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The Rand currency monetary area: An option for
de-dollarization in Zimbabwe

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Abstract

Dollarization has been put forward by some as the possible solution to institutional weaknesses in the developing world. Zimbabwe dollarized in 2009 by legalising the use of a basket of currencies, of which the United States Dollar (US Dollar) has emerged as the principal currency in use. Dollarization in Zimbabwe initially resulted in a period of significant growth, this has however slowed, and dollarization seems to be amplifying institutional weaknesses in the banking sector, with various challenges being faced including cash shortages and foreign payment restrictions.

The purpose of this study was to utilise qualitative methods to gain insights into the viability of Zimbabwe joining the South African Rand Common Monetary Area, as a means to transition out of utilising the US Dollar as the primary currency in use in the country. The choice of the South African Rand was based on South Africa being Zimbabwe's largest trading partner, and therefore the possibility of forming an optimal currency area where Zimbabwe would benefit from the reduction of transaction costs and liquidity support.

The results of the study showed that joining the Common Monetary Area would improve the competitiveness of Zimbabwe's industries, strengthen the institutions, improve monetary policy and fiscal discipline, which would also lead to the government regaining the trust and confidence of the public. Joining the Common Monetary Area would however also have its shortcomings, the main ones being the loss of monetary policy autonomy.

Keywords

Dollarization; de-dollarization; money; currency; institutions; trust; confidence; Common Monetary Area (CMA); Zimbabwe

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

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1. Definition of Problem and Purpose

1.1 Introduction

After an extended period of hyperinflation, the dollarization of the Zimbabwean economy in 2009 rendered the local currency “*moribund*” and no longer accepted by consumers and businesses alike (Muchemwa, 2009). It is widely believed that the onset of the inflation spiral was triggered by the government entering the Second Congo War in 1998 without the adequate budgetary support, as well as the land redistribution programme in 2000 whereby the government forcibly acquired most of the farms owned by white commercial farmers (Noko, 2011). These events led to expansionary policies by the Reserve Bank of Zimbabwe (RBZ), a sharp increase in broad money supply and disbursements for quasi-fiscal activities resulting in a steep rise in inflation. The hyperinflation era was characterised by cash and food shortages, bank failures and numerous incidents of re-basing of the local currency that devalued even faster after each instance (Noko, 2011).

Zimbabwe introduced a multi-currency system in 2009 as a form of dollarization (Chinamasa, 2009), which brought much needed stability and over time, increased confidence in the banking system (Chinamasa, 2015). According to Valev (2010), dollarization occurs when a country substitutes its domestic currency with a foreign currency, usually the United States Dollar (US Dollar), primarily as a result of inflation. For a few years Zimbabwe experienced stability and growth, however this upward trend has faltered, following the loss of competitiveness of local industries as well as liquidity challenges. The RBZ Governor, in a recently released press statement, highlighted that due to its strength, the US Dollar (USD) was being used as a safe haven currency or store of value rather than as medium of exchange (Mangudya, 2016). The RBZ Governor also highlighted the lack of business and consumer confidence which had led to a capital flight, with a total of USD1.8 billion transferred out of Zimbabwe in 2015, of which USD1.2 billion was siphoned by corporates and USD684 million by individuals, thus negatively impacting on liquidity (Mangudya, 2016). This an unsustainable trend, especially since as a result of dollarization the RBZ does not have foreign currency reserves to be a lender of last resort to the local banking system (Noko, 2011).

The recent announcement by the RBZ Governor that “bond notes” would be introduced to alleviate US Dollar cash shortages currently being experienced in the country (Mangudya, 2016), was met with despair and panic by the populace. A prominent economist described the announcement as “*extremely damaging to the interests of everyone and very dangerous to the economy*” and despite the RBZ Governor’s assurances that this was not a return of the Zimbabwe Dollar, long queues formed at the banks as people rushed to withdraw their US dollars (News24, 2016). Breene (2016) also noted that there had been a hostile reception from citizens to news of the bond notes, which were to be on par with the US dollar, as they were skeptical after their last experience with the local currency. This indicates a lack of trust in institutions in Zimbabwe, that is as a result of the recent history of hyperinflation, failed banks, worthless local currency that citizens still vividly recalled, and is in line with the findings of Stix (2013) that suggest that people in dollarized countries react more sensitively to doubts about the safety of their deposits. This raises the question of whether the current dollarization framework is sustainable or if Zimbabwe needs to find a more suitable currency.

Subsequent to dollarization in Zimbabwe, there has been an influx of imported goods into the country, despite the availability of some products locally (The Ministry of Finance and Economic Development, 2015). Authors such as Helpman (2006), and Volpe Martincus & Carballo (2008) recognize the effect of imports on a country’s balance of payments and in turn competitiveness. The work of Rugman, Oh, & Lim (2012), asserts that the strength of a country’s firms depend on its economic competitiveness. Rugman et al (2012) further highlight the need for cost competitiveness and business improvement processes in firms within a country to offset the effect of competition from imports. As noted by the RBZ, the cost of borrowing has remained high post-dollarization; averaging 10 percent per annum (Reserve Bank of Zimbabwe, 2016), resulting in it being unviable for most Zimbabwean companies to borrow and improve processes as well as acquire modern efficient machinery. These companies are unable to compete with the cheaper imported products, resulting in business closures, job losses and generally lower disposal incomes. It could therefore be argued, that in view of all the challenges being experienced, that the US Dollar is not the best currency for Zimbabwe to use, and that Zimbabwe therefore has to transition to a more sustainable currency. According to a Zimbabwe National Statistics Agency

(2014) survey of businesses in the country, most of the respondents cited weak domestic demand and heavy competition in export markets as their significant constraints, showing that they are struggling to be competitively priced against imports into Zimbabwe and are also not able to export and compete on price with their regional peers.

Dollarization has been put forward as the possible solution to institutional weaknesses in the developing world (Berg & Borensztein, 2000). However, in Zimbabwe dollarization seems to be amplifying institutional weaknesses. This is because Zimbabwean banks are currently unable to meet the demand of foreign payments being requested by their clients due to the shortage of US Dollars. Thus some banks have announced that they will no longer be remitting payments in United States dollars (Staff Reporter, 2016) and at the same time the RBZ Governor has provided the banks with a priority list for allocating the scarce US Dollars for making foreign payments (Mangudya, 2016). The cash shortages and foreign payment restrictions are adversely affecting businesses, as customers have no access to their cash to buy goods and businesses are unable to pay for imported products.

Therefore, the purpose of this study was to utilise qualitative methods to gain insights into the viability of Zimbabwe joining the South African Rand Common Monetary Area, as a means to transition out of dollarization, where the US Dollar is the primary currency in use in the country.

1.2 Research Scope

The scope of the research was to investigate the viability of Zimbabwe joining the South African Rand Common Monetary Area, in order to stop using the US Dollar as the primary trading currency. Thus dollarization theory and the literature on central banking, and the South African Rand Common Monetary area were relevant.

1.3 Research Motivation

As elaborated in the preceding discussion, the problem of being a fully dollarized economy is topical in Zimbabwe right now, as US Dollars are in short supply in the banking system, banks are limiting cash withdrawals and there is a lack of liquidity in the market. This lack of liquidity is largely believed to be due to the

lack of competitiveness of Zimbabwe post-dollarization, which has resulted in the country being a net importer of goods and services (Mangudya, 2016). Over the past year, the government has been paying state employees late, companies are shutting down as the market gets flooded by cheaper imports, resulting in rising unemployment, lower disposable incomes, culminating in a further contraction of the local market (Chinamasa, 2015).

The liquidity crisis is a big concern for businesses and consumers, especially since the Reserve bank of Zimbabwe (RBZ) Governor's announcement of the introduction of "*bond notes*" which many see as a return of the Zimbabwe Dollar (Mangudya, 2016). The turbulent history that Zimbabweans had with the Zimbabwe Dollar, with the currency devaluing substantially during hyperinflation, left the business community and citizens of the country without any trust in the RBZ or the government's effectiveness in administering the monetary and fiscal policies (Chinamasa, 2009).

In reviewing the literature, it is evident that there are very few countries that have completely dollarized like Zimbabwe, and there is therefore limited research or historical experiences to draw upon with regards to transitioning from dollarization (Vieira, Holland, & Resende, 2012; Berg & Borensztein, 2000; Bogetic 2000). It is therefore important on a national level to assess whether joining the South African Rand Common Monetary Area is a viable option to transition from dollarization, as the current situation is unsustainable.

1.3.1 Hyperinflation era prior to dollarization

As per the International Accounting Standards Board (2016), hyperinflation is indicated by various characteristics of the economic environment of a country, which include having a cumulative inflation rate over a three-year period more than 100 percent. Zimbabwe experienced a period of hyperinflation brought about primarily due to the government entering the second Congo War in 1998 and land reform (Noko, 2009). These were followed by various events like gratuities paid to war veterans, the RBZ printing more Zimbabwe Dollars (Z\$) to fund the purchase of farm implements that further fuelled inflation. During this period, the country experienced cash and food shortages, lower productivity and bank failures (Noko, 2011), which led to citizens losing confidence in the banking system. At the height of hyperinflation, the largest currency note in circulation in Zimbabwe had a face value of Z\$100 trillion (News24, 2016).

Vieira et al. (2012) asserted that the dollarization of a country is always strongly associated with a period of inflation. This theory is corroborated by Del Cristo & Gómez-Puig (2016), in their study of Ecuador, and by Noko (2011) in his study of Zimbabwe. Ecuador recorded inflation rates of 30 percent per month (Del Cristo & Gómez-Puig, 2016), while Zimbabwe recorded monthly inflation of 79,600,000,000 percent in November 2008, which meant prices were doubling every 24 hours (Hanke & Kwok, 2009). At the peak of Germany's inflation in October 1922, which is perhaps the most renowned hyperinflation episode, monthly inflation peaked at 29,500%, which meant prices were doubling every four days (Hanke & Kwok, 2009).

1.3.2 Dollarization

Vieira, Holland, & Resende (2012) identify four views of the drivers of dollarization namely, monetary substitution view, asset portfolio view, institutional view and market failure view. In the case of Zimbabwe, all four views seemed to have played a role in the dollarization of the economy (International Monetary Fund, 2015). Dollarization can promote trade (Lin & Ye 2010), which in the case of Zimbabwe has resulted in increased imports (Chinamasa, 2009), which have over the years led to a significant current account deficit as imports have exceeded exports (Mangudya, 2016).

Dollarization under international sanctions, that were imposed following land redistribution programmes, also means that there are very limited lines of credit. The above coupled with the 2007 Indigenisation law, makes Zimbabwe an unattractive destination for foreign direct investment (Noko, 2011). Zimbabwe's banking laws were already stringent in the past, even before the Indigenization law was enacted. These factors do not encourage foreign direct investment, especially in the banking space. In contrast, the banking space in Panama was opened up to international banks that provided liquidity, access to cheaper offshore funding, and thus stabilised the local banking sector by acting as "lenders of last resort" (Moreno-Villalaz, 1999). The analysis above leads to the question of how long Zimbabwean businesses could survive under dollarization, and what the best option is for business and the nation as a whole to transition out of dollarization.

1.4 Research Problem

The study investigated whether it would be viable for Zimbabwe to join the South African Rand Common Monetary Area, in order to stop using the US Dollar as the primary trading currency. The study also sought to establish what factors could negatively impact the successful entry of Zimbabwe into the South African Rand Common Monetary Area.

The research focussed on Zimbabwe specifically as it has undergone a unique combination of challenges, which resulted in it experiencing a decade of economic decline and hyperinflation (International Monetary Fund, 2010). This culminated in the abandonment of the Zimbabwe dollar and the adoption of a multicurrency regime. The lack of a local currency undermines the credibility of the central bank and erodes the value of government's financial assets (Vieira et al, 2012). In addition, targeted sanctions were imposed on Zimbabwe that limit capital inflows into the country. The myriad of problems make the operating environment in Zimbabwe markedly different from other emerging market countries with their own currencies.

2. Theory and Literature Review

2.1 Introduction

The literature review commences with an overview of money and currencies, which then leads into the section that defines and describes dollarization and its effects on countries and businesses. From the review of the literature it was evident that political trust and the role of the central bank and the strength of institutions were key factors, so these are also debated, together with the concept of a South African Rand Common Monetary Area.

2.2 Money and currencies

The primary function of money is to be a medium of exchange and a unit of account when transacting (Allen, Carletti, & Gale, 2014). An additional function is to be a store of value (Menon, 2008). Mundell (1961) in his seminal article on currencies and optimal currency areas postulated that *“money in its role of medium of exchange is less useful if there are many currencies”* (p.662) because of the costs of conversion, that in the end people would be better off barter trading than using money as a medium of exchange. *“Money is a convenience and this restricts the optimum number of currencies”* (p.662) (Mundell, 1961), and this has been evident in Zimbabwe, where the *“multi-currency basket”* form of dollarization has not worked, with the US Dollar dominating the transactions in the market. This can be linked to Gresham's Law that bad money can drive out good money (Valev 2010), in the sense that the US Dollar being the strongest currency and most universally traded currency, drove out the usage of the South African Rand and Botswana Pula that were initially widely used in Zimbabwe.

Mundell (1961) put forward the theory that an optimum currency area (OCA) was formed by a group of countries, in close proximity and that are integrated in terms of trade as well as movement of labour. Further to this, for each country the cost of not being able to adjust the exchange rate in response to country specific shocks, are outweighed by the benefit of eliminating currency conversion costs on trade by being using the same currency in the OCA (Mundell 1961). It would appear that Zimbabwe joining the South African Rand Common Monetary Area would satisfy most of these conditions, as movement of labour is currently restricted, so the benefits of being in an OCA may be realised.

2.3 Dollarization

2.3.1 Overview

According to Vieira et al. (2012), dollarization occurs when a country substitutes its domestic currency with a stronger foreign currency either partially or fully, or when the country has a significant percentage of its bank deposits in another country's currency. Bogetic (2000) elaborates that the process of dollarization may be *"more or less spontaneous, partial and unofficial, reflecting a piecemeal shift in preferences by individuals for foreign currency, or it may be full and official, in that a country adopts a foreign currency as exclusive or parallel legal tender"* (p181).

In the literature, dollarization is used in a variety of circumstances to describe everything from the extensive illegal use of any foreign currency in an economy by citizens (unofficial dollarization), to the official sanctioning by the government of the use of a foreign currency as the primary or sole method of payment and unit of account (full or official dollarization) (Bogetic, 2000; Lorena, Del, & Gómez-Puig, 2013). The definition of dollarization used by the author of this research is that of Lorena et al (2013), *"... full dollarization in which the national currency is substituted by the USD as legal tender"* (p4397).

Bogetic (2000) posits that currency crises do not arise in officially dollarized countries, as there is no domestic currency and therefore no currency risk. The author would argue that this is not entirely true, as Zimbabwe is currently experiencing foreign currency shortages, rising domestic government debt in United States Dollars, which could lead to a currency crisis in the future should the domestic currency be re-introduced.

Bogetic (2000) explains that most dollarized countries only decree a single foreign currency as legal tender. Zimbabwe on the other hand gave full legal tender status to a number of currencies, which were termed a *"multi-currency basket"*. Included in the multi-currency basket are the United States Dollar, British Pound, Euro, South African Rand, Botswana Pula and Chinese Yuan (Noko, 2011).

Hanke & Schuler (1999) go further to describe *"unilateral dollarization"*; where a country can choose to use the United States Dollar as legal tender that does not require the prior approval of the United States Federal Reserve. Hanke & Schuler (1999) provide another alternative, of a *"limited treaty"*, which a country can enter into

with the United States government and thereby receive some seigniorage revenue and get access for their local banks to the Federal Reserve System's discount window as a source of liquidity.

Vieira et al (2012) mention that only three countries; namely Panama, Ecuador and El Salvador, have adopted the US Dollar as the official currency. This supports the assertion of Bogetic (2000) that very few countries have officially dollarized, and coupled with the fact that the three countries named are relatively small, indicates a lack of published information on these dollarized territories. Bogetic (2000) also highlights that unofficial dollarization is more predominant than official dollarization, also leading to a dearth of information. This explains why there is a paucity of recent research on full dollarization, as it is not very common or widespread.

2.3.2 Reasons for dollarization

Bogetic (2000), Vieira et al. (2012) and Stix (2013) contend that during periods of high inflation people look for an alternative stable currency as either a store of value or to be able to complete domestic transactions easily. This leads to a period of unofficial dollarization as experienced in both Ecuador and Zimbabwe, subsequently followed by official dollarization in those countries. Corrales, Imam, Weber, & Yehoue (2016) postulate that financial (unofficial) dollarization is usually after periods of prolonged economic and political turmoil which result in citizens finding safety in transacting in foreign currency, and holding their assets in foreign currency, usually the US Dollar.

Del Cristo & Gómez-Puig (2016) provide an additional reason for dollarization, explaining that the Ecuadorian's authorities justified the decision to dollarize the economy by saying it would enhance fiscal discipline. This was after a period of rising inflation and unofficial dollarization in the economy.

2.3.3 Costs and Benefits of dollarization

Del Cristo & Gómez-Puig (2016) assert that as a developing country, there are three major downsides to dollarization. These are the loss of seigniorage revenues, loss of control of the domestic monetary policy and no longer being the lender of last resort in the local money market (Del Cristo & Gómez-Puig, 2016). On the other hand, Hanke & Schuler (1999) argue that the loss of seigniorage revenue is much smaller than the

gains from dollarizing which include lower interest rates, eliminating currency risks and achieving higher economic growth.

In addition, Vieira et al. (2012), posit that one of the downsides of dollarization is the increased volatility and susceptibility of the country to external shocks. Del Cristo & Gómez-Puig (2016) concur with this view when they reviewed the Ecuadorian economy. They concluded that by being dollarized, the Ecuadorian economy was unable to manage the shocks it was experiencing by implementing its own monetary policy and managing its own currency.

In addition to this, Stix (2013) suggests that people in dollarized countries react more sensitively to doubts about the safety of their deposits. This behaviour is linked to the trust and confidence that citizens have in the country's institutions, and their memories of past episodes of inflation and bank failures (Wälti, 2012). Related to the loss of trust is weak institutions. Berg & Borensztein (2000) put forward dollarization as the possible solution to institutional weaknesses in the developing world, where trust would then be placed in the monetary system with the oversight and expertise of a foreign country backed by a stronger currency, and arguably, better institutions.

Carrière-Swallow & Felipe (2013) concluded that emerging market countries that have a high degree of financial (un-official) dollarization and poor quality institutions are more severely impacted by global shocks when compared to developed countries. The decline in investments is four times as much as in developed countries, with declines experienced in private consumption as well. Vieira et al. (2012) contended that in partially dollarized economies, even after inflation rates had declined, the level of dollarization remained high, primarily as a result of increasing levels of government domestic debt. De Nicoló, Honohan, & Ize (2005) have similar findings which indicate that dollarized systems have exposure to both solvency and liquidity risks. They elaborate that as a result of low credibility or lack of trust by the populace, there ends up being a risk premium on dollar deposits in domestic banks, as if the "local dollar" deposits are a different currency to the US dollar deposits held in foreign "safe havens" (De Nicoló, Honohan, & Ize, 2005). This is the situation that has arisen in Zimbabwe which is in the midst of a liquidity crisis and unable to fund cross-border payments in US Dollars.

It could be argued that the liquidity crisis in Zimbabwe could have its roots in the initial conversion of bank balances to US Dollars. At the point of dollarization, the RBZ did not have any foreign currency reserves to utilise to convert all of the bank balances in the country from local currency to US Dollars, and also did not have any foreign currency reserves to hold and provide short-term liquidity to the inter-bank market and be the lender of last resort (Noko, 2011).

The study by Del Cristo & Gómez-Puig (2016) also showed that one of the benefits of dollarization in Ecuador was that there was enhanced fiscal discipline, as the government was forced to operate on a cash budgeting basis, as they could no longer print money to fund budget deficits. According to Del Cristo & Gómez-Puig (2016), as Ecuador is a small emerging economy reliant on a revenue stream based on a non-renewable commodity (oil), it has been left vulnerable by dollarization, and is therefore unsustainable. The same could be argued about Zimbabwe, which is primarily reliant on the exports of commodities.

In partially dollarized economies, the financial system is exposed to solvency risks as a result of currency mismatches in the event of significant depreciation of the local currency (De Nicoló et al., 2005). Bank failures are also more likely as a result of currency mismatches, as the quality of the dollar loan book will deteriorate.

Bogetic (2000) and Berg & Borensztein (2000) concur that one of the benefits of dollarization, especially for countries that have experienced exchange rate volatility and poor monetary policies, is the exchange rate stability and higher confidence levels from international investors. Other benefits are lower interest rates on international loans, increased investment flows and growth in the economy (Berg & Borensztein, 2000). Bogetic (2000) emphasizes that a dollarized country realises greater savings from eliminating exchange rate risk if most of the country's trade is integrated with countries that trade in United States Dollars (US Dollars) as seen with Panama. Zimbabwe got the benefit of inflation stability when it dollarized, however by trading in predominantly US Dollars when its primary trading partner was South Africa, Zimbabwe did not get any benefits from integration, especially when the US Dollar strengthened and the South African Rand lost value, Zimbabwean goods and services became uncompetitively priced, leading to an influx of imports.

Menon (2008) however, brings a slightly different view on the benefits of dollarization, with regards to an increase in confidence levels of foreign investors because of stability brought about by dollarization. Menon (2008) argues that there is a distinct difference between country risk and currency risk, and therefore dollarization reduces currency risk and not necessarily the perceptions of country risk, especially in developing countries. This has been the case with Zimbabwe, which still carries a high country risk premium for foreign loans and when foreign investors assess acquisition opportunities in the country.

Moreno-Villalaz (1999) in reviewing Panama's performance as the country that has been officially dollarized for the longest period highlights the benefits to Panama. There is no central bank and therefore no government intervention or restrictions on financial flows or interest rates. These are market determined, which has resulted in a competitive banking system (Moreno-Villalaz, 1999). Inflation in Panama has been low and stable, and as a result of not having a domestic currency, the government operates a balanced budget, reducing expenses when needed or increasing taxes to increase revenues (Moreno-Villalaz, 1999).

2.3.4 Dollarization in Zimbabwe

After a prolonged period of hyperinflation, a Government of National Unity formally took power in Zimbabwe on 11 February 2009, and that month consented to the full dollarization of Zimbabwe, albeit without any formal agreements (Noko, 2011). The Zimbabwe dollar was de-monetised and was thereby no longer considered legal tender as from 12 April 2009, resulting in Zimbabwe no longer circulating a domestic currency (Noko, 2011).

Bogetic (2000) contended that most dollarized countries have only one foreign currency as legal tender. Zimbabwe on the other hand gave full legal tender status to a number of currencies that were termed a "*multi-currency basket*". Despite the fact that South Africa was Zimbabwe's largest trading partner, the Zimbabwe government adopted the US Dollar as the currency it would present its budgets and conduct all its transactions. The US Dollar and the South African Rand were initially equally used to transact across the country and were the primary currencies in use. In less than two years however, the US Dollar became the preferred currency, with very few transactions taking place in any of the other currencies in the "*multi-currency basket*" (Noko, 2011).

2.3.5 De-dollarization

Moreno-Villalaz's (1999) observations in relation to Panama, which has been an officially fully dollarized economy for over 100 years, using the United States Dollar as its primary currency were that the best conditions for efficient dollarization were:

“(1) a large proportion of exports in the reserve currency (such that the effects of changes in its exchange rates are minimized), and

(2) diversified and relatively stable income from exports to reinforce the economic stability.”

From the previous chapter it is clear that the above conditions are not present in Zimbabwe, hence the researcher's proposition that Zimbabwe de-dollarize and find a more suitable currency.

Possible alternatives for Zimbabwe include reverting to a free floating local currency or pegging the local currency to a stronger regional currency. A study by Schuler (2005) on dollarization determined that countries that had been dollarized and then reverted to their own currencies and had independent monetary policies, had performed worse in respect of monetary stability than if they had remained dollarized. In light of the challenges highlighted from the literature of introducing a *“new Zimbabwe Dollar”*, the author has identified the Common Monetary Area with South Africa as the most viable option to move away from using the United States Dollar as the primary currency for transactions in Zimbabwe, and the purpose of this research is to determine whether it is indeed the best option for the country.

In reviewing the literature, it is evident that there are very few countries that have completely dollarized like Zimbabwe, and there is therefore limited research or historical experiences to draw upon with regards to transitioning from dollarization (Berg & Borensztein, 2000; Bogetic, 2000; Vieira et al., 2012). Bogetic (2000) also noted that due to the fact that unofficial dollarization is more prevalent than official dollarization, and that dollarized countries are mostly small, there was a lack of published information on the countries and territories that have dollarized.

From the research of Bogetic (2000) and Vieira et al. (2012), Zimbabwe is one of only four countries in the world that has officially and fully dollarized. The other countries are Panama, Ecuador and El Salvador, which dollarized in 1904, 2000 and 2001 respectively. This is one of the reasons why there is not much recent research

available on dollarized economies. There is therefore gap in knowledge on the viable options for transitioning from being a fully dollarized economy such as Zimbabwe.

Research Proposition: The lack of competitiveness of Zimbabwe's industries and the liquidity challenges being experienced are as a result of dollarization with the US dollar as the principle currency.

2.4 The importance of institutions and trust

2.4.1 Overview

North (1991) in his seminal article defined institutions as “*the humanly devised constraints that structure political, economic and social interaction. Institutions provide the incentive structure of an economy*” (p109). He went further to explain that included in the definition are formal rules and laws, and that institutions have been created by human beings to provide structure and minimise uncertainty in exchange. The institutions that are of interest in this study are the central bank or Reserve Bank of Zimbabwe (RBZ), Ministry of Finance and the legal system in Zimbabwe, as these are the most important in influencing citizens' views on whether to have confidence in the currency in circulation.

Acemoglu & Robinson (2012), posit that the differences in the economic success of countries can be explained by their institutions as well as the incentives that motivate society. They go further and provide a distinction between inclusive and extractive economic institutions, as these determine whether a nation will experience inclusive growth or rising levels of inequality. Acemoglu & Robinson (2012, p95) describe inclusive institutions as those that ensure security of private property rights, foster economic activity, growth and prosperity for all citizens. On the other hand, extractive institutions concentrate power and resources in the hands of an elite minority, at the expense of the rest of society.

Lascaux (2012) postulated that without higher order (inclusive) monetary institutions that provided oversight, it would be easy to undertake one-sided actions without being called to account. Lascaux (2012) ranked the central bank amongst the most important trust generating body in a nation, as it created domestic currency, provided liquidity to the banking system and enforced lawful monetary claims of market participants.

Beetsma & Giuliodori (2010) highlight that in developing countries it may be difficult for a currency union to have the correct institutional structure to efficiently operate the union. South Africa, however, has been successfully managing the Rand Currency Monetary Union for many years, so this risk is mitigated in assessing the suitability of Zimbabwe joining the Common Monetary Area (CMA).

2.4.2 Confidence and trust in money and institutions

Research by Stix (2013) indicated that weak institutions and past banking failures were factors that influenced differences in citizens' cash preferences in various countries, and that these weak institutions also led to the partial dollarization of countries, as citizens look for a store of value in a stronger currency. Research by Vieira et al. (2012) corroborated this, as the research showed a "*positive relationship between institutional quality and financial dollarization*" and that the introduction of policies that reduced the risks associated with debt and investment led to a decline in financial dollarization. This is all a function of the trust and confidence that the citizens have in institutions in the country. Stix (2013) elaborated that specifically trust in institutions was more important than social capital when explaining citizen's cash preferences.

Lascaux (2012) posited that trust was a crucial aspect of monetary relationships and that without it, money will not circulate as a form of payment or be a store of value. Lascaux (2012) went further and put forward the three principal dimensions promoting trust in money. The first condition, which looked at the relationship between economic agents, was the "*liquidity of money*"; meaning that monetary undertakings would be honoured and that debts would be paid punctually in the form previously agreed. Lascaux (2012) explained that the second and third conditions related to the state's duty in being the primary institution ensuring "*the normal performance of money's basic functions*". The second condition was the "*acceptability of money*" meaning that money would be widely accepted as a form of payment in settling private and public debt. The third condition was the "*stability of money*", meaning that the value of money would fluctuate within a predictable range. Lascaux (2012) concluded that all three conditions are important for money to be used to transact as a store of value, and that if any one of the conditions are missing, the circulation of money immediately dissipates. The reliability of the central bank and its past performance in monetary policy is therefore critical in ensuring that the public has a high level of trust in the money in circulation.

2.4.3 Central Banks

Fischer (1995) in his seminal article on central bank independence explained that the purpose of a central bank was to centralize the role and responsibility of determining monetary policy. Fischer (1995) emphasised the importance of accountability and independence from political interference. For instrument independence in particular he explained that this implied *that “the central bank should be free of any obligation to finance government budget deficits, directly or indirectly, and should have the power to determine interest rates”*. He however cautioned that the central bank could become too independent, and hence the need for accountability through a board structure (Fischer, 1995).

Ojiako, Manungo, Chipulu, & Johnson (2013) postulated that the Reserve Bank of Zimbabwe (RBZ) cannot execute on its mandate effectively as it lacks political independence. The RBZ must get approval from the Ministry of Finance before executing monetary policy, which *“means that the RBZ is unable to make independent monetary and banking policies and this has resulted in the RBZ appearing to operate as an executive arm of the government”* (Ojiako et al, 2013). The practical implications of this lack of independence were experienced in Zimbabwe during the hyperinflationary period when the central bank printed money to fund quasi-fiscal activities such as farm implements. The lack of independence, whether perceived or real, leads to lack of trust and confidence in the central bank’s policies.

Another role of a central bank is to regulate local financial institutions and be the lender of last resort for local banks. In Zimbabwe, as a result of dollarization, the RBZ does not have sufficient foreign currency reserves to be a lender of last resort to the local banking system (Noko, 2011).

Guillaume & Stasavage (2000) posited that the most common reasons for loss of credibility in monetary policy in Africa are fiscal pressure and time-inconsistency. They suggest that for countries with inefficient central banks or which have insufficient checks and balances for accountability, which joining a regional monetary union may act as a proxy for establishing credibility. Hence the author’s proposal that Zimbabwe should join the Rand CMA in order to improve credibility and enhance the institutional structure of the RBZ.

Research Proposition: The public and business community's level of trust and confidence in the RBZ and other institutions in Zimbabwe have not yet reached a level where a local currency can be re-introduced.

2.5 The South African Rand Common Monetary Area (CMA)

2.5.1 Overview

Hanke & Schuler (1999) explained that when a country joins a monetary union, it relinquishes monetary policy sovereignty. It follows therefore, that if Zimbabwe were to join the South African Rand Common Monetary Area (CMA), control over key aspects of the monetary policy would lie with the South African Reserve Bank (SARB). Bogetic (2000) described the currency system in operation in Namibia and Lesotho, which are members of the Common Monetary Area (CMA) with South Africa. The countries' currencies are pegged to the South African Rand, and therefore trade at par with the South African Rand. Unlike Zimbabwe with its informal arrangement on the use of predominantly the US Dollar as legal tender, Lesotho and Namibia have agreements in place with South Africa and therefore collect seigniorage as part of the arrangement. The CMA also includes an agreement for maintaining common exchange controls with outside countries. Noko (2011) posits that as a result of South Africa being Zimbabwe's largest trading partner, that the South African Rand should have been adopted as the principle currency at dollarization, as opposed to the US dollar, and based on the challenges currently being experienced, the author investigated this theory further in this research, through the expert interviews.

2.5.2 Aspects of the Rand CMA

Beetsma & Giuliodori (2010) and Tavlas (2008) gave an account of the history of the CMA, which has South Africa, Swaziland, Lesotho and Namibia as members. The CMA was initially an informal arrangement during the early part of the 20th century. The arrangement was formalised in 1974 upon the signing of the Rand Monetary Area Agreement by South Africa, Botswana, Namibia and Swaziland. Botswana later withdrew in 1975, and the agreement was amended in 1986 thereby establishing a CMA with South Africa, Lesotho and Swaziland as members. Namibia joined the CMA in 1992 (Tavlas, 2008).

Lesotho, Namibia and Swaziland each issue their own domestic currencies, which are pegged at par to the South African Rand. The South African Rand is legal tender in Lesotho and Namibia, which then earn seigniorage from the SARB for the Rands that circulate in their economies (Beetsma & Giuliodori, 2010; Tavlas, 2008).

The monetary policy for the CMA is directed by the South African Reserve Bank (SARB), based on the objectives of the domestic economy (Beetsma & Giuliodori, 2010; Tavlas, 2008). The SARB governor convenes quarterly meetings with the governors from all the central banks in the CMA, before the SARB monetary policy committee meets to set the interest rates for South Africa (Tavlas, 2008).

According to Tavlas (2008), there is fiscal discipline amongst the CMA countries primarily due to legislation that prohibits them from getting budgetary support from the SARB, as well as regulations that require Lesotho, Namibia and Swaziland to have foreign exchange reserves that fully back the issuance of their domestic currencies. In light of Zimbabwe's recent history with indiscipline in monetary and fiscal policy, this may be a mechanism to institute the much needed checks and balances, which will restore the credibility of the RBZ and revive the trust of Zimbabweans in the central bank.

2.5.3 Costs and Benefits of joining the Rand CMA

As mentioned above, one of the key benefits for Zimbabwe of joining the CMA would be the enforcement of fiscal and monetary policy discipline, and restoration of the credibility of the monetary institutions in Zimbabwe. Guillaume & Stasavage (2000) posited that in the context of political instability, African countries that have joined monetary unions have usually been associated with sensible and credible monetary policies, especially when it would be costly to exit from the union. An additional benefit for Zimbabwe joining the CMA would be a reduction in transaction costs for doing business with South Africa, which is Zimbabwe's largest trading partner.

Beetsma & Giuliodori (2010) highlighted that for the central bank there is a trade off between enhanced credibility and the flexibility to set monetary policy, however being part of the CMA allows the central bank to have some independence from its government, enhancing credibility in the monetary policy. Tavlas (2008) emphasized that the main cost of being in a monetary union was the inability of the central bank to "*use the exchange rate as an instrument of macroeconomic adjustment*" and also set monetary policies that addressed the needs of the domestic economy. Beetsma &

Giuliodori (2010) corroborated this view and noted that joining a monetary union resulted in a loss of the exchange rate as a mechanism to adjust for “*country-specific shocks*”, and however noted that one of the benefits if the union was low and steady inflation. Hanke & Schuler (1999) argue that under both dollarization and a currency union, a central bank gives up monetary policy sovereignty, however only under a currency union is political sovereignty lost as well, as it is extremely difficult for a country to unilaterally exit a currency union.

Buigut & Valev (2005) proposed that one of the important benefits of being part of a monetary union results in increased credibility and financial stability, which leads to more investments and faster economic growth. There is also a lesser need to maintain substantial liquid foreign reserves, which can instead be used to generate better returns elsewhere (Buigut & Valev, 2005). Another benefit of joining the CMA would be earning seigniorage revenues, which can be an important source of income in developing countries (Beetsma & Giuliodori, 2010). Beetsma & Giuliodori (2010) postulated that for countries trying to meet the requirements for membership in a monetary union, the stringent requirements may also provide the impetus for structural reform.

Research Proposition: Critics of Zimbabwe’s dollarization have suggested that the US Dollar was the incorrect currency to be adopted, and that joining the South African Common Monetary Area is the more sustainable solution.

2.6 Conclusion of Literature review

In conclusion, there are benefits as well as drawbacks to dollarization. The strength of institutions and the citizens’ trust and confidence in these institutions are also important factors in ensuring the acceptance of the money in circulation. This study explored the option for the de-dollarization of Zimbabwe by becoming part of the South African Rand CMA, which from the researcher’s review of the literature is the most viable option for Zimbabwe to de-dollarize and stop using the US Dollar as its primary currency for transacting.

3. Research Propositions

To investigate whether it is a viable option for Zimbabwe to join the South African Rand Common Monetary Area, it is important to first ascertain what the source of the current economic challenges being experienced in Zimbabwe are, in order to confirm that the use of the US Dollar as the primary currency is not ideal.

3.1 Research proposition 1

The lack of competitiveness of Zimbabwe's industries and the liquidity challenges being experienced are as a result of dollarization with the US dollar as the principle currency.

3.2 Research proposition 2

The public and business community's level of trust and confidence in the RBZ and other institutions in Zimbabwe have not yet reached a level where a local currency can be re-introduced.

3.3 Research proposition 3

Critics of Zimbabwe's dollarization have suggested that the US Dollar was the incorrect currency to be adopted, and that joining the South African Common Monetary Area is the more sustainable solution.

4. Research Methodology

4.1 Introduction

The literature review provided insights on the challenges of dollarization, especially for a country like Zimbabwe that is a net importer and surrounded by countries with weaker currencies. The literature also explored the alternatives to dollarization, which led to the research propositions that presented joining the South African Rand Common Monetary Area (CMA) as a solution, which needs to be tested and validated.

4.2 Research design

Qualitative techniques, in the form of in-depth semi structured expert interviews were used for the study. The purpose of this study was to explore joining the South African Rand CMA as a solution for Zimbabwe transitioning out of dollarization, as there were very few cases of successful transitions that policy-makers can draw on. As the study was exploratory in nature and there is not much literature related to the subject, in-depth semi structured interviews with experts were appropriate in order to be able to draw insights, learn new themes or theories (Edmondson & Mcmanus, 2007). Open-ended questions were more appropriate, as the researcher is not an expert in the field, and therefore approached the interviews with an open mind, ready to take on new ideas.

The research project was in the form of a qualitative study. Semi-structured interviews with bankers, economists, academics, Reserve Bank of Zimbabwe officials and experts in the research area in Zimbabwe were conducted, to get further insights. An interview question guide for the interviews is included as Appendix 1, with the list of questions. The questions consisted of open-ended questions, to minimise the possibility of interviewer bias, while providing structure to the enquiries (Saunders & Lewis, 2012). The order of the questions was varied during the interview, depending on the responses given by the interviewee (Saunders & Lewis, 2012).

A pragmatic philosophy (Saunders & Lewis, 2012) was utilised during the course of the research, thereby focusing the outcomes on what was feasible or viable. Deductive reasoning (Saunders & Lewis, 2012) was utilised in coming up with the research propositions which tested existing theory. Inductive reasoning was used to interpret the findings and formulate theories based on the results.

4.3 Universe

The population of relevance consisted of all experts in the fields of central banking, finance and economics in Zimbabwe.

4.4 Sampling

4.4.1 Sampling technique

The sampling technique adopted was purposive as experts needed to be identified and people could therefore not be chosen randomly. According to Saunders & Lewis (2012), purposive sampling is “*a type of non-probability sampling in which the researcher’s judgment is used to select the sample members based on a range of possible reasons and premises*” (p.138).

4.4.2 Sample size

The sample from the population was small, with 11 individuals in total. There were a limited number of people who could be interviewed who were knowledgeable on the issue. Saunders & Lewis (2012) further explain that purposive sampling is used “*when you need to understand what is happening so that you can make logical generalisations*” (p.139), which was the aim of this research.

The list of respondents in Table 1 below was chosen based on their expertise in the subject under study.

Table 1 : List of experts interviewed

| Respondent | Designation |
|-------------------|---|
| Respondent 1 | Senior executive from one of the top three asset management companies in Zimbabwe |
| Respondent 2 | Senior official from the Reserve Bank of Zimbabwe |
| Respondent 3 | Managing director of a bank in Zimbabwe |
| Respondent 4 | Former Senior Economist in the Ministry of Trade and Commerce in Zimbabwe |
| Respondent 5 | Zimbabwe market and company analyst |
| Respondent 6 | Economist and business owner |
| Respondent 7 | Senior executive of a bank in Zimbabwe |

| | |
|---------------|--|
| Respondent 8 | Economist and executive director of an economic policy research organisation in Zimbabwe |
| Respondent 9 | Senior executive of a bank in Zimbabwe, with operations throughout Africa |
| Respondent 10 | Regional Managing Director of a bank with operations in Zimbabwe, South Africa and the CMA countries |
| Respondent 11 | Senior official from the research and policy department at the Reserve Bank of Zimbabwe |

The intention was to interview 10 to 15 individuals in order to get as many diverse views as possible. As these were in-depth interviews where more time was required per interview and to analyse the data, due to time constraints on the delivery of the research, it would not have been possible to interview more than 15 individuals. Data saturation was reached at 11 interviewees because at that point no new themes or ideas were expressed therefore conducting further interviews would not have been useful (Edmondson & Mcmanus, 2007; Saunders & Lewis, 2012).

4.5 Unit of analysis

The unit of analysis was the entry of Zimbabwe into the South African Rand Monetary Currency Area, as a method of de-dollarization.

4.6 Measurement

4.6.1 Data Collection

As these were interviews with experts in a field that the researcher is not an expert in, semi-structured interviews were conducted to allow the experts to express their views freely without the bias or direction from the interviewer (Saunders & Lewis, 2012). An interview guide was used during the session to ensure that the key themes were covered, while giving the interviewee an opportunity to speak freely (Appendix 1). The experts were also asked to touch on aspects that the interviewer may not have come across during research therefore provide additional options for de-dollarization, as well as other factors to be considered. A recording device was used during the interviews, with the researcher making notes during the interview, taking note of key themes that emerged.

4.6.2 Data Analysis

Data analysis was carried out throughout the interview process, to ensure that emergent themes were captured on the interview question guide and included in subsequent interviews, as exploratory research is an iterative process (Edmondson & Mcmanus, 2007). As the process is iterative, the researcher was not sure from the outset of the research what the results would be (Edmondson & Mcmanus, 2007).

The data analysis approach used was qualitative content analysis which is described as “an interpretive form of analysis in which the codings are completed based on interpretation, classification, and analysis. Moreover, text analysis and coding are not done exclusively by computer, so they are linked to human understanding and interpretation.” (Kuckartz, 2013 p.19). All the interviews were recorded and transcribed, with the transcripts analysed both manually and using software, in order to identify and collate common themes. The manual analysis of the transcripts while playing back the recordings of each interview, enabled the researcher to pick up nuances or emphasis in speech that would have been missed from just reading the transcripts (Denscombe, 2010, p.127). Atlas TI software was used to analyse the data, including the production of frequency reports and network diagrams documenting results and findings. The credibility of the research findings were tested with reference back to the literature as well as by testing the plausibility of the research findings (Tracy, 2010).

The data collection and analysis was iterative, with the researcher reviewing the notes taken from each interview before starting the next interview, in order to take note of any emerging themes or new questions to be raised in the following interviews.

4.6.3 Data validity and reliability

“Validity is concerned with whether the findings are really what they appear to be about” (Saunders & Lewis, 2012 p.127). For this reason, it is important to ensure that subject selection and data collection methods accurately measure what they are intended to measure (Saunders & Lewis, 2012). One way of ensuring this was through what Tracy (2010) described as “*member reflections*” which involved sharing the

research findings with the participants of the study “*and providing opportunities for questions, critique, feedback, affirmation and even collaboration*”. (p. 844)

“*Reliability is the extent to which data collection methods and analysis procedures will produce consistent findings*” (Saunders & Lewis, 2012 p.128). The researcher was aware of the possibility of subject bias, in that some interviewees may have given “*politically correct*” answers due to the offices they hold, as opposed to expressing their true opinions. The researcher was also aware of observer bias and took the necessary precautionary measures such as getting an independent party to review the findings and check whether they arrived at the same conclusions (Saunders & Lewis, 2012).

4.6.4 Research ethics

Tracy (2010) explains, “*procedural ethics also suggest that research participants have a right to know the nature and potential consequences of the research –and understand that participation is voluntary.*” (p.847) All the participants of this research study were therefore given consent forms to sign (attached as Appendix 2) and were also advised that participation was voluntary and that they could withdraw at any time without penalty.

4.7 Limitations

The results of the qualitative research methods will not provide conclusive results, only possible answers of issues to be researched further using quantitative methods to get more empirical evidence of correlations (Saunders & Lewis, 2012). Only a very small part of the population was interviewed and was made up of Zimbabweans, therefore the results may give a skewed or biased view of the options available to the country. As there was an element of snowball sampling, there is a risk that interviewees will refer the researcher to other experts who have similar viewpoints to theirs. Exploratory research is subjective and reflects the views of the researcher and therefore they may be an element of researcher bias (Saunders & Lewis, 2012).

5. Research Results

5.1 Introduction

The results of the expert interviews conducted during the course of the research project are presented in this chapter. The data analysis approach has been included in section 4.6.2. This chapter begins with a brief description of the interviewees and their roles within their organisations in order to establish their credibility as experts in the area under study. This is followed by an analysis of the results of each research proposition, with sub sections where relevant, dealing with the various aspects or factors that need to be considered in reaching a conclusion.

5.2 Respondents in brief

Experts were identified in the field, with an understanding of the environment in Zimbabwe. Details of the respondents and their respective roles within their organisations are provided in the table below, while maintaining the anonymity of each individual:

Table 2 : Overview of respondents

| <i>Respondent</i> | <i>Roles and responsibilities</i> |
|--------------------------|---|
| Respondent 1 | Senior executive from one of the top three asset management companies in Zimbabwe, which manages funds for pension funds, insurance companies other corporates and individuals. |
| Respondent 2 | Senior official from the Reserve Bank of Zimbabwe with over twenty years of experience in the financial sector. |
| Respondent 3 | Managing director of a bank in Zimbabwe in which the government of Zimbabwe has a significant shareholding. |
| Respondent 4 | Former Senior Economist in the Ministry of Trade and Commerce in Zimbabwe, now a visiting lecturer at a South African university, author and expert in trade. |
| Respondent 5 | Zimbabwe market and company analyst who also consults for the Reserve Bank of Zimbabwe. |
| Respondent 6 | Economist and owner of a business in the financial services sector. |
| Respondent 7 | Head of Corporate and Institutional banking at a bank in Zimbabwe. |
| Respondent 8 | Economist and executive director of an economic policy and |

| | |
|---------------|---|
| | research organisation in Zimbabwe. |
| Respondent 9 | Managing Director of a bank in Zimbabwe, with operations throughout Africa. |
| Respondent 10 | Regional Managing Director of a bank with operations in Zimbabwe, South Africa and the CMA countries. |
| Respondent 11 | Senior official from the research and policy department at the Reserve Bank of Zimbabwe. |

5.3 Research Proposition 1 Results –lack of competitiveness due to use of US Dollar

The lack of competitiveness of Zimbabwe’s industries and the liquidity challenges being experienced are as a result of dollarization with the US dollar as the principle currency.

The researcher asked direct questions in terms of what the respondents thought were the reasons Zimbabwe was not competitive and whether dollarization may have a bearing on the challenges being faced in the country.

On whether Zimbabwe should remain dollarized, Respondent 9 was emphatic, stating *“...there is no way, absolutely no way we can try so many things, but as long as we have the US dollar as the functional currency here, this economy will not move forward. It cannot. So the challenges that we are dealing with the challenges that we are facing, will continue.” (R9)*

“So there are many advantages in terms of cost, there’s I’m sure you are aware that one of the key challenges our cost is very expensive from utilities, salaries you know amongst other things its very expensive and that makes us very uncompetitive as compared to our regional peers” (R1)

On the subject of use of the US Dollar in Zimbabwe, with regards to competitiveness, Respondents made the following statements

“In this economy we utilize U.S Dollar as our trading currency, what we should have done in 2009 is we should have identified a better currency like the Rand or the Botswana Pula or any other currency, so not only CMA but any other currency, either

Rand, Botswana Pula but not the U.S one because we are using the U.S dollar as our medium of exchange, which is also foreign exchange and we are using U. S dollar which is required by everyone throughout the whole world.” (R2)

“So someone who was a supplier in South Africa who wanted to make R14 out of a product in 2009/2010 needed to sell that for USD2 in Zimbabwe and still make the same amount. Today, the same person only requires to sell the same product for a dollar and still make R14. Given the structural issues in the economy and I am touching on the issue of competitiveness here; it’s impossible for any other local supplier to reduce their prices by such a margin so this has completely killed competitiveness of the local businesses and of the local industries.” (R9)

“So that’s why we have ended up with any product from everywhere... but literally what we have done is we have killed the local industry and we have simply exported jobs.” (R9)

“..the U.S Dollar is getting stronger and stronger...when we are exporting our goods they become very expensive. I’ll give a simple illustration; on 23 September 2011 the Rand was 1:6.5 with the U.S Dollar. So if a South African company was importing goods worth 1 million dollars on 23 September, that South African company needed R6.5 million. But that South African company today requires R15 million. So it follows that now that South African company needs more than close to an additional R8 million, so do you think that importer will continue to import from Zimbabwe? ” (R4)

“....in other words....[dollarization] encourages imports and discourages exports from Zimbabwe.” (R4)

When asked whether dollarization in its current form, with the US Dollar as the primary currency was sustainable in Zimbabwe, most Respondents said no, pointing out that reforms were required. Table 3 below illustrates the distribution of the responses from Respondents:

Table 3 : Sustainability of dollarization frequency table

| | Dollarization |
|-------------------------------|---------------|
| Dollarization sustainable Yes | 2 |
| Dollarization sustainable No | 9 |

The competitiveness of industries in Zimbabwe can be assessed with reference to the price of labour, utilities and finished goods compared to region, as well as the ease of doing business (policies and laws) compared to other countries in the region.

Related to the effects of dollarization on the ease of doing business and encouraging foreign direct investment into Zimbabwe, Respondent two stated

“On one hand you have opened up the economy but on the other hand you have closed it due to poor investment policy measures, so already, that’s why we call it “dead on arrival”, a “non-event”, “still birth”. (R2)

All the Respondents, in some respect, raised the issue of policies not being conducive to investment, or of policy inconsistency deterring investors. Some of the statements made were

“I think its one thing required for the economy to work. The government should just shut up. Like no economic policy announcement from the government for two years.” (R3)

“And often there isn’t an actual policy consistency, there’s perceived policy inconsistency because we are just talking too much, we start contradicting ourselves.” (R3)

“.....announced the issue of the indigenisation policies but as we did that those two initiatives did not go down very well with the international communities and that sort of slowed down the amount of inflows that we were getting from foreign sources.” (R7)

“Recently the Minister of Finance announced some very pertinent policy initiatives which were reversed a few days down the line.” (R7)

“Even when we make policy announcements, I think there’s broad literature on policy credibility and reputation. It’s critical. When you have policy reversals it affects your policy credibility reputation.” (R8)

“There has been a lot of inconsistencies in policy implementation.” (R7)

On the issue of costs in Zimbabwe under dollarization, Respondent 1 stated

“One of the key challenges our cost is very expensive from utilities, salaries you know amongst other things its very expensive and that makes us very uncompetitive as compared to our regional peers” (R1)

The abovementioned factors contribute to the lack of competitiveness that has resulted in company closures which has made Zimbabwe a net importer of goods:

“De-industrialisation has increased demand for forex to import goods which were previously produced locally.” (R10)

5.3.1 Benefits and challenges of being a fully dollarized country

Respondents some of the advantages or benefits related to the use of the US Dollar, which were as follows:

“The advantages: we had stability immediately so we cured inflation...confidence in the system which resulted in a number of investors coming to invest in Zimbabwe.” (R4)

“The other advantage is that it also brought back confidence into people to put money in the bank because Zim dollar took away the confidence.” (R4)

Some of the disadvantages or problems related to the use of the US Dollar that were identified by Respondents were as follows:

“Since dollarization, Zimbabwe has witnessed a continuous trade deficit which accumulated to 26 billion dollars up to end of 2015.... we are importing more than we are exporting.” (R4)

“But the advantages are very few of using the U.S Dollar, there are more disadvantages..... we are using a reserve currency...” (R4)

“The currency of choice also preferred for externalisation purposes the world over ts dollar. It’s not pound, it’s not Euro its US Dollar.” (R10)

“Forex [US Dollar] is a scarce commodity and we are spreading it too thinly between local transactions and international trade.” (R10)

“But if it’s not formal you don’t enjoy seignorage, unlike Panama and Ecuador, those ones are formalized in dollar, and are supplied dollars. Here they can’t supply dollars to us, we need to export to get dollars.” (R2)

“.. we need to start generating exports and we can only do that if we move out of the current set up where the US dollar is predominantly the currency of this country.” (R7)

From the evidence presented above, it would appear that the use of the US Dollar as the primary transacting currency in Zimbabwe has been a significant contributing factor to the lack of competitiveness of industry in Zimbabwe, and to the liquidity challenges being experienced.

5.4 Research Proposition 2 Results –trust and confidence in local currency

The public and business community’s level of trust and confidence in the RBZ and other institutions in Zimbabwe have not yet reached a level where a local currency can be re-introduced.

In order to get more insights into the aspect of trust and currencies, the researcher asked the Respondents questions related to the introduction of the “bond note”, as well as direct questions on whether they trusted government and the central bank.

5.4.1 The introduction of domestic currency or “bond note”

The researcher used the “bond note” was used as a surrogate to the Zimbabwe Dollar, since the local currency was de-monetised and is no longer legal tender. The general sentiment amongst the majority respondents was that this was the wrong time to introduce a domestic currency as confidence levels are very low and citizens mistrust the central bank, and the economy was in decline.

“If you look at the whole issue here is we have been trying say we need to build confidence, restore confidence both in the financial sector and to the Reserve Bank and unfortunately, with this kind of policy it has even dented the confidence because people just feel it’s a back door way of bringing back Zim dollar.” (R11)

“We have to find the way to make the current situation work and then prepare for the future which is probably reintroducing the local currency after building some reserves,

improving our credibility reducing our debt over hang and you know credible people in key offices.”(R1)

“And the challenge is it’s not easy to get out of it and re-introduce your own currency.” (R8)

“You know clearly given the challenges in the economy, you know the confidence level in government is at an all time low and it’s quite clear from the protests.” (R1)

“You need a lot more productivity in the country you need to export more etcetera. So we can’t issue a Zim dollar. If you issue a Zim dollar now it will immediately go to zero because there’s nothing backing it you see. (R1)

“What we also need obviously is confidence you know it is easier to issue a currency in times of an economic boom than in an economic slump.” (R1)

“If we don’t have exports to sustain the economy it means that the economy can’t be sustained. That is why I am talking about changing the narrative from politics to production from consumption to production, so that we have more to export.” (R2)

“What made people move out of the Zim dollar to U.S Dollar? It was lack of confidence.” (R8)

“..but it’s not going to solve our problems because our problems are of production and fiscal indiscipline, that’s where the focus should be...so getting distracted with bond notes which will not add value is definitely going to make the situation worse.” (R1)

“So it could lead to hyperinflation in that currency [bond notes] but we have two currencies. This currency will have hyperinflation, this currency will not. But the economy would immediately move into the shadows..” (R3)

“... you can try and defy economic logic but its not going to work I think we’ve got a lot more work, hard decisions to make before we get to a point of re-introducing our own currency. As long as you don’t have productivity in this economy I mean they can try whatever they want it’s not going to work. (R1)

“But I think the Bond Notes will create more pain than gain on the economy.” (R9)

There were a few contrary views on bond notes, from Respondent ten who stated

“A valid question has been asked why people in rural areas need US dollar to transact? Why are we using US dollars to buy vegetables and wild fruits from the market?...whether we like it or not, this supports Bond Notes.....despite people being so ‘anti’ because we are so spoilt using US dollars, but we actually need them [bond notes].” (R10)

The other dissenting view was from the Reserve Bank of Zimbabwe officials who lauded the introduction of the bond note. Respondent two explained the benefits of using the bond note to ease the cash crisis being experienced in the country, as the banks could not import enough US Dollar cash notes to meet local demand, due to the fall in exports proceeds.

“The upside of the bond note is that when it comes into the market.....it means that it has preserved that portion of foreign exchange which we were going to import to replenish the local consumption [of US Dollar cash notes], but right now what we are doing is we use 75 million US Dollars to import fuel, then we go again to import the 75 million cash to purchase the fuel, so if you use the bond note in that position it means that 75 million is preserving the other 75 million which I cannot use to import goods and services.” (R2)

5.4.2 Confidence and trust in institutions

Related to the introduction of local currency or the “bond note” is that of trust and confidence in the currency, the Respondents made the following statements:

“... with currency, its all about confidence. I don’t see people having a problem in using any currency if there was confidence.” (R8)

“It’s an issue of confidence in the economy.” (R3)

“...and as you can see it is creating problems, confidence in the bank sector, and now, watch this space, the bonuses if they come through, it means People will run away with their money.” (R4)

“The fact of the matter is that they cannot be trusted and this is why there’s so much skepticism over the bond note issue.” (R5)

“There was never any faith in the banking system in this country.” (R5)

Before the return of local currency, the confidence levels need to improve, which Respondent seven believed would only be after the government had a track record of implementing good policies, and extensive reforms.

“After we have done all that in my mind you would then find that it also gives us the population some confidence that whatever our authorities mean they will do it. At that point, even if you introduce a local currency it will be acceptable because its about confidence once you have the right confidence levels I am sure any policy implementation or pronouncements should be acceptable and adapted easily.” (R7)

“The reason why people are opposed to bond currency is because government cannot give assurance that the events of 2008 won’t happen again. Governor Mangudya has said to the publicly – and I put in inverted commas ‘trust me’. But economic policy should not be based on trust there must be credible and effective checks and balances that’s what makes policy rules respected and successful.” (R10)

“... people talk, [saying] “maybe Zim dollar is going to come back, bond notes is a way of bringing in this and that”. It’s a confidence issue. They don’t trust the policy maker. These guys can ambush us. But if that confidence is built, and people know exactly why we are moving from this step to this step, when we get here this is what we are going to do.” (R8)

“... there is a lot of mistrust. Whether its mistrust between industry and Central government; industry and monetary authorities. (R7)

“Even when we make policy announcements, I think there’s broad literature on policy credibility and reputation. It’s critical. When you have policy reversals it affects your policy credibility reputation.” (R8)

“The first element is currency is a commodity of confidence and trust.” (R9)

“It’s the trust issue. You have to establish that trust and no matter what you say, the market is the market.” (R9)

From the above, it is clear that there is a lack of trust and confidence due to past experiences prior to dollarazition, as well as recent experiences with inconsistent policies, which a number of the respondents thought would negatively impact the introduction of the “bond notes”. When asked whether the bond notes would be

accepted by the public, Respondent seven did not think they would be, on the basis that:

“... the real issue here is that for any currency reforms to be effective, the issue of public perception and the issue of confidence become very important.” (R7)

“There is no law that says ‘funny money’ is equal to one dollar.” (R10)

Respondent nine elaborated that the “bond note” may not actually meet the definition of money as:

“The first element is that currency is a commodity of confidence and trust.” (R9)

Respondent nine therefore believed that the market would most likely reject the “bond note”, saying

“It’s the trust issue. You have to establish that trust and no matter what you say, right, the market is the market. Mr Market always wins regardless. (R9)”

and further that once a “bond note” was transferred to a person’s account they could

“...withdraw it in dollars. So it will cause further dislocation once they introduce it.” (R9)

On the return of the Zimbabwe Dollar, Respondents had the following views

“You need a lot more productivity in the country you need to export more etcetera. So we can’t issue a Zim dollar. If you issue a Zim dollar now it will immediately go to zero because there’s nothing backing it you see. “ (R1)

“So look, you can try and defy economic logic but its not going to work I think we’ve got a lot more work, hard decisions to make before we get to a point of re-introducing our own currency. As long as you don’t have productivity in this economy I mean they can try whatever they want it’s not going to work.” (R1)

“For me the danger about Zimbabwe having its own currency is we don’t have discipline, we will be printing money we would be doing all the things that are inflationary but there are some real advantages of having your own currency.” (R10)

From the above evidence, it is clear that there is a lot of distrust and a complete lack of confidence in the Reserve Bank of Zimbabwe and the government. It would therefore not be appropriate to introduce the “bond note” or any local currency at this point in time.

5.5 Research Proposition 3 Results –feasibility of joining the Rand CMA

Critics of Zimbabwe’s dollarization have suggested that the US Dollar was the incorrect currency to be adopted, and that joining the South African Rand Common Monetary Area is the more sustainable solution.

As shown in the table below, the proposal of moving from the US Dollar as the primary currency to the Rand CMA instead, was a very contentious issue. The number of Respondents in support of the move had a very narrow lead over those against the proposal.

Table 4 : Joining the Rand CMA frequency table

| | CMA |
|--------------|-----|
| Join CMA Yes | 6 |
| Join CMA No | 5 |

Those in support of the CMA stated,

“We are better off going for the Rand.” (R4)

“My view was very simple and I share your sentiments we need to make the Rand our functional currency and transacting currency and have the US dollar as our store of value.” (R9)

“We should and it should be purely on the basis that we need to be able to be competitive we need to start generating exports and we can only do that if we ove out of the current set up where the US dollar is predominantly the currency of this country.” (R7)

“We say we use the Pula, the Euro, the Yuan, the dollar, the Pound. But what I am now suggesting is using the Rand as the only currency, because for as long all these currencies are there, you are going back to your other problems, as we prefer the dollar. You would have to take out everything else and remain with the Rand which

means the Rand is now your currency, but for the Rand to be your currency, you need to formalise it.” (R10)

Respondent five was in support of the proposal, however did not believe that it was possible due to the lack of political will to do so.

“To me it’s really a short answer to this because I think the De-dollarization is just not on the agenda.” (R5)

There were some very emphatic “no’s” to abandoning the US Dollar in favour of the Rand.

“So now what you asking now whether to not to move to the CMA, it should have been done in 2009 at the cross-over because right now to change now to the CMA is now very difficult.” (R2)

“...the discipline should not come through SARB rules but can be imposed by internal institutions.” (R10)

“The first reason is that, the fundamentals in Zimbabwe are such that you won’t qualify to go join because you need to be a vibrant economy.” (R2)

“When you go to CMA you need to have your own currency.” (R2)

“At this point in time, the Minister of Finance has made it clear that the Rand route is not an option and you were there at the RBZ , they are not even thinking about it. It’s not even on the table and those are the guys who are running our monetary policy. So I think the Rand route would be a bit of a stretch, it should have happened just after or just before dollarization.” (R1)

“I think in retrospect obviously the Rand, going for a softer currency, would have helped our situation because you know using the us dollar in such a small economy that is dependent on exports you know it wasn’t very good foresight from Government’s perspective” (R1)

“... government didn’t really have a choice I mean they could have said that look tax payments are in Rand and pretty much all government services will be paid in Rand and I think that could have convinced the transacting public to use the Rand more often than the U.S dollar ...” (R1)

Respondent one however went on to say that despite the lack of political will to move to the Rand, that it would be a better option for Zimbabwe.

“If we were in a Rand common monetary area we would be doing a lot better than what we are right now because first of all we would have liquidity support....second ... our exports would be very competitive and ...cost base will not have been as high as someone on a dollar currency. So we’ll definitely be very competitive and a lot of problems that we have wouldn’t be there even the cash crunch it wouldn’t be an issue.”
(R1)

Respondent one elaborated that moving to the Rand was very unlikely because the citizens would not accept it because,

“...everyone is used to the dollar currency, to tell them “no we are changing the base of the currency to another” its almost impossible.” (R1)

Respondent two concurred with this view, saying,

“The U.S dollar it’s a strong currency, because its too strong, people take it as an asset. If you change to another currency, there are people who think that they have lost value; they are holding the US dollar then tomorrow you give them the Rand. There will be civil strife in Zimbabwe; they will think that you are stealing from them. Even you I don’t think you will want to hold something which is weaker.” (R2)

Respondent one supported the option of Zimbabwe remaining dollarized, with some reforms required, and noted that,

“We have to find the way to make the current situation work and then prepare for the future which is probably reintroducing the local currency after building some reserves, improving our credibility, reducing our debt over hang and having credible people in key offices.” (R1)

Respondent eleven concurred with this view, that remaining with the US Dollar as the primary currency was the best option however reforms we required.

“[Dollarization] in its current form, I would say it’s not sustainable. But I think it would be better for its still the best arrangement that we have. Maybe what we would need to do is to try to formalise it and formalisation then requires that we enhance our engagement with the US.” (R11)

Respondent three cautioned that by changing to Rands, the government would be solving for the wrong problem, stating that

“So it’s a policy issue, it’s not the currency to blame it’s your policy mechanism to blame” (R3)

“I think the currency is irrelevant. I think the only reason you go down the road of a soft currency is because you want to manipulate the numbers, you want to start fiddling and cross subsidizing and things like that. Unless you have very, very astute finance ministry and very robust policies that’s not going to work.” (R3)

5.5.1 Disadvantages of joining the Rand CMA

The disadvantages to joining the Rand CMA mentioned by the Respondents were as follows :

“When you go to CMA you need to have your own currency,” (R2)

“You were talking of the CMA. Its an arrangement it’s not something that we can just jump into.” (R11)

“These same reforms that we are talking about are the same things that we should engage in before we even think of that.” (R11)

One of the challenges highlighted was the loss of control over monetary policy, specifically exchange rate tools

“You mustn’t forget that being in the CMA means you lose control.” (R10)

“So a Zambia, Botswana and Mozambique are in a much better position. So they can do everything that Swaziland was trying to do but they can then make themselves competitive by making sure that their currency is a lot weaker than the Rand.” (R10)

“While joining the CMA is one way to institute that competitive currency it involves giving away too much in term of policy autonomy and flexibility.”(R10)

“It is clear Zimbabwe needs competitive currency for domestic transactions different from hard currencies used for international trade. While joining the CMA is one way to institute that competitive currency, it involves too much in terms of giving away policy autonomy and flexibility, because you do need that.” (R10)

“You must not forget once you open and become CMA that protection goes...CMA will mean finalisation of the deindustrialisation of Zimbabwe, that’s how I see it without hope of restoring the industrial base. Zimbabwe will serve as an extension of South Africa’s market.” (R10)

“Shortages of forex will not be resolved by joining the CMA as this depends on the forex generating base; exports, FDI, diaspora remittances etc. Sound economic policies and political stability will still be required to attract foreign capital. This is where stakeholders in Zimbabwe should focus on.” (R10)

“The systemic risk when it happens within the region....it’s spread to everyone so we share responsibility of problems which can happen.” (R4)

5.5.2 Advantages of joining the Rand CMA

These are the perceived advantages of CMA as mentioned by the respondents

“..... we sort of stumbled upon this dollarization issue but look if we were in a Rand common monetary area we would be doing a lot better than what we are right now because first of all we would have liquidity support , second of all we would have yes it would be volatile because of the Rand but our exports would be very competitive and you know if you are starting a business in Zimbabwe your cost base will not have been as high as someone on a dollar currency. So we’ll definitely be very competitive and a lot of problems that we have wouldn’t be there even the cash crunch it wouldn’t be an issue.” (R1)

“You want people to move into the new dispensation without creating too much problems for them. But at some point you want to say no more pricing in US dollars, we now price in Rands. So we now have a proper local currency and a proper foreign currency.” (R9)

“Yes economically the pros are much, much greater than the cons. But it will need some very bold decision making from government. I would not convert the salaries at the rate of the day, honestly I wouldn’t.” (R9)

“We are actually better off with the Rand than with the Bond Notes I would sooner we go to the Rand than go to Bond Notes.” (R10)

“In addition, use of Rand as opposed to US dollar is expected to limit the externalisation of forex or capital flight. I actually agree with that.” (R10)

“CMA countries enjoy free trade and imports from member countries. They don’t attract duty. Zimbabwe’s trade with South Africa is accounting for a significant share, for example imports from South Africa are estimated at above 40 percent. On this score, the benefit can be real.” (R10)

“So we’ll definitely be very competitive and a lot of problems that we have wouldn’t be there even the cash crunch it wouldn’t be an issue” (R1)

“....it will help us deal with issues of addressing pricing structure.” (R4)

5.5.3 Facilitating conditions required for Zimbabwe to join the Rand CMA

The Respondents highlighted issues that would need to be addressed for Zimbabwe to become a CMA member country. They stated

“And once you park the key issues that you want to address, and go for it and address it you have to come up to a stage where you say right we have undertaken the reforms that were necessary now let’s go a step further and what, start introducing whether it’s going to be your own currency or a weaker currency but at some stage you have to resort to a currency which is weaker.” (R7)

“I would think if you look at the current state of government I would find it difficult for them to be able to give away certain rights, certain independence for the sake of getting into that arrangement.” (R7)

“Some of those issues in my mind would be to do with the discipline. Fiscal financial discipline and say “are you guys now determined to operate this way”. I don’t see ourselves doing that.”(R7)

“We have got to reach a stage where the government of Zimbabwe which then filters into the Ministry of Finance which then filters the Reserve Bank of Zimbabwe have got to start addressing the fundamental issues. The first one is fiscal discipline and that fiscal discipline has got to reflect thorough, deliberate cost cutting issues which I think have been attempted but are not implemented. Number two, it’s about the laws of this land. What laws do you have in place and does it provide the right confidence to the investing public? Number three, it’s about walking the talk we might have all these issues I think they were talking about you have all these policies walk the talk he [RBZ Governor] is getting frustrated there is a lot of talk, talk but we don’t implement and I think we have got the ideas we now need to be able to implement.” (R7)

“All these issues revolve around fiscal discipline the political will.”(R7)

“I strongly that believe it won’t be the usual talk because they are saying it’s about implementing public sector reforms; it’s about improving governance of state owned enterprises; agriculture transformation and productivity (which we have discussed), promoting private sector growth and competitiveness and then financial sector reforms.” (R11)

“Even if you are to consider now, is that what it means is we really need serious reforms still.” (R11)

“We have had lots of reversals, lots of bans, we are banning trade of this and all that and that has put us in a position which is quite difficult because you then become an unreliable kind of neighbour.” (R11)

“What we need is discipline.” (R11)

“We need to be exporting a lot to stabilize the currency... what we were exporting in the 1990s was more diversified, over 20 products; but now what we are exporting is about 3 primary products.” (R4)

“If we go for the Rand without addressing fundamental issues of productivity, we will still be very expensive because we will just convert the price into Rands.” (R4)

“But the first thing is just the discipline to say this is what we want and we want progress and I am saying once you make these reforms that we are talking you might as well just find that the issue of a currency it won’t be much of an issue.” (R11)

“Those are the things, so it can be managed but again it talks to the issues we talked about earlier, discipline, accountability, separation of powers - allow the Central Bank to make decisions that are not influenced by politics.” (R10)

Another aspect that was highlighted by Respondents, was that political will would be needed in order for Zimbabwe to move to CMA.

“You see as long as at leadership level you’ve got people who say it can’t be done then it’s not going to be happen.” (R1)

I would think if you look at the current state of government I would find it difficult for them to be able to give away certain rights, certain independence for the sake of getting into that arrangement. (R7)

“All these issues revolve around fiscal discipline the political will etc.” (R7)

“..other political measures which should be taken by government particularly on the civil servants salary. You cannot have a situation whereby your national budget is being consumed 96% [by wages].”(R4)

“..... I mean they could have said that look tax payments are in Rand and pretty much all government services will be paid in Rand and I think that could have convinced the transacting public to use the Rand more often than the US Dollar.” (R1)

Respondent five concurred with this view, that the government needed to be the first to start pricing in Rands, and said:

“The government has got a monopoly here. It doesn’t need to change too many things before you change the mindset to Rands but its up to the government to do that...the matter is leadership...” (R5)

“...at this point in time , the Minister of Finance has made it clear that the Rand route is not an option and you were there at the RBZ , they are not even thinking about it. It’s not even on the table and those are the guys who are running our monetary policy. So I think the Rand route would be a bit of a stretch, it should have happened just after or just before dollarization.” (R1)

“Someone has to swallow their pride; that’s why you see the Ministry of Finance and the Reserve Bank of Zimbabwe are very adamant and say we will not go for the Rand because of the consequences which it comes with.” (R4)

“Among the other measures that we would need once we join the Rand Monetary Union, is to just to make sure that you incentivise exporters and discourage importers. But I think the Bond Notes will create more pain than gain on the economy.” (R9)

“.....so it’s not a Zimbabwean issue, it’s a regional issue of joining the Rand” (R4).

An aspect that was highlighted by some of the Respondents was that the move to the CMA or to de-dollarize would not be an overnight process and therefore a “roadmap” would need to be developed to put in place necessary reforms. The roadmap would also be important so that the public would understand what the plans were, and have confidence in the process and trust government. The Respondents stated the following,

“We have got to reach a stage where the government of Zimbabwe which then filters into the Ministry of Finance which then filters the Reserve Bank of Zimbabwe have got to start addressing the fundamental issues. The first one is fiscal discipline and that fiscal discipline has got to reflect through deliberate cost cutting issues, which I think have been attempted but are not implemented. Number two, it’s about the laws of this land. What laws do you have in place and does it provide the right confidence to the investing public? Number three, it’s about walking the talk we might have all these issues I think they were talking about you have all these policies walk the talk he is getting frustrated there is a lot of talk, talk but we don’t implement and I think we have got the ideas we now need to be able to implement.” (R7)

“But the issue that was left undiscussed was then the road map to say, “what are these conditions and when do we say they are right?” “What is the monitoring mechanism?” and that’s why you see each time people talk about Zim dollar, bond notes; people always speculate.” (R8)

“Yes. Now if we had that all along, it was then we were going to be monitoring. If we say our economy our GDP would have grown by that these are the measurable indicators. And people are prepared mentally to say when we are getting to that and these things are getting in place, then we are moving on to this new currency and there has to be a transition period.” (R8)

“When you dollarize you need to be doing it as a stop gap measure with a very clear way out, exit mechanism.” (R7)

“The dollarized era was inevitable it was the right thing to be done but it had to be done in the context of a very clearly laid out exit mechanism. What that exit mechanism could have among other issues were:

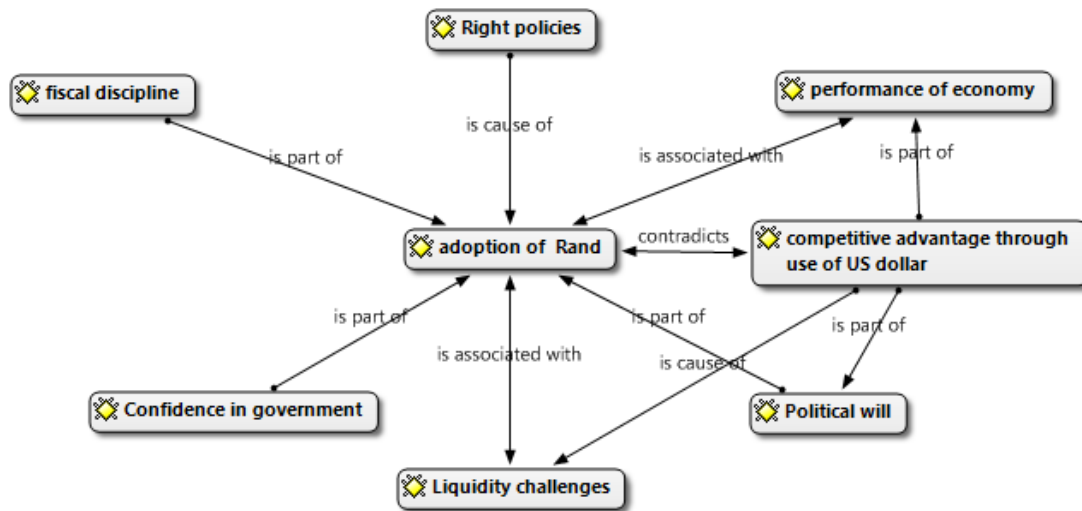
- 1. The right support from central government.*
- 2. Willpower to be able to implement whatever pronouncements are made.*
- 3. To make good our relations with the international world.” (R7)*

“ ...come up to a stage where you say right we have undertaken the reforms that were necessary now let’s go a step further and what, start introducing whether it’s going to be your own currency or a weaker currency but at some stage you have to resort to a currency which is weaker.” (R7)

“But you need a cut-off point to say once you are back to normal, bring back your own currency which we should have done after five years. In 2014 we should have looked to bringing back our currency.” (R10)

In conclusion, based on the evidence presented above, the researcher concluded that joining the Rand CMA was a viable option for the de-dollarization of Zimbabwe. The network diagram below illustrates the interdependencies between the various themes discussed, for the successful entry of Zimbabwe into the South African Rand Common Monetary Area.

Figure 1 : Joining the Rand CMA network diagram



5.5.4 Other considerations

There were some respondents who said that the problems in Zimbabwe were not emanating from its use of the US Dollar but from the underlying policies in place, so joining the Rand CMA would in effect be treating a symptom and not the underlying problem, and as Respondent three put it:

“So it’s a policy issue, it’s not the currency to blame, it’s your policy mechanism to blame..” (R3)

“But why are we running out of U.S Dollars? Because we are spending them faster than we earn them, and we could use Rands and Pula’s, we could use Renimbi. If we spend more than we earn then we have a problem. And that’s the basic fundamental problem in this country, at a national level and within the fiscus.” (R3)

“We could use any currency but when your 98% of your budget is spent on wages, where’s room for growth?” (R3)

Respondent four was of the view that Zimbabwe was better off using the Rand, but corroborated Respondent three’s views that there were underlying policy issues that needed to be addressed in the economy.

“If we go for the Rand without addressing fundamental issues of productivity, we will still be very expensive because we just convert the price into Rands.” (R4)

“We need to be exporting much to stabilize the currency.” (R4)

“Therefore, it goes back to the issue that I was talking there’s need for a broader reform programme which reform programme could then mean we are able to raise money at the right price.” (R7)

“We are a high cost of producing nation; the whole issue of debt and its implication in terms of raising capital. So it’s a multiplicity of factors, currency is one. But currency is not a major issue. And you see with currency, its all about confidence. I don’t see people having a problem in using any currency if there was confidence.” (R8)

There were some Respondents that firmly believed that Zimbabwe should continue to use the US Dollar as the primary currency, and should never adopt its own currency, and put forward the following arguments:

“We need to put the policies in place that we think we should put in place anyway, no matter what the currency is.” (R3)

“No nothing is working in its current form but that has less to do with the currency than it has to do with monetary and fiscal policy. The currency is only a unit of measurement. It’s no more than that, it doesn’t create any magic.” (R3)

“We need to have a government that lives within its means and its not strangling the economy by borrowing the heck out of domestic savings.....All these things are things that have nothing to do with currency; they are just governing a country 101.” (R3)

“Maybe the way I think is Zimbabwe’s problems are not necessarily a currency problem. Why? I would tell you that there are quite a number of countries in various regions that have dollarized and they still operate very well with their neighbouring countries.” (R11)

“Coming to the cost structure of production you would see that there is a lot from that side that just needs to be done which is not necessarily a currency issue. I will tell you one thing, if you are to take any other currency with the current framework or position that we have, we will still be in the mess that we are in. I strongly believe that our problems are beyond currency problem.” (R11)

“So that’s why you hear that now people are talking about issues of internal devaluation so it’s more to say it’s not about the US dollar per se but we have structural issues which need to be addressed.” (R11)

“Nonetheless, I think it was a right decision at that particular time and it brought about a lot of stability in the economy in terms of bringing confidence back into the market. Why, because now we are using a hard currency which or maybe we are using acceptable currencies because it was a basket of currencies.” (R11)

“If we don’t have exports to sustain the economy it means that the economy can’t be sustained. That is why I am talking about changing the narrative from politics to production from consumption to production, so that we have more to export.” (R2)

“We need to reduce the cost of doing business then touching on the issues of labour its more about reforming the old laws and regulations so that we become more relevant, understanding that when you talk of business in as much as we always want a human face in terms of how people are being treated but for business to grow, you just need to be competitive.” (R11)

“Then, I also mentioned the issue of the need to improve corporate governance issue or what you would call institutional bottlenecks. I think it’s all about institutions in Zimbabwe trying to reform.” (R11)

“When you talk of targeting to promote the export sector, it means also we going to have improved export earnings and then we have more of the currency coming into the country.” (R11)

“You talk of liquidity then it means you need to promote your exports, then you also need export diversification because if you look at one of our major export earners we were talking about horticulture but there is nothing to talk about now, it’s just mining.” (R11)

“I strongly that believe it won’t be the usual talk because they are saying it’s about implementing public sector reforms; it’s about improving governance of state owned enterprises; agriculture transformation and productivity (which we have discussed), promoting private sector growth and competitiveness and then financial sector reforms. They are really saying they want to try and hammer on those. It’s quite a nice document.” (R11)

“Even if you are to consider now, is that what it means is we really need serious reforms still.” (R11)

“But the first thing is just the discipline to say this is what we want and we want progress and I am saying once you make these reforms that we are talking you might as well just find that the issue of a currency it won’t be much of an issue.” (R11)

“The major concern about Zimbabwe is about reforms. They are not worried about you using the US dollar or what.” (R11)

“I think so because Zimbabweans are capable of running their own fiscal and monetary policies, what’s needed however, are strong institutions for holding policy custodians accountable. I actually think we are capable. This is what Zimbabwe lacks and the policy discussion should be ‘why is it okay for government to spend above budget? Why is it okay for RBZ to create money through TBs to fund fiscal excesses?’ Those are the things we need to answer.” (R10)

Another view was that instead of joining the CMA, the use of the Rand as part of the multi-currency basket should be encouraged, so that it increased beyond the use of the US Dollar in the economy. Respondent two and four shared this view, and said,

“.....but I subscribe to a situation where we might not join the CMA directly but then price our goods with in Rand because it’s part of our multi-currency [basket]...then put national budget in Rands....slowly take out U.S dollar.” (R4)

“We have said that going forward we should encourage business and consumers to utilise the Rand as much as there are doing with the US Dollar, by accepting the Rand as a form of payment... That’s why as the Government of Zimbabwe we did a circular to all parastatals and Government departments for them to accept all the other currencies in the basket including the Rand and that’s what we want to do. We want to diversify away from the 100% usage of the U.S dollar to other currencies.” (R2)

“You want people to move into the new dispensation without creating too much problems for them. But at some point you want to say no more pricing in US dollars. We now price in Rands. So we now have a proper local currency and a proper foreign currency.” (R9)

Despite the dissenting opinions and alternate views, the researcher maintains that Zimbabwe needs to de-dollarize and that joining the Rand CMA is the best solution for this.

5.6 Emerging themes

5.6.1 The central bank has already found a way to “print” US Dollars

Some of the Respondents highlighted that despite the resistance to the “*bond notes*” by citizens due to the fear that it was the return of the Zimbabwe Dollar, there already is a “domestic currency” in circulation. Respondent nine highlighted the following:

“ When we dollarized the first myth was that we do not have a local currency...Myth number two was that government could not print money, US dollars.” (R9)

“From day one we had a local currency and government could print money and we relaxed we thought that we did not have a local currency and the government could not print money. Until we mentioned “bond notes” people were not aware that the money in their accounts was not US dollars or is not backed by actual money sitting offshore.” (R9)

“You know you speak to the bankers, they’ll always say to you “listen, we knew this was coming that it took this long to happen has surprised even us”, but if you look at it you’ll see exports are down which is their excuse for why things are so bad but the real reason is the TBs they’ve created.” (R5)

5.6.2 Dollarization - Zimbabwe’s comparative advantage

Some Respondents who believe Zimbabwe should remain dollarized, believe that it can leverage this position of being the only fully dollarized country in Africa, and use it as a comparative advantage. They stated

“That actually becomes a comparative advantage. You know we have billionaires in Angola, in the DRC, where is their money? Their money is in Europe. Why is it in Europe? Because of rule of law and stronger currencies.” (R6)

“Also, being a United States dollar economy surrounded by weaker currencies means that we have a competitive advantage that other people, savers around the world, specifically Africans – if we had rule of law- who would happily put their money in Zimbabwe.” (R6)

“We already have the currency, the next thing we need is the rule of law.” (R6)

“Dollarization is the best thing that’s happened to this economy since 1980.” (R5)

Respondent three went on to say that if investors had confidence in the government and rule of law in Zimbabwe, the US Dollar would be working to our benefit as a nation:

“You know if they thought their money was safer in a Zimbabwean bank than in a Chinese bank, they’d keep it in a Zimbabwean bank. Or they saw good investment prospects here assume that they’re all rational actors, they are going to say “why take my money back to China when I can buy a gold mine in Zimbabwe” (R3)

These were interesting alternative perspectives which will be discussed further in the following Chapter.

6. Discussion of Results

6.1 Introduction

In this chapter the results from chapter five are presented with reference to whether they support or contradict the findings from the literature review. The results in respect of each proposition advanced will be discussed, allowing the researcher to provide insights on the validity of the statements and the likelihood of the outcome. The evidence presented in this chapter will be used to build a model showing the key factors required in order for Zimbabwe to improve its competitiveness and become a member of the South African Rand Common Monetary Area (CMA).

6.2 Research Proposition 1 Results –lack of competitiveness due to use of US Dollar

The lack of competitiveness of Zimbabwe's industries and the liquidity challenges being experienced are as a result of dollarization with the US dollar as the principle currency.

As previously mentioned, the competitiveness of industries in Zimbabwe was assessed with reference to the price of labour, utilities and finished goods compared to region, as well as the ease of doing business (policies and laws) compared to other countries in the region. Authors such as Helpman (2006), and Volpe Martincus & Carballo (2008) recognize the effect of imports on a country's balance of payments and in turn competitiveness. The work of Rugman, Oh, & Lim (2012), asserts that the strength of a country's firms depend on its economic competitiveness. Rugman et al (2012) further highlight the need for cost competitiveness and business improvement processes in firms within a country to offset the effect of competition from imports.

All except for two Respondents agreed that the US Dollar was not the right currency to make the primary currency for transacting when Zimbabwe dollarized in 2009, as it was a strong currency, a reserve currency which is used the world over as a store of value, and therefore led to a number of challenges in the economy. There were however mixed views on whether Zimbabwe should in fact de-dollarize, with some respondents being adamant that it was too late to reverse this decision and that instead the focus should be on policy reforms to make the US Dollar environment work for Zimbabwe.

The use of the US Dollar that is a strong currency in a region with soft currencies that have been devaluing since 2009 when Zimbabwe dollarized, has resulted in Zimbabwean products being expensive on the export market to neighbouring countries.

The problem has been further exacerbated by the inability of the Zimbabwean companies to compete with cheap imports from the region, Respondent nine gave a good example

“So someone who was a supplier in South Africa who wanted to make R14 out of a product in 2009/2010 needed to sell that for USD2 in Zimbabwe and still make the same amount. Today, the same person only requires to sell the same product for a dollar and still make R14. Given the structural issues in the economy and I am touching on the issue of competitiveness here; it’s impossible for any other local supplier to reduce their prices by such a margin so this has completely killed competitiveness of the local businesses and of the local industries.” (R9)

6.2.1 Ease of doing business policies and institutions

On the aspect of the ease of doing business and encouraging investment, this came out strongly from all Respondents as an area that Zimbabwe has some significant shortcomings in, especially related to the policy frameworks in place and policy inconsistency. Respondent two summed it up by saying

“On one hand you have opened up the economy but on the other hand you have closed it due to poor investment policy measures, so already, that’s why we call it “dead on arrival”, a “non-event”, “still birth”. (R2)

The researcher asserts that these weaknesses with regards to the policy environment have resulted in a contradiction to the literature. One of the benefits of dollarization that was put forward by Bogetic (2000) and Berg & Borensztein (2000), was that dollarization resulted in higher confidence levels from international investors. Other benefits espoused were lower interest rates on international loans, increased investment flows and growth in the economy (Berg & Borensztein, 2000). In Zimbabwe, foreign direct investment has been declining over the past few years, while interest rates on international US loans have remained above 10% for most borrowers in Zimbabwe.

The literature by Menon (2008) is therefore the more appropriate in describing what has happened in Zimbabwe. Menon (2008) distinguishes between country risk premium and currency risk, asserting that dollarization does not necessarily mean investors will perceive the country risk premium to be lower. This has been the case in Zimbabwe, and the researcher believes that the reason lies in the lack of clarity of

policies, policy inconsistency and contradictory statements made by government officials on key policies. Although Zimbabwe is fully dollarized like Panama, it still has a central bank, which still makes participates in the market and implements policies (such as the “bond note”) that disrupt the economy and deter investors. In contrast, Panama’s lack of central bank, its open economy, foreign banks with access to funding on international markets, allow local firms to borrow at a small premium to the United States interest rates (Moreno-Villalaz, 1999). As there is no central bank in Panama, there are no policy decisions on monetary policy or exchange rates which would be needed to guide foreign investors’ decisions, which therefore decreases the level of uncertainty or risk for them (Moreno-Villalaz, 1999). In the face of a dearth of respected or trusted institutions in Zimbabwe, this set up post-dollarization would have been a distinct advantage, in that there would have been no interference from a central bank and market forces would have therefore determined the interest rates. However the RBZ has remained as a decision-making authority, with approval from Ministry of Finance (Noko, 2011), and has hindered the prospect of a “free market”. As highlighted by Respondent seven, the reversal of policy decisions in Zimbabwe has also resulted in lower confidence levels, which the researcher believes increases risk for investors due to uncertainty on whether policies may change and jeopardise their investments.

Joining the CMA would improve the monetary policy regulation, as the decisions would lie at the South African Reserve Bank at a time when the trust and confidence in the local central bank is very low. Del Cristo & Gómez-Puig (2016) provide an additional expected benefit from dollarization, being that it could enhance fiscal discipline. The findings of this research have shown that this has not been the case in Zimbabwe, and as mentioned by a Respondent one and echoed by a number of the other Respondents, that the problems in Zimbabwe were as a results of “fiscal indiscipline”. This has a knock on effect on the credibility of the government and institutions in Zimbabwe, which is in line with the views of Guillaume & Stasavage (2000), who postulated that the most common reasons for loss of credibility in monetary policy in Africa are fiscal pressure and time-inconsistency.

The researcher believes that should Zimbabwe join the Rand Common Monetary Area (CMA), that the Zimbabwe government will be forced to have fiscal discipline, in line with the findings of Tavlas (2008), that there was fiscal discipline amongst the CMA countries primarily due to the legal framework of the monetary area. This would also assist in augmenting the institutions in Zimbabwe that are currently distrusted by

citizens.

The idea put forward by Berg & Borensztein (2000) that dollarization was the possible solution to institutional weaknesses in the developing world, has not been proven correct in Zimbabwe. The Respondents all agreed that the government was not trusted and was not prudent in its running of the budget. Respondent four highlighted that 96% of the government's revenues were going to pay wages. On the other hand, Carrière-Swallow & Felipe (2013) concluded that emerging market countries that have a high degree of financial (un-official) dollarization and poor quality institutions are more severely impacted by global shocks when compared to developed countries. The researcher would put forward that the same would apply to countries such as Zimbabwe which are officially dollarized, as it is experiencing the effects of the global commodity price decline, which has resulted in a significant decrease in exports proceeds which has contributed to the liquidity crisis in Zimbabwe. The researcher would therefore disagree with the findings of Berg & Borensztein (2000) and instead conclude that dollarization has in fact amplified institutional weaknesses in Zimbabwe. Therefore, the solution proposed by the researcher is to rely on the stronger institutions in South Africa in the form of the South African Reserve Bank, for monetary policy direction, by joining the Rand Common Monetary Area.

All Respondents, including the Reserve Bank of Zimbabwe (RBZ) officials, agree that the RBZ and Zimbabwe government have a credibility problem. The fact that the RBZ governor in his monetary policy statement could say, "trust me" as pointed out by Respondent 10, is a sure sign that this is a significant problem. All policy announcements such as the introduction of the "bond note", which the researcher believes makes sense to ease the liquidity crisis (if backed by the \$200million facility and printing is kept within this facility limit), has been treated with suspicion, fear and deep mistrust by the public. The researcher has therefore concluded that the RBZ has a long way to go before the public trust it enough to introduce and responsibly manage a local currency. It is therefore not the appropriate time to introduce the "bond note" or any domestic currency. As Respondent none rightly pointed out, currency is predicated on trust and confidence, and without these, it will not be accepted as a medium of exchange and a unit of account when transacting, which are the primary functions of money (Allen, Carletti, & Gale, 2014).

In conclusion, despite the mixed views, the general consensus was that the choice of currency was only part of the problem, that the policies played a big role on the challenges afflicting Zimbabwe's economy and therefore the solution proffered should address these as well.

6.2.2 Cost base

“one of the key challenges our cost is very expensive from utilities, salaries you know amongst other things its very expensive and that makes us very uncompetitive as compared to our regional peers” (R1)

There were Respondents who disagreed, and said that the reasons for lack of competitiveness were not related to the currency itself but other factors such as the policies and ease of doing business. The majority however agreed that the use of the US Dollar as the primary transacting currency in Zimbabwe was a problem. The researcher posits that at dollarization, price setting was made with reference to the Zimbabwe Dollar prices that had increased on a daily basis, and prices were therefore set too high at the onset of official dollarization. The researcher believes that this mind set has remained with Zimbabweans, with prices remaining high over the years, compared to the region. The high cost base in Zimbabwe, coupled with the devaluation of softer currencies in the region has made Zimbabwean products uncompetitive.

From the findings, the researcher believes that the use of the US Dollar as the primary transacting currency in Zimbabwe has been a significant contributing factor to the lack of competitiveness of industry in Zimbabwe, and to the liquidity challenges being experienced. A key aspect the researcher believes needs to be addressed is the reduction in prices or internal devaluation by the country as a whole, from the cost of labour, rentals, transport to the cost of utilities and finished goods, in order to be better positioned as a country. Moving to the Rand would force businesses to adjust prices downwards, as they would be significantly higher than South Africa. As Respondent ten highlighted, with no import restrictions allowed in terms of the monetary union, the Zimbabwean businesses would not be protected by import tariffs and would therefore be forced to reduce prices to protect their market share and compete against South African companies. The other factors such as policy consistency and creating a conducive business environment are also important aspects that would need to be

addressed.

6.3 Research Proposition 2 Results –trust and confidence in local currency

The public and business community's level of trust and confidence in the RBZ and other institutions in Zimbabwe have not yet reached a level where a local currency can be re-introduced.

The respondents (with the exception of the Reserve Bank of Zimbabwe (RBZ) officials) unanimously agreed that the “bond notes” would be viewed by the public as the return of the Zimbabwe Dollar, and would not be accepted, as the public still had memories of the hyperinflation era. Respondents eight and eleven remarked that some Zimbabweans felt the RBZ would “ambush” them and use the “bond notes” as a way to bring the Zimbabwe Dollar “through the back door” (R11). The researcher believes that the public have not yet regained their trust in the Reserve Bank and therefore have no confidence in its ability to be disciplined in the printing of the “bond notes”. These findings are in line with Stix (2013) who posited that people in dollarized countries react more sensitively to doubts about the safety of their deposits. The findings are also supported by the literature on the trust and confidence that citizens have in the country's institutions being linked to their memories of past episodes of inflation (Wälti, 2012).

The researcher believes that the mere talk of the bond note has undone the confidence building that occurred during the last few years after the adoption of the multi-currency system. Respondent four had noted that the public had regained its trust in the financial system in Zimbabwe and started banking their cash however, in recent months more cash withdrawals have been happening as opposed to deposits, indicating the erosion of trust. This is in line with the literature that says trust is a crucial aspect of monetary relationships and that without it, money will not circulate as a form of payment or be a store of value (Lascaux, 2012).

One of the emerging themes from the research results in 5.6.1 was that the Reserve Bank of Zimbabwe had already found a way to “print” US Dollars, as the bank balances in the bank accounts were not supported by actual US Dollar notes or Nostro (offshore bank account) balances. The government borrowings on the domestic market in the form of Treasury Bills (TBs) was also highlighted by Respondents as an additional source of “local currency” that was circulating in the financial markets, thereby

contributing to the current situation of cash shortages, as this local currency was not backed by actual US Dollar notes or funds in offshore Nostro accounts. The issuance of TBs had been funding the fiscal deficit, as exports have fallen and company closures have resulted less revenue for the fiscus, so the situation will only get worse in the future. This finding contradicts the literature that puts forward one of the benefits of dollarization as being enhanced fiscal discipline as the government would no longer be able to print money to fund budget deficits. (Del Cristo & Gómez-Puig, 2016). The researcher believes that the Zimbabwe government has demonstrated how this is possible with fiat or electronic money in the banking system.

The Reserve Bank of Zimbabwe's announcement of the introduction of a "bond note" that will be pegged on par with the US Dollar resulted in panic withdrawals and less US Dollar cash deposits in banks. This was coupled with the governments "creating" money in the form of Treasury Bills (TBs) and settling offshore arrears to the International Monetary Fund (IMF), thereby exacerbating the liquidity crisis as real dollars from the local bank's Nostro accounts were utilised for the debt settlement. These real dollars in the Nostro accounts were not replenished, as export proceeds have been on the decline in Zimbabwe, primarily due to the fall in global commodity prices, which constitute the major exports from Zimbabwe. Respondents five and ten highlight that the TBs are central to the liquidity crisis being experienced and this liquidity problem is in line with the literature from De Nicoló, Honohan, & Ize (2005) which explains that dollarized systems have exposure to liquidity risks.

The researcher believes the banking system will remain with the Real Time Gross Settlement (RTGS) electronic money on the inter-bank system, which is not backed by US Dollars cash or offshore Nostro dollars and very little US Dollar cash left in the system. As noted in Chapter 1, the Reserve Bank issued out a statement reminding Zimbabweans that it was illegal to sell US Dollars cash for "RTGS" US Dollars at a premium. The fact that such arbitrage opportunities exist show the mistrust that citizens already have in the convertibility or accessibility of the "RTGS" US Dollars, and hence the desire to trade them at a premium for actual US Dollar cash notes. The researcher concurs with Respondent three's view that when the "bond notes" are introduced, there will be a two tier banking system with US Dollars and "bond notes", with the "bond notes" being subjected to speculative attacks and depreciation, while the US Dollars will hold value. As Valev (2010) highlighted, Gresham's law will be at play and the bad money ("bond notes") will drive the US Dollar cash notes out of the banking system.

From the above evidence, it is clear that there is a lot of distrust and a complete lack of confidence in the Reserve Bank of Zimbabwe and the government. It would therefore not be appropriate to introduce the “bond note” or any local currency at this point in time. Despite the researcher agreeing with Respondent ten’s views that with the correct controls in place, it is necessary to have a local currency in circulation for small domestic transactions and change (like the bond notes are intended for), the lack of trust and confidence that the public has will hinder the successful introduction of the bond notes. The researcher believes that it is necessary to have a local currency in issue even during dollarization, in order to alleviate the demand pressures for US Dollars, and provide a medium of exchange on the smaller day-to-day transactions. As one of the respondents pointed out, people do not care what currency is in issue, as long as they have trust and confidence in the institutions, so this is a shortcoming that the RBZ and government need to work on addressing.

6.4 Research Proposition 3 Results –feasibility of joining the Rand CMA

Critics of Zimbabwe’s dollarization have suggested that the US Dollar was the incorrect currency to be adopted, and that joining the South African Common Monetary Area is the more sustainable solution.

Most of the respondents agreed that the US Dollar was the incorrect currency to adopt in 2009, coming out of hyperinflation. The views from the Respondents who said Zimbabwe should remain dollarized (Table 4) are not supported by literature. Moreno-Villalaz’s (1999) argued that successful fully dollarized economies needed a high level of integration with the United States economy, which Zimbabwe does not have, instead the USA has imposed sanctions on Zimbabwe (ZIDERA). Another one of Moreno-Villalaz’s (1999) requirements for successful dollarization was a high level of export proceeds in the reserve currency, from a diversified portfolio of goods and services. This is not the case for Zimbabwe, which is reliant on export proceeds predominantly from mining and tobacco. Furthermore, the literature showed that dollarized countries initially register growth and then stagnate or decline, and that is where Zimbabwe is at the moment and needs to break out of this decline.

There is an argument that some respondents put forward that if the Zimbabwe government was to make all these reforms and the economy starts working well, then instead of joining the Rand CMA, the RBZ should re-introduce a domestic currency. Schuler (2005), however, contends that countries that were dollarized and move back

to their own currency perform worse than they would have should they have remained dollarized; it therefore makes no sense for Zimbabwe to do the same for the sake of sovereignty. The majority of Respondents (Table 3) concurred that dollarization in its current form was not sustainable; while a number of respondents agreed that it was better for Zimbabwe to be part of the CMA (Table 4). The author therefore maintains that joining the CMA is policy that should be pursued by the government. Being part of CMA will restore investor confidence in Zimbabwe, as well as lowering the cost of trade between Zimbabwe and South Africa.

In the previous chapter, Figure 1 illustrated the interdependencies between the various themes discussed, for the successful entry of Zimbabwe into the South African Rand Common Monetary Area. An aspect that is related to confidence levels, is the re-introduction of a domestic currency in Zimbabwe. This will be a challenge however will be required, in line with the other CMA countries that then peg the local currency to the South African Rand. Having a domestic currency is important for CMA countries so that there is no excessive printing of the Rand for circulation in all countries. According to the CMA agreement, the printing of domestic currency by member states has to be fully backed by foreign currency reserves, so this should give Zimbabweans some comfort, that there will be checks and balances by foreign, independent authorities to prevent the excessive printing of notes that occurred during Zimbabwe's hyper-inflation era.

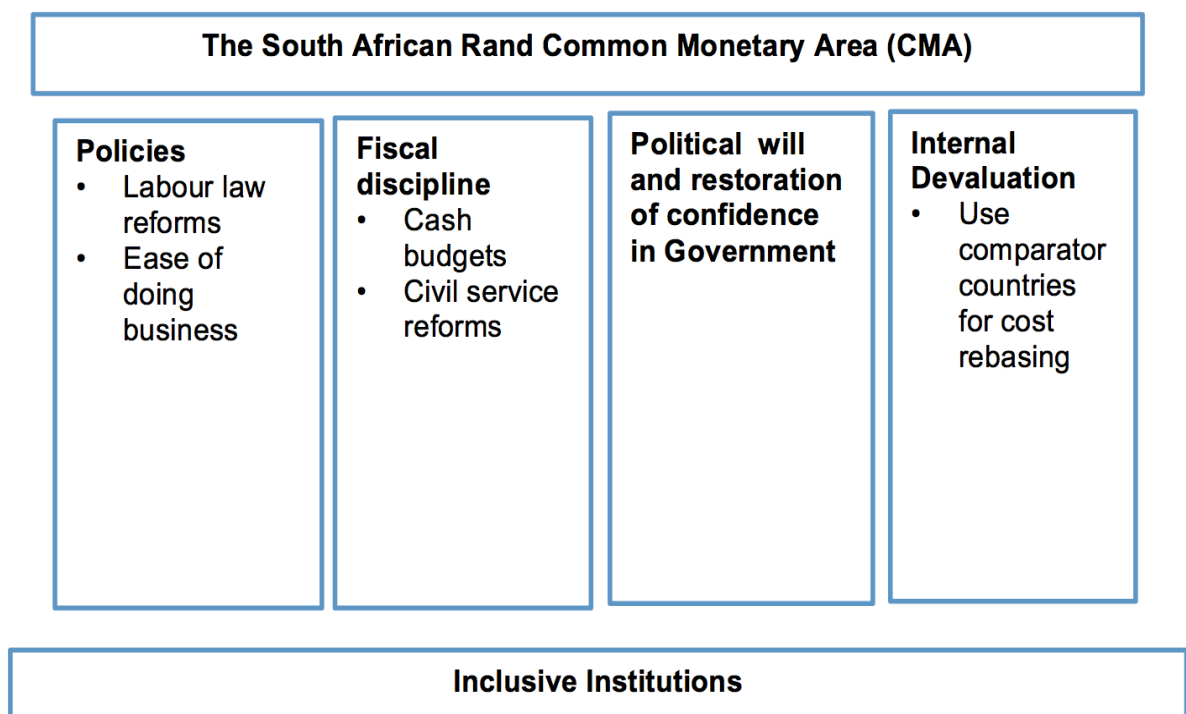
Another challenge for Zimbabwe, as a respondent highlighted, is that the Southern African Customs Union (SACU) member states have to agree to the admittance of Zimbabwe into the trading block and into the monetary area. Loss of revenue share for them, and the entry of what Respondent 11 termed an "unreliable neighbour" would represent significant downsides for the existing members. Respondent two also noted that the member countries would only want to admit a country with a "vibrant economy", while Zimbabwe is currently in a downturn and experiencing significant challenges, it would therefore be unlikely that the existing members would want to admit Zimbabwe and be exposed any possible contagion effects to their economies.

One of the benefits of joining the CMA as highlighted by Respondent 9 and supported by literature, was there would be fiscal discipline as well as the requirement that Zimbabwe should have foreign exchange reserves that fully back the issuance of domestic currency (Tavlas, 2008). These checks and balances are important measures in order for the public to have trust and confidence in the local institutions and the local currency to be issued as part of the requirements to join the CMA. This would then be

in line with Buigut & Valev (2005) who posited that one of the important benefits of being part of a monetary union was increased credibility and financial stability. This would then hopefully lead to more investments into Zimbabwe and faster economic growth for the country (Buigut & Valev, 2005).

6.5 Model for joining CMA

Based on the discussion of the results outlined above, the researcher has proposed a model that should assist the central bank and policy makers in formulating a plan to join the South African Rand Common Monetary Area.



The foundation of the model is built on strong institutions. These have to be inclusive (Acemoglu & Robinson, 2012), with the decision makers being held accountable. All the respondents highlighted the lack of confidence and trust that the citizens had in government and the RBZ, as a result of policy decisions and conduct in the past. The researcher believes that a lot of these stemmed from the “extractive institutions mentality” and lack of accountability (Acemoglu & Robinson (2012)). It is also important for the institutions to enforce legal rights to ownership and be independent from political influence.

In terms of policies, the key ones to be addressed relate to labour law reforms and policies to improve the ease of doing business in order to encourage foreign direct investment and increase export capacity. Policy consistency and goal congruence towards the same long-term goal within government is also important, in order to avoid policy reversals and conflicting messages from within different arms of government, all which create uncertainty and deter investment. As one of the respondents rightly pointed out, Zimbabwe appears to be an like an “unreliable neighbour” at the moment due to the recent law to ban certain imports, despite being party to bi-lateral trade agreements which discourage such practices. There is therefore a need to restore confidence of neighbour states or else the CMA members will not agree for Zimbabwe to become a member. There is also a need to put in place policies to increase the usage of Rand for transactions and savings during this period of multi-currencies, so that people move out of US Dollar savings into Rand savings, gradually shifting the economy out of US Dollars. Thereafter there should be policies put in place that US Dollar is no longer for transacting, just a reserve currency. This will make the shift into the CMA a gradual one that will reduce the discomfort or misgivings citizens would have compared to a sudden policy change.

Fiscal discipline is another important aspect that has been covered extensively in this chapter. This will not only give CMA member states comfort that Zimbabwe will not run budget deficits that will have a contagion effect on the monetary union, but also restore confidence of Zimbabwean citizens. This confidence and trust will be crucial in introducing a domestic currency just prior to the entry into CMA.

Political will is also critical as without this and unity of purpose, the necessary reforms will not take place. Leaders have to be in place that are doing what is best for the nation as a whole, and ready to make the hard and sometimes unpopular decisions for needed reforms. This will also restore confidence in government.

Internal devaluation will be required in the sense that businesses and service providers within Zimbabwe will need to benchmark their prices against regional comparators, to ensure that prices are reduced, operations are optimised so that they are still profitable at the new prices. As part of the process the cost of labour will have to be reduced in all sectors of the economy, as they are higher than the regional averages. Joining the CMA will remove the protection some local businesses have from the competition of imports, as import tariffs will no longer be allowed on goods from CMA member countries, so local businesses will need to be able to compete on an equal footing.

Joining the CMA is not without its risks, however. Zimbabwe would be exposed to the economic shocks affecting member states. The volatility and depreciation of the Rand is also another negative aspect especially coming from using the US Dollar that has appreciated over the past few years. As detailed above, the process of becoming a Rand Common Monetary Area member state is a lengthy one, involving numerous stakeholders that will take months if not years to fully implement. It is therefore important to get buy in from all stakeholders early in order to for more detailed analysis and research to be conducted.

7. Conclusion

7.1 Research background and objectives

Academic literature on the issue of de-dollarization is limited, as very few fully dollarized countries exist, and furthermore, even fewer countries have reverted to their own currencies. Due to the challenges being experienced by Zimbabwe as a dollarized country, this study investigated whether it would be viable for Zimbabwe to join the South African Rand Common Monetary Area, in order to stop using the US Dollar as the primary trading currency. The study also sought to establish what factors could negatively impact the successful entry of Zimbabwe into the South African Rand Common Monetary Area (CMA). Due to the nature of qualitative research methods, the study did not provide conclusive results, only possible answers of issues to be researched further using quantitative methods to get more empirical evidence of correlations (Saunders & Lewis, 2012).

7.2 Principle findings

Dollarization had the positive impact of stabilising the economy, lowering inflation, and Zimbabwe initially registered growth during the early years post-dollarization. This growth has now slowed with the economy beginning to stagnate. One of the findings has been that being a country using the US Dollar as a medium of exchange, in a region with softer currencies that are depreciating, Zimbabwe has experienced an influx of cheap imports into the country, resulting in local businesses struggling to compete for market share with the imported goods. This leads to liquidity problems, as there is more cash leaving the country paying for imports than is coming in from export proceeds, remittances, investments or offshore loans. A further challenge is that the limited US Dollars in the economy are required also for day-to-day transactions in the country, as there is no domestic currency in circulation, further exacerbating the liquidity situation.

The institutions and policy environment were highlighted as areas that the Zimbabwe government needs to improve, in order to regain the trust and confidence of the public and foreign investors. The lack of trust in the central bank has resulted in panic withdrawals being made from banks, following the announcement of the introduction of “bond notes” which the public viewed as the return of the worthless Zimbabwe Dollar. Inconsistencies in policy announcements, policy reversals and contradictions in statements made by government officials have resulted in a low level of trust and

confidence in government. The key finding was therefore that changing the currency alone would not solve the country's problems, that the issue of reforms, policy consistency and credibility of government, fiscal discipline would also need to be addressed.

The finding that there is already a domestic currency in circulation in the form of electronic Real Time Gross Settlement (RTGS) funds in the interbank market was also key in understanding the contributing factors to the liquidity crisis currently being experienced in Zimbabwe. The issuance of Treasury Bills (TBs) to fund the fiscal deficits, thereby creating more of the RTGS funds was also identified as a way in which the government had managed to "print US Dollars", however it is clear that these RTGS funds are not backed by US Dollar cash balances or deposits in offshore Nostro accounts, so there is a risk that the TBs will not be settled on maturity, and rolled over instead, due to a lack of funds.

There were mixed views on whether joining the CMA was the most viable option for Zimbabwe in light of the economic challenges being experienced. The conclusion reached with a marginal majority of the experts interviewed supporting the move, was that joining the CMA would improve the competitiveness of Zimbabwe's industries, strengthen the institutions, improve monetary policy and fiscal discipline, which would also lead to the government regaining the trust and confidence of the public.

Joining the CMA is not without its challenges however, with the main ones being the loss of monetary policy autonomy and local industry will no longer have import tariffs to protect them from competition of imports from CMA countries. The other disadvantages to joining the CMA are that Zimbabwe would be exposed to economic shocks in any of the CMA member states as well as the volatility of the Rand. The advantages joining the CMA include reduced transaction costs with South Africa, which is Zimbabwe's largest trading partner, augmenting local institutions, policy credibility, liquidity support, forced internal devaluation, access to cheaper borrowings to re-tool and recapitalise companies and no longer using a reserve currency.

7.3 Implications for management

Leaders in industry will need to start considering the implications of the lowering of import barriers on their businesses and how they change their business models to be able to compete in the wider CMA market. Aspect of cost re-basing or internal devaluation will also need to be investigated to see where operations can be made

more efficient and raw material sourced cheaper. A number of businesses will need to re-tool their operations in order to be able to compete on a level playing field with South African companies that have modern equipment, better efficiencies, economies of scale. Businesses will also have to consider looking further north for new markets or completely change their line of business and or business models.

Management will also need to assess the exposure of their businesses to Treasury Bills (TBs), especially those businesses with significant money market investments backed by TBs, as discounting may have to take place if the government rolls them over at maturity. The risk of bank failure also needs to be assessed, especially for those banks holding a significant amount of TBs.

For policy makers and government, as detailed above, it will be a long process to become a member of the CMA, so consultations with stakeholders would need to start early. The major challenge to the increase in confidence levels in Zimbabwe is the lack of policy consistency, leading to a lack of trust, therefore the government will have to speak with one voice and not make contradictory policy statements. Fiscal discipline in the form of cash budgeting and civil service reforms will also be required. Intensive lobbying and marketing of a roadmap or plan to joining the CMA will need to be done in order for the public and business community to understand the benefits of joining the CMA, the need to have a local currency, long term prospects and the problems encountered with using the US Dollar as the primary currency, so that the public get on board and back the plan.

7.4 Limitations of the research

The uniqueness of the Zimbabwean circumstances may make the findings of the study not generalizable to other contexts. A further limitation is that this study focussed on only one possible solution for de-dollarization, and did not explore other options in detail, as the researcher's earlier review of literature had ruled out those options. This may therefore have introduced researcher bias into the study.

A further limitation was that as it was a very controversial topic in Zimbabwe, the Respondents held very staunch views on both sides of the debate on whether or not Zimbabwe should abandon the US Dollar and become a member of the Rand Common Monetary Area (CMA), with valid arguments being presented for and against the proposal. There may have been researcher bias when assessing the outcomes of the interviews in concluding that joining the CMA was a viable option. There were also only

11 respondents interviewed so this was a small sample, and despite saturation having been reached, wider consultations may have yielded other views not presented here.

7.5 Suggestions for future research

Future research can focus on finding a practical method for internal devaluation, to reduce prices of goods, labour and utilities to be in line with regional comparator countries. Future research can also focus on the practical steps to be followed and the projected timeline for Zimbabwe to become a member of the CMA.

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9. Appendices

9.1 Appendix I – Interview Schedule

In attempting to understand the viability of Zimbabwe de-dollarizing by joining the Rand Common Monetary Area (CMA) or to find other more suitable alternatives for de-dollarization, I will conduct semi-structured interviews with bankers, economists, academics, Reserve Bank officials and experts in the research area in Zimbabwe and South Africa. I intend to conduct interviews with approximately 15 individuals across these disciplines or until such a time as saturation is achieved.

Experts have been identified in the above-mentioned fields and access to most of these individuals has been arranged. I anticipate that these individuals will refer me to other experts in the field who I can also interview.

Consent will be sought prior to the commencement of interviews and confidentiality will be assured. Participants will also be advised that the interview will be recorded, to ensure that accurate data is collected and analysed.

Semi-Structured Interview Plan

This a list of the questions for the semi-structured expert interviews.

1. What are your views on the primary caused for hyperinflation which led to dollarization?
2. In your view, what are the benefits or drawbacks of dollarization. Do the pros outweigh the cons?
3. Do you believe dollarization in its current form is working i.e. a sustainable position?
4. Why?
5. Should Zimbabwe remain dollarized?
6. What policy measures do you believe should be put in place for this to be a sustainable position?
7. What are your thoughts on the introduction of the Bond Notes proposed by the RBZ?
 - a. Will Bond notes have the desired impact of being an export incentive and increasing exports significantly?

- b. What are the mechanisms for the repayment of the \$200million Afrexzim Bank facility that the Bond Notes are being backed by?
 - c. Are Bond Notes the return of the Zimbabwe Dollar?
8. What are the options that the Government/RBZ should pursue to transition out of dollarization (if at all)?
9. Why is this the best option? Why not the South African Rand Common Monetary Area (CMA)?
10. What policy changes would be needed to be part of the CMA?
11. What are the possible pitfalls that need to be avoided or mitigated?
12. What else should be considered?
13. What are your views on the level of trust that the citizens of Zimbabwe have in government/RBZ with regards to the currency or monetary policy?
14. Any closing remarks?
15. Anyone else you recommend I should interview on this issue? Do you mind if I mention that you suggested I contact them?

If I have any further questions, could I follow up on email?

9.2 Appendix II – Letter of consent

I am conducting research on the viability of Zimbabwe de-dollarizing by joining the Rand Common Monetary Area (CMA), and am attempting to establish key enablers for this to occur, any possible impediments and changes to policies and regulations that would be required, as well as possible timelines for successful implementation. Our interview is expected to last about an hour, and will help us understand the key issues that may hinder the successful entry into the MCU, or to propose other more suitable alternatives for de-dollarization. **Your participation is voluntary and you can withdraw at any time without penalty.** Of course, all data will be kept confidential.

If you have any concerns, please contact me or my supervisor. Our details are provided below.

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Signature of participant: _____

Date: _____

Signature of researcher: _____

Date: _____