THE EFFECTIVENESS OF TREASURY BILLS IN STIMULATING GROWTH OF THE ZIMBABWEAN ECONOMY.

DISSERTATION SUBMITTED BY
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DEDICATION

To my late mother Vaina Chipepura and father Johnson Mutodi. You have moulded me to be who I am today. I also dedicate this piece of work to my entire family that includes wife Tariro Chirenda, children Energy Jnr, Ruvimbo, Hazel and Nigel and not forgetting my late wife Catherine Chapata-Mutodi. Your silent contributions to my life will always be felt and appreciated.

DECLARATION

I, Energy Mutodi, hereby declare that this dissertation is truly my own original work, that all reference sources have been accurately reported and acknowledged, and that this document has not previously, in its entirety or in part, been submitted to any University in order to obtain an academic qualification.

Energy Mutodi   ....

                                                              14 July 2014

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                                                              14 July 2014

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ABSTARCT

The aim of this study is to evaluate the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy. Literature on the effectiveness of Treasury bills asserts that treasury bills contribute to the growth of the economy. Interviews were held with the Ministry of Finance, Banks and Pension Funds as well as the Zimbabwe Stock Exchange (ZSE). The researcher managed to interview eleven interviewees with all sectors of the economy being represented. Tables and content analysis were used to present data.

The research found that the current status of treasury bills issuances in Zimbabwe is that most organisations are not participating in the market for securities. The Government issued treasury bills but their uptake has been very low. This is due to a number of factors which include too much debt in the market, insufficient capital, poor interbank trading, unavailability of collateral security for the lender-of-last-resort, as well as for the settlement systems such as ZimSwitch, RTGS and a poor cheque clearing system.

Treasury bills were not found to be effective enough in Zimbabwe as money market instruments to mobilise funds for the government. They have not had a positive influence on the availability of liquidity in the Zimbabwean economy.

The research recommends that Treasury bills should be affordable and attract an economically competitive benchmark value in the securities market. There should be a buy-back feature of TBs and there is need for more risk free instruments for money market borrowing.

In order to stimulate growth of the Zimbabwean economy, the research recommends that the Government of Zimbabwe should continue with its cash budget approach and improve it.

An area of further study is recommended to investigate the impact of dollarization on the performance of stock markets in Zimbabwe; in as far as they influence money supply and liquidity in the economy.

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LIST OF ACRONYMS

TBs	Treasury Bills
AfDB	African Development Bank
NCDs/ CDs	Negotiable Certificates of Deposit
RBZ	Reserve Bank of Zimbabwe
GoZ	Government of Zimbabwe
ZSE	Zimbabwe Stock Exchange
IMF	International Monetary Fund
OECD	Organisation for Economic Cooperation and Development
RTGS	Real Time Gross Settlement
ZETSS	Zimbabwe Electronic Transfer System
UNWTO	United Nations World Tourism Organisation
GDP	Gross Domestic Product
CZI	Confederation of Zimbabwean Industries
BAZ	Bankers Association of Zimbabwe
IOU	I OWE YOU
CEOs	Chief Executive Officers

CHAPTER 1

INTRODUCTION AND BACKGROUND

1.0 INTRODUCTION

This study investigates the effectiveness of Treasury Bills (TBs) issued during the multi-currency period spanning February 2009 to August 2013, and their contribution towards stimulating the growth of the Zimbabwean economy. The study will investigate the reasons why the Government of Zimbabwe issued TBs as well as evaluate TBs as an effective money market instrument to address Government deficit, money supply, liquidity and interest rates. It also seeks to establish the factors determining the performance of TBs in a multi-currency economy while also discussing the reasons why the TB issuances were less than successful over the period February 2009 until August 2013. In addition, the study also aims to establish the conducive conditions and policies needed to ensure successful treasury bill issuances. Research-based recommendations on steps that have to be followed in issuing TBs so that they effectively fulfill their role as an alternative instrument used in raising funding for government activities also form part of the deliverables of this study.

1.1 BACKGROUND OF THE STUDY

When the Inclusive Government took over in February 2009, the economy had in prior years been consistently registering negative economic growth. According to the African Development Bank's (AfDB) Country Brief (2011-2013), GDP grew by 6%, 9%, and 10.6% in 2009, 2010 and 2011 respectively. However, itdecelerated to 4.4% in 2012. This was against a background of negative growth for the better part of the previous hyperinflationary decade which saw negative growth of GDP of   -17.7% in 2008. GDP growth forecasts indicate that economic growth may further slowdown in 2014 owing to policy inconsistencies, inherent political and economic

uncertainties, a high debt overhang and the deteriorating infrastructure, which dogged the economy for much of the first half of the year. Obsolete technologies, limited sources of finance and high cost of capital, policy inconsistencies surrounding the regulations involving the economic empowerment programme, and dilapidated infrastructure also continue to constrain the economy. The poor performance of domestic revenue inflows against the background of rising recurrent expenditures continuedto constrain the fiscal space. With the continued use of the multi-currency regime, the monetary policy did not and is not expected to change significantly in the foreseeable future. Figure 1.1 below shows the gross domestic (GDP) product figures for Zimbabwe over the years 2003 to 2012.
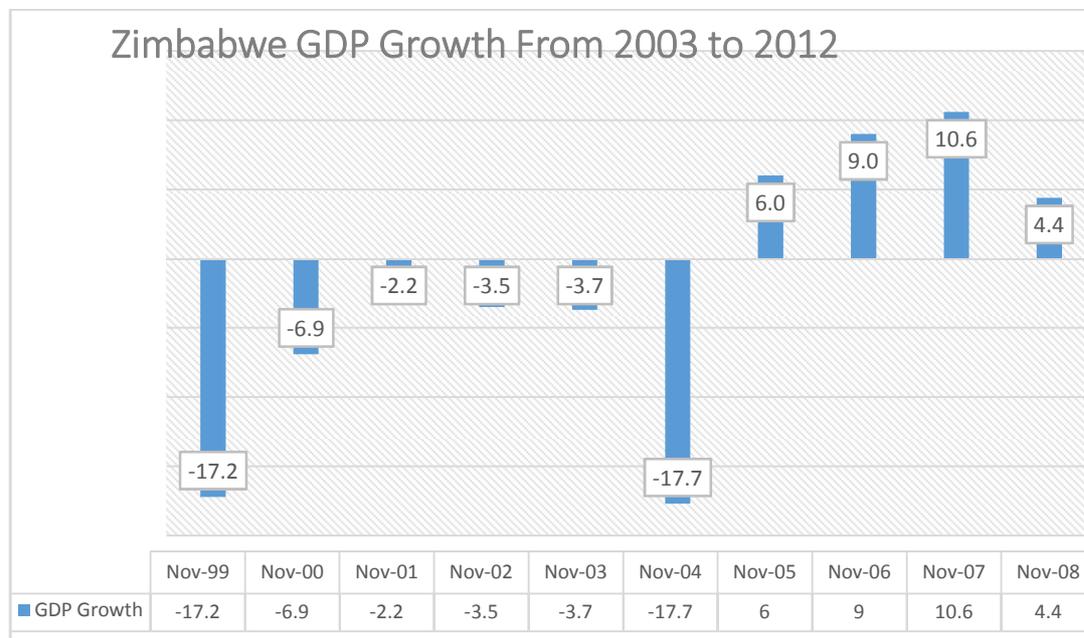
Figure 1.1: GDP growth from 2003-2012
Source: Reserve Bank of Zimbabwe (2012)

In the fourth quarter of 2012, the Government of Zimbabwe (GoZ) introduced Treasury Bills (TBs) to reactivate the interbank market and resuscitate the lender of last resort function of the Central Bank by availing securities. The money markets, and ultimately the economy were supposed to derive immense benefits from the issuance of these short-dated instruments. The financial institutions were supposed to benefit with increased interbank trading, supported by the availability of collateral security for lender-of-last- resort, as well as for the settlement systems such as ZimSwitch, RTGS and the cheque clearing system. The economy in general was to

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derive benefits from the fact that these measures afforded the government bridging finance to cover the unfunded expenditures and smoothen spending patterns.

Upon introduction of the TBs, financial institutions snubbed them. Of the three held auctions, only one issue was successful. The first and second auctions saw all bids rejected as the financial institutions demanded high interest rates. Embarrassed with this development and realising that moral suasion had apparently failed, the monetary authorities threatened that they had been left with no option but to intervene through the introduction of fiscal and monetary measures that would force banks to subscribe to the TBs. This led to disagreements on the methods to be used in enforcing Treasury bill acceptance between the Minister of Finance and the bankers. The Minister threatened banks to buy the Government securities, failure of which they would be compelled to acquire negotiable certificates of deposit. The general feeling was that the Reserve Bank of Zimbabwe (RBZ) would not have introduced the TBs if they were not sure of the banks' ability to subscribe to them. It is in this regard that the Government felt that the financial institutions were not acting in good faith.

The RBZ complicated the whole situation due to the fact that it did not have adequate funding to play its lender of last resort function. Under normal circumstances, banks with excess liquidity assist those in deficit positions using TBs as security while the Central Bank, as the lender of last resort, accommodates banks in deficit by offering them overnight funds secured by TBs. However, in the absence of the interbank market, as was the case at the time of the issues, any bank facing liquidity mismatches would have had to solve the problem alone as the troubled institution would be unable to approach other players due to the absence of security.

Against this background, the study will analyse how effective the TBs issuances were as measured by the challenges that faced the Government, corporates, individual investors, the RBZ and the financial institutions in particular which were supposed to subscribe to them. The study also seeks to prescribe the suitable conditions for successful TBs issuances.

1.2 PROBLEM STATEMENT

The Government failed to successfully issue TBs in 2012 because there was a lack of confidence in the part of the bankers about the Government's debt servicing capacity and sincerity on the true intentions of the use of the funds raised through the TBs issuances. Successful TBs issuances would have sustained an effective and efficient money market, countering high liquidity risk for financial institutionsand lowering lending rates; thereby, stimulating borrowing and ultimately economic activity. This study will focus on trying to come up with steps that have to be followed to ensure Treasury bill issuances are successful and contribute in the stimulation of the nation's economic activity and growth.

1.3 RESEARCH OBJECTIVES

The main objective of this research is to evaluate how TBs could have been an effective money market instrument in stimulating economic activity during the period 2009-2012. Specifically the study seeks:

- To find out the status of treasury bills issuance in the Zimbabwean economy
- To explore Treasury Bills as an effective money market instrument to mobilise funds for the Government
- To find out how Treasury Bills could have been used to influence economic activity and growth through the availability of liquidity in the economy.
- To establish the factors determining the performance of Treasury Bills in a multi-currency economy
- To discuss the conducive conditions and policies needed to ensure successful Treasury Bills issuance
- To recommend the steps that have to be followed when introducing Treasury Bills in a multi-currency market

1.4 RESEARCH QUESTIONS

- How can the Government use TBs to stimulate economic activity and growth?
- What is the current status of treasury bills issuances in Zimbabwe?

- How can treasury bills be effectively issued?
- What are the factors determining successful TBs issuances?
- What are the underlying conditions needed to make TB issue tenders successful?

1.5   RESEARCH PROPOSITION

The employment of an effective and efficient treasury bills market will spur economic activity and contribute positively in the growth of the Zimbabwean economy.

1.6   JUSTIFICATION OF THE STUDY

The purpose of this study is to analyse and understand the concept of Treasury bills as a short-term money market instrument in Zimbabwe and its role in the stimulation of the economy. Despite many emerging economies in Africa having at one time or the other grappled with the merits and demerits of issuing TBs, there seems to be very shallow scholarly work on how effective they can be as money market instruments for economic growth (Gono, 2012). The bulk of the work exists in generalised newspaper articles. This research study will try to provide a country specific case study of the effectiveness of TBs issuances, which is a topical issue in the present day Zimbabwe. By undertaking this research, the researcher hopes to prompt more researches on the topic; thereby helping increase the body of knowledge on the topic. The researcher also hopes that the research findings will help guide and shape policy prescriptions in the country. For policy formulation to be informed, it has to be supported by research of this nature. The researcher also hopes to use this study as a launch pad for research on future projects.

1.7 RESEARCH SCOPE

The study covers the time period between 2009 and 2013, the era in which the GoZ adopted the multi-currency regime and that period coinciding with the Inclusive Government. It covers the Zimbabwean banking sector and its monetary and fiscal authorities. The scope also incorporates Bank executives, the RBZ, the Ministry of

Finance, and the Chamber of Commerce, pension funds, the Zimbabwe Stock Exchange (ZSE) and the general populace.

1.8 ORGANISATION OF THE STUDY

This research has been organized as follows:

Chapter 1 carries an overview of the study while Chapter 2 contains the literature review whose aim is to review the main concepts, themes, ideas and theories relating to the subject of Treasury Bills. It also covers issues to do with the definition of terms. Chapter 3 relates itself to issues of research methodology. It captures the methods used to collect data, samples determined in the collection of data as well as the methods used to analyse the data. Chapter 4 is reflecting on the results of the research in pictorial form. It also shows the interpretation of the research findings while Chapter 5 then summarizes the findings, conclusions, and recommendations made by this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter provides literature review on the effectiveness of treasury bills in the growth of an economy. Literature review is a narrative interpretive criticism of the existing literature(McMillan & Schumacher, 1997). Jankowkz (1995) said that literature review is a description and critical analysis and evaluation of what other authors have written and researched on about the subject. This literature review is a descriptive and critical analysis of how government can employ Treasury bills to stimulate economic activity. The literature reviewdwells on how effective the money market is in mobilising funds for the government, how treasury bills could have been used to influence the availability of liquidity in the economy as well as on how treasury bills could have been used to influence the availability of liquidity in the economy. It also looks on the factors determining the performance of treasury bills in a multi-currency economy, and the conditions and policies needed to ensure successful TBs issuance.

This chapter will define treasury bills in their different forms and examine the money market as a way used to mobilise funds for the government. It will also look into the current state of treasury bills in Zimbabwe, their impact on money supply or market liquidity as well as their effectiveness as a money market and government fund raising instrument. The broad phenomenon of government securities instruments and yield curves will be discussed based on scholarly views on the subject including the various laws governing the securities markets. An important element relating to the impact of treasury bills on the growth of the economy also forms part of this chapter. An insight into the channel of linkages between financial markets and economic growth is also presented under this chapter as well as the fiscal policy as a factor affecting the issuance and performance of treasury bills. The conceptual framework outlining the cause and effect situation beginning with the issue of TBs followed by economic growth is presented at the end of the chapter.

2.1 DEFINITION OF TREASURY BILLS

Bank of Tanzania (2008) defined a treasury bill as a debt instrument issued by the government in exchange for lending it money. It is a debt instrument, which matures in less than a year and which can be negotiated and traded freely in the market or rediscounted at the Central Bank as a last resort. As such, Treasury bills can be used for financing temporary revenue shortfalls in the Government's budget. On behalf of the Government, the Central Bank may sell Treasury Bills, with a view to transferring spending power from the public to the Government. The advantage of this approach is that it becomes unnecessary for the Central Bank to print additional money to finance Government expenditure, thereby greatly reducing the inflationary effect of financing the government deficit. As an example, if someone buys a 13-week TB priced at $9,800. Essentially, the government (and its nearly bulletproof credit rating) writes an I OWE YOU (IOU) for $10,000 that it agrees to pay back in three months. There is no receipt of regular payments as with a coupon bond, for example. Instead, the appreciation and, therefore, the value to you - comes from the difference between the discounted value you originally paid and the amount you receive back ($10,000). In this case, the TB pays a 2.04% interest rate ($200/$9,800 = 2.04%) over a three-month period. There is no special definition given to treasury bills although it would be precise to define them as risk free short-term debt instruments (91- Day paper) issued by the Central Bank on behalf of the government.

2.1.1 Types of treasury bills
According to the IMF paper (2012) there are different types of Treasury bills based on the maturity period and utility of the issuance,**a** regular Treasury bill series issued weekly (three-month and six-month Treasury bills) or monthly (one-year Treasury bills) at competitive auctions. The Zimbabwean Treasury has been raising most of its funds by six-month bills issues.

Irregular Treasury bills issues are mounted only if the Treasury faces special cash needs. This category includes coupon bills and cash management bills. Coupon Treasury bills sell as a bundle of Treasury bills requiring the investor to pay for the entire series including different bill maturities. Investors who succeed in purchasing

such Treasury bills must accept them at the offered price during several consecutive weeks. Cash management bills are reopening of Treasury bill issues sold in previous weeks. A Treasury bill issue is reopened if the Treasury unexpectedly finds itself in need of extra cash. Treasury bills are generally sold at auctions. That way, the market rather than the Treasury Department sets the prices and yields. In the United States, the Treasury Department considers both competitive and non-competitive bids for Treasury bills. Large investors such as commercial banks or stock dealers, who buy Treasury bills worth several million dollars at a time, usually submit competitive tenders. Non-competitive bids are placed by small investors (less than US$ 1 million), who accept average prices. Most of the time, the Treasury will satisfy all non-competitive bids.

2.2 MONEY MARKET TO MOBILISE FUNDS FOR THE GOVERNMENT

A money market is a market for borrowing and lending of short-term funds. It deals in funds and financial instruments having a maturity period of one day to one year. It is a mechanism through which short-term funds are loaned or borrowed and through which a large part of financial transactions of a particular country or of the world are cleared. It is not a single market but a collection of markets for several instruments like call money market, commercial bill market, open market operation bills (OMO) among others. The Reserve Bank of Zimbabwe is the most important constituent of the money market. Thus RBZ (2012) describes money market as "the centre for dealings, mainly of a short-term character, in monetary assets, which meet the short-term requirements of borrowers and provides liquidity or cash to bodies and businesses experiencing financial deficits ".

Cook and LaRoche (1998) pointed out that the demand for a money market emanates from when revenue fails to meet expenditure in economies. The economies can own other financial instruments to safeguard the borrowing independently of cash revenue. According to Anderson, Berglof, and Mizsei (1986), these balances, accrue foregone interest. To mitigate this cost, fiscal authorities optimally hold the least daily balance for needed expenditure. By holding short-

termmoney market instruments that can be liquidated to cash quickly, fiscal authorities can always have just enough to meet their obligations.

Balcerowicz (2004) postulates that the general risk free element of money market instruments makes them attractive. The range of maturities, from one day to one year; also bring flexibility. Sachs and Lipton (1994) argued that money markets derive their attractiveness from the fact that they are not limited to geographical location unlike other secondary securities and commodities markets.

According to the Zimbabwean Treasury Authorities in their Fiscal policy (2010), in order to provide more liquidity in the economy, there is need for the Central Bank to liberalize entry into the call money market. At present, banks and primary dealers operate as both lenders and borrowers. It is also important to avoid participation of non-banking institutions in call or short-term money market operations and it should be purely an interbank market. Reserve Bank of India (2012) postulates that introducing new money market instruments is important in order to achieve an effective money market. New money market instruments like 182 days Treasury bills, 364 days Treasury bills, Certificate of Deposits (CDs) and Commercial Papers (CPs). Through these instruments, the government, commercial banks, financial institutions and corporates can raise funds on the money market. They also provide investors with additional instruments for investments. Repos are also necessary to do away with short-term liquidity fluctuations of a money market. In 1996 reverse repos were introduced in India. These influence the volume of liquidity and to stabilise short-term rate of interest or call rate.

Auerbach and Gale (2009) identified the players in the money market to be commercial banks, governments, corporations, government-sponsored enterprises, money market mutual funds; futures market exchanges, brokers and dealers, and the central bank. Roberto (2002) suggested that financial institutions play major roles in the dissemination of financial instruments. By borrowing, the banks get to finance their loan portfolios and doubly getting money to meet their capital requirements with the central bank. Financial institutions also play a major role as a participant on the

TBs market, which vary in maturities. This helps to evenly distribute liquidity on the market at predetermined overnight rates.

Borio (2000) went on to say that financial institutions can borrow money from Central Banks at a discount rate on a short-term basis although these decisions are affected by a lot of variables, chief among them the discount rate in relation to TBs rate. Financial institutions also use (Negotiable Certificates of Deposits) NCDs to borrow funds. An NCD is a certificate that an amount has been deposited with the bank and will be redeemed upon maturity.

Buiter (2006) advocates that the governments raise large sums in the money market by selling short-term Treasury bills. The IMF (2012) pointed out that TBs are the most active money market instrument in terms of volume. TBs are generally thought to be risk free against other instruments that carry some level of default risk, so they usually offer the lowest interest rate on maturity. National and local governments use both fixed and variable rate options to raise funds but their securities are more attractive since they attract little or no income tax.

According to RBZ (2012), the most widely traded instruments on the Zimbabwean money market are treasury bills, central bank bills, and parastatal bank bills of exchanges. Treasury bills were not issued but they are now in the market since October (2012)

2.3 THE CURRENT STATE OF TREASURY BILLS IN ZIMBABWE

According to the RBZ (2012), Zimbabwe reintroduced the TBs market, which had been last operated in 2008. The first auction was conducted on the 4th of October 2012. The objectives of the tender were, among others, to raise funds for the Zimbabwean Government, recalibrate its revenue and expenditure streams as well as to assist in reactivating the inter-bank market. Authorities also sought to mitigate liquidity crunches caused by the absence of an acceptable collateral in inter-bank trading while also reinvigorating the secondary market by introducing a viable primary market in the form of TBs. Treasury bill issues were also supposed to

workas a benchmark for other markets apart from predicting market behavior and, availing an alternative investment option.

The main disadvantage in TBs issuances is the appetite by fiscal authorities to exceed their mandate and borrow more than they are allowed to within the set out frameworks. The other issue was the possible scenario where the issuing authority struggles to honour the TBs on maturity and then roll over the issues. The 4 October 2012 issue, which was open to only banks and related organisations using the RTGS system, was to the value of US$15 million. Minimum offers were set at US$100,000 and were limited to one tender offer per organisation. The tenure was 91 days with no buy back option with a 5-15% interest rate.

The results came with the issue being undersubscribed, with just $7.7 million in bids being received and with all bids being rejected. This represented close to 50% under subscription. The majority of the financial institutions did not bid for the TBs and those that did participate, quoted interest rates of well above 10%. The apathy on the part of the financial institutions mirrored their reservations with some issues that they wanted the Government attend to first before issuing TBs. Chief among their concerns was the issuing authority's ability to redeem the TBs on maturity, lack of the option to buy back the TBs and a general lack of incentive to create collateral security for a process that the banks had carried out successfully bilaterally. The issue of collateral security was not highlighted on big banks agenda since most of them were sitting on unused funds as reflected on the ZETSS. The dismal display of the first TBs issuance was reflective of the economic challenges the country was going through at the time.

The issuing authority, the RBZ, dismissed all bid tenders, citing high interest rates quoted by the financial institutions which the RBZ felt were not in tandem with the risk free nature of TBs. The high interest rates quoted and the high rate of under-subscription reflected the thinking of the banks that the issuance of TBs was by no means risk free. This situation made the issues fundamentally flawed and coupled with an unstable political and economic environment, the issue was doomed to fail.

The lack of consensus on the optimum interest rate between the issuing authority and the financial institutions mirrors the lack of consistency in formulating fiscal and monetary policies in a multi-currency regime. One way to mitigate this would be

torestore the Central Bank's lender of last resort status so as to use extract benchmark interest rates from the overnight accommodation rate. This can only be done when the RBZ is recapitalised, which will be a challenge at the moment.

The failure to launch the first issue of the TBs would normally mean a subdued inter-bank trading market. Banks sitting on idle funds would not be able to bail out other distressed banks in terms of liquidity. That led to the return to status quo where bilateral inter-bank trading was the norm. This also spelled doom to the fiscal authorities' quest to decongest the fiscal space and broaden its revenue base.

The discussion on the current situation of Treasury bill issues in Zimbabwe shows that treasury bills are not effectivein mobilizing funds on the market.

2.3 IMPACT OF TREASURY BILLS ON MARKET LIQUIDITY

Nyawata (2012) postulated that the liquidity of a market is conducive to the smooth operation of the economy. A liquid market is one which records minimum trading costs (O'Hara 1995; Engle and Lange 1997). Liquid and illiquid markets are distinguished by the absence of transaction costs in the earlier and high costs of transactions in the later. The measurement of transaction costs is a complex operation as it encompasses several variables such as the volume of trade, time factors, location and nature of the trading counterparts. At the same time, the data required to quantify transactions costs is not easily available. Consequently, a number of methods are used to determine the liquidity of a market. There's the bid-ask spread which is calculated using real time data. It tends to compare the asking price (by the seller) and the bid price (by the buyer). The bigger the difference, the more illiquid the market is. For instance, if a bidding price is $10 and the asking price is $12, the bid-ask spread is $2.

However, the major weakness of the bid-ask spread pertains to its limitations regarding to time and the volumes traded. The spread can only measure the cost of a single transaction at a particular quantity. There is need to collect data on how many buyers were prepared to bid at a certain price and also how much could have been sold at a certain asking price, a phenomenon of which is very critical to market

players. Alternatively, the volume of trade may also measure market depth and liquidity. Quantities that can be traded at a certain offer rate reflect how much buyers are willing to buy although details of any negotiations that may have taken place are necessary to be recorded.

Kyle (1985) postulates that the buyer and seller initiated increases and decreases in prices particularly point out to how liquid a market is. He therefore putforward an empiricalformula that supports a regression analysis by pointing out how changes in prices effectively affect volumes of trade over a stipulated period of time. This method is not appropriate to measure high trade volumes but combined with the bid ask spread method, a more accurate portrayal of how liquid a market is, is achieved.

Beber, Brandt and Kavaiecz (2009) argued that by calculating the difference between on-the-run and off-the-run securities bearing the same cash-flow traits, measuring the liquidity spread of TBs can be achieved. By attaching value to liquidity, lower yield securities tend to be more liquid compared to higher yield securities, which tend to be less liquid (Amihud & Mendelson 1991, & Kamara 1994). One of the attractive qualities of the liquidity spread is that it can be easy to measure in the absence of real time data. It also gives market players an insight into how valuable the liquidity of a market is by showing the liquidity price and the difference in securities liquidity. This gives the liquidity spread an edge over other measures. However, what makes the liquidity spread attractive also makes it difficult to interpret. In some instances, external variables besides liquidity can make on-the-run securities to sell at premium rates thereby distorting the spread's interpretation. There can also be estimation errors in coming up with benchmarks to compare off-the-run securities with.

Castenlios (1998) suggested the use of trade volumes as a liquidity measuring instrument. This method has proved to be popular mainly because most active markets like the TBs market have high liquidity rates, and probably from theoretical work, they tend to combine high trade volumes with high market liquidity. Karpoff (1987) argues that measuring volumes of trade might folly, as its association with volatility works against it. Volatility impedes the liquidity of markets. Measuring trading activity to ascertain how liquid a market is gives unclear results. Trading

frequency can also be used to measure liquidity of a market. Since frequency on measures numbers of trades executed at any given time, it disregards the size of the trade. This brings about the drawback similar to the one with measuring trading volumes, that it can be associated with volatility and low liquidity.

Jones, Kaul, and Lipson (1994) argued that Treasury bills are a reference pointfor the pricing of other financial instruments and the management of risks. Treasury bills, which are the key instrument discussed in this paper should be viewed in acontinuum of maturity spectrums. Apart from positive externalities,the need to correct for market failures that could interfere with the extraction of all the socialbenefits is a justification for public policy involvement in market development. In such asetting, external costs and benefits of market liquidity would be properly priced. Withoutsuch a market the economy would not have a market-determined term structure of interestrates. The lack of a term structure inhibits the development of derivatives markets and theability of economic agents to manage financial risks and price credit risks. Economic agentswill be exposed to more financial risk than they would choose to accept if they had access towell-functioning derivatives markets.

Fabozzi and Mann (2005) noted that the negative factors associated with the absence of deep and liquid markets include:

   i)   A diminished range of assets for savers;
   ii)   Possible financial disintermediation;
   iii)   Loss of welfare to savers who are less well-off than they would be with the option of investing in a wide range of financial assets;
   iv)   A loss of information contained in market determined interest rates;
   v)   Lack of a clear measure of the opportunity cost of funds often leading to overinvestment if the firm's internal rate is too low or underinvestment if the firm's internal rate is too high;
   vi)   Dominance by banks, which would take advantage of customers by offering low deposit rates because of lack of competition; vii) vulnerability to crisis due to excessive reliance on bank lending from highly leveraged institutions; and

vii)   Difficulty in securitizing non-performing loans so that resources can be redeployed as rapidly as possible to restructure the economy.

Form this section of literature review, it is clearly pointed out that treasury bills are a better option for liquidity management. For a better economic growth in Zimbabwe, the Government of Zimbabwe has to issue treasury bills which generate liquidity in the economy.

2.4 TREASURY BILLS AS AN EFFECTIVE MONEY MARKET INSTRUMENT TO MOBILISE FUNDS FOR THE GOVERNMENT.

Stock and Watson (1989b), Friedman and Kuttner (1992), Bernanke (1990), and Kashyap, Stein, and Wilcox (1993) have argued that, for the past three decades or so, the difference between the respective interest rates on commercial paper and Treasury bills has borne a systematic relation to subsequent fluctuations of nonfinancial economic activity in the United States. As such relations go; this one has been fairly robust. The paper-bill spread easily outperforms any single interest rate, either nominal or real, as well as any of the monetary aggregates, as a predictor of real economic activity.

Wang (2002) analyse bid-ask spreads and trading activity around macroeconomic announcements. Fleming (2002), and Goldreich, Hanke, and Nath (2003) examine liquidity across subgroups of securities and over securities' life cycles and relate liquidity differences to price differences. Brandt and Kavajecz (2003), Cohen and Shin (2003), and Green (forthcoming) explore how order flow affects prices. The conclusion drawn from these authors' findings is that prices tend to affect liquidity and vice versa.

Given the unprecedented nature of the Federal Reserve's unconventional policy measures, a rapidly growing literature has emerged that tries to evaluate empirically the effects of the various asset purchase programs on financial asset prices. This research will also focus on the question of whether purchases of large quantities of Treasury coupon securities have altered the level of longer-term Treasury yields. Employing a high-frequency, event-style methodology, Gagnon, Raskin, Remache, and Sack (2011), Krishnamurthy and Vissing-Jorgensen (2011), and Wright (2012)

present compelling evidence that the Federal Reserve's LSAP announcements had economically and statistically significant effects on Treasury yields. Consistent with this evidence, Greenwood and Vayanos (2010a), Krishnamurthy and Vissing-Jorgensen (2011), and Hamilton and Wu (2012) also show that Treasury supply factors have important effects on Treasury yields and the associated term premiums at lower frequencies and over longer sample periods. By cleverly exploiting the variation in prices across individual securities (CUSIPs) induced by the Federal Reserve's purchases of Treasury coupon securities, D'Amico and King (2013), find strong evidence of localised supply effects in the Treasury market; that is, purchases of specific CUSIPs in the secondary market had economically and statistically significant effect on yields of both purchased securities and those at nearby maturities. Using a similar micro-level approach, D'Amico, English, L´opezSalido, and Nelson (2012) attempt to disentangle the transmission channels involved in LSAPs and find that a significant portion of the variation in local supply and aggregate duration of Treasury securities was transmitted to longer-term Treasury yields through the term-premium component.

Strebulaev (2002) noted that without effective monetary instruments, draining surplus liquidity can be a daunting task for many central banks. Swanson (2011) argues that under normal circumstances, Open Market Operations (OMO) in various forms are the main mechanism through which central banks provide or withdraw liquidity to/from the money market, steer short-term interest rates and signal the stance of monetary policy. Most central banks have at their disposal various types of Open Market Operations and these include: outright transactions, repos, issuance of debt certificates, foreign exchange swaps and fixed-term deposits.

According to Goodhart (1999), without sufficient securities, the central bank's success in draining surplus reserves will be limited, as will any impact on interest rates. Government securities and central bank bills are the main debt instruments used and to different degrees, the primary issuances of them have been used to drain surplus liquidity. For monetary policy and liquidity management purposes, the focus is typically on government securities (treasury bills) and central bank bills with maturities of less than a year. Both securities have low credit risk (virtually zero credit risk) and are located at the bottom end of the risk/return spectrum.

Stanley and Easterly (1990) argued that the common concerns in the market are about potential conflicts between debt management and monetary policy objectives and by extension, tensions that may arise between central banks and ministries of finance. In practice, the choice between government securities and central bank bills seems to be an operational issue that depends more on country circumstances, agency arrangements between central banks and ministries of finance and legal guidelines.

Central banks have often resorted to own securities in circumstances where the markets for government securities are undeveloped and where governments are reluctant to issue securities in sufficient amounts to absorb excess liquidity (IMF, 2012). In addition, three elements seem to accord an edge to the use of government securities over central bank bills and these include: (i) an integrated view of public sector finance; (ii) the public policy argument for the government's role in fostering the development of money markets; and (iii) the ability to generate positive externalities for other financial instruments and the rest of the economy in a way that is not easily replicable by other instruments.

However, for practical operational reasons, there are situations in which central bank bills are the better option. This is notwithstanding the conclusion drawn by Quintyn (1996) that the advantages and disadvantages associated with government securities and central bank bills are such that no clear preference can be put forward for either.

Gagnon, Raskin, Remache, and Sack (2011) pointed out that the relative edge of government securities over central bank bills is primarily that their issuance is not overburdened with addressing both fine-tuning operations and structural excess liquidity. The former should be addressed by short-term instruments such as repos (using government securities as the underlying collateral). It is also important that the proceeds from government securities used for liquidity management be placed in blocked account at the central bank. Ultimately, the cost of sterilisation is a charge on the consolidated public finances, which should, in ideal circumstances and in the interest of transparency, be explicitly recognised and provided for in the government

budget. However, some governments may prefer to reflect this on the balance sheet of the central bank instead of the government budget.

2.4.1 Government Securities Instruments and Yield Curve

The IMF and the World Bank (2001) resolved that the availability of risk free Government instruments used to predetermine other open market securities is prerequisite to a well-oiled TBs market. It was also resolved that regular issuance of Government securities could help create a liquid market as well as lowering transaction costs. A wide range of other financial instruments can therefore be conveniently and delicately priced based on the benchmark created by the Government securities. In other words, the TB yield curve can mirror the sustainable market prices of other financial instruments within the same or similar economic environment.

The IMF also sees the need for Governments to facilitate a liquid financial market and also one that cannot be easily distorted by the actions of market players. Accordingly, Governments need to avoid haphazard issues by individual public institutions that can complicate the securities market but instead consolidate them under a single issue such as TBs and other forms of bonds. Levine, Ross (1997) argued that it is the role of the legislature to evaluate the merits and demerits of long term benchmark issues, such as TBs against the huge costs associated with other forms of bonds. In the same context, the cost of refinancing risk precipitated by a focus on maturities versus the need for debt refinancing and interest rate determination should also come under consideration.Mahadeva and Sterne (2000) also pointed out that in the budding stages of TBs issuances, some Governments may make use of flexible instruments to play around with debt refinancing within the scope of the maturity dates of the instruments. This is in view of the fact that such Governments may not be ready to honour maturities as they fall due.

Nyawata (2012) maintained that the several Government instruments available on the local markets come with varied features such as coupon rates, interest rate determination criteria and other features such as embedded options. However, the most common securities have traditionally been nominal investments with their coupon rates almost the same as other market rates.Therefore, there is uniformity as

well as less complications and contradictions. Typical TBs range from 2-3 years as well as 5-10 years with more stable economies issuing up to 30 years securities.

Mohanty (2002) concluded that TBs are more prevalent in the short term category spanning for 12 months and they are usually issued at prices lower than their face values or simply discounted.

Showers (2000) held that variable interest rates debt instruments have helped Governments elongate the time the maturity of their debt instruments. However, this is no longer as prevalent in primary issues as it was in the past due to the volatility of markets particularly among the OECD economies. In recent years, inflation adjusted TBs and bonds have been used. The situation has also varied from one economy to the other as each seek simplicity and minimum possible risk returns.

Wojnilower (2000) added that regular risk free Government bonds are a common feature in most economies. He also noted that special purpose securities are riskier as they fragment the financial markets and introduce difficulties in budget management. Zamsky (2000) also emphasised that there is need for Governments to limit the number of bond issues as much as possible particularly those not emanating from the Government. He singled out market fragmentation and the difficulty in consolidating the bond market development policy as the major reasons he discourages numerous issues.

2.4.2 Laws Governing Securities Markets

The question whether Governments are authorized to borrow on the domestic market is an important element in financial markets development. Governments have an option to borrow from other Governments (bilateral borrowing) or from multi-lateral institutions such as the IMF and World Bank. In most economies, the legislature is mandated with the responsibility to authorize borrowings. In view of this, the legislature may also second their powers to a public agency such as the Central Bank. In extreme cases, Governments have resorted to borrowing from external sources as they try to avoid destabilisatising the domestic market. Also intertwined with the source of authority and demand for borrowings, is the debt limit which are spelt out in most economies. The legislature may set the limit on the

Treasury with regards to the extent of borrowing. In fact, the role of the legislature in efficient markets management is well spelt out as to have an oversight over borrowing limits. However, there is need to create a balance between the need to control and the market forces at play. There is need to give some independence to public debt managers so as to exercise their own discretion as failure to do so may incapacitate the effectiveness of the risk free financial instruments together with their benchmarking role in the markets.

Also it is imperative to note that Government enjoys preferential treatment in as far as disclosure rules are concerned compared to private players. However, Governments should always maintain transparency in their dealings with the public and other stakeholders. Although the general Government creditworthiness is presumed to be made public in national budgetary statements, there are certain values that they should adhere to as far as information clarity and dissemination and rationality are concerned. For instance, Governments must follow due diligence in establishing counterparties to their issues under the general principle of fairness and competitiveness. In terms of its future issues, Governments must be open to all potential players through publishing issues calendars or programs specifying the magnitude of their potential issues and their prospective maturity as well as any tender regulations.

2.5 IMPACT OF TREASURY BILLS ON THE GROWTH OF THE ECONOMY

Human beings have always sought reliable ways to predict the future, and economic fluctuations are no exception. Public policymakers, charged with the responsibility of maintaining full but not overfull employment of the economy's productive resources, want to know when to take actions that will either stimulate or retard economic activity. Business executives who plan to build new factories or modernize old ones, or who consider the introduction of new products, want to know when the markets for what their companies make will be strong.

Both individual and institutional investors, allocating their portfolios across major asset categories like equities and fixed-income securities, and in some cases picking

specific corporations' stocks, want to know whether recession or economic expansion will prevail over the relevant investment horizon. A series of recent papers-Stock and Watson (1989b), Friedman and Kuttner (1992), Bernanke (1990), and Kashyap, Stein, and Wilcox (1993)-has shown that, for the past three decades or so, the difference between the respective interest rates on commercial paper and Treasury bills has borne a systematic relation to subsequent fluctuations of nonfinancial economic activity in the United States. As such relations go, this one has been fairly robust. The paper-bill spread easily outperforms any single interest rate, either nominal or real, as well as any of the monetary aggregates, as a predictor of real economic activity. The spread bears a statistically significant relation not just to components of real activity as well. Finally, in contrast to the monetary aggregates (the subject of an earlier literature along these lines, which ended in disappointment), there is no ambiguity about whether the paper-bill spread is related to the real or the price side of nominal income fluctuations. (On the latest evidence, money is related to neither.) The spread is a predictor of real economic activity, not prices, and of nominal magnitudes only to the extent that they reflect real ones.

This paper analyses the use of treasury bills in Zimbabwe and how the government can issue them to improve the Zimbabwean economy. Economists agree that the re-introduction of treasury bills is critical as it promotes interbank market trading while also improving the liquidity position of the country. The country's economy has been faced with liquidity constraints for the past three years and government is mulling the re-introduction of treasury bills on the market to bridge financial challenges facing industries. Treasury bills are expected to stimulate activity in the financial services sector as there has been less interbank trading since the introduction of the multi-currency system in 2009.

Todlana (2012) suggested that treasury bills would improve trading among banks and the liquidity position of the country that enables the funding of productive sectors of the economy. Mugaga (2012) said the bills are critical for building confidence in the financial services sector and will promote the use of plastic money ahead of the UNWTO General Assembly. Government is mulling the re-introduction of treasury bills meant to cushion the economy against the effects of unavailability of cash which has hampered the growth of productive sectors.

2.5.1 CHANNEL OF LINKAGES BETWEEN FINANCIAL MARKETS AND ECONOMIC GROWTH

According to Alile(1984), the financial sector has an important role in the growth of the economy through savings mobilisation and allocation. Economic growth is generally the sector carries out its capital allocation functions. The financial sector directly or indirectly contributes to the economy through service provision. Chief among them are savings mobilization, liquidity creation, diversification of risk, better gathering and dissemination of valuable information and incentivizing enhanced corporate governance. The financial institutions can also promote economic growth by the effectively and efficiently delivering functions. Long-term capital is needed at any stage of any nation's development. The private sector might need to build and improve factories or invest in new equipment and the Government might want to improve infrastructure. These are the type of activities that require long-term capital, which can be provided by well-managed financial markets.

The financial sector also influenceseconomic growth by affecting liquidity in the economy.Short-term equity markets provide ready funds in the form of savings for projects that needlong-term capital injections. According to Bencivenga, Smith and Starr (1996), liquid financial markets were instrumental to the success of the industrial revolution. They allowed savers who couldn't afford to wait for the inherently longer term investments during the nascent stages of the industrial revolution be catered for. Bencivenga, Smith and Starr reasoned that the liquidity creating ability of the financial sector is important to economic growth. They argued that sustainable economic growth needs long-terminvestments that can only be achieved by having a liquid market since most savers do not have the patience to wait for the long-term projects gestation periods. Liquid equity markets reduce long-term investment risk, thereby making them attractive to savers. Thus, the easy transfer of capital ownership facilitates firms' permanent access to capital raised through equity issues. Therefore, as liquid market improves the allocation of capital, the prospect for long-term economic growth is enhanced. Also, savings and investment are increased due to reduction in the riskiness of investment facilitated by financial sector liquidity.

Risk diversification is another element closely related to liquidity. The global integration of financial markets affords them greater economic risk spreading. Because of the high risk inherent nature of high return projects, markets that offer diversified instruments can optimally shift investments to higher risk products (Obstfeld, 1994). This results with higher returns being realised by investors thereby boosting the economy. Accelerated economic growth may also result to acquire information about firms. Rewards often come to an investor able to trade on information, obtained by effective monitoring of firms for profit. Thus, improved information will improve resource allocation and promote economic growth. The natural relationship and importance between financial sector development and economic growth differ with smaller impact being realised in larger economies (Filler, Hanousek and Campos, 1999). However, Demirgüç-Kunt and Levine (1996), offer another view arguing that liquidity can actually stifle economic growth. If there is an increase in investment returns, savings rate will be compromised via the income and substitution effect. The reduction of uncertainty associated with investment may also have a negative impact on the savings rate although the magnitude is yet to be fully quantified. Effective corporate governance structures, famed as the cornerstones of a liquid financial sector may be compromised. The relative freedom which equity managers can rid of portfolios in an over liquid market weakens general investor confidence thereby mitigating the firm's corporate governance structures.

2.5.2 Fiscal Policy

The eradication of huge budget deficits was necessary to get rid of hyperinflation, since the deficits were the main source of money supply and subsequently, inflation. Austerity with military expenditure, extinguishing subsidies, eliminating enterprise investment financed by government expenditure, and reducing state administration expenses could easily have reduced the deficits. The main objective was reign in the authority of the bureaucracy to sabotage reforms, leaving out austerity measures in social projects (Aslund 1995, 181). However, the reduction in the budget deficit would have resulted in a number of inefficient firms closing down, as the sources of their survival—government subsidies and inexpensive credit were eliminated. A balanced budget or, even better, a surplus (Aslund 1992, 66) and sound fiscalmanagement were important to new companies and foreign investors that the transition government was serious about putting its affairs in order.

The budget deficit was inherently associated with the high inflation rate. That is the reason the IMF and other international organizations recommended that the transition economies substantially reduce their budget deficits. Meanwhile, the reduction in the budget deficit would have resulted in a substantial increase in the resources available to alleviate the "short-term" negative consequences of the transition program, such as unemployment and reductions in the standards of living. Fig 2.1 below illustrates the Conceptual framework which was used in this study.

2.6 CONCEPTUAL FRAMEWORK

There is a relationship between the effective issuance of Treasury bill and the growth of the economy. If treasury bills are effectively issued they contribute to the growth of the economy. The conceptual framework below builds upon this literature to develop a model to evaluate the effectiveness of Treasury bills in the growth of the economy. The framework therefore looked at the factors that affect the effectiveness of TBs issuance which are mainly the macroeconomic factors. For simplicity, the model focuses on only establishing relationships among the above named variables.

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┌─────────────────────────────────────┐
│      TREASURY BILLS ISSUANCE         │
│   REGULAR TBS AND IRREGULAR TBS      │
└─────────────────────────────────────┘
                  │
                  ▼
┌─────────────────────────────────────┐
│  FACTORS AFFECTING TBS ISSUANCE      │
│                                      │
│  MACRO-ECONOMIC FACTOR               │
│  - INTEREST RATES                    │
│  -FISCAL POLICY                      │
│  -POLICY AND REGULATORY FRAMEWORK    │
│  - INDUSTRY PERFORMANCE              │
└─────────────────────────────────────┘

┌─────────────────────────────────────┐
│  ECONOMIC GROWTH= GDP= G+C+I+Nx      │
│  G= GOVERNMENT                       │
│  C= CONSUMPTION                      │
│  I=INVESTMENT                        │
└─────────────────────────────────────┘
```
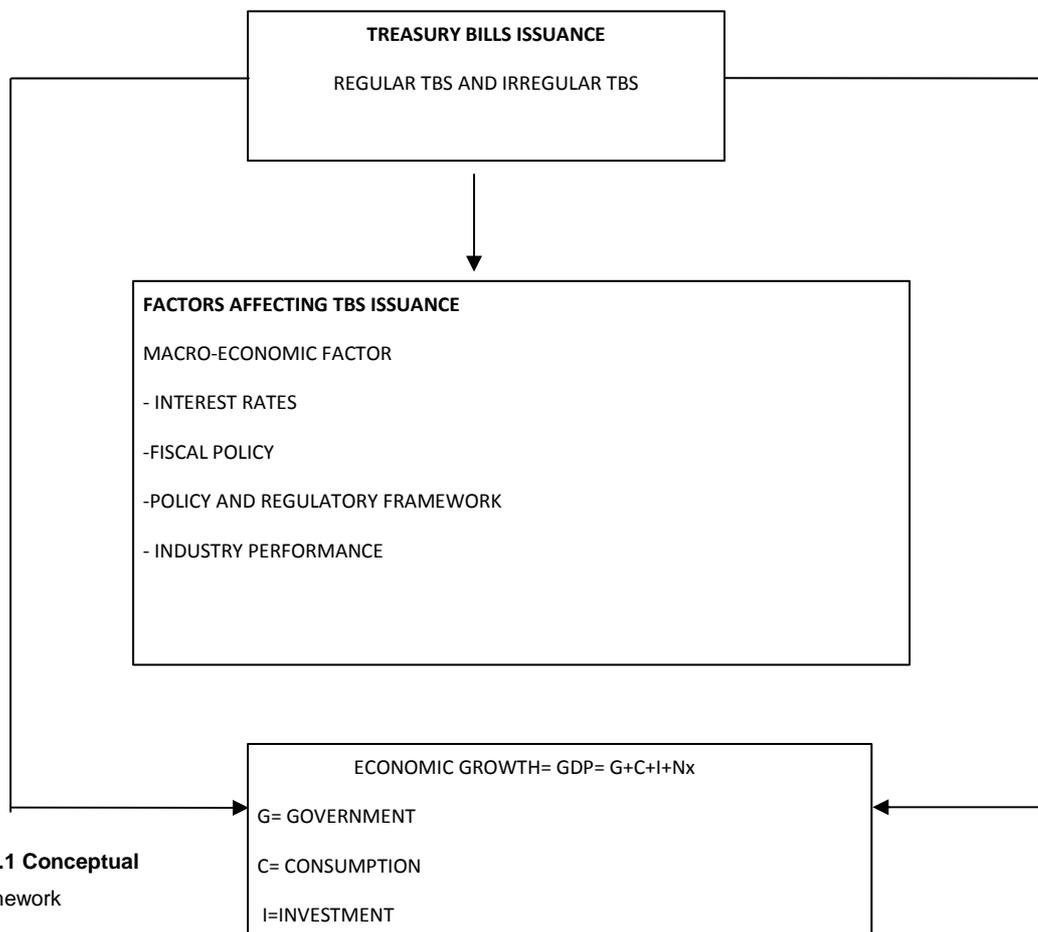
Fig 2.1 Conceptual
Framework

The conceptual framework highlight that the macro economic factors determine the performance of treasury bills. If the treasury bills are performing well, they will lead to economic growth. This study's alternative hypothesis is as follows: (H1: there is a relationship between treasury bills issuance and economic growth and the null hypothesis H0: there is no relationship between treasury bills issuance and economic growth).

2.7 CHAPTER CONCLUSION

This chapter has provided literature review on how the treasury bills can be effectively issued. The literature review examined the current situation of the Zimbabwean Treasury bills and deduced that the money market to mobilize government funds is not effective. The literature was also reviewed on the impact of treasury bills on market liquidity and the impact of treasury bills on the growth of the economy. The next chapter presents the research methodology.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 INTRODUCTION

This chapter provides the methodology used in this research. The contents of this chapter are research designs, population and sampling techniques as well as data collection methods.

3.1 RECAP OF THE PROBLEM STATEMENT

The methodology was designed to address the problematic issues in this study. The problem statement is that the Government failed to successfully issue TBs in 2012 because there was a lack of confidence on the part of the bankers about the Government's debt servicing capacity and sincerity on the true intentions of the use of the funds raised through the TBs issuances.

3.2 RECAP OF THE STUDY OBJECTIVES

The objectives of this research are as follows:

- To find out the status of treasury bills issuance in the Zimbabwean economy
- To explore treasury bills as an effective money market instrument to mobilise funds for the government
- To find out how treasury bills could have been used to influence the availability of liquidity in the economy
- To establish the factors determining the performance of treasury bills in a multi-currency economy
- To discuss the conducive conditions and policies needed to ensure successful treasury bills issuance
- To recommend the steps that have to be followed when introducing treasury bills in a multi-currency market

3.3 METHODOLOGICAL FRAMEWORK

Nachmias and Nachmias, (2003) pointed out that research methodology is a system of explicit rules and procedures upon which research is based and against which claims for knowledge are evaluated. The system is neither unchangeable nor infallible. The rules are constantly improved, that is, looking for new means of observation, analysis, logical inference and generalization.

The main aim for this study is to investigate on the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy. This research will be purely qualitative where data was collected from key informants who are the stakeholders in this particular study.

3.4 THE RESEARCH DESIGN
3.4.1 The research approach

The research addresses two approaches, the qualitative and the quantitative. In approaching research this way, it is found that the correlation between theory and research is usually entirely different (Corbetta, 2003). Qualitative research, which is inspired by the neo-positivist paradigm (existence of one reality), brings out this relationship in logical sequential phases. This substantiates the deductive approach (theory precedes observation) that looks to rationalize existing information on the subject. Corbetta(2003) also says that the literature's systematic analysis assumes an important role, by providing the theoretical framework to base the research.

On the other hand qualitative studies have the following characteristics:

i) They are carried out on a few individuals, claiming neither exhaustiveness nor

statistical reliability;

ii) They involve in-depth analysis of individual behavior and can be lengthy.

iii) There are high skill levels involved in their management and interpretation.

In coming up with a particular type of methodology to adopt the researcher has been guided by the following factors:-

1. The methodology chosen must enable one to make more informed decisions about the research design that is the method by which data is collected and analysed.
2. The methodology should help the researcher to think about the research approaches that work and those that do not.
3. Knowledge of the different research methods enables one to adapt and adopt a research design that caters for constraints of the research under study.

In qualitative research, which springs from the interpretive paradigm, there is an open interactive relationship between theory and research. The researcher often deliberately avoids formulating theories before fieldwork begins, on the grounds that this might hinder his capacity to comprehend the point of view of the subject studied. Observation precedes theory, commonly called the inductive approach. Theoretical elaboration and empirical research are therefore intertwined (Corbetta, 2003).

1.1.2. Research strategy

This is a general framework adopted to provide guidance about all facets of the study, from assessing the general philosophical ideas behind the inquiry to the detailed data collection and analysis procedures (Creswell, 2003). This research is qualitative and the research strategies available for qualitative studies are:

1) Phenomenology

2) Ethnography

3) Grounded theory

4) Case study

5) Surveys

The research used a survey strategy to the players in the money market in Zimbabwe to investigate the effectiveness of treasury bills to stimulate economic growth. Surveys can be either qualitative or quantitative in their approach to data

collection. The survey research design is where the researcher approaches a sample of individuals presumed to have undergone certain experiences and interviews them concerning those experiences. The obtained responses constitute the data upon which the research hypotheses or propositions are examined.

3.4.3 Research instrument

According to Zikmund (2003) instrumentation is the use of different and specific tools of data collection. The interviews were used as the research instrument of this research. A qualitative survey method was done through the use of in-depth interviews. Interview guides were with unstructured questions was used to collect data. Bauden(2002) pointed out that unstructured interviews, sometimes referred to as "depth" or "in depth" interviews have very little structure at all. The interviewer goes into the interview with the aim of discussing a limited number of topics, sometimes as few as one or two, and frames the questions on the basis of the interviewee's previous response. Although only one or two topics are discussed they are covered in great detail. Unstructured interviews are exactly what they sound like - interviews where the interviewer wants to find out about a specific topic but has no structure or preconceived plan or expectation as to how they will deal with the topic. Face to face interviews were done with key people at Zimbabwe stock exchange, ministry of finance the central banks.

3.4.4 Pilot study

Kothari (2005) advises that before applying the method of interviews, usually a pilot study for testing the questionnaire is conducted which reveals its weaknesses. For this research, pilot interview was conducted with three people who are part of the survey population. Through the pilot interviews the researcher gained skills of interviewing people and was able to make some questions simpler in a way that can be easily understood.

3.4.5 Population and Sample

Karlton (2003) states that the term 'population' refers to the totality of the elements under study where the elements are the units of analysis. The elements may be persons, but they could alternatively be households, or any other unit. The

population definition needs to be precisely and carefully specified according to the survey objectives, because the results will depend on the definition adopted.

In this study, the target population is made up of the managers in the Zimbabwe Stock Exchange, Ministry of Finance and Economic Development, the Central Bank and Banks.

3.4.5.1 Sampling Techniques

There are two methods of coming up with a sample as explained in the two sections below;

3.4.5.1.1 Probability Sampling Technique

Saunders (2010) theorises that the sampling of random cases fortifies the notion that the probability of isolated cases from the population is the same and quantifiable. Probability sampling makes it tenable to identify the probability that a specific sampling unit will be chosen from the population. The probability sampling techniques are in the form of simple random sampling, systematic sampling, stratified sampling and cluster sampling. Probability sampling methods were not applied in this research because of its qualitative nature

3.4.5.1.2Non Probability Sampling Technique

Non-random (non-probability) sampling entails the case where probability of samples chosen is unspecified and unable to account for the statistical conclusions about the characteristics of the population. Under this sampling technique, it is not possible to specify the probability that any person or any other unit will be included in the sample. Some of the non-probability sampling methods are convenient sampling, quota sampling, judgmental sampling, purposive sampling and snowballing sampling. The researcher used convenient sampling, judgmental and purposive sampling. These are further explained below.

Convenience sampling – This takes into account the picking out most convenient and nearest samples as respondents (De Vaus, 2008). Although this is widely used, it is the least appealing way of statistical sampling. Sometimes it's called 'accidental sampling' but the notion is misleading as it infers randomness, disregarding the fact

that biases were employed to choose the respondents. This sampling method was used where the researcher approached those who were available and willing to participate in the interview. People inmanagement are difficult to access because they are always busy and sometimes always out of their offices. In this case, convenient sampling was applied

Judgmental sampling– This theory of sampling refers to the researcher's interest in the subject (Moser and Kalton, 2001). Samples are constructed to meet the researcher's particular needs. Although the researcher applied a convenient sampling technique, judgmental sampling was also applied. The researcher made sure that the persons interviewed are the people who can provide the necessary information on the effectiveness of treasury bills to stimulate economic growth. It is an approach commonly used within case studies.

Purposive and Heterogeneous Sampling-The principle of selection under purposive method is the researcher's judgement as to typicality or interest. This entails the construction of a sample to meet the researcher's needs and inference. A sample is built up which enables the researcher to satisfy the specific needs in a project. Heterogeneous sampling is where there is a deliberate strategy to select individuals with varied characteristics of interest. The target group for this research was the management. The researcher used purposive sampling to select the appropriate management from the ministry of finance, Central bank and the Zimbabwe Stock Exchange.

1.1.6. Questionnaire administration

Karlton (2003) pointed out that collecting data from only a part of the population is clearly less costly and, providing the estimates are sufficiently precise, sampling is thus more economic. A sample inquiry can also be conducted and processed more speedily, leading to timelier reporting. Furthermore, by concentrating resources on only a part of the population, the quality of the data collection may be superior to that of a complete enumeration. As a result, a sample survey may in fact produce more accurate results. For these reasons, unless the population is small, sampling is almost always used. According to Bryman and Cramer (1990), by and large

researchers will want to form a representative sample. In this research, a non-probability sampling approach was used to come up with the following sample

Table 3.1: Sample size

Target population	Interviews taken
Ministry of Finance	3
RBZ	2
Zimbabwe Stock Exchange	2
Banks	4
BAZ	1
CZI	1
Bidders	2
Total	**15**

The total number of targeted interviewees was fifteen. In order to achieve this, the researcher used convenient sampling, purposive sampling and judgmental sampling techniques. The researcher used his discretion to select the respondents of the study. This simply means subjective selection of population units by the researcher based on their knowledge and pre-disposition. The degree of errorrests on the researcher's level of expertise (Morrison, 2001).

3.5 DATA ANALYSIS

The data analysed was purely qualitative. The findings were presented in a table providing the responses from every group of interviewees. A content analysis was done where the researcher provided a narrative and descriptive form of responses as they were coming out from the interview. Content analysis is a procedure for the categorisation of verbal or behavioural data, for purposes of classification, summarisation and tabulation. A statistical analysis was done using NViVo. The

package saved the researcher a great deal of time but a fair amount of human input was still required to identify and check categorisation.

3.6 VALIDITY AND RELIABILITY

A valid measure is one that seems to represent a particular idea in a convincing way. A reliable measure has consistency. Reliable instruments obtain similar responses when administered to different respondents. Objectivity on the other hand is the absence of subjective judgements. Pre-testing was used to improve validity and reliability of the instruments and hence the data collected.

3.7 ETHICS AND VALUES

Ethical considerations are necessary to measure what harm if any will be posed on the respondents. The following considerations were made

- Researcher's Objectivity

- Issues of consent by respondents

- Handling sensitive information

- Maintaining confidentiality

The researcher sought to be objective and avoid bias. The researcher got consent from all respondents and use of the information was for academic purposes only and to further the interests of affected communities and business people without prejudice. The researcher approached the gatekeepers in the Ministry of Finance, Zimbabwe Stock Exchange and the Central Bank in order to get permission to carry out the study. A letter from the University of Zimbabwe was produced to clearly show that the study is merely an academic exercise. The participants were told that it was voluntary to participate in the research. Names of the respondents were not disclosed so as to keep confidentiality neither does information provided by one interviewee shared to another.

3.7 CHAPTER CONCLUSION

This chapter discussed how the data was collected, how it was analysed and how it was presented. The major concepts discussed were sampling techniques, research instruments, validity and research ethical considerations. The next chapter discusses the research findings and discussion.

CHAPTER FOUR

FINDINGS AND DISCUSSIONS

4.1 INTRODUCTION

This chapter presents the research findings. The analysis is qualitative in nature from in-depth interviews. The results are presented in a tabular form and then their implications and literature links are discussed. The tables, which show results, are attached to appendices. This chapter will present the respondents' profiles as well as their responses to questions concerning the status of treasury bill issuance in Zimbabwe, effectiveness of the TBs as a money market instrument in raising funds for the government, their influence on the availability of liquidity in the economy as well as the factors and conditions needed for successful treasury bill issuances in Zimbabwe's multi-currency economy.

4.2 RESPONDENTS' PROFILES

The sample for this study includessenior management from the Ministry of Finance, Former Minister of Finance, Managing Directors and CEOs from financial institutions and their subordinates, Bankers Association of Zimbabwe staff (BAZ), Confederation of Zimbabwe Industries staff (CZI), Bidders and the business community in general.

The questions in the interview guide were structured according to the research questions of the study as follows:

a. Background of respondent

b. The status of the TBs in Zimbabwe

c. Effectiveness of TBs as money market instrument to mobilise funds for the Govt.

d. The influence of TBs on the availability of liquidity in the economy

e. Factors determining the performance of TBs in a multi-currency economy.

f. Conditions and policies needed to ensure successful TBs issuance.

Table 4.1: Demographic information of the respondents

Interviewee	Age of respondent (years)	Number of years employed by organisation	Number of years in current position
Former Minister of Finance	40-50	6 years and a half	4 and a half years
RBZ Governor	45-55	7 years	7 years
Bankers Association of Zimbabwe	30-40	6 years	4 years
Managing Directors and CEO	35-45	5 years	3 years
Senior Bank Management – bank	45-55	10 years	5 years
Bidder	40-50	15 years	5 years
Bank Treasury Manager 1	30-40	5 years	3 years
Bank Treasury Manager 2	30-40	5 years	5 years
Bank Treasury Manager 3	45-55	8 years	5 years

From Table 4.1 above it is clear that all the research participants are aged above 25 years with over 4 years working in their respective organisations. The respondents demonstrated a high level of knowledge on the operations of their respective organisationsto the study focus, which is the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy. Respondents were also at the corporate level of their respective organisations during the period covered by the research. The uniformity of the professions of the interviewees allowed the collection of useful informationfrom a diverse group but all working in the same economy.

4.3RESPONSE RATE

There was a good response rate because the researcher managed to interview the top management and head of functions, former minister and the RBZ governor on the areas of study thereby compiling the necessary information. The interviewed respondents answered all the questions as per interview questions administered. The researcher managed to obtain thirteen out of fifteen, which is a good response.

4.4 THE STATUSOFTREASURYBILLSISSUANCEINTHE ZIMBABWEANECONOMY

The research sought to find out the current status of treasury bills issuances in the Zimbabwean economy. Responses to this question are presented in Table 4.2 in appendix 3.

The former the minister of finance said that TBs issuance has failed as indicated by the unwillingness of major banks to buy securities and the global financial crisis. The RBZ governor indicated that the current status of TBs issuance is very slow although banks at one time were given an ultimatum to buy the securities. On the other hand the Bankers Association of Zimbabwe indicated that the market for TBs is undeveloped as there are insufficient securities and poor liquidity. Major financial institutions have avoided activities in the securities market.

The Managing Directors of financial institutions generally agreed that lack of integration of the Zimbabwean economy with the global economy has caused the slow growth of the market for Treasury Bills.

On the other hand senior management was of the view that majority institutions are unable to participate in the securities market because of a high debt burden and insufficient capital.

Moreover the treasury managers pointed out that the issuance of treasury bills is difficult because there is no money in the market. Liquidity challenges that are in the economy constrain the issuance of TBs. Research findings also further revealed that most organisations are not participating on the securities market because the lender

of last resort function of the central bank is seriously curtailed.From the above it is abundantly clear that most organisations are not participating in the Treasury Bills market. This is due to a number of factors chief among them being the global financial crisis and an undeveloped securities market. Marshall, (2001) agrees with the research findings when he indicates that the global financial and economic crisis presented significant challenges for African countries in securities management. It has also exposed weaknesses in the functioning of the global economy and led to calls for the reform of the international financial architecture. Although the crisis was triggered by events in the United States housing market, it has spread to all regions of the world with dire consequences for global trade, investment and growth.

Kindleberger (1978), from the liquidity school, presents a different view and argues that most 'financial instability' is a consequence of low reserves and high level of debt that is excessively short term, which makes economies highly vulnerable to random fluctuations and the poor performance of the securities market. This view considers crises to be necessary and avoidable since they are not caused by any underlying insolvency.

4.5 EFFECTIVENESS OF TBs AS A MONEY MARKET INSTRUMENT TO MOBILISE FUNDS FOR THE GOVERNMENT

Responses to whether Treasury Bills can be used as an effective money market instrument to mobilise funds for the Zimbabwe government are tabulated in Table 4.3 shown in appendix 4.

Table 4.3 in appendix 4 indicates that the former Minister of Finance indicated that TBs have not been effective as a money market instrument to mobilise funds for the government. He further added that TBs have not been effective because of the business people are afraid to lose their investments because the government does not have enough money. The RBZ also stated that TBs have not been effective as a money market instrument to mobilise funds for the government due to poor confidence in the banking sector and reluctance by major financial institutions to participate in the securities market. The bankers association argued that TBs are not effective to mobilize funds as there is no full engagement with the financial sector.

The Managing Directors of financial institutions who participated in the survey argued that the effectiveness of TBs as a money market instrument to mobilise funds for the government was affected by poor banking confidence by the public, as the RBZ has lost its status as the lender of last resort and hence the dearth of the interbank market. The senior manager of the bank who stated that poor interbank trading and unacceptable security have reduced the effectiveness of TBs as a money market instrument also expressed this sentiment. The treasury managers also indicated that there has been no good interbank trading and the capital flows were not well controlled. On the other hand, Entrepreneurs indicated that TBs have not been effective as a money market instrument due to poor controls on capital flows and corrupt activities.

The results above imply that TBs have not been effective as a money market instrument to mobilise funds for the government. Respondents suggested that this has been so because business organisations have lost confidence in the banking sector and thatGovernment use of money was not directed towards the productive sector but towards recurrent expenditures to pay government salaries. Other reasons they gave for the ineffectiveness include the undercapitalised central bank, poorly managed government deficit and undeveloped securities market.

In support to the research findings on the effectiveness of TBs as a money market instrument to mobilise funds for the government, Nelson (2012) states that TBs should be used by the government as an instrument used to raise funds in the event of the government failure of borrow offshore. On the other hand, Greenwood and Vayanos (2010) argue that without effective monetary instruments, draining surplus liquidity can be a daunting task for many central banks. Under normal circumstances, open market operations (OMO) in various forms are the main mechanism through which finance is mobilised for central banks to provide or withdraw liquidity to/from the money market, steer short-term interest rates and signal the stance of monetary policy. To further add to the body of knowledge on the effectiveness of Treasury Bills to raise government funds, Krishnamurthy and Vissing-Jorgensen (2011) state that government securities and central bank bills are the main debt instruments used and to different degrees, the primary issuances of them have been used to drain surplus liquidity in the economy.

4.6 THE INFLUENCE OF TBs ON THE AVAILABILITY OF LIQUIDITY IN THE ECONOMY

Table 4.4 in appendix 5 shows responses to whether TBs can influence the availability of liquidity in the economy.

Table 4.4 in Appendix 5 shows that the former Minister of Finance said that TBs have had a negative influence on the availability of liquidity in the market.He further added that, banks purchasing of Treasury Bills at rates of return that amounted to capital confiscation affected liquidity in the economy. Still on the same subject, Reserve Bank argued that TBs are not adequate to finance government deficit and the liquidity of the country in the multi-currency environment was not improved by the introduction of TBs. Bankers Association of Zimbabwe indicated that the issuance of TBs did not immediately improve market liquidity, insisting this only improved when banks were able to unwind their illiquid positions and invest in near liquid assets.

 The treasury manager 1 cited that treasury bill issuance affected the availability of cash in the market while the other two treasury managers shared the same view that the multi-currency and the use of foreign currency which is hard earned and has shortage in the market had a negative influence on the availability of liquidity.

Research findings also revealed that, according to the Consumer Council of Zimbabwe the issuance of TBs and the benchmark risk-free rate have not improved the liquidity in the Zimbabwean economy. The director from the Ministry of Finance highlighted that the liquidity position of the economy has been worsened by TBs as the value of future expenditure have been discounted.

Senior Management indicated that TBs have made the Zimbabwean government susceptible to activities in the capital markets due to the large external debt in relation to the GDP. Moreover the business community indicated that the issuance of TBs did not improve market liquidity as evidenced by the failure by some large banks to participate in the securities market.

Results of the study lead to the implication that TBs have had a negative influence on the availability of liquidity in the economy. Moreover the study found that treasury

bills are an important outlet for governments and an excellent way for them to acquire funds without raising taxes. While there are risks to issuing treasury bills and borrowing money, these risks can usually be lessened through proper investment management and fiscal policy decisions.

The research findings are reiterated by Friedman and Kuttner (2012) who indicated that central banks have often resorted to own securities in circumstances where the markets for government securities are undeveloped and where governments are reluctant to issue securities in sufficient amounts to effectively manage liquidity.

Also in line with the study findings, Schwarz (2011) argues that government securities and central bank bills are the main debt instruments used and to different degrees to manage liquidity, the primary issuances of them have been used to drain surplus liquidity. On the other hand, Warga (1992) argues that for monetary policy and liquidity management purposes, the focus is typically on government securities (treasury bills) and central bank bills with maturities of less than a year. Both securities have low credit risk (virtually zero credit risk) and are located at the bottom end of the risk/return spectrum, issuing securities will to a certain extent manage liquidity.

Moreover in addition to the research implications, Nout Wellink (De Nederlandsche Bank), (2010) states that TBs do not have any influence on the availability of liquidity in the economy. Influence on liquidity emanates from a stable financial system that efficiently allocates resources and absorbs shocks, preventing these from having a disruptive effect on the real economy, liquidity status or on other financial systems.

4.7 FACTORS DETERMINING THE PERFORMANCE OF TBs IN A MULTI-CURRENCY ECONOMY

The researcher interviewed the respondents and asked them what they can say are the factors determining the performance of TBs in a multi-currency economy. Responses are presented in appendix 6 in Table 4.5.

The results highlighted that the former minister of finance stated that some of the factors determining the performance of TBs in a multi-currency economy are the state of affairs of the economy, market perception, bank asset base and reserve

ratio. On the other hand the RBZ argued that TBs performance is determined by the central bank as the RBZ has lost the lender of last resort and made it difficult in the multi-currency environment to borrow from the domestic market.

The Bankers Association of Zimbabwe revealed that performance of TBs is determined by the performance of internationally owned banks, multi-lateral borrowing from institutions like IMF and World Bank. Managing directors and CEOs who participated in the study indicated that successful TBs issuances is determined by confidence of the banking sector in the economy, presence of a buy-back feature and collateral security instruments.

Further to this, senior management said that factors determining the performance of TBs in a multi-currency economy are economic conditions, interest rates, policy issues of the finance ministry and budgetary expectations. The business community highlighted that TBs performance is also determined the willingness of financial institutions to accept them and confidence in the economy. On the other hand Bidders that took part in the research stated that the performance of TBs in an economy is determined by government pressure to help revive the domestic debt market, state of affairs of the economy and political environment.

The treasury managers also indicated that a stable currency and more investment in the economy might improve the performance of TBs.

The findings above collectively reveal the implication that there are many factors determining the performance of TBs in a multi-currency economy. Prominent among these factors are the state of the economy, confidence of the banking sector in the economy, lack of business confidence in the Government, no option for a buy-back feature of the TBs, collateral security instruments for borrowing in the inter-bank market, interest rates, fiscal policy issues and budgetary expectations.

Kaufman (2002:1) elaborates that a bank fails economically when the market value of its assets declines below the market value of its liabilities, so that the market value of its capital (net worth) becomes negative. At such times, the bank cannot expect to pay all of its depositors in full, on time and will limit participation in the securities market to purchase bonds or treasury bills.

Calomiris (2001) states that the factors that affect the performance of treasury bills are a massive built up of debt, which depletes reserves, investors lose confidence and will withdraw their funds and this weakens the currency, hence the development of financial instability in the securities market and the whole economy as a whole. Moreover in addition to the study findings outlined above, Gagnon, Raskin, Remache, and Sack (2011) pointed out that the relative edge of government securities over central bank bills is on the basis that their primary issuance is not overburdened with addressing both fine-tuning operations and structural excess liquidity.

4.8 CONDITIONS AND POLICIES NEEDED TO ENSURE POSITIVE INFLUENCE OF TBs ON THE PERFORMANCE OF THE ECONOMY

An investigation was carried out by the researcher to determine the conditions and policies needed to ensure positive influence of TBs on the performance of the economy. The views of the respondentsare summarised and presented in appendix 7 in table 4.6.

Appendix 7 shows the conditions and policies needed to ensure positive influence of TBs on the performance of the economy. According to the former Minister of Finance, there is need for sustainable borrowing, managing budget deficit levels and fund the productive sector of the economy to ensure positive influence of TBs on the performance of the economy

The RBZ highlighted that the conditions and policies needed to ensure positive influence of TBs on the performance of the economy are reviving the lender of last resort function of the RBZ, bridge the gap in financing critical government projects, recapitalise the RBZ and benchmark interest rates to ensure positive influence of TBs on the performance of the economy.

According to the Bankers Association of Zimbabwe, the conditions and policies needed to ensure positive influence of TBs on the performance of the economy include encouraging interbank trading, improving bank assets and existence of a buy-back policy on the TBs. The managing director in the financial institution argued that TBs can only be successful if the loan to deposit ratios is high and ifTBs or bonds floated could be targeted at foreign capital or people in the diaspora this

would attract foreign capital. Respondents fromthe Consumer Council of Zimbabwe stressed that improved allocation of financial resources within the economy and reviving the dwindling industry by channelling funds to the productive sector of the economy are the conditions and policies needed to ensure positive influence of TBs on the performance of the economy.

Research findings from the senior management that took part in the survey revealed that the conditions and policies needed to ensure positive influence of TBs on the performance of the economy are developing securities market to attract long term finance and having a balance between consumptive and capital expenditure.

Study findings from the analysis above lead to the conclusion that the conditions and policies needed to ensure positive influence of TBs on the performance of the economy are collateral security that the TBs will serve, interbank trading, re-capitalisation of the RBZ, revive the lender of last resort in RBZ, direct funds towards productive sector of the economy and not fund recurrent expenditure.

The African Development Bank in its Zimbabwe Monthly Economic Report for October (2013) suggested that the failure by some big banks to participate in the securities market suggested there were issues that required government attention. It was added that conditions and policies needed to ensure positive influence of TBs on the performance of the economy required correction on skepticismconcerning the Government's ability to redeem the TBs upon maturity, lack of buy-back options on the TBs and lack of any need to offer additional collateral security in the inter-bank market.

Contrary to the study implication above, The African Development Bank (2013) adds to the study findings on the policies needed to have a positive influence on economic development. Collateral security is not an issue that the banks felt was crucial since most of them had huge reserves of idle funds, as shown in Zimbabwe Electronic Transfer Settlement System (ZETSS).

Longstaff (2004) echoesthe study findings by stating that very small inter-bank markets and several countries have restrictions on new financial products as well as market entry, this under-develops the securities market and retardseconomic development.

A study done by Edwards (2005) indicated that controls on capital flows are largely ineffective to improve economic development through positively improving TBs. Edwards (2005) is of the view that capital controls are often circumvented and lead to increased corruption as well as corresponding higher cost of capital and this ultimately results in a financial instability.

Fontaine and Garcia (2009) add that three elements seem to accord an edge to the use of government securities over central bank bills and these include: (i) an integrated view of public sector finance; (ii) the public policy argument for the government's role in fostering the development of money markets; and (iii) the ability to generate positive externalities for other financial instruments and the rest of the economy in a way that is not easily replicable by other instruments. All these elements are needed to ensure positive influence of TBs on the performance of the economy.

4.9 CHAPTER CONCLUSION

This chapter has presented findings on the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy. The main aspects analysed include the status of TBs in Zimbabwe, effectiveness of TBs as a money market instrument to mobilise funds for the government, influence of TBs on the availability of liquidity in the economy, factors determining the performance of TBs in a multi-currency economy, conditions and policies needed to ensure positive influence of TBs on the performance of the economy. The next chapter presents the conclusions and recommendations of the study basing on the findings made in this chapter.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.0 INTRODUCTION

This chapter presents the conclusions of the study on the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy. The conclusions are drawn from the research participants that include, senior management from the Ministry of Finance, former Minister of Finance, Managing Directors and CEOs and their direct reports from the financial institutions, Reserve Bank of Zimbabwe, Bankers Association of Zimbabwe (BAZ), Confederation of Zimbabwe Industries (CZI) and the business community in general. An area of further study is also proposed in the study to expand the understanding of the study area.

5.1 CONCLUSIONS

The study highlights the following conclusions made on after much analysis of research findings:

5.1.1 The status of TBs in Zimbabwe

The research concludes that the current status of treasury bills issuances in Zimbabwe is that most organisations are not participating in the market for securities. The government issued treasury bills but the uptake has been very low. This is due to a number of factors which are too much debt in the market, insufficient capital, poor interbank trading, unavailability of collateral security for lender-of-last- resort, as well as for the settlement systems such as ZimSwitch, RTGS and a poor cheque clearing system. The study also concludes that the major factors determining the current status of treasury bills issuances in Zimbabwe is the global financial crisis and an undeveloped securities market.

5.1.2 Effectiveness of TBs as a money market instrument to mobilise funds for the government

The survey concludes that the Treasury bills are not effective enough as a money market instrument to mobilise funds for the government. Some of the factors the research concludes that have led to the ineffectiveness of treasury bills as a money market instruments to mobilise funds for the government are that business organisations have lost confidence in the banking sector hence their participation in the securities market is next to none and also it is concluded that government use of money is not directed towards the productive sector of the economy.

Moreover the study concludes that TBs have not been effective enough to collect funds for the government because of high recurrent expenditures to pay government salaries, an undercapitalised central bank, poorly managed government deficit and an undeveloped securities market.

5.1.3 The influence of TBs on the availability of liquidity in the economy

It is concluded in this research that Treasury bills have not had a positive influence on the availability of liquidity in the Zimbabwean economy. Moreover the study found out and concluded that treasury bills are an important outlet for governments and an excellent way for them to acquire funds without raising taxes. While there are risks to issuing treasury bills and borrowing money, these risks can usually be lessened through proper investment management and fiscal policy decisions.

Survey concludes that TBs are not adequate to finance government deficit. It was also found out that the issuance of TBs and the resultant establishments of a benchmark risk-free rate, on their own, have not improved liquidity in the Zimbabwean market.

5.1.4 Factors determining the performance of TBs in a multi-currency economy

There are many factors determining the performance of TBs in a multi-currency economy. In relation to that, the study concludes that the major factors affecting the performance of TBs in a multi-currency economy are the poor state of the Zimbabwean economy, low confidence in the banking sector and uncertainty around government's ability to honour the Treasury Bills at maturity.

Moreover the study concludes that other factors determining the performance of Treasury Bills in the Zimbabwean economy are absence of a buy-back feature of the TBs, inadequate collateral security instruments for borrowing in the inter-bank market, interest rates, divergent policy issues of the finance ministry and budgetary expectations.

5.1.5 Conditions and policies needed to ensure positive influence of TBs on the performance of the economy

The study concludes that there are many conditions and policies needed to ensure that Treasury Bills have a positive influence on the performance of the Zimbabwean economy. The conditions and polices needed to ensure positive influence of TBs on economic performance are adequate collateral security that the TBs will serve, productive interbank trading, re-capitalisation of the RBZ, reviving the lender of last resort in RBZ, directing funds towards productive sector of the economy and not fund recurrent expenditure.

5.2 RECOMMENDATIONS

The following recommendations have been provided by the survey participants to improve the effectiveness of treasury bills in stimulating growth of the Zimbabwean economy.

➢ Treasury bills should be affordable and attract an economically competitive benchmark value in the securities market.

➢ The study recommends the Zimbabwean government to honour the Treasury Bills at maturity and provide confidence in the securities market so that there are more takers.

➢ It is recommended in this study that there should be a buy-back feature of TBs and there is need for offer more collateral securityfor inter-bank market borrowings.

➢ Research also recommends that there should be more active participation by government in the country's capital markets more than the current participation.

This has some long-term benefits to the economy in terms of investments and by not doing so; government is in fact reneging on a key role.

➢ To stimulate growth of the Zimbabwean economy the research recommends that the government should continue with the cash budget approach and improve it. The government is further recommended to improve its capacity to borrow both domestically and externally to increase its expenditures in the productive sector.

➢ The survey recommends that the government should participate actively in the local and international bond markets. This will gradually build a pool of both local and foreign investors that are comfortable with our sovereign risk, who will take advantage of the increased investment options and at the same time provide government with liquidity, especially for capital projects and eventually economic growth. The establishment of a sovereign wealth fund can help the government to participate on the recommended local and international bond markets.

➢ The Ministry of Finance should provide the much-needed acceptable security in the country's money markets and make them more efficient by encouraging interbank trading. It is further recommended that the acceptable security in the country's money markets would also improve income for banks as they would have trading income. Pension funds would also participate and there would be a more equitable allocation of capital across all financial markets as opposed to concentration in equities.

➢ It is recommended in this study that, TBs or bonds floated could be targeted at foreign capital or people in the diaspora, the same way as the CBZ diaspora bond, and would attract foreign capital. The crowding out effect could be limited if there were thresholds.

➢ The Central Bank is hereby recommended to move away from performing non-core activities it has been engaged in over the past years and increase its monitoring and supervision activities to check on errand financial institutions.

5.3 AREA OF FURTHER STUDY

An area of further study is recommended to investigate the effect of corporate governance practices within the commercial banking sector of Zimbabwe to economic development.

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APPENDICES

APPENDIX 1: INTERVIEW GUIDE FOR THE CENTRAL BANK, MINISTRY OF FINANCE, ZIMBABWE STOCK EXCHANGE (ZSE)

1. How can the Government use TBs to stimulate economic activity and growth?
2. What are the other securities that can be used by the government to stimulate economic growth?
3. What challenges are being faced in issuing of treasury bills?
4. What has been the solution to these problems?
5. What is the current status of treasury bills issuances in Zimbabwe?
6. What procedures are being used to offer the treasury bills?
7. How best can the Government Issue treasury bills?
8. What are the challenges in the financial market that lead to the failure of treasury bills issuance?
9. What are the causes of unsuccessful treasury bills issuance?
10. What impact does the multicurrency system in Zimbabwe has to the effectiveness of Treasury bills issuance?
11. How does the legal and regulatory framework promote the effectiveness of Treasury bill issuance?
12. How does the legal and the regulatory framework affect the issuance of treasury bills?
13. What are the factors determining the success TBs issuances?
14. What are the underlying conditions needed to make TB issue tenders successful?
15. How can a government develop a security settlement structure?
16. How does the tax policy in Zimbabwe promote the issuance of treasury bills in Zimbabwe?
17. How does the Tax policy affect the issuance of treasury bills?
18. What is your general comment on the securities that are offered by the Zimbabwean government?
19. Would you see treasury bills as the best securities to promote economic growth?

APPENDIX 2: INTERVIEW GUIDE FOR BANKS

1. What is the current status of treasury bills issuances in Zimbabwe?

2. How can treasury bills be effectively issued? What are the underlying conditions needed to make TB issue tenders successful?

3. How can the Government use TBs to stimulate economic activity and growth?

4. What are the problems you are noticing on the issuance of treasury bills today?

5. What must be done in order to achieve successful Treasury bill issuance?

6. How successful have been the policies made by the central bank promote the issuance of treasury bills?

7. How the policies affect the issuance of treasury bills?

8. What are the factors determining successful TBs issuances?

9. How do you buy treasury bills?

10. From your experience how is the government being affected by the unsuccessful Treasury bill issuance?

11. What do you recommend the government to do when issuing the treasury bills?

Thank you for your time and effort

APPENDIX 3:TABLE 4.2: CURRENT STATUS OF TREASURY BILLS IN ZIMBABWE

Interviewee	Commentary on the current status of treasury bills in the country
Former Minister of Finance	• The global financial and economic crisis has presented significant challenges on the issuances of TBs. • High unwillingness by large banks to buy the securities.
RBZ Governor	• Fair number of banks have for some time had idle funds as evidenced by Zimbabwe Electronic Transfer Settlement System (ZETSS). Treasury Bills issuance has flopped. • The RBZ has failed to sell TBs to banks despite the Minister of Finance giving an ultimatum for banks to buy the securities.
Bankers Association of Zimbabwe	• The market for Zimbabwe government securities is undeveloped as there are insufficient securities and poor liquidity status. • Failure by some banks to participate as there is poor interbank trading, supported by the unavailability of collateral security for lender-of-last- resort, as well as for the settlement systems such as ZimSwitch, RTGS and the cheque clearing system.
Managing Directors and CEOs	• Very slow response by organisations in participating to buy TBs as there is a low integration into the global economy.

	• Capital controls are often avoided and lead to increased corruption as well as corresponding higher cost of capital, lowsecurities uptake.
Senior Management	• Most institutions in the economy are unable to meet falling and scheduled obligations due to financial factors such as too much debt and insufficient capital. Therefore they cannot take part in purchasing TBs.
Business community (Entrepreneurs)	• Policy makers should reactivate the interbank market and resuscitate the lender of last resort function of the central bank by availing securities. Most organisations are not participating in purchasing securities.
Treasury managers	• Issuance of treasury bills is difficult because there is no money in the market. Liquidity challenges that are in the economy fail the issuance of TBs

APPENNDIX 4: TABLE 4.3: EFFECTIVENESS OF TBS AS A MONEY MARKET INSTRUMENT TO MOBILISE FUNDS FOR THE GOVERNMENT

Interviewee	Commentary on the effectiveness of TBs as a money market instrument to mobilise funds for the government
Former Minister of Finance	• The ineffectiveness of TBs in Zimbabwe is as a result of the poor economic mood or perception by

	market players and speculation activities. • High recurrent expenditures to pay government salaries • Ineffective as the government deficit arising from fiscal policy is very high
RBZ Governor	• Poor confidence in the banking sector by the general public has made it difficult for the TBs to be effective • Reluctance by major financial institutions to participate in the securities market reduced the effectiveness of TBs as a money market instrument. • TBs are ineffective money market tools as there are low reserves and high level of debt that is excessively short term.
Bankers Association of Zimbabwe	• Not effective as there is no full engagement with the financial sector hence not much funds are mobilised from TBs. • Very low confidence in the banking sector and vast speculation.
Managing Directors and CEO	• The effectiveness of the TBs was affected by poor banking confidence by the public • The use of the money was not directed towards productive sector. • The RBZ has lost the lender of last resort status and hence no repo rate

Senior Management	• Poor interbank trading and unacceptable security have reduced the effectiveness of TBs as a money market instrument. • Repo rate not being able to determine the prime rate, effectiveness of TBs is hampered.
Business community (Entrepreneurs)	• TBs have not been effective as a money market instrument due to poor controls on capital flows and corruption activities. • Too much debt and insufficient capital in the economy have reduced the effectiveness of TBs to mobilise funds for the government
Treasury managers	• The treasury managers also indicated that there has been no good interbank trading and the capital flows were not well controlled

APPENDIX 5: TABLE 4.4: THE INFLUENCE OF TBs ON THE AVAILABILITY OF LIQUIDITY IN THE ECONOMY

Interviewee	Commentary on the influence of TBs on the availability of liquidity in the economy
Former Minister of Finance	• Negative influence as the integrity of the banks has been compromised form part of the reason for disintermediation, the Governor needs to look no further than the Reserve Bank's conduct when it was forcing the banks to accept Treasury Bills at rates of return that amounted to capital

	confiscation, or when the Statutory Reserve Ratio was set at 60% of bank deposits, or when regulations were amended so frequently that they ceased to be issued in written form
RBZ	• TBs not adequate to finance government deficit • The liquidity of the country in the multi-currency environment was not improved by the introduction of TBs
BAZ	• The issuance of TBs did not immediately improve market liquidity but could improve if banks were able to unwind their illiquid positions and invest in near liquid assets. • Market players switching to more liquid assets will have a significantly reduced opportunity cost as the TBs will at least have a return above zero
CZI	• The issuance of TBs and the resultant establishment of a benchmark risk-free rate, on their own, have not improved liquidity in the market
Managing Directors and CEO	• A country borrows too much money, it has to pay a great deal of interest every year in order to service that debt. This represents money that could have been used to pay for program spending instead. • By borrowing money, the government has placed emphasis on spending in the present than in the future. It has discounted the value of future expenditure.

Senior Management	• The TBs do not improve the liquidity of the country.
	• TBs make the government vulnerable to the shifting and often volatile sentiment of the international capital markets. If they have a sufficiently large external debt in relation to their GDP.
Business community (Entrepreneurs)	• The failure by some big banks to participate suggested there were issues that required government attention for the TBs to be effective
	• The Zimbabwean economy in its efforts to struggle back to its normal growth trajectory, the government finds itself crippled by high interest rates and poor liquidity. Nobody else will lend the government money with which it can stimulate the economy under anything but the most onerous terms.
Treasury mangers	• Treasury bill issuance affected the availability of cash in the market while the other two treasury managers shared the same view that the multi-currency and the use of foreign currency which is hard earned and has shortage in the market had a negative influence on the availability of liquidity.

APPENDIX 6: TABLE 4.5: FACTORS DETERMINING THE PERFORMANCE OF TBS IN A MULTI-CURRENCY ECONOMY

Interviewee	Commentary on the factors determining the performance of TBs in a multi-currency economy
Former Minister of Finance	• The economic mood affects the effectiveness of the money market instrument. • The market perception affect the effectiveness of the money market instrument • Bank assets wiped by dollarisation so TBs were not an option • RBZ could not borrow from banks, which were in a poor state.
RBZ Governor	• RBZ has lost the lender of last resort and makes it difficult in the multi-currency environment to borrow from the domestic market. • The RBZ is the one with the authority to sell the TBs. • Expectations of commercial banks.
BAZ	• TBs are supposed to give the government the capacity to borrow both domestically and externally. • Multi-lateral borrowing from institutions like IMF and World Bank • The importance of TBs in our market is more about optimising the pricing of financial assets in the market and giving guidance in managing future expectations relating to interest rate policy and inflation risks, with the overall effect of bringing about efficient allocation of financial resources • Low performance from international owned banks

Managing Directors and CEO	• Confidence of the banking sector in the economy. • Uncertainty around government's ability to honour the TBs at maturity, • Absence of a buy-back feature of the TBs • The need for additional collateral security instruments for borrowing in the inter-bank market by big banks that still lend and borrow bilaterally among themselves
Senior Management	• Interest rates • Policy issues of the finance ministry and budgetary expectations • Conditions in the economy are reflective of a deceleration in the rate of growth in future revenue (especially in the short term)
Business community (Entrepreneurs)	• Resistance from international financial institutions. • Low confidence with the economy derailed progress of this intervention • TBS are not effective tool in Zimbabwean economy since some banks were compelled to acquire negotiable certificates of deposit
Bidders	• TBs failed to perform as wary banks brushed off government pressure to help revive the domestic debt market. • State of affairs of the economy • Uncertain political and economic environment
Treasury mangers	• A stable currency and more investment in the

	economy may improve the performance of TBs

Appendix 7: **Table 4.6: The conditions and policies needed to ensure positive influence of TBs on the performance of the economy**

Interviewee	Commentary on the conditions and policies needed to ensure positive influence of TBs on the performance of the economy
Former Minister of Finance	• Availability of other sources to fund recurrent expenditure • The wage bill in 2012 was 18% of the GDP and in 2013 it is 110% of the total expenditure. Little money raised was not channeled towards productive sector in terms of reviving the dwindling industry • Sustainable borrowing • Manageable budget deficit
RBZ Governor	• Revive the lender of last resort in RBZ • The urgent need to bridge the gap in financing critical government projects. • Recapitalise the RBZ • Benchmark interest rates
BAZ	• Funds from TBs be used for capital projects that have the potential to generate future revenue or influence service delivery in the system. • TBs are going to be more efficient by encouraging interbank trading • Evidence of government's ability to pay the TBs at maturity

	• Existence of a buy-back policy of the TBs • Improving bank assets
Managing Directors and CEO	• TBs can only be successful if the loan to deposit ratios is presently high, government can come up with a threshold to say they will borrow up to a maximum of 10% of all deposits or a certain percentage of GDP. • TBs or bonds floated could be targeted at foreign capital or people in the diaspora, the same way as the CBZ diaspora bond, and would attract foreign capital. • The crowding out effect could be limited if there were thresholds. • Restructuring the RBZ
CZI	• Improved allocation of financial resources within the country. • Channeling funds raised towards the productive sector in terms of reviving the dwindling industry. • Recapitalise the RBZ • Government to honour the TBs at maturity.
Senior Management	• Develop the securities market to attract long term finance • Shift and re-align aggregate government expenditure to reflect a progressive balance between consumptive and capital expenditure
Business community (Entrepreneurs)	• Direct funds towards productive sector of the economy and not fund recurrent expenditure • Country should settle debt arrears through finances from the productive sector issued through treasury bills and

	bonds • Revive the lender of last resort in RBZ