IMPACT OF ADOPTING THE MULTIPLE CURRENCY SYSTEM ON BANKING SECTOR CONFIDENCE IN ZIMBABWE (2009-2013)

BY

CHAAVURE LOCADIA (R0020138)

A dissertation submitted in partial fulfilment of the requirements for Master of Business Administration

SUPERVISOR: MR. CHIMWARA
DEDICATION

This dissertation is dedicated to my brilliant and outrageously supportive husband, Cuthbert for the encouragement and for putting up many hours in proofreading this work. I also dedicate this dissertation to my parents, Albert and Rebecca for the words of encouragement and push for persistence. I dedicate this dissertation to my children Kundai, Mandipaishe and Kunaishe who have supported me throughout the process.
ACKNOWLEDGEMENTS

I feel indebted to lots of people who made this research possible. My heartfelt gratitude goes to the senior managers and executives at all banking institutions for their sacrifices to contribute to the research. I am also indebted to my colleagues at the Reserve Bank of Zimbabwe for their input in the research. I value your time and support. Special thanks also go to my supervisor Mr. Chimwara for his guidance throughout the research period. It would not have been possible to produce this work were it not for the love and moral support from my husband Cuthbert and my children Kundai, Mandipaishe and Kunaishe. I thank you all.
DECLARATION ON PLAGIARISM

I, Locadia Chaavure, do hereby declare that this dissertation is the result of own investigation and research, except to the extent indicated in the acknowledgements and references and by acknowledged sources in the body of the report and that it has not been submitted in part of in full for any other degree to any other University or College.

Name of Student…………………………………………………………………………………………

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Name of Supervisor…………………………………………………………………………………………

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ABSTRACT

“It’s all about confidence stupid. Every financial system depends on trust. We are in a full-blown crisis because investors and financial managers have lost that trust…”

Samuelson (2008)

The issue of confidence in banking is key to building a strong financial system. Evidence of the role of confidence dates as far back as the Great Depression of 1933 and more recently during the Global Financial Crisis, which saw depositors and investors question the soundness of the global financial system. In Zimbabwe, public confidence in the banking sector became a topical issue in the aftermath of the economic turmoil experienced in the period 2003 to 2008. Events leading up to the adoption of the multiple currency system eroded public confidence in banking institutions with the resultant reluctance by the public to use the formal banking system. With the adoption of the multiple currency system in 2009, restoration of public confidence became an area of common concern among key stakeholders in the economy. There is common agreement among stakeholders that the successful revival of the Zimbabwean economy is dependent on the financial intermediation role of the banking sector, which is dependent on depositor confidence.

In view of the key role of the banking sector in the resuscitation of the Zimbabwean economy, the study sought to establish the determinants of public confidence and how these were affected during the period of economic turmoil. The study further sought to assess the impact of the currency reform measures adopted in 2009 on public confidence and to identify any shortcomings and possible areas of enhancement in policy. This was achieved through the conduct of a survey amongst a sample of banking institutions and banking sector regulators.

The results of the study indicate that currency reforms were necessary to restore public confidence in the banking sector. However, according to research findings, the degree of restoration of confidence has been limited, largely due to a number of factors that remained to be addressed in the multiple currency era. In this respect, the study has made recommendations for further policy enhancements in the quest to restore public confidence in the Zimbabwe banking sector.
GLOSSARY OF TERMS

**Curatorship** also referred to as receivership in banking terms refers to supervisory action taken on a financial institution adjudged to be in poor financial condition. The action has the effect of freezing all assets and liabilities as at the date of the supervisory action. The institution is placed under the management of a curator who is granted powers to manage the affairs of the institution with a view to improving its financial position and protecting the interests of depositors.

**Deposit insurance** is a measure implemented to protect bank depositors, in full or in part, from losses caused by a bank's inability to pay its debts when due. Deposit insurance systems are one component of a financial system safety net that is meant to promote financial stability.

**Dollarization** refers to the holding by residents of a significant share of their assets in the form of foreign currency-denominated assets.

**Financial intermediation** in the financial services sector refers to the process of channelling funds between surplus and deficit agents. In this process the financial institution acts as the financial intermediary that connects deficit and surplus agents. For example a commercial bank transforms bank deposits into bank loans.

**Indigenization** refers to the set of measures implemented by a government to ensure participation by a broad spectrum of the indigenous population in the various sectors of a nation’s economy. The process involves the compliance by eligible entities with a minimum threshold for indigenous participation primarily through equity.

**Inflation** is a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation also reflects erosion in the purchasing power of money.

**Lender of Last Resort** in financial services refers to an institution willing to extend credit when no one else will. The term refers especially to a reserve financial institution, most often the central bank, intended to avoid bankruptcy of banks or other institutions deemed systemically important.
Multiple Currency System (multicurrency) refers to the system where the conduct of local transactions in hard foreign currencies are authorized by the government while payment of taxes are mandatory in foreign exchange, and the country’s exchange system largely is liberalized.

Moral Hazard is the incentive for excessive risk-taking that is often present in insurance contracts and it arises from the fact that parties to the contract are protected against loss.

Quasi-fiscal measures refer to government actions that are economically equivalent to taxes or subsidies but are not formally classified as such. It includes all financial transactions of units that are not included in a government's budget but that have some of the same effects as fiscal policy. The term is often used in relation to central bank activities with quasi-fiscal effects.
LIST OF ABBREVIATIONS AND ACRONYMS

ASPEF – Agricultural Sector Productivity Enhancement Facility
BACOSSI – Basic Commodities Supply Side Intervention
BIS – Bank for International Settlements
COMESA – Common Market for Eastern and Southern Africa
DPB - Deposit Protection Board
DPC - Deposit Protection Corporation
FDIC - Federal Deposit Insurance Corporation
GDP - Gross Domestic Product
ICT - Information and Communication Technology
IMF – International Monetary Fund
LOLR - Lender of Last Resort
PSF – Productive Sector Facility
RBZ – Reserve Bank of Zimbabwe
WB – World Bank
ZIDERIA - Zimbabwe Democracy and Economic Recovery Act
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CHAPTER ONE

INTRODUCTORY CHAPTER

1.1 OVERVIEW

This chapter introduces the subject of banking sector confidence in the post multiple currency era in Zimbabwe. It provides background information on the subject, problem statement, objectives, research questions and justification indicating the importance of the study.

1.2 INTRODUCTION

The economic and financial turmoil that besieged the Zimbabwean economy in the period 2003 to 2008 brought all participants in the economy to their knees as hyperinflation took its toll on individuals’ savings and the earnings of the corporate world. At the end of 2008, the banking sector had all but ground to a halt as cash was in short supply, while the processing of transactions became virtually impossible on the existing payment systems which were not designed to handle the kind of numbers that were transacted in the period. Depositors failed to withdraw their hard earned cash and when they did, the cash was worthless as the economy had undergone de-facto dollarization. Depositor confidence in the banking system was thwarted. The banking sector was virtually destroyed and all economic agents lost confidence in the banking system.

The economic situation that was obtaining called for drastic reforms which were introduced in February 2009, when the country adopted the use of the multiple currency system. Government instituted major policy shifts aiming at restoring order in the economy and confidence in the banking system.

The multiple currency regime was successful in arresting inflation and restoring order. However, its impact on the confidence in the banking system is still to be fully ascertained. This study, therefore, seeks to assess the trends in confidence levels in the
banking sector following the major policy reforms instituted by the Government as well as to identify any further policy requirements in order to boost depositors’ confidence levels further.

1.3 BACKGROUND TO THE STUDY

The economic crisis that beset the Zimbabwean economy from 2003 to 2008 was a culmination of a number of political events that took place in the previous decade. The Government of Zimbabwe resolved to assist the Democratic Republic of the Congo government in the 1998 Second Congo War without enough budgeted funds to fund it. Further, the land distribution programme which the Government undertook in 2000 also had negative effects on the Zimbabwean economy.

Following these decisions by the Government, a series of events unfolded including the reduced productivity from agriculture as the expertise of the white farmers was lost to foreign nations. Productivity is estimated, by the IMF, to have declined by half between 2000 and 2007, following the redistribution of land.

On the international arena, the developments in Zimbabwean agriculture were viewed as a violation of property rights which scared away prospective investors. This resulted in foreign direct investment nose-diving from US$400 million in 1998 to US$30 million in 2007.

Another consequence of the land redistribution programme was the imposition of targeted sanctions by the United Kingdom, the United States of America (USA) and the European Union (EU). Soon after the USA under the Bush administration enacted the “Zimbabwe Democracy and Economic Recovery Act” in 2001, which effectively sought to motivate political reforms by linking financial support to democratic reforms. This was followed by the withdrawal of technical and financial support by multilateral institutions such as the International Monetary Fund (IMF) and the World Bank (WB).

Faced with a growing food deficit and reduced donor funding, the Zimbabwean Government was forced to grapple with food shortages, restive civic organizations and
declining foreign currency reserves. In a bid to remain afloat, the Government was forced to resort to printing money to support its policies. This move had dire effects on the value of the currency as the nation found itself faced with spiralling inflation as “too much money chased too few goods” as described by Keynes.

According to Hanke (2008), the country was ravaged by hyperinflation for a considerable period to such an extent that the value of the local currency, the Zimbabwean dollar, was estimated to have lost more than 99.99 percent of its value within a space of less than two years alone between 2007 and 2008. The last official statistics released by the Central Statistical Office (CSO) in July 2008 indicated an inflation of 231.2 million percent, while the IMF estimated the hyperinflation rate to be 489 billion as at September 2008. Hanke (2008) estimated the inflation rate to be 6.5 quindecillion novemdecillion percent (that is 65 followed by 107 zeros) as of December 2008. Figure 1.1 below shows the inflation trends in Zimbabwe for the period May 2007 to May 2008.

According to Makochekwana (2007), the factors which led to hyperinflation in Zimbabwe included money printing (seigniorage), foreign currency shortages with its resultant black market premium), demand-pull inflation (due to disrupted production activities especially in the agricultural sector) and imported cost-push inflation.
The hyperinflation environment brought about negative real interest income as inflationary pressures and interest rates lagged behind inflationary developments. Trends in real interest rates from 1997 to 2008 are shown in Table 1.1 below.

Table 1.1: Trends in Real Interest Rates in Zimbabwe – 1997 to 2008

<table>
<thead>
<tr>
<th>Year</th>
<th>Real Interest Rates (%)</th>
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<tbody>
<tr>
<td>1997</td>
<td>9.2</td>
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<td>1998</td>
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<td>1999</td>
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<td>2000</td>
<td>6.4</td>
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<tr>
<td>2001</td>
<td>-11.4</td>
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<tr>
<td>2002</td>
<td>-93.2</td>
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<tr>
<td>2003</td>
<td>-265</td>
</tr>
<tr>
<td>2004</td>
<td>-217</td>
</tr>
<tr>
<td>2005</td>
<td>-102.2</td>
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<tr>
<td>2006</td>
<td>-950.37</td>
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<tr>
<td>2007</td>
<td>-22843.67</td>
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<tr>
<td>2008</td>
<td>-230099933.7</td>
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</table>

Source: Ministry of Finance/Central Statistical Office

The negative real interest rates had a negative impact on the savings culture of the country as investors sought alternatives to preserve the value of their wealth. Alternatives included the purchase of physical assets such as land, buildings and motor vehicles. The period saw a growing trend towards dollarisation as savers purchased and held foreign currency, albeit illegally, in order to preserve value in the face of inflation.

The negative real interest rates saw banks’ financial performance suffer as their financial assets lost value. This resulted in many banks venturing into non-core business activities in a bid to preserve value and boost financial performance.

As inflation pressures mounted and the nation became increasingly marginalized in the international arena with the imposition of sanctions. The Reserve Bank of Zimbabwe commenced quasi-fiscal activities in order to support government initiatives such as the land reform programme. The Reserve Bank became involved in funding all spheres of the economy by offering subsidized funding to productive sectors and agriculture in
particular through the Productive Sector Facility (PSF) and the Agricultural Sector Productivity Enhancement Facility (ASPEF), respectively. These programmes were financed through the uncontrolled printing of money, which had negative consequences on the country’s inflation rates.

The quasi-fiscal programmes had limited success and as time progressed, the economy showed signs of distress across all sectors with the resultant food shortages, failure by parastatals and municipalities to provide service and the breakdown in the country’s health and education facilities. The Reserve Bank of Zimbabwe once again sought to intervene in all these sectors through the implementation of numerous funding programmes financed once again by printing money, which exacerbated the inflationary environment.

**Bank Failures…**

During the period 2003 to 2005, the banking sector underwent a period of financial turmoil which saw a number of bank failures as evidenced by bank runs, curatorships and liquidations of the financial institutions. Kunaka (2006) notes that the failures were largely attributable to “deplorable corporate governance practices by boards of directors and senior management of banks”. These included venturing into speculative non-core business activities, abuse of group structures in lending, exposures to non-performing insider and related party loans and abuse of Central Bank accommodation window.

In 2003, the Reserve Bank of Zimbabwe introduced a raft of measures aimed at discouraging the growing indiscipline in the financial sector and stemming the emerging vulnerabilities in the sector. In the process of correcting the challenges in the sector, a number of institutions faced severe liquidity and solvency challenges while some faced imminent collapse. The Central Bank intervened in these institutions in order to avert the imminent collapse of these institutions as well as potential disaster that would engulf the entire financial services system through the contagion effect.

According to the Fourth Quarter Monetary Policy Statement (2004), a number of banks were placed under curatorship after experiencing serious corporate governance challenges and these included:
1. **Intermarket Banking Corporation** (IBC) where lack of board and senior management oversight as well as imprudent risk management practices led the bank into serious liquidity and solvency problems. The bank also engaged in non-banking activities and insider loans amounting to 64% of the bank’s total loan book exposed the bank to high concentration risk.

2. **Barbican Bank** faced liquidity challenges just like IBC, resulting from engagement in non-banking activities. Depositors’ funds were used to acquire fixed assets for speculative purposes. The bank was also caught up in illegal foreign currency dealings and abuse of RBZ’s liquidity support.

3. **CFX Bank Limited**. The bank faced liquidity and solvency challenges. Accrued monthly losses were being concealed, thereby not observing the financial disclosure requirements. Management was held responsible for manipulating the data management system to create a balance sheet with fictitious assets.

4. **CFX Merchant Bank**’s exposure to CFX bank resulted in liquidity problems, which culminated in a capital deficit. Risk management practices were also compromised at the institution.

5. **Royal Bank** experienced capital deficit owing to non-performing loans. The bank did not heed the call by RBZ to recapitalize and was eventually placed under curatorship as its liquidity and solvency challenges mounted.

6. **Time Bank**. The bank faced acute liquidity and solvency challenges. Like CFX Bank Limited, fictitious assets were also created to conceal the abuse of depositors’ funds by the bank.

7. **Trust Bank**. The bank was involved in non-banking activities of investing in fixed assets using short-term funds. Its weaknesses included over-reliance on wholesale deposits, inadequate risk management systems and shortfalls on board and management oversight.

The Monetary Policy Statement (2004) went further to highlight a number of corporate governance malpractices as being at the root of the 2004 banking crisis. These included diversion from core banking activities to speculative transactions, insider lending, inadequate board oversight, undue influence by shareholders, excessive concentration to counterparties and economic sectors, improper board composition,
flouting of regulations by banking institutions, poor risk management, inappropriate information systems, abuse of group structures to evade regulation and ill-planned rapid expansion.

It is worth noting that the crisis emanated largely from indigenously-owned financial institutions, with foreign-owned banks remaining stable throughout the crisis. This led to a phenomenon of “flight to quality” as depositors moved their deposits from locally owned banks due to poor corporate governance practices associated with the failed indigenously-owned institutions. This development caused the near-reversal of the financial sector liberalization gains realised in the 1990s when the sector was dominated by a few foreign-owned banking institutions such as Standard Chartered Bank, Barclays Bank and Stanbic Bank.

**Global Financial Crisis…**

In 2007, the collapse of the Lehman Brothers in the United States due to the sub-prime mortgage crisis marked the beginning of one of the deepest financial crisis since the Great Depression of the 1930s. The crisis saw world growth projected to slow down from 5% in 2007 to 3.75% in 2008 and about 2% in 2009 (IMF). The downturn in the global economy led by advanced economies is shown in **Figure 1.2** below.

![Figure 1.2: Real GDP Growth Trends (percentage change)](source: IMF staff estimates.)

The crisis experienced by Zimbabwe in the period 2003 to 2008 can be likened to that experienced by Argentina in January 1990, when the country faced a financial crisis which was a combination of a currency crisis and a banking crisis. The Zimbabwean
Government sought to resolve the financial crisis principally through the adoption of the multiple currency regime in February 2009, which targeted the currency aspect of the crisis.

1.4 INTRODUCTION OF THE MULTIPLE CURRENCY REGIME

In February 2009, the Ministry of Finance announced the implementation of the currency reforms, which were centered on the introduction of the multiple currency regime. The currency reforms introduced in 2009 brought about the following changes:

i. Liberalisation of the foreign exchange market to allow the use of multiple currencies (United States Dollar, South African Rand, Botswana Pula, Euro and British Pound) for business transactions alongside the Zimbabwean dollar;

ii. Relaxation of exchange controls;

iii. Liberalization of the nation’s current account;

iv. Abolishment of price control;

v. And end to concessionary lending by the Government through the Reserve Bank of Zimbabwe’s quasi-fiscal activities;

vi. Revaluation of the local currency;

vii. Revocation of statutory reserve requirements for the banking institutions; and

viii. Promotion of market regulation with regards to pricing and lending activities of banking institutions.

Appendix 1 details the draft economic recovery programme proposed for the country by the National Economic Consultative Forum.

The multiple currency regime introduced together with a number of measures aimed at streamlining of the Reserve Bank and cessation of quasi-fiscal activities. In the process of streamlining the activities of the Reserve Bank, emphasis was placed on the core functions of the RBZ which include Bank Supervision, National Payments, Financial Markets, and Economic Research & Policy. In this regard, the Reserve Bank Act [Chapter 22:15] was amended to reflect the renewed focus on traditional central bank functions, while strengthening the Central Bank’s supervisory powers through
amendments to laws and regulations governing the banking sector as well as issuance of guidelines to the market on key issues such as risk management and corporate governance practices.

It is noted that although the Government’s principal tool for the resolution of the financial crisis targeted the currency crisis, it also resulted in the introduction of a number of measures which targeted the banking crisis. These included the renewed focus on core activities of the central bank such as supervision of banks.

**Developments since Introduction of the Multiple Currency Regime...**

Since the introduction of the multi-currency system, the Zimbabwean economy has shown signs of economic growth having grown by 6.1% in 2009 and by 9% in 2010. The nation’s GDP grew by 9.3% in 2011, on the back of improved performance in agriculture and mining (*Ministry of Finance*, 2012).

According to Kramarenko *et al* (2010), the multiple currency system has provided significant benefits which include fostering re-monetization of the economy and financial re-intermediation. It also helped enforce fiscal discipline by precluding inflationary financing of the budget and brought greater transparency in pricing and accounting after a long period of high inflation. Resultantly, the price of the U.S dollars declined during 2009, while the economy started to recover.

However, despite the positive developments in GDP growth, the recovery of banking sector confidence in response to economic reforms is still relatively unclear. According to reports by financial institutions and statistics from the Reserve Bank of Zimbabwe, banking sector deposits remain transitory and short-term in nature. Further, according to the Finscope Zimbabwe Consumer Survey (2011), only 24% of the Zimbabwean adult population is formally banked, indicating that a significant proportion of the adult population remains unbanked.

Despite various attempts by the authorities to encourage economic participants to formalize their activities, most economic activities are still informal and a considerable portion of currency is believed to be held outside the banking system. Although deposits
in the formal banking system have grown from $400 million at the introduction of the multiple currency system in February 2009 to $3.81 billion in December 2012, it is estimated that current banking sector deposits constitute only 50% of total currency in circulation (Fintrust, 2013)

It is further noted that the economy remains largely cash-based as evidenced by the long queues at banking halls across the country around pay dates and public holidays. This is in spite of the proliferation of technology based banking products such as internet and mobile banking. The above mentioned phenomenon in the banking sector points to low banking sector confidence, which impacts on the ability of banking institutions to play their financial intermediary role of allocating funds from surplus units to deficit units in the economy to facilitate economic growth. This function is a key component to the successful recovery of the Zimbabwean economy.

1.5 OVERVIEW OF THE BANKING SECTOR

The Zimbabwean banking sector is relatively sophisticated in relation to other African economies of a similar size. Since the adoption of the multiple currency regime, the sector has established itself on a recovery path which has seen the gradual return to traditional banking practices in the economy. Deposits have grown over the period 2009 to 2012, while the level of financial intermediation has improved in response to growth in deposits.

Structure of the Zimbabwean Banking Sector...

As at 31 December 2012, the Zimbabwean banking sector comprised 25 banking institutions (of which 22 were operating), 16 asset management companies and 150 microfinance institutions as shown in Table 1.2 below.

Table 1.2: Architecture of Zimbabwe Banking Sector 2005-2012

<table>
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<tr>
<th>INSTITUTION</th>
<th>2005</th>
<th>2006</th>
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<tr>
<td>Commercial Banks</td>
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<td>Merchant Banks</td>
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<td>Product Offering…</td>
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<td>The product mix in the sector is largely skewed towards commercial banking activities. This is mainly due to the absence of tradable market instruments, the short-term and transitory nature of deposits and the inadequacy of the lender of last resort facility. Resultantly, the product offering is dominated by traditional banking products such as current and savings accounts as well as card products. More recently, banks have now ventured into technology-based products such as internet and mobile banking.</td>
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<td>Over the years classes of banking business such as discount houses have become increasingly irrelevant. This is largely due to policy decision taken by the Reserve Bank in 2004 to issue primary dealership licenses to all classes of banking, rendering discount houses obsolete.</td>
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<td>Loans and Deposits…</td>
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<td>Since the introduction of the multiple currency system, banking sector deposits have grown from $475.37 million in April 2009 to $4.41 billion as at 31 December 2012, while loans grew from $157.92 million to $3.52 billion over the same period.</td>
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<td>Figure 1.3 below shows the trend in banking sector loans and deposits from June 2009 to December 2012.</td>
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Challenges Facing the Banking Sector

Volatility of deposits...

The banking sector’s deposit base is largely made up of short-term transitory deposits, mainly driven by salary payments, whilst savings and wholesale deposits were insignificant. Figure 1.4 below shows the funding mix for the banking sector as at 31 December 2012.
The dominance of short-term deposits constraints the banking sector’s ability to play its intermediary role effectively as lending is restricted to short-term periods. This is in direct contrast to the medium to long term funding needs of the productive sectors, to finance retooling and replacement of obsolete and dilapidated machinery.

**Lender of Last Resort Facility…**

Following the adoption of the multi-currency trading framework, RBZ’s lender of last resort function was rendered non-operational due to lack of capacity to provide funding to solvent banks facing temporary liquidity challenges.

The Government only managed to avail $7.5 million to resuscitate the lender of last resort function (Reserve Bank of Zimbabwe, 2012). However, the amount was considered inadequate given total deposits with the banking sector. The inadequacy of the lender of last resort facility has exacerbated the liquidity challenges in the banking sector as banks have to manage their liquidity situation in an isolated manner.

**Market Illiquidity…**

In addition to the absence of an effective and adequate LOLR facility, there is limited activity on the inter-bank market, where banks can borrow to cover their temporary liquidity gaps, due to non availability of acceptable collateral instruments and perceived counterparty risk. The lack of financial instruments is a consequence of the decision by government to adopt a cash-budgeting system, where there are no borrowings from the market to smoothen government cash flows.

The low inflows of international capital and weak export performance are further constraining systemic liquidity. The poor performance of industry is related to the funding constraints, which are exacerbated by limited access to foreign lines of credit.

**Cash Based Transactions…**

Characteristic of the prevailing low salaries in most sectors of the economy, the bulk of transactions are cash based. This has militated against the intermediary role of banking institutions, thereby worsening the constrained liquidity situation.


Money Market Instruments…

The banking sector liquidity situation has also been affected by the absence of risk-free government securities such as treasury bills for use as collateral on the inter-bank market. Although there are other forms of instruments such as bankers’ acceptances available on the market, these carry an inherent credit risk and are not being readily accepted as security.

1.6 RESEARCH PROBLEM

The liquidity challenges experienced in the banking sectors, particularly in the last quarter of 2011, are symptomatic of the need to investigate the efficacy of the multiple currency regime in boosting banking sector confidence.

In view of the important role played by the banking sector in the economic recovery process, there is need to understand the factors affecting confidence in the Zimbabwean banking sector, with a view to addressing them in order to maximise the benefits of multiple currency system. There is therefore need to critically evaluate the impact of the economic reform measures instituted by Government to date in order to assess their adequacy in restoring banking sector confidence.

The above mentioned issues have the potential to reverse the economic gains made since the inception of the multiple currency system. There is therefore common agreement of the need to understand the dynamics behind the operations of the banking sector and confidence in the sector thereof. More importantly, there is need to assess the impact and adequacy of the multi-currency system adopted in order to resolve the nation’s financial crisis.

The research seeks to identify factors influencing depositor confidence which may not have been addressed by existing reforms and which if addressed could result in restoration of depositor confidence in the financial system.
1.7 RESEARCH OBJECTIVES

The purpose of the study is to identify the determinants of public confidence in the banking sector and to assess the impact of the adoption of the multiple currency system on banking sector confidence in Zimbabwe with a view to assessing its effectiveness in achieving the goal of restoring confidence in the banking system.

The specific objectives of the study are:

1. To identify factors affecting depositor confidence in the banking system in Zimbabwe.
2. To assess the role of key stakeholders namely banking institutions, central bank and government in establishing and maintaining depositor confidence and assessing how effective the stakeholders have carried this out.
3. To identify other policy reform measures necessary to increase the level of confidence in the banking system.

1.8 RESEARCH JUSTIFICATION

The study is expected to provide input to future policy decisions for the following key stakeholders:

Banking Institutions:

The study will inform banking institutions on what issues to focus on in an attempt to enhance public confidence and thereby promote the use of their products and deposit mobilisation from the banking public.

Regulators:

The research is expected to provide input to regulators such as the Reserve bank and the Deposit Protection Corporation in crafting policies to boost banking sector confidence and to promote the use of formal banking channels.

Government:

The research will seek to inform the relevant Government departments on possible
policy measures to ensure an enabling operating environment for banking institutions.

1.9 RESEARCH QUESTIONS

The research seeks to provide answers to the following research questions:

a. What are the determinants of banking sector confidence in Zimbabwe?
b. What are the roles and responsibilities of banking institutions, Government and regulators in establishing and maintaining depositor confidence?
c. Are the key stakeholders playing their roles effectively?
d. Are the reforms introduced to date adequate to address the issue of depositor confidence?
e. Is the current banking regulation regime adequate to inspire confidence in the soundness of the banking sector?
f. Is the banking system safe and sound?
g. Is the deposit protection scheme providing adequate assurance to depositors?
h. Is the banking sector infrastructure and products on offer adequate to cater for the needs of the banking public?
i. Are there still policies of factors hindering the use of the banking system?

1.10 RESEARCH PROPOSITION

Adoption and implementation of multiple currency system in Zimbabwe has had a positive impact on banking sector confidence.

1.11 ASSUMPTIONS OF THE STUDY

The study will be based on the following assumptions:

a. All respondents in the research are aware and well-versed with the reform measures implemented by the Zimbabwean government in 2009.
b. All participants in the study are aware and well-versed with the events leading to
the adoption of the multiple currency system in Zimbabwe.
c. Currency reforms measures included all policies adopted by the Government and banking sector regulators to use foreign currencies in the country, including but not limited to exchange controls, taxation laws as well as monetary and fiscal policies.

1.12 SCOPE OF THE STUDY

The study was limited in geographical scope to respondents located in Harare. This was largely due to the time limitation of the research study and the resource limitations faced by the researcher.

The scope of the study was limited in the comparison of the period 2003 to 2008 prior to adoption of the multiple currency system as well as the ensuing period 2009 to 2012.

The study focused mainly on banking institutions and excluded other players in the financial services sector such as insurance companies and securities firms. This was also as a result of the time constraints of the study which did not afford the research an opportunity to expand investigations into the other segments of the financial sector.

1.13 LIMITATIONS OF THE STUDY

The time constraint relating to the completion deadline for the research project presented a limitation of the study. It imposed restrictions on the geographical coverage of the project as well as the sample size.

The target population for the research consisted of senior executives of the selected banking institutions and senior officials of regulatory bodies. Resource and time constraints also prevented the inclusion of a sample of current users of the banking system and those who are currently using the system. The inclusion of this sector would enrich the study further to incorporate the views of the depositors who lost confidence in the banking system and provide an understanding of the current level of public confidence.

The researcher also encountered challenges in data collection particularly from
executive directors of banking institutions and regulatory bodies due to the busy nature of their jobs. These respondents were not readily available for participation particularly in interview type surveys. The researcher therefore had to place reliance on written responses to questionnaires in 75% of the questionnaires administered without the benefit of further probing.

1.14 STRUCTURE OF THE DISSERTATION

Chapter One provides introduction to the research study, which comprises of the background of the problem, statement of the problem, objectives of the study, research proposition and justification of the study. Chapter Two reviews the literature related to depositor confidence, related theories and models and an analysis of the experiences of other nations. The reviewed literature was used in the discussion of the research results. Chapter Three presents the methodology on how the study was conducted, the population of the study, research design adopted, sampling techniques adopted, research instruments used, justification of the design and sampling instruments used in the study. Chapter Four presents the findings of the study and discussion of the findings in light of the available literature and the existing models and theories on banking sector confidence. The research findings were also used to accept or reject the hypotheses presented in Chapter One. The findings of the research formed the basis of conclusions and recommendations of the study presented in Chapter Five. In addition, Chapter Five presents the researcher’s suggested area of further research as informed by the findings of the study.

1.15 CHAPTER SUMMARY

The chapter discussed the background to the introduction of multiple currency system in Zimbabwe and how the situation obtaining prior the adoption of the multi-currency regime impacted on banking sector confidence. It went further to discuss the reforms implemented through the adoption of multiple currency system and the developments in the banking sector since then. The chapter concluded by highlighting the research problem to be investigated and how this was pursued in the research project.
CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews existing literature on the concept of banking sector confidence and its role in enabling the financial intermediation process. The concepts of banking and currency crises are defined in relation to the concept of depositor confidence. The chapter goes further to define the banker/customer relationship and the relevance of depositor confidence therein. The chapter also assesses the development of fiat money and its impact of depositor confidence.

Theories on depositor confidence are discussed, providing a framework for the assessment of factors impacting on depositor confidence and the ability of the banking sector to effectively discharge its role in the economy. The chapter also reviews the role of the central bank and other financial sector regulators in building and maintaining public confidence and as well as reviewing the experiences of other nations and their successes or failures in implementing currency reform policies to restore confidence in the banking sector.

2.2 DEFINITIONS

2.2.1 Depositor/ Banking Confidence

In general terms, confidence is a reference to the degree of certainty one holds about a future outcome and implies a certain level of comfort and assurance that something will happen. According to Kiss and Rosa-Garcia (2010), a depositor is said to have confidence in their bank if, given the available information, he can be sure that sufficient other depositors will not withdraw their funds from the bank, so the bank will not collapse.
The Institute for Local Self Government (2000) defines public confidence as the faith of the public in its decision makers and policies they set. Kelly (2007) notes that there are four critical elements needed for public confidence in banks and the banking system as a whole. The public need to be assured:

a) Ready access to their funds and other bank services;
b) That their bank records are safe;
c) That competent and energetic government supervision is being conducted; and
d) That deposit insurance is in place and inviolate.

Confidence therefore implies that a depositor will not withdraw, even if his prior beliefs about the other depositors’ disposition to keep the money in the bank are extremely pessimistic, a characteristic of crisis times.

Tallman and Wicker (2010) further describe loss of depositor confidence in a banking system as being a depositor’s response to an information deficit about individual bank solvency. The response may be rational or irrational and may give rise to ‘panic’, which Tallman and Wicker (2010) describe as “… a sudden, unreasoning, hysterical fear often spreading rapidly”.

Kibirango (1999) asserts that bank deposits will fall in the short run due to the sheer number of depositors precluded from banking access, and also due to the large number of depositors affected by bank closures, all this pointing to a decline in banking habit by the public. Kibirango’s view is consistent with the analysis of the Croatian banking industry which revealed that public confidence had increased as reflected in the number of Croatians choosing to deposit savings in banks (EUSA, 2002).

In a study by Mudd et al (2010), trust or confidence in a bank or banking sector was linked to the previous crisis experience of individuals to their expectations of future losses. Mudd et al (2010) found the relationship to be significant as individuals, who experienced losses before, were the most likely to withdraw their funds from banks during the Global Financial Crisis of 2008-2009.
Whereas one of the objectives of adopting the multi-currency system in Zimbabwe was to increase public sector confidence in the banking sector and thus enhancing financial sector stability, it is argued that financial sector stability is reliant on depositor confidence in the supervisory regime and management integrity (HSB, 2000).

Using this concept with respect to depositor confidence in Zimbabwe, there is need to assess the impact of past economic and banking crisis on the current level of confidence in the banking sector.

2.2.2 Deposit Levels

For the purposes of this study, deposits are the total amount of money that the public keeps in banks or other depository institution in the different types of accounts operated (Reserve Bank of Zimbabwe, 2009). Cull, Lemma and Sorge, (2000) in their study show a relationship between deposit insurance and depositor confidence and asserted that by increasing depositors’ confidence in the formal banking system, credible explicit deposit insurance could increase the number of depositors and level of deposits.

2.2.3 Number of Depositors

These are the total number of people or persons, whether natural or artificial, who operate deposit accounts in any financial institution (Fintrust, 2011). In Zimbabwe, banking institutions operate three major accounts and these are savings, demand and time deposit accounts. As at 31 March 2013, total number of depositors in Zimbabwe was approximately 5.45 million compared to a population of around 13 million (Population Census, 2012).

2.2.4 Bank Runs

Banks are a vital part of the economy because they provide an important channel though which many businesses get their financing. However, as from history of Zimbabwe and other countries such as United States, Zambia and Uganda, banks can
be subject to bank runs. Kaufman (2002) indicates that a bank run occurs when a large number of depositors, fearing that their bank will be unable to pay deposits in full and on time, withdraw their funds immediately. Temzelides (2002) asserts that if the run is severe, the bank will not be able to meet the demands of all the depositors trying to withdraw money and consequently, will have to suspend payments.

Panics are more severe in that the runs occur on a large number of banks due to regional or economic wide problems or because of runs on a few banks causing depositors at other banks to lose confidence and therefore withdraw indiscriminately from both solvent and insolvent banks. Temzelides (2002) indicates that runs on a large proportion of banks could lead depositor to lose confidence in the banking system as a whole.

2.2.5 Causes of Bank Runs

Lee (2002) summarises the causes of bank runs into three main categories:

1. When depositors of a failed institution are not compensated, their confidence in the banking system is affected leading to bank runs, which may destabilize the banking system. For example during the 2003 banking crises, the banking system was destabilized following a run on deposits, especially on locally owned banking institutions which were deemed too risky to bank with. This was as a result of closure of a number of banking institutions and failure by the then Deposit Protection Board to compensate the affected depositors.

2. If deposits share the belief that other depositors are planning to withdraw their money, a run could start and that bank could fail regardless of the condition of its assets. For example, before the closure of CFX Bank in 2004, depositors started to panicky withdraw their money from the bank with other customers writing backdated cheques in an effort to get their funds out of the troubled bank. A run on one bank may lead to depositors of other banks to form similar beliefs about the behaviour of other deposits and to start a run on their banks.
3. When depositors know about the quality of their bank assets e.g. having bad loans, which leads to a bank incurring losses and having less money that the deposits, they may rush to withdraw their funds, thus creating a bank run. Subsequently, depositors at other banks may start runs if they think their banks have assets similar to those of the other bank.

Runs are feared because of their potential spill overs to other banks. However, the likelihood of this happening depends on what the running depositors do with their funds. Kaufman (2002) points out three choices that these depositors have:

a) They can re-deposit money in banks they think are safe, known as direct re-deposit or *flight to quality*;

b) If they perceive no bank is safe, they can buy government securities such as treasury bills. However, if the sellers of these securities deposit the proceeds in banks they believe are safe, this is an indirect re-deposit;

c) If neither the depositors nor sellers of the securities believe any bank is safe, they would hold funds as current outside the banking system. A run on one bank would then be transformed into a run on the banking system as a whole.

Kaufman (2002) adds that if the run is either type ‘1’ or ‘2’ referred above, no great harm is done to the system since deposits are reshuffled among the banks but do not leave the banking system. Temzelides (2002) is in agreement noting that if depositors withdraw their funds from failing banks to healthy ones, then this type of run is less costly for society.

Kaufman (2002) asserts that higher costs could occur in the type ‘3’ run since deposits would be withdrawn from the banking system causing a multiple contraction in aggregate money and credit, which would dampen economic activity in other sectors and increase the number of bank failures arising from selling assets at ‘fire sale’ losses.
2.2.6 Need for Public Confidence in the Banking Sector

An insidious cost imposed by bank failures is the erosion of public confidence in the banking system. Corrigan (2000) points out that this erosion of confidence hinders any kinds of reforms that are needed to remedy prevailing problems in order to build progressive banking and financial systems that are crucial to the long term success of any economic recovery.

2.2.7 Perceived Depositor Risk

This is the risk of loss of part or whole of depositor’s moneys in case of a bank failure. Depositors always lose money in liquidation, depending on how much the insurer is able to recover by selling assets.

2.2.8 Financial Intermediation

Mishkin (1995) describes financial intermediation as an important economic activity performed by banking institutions, which allows funds to be channelled from people who may not have a need to put them into productive use to those who will. The financial intermediation process provides a link between borrowers and depositors for a cost.

By acting as financial intermediaries, banking institutions perform an important role in the overall economy as they facilitate efficient allocation of resources in the economy. Banking institutions effectively have the power to influence the pace of economic growth by influencing consumption and expenditure decisions through the credit granting process.

2.2.9 Currency Crisis

According to the International Monetary Fund (1998), a currency crisis is simply identified as substantial nominal currency devaluation. It may also be said to occur when a speculative attack on the exchange value of a currency results in a devaluation
(or sharp depreciation) of the currency, or forces the authorities to defend the currency by expending large volumes of international reserves or by sharply raising interest rates. Frankel and Rose (1996), go further to quantify the definition of a currency of at least 30 percent that is also at least a 10 percent increase in the rate of depreciation compared to the year before.

2.2.10 Banking Crisis

The International Monetary Fund (1998) defines a banking crisis as a situation in which actual or potential bank runs or failures induce banks to suspend the internal convertibility of their liabilities or which compels the government to intervene to prevent this by extending assistance on a large scale. A banking crisis may be so extensive as to assume systemic proportions.

According to Blejer (2003), there are three main reasons for a banking crisis and these are loss of confidence, a liquidity crunch and excessive volatilities in the economy which lead to solvency problems in the banking sector. He goes further to link these causes to seven root causes namely:

a) domestic and external macroeconomic volatilities such as inflation, growth rates and exchange rates;

b) credit booms related to excessive credit creation and unsound financial expansion;

c) collapsing of asset price bubbles resulting in financial and banking disruptions due to the loss of value of the securities held as collateral;

d) excessive public sector involvement and political pressures upon the banking sector in areas such as allocation of credit can have a damaging effect on banking;

e) increased currency maturity mismatches in bank portfolios which may occur in instances where banking laws and regulations prevent hedging operations thereby leaving banking institutions exposed to price fluctuations;
f) legal and prudential weaknesses which may lead to excessive risk taking by banking institutions without a corresponding increase in capital buffers; and

g) moral hazard arising from wrong decisions by bankers, managers, owners and depositors.

The International Monetary Fund (1998) also notes that, deposit runs on banks are the result rather than the cause of banking problems. Generally, banking crises have been identified by researchers on the basis of a combination of events such as the forced closure, merger, or government takeover of financial institutions, runs on banks, or the extension of government assistance to one or more financial institutions.

In the case of Zimbabwe, the country faced a banking crisis as defined by the IMF (1998) and Blejer (2003). The sector witnessed bank runs in institutions such as Trust Bank, Barbican Bank and Century Bank, among others. The sector was also faced with a situation where banks held illiquid assets such as properties, motor vehicles on their balance sheets which they could not use to meet maturing liabilities. The banking sector experienced an increase in risk taking behavior without corresponding increase in capital buffers. The sector was also faced with extreme political pressures on lending activities as evidenced by the central bank-driven programmes such as the Productive Sector Facilities (PSF), Agricultural Sector Productive Enhance Facilities (ASPEF) and the Basic Commodities Supply-Side Intervention (BACOSSI) Programme.

However, it is important to note that what might have started as a banking crisis in 2003 was eventually overshadowed by the severe currency crisis faced by the country, particularly in 2007 to 2008. In this period the nation experienced inflation rates above the 30 percent depreciation benchmark noted by Frankel and Rosel (1996). In fact estimates made by Hanke (2008) estimated the inflation rate at 2.5 million percent per annum. At this level of inflation, Zimbabweans could no longer rely on the local currency for transacting purposes and had resorted to using foreign currency, albeit illegally, in order to preserve the value of their wealth. Hanke (2008) adds that the currency crisis faced by Zimbabwe was worsened by attempts by government to maintain an artificial
value of the local currency and imposing stringent exchange control measures across the economy.

2.3 OVERVIEW OF KEY CONCEPTS

2.3.1 Role of Banks and the Relevance of Depositor Confidence in Zimbabwe

The issue of depositor confidence in Zimbabwe is a crucial one as it holds the key to the recovery of the Zimbabwean economy. Banking institutions have a role to play in the revival of the economy through their financial intermediary role. By mobilizing deposits from the economy, banks are able to allocate funding for productive sectors lending, which is critical for the revival of Zimbabwean industries.

Schumpeter (1934) notes that banking institutions fulfil vital roles in an economy and the public relies upon them to fulfil essential depository and intermediary functions. Lorenzo (1986) also notes that in their depository capacity, banks act as fiduciaries in the safekeeping and safe handling of public savings and fiduciary accounts. In their intermediary capacity, banks serve as reinvestment vehicles, channelling funds to meet consumer and business credit needs, in addition, banking institutions serve as payments intermediaries, providing liquidity to both consumer and business customers. In performing these functions, the banking public develops an interest in the soundness of the banking system.

Goodhart et al (1988) note that a bank’s ability to perform its depository and intermediary functions depends upon a correlative ability to attract and retain deposits. In turn, this capability presumes and is dependent upon the perceived and actual safety of deposited funds, the availability of funds to depositors on demand, and the payment of deposits at par.

Lorenzo (1986) notes that these factors create a risk of liquidity insolvency for the institution. Loss of public confidence leads to a haemorrhaging of deposits, which may fulfil a self-dooming prophesy that can paralyse the institution (IMF, 2008). The unique and vital roles that banking institutions play, along with the need to maintain public
confidence in order to fulfil those roles, are the key tenets for prudential supervision of the banking sector (BIS, 2006).

Sinclair (2001) also supports the assertion that banks hold a unique position in an economy as they make real economic decisions through their financial intermediation role. In fact it is noted by Sinclair (2001) that banks have the power to influence the pace of economic growth through the financial intermediation process as they mobilise resources from surplus units and make decisions on granting of credit to fund economic activity by deficit units.

Goodhart *et al* (1988) go further to highlight that the banking sector is unique in the sense that instability or failure of this sector have far-reaching implication on the real economy. The sector is therefore unlike other sectors such as manufacturing and retailing where the collapse of any players in the sector will not have an impact on the real economy. This is unlike the case of the banking sector where the failure of a single institution has the potential to impact on spending and consumption decisions in the real economy.

Fry *et al* (1997) also highlights that the real economy transactions are often settled through the banking system. As such any disruptions in payments made across the banking sector will have impact on the functioning of the real economy.

Given the unique and pivotal role played by banking institutions in any economy, there is need for stakeholders to pay attention to stability issues in a bid to influence the direction of economic activity and growth. In the case of Zimbabwe, the soundness of the banking sector would instil public confidence resulting in increased use of formal banking channels by all economic agents. This would in turn result in improved financial intermediation in the sector, which as explained by Mishkin (1995) has the ability to influence economic activity through channelling cash resources to productive sectors of the economy in pursuit of economic recovery and growth.
2.3.2 Implications of a Lack of Confidence in the Banking Sector

According to Brealey (2001), financial markets serve several purposes including the allocation of capital as efficiently as possible and providing valuable signals for companies and government on the future of the economy. The implications of a lack of confidence in the banking sector are that economic agents will tend to shun formal banking channels for transacting purposes and will instead seek alternatives such as the use of cash and barter trade.

Brealey (2001) also notes that a well developed and efficient financial system promotes economic growth. Lack of confidence will therefore hamper the ability of the banking sector to play its financial intermediary role, leading to financial disintermediation, which is retrogressive. Chan-Lau (1998) emphasizes the gravity of the impact of disintermediation by highlighting that it in fact leads to slow-down in economic growth due to inadequate funding available for industry to produce and revive the economy. This also has a knock-on effect on job creation opportunities as industries fail to access funding for working capital and capital expenditure.

Abrams et al (2002) notes that the efficiency of the financial system depends inter alia on a legal and regulatory system that protects creditors’ rights and on a transparent corporate sector. In this regard it is noted that nations that have adopted legal, regulatory and accounting measures to enhance their financial markets have also experienced a growth in their economies.

Brealey (2001), however, notes that the ability of financial institutions to play their role efficiently is hampered by incidents of bank failure. This is particularly the case when failure is attributed to exogenous shocks in the form of panic net withdrawal of deposits from the banking system. This occurrence is often directly linked to economic activity as was highlighted in a study by Benston (1986), which estimated the correlation between industrial production in the USA and annual changes in the number of bank failures between 1875 and 1919. Benston (1986) notes that the two variables were negatively correlated, with only two incidents in the period of observation where bank failures were not linked to reduced industrial activity.
2.3.3 Depositor Confidence and the Banker / Customer Relationship

The concept of confidence in banking is closely linked to the nature of the relationship between a banker and depositor. This relationship is likened to the debtor/principal relationship, as described by Bollen (2005) who states that the customer’s primary relationship with their banker is that of credit and the banker’s indebtedness is equal to the amount of money standing on deposit with the banker from time to time. The respective position of either debtor or creditor is determined by the state of account. By virtue of receiving money, the banker dons the role of a debtor whereby he has an obligation to honour the payment instructions issued by the customer who is creditor in this case.

The nature of the banker-depositor relationship was defined in the Foley versus Hill [1848] case in the High Court of Chancery, where it was determined by Lord Cottenham that “…there is a fallacy in likening the dealings of a banker to the case of a deposit to which in legal effect they have no sort of resemblance, money paid into a banker’s account becomes immediately a part of his general assets and he is merely a debtor for the amount”.

In this depositor-banker relationship, money is deposited and its legal title transfers from the customer to the bank and the amount is now at the disposal of the bank. The bank pays interest and gets the right to use the money for further lending, while also having an obligation to repay the amount available in customer’s account on demand.

The reasons for the need to entrust a bank with depositors’ funds arises from the need to delegate duties of seeking investment opportunities and monitoring these investments on behalf of a depositor. According to Diamond (1984) an individual or corporate chooses to deposit their money with a bank rather than go in search of suitable investment opportunities. The reasons for delegation of the role include the fact that the bank customer suffers from information asymmetry, wherein the individual does not have all the knowledge and information to make a competent decision on the investment choice. In contrast the bank, through its history of established banking relationships, is able to make better skills and resources to make judgments in the
financial intermediation process and at a lower cost due to the existence of economies of scale.

Based on this definition of the relationship between a bank and its customers, it is clear that a bank needs to display certain attributes in order to inspire confidence in depositors that it will handle deposits in the most prudent manner and ensure a reasonable return on the depositor’s funds. Such attributes according to Enoch et al (2002) include rigorous risk management practices particularly relating to liquidity management, sound corporate governance structures, which depositors measure on the basis of their knowledge of the management and directors of the bank and more importantly the reputation of banking institutions based on the knowledge of the history of bank.

2.3.4 Currency Reforms and Banking Sector Confidence

Currency reforms, as instituted by the Zimbabwe Government in 2009, are a form of financial liberalization with the aim of restoring confidence in the banking sector. Arestis (2003) notes that the focus of financial liberalization is on deregulation of the financial sector to ensure market determination of pricing and allocation of resources to their various uses.

In the case of Zimbabwe, the financial liberalization programme took the form of currency reforms which initially deregulated the foreign exchange regime in the country to allow for free trade of financial currencies by locals (IMF, 2010). The pricing of such currencies was no longer determined by the central bank but by market forces. Further, the government abandoned price controls in the form of subsidized interest rates and controlled foreign exchange rates. Lending and lending rates became purely market determined. The World Bank (2011) adds that with the adoption of the multiple currency system, the central bank could no longer use open market operations to signal interest rates nor could they provide subsidized funding to targeted borrowers. Controls over the capital account were relaxed while statutory reserve requirements were initially reduced.
from the prohibitive levels associated with the Zimbabwe dollar era and eventually scrapped in 2010.

Berg et al (2000) note that a change in monetary regime such as the multiple currency system may form the basis for the establishment of a sound financial sector, which would provide the basis for steady economic growth. They argue that the change in monetary regime will not only signal the adoption of a stable currency but may be perceived as an irreversible institutional change towards low inflation, fiscal responsibility and transparency.

According to the IMF (2010), such a perception was indeed a key objective of the Zimbabwe government in adopting the multiple currency system in the hope of restoring confidence in the banking sector and the economy as a whole by eliminating the risk of sharp depreciation in currency and boosting investor confidence in the economy.

Berg et al (2000) do, however, note that this perception would be reinforced by following the necessary formalities such as monetary agreements with the nations whose currency would be adopted. Such formalities were never adopted by the Zimbabwean government for the use of the basket of currencies currently in use. The lack of formalization also cast doubts on the lifespan of the multiple currency system which has not been clearly articulated by government authorities (Makochekwana, 2009).

The theory of financial liberalization was initially coined by McKinnon and Shaw (1973) who note that government restrictions on the banking system restrain the quantity and quality of investment. They ascribed the poor performance of investment and growth in developing countries to interest rate ceilings, high reserve requirements and quantitative restrictions in the credit allocation mechanism. These restrictions were sources of "financial repression", the main symptoms of which were low savings, credit rationing and low investment.

The characteristics of emerging market economies as described by McKinnon and Shaw (1973) can be related to the Zimbabwean situation before the adoption of multi-currency system. The banking sector was characterised by stringent controls on both
local and foreign currency by the Government, controls over the foreign currency exchange rates, directed lending to sectors identified by Government.

McKinnon and Shaw (1973) go further to propose the theory of financial liberalization, which can be summarised as amounting to “freeing” financial markets from any intervention and letting the market determine the allocation of credit. The solution suggested is liberalized financial sector that can efficiently and extensively intermediate between savers and borrowers. McKinnon and Shaw (1973) argue that financial liberalization leads to significant economic benefits through a more effective domestic saving mobilisation, financial deepening and efficient resource allocation.

The work of McKinnon and Shaw (1973) did not, however, explore the need for a strong supervisory regime in a financially liberalized environment. The liberalization of the banking sector does not obviate the need for government to protect the interests of depositors.

In fact, according to the work of Noy (2004), it was noted that there is even more need for a strong regulatory and supervisory regime to oversee the operations of the banking sector given the tendency to engage in excessive risk-taking in a liberalized environment. There is therefore need to consider the efficacy of financial liberalization in the absence of adequate supervision of the sector and the resultant levels of confidence in the banking sector. This is particularly so in the case of Zimbabwe where the loss of confidence in the banking sector was partly a result of regulatory arbitrage undertaken by banking institutions due to loopholes in the regulatory and supervisory regime at the time.

Makochekanwa (2009) suggests that financial liberalization in the form of currency reforms adopted in Zimbabwe, are possible panacea to restore credibility and confidence in the monetary system. Makochekanwa (2009) indicates that in a situation where policy makers in monetary areas have suffered from a lack of policy credibility as observed in such variables as inflation, a past history of exchange rate instability and crises, then financial liberalization initiatives such as currency reforms are a possible solution to restore credibility. Another pre-condition favoring currency reforms is the
existence of previous financial and banking crises and a degree of unofficial dollarisation. Other factors such as the country’s inability to borrow long-term in domestic currency and the existence of defunct fiscal record characterised by high budget deficits may also give rise to the need to implement currency reforms.

Makochekanwa (2009), however, highlights the need for the existence of a “sound, competitive, well supervised and well regulated banking system” as an important ingredient for the successful implementation of currency reforms such as dollarisation or multiple currency system as adopted in Zimbabwe.

From the criterion set out by Makochekanwa (2009), it is clear that Zimbabwe was indeed a ripe candidate for currency reforms in the form of dollarisation. This is in view of the hyperinflation, currency substitution and lack of policy credibility prevailing prior to adoption of the multi-currency system in 2009. There is, however, doubt relating to the soundness of the banking system at the time of adopting the multiple currency system and the adequacy of the supervisory regime as evidenced by the events relating to Renaissance Merchant Bank and Interfin Bank which were placed under curatorship due to breaches of regulatory requirements.

A study by Hanke and Serkeke (2004) on the reforms implemented by the post-war Iraqi Government notes that the Iraqi Government was faced with a situation similar to that of Zimbabwe as they inherited an economy that had been centrally directed to serve the needs of a totalitarian state. Most prices were controlled, consumer goods and foodstuffs rationed, and the money and banking system was suited only to extract savings to finance the state apparatus. The government noted that in order to successfully resuscitate the economy there was need for the banking system to be restructured to honour depositors’ claims, carry out intermediation as well as establishment of a credible fiscal regime to regain confidence in the government.

As part of measures to reform the banking sector and regain confidence in the sector, the Iraqi Government implemented a number of measures including replacing a worn stock of notes with crisp new dinars. It also gave the Central Bank of Iraqi legal independence, giving it the authority to determine and implement monetary and credit
policy without the approval of the Ministry of Finance. Finally, the government reformed banking law by clarifying the operating rules for domestic commercial banks and foreign entrants to the banking system.

Although Hanke and Serkeke (2004) note that these measures improved confidence and established legal foundations for the relevant institutions, a number of issues still needed to be addressed in order to have greater impact on public confidence. According to the IMF (2004), the Iraqi financial system was dysfunctional, with insignificant financial intermediation, ineffective institutions and poorly organised regulatory framework. The IMF recommended the establishment of a lender of last resort facility at the central bank and the need to establish a more rigorous supervision regime including restructuring of the Central Bank. The IMF (2004) notes the need for restructuring of Central Bank’s skills base and technology platforms as well as the development of a regulatory and supervisory framework.

Hanke and Serkeke (2004), however, agree with an observation made by Fisher (1953) that the absence of tradable financial instruments, as well as the case of post-independence Nigeria, would make the operation of the central bank virtually impossible especially in the presence of a fragile banking sector.

2.3.5 Depositor Confidence and Banking Crises

The concept of confidence is often connected to episodes of bank failures and crises in history. A bank run is usually a result of a sudden loss of confidence in a bank as a rational or irrational response to adverse information held by a depositor or the absence of critical information on the institution. Samuelson (2008) notes that the factor of confidence is “intangible” and is often “underestimated”. It however, accounts for the significant change in behavior of bank customers following a crisis.

In reviewing the impact of confidence in the era of the Great Depression which occurred between October 1930 and March 1933, Gerali et al (2007) highlight that the loss of confidence in the American banking system was largely attributed to wide-scale failure
of banks, with 608 banks including Bank of the United States failing in the last two months of 1930. Gerali et al (2007) further note that the failures resulted in a significant fall in the stock of bank deposits and negatively affected the payment habits of economic agents of the time.

In the case of the Great Depression, the use of the banking system, as measured by the use of cheques, fell sharply from a peak of $367 billion in 1929 to $158 billion in 1933. This proportion decline was larger than the decline in nominal income in the economy in the same periods. Further evidence of the decline in confidence was the observation of an increased reluctance to use bank money, with public preferring to use cash instead.

Dothan et al (1980) note that individual bank runs are closely linked sector wide failures due to contagion effect which explains how a lack of confidence in a single institution may cause a similar response by depositors of another institution. Tallman et al (2010) explain how a long queue of depositors waiting to liquidate their deposits at a given banking institution, may give rise to speculation on its condition and cause depositors of other institutions to speculate on the safety of the deposits, due to information asymmetry and resulting in the contagion effect of loss of confidence.

2.3.6 Fiat Money and Banking Confidence

Studies have also linked the use of fiat money systems to depositor confidence. This is largely so due to the fact that fiat money is not backed by a physical commodity, such as gold. Instead, the only thing that gives the money value is its relative scarcity and faith placed in it by the people that use it. As such in a fiat monetary system, the value of money is based on confidence, and once that confidence is gone, money irreversibly becomes worthless, regardless of its scarcity.

According to Brunnermeier et al (2011), in a fiat money system, financial institutions are able to create money, for example by lending to businesses and homes buyers, and accepting deposits backed by those loans. The amount of money created by financial
intermediaries depends crucially on the health of the banking system and on the presence of profitable investment opportunities in the economy.

In a fiat money system, there is no restrain on the amount of money that can be created. This allows unlimited credit creation. In most cases, a fiat monetary system comes into existence as a result of excessive public debt. When the government is unable to repay all its debt in gold or silver, the temptation to remove physical backing rather than to default becomes irresistible. It is under such circumstances that inflation and the uncertain value of fiat money comes into play and hence confidence in the banking system. In fact Bernanke and Blinder (1989) note that hyper-inflation is the terminal stage of any fiat currency where money loses most of its value practically overnight. Hyper-inflation is often the result of increasing inflation to the point where all confidence in money is lost.

2.3.7 Capital and Banking Confidence

According to Brealey (2001), bank capital provides a general protection against failures. He also notes that equity capital is patient capital as it cannot be easily redeemed by the holders in the event of a banking crisis. As such banking regulation focuses on bank capital in order to manage and prevent bank failures and possible banking crises.

Brealey (2001) also notes that in the absence of a government safety net or deposit protection, banks have an incentive to demonstrate to depositors that they have sufficient equity buffer to guard the bank against any shocks to liquidity. In fact in a study by Berger et al (1995), it was determined that the increase in deposit insurance levels in the United States, following the introduction of the Federal Deposit Insurance Corporation (FDIC) in 1993 resulted in a decline in the ratio of equity to assets held by financial institutions from a peak of 50% to around 10%.

Jackson et al (1999) also observe that capitalisation levels serve as a signal of financial soundness of a banking institution. This was noted from the fact that most G-10 banks were observed to hold more capital than the regulatory minimum as this worked in their
advantage with respect to credit ratings. Further, it is noted by Jackson et al (1999) that
the holding of surplus capital is done in order to avoid costly capital adjustments. In fact
Ediz et al (1998) note that banks indeed place more value on the aspect of holding a
buffer of capital and will ensure that their capitalisation ratios will not decline to the
minimum regulatory requirements.

The effectiveness of imposing capital requirements to prevent bank failures largely
depends on the ability to act promptly on institutions showing signs of weaknesses. In
this regard, the Financial Supervision Authority (FSA) sets target capital ratios for
banking institutions, which are usually set above the Basel minimum and requires banks
to ensure that they do not breach a specified trigger ratio.

Morrison et al (2001) in their study note that capital requirements are a tool used by
regulators to combat moral hazard problems in the banking sector. In fact, Morrison et
al (2001) note that the capital requirements are used as a substitute for a reliable
regulatory auditing system, as the regulator makes use of tighter capital requirements to
dispel pessimism by depositors on the health of the financial system. Higher capital
requirements signal a financially sound banking institution to the depositor, and
therefore higher confidence levels.

Following from the argument by Jackson et al (1999), there may be need for a review of
capitalisation levels in the Zimbabwean banking sector to enable banks to leverage on
the holding sufficient capital buffers in order to motivate confidence in the sector in the
absence of a lender of last resort function and adequate deposit insurance.

2.3.8 Role of the Central Bank in Maintaining Depositor Confidence and Financial
Stability

According to Healey (2001), the safeguarding of financial stability is a multi-faceted task
requiring action at a micro and macro level and with the involvement of numerous
regulatory bodies including the central bank. This position was also taken in the
development of the COMESA Framework for Financial Stability Assessment (2010),
adopted by Zimbabwe, which clearly states one of the key functions of the central bank as that of maintaining overall financial stability in an economy. Fostering and maintaining depositor confidence is one of the key components of financial stability which is required in order to maintain safety and soundness of the banking system.

Edwards (1996) highlights that financial stability can be achieved through monetary policy actions such as policy reforms as well as the adoption of a comprehensive regulatory framework for the financial sector. According to the IMF (1998), the resolution of a banking crisis usually requires the adoption of a carefully designed financial sector restructuring strategy to restore confidence in the banking system and set it on a path to soundness and profitability. In such a programme the focal strategy entails the recapitalisation and restructuring of a number of banks in the system. Further, there is need to develop appropriate incentives to monitor bank operations effectively and ensure prudent management of financial institutions by three key stakeholder groups namely, bank owners and managers, creditors (including depositors) and bank supervisors. This process is said to, not only be key in resolving an existing crisis, but is also critical in preventing recurrence of banking crises.

The IMF (2003) notes that typically whenever banking difficulties emerge, there is often a tendency by bank owners and managers, and public authorities, to conceal the extent of the challenges being faced. The motivation of bank owners and managers is usually centred on the desire to retain their stake in, and control of, the bank, while that of the authorities will be to maintain public confidence in the banking system, given its vital economic role in financial intermediation and operation of the payment system. This behaviour can also be attributed to the fact that it is not always obvious at the outset whether banking difficulties are permanent or transitory as large adverse macroeconomic shocks may temporarily affect even well-run banks. The IMF (2003) further notes that, it is very difficult to predict the effects of a loss of confidence in the banking system in the face of such shocks and may be enormous and irreversible. As a result, these three stakeholders groups will tend to react cautiously by attempting to defer disclosing losses in the banking system. In this regard, banks may extend new
credits to bankrupt customers, in order to conceal non-performing loans and maintain an illusion of solvency.

The IMF (2003) goes further to note that empirical evidence has shown, the countries that re quickest t diagnose the underlying problems, assess losses, and take measures to ensure macroeconomic stability and restructure their banking sectors are generally the most successful in recovering from the crises. The IMF (2003) highlights that in fact, in several countries, such as Argentina, Chile and the Philippines in the early 1980s, attempts to hide banking system losses by providing excessive financial support, often through the central bank, eventually put pressure on the central bank to adopt an accommodative monetary policy stance and led to monetary expansion and high inflation.

Schumpeter (1934) goes further to suggest that in fact the measures needed to resolve problems in the banking system, however, are typically structural or microeconomic, with the most urgent requirement being to restructure bank balance sheets to address problem loans, and to restore financial viability and confidence in the banks. In several countries, the central bank has taken the lead by assuming extensive responsibilities, including financial support and management of the affected bank and its assets. In other countries, the central bank has played a much more limited role, simply providing short-term liquidity. Sweden, for instance, placed strict limits on central bank financing when systematic banking problems arose.

It is noted that the experience of a number of nations suggests that, generally, the smaller the role of the central bank, the more progress made in bank restructuring, largely due to the fact that direct central bank involvement can create conflicts with monetary policy objectives. Often the central bank makes use of an independent agency to lead the restructuring efforts with examples such as the establishment of the Resolution Trust Corporation, or the role played by the FDIC in the United States to manage bank restructuring cases on an ongoing basis. It is further highlighted that liquidation although costly, may be necessary in some cases (World Bank, 2006).
In Chile, for example, where restructuring made significant progress after the crisis in the 1980s, managers were dismissed, shareholders bore losses and fraud was prosecuted where it existed. Further, accounting rules and supervisory standards were brought up to international standards, and banks were barred from lending to borrowers in default. In addition, the authorities put in place a requirement for borrowers to be rated by private credit agencies at least twice a year. This was the case in Malaysia where a credit bureau was established to facilitate improved access to information about potential borrowers. The market-oriented approach by New Zealand focuses on disclosure and incentives, including periodic disclosures on asset quality and provisioning, risk management systems, loan concentrations and credit ratings.

Kim D (1999) argues that unless ailing financial institutions can be swiftly disentangled from sound ones, confidence in the overall financial system will suffer severe damage. In this regard it is noted that forced closures, liquidations and receivership procedures are some of the measures that may be taken by supervisory authorities to remedy an ailing banking institution and protect the integrity of the financial system as a whole.

The arguments presented by the IMF (1998) and Kim (1999) highlight the need to assess the role of the Central Bank and other regulatory bodies in ensuring banking sector confidence is maintained through adoption of an appropriate supervisory regime and systematic resolution of problem banking institutions.

2.4 BANKING CRISIS MODELS

2.4.1 The Diamond Dyvbig Model

The model developed by Diamond W. Douglas and Phillip Dyvbig in 1983, demonstrated three important points in relation to banking crises and depositor confidence. First, Diamond and Dyvbig note that banks issuing demand deposits can improve on a competitive market by providing better risk-sharing among people who need to consume at different random times, which is the basis for financial intermediation.
Secondly, the model notes that there is an undesirable equilibrium known as the bank run, in which all depositors panic and withdraw immediately, including even those who would prefer to leave their deposits in if they were not concerned about the bank failing. Thirdly, the model notes that bank runs cause real economic problems because even healthy banks can fail, due to speculation on their condition, causing the recall of loans and the termination of productive investment.

The model also serves to proffer possible solutions for the undesirable equilibrium. These solutions include the suspension of convertibility and demand deposit insurance (which works similarly to a central bank serving as lender of last resort).

One of the major contributions of the model to the study of banking crises and their effects on an economy are that the real damage from bank runs is primarily from the direct damage occurring when production is interrupted by the recalling of loans. This implies that much of the economic damage in the Great Depression was caused directly by bank runs.

A study by Bernanke (1983) supports this thesis; it shows that the number of bank runs is a better predictor of economic distress than money supply. This observation on the detrimental effects of a bank run by Diamond and Dyvbig can be related to the low level of capacity utilization in Zimbabwe’s industries which is currently estimated at between 40% and 60%. Capacity utilization levels during the peak of Zimbabwe’s economic crisis fell to as low as between 20% and 30% indicating diminished capacity of the banking sector to support the economy.

The model also forms the basis of the rationale for deposit insurance in as far as it controls or limits the negative effects of bank runs and subsequent bank failures in an economy. In implementing a deposit insurance scheme, the government acknowledges its obligation to protecting depositors, particularly small depositors who are unable to judge the soundness of a financial institution.
2.4.2 Kim and Mody Model

Kim and Mody (2004) note in their model of depositor confidence that confidence is directly affected by fundamentals, particularly aggregate liquidity conditions, which in turn are influenced by a government or a central bank’s bailout policy. Managing confidence, however, is not straightforward if a government cannot generate sufficient liquidity to bail out all banks that may eventually face distress.

The model notes that in emerging markets, the absence of policy credibility tends to induce huge foreign currency-denominated deposits and borrowings as depositors seek to limit their exposure to fluctuating government policies.

In the model, based on a rational-expectations framework, depositors’ confidence is modelled as a function of the probability of future bank bailouts. While the traditional examination of bank runs has focused on the liquidity positions of banks, the model by Kim and Mody (2004), highlights the confidence effect of bailout policies conducted by a government with liquidity constraints.

The Kim and Mody model emphasizes the need for authorities to consider the adoption of an optimal bailout policy, particularly for governments faced with fiscal constraints. Such constraints are especially relevant in emerging markets, where government credibility is often fragile and the existence of certain institutional arrangements, such as currency board or dollarisation have the effect of limiting the central bank’s ability to act as a lender of last resort. In addition, in emerging market economies the possibility of large fiscal deficits can generate speculative attacks.

Kim and Mody (2004) note that under such conditions, there is need for government to carefully consider whether or not banks with early signs of distress should be bailed out or alternatively allowed to close down. Further, it is noted that the issue of managing confidence becomes crucial to prevent bank runs because essentially, the government cannot afford to bailout all banks in need and can therefore only offer partial bailouts.

The Kim and Mody model is applicable in the case of Zimbabwe as an emerging market economy whose government’s credibility was damaged extensively during the period of
economic turmoil. Further, the country currently does not have a functional lender of last resort facility and is faced with a serious liquidity constraint which effectively limits its ability to bail out banks facing liquidity challenges.

2.5 EXPERIENCES OF OTHER NATIONS

2.5.1 Argentina’s Experience

According to Pou (2000), the Argentine crisis started in the 1980s when the economy faced a debt crisis. Real output stagnated, financial markets collapsed and prices rose steadily. It was noted that capital fled the country for safer havens, an indication of a loss of confidence in the local economy. The peak of the crisis came about in the period 1980 to 1990 when the country battled hyperinflation which provided the impetus to implement a range of reforms to arrest the situation.

Blejer (2002) notes that the Argentine crisis was a combination of a banking and a currency crisis. The country faced a currency crisis due to the inconsistency between the currency board regime and the expansive fiscal stance adopted over a number of years prior to the onset of the crisis. In fact the fiscal policy was inconsistent and unsustainable. The banking crisis aspect emanated largely from the sovereign risk that arose from the fiscal policy adopted by government. The nation witnessed abuse of the banking system as government failed to adjust to its budget and borrowed excessively to finance its budget deficit.

Pou (2000), highlights that the financial and public sector reforms had the effect of reducing or eliminating public subsidies, increasing the efficiency of these enterprises and improving the provision of services. Further, the removal of the subsidies had the impact of releasing funds to cover part of the government deficit. Numerous tax reforms such as the elimination of distortionary taxes and tighter controls on tax evasion increased government revenues.

Blejer (2002) agrees and adds that under the government’s financial system reforms, the major developments was the introduction of the Convertibility Law of 1991, which
effectively converted the central bank into a form of a currency board and eliminated the central bank’s ability to create money. This development had a positive impact on the inflationary financing of the government deficit. Further, the country’s laws were amended to make the central bank independent of the executive and legislative branches and set the maintenance of the value of the domestic currency as its principal goal. Of note, was the prohibition of such activities as the financing of provincial or municipal governments, public firms, or the private non-financial sector.

Blejer (2002) goes further and indicates that financial sector reforms included a raft of banking regulations aimed at increasing competition among banking institutions and ensuring the safety and soundness of individual banks, and the entire banking system. The sector was liberalized with the removal of restrictions on the entry of foreign banks and in 1991; the central bank introduced new capital requirements for banking institutions. Further, reserve requirements were set at very high levels and the deposit insurance scheme was eliminated. These measures were aimed at reducing moral hazard in the financial system by reducing the safety net available to banking institutions.

According to the IMF (2002), additional efforts to boost confidence included the revision of banking regulations in 1995 to impose more regulatory and market discipline on banks. These measures included the introduction of the CAMEL rating system for rating the condition and performance of banking institutions and the BASIC system which covers such key issues as bonds, external auditing, supervision, information and credit rating. Supervision of banks included the inspection of banks at least every 18 months and the formulation of enhanced liquidity requirements based on the residual time to maturity of deposits and other bank liabilities.

It is noted that in the case of Argentina the array of reforms were found to have had a positive impact on depositor confidence as measured by the rapid monetization of the economy, with M3 increasing to over 30% of GDP by 1999. Further, deposits per bank employee rose from $96,000 in private institutions ($69,000 in public institutions) in
March 1991 to $877,000 in private institutions ($729,000 in public ones) in August 1999, with depositor losses in only two out of 16 bank restructurings\textsuperscript{1}.

The case of Argentina clearly demonstrates the importance of establishing a sound financial system, and therefore reinforcing depositor confidence, as a basis for economic recovery. The similarities of the financial and public sector reforms to those implemented in Zimbabwe provide evidence of the potential success of the reforms implemented in Zimbabwe.

However, in spite of the impressive recovery of the Argentine economy, a few concerns have remained which may need to be considered in the Zimbabwean case for policy making purposes. Berg \textit{et al} (2000) noted that the continued existence of a high country risk premium for Argentina.

Further, the Argentine financial system remained small by international standards and there is still need to jealously safeguard financial stability of the system by carefully regulating financial innovation. Also notable in the case of Argentina is that the issue of a meaningful lender of last resort function and tradable financial instruments was not a factor, as the Zimbabwean situation. Further, the literature does not delve into the issue of how a nation such as Zimbabwe could resolve its perennial external crisis.

2.5.2 Ecuador’s Experience

Ecuador adopted the United States Dollar as the official medium of exchange and unit of account on 9 January 2000. According to Beckerman \textit{et al} (2002), the decision to adopt the US dollar was made as the nation was faced with an economic crisis with hyperinflation and a debt crisis.

As a result of these developments, the nation was faced with de-facto dollarisation as nationals lost all confidence in the Sucre, the local currency as a store of monetary value, a sharp contraction in economic activity and a severe banking crisis which led to a loss of confidence in the banking sector as a whole. Faced with serious social

\textsuperscript{1} Source: IMF Statistics (2000)
consequences of the crisis, the Government of Ecuador (as in the Zimbabwean case) made a unilateral decision to implement de-facto dollarisation as a “policy of last resort” to restore monetary and financial stability. The decision was successful insofar as it resulted in the improvement of the nation's GDP and resulted in improved remittances to the country in response to liberalization of exchange controls.

However, Beckerman et al (2002) noted that the impact of dollarisation on the stability of the Ecuador took longer to materialise largely due to a number of factors that need to be taken into account by nations seeking to pursue economic recovery through dollarisation. Beckerman et al (2002) highlighted the importance of the existence of a strong banking system coupled with strong regulatory and legislative framework. It was noted that in order to restore confidence in the banking sector, authorities need to ensure the existence of a credible and robust regulatory and supervisory regime which the banking public could reasonable rely on to superintendent over the sector and protect their interests.

The observation made by Beckerman et al (2002) gives further insight into the issue of depositor confidence in the multiple currency era in Zimbabwe. Although the adoption of the multi-currency system largely addressed the issues relating to the country’s currency crisis, there may still be confidence issues emanating from doubts of the adequacy of the regulatory environment in the banking sector.

2.5.3 Panama’s Experience

Panama adopted the use of the US Dollar for all official transactions at the time of gaining independence in 1900 and has no central bank to distribute or oversee the currency. The traditional local currency, the balboa is still in use, but the exchange rate to the dollar is one to one and the old currency is considered a US dollar, only differing in appearance.

The IMF (2003) notes that the Panamanian case is the closest strategy that has come to being successful. It is noted that Panama exhibits optimistic economic indicators and a stable inflation rate, which has stayed at 1.7 percent for some 30 years – lower than
that of the United States. Of particular interest in the case of Panama is the development of an open banking system and a large volume of international trade. The IMF (2003) notes that the relative success of Panama is not entirely due to the dollarisation of the country but is largely attributed to the passing of a banking law in 1970 which effectively integrated Panama’s monetary system with world financial markets, bringing an influx of foreign banks into the country.

The IMF (2003), however, notes that despite over a century of dollarisation, Panama remains more or less as underdeveloped as the rest of Latin America. It is highlighted that the principal disadvantage of the long-standing dollarisation policy is Panama’s continued dependence on both the IMF and the US Treasury Department. Panamanian officials are to either print the country’s own currency or control its public finances. Without the central bank, the government has no lender of last resort and is thus unable to rapidly and decisively respond to any potential domestic financial crises and is heavily reliant on IMF funding.

Additionally, due to its constraining effect on the government’s ability to be flexible in dealing with both external and internal shocks, dollarisation has increased the vulnerability of Panama’s financial system and overall economy particularly in view of the recent depreciation of the United States Dollar against currencies such as the Yuan in the wake of the Global Financial Crisis.

### 2.5.4 Global Financial Crisis

Dailami et al (2009) highlight the key role played by the confidence factor in the overall global financial crisis. The crisis which started with the collapse of the Lehman Brothers bank shook the major financial centres across the world as stakeholders in the banking and financial services sector began to question a number of variable that had been taken for granted. Such factors as the safety and soundness of financial institutions, the working of numerous financial products and the honesty and supervisory role of regulators such as central banks came under close scrutiny.
Dailami et al (2009) highlight the danger that declines in confidence can have a self-fulfilling effect on economic activity. In the wake of the crisis many stakeholders including government officials and policy makers across the world recognized the key role of confidence and made similar calls for the restoration of confidence in the global financial system.

In a March 2009 interview, for instance, the Us Federal Reserve Chairman Ben Bernanke stated, “Confidence is key. People don’t know what’s happening. And they’re afraid. And they are not sure…and I think the way to get confidence is to show progress.”

On a similar note, Zhou Xiaochuan, Governor of the People’s Bank of China, indicated the importance of addressing the confidence factor in a press briefing in March 2009, where he pronounced that “if we act slowly and less decisively, we’re likely to see what happened in other countries: a slide in confidence”. Similar assertions were made by the then UK Prime Minister Gordon Brown and Italian Prime Minister Silvio Berlusconi, in a joint statement that world leaders must “… take whatever action is necessary to restore confidence, stabilize financial markets and enable families and companies to get through the global recession”.

The views of these key personalities in the world of finance highlighted the importance of the role of confidence in the financial system and its restoration thereof in repairing financial markets and lifting the global economy out of recession. The challenge of how to measure confidence and more importantly how to go about restoring it became the focal point of policy makers across the world.

It was highlighted by Dailami et al (2009) that the confidence factor became magnified as depositors and other key stakeholders drew parallels with the Great depression of 1930, conjuring images of the impact of the depression in the form of severe economic hardship, political instability and self-defeating protectionism. Further, Dailami et al (2009) noted that confidence in the financial system took a knock due to the fact that the crisis originated in the United States, a nation reputed to have the most advanced financial system and effective regulation and supervision.
Dailami et al (2009) propose four main determinants to confidence namely market volatility, market performance, macroeconomic news and government responses. A key finding by Dailami was the fact that the four factors have a high level of correlation indicating that the determinants tend to be related to each other in their influence of overall investor confidence. Dailami et al (2009) also conclude that although the liquidity easing measures instituted had a small but positive impact of confidence levels, there is scope for attainment of lasting revival of confidence through changes to the regulatory environment.

2.6 SYNTHESIS AND CONCEPTUAL FRAMEWORK

The conceptual framework draws upon works of Cull, Lemma and Sorge (2000) with adjustments made to fit Zimbabwe’s banking system and those of Kibirango (1999). Cull et al (2000) in their study showed a relationship between deposit insurance and depositor confidence. They also asserted that by increasing depositor’s confidence in the banking system, credible explicit deposit insurance could increase the level of deposits and number of depositors. Kibirango (1999) also asserted that quantitatively, confidence levels could be measured in terms of increase in deposits on one hand and number of persons using the banking system on the other hand. A study carried out in South East Asia by USAID also showed that changes in the number of depositors are also used to measure public confidence in banks and in the banking sector at large (USAID, 2001).

The researcher also appreciates that the adoption of the multiple currency system in Zimbabwe, though it plays a critical part, is not the only factor that contributes to public confidence in the banking sector. There are other factors which also affect level of confidence in the banking sector in Zimbabwe and these include government policies, macroeconomic environment, effectiveness of deposit insurance, banking culture in the country and integrity & character of promoters and management of an institution. However, for purposes of this study, all these other factors were held constant.
2.7 CHAPTER SUMMARY

The chapter has discussed in detail the concept of confidence in the banking sector and the role of currency reforms in achieving and maintaining confidence. The chapter has reviewed the various measures of confidence as well as reviewing the experiences of other nations in making use of currency reforms to restore confidence in the banking sector. From the discussions in the chapter, it is clear that indeed currency reforms are a tool used by central banks to restore stability and confidence in the financial system. The review of country experiences discusses the degree of success in achieving the goal of financial sector stability and confidence and highlights the factors to be considered in addressing banking sector confidence issues. The literature available indicates that currency reforms alone are not adequate and may need to be accompanied by banking sector regulatory reforms in order to be successful. The research sought to understand the degree of success achieved in restoring confidence through currency reforms. In Chapter Three, the discussion focuses on the research methodology adopted in the conduct of the research.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter discusses the choice and rationale of the research methodology chosen for this study. It discusses the research philosophy, research design, strategies, methods and techniques employed in obtaining data to answer the research questions. The chapter also goes further to discuss the sampling techniques used to gather information and the data analysis techniques. The relevant ethical considerations will also be outlined in this chapter.

The study was predominantly adopted the positivist research approaches while the questionnaire was used for data collection.

3.2 THE RESEARCH PHILOSOPHY

According to Saunders et al (2003), research philosophy depends on the researcher’s views on the development of knowledge. In this study, the knowledge of the research philosophy enabled the researcher to recognise which design would work in the research. Saunders et al (2003) go further to identify three views about the research process that dominate literature and these are:

a) Positivism;
b) Interpretivism; and
c) Realism.

All the views have an important part to play in business and management research. The researcher predominantly adopted the positivist approach to research. The research was positivist in the use of structured questions in the questionnaire administered to banking institutions and regulators. The positivist approach enabled the researcher to gather comparable responses for purposes of carrying out analysis on the research
Positivism (Quantitative) Approach

Saunders et al (2003) say that a research philosophy which reflects the principles of positivism in where the researcher prefers working with observable social reality and the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists.

The positivist approach is objective and is based on a set of ruled and formulae that cannot be varied which leads to statistical analysis. Gill and Johnson (1997) state that the principles of positivism emphasise a high degree of structured methodology, with objectives that can be quantified to allow for statistical analysis.

This approach is therefore deductive in nature and seeks to explain causal relationships between variables using quantitative data through observation. It employs controls to allow testing of hypotheses and uses a highly structured methodology to facilitate replication, (Gill and Johnson, 1997). In this approach, the research is scientific in nature and aims to deduce a hypothesis or a proposition through observation.

Emphasis in the positivist approach is placed on development of a highly structured methodology that will facilitate replication and use of quantifiable observations that enable statistical analysis. In this approach it is assumed the researcher is independent of and neither affects nor is affected by the subject of the research.

3.3 RESEARCH DESIGN

According to Bless and Higson (1995), research design is the planning of any scientific research from the first to the last step and is a programme for guiding the research in collecting, analysing and interpreting observed facts. The research design therefore serves as a blueprint for the collection, measurement and analysis of data for any research study (Cooper and Schindler, 2001). The research design therefore provides the plan and structure of the investigation.
3.3.1 Research Approach

Cooper and Schindler (2001) categorise research strategies in terms of being exploratory, explanatory and descriptive research. Exploratory research is used mostly when the area of study is new or vague such that the researcher needs to learn something about the area and formulate a hypothesis. On the other hand, explanatory research focuses on answering the questions why, and how; which are normally associated with the positivist research philosophy, while descriptive research is largely concerned with the description of a phenomena associated with a subject and seeks to answer the questions who, what, when and how often associated with the phenomenological approach.

The researcher made use of explanatory research type to focus on establishing the reasons for the loss of depositor confidence and the responses to the various measures implemented to address the matter.

3.3.2 Research Strategy

According to Remenyi et al (1998), a research strategy is the general plan of how the researcher plans to answer the research questions and can either be qualitative or quantitative in nature. Qualitative studies make use of words to describe situations, while quantitative studies use numbers usually in the form of counts or measurements to attempt to rive precision to a set of observations.

The researcher chose the survey approach largely due to the time limitation and the fact that this research design method is economical. This notion was also supported by Saunders et al (2003), who argued that a survey allows data to be collected in large amounts from not so big a population in an economical way. They also state that a survey is seen as authoritative by respondents as it is easily understood, and this gives the researcher overriding control over the research process.

However, the survey method has its own shortcomings, the main one being that it is limited to the data which people are able and willing to report especially when it comes
to sensitive questions such as those which may expose weaknesses such as inadequate capitalisation or poor risk management practices in banking institutions. This was particularly so in this research where the researcher is employed as a supervisor of the banking sector respondents and as such respondents in some banking institutions were uncomfortable to expose their weaknesses. This introduced bias and inaccuracies in some of the responses.

The other weakness of the survey is that collecting and analysing data can be tedious and time consuming. The topic of public confidence is a multi-faceted one involving regulatory issues, competitiveness in the industry as well as public perception. As a result, responses to some close ended questions may not have captured the exact views of the targeted respondents. The researcher managed this challenge by providing the option to elaborate on the responses provided under closed-ended questions. The researcher also faced challenges in analysing responses on open ended questions as these are not standard and therefore required some level of generalised interpretation by the researcher. Furthermore, another problem with a survey research is non-response and refusal by sample respondents. The reasons for this include lack of interest, suspicion about use of information, poor timing on the part of the researcher and the time consuming nature of questionnaire.

To overcome the problem of time consuming the researcher avoided unnecessary questions by concentrating on those questions derived from the research objectives and questions. This notion is also supported by Dillon et al (1994), who suggest that it is important to administer a short questionnaire that does not take much of the respondents’ time, use of prior notification followed by questionnaire and use of covering letter explaining the purpose of the research and its benefits to the respondent assist in ensuring that respondents do not lose interest in the questionnaire. However, despite these drawbacks, the survey was found to be the most effective way of conducting this research.

3.3.3 Research Instrument
The researcher used **questionnaires** to collect data. Leedy (1993) regard a questionnaire as the most widely used technique for collecting primary data. This technique consists of a set of questions presented in written form to the respondents in order to obtain views of the participants on the research problem.

The questionnaire method allows the researcher to achieve wide coverage with minimum expenditure both in money and effort. According to Moser and Karton (2004), this method also allows respondents to express their views without due influence form either the researcher or other respondents and it ensures greater comparability of responses. The use of questionnaires eliminated interviewer bias and guaranteed anonymity of respondents as most respondents in the research preferred to remain anonymous.

According to Burns (2000) questionnaires are useful, as a method of gathering data which is descriptive of current events, conditions or attributes of a population at a particular point in time. The questionnaire method however has some disadvantages such as the fact that the method does not allow for further probing and thus answers have to be accepted as final.

Wegner, (2001) highlights that in selecting the questionnaire as a data collection tool, the researcher must take care to ensure that the design of the questionnaire is done in such a manner as to ensure that the correct research questions are addressed and that accurate and appropriate data for statistical analysis is collected. In essence to write the questions and set up the questionnaire is a critical element for development of a survey research design (Zikmund, 2003).

In this research, the questionnaire consisted of both open ended and closed questions. The open-ended questions supplied the participants with the context for an answer while offering little restriction on the participants’ input which, as Burs (2000) observes, could assist in facilitating “a richness and intensity of response”. The use of closed questions allowed for responses that could be analysed quantitatively and compared across the sample.
The questionnaire also made use of Likert-Scales with scaling structure such as strongly agree, agree, not sure and strongly disagree. The use of Likert-scales within the questionnaire was advantageous in that it generated data from the participants’ response which produced relatively homogenous scales with reasonably high validity and reliability, which Burns (2000) asserts, increases the probability that unitary attitude is being measured.

The combination of the closed and open-ended questions enabled the researcher to get more in-depth responses, as well as access to responses that could be assessed quantitatively and qualitatively, interpreting what respondents wrote with the help of the theory.

3.3.4 Pilot Study

The researcher undertook a pilot study on a sample of possible respondents to the study. Baker (1994) defines a pilot study as pre-testing or trying out of a particular research instrument. A pilot study helps the researcher in that it might give advance warning about where the research project could fail, where protocols may not be followed or whether the proposed methods or instruments appropriate or not complicated for the target population. De Vaus (1993) highlights the importance of pilot testing for each research project. He said, ‘… do not take the risk, pilot test first.’

3.3.5 Administration of Questionnaire

The researcher designed two sets of questionnaires, one for the banking respondents and another for respondents from various regulatory bodies including the Reserve Bank of Zimbabwe, Deposit Protection Corporation and the Ministry of Finance. This was done in order to capture the different views of these stakeholders in light of the differences in the way the supervisory authority and other banking institutions are expected to implement Basel II.

Though the questionnaire may be administered by the researcher personally or may be
posted / mailed to the respondents, the researcher chose to personally administer the questionnaires to respondents to overcome challenges associated with mailing of questionnaires. Whereas the mailing of questionnaire to respondents has the advantage of lowering costs, removing bias by interviewer, has greater anonymity and allows greater geographical coverage, the disadvantages of mail questionnaire however, include lack of probing, low response rate even after follow ups – sometimes making it difficult to obtain a representative sample.

In this research primary data were collected using the questionnaire and interview method. A questionnaire was chosen as the target population was highly literate and experienced in responding to written questionnaires (Bell, 2000). The combination of the two helped to overcome the issue of potential bias associated with interviews and sterility linked to questionnaire techniques when used on their own. Secondary data was collected using articles and documents from various publications including publications from such institutions as RBZ, BAZ, and DPC. Table 3.1 below indicates the distribution of questionnaires administered for the research.

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Commercial Banks</th>
<th>Merchant Banks</th>
<th>Building Societies</th>
<th>Regulators</th>
<th>Total Questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive Directors</td>
<td>16</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>26</td>
</tr>
<tr>
<td>Senior Management</td>
<td>16</td>
<td>2</td>
<td>2</td>
<td>9</td>
<td>29</td>
</tr>
<tr>
<td>Total No. of Questionnaires</td>
<td>32</td>
<td>4</td>
<td>4</td>
<td>15</td>
<td>55</td>
</tr>
</tbody>
</table>

Source: Researcher’s own records

3.3.6 Sources of Data

There are two main sources of data that can be used in research, namely primary and secondary data.

Primary Data

Bailey (1995), states that primary data sources are firsthand accounts not based on other written works, nor interpreted by other researchers. Primary data are invaluable as
it is not only the most current data available, but are also specific and concise.

According to Ghosh and Chopra (2003), primary data is originally collected by the concerned investigator or enumerators from the source of their origin in the process of investigation. Although the collection of primary data is costly and time consuming, it is important, as it is possible to formulate structured and unstructured questions that focus on the study topic.

**Secondary Data**

Zikmund (2003) states that secondary data is that which is gathered and recorded by someone else prior to the current project. The secondary data includes the use of information from journals, the internet and other sources on the subject. Secondary data has the advantage of being readily available; data is highly accessible and less expensive to obtain. However, secondary data has its disadvantages which include the fact that it may not be entirely relevant to the current study, while bias and colation errors may arise.

In this study, primary data was obtained through questionnaires. This data source complemented the use of secondary data which assisted in interpreting the primary data and gave the researcher a framework for interpreting primary sources taking into account limitations of different sources.

### 3.4 TARGET POPULATION AND SAMPLE DESIGN

#### 3.4.1 Population

Polit and Hungler (1999) define a population as being a full set of cases from which the sample is taken. Alternatively, a population is defined as the totality of all subjects that conform to a set of specifications, comprising the entire group of persons that is of interest to the researcher and to whom the research results can be generalised.

The population of this study was comprised of executive and non-executive directors
and senior managers of the twenty two operating banking institutions in Zimbabwe at the time of the study, as well as management and directors of four regulatory bodies namely in the Reserve Bank of Zimbabwe (Bank Supervision, National Payments and Exchange Control divisions), DPC, IPEC and Ministry of Finance.

According to Cooper and Schindler (2003), the basic idea of sampling is that by selecting some of the elements in a population the researcher may draw conclusions about the entire population. Moser and Kalton (1986), argue that using sampling enables a higher overall accuracy than does a census. The smaller the number of cases for which the researcher needs to collect data means more time can be spent designing and piloting the means of collecting these data.

The researcher chose to use sampling techniques in order to lower the cost, and improve the accuracy of the results. It was noted that sampling would enable the research to be completed with greater speed, which is useful in the conduct of an academic research study of this type.

### 3.4.2 Sample Size

Wiersma and Jurs (1979) define a sample as a subset of a population. Populations are studied through the use of samples from a population. A representative sample is one, which has been selected in such a way that as far as possible, the main characteristics of the sample match those of the parent population (Saunders et al., 2003).

The size of the sample is governed by a number of factors and Saunders et al (2003) list the following:

- **The level of certainty** that the characteristics of the data collected will represent the characteristics of the total population. In this case the researcher selected a sample of 40 respondents from the 22 operating banking institutions and 15 respondents from the four regulatory bodies identified to be relevant to this study. Banking sector respondents were chosen in such a manner as to ensure that the views of all classes of banking were represented. Similarly, regulator respondents were selected in such a manner as to ensure that representation of
each regulatory body at senior management and director level was facilitated.

b) **The accuracy the researcher requires** for estimate made from the sample, also referred to as the margin of error the researcher is willing to accept. The sample size was kept small largely due to the limited resources available to the researcher and the fact that the academic research did not require a high degree of precision for analysis purposes.

c) **The type of analysis one will undertake**, in particular the number of categories into which the researcher wishes to subdivide data, as many statistical techniques have minimum threshold of data cases for each cell. In research study, the researcher specifically choose the two classes of respondents in order to be able to compare the views from both sides and to draw conclusions based on the views expressed by each stakeholder group in analysing the research topic.

Saunders *et al* (2003) also emphasise the need to anticipate the response rate elements when establishing the sample size for the study. This ensures that the researcher gathers sufficient data in order to carry out credible analysis for the study.

### 3.4.3 Sampling Techniques

There are two main groupings of sampling techniques, that is, probabilistic and non-probabilistic techniques.

According to Wegner (1993) probabilistic sampling refers to all selection methods where the observations to be included in a sample have been selected on a purely random basis from the population. There are four main forms of probabilistic sampling namely

a) simple random sampling;

b) systematic sampling;

c) stratified random sampling; and

d) cluster sampling.

The researcher used stratified sampling technique to select banks according to the
nature of activities, for example, commercial and merchant banks. Wegner (1993) indicated that the stratified method can ensure that specific groups are represented, even proportionally in the sample by selecting individuals from each stratum. In this case the researcher ensured that all categories of banking institutions are represented in the sample and also all regulatory bodies for the banking sector are represented.

However, Wegner (1993) point out that although the method ensures proportional representation of each stratum, the method is usually more complex and requires greater effort than simple random sampling. Further, the strata must be carefully defined for the population to be represented in the sample.

The researcher also made use of simple random sampling in the selection of banking institutions within each stratum. This method is the most ideal as the sample will be highly representative of the population, if all subjects participate. However, Wegner (1993) indicates that the technique has its own limitations as it is not possible without a complete list of population members. Further, the method is potentially uneconomical to achieve and can be disruptive to isolate members from a group. Another limitation of the random sampling method according to Wegner is that time-scale might be too long and data or sample could change.

Under the non-probability sampling technique, observations are not selected randomly and are used when methods other than randomness are the basis for selecting observations. There are three main types of non-probability sampling procedures, namely; convenience sampling, judgmental sampling and quota sampling.

In this study convenience sampling and judgmental sampling were used. The sampling technique was convenience in nature in the sense that the researcher selected those institutions that are readily accessible by virtue of the working relationship with them. Judgmental sampling was used in selecting respondents by ensuring that those chosen are most likely to be acknowledgeable on the research topic.

In this research, senior management of the banking institutions were selected to respond to the questionnaires. It is however, important to note that in using non-
probabilistic sampling techniques there is no guarantee that the samples represent the population being studied, Leedy (1992).

3.5 VALIDITY OF RESEARCH INSTRUMENTS

Reliability relates to whether the research instruments are neutral in their effect and can measure the same result when applied on the same project or object (Saunders et al, 2003). It tries to establish whether the same results and conclusions would be arrived at if someone else undertakes the same study.

The validity of the research instrument was tested through pilot survey conducted on senior managers of banks and within the Reserve Bank.

3.6 DATA PRESENTATION AND ANALYSIS

Data analysis refers to the process by which a researcher attempts to establish meanings to findings and their implications, Denscombe (2000).

In this study, the analysis was undertaken by dividing it according to research questions and the responses obtained from banking sectors and those received from regulators. The data collected was compared to the theory discussed under the literature review section of the study. The analysis also allowed for testing of the hypotheses formulated in the introductory chapter and formed the basis for recommendations made in the final chapter of the research study.

Data from the research was extracted and analysed using SPSS (SPSS Inc, 1997). Descriptive statistical methods of data analysis such as pie charts, bar graphs and simple data tables, were used to explore and understand the data extracted from the research. The charts were drawn using Microsoft Excel.

3.7 ETHICAL CONSIDERATIONS

The issue of confidentiality was a key ethical consideration in the conduct of the research study. In sourcing for responses from the targeted respondents, the
researcher gained access to some confidential information which other individuals would not ordinarily have access to. The researcher therefore had to seek consent to access this information from the relevant offices while providing assurance that information availed for the research would be used purely for academic purposes.

Further, the confidentiality of the participants was maintained by not disclosing their names or personal information in the research.

### 3.8 CHAPTER SUMMARY

This chapter presented the research methodology of the study. It looked at the research philosophy, the research design, the sampling techniques and justification for methods and tools used. This study adopted a combination of quantitative and qualitative research and made use of primary and secondary data sources. Data was collected through the use of a questionnaire with structured and open-ended questions. Data from the research was extracted and analysed using Statistical Package for Social Scientists (SPSS). The next chapter is concerned with presentation of results and analyses of the same.
CHAPTER FOUR

RESEARCH FINDINGS AND DATA ANALYSIS

4.1 INTRODUCTION

This chapter presents and analyses the research findings. The discussion is based on the findings of primary data collected through questionnaires. The analysis compared the findings from the two sets of questionnaires administered on banks and regulators and attempted to draw conclusions on the views of these two groups. The analysed data is presented in the form of graphs, pie charts and tables with a discussion of the findings presented. The findings of the research are also compared to the theoretical concepts established under the literature review to establish similarities and variances. The findings of the research as presented in this chapter for the basis for the recommendations presented in the final chapter of the research.

4.2 QUESTIONNAIRE RESPONSE RATE

The overall response rate for the research was 76.4%. Of the 55 questionnaires sent out to respondents, a total of 42 were returned completed. Of the 42 completed questionnaires, 11 were completed by regulators while 31 were completed by respondents from banking institutions. Table 4.1 below provides details of responses.

Table 4.1: Response Statistics for Questionnaires

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Commercial Banks</th>
<th>Merchant Banks</th>
<th>Building Societies</th>
<th>Regulators</th>
<th>Total Questionnaires</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sent</td>
<td>Rate</td>
<td>Sent</td>
<td>Rate</td>
<td>Sent</td>
</tr>
<tr>
<td>Executive Directors</td>
<td>16</td>
<td>62.5%</td>
<td>2</td>
<td>50%</td>
<td>2</td>
</tr>
<tr>
<td>Senior Management</td>
<td>16</td>
<td>87.5%</td>
<td>2</td>
<td>100%</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>32</td>
<td>75%</td>
<td>4</td>
<td>75%</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: primary data
The response rate for executive directors were generally lower than that of senior management. The observation confirmed the assumption made by the researcher that executive directors are generally busy and hence find it difficult to set aside time for participation in an academic research of this nature. In order to achieve the 65.4% response rate for group executives, the researcher had to personally administer 8 of the questionnaires, 4 of which were with the regulators. For the balance of the questionnaires sent out to executives, the researcher had to send periodic reminders and make follow ups on completion.

Senior management respondents, on the other hand were more reliable in terms of returning completed questionnaires to the researcher. Of the 25 responses received, only 6 were administered personally in order to benefit from other material issues which could be gleaned from the one-on-one discussions, which could not be captured in the questionnaire alone.

4.3 DEMOGRAPHICS

Of the 42 responses received on the questionnaires sent out, 17 (40.48%) were from executive directors, while 25 (59.52%) were received from individuals in senior management positions as indicated in Figure 4.1 below:

![Graph](image)

*Source: Primary Data*

*Figure 4.1: Demographics of Respondents*
The survey noted that, with respect to the years of establishment of the institutions represented by executive and senior management respondents, 35% were drawn from institutions which has been in existence for more than 20 years, while 27% has between 10 and 20 years in the sector and 38% has a history of between 5 and 10 year in the sector.

With regards to duration of service with current employers for the respondents from the banking sector, it was observed that of the 31 banking sector respondents, 48.4% had less than five years experience with the current institutions, while 29% had between 5 and 10 years experience. 19.4% had been with their current employer for between 10 and 20 years while only one (1) respondent had been with the current institution for over 20 years.

With respect to regulatory bodies, it was noted that only 2 out of the 11 respondents had been with the respective regulatory bodies for between 10 and 20 years while 4 out of 11 had been with the institution for less than 5 years and 4 out of 11 had been with the regulatory body between for between 5 and 10 years. Only one (1) respondent had been with the current employer for over 20 years.

**Figure 4.2** below shows the distribution of duration of service for respondents from the banking sector and regulatory bodies.

---

Source: Primary Data

**Figure 4.2: Respondents’ Duration of Service**
4.4 FACTORS AFFECTING BANKING SECTOR CONFIDENCE

The questionnaire requested respondents to identify the factors that affect banking sector confidence among a set of five possible responses namely stability of currency, government policy, regulatory environment, financial condition and performance of banking institutions and corporate governance structures within banking institutions. The results of the responses regarding this variable are presented in Figure 4.3 below.

Source: Primary Data

Figure 4.3: Banking Sector Responses on Factors Affecting Banking Sector Confidence

The survey established that, generally, there is common understanding within the banking sector on the factors that influence depositor confidence in the banking sector which include, among others, stability of currency in use, regulatory environment, government policies in place, the general condition and performance of banks within the sector and corporate governance structures in respective individual institutions. There was 100% agreement by the respondents that stability of currency in use, government policies in place, regulatory environment and the general condition and performance of banks within the sector have an impact on the level of overall confidence in the sector. With respect to the corporate governance structures in respective individual institutions, only 12.9% of the respondents from the banking sector disagreed that this had an impact on the level of banking sector confidence.
The results of the responses from regulators on the factors affecting banking sector confidence are detailed in Figure 4.4 below.

![Figure 4.4: Regulator Responses on Factors Affecting Banking Sector Confidence](image)

**Source: Primary Data**

**Figure 4.4: Regulator Responses on Factors Affecting Banking Sector Confidence**

The results of response from regulators indicate that there is general agreement among regulators on the factors influencing banking sector confidence. All respondents were in agreement with the factors indicated in the questionnaire, namely corporate governance structures, stability of currency, regulatory environment, government policy as well as condition and performance of banking institutions.

The results of the survey tie well with the literature on depositor confidence as detailed by Ecoch et al (2002) who noted that in the establishment of the banker customer relationship, depositors look for a number of attributes such as corporate governance structures and risk management practices of the banking institution. The result also confirms the findings of Bernanke et al (1989) that in a fiat money system, the credit creation process is dependent upon confidence in the value and stability of a currency. The result is also in line with the proposal by Brealey (2001) that the condition and performance of banking institutions as estimated through capitalisation levels of banks also has an impact on the level of confidence in a banking institution. Brealey (2001) highlights that adequate capital is interpreted to signify a sound banking institution that
is able to withstand internal and external shock factors.

The policies implemented by government were also found to have an impact on the level of public confidence in banking sector as proposed by Kim and Mody (2004), where it is proposed in their model that a government’s bailout policy impacts on the levels of public confidence in the banking sector.

A total of 12.9% of banking sector respondents who did not agree that corporate governance structures have an impact on depositor confidence, represent the proportion of players in the sector who have not embraced the role of corporate governance in the success of a business enterprise. This indicates a need for regulators and independent bodies to further sensitise the sector on this subject matter, which plays a critical role in the banker/customer relationship.

4.5 FACTORS LEADING TO LOSS OF CONFIDENCE – 2003 TO 2008

Respondents were required to state up to five reasons for the loss of confidence in the banking sector during the period 2003 to 2008 when Zimbabwe experienced an economic crisis. The question was open ended thus allowing respondents to freely articulate their views on the cause of the crisis.

The responses given by banking sector respondents were aggregated as shown in Figure 4.5 below.
The top five recurring responses from regulators with respect to the causes of loss of confidence in the banking sector during the crisis period are shown in Figure 4.6 below.
An analysis of the reasons put forward by regulators and bankers for the loss of confidence in the banking sector in the period 2003 to 2008 showed that there were some areas of agreement between the respondent groups. Both bankers and regulators (100%) respectively indicated that bank failures were the reason for the loss of confidence in the banking sector. This finding is in line with the work of Gerali and Passacantando (2007) who noted that the loss of confidence in the American Banking system in 1933 was largely attributed to wide-spread bank failures. This explains the dip in confidence levels experienced in mid 2011 and 2012 following the placement under curatorship of ReNaissance Merchant Bank and Interfin Bank Limited.

It is also noted that both stakeholder groups noted the impact of loss of value in deposits held in bank accounts due to the hyperinflationary environment. This observation ties in with the fact that today’s banking sector is dependent on the concept of fiat money and the money creation process that it enables. Bernanke and Blinder (1989) note that hyperinflation is the terminal stage of any fiat currency where money loses most of its value practically overnight. Hyperinflation is often the result of increasing regular inflation to the point where all confidence in money is lost. Building on this line of thought, it is clear that the use of a fiat money system in a hyperinflationary environment leads depositors to lose all confidence in the system which is based on a currency which is rapidly losing value.

The two stakeholder groups were also in agreement with the fact that confidence in the banking system was lost due to the forced seizure of foreign currency account balances by the Reserve Bank in 2008 and 2009 to fund urgent import requirements on behalf of government. This action violated the banker/customer relationship as described by Bollen (2005). Further, the basis upon which the customer had made a choice on the bank to place funds with such as capitalisation, performance, risk management practices and management became invalid as the banks were forced to act outside of the provisions of the banker / customer relationship.

It is interesting to note that the banking sector responses highlighted the damaging effect of regulatory burden arising from the excessive controls over bank transactions.
This aspect was only indicated by 27.2% of regulator respondents. This observation by the banking sector respondents validates the implementation of financial liberalisation as postulated by McKinnon and Shaw (1973) who attributed the poor state of confidence in the banking sectors of emerging economies to the fact that they tend to be over-regulated resulting in inefficiencies in allocation of resources.

There was also agreement among regulators (81.8%) that the adequacy of deposit insurance during the crisis period which was characterised by frequent bank closures also served to reduce depositor confidence in the banking sector. This finding is in agreement with the Diamond and Dyvbig model (1983) which highlighted the role of deposit insurance in limiting the negative effects of bank runs and subsequent bank failures in an economy.

The researcher noted that the regulator responses noted the impact of poor risk management and corporate governance practices as having had an impact on banking sector confidence. In this regard, 100% of regulator respondents indicated poor risk management and corporate governance practices as being determinants of banking sector confidence as compared to 6.5% of banking sector respondents. The responses by regulators is in line with the findings of Enoch et al (2002) who highlighted that factors such as risk management culture and corporate governance at banking institutions bear influence in the level of confidence depositors have in a bank and the banking system as a whole. This aspect can also be linked to the need for a robust regulatory framework as highlighted by Beckerman (2002) for the effective oversight of the banking sector.

The failure by most banking sector respondents to recognise the important role played by risk management and corporate governance culture in a banking institution is a reflection of the failure by bankers to recognise the role of risk management practices in maintaining financial stability. As noted by the IMF (1998), the adoption of best practice with respect to risk management is a key component of a financial stability programme. Such best practices include the adoption of enterprise-wide risk management as opposed to the silo approach to the management of risks.
4.6 ROLE OF THE CENTRAL BANK IN ENSURING DEPOSITOR CONFIDENCE

The research sought to establish the views of the respondents on the roles played by the central bank, government and the banking sector in building and maintaining depositor confidence.

Respondents from the banking sector were required to select from a set of 5 roles namely, maintenance of currency stability, supervision of banking institutions, providing monetary policy direction, providing deposit insurance and providing reliable transacting infrastructure.

The responses given by banking sector respondents are detailed in Figure 4.7 below.

![Responses on the Role of Central Bank in Building Depositor Confidence](image)

**Table 4.7.1: Responses on the Role of Central Bank in Building Depositor Confidence**

<table>
<thead>
<tr>
<th>Role</th>
<th>Bankers</th>
<th>Regulators</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability of Currency</td>
<td>71%</td>
<td>100%</td>
</tr>
<tr>
<td>Supervision of Banks</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Transacting Infrastructure</td>
<td>13%</td>
<td>0%</td>
</tr>
<tr>
<td>Deposit Insurance</td>
<td>19%</td>
<td>0%</td>
</tr>
<tr>
<td>Monetary Policy Direction</td>
<td>58%</td>
<td>27%</td>
</tr>
</tbody>
</table>

*Source: Primary Data*

**Figure 4.7: Responses on the Role of Central Bank in Building Depositor Confidence**

The survey established that there is general agreement among regulators and the banking sector that the central bank is responsible for supervision of banking institutions. Regarding the stability of the currency, 71% of banking sector respondents compared to 100% of respondents agreed that this was one of the roles played by the central bank in confidence building. On the other hand, while 58% of bankers concurred that the central bank is responsible for setting monetary policy direction, only 27% of the regulators considered this a role which contributes to building confidence in the banking sector. On the issue of provision of deposit insurance, the general response from bankers and regulators was that this was not a key responsibility of the central bank in
building confidence in the banking sector.

The survey results show the key role of the central bank with regards to banking sector confidence, being the supervision of the banking sector. This observation is in agreement with the findings of Healey (2001) who noted that one of the roles of the Central Bank is maintenance of financial stability through a robust regulatory framework.

There was also general agreement on the role to maintain currency stability with 71% and 100% of bankers and regulators, respectively, identifying this as a key role of the central bank. This finding is in line with the mandate of the Reserve Bank as enshrined in the Reserve Bank Act [Chapter 22:10]. However, as noted by the IMF with respect to Panama, the abandonment of the local currency and the adoption of a multiple currency system, results in the central bank losing its monetary policy autonomy and the ability to influence the credit/money creation process.

Tied in with the maintenance of currency stability is the role of setting monetary policy direction which although being a key mandate of the central bank cannot be effectively carried out in the multiple currency era due to the loss of monetary policy autonomy. With respect to this role 58% and 27% of bankers and regulators, respectively noted this as a role of the central bank in building depositor confidence. As noted by IMF (2003), a nation such as Zimbabwe and Panama without a domestic currency becomes vulnerable to external shocks emanating from factors imported into the economy due to the use of a basket of foreign currencies.

There was general agreement on the fact that the central Bank is not responsible for deposit insurance and setting up transacting infrastructure. This is in line with international best practice and the recommendations of the IMF and Bank for International Settlements which advocate for the establishment of a body independent from the Central Bank or supervisory authority to provide deposit insurance. Further, BIS recommends for the setting up of transacting infrastructure on a shared basis by banking sector players, with competition being based on service delivery and not infrastructure.
The findings of the research with respect to the role of the Central Bank clearly indicate some differences in expectations between bankers and regulators. More importantly the findings highlight the dynamic role of the central bank in Zimbabwe in the multi-currency era. In particular there are some roles such as setting of monetary policy direction and maintaining currency stability which have traditionally been the responsibility of the Reserve Bank but due to changed circumstances, the central bank is hamstrung to carry these out.

### 4.7 ROLE OF GOVERNMENT IN BUILDING DEPOSITOR CONFIDENCE

Both regulator and banker respondents were requested to indicate the role played by the Government in building depositor confidence. Respondents were required to select a response from a selection of four roles namely implementing consistent fiscal and monetary policies; ensuring an enabling banking environment; ensuring the enactment of appropriate legislation and the education of the banking public on banking products and banking legislation.

The results of the responses gathered on the role of Government in building depositor confidence are presented in **Figure 4.8** below.

![Figure 4.8: Responses on the Role of Government in Building Banking Sector Confidence](image)

**Source:** Primary Data

**Figure 4.8:** Responses on the Role of Government in Building Banking Sector Confidence

The survey established that there is general agreement between the stakeholder groups that the Government is overall responsible for the implementation of consistent fiscal
and monetary policies as well as the enactment of appropriate banking legislation to
govern banking sector activities. This role fits in with the findings of the Beckerman et al
(2002) who emphasized the need for a robust regulatory framework as a foundation of a
sound financial system.

With regards provision of education to the banking public both bankers and regulators
expressed the general view that this is not the responsibility of the government. There
is, however, still need to consider this key aspect of consumer education as part of
efforts to build depositor confidence. This is particularly key in the Zimbabwean case
where financial inclusion is considered to be key to the economic recovery process. In
this regard, depositors need to be educated about the operations of the sector in order
to understand the products and to protect their rights.

4.8 ROLE OF BANKS IN BUILDING DEPOSITOR CONFIDENCE

The researcher sought to establish the role to be played by the banking sector in
ensuring financial stability. Respondents were required to select among 5 roles namely
adoption of good corporate governance culture, use of sound risk management
practices, ensuring transparency in dealings with the banking public and offering reliable
services to the banking public.

The results of the responses on the role of banking institutions in building customer
confidence are provided in Figure 4.9 below:

![Figure 4.9: Responses on Role of Banks in Building Customer Confidence](image)

*Source: Primary Data*
The responses indicated that there is agreement among bankers and regulators that the banking sector is responsible for adoption of sound risk management (87% and 100%) and corporate governance practices (71% and 100%) as well as ensuring that there is transparency in all dealings with the banking public (71% and 66.7%). The results, however, noted that offering reliable services to the banking public is not a key responsibility of the banking sector in relation to building depositor confidence.

The role of the banking sector as indicated in the banking sector and regulator responses is in line with the recommendations of Enoch et al (2002) who noted that banks need to gain the confidence of their depositors by adopting rigorous risk management practices and corporate governance systems. Based on this, a customer is able to develop a relationship of trust with the client.

In addition, the need for transparency was highlighted by Diamond Douglas (1983) who noted that due to information asymmetry a depositor chooses to entrust a bank with his or her wealth to manage using access to better information. However, this relationship of trust should not be abused and in fact a banker should endeavour to be as transparent as possible in all transactions in order to maintain that trust. It should also be noted that the adoption of an appropriately rigorous risk management system depends on the ability of regulators to enforce this through effective supervision and regulation as recommended by Beckerman et al (2002).

**4.9 HAVE STAKEHOLDERS PLAYED THEIR ROLE IN ENSURING BANKING SECTOR CONFIDENCE?**

The research sought to determine the views of the respondents on the extent to which the 3 stakeholder groups had played their respective roles in building and maintaining depositor confidence. Respondents chose 1 of 3 possible responses namely Yes, No or Partly.

The results of the responses from the banking sector on the stakeholders playing their roles in restoring public confidence are contained in Figure 4.10 below:
The results of the enquiry into whether or not the three stakeholder groups namely, banks, RBZ, DPC and government have played their role in restoring depositor confidence effectively indicated that the majority of banking sector respondents (87%) were of the view that the Reserve Bank and Government had only partially played their respective roles. On the other hand regulator respondents were in agreement (100%) that the stakeholders had only partly played their role in restoring depositor confidence.

Of note were the reasons stated by the respondents for considering the roles only partially fulfilled. The commonly stated reasons for the response are given below:

**RBZ…**

Responses from regulators and banking sector representatives expressed a common concern at the undercapitalization of the Central Bank in the multiple currency era. This has negatively impacted on the ability of the Reserve Bank to play its role of maintaining financial stability in the banking sector in as far as providing lender of last resort facilities
It was noted, by regulators in particular, that following dollarisation banking sector players had not recapitalized adequately to enable them to play their roles effectively. Consequently, respondents expressed the view that in most cases recapitalisation initiatives extended only as far as to meet the relevant minimum regulatory requirements. This in most cases placed a constraint on the capacity of the banks to underwrite business and to absorb any systemic shocks emanating from credit, liquidity and interest rate risks. This aspect is key in a market where interbank trading and lender of last resort facilities are virtually non-existent as in the case of Zimbabwe.

Respondents noted the limited fiscal space faced by the Government in ensuring that some key pillars of confidence in the sector are put in place. These include the capitalisation of the Reserve Bank and Deposit Protection Corporation to ensure the existence of a robust safety net through provision of lender of last resort facilities and deposit insurance.

There was also expression of the need for clarity in policy by the Government on the issue of indigenisation of the banking sector. In this regard 77% of banking sector respondents noted that the threat of upheaval in the banking sector in the wake of forced indigenisation of stable foreign-owned banks has caused anxiety among depositors. Consequently, depositors have become wary of placing funds on a long-term basis with banking institutions, including foreign-owned banking institutions which are generally perceived to be safe and sound.
Some respondents highlighted the continued existence of a high country risk premium largely attributed to the government’s failure to reduce its external debt arrears. Respondents further cited the failure by the government and central bank to repay amounts forcibly seized from foreign currency accounts at the height of the country’s economic crisis.

The results relating to the roles played by the four stakeholder groups indicate a need for a more integrated approach to the issue of restoring public confidence in the banking system. As noted by Beckerman et al (2002) the adoption of a new currency or multiple currencies is not an all encompassing solution to an economic crisis. In order to address the crisis holistically, Beckerman et al note the need for extensive consultation among stakeholders including the Government, regulators, bankers and industry as a whole. This observation was noted in relation to the dollarisation of Ecuador wherein it was noted that despite the adoption of the United States Dollar, the recovery of the economy took a while to manifest due to weaknesses in the financial system including inadequate regulation and inadequate supervisory capacity, among other issues.

Further, as indicated in the Kim and Mody model (2004), confidence in the banking sector is also dependent on depositors’ perception of the Government’s bailout policy. In the case of Zimbabwe, the cashflow constraints being faced by Government and the subsequent inadequate capitalisation of the Reserve Bank in the multiple currency era, have led to doubts over the government’s capacity to act decisively in the face of a banking crisis.

4.10 IMPACT OF CURRENCY REFORMS

The research sought to establish the impact currency reform measures had had on a number of key indicators in the economy. The respondents were requested to indicate whether they believed the reforms implemented were needed for restoration of confidence as well as to evaluate the impact of reforms on banking innovation, liquidity, the economic environment, and the banking environment.
The responses from the banking sector and regulators are illustrated in **Figure 4.11** and **Figure 4.12** below.

**Figure 4.11: Banking Sector Responses on Impact of Currency Reforms on Depositor Confidence**

Banking sector respondents were in general agreement, with 87% of respondents in strong agreement that currency reforms were indeed necessary to restore confidence in the banking sector. The respondents further agreed that the currency reforms had improved the banking environment as well as the economic conditions prevailing in the country. It was however, noted that the banking sector respondents did not agree that the reforms had improved liquidity nor had they improved the level of banking innovation as evidenced by the introduction of new products.

**Source: Primary Data**

**Figure 4.12: Regulator Responses on Impact of Currency Reforms on Depositor Confidence**
Regulators, as with banking sector respondents agreed that the reforms were necessary to restore confidence in the banking sector. Further, the regulators agreed that the reforms had improved the banking environment and the general condition of the economy.

Regulators were also in agreement with banking sector respondents that the currency reforms had not improved the liquidity situation in the country and had not increased the level of product innovation.

The responses from both regulators and bankers indicate that indeed the currency reforms were a necessary step towards restoration of banking sector confidence. Further, the reforms are seen to have had a positive impact on the economic environment and the banking sector specifically. This is in line with the experiences of such nations as Argentina and Ecuador, wherein there was a marked improvement in the use of banking services upon liberalisation of the currency regime in the respective countries.

The responses regarding the liquidity situation indicate the need for other measures to be implemented in order to resolve the liquidity constraints being faced in the multicurrency era. As indicated by Makochekanwa (2009), dollarisation is not a panacea to all financial sector challenges. There is need to review other issues impacting on liquidity such as the lender of last resort function which may be looked at in the context of the Panama dollarisation, where the function was taken over by the banking sector as a private initiative. As in the case of Ecuador, Blejer (2002) noted the need to establish a sound banking sector and noted the need to review capital requirements and consider liberalizing foreign entry requirements which would encourage capital inflow into the country.

In relation to the improvement in innovation by banks it is noted that both stakeholder groups noted that although the currency reforms ushered in improvement in the overall banking and economic environment, product innovation has generally not improved in tandem with the positive developments in the banking sector. This position may be attributed to the fact that research was carried out soon after implementation of the
currency reforms. There may therefore not have been inadequate time for banks to start focusing on product innovation. A study carried out later, perhaps 10 years, may find data indicating a change in the level of product innovation.

4.11 HAS PUBLIC CONFIDENCE BEEN RESTORED?

The study sought to establish the views of the respondents on whether or not confidence in the banking sector had indeed been restored following the implementation of currency reforms.

The banking sector responses are illustrated in Figure 4.12 below.

![Banking Sector Responses on Restoration of Banking Sector Confidence]

Source: Primary Data

Figure 4.13: Banking Sector Responses on Restoration of Banking Sector Confidence

The established that in general there is agreement that confidence has been partly restored. An analysis of the responses showed that whilst 87% of banking sector respondents were of the view that confidence has been restored partially with the remaining 13% indicating that confidence had been restored; all regulatory respondents expressed the view that there has only been partial restoration of depositor confidence.

The results show a general consensus that the currency reforms implemented have had a positive impact on depositor confidence. However, there is indication that more needs
to be done in order to comprehensively address the issue of depositor confidence in Zimbabwe. The result indicates that the various measures implemented although having their own merits are not a complete solution to the issue of depositor confidence, as indicated in the studies conducted by Blejer in Argentina. The results are tied in with the findings relating to the impact of the reforms on liquidity and banking sector innovation, wherein there was general agreement that the reforms have failed to address liquidity constraints and product innovation in the economy.

4.12 IMPACT OF CURRENCY REFORM MEASURES

The research study went further to request respondents to evaluate the impact of five currency reform measures namely removal of cash withdrawal limits, implementation of a cash budgeting system, conversion of outstanding statutory reserve balances into tradable financial instruments, liberalisation of the current account and adoption of the multiple currency system on overall banking sector confidence. Respondents were required to indicate the impact in terms of low, medium and high impact.

The results of responses from the banking sector and regulators are contained in Figure 4.13 and Figure 4.14 below:

![Figure 4.14: Banking Sector Responses on the Impact of Currency Reform Measures](source: Primary Data)
The survey noted that the measure with the highest impact on banking sector confidence was the adoption of the multicurrency system which was rated high impact by 73% of respondents. This was followed by the removal of cash withdrawal limits which was rated a high impact measure by 67% of respondents and liberalisation of the current account which was rated high by 60% of banking sector respondents.

The adoption of the cash budgeting system was ranked as being medium impact by 55% of respondents, while the general sentiment on the conversion of outstanding statutory reserves balances into tradable paper was considered a low impact reform measure.

![Bar chart showing responses to measures](image)

Source: primary data

Figure 4.15: Regulator Responses on the Impact of Currency Reform Measures

Among regulator respondents, there was general agreement with banking sector responses that the high impact measures were the adoption of the multiple currency system, removal of cash withdrawal limits and liberalisation of the current account. These measures were ranked as high impact by 79%, 67% and 50% of regulator respondents, respectively.

The adoption of the cash budgeting system was ranked as a medium impact measure by 62% of respondents, while the conversion of outstanding statutory reserves balances was ranked as a low impact reform measure.
The rankings assigned to the currency reforms confirm the sentiment expressed earlier that the adoption of the multiple currency system was necessary for the restoration of public confidence. Also of note is the fact that the measures such as adoption of multicurrency system and removal of cash withdrawal limits were ranked highly. A possible explanation to this is the fact that these measures are tangible and can be felt immediately by the transacting public. This observation was noted in the case of Argentina where the adoption of the US dollar was noted by the IMF (2000) where the reforms led to an increase in bank deposits.

The low ranking of such measures as the conversion of statutory reserves into tradable paper may be due to the fact that not only does it not directly affect the banking public, but it also raises questions as to the capacity of the Government and Reserve Bank to honour its obligations. The payment of this amount directly to the banking sector would not only have raised confidence levels in the Government’s commitment to the reforms but also raised hopes regarding outstanding FCA balances being repaid. This observation is in line with the observation made by the IMF (2003) in the case of Panama where it was noted that the adoption of a foreign currency limits the Central Bank’s flexibility in dealing with confidence issues.

The responses led the researcher to conclude that there has been a partial restoration of banking confidence levels following the adoption of the multiple currency system.

4.13 REASONS FOR CURRENT LEVEL OF DEPOSITOR CONFIDENCE

The research sought to establish the reasons for the current levels of public confidence in the banking sector. The responses from bankers and regulators are contained in Figure 4.15 and Figure 4.16 below, respectively:
The survey established that current levels of deposit confidence. Also of note in the banking sector responses was the fact that there was recognition that the poor condition of banks in the sector had influence on the level of banking sector confidence with 44% agreeing strongly while 56% were in agreement.

Source: Primary Data

Figure 4. 16: Banking Sector Reasons for Current Level of Depositor Confidence

The survey noted that, in general, respondents were of the view that the inadequacy of the current regulatory framework, reforms and deposit insurance accounted for the current levels of deposit confidence. Also of note in the banking sector responses was the fact that there was recognition that the poor condition of banks in the sector had influence on the level of banking sector confidence with 44% agreeing strongly while 56% were in agreement.

Source: Primary data

Figure 4. 17: Regulators’ Reasons for Current Level of Depositor Confidence

The survey established that the inadequacy of the regulatory framework, reform
measures and deposit insurance were responsible for current levels of banking sector. Further regulators noted that the poor condition of banks in the sector and poor risk management and corporate governance practices had an impact on public confidence.

The observations of the regulators and bankers relating to the need for a better regulatory framework as well as additional reform measures are in line with the findings of Beckerman et al (2002) who highlighted the importance of the existence of a strong banking system coupled with strong regulatory and legislative framework in tackling the issue of banking sector confidence. Further, Berg et al (2000) noted the need for additional reforms in Argentina in view of the persistence of a high country risk premium as is the case in Zimbabwe.

The issue of risk management practices and corporate governance structures tallies with the observations of Enoch et al (2002) who noted that some of the key considerations for a depositor in selecting a bank include management, reputation, risk culture and corporate governance practices. It was also noted that periodic disclosure of these factors serve to enforce market discipline as depositors will tend to avoid those institutions displaying poor risk management practices and non-compliance culture.

4.14 PROPOSALS ON MEASURES TO BOOST DEPOSITOR CONFIDENCE

The research sought to solicit possible proposals on additional measures to enhance public confidence in the banking sector.

The respondents were given a range of possible enhancement measures namely, increased regulation, increased capital requirements, foreign ownership, increased disclosure requirements, improved banking infrastructure and increased deposit insurance as shown in Figure 4.17 below:
Figure 4.18: Proposals for Improving Depositor Confidence

The results indicate agreement among regulators on the need for increased capital requirements, increased disclosure and increased deposit insurance in order to boost banking sector confidence levels. Banking sector respondents were in agreement with regulators on the need for increased regulation and deposit insurance. Of note what was the lack of support on the need for foreign ownership into the sector in order to boost confidence in the sector.

The responses regarding additional measures tally with the findings of Berg et al (2002), Berman (2000) as well as Hanke et al (2004) who noted the need for a holistic approach to the resolution of depositor confidence issues. These measures include strengthening of the legal and regulatory framework and capacitate the supervisory authority to superintend over the sector in order to protect the interests of depositors and safeguard financial stability.

With regards capitalisation, increasing minimum requirements would be in line with the recommendations of Jackson et al (1999) and Morrison et al (2001) who highlighted that capital gives an indication of the soundness of a bank and its ability to absorb endogenous and exogenous shocks. However, given the difficulty with which the current minimum regulatory requirements were met and in the absence of foreign investments, there is need for consolidation within the banking sector. This would consist of

Source: Primary Data

with
acquisitions and mergers within the sector to bring together smaller weaker institutions
to former larger players in the sector, better able to play the intermediary role in the economy.

The responses to the last question in the questionnaire regarding additional measures
to enhance banking sector confidence led the researcher to conclude that there is no need for further financial sector reforms in order to improve banking sector confidence.

4.15 RESEARCH PROPOSITION

The results of the survey lead the researcher to accept the research proposition which states that adoption of the multiple currency system has had a positive impact on restoring banking sector confidence in Zimbabwe. However, the survey noted that, although there has been an improvement in the level of public confidence post implementation of the multi currency system, confidence levels have not been fully restored.

4.16 CHAPTER SUMMARY

The chapter presented findings on the factors influencing banking sector confidence in Zimbabwe. The chapter also summarised the impact of the currency reform measures implemented since 2009 and assessed their effectiveness in restoring depositor confidence. Lastly, the chapter looked at the findings relating to possible policy reforms to further boost public confidence in the Zimbabwean banking sector. These findings were discussed in conjunction with the literature reviewed by the study and was also used to test the hypotheses of the study. The next chapter presents the major conclusions and recommendations of the study.
CHAPTER 5
CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter concludes the study through the presentation of concluding remarks and recommendations on the topic under study. The recommendations are based on information gathered and findings made during the research. The main objective of the research was to assess the effectiveness of adopting the multi-currency system in 2009 with regards to restoring depositor confidence in the Zimbabwean banking sector. As part of the secondary objectives of the study, the researcher sought to identify the factors that resulted in the loss of depositor confidence in the pre-multiple currency era and in the post-multicurrency era.

Further, the research sought to identify possible policy recommendations to further strengthen depositor confidence going forward. Finally, the chapter proffers some proposition for future research on the subject matter and any other areas which this particular study did not address.

5.2 CONCLUSIONS

5.2.1 Adoption of Multicurrency System Improved Depositor Confidence in the Zimbabwe Banking Sector

The results of the research showed that the adoption of the multicurrency system was necessary to restore depositor confidence. The currency reforms although having had a positive impact on the level of public confidence in the banking sector, have not been adequate to restore confidence in the Zimbabwean financial system. The impact of the reform measures has been limited by some constraints bedevilling the economy such as lack of fiscal space in the multicurrency era, resulting in partial restoration of confidence in the sector.
5.2.2 Key Stakeholders have Distinct Role to Play in Public Confidence Building

The research established that the key stakeholders, banks, regulators and government have responsibilities to play in ensuring public confidence in the banking system. The research noted that in general, these roles are only being partly fulfilled resulting in partial restoration of public confidence in the banking system.

5.2.3 The Highest Impact Currency Reform Measures are those Directly Impacting on Banking Confidence

The research also concluded that the reform measures with the highest impact on public confidence were those that were most visible in the public domain. These include measures such as the adoption of the multicurrency system, liberalisation of the current account and removal of cash withdrawal limits.

5.2.4 There is Need for Further Policy Review to Increase Public Confidence Levels

The research also concluded that there is need for further policy review in order to enhance confidence. Such policies include improvement in the regulatory and supervisory regime in the banking sector, recapitalisation of both banking institutions and regulatory bodies to effectively discharge their roles and the implementation of policies consistent with restoration of confidence.

5.3 POLICY RECOMMENDATIONS

5.3.1 Zimbabwean Government should inspire depositor confidence by adequately capitalising the Reserve Bank and the Deposit Protection Corporation

The results of the research highlighted the importance of adequate capitalisation of regulatory bodies such as the Reserve Bank and the Deposit Protection Corporation.
These institutions play a key role in the financial sector safety net and maintenance of depositor confidence and overall financial sector stability.

Inadequate capitalisation of the DPC has meant that depositors cannot confidently rely on the institution to provide full cover of deposits in the event of bank failure. The inadequate capitalisation of the Reserve Bank has hampered the ability of the central bank to effectively discharge its role as lender of last resort to the banking sector.

In view of the government’s limited fiscal space there is need to consider alternative means of recapitalising the Reserve Bank. A possible solution is the adoption of the model implemented in South Africa in 1921 where the South Africa Reserve Bank is privately owned. Participation by Zimbabwe’s private sector players would assist in recapitalising the central bank which is in the interests of all players and the economy as a whole. A similar arrangement has been adopted in nations such as Belgium, Greece, Italy, Japan, Switzerland, Turkey and the United States of America.

Another option available to policy makers is for the country’s lender of last resort fund to be funded by contributions from the banking institutions to form a privately run lender of last resort function as was done in Ecuador. Alternatively, a combination of public and private ownership could be implemented as was the case in El Salvador and Panama. The privatisation of the fund would also have the added advantage of allaying fears of possible abuse of the funds by the Central Bank as was the case in the Zimbabwe dollar era.

5.3.2 The Reserve Bank should ensure compliance with the revised regulatory capital requirements for banking institutions

In view of the existence of a weak financial sector safety net, there is need to ensure existence of robust financial institutions in the sector that are able to absorb exogenous and endogenous shocks. In this regard, there is need to ensure banking institutions hold adequate capital buffers to absorb unexpected losses.
5.3.3 Strengthen supervision and regulation of the banking sector to inspire depositor confidence

As noted by Beckerman et al (2002), a pre-requisite for success of any financial liberalisation programme is the establishment of a robust regulatory and supervisory framework in order to ensure the existence of a strong banking sector capable of supporting economic development initiatives.

In this regard, there is need to review all laws and regulations applicable in the banking sector to ensure that they promote the adoption of sound risk management and corporate governance systems. There is also need for a review of supervisory practices to strengthen them and bring them in line with international best practice.

5.3.4 Implement increased banking sector disclosure requirements to enhance depositor confidence

The results of the research also highlighted the importance of establishing confidence and trust in the banker/customer relationship. In this regards, there is need for banking institutions to adopt a culture of transparency in all its dealings with the banking public. Such transparency should cover areas such as account charges and interest rates, condition and performance of the bank as well as compliance with regulatory requirements.

In this respect, the Reserve Bank also needs to enforce its disclosure requirements to ensure that banking public makes decisions based on complete set of information. As announced in the 2012 Mid-term Monetary Policy Statement, the Reserve Bank is finalising a disclosure framework for banking institutions on interest rates and bank charges.

5.4 SUGGESTIONS FOR FUTURE RESEARCH

Following conclusion of this study, the researcher noted a need for further research on the:
a) role of the central bank in a dollarized economy or multicurrency environment. This research would look at the role of the central bank and the effectiveness of its role in an environment where its monetary autonomy is usurped by the use of foreign currency; it loses seigniorage revenue and is unable to act as a lender of last resort in the banking sector. The research would look at possible policy alternatives available to the central bank in fulfilling its mandate under these circumstances.

b) impact of a nation’s political environment on the role of the central bank. The research would explore the level of independence of the central bank in view of changes in political arena such as change in leadership. The research would look at such issues as the funding of the central bank particularly in an economy without monetary policy autonomy and the resultant impact on independence of the institution.
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## APPENDIX 1: ECONOMIC RECOVERY PROGRAMME FOR ZIMBABWE 2009

<table>
<thead>
<tr>
<th>Price liberalization</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tbody>
<tr>
<td>• Remove price (including interest rate) controls</td>
<td></td>
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<tr>
<td>• Announce pre-planting prices for first 2 agricultural seasons</td>
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<tr>
<th>Exchange rate liberalization</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tr>
<td>• Remove exchange rate controls on current transactions and transfers</td>
<td></td>
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<tr>
<td>• Allow exchange rate to be market-determined</td>
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<tr>
<td>• Remove capital controls on private individuals</td>
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<tr>
<td>• Unify the exchange rate by first establishing a single official rate that is then steadily depreciated toward market-determined levels (reference-parallel market rate)</td>
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<tr>
<th>RBZ and financial sector</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tbody>
<tr>
<td>• Restructure the RBZ and return it to its core function of stabilizing prices</td>
<td></td>
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<tr>
<td>• Revise RBZ Act and grant autonomy to central bank</td>
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<tr>
<td>• Recapitalize commercial banks</td>
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<tr>
<td>• Restore liquidity by reducing statutory reserve requirements and restructuring the RBZ discount window</td>
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<td>• Improve the regulatory environment (e.g. review RBZ Act 2004; create a Monetary Policy Committee),</td>
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<tr>
<td>• Facilitate financial inclusiveness through easing barriers to the operations of microfinance institutions</td>
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<tr>
<th>Quasi-fiscal activities (QFAs)</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tbody>
<tr>
<td>• Eliminate QFAs</td>
<td></td>
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<tr>
<td>• Consolidate existing QFAs into national budget</td>
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<tr>
<td>• RBZ should not engage in QFAs</td>
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<tr>
<th>Monetary regimes</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tr>
<td>• Review options - dollarization, free banking and currency board (see Box 1 below)</td>
<td></td>
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<tr>
<td>• Partial dollarization (whereby a preferred hard currency tender is allowed to co-exist with domestic currency of fixed monetary base) is viewed as the least controversial option</td>
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<tr>
<td>• Recommend proactive monetary policy via indirect monetary control using a monetary based anchor</td>
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<tr>
<td>• Establish and publish money supply growth targets</td>
<td></td>
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<tr>
<td>• Curb excessive expenditure through printing of money and restore M1 ratio to M3 to normal levels of below 1:10</td>
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<tr>
<th>Fiscal policy</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tr>
<td>• Exercise fiscal restraint</td>
<td></td>
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<tr>
<td>• Secure aid funding to supplement budgetary revenue</td>
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<td>• Introduce extra revenue measures</td>
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<td>• Conduct public expenditure review</td>
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<tr>
<td>• Establish and publish fiscal rules</td>
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<tr>
<td>• Develop rolling Medium Term Expenditure Frameworks (MTEF)²</td>
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<tr>
<td>• Conduct mid-term budgetary reviews</td>
<td></td>
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<td>• Carry out debt audit</td>
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<tr>
<td>• Introduce budget caps for Public Enterprises (PEs)</td>
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<tr>
<td>• Strengthen public financial management systems</td>
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<tr>
<th>Countervailing measures</th>
<th>COMPREHENSIVE ECONOMIC RECOVERY</th>
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<tr>
<td>• Strengthen the Enhanced Social Protection Programme</td>
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<td>• Improve food aid distribution</td>
<td></td>
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<tr>
<td>• Introduce labour intensive public works</td>
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<tr>
<td>• Improve emergency drugs/medical supplies</td>
<td></td>
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<tr>
<td>• Extend the basic education assistance</td>
<td></td>
</tr>
<tr>
<td>• Support children in need</td>
<td></td>
</tr>
<tr>
<td>• Improve targeted direct transfers through Basic Education Assistance Model (BEAM), disability allowances, medical treatment orders, food vouchers.etc.</td>
<td></td>
</tr>
</tbody>
</table>

Source: Zimbabwe Institute

² The Medium Term Expenditure Frameworks (MDFTs) have now become the conventional three months planning horizon for yearly and medium-term plans mainly used in national programmes and coordination with international donors.
APPENDIX 2: QUESTIONNAIRE FOR REGULATORS

Dear Sir / Madam

My name is Locadia Chaavure, a student of the Graduate School of Management’s Master of Business Administration (MBA) programme at the University Of Zimbabwe.

As part of the requirements for completion of the MBA programme, I am carrying out a research study titled “Impact of the adoption of multiple currency system on banking sector confidence in Zimbabwe.”

Please find attached a questionnaire comprised of closed and open ended questions. Your cooperation in completing this questionnaire will be greatly appreciated. Any responses provided in this research study will be used purely academic purposes and will be treated with high levels of confidentiality. It is hoped that the research findings will assist the RBZ, banks and other stakeholders in enhancing banking sector confidence.

I would appreciate if your responses are received by no later than Friday, 31 May 2013.

My contact details are as follows:

Tel: (04) 703000 ext:11010
Cell: 0772 471 973
Email: lchaavure@rbz.co.zw or lkwashirai2010@gmail.com
SECTION A: DEMOGRAPHICS

1. Indicate which regulatory body you represent:
   Reserve Bank of Zimbabwe  
   Ministry of Finance  
   Deposit Protection Corporation  
   Other  
   If other, please specify type of regulatory body  

2. Please indicate your position in the organisation.
   Director  
   Senior Manager  

3. Please indicate how long you have worked for this regulatory body.
   _____________________ Years.

SECTION B: FACTORS AFFECTING BANKING CONFIDENCE

4. Please indicate with a tick the extent to which the following factors influence banking sector confidence in Zimbabwe. Please tick ONLY ONE BOX for each factor.
   1= Strongly agree; 2 = Agree; 3 =Neutral; 4= Disagree; 5= Strongly disagree

   Stability of currency  
   Government policy  

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5. Please indicate the factors that led to the lack of confidence in the banking sector in the period prior to introduction of the multiple currency regime i.e. 2003 to 2008:

i. __________________________________________________________

ii. __________________________________________________________

iii. __________________________________________________________

iv. __________________________________________________________

v. __________________________________________________________

6. Please indicate with a tick in the appropriate box what you believe is the role of the central bank in building confidence in the banking sector:

- Ensuring stability of currency value
- Regulation and supervision of the banking sector
- Ensuring reliable infrastructure for transacting
- Provision of deposit insurance
- Provide monetary policy direction
- Other

If other, please specify:

_________________________________________________________

7. Please indicate with a tick in the appropriate box what you believe is the role of the Government in building confidence in the banking sector.
Implementing consistent fiscal and monetary policies

Ensuring an enabling environment for banking

Establishing appropriate legislation for the banking sector

Educating & informing banking public on the sector

Other

If other, please specify

8. Please indicate with a tick what you believe is the role of banks in building confidence in the banking sector.

Adopting good corporate governance practices

Employing sound risk management systems

Ensuring transparency and integrity in all dealings with public

Providing reliable services to banking public

Other

If other, please specify:

9. Do you believe that the following stakeholders have played their role adequately in promoting banking sector confidence?

YES    NO    PARTLY
## SECTION C: IMPACT OF ADOPTION OF MULTI-CURRENCY SYSTEM

10. Please indicate whether you agree with the following statements by placing a tick in the appropriate box. TICK ONE BOX ONLY FOR EACH STATEMENT.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Currency reforms were needed to restore confidence</td>
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<td></td>
<td></td>
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<tr>
<td>Currency reforms have improved banking environment</td>
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<tr>
<td>Currency reforms have improved economic environment</td>
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<tr>
<td>Currency reforms have improved liquidity in economy</td>
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<tr>
<td>Currency reforms have increased banking innovation</td>
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</tr>
</tbody>
</table>

11. Banking sector confidence has been restored by the adoption of the multi-currency system. Please indicate with a tick in one box, whether you agree with this statement.

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>PARTLY</th>
</tr>
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<tbody>
<tr>
<td></td>
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</tbody>
</table>
12. Please indicate with a tick in the appropriate box, the extent to which each of the following measures implemented under the currency reforms of 2009, have impacted on banking sector confidence. Tick ONE BOX ONLY for each measure.

<table>
<thead>
<tr>
<th>Measure</th>
<th>1</th>
<th>2</th>
<th>3</th>
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</thead>
<tbody>
<tr>
<td>Adoption of multiple currency system</td>
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<tr>
<td>Liberalization of the current account</td>
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<tr>
<td>Conversion of outstanding statutory reserves to tradable paper</td>
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<tr>
<td>Cash budgeting fiscal system</td>
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<tr>
<td>Removal of cash withdrawal limits</td>
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</tr>
</tbody>
</table>

13. Please indicate with a tick in the appropriate box, what you believe are the current factors influencing banking sector confidence. TICK ONE BOX ONLY FOR EACH FACTOR.

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inadequate regulatory framework</td>
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<td></td>
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<tr>
<td>Inadequate policy reforms</td>
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<tr>
<td>Inadequate deposit insurance</td>
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<tr>
<td>Inadequate banking infrastructure</td>
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<tr>
<td>Poor condition of banks i.e. capitalization, earnings</td>
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<tr>
<td>Poor corporate governance practices</td>
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<tr>
<td>Poor risk management practices</td>
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<tr>
<td>Inappropriate product offering</td>
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<tr>
<td>Other</td>
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</tbody>
</table>
If other, please specify:

14. Indicate with a tick in the appropriate box, what else you believe can be done to improve banking sector confidence.

- Increased regulation of the sector
- Increased capital requirements
- Increased disclosure and transparency requirements for banks
- Increased foreign ownership in the sector
- Increased deposit insurance cover for depositors
- Improved banking infrastructure
- Other

If other, please specify:

END OF QUESTIONNAIRE
THANK YOU
Dear Sir / Madam

My name is Locadia Chaavure, a student of the Graduate School of Management’s Master of Business Administration (MBA) programme at the University Of Zimbabwe.

As part of the requirements for completion of the MBA programme, I am carrying out a research study titled “Impact of the adoption of multi-currency system on banking sector confidence in Zimbabwe.”

Please find attached a questionnaire comprised of closed and open ended questions. Your cooperation in completing this questionnaire will be greatly appreciated. Any responses provided in this research study will be used purely academic purposes and will be treated with high levels of confidentiality. It is hoped that the research findings will assist the RBZ, banks and other stakeholders in enhancing banking sector confidence.

I would appreciate if your responses are received by no later than Friday, 30 May 2013.

My contact details are as follows:

Tel:   (04) 703000 ext:11010

Cell:  0772 471 973

Email: lchaavure@rbz.co.zw or lwashiraj2010@gmail.com
SECTION A: DEMOGRAPHICS

1. Indicate the type of banking institution you work for:
   - Commercial Bank
   - Merchant Bank
   - Building Society
   - Other.
   Please specify _____________________________

2. Please indicate the number of years of operation of your institution. ___________ YEARS

3. Please indicate your position in the organisation.
   - Executive Director
   - Senior Manager

4. Please indicate how long you have worked for this bank. ________________ YEARS

SECTION B: FACTORS AFFECTING BANKING SECTOR CONFIDENCE

5. Please indicate with a tick the extent to which the following factors influence banking sector confidence in Zimbabwe.
   1= Strongly agree; 2 = Agree; 3 = Neutral; 4= Disagree; 5= Strongly disagree

   Stability of currency
   □ □ □ □ □

   Government policy
   □ □ □ □ □
6. Please indicate the factors that led to the lack of confidence in the banking sector in the period prior to introduction of the multiple currency regime i.e. 2003 to 2008:
   i. ____________________________________________________________
   ii. __________________________________________________________
   iii. __________________________________________________________
   iv. __________________________________________________________
   v. __________________________________________________________

7. Please indicate with a tick in the appropriate box what you believe is the role of the central bank in building confidence in the banking sector:
   - Ensuring stability of currency value
   - Regulation and supervision of the banking sector
   - Ensuring reliable infrastructure for transacting
   - Provision of deposit protection insurance
   - Provide monetary policy direction
   - Other. Please Specify.

8. Please indicate with a tick in the appropriate box what you believe is the role of the Government in building confidence in the banking sector?
   - Implementing consistent fiscal and monetary policies
   - Ensuring an enabling environment for banking

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9. Please indicate with a tick what do you believe is the role of banks in building confidence in the banking sector.

- Adopting good corporate governance practices
- Employing sound risk management systems
- Ensuring transparency and integrity in all dealings with public
- Providing reliable services to banking public
- Other. Please specify:

10. Do you believe that stakeholders have played their role adequately in promoting banking sector confidence

<table>
<thead>
<tr>
<th>YES</th>
<th>NO</th>
<th>PARTLY</th>
</tr>
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<tbody>
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</tbody>
</table>

Reserve Bank

Explain______________________________________________________________

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SECTION C: IMPACT OF CURRENCY REFORMS

11. Please indicate whether you agree with the following statements by placing a tick in the appropriate box. TICK ONE BOX ONLY

1= strongly agree; 2 = Agree; 3 =Neutral ; 4= Disagree; 5= strongly disagree

Currency reforms were needed to restore confidence
Currency reforms have improved banking environment
Currency reforms have improved economic performance

12. Banking sector confidence has been restored by the adoption of the multi-currency system. Please tick only one response.

YES ☐ NO ☐ PARTLY ☐

13. Please indicate the extent to which each of the following measures implemented under the currency reforms of 2009, have impacted on banking sector confidence.

2 = Low; 2 = Medium; 3=High
14. Please indicate with a tick what you believe are the current factors influencing banking sector confidence. TICK ONE BOX ONLY

1= Strongly agree; 2 = Agree; 3 = Neutral; 4 = Disagree; 5 = Strongly disagree

<table>
<thead>
<tr>
<th>Factor</th>
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<tr>
<td>Inadequate regulatory framework</td>
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<td>Inadequate capitalisation of banks</td>
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<tr>
<td>Poor condition &amp; performance of banks</td>
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<tr>
<td>Inappropriate product offering</td>
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<td>Other. Please specify</td>
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</tbody>
</table>
15. What else can be done to improve banking sector confidence

- Increased regulation of the sector
- Increased capital requirements
- Increased disclosure and transparency requirements for banks
- Increased foreign ownership in the sector
- Increased deposit protection insurance cover for depositors

Other. Please specify

___________________________________________________
___________________________________________________

END OF QUESTIONNAIRE
THANK YOU