



## Cashless economy; Does it benefit the poor?

### 1.0 Introduction

Zimbabwe continues to suffer from adverse effects of deep-rooted macroeconomic instability which has had unbearable impact on poverty and human development. Current cash shortage is one of the macroeconomic ills that have crippled the country's economy. The cash crisis compelled the Zimbabwe government to join the ongoing global push toward cashless societies. The Reserve Bank of Zimbabwe amid the cash crisis called for the increased adoption of electronic / digital money systems such as internet banking, Multi-functional ATMs, Mobile financial services, Electronic Funds Transfer Point of Sale (EFTPOS) as mitigation measures to the cash crisis. The introduction of bond notes which was meant to curtail the cash shortages experienced in the financial sector failed to deliver the expected outcome. Many reforms introduced thereafter are centred on the promotion of use of mobile money platforms and establishment of more point of sale machines by retailers, small businesses and service providers. These developments suggest that the country is gearing towards a cashless economy. Key concern over the new development is that Zimbabwe is migrating to electronic platforms as a matter of necessity, rather than as a matter of choice. A cashless economy is one in which all the transactions are done by using cards or digital means. The usage of physical currency is minimal<sup>1</sup> under a cashless society. Despite the benefits that can be derived from a society being cashless such as curbing corruption and money laundering, a cashless society presents several challenges to the poor.

This policy brief is written at the backdrop of 70% of Zimbabweans who are not banked and are excluded from the financial system.

Zimbabwe introduced a multicurrency system in 2009 after the hyperinflation which was last recorded at 231 million percent<sup>2</sup> in July 2008 had eroded the local currency to worthlessness by October 2008. The introduction of the multicurrency system which allowed the country to use the US\$ among other currencies of transactions,

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<sup>1</sup> SHIVAM GARG 2017 SOCIETY, BUT CASHLESS <https://spotlightonsociety.wordpress.com/2017/06/28/society-but-cashless/>

<sup>2</sup> IMF 2009

stabilised the economy during the period 2009-2012<sup>3</sup>. During this period the informal sector boomed with players able to transact their small and personalised business transactions. The informal traders were able to register high sales and profits because their customers had cash.

## 1.2 Challenges impeding the transition to cashless economy

Zimbabwe still remains behind with regards to the adoption of e-commerce platforms. There are numerous factors that hinder the transition into a cashless economy and the challenges are as follows;

1. With a tele-density of 106% due to multiple-active mobile sim cards, an estimated 60% of the population have access to mobile devices<sup>4</sup>. However, mobile money transfer still remains a challenge since a significant number of the population(40%)of the Zimbabwe population remain excluded from mobile money transfer services.
2. A 41,4% internet penetration<sup>5</sup>is significantly low for the country to rely on internet banking services
3. Nationally, about 70%<sup>6</sup> of people are "unbanked," meaning they do not have a bank account. The majority of these people are low-income earners who struggle to meet the minimum balance required to open checking and savings accounts. The move away from cash excludes an already underserved and disadvantaged population
4. Although Zimbabwe can be proud of achieving a 97%<sup>7</sup> adult literacy rate, the level of financial illiteracy is still very high. The cashless economy is effectively an e-economy and in any e-system there is almost no place for the non-literate. The proper handling of a mobile phone or payment card therefore becomes an additional challenge given that users must be able to remember such details as personal identification number (PIN) and passwords. This might be a problem for the elderly, People with disability or illiterate people who might have to compromise privacy and divulge their personal codes to second persons in search of assistance. The Financial Inclusion Strategy 2016-2020 identified the importance of enhancing financial literacy as one of the bases for the ongoing engagement on financial inclusion matters.

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<sup>3</sup>PRFT's Thematic Paper on the Socio-Economic Implications of the Cash Shortages on the Poor

<sup>4</sup>Potraz 2015

<sup>5</sup>Internet world stats: usage and populations stats 2016 <http://www.internetworldstats.com/africa.htm>

<sup>6</sup>FinScope Financial Survey 2014

<sup>7</sup>ZimStat2014<http://www.zimstat.co.zw/literacy-rate>

5. Zimbabwe's informal sector working poor rely almost exclusively on cash. With 94.5% of the 6.3million people defined as employed working in the informal economy, most transactions entail personalized relationships rather than standardized forms of legal contract or corporate institutions
6. Distrust in the banking sector remains one of the challenges which explain the large number of unbanked people. The so called lost decade of 2000-2008 that accounted for a cumulative GDP loss of 54% was characterised by a financial crisis which accounted for huge losses in savings by the general populace. In some cases, banks liquidated, resulting in many people losing their hard earned savings<sup>8</sup>. This drastically reduced the people's confidence in the system from 2008 up to date, hence the need to revive depositor confidence to enhance financial inclusion.

## **1.1 Socio-Economic Implications on the Poor**

### **Price Increase of basic goods**

The poor people are already facing multiple challenges with regards to food access and food security. Since most households are into informal trading, access to banking becomes expensive due to the low nature and unpredictability of incomes in this sector. The nature of business transactions have become exploitative in nature with retailers and services providers embarking on a multitier pricing model where the same goods have two prices, one for cash and the other for mobile money transfer and/ bank card swipe.

The Poverty Reduction Forum Trust's (PRFT) Basic Needs Basicsentinel survey revealed that some local shops have increased charges for all their goods irrespective of whether one is swiping or paying with cash. Some of the basic goods that have since increased value include 2kg rice which cost between \$1,60 and \$1,80 in June and has increased to between \$2,50 and \$2,80, Green bar laundry Soap cost between \$1,10 and \$1,20 and has increased to between \$1,50 and \$1,80. These developments have further sunk the poor into the deeper poverty. The Household income and expenditure for the month of July 2017 was \$134, drastically falling well below the minimum amount required for a decent life (Cost of Basic Needs Basket) which is \$439 in the same month. The mobile transactional costs are eating into the little money earned from informal trading due to the increased number of transactions carried out each time a purchase is made. The Ecocash platform revised its cash-out charges with effect from 1 August 2017 by almost 50% to cushion

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<sup>8</sup>Matunhu, J. and Mago, S. 'Rural Banking for Rural development in Zimbabwe'

hardships in the financial services at the expense of the customers. The revision now attracts huge transaction costs on the part of the consumer who would need to make several transactions even to access as little as \$100 (to meet those expenses that only require cash), due to the daily limits- for cash.

### **The Implications of plastic money on spending patterns**

Both interviews and observations that PRFT has made with consumers confirm the fact when money is in plastic form, people treat it differently. Money no longer becomes a tangible item. Many households end up spending more than they intended to spend on goods and services consistently (impulse buying), making it difficult for them to save money for emergencies and future needs. People will struggle with the unstable electronic value of money which will become even more volatile especially, given that people will be conducting business with imaginary money. Restrictions on cash withdrawal coupled with the visible depletion of the hard currency created panic which forced more households to deplete all savings in banks, hoard money and this has had a negative impact on amount of money in circulation.

### **Extortion and Bribery**

In-order to get cash that can be used in small amount transactions; mobile money users are often being charged informal fees to withdraw cash. This form of corruption is eating into the very little income and savings that the poor are getting from the informal economy. PRFT's interface meeting with residents in Bindura in July 2017 also revealed that people are paying bribes of up to US\$5 to security guards at banks so that they are moved in front of queues to collect US\$50. The number of people illegally dealing in cash has since increased significantly with the parallel black market now popular for bond notes-US\$ exchange. Residents who met with PRFT during the interface meetings in Masvingo and Bindura raised concern over this development and they also speculated that the cash dealers are working in syndicate with professionals within the Banking sector.

### **Low incomes from Vending**

The new developments have transferred informal business opportunities in vending to formal retail shops. Vending activities such as tomato and vegetable selling are no-longer viable vending options for the poor vendors because their usual customers lack cash. The majority of people who possess electronic money now prefer buying their fruits and vegetables in retail shops depriving vendors the

economic opportunity. The costs of installing Point of Sale (POS) points for vendors is costly<sup>9</sup> and unprofitable considering the nature of the transactions involved in the business.

## **Disintegration of Social Cohesion**

The social cohesion that knit communities will be undermined as cash disappears on the local market. Traditional social practices such as extending a hand to street beggars will cease. This means that the socially excluded and underserved will require owning a POS machine in-order to receive aid from well-wishers. Consequently this group of people will suffer more as a result of this move towards a cashless society at the hands of spiralled social imbalances and social exclusion.

### **1.3 Current coping strategies**

**Barter System**– Many people are now engaging in barter trading to ease the cash crisis. Barter is a system of exchange where goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money. This helps in making a Cashless society as you do not use cash, you just trade a good for a good. This is an old system which is currently being used by the people of Zimbabwe. PRFT's interface meeting with residents in Masvingo revealed that people are trading labour with basic commodities such as cooking oil, maize mealie-meal and laundry soap as a method of payment for the services rendered. The challenge with this arrangement is that it cannot help in the transformation as it relies on coincidence of wants. However desperate poor people eventually succumb to compromises.

**Compromising Dietary Habits** –As a response to the cash shortages and income leakages that has come with it, the poor are buying basic goods that matter most in a household. The poor were already living on a compromise, rearranging household consumption behaviour (eating one meal a day, or two meals at most) due to low incomes, but this has been further aggravated to the point of substituting e.g. foodstuffs without necessarily considering the nutritional value gained or lost.

### **1.4 Recommendations**

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<sup>9</sup>Banks such as CBZ are charging a monthly minimum charge of 30 or 1% per POS terminal of all local sales whichever is higher. The swipe machines remain the property of the bank and are serviced and maintained by the bank.

- ❖ While acknowledging that cashless-ness is becoming a new economic frontier, PRFT strongly recommends that the infrastructure to support a cashless economy should be put in place before forcing it on people.
- ❖ The effects of such state-led policies on cash-dependent economies must be considered seriously before they are indiscriminately introduced. Cash plays an important role in our modern economy, particularly among the poor, and those urging a cashless future should do so with great caution.
- ❖ PRFT urges the government and commercial banks to come up with programs which connect unbanked people with safe, low-cost accounts that will cushion the poor informal sector workers and enables them to join the e-commerce movement.
- ❖ CSOs should embark on programs that raise awareness around financial literacy and help the government achieve the National Financial Inclusion Strategy targets.
- ❖ Investment should be done to improve banks' ability to handle errors and depositors concerns that come as a result of the transition.