Poverty
Reduction Forum
Trust

PRFT Socio-economic Policy Dialogue Series

THEMATIC PAPER ON THE SOCIO-ECONOMIC IMPLICATIONS OF THE CASH SHORTAGES ON THE POOR IN ZIMBABWE

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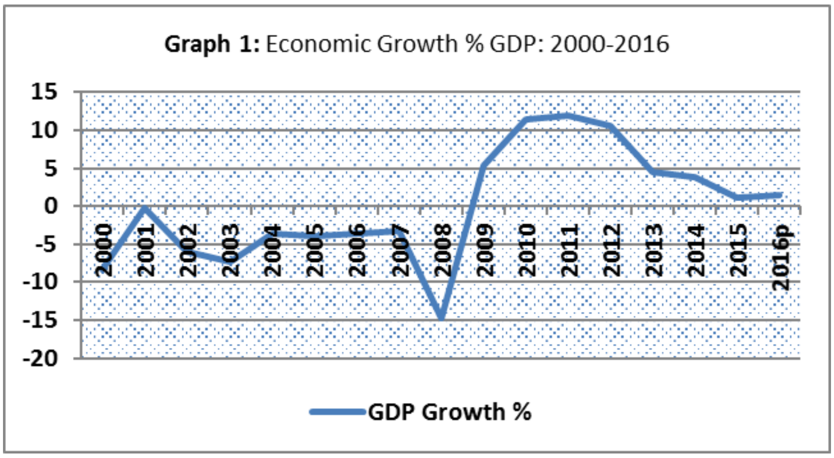
LIST OF ACRONYMS

AFRODAD	African Forum and Network on Debt and Development
BoP	Balance of Payments
CABS	Central Africa Building Society
CBZ	Commercial Bank of Zimbabwe
CZI	Confederation of Zimbabwe Industry
FBC	First Banking Corporation
FDI	Foreign Direct Investment
GFI	Global Financial Integrity
GNU	Government of National Unity
HDI	Human Development Index
IFFs	Illicit Financial Flows
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
NSA	Non State Actors
POSB	People's Own Savings Bank
PRFT	Poverty Reduction Forum Trust
RBZ	Reserve Bank of Zimbabwe
RTGs	Real Time Gross Settlement
SADC	Southern African Development Community
TBs	Treasury Bills
ZCTU	Zimbabwe Confederation of Trade Unions
ZIMRA	Zimbabwe Revenue Authority

Table of Contents

1.0 INTRODUCTION AND CONTEXT

Zimbabwe's economy experienced difficulties resulting in significant contraction between 1998 and 2008. The Zimbabwe dollar lost more than 99% of its value against the United States dollar between June 2007 and June 2008 as hyperinflation destroyed the economy (Hanke, 2016). By the end of 2008 Zimbabwe's Gross Domestic Product (GDP), had cumulatively declined by 54% since 1999 according to the IMF (2009) estimates, with hyperinflation last officially recorded at 231 million percent by July 2008. Key productive sectors of the economy, that is; agriculture, mining and manufacturing, were severely affected by the weak macroeconomic regime that subsisted then, with the country losing a full decade of potential economic expansion to higher production frontiers. The domestic currency became worthless so that by October 2008 it had virtually disappeared from circulation and the pricing of goods and services was conducted in foreign currency (Makina. D: 2016). A thriving informal economy has grown in response to the structural changes in the productive sector that has been characterised by significant downsizing in response to the subdued economic scenario. The attendant loss in productive capacity then, exacerbated de-industrialisation resulting in negligible capital formation, a trend that has subsisted to today, with no immediate respite in the absence of any meaningful capital inflows to anchor economic recovery.



Source: *GoZ Statistics*

The introduction of the multi-currency system in 2009, coupled with improvements in fiscal discipline and liberalised business environment, ushered in price stability whilst also restoring market confidence[1]. What is also worth noting is that the transition

[1] According to the Confederation of Zimbabwe Industries[1] (CZI) capacity utilisation at enterprise level improved from 32.3 per cent in 2009 to 43.7 per cent in 2010 and 57.2 per cent in 2011 owing to the stabilising effects of the multi-currency regime, and upturn in business confidence before declining to 44.9 per cent in 2012, 39.6 per cent in 2013, 36.5 per cent in 2014 and 34.4 per cent in 2015 as macroeconomic conditions weakened and the economy slipped into fragile mode.

from the local currency to a multi-currency regime, or rather dollarization was not through a government decree/law, but rather a response by government to hedging position that the market (population and business) had since taken. This has largely weakened the government's position in managing the multi-currency regime to date. On introduction of the multi-currency system, trillions and quintillions in Zimbabwe dollar became worthless overnight, effectively wiping out people's lifesavings, corporate savings and insurance policies (Hanke, 2016).

Dollarization – What is it all about?
"Dollarization is term used when a country adopts another country's currency not necessarily the United States Dollar (US$). It is usually adopted as a stabilisation measure when a country faces acute macroeconomic instability in the form of runaway hyperinflation that renders the domestic currency worthless2. Such a currency becomes an optimal currency determined by trade and financial links of a country that is dollarizing. Furthermore, it should be a currency of a country with which the dollarizing country has more or less similar production structures and economic cycles. Similarly, dollarized Latin American countries –Ecuador, El Salvador and Panama- use the dollar as their currency because of their strong trade links with the USA. In the case of Zimbabwe, the obvious currency of choice was the rand because of strong trade and financial links with South Africa. Zimbabwe has a similar production structure with South Africa. The two countries also tend to face similar economic shocks thereby making a common monetary regime"[3].

With the adoption of a multi-currency system prospects for economic growth brightened and GDP rebounded from -14.8 per cent in 2008 to 5.7 per cent in 2009, before peaking at 10.6 per cent in 2012 (the highest since dollarisation). **Graph 1** shows these economic trends. However, despite these positive economic trends, developments beyond this phase to date have been characterised by a protracted depression in economic performance, with the economy registering a sluggish trend since 2013. This has been due to structural weaknesses associated with limited capital resources and deficient infrastructure. Tight liquidity conditions and weakening domestic demand have dented any meaningful prospects for a quick turn-around in economic fortunes, thus the economy remains fragile.

Given these weakening economic fundamentals poverty and economic hardships have worsened for both the urban and rural poor. According to the ZimStat[4] Poverty Report on the 2011-2012 Poverty Income Expenditure and Survey (PICES) Survey, 72.3% of Zimbabweans are poor, whilst 16.2% of the households are in extreme poverty. Poverty is most prevalent in rural areas, where 84.3% of people are deemed poor and 30.4% extremely poor. The 2013 United Nations Human Development Index (HDI) ranks Zimbabwe among low human development

[2] Makina. D, 2016, "Study on Zimbabwe's Macroeconomic stability and Policy Options", USAID-SERA, August 2016.
[3] Ibid, page 12.
[4] This is the Zimbabwean Government's national statistical agency.

countries: 172nd out of 186 countries compared to 1998, when it ranked 130th out of 174 countries.

CHAPTER 2: WHY WAS THE STUDY UNDERTAKEN?

2.0 Objectives of the Study

The primary objective of the research is to investigate the impact of the current cash shortages and its implications on the livelihoods of the poor in Zimbabwe. The specific objectives of the study are detailed under **Box 1**.

BOX 1: TERMS OF REFERENCE FOR THE STUDY

- To bring awareness on the impact of the current cash shortages on the marginalised to inform appropriate policy choices to eradicate the problems.
- Critically review existing currency regime and assess its capacity to deliver stable financial system.
- Provide evidence on how the current monetary system in Zimbabwe has impacted on the banking sector, in particular its role and implications for the poor and marginalised.
- Provide evidence on how the poor (both urban and rural) have manged to mitigate the current cash shortage dilemma and how this has affected their welfare.
- Provide some recommendations and possible policy solutions to address the identified problems caused by cash shortages.

2.1. Justification for the Study

Poverty Reduction Forum Trust (PRFT) has been driven by the need to generate evidence-based policy advocacy messages on the current cash shortages to expand the knowledge base in this subject thus strengthen its capacity to engage government on possible reforms to improve the situation and hence minimise the impact of the cash crisis on the poor and marginalised segments of society in Zimbabwe. There is no doubt, that the poor are the most negatively affected during periods of economic crisis, more so given their spending patterns and weak savings capacity. This study was necessitated particularly by the deepening economic challenges that have seen the economy retreating from stability, growth and recovery (2009-2012), to the current fragile state (2013-2016).

2.2. Methodology

Desk research

The Study methodology included the analysis of secondary data through gleaning through publications generated by both the public sector and private sector, and Non-State Actors (NSA) on the subject matter. This included National Budget Statements, Reserve Bank of Zimbabwe monetary policy statements, World Bank

(WB), and Media publications. The researchers also reviewed publications by ZIMSTAT the national institution responsible for the generation of national statistics, ZimTrade, Ministry of Finance and Economic Development, Ministry of Industry and Commerce, as well as publications by industry lobby groups such as Confederation of Zimbabwe Industries, and Zimbabwe National Chamber of Commerce.

A comprehensive Desk review of Zimbabwe's currency regime, and recent trends was done. This covered critically combing the banking sector, recent developments and generating evidence on how the cash shortages has manifested itself and how people are coping with the challenges.

Primary Data Collection

The researchers also employed innovative tools to generate primary data for the research. This included participating in the banking crisis by queuing at banking halls for cash withdrawals, as well as targeting some vending and market sites to establish the nature of the challenges around the cash crisis. The researchers also made time to interview rural people on how they were coping with the cash crisis to in order to deepen the analysis of the challenges under investigation. This provided critical primary data and qualitative information to balance the research findings. The research also benefitted from a validation Workshop that was held on the subject to share the preliminary findings of the research that was held on 14th December 2016.

The Workshop drew participants from the government, Reserve Bank of Zimbabwe, civil society organisations, academia, and the media (See Appendix A) to provide a broad-based and inclusive interrogation of the cash crisis and implications on the poor.

2.3. Structure of the Paper

The Paper is divided into 5 chapters, with ***Chapter 1***: Introduction and Context Setting, ***Chapter 2:*** Objectives of the Study; ***Chapter 3***: Research Findings; ***Chapter 4***: Emerging Issues from the Research and ***Chapter 5***: Drawing some Conclusions and Policy Recommendations.

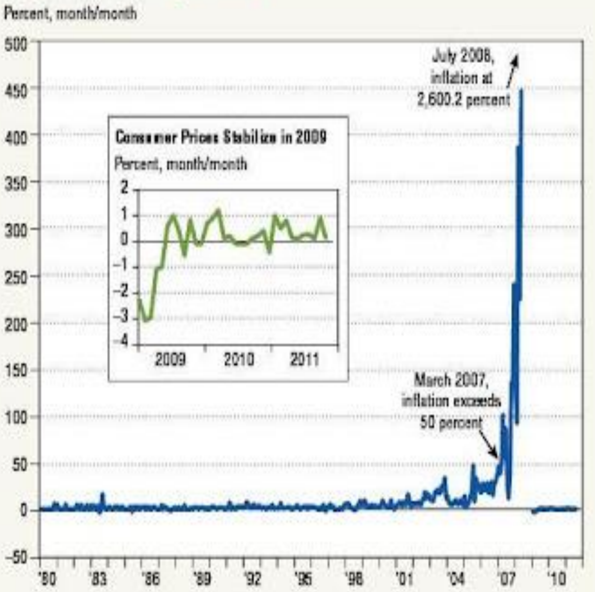
CHAPTER 3: UNPACKING THE RESEARCH FINDINGS

3.0 RESEARCH FINDINGS

3.1 Nature of the Cash Crisis in Zimbabwe

Since adopting a multi-currency[5] regime in 2009 which allowed the country to use the US$ among other currencies for transactions, the country has experienced both positive and negative gains from this policy development. Apart from the notable gains in economic stabilisation between 2009 and 2012, and transition from hyperinflation which had peaked at 128 million percent in July 2008 to current deflationary levels, foreign currency mobilisation has been weak. See **Chart 1** & **Table 1.** Our inflation picture beat historical records as amplified by the tabulated economies.

Chart 1
Zimbabwe Consumer Price Inflation Soars Amid Hyperinflationary Period



SOURCES: International Monetary Fund's International Financial Statistics database, Reserve Bank of Zimbabwe's *Monthly Economic Reviews*.

Table 1
Hyperinflation in History

Country	Year(s)	Highest inflation per month (percent)
France	1789–96	143.26
Germany	1920–23	29,525.71
Austria	1921–22	124.27
Poland	1921–24	187.54
Soviet Union	1922–24	278.72
Hungary	1923–24	82.18
Greece	1942–45	11,288
Hungary	1945–46	1.295×10^{16}
Taiwan	1945–49	398.73
China	1947–49	4,208.73
Bolivia	1984–86	120.39
Nicaragua	1986–89	126.62
Peru	1988–90	114.12
Argentina	1989–90	196.6
Poland	1989–90	77.33
Brazil	1989–93	84.32
Yugoslavia	1990	58.82
Azerbaijan	1991–94	118.09
Congo (Zaire)	1991–94	225
Kyrgyzstan	1992	157
Serbia	1992–94	309,000,000
Ukraine	1992–94	249
Georgia	1993–94	196.72
Armenia	1993–94	438.04
Turkmenistan	1993–96	62.5
Belarus	1994	53.4
Kazakhstan	1994	57
Tajikistan	1995	78.1
Bulgaria	1997	242.7
Zimbabwe	2007–09	2,600.2*

*Zimbabwe's last official month-to-month recording of inflation by the country's Central Statistics Office, July 2008, although estimates are much higher. The official annual rate recorded for July 2008 is 231 million percent, and the International Monetary Fund estimated the annual inflation rate for September 2008 at 489 billion percent.

SOURCE: *Monetary Regimes and Inflation: History, Economic and Political Relationships*, by Peter Bernholz, Northhampton, Mass.: Edward Elgar Publishing, 2003, Table 2.1.

Source: *www.preppergirluk.yolasite.com/barter-and-economy.php*

[5] Since adopting the multi-currency regime the basket of currencies for use has expanded significantly. The basket now has United States dollars, South African Rand, Euro, British Pound, Botswana Pula, Chinese Yuan, and Indian Rupee.

This slump in the mobilisation of foreign currency has limited the volume of available money or liquidity for financing economic activity. This has led to a biting cash shortage in recent months that has negatively affected business confidence, thus threatening economic stability.

Picture 1: Winding Bank Queues in Harare Central Business District

Source: *Own pictures taken 4th December, 2016*

The cash crisis in Zimbabwe has only become more pronounced in 2016 yet the indications of a pending crisis had surfaced during the second half of 2015. Virtually most financial institutions (including both traditional[6] and non-traditional banks) have experienced a significant surge in demand for cash, against a stressed liquidity position. Consumers have had to bear with the situation and brave the crisis through spending valuable time in long and winding bank queues to withdraw their salaries for transactional purposes as shown under **Picture 1**. The hardest hit institutions are the POSB, CABS, FBC, ZB Bank and to some extent CBZ which all have huge client bases[7].

It is critical that we define what constitutes a cash crisis and the much talked of liquidity crisis to ensure that the debate we provide is built around a common understanding.

Box 2: Defining Liquidity and Cash Crisis

Liquidity Crisis: This condition occurs when the economy does not have sufficient levels of money in circulation to support economic activity. This situation affects the financial system's ability to function properly. For instance, Banks's ability to carry out their intermediation role of mobilising deposits from surplus units (areas where more money is being generated than the need for its immediate use) of the economy and allocation to deficit units (areas where the demand for money is higher than what is available for immediate use). "A liquidity crisis is therefore, a negative financial situation characterized by a lack of cash flow. For a single

[6] Traditional banks covers those mainly owned by foreigners with most of these having been in Zimbabwe upon Independence in 1980. These include Standard Chartered Bank, Barclays Bank Zimbabwe, Stanbic, and CABS. Non-traditional banks are those that were established after Independence and mostly owned by locals. This includes Metropolitan Bank, BancAbc (until recently, 2015 when it was acquired by Atlas Mara), and NMB.

[7] Sunday Mail, 2016, ***"RBZ acts on cash Shortages",*** Sunday Mail, 18 December 2016, Business, page B2.

business it occurs when the otherwise solvent business does not have the liquid assets (i.e., cash) necessary to meet its short-term obligations, such as repaying its loans, paying its bills and paying its employees”[8].

The effects of a liquidity crisis are likely to be felt more directly at company level. Zimbabwe has had a liquidity crisis for a period ranging from 4 to 5 years due to the slowdown in economic activity as amplified through company closures, and weak export capacity, which has worsened depressed revenue collections by Government.

Cash Crisis: In the case of a cash crisis we need to acknowledge from the onset that cash is money in the form of notes and coins. In the Zimbabwean scenario cash is money in hand (US$, SA Rand, British Pound etc.), that is your hard currency at your disposal that you can use to buy goods and services. This does not include a Bank Cheque, because this not money readily available for use - a Bank cheque needs to be encashed to access the money. Zimbabwe has been experiencing seasonal cash shortages, for example since announcement of Civil Servants bonuses in October 2015, May 2016[9] and beyond, with this becoming more pressing and endemic as demand for cash to cover daily transactional needs has spiked.

A good example of a cash crisis is that of a farmer who has money in his bank as reflected by his credit balance statement, yet he is unable to withdraw the cash for use to buy his inputs or pay for his farm workers’ wages. In a similar case, a bank which has a strong credit balance in its Real Time Gross Settlement (RTGS) Account, yet it is unable to access this to import cash due to an inefficient process of funding the Nostro Account is suffering a cash crisis. A cash starved company or one facing shortages, ”does not have enough money to operate properly, usually because another organisation or government is not giving them the money they need”[10].

3.2 Why do we need to hold Cash?

Before delving into this technical area, it is key to provide light on the nature of the banking system in Zimbabwe and recent developments that have accounted for the current behavioural dynamics demonstrated by consumers’ need to hold more cash balances than save money. The Zimbabwean banking sector is currently experiencing serious confidence challenges that have been underplayed since the period prior to dollarization when the banking sector crisis of 2003 gripped the economy. During that phase, many traditional banks were placed under curatorship due to the collapse of corporate governance, and to date, not any one of these has made it back into mainstream banking. The structure of banking has therefore, changed significantly in tandem with the 2008 economic crisis that induced collapse of banks, that has seen the number of banks dropping by nearly 50% as shown under Graph 2 from 42 in 2002 to 23 in 2008 at the peak of the crisis. Over the last few years (2014 -2016) the number has stabilised at 19 banking institutions, with the most visible change being the disappearance of Discount houses and Finance houses.

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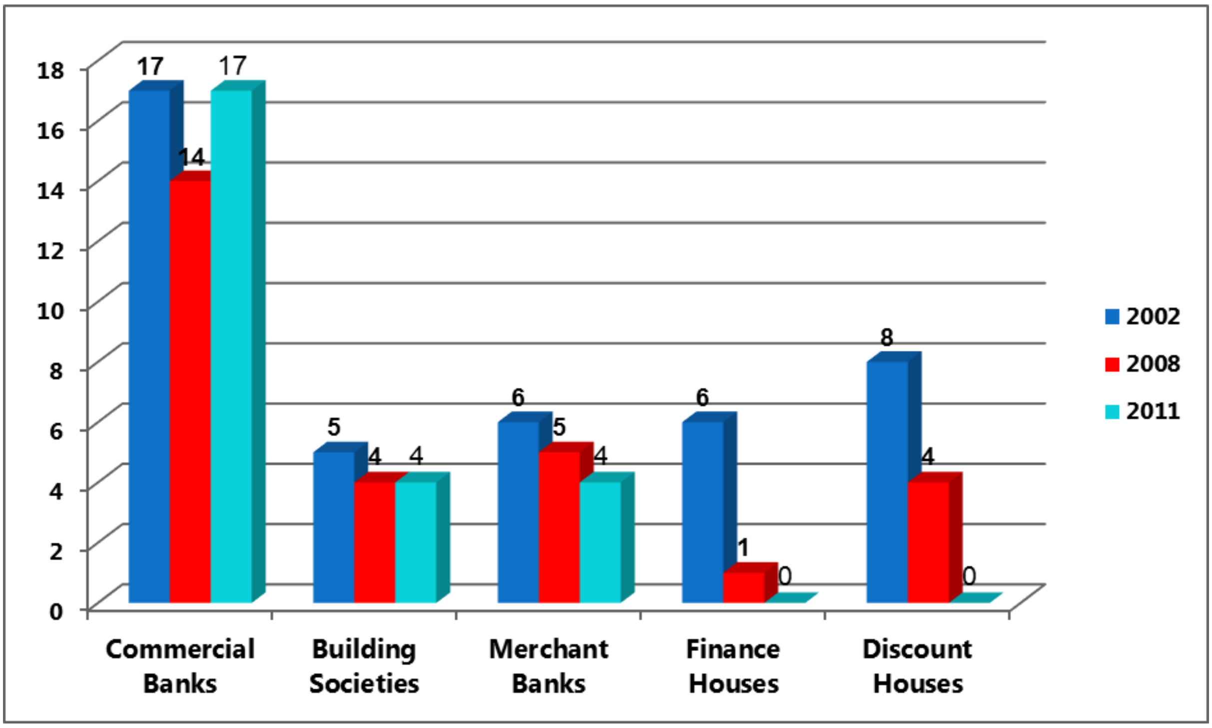
[8] Investopedia http://www.investopedia.com/terms/l/liquidity-crisis.asp#ixzz4WZlMJqfc

[9] With the RBZ Governor’s announcement in May 2016 that he will introduce Bond Notes the demand for cash has spiked beyond Banks’ capacity to accommodate.

[10] http://dictionary.reverso.net/english-cobuild/cash%20shortage

To make matters worse, despite the huge loses by consumers and corporate sector from the banking crisis, none of the perpetrators has been jailed, and though the RBZ has now amended the Banking Act to penalise offenders, the legislation has not been enacted in retrospect, thus leaving the sponsors of the banking crisis scot free.

Graph 2: Trends in banking structure, 2008-2011



***Source**: Reserve Bank of Zimbabwe publications*

These banks include, Kingdom Bank, Intermarket Banking Corporation, Genesis Bank, Interfin Banking Corporation, Royal Bank, Century Bank, ZABG, Allied Banking Corporation, Trust Bank, Time Bank, Renaissance Merchant Bank, and Barbican Bank. To date, though government has rolled out a programme to compensate depositors through the Deposit Protection Company (DPC), most depositors lost their hard-earned savings, and to date banking sector confidence has virtually collapsed, eroding any possible faith in the domestic banking system. During 2014, through the 2015 National Budget, government announced a policy to de-monetise all Zimbabwe dollar balances held with banks prior to February 2009, when dollarisation was effected. The demonetisation exercise which injected US$9 million into the banking system was undertaken from 15 June 2015 to 15 September 2015, against a background of mounting consumer despondence on the logic of the exercise, and unhappiness with the exchange rate used to convert Zimbabwe dollar balances to US$. Though noble, this was done rather belatedly, 6 years after the damage had been done, further denting banking sector confidence and the populace's general trust and faith in the banking system.

Against this background, Zimbabweans have not been utilising the banking system optimally, and hence not depositing much money into the system, which has no doubt compromised the role of banks as intermediaries between depositors and borrowers. This aside, it is critical to understand why people wish to hold money as this may help amplify the current cash crisis.

> In general terms, the main function of money in an economic system is to facilitate the exchange of goods and services and help in carrying out trade smoothly. Medium of exchange is the basic or primary function of money. People exchange goods and services through the medium of money. Money acts as a medium of exchange or as a medium of payments. Money, thus, acts as common medium of exchange, a common measure of value, as standard of deferred payments and a store of value[11.]

According Keynes (1935), people hold cash for three reasons, that is;

> **Why Hold Cash?**
>
> **Transaction Motive**: to pay for goods or services. It is useful for conducting everyday transactions or purchases.
> **Precautionary Motive**: it's a relatively safe investment. Cash investments rarely lose value (as can stocks or bonds) and are therefore, held for safety reasons.
> **Speculative Motive**: it can provide a return to their holders.

Thus, the transactions and precautionary motives are the most prominent reasons why the common person in the Zimbabwean context would want to hold money, that is to meet expenses as they come due. We are however, not insubordinating the speculative reasons for holding money. At a very practical level, we own cash investments to pay for our daily or monthly expenses, whilst at a more strategic level, it provides an investor with a way to control risk as well as gain a return on their investment[12].

In the Zimbabwean scenario, individuals and firms have lost trust in the banking system due to bank failures highlighted earlier that accounted for immeasurable losses to their hard-earned savings. Thus, largely driven by fear of the return of the Zimbabwean Dollar, consumers have found it prudent to hold their money at home rather than the banking system to contain the risks of what happened when the

[11] J. Singh, 2007, ***"Money: Meaning and Functions of Money – Discussed!",*** http://www.economicsdiscussion.net/money/money-meaning-and-functions-of-money-discussed/597Money

[12] http://www.money-zine.com/investing/investing/holding-cash/

Zimbabwe dollar collapsed. The Zimbabwean consumers have even coined a term for keeping their money at home (NMB- National Mattress Banking *sic*)

3.3 Cash Crisis – the Underlying Problems

The current financial sector challenges are a mirror image of the underlying collapse in the real economy which has been characterised by a significant collapse in productive capacity since 2000. This has manifested itself through loss of agriculture sector capacity, industrial sector capacity, and the economy remains incapacitated to reclaim its peak growth trends of 1996, when the economy was liberalised and GDP expanded by 12.6%, whilst exports scaled the US$3 billion. Since 2000 it has been difficult for the economy to generate export earnings on a sustainable basis, whilst the propensity to consume at the expense of savings has been high for both the private sector, consumers, and the government. Quite often we tend to lose focus of the real economic challenges and concentrate on symptoms. Zimbabwe's challenges are therefore, largely a result of an underperforming real sector (Gwanyanya, 2016).
The RBZ also equally agrees with this explanation of the crisis. In his Monetary Policy Statement for the second half of 2016 the Governor submitted that, during the period January – June 2016 the banking sector was exposed to cash shortages largely because of macro-economic challenges facing the country, including lack of fiscal space and the current account deficit. Thus, "the current liquidity crisis comes against a background of company closures, and retrenchments that reflect several underlying economic problems"13.

a) Weak Trade Performance – hence low liquidity generation

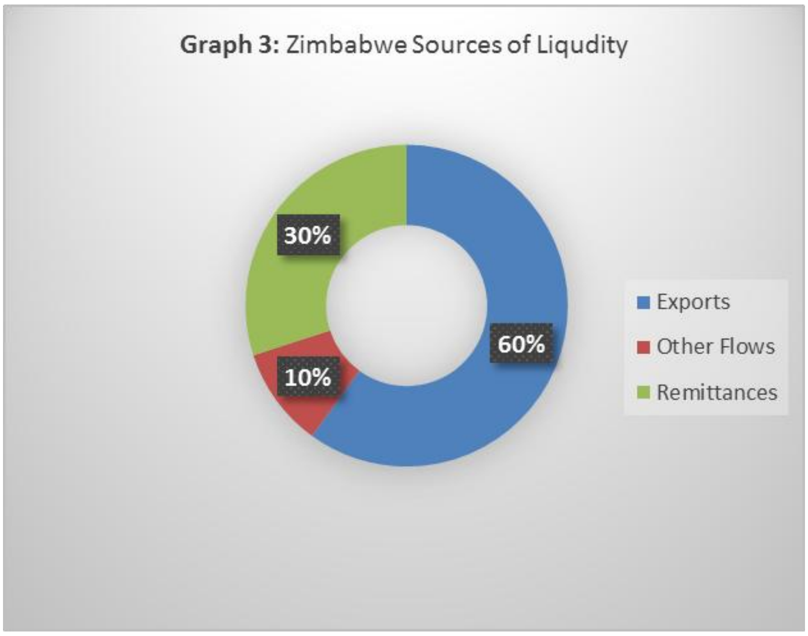
Since dollarization in 2009 Zimbabwe's trade performance has been rather mixed as shown under Table 1, threatening the country's capacity to generate the much needed liquidity to fuel economic activities, and hence GDP growth.

Table 1: Zimbabwe's trade picture, 2009-2016				
	Total Exports, US$	Total Imports, US$	Trade Balance, US$	Total Trade, US$
2009	2,249,744,640	6,207,349,167	(3,957,604,528)	8,457,093,807
2010	3,245,441,506	5,864,646,634	(2,619,205,129)	9,110,088,140
2011	3,557,374,988	8,596,194,755	(5,038,819,766)	12,153,569,743
2012	3,882,290,718	7,462,985,008	(3,580,694,290)	11,345,275,726
2013	3,507,296,016	7,704,185,950	(4,196,889,934)	11,211,481,966
2014	3,063,736,610	6,379,758,045	(3,316,021,435)	9,443,494,654
2015	2,705,670,015	6,002,514,025	(3,296,844,010)	8,708,184,039

[13] Zimbabwe Independent, 2016, "Bond Notes hit by lack of Confidence", Zimbabwe Independent Business, page B4.

2016	2,837,388,497	5,212,984,413	(2,375,595,916)	8,050,372,910
Source: ZimTrade, and ZimStat				

According to the 2017 National Budget, export receipts represent the economy's anchor source of the economy and banking sector liquidity, followed by remittances at 30% as shown under Graph 3. Remittances which had maintained an upward trend since 2009, rising from US$300.7million to peak at US$935 million in 2015, slowed down toUS$780.1 million in 2016.

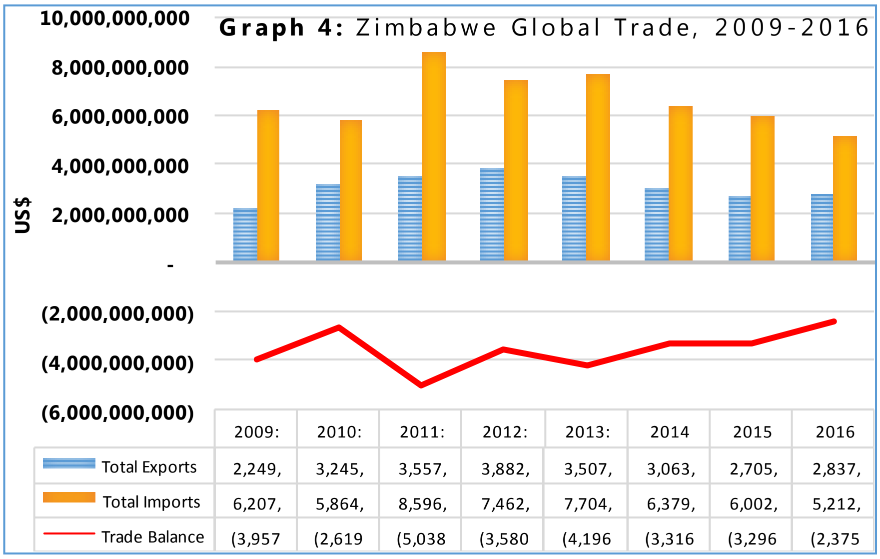


Source: Reserve Bank of Zimbabwe

"Within the context of the multiple currency system, monetary and liquidity developments in the country remain closely linked to developments on the Balance of Payments (BoP). The external sector is a critical source of liquidity in the economy"14. Exports, after spiking by 77.2% from US$2.2 billion in 2009 to a peak of US$3.9 billion in 2012, the trend has retreated significantly by 28.2% to $2.8 billion in 2016. On the other hand, imports have largely remained on an upward trend and surpassing exports from US$6.2billion in 2009, peaking at $7.7 billion in 2013. Though imports have slowed down from this peak by 32.5% to US$5.2 billion following recent measures to reduce importation of non-essential goods as well as acute liquidity challenges, they have maintained a level higher than exports. This has been amplified by the trade balance picture in Graph 4 which has ranged between

[14] Reserve Bank of Zimbabwe, 2016, *"Mid-Year Monetary Policy Statement"*, September, 2016; page 22.

US$2.2billion and US$5 billion, during the period, to account for a cumulative imbalance of US$28.4 billion over the last 7 years.



Source: *ZimTrade and ZimStat*

It is therefore quite apparent that outflows from Zimbabwe to its trading partners significantly outweigh inflows given that local production capacity is limited and exports are low. Zimbabwe spends more than it earns, as confirmed by the above picture that has revealed that since dollarization the country has maintained a trade deficit, implying that we are a net importer and hence financing other economies' growth and job creation capacity. Low export levels have meant constrained ability to generate liquidity, while imports continue to haemorrhage the limited liquidity (Gwanyanya, 2016). According to the Reserve Bank of Zimbabwe, (2016), the decline in export and import performance reflects the overall slowdown in economic activity emanating from the drought induced contraction in agriculture, depressed commodity prices, suppressed capacity utilisation in the manufacturing sector, as well as continued difficulties in accessing external lines of credit. Makina, (2016) also agrees to this explanation, noting that the major source of liquidity - exports of tobacco, gold, chrome, platinum and diamonds, have been hard hit by low commodity prices. He further submits that the problem of cash is worsened by an increasing mismatch between bank balances and hard cash in bank vaults and Nostro Accounts (foreign currency accounts held in correspondent banks).

Zimbabwe's unsustainable trade and current account deficit, poor balance of payments (Bop) as well as revenue leakages and an uneven distribution of liquidity in the market are the major reasons behind the prevailing serious cash shortages buffeting the economy[15]. The worsening trade imbalances and inclination towards holding or externalising physical cash have continued to drain cash balances from circulation in the economy, and the adverse effects are being transmitted to the

[15] Mpofu. B, 2016, ***"Why there is a cash crisis in the market",*** The Independent Zimbabwe, 29 April 2016.

banking sector manifesting in cash shortages at banking institutions, (RBZ, 2016). Given this trade picture and exports being the main source of liquidity, "Zimbabwe's liquidity challenges require far more reaching measures to rein imports"16 more so given the household, government and corporate sector bias in foreign currency use towards consumption.

Overall, transforming the economy from a consumptive to a productive one requires fiscal discipline, production discipline, policy discipline and message and communication discipline to achieve optimal levels of turnaround (RBZ Monetary Policy Statement, September 2016; 9).

b) Low Foreign Direct Investment (FDI) inflows and low Savings position

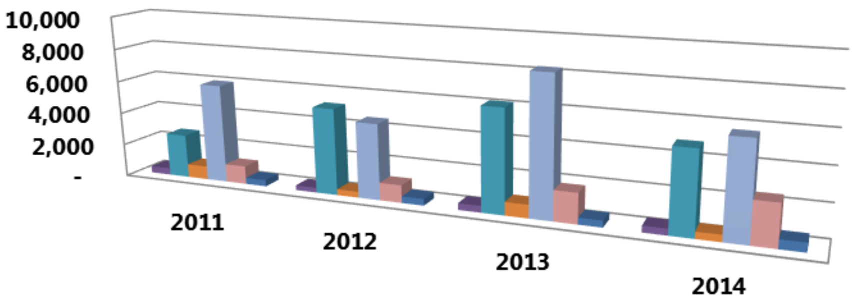
Apart from Zimbabwe being a high cost investment destination, an added challenge has been that of an unstable, inconsistent and unpredictable economic policy environment. The need to engender a predictable, stable, and credible policy regime has been identified as key to facilitating medium-to- long-term business planning. Such a policy regime started to evolve during the 2009-2013 period, but after that, the business enabling environment has been fraught with policy reversals, especially in the implementation of the Indigenisation and Economic Empowerment Act.

The business climate, on the other hand, affected by the limited access to foreign finance, unfinished business on land tenure and investment regulations, and high input costs, has not been conducive to attracting the much needed domestic and foreign investment, (RBZ Monetary Policy, September 2016), yet, FDI is a strategic source of untied liquidity injections into the economy.
Developments beyond 2008 have been characterised by investment policy inconsistencies, with this becoming more pronounced through an acceleration of the implementation of the Economic Empowerment and Indigenisation Act. The Act seeks to provide for a shareholding structure of 51% for locals and 49% for foreigners for both existing and new investors. Implementation of this law has been fraught with inconsistencies and is also perceived as a nationalisation of foreign assets. According to the UNCTAD and World Development Report for 2015, Zimbabwe's foreign direct investment inflows grew marginally from US$400 million in 2013 to US$545 million in 2014, yet regional countries have mobilised billions worth of foreign capital inflows. Zimbabwe's 2014 FDI inflows were paltry in comparison to other SADC countries: Mozambique US$4.9 billion, South Africa, US$5.7 billion, and Zambia, $2.4 billion as shown under Graph 5.

[16] Makaha. N, 2016*, **"Cash Shortages - the real causes and Wrong Diagnosis"**, 5 May, 2016;* http://source.co.zw/2016/05/opinion-cash-shortages-the-real-causes-and-the-wrong-diagnosis/

The situation has not improved much beyond 2014, "with FDI increasingly becoming a trickle, having fallen from $545 million in 2014 to $421 million in 2015 due to uncertainties stemming from the Indigenisation Act, expensive cost structure, regulatory burden, labour market rigidities, ease of doing business among other negative parameters"17. "Against this context, it is quite evident that Zimbabwe is in dire need of investment and does not have the luxury of setting strict standards18 that scare investors away. What it needs most is to lure investors to re-tool industry and resuscitate dying businesses, Zimbabwe needs foreign investment. But indigenisation is seen as an impediment". 19 A liquidity crunch that emanates from lack of fresh capital as foreign investors fret over Indigenisation and general lack of policy consistency took a toll on the fragile economy and was by November 2015 to culminate into a deep cash crisis that has worsened by the day (Zimbabwe Independent: 23-12-16).

Graph 5: Selected Regional Foreign investment inflows US$' million, 2011-2014



	2011	2012	2013	2014
Botswana	414	293	399	393
Mozambique	2,663	5,218	6,175	4,902
Namibia	816	357	801	414
South Africa	6,004	4,572	8,300	5,712
Zambia	1,108	1,066	1,810	2,484
Zimbabwe	387	400	400	545

Source: *UNCTAD Reports.*

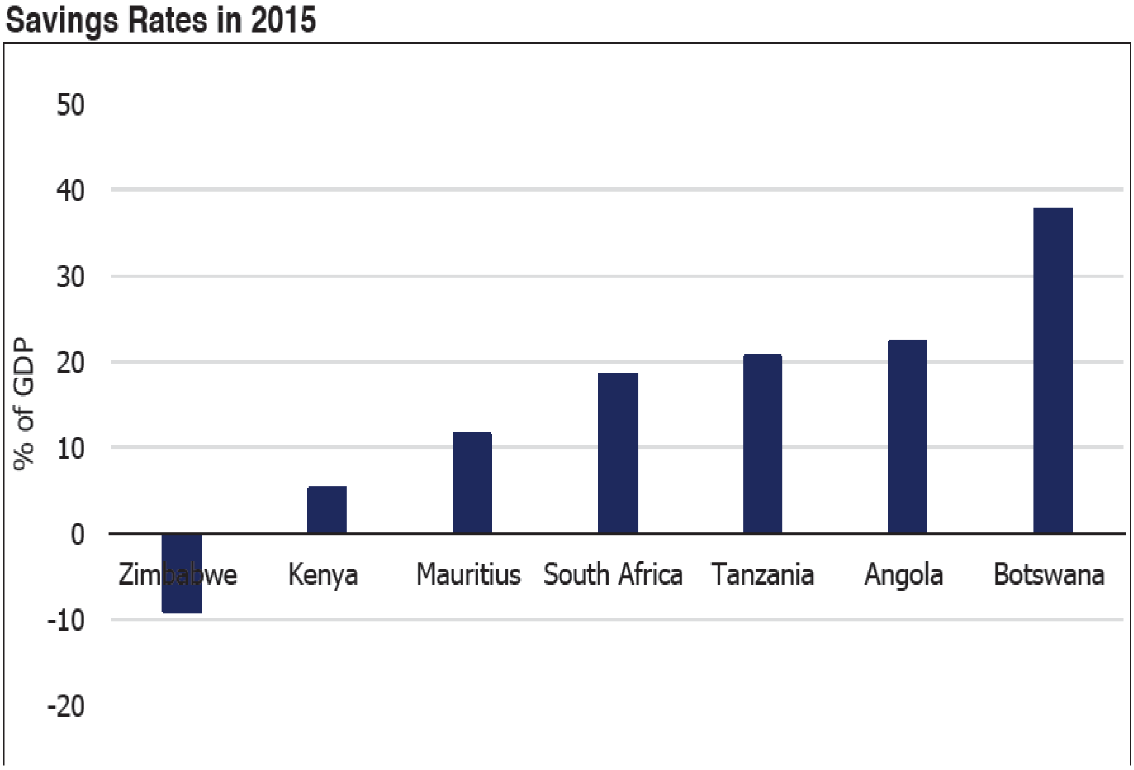
[17] Makina. D, 2016, "*Study on Zimbabwe's Macroeconomic Stability and Policy Options",* Study on behalf of the CONFEREDERATION OF Zimbabwe Industries, and NECF;, USAID-SERA, August 2016.

[18] Indigenisation and Economic Empowerment Act

[19] **A. Magaisa, 2015, "*The trouble with Zimbabwe's Indigenisation Policy*", October 2015; http://nehandaradio.com/2015/10/21/the-trouble-with-zimbabwes-indigenisation-policy/#sthash.jE2nU7i6.dpuf**

Zimbabwe is now attracting investment levels comparable to Namibia and Botswana, both of which have small populations of around 2 million people, and an inferior resource endowment. The difference is not even explained by the incentive structures but by the competitiveness of the economies and much friendlier investment climates. Zimbabwe's lack of adequate investment hinders employment, thereby negatively influencing the country's wider economic growth and development prospects. Unemployment in Zimbabwe was approximately 80% in 2012 (Biti, 2013, CSO, 2005) leading to a grip of poverty for the majority of the population (Sikwila, 2015). The country's political risk and investment risk profile have all remained negative, compromising the prospects for attracting foreign investment capital; and the domestic business environment has therefore, remained largely uncompetitive, limiting business viability and profitability.

Graph 6: Zimbabwe Savings Rate in Comparison to Regional peers



Source: *World Bank*

For investment to expand domestic savings must also be buoyant, and reach 25% of GDP to sustained economic growth as demonstrated by the development experience of the East Asian Tigers, Taiwan, Japan, and Honk Kong. In the Zimbabwean case, savings capacity has virtually collapsed from peaks of 18% of GDP during the mid-eighties to current levels of -11%. According to the 2017 National Budget, the negative savings rate reflects a largely consumption driven society which does not bode well for economic development. For instance, the Budget Statement further notes, Zimbabwe is far from its regional peers' savings capacity that stand at 38%, 19% and 11% for Botswana, South Africa and Mauritius respectively, whilst Tanzania and Angola are above 20% as shown under **Graph 6.** Thus, both domestic savings and foreign and domestic investment remain subdued, further curtailing the scope for any meaningful capital formation needed to support economic recovery and eventual growth. There is need to re-industrialise the country and Foreign direct investment can ably provide the required resources to kick-start the industry given the high dissaving levels of 8% of GDP for 2015, (Gwanyanya, 2016).

It is therefore, imperative for Government, as part of economic revival initiatives to create the necessary policy infrastructure to, "attract both domestic and foreign investment to rejuvenate industry to generate adequate foreign exchange reserves to coushion the economy from external vulnerabilities"[20]. Gwanyanya (2016) reinforces in this thesis, emphasising the need for government to implement policies that attract and retain capital, both domestic and foreign. He doubts though whether this is feasible in practice, given the current wave of corruption which remains unchecked.

c) Shrinking Fiscal Space

Given the fragile state of the economy, and visible stagnation in economic growth where the GDP profile has flattened, the subdued economic regime has not helped the Government's revenue generation either. Coupled with the deflationary scenario on the back of a slump in aggregate demand because depressed incomes and massive unemployment, industrial capacity has remained weak. Despite launching Zimbabwe Agenda for Social and Economic Transformation (Zim-ASSET: 2013-2018) in 2013, the government has by and large operated under tight fiscal conditions, characterised by a shrinkage in the tax base, indicating declining fiscal revenues, mounting public deficit, as well as external and domestic debt as shown under **Table 2.**

Total Government revenues have remained flat from 2014 onwards, averaging $3.7 billion whilst expenditures have remained high at over $4 billion. "Growth in the public-sector wage bill in Zimbabwe has far outstripped growth in real GDP and this is not sustainable. For instance, in 2014, the growth in the public-sector wage bill was 16.5% compared to the real GDP growth rate of 3.1 per cent for the same year"[21]. Since 2009 the public-sector wage bill has been higher than tax revenues, a situation that is clearly unsustainable and explains the difficulties government is encountering in its endeavour to pay workers on time. With the public-sector wage and salary bill being one of the highest in the world at more than 90% as a share of fiscal revenues and inflation at -1.4% in deflation for two years now since 2014, real wages and

[20] RBZ Monetary Policy Statement, September 2016, page 21.
21 USAID-SERA, 2016.

salaries have increased, crowding out capital and social expenditure, thus undermining the economy's capacity to enhance employment and to be competitive (RBZ Monetary Policy Statement; September 2016). Under the current multi-currency regime, Zimbabwe cannot resort to monetary financing due to loss of monetary autonomy, hence the need to maintain balanced budgets, yet government has been running a deficit since 2012. For instance, since 2012 to 2016 the government has been recording budget deficits of $9.6 million (2012), $246 million (2013), $141.7 million (2014), and $123 million (2015).

The constrained fiscal space has imposed a binding constraint on government's capacity to finance key infrastructure investments such as energy to support private sector growth, whilst the de-industrialisation trend that has dogged the country since 2000, and attendant technological gaps, have curtailed prospects for a recovery of the productive sector in the medium- to- long-term. Government has been over the years building huge arrears on payment for utilities and private sector goods and services, thus strangling viability of industry and commerce. This public expenditure profile shows that government spending is skewed in favour of consumption, that is wages and salaries as opposed to investment in capital goods that anchor as a complimentary resource towards the growth of private sector investment and capacity.

Table 2: Zimbabwe Macroeconomic parameters, 2013-2017

	2013	2014	2015	2016	2017
Real GDP at market prices (million US$)	11,745	12,197	12328.8	12398.0	12604.6
Nominal GDP at market prices (Million us$)	13,490	14,197	14059	14165	14525
Real GDP Growth (%)	**4.5**	**3.8**	**1.1**	**0.6**	**1.7**
Inflation (Annual Average) %	1.6	-0.2	*-2.4*	*-0.4*	*1.1*
Government Accounts					
Revenues & Grants (Millions US$)	3,741	3,770	*3,737*	*3,528*	*3,700*
% of GDP	***27.7***	***26.6***	**26.6**	24.9	25.5
Expenditures & Net Lending (million US$)	3987	3912	4,119.6	4,593	4,100
% of GDP	*29.6*	*27.6*	29.3	32.4	28.2
Recurrent Expenditures	3,520	3,565	3,583	3,762	3,630
% of GDP	26.1	25.1	25	26	25
Current Operations	439.4	325.3	329.9	497.1	394.4
% of GDP	3.3	2.3	2.3	3.3	2.7
Employment Costs	2,344	2,583	2574.9	3137.9	3000
% of GDP	*17.4*	*18.2*	18	22	20
Capital Expenditure & Net lending	468	310	*536.8*	*831.5*	*520.0*
% of GDP	*3.5*	*2.2*	4	6	4
Balance of Payments Accounts					
Exports (million US$)	3,507	3,842	4001	3903	3846

Imports (million US$)	7,704	7,453	*7,553*	*6,893*	*7,085*
Current Account Balance (million US$)	-1810	-2435	-2,142	-1,494	-1,557
Source: *MOFED, 2017 Budget Strategy Paper; 2017 National Budget*					

During the year 2016, annual gross collections of revenues amounted to US$3.462 billion, 4% below the National Budget target of US$ 3.6 billion (ZIMRA, 2016). According to ZIMRA[22], annual revenue collections from corporate tax tumbled by 19.8% in 2016 to US$366.4 that is 7% below the budget, whilst corporate income tax debt grew by more than US$276.5 to close the year at US$751.49 million in comparison to US$474.97 million for 2015, signifying the stress industry and commerce has had to bear with. The weak performance of the company tax can be attributed to low profitability and tax evasion by companies. Low profitability are mainly due to cash shortages, low industrial capacity utilisation, high cost of utilities and insufficient credit lines"[23]. These negative economic developments are magnified by "statistics from ZCTU[24] that indicate that 229 companies closed in the first quarter of 2016, with the hotel catering sector hardest hit at 69 companies, mining sector 7 and engineering 5. In the second quarter of the year 148 companies folded from three sectors, namely construction, clothing and motoring. By the second half 262 companies had folded, that is 33 more than the same period in 2015"[25]. The report further notes that Ziscosteel sent its 3000 labour force into the streets empty handed when it shut down during the year, adding to the 4 610 companies that closed between 2011 and 2014 that accounted for the loss of 55 443 jobs (Zimbabwe Independent, 23-12-16; B4).

What is quite apparent, and what policy makers may not be factoring into their medium to long-term planning templates is that the current depressed trends in business viability, and profitability are a confirmation of the inevitable structural changes that have occurred in the economy, due to significant downsizing in the corporate sector that has given birth to a thriving and robust informal sector. According to ZimStats, the non-formal economy has grown significantly in recent years as confirmed by the share of informal employment to total employment that has risen from 84.2 per cent in 2011 to 94.5 per cent in 2014. This situation has not helped revenue collections, or even pension contributions with for instance "NSSA losing close to 17 752 contributors due to retrenchments and company closures during the period January to September 2016".[26]

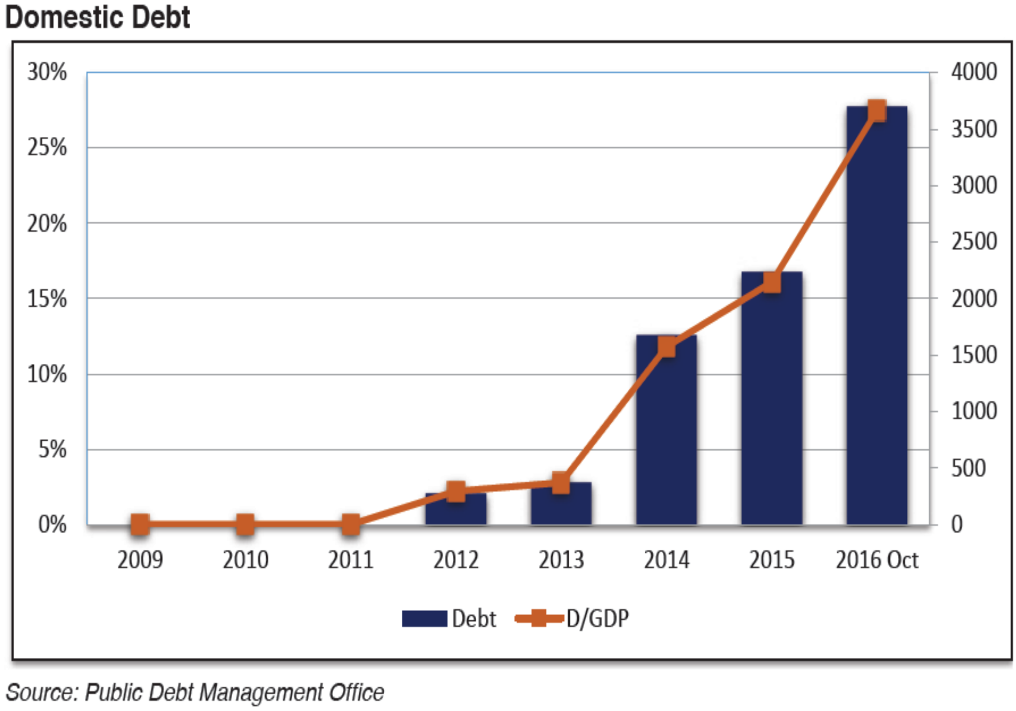
External Debt position

The persistent weakening in the macro-economic environment over the years has undermined the country's capacity to honour its obligations to creditors and the

[22] ZIMRA is the Zimbabwe Revenue Authority the national agency that collects national revenues.
[23] ZIMRA, Revenue Performance Report for the Year ended December 2016.
[24] ZCTU – Zimbabwe Congress of Trade Unions is the main labour union in Zimbabwe.
[25] Zimbabwe Independent, "Massive job losses in 2016", Zimbabwe Independent, 23-12-16, page B4.
[26] *Ibid,* Page B3.

International Financial Institutions (IFIs). Since 2000, the country has accumulated arrears with total public and publicly guaranteed external debt estimated at $7.5 billion, that is 52% of GDP as of June 2016, of which $5.8 billion is in arrears (I-PRSP; 18). "Government has since 2012 issued Treasury Bills, notes and bonds with tenors ranging from 35 days to 12 years with an outstanding amount of over $1 billion when foreign reserves ($352.6 million as at the end of 2015) cover less than one month of imports"[27], worsening the domestic debt situation as shown under **Graph 7**. This growing appetite for borrowing through TBs has worsened the liquidity situation in the market.

Chart 7: Zimbabwe's Domestic Debt Profile, 2009-2016



This scenario no doubt limits the country's ability to access affordable new financing deemed critical for development, whilst also weakening the country's credit worthiness. In the absence of external funding, domestic resource mobilisation remains the major source of budgetary financing and as at 31 October 2016, domestic debt stood at US$3.7 billion, representing 26% of GDP. Government failure to access affordable international lines of credit due to the debt burden and perceived country risk profile inevitably restrains government capacity to spend, and hence worsens the liquidity crunch biting the fragile economy.

d) Illicit Financial flows

Zimbabwe has also been victim to illicit financial flows, with the county having been ranked 89 out of 144 countries surveyed with US$3.115 billion having been siphoned

[27] Makina. D, 2016, "Zimbabwe's Macroeconomic Stability and Policy Options", USAID-SERA, August 2016.

from the country between 2002 and 2011 (Devkar, et al, 2013). According to AFRODAD, (2014) Zimbabwe lost US$2.83 billion through illicit financial flows between 2009 and 2013, translating to an annual average of US$570.75 million. The mining sector accounted for the bulk of the leakages, that is $2.793 billion, constituting 97.9% of the illicit outflows from the country. The RBZ has also noted that US$1.8 billion was externalised during 2015, with US$1.2 billion having been siphoned by corporates whilst outward bound remittances accounted for the balance.

Defining Illicit Financial Flows (IFFs)

According to the World Bank, (2016) IFFs represents money illegally earned, transferred, or used that crosses borders. IFFs reduce domestic resources and tax revenue needed to fund poverty-reducing programs and infrastructure in developing countries. It now generally refers to cross-border movement of capital associated with illegal activity or more explicitly, money that is illegally earned, transferred or used that crosses borders. The Bank notes that IFFs are fuelled through for example, corruption, tax evasion, with most of the funds earned through illegal acts such smuggling and trafficking in minerals, wildlife, drugs, and people. The Global Financial Integrity (GFI) estimates that in 2013, US$1.1 trillion left developing countries in illicit financial outflows. The World Bank study of IFFs in Malawi and Namibia estimated that revenue lost to corruption and tax evasion accounts for between 5% and 10% of GDP.

President Mugabe also revealed that the country had lost US$15 billion, that is equivalent to the country's GDP through corruption in the Diamond mining sector. Since 2009 the country has also become a reliable source of United States dollars outside the US, Panama, and Ecuador who are also dollarized regimes. For instance, since 2009 we have seen a spike in Chinese businesses mostly in retailing, and trading, the Longchen Plaza a big Chinese Shopping Mall erected in a reclaimed marsh area in Harare being a case in point, the South African Pick and Pay Retail chain has penetrated Zimbabwe and tied up with TM Supermarkets virtually to mop the greenback. Foreign traders, like the Chinese, and smugglers have positioned themselves in Harare to mop foreign currency thereby worsening the liquidity crunch. **Graph 8** provides a schematic of how the country has been losing foreign currency.

Graph 8: Sources of Foreign currency leakages

Source: *Kanyenze. G, (2016)*

According to Hanke, (2016), businesses from the region and the world targeted Zimbabwe because of the hard currency to a point the economy kept ticking after the collapse of the inclusive government although there has been a huge capital flight since then, signifying a lack of confidence. The most immediate impact of illicit financial flows is loss of public resources/revenue, and hence a loss of opportunities for domestic consumption and investment both public and private (AFRODAD, 2014: 11). Redressing the net outflows from Zimbabwe, would positively impact on the country's strained fiscal space affording the economy the scope to fund critical physical and social infrastructure.

e) **Banking Sector Performance and the Cash Crisis**

"Since dollarization, the banking sector has recorded a strong performance, with a profit after tax of $128 million being recorded in 2015, despite the economic headwinds that continue to present operational challenges. However, despite the strong performance, the banking sector remains vulnerable to liquidity and solvency challenges"[28].

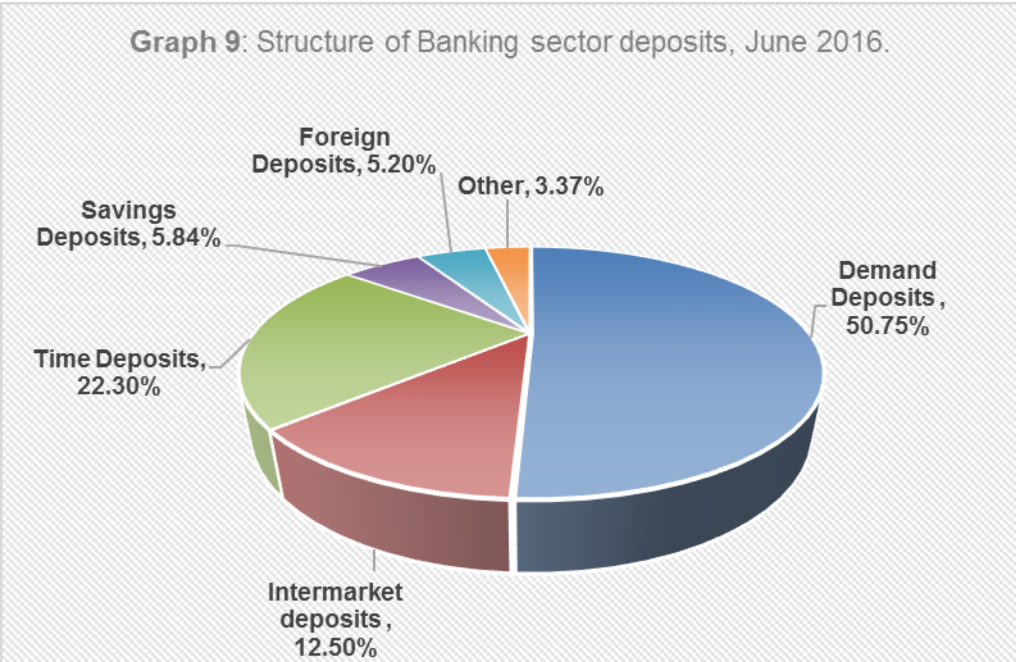
Bank Sector Deposits: The banking sector plays an intermediary role in the economy through financial mediation – that is mobilising surplus deposits and lending to borrowers. Since 2009 banking sector deposits have increased significantly on the back of stabilising economy, increasing 616.5% from US$705.76 million to US$4 410.9 million by 2013. The trend has remained upward, reaching US$5 912.8 million by June 2016 as shown under **Table 3**. Liquidity levels are falling, whilst deposits

[28] Gwanyanya. P, 2016, "Unpacking Impact of Bank fee reduction", Zimbabwe Independent. 2016.

have levelled off at US$6 billion because clients are failing to draw cash on demand (Makina, 2016).

Table 3: Volume of Bank deposits, 2009-2016									
Period	**30-6-09**	**30-12-09**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**[29]
Deposits, US$'	705.76	1363.67	2567.6	3376.34	4410.92	5056.75	5623.00	5672.98	5912.8
*Source: **RBZ Monetary Policy***									

The deposits can be of a short-term nature, medium or long term depending on the risk profile of depositors or those deciding to save their money. Apparently, in the Zimbabwean context, because of lack of confidence in the banking system, depositors have tended to keep their savings on short term placements, that is as demand deposits as shown under **Graph 9**. Of the US$5.9 billion worth of deposits in June 2016, 50.8% were in the form of demand deposits, 22.3% time deposits, and 6% savings deposits. The dominance of demand deposits reflects how short the investment horizon for economic agents, which is not unstainable if the economy is to generate economic wealth. These are your deposits sitting mostly in current accounts, which can be withdrawn on demand any time. This scenario exerts pressure on the banks' liquidity management strategies. In other words, banks must ensure that they maintain healthy balance sheets to avoid a situation where liabilities exceed assets[30].



Source: *RBZ Monetary Policy*

Some banks are liable for the current situation because of poor risk management practices that have led to a lot of non-performing loans, thus impacting negatively

[29] June 2016.
[30] Zimbabwe Independent, 2016, "***Fundamental Causes of the financial crisis in Zimbabwe",*** ZimInd, 10-5-16

on the financial system (Makaha, 2016). In recent times the disbursement of loans to the economy by banks has stagnated, a sign that there is little economic activity, whilst at the same time the quality of the loan book has deteriorated significantly with non-performing loans rising to unacceptable levels (Makina, 2016).

Increased Demand for Cash: There has also been a phenomenal increase in the demand for cash in the economy, with the government also squeezing available cash balances to meet civil servants' salaries and bonuses, payment for tobacco farmers and gold miners. The public's pressure to hold cash is a signal of the citizens' loss of confidence in the banking system. There has also been a spike in the demand for the US$ in comparison to other currencies, the Rand included. During 2010 the demand for the US$ was 60% with the Rand accounting for the balance. Presently preference has progressively shifted towards the US$ because of its appreciation against the Rand to the extent that by 2016 only 5% of economic agents used the Rand whilst 95% preferred the US$ (Makina, 2016). Banking institutions have in recent months witnessed increased pressure on their Nostro accounts because Zimbabwe is now a net importer due to a wave of company closures and dramatic fall in production (The Zimbabwean: 10-5-16). Thus, banks have been caught up in the cash dilemma given that they cannot import cash timeously owing to depletion of Nostro Accounts which the RBZ cannot fund quickly enough from the RTGS accounts it maintains for banks (Muza, 2016).

The depletion of Nostro Accounts held by local banks has resulted in bottlenecks in international payments (The Zimbabwean: 10-5-16). Banks can only keep 10% of their total deposits in Nostros and with limited inflows from exports this proved inadequate to cover import payments and cash imports (Muza, 2016). The international financial system is designed in a way that the large cap banks, which are mainly foreign owned host most of the export receipts. For instance, banks such as Standard Bank, MBCA, and Stanbic. It therefore, follows that export earnings favour stronger financial institutions, implying that POSB, ZB and Agri-Bank do not benefit much and this would affect their liquidity (The Zimbabwean: 10-5-16).

f) Business Confidence dilemma

The country is seized with a business confidence crisis that has stoked the economy since 1997 when the local unit lost 45% of its value against the greenback on the back of huge contestable pay-outs to war veterans. Since then the policy making has focused on short-term planning templates fraught with policy reversals and inconsistencies that have dampened any medium- to- long-term business decision making. At best, the policy environment has been rather unstable and unpredictable which erodes consumer and business confidence. Though some normalcy had been restored during the GNU era (2009-2013), beyond that, the government has reverted to policy rhetoric that has damaged trust between the authorities and the private sector on most economic policy options.

Business Confidence is low

The public has lost trust and confidence in the banking institutions to the extent that the major dealings with them involve withdrawals of funds to safety, and if it were not for controls on withdrawals like those imposed during the hyperinflation of 2008, the banking sector would have collapsed, (Makina, 2016). In 2015 the Mining Business Confidence Index scored -38.86 indicating that the mining industry is highly less confident about the future performance prospects (Chamber of Mines, 2016). The Africa Report (2016) observes that the Zimbabwe Stock Exchange lost US$1.3 billion in shareholder value as market capitalisation fell from US$4.3 billion in December 2014 to US$3 billion in December 2015.

When the RBZ announced the introduction of Bond Notes on 4th May 2016 that included proposals to peg the notes to the US$ backed by a US$200 million credit facility from Afreximbank, the market could not trust that, further eroding the already fragile confidence in the market. This triggered a run on the banking sector which was only stayed by the curbing of withdrawal limits. The development evoked old memories of the collapse of the Zimbabwe dollar, thus the public has been withdrawing cash from the banking system thereby worsening the cash crisis. To make matters worse, though the announcement was made in May, the Bond Notes where only introduced 6 months later in November 2016 amid high speculation on government's intentions.

g) Policy Inconsistency – loss of credibility

The under-performance of the economy which started in 2012, three years after dollarization is greatly attributable to the legacy of policy inconsistencies/contradictions when the country went into dollarization in March 2008 by default and not by design to tame hyperinflation (RBZ, 2016: 8). The structural imbalances are evidenced by the large current account and fiscal gaps generated by the difficult internal and external conditions, a legacy of dollarization policy inconsistencies, policy slippages and procrastination in the implementation of critical government policies[31]. Since May 2016 the RBZ has ushered in new foreign currency measures that include stringent export proceeds surrender requirements that are akin to taxing the export sector as exporters are being paid in RTGS$, (Makina, 2016). All external payments and import payments must be vetted and approved by the RBZ. Although the country has successfully implemented an IMF Staff Monitored Programme since 2012, expected to boost the prospects of meaningful re-engagement, it has not been backed up by complimentary fiscal adjustments and effective public sector management.

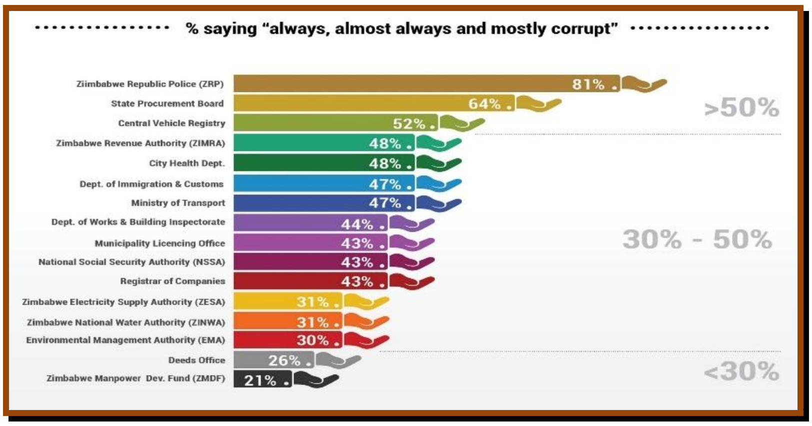
[31] Reserve Bank of Zimbabwe, 2016, *"**2016 Mid-Year Monetary Policy Statement",*** September 2016, page 8.

Prospects for a viable engagement of IFIs (under the LIMA Framework of 2015) have been dented by domestic policy inconsistences, with the Minister of Finance and Economic Development coming under intense domestic political pressures to undo fiscal austerity measures and instead pledging to finance public sector bonuses against a very constrained fiscal regime. Import controls and trade bans effected through Statutory Instrument (SI) 64 of 17th June 2016 meant to curb South Africa imports, reduce use of the US$ and promote domestic production have been viewed as a ploy to reverse the gains of trade liberalisation that had been ushered in during the GNU phase of 2009-2013.

h) Economic Governance – Corruption

Good economic governance has been a major challenge for most developing and transitional economies, Zimbabwe included. Governance encompasses every institution and organization in the society, from the family to the state and embraces all methods - good and bad - that societies use to distribute power and manage public resources and problems[32]. Corruption in Zimbabwe has become endemic, becoming a major obstacle to economic growth and development, as well as evidence of declining economic governance. Corruption increases inefficiencies in government expenditures and investment projects as corrupt officials choose investment projects not based on their usefulness to the economy, but on the opportunity for bribes and kickbacks the projects present (Hope, 2000). According to a Survey of Business Transactional Corruption done by CZI-ZNCC-SMEAZ in 2015, almost two-thirds of the 403 respondents agreed that the level of corruption in the Zimbabwean public sector had increased substantially since 2013 as shown under **Graph 10**.

Graph 10: Perception on Corruption in Govt Offices



Source: *CZI-SMEAZ-ZNCC Corruption Survey, 2015*

[32] http:/www1.aucegpt.edu/src/engendering/good_gorvenance.html

This was attributed to the highly-regulated business environment in Zimbabwe which offers opportunities to public office bearers to be corrupt. Although much has been said about corruption in the media, high profile corruption cases have not been dealt with adequately and has put to test the rule of the law and showed its discretionary application. This negatively affects investor perceptions and the attractiveness of Zimbabwe as a good destination for investment. This has also exposed Zimbabwe to a higher incidence of illicit financial flows documented earlier that have been responsible for leakage of foreign currency and hence the current liquidity crunch gripping the economy.

3.4 How do these Cash Shortage Dynamics affect the Poor?

Zimbabwe's poverty scenario was worsened during the height of economic depression that was capped by hyperinflation in 2008. The so called lost decade of 2000-2008 that accounted for a cumulative GDP loss of 54% was characterised by a financial crisis which accounted for huge loses in savings by the general populace as the economy shrunk. In some cases, banks liquidated, resulting in many people losing their hard-earned savings, hence reviving depositor confidence might remain a problem in Zimbabwe, (Matunhu and Mago, 2013). The economic crisis hit the poor harder particularly given that in economic history episodes of depressed national income or output, accompanied by deep seated macroeconomic instability usually have a longer-term and an unbearable impact on poverty. The **Box** below extracted from the Zimbabwe Interim Poverty Reduction Strategy Paper (I-PRSP) launched by Government in September 2016 amplifies the nature of poverty in the country.

Poverty in the Zimbabwean Context, May 2016[33]

Poverty is multi-dimensional phenomenon that includes:

- *Lack of or limited access to productive assets*
- *Lack of or limited access to productive goods and services*
- *Lack of or limited access to income*
- *Lack of capabilities and opportunities, including lack of infrastructure*

Poverty manifests itself in various ways including*: Inability to have three meals a day; a situation where there is no food; surviving on handouts; inability to pay school fees for children; no money for health services; no decent accommodation; no proper clothing; inability to pay utility bills; lack of access to water and sanitation; lack of adequate clean energy; being unemployed; not having a retirement package; lack of information; Inability to live the full; being unemployed; not having a retirement package;*

It also includes*: Lack of our own currency; lack of inclusive banking; inability to sustain oneself of livelihoods; being powerless in influencing decision that affects our lives; being condemned by the system to stay at the back of beyond; lack of upholding and enjoyment of*

[33] Poverty as defined at Provincial and District levels in Zimbabwe during the I-PRSP development conducted in May 2016.

all rights due to poor governance and leadership; lack of democracy accountability and transparency; and any state of lack that leads to vulnerability.

Source: *GoZ Interim Poverty Reduction Strategy Paper (I-PRSP)*

According to the ZimStat[34] Poverty Report on the 2011-2012 Poverty Income Expenditure and Survey (PICES) Survey, 72.3% of Zimbabweans are poor, whilst 16.2% of the households are in extreme poverty. Poverty is most prevalent in rural areas, where 84.3% of people are deemed poor and 30.4% extremely poor. The 2013 United Nations Human Development Index (HDI) ranks Zimbabwe among low human development countries: 172nd out of 186 countries compared to 1998, when it ranked 130th out of 174 countries, confirming the negative impact of the lost decade on societal welfare in the country. Poverty is location based, certain factors that account for the incidence of poverty in urban areas are quite peculiar to socio-economic and political factors that shape urban life, yet these are quite different from those that define poverty in rural areas. The economy has changed structurally in recent years, with the non-formal economy growing significantly as company closures have taken a toll on the fragile economy. This is confirmed by the expansion of informal employment to total employment that has risen from 84.2 per cent in 2011 to 94.5 per cent in 2014.

The Poor and Access to Banking services:

According to the Finmark Survey (2011), 40% of Zimbabweans are financially excluded from banking services, 22% rely on informal financial services, whilst 38% are formally served in the banking sector. The report further notes that 47% of the urban population is presently banked, while 12% of the rural population (i.e. 65% of Zimbabwe's population) are not banked. If we disregard the informal sector then financial exclusion in Zimbabwe would reach a peak of 81%, (Matunhu and Mago, 2013). If rural livelihoods have to be transformed through expanding their horizons for integration into the mainstream economy, then rural banking must be deepened. Results of the Survey in 2012 reveal that most of both urban and rural communities in Zimbabwe remain financially excluded, and a mere 12% of Zimbabwe's rural populace is banked while as much as 51% of the rural residents remain financially excluded. The Box provides barriers for rural financial inclusion identified by Finscope.

Barriers to financial Inclusion in rural Zimbabwe

i. High cost of financial service delivery;
ii. Maintenance of a small branch network by banks;
iii. The dilapidated state of rural infrastructure;
iv. Lack of tailor-made financial products;
v. Lack of confidence in the financial sector following the

[34] This is the Zimbabwean Government's national statistical agency.

freezing of deposits in the transition from the local currency to the multiple currency system in 2009;

vi. Lack of acceptability of land as collateral by banks;

vii. Tight liquidity constraints that have resulted in lack of long term funding;

viii. Women do not own assets especially in rural areas;

ix. Perceived risk of the rural communities; and

x. Banks focus on large rather than small customers.

xi.

"Rural communities need to save through banking deposits, access to loans, do money transfers, and insurance services, among other key financial services. Availability of credit facilities to rural communities is likely to improve rural economic development and social transformation. Livelihoods of people will be enhanced and ultimately poverty will be reduced substantially."[35]

Case for the Rural Poor: The current cash crisis has worsened the vulnerability of the poor, particularly given that they tend to hold most of their financial assets in the form of cash rather than in interest-bearing assets. Although the majority of the rural populations are largely unbanked as highlighted above, they rely on the cash sales of mostly their farming produce. Hence the inability of the potential buyers to access cash has a ripple effect on the unbanked poor. Most of the rural population lead a peasantry life, and agriculture is a central activity. Given that the financial penetration rate is still low for the rural economy, and that cash is very important the current cash shortages have further crippled their livelihoods. This has given rise to the emergence of barter trade which was last employed during the height of the hyperinflation period in 2008 in most rural Zimbabwe. The biggest challenge with this barter trade is that in most cases it disadvantages the rural folk by depleting their assets like livestock, a potential nutritional loss in the form of carbohydrates equivalent to the 5kg corn that they pay to get a 20kg ground to mealie- meal.

Its back to Barter Trade again[36]

The persistent cash shortages in Zimbabwe are affecting the poor who are paying the biggest price for the government's failed policies as most of their goods and services are now being paid through barter trade. Tafadzwa Kandinga, a single mother from Doro Pindo, said she sells firewood in Mutare and gets a bar of soap for a bundle that costs $2. Dora Pindo is a peri-urban centre close to Mutare. Kandinga has five children and one of them has failed to access Grade 7 results due to a $15 debt owed to the school.
"I normally receive groceries after helping people with household chores and the situation has worsened with the cash crisis. I have not been able to get any cash for some time now," she said.

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[35] Matunhu. J & Mago. S, 2013***, "Rural Banking for Rural Development in Zimbabwe",*** Midlands State University, Zimbabwe and Fort Hare University, South Africa, 2013; page 6.

[36] Victoria Mutomba, Standard, 2016, ***"Back to Barter trade",*** Standard Business, 16 December 2016; story prepared by Victoria Mutomba who attended the PRFT Workshop on the 14th of December 2016 in Harare. It carries testimonials from the Workshop and her additional research on the subject.

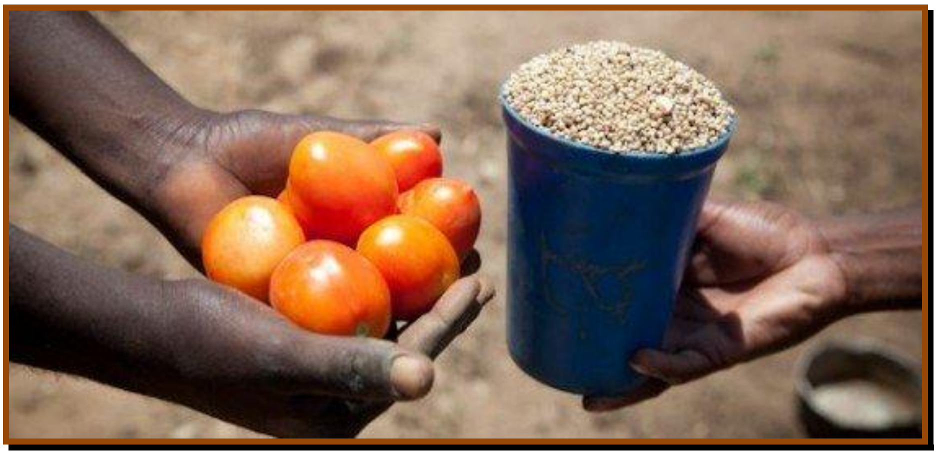
Maromo Noah, from the same area said due to the cash challenges, he only received about 2kg of maize for every 20kg of maize milled at his grinding mill. He said the area had a lot of construction projects and most of the builders and contractors received payments in the form of groceries, which in some cases were not equivalent to the work they would have done or the service they would have rendered. Payment in groceries is prevalent in these areas and the poor are being exploited because of the cash challenges in the economy, he said.

Other than spawning barter trade, the cash shortages have also affected small traders who thrive on buying and selling. Gladys Dube from Empandeni in Plumtree, said the small Women's Club she is part of was no longer mobilising funds in Unites States dollars and had turned to the South African Rand due to cash challenges. "We contribute R10 each in the group in a fortnight. We are 17, and we buy airtime in rands which we sell in rands as well," she said. "We make a bit of profits, although it's lower than what we used to get in the past when we used to buy goats and resell them in US$. The money is no longer available and the goats were also affected by the drought."

A local economist, Prosper Chitambara said barter trade was prevalent in countries that faced cash shortages. "The cash shortage is worsening informalisation because less money is now in the informal sector, although some segments have money," he said. Economist Rongai Chizema said Barter Trade showed that the poor were losing out through the Barter Exchange System as one would not get the real value for the goods or services they supplied. He said the poor were not financially included as some of them could not access money from the banks unless they provided title deeds as collateral. Chizema urged government to come up with a strategy to sell vending sites to the vendors over a period of time, which would then be used as collateral to secure loans from banks.
Youth Empowerment and Transformation Trust Director Lucy Makaza-Mazingi said the cash shortages were affecting youths who constituted 67% of the population as they were mostly in the informal sector. The only jobs they know is changing money, importing goods from China and South Africa, but where do they get the money to import the goods? Most of them do not even have cash with them due to the cash challenges." Mazingi said some of the youth were spending most of their time in bank queues looking for money.

It therefore, follows that he eventually pounds only 15kg instead of getting the full 20kg nutritional value. Picture 2 illustrates a typical barter transaction, which rarely focuses on the actual monetary values of the goods being exchanged.

Picture 2: Barter trade in rural areas



Source: https://www.google.co.zw/search?q=barter+trade+in+Zimbabwe+pictures&rlz

In some cases, small stock such us chickens, and goats are pledged as payment for some of these services, thus depleting the rural poor's savings capacity, and making them even more poorer. If one does a multiplier effect of these transactions across the entire rural economy, the losses could be quite significant for the rural folk. Such coping strategies have spread country-wide and pose a threat to welfare and wealth to the already vulnerable rural communities.

Incidences of a Barter Economy

"In the countryside, some villagers such as Gilbert Nyikadzino of from Mashonaland West Province are now engaging in barter trade in order to earn their keep. We are having a serious cash crisis especially here in the rural areas whereby we are now resorting to barter trade. For example, if I want, let's say mealie-meal I am now taking my small livestock like goats to exchange for that mealie-meal. The situation is so dire in Zimbabwe and we are in serious trouble due to liquidity challenges."[37]

The Case for Pensioners and ordinary citizens: Pensioners have also been caught up in the cash crisis, and in some cases, they have had to travel to nearest city or town only to spent time in long winding bank queues. In most cases, they spent more than what their pension pay-out equates to by the time they get their money through expenses on food, transport, among other liabilities. They are forced to spend more money to access their pension pay-outs, a scenario which eventually exposes them to more impoverishment. Rural bus operators, commuter bus service operators, and access to health facilities in the rural areas insist on cash payments, making it difficult for the citizenry to access these strategic day to day social services.

FEWSNET on Cash Crisis[38]

According to the Famine Early Warning Systems Network (FEWSNET), the ongoing cash crisis could plunge poor families into a deep poverty cycle this month, as they will be forced to

[37] Chiripasi. T, ***"Bond Notes Haunt Zimbabweans as Cash Crisis bites",*** 16-10-16 http://www.voazimbabwe.com/a/cash-crisis-zimbweans-worried-as-central-bank-set-to-introduce-bond-notes/3541559.html

[38] NewsDay, 2016, "Cash Crisis will plunge the Poor families deep into poverty", NewsDay, 12 January 2017; Source: https://www.newsday.co.zw/2017/01/12/cash-crisis-will-plunge-poor-families-deep-poverty/

spend their little savings on school fees and uniforms this month. The Report further notes that livelihood options and household incomes will remain constrained given the prevailing economic and liquidity challenges with the persistent cash shortages during the festive season, coupled with increased non-food demands in the new school term in early 2017, expected to exert pressure on access to food for poor households.

Some depositors, such as 27-year old Audrey Munemo of Harare, are now waking up as early as 4 am to join long queues at local banks with the hope of being able to access their money amid worsening cash shortages, (Chiripasi, T, 2016). "I have been here in the queue at the Bank for about four hours, ever since morning I was just here and the banks are saying they don't have money. I was just trying to withdraw all my money before these bond notes start circulating because we don't know what these authorities are planning to do."[39]

Cashback from Shops as a source of impoverishment for the vulnerable: Though consumers have been receiving support from retailers through cash back transactions, in most cases consumers have been forced to spend most of their cash to access some money. If one wants to get US$20 cash back he has to spend $10-$20 minimum, with additional expenditure incurred for higher amounts. They have also been pushed to sacrifice their utility by opting to load trolleys with goods they do not need as long as that allows them to get some cash, hence further impoverishing them whilst enriching retailers' sales positions. Retailers country-wide have also been devising ways to avert the biting cash shortages.

Impact on the Youth: According to the 2013 ZimStats Population Census, the youth that is those aged between 16 and 35 years constitute about 67% of the total population. Youth unemployment is very high in the country, with most of the youth employed in the informal economy, and cross-border activities. For instance, most airtime vending is done by the youth in Zimbabwe as shown under **Picture 3**, and this tends to be more of a cash business, thus the persistent cash shortages will affect this livelihood activity. The youth who are mostly into trading and vending cannot have access to banking facilities due to the banking requirements like collateral, hence making it difficult for them to transition towards use of plastic money based financial services.

[39] Ibid

Picture 3: The Youth and Airtime vending in Harare

Source: http://www.hararenews.co.zw/tag/airtime-vendors/

The situation is even worse in the rural areas where financial services penetration has been minimal, and internet connectivity weak, limited access to power and electricity thus making it difficult for plastic money products to be an effective media for payment transactions. The youths are also being abused through being assigned to queue for other people in bank queues in exchange for a small fee instead of deploying their energies towards more productive activities in society.

Impact on the Informal Economy: Since 2000 the country has seen a surge in informal activities, and during the height of the economic crisis in 2008 the informal economy played a big role as an economic buffer insulating the entire formal economy from total collapse. Through their cross-border activities, they would bundle orders and bring spares for the industry, and foodstuffs that kept food insecurity at bay. It is the same informal economy which accounts for 90% of the economic activities to date that will be hard hit by the cash crisis. The informal economy tends to be more a cash based system, and thus will be hamstrung by the crisis as this will limit transactions, and hence business activities. Informal traders operating in vegetable markets will find it difficult to order and replenish fresh produce under the circumstances, further worsening urban poverty levels. As much as government is fostering programmes to graduate this sector into the mainstream formal economy this may remain a pipe dream if the current cash crisis persists.

Impact on Women: The current cash crisis has a gender dimension to it, inflicting more pain and shame to women, both married and single mothers. Most women have to brave the mornings to join banking queues as early as 4am with the hope of getting cash from the banks. The environment within the vicinity of the banking halls have no social amenities such as ablutions (toilets) to cater for these women, whilst the dawn rush to pick a position in the banking queues exposes them to abuse by their male counterparts.

Gender Dimensions to the Cash Crisis....[40]

The Zimbabwe Chamber of Informal Economy Association, Secretary for Gender and Women Affairs, Charity Mandishona said the sector was struggling due to the cash shortages as the bond notes were inadequate to solve the cash crisis. "The economy has 94,5% in the informal sector and 5% in the formal sector who are now going to the corporates that are established to buy groceries with plastic money," she said.

"The issue of plastic money is getting the rich richer and the policies by government are supporting the corporate sector and side-lining the informal sector."

Zimbabwe Women's Bureau director Ronika Mumbire said cash shortages were affecting women who were having to spend most of their productive time at the bank queues.

She said some women who received maintenance money had not been able to receive the cash because the men who were supposed to pay them the money always said they could not access cash. Ms Mumbire also noted that some women were being abused by their husbands/partners who for the first time, because they themselves do not want to stand in long queues, give them access to their pin-codes to withdraw money but demand that they surrender the money to them. "Once the money has been surrendered, that is the last time the women see it" said, Ms. Mumbire.

Though the RBZ has instituted new withdrawal limits, the entire regime of cash controls is negatively impinging on societal utility and welfare choices, prompting panic and impulsive spending. In the ultimate the whole drama will negatively impact on any potential savings capacity the citizenry may still harbour, hence further denting any possibility of mobilising savings for economic development. Most single mothers have had to bear with the challenges having to cope with delays to access child maintenance money as most men are either unbale to withdraw this money and relay it to the beneficiaries (particularly those unbanked spouses), or wives finding it difficult to access the money given the biting cash shortages. This has a negative effect on welfare of single mother -led households and hence the children also bear the full brunt of the cash shortages. It is therefore, critical for women to have access to the full range of financial products and services, including credit, savings and micro-insurance which are essential to fully develop their production assets to

[40] These quotes were extracted from a Standard Business Newspaper Article prepared by Victoria Mutomba, a Journalist who attended the PRFT Workshop on 14 December 2016. These voices provided testimonials on how women citizens are being affected by the cash crisis.

facilitate graduation of their income generating activities from survival to viable businesses (RBZ, 2016:49).

3.5 What has been the Government's response to the crisis?

A stop gap policy approach at the expense of a holistic and inclusive approach:

Government's responses to the cash crisis have tended to be rather reactive and not proactive, and at best remained short-term rather than medium- to- long-term. This has however, been the norm for years, with policy options and choices focusing more on symptoms of the diseases rather than the underlying causes for durable problem resolution, and hence a holistic approach. According to the RBZ (2016), though efforts to address the fragile economy have been made, exogeneous shocks have continued to exacerbate the economic slowdown and precipitated the decline in fiscal space and the cash shortage situation.

Furthermore, since government cannot resort to monetary financing due to loss of monetary autonomy, dollarization requires a government to operate balanced budgets, yet government has been in violation of this rule since 2012 (Makina, 2016). Government domestic debt has been increasing significantly over the years, "rising from $359 million in 2012 to $1.9 billion in 2015 mainly due to the issuance of TBs, notes and bonds. Over 60% of the government domestic debt is payable within 3 years (2016-2018) while arrears of external public and publicly guaranteed debt are already running at 79% of total debt, that is US$5 billion. Thus, liquidity is in extreme distress"[41].

***Stemming cash shortage - the* Bond Notes angle:** Currently the cash at banks' disposal is limited due to depletion of Nostro Accounts, and with the announcement of Bond Notes in May amid an already fragile confidence scenario in the sector, and the economy at large, even made it worse. This policy evoked memories of 2008 and the possible return to the Zimbabwe dollar ($), triggering a run on deposits as people sought to withdraw their cash from banks. Another controversy around the bond notes is that, "since they are said to be backed by a liability they cannot have a par value with the US$ as mooted but have a discounted value reflecting the interest and facility charges of liability."[42] This financial angle is not being transparently

[41] Makina. D, 2016, "Zimbabwe's Macroeconomic Stability and Policy Options", USAID-SERA, August 2016.

[42] Ibid, 23.

unpacked further heightening despondence of the public on government's intentions in stemming the beckoning financial crisis.

The case for demand management to curb foreign currency use: Government has employed several measures that include controls on withdrawals to limit cash outflow from banks, the enactment of import bans through Statutory Instrument (SI) 64 of June 2016, the introduction a 5% Export Incentive scheme that is rewarded through Bond notes from November 2016 onwards, foreign exchange controls administered by the RBZ that vet imports and use of US$. In November 2015, depositors could withdraw US$3 000 at ATMs and a maximum of USS$ 10 000 per day from banking halls, but this has dwindled to as little as US$20 per day subject to cash availability, (Zimbabwe Independent; 23-12-16: B4). The introduction of the bond notes remains dogged by lack of consumer confidence. Though by the 23rd of December 2016 the RBZ had injected $29million worth of bond notes into the market to ease liquidity, "bank queues remain a constant feature with some depositors sleeping overnight outside banks in the hope of getting the elusive cash."[43]

The RBZ published in a statement that bond notes shall go a long way to mitigate cash shortages within the economy, but however, acknowledged that cash queues at banks would not be eliminated overnight, confirming the challenges abound in the banking sector. Despite ushering in foreign exchange measures to prioritize raw material imports by exporters, and import substituting producers, the situation on the ground has been disheartening with foreign currency requests being gridlocked for more than 4 months to date, stalling production.

An implosion is simmering in a number of critical industries on the back of worsening payments gridlock in the financial services sector with imported raw materials running out at some plants around the country, raising a spectre of more company closures, (Financial Gazette; 19-1-17: P1). Confederation of Zimbabwe Industries (CZI) has bemoaned the RBZ prioritization of foreign currency for imports arguing that some banks where allocating the scarce resource towards non-essential imports. Companies that are not able to process payments for their raw materials are now on the brink of closure as they are still absorbing huge overheads such as salaries, and other fixed costs, (Financial Gazette; 19-1-17: P3). In the ultimate, this will slowdown economic activity and hence worsen the already fragile economic situation.

Plastic Money debate: Government has also been promoting the use of plastic money to avert the pressure on demand for hard cash. This has not proven good for

[43] Zimbabwe Independent, 2016, "$29 Million in Bond Notes fail to stay Cash Crisis", Zimbabwe Business Independent, 23-12-16; page B3

the grassroots poor and marginalized segments of society. The other problem is that of bank charges and those of mobile platforms which rip consumers. Apart from high transaction costs for using plastic money, most remote areas are affected by connectivity problems and power bottlenecks, which if not tackled head-on will be a barrier towards optimal utilization of plastic money in the country.

Plastic money penetration is also being negatively affected by some retailers who are offering huge cash discounts to lure consumers to use cash. This, retailers say, is a coping strategy to mobilize cash to finance importation of non-essential goods. Cash discount offers which see a customer saving $200 after buying products worth $1000 for instance, are very lucrative, forcing low income earners to spent nights in bank queues so that they enjoy the price mark downs (Sunday Mail: 18-12-16: P8). Some clothing retailers are offering as much as 50% on cash sales and 25% on use of plastic money. Industrialists and retailers have blamed the practice on the delays in accessing money through transfers with some indicating that transfers done in October 2016 were still gridlocked by December 2016, hence resulting in diminished access to raw materials and other finished products, (Sunday Mail: 18-12-16: P8).

CHAPTER 4: HIGHLIGHTS OF KEY ISSUES FROM STUDY

4.0 EMERGING ISSUES FROM THE RESEARCH

What emerges from this detailed review of the cash crisis subject is that these are symptoms of a complex economic puzzle that is rooted in the entire macroeconomy from production, investment all the way to consumption. With the advent of the multi-currency system in 2009 the economy was already reeling under a deep seated economic recession that required broader reforms beyond the currency issue to resolve. To date most of the underlying problems that have eroded business confidence remain unresolved and will continue to haunt the fragile economy going forward. For, instance the choice of the US$ as the anchor currency was not backed up by complimentary exchange policies to safeguard that policy decision. Also of note was the entire choice of a multi-currency regime ahead of formally prescribing one currency denominator, e.g. the Rand given our financial, trade, social and economic links with mainland South Africa.

South Africa accounts for 60% of our trade volumes, and imports 40% of our products, whilst close to 2million Diasporeans are believed to be in South Africa, toiling and remitting nearly US$1 billion during hard times such as at the peak of the Financial Crisis in 2008. Makina, (2016) notes that the currency of choice should be the most liquid in terms of generating trade flows and other international flows such as foreign investment and diaspora remittances. He argues that such currency becomes the optimal currency determined by financial links of a country that is dollarizing. Ironically, in 2009 the National Budget Expenditure estimates book had both the Rand and the US$, and yet after that the state choice to price goods and services in US$.

> *"The usage of the US$ has resulted in a high cost structure due to the lack of a proper benchmark. The wrong choice of the US$ for transactions went unnoticed in the initial years of dollarization (2009-2011) because the US$/Rand exchange rate was relatively stable during that period. In fact, the Rand appreciated against the US$ between 2009 and 2011 making the economy using the US$ temporarily competitive"*[44].

Under normal circumstances, the country should have used one currency as an anchor and locked away all other currencies under a normal foreign exchange control regime to minimise speculation and transformation of the citizenry into small Bureau de Changes, as evident in Zimbabwe today. In essence, use of multiple currencies means that economic agents can choose a preferred unit of account, from

[44] Makina, 2016, ""Zimbabwe's Macroeconomic Stability and Policy Options", USAID-SERA, August 2016; page 14.

the entire menu of US$, British Pound, Euro, Rand, Pula, Yuan from the multi-currency basket, thus assigning the role of "mini banks" to economic agents. Since then, economic performance has rather been mixed, and business confidence in its low ebbs, and difficult to strike pre-year 2000 thresholds. In the absence of vital balance of payments support after multilateral lending institutions turned their back on Zimbabwe in 2000, the country has increasingly relied on foreign currency generated through exports and Diaspora remittances and external obligation, (Financial Gazette, 19-1-17: P2).

4.1 Proffering Some Pragmatic Solutions

Given the forgoing account what is ideal for Zimbabwe is to cast the entire solution template within a radical economic reform agenda, one that is broad-based, inclusive, thus informed by all stakeholders. Zimbabwe has gone for too long without a medium to long term plan, that is one cast within a minimum 10 to 25-year planning horizon as per tradition in most developing and developed countries. Our Zim-Asset plan is due to expire in December2018, yet we do not as yet have an alternative planning frame. Such a reform package should embrace all elements that foster to restore sound economic governance, rationalised public sector regime, conducive business environment to anchor business confidence and recovery of capital inflows.

An appropriate currency regime will also be vital, so as predictability in money and capital markets, for a durable recovery in the financial sector. Adequate transitional social policy valves must be accommodated as buffers to coushion the poor, during the entire reform process so as to minimise the marginalisation of the already vulnerable groups in mainstream economics.

5.0 Drawing Policy Recommendations

Given the forgoing account what is needed is a comprehensive package of well synchronised interventions to revive the economy and drive economic recovery beyond the current fragile state. The cash crisis gripping the economy is a symptom of a complex situation that requires a holistic approach to contain the negative potential economy-wide risks associated with crisis. We therefore, propose what could constitute appropriate short-medium- to- long-term policy proposals to reverse the current economic challenges.

- **Short term interventions**

- ***Restore financial sector confidence:*** - The biggest challenge has been the current trend of deposits flights that has compromised banks' lending role.

Government needs to implement reforms that shore up confidence in this vulnerable sector.

- ***Recast Bond Notes experiment*:** – There is need for more transparency on the whole currency management issue. Whilst the Bond Notes are part of an export incentive, the market has different perceptions altogether. Given that the Temporary Presidential Measures will lapse soon, it is ideal that the country does not retreat into more challenges after the 6-months window covered by the law. **In the interim we propose that government should appoint a Currency Commission to critically examine the currency regime deemed appropriate for Zimbabwe.**
- ***Restore productive capacity***: - to generate more income for both private sector and government revenue. This requires a conducive and business enabling environment to be in place. Zimbabwe remains a highly-regulated economy proving to be costly for business start-ups. We also need to shore up export capacity and diversify the basket of export products to include manufactures and services.
- ***Restructure fiscal position*** – This has been the greatest cost to economic revival and unless rationalisation of the public sector is addressed beyond rhetoric, Zimbabwe will remain vulnerable to the current financial sector risks. The levels of domestic debt detailed earlier are clear testimony of a typical debt crisis in the looming unless fiscal reforms are implemented.
- ***Stem all investor risk issues:*** Zimbabwe is competing for foreign capital with other regional countries such as Mozambique, Zambia, Botswana and South Africa. There is need to provide incentives that engender a good and hospitable investment climate to attract capital. Government should review the Indigenisation law to attract investment. Economic governance has been dented by the high incidence of corruption and thus the need to stem it.

Medium- to- long- term

- ***Structural reforms***
- ***Agriculture sector*** – address land tenure issues to restore confidence and hence unlock capital inflows into the sector. This will shore up productivity and boos recovery of the sector which remains the backbone of the economy.
- ***Appropriate Currency Regime*** - Obvious currency of choice is the rand because of strong trade and financial links with South Africa. There has been much pressure towards using the Rand, and no one has critically examined why that route is not appropriate. We are fully aware of the benefits of adopting the Rand, yet we seem not to agree on how the country can take advantage of that option. Adopting the Rand will reduce the cost structure by a minimum 60%, and hence restore the competitiveness and viability of local

industry. It will also reduce the fiscal pressures that government currently has to bear with.

Trade links with South Africa are huge and accounting for 71% of our exports- although some of these e.g. tobacco is re-exported to China, and 38% of imports. Trade links with the USA are negligible. Furthermore, an estimated $600 million of total annual diaspora remittances of around $900 million originates from South Africa.

6.0 Conclusions

It is quite clear that the current cash crisis is part of a deep seated economic crisis that requires a holistic approach to reverse. The reforms must foster to restore the economy's productive capacity, whilst striking a balance between a sustainable fiscal regime and appropriate mix of financial sector policies and structural adjustments to economic activities. The country should urgently restore its savings capacity, shift from a consumptive mode towards a production oriented state and enterprise machinery if the country has to turn the corner. In the absence of a radical shift in development priorities, the country will sink into deeper crisis in the short to medium term.

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Annex A: Participant List for Focus Group Discussion

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