



**Perceptions on the impact of multiple currencies/dollarization on economic development and sustainable livelihoods of the urban populace in Zimbabwe: a case of Bulawayo Metropolitan in Matabeleland Region**

By

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**Abstract**

This paper explores how participants view and describe impacts of dollarization/the US Dollar and the south African Rand as a panacea for economic development in Zimbabwe particularly now; at a time when the country is facing the toughest liquidity crisis and is contemplating reverting to the locally printed bond notes. Adoption of multiple currencies/dollarization basically the US Dollar and the south African Rand was premised on stabilizing the Zimbabwean economy that was deteriorating at an alarming tempo during the period following numerous erratic reforms such as fast track land reform and the indigenisation policy. This was however never the case as the economy continued to face serious liquidity challenges which finally paralysed the entire productive sector leaving many of the citizens jobless hence subjected to untold pain and suffering. To effectively capture perceptions from all stakeholders, stratified and purposive sampling techniques were used to draw 100

participants from an assumed population of 800 experts comprising captains of industry and commerce, economists, bankers, small to medium enterprises (SMEs), vendors and cross border traders. In-depth interviews were used to gather qualitative responses from the sampled participants and to curb bias gathering of formal statistics through a formal questionnaire was also done. The research therefore used qualitative descriptive research design for collecting and analyzing data. Qualitative data provided a detailed explanation of the findings and was used in displaying the findings. The findings indicated that though people overwhelmingly support the adoption of dollarization they however accused retailers for price distortions and the government for lack of vision in prioritizing the productive sector as the only entity that had the capacity to resuscitate and bring sanity to the country's economy.

**Key words:** impacts of dollarization, multiple currencies, Zimbabwean economy,



erratic reforms, indigenisation policy and liquidity crisis

## 1 Introduction

inflationary. In a relatively short time, inflation was reduced from multiple digits to a single digit and positive economic growth has been recorded following the formation of an inclusive government by the country's two major political parties "government of national unity" after intense regional pressure and an aborted second round of the 2008 elections. However, the adoption of these multiple currencies also created complex challenges for an economy, which was basically agro based before the adoption of numerous reforms which were retrogressive to industrialisation and the country's economic development. Of late the economy has been showing signs of distress characterized by the liquidity challenges and closure or downsizing of companies and industries in urban centres leading to high unemployment rate and severe poverty among the generality of the population. The study therefore endeavoured to solicit people's perceptions on the effectiveness of dollarization in achieving targeted outcomes of restoring and boosting the fragile economy of Zimbabwe; but with particular reference to Bulawayo, a city once dubbed the industrial hub of the SADC region.

There is no doubt that the introduction of the United States Dollar in 2009 as an official currency, supported by the South African Rand amongst other currencies, stabilized Zimbabwean economy that was deteriorating and tamed hyper-

## 2 Background of study

Following a decade of economic decline and hyperinflation during 2007 to 2008, Zimbabwe dollarized its economy in 2009 which to some extent brought stability (Zimbabwe Fiscal Policy Review, 2010). However, the period following this was characterized by a shortage of hard currency in banks and other financing institutions, finally culminating in the scaling down of the productive sectors leading to high unemployment coupled with poverty and a general decline in the standards of living of the Zimbabwean populace (Noko, 2011). This view was supported by Hawkins (2012) who posed a question on whether dollarization was going to be sustainable in Zimbabwe. The study therefore comes against a backdrop of the shift from the Zimbabwe dollar in 2009 to the multi-currency trading framework, also referred to as dollarization leading to current challenges facing the Zimbabwean economy.

The nascent economic recovery following the introduction of dollarization has been supported by a significant improvement in economic policies but challenges and other vulnerabilities remain to be addressed. Makochekanwa, (2009) observes that by adopting a foreign currency, the



Zimbabwean Government lost its power to stimulate the economy using fiscal and monetary policies. Secondly, the government through the Reserve Bank of Zimbabwe (RBZ) has not been able to meet some of its basic and crucial functions such as being lender of last resort and employer of last resort. Furthermore it has been noted that dollarization in a country with a small export base leads to liquidity problems and hence lowers economic growth as cited by (Zimbabwe's Fiscal Review Statement, 2012). Growth is also threatened as businesses and the Government are unable to access credit. The fact that the country has no meaningful lines of credit or reserves implies that the central bank, the RBZ is unable to act as lender of last resort and companies have difficulties in refinancing. Zimbabwe's debts with external agencies such as the International Monetary Fund (IMF) and World Bank are still huge to the extent that the organisations are not willing to lend any more money to the country, consequently decreasing the amount of credit available to businesses to function successfully as noted by Nota and Sakupwanya, (2012).

Inevitably, Zimbabwe has started to experience some of these detrimental effects of dollarization (Nota and Sakupwanya, 2012). Therefore this research tries to investigate whether dollarization is a panacea or bane for economic development. In addition, the research sought to offer economic strategies that could be adopted when transitioning from the current system to any other alternative such as the

introduction of the local currency is implemented.

Researchers allude to the importance of local currencies in fostering development in an economy. As such the impact of the dollarization in an economy where the generality of the Zimbabwean population do not have access to the major currencies in circulation is a major concern (Kramerenko, 2010), (Nota and Sakupwanya, 2012). General decline in the standards of living due to the use of foreign currencies continue to receive less attention from policy makers. Imports to Zimbabwe have consequently become a cheaper option and no level of efficiency by local companies can outstrip the impact of the high cost associated with obtaining such goods in the country. On the other hand, exports are becoming expensive and thus markets for Zimbabwean produced goods are shrinking. In addition, most Zimbabwean companies have resorted to licensing manufacturers in countries like China to produce their products cheaply so as to compete and defend regional markets. Hanke (2008) says the biggest challenge since that time has of course been dollarization which to a greater extent culminated in trade deficit where imports outweigh exports.

## 2.1 Statement of the problem

Following a decade of economic decline and hyperinflation during 2007–08, Zimbabwe adopted multiple currencies in 2009 which to some extent stabilized the



economy. However, of late the economy has been on a decline as shown by the downward review of the annual growth projection from 6% to 3,1% (Zimbabwe Midterm Fiscal Review statement, 2014). Thus, the issue of the sustainability of the continued use of foreign currencies backed by a weak non-performing economy has become a bone of contention worrisome to both policy makers and the generality of the population as they grapple to figure out what the future holds under such unclear circumstances. When Zimbabwe admitted that its developmental needs would be better served by subcontracting monetary policy formulation, the nation was left hugely exposed, owing to its huge debt position, then more than twice the size of its Gross Domestic Product GDP, and the inability of revenue collections to fund government expenditure. Therefore, the study comes against a backdrop of the shift from the Zimbabwe dollar in 2009 to dollarization leading to current challenges facing the Zimbabwean economy. There is lack of adequate information on the role of the local currency in the development of the economy. This study explores whether dollarization is a panacea or bane for economic development with a view to assess future currency options for Zimbabwe. The research further examines mitigation strategies that can be devised by policymakers to deal with the challenges bedevilling the economy.

## 2.2 Research Questions

The study was grounded on soliciting answers for the following questions;

- How do people from different walks of life in Zimbabwe perceive the impact of dollarization as a panacea for inflation and reviving the country's economy?
- Did dollarization manage to have any positive effects on employment creation in Zimbabwe as expected by the generality of the population?
- How do people perceive the leadership ability of those at the helm of power in managing the scarce hard currency in fostering economic development in their respective constituencies?

## 3 Methodology

### 3.1 Study area

Bulawayo is the second largest city in Zimbabwe after the capital Harare. Though located in Matabeleland; it is treated as a separate provincial area. Bulawayo has long been and is still regarded as the industrial hub and business capital of Zimbabwe because of its strategic position of being near Botswana and South Africa. When Zimbabwe adopted the use of multiple currencies in 2009 thousands of the Bulawayo residents breathed a sigh of relief as their livelihood solemnly depended on formal employment. This was however short-lived as in no time the economy started to destabilise and of late has been showing signs of distress characterized by serious liquidity crisis resulting in



downsizing and closure of companies in all urban centres of Zimbabwe leading to high unemployment rate and severe poverty among the generality of the population.

### 3.2 Population and study sample

To explore how the people of Bulawayo view positive and negative impacts of dollarization on the economy of Zimbabwe following a resurgence then sudden collapse of industries and the entire productive sector in the country; stratified and purposive sampling techniques were used to draw 100 participants from an assumed population of 800 experts comprising captains of industry and commerce, economists/academics, bankers, small to medium enterprises

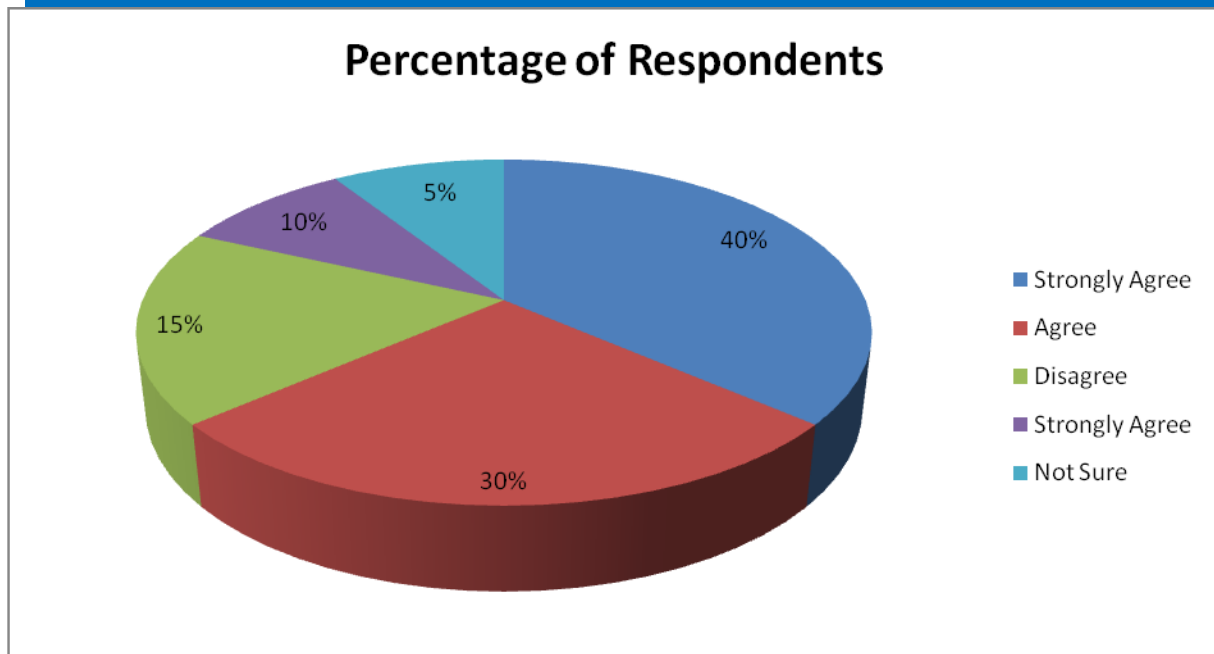
(SMEs) and vendors. The drawing of participants from across various groupings was designed to facilitate the generation of diverse perceptions from across all sections of the Zimbabwean populace. In-depth interviews were used to gather qualitative responses from the sampled participants and to curb bias gathering of formal statistics through a formal questionnaire was also done. The research therefore used qualitative descriptive research design for collecting and analyzing data. Qualitative data provided a detailed explanation of the findings and was used in displaying the findings.

**Table 3.1: Sample Composition**

Representative Groups	Number of Participants Sampled
Captains of industry and commerce	15
Economists and academics	10
Gender Coalition	15
Reserve bank of Zimbabwe and other bankers	15
Small to medium enterprises, vendors and cross-border traders	20
Political Activists	25
<b>Total</b>	<b>100</b>

## 4 Results and Discussions

### 4.1 Perceptions on impacts of dollarization on the reduction of inflation and reviving the Zimbabwean economy



**Figure 4.1: Perceptions on impacts of dollarization on Inflation the reduction**

The Zimbabwean dollar crumpled in 2009 after undergoing the second-worst bout of inflation in world history, after Hungary post-World War I. In 2008, inflation spiraled out of control, reaching an alarming annual rate of 89.7 sextillion (or 89,700,000,000,000,000,000) percent, which was comical as it resulted in the decimation of the salaries and disposable incomes of millions of working Zimbabweans. Trips to the market in those years meant literally carrying boxes of the Zimbabwean dollar. Shops had empty shelves and people would spend days queuing for basic commodities such as sugar, cooking oil and cornmeal. In an effort to cushion the hyperinflation Zimbabwe went through four versions of its own dollar, lopping zeros off the end of currency denominations before giving up entirely and switching to foreign currencies. According

to financial gazette, (a local paper) 4/5/2016 ATMs and simple calculators simply could not process the sums due to the multiple zeros. The country therefore finally adopted multiple currencies in 2009 as the last resort where the U.S. dollar and the South African rand became the dominant currencies. A survey to investigate people's perceptions on the effectiveness of dollarization in plugging off inflation established that a significant number of respondents accounting for 40% strongly agreed and vehemently supported the continued use of the multiple currencies predominantly the US dollar and the South African rand. However 15% of the participants did not support the notion as they felt that adoption of such currencies has resulted in price distortions by retailers therefore inflation was still in place but manifesting in a form



difficult to detect particularly by the ordinary citizens.

#### 4.2 Perceived effects of dollarization on employment creation in Zimbabwe

**Table 4.1: Effects of dollarization on employment creation in Zimbabwe**

Responses	Number of respondents	Percentage %
Strongly Agree	25	25%
Agree	20	20%
Strongly Disagree	20	20%
Disagree	20	20%
Do not know	15	15%
<b>Total</b>	<b>100</b>	<b>100%</b>

Zimbabwe experienced crippling hyperinflationary economic environments particularly post the highly debatable fast track resettlement program and the indigenization policy as these created an environment that was not conducive for direct foreign investment. Investor confidence was badly affected as companies formerly owned by foreign nationals mainly the westerners were seized and given to a few blacks who would share the proceeds on a 51 to 49% ratio with the white owners. The situation forced companies to down size scales of operation and some had to shut down forcing thousands of people to become jobless. Unemployment escalated to alarming levels forcing people to adopt survival strategies and activities which generated meager incomes—not even enough to sustain the daily basics. The

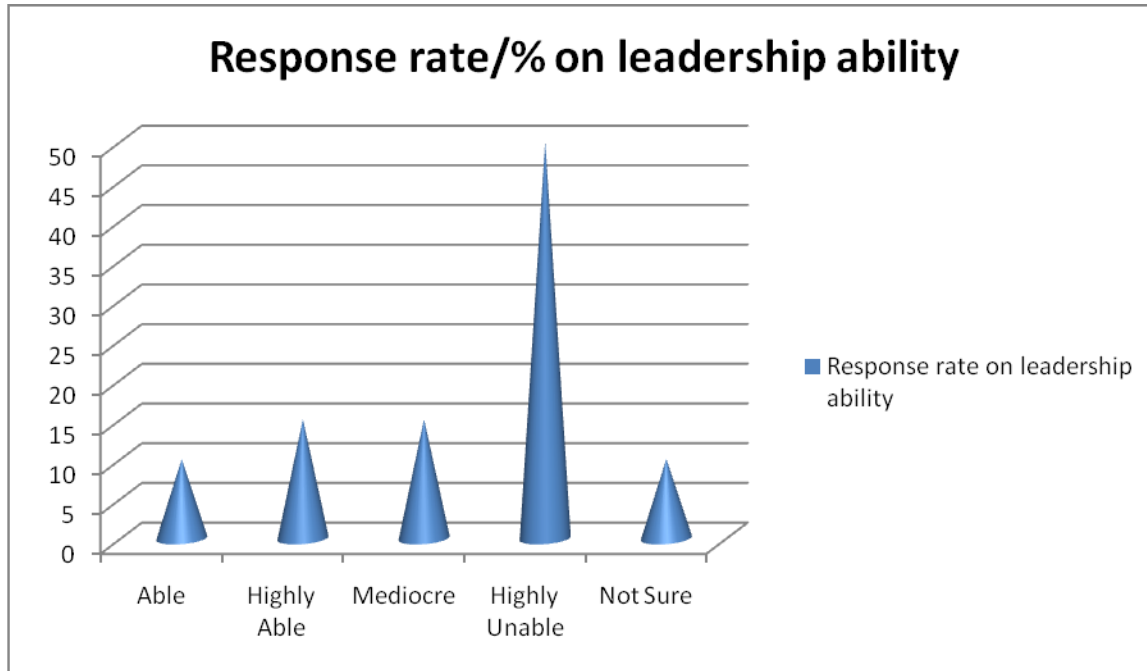
fieldwork however showed that 25% of the respondents strongly agreed that dollarization managed to have positive effects on employment creation particularly on the informal sector as many blacks became active participants in SMEs Small to Medium Enterprises. 20% of the participants nevertheless strongly opined that the adoption of the hard currency did not bring any good as many companies became insolvent and closed shop resulting in massive retrenchments of those who were formally employed.

#### 4.2 Perceived Leadership's Ability in managing the multiple currencies to foster Economic development in their constituencies

It is usually viewed that the success of any entity depends on the leadership. This

prompts the researcher to solicit views from the participants on perceived leadership ability particularly portrayed by politicians

in managing scarce foreign currency in fostering development in their respective constituencies.



**Figure 4.2: Leadership's Ability in managing multiple currencies for economic development**

The results show that most people in the study area, about (50%) doubted the proficiency exuded by the leadership in government particularly members of parliament and ministers whom they view as people who lacked the capacity to effectively manage the foreign currency and initiate meaningful income generating projects in their regions. These were accused of amassing wealth at the expense of developing areas under their jurisdiction and

improve the general welfare of the ordinary citizens who are subjected to poverty and famine. Leadership is an integral facet for any development as it allocates resources to productive entities and ensures that the workforce and resources are integrated in order to achieve organisational goals. Such has been lacking in Zimbabwe's leadership as they prioritise self interests on grabbing the country's resources and exploiting them for own benefit.





## 5 Summary of findings & recommendations

Basing on what has been gathered, the study opines that given the current socio-economic and political status of Zimbabwe dollarization had done little in as far as empowering the masses is concerned. The uneven nature noticeable in the socio-economic and resource ownership status particularly means of production among black Zimbabweans is an area of major concern with a potential to negate the fruits which adoption of multiple currencies was supposed to bear. The major foreign currency, the US dollar was in circulation as a legal tender for six years, instead of narrowing the gap between the poor and the rich, disparity in resource ownership has actually widened exposing the inefficiencies and gross incompetence of those who were at the helm of power in government. This entails that even if the shelf life-span of multiple currencies was to be extended with a decade no meaningful development to benefit the generality of the citizens, in abject poverty was to be witnessed under the stewardship of the current crop of leadership.

The study also observed that the majority of Zimbabweans were so skeptical about the look east policy, which some say was necessary in bringing on board those foreign nationals particularly the Chinese who had necessary expertise in critical areas to fill the void created when the westerners vacated after the agrarian reform, a

significant number however feels that the danger of having these nationalities is that they are over exploiting critical resources and externalizing the proceeds generated from local resources to their respective countries hence leaving nothing to benefit local Zimbabweans—a situation many view as re-colonization. These are also accused for not partnering with locals in meaningful ventures which foster community development but seem to be jostling—pushing and shoving the locals in a scramble for resources and simple ventures such as selling of bottled bore-hole water and brick molding. The current economic woes have tormented the innocent souls in Zimbabwe. The worst drought in many years after the agrarian reform has devastated agriculture, and millions of people are in dire need of food aid. In an effort to cushion the catastrophic effects of the mishaps the government has gone to the extent of selling wildlife from its national parks and game reserves to scrounge up some cash. Three decades of majority rule failed to yield desirable outcomes instead they have run the country's economy into the ground impacting negatively on the livelihood of the generality of the population who toil hard to make ends meet.

### 5.1 Recommendations

From the data gathered, it was evident that the economic situation in Zimbabwe was



unique mainly due to the fact that economic turnaround strategies and policies being implemented by the government and the central bank Reserve Bank of Zimbabwe RBZ which failed dismally to attract foreign direct investments to resuscitate the productive sector and boost the economy of the country. A situation that many attributes to dollarization which has resulted in massive corruption in government ministries and state run parastatals effecting immense externalisation of the hard currency hence exposing the country to colossal liquidity crisis. The introduction of bond coins to cushion the predicament also failed to address the liquidity problems bedevilling the economy leaving the central bank with no other option but bringing back the Zimbabwean-Dollar in the guise of the Bond Notes. In view of this the study therefore recommends that;

- A paradigm shift in policy formulation by government is necessary to lure foreign direct investments for industrial recapitalization and resuscitation of the productive sector. As dollarization in economies that do not have a large export base result in liquidity challenges which stifles economic growth.
- The central bank needs to impose restrictions on the amount of money that foreign investors particularly the Chinese can take outside to boost local banks' deposits rather than

- limiting consumptive daily cash withdrawals by individuals.
- Monitoring and evaluation mechanisms should be put in place to assess negative implications of dollarization in Zimbabwe.
- Other strategies other than dollarization should be explored as a way of stimulating economic growth in Zimbabwe.
- Monetary authorities should double bond coins that are in circulation to address liquidity challenges in the economy.

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