/A_H_Centers_CPTC_GMScheme20102016.pdf, Ministry of Finance

Government of India, (2015), "Union Budget 2015-16 speech", http://indiabudget.nic.in/budget2015-2016/ub2015-16/bs/bs.pdf

Government of India (2015a), "Gold Monetisation Scheme", Online, November, http://finmin.nic.in/swarnabharat/gold-monetisation.html, Ministry of Finance.

Government of India (2015b), "Sovereign Gold Bond", Online, November, http://finmin.nic.in/swarnabharat/sovereign-gold-bond.html, Ministry of Finance.

Government of India, (2015c), "Indian Gold Coin", Online, November, http://finmin.nic.in/swarnabharat/indian-gold-coin.html, Ministry of Finance.

Government of India, (2016), “Indian Gold Coin”, Online, http://indiangoldcoin.com/where-can-i-buy.php, Ministry of Finance.

Government of India (2016), Gold Monetization Scheme: Deposits by Temple/Religious Bodies, http://pib.nic.in/newsite/mbErel.aspx?relid=14504, Press Information Bureau

Karunagaran, A (2011), Recent Global Crisis and the Demand for Gold by Central Banks: An Analytical Perspective, RBI Working Paper – 14/2011.

Kolluri, B. R, (1981), Gold as a Hedge against Inflation: An Empirical Investigation, Quarterly review of Economics and Business, Vol. 21 (4), winter.

Ministry of Finance, Government of India (2016), “Medium Term Fiscal Policy Statement 2016-17”, http://indiabudget.nic.in/ub2016-17/frbm/frbm2.pdf

Narasimhan, T. (2016), "Temples Hold About 4,000 Tonnes Of Gold". Business-standard.com

Oduncu A. Akcelik Y. Ermisoglu E (2013), “Reserve Options Mechanism and FX Volatility”, Central Bank of the Republic of Turkey, February

Paranjape, A, (2005), Benefits of Holding gold, Economic and Political Weekly, November 26, 2005.

Press Information Bureau, Government of India (2015), “PM to launch Gold Related Schemes on 5th November, 2015; First ever National Gold Coin minted in India with National Emblem of Ashok Chakra engraved to be released among others on the occasion – Nov 4, 2015”, Press Release, November

Government of India (2016), Gold Monetization Scheme: Deposits by Temple/Religious Bodies, http://pib.nic.in/newsite/mbErel.aspx?relid=14504, Press Information Bureau

Reddy, Y.V. (1997), “Gold Banking in India”, Keynote Address, World Gold Council Conference, New Delhi, August.

Reserve Bank of India (2013), “Report on Issues Related to Gold Import and Gold Loans by NBFCs in India” (Chairman: K.U. B. Rao), RBI, Mumbai.

Reserve Bank of India (2015), “Notification - Gold Monetisation Scheme, 2015”, RBI, Mumbai.

Roychoudhury, Arup. (2016). "Temples Have Given 1,512 Kg under Gold Scheme". Business-standard.com.

Simmons, E. (1936). “The Elasticity of the Federal Reserve Note”. The American Economic Review, 26(4), 683-690. Retrieved from http://www.jstor.org/stable/1807996

Subbarao, D, (2011), The Reserve Bank of India, Making a difference in your daily life, February 2011.

Subramanian, (2010), The IMF and Its Gold Sale, Economic and Political Weekly, January 23, 2010, Vol. XIV No.4.

Trivedi, P. and Behera, S.R. (2012), “The Macroeconomic Determinants of Gold Prices in India: An ARDL Approach”, Sardar Patel Institute of Economic Research, December.

Vaidyanathan, A, (1999), Consumption of Gold in India, Trends and Determinants, Economic and Political Weekly, February 20, 1999.

World Gold Council (2014a), “2020 Vision for Gold”, India International Bullion Summit.

World Gold Council (2014b), “Why India Needs a Gold Policy”, Report, December

World Gold Council (2015a), “Turkey: gold in action”, Report, January

World Gold Council (2015b), “Developing Indian hallmarking: A roadmap for future growth”, Report

World Gold Council (2016), “Gold Demand Trends First quarter 2016”, Report, May

Annex - 1

Mapping of Common Caratage Values to Percentage of Pure Gold

"Carat" is a unit for measuring the purity of gold.

It can be calculated as follows:

K = 24 x (Mg/ Mm)

Where K = Carat rating of the material

Mg = Mass of pure gold in the material

Mm = Total mass of the material

For ready reference, the percentage of pure gold required in a material for common carat values is given below:

Percentage of pure gold	**Corresponding caratage**
58.33 per cent	14 carat
75.00 per cent	18 carat
91.66 per cent	22 carat
95.83 per cent	23 carat
99.95 per cent	24 carat

Annex - 2:

Estimates of Gold reserves in major temples in the country

S.No.	**Religious Institution**	**Gold Possessed (in Kg)**
1	Sri Venkateswara Temple, Tirumala, Andhra	250,000-300,000
2	Padmanabhaswamy Temple, Kerala	1,300,000
3	Vaishno Devi Temple, Jammu	1,200
4	Siddhivinayak Temple, Mumbai	160
5	Saibaba Temple, Shirdi, Maharashtra	376
6	Shree Krishna Temple, Guruvayur, Kerala	2,000
7	Jagannath Temple, Puri, Odisha	208
8	Somnath Temple Trust, Gujarat	35

Source: Narasimhan, T. (2016)

Annex - 3

Tabulation of Survey Results

S.No.	Question	Count
1.	*According to you, which place of worship among the following receive gold donations? (tick all that apply)*	
	Temple	149
	Church	38
	Gurudwara	47
	Mosque	22
	Dargah	29
2.	*Do you donate gold in your place of worship?*	
	Yes	22
	No	131
3.	*If yes, in what form do you donate? (tick all that apply)*	
	Gold jewellery	10
	Gold coin	11
	Gold biscuit	2
	Gold Foil	4
	Others (golden idol & golden cross)	2
4.	*How often do you donate gold at your place of worship?*	
	Once in 6 months	2
	At least once a year	1
	Not too frequent	13
	Intend to do it in a year	1
5.	*According to your knowledge, what is done with the gold offered at your place of worship by the authorities? (Tick all that apply)*	
	Decoration of place of worship	64
	Adorning of deity	70
	Converting into cash and serving the poor	16
	Setting up schools and hospitals	16
	Deposit in a locker	49
	Keep it in vaults for future generations	47
	Others	7
6.	*Have you heard of gold monetization scheme?*	
	Yes	83
	No	34
7.	*How do you think should the idle gold deposits at places of worship be used? (Tick all that apply)*	
	Adorning the deity	13
	Decoration of places of worship	9
	To serve the poor	65
	Set up schools, hospitals and other community institutes	85

	Kept in vaults for future generations	4
	Giving it to banks for financial schemes	55
	Others	4
8.	*Should places of worship give up the gold held by them under the gold monetization scheme of the government?*	
	Strongly Agree	54
	Agree	28
	Neither agree nor disagree	17
	Disagree	13
	Strongly disagree	5
9.	*Will it hurt your sentiments if religious institution's authorities use your gold donation for monetization?*	
	Strongly Agree	15
	Agree	15
	Neither agree nor disagree	12
	Disagree	33
	Strongly disagree	42
10.	*Would you agree to gold monetization schemes, if the cash generated is used for social welfare schemes like medical services, food to the poor, schools etc.?*	
	Strongly agree	77
	Agree	28
	Neither agree nor disagree	4
	Disagree	3
	Strongly disagree	5