Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation

CASE STUDY ZIMBABWE
– July 2021

SPACE

german humanitarian assistance
DEUTSCHE HUMANITÄRE HILFE

CaLP

This case study accompanies the CaLP Network Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation. It is intended to illustrate the process of situational analysis, response analysis and response option selection presented in the GPR. The learning from this case study has also actively contributed to the good practices documented in the review. It should be noted that the case study represents a snapshot in time of a continuously evolving situation. This case study was authored by Corinna Kreidler (FCDO) supported by Emma Holden-Maillard and Calum McLean (working for the FCDO-GIZ SPACE initiative).

1. CONTEXT

The last three years have seen a **significantly increased level of humanitarian need in Zimbabwe due to natural disasters, drought and economic collapse**, compounded by poor governance. At the height of the lean season in April 2020, **4.34 million people (33% of the population) were food insecure**. COVID-19 has exacerbated the situation, disproportionately affecting people who were already vulnerable due to e.g. their gender, age or disability. The repeated and protracted national lockdowns have resulted in an abrupt interruption of the informal sector, which represents 90% of the source of income for Zimbabweans, especially women. This has led to loss of livelihoods and increased risks of exposure to negative coping strategies.

The Zimbabwean economy experienced two successive years of contraction in 2019 and 2020 – of –6.5% and –10.4% respectively. The contraction of the economy worsened the vulnerability of the majority of the population, as key sectors of the economy like agriculture were depressed. Coupled with rising inflation, parallel market rates and weak aggregate demand, this worsened social imbalances in the country, with many now relying on cash and voucher assistance (CVA). However, the macroeconomic environment in Zimbabwe poses the following challenges for humanitarian cash transfers:

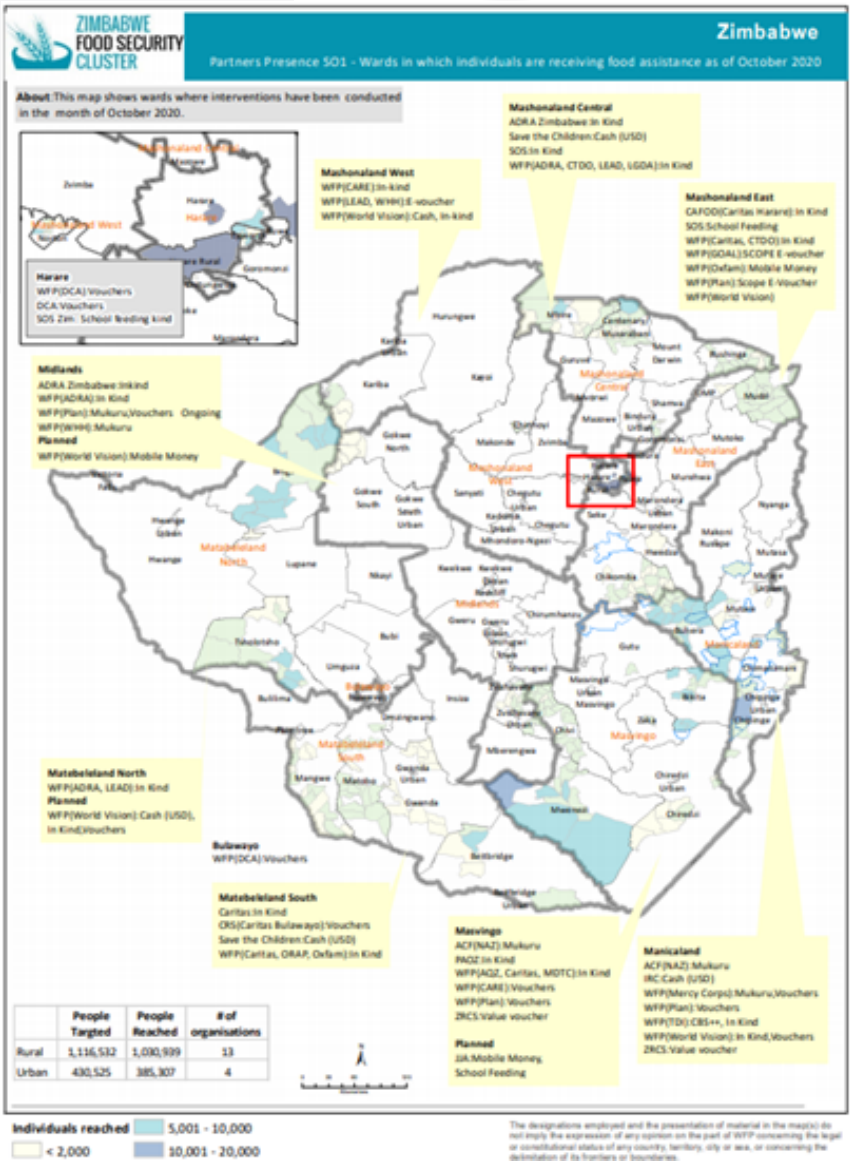
- **Annual inflation soared to a peak of 835% in July 2020 before decelerating to 194% in April 2021**. Although official statistics are showing that inflation is declining, prices are still beyond the reach of the majority in the country.

- **Parallel exchange rates**. Foreign currency shortages and management of the official exchange rate has resulted in the emergence of a thriving parallel market for foreign currency. There are at least three parallel exchange rates for different payment mechanisms (cash notes, mobile money and bank transfers). The **margin between the official exchange rate and the parallel market is up to around 42%** (as of May 2021). The depreciation of the local currency on the parallel market has resulted in companies pricing using the parallel market rate, such that, when replenishing commodities, they can do so without loss in value due to the depreciation that occurs in the interval between purchase and sales.

- **A cash liquidity crisis** (especially in local currency but also small USD denominations). The economy has been facing a cash liquidity crisis due to the tight monetary policy that the Central Bank has been pursuing. **Most banks are failing to disburse the weekly cash withdrawals (max ZWL 2,000)**. Although the economy has witnessed an increased official use of USD, the key challenge is the **shortage of smaller denominations**, which is affecting transactions in USD in both the urban and rural economy.

- **Arbitrary regulatory decisions** especially on mobile money and cashback. Using statutory instruments, the government has been making arbitrary changes impacting payment systems and channels. For example, at the end of June 2020, bulk payments on mobile money platforms were banned overnight, on the pretext that the platforms were fuelling the parallel market rates and aiding sabotage of the nation's currency. However, the platforms were kept open for small transactions (max ZWL 5,000 per day).

Figure 1: Food assistance in Zimbabwe, October 2020[1]



	People Targted	People Reached	# of organisations
Rural	1,116,532	1,030,939	13
Urban	430,525	385,307	4

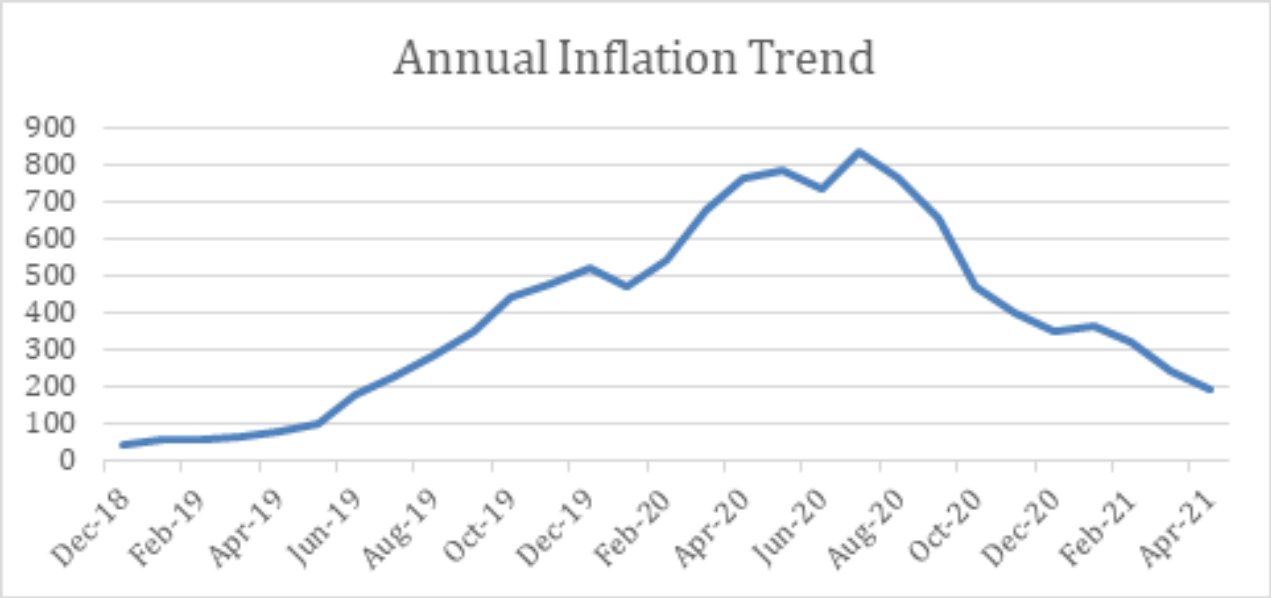
[1]For latest mapping please contact the Food Security Cluster IM Gabriel Oduori (FAOSFS): Gabriel.Oduori@fao.org, or contact the chair of the CWG for more details on volume and main actors: Agnes Mungatia: agnes.mungatia@wfp.org

2. SITUATION ANALYSIS

a. What is happening to prices?

Overall inflation is on the decline. Annual inflation peaked at 838% in July 2020 before decelerating to 349% by the end of 2020. The **decline during the second half of 2020 was largely due to foreign currency stability following an auction system (to set the official rate of US dollars in the economy)**. In 2021, annual inflation has continued to decline, with 194% recorded in April. The month-on-month inflation dropped to 1.6% in April 2021 from 2.3% in March 2021.

Figure 2: Zimbabwe annual inflation 2018–21



In terms of the effect on **prices, items priced in local currency are generally rising in cost, although at a slowing rate**. Meanwhile, prices quoted in USD are fairly stable. **Fuel prices affect the price of most other goods, and recently they have risen significantly**. Locally manufactured goods are less volatile, as they are less sensitive to foreign exchange rate movements, but imported goods will follow the trend in exchange rate (using the parallel rate not the official auction rate) and the prices of these imported components (e.g. cooking oil) are therefore more volatile. The market distortions and cash shortages in Zimbabwe mean that **goods carry different prices depending on the payment method**. Cash carries a superior value to electronic money. Part of its value derives from the fact that holders do not pay mobile money transfer charges and intermediated money transfer (IMT) tax of 2% on every transaction.

Food price inflation was even higher than the average inflation rate. For example, the year-on-year inflation marginally decreased from 786% in May to 737% in June 2020, while the food price inflation was estimated at 836% in June 2020, down from 954% reported for May 2020.

Figure 3: Zimbabwe food inflation trends 2020–21

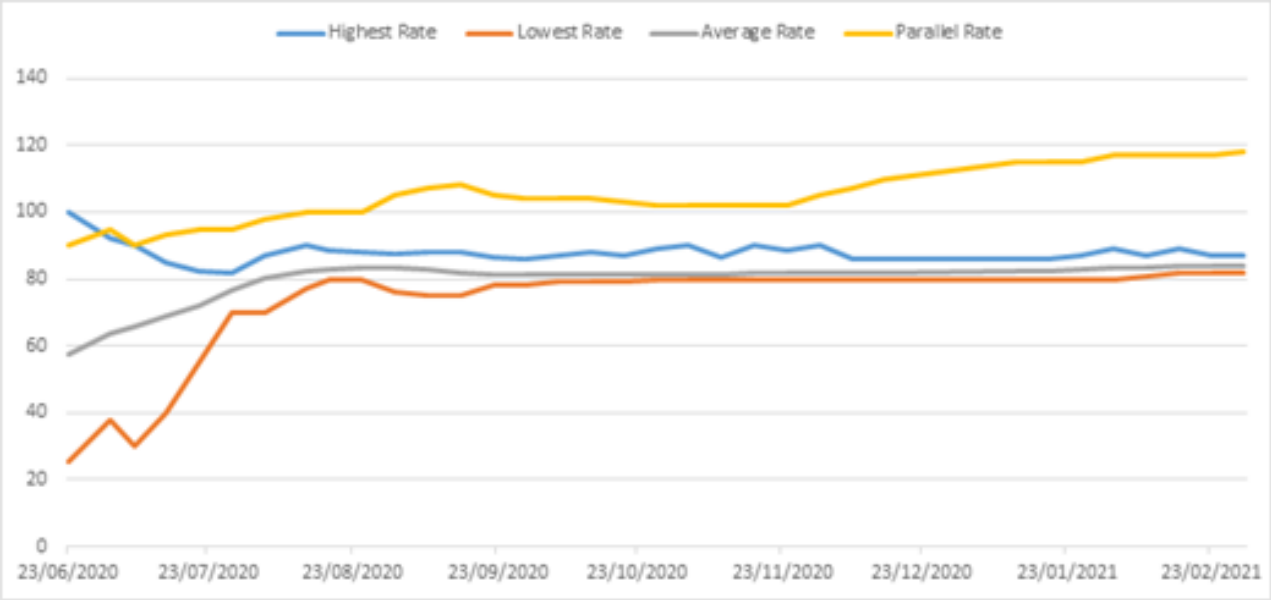
Source: RBZ, 2021

b. What is happening to the currency and what are the implications for programming?

In June 2019, the Government banned the use of USD, however it was reintroduced as legal tender in May 2020. Since August 2020, **USD is traded through a weekly auction which sets the official rate**. This auction rate is relatively stable and has not changed significantly since Q3 of 2020. The official rate is a 'managed floating exchange rate', which may depreciate marginally but is strictly managed by the Reserve Bank of Zimbabwe (RBZ). The Government influences the decisions of the RBZ, although there appears to have been some discipline with regard to expansionary monetary policy. However, pressure to print more money is increasing, and the government's attempt to do so has already had some impact on inflation, although not as extensively as in the past.

The **parallel rate is much more volatile** and has moved significantly over time in response to demand for foreign exchange. **The parallel rate is likely to continue to depreciate as demand for foreign exchange increases.**

Figure 4: Main foreign currency auction exchange rate



Commercial banks are not able to set their own rates, as these are governed by the Reserve Bank Act that includes the Monetary Act, Banking Act, Financial Service Provider Statutory Instruments, Depository Act and Exchange Control Regulations. **Commercial banks use the official exchange rate and trade within the agreed margins with the RBZ**. The official ZWL to USD rate is, therefore, the same across all banks and other financial service providers (FSPs) and donor funds are treated the same way as free funds,[2] and as such are not subject to the Exchange Control Regulations applicable to local exporters like foreign currency surrender requirements.

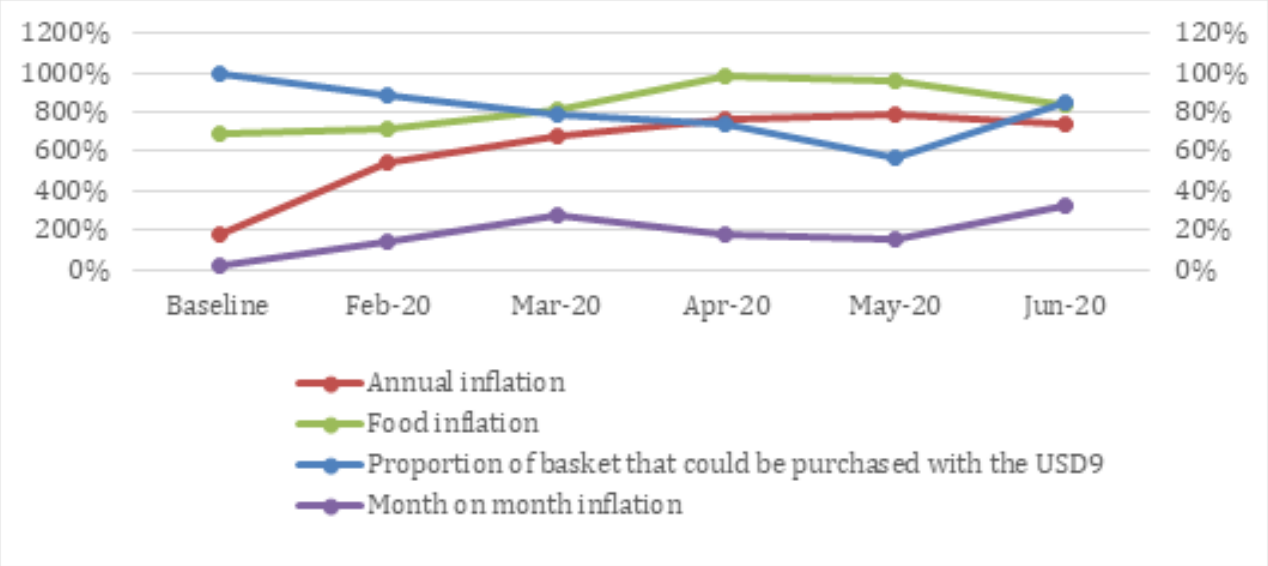
The proportion of dollarization is approximately 60–70%, but most goods and services except for large retail/fast-moving consumer goods can be paid for in USD. Individuals are able to access foreign currency through remittances and banks, although formally, only individuals with Nostro accounts can access USD. The maximum withdrawal is USD1,000 per day for individuals and USD10,000 per day for corporates. However, any Forex payment into a corporate Nostro account is subject to an automatic government levy of 20% for conversion into ZIM$, applied by the bank.

[2] 'money which is lawfully held outside Zimbabwe by a Zimbabwean resident and which was acquired by [them] otherwise than as the proceeds of any trade, business or other gainful occupation or activity carried on by [them] in Zimbabwe'; amended to also include funds lawfully held or earned in foreign currency (not necessarily held outside the country).

3. Implications for CVA Programmes

Until May 2020, the ZWL was the only legal tender, and for all humanitarian actors the official mandatory exchange rate was fixed at ZWL 25 to 1 USD. World Food Programme (WFP) beneficiaries, for example, had to exchange their USD entitlement into ZWL for purchasing at this official rate, leading to a **loss of actual purchasing power** for the beneficiary.

Figure 5: Proportion of basket that could be purchased with WFP transfers



Donors saw the loss of purchasing power also as a reduction of value for their money. Hence, they strongly pressured the WFP, together with cooperating partners, to **switch to alternative delivery models**, mainly e-vouchers. WFP was hesitant, but when the Government banned bulk payments on mobile money platforms at the end of June 2020, alternative modalities had to be introduced at speed. **WFP beneficiaries now receive their entitlement either through USD cash remittances (Western Union) or through e-vouchers** (SCOPE vouchers issued by WFP or RedRose vouchers used by DCA) after having received in-kind assistance prior to the re-dollarization (see sections 4 and 5 below). This rapid change led initially to missed payments, followed by a double payment to make up for the loss. However, this resulted in crowded outlets, long queues with poor infection control, and long waiting hours before dawn, posing safeguarding risks especially for women, and crowd-control measures by the police that occasionally turned violent. **Partners have learned from this experience, and payments are now staggered in small batches**, controlled through the issuing of Money Transfer Control Number (MTCN) codes in staggered phases to different groups.

In early 2021, bulk payments in mobile money (MM, e.g. EcoCash) have been re-authorized and some agencies are using them again. This modality allows for **money to be credited on phones and even cashing out in USD**. Receiving cash to a mobile phone has advantages for beneficiaries such as reducing protection risks, and low contact in the context of COVID-19. Cashing out with an agent may lead to protection issues, and again,

small denominations can be problematic, unless people are able to use P2B/P2P transactions. 'Legacy issues' with EcoCash, including **unreliability** in delivering payments and **lack of transparency** on cost have dissuaded some agencies from utilizing MM. **Some retailers have been caught putting different types of 'premiums' on different goods, depending on which payment modality is being used by the customer**. However, these rising prices could also simply be a result of ongoing inflation. While a transfer value in USD protects against some of the effects of inflation, given that the prices are more or less stable in USD terms, beneficiary confidence is eroded when they see prices (in local currency) escalating, especially when it is a result of illegitimate 'premiums' imposed by shopkeepers at the time when the redemption period begins.

Know Your Customer (KYC) obligations for different types of modalities can pose a high hurdle. Western Union requires an official ID for each redemption, and mobile money solutions require ID when setting up the account. **Households who do not have a valid ID are thus strongly disadvantaged**, especially in a time of pandemic, when renewing an ID is extremely difficult and very costly. **E-voucher solutions don't require any official ID documentation, are issued by humanitarian agencies, and are thus the preferred option** for those for whom securing ID is difficult, or who are experiencing liquidity problems.

However, **vouchers restrict the actual use of the entitlement. Cashback options in supermarkets for e-vouchers are extremely limited** as bank regulations only permit payments in local currency and only the equivalent of 6 USD. However, supermarkets generally do not hold any liquid local currency, as virtually no customer uses it. One regulation says that each person can only withdraw the equivalent of 12 USD per week in local currency from the bank, so people simply don't have local cash in their wallets. Hence, supermarkets don't receive any local currency and thus do not offer cashback.

4. Response Analysis

The Zimbabwe Minimum Expenditure Baskets **(MEBs) are set in USD** to ensure maximum value is transferred to beneficiaries. Since the USD became legal tender again, USD can be delivered as cash (e.g. by Western Union or Mobile Money, as explained above) or e-vouchers, pegged to a USD value. The **USD transfer values cover 62% of household food gaps**, and an inflation allowance of 8% was factored into the current transfer value of 12 USD pppm. However, **purchasing power still depends on the exchange rate used by the retailers if goods are sold in ZWL.**

The **re-dollarization of the Zimbabwe economy has largely solved the earlier problems related to the depreciation of the ZWL and associated hyperinflation.** This has allowed cash to be used once more with a greater value for money and with purchasing power sustained for end users. As mentioned, WFP changed their entire rural programme to provide in-kind food prior to re-dollarization and are looking at the evidence from market assessments to allow a shift back to CVA, while taking into account user preferences.

Overall, there are many payment platforms from MM to cash in transit, banks and other bespoke systems like RedRose. The different platforms are all offering various services with differing transaction costs for the implementing agency (as summarised above), some of which may be hidden. However, there may be efficiency and simplicity gains to be made by harmonizing delivery platforms to some extent, including driving down transaction costs through collective bargaining of several agencies in coordination.

Beneficiaries have expressed a preference to receive mobile payments, due to reduced contact and transmission risks, improved security, and mitigation of liquidity challenges. This has changed from a pre-COVID preference for cash in-hand (known as 'cash in transit'), as it provided more flexibility in how they could utilise the money. While mobile money does reduce the risk of transmitting viruses, there have also been some issues related to vendor profiteering (as described in section 3 above). Consequently, **some NGOs have reverted to using cash in transit** and paying a 5% fee to security companies to safely deliver remittances.

It is crucial that there is **continuous dialogue with communities and beneficiaries in order to determine preferences, feasibility and the value for money** of various options, according to the changing market conditions and circumstances. For example, to minimize the risk of CVA programming leaving behind marginalized populations, World Vision has undertaken **a women and girls gender-mapping process at the household level to gather data on preferences and habits to understand the decision-making process of beneficiaries**. At each point, they identify risks and mitigation measures, resulting in a comprehensive risk matrix to combat gender-based issues.

5. Response Options

a. Policy solutions

Addressing the underlying policy problems is not an option in Zimbabwe, as the leverage that humanitarian actors have on monetary policy is minimal at best. Currently, e-vouchers are the best alternative (see below option on shifting from cash assistance to value or commodity vouchers).

b. Programming solutions

WFP **switched back to in-kind** for all assistance in rural areas in early 2020, and has not returned to the cash modality as they are waiting to complete a national market assessment which is delayed, partly due to lockdown restrictions. WFP made an appropriate decision to switch to in-kind food assistance to maintain the value during the period of hyper-inflation, but as the context has changed with re-dollarization, donors are advocating for them to move back to CVA modalities where appropriate, allowing for lag time to switch modality. NGOs continue to provide CVA in rural areas but at a much smaller scale than the WFP's distribution caseloads or the urban CVA (January 2021: CVA rural 23,710 people; CVA urban: 387,698; in-kind rural: 1.09 million).

The option of **shifting from cash assistance to vouchers** was adapted for the majority of the caseload (two-thirds), resulting in positive feedback, especially by women, on the advantages of the e-vouchers; only approximately 5% are unhappy with this choice. Women frequently prefer e-vouchers, as the modality reduces intra-household tensions on the use of the assistance. It is perceived as strengthening women's decision-making power and 'helps to prioritise expenditure'.

Some retailers attract customers by **offering the parallel exchange rate** instead of the official auction rate. In the case of the NGO–private sector partnership using RedRose, they negotiated a specific rate that is higher than fixed official rates.

Transferring assistance in hard currency is also an option again but is hindered by considerable liquidity shortages. Hence, only a third of beneficiaries currently receive cash.

6. Conclusions and Lessons Learned

Monitoring: While the re-dollarization has improved the situation, it is imperative that the rapidly changing environment in Zimbabwe, along with seasonality changes, is continuously assessed to inform ongoing response analysis. This includes **market assessments and ongoing monitoring of prices, inflation, depreciation, and their impact on the MEB**. The **MEB monitoring should also be linked to triggers for the revision of the transfer value**. Accordingly, **agility of actors and donors** is essential for effective implementation of responses that adapt to the shifting market conditions.

Planning and preparedness: In hindsight, it would have been useful to have had **an agreed threshold with regards to the erosion of transfer value by which the programme would have had to switch to a different option/modality,** taking into account administrative procedure and necessary time frames to adjust. This would have facilitated harmonized approaches, avoiding leaving decisions to the individual agency's 'tolerance' for purchase power losses. Once the modality has been switched, it is operationally challenging and time-consuming to revert the system back, especially at scale. The **CWG could take a lead in developing standard operating procedures for managing volatile current situations**: the *Good Practice Review* could provide the basis for this, to be adapted to the Zimbabwe context, noting that a de-dollarization could happen again in the future.

Beneficiary preferences: With the changing environment, beneficiaries' needs and preferences change accordingly, and CVA programming must be able to adapt to this in response. In assessing beneficiary preferences, it should be noted that people are often resistant to change due to perceived risks to their entitlements. It is important therefore to fully explain what options are available, outlining the pros and cons of each, so that beneficiaries can express their preferences from a fully informed standpoint.

Flexibility: **Programmes must be designed from the outset to be flexible and adaptable to the circumstances, whatever modality is being used.** Agencies should also develop associated **contingency plans to be able to pass on any Forex savings to beneficiaries.** The mechanisms themselves should also be open to change in case the need arises to change from one modality and/or delivery mechanism to another. Mechanisms must be able to provide flexibility in how beneficiaries receive payments safely and how they are able to spend their entitlements, so they are not only limited to food. The need for flexible programming extends to donors, who also must be prepared to adapt to respond to changing conditions on the ground.

Harmonization: With the re-dollarization of the economy, **NGO and UN implementors have adapted their programmes at different speeds and using different modalities** (the WFP is still using in-kind in rural areas; NGOs are using cash-in-hand and MM, etc.). Context is an important driver in determining modality selection and delivery mechanism. However, there may be **efficiency gains associated with some harmonization of modalities and delivery choices, and important advantages to beneficiaries if platforms are simplified**. The CWG would be ideally positioned at this time to conduct a delivery system mapping exercise (building on the market assessment work nearly completed by WFP) to better guide implementing agencies. Opportunities to drive down transaction costs through collective bargaining and improvements to services have been initiated and could be further developed with a coordinated approach.