Life Offices Association of Zimbabwe

# Demystifying Insurance Part 22

**Welcome to part Twenty Two of Demystifying Insurance, a continuation of the Life Offices Association (LOA)'s ongoing National drive to make insurance easily understood by all.**

Surviving the economic scourge of hyperinflation revealed to the world Zimbabwe's great appetite for innovation. In this week's article, we take you through the stages in which the Zimbabwean currency was gradually abandoned, leading to the conversion of the Nation's official currency.

**Barter trade**
Zimbabweans come from all walks of life and from different regions, which centre on different economic activities. Those in rural Zimbabwe were not spared by hyperinflation but, like branches cut from the same national vine, they reacted in a manner that showed their strength of character, innovation and resilience.

Barter trade was key. Grinding mills, for instance, demanded a quarter bucket of maize in order to grind a bucket of maize into mealie meal. Given that maize was a precious commodity, this became the price at which the people could get mealie meal and at which grinding mills could afford to purchase diesel.

**Maize trade**
Despite many challenges, communal farmers were still able to produce decent maize harvests at various times. They soon realised, however, that it did not make sense to sell the maize.

Rather than run the risk of receiving late payments in rapidly devaluing cash, they started to exchange their maize for various goods, such as salt, cooking oil, sugar and matemba. Through barter trade, the communal farmers survived the hyperinflationary period, even if this meant exchanging an entire cow for just two bags of maize — quite a common occurence during the severe 2008 drought.

**Groceries for accommodation**
Long before dollarization, individual property owners realised that their only means of survival were the properties they owned. Property owners from Glen View Harare, Tshabalala Bulawayo, or Mkoba Gweru started by requesting rentals in the form of a basket of goods, which included cooking oil, sugar and soap among other things, in response to the biting economic environment.

But how could rentals of Z$5 billion be converted into a basket of goods? The root of the answer is found in our basic need for survival. Called 'demand and supply' by economists, this barter arrangement was 'policed' by the simple expedient that landlords couldn't risk overcharging tenants, who would just move on.

**Forex fever**
As the hyperinflation juggernaut rumbled onward and the circulation of foreign currency increased, landlords started demanding rentals in foreign currency instead of ZW$ or groceries. The source of this sudden increase in foreign currency can be traced to remittances received through money transfer agencies and from friends and family visiting Zimbabwe from abroad.

The same forces of demand and supply, represented by a tenant's ability to obtain the foreign currency and a landlord's need to survive, again determined what the general level of rentals should be in foreign currency terms.

**Fuel coupon 'cure-all'**
Different companies also responded to the effects of hyperinflation by giving grocery benefits to their employees. Companies also structured deals with petroleum procurement companies so that various goods and services could be paid for in fuel coupons.

Fuel coupons were a tradable asset with real value, in terms of acquiring fuel or foreign currency. While the coupons were, like grocery benefits, not converted to be a form of a salary, the contractual obligation remained to pay Zimbabwe dollar salaries.

There was, however, no conversion rate to convert Zimbabwe dollar salaries into groceries or fuel coupons. Despite this fact, the move to pay fuel coupons and grocery benefits once in a while released a lot of the pressure that was being exerted on the populace.

**Interventions**
Throughout the hyperinflation period, the Reserve Bank of Zimbabwe (RBZ) was not altogether docile. It initiated various programmes such as the Basic Commodities Supply Side Interventions programme (BACCOSI) introduced on 1 October 2007. In this programme, basic commodities were bought from retailers and distributed free countrywide. This was done in an effort to reassure the business community and the general public of the effort being made to return the supply of goods and services to normal.

The RBZ was also actively involved in controlling the supply of money by printing and limiting cash withdrawals, in an attempt to ration the available cash and to stem inflation. However, the printing of money mainly served to increase inflation.

On 10 September 2008, the RBZ introduced Foreign Exchange Licensed Warehouses and Retail Shops (FOLIWARS). Companies supplying goods and services could apply to the RBZ to charge their prices in foreign currency. In order to be licensed, local applicants and foreigners had to deposit a refundable amount of US$20,000 and US$50,000 into the RBZ respectively.

While some businesses could afford this, many could not. These multiplying difficulties resulted in the Government introducing the multi-currency system on 1 February 2009, allowing trade and salaries to be paid in foreign currency.

**Picking up the pieces**
Due to the shortage of foreign currency reserves, employees were initially paid low allowances but these were far better and more welcome than the valueless quadrillions of Zimbabwe dollars. Contractual salaries were introduced and increased as the year progressed and businesses rediscovered their direction.

Join us next week as we discuss the post-dollarization conversion of assets and liabilities from ZW$ denominated values to US$ values.



The Life Offices Association of Zimbabwe
4 Josiah Tongogara Ave
Tel: +263 4 29 33 655-6 / 0712339305 / 0713033519
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