

ADAPTING CASH PROGRAMMING TO INFLATION, DEPRECIATION AND ECONOMIC VOLATILITY IN ZIMBABWE

July 2023



This report is a culmination of the invaluable contributions of many individuals working in cash assistance both in **Zimbabwe** and beyond. We would like to particularly appreciate **the Zimbabwe National Cash Working Group** members for their engagement and insightful contributions. We are extremely grateful to **Andreas Deuble (World Food Programme)** and **Clayton Mafuratidze (CARE International)** who were leading the national cash working group at the time, for their guidance and direction.

The work was undertaken by the Neviro team under the leadership of **Vicente Palacios** who is the author of this report. The CALP Network team provided technical support under the leadership of **Sapenzie Ojiambo** who also reviewed the report.

Cover image – Chitima market is the biggest of its kind in Masvingo. Hundreds of vendors ply their trade daily either from stalls at the market, or simply on the floor in the market area. They pay a fee to do so. They say that the cost of transport to and from the market (with petrol price increases) - especially if their homesteads were far away – was making it more and more difficult for them to sell their goods there and it was no longer cost effective. ©Samantha Reinders/WFP. March 2022

INTRODUCTION

This report captures the key points from discussions with stakeholders in Zimbabwe to help identify the actions needed for effective implementation of cash assistance in view of economic volatility characterised by high inflation and currency depreciation. The recommendations are a product of extensive consultations with a variety of actors both within Zimbabwe as well as at the regional and global levels. The purpose of the work was to support country cash working groups (CWGs) to agree on actions to develop clear predictable processes for adapting cash programming in line with the economic trends at country level. The proposed action plan to take forward some of the recommendations can be found in the annex.

Although the work was undertaken to support the coordination role of the cash working group, many of the identified solutions require the engagement and action of a variety of stakeholders including governmental authorities, humanitarian country teams, donors, individual organisations and agencies. This report, together with similar reports from South Sudan, Malawi, Nigeria and Burkina Faso, are also intended to serve as examples for other cash working groups seeking to better adapt cash programs to contexts of high inflation and depreciation.

SITUATION ANALYSIS

Zimbabwe continues to face major economic challenges related to inflation and currency depreciation. The country has suffered one of the highest inflation rates worldwide during the past year, closing 2022 with an annual inflation rate of 285%¹. Inflation has however, decreased to 98% in February 2023, in part due to a new policy of measuring inflation using a weighted average of items priced in Zimbabwean dollars and United States Dollars (USD).

The inflationary pressures have been caused by increasing global prices, expansionary monetary policy and a lack of confidence in the new Zimbabwean dollar (the Real Time Gross Settlement or RTGS Dollar). As a result, the local currency has depreciated at a higher rate compared to other international currencies. The Zimbabwean dollar depreciated 588% against the US dollar in 2022², based on the official market rate. Commodities and food prices have also experienced inflation in hard currency, in keeping with rising prices in the regional and global markets.

Between 2019 and 2021, the Zimbabwean government maintained a fixed exchange rate of 1 US dollar to 25 Zimbabwean dollars. As a result, a black market emerged where the Zimbabwean dollar was traded at a much higher rate, leading to a wide gap (more than 200%) between the official and unofficial rates³. However, following the Reserve Bank of Zimbabwe's adoption of a multi-currency

¹ Zimbabwe inflation rate <https://www.statista.com/statistics/455290/inflation-rate-in-zimbabwe/>

² Zimbabwe – Food Security and Markets Monitoring Report, December 2022
<https://reliefweb.int/attachments/28869a07-9808-45cf-92ec-7c0f4d056987/WFP-0000145935.pdf>

³ Generally, a parallel market for foreign exchange arises as a direct consequence of the adoption of exchange rate controls in economies facing substantial macroeconomic and monetary imbalances.

system⁴ and open foreign exchange auctions, official and unofficial market rates have been converging and reached parity in October 2022⁵.

The country now uses a multi-currency system, with the Zimbabwean dollar, the US dollar, South African rand, and other currencies being accepted as legal tender. The multi-currency system was adopted in 2020 and further entrenched by the Statutory Instrument 118A in 2022. According to this instrument, the multi-currency system will remain in place for the five years (2021–2025) covered by the National Development Strategy⁶.

RESPONSE ANALYSIS

High inflation continues to undermine the purchasing power of poor urban households who rely on the market for vital requirements. The country's cash response is relatively modest and has not yet recovered from the legal changes of prior years. According to the Food Security Sector, roughly 90% of food security assistance is provided in kind as opposed to through cash and voucher assistance. There are no reliable statistics regarding the proportion of other sectors' distributions in cash or vouchers.

Zimbabwe has experienced a rapidly changing legal environment over the past few years. The regulation of the currency and delivery mechanisms have had the greatest impact on cash actors in Zimbabwe, including the following:

- Abolition of the multi-currency system and imposing the USD ban in June 2019
- Reintroduction of the USD as legal tender in May 2020 as part of the multi-currency system
- Ban on bulk payments on mobile money platforms in June 2020
- Re-authorisation of bulk payments on mobile money platforms in February 2021.

Between 2019 and 2021, the cash actors shifted between several modalities and transfer mechanisms. Due to the multiple regulatory changes and delivery mechanism challenges, humanitarian assistance was almost entirely delivered in kind in rural areas, while in urban areas, vouchers, e-transfers and mobile money were preferred by most organisations⁷.

Progressively, after the country adopted a multi-currency system, organisations went back to distributing cash to urban households. WFP, the largest cash actor in the country either distributes food in kind to rural households and multi-purpose cash assistance (MPCA) via remittance platforms such as Western Union or Mukuru or value vouchers to urban households.

⁴ Multi-currency system refers to the adoption of two or more currencies as a legal tender within a country, in the case of Zimbabwe, any other foreign currency can be used legally within the country.

⁵ Unofficial exchange rates could be consulted in several websites or Facebook pages that offer current and historical average unofficial rates.

⁶ [Bloomberg article - Zimbabwe's Central Bank Rules Out Return to Dollarization](https://www.bloomberg.com/news/articles/2022-02-07/zimbabwe-s-central-bank-rules-out-return-to-dollarization)
<https://www.bloomberg.com/news/articles/2022-02-07/zimbabwe-s-central-bank-rules-out-return-to-dollarization>

⁷ Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation
<https://www.calpnetwork.org/publication/good-practice-review-on-cash-assistance-in-contextsof-high-inflation-and-depreciation/>

In recent years, donor support for Zimbabwe has diminished. The available resources reported by humanitarian organisations to the Financial Tracking System of OCHA have decreased from 274 million USD in 2019 to 151 million USD in 2021 to 95 million USD in 2022⁸. This reduction poses significant challenges both in terms of breadth – the number of recipients assisted – and depth – the resources allocated to each of the chosen recipients.

The Zimbabwe CWG set their last transfer values at 14 USD during the last quarter of 2022. Some partners continue to distribute the previous amount of 12 USD due to a lack of funds, according to key informants.

In Zimbabwe, WFP and Famine Early Warning Systems Network monitor prices monthly on the country's primary markets. Both organisations publish monthly reports for the wide humanitarian community in Zimbabwe⁹.

RESPONSE OPTIONS & RECOMMENDATIONS

After the relaxation of the measures previously imposed, the humanitarian cash assistance has almost fully re-dollarised in Zimbabwe as has the rest of the economy. For as long as cash assistance can be distributed and redeemed in USD, and bank notes in small denominations are available, distributing hard currency remains the mechanism preferred by program recipients. According to the key informants, this is the mechanism that preserves the highest purchasing power and offers the best value for money.

Modality changes from in-kind assistance and vouchers to cash assistance happened quite rapidly after the re-dollarisation in urban areas. While most of the NGOs are shifting to cash assistance in rural areas, this move could be followed by all actors in the country. However, challenges such as poor phone networks, access to small denominations, low financial literacy and financial service providers (FSPs) penetration remain in rural areas.

The researchers propose the following recommendations, based on global best practices and literature review.

PRINCIPLES TO GOVERN THE RESPONSE

Even in the context of high economic volatility, cash actors should continue to prioritise MPCA distributions over vouchers and in-kind assistance, where markets are functioning.

Deliver assistance denominated in hard currency. As a measure of preserving the purchasing power, the delivery of hard currency remains as one of the best options. When allowed, like in the case of Zimbabwe, it shelters beneficiaries from domestic inflation, and currency depreciation and devaluation.

⁸ Financial Tracking System, OCHA <https://fts.unocha.org/countries/250/summary/2021>

⁹ WFP also assesses the macro-economic situation such as official and parallel market rates and the most commonly accepted payment modalities <https://reliefweb.int/report/zimbabwe/zimbabwe-food-security-and-markets-monitoring-report-april-2023>

Regular revision of the minimum expenditure basket (MEB) and transfer values to maintain purchasing power and counter inflation and/or currency depreciation¹⁰. This measure can be implemented by either reprogramming the currency gains¹¹ from budget savings and from obtaining or negotiating a better or preferred foreign exchange rate for humanitarian actors. Cash actors can negotiate more favourable exchange rates with the Government or Central Bank or obtain better/more competitive exchange rates through sourcing local currency on the FOREX market. When inflation and currency depreciation exceed currency gains, cash actors should negotiate for additional flexible funding from donors to cover the increase in transfer values.

In some cases, the need to harmonise humanitarian cash assistance transfer values with social protection schemes, has limited the ability to raise transfer values as often as required to maintain purchasing power. **The provision of top-ups and lumpsums** are a good solution when cash actors need to harmonise with social protection and government transfer values. In situations where the revision of the MEB takes a long time, Cash actors can provide a top-up or lumpsum as an interim measure. **E-payments, mobile money or vouchers.** When dealing with liquidity issues, cash actors should prioritise e-transfers or mobile money, although this is conditioned by the availability of e-payments and mobile network infrastructure as well as financial literacy. Other adaptation measures to address liquidity issues in areas where e-payments are not feasible, include the use of vouchers, with preference given to value vouchers.

In-kind assistance has very high operational costs and offers less value for money¹². Generally, inflation and currency depreciation do not justify shifting to in-kind assistance. However, in situations where all other measures have been exhausted, especially in those with very high differences between official and parallel exchange rates or non-functioning markets, in-kind assistance could be delivered. **A high level of organisational flexibility is required to shift between modalities.** Cash actors should have a clear plan of returning to cash assistance based on agreed thresholds.

RECOMMENDATIONS TO THE CWG AND CASH ACTORS TO BE CONSIDERED INTERNALLY

Cash actors and CWGs should develop contingency/anticipatory planning for future economic or policy changes. The CWG and its cash assistance members must be equipped with the means to adapt to changing inflation or currency depreciation conditions. **Actors should have in place a continuum of measures that take into consideration long-term trends including preparedness measures and contingency planning for economic volatility.** These could be such as mechanisms, processes, and delivery platforms that could help preserve the purchasing power of the recipients.

¹⁰ Guidelines on how to calculate MEBs and TVs can be found at <https://www.calpnetwork.org/publication/calculating-the-minimum-expenditure-basket-a-guide-to-best-practice//>

¹¹ In this context, currency gains refer to the savings realised at the conclusion of the project because of a depreciating local currency relative to the project's currency.

¹² Cash and In-Kind Transfers in Humanitarian Settings: A Review of Evidence and Knowledge Gaps <https://www.wfp.org/publications/cash-and-kind-transfers-humanitarian-settings-review-evidence-and-knowledge-gaps>

The CWG should develop standard operating procedures (SoPs) for joint market monitoring and information sharing. **Joint market monitoring exercises should include forecasting of potential future trends.** Currently, decisions on MEBs and transfer values rely only on a snapshot of the prevailing market prices and vendor operations. A trend analysis to calculate the transfer values based on possible future scenarios could be useful for budgeting and as an advocacy tool towards donors.

Adjusting to inflation and currency depreciation should not be a one-off event. As such, **the CWG should have a clear decision process outlined in the SoPs that detail the procedures to reach an agreement over MEB and transfer value adjustments**¹³. The SoPs should include different scenarios and proposed common strategies, agreed criteria and thresholds that should prompt a discussion at the CWG level, and a step-by-step guidance note on the revision process. **Once the purchasing power is significantly reduced**¹⁴, the CWG should convene a meeting and initiate a discussion with its members. The SoP should also include a timeframe for implementing the new transfer value.

Advocate for and include financial and digital literacy actions in cash responses. Cash actors should investigate and prioritise delivery options that contribute to program recipients' financial inclusion. Mobile money is a feasible modality in urban areas, as long as the cost of transfers and cash-out fees remain competitive vis a vis remittance platforms¹⁵. Zimbabwe has a very high usage of mobile phones compared to the regional context¹⁶. However, both smartphone penetration and 3–4G coverage remain low¹⁷. Financial inclusion increases the resilience of a country's cash assistance response by increasing the number of delivery mechanisms available in the event of hard currency inflation or policy changes.

Continue monitoring beneficiary preferences. The CWG and its members should continue monitoring the preferences of program recipients. Driven by external factors, the needs, and preferences of cash recipients will vary, and cash programming must adapt to accommodate these differences. In addition, the preference of program recipients must be contextualised, it should be noted that people are often resistant to change due to perceived risks to their entitlements¹⁸.

Recipients requesting in-kind assistance is an excellent indicator that there is a disconnect between the transfer value and the expenditure basket. In evaluating the effectiveness of the various mechanisms, the perspectives and experiences of the recipients are indispensable.

¹³ For the S/MEB calculation process and tools, please access https://www.calpnetwork.org/wp-content/uploads/2020/03/MEB_CALP.pdf

¹⁴ WFP has a 15% threshold to start internal discussions about transfer values.

¹⁵ Zimbabwe has a well-developed pool of remittance platforms, as the country with the largest population of migrants living in other countries of the region, sending 1.4 billion USD back to their relatives in Zimbabwe according to the World Bank. <https://documents1.worldbank.org/curated/en/986021536640899843/pdf/The-Market-for-Remittance-Services-in-Southern-Africa.pdf>

¹⁶ About 87% of the households in Zimbabwe have access to a cellular phone https://www.zimstat.co.zw/wp-content/uploads/2022/07/Census2022_Preliminary_Report.pdf

¹⁷ ECONET, the largest telecommunications provider in Zimbabwe provides 3G to 84% of the population and to 71% of the territory. ECONET 2022 Annual Report <https://www.zse.co.zw/wp-content/uploads/2022/08/ECO.zw-2022-Annual-Report.pdf>

¹⁸ Good Practice Review on Cash Assistance in Contexts of High Inflation and Depreciation <https://www.calpnetwork.org/publication/good-practice-review-on-cash-assistance-in-contextsof-high-inflation-and-depreciation/>

RECOMMENDATIONS TO THE CWG AND CASH ACTORS TO ENGAGE WITH EXTERNAL PARTNERS

In many cases, technical programmatic adaptations (such as adjusting the transfer values for inflation) need to be part of a coordination effort between cash actors, main sectors/clusters, and the government. **The technical solutions often need the support and buy-in from a variety of parties, including the government and donors** to be adopted.

Advocacy with government authorities and continuous monitoring of the market and policy environment. The government has taken several actions that impacted on cash assistance. For example, in 2018 a 2% tax was introduced on transactions exceeding US\$1000¹⁹, later revised to 2% tax on transactions exceeding US\$100.000²⁰. In the past, the Government introduced maximum withdrawal limits and accused financial service providers (FSPs) directly of fuelling inflation. Key informants reported that humanitarian actors have little sway over monetary policy or currency regulations, but greater engagement with government authorities at the Cash Working Group (CWG) level could increase the influence over sectoral statutory instruments.

Increased engagement and alignment with the Social Protection Scheme. Currently cash assistance does not align with the Harmonized Social Cash Transfers (HSCT)²¹ targeting criteria and transfer values, nor deduplicates with the social protection scheme. According to key informants, misalignment with the social protection scheme has been one of the major hurdles to the regular inflation-related adjustment of transfer values. There is need to increase engagement with the social protection scheme and UNICEF's emergency social cash transfers into the CWG and MEB's revision²².

Mapping different FSPs and the mechanisms they offer at the CWG level. Rapid changes in policy remain the biggest threat to cash assistance in Zimbabwe. De-dollarisation could happen again, as economic volatility continues. Cash actors should start mapping the various delivery mechanisms available in Zimbabwe. It is recommended that standing agreements are put in place with various FSPs where possible. These would enable cash actors to quickly shift modalities or mechanisms in line with participants' purchasing power in case of a rapid change of legislation or economic environment.

Donors must demand that their partners report their activities to the 5W. Currently, only a few organisations are reporting their cash assistance activities to the 5W hosted by the Food Security Cluster. To successfully harmonise the different modalities and transfer values, and design inflation/depreciation contingency measures, it is key that organisations regularly report their

¹⁹ BDO international tax newsletter – ZIMBABWE – Amendments to the Income Tax Act and introduction of new transfer pricing regulations [https://www.bdo.global/en-gb/microsites/tax-newsletters/corporate-tax-news/issue-50-february-2019/zimbabwe-amendments-to-the-income-tax-act-and-introduction-of-new-transfer-pricing-regulations#:~:text=With%20effect%20from%202013%20October,every%20dollar%20transacted%20\(2%25\)](https://www.bdo.global/en-gb/microsites/tax-newsletters/corporate-tax-news/issue-50-february-2019/zimbabwe-amendments-to-the-income-tax-act-and-introduction-of-new-transfer-pricing-regulations#:~:text=With%20effect%20from%202013%20October,every%20dollar%20transacted%20(2%25))

²⁰The Finance Act, 2020 <https://www.zimra.co.zw/downloads/category/42-statutory-instruments-2020?download=777:finance-act-no-8-of-2020>

²¹ The Zimbabwean National Harmonized Social Cash Transfer (HSCT) program is an unconditional cash transfer scheme aimed at labour-constrained ultra-poor households. Zimbabwe's Ministry of Public Service, Employment, and Social Welfare started implementing the scheme in 2011.

²² According to KIs, the SP scheme is distributing the equivalent of 13 USD.

activities into the 5W to have a complete landscape of the cash assistance activities in the country. Multipurpose cash should be reported separately from cash assistance for sector-specific objectives.

METHODOLOGY

The researchers used participatory approaches to ensure that the perspectives and insights of all key stakeholders were taken into consideration. Primary data collection was conducted mainly through key informant interviews with cash actors. The consultants interviewed a total of 18 key informants including CWG chairs and members, donors, international NGOs, the Food Security Sector, UN agencies and financial service providers. The researchers did not interview cash recipients.

The researchers organised a half-day workshop with over thirty participants. The purpose of the workshop was to discuss challenges associated with implementing cash assistance in a context of high economic volatility, discuss the current response options, discuss mitigation measures, and discuss on a common action plan to address the challenges.

ANNEX: PROPOSED ACTION PLAN

A proposed action plan was developed -during the half-day workshop organised by the researchers together with the CWG leadership and later refined in subsequent discussions with the CWG leadership. The actions are ranked according to the workshop's prioritisation exercise that was done through a poll and opinions expressed during key informant interviews.

PRIORITY I ACTIONS

Progressively shift to cash or value vouchers as the main modality in rural areas.

- The re-dollarisation of the economy has temporarily eased most of the problems related to inflation and depreciation from the organisational point of view. However, the lack of infrastructure and lack of functioning integrated markets remain as main challenges in the rural areas. In that sense, collectively monitor the context and the feasibility shift from in-kind assistance to cash assistance wherever the situation allows.
- Context is the most important factor in determining the delivery mechanisms and assistance modalities. Interviewed implementing organisations and FSPs reported that certain locations currently receiving in-kind assistance have the necessary infrastructure for cash assistance, while others do not. In this way, the transition to cash assistance in rural regions should be done gradually.
- Before shifting modalities, reinforce the continuous dialogue with local communities. With the changing regulatory environment, preferences also change accordingly. Therefore, it is critical to properly describe the options available and list the benefits and drawbacks of each one of them so that recipients can express their preferences while being completely informed.

Develop a decision process outlined in SoPs that details the procedures to reach an agreement over the cost of MEB and transfer value adjustments²³.

- The SoPs should include different scenarios and proposed common strategies, agreed criteria and thresholds that should prompt a discussion at the CWG level, and a step-by-step guidance note on the revision process. It should include a monitoring mechanism to trigger the discussion once a relevant portion of the purchasing power has been lost.

Actively engage and better involve the Government in the response to increase influence on statutory instruments.

- Changes in monetary policy or sectoral statutory instruments remain one of the highest risks faced by the organisations implementing cash assistance in Zimbabwe.
- Conduct a stakeholder mapping looking at the organisations and top officials for a more targeted engagement. The stakeholder mapping needs to consider the limited leverage that humanitarian organisations have on the general monetary policy. The stakeholder mapping needs to take into consideration the decision-making levels, ability to influence and availability to regularly attend the CWG meetings.

²³ For the S/MEB calculation process and tools, please access https://www.calpnetwork.org/wp-content/uploads/2020/03/MEB_CALP.pdf

- Generate short briefings for key Government officials and raise awareness about the current response and challenges.
- Invite government officials to monographic CWG sessions where pertinent issues are discussed.

PRIORITY 2 ACTIONS

Boost government comprehension of cash assistance.

- Include Government authorities previously identified during the stakeholder mapping in any future cash assistance capacity building actions. A more knowledgeable government counterpart will make the cash response stronger.

Increase the transparency around FSPs engagement and collectively negotiate with FSPs.

- The CWG has already started engaging with FSPs and has so far conducted important work on collective agreements that lower the transaction cost. The CWG should continue this line of work and promote transparency and information sharing between humanitarian organisations. Where possible, humanitarian organisations should disclose the details of their deals with FSPs with other humanitarian organisations to improve bargaining power.
- As a contingency measure against policy changes, liquidity issues or inflation in hard currency, the CWG as a whole or some key members, should do a mapping of all available FSP solutions including the transaction costs, KYC requirements, coverage, and cashing-out options. This exercise will be especially valuable for smaller or local organisations, with less capacity to conduct their own FSPs mapping.

Foster better linkages with other working groups, sectors and the HSCT to smoothly adapt transfer values when needed.

- The Zimbabwe CWG has started engaging regularly with other coordination mechanisms, most notably the Food Security Sector (FSS). Building up on these actions, the CWG should continuously include them in the main cross-sectorial discussions and dedicated CWG sessions.
- Improved engagement with the country's Social Protection Sector is essential to raise the profile of cash activities in the country and initiate alignment with the HSCT particularly on the question of adjustment of transfer values.

Collectively advocate for more flexible funding

- The donors interviewed during the key informant interviews were either agnostic in terms of the modality or were advocates for a flexible transfer modality approach, with priority given to MPCA where possible.
- The CWG should collectively advocate for flexible funding that allows shifting smoothly between transfer modalities that provide the best value for money and protect recipients against inflation and currency depreciation. In Zimbabwe, more research is needed to better ascertain recipients' preferences and the best modality to meet their needs.