Cash in crises financial literacy series

'*Cash in Crises*' is a series of financial literacy audiographics brought to you by Cash Essentials, a private sector initiative with a social mission to support the relief and development community in understanding how cash is managed for society in times of crisis.

Episode I
Digital Money

Let's start with a short reality check and look at some lesser-known aspects of digital money.

Among the survivors of the Japanese tsunami in 2011 was a sad, leather-faced old man, Ogata-san, who, when asked a few weeks after the tragedy what he would have done differently to prepare himself, answered, "*I wish I had packed a decent pair of boots, my toothbrush … and some cash*", by which he meant the sort of money he could rely on, the sort of cash he could trust – the physical kind.

This true story is compelling in its simplicity. Cash is like a stout pair of boots – an essential survival technology – the benefits of which need to be carefully considered in a digitising world, especially one coping with crisis.

Unlike electronic forms of money, cash – physical currency in the form of coins and banknotes – is better trusted, universally accepted and more reliable than its digital equivalents in times of crisis. It's simple to stockpile and resistant to systems failures and power outages. As Ogata-san's story shows, those lucky enough to have early warning of impending disaster stock up on cash as one of their first priorities if they can.

Cash is effective

> *"Programme participants typically withdraw their full transfer balance when it becomes available and rarely use their new accounts after programmes end."*

Mercy Corps, 2014

> *"Access to physical currency is an immediate priority in times of national emergency, even in a country where 75% of transactions are normally made with electronic payments."*

Alan Boaden, former Head of Currency
at the Reserve Bank of New Zealand
following the Christchurch earthquake of 2011

As far as slow-onset crises are concerned, humanitarian cash transfer programme beneficiaries quickly revert to that which they know and trust – the cash economy – whenever they can. This is because they find cash reliable and not dependent on electricity or algorithms.

Cash is more efficient

> *"Cash is a public good, whose return on investment through local multiplier effects benefits all of society."*

ODI, November 2015

> *"On average, cash payments show the lowest social costs per transaction than any other form of payment."*

ECB, Deutsche Bank and Mastercard
all concluded in 2015

Cash is efficient because it requires the lowest social cost per transaction and benefits all of society. Electronic forms of money, on the other hand, generate private revenue through the imposition of user-fees and interchange charges levied by financial service providers. A digital-only economy, in other words, favours a few at the expense of the many.

Cash is more secure

Abolishing cash will not eliminate crime as cash is neither the motivation for crime nor the only way to transfer illicit funds.

Deutsche Bank, November 2016

Counterintuitive as it may seem, cash is much more secure than other forms of payment. This is because the insecurity of cash is a relative risk, dependent on the online insecurities that come with paying electronically. Of course, there are disadvantages in carrying cash around, especially where law and order has broken down but the risk of having money stolen through online cyber-fraud is hundreds of times greater than the risk of being mugged, even in a refugee camp. Furthermore – and contrary to popular belief – cash and crime is not connected. As Deutsche Bank recently put it, "*Abolishing cash will not eliminate crime as cash is neither the motivation for crime, nor the only way to transfer illicit funds*," including via alternative transfer systems such as Hawala and cryptocurrency schemes such as Bitcoin.

Cash is more responsible

Digital technology is making excessive risk-taking more likely, particularly by encouraging people to overborrow.

Centre for the Study of Financial Innovation, 2018

Cash acts as a guarantor of civil liberties in the event of an administration abusing its powers.

Global Justice Now, 2016concluded in 2015

Cash allows consumers — and that includes those coping with disaster — to exert control over their spending habits. M-Pesa's mobile phone technology in East Africa, for example, has recently demonstrated that "*digital technology is making excessive risk-taking more likely, particularly by encouraging people to overborrow*". More worrying is that Digital money can be politicised because digitisation allows the State to freeze access to digital money by any person or group it dislikes. If you think this a bit alarmist, consider the fate of the Rohingya in Myanmar or the Kurds in Turkey.

Cash is far from redundant

Cash use is not falling but rising. Cash in circulation as a share of GDP is rising at a rate that far outstrips inflation.

Bank for International Settlements Quarterly Review, April 2018

Contrary to popular opinion, cash remains the most used payment instrument across the world and continues to increase.

We hope you find these insights useful when considering which cash modality to choose in times of crisis.
If you want to know more on this or other related topics covered in our audiographic series, please have a look on our website at www.cashessentials.org