

“Blessing or Curse”? Introduction of Bond Notes as an Antidote to Zimbabwe’s Liquidity Crises

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The Zimbabwean financial sector has been retrogressive, constrained, and unpredictable since the year 2000, serving for the multiple currency periods (2009-2013) after the demonetization of the domestic dollar. The sector since then has seen a number of commercial banks fail to meet RBZ (Reserve Bank of Zimbabwe) minimum capital requirements, put under curatorship, delisted or liquidated because of a myriad of operational and financial challenges. The objective of this study is to make an assessment of whether or not the introduction of bond notes has been a curse or blessing. The study drew raw data from bank account holders, academics, general public, corporate world and commercial banks in Masvingo for analysis and interpretation. The study established that the majority of people, corporate world and commercial banks were sceptical to embrace the surrogate bond notes because of the uncertainties, operational and financial risks that they paused on the domestic financial markets. It was also discovered that most banks were quick to pay clients’ withdrawals in bond notes, deduct US dollar equivalences from their accounts, and distinguish bond notes from US dollars at the point of making deposits and foreign business transactions. It was also realized that there was market indiscipline and trading in bigger US dollar notes in the informal sector and serious shortage of the same notes in the formal sector. The study concluded that the introduction of bond notes to trade parallel to the US dollar brought a serious shortage of cash on formal markets and increases in the general price level of goods and services. The study therefore recommends that the RBZ should completely withdraw the bond notes from the market to accord the US dollar its world market value and restore confidence and discipline in the Zimbabwean financial sector. The study also recommends another option of the adoption of the South African Rand as an interventionist way of solving Zimbabwe’s liquidity crises.

Keywords: blessing, curse, bond notes, liquidity crises, antidote, Zimbabwe

Introduction

A stable financial sector is central in economic growth and development of a nation. It can also be argued that the tone and development state of an economy are just as good as the efficiency and effectiveness of its financial sector (Matanda & Madzokere, 2015). Zimbabwe faced a myriad of financial challenges backdating to the year 2002. This led to the collapse of many banking institutions and some being placed under curatorship. The situation deteriorated in the period of 2007-2008 reaching an unprecedented hyperinflationary rate of 89.7 zillion

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percent in November 2008 (Madzokere & Matanda, 2015; RBZ, 2009). This caused the Zimbabwean dollar to lose its role as a medium of exchange and hence it was demonetized in February 2009. The US dollar and other currencies were introduced as a medium of exchange and this policy managed to bring down the hyperinflation rate to a single digit of 6.126% by the end of the year 2009.

From 2009 to 2012, there was a gradual improvement in the liquidity and growth of the economy. The Reserve Bank of Zimbabwe (RBZ) Monetary Policy Statements (MPS) have it on record that the country realized growth rates of 5.7% in 2009, 8.1% in 2010, and 9.3% in 2011. However, the period of 2012-2016 saw a significant fall in the supply of the US dollar culminating into a serious liquidity crunch that continues to hinder the growth and development prospects of the country. In an attempt to quell the liquidity crunch, the RBZ announced plans to introduce bond notes (surrogate currency) in May 2016. The bond notes were backed by a US\$200 million Afrexim Bank facility. The main idea behind their introduction was to use them as both an export incentive and means of addressing the cash crisis that was obtaining in the Zimbabwean economy. The bond notes were meant to fund export incentives of up to 5% which would be paid to exporters of goods and services and Diaspora remittances.

Thus, on November 28, 2016, the RBZ introduced the bond notes despite resistance from the corporate world and the public. The Central Bank Governor, Dr. John Mangudya, announced that bond notes like coins, already in circulation, were going to trade at par with the US dollar. The RBZ Governor also proceeded to announce that bond notes would be deposited into existing US dollar accounts of all stakeholders and hence there was no need for people to open new bank accounts. The introduction of the surrogate currency was against the background of a liquidity crunch that emanated from the country's lack of fresh capital injection. This was after foreign investors had shunned investing in Zimbabwe due to general lack of policy consistency that took its toll in 2015 and culminated into a deep liquidity crisis in 2016.

In November 2015, for instance depositors could withdraw US\$3,000.00 at ATMs and a maximum of US\$10,000.00 per day from banking halls. These withdrawals, however, dwindled to as little as US\$20.00 per day subject to availability of cash by the end of the year 2016 (RBZ, 2016). It can therefore be pointed out that bond notes were introduced by the RBZ after it had realized that the amount of US dollars in circulation in the economy had massively dwindled. Temporary presidential powers were used to bring the notes into the financial sector before the RBZ Act (Chapter: 22:15) had been amended. This scenario showed how critical the situation on the ground was in the country's financial system at the point of launching this non-currency phenomenon. This therefore is an investigative study whether the introduction of bond notes serves as an antidote to the liquidity crises gripping Zimbabwe.

Definitions and Conceptualization of Key Terms

Etymologically, the word "blessing" is derived from the verb "bless" which in the Hebrew equivalent—*barakh* and Greek—*makarios* whilst the Latin equivalent is *beneficium* (Oswalt, 1980). The English equivalent meaning of the word, "bless" as captured in the above original languages of the Bible means to endue with power for success, prosperity, fecundity, and longevity. In simple terms, then the word "bless" means to endow with divine favour or protection bringing pleasure or relief as a welcome contrast to what one has previously experienced. The exact opposite of the word "bless" is "curse" which on the other hand means a cause of great harm or misfortune.

The term “demonetization” refers to the act of stripping a “currency unit of its status” as “legal tender” (Investopedia, n.d.). Some of the reasons given for nations to demonetize their currencies are to combat inflation, corruption, and crime (counterfeiting). A country can also demonetize so as to discourage a cash-dependent economy or facilitate trade with other countries of the world.

According to the *Business Dictionary* (n.d.), dollarization is a situation where a country, either officially or unofficially, uses a different country's currency as “legal tender” for conducting transactions. The main reason for dollarization is to receive the benefits of greater stability in the value of a foreign currency over a country's domestic currency. The downside of dollarization is that the country in question would give up its ability to influence its own monetary policy by adjusting its money supply.

Literature Review

Literature Review: The Theoretical Perspective

According to the *Business Dictionary*, a liquidity crunch is a time period when cash resources are in short supply and demand is high. During a liquidity crunch, businesses and consumers are charged high interest rates on loans which are more difficult to obtain. As alluded to earlier on the term liquidity crunch refers to how much money or capital is available for spending at household level and investment at business level or both. In business, it also refers to the ease with which an asset can be converted to cash. In the banking sector, liquidity refers to the ability of the bank to meet obligations when they fall due such as paying depositors on demand without encountering unacceptable losses. According to the MPS of RBZ (2016), “Bond notes are financial instruments, guaranteed by an international financial organization to the tune of US\$200 million, issued at par with the US Dollar”. The bond notes were introduced to act as an incentive to exporters of goods and services and as a medium of exchange in Zimbabwe. The bond notes were introduced to circulate parallel to the US dollar with the aim of addressing cash shortages and boost exports in Zimbabwe.

In a very short space of time the RBZ has printed and disbursed more bond notes currency into financial system in the name of export-incentive. It is on record that on November 28, 2016, the RBZ injected \$10 million worth of bond notes. This was followed by \$7 million and another \$12 million barely a month later to bring the total amount of bonds in circulation to \$29 million. Bond notes were introduced on the basis of the predictions that they would not result in inflation, hence the RBZ's disbursement of the pseudo currency in batches is to test the response of the market to the notes.

Gresham's Law and the Concept of Money

Gresham's law is named after Sir Thomas Gresham (1519-1579) who was an expert in financial affairs in the 16th century. According to Petersen and Sullivan (2005), Gresham's law or monetary principle states that when bad money is introduced in an economy it will drive out good money. The law explains how money with different intrinsic values but same nominal face values circulates. Rolnick and Weber (1983) explained Gresham's law by giving an example of two silver coins, one containing as twice silver as the other but having the same nominal face value circulating simultaneously. The two coins would not be used as medium of exchange simultaneously because of their differences in intrinsic value. The coin that had twice silver as much as the other will be driven out of circulation as it would be hoarded while the inferior one will circulate as a medium of exchange. This can only happen if there is a fixed rate at which these two coins will exchange (Rolnick & Weber, 1983). The theory can be extended to a situation where a government introduces two currencies where one currency would be undervalued and the other overvalued.

The undervalued money disappears into private hordes while the overvalued money floods into circulation (Sparavigna, 2014). In other words, the bad money will be used to make payments ahead of the good money. However, as emphasized above, this can only happen when the two currencies exchange at a fixed exchange rate and when the use of good money at its market price is expensive. According to Rolnick and Weber (1986), the good money is driven out of circulation because selling it at its intrinsic value will be more valuable than using it at face value as a medium of exchange. Gresham's law has been proved correct through experiences of other countries. In 1965, the US replaced old silver quarters with "sandwich" coins, which were made of silver-nickel alloy (Dutu, Nosal, & Rocheteau, 2005). The old good silver coins were displaced from circulation by the new bad coins. However, there are other experiences in history which have proved Gresham's law invalid. For example, the Spanish milled dollar was a heavier coin than the US silver coin. The overvalued coin did not drive out the undervalued coin.

Literature Review: The Empirical Perspective

Literature on hand has it that the Coinage Act of 1873 demonetized silver as the legal tender of the United States, in favour of fully adopting the gold standard. Several coins, including two-cent piece, three-cent piece, and half dime were discontinued. The withdrawal of silver from the economy resulted in a contraction of the money supply, which subsequently led to a five-year economic depression throughout the country. In response to the dire situation and pressure from farmers and silver miners and refiners, the Bland-Allison Act remonetized silver as legal tender in 1878. An example of demonetization for trade purposes occurred when the nations of the European Union officially began to use the euro as their everyday currencies in 2002. When the physical euro bills and coins were introduced, the old national currencies, such as the German mark, the French franc, and the Italian lira were demonetized. However, these varied currencies remained convertible into euros at fixed exchange rates for a while to assure a smooth transition. In 2015, the Zimbabwean government demonetized its dollar as a way to combat the country's hyperinflation, which was recorded at 231,000,000%. The three-month process involved expunging the Zimbabwean dollar from the country's financial system and solidifying the US dollar, the Botswana pula, and the South African rand as the country's legal tender in a bid to stabilize the economy.

In 2016, the Indian government decided to demonetize the 500- and 1,000-rupee notes, the two biggest denominations in its currency system; these notes accounted for 86% of the country's circulating cash. With little warning, India's Prime Minister Narendra Modi announced to the citizenry on November 8 that those notes were worthless, effective immediately and they had until the end of the year to deposit or exchange them for newly introduced 2,000 rupee and 500 rupee bills. Chaos ensued in the cash-dependent economy (some 78% of all Indian customer transactions are in cash), as long, snaking lines formed outside ATMs and banks, which had to shut down for a day. The new rupee notes have different specifications, including size and thickness, requiring re-calibration of ATMs: only 60% of the country's 200,000 ATMs were operational. Even those dispensing bills of lower denominations faced shortages. The government's restriction on daily withdrawal amounts added to the misery, though a waiver on transaction fees did help a bit. A number of countries, for example, Ecuador, Argentina, El Salvador, and Zimbabwe do not have a currency of their own of late. They use the US dollar or other currencies as their own domestic currency. This is called dollarization. Dollarization can occur officially or unofficially.

The main motivation behind dollarization is to stabilize high levels of inflation in a country (Salvatore, Rengifo, & Ozsoz, 2008). For the financial system of a dollarized economy to operate efficiently, the supply of dollars must be enough to meet the demand for funds in that economy. This however is not always the case in practice. Rajan (2004) argued that dollarization does not help to stabilize the economies but increases its fragility since these economies are prone to dollar shortages. The shortage of the US dollar is a recipe for financial crises in the financial sector of an economy that dollarizes. According to Rajan (2004), the shortage of the dollar is a form of liquidity shortage which can affect the solvency of firms and even the government of a country. This creates a challenge for an economy that is emerging from a crisis as it can result in the decline in economic growth. However, de-dollarization has its own challenges as well. Attempts to de-dollarize in Mexico, Bolivia, and Peru backfired and caused contraction of financial intermediation. Nkhomazana and Niyimbanira (2014) stated that dollarization is difficult to reverse once an economy has fully dollarized.

There is no clear cut answer as to whether countries which are highly dollarized should fully dollarize, de-dollarize, or maintain that status quo (Mecagni et al., 2015). Many countries have moved their economic roads to full dollarization. However, dollarization comes with huge costs (Chigome, 2015). Zimbabwe abandoned the Zimbabwean dollar as an official currency in 2009 (Kramarenko et al., 2010). The country then adopted five currencies in 2009 to replace Zimbabwean dollar which had become worthless. This was unique since countries normally adopt a single currency (Buigut, 2015). The move to dollarize brought stability in the economy but at the same time created a number of challenges. According to Kramarenko et al. (2010), the introduction of the US dollar was accompanied by a severe shortage of smaller denominated US dollar notes and coins. In 2016, the larger US dollar denominations also disappeared from the formal system. Importation of US coins was going to impose huge shipping costs on the government. The question now is whether Zimbabwe should de-dollarize or not given the challenges it is facing of late.

Kairiza (2009) identified three approaches that could be followed by Zimbabwe to de-dollarize the economy. Firstly, the government can follow the market-based approach, that is, it can pursue policies that will help to give the national currency stability. Secondly, the government can follow the non-market-based approach which involves making regulatory reforms, for example, putting in place regulations which would require that internal payments be made in local currency. There is no need to transact in foreign currency when people are within Zimbabwe. Last but not least, the government can employ administrative enforcement. This means that the government can make it illegal for anyone to make payments within the country using foreign currency or set limits (Kairiza, 2009). For de-dollarization to be successful, the root causes of dollarization should be removed otherwise the crises will resurface from time to time. The government should put in place the right macroeconomic fundamentals. Dollarization usually occurs in developing countries with a weak central government or an unstable economic environment. For example, the citizens of a country within an economy are undergoing inflation crises power. Zimbabwe ran a dollarization test to see if the adoption of a foreign currency could stave off high inflation and stabilize its economy. In 2008, the acting finance prime minister announced that Zimbabwe would run an 18-month experiment in which the US dollar would be accepted as legal tender for a select number of merchandisers and retailers. After the experiment, the finance prime minister announced that the country would adopt the US dollar completely, suspending use of the Zimbabwe dollar. The immediate benefit of the dollarization was that it worked to reduce inflation. This reduced the instability of the country's overall economy, allowing Zimbabwe to increase the buying power of its citizens and realize increased economic growth. Additionally, long-term economic planning was easier for the country, since the stable dollar attracted some

foreign investments. However, dollarization was not an entirely smooth ride for the country, and there were drawbacks. All monetary policy would be created and implemented by the United States, some thousands of miles away from Zimbabwe. Decisions made by the Federal Reserve do not take into account the best interests of Zimbabwe when creating and enacting policy, and the country had to hope that any decisions, such as open market operations, would benefit the country. Further, Zimbabwe became disadvantaged when it traded with local partners, such as with Zambia or South Africa. Zimbabwe could not make its goods and services cheaper in the world market by devaluing its currency, which would attract more foreign investments from these countries.

Research Methodology

The study employed the descriptive survey research design mainly because it enabled the researchers to use questionnaires to collect information on feelings, views, and opinions of respondents on the impact of bond notes on the Zimbabwean financial sector. The descriptive research design allowed the investigators to describe what was in respondents' mind at the time of being questioned. All views gathered from respondents were then crystallized by the research study.

Population

A population is the entire group of objects of a particular type under study (Muchengetwa & Mudimu, 2002). The study drew raw data from bank account holders, academics, general public, corporate world and commercial banks in the city of Masvingo for analysis and interpretation.

Sample

A sample is a subset of a population under study (Muchengetwa & Mudimu, 2002). The study drew a sample of 120 respondents from bank account holders, academics, general public, corporate world and commercial banks in Masvingo for analysis and interpretation. Stratified probability sampling technique was used to select the respondents because of the composite nature of respondents under consideration.

Research Instruments

The study used questionnaires to collect data from account holders, academics, and general public respondents. The researchers also carried out face-to-face interviews with business people and commercial bank employees in Masvingo. All these respondents were critical for inclusion in the study because bond notes and coins were a means of payment that affected all economic players in Zimbabwe.

Data Presentation and Analysis

The research data drawn from various respondents on the possible impact of bond notes on the Zimbabwean financial sector and the welfare of the nation were summarized and analyzed as below.

Public Fears and Resistance of the Acceptance of Bond Notes

It was revealed that the introduction of bond notes in Zimbabwe in 2016 sparked fears from the public that government was trying to smuggle back into circulation the defunct Zimbabwe dollar after the adoption of the multiple currency regime in 2009 dominated by the US dollar. This was probably caused by previous experience of hardships which were faced by the nation in the period of 2007-2008. It was therefore noted that long-term measures were needed that would stimulate the industrial sector as well as boost the much needed exports.

The Impact of Bond Notes on Liquidity Crisis

The study established that the introduction of the bond notes did not improve the availability of cash on the Zimbabwean financial markets. The maximum withdrawal limits continued on a downward trend even after the introduction of the bond notes. The majority of respondents indicated that the liquidity crisis had worsened significantly. This was probably caused by loss of confidence in the financial system and the monetary authorities. This could also be attributed to poor export performance as the country's industry is underperforming. The introduction of the surrogate currency had resulted in a worsened USD supply situation in the economy. This has given rise to the trading of the USD on the black market. The decline in the USD is in line with Gresham's law explained in the literature section.

The Exchange Rate Between the Bond and US Dollar

Although the Central Bank promised full and perfect 1:1 convertibility between the US dollar and the bond note, the business community and individuals undervalued the bond note in relation to the US dollar. The study established that the USD was now being sold on the black market, a factor which motivated individuals to hoard it. The operational modalities and inefficiencies induced in converting bond notes into US\$ balances immediately discounted the value of bond notes. Bond notes did not qualify as a store of value as they were founded on a non-existent notion of value (a liability backed by another liability). It was by design that bond note was a self-depreciating in that it was backed by a US\$200 million foreign debt the country got from Afrexim Bank. As long as the Afrexim Bank facility is open-ended, the debt underlying the bond note accrues interest. The longer the interest continues to accumulate, the weaker the bond note becomes and the higher the amount to be repaid in the future. The economic effects become worse if we consider the fact that the notes are not backed by any underlying earning asset or production.

Bond Notes as an Export Incentive

One of the major objectives of the introduction of bond notes was to provide an export incentive. Secondary data on exports analyzed showed that exports increase and then decline after the introduction of bond notes in November 2016. Table 1 below shows the total exports to the world between November 2016 and March 2017.

Table 1

Total Domestic Exports Between October 2016 and March 2017

| Year | Month | World exports (US\$) |
|------|----------|----------------------|
| 2016 | October | 468,064,343 |
| 2016 | November | 475,332,866 |
| 2016 | December | 489,366,109 |
| 2017 | January | 384,772,904 |
| 2017 | February | 424,357,629 |
| 2017 | March | 461,589,611 |

Note. Source: Zimbabwe National Statistics Agency: first quarter 2017.

Bond Notes as a Tax Burden on Zimbabwean Residents

It was also revealed that bond notes had an implicit tax burden on residents in that the debt underlying the notes would eventually be repaid to Afrexim Bank. Like every external claim on the government, the facility would be settled by taxing residents or reducing expenditure leading to a leakage of the much needed revenue outside the country. Assuming that the claim that the notes would have perfect convertibility would be true, then

each time the notes are presented and the bearer of the notes demands the greenback underlying the bond notes (for settling a foreign transaction), this would be equivalent to a draw-down on the Afrexim Bank facility (Nostro balances) though with partial replacement. The draw-down would be partially counterbalanced by shifting the nature of claims in the banking sector (replacing a strong claim with a series of weak claims) when citizens require funds for transactional motives locally.

In other words, domestic players would be issued with the same bond notes that would have been previously presented to the Central Bank for a claim on the US\$ in the Nostro accounts. The US\$ of citizens would then be used to fund Nostro balances, creating the notion that the bond note system would self-sustain (at least in the short to medium term). However, in reality bond notes would chase US dollars out of the formal banking sector into the informal sector. Eventually when the Afrexim Bank facility is terminated, the Zimbabwean Central Bank would face challenges in funding its Nostro accounts. It was almost certain that as of then some locals would be left holding the worthless pieces of the surrogate paper.

Bond Notes and Capital Inflows

It was also noted that the introduction of the bond notes did not curb the causes of capital outflows nor address the incentives to do so. The imposition of bond notes on people by the RBZ has resulted in businesses demanding more cash payments, possibly hard currency to settle transactions and exacerbated dissaving by households. Bank deposits have been limited to transitory salary inflows and transitional balances. All speculative and precautionary cash balances would be kept outside the banking sector with the potential to amplify the contemporary liquidity challenges facing the economy. Given the memories of the Zimbabwe dollar 2007-2008 eras, this latest financial development by RBZ was likely to propel the in-formalization of the mainstream economy and growth of the underground activities.

Forced Conversion of Bonds into Other Currencies

A major challenge for business is that the forced conversion of US\$ to rands and euros would induce unnecessary exchange rate risks and complicate cross-border transactions. All measures to be put in place by government for the reduction of individual balances and increased tightening of cross-border transactions, were likely to lead to an increase in the liquidity challenges in the banking sector as households would rush to withdraw their funds in order to beat the full roll-out of the bond notes. As a result, some indigenous commercial banks without adequate liquidity reserves were likely going to falter on their obligations. Given that RBZ has limited capacity to inject liquidity into the financial system in the very short term, continuous reductions in daily withdrawal limits were expected, should the current bank runs continue on a downward trend.

Conclusion and Recommendations

What follows below are the major conclusion and recommendations of the study on the impact of bond notes on the Zimbabwean financial sector as per the study.

Public Fears and Resistance of the Acceptance of Bond Notes

The study concluded that the introduction of bond notes in Zimbabwe sparked fears amongst the public and business that the government was trying to bring back into circulation the demonetized Zimbabwe dollar. It was recommended that the country should do away with the surrogate currency and continue to use the USD as legal tender until such a time when confidence has been restored and incentives have been found for individual and corporate financial players. It should take advantage of big economies, such as China and Russia as export

destinations for its locally manufactured products if it were to generate the much needed foreign currency for financing the domestic development process.

It was also concluded that the introduction of the bond notes by the RBZ did not curb the causes of capital outflows from Zimbabwe nor address the incentives to do so. The RBZ's imposition of bond notes on people resulted in businesses demanding more cash payments, in most cases hard currencies to settle transactions, and exacerbated dissaving by households. Bank deposits have been limited to transitory salary inflows and transitional balances while speculative and precautionary cash balances would be kept outside the banking sector with the potential to amplify the contemporary liquidity challenges facing the economy. It was recommended that the RBZ should not bring back the memories of the Zimbabwe dollar 2007-2008 eras because this was likely to propel the in-formalization of the mainstream economy and growth of the underground activities or the black market.

The Impact of Bond Notes on Liquidity Crisis

The study concluded that the unfolding liquidity crunch was an indication of the deepening economic challenges that Zimbabwe continued to face in the multiple currency era. The cash crisis facing the economy was not a result of the poor monetary and fiscal policies but of the imbalance in between imports and exports. Therefore, the current financial measures being implemented by the RBZ were likely to be an integral part of possible solutions to the perennial challenges bedevilling the growth and development of the economy today. The study therefore recommended that the monetary authorities should undertake a paradigm shift in running the affairs of the Zimbabwean financial sector if the country were to achieve its growth and development goals and objectives in the dollarization era.

The 1:1 Exchange Rate Between the Bond Note and US Dollar

Although the Central Bank had promised full and perfect 1:1 convertibility between the US dollar and the bond note, the two had never operated according to this RBZ stipulation. The study concluded that bond notes had never traded at the exchange rate of 1:1 with the USD since their inception in November 2016. Bond notes therefore were not a genuine currency because they could not be exchanged directly with the USD and other currencies of the world. The introduction of bond notes on the domestic markets had brought with it serious price distortions across all the sectors of the economy. Each individual commodity on the market had four prices at which it was traded, namely the USD, bond note, eco-cash, and swiping prices. It was concluded that the operational modalities and inefficiencies induced in converting bond notes into US\$ balances immediately substantiated the notion that the USD was more valuable than the discounted value of bond notes.

Therefore, bond notes did not qualify as a store of value as they were founded on a non-existent base that is a liability backed by another liability. This was so because the notes were self-depreciating in that they were backed by a US\$200 million foreign debt facility the country got from Afrexim Bank. As long as the Afrexim Bank facility was open-ended, the debt underlying the bond note would continue to accrue interest. The longer the interest on the facility continued to accumulate, the weaker the bond note became on the markets and the higher the amount to be repaid in the future. The economic effects of the surrogate currency become worse if we consider the fact that the notes are not backed by any underlying earning asset or production. The study recommended that monetary authorities should reengage the government so that a rational and permanent solution to the liquidity crunch can be attained. The continued use of the bond notes was likely to balloon the country's inflation rate to an unprecedented two-digit figure in the short to medium term.

Introduction of Bond Notes and Seignorage

The study concluded that the issuing of bond notes by RBZ was theoretically equivalent to the printing of notes and coins. At the time of expiry of the Afrexim Bank facility, the RBZ was going to be faced with two types of liabilities, namely the loan facility to Afrexim Bank plus accrued interest adding up to \$200 million face value of domestically issued bond notes with no underlying facility to back them. Thus, the RBZ would have created money out of nothing, unless and until of course it withdraws the bond notes when the Afrexim facility expires. In this respect, bond notes should carry a date to expiration which date at point of introduction they did not have. Whether bond notes would be withdrawn upon expiration or not remains anyone's guess. The study finally recommends that the government should urgently address the family of financial challenges facing the nation with the due respect they deserve if the country were to be back on its development path. The attainment of political independence without achieving economic emancipation created an economic vacuum that resulted in challenges, such as the current liquidity crunch, corruption, misappropriation of funds, and serious income discrepancies between the rich and the poor citizens of our economy.

Bond Notes as an Export Incentive

It was concluded that the concept of export incentive was being used as a weapon by the government and monetary authorities to draw the USD from the hands and accounts of the general public. The export incentive should have been directed into the accounts of the exporters directly and not into the hands of the transacting public. It was therefore concluded that the country's liquidity crunch was a symptom of fundamental structural problems, and not the problem in its own right. It is therefore recommended that the RBZ should stop continuous issuing of the surrogate currency and improve the liquidity state of the economy through use of increased foreign direct investment (FDI) and unlocking value in the mining sector to generate internal funding and accessing external lines of credit. The RBZ must be efficiently and sufficiently capitalized to act as lender of last resort so that inter-bank markets become resuscitated, private sector must be revitalized, and duty of raw materials and capital goods must be reduced to increase production. Importation of consumer goods must be discouraged if the Central Bank were to improve the country's liquidity position in the foreseeable future. The Central Bank was also advised to come up with innovative funding models for businesses such as private equity and offshore equity partners and restructuring mechanisms for statements of financial positions (balance sheets) of such firms so as to bring the private sector into meaningful productive capacity.

Bond Notes' Tax Burden Implications

The study also concluded that bond notes were an implicit taxation burden on both tax payers and consumers in that the debt underlying the notes would eventually be repaid to Afrexim Bank at some date in the future. The facility would be settled by the RBZ by taxing residents or reducing expenditures leading to a leakage of the much needed foreign currency outside the country. In other words, domestic players would be issued with the same bond notes that would have been previously presented to the Central Bank for a claim on the USD in the Nostro accounts. The USD of citizens would then be used to fund Nostro balances, creating the notion that the bond note system would self-sustain particularly in the short to medium term. In reality bond notes would chase US dollars out of the formal banking sector into the informal sector. Hence, when the Afrexim Bank facility is terminated the Zimbabwean Central Bank would face challenges in funding its Nostro accounts. It was almost obvious that as of then some locals would be left holding the worthless pieces of the surrogate paper. The study recommends that the government and monetary authorities should deviate from the use of short-term financial solutions if it were to

redress the challenges facing the nation once and for good. The use of various tax regimes in Zimbabwe was not a solution to the economic woes facing the nation and also scared investors and providers of credit lines.

Political Instability and Policy Inconsistencies Dilemma

It was also concluded that the crafting of Statutory Instruments such as 62 and 64 by government and their adoption were not in any way going to restore the economy to the required levels of stability. The above importation substitution instruments were not going to bring forward the much needed gains as long as the government does not review its foreign and indigenization policies on FDI and revitalization of the private sector. The study recommended that the RBZ should move with speed to plug the parallel financial markets using legal and persuasive methods so as to ease the current liquidity crisis in the financial sector.

Bond Notes and the Banking Sector

The study concluded that the country's banking sector remained very constrained. Hence, there was a need for the monetary authorities to introduce policies and strategies that had the capacity to rewind the fortunes of the economy towards growth and development of the economy's financial sector. The RBZ should come up with new measures with the capacity to turn around the fortunes of the Zimbabwean banking sector world. The extending of the \$100 million minimum capital requirements to commercial banks deadline to 2020, enforcement of capital adequacy ratio models, prudent deployment of capital, and liquidity and maximization of fixed asset ratio to 25% were some of the measures that had the ability to redress the economy's cash crisis at hand. It was recommended that banking corporations should employ consolidations and mergers, dilution of equity by new investors and convert their banking licenses into deposit taking microfinance institutions (MFIs) to redress the current solvency challenges they faced. Commercial banks were also encouraged to improve their liquidity statuses by avoiding loaning to insiders and related parties and using mortgage financing through securitization of mortgages. These banks were also called upon to raise criminal and civil liability charges for any government authority, shareholder, director, or senior manager for fraud and gross negligence in their discharge of duty.

Bond Notes and Productivity in Zimbabwe

The study concluded that the country's productive sector was on its knees contrary to RBZ's perception that it was improving as a result of the export incentive scheme (EIS). The EIS had made the operations of the private sector worse off and the stability in the general price level of the economy had been compromised. The RBZ argues that there was some increase in productivity as a result of the expansion of the tobacco crop grown in the 2016-2017 agricultural seasons and the reduction in the smuggling of gold due to the 5% incentive awarded to gold producers. Conversely, the study concluded that the time lapse between the introduction of bond notes and end of the previous agricultural season was so short that it did not allow for any form of productivity to be measured.

On the other hand, the RBZ postulates that there was massive regulation of international gold prices to discourage smuggling of the commodity but its failure to take into account the negative effects of land degradation by gold panniers left a lot to be desired. The bank also observed that there had been an increase in the use of plastic money and electronic banking which then accounted for 50%-70% of sales for the majority of the bigger retail outlets in Zimbabwe, including fuel dealers. However, this development could have been achieved without introducing the bond notes and this was going to be an efficient and effective way of dealing with cash shortages obtaining in the economy currently. The study thus recommends that the RBZ and government should be accountable and hence must not mistake political independence for economic independence and put the country's development process into an irreparable state for many decades and generations to come.

Incentives to be Used to Quell the Liquidity Crunch

It was concluded that one of the incentives to be used would be to re-establish the Bureaux de Changes, more than 15 years after they were closed. Bureaux de Changes were shut down in December 2002 amid serious allegations that they were at the centre of the illegal foreign currency deals. It was the Central Bank chief John Mangudya's belief that the introduction of the authorized foreign currency dealers would help to "enhance the ease of doing business and foster financial inclusion and the level of participation in the formal financial services sector" (RBZ, 2016). The RBZ has already invited individuals and companies to apply for licenses to operate Bureau de Changes. Currently, there is a limited number of RBZ licensed Bureau de Changes with the majority of urban centres, including ports of entry or exit having no formal foreign exchange markets. Bureau de Changes were expected to provide services for currency exchanges to the public and travelers.

However, the chances were very high that if the RBZ does not come up with strong incentives for black market players, these players were unlikely going to adhere to the call for applying for licenses to operate Bureau de Changes. The reason was that most financial players and even the public were skeptical about doing business with government authorities because of lack of trust, discipline, and confidence in such authorities. As part of RBZ strategies to create more official channels of foreign currency, the Bank has slashed Bureau de Change licensing fees from \$1,000 to \$500 and \$400 to \$200 for head office and branches respectively. On the other hand, Rural Bureau de Change branches now attract \$50 from an initial \$200.

Some economic experts have concluded that the introduction of Bureau de Change would not help to address the country's current liquidity challenges. Zimbabwe, which adopted the multiple currency system dominated by the United States dollar in 2009, has been experiencing a liquidity crunch since 2015 due to widening trade deficit, illicit financial outflows, and sluggish growth among other factors. The Zimbabwe National Chamber of Commerce (ZNCC) chief executive argues that the country was suffering from a confidence and perception crisis. Therefore, the study recommends that RBZ must research on the financial and economic challenges facing the nation so as to come up with policies, strategies, and incentives that would redress the crises and realign the economy with the requirements of sustainable development as soon as possible. Some economic analysts have gone on to argue that the Zimbabwean cash crisis was more than just a liquidity crunch, but rather a reflection of a crisis of confidence in the economy and deep underlying problems (also check powerful insights from Gutu, 2017).

The Forced Conversion of Bonds into Other Currencies

The study concluded that the forced conversion of USD to rands, euros, or any other currencies of the world induced unnecessary exchange rate risks and complicated cross-border transactions. Therefore, any measures to be put in place by the Zimbabwean government and monetary authorities for the reduction of individual balances and increased tightening of cross-border transactions, led to increases in the liquidity challenges in the banking sector as households would rush to withdraw their funds in order to beat the full roll-out of the bond notes. As a result, some indigenous commercial banks without adequate liquidity reserves were likely going to falter on their obligations. Given that RBZ has limited capacity to inject liquidity into the financial system in the very short term, continuous reductions in daily withdrawal limits were expected, should the current bank runs continue on a downward trend. The study ended by recommending that the monetary authorities should do away with the surrogate currency because it is an impediment to economic development for it drives out vital currencies such as the USD from the markets (also check powerful insights from Gutu, 2017).

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