Cash in crisis: The case of Zimbabwe's 'Cash First' humanitarian response

Eunice Chatimba, a cash transfer beneficiary, also acted as a gender and accountability focal point for the programme

Implementing cash transfer programmes in volatile settings will always present challenges. This should not deter us from serving those in need through cash, which can still be a feasible option, giving people greater freedom and dignity of choice during times of crisis.

Context

Zimbabweans suffered the repercussions of severe drought in 2015-17, when failed rains over consecutive planting seasons were exacerbated by one of the strongest El Niño cycles in recent history. This led to substantially reduced harvests as well as decreased water availability: reservoirs became depleted, crops were destroyed and livestock died. Hardest hit by food insecurity were rural communities in the south, whose livelihoods predominantly consist of subsistence farming. For them, the drought reduced subsistence production and income, severely limited their livelihood options, and ultimately forced many into reducing their level of food consumption.

Worsening food security indicators and projections of crop deficits indicated the need for a food assistance intervention. CARE International implemented an unconditional, multi-purpose cash transfer programme[1] to address this need, in collaboration with World Vision International, and financially supported by the UK Department for International Development (DFID). The decision to use cash transfers was justified based on analysis that markets were functioning and on projections that these markets would be able to supply the necessary food products through government and private sector imports.

The Cash First programme was implemented via mobile money transfer. In total, over US $40 million was transferred over 22 months to 73,718 households or 400,279 individuals, selected through community-based targeting. The mobile money can be redeemed for physical cash via agents ('cash out'); transferred to another person ('P2P transfer'); or used directly to make purchases at registered merchants ('merchant payment'). The initial preference for recipients of the transfer was to cash out and use this physical cash to purchase the goods they required.

Liquidity crisis

A national liquidity crisis began to unfold in 2016, further compounding Zimbabwe's difficult economic conditions. Widening trade deficits resulted in a mass outflow of US dollars, the de facto currency since 2009. In response, the central bank issued a new currency in November called the 'bond note', which was pegged to the American dollar. However, liquidity remained a challenge and a lack of confidence in the bond note saw its value initially decrease in relation to the dollar.[2]

As the country began to run out of cash, it became very difficult for people to obtain physical currency to purchase goods and services. Mobile agents did not have sufficient liquidity to cater to all beneficiaries, leading to them imposing maximum 'cash out' limits. Charging additional fees or making cash outs conditional on the purchase of goods was also a common phenomenon.

Although the economic situation deteriorated, the programme's market monitoring system found that key food commodities such as cooking oil, sugar, maize grain and maize meal remained readily available in local markets. Moreover, the price of goods stayed roughly the same as before. Incredibly, markets were still functioning despite the liquidity crisis as they were well integrated and the private sector was quick to adopt e-purchasing.

The key challenge for CARE and the Cash First programme therefore was how to ensure that households could continue to meet their basic food needs through market-based transactions in the absence of physical cash.

Adapting to change

At the community level, the declining availability of cash led to a shift in how people transacted. Across rural communities, hardest hit by the cash shortage, people began to buy goods and services directly through their phones. Many local traders registered as merchants to take advantage of the lower transaction costs compared to P2P (person-to-person) transfers. Given the unavailability of cash, this shift in transaction modality benefited both buyers and sellers of goods by facilitating continued market exchanges. Beneficiaries of the Cash First programme were likely to be better prepared for this shift due to their familiarity with mobile money systems before the peak of the crisis.

At the programme level, CARE and World Vision adapted to the crisis by closely monitoring the liquidity situation. A liquidity tracker was set up to measure cash availability and cash/electronic pricing differentials. This complemented the wider market monitoring system and bi-monthly reports tracking food availability and prices. Additional risk mitigation strategies were also put in place, including a threshold level of cash that beneficiaries could receive at one time, below which a change in the cash delivery mechanism would be considered. In anticipation of this possibility, CARE pre-negotiated a contingency 'cash-in-transit' contract with Securico security company, who would physically deliver cash to recipients, along with a mechanism for transferring physical cash into the country.

The overarching aim of the programme was to meet immediate food needs. As such, despite some communities being unable to fully cash out, the

1 Unconditional cash – the targeted beneficiaries do not have to carry out any particular activity to receive the cash. Multi-purpose cash – the money can be spent on whatever the beneficiaries like: there are no restrictions on expenditure.

2 www.economist.com/news/middle-east-and-africa/21716954-robert-mugabe-prints-banknotes-and-insists-they-are-worth-much-us-dollars, 18 February 2017.

programme team agreed that the intermediate focus should be on the ability to *transact* rather than the ability to cash out. This echoes the changes observed at the community level, where people adapted by using mobile money wallets instead of physical cash to purchase food. While the way that people accessed food changed, monitoring showed that they could continue to access it and that mobile money therefore remained an appropriate solution.

DFID Grain Trade Market Facility

At the macro-economic level, the liquidity crisis imposed major barriers on Zimbabwean importers. Commercial grain traders, unable to transfer US dollars out of the country, were no longer able to purchase grain from regional, surplus-producing countries such as Zambia. This market blockage could potentially have had a significant and direct negative effect on the Cash First programme.

DFID addressed this constraint through an innovative, market-based solution called the Grain Trade Market Facility, which was managed by UK international development company, Crown Agents. Commercial importers of grain would deposit funds into the facility in Zimbabwe, with a fund manager settling international contracts on their behalf. The UK government would credit the fund manager with equivalent funds, with the local currency eventually either being repatriated or used to fund local programmes. Through the facility, commercial grain traders were able to import 55,000 metric tonnes of maize to sell on the open market, enough to meet over 1.6 million people's food requirements for three months.

The facility complemented the Cash First programme by ensuring that people could purchase the maize through mobile money transfers. Grain traders benefiting from the facility committed to selling the imported grain at agreed, affordable prices in rural markets where the cash transfer programme was operating. The Grain Trade Market Facility was a good example of working within existing market structures to help support the private sector to perform its normal market functions at a macro-economic level.

Finally, a positive consequence of the liquidity crisis and the wide adoption of mobile money technology was an acceleration in the shift towards a cashless society. Many beneficiaries and non-beneficiaries alike stated that they would actually prefer mobile money to physical cash due to its added security, and because access to this money is not contingent on many external factors such as weather conditions and physical infrastructure.

Remaining challenges

Despite the positive steps taken at the community and programme level to adapt to the liquidity crisis, some challenges remain. Not all shops accept mobile money, which means that during cash shortages beneficiaries are only able to purchase goods from shops that accept mobile money payment. This limits their choice. Moreover, in order to cash out some of their mobile money, people are forced to purchase goods. Both of these restrictions have negative welfare implications.

Most public services do not accept mobile money payments. Physical cash is still required when paying for hospital fees, schooling, medicines and taxes. As long as these basic public services require physical cash, people will be forced to cash out from their mobile money account, incurring charges and reducing their overall purchasing power. In the worst-case scenario, with no cash readily available, people would be unable to pay for these basic public services. In the absence of mobile payment facilities, the elderly, chronically ill and those with school-going children are most vulnerable to any future shortage of cash. Considering that families may become unable to send their children to school, the implications for long-term development are enormous. Fortunately, in the last few months there has been a significant growth in schools accepting mobile payments. This needs to be continued and expanded into other areas of public services.

Policy recommendations

1. Encourage greater adoption of mobile money by businesses and consumers

Network effects mean that the value of a mobile money platform is dependent on its number of users. Users should be encouraged to adopt mobile money through information campaigns on using and transacting with this technology. Humanitarian agencies should integrate this into emergency preparedness programmes as well. Concurrently, the business case should be made to traders/suppliers – demonstrating that it is in their interests to adopt mobile payment facilities to cater to a wider market base.

2. Address constraints to registering as a mobile money merchant

Once businesses have decided to adopt mobile payment technology, their registration journey should be made as simple as possible. Mobile network operators, with support from programme staff, should engage with traders to help facilitate this process, as well as advocating to national government to ease the regulations required to become a merchant, particularly in remote areas.

3. Advocate government to accept mobile payments for public services

The Zimbabwean government actively encouraged the adoption of mobile money as a means to overcome the liquidity crisis. However, this did not translate into change at the transaction level for government-run services. The case to be made here is that it is in governments' own interests to adopt mobile payment systems in the absence of cash. Carrying out such a policy would ease demand for physical cash and thereby provide a greater degree of macro-economic stability in the country.

4. Minimise transaction costs of cash transfers, particularly in times of crisis

Two sources of transaction costs for aid agencies regarding mobile cash transfers are taxes from government and fees from mobile network operators. Transactions by registered humanitarian agencies during humanitarian crises should be made tax free by the government, as with tax exemptions on humanitarian in-kind aid. This would allow as much cash as possible to go to those in need. Similarly, mobile network operators should be encouraged to reduce their fees during emergencies.

5. Maintain an adaptive programme to best respond to changing market conditions

This begins with a good awareness of risks and how to mitigate them. Once established, these risks should be constantly monitored to ensure the programme is delivering on its objectives. Complementary initiatives that facilitate market exchanges, such as the Grain Trade Market Facility, should be encouraged.

6. Consider the long-term opportunities of the shift to mobile money

Donors should consider how the large pool of mobile money users created through humanitarian cash-based responses can be harnessed to improve longer-term development outcomes. For instance, mobile wallets could be the first step towards mobile savings accounts, paving the way for greater financial inclusion. Strong coordination with government could also lay the foundation for a mobile-based social protection programme, aiding the transition from response to recovery. A better digital infrastructure would in turn make communities more resilient to any future shocks.

Concluding remarks

The Zimbabwe Cash First programme has demonstrated that communities are more resilient and adaptable than we often think they are: continuing to have fairly well-functioning markets despite a national shortage of cash is testament to this. Food assistance interventions that work within existing market structures can provide relatively non-distortionary assistance to vulnerable communities. Where feasible, cash transfers remain the most cost-effective and cost-efficient modality, catering for a diversity of needs among the target population.

Mobile money transfers are a viable solution to overcome the challenge of physical cash shortages, and can lay the foundation for greater financial inclusion through access to savings and wider social protection programmes.

Market conditions in humanitarian response settings will never be perfect. Nonetheless, we should continue to use digital cash-based interventions where feasible, and take the necessary steps to nurture a solid enabling environment for these interventions to succeed. The Cash First example of providing cash transfers to over 400,000 beneficiaries in a country with severely limited access to physical cash should challenge and encourage other development actors to support cash transfer programmes in volatile and fragile contexts.

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