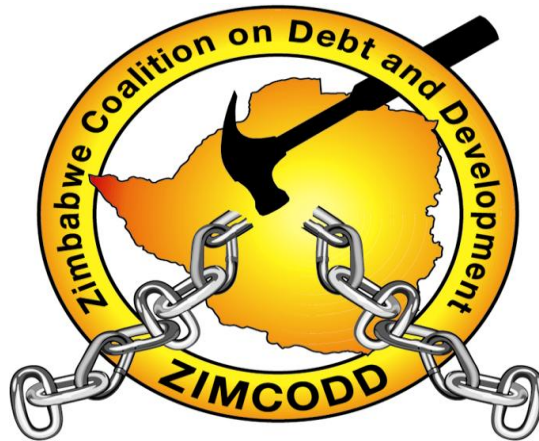


ZIMBABWE COALITION ON DEBT AND DEVELOPMENT



Investing in People for Social and Economic Justice

Cash Crisis, Bond Notes and the Zimbabwe's Economy: The Real Problem

1. Introduction

ZIMCODD views the current cash shortages in Zimbabwe as a mere symptom of a bigger economic problem. This paper discusses the cash challenges within the context of the national economic problems. It is based on the views expressed by the coalition members across the country. ZIMCODD has also managed to participate in some national processes led by the civil society organisations on the current economic problems hence the validation of this paper. It is critical that Zimbabweans look for root causes of the economic problems bedevilling the country instead of putting measures that only address the symptoms. Zimbabweans have proved that they no longer have confidence in the financial systems pronounced by the monetary authorities with regards to the introduction of Bond Notes and other related policy interventions. This threatens the success of the policy interventions announced recently. The paper does not seek to address the legitimacy of the Bond Notes but to share the people's concerns and the real economic challenges in Zimbabwe. The paper argues that the people of Zimbabwe no longer have confidence in the financial sector hence the Bond Notes' acceptance might be at risk.

2. Background

Zimbabwe has been hit by cash shortages that have seriously affected the social and economic wellbeing of the citizens. The authorities attribute the shortage of cash to imbalances between inputs and exports as well as overreliance on one currency, the USD in a country that uses multi currency system. The shortage of the USD cash in the country was evidenced by long queues at some banks and automated teller machines (ATMs). This coincided with the opening of the schools' second term where money was immediately needed to fulfil all the school requirements for the children. Thus, most students were affected as their parents and guardians failed to access their school fees and money for other school needs. Some people also failed to pay the accommodation rentals on time among other social needs. There was a lot of anxiety among the Zimbabweans because of this crisis.

In response to the cash crisis, the Reserve Bank of Zimbabwe (RBZ) announced some policy measures that were meant to address the cash crisis and

“simultaneously stabilising and stimulating the economy”¹ on 4 May 2016. The measures include the following:

- In order to restore and promote the widespread usage of currencies in the multi-currency basket, 40% of all new USD foreign exchange receipts from export of goods and services, shall be converted by the Reserve Bank at the official exchange rate to Rands and 10% to Euros. This is meant to spread the demand for cash amongst a wide range of currencies and in order to mitigate against concentration risk².
- The Reserve Bank established a USD200 million foreign exchange and export incentive facility which is supported by the African Export-Import Bank (Afreximbank) to provide cushion on the high demand for foreign exchange and to provide an incentive facility of up to 5% on all foreign exchange receipts³.
- In order to mitigate against possible abuses of this facility through capital flight, the facility shall be granted to qualifying foreign exchange earners in bond coins and notes which shall continue to operate alongside the currencies within the multi-currency system and at par with the USD. The Zimbabwe Bond Notes of denominations of \$2, \$5, \$10 and \$20 shall, be introduced, as an extension of the current family of bond coins for ease of portability in view of the size of the USD200 million backed facility⁴. Withdrawal limits were also pegged at \$1000 per day but in reality banks are limiting to as low as \$150 per day.
- Promotion of the widespread use of electronic platforms for settling domestic transactions across all forms and sizes of businesses; that is, the use of point-of-sale machines to conduct all transactions in USD, euro and rand⁵.

3. Impact of the Intervention

The policy measures have been variously received by different stakeholders. More emphasis is put on the ordinary person’s position in this paper.

3.1. Bankers’ View

¹ Mangudya J (2016), RBZ Press Statement: Measures to deal with cash shortages and simultaneously stabilising and stimulating the Economy- <http://www.rbz.co.zw/assets/press-statement---measures-to-deal-with-cash-shortages---04-may-2016.pdf>

² Ibid

³ Ibid

⁴ Ibid

⁵ Mphambela C. (2016), Bond Notes: A Banker’s View, Nehanda Radio- <http://nehandaradio.com/2016/05/21/bond-notes-bankers-view/>

The combined effects of the cash withdrawal limits, the wider use of plastic money and alternative currencies, the limits placed on the exportation of cash, and the incentives on exports should all result in a rapid improvement in liquidity in the economy, according to Bankers Association of Zimbabwe (BAZ) which has since welcomed the measures⁶.

3.2. Parliament

In a democracy, the parliament represents the electorate. It is however, saddening to note that the Parliament, according to the Chairperson of the Committee on Public Accounts and Budget, Hon David Chapfika, was only told of the policy measures on the 4th of May 2016 when everyone else got the news. Speaking at a Crisis in Zimbabwe Coalition at Crowne Plaza 19 May 2016, Hon Chapfika shared that:

- The Committee was convinced by the RBZ Governor that the introduction of the Bond Notes was good for the economy of the country.
- That the printing of the notes is backed by a USD200 million loan facility which the parliament is not aware of its details in terms of interest rates and repayment arrangements. This violates the country's Constitution.
- The printing of notes is not going to exceed the available loan facility against the public fears that the government would go on a money printing spree leading to hyperinflation of yesteryear.

3.3. People's Reaction

Ordinary Zimbabweans reacted with fear and anxiety to government's decision to introduce Bond Notes to contain the cash crunch, arguing that the move would effectively bring to an end the economic stability brought about by the introduction of the multi-currency system in 2009⁷. Zimbabweans are really scared of their history and justifiably so considering the experiences of the period 2007 to early 2009 when they lost their savings of years through the bearer's cheques, hyperinflation, and raids of people's money in foreign currency accounts by RBZ among other ugly historical developments in Zimbabwe. According to Steve Hanke, Zimbabwe is the first country in the 21st century to hyper inflate⁸. In February 2007, Zimbabwe's inflation rate topped 50% per month, the minimum rate required to qualify as a hyperinflation (50%

⁶ Ibid

⁷ Mashava, E. (2016), Outrage over bond notes, Newsday-<https://www.newsday.co.zw/2016/05/06/outrage-bond-notes/>

⁸ Hanke, S.H. (na), R.I.P. Zimbabwe Dollar, CATO Institute: <http://www.cato.org/zimbabwe>

per month is equal to a 12,875% per year). Since then, inflation soared and as of 14 November 2008, Zimbabwe's annual inflation rate was 89.7 Sextillion⁹.

The new measures announced by the RBZ came within the context of a cash crisis, prohibitive bank charges (that had already been discouraging banking) and lack of citizens' confidence with the country's financial sector, non consultation of all stakeholders by the monetary authorities hence anxiety and uncertainty about the future. The people's concerns can best be summarised by the following questions asked by the ZIMCODD membership in Chipinge, Mutare, Harare, Bulawayo, Chitungwiza and other places:

- *What guarantee do we have that once we deposit our money in USD we will not lose it as we experienced in 2008? Isn't it better to join a "Rounds"¹⁰ with colleagues where there is trust?*
- *Shall we be able to use the Bond Notes in South Africa as most of us are poor cross borders traders?*
- *We had challenges withdrawing our money some few weeks ago and were inconvenienced a great deal in terms of school fees for our children, food, rental etc, so can we trust these banks anymore?*
- *Who will control the amounts of Bond Notes to be printed?*
- *We hear of the USD200 million loan facility to back the printing of these notes, who will repay this loan, with what interest rates? Why didn't the government use that amount to stabilise the economy?*
- *Isn't it the return of the Zim Dollar through the back door? Or maybe the collection of all USDs in return for Bond Notes in order to remove the USD currency from the system?*
- *Is the Bond Note the solution to the Zimbabwean problem? Until when are we going to continue addressing the symptoms of the problem?*

The questions above from the communities show that the development eroded the little confidence that the people still had with the financial sector. In such a scenario, any government policy measure's success is under serious threat. Trust and confidence are critical factors for the success of any monetary policy.

⁹ Ibid

¹⁰ These are money saving and lending clubs which are adhoc where members come together in a gentlemen's agreement and exchange money. They are based on mutual trust. Instead of banking their money, Zimbabweans now prefer this mode of saving.

There is likelihood of stiff resistance from the people to the introduction of the Bond Notes based on past experiences.

3.4. Timing of the Intervention

The RBZ announced the policy measures merely a few days after the International Monetary Fund (IMF) had published its Zimbabwe Staff Monitored Programme Final Review Report. The fund had praised the government progress in the promotion of the people's confidence in the financial sector. "The authorities remain committed to the multi-currency regime. While they acknowledge the costly constraints this regime imposes on macroeconomic policy, they do not see any feasible alternative in the short -to-medium term"¹¹. To provide credibility to the multicurrency system, and promote consumer and business confidence, the RBZ undertook a three-month demonetization process (June-September 2015), effectively removing the legal status of the Zimbabwe dollar. The process addressed cash held by the public, and non-loan bank accounts as at end-2008. Some US\$9 million was converted during the period. There was increased demand for the bond coins as consumers switched from the depreciating rand coins. At end-December 2015, bond coins in circulation stood at US\$10 million. The introduction of the coins has helped in correcting the pricing of goods and services¹², the report continued.

While the fund was celebrating the government's efforts, the RBZ announced the new measures which effectively contradicted the confidence building process alluded to by the IMF. This raises questions as to the level of commitment of the Zimbabwe Government to the reengagement efforts with the International Financial Institutions (IFIs).

4. The Real Economic Challenges

Zimbabwe has been struggling to address the economic challenges over the past decade or so. However, it is critical to note that there is need for a deeper analysis of the problems in order to be able to deal with the fundamental causes of the same. ZIMCODD believes that the following are some of the key issues that need to be addressed by the government instead of experimenting with symptoms:

¹¹ International Monetary Fund (2016), Staff Report for the 2016 Article 1V Consultation and the Third Review of the Staff-Monitored Program-Press Release, Staff Report and Statement by the Executive Director for Zimbabwe-<http://www.imf.org/external/pubs/ft/scr/2016/cr16109.pdf>

¹² Ibid

4.1. Public Resources Management

There is no transparency and accountability in the governance of the country's resources. There is plenty of resources but people are suffering. Illicit financial flows (IFFs) and externalisation of resources have dominated the transactions in the economy. The case in point is the lost diamond money through IFFs. The government concur that increasing transparency and accountability in the diamond sector, as well as its contribution to fiscal resources is one of the key links to economic success. The sector was managed poorly and the lack of transparency and accountability led to a situation where it did not generate any dividends for the budget. President Mugabe confessed on the eve of his 92th birthday celebrations on a televised interview that the country has lost a cumulative amount of \$15 billion diamond money over the years¹³. In a bid to address this issue, the government put forward a proposal for the setting up of the Zimbabwe Consolidated Diamond Company (ZCDC), following the Botswana model, and consolidated all diamond operations in a new entity¹⁴. The country is currently working on a new Mines and Minerals (Amendment) Bill. This is an opportunity to plug off all leakages in the mining sector.

IFFs in the mining sector are so topical given that the High Level Panel report on IFFs of 2014 indicated that Africa is losing roughly \$50 billion annually and the mining sector accounts for the greatest share through mispricing and misinvoicing. One of the country's largest platinum mines, Zimplats, is caught up in Panama papers for allegedly using an offshore company Human Resources Consultancy to dodge payroll related taxes by paying its senior management in Panama, a tax haven¹⁵. An RBZ report claims that Zimbabwe lost \$3 billion through IFFs between 2009 and 2012¹⁶. These huge amounts of money lost through IFFs should be a cause for concern as they are enough to settle the country's unsustainable external debt hovering over 8 billion dollars¹⁷. This confirms that indeed the issue of IFFs is one of the fundamental causes of

¹³ZBC, 28 February 2016

¹⁴<http://www.imf.org/external/pubs/ft/scr/2016/cr16109.pdf>

¹⁵ Sibanda. M, (2016), Chamber of Mines AGM Mute on Business and Human Rights-
<https://mukasirisibanda.wordpress.com/2016/05/23/chamber-of-mines-agm-mute-on-business-and-human-rights/>

¹⁶ Choto. R., (2016), Zimplats denies knowledge of offshore accounts-
<https://panamapapers.investigativecenters.org/zimbabwe/>

¹⁷ The official debt has remained one of the most contested figure with the government putting it at 8.4 billion according to the latest monetary policy issued in January 2016. Independent sources argue that the figure is way above that official amount. It is within this context that ZIMCODD has continuously called for an official public debt audit.

the economic challenges in Zimbabwe that need to be addressed. In a way the externalisation of huge sums of money contributed to the cash crisis. The legitimate importation of goods from other countries is more than what the Zimbabwe exports and this put much pressure on the USD. ZIMCODD and its members have always raised this concern.

4.2. Huge Public Sector

Zimbabwe's wage bill represents over 80% of the country's national budget. This starves capital and infrastructural investments for service delivery. The IMF notes that the Zimbabwe authorities have started to implement measures to rationalize public expenditure and reduce public employment costs. "In line with the recently completed civil service audit, they have started to eliminate duplications and redundancies, rationalize posts, revise leave policy in the education sector, reduce employment costs to grant-aided institutions, and cuts to government top-ups to teachers in private schools"¹⁸. While the government has begun to deal with the wage bill issue, it is felt that from a social and economic justice perspective, the proposed measures are likely to cause more social and economic challenges after off loading more workers into the streets. Independent sources say Zimbabwe's unemployment rate is at over 80% but the government puts it at 11% arguing that most people are now employed in the informal sector¹⁹. It is difficult to give an acceptable figure at the moment in Zimbabwe²⁰.

The government should instead speedily address the issue of ghost workers which has been affecting the wage bill. While the authorities have begun to acknowledge the problem as in the 2016 national budget, they are taking time to address the matter. More than 75 000 ghost workers were unearthed in the civil service through a comprehensive payroll and skills audit done by Ernst & Young (India) on behalf of the Public Service ministry in 2011²¹. This will release unnecessary pressure from the fiscus as only bona fide workers will be left to be adequately remunerated. It needs some bold political decision taking a

¹⁸<http://www.imf.org/external/pubs/ft/scr/2016/cr16109.pdf>

¹⁹Masekesa, C. and Chibaya, M, (2014), Unemployment turns graduates into vendors, The Standard-
<http://www.thestandard.co.zw/2014/02/09/unemployment-turns-graduates-vendors>

²⁰ Figures include unemployment and underemployment; true unemployment is unknown and, under current economic conditions, unknowable

²¹Kuwaza, K., (2015), Wage bill: Ghost workers haunt state, The Independent-
<http://www.theindependent.co.zw/2015/08/07/wage-bill-ghost-workers-haunt-state/>

clue from Tanzania where some 10 000 ghost workers were recently eliminated thereby saving \$2m (£1.4m) a month in payment of non-existent employees²².

4.3. Failure to tap Revenue from the Informal Sector

The informal economy involves unrecorded, unaccounted for and statistically difficult to verify activities making it challenging to include the sector into the system of national accounts. According to the FinScope Medium and Small Scale Enterprises (MSE) Survey 2012 Report for Zimbabwe, 65% of the informal sector was estimated to have a turnover of around US\$7.4 billion. There is need to come up with a model that will levy and tax the sector in a progressive way. This calls for a baseline study of the sector so as to have detailed information and a clear picture of the sector.

There is need to promote and support the infrastructural development for the informal trade in order to generate revenue for the country²³. Issues to formalise the informal sector must come to the fore rather than just taxing the sector. By supporting and not stifling the sector, the government will be able to build the trust of the sector in the country's systems. The informal players also need to be consulted by the government for any policy measure to be taken. This will encourage them to bank their money thereby contributing through voluntary taxation. While the sector has been filling the gap left by big corporations in providing goods and services as well as employment, this is not true with regards to tax contributions hence the country is losing out a lot of potential revenue. India and China are good examples of countries with the largest number of SMEs in the world with the sector accounting for 40% of India's labour force and the government provides the necessary support to the sector²⁴.

5. Conclusion and Recommendations

While ZIMCODD appreciates the efforts made by the monetary authorities as a response to the current cash crisis and “simultaneously stabilisation and stimulation of the economy”, it is argued that, that is addressing symptoms while the fundamental causes are left out. The ordinary Zimbabweans have been disturbed particularly by the proposals to bring the Bond Notes as a solution to the economy. It is clear that the citizens are no longer confident in the country's

²²<http://www.bbc.com/news/world-africa-36303031>

²³Majaka N., Zim laws stifle informal sector, says Zimra, <http://www.dailynews.co.zw/articles/2014/04/15/zim>

²⁴ Ibid

financial sector in particular and the government's economic measures in general. It is significant that the government undertakes a trust and confidence building exercise for the people to be able to support any policy measures taken by the monetary authorities. Wide consultation of the public before any policy intervention is announced is key for a buy in of the stakeholders. Therefore, to focus on the real economic issues is encouraged. ZIMCODD recommends the following specific steps:

- a) Confidence building process: In future there is need for wide consultation when there are new measures to be introduced. The Government underestimated the negative impact the timing of the policies would have on the confidence levels of citizens with the policies. This came just a few days after the IMF had commended the Government of Zimbabwe in the area of building confidence of the people in the financial sector.
- b) There should be guarantee that the Bond Notes to be printed will not exceed the USD200 million facility. The public should also be made aware through the parliament and other facilities of the interest rates of the said facility and the related details.
- c) The Ghost Workers: The Government should speed up its efforts in dealing with the issues of ghost workers. This will release pressure on the fiscal policies and also allow for the adequate remuneration of the available bona fide civil servants who have not been well catered for.
- d) Understanding the informal sector better: taxing the informal sector has been a challenge for Zimbabwe Revenue Authority (ZIMRA). Efforts to better understand the profile and perceptions of small traders could help to engage them and establish a dialogue on tax issues thereby contributing to a "culture of tax compliance". The government should extend technical support to the sector as merely taxing them without the necessary support will result in the suffocation and subsequent extermination of the sector. There is need for the simplification of the compliance and registration systems so that this becomes less burdensome to the new taxpayers²⁵.
- e) Public Resources Management: There is need to plug off the IFFs that have been allowing the loss of huge sums of resources from the country particularly from the mining sector. The Mines and Minerals (Amendment) Bill should plug off all the leakages in the mining sector²⁶.

²⁵ZIMCODD (2015), Zimbabwe's Tax System: Opportunities and Threats for enhancing Development in Zimbabwe

²⁶Manayiyi, O., (2016), Bill should plug leakages in mining sector: Zela, NewsDay-
<https://www.newsday.co.zw/2016/05/21/bill-plug-leakages-mining-sector-zela/>

- f) The Parliament's oversight role should be strengthened. In the case of the introduction of Bond Notes, it seems that this institution was not well involved.
- g) ZIMCODD welcomes the technical assistance (as per the recommendations of the IMS SMP Final Review Process Report) to be offered by the IMF mission in reforming the Zimbabwe's tax system. However, the fund should not just impose the reforms; there should be honest considerations of the local context in order to respect the social and economic rights of the ordinary people.
- h) The Debt Question and the Reengagement Process: ZIMCODD welcomes the reengagement plan between Zimbabwe and the IFFs to address the debt burden. However, caution should be given that Zimbabwe should be proactive and not to simply accept the terms and conditions that are detrimental to social and economic development of the ordinary people. No further loans should be incurred in the process. Meanwhile, there is need to fulfil the public debt audit in order to avoid previous experiences that led the country into debt crisis. Zimbabwe has got enough resources to cater for its people but how they are managed is the challenge. External aid is not predictable, sustainable, comes with conditions attached and most importantly leads to unsustainable debts that affect social and economic development of the country.

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