

## **EURASIAN JOURNAL OF ECONOMICS AND FINANCE**

**www.eurasianpublications.com**

---

### **THE USE OF SURROGATE CURRENCY TO ADDRESS LIQUIDITY CRISIS: THE ZIMBABWEAN EXPERIENCE**

**Varaidzo Denhere** 

University of Johannesburg, South Africa  
Email: vdenhere23@gmail.com

**David Mhlanga** 

Corresponding Author: University of Johannesburg, South Africa  
Email: dmhlanga67@gmail.com

Received: May 28, 2021

Accepted: June 22, 2021

---

#### **Abstract**

Zimbabwe has experienced an economic meltdown dating back to 2000, which created perennial economic woes such as a liquidity crisis that continued haunting the country to date. Various possible solutions were explored but did not yield the desired results. Amongst the explored solutions was an introduction of surrogate currency specifically to curb the liquidity crisis. This paper sought to explore the effects of using "surrogate currency" to address the liquidity crisis in Zimbabwe by employing a desk review. Currently, there is a dearth of literature on using surrogate currency in African countries. Hence this study contributes to the existing literature on the use of such currency. The review established that the surrogate currency led to the emergence of bad money as propounded by Gresham's law of currency systems. Moreover, the surrogate currency rapidly lost its value, whereas the introduction of the surrogate currency failed to address the liquidity crisis, leading to other socio-economic challenges. Finally, financial reporting under the surrogate currency became a challenge as well. This study recommends the withdrawal of the surrogate currency and the use of multicurrency along with the promotion of products for export to attract more foreign currency into the economy.

**Keywords:** Zimbabwe Currency Crisis, Black Market, Liquidity Crisis, Surrogate Currency

**JEL Classifications:** G00, G01, G18

---

#### **1. Introduction**

Zimbabwe is a landlocked country located in Southern Africa. The country shares its southern border with the Republic of South Africa, south-western and western border with Botswana, the northern border with Zambia, and north-eastern and eastern with Mozambique. The country has an approximate population of 14,817,192. Zimbabwe was once distinguished as the breadbasket of Southern Africa, but this status has since vanished (United Nations Human Rights Council [UNHRC], 2019). Zimbabwe had been under the government of the party that was ruling ever since it got its independence in 1980 until February 2009 when the government of national unity made up of the main opposition party together with the ruling party was formed.

The country experienced a series of events that led to its economic meltdown (Khumalo, 2017; Mhlanga and Dunga, 2020). Khumalo (2017) outlined a litany of reasons that led to Zimbabwe's economic meltdown. The reasons included the economic crisis caused by high-interest rates in 1998, suspension of aid to the country by the International Monetary Fund (IMF) and the World Bank, land seizure in 2000, food shortages from drought in 2001, the Commonwealth of Nations suspension of Zimbabwe in 2002, forced shutting down of thousands of companies due to economic challenges and rising inflation in 2003, and hyperinflation and issue of redenominated notes in 2006.

The redenominated notes were in use until the beginning of 2009 when the government of national unity was established. According to the Report on the Observance of Standards and Codes (World Bank, 2011), the country abandoned its currency because of the chronic hyperinflation and a broken-down foreign exchange rate system that caused the dysfunctionality of the Zimbabwe dollar. The government of national unity saw the introduction of a multi-currency system, and some of the currencies in the multi-currency basket included the US dollar, British pound, Chinese yuan, and the South African rand, but one from these, the US dollar, was adopted for financial reporting. The introduction of the multi-currency system seemed to have failed to bring sanity to the economy. The introduction of the multi-currency system seemed to have failed to bring sanity to the economy. The Minister of Finance observed a poor performance of the economy in 2016, and this was well after the adoption of the multi-currency system that had been brought by the government of national unity (Khumalo 2017). In November of the same year, the country experienced a liquidity crisis and introduced a surrogate currency named bond notes which was pegged at par to the US dollar to arrest this challenge. Dzirutwe (2016) reported that when the former Zimbabwean President Robert Mugabe announced the introduction of the bond notes, which he called "surrogate currency to the US dollar", he indicated that this stopgap measure would prevent foreigners "fishing" the US dollar out of the country. This implies that the former president attributed the liquidity crisis to the foreigners smuggling the US dollars from the country.

To ease the liquidity crisis and augment the economy, the Reserve Bank of Zimbabwe (RBZ) enacted a series of exchange control operational guidelines and compliance frameworks (Public Accountants and Auditors Board [PAAB], 2018). It is against this background that this study seeks to explore the effects of the introduction of the surrogate currency to address the liquidity crisis in Zimbabwe. Since the introduction of surrogate currency was a unique occurrence in the financial sector in Zimbabwe, no study was done to understand the influence of its introduction in addressing the liquidity crisis in Zimbabwe. In a way, the study seeks to deduce an understanding of the importance of introducing surrogate currency to address the liquidity crisis that has been affecting the country since the introduction of multicurrency.

The following sections of the paper are organized as follows: Section 2 describes the liquidity crisis in Zimbabwe, whereas Section 3 explores the surrogate currency in Zimbabwe. While Section 4 reviews the relevant literature, Section 5 outlines the discussion, and finally, Section 6 concludes the paper.

## **2. The liquidity crisis in Zimbabwe**

Since 2009, Zimbabwe experienced a liquidity crisis that besieged banks and companies, thus, crippling economic development (Dlamini and Mbira 2017; Mhlanga and Denhere 2021, Mhlanga, 2020). Borio (2010) described the liquidity crisis as an unanticipated and extended disappearance of both market and funding liquidity, with severe consequences for the stability of the financial system and the real economy. Amihud *et al.* (2012) also referred to it as an acute shortage of liquidity in the real economy, which could be accompanied by a sharp drop in the asset prices, drop in market participants, complications in trading assets, defaults, layoffs, bankruptcies, failing institutions, shortage of physical cash, and lending funds, among others. In Zimbabwe, the liquidity crisis has a long history, and the problem became perpetual since the same was experienced in 2003, between 2007 to 2009, and in 2015. The liquidity challenges led to severe shortages of cash and long queues in every bank in the country, and financial institutions could not avail cheap long-term loans to the productive sectors (Chinjova and

Zinhumwe, 2019). This resulted in a decline in economic growth and an erosion of gross domestic product (GDP).

Despite abandoning the US dollar, as a way of addressing the liquidity crisis, the cash shortages, among other symptoms of this crisis, worsened in June 2016, and this saw the introduction of cash withdrawal limits. According to Chinjova and Zinhumwe (2019), the RBZ ascribed the cash shortages to leakages aggravated by a drop in the cash deposits into banks because depositors preferred safeguarding the US dollar under their mattresses. This behavior became rampant as most citizens lost trust in the banking system upon realizing that after depositing their US dollars in the banks, they could not access the same when they felt like making withdrawals. Further, Chinjova and Zinhumwe (2019) regarded the lack of meaningful foreign direct investment as a major contributor to the liquidity crisis. It seemed the foreign investors lost confidence in the volatile Zimbabwean economy and had since stopped investing in the country. Dlamini and Mbira (2017) reported that the RBZ attributed the acute shortage of cash during this period to the externalization of the US dollar in offshore accounts by several Zimbabwean institutions because they feared the return of the Zimbabwean dollar and for speculative purposes. The Zimbabwean dollar had been known for its hyperinflation, and institutions seemed to fear the hyperinflation experience that they had with the Zimbabwean dollar before. They speculated the return of the hardships that came with the hyperinflation economic environment. As a result, they had to protect the value of their money by externalizing it to safe havens.

Other causes that were deemed to contribute tremendously to the liquidity crisis in Zimbabwe were rampant corruption, lack of transparency, and accountability (Sakarombe and Marabada, 2017; Mhlanga and Dunga, 2020). Regarding corruption, Moyo (2014), Harrison (2004), and Uneke (2010) shared the view that political and economic commentators perceive corruption as endemic in African countries and that it is increasingly blamed for the limited economic growth in economies and the extant high socio-economic inequalities and poverty. Hence Zimbabwe, being one of the African countries, is not an exception when it comes to corruption, which has been identified as one of the causes of liquidity crisis in the country. The bond notes referred to as the "surrogate currency" faced resistance when they were introduced because both the business community and the public conceived this scenario as the reintroduction of the Zimbabwean dollar (Southall, 2017; Mhlanga, 2021). As indicated earlier, the Zimbabwean dollar had a history of failure, and depositors began to withdraw their US dollar cash balances from banks in fear of being prejudiced.

The acute cash shortage had its adverse effects on the economy in Zimbabwe, some among which were the emergence of the multiple pricing system of goods and services that threatened consumer welfare and poverty, a continuing shortage of goods and commodities in the market, erratic procurement of fuel which made it very difficult for the economy to recover, the resurgence of a flourishing parallel market that has become the anchor of economic transactions, a distortion and mismatch of the exchange rate which birthed and promoted the parallel market that sets unrealistically high exchange rate premiums which in turn raised prices beyond the reach of the majority of citizens, and the continued rise in the inflation rate (Sibanda, 2019). In the history of the economic crisis in Zimbabwe, remarkable gains in stabilization were only experienced between 2009 and 2012 during the government of national unity. The dissolution of the national unity government in 2012 brought back the economic challenges in the country to date, and the economy remains delicate, with GDP dropping from 10.6% in 2010 to 4% in 2018 (Sibanda, 2019).

### **3. The surrogate currency in Zimbabwe**

After having gone without the country's local currency since 2009 and using the US dollar as an official currency, a shortage of cash pushed the Zimbabwean government to introduce a surrogate currency, which is called bond notes, to trade alongside electronically at par with the US dollar. According to Reuters (2016), the introduction of the surrogate currency described by the then country president, as necessary and a local version of the US dollar, was controversial, and IMF had to send a team to Zimbabwe for official talks before its introduction. Dzirutwe

(2017) pointed out that the IMF argued that Zimbabwe's "bond note" surrogate currency would not solve the country's economic woes and added that only comprehensive reforms were required to address the ongoing fiscal crisis.

Gkritsi (2016) described the Zimbabwean surrogate currency or bond notes as a debt backed by the Afrexim Bank (Africa Export-Import Bank) and stated that it could be used as a replacement currency. The currency was backed by the government's ability to pay back the debt to Afrexim Bank. Upon its introduction, the government indicated that the surrogate currency would be backed by a US\$200 million support facility provided by the Cairo-based Afrexim Bank (Kurauone *et al.* 2020). The surrogate currency was also described by Kuyedzwa (2019) as a false legal currency and a financial instrument used for local transactions only. Upon its launch, the surrogate currency was pegged at par with the US dollar, meaning that one bond note was equal to one US dollar. However, the bond note was immediately repudiated by the market, and its surrogacy lost value as it traded at an enormous discount to the US dollar.

Chidakwa and Munhupedzi (2017) pointed out that the introduction of the surrogate currency saw most citizens and employees being paid electronically into their bank accounts but had difficulties converting that money into cash for transactions. This currency quickly devalued against the US dollar on the thriving parallel market, thus, forcing both businesses and government to demand the US dollar for some transactions. According to Matanda *et al.* (2018), RBZ decided on a one-to-one pegged exchange rate between the US dollar and Zimbabwe bond note, but individuals and the business community undervalued the bond note and created its lucrative market on the black market. At the time the bond note devalued, the exchange rate at the parallel market was 1 US\$ to 4 bond notes. However, this exchange rate kept rising unabated, and around mid-2020, the black-market rate was 1 US dollar to 40 bond notes. According to Muronzi (2019), the surrogate currency eroded quickly by the black-market speculation prompting another cash shortage which saw the central bank creating electronic notes to offset the shortage.

#### **4. Literature review**

The literature review focuses on the theoretical framework on Gresham's law of the monetary systems and examples of countries that experienced liquidity crises in the western world and Africa.

##### **4.1. Theoretical framework: Gresham's law of the monetary systems**

There are several money theories such as quantity theory of money, monetary theory, and theory of money demand, but Gresham's law of the monetary systems was the most relevant and applicable theory for this paper. Gresham's law of the monetary systems is an economic principle and one of the laws governing the circulation of money, and it was named after an English merchant and financier, of the Tudor dynasty, Sir Thomas Gresham (1519-1579) (Sparavigna, 2014). According to Sullivan (2005), Gresham's law states that when bad money is introduced in an economy, it will drive out good money. Different authors described this law in different ways. The law was also described by Sullivan (2005) as a monetary principle which stated that in a case where two monetary commodities are in circulation, and both considered as legal tender with the same face values, there will be some hoarding of the more valuable one (good money) and it will disappear from circulation, and the less valuable one (bad money) is the one that remains in circulation for transaction purposes. In describing the same law, Sparavigna (2014) stated that the overvaluing of one type of money by a government results in the undervalued money disappearing from circulation and the overvalued one flooding into circulation. Both conceptions of Gresham's law point to the coexistence of two currencies used as legal tender but with different face values. In summary, the law suggests the existence of good and bad money and that bad money tends to drive good money out of circulation when both are full legal tender simultaneously.

The difference between "good" and "bad" money lies in the face and commodity value. Good money shows little difference between its face value and its commodity value, while bad

money has a commodity value significantly lower than its face value (Matanda *et al.* 2018). According to Sullivan (2005), Gresham's law was inspired by a crisis in a bimetallic currency system with two silver coins in simultaneous circulation where one had twice as much silver as the other but had the same nominal face value. Due to their differences in intrinsic value, the two coins would not be used simultaneously as the medium of exchange because the coin with more value would be hoarded, and thus, leaving the one with less value to continue in circulation (Sullivan 2005).

Gresham's law has been criticized quite immensely. For example, the assertion that good and bad money cannot be in circulation together was regarded by Mundell (1998) as a glaring error. Sullivan (2005) shared a view with Greenfield and Rockoff (1995) that the main cost of using the undervalued currency was to agree on the premium and not the increasing fractional costs. This consequently caused the value of the non-par coin to fluctuate constantly and forced people to keep track of its value and then negotiate in every transaction resulting in most transactions made in par money. Sullivan (2005) and Mundell (1998) argued that the reason why bad money drives out good money is that the bad money is cheaper and thereby drives good money out particularly when they exchange for the same price. Regarding Gresham's law applicability, Matanda *et al.* (2018) pointed out that the law was proved applicable in the US in 1965, where old silver quarters were replaced with sandwich coins which were silver-nickel alloys. In some cases, the law could not hold, for example, the Spanish milled dollar was a heavier coin than the US silver coin, but the overvalued coin didn't drive out the undervalued coin (Matanda *et al.* 2018).

Considering the law in the case of Zimbabwe, the Gresham law applied when the surrogate currency was introduced. The surrogate currency was pegged at par with the US dollar, but it became bad money, and the US dollar turned out to be good money. This saw the US dollar driven out of circulation. US dollar became scarcer, and people wondered where it was going. This was because of giving the same face values to two forms of legal tender (surrogate currency and the US dollar) and accepting as the commodity money in circulation. However, the US dollar had more value and became the "good money" while the bond note had less value and became the "bad money". The US dollar was hoarded and quickly disappeared from circulation leaving the bond note behind.

#### **4.2. Empirical literature: liquidity crises in other countries**

Karilaid *et al.* (2014) conducted a study on fiscal and monetary implications of the liquidity problems that arose in a financial crisis in the Baltic-Nordic region in Europe and stabilization after that. They pointed out that the 2007-2009 financial crisis had severe implications on many countries, yet the Baltic States emerged as resistant to the crisis and were the fastest to recover. Karilaid *et al.* (2014) concurred in a view with Cornett *et al.* (2011) and Baglioni and Monticini (2010) that the Baltics were hit the most by the liquidity crisis and experienced more soaring interest rates, reduction in GDP, and decreasing money supply than the Nordic countries, a situation which Zimbabwe also experienced. Karilaid and Talpsepp (2010) asserted that high interest rates are associated with the lack of confidence amongst market participants as they lose faith in the banking system, and hence, there is a need for a sound fiscal policy that controls government expenditure, among other things.

According to Karilaid *et al.* (2014), the Baltic countries recovered fastest for the money supply mostly because of global expansive monetary policy that also covered them. As a result, the Baltic States briefly experienced the liquidity crisis but quickly recovered as they benefited from the global monetary policy. This scenario is dissimilar to Zimbabwe, which continues to struggle with its economic woes and operating under sanctions from the US.

Sudan is one of the African countries that experienced a liquidity crisis. In 2010, the Central Bank of Sudan (CBoS) reported the imminent acute lack of hard currency needed for importing basic commodities and medicines because of a rapid rise of US dollar rates on Sudan's parallel forex market (Southall 2017). According to Beaumont and Salih (2019), the breakaway of South Sudan in July 2011, leading to Khartoum losing most of its oil revenues, aggravated the liquidity crisis in the country. The black-market rate of the US dollar continued

soaring in 2016 leading the government to decide on an economic program in October of that same year (Abdelaziz, 2018).

A new austerity policy was implemented in 2017 as a measure to address the crisis leading to the raise of the US dollar customs rate from the Sudanese pound (SDG) 6.7 to SDG18 to cease the loss of value of the SDG on the parallel market. Implementation of these measures at the beginning of 2018 saw prices of basic commodities doubling and even tripling in some cases, and the US dollar rate continued skyrocketing. At this juncture, the CBoS imposed a ban on any import operation by banks through their forex without its approval, and the Ministry of Commerce imposed a ban on importing several goods. This action was an effort to try and save every forex available for the country's essential services. The measures by the CBoS triggered the initial liquidity crumble, which saw depositors failing to withdraw more than SDG3,000, but later this was adjusted upward by enabling them to access up to SDG100,000 depending on availability (Beaumont and Salih, 2019).

Like Zimbabwe, Sudan was on sanctions and embargoes and needed external aid to solve its liquidity challenges. The country took advantage of its good relations and cooperation with Turkey and agreed with a Turkish company to receive banking facilities for the CBoS amounting to \$2bn, to be repaid over two years, and used it to import petroleum products, wheat, and other agricultural inputs (Dzirutwe, 2017). Despite implementing all the measures described above, the liquidity situation in Sudan remained a source of major concern.

Egypt is yet another African country that experienced a liquidity crisis from 1997 to 1998. Hussein and Nos'hy (2000) conducted a study to identify the factors that caused the liquidity crisis in Egypt. The findings of their study indicated that the shortage of liquidity in the Egyptian commercial banks resulted from the appreciation of the real exchange rate during the 1990s, the huge rise in private credit, and the large increase in imports. The study also established that the Egyptian liquid crisis suggested that in addition to causing loss of competitiveness, the appreciation of the real exchange rate beyond its actual value caused market speculation and shortage of liquidity. During this liquidity crisis, Egypt had limited access to world capital markets, and hence, the crisis could not be addressed by borrowing (Hussein & Nos'hy, 2000). However, the country had to adopt an exchange rate that reflected the real value of its local currency.

The study suggested that it was central for the monetary authority in Egypt to address the weaknesses of the country's banking system that caused injudicious public and private sector lending. Possible solutions that Egypt could explore to address the crisis included foreign loans, raising taxes on the rich, canceling debt, building public-private partnerships, and keeping public works public among others (Hyde, 2012). The State Information Service in Egypt (2018) indicated that Egypt went through the liquidity crisis by 2018 and was on the right path as the IMF commended the Central Bank of Egypt for adopting a monetary policy that aimed at stabilizing inflation rates, putting in place suitable interest rates that stabilized the local currency. Some possible solutions to liquidity crises in economies with pegged currency systems were suggested by Karilaid *et al.* (2014) and these are: a well-designed public communication about extra funding to instill the required confidence in the financial markets which works only if the imperative buffers are in existence; aiming at attaining viable capital flows through avoiding excessive inflows during economic booms and huge outflows during the crisis; making government guarantees on deposits to raise confidence as it lessens banks' liquidity risks (Cornett *et al.* 2011); and sustaining foreign capital inflows by higher requirements for margin to help avert a hard landing. Unfortunately, Zimbabwe could not apply these possible solutions because it did not have a pegged currency system. From their study of the liquidity crisis in the Baltic-Nordic region, Karilaid *et al.* (2014) concluded that it was very difficult to restore foreign investors' confidence after extreme volatility in an economy. This is typical of the Zimbabwean situation, where the country had extreme volatility in its economy and is having difficulties in restoring foreign investors' confidence.

## 5. Discussion

This paper employed a desk review to explore the effects of using the surrogate currency to address the liquidity crisis in Zimbabwe. Travis (2016) described desk review as secondary research that summarizes and collates already existing data. This method involves following a structured manner in gathering relevant information since there might be a lot of information available for a particular topic (Aaron, 2008). Therefore, in this paper, we selected key terms from the scope of work and theoretical framework, searched for several relevant sources, and selected relevant information that best suited the scope of the paper (Juneja, 2018). The key terms searched for were liquidity crisis, surrogate currency, and theory on currency systems. Literature sources that we used included peer-reviewed articles published within the past 10 years, media reports, reports from accounting professional bodies in Zimbabwe, and internet blogs covering the liquidity crisis in Zimbabwe and the surrogate currency. The number of articles used is as follows: 14 peer-reviewed articles, 11 media reports, 2 reports from accounting professional bodies and 2 internet blogs, 1 monetary policy report documents and 2 international monetary fund reports.

There are various causes of liquidity crises. One major example was during the 2007-2008 global financial crisis when the economies was affected and recovered at different rates as in the case of Baltic-Nordic states. In Sudan, the liquidity crisis was caused by sanctions and embargoes, while in Egypt it was a result of poor monetary policies and government practices. In some countries, it could be a result of a combination of the political environment, foreign policies, sanctions and embargoes, poor monetary policies, and corruption. However, in Zimbabwe, liquidity crisis resulted from a combination of many factors and events such as high-interest rates in 1998, suspension of aid to the country by the IMF and the World Bank, land seizure in 2000, the drought in 2001, the Commonwealth suspension of Zimbabwe in 2002, and hyperinflation in 2006 (Khumalo 2017). In addition to these factors, Kurauone *et al.* (2020) also mentioned corruption, and lack of transparency and accountability as causal factors. Further, the country has been under sanctions from the US for a long time now. It has proved very difficult for Zimbabwe to address the multiple causes of the liquidity crises against this background and the crisis continues to deepen.

Amongst the countries discussed in the literature review, the European Baltic States, unlike Zimbabwe quickly emerged out of the liquidity crisis because besides implementing their measures to address the problem, they also benefited from the worldwide monetary policy in operation at the time. Egypt recovered after adopting a monetary policy that aimed at stabilizing inflation rates and putting in place suitable interest rates meant to stabilize their local currency. Being under sanctions and embargoes, Sudan is still struggling to address its liquidity crisis just like Zimbabwe. Though the other countries cited in this paper experienced liquidity crises, they did not introduce a surrogate currency to their currencies but used other means and policies to address the crises. It is Zimbabwe that used the surrogate currency to address its liquidity crisis but did not yield the anticipated results.

### 5.1. The effects of using the surrogate currency

#### 5.1.1. The emergence of bad money

The introduction of the surrogate currency brought into play the Gresham's law of currency systems into Zimbabwe. The decision to introduce surrogate currency as a solution to curb the liquidity crisis led to the emergence of bad money as the surrogate currency simultaneously circulated with the currency that it was surrogate to. The bond notes which were pegged at par with the US dollar became bad money and the US dollar was the good money (Sullivan, 2005). As a result of the principle of the Gresham's law, the US dollar was driven out of circulation as it was hoarded leaving behind the bad money, the bond notes. This was because of these two forms of legal tender given the same face values being accepted as commodity money in circulation. However, the US dollar had more value and was the good money while the bond note had less value and became the bad money. The US dollar was hoarded and quickly

disappeared from circulation (Matanda *et al.* 2018). The bond note was then available for most of the business transactions by the Zimbabwean citizens, but it was unpopular.

#### **5.1.2. Rapid loss of surrogate currency value**

The surrogate currency did not hold its intended value for long. It rapidly lost value against the US dollar on the flourishing black market leading both the government and business communities to demand the US dollar for payment of some transactions (Chidakwa and Munhupedzi, 2017). Upon its introduction, the RBZ pegged the official exchange rate of the US dollar to the bond note at one-to-one. In no time, the business community and individuals operating in the black market undervalued the bond note and created a lucrative market for trading it against the US dollar (Matanda *et al.* 2018). Within a short time after its introduction, the bond note devalued, and the exchange rate on the black market dropped from one-to-one to 1US\$ to 4 bond notes. The black-market exchange rate kept galloping from speculation by the players in the black market, and in mid-2020, the rate was 1US\$ dollar to 40 bond notes (Muronzi, 2019).

#### **5.1.3. The introduction of surrogate and the liquidity crisis**

Zimbabwe adopted a unique strategy of introducing a surrogate currency to the US dollar, which was the official currency at the time, to address the liquidity crisis. However, though the surrogate was pegged at par with the US dollar, it did not address the liquidity crisis but instead created other challenges as indicated by Sibanda (2019). These challenges included: the flourishing black market where money was exchanged at exorbitant rates; basic commodities disappeared from the formal market and could be found from the black market; and skyrocketing prices for goods and services to match the real value against the US dollar. In addition to these challenges, the US dollar disappeared from the formal market and severe cash shortages persisted and depositors could not access cash from the banks. There was also the disappearance of basic commodities from the formal market, which promoted a multiple pricing system of goods and services resulting in a threat to consumer welfare (Sibanda, 2019). Other consequences of the disappearance of the US dollar from circulation was the continued rise in inflation rate and erratic procurement of fuel making it very difficult for the economy to recover. In the multiple pricing system, goods or services would have a price in US dollars and another one in the surrogate currency and it would be more expensive in the surrogate currency. This would disadvantage those people who could not access the US dollar.

#### **5.1.4. Financial reporting under the surrogate currency**

Those practicing accountancy professionals were not spared by the effects of the introduction of the surrogate currency. They raised some concerns that emerged from the execution of the RBZ measures that were put in place to facilitate and guide the use of the surrogate currency. These measures were reported to have created challenges in financial reporting (PAAB Zimbabwe 2018). The introduction of the surrogate currency posed serious challenges by creating more work for those companies that had to report within prescribed International Financial Reporting Standards (IFRS), among other challenges.

### **6. Conclusion and recommendations**

The RBZ enacted a series of exchange control operational guidelines and compliance frameworks to ease the liquidity crisis and augment the economy. One of the policy provisions was to introduce the surrogate currency to address the liquidity crisis affecting the country. It was against this background that this study sought to explore the effects of the introduction of the surrogate currency to address the liquidity crisis in Zimbabwe. Critical issues that emerged from the literature review in this paper are the following: The introduction of surrogate currency led to the emergence of bad money, as propounded by Gresham's law of currency systems.

Consequently, the surrogate currency rapidly lost its value and the introduction of surrogate currency failed to address the liquidity crisis. Instead, this introduction created other socio-economic challenges, and financial reporting under the surrogate currency became a challenge. The study, therefore, recommends the withdrawal of the surrogate currency and the use of multicurrency and promotes the products for exports to attract more foreign currency into the economy. Additionally, the attraction of meaningful foreign investment and comprehensive reforms are recommended to address the perennial liquidity crisis. In terms of further research, a paucity of research on how the surrogate currency impacted the Zimbabwean economy should be explored further by field research. Therefore, the paper recommends field research on how surrogate currency impacted the Zimbabwean economy.

The study has been premised on the literature review of authoritative documents, including peer-reviewed articles published within the past ten years, media reports, reports from accounting professional bodies in Zimbabwe, and internet blogs covering the liquidity crisis in Zimbabwe and the surrogate currency to come up with the conclusion on the impact of surrogate currency on the liquidity crisis in Zimbabwe. It is essential to conduct the same study by using survey data to assess the impact of surrogate currency on addressing the liquidity crisis and by including the firsthand experience of small business owners and people regarding the impact of surrogate currency on their lives in Zimbabwe.

## References

- Aaron, L., 2008. Writing a literature review article. *Radiologic Technology*, 80(2), pp. 185-186.
- Abdelaziz, K., 2018. Cash runs out in Khartoum as Sudan tries to halt the economic crisis. *Reuters*, 12 November. [online] Available at: <<https://www.reuters.com/article/us-sudan-economy/cash-runs-out-in-khartoum-as-sudan-tries-to-halt-economic-crisis-idUSKCN1NH1N4>> [Accessed on 21 August 2021].
- Amihud, Y., Mendelson, H., and Pedersen, L. H., 2012. *Market liquidity: asset pricing, risk, and crises*. Cambridge: Cambridge University Press. <https://doi.org/10.1017/CBO9780511844393>
- Baglioni, A. and Monticini, A., 2010. The intraday interest rate under a liquidity crisis: the case of August 2007. *Economics Letters*, 107(2), pp. 198-200. <https://doi.org/10.1016/j.econlet.2010.01.023>
- Beaumont, P. and Salih, Z. M., 2019. 'Where is our money?' Sudan's currency crisis deepens. *The Guardian*, 9 May. [online] Available at: <<https://www.theguardian.com/world/2019/may/09/where-is-our-money-sudan-currency-crisis-deepens>> [Accessed on 21 August 2021]
- Borio, C., 2010. Ten propositions about liquidity crises. *CESifo Economic Studies*, 56(1), pp. 70-95. <https://doi.org/10.1093/cesifo/ifp031>
- Chidakwa, A. M. and Munhapedzi, R. N., 2017. Investigating the impact of dollarization on economic growth: a case of Zimbabwe. *Expert Journal of Finance*, 5(1), pp. 12-20.
- Chinjova, F. and Zinhumwe, R., 2019. Causes of liquidity crisis in Zimbabwe after the adoption of the multicurrency in 2009. *International Journal of Research and Innovation in Social Science*, 3(10), pp. 150-153.
- Cornett, M. M., McNutt, J. J., Strahan, P. E., and Tehranian, H., 2011. Liquidity risk management and credit supply in the financial crisis. *Journal of Financial Economics*, 101(2), pp. 297-312. <https://doi.org/10.1016/j.jfineco.2011.03.001>
- Dlamini, B., and Mbirira, L., 2017. The current Zimbabwean liquidity crisis: a review of its precipitates. *Journal of Economics and Behavioral Studies*, 9(3J), pp. 212-219. [https://doi.org/10.22610/jebbs.v9i3\(J\).1760](https://doi.org/10.22610/jebbs.v9i3(J).1760)
- Dzirutwe, M., 2016. Zimbabwe's Mugabe says 'surrogate currency' will prevent dollar outflow. *Reuters*, June 9. [online] Available at: <<https://in.reuters.com/article/zimbabwe-currency-idINKCN0YV20C>> [Accessed on 21 August 2021].

- Dzirutwe, M., 2017. IMF says surrogate currency will not solve Zimbabwe's economic problems. *Reuters*, 21 April. [online] Available at: <<https://www.reuters.com/article/idUSL8N1HW4BJ>> [Accessed on 21 August 2021].
- Gkritsi, E., 2016. Surrogate currency in Zimbabwe causes fears of inflation. *Borgen Magazine*, 8 December. [online] Available at: <<https://www.borgenmagazine.com/surrogate-currency-in-zimbabwe/>> [Accessed on 21 August 2021].
- Greenfield, R. L. and Rockoff, H., 1995. Gresham's law in nineteenth-century America. *Journal of Money, Credit and Banking*, 27(4), pp. 1086-1098. <https://doi.org/10.2307/2077791>
- Harrison, E., 2004. The 'cancer' of corruption. In: Italo Pardo, eds. 2004. *Between morality and law: Corruption, anthropology and comparative society*. Hampshire: Ashgate Publishing Limited.
- Hussein, K. A. and Nos'hy, A., 2000. *What caused the liquidity crisis in Egypt*. Budapest: International Center for Economic Growth (ICEG). [online] Available at: <[https://www.academia.edu/34710719/What\\_caused\\_the\\_liquidity\\_crisis\\_in\\_Egypt](https://www.academia.edu/34710719/What_caused_the_liquidity_crisis_in_Egypt)> [Accessed on 1 September 2021].
- Hyde, M., 2012. The alternative guide to solving Egypt's economic crisis. *Egypt Independent*, 21 September. [online] Available at: <<https://egyptindependent.com/alternative-guide-solving-egypt-s-economic-crisis/>> [Accessed on 21 August 2021].
- Juneja, P., 2018. Desk research – methodology and techniques. *Management Study Guide*. [online] Available at: <<https://www.managementstudyguide.com/desk-research.htm>> [Accessed 21 August 2021].
- Karilaid, I. and Talpsepp, T., 2010. Can policy improve liquidity during a financial crisis? *Baltic Journal of Economics*, 10(2), pp. 5-26. <https://doi.org/10.1080/1406099X.2010.10840476>
- Karilaid, I., Talpsepp, T., and Vaarmets, T., 2014. Implications of the liquidity crisis in the Baltic-Nordic region. *Baltic Journal of Economics*, 14(1-2), pp. 35-54. <https://doi.org/10.1080/1406099X.2014.949603>
- Khumalo, K., 2017. Timeline: the economic meltdown of Zimbabwe. *Independent Online*, 15 November. [online] Available at: <<https://www.iol.co.za/business-report/international/timeline-the-economic-meltdown-of-zimbabwe-12009732>> [Accessed on 21 August 2021].
- Kurauone, O., Kong, Y., Mago, S., Sun, H., Famba, T., and Muzamhindo, S., 2020 Tax evasion, political/public corruption and increased taxation: evidence from Zimbabwe. *Journal of Financial Crime*, 28(1), pp. 300-319. <https://doi.org/10.1108/JFC-07-2020-0133>
- Kuyedzwa, C., 2019. What's in a name? All you need to know about Zim's new currency. *news24*, 15 March. [online] Available at: <<https://www.news24.com/fin24/economy/africa/whats-in-a-name-all-you-need-to-know-about-zims-new-currency-20190315>> [Accessed on 21 August 2021].
- Matanda, E., Dube, H., and Madzokere, N., 2018. Blessing or curse? Introduction of bond notes as an antidote to Zimbabwe's liquidity crises. *Journal of Modern Accounting and Auditing*, 14(5), pp. 252-264. <https://doi.org/10.17265/1548-6583/2018.05.002>
- Mhlanga, D. and Denhere, V., 2021. Determinants of financial inclusion in Southern Africa. *Studia Universitatis Babeş Bolyai - Oeconomica*, 65(3), pp. 39-52. <https://doi.org/10.2478/subboec-2020-0014>
- Mhlanga, D. and Dunga, S. H., 2020. Measuring financial inclusion and its determinants among the smallholder farmers in Zimbabwe: an empirical study. *Eurasian Journal of Business and Management*, 8(3), pp. 266-281. <https://doi.org/10.15604/ejbm.2020.08.03.008>
- Mhlanga, D., 2020. *Financial inclusion and poverty reduction: evidence from small scale agricultural sector in Manicaland Province of Zimbabwe*. PhD Thesis. North-West University: South Africa. [online] Available at: <[https://repository.nwu.ac.za/bitstream/handle/10394/34656/Mhlanga\\_D\\_31429505.pdf?sequence=1&isAllowed=y](https://repository.nwu.ac.za/bitstream/handle/10394/34656/Mhlanga_D_31429505.pdf?sequence=1&isAllowed=y)> [Accessed on 21 August 2021].
- Mhlanga, D., 2021. Financial access and poverty reduction in agriculture: a case of households in manicaland province, Zimbabwe. *African Journal of Business and Economic Research*, 16(2), pp. 73-95. <https://doi.org/10.31920/1750-4562/2021/v16n2a4>

- Moyo, S., 2014. Corruption in Zimbabwe: an examination of the roles of the state and civil society in combating corruption. Thesis. The University of Central Lancashire: U.K. [online] Available at: <[https://repository.nwu.ac.za/bitstream/handle/10394/34656/Mhlanga\\_D\\_31429505.pdf?sequence=1&isAllowed=y](https://repository.nwu.ac.za/bitstream/handle/10394/34656/Mhlanga_D_31429505.pdf?sequence=1&isAllowed=y)> [Accessed on 21 August 2021].
- Mundell, R., 1998. Uses and abuses of Gresham's law in the history of money. *Zagreb Journal of Economics*, 2(2), pp. 3-38.
- Muronzi, C., 2019. Zimbabwe is getting another 'new' currency. *Al Jazeera*, 10 October. [online] Available at: <<https://www.aljazeera.com/economy/2019/10/29/zimbabwe-is-getting-another-new-currency>> [Accessed on 21 August 2021].
- Public Accountants and Auditors Board (PAAB), 2018. Currency considerations in the Zimbabwean context. [online] Available at: <[https://www.icaaz.org.zw/imisDoca/Currency%20Considerations%20in%20Zimbabwean%20Context%20\\_2018.pdf](https://www.icaaz.org.zw/imisDoca/Currency%20Considerations%20in%20Zimbabwean%20Context%20_2018.pdf)> [Accessed on 21 August 2021]. <https://doi.org/10.1002/wilm.10687>
- Reuters, 2016. IMF discusses Zimbabwe's 'surrogate currency'. Reuters, 1 November, [online] Available at: <<https://www.reuters.com/article/uk-zimbabwe-currency-idUKKBN12W35I>> [Accessed 21 August 2021].
- Sakarombe, U. and Marabada, N. D., 2017. Electronic money or cash? In face of liquidity crisis in Zimbabwe. *International Journal of Academic Research in Business and Social Sciences*, 7(11), pp. 2222-6990. <https://doi.org/10.6007/IJARBS/v7-i11/3433>
- Sibanda, B., 2019. Zimbabwe's monetary policy regime and the cash crisis. Policy Brief: Parliament of Zimbabwe.
- Southall, R. J., 2017. Bond notes, borrowing, and heading for bust: Zimbabwe's persistent crisis. *Canadian Journal of African Studies/Revue canadienne des études africaines*, 51(3) pp. 389-405. <https://doi.org/10.1080/00083968.2017.1411285>
- Sparavigna, A. C., 2014. Some notes on the Gresham's law of money circulation. *International Journal of Sciences*, 3(2), pp. 80-91. <https://doi.org/10.18483/ijSci.417>
- State Information Service, 2018. IMF: Egyptian banking system enjoys liquidity, good profitability. [online] Available at: <<https://www.sis.gov.eg/Story/132251?lang=en-us>> [Accessed on 21 August 2021]
- Sullivan, N., 2005. Gresham's law, fact or falsehood. *Student Economic Review*, 19, pp. 17-25.
- Travis, D., 2016. Desk Research: the what, why and how. *Userfocus*, 4 January. [online] Available at: <<https://www.userfocus.co.uk/articles/desk-research-the-what-why-and-how.html>> [Accessed on 21 August 2021].
- Uneke, O., 2010. Corruption in Africa South of the Sahara: bureaucratic facilitator or handicap development? *Journal of Pan African Studies*, 3(6), pp. 111-128.
- United Nations Human Rights Council (UNHRC). 2019. Once the breadbasket of Africa, Zimbabwe now on brink of man-made starvation, UN rights expert warns. *ReliefWeb*, 28 November. [online] Available at: <<https://reliefweb.int/report/zimbabwe/once-breadbasket-africa-zimbabwe-now-brink-man-made-starvation-un-rights-expert>> [Accessed on 21 August 2021].
- World Bank, 2011. Report on the observance of standards and codes (ROSC) Zimbabwe. [online] Available at: <<https://documents1.worldbank.org/curated/en/209411468167384541/pdf/625750WPOROSC000Box0361486B0PUBLIC0.pdf>> [Accessed on 21 August 2021].