

The Costs and Benefits That Developing Countries Could Draw From Dollarization: The Zimbabwean Experience Period 2009-2018

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The paper presents and examines the impact of dollarization on growth and development of emerging economies with specific reference to Zimbabwe's experience in the period, 2009-2018. The research study explores the theoretical and empirical evidence drawn from countries of the world that dollarized for various economic reasons. The study used a descriptive survey design to analyse the research data drawn from the field on the impact of dollarization on economic growth and development prospects of dollarized emerging economies. It was found out that dollarization was essential in reducing high inflation and unemployment rates to acceptable levels, increased aggregate supply and demand, the gross domestic product (GDP), and living standards of the citizens of developing nations. The study concluded that dollarization contributed significantly to the growth and development of most emerging economies of the world. It was therefore recommended that emerging economies such as Zimbabwe should rationally and effectively dollarize in their desire to attain all the millennium development goals (MDGs), and drive towards elimination of dependence on rich nations, self-reliance, and sustainable development.

Keywords: dollarization, emerging economies, economic growth and development, millennium development goals, sustainable development

Introduction

Developing nations of the world are continuously seeking for ways and means to move out of the recurring low growths and insufficient economic performance (Cheru, 2016). Zimbabwe is one of the developing nations whose economic emancipations have remained subdued. The country in 2009 abandoned its local currency and adopted a multi-currency system which has become formally known as dollarization (Sikwila, 2013). The above development came into being in the country's desire to save the nation from a rampaging hyperinflation. The adoption of dollarization helped Zimbabwe arrest the hyperinflation experienced in the period 2006-2008, among other notable benefits. However dollarization of the economy has also brought about some challenges in the economy that include stunned growth, de-industrialization, and serious liquidity challenges among others (Chigome, 2015). The concept of dollarization refers to a situation when the United States dollar is used in addition to or instead of the domestic currency of a given country as legal tender or

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means of payment. The term dollarization therefore implies the official adoption of foreign currency by a country as its legal tender or as the basis of a currency board (Honohan & Shi, 2002). In other words dollarization can be referred to as a currency substitution process by a given country's monetary authorities. Dollarization normally occurs in developing countries with weak central governments or very unstable economic environments. The citizens of a country within a given economy which is undergoing rampant inflation may choose to use a historically stable currency, like the U.S. dollar in conducting their day-to-day transactions. The reason being that since inflation will cause their domestic currency to have reduced buying power, the U.S. dollar's stability would restore the purchasing power drawn from the domestic currency back into the hands of the households and firms. However it should be noted from the onset that dollarization may not always involve the U.S. dollar as the adopted foreign currency. The euro for instance has also been adopted by non-EU members as their domestic currency for the same reasons alluded to above.

There are three main types of dollarization that developing countries of the world can adopt namely unofficial dollarization, official partial dollarization, and official full dollarization (Nkomazana & Niyimbanira, 2014). The term unofficial dollarization is the use of foreign currency by an economy on selected transactions although it may not be legal tender. This is a situation which arises because of lack of confidence in the national currency (Fabris, Vukajlović, Radunovic, & Jankovic, 2004) by its citizens. Partial dollarization on the other hand occurs when a certain portion of a country's assets can be held in a foreign currency form. Partial dollarization can also be implemented over time, or as a gradual currency conversion to a full currency conversion. Countries of the world that have partially dollarization include Argentina, Cuba, Bolivia, Vietnam, Turkey, and Peru. According to Rossini and Quispe (2015) partial dollarization has the potential to threaten the financial stability of a country. Findings by Rossini and Quispe (2015) in their study of Peru noted the negative statement of financial position effect created by firms when the local currency depreciated significantly whilst obligations continued to be denominated in foreign currency and revenues were in the local currency. This scenario was found to have a negative impact on credit delinquency ratios of commercial banks and economic activity.

Full dollarization occurred in an economy after a major economic crisis, as in the cases of Ecuador, El Salvador, and Zimbabwe in the period 2006-2008. One of the major motives for full dollarization is cited as the need to receive the benefits of greater stability in the value of a foreign currency over a country's domestic currency. On the other hand the downside of dollarization is that the country would give up its ability to influence its own monetary policy by adjusting its money supply in tandem with the adopted foreign currency to stand in the country's new legal tender. In the year 2009, Zimbabwe started off by introducing a basket of currencies which included the South African Rand, Botswana Pula, and the U.S dollar. This was after the country had witnessed one of the worst hyper inflationary periods (2006-2008) the world had ever experienced in order to bring down the skyrocketed inflation rate and stability back into the country. By 2010 the country had fully dollarized after the US dollar had managed to weaken the acceptability of the other currencies alluded to above. This study therefore examined the major costs and benefits that emerging economies such as Zimbabwe could draw from operating a dollarized financial system and was based on growth and development trends in the period 2009-2018, under review. According to Mengesha and Holmes (2013) studies conducted on dollarization have focused on Latin American and Asian economies. However, this study will focus on the costs and benefits of dollarization to Sub Saharan Africa with particular reference to Zimbabwe in the period 2009-2018.

Literature Review

The 17th century dramatist, Aphra Behn has it on record that “money speaks in a language all nations understand”. However according to Mohr and Fourie (2009) there is still no generally accepted theory on how money influences the economic activity of a nation. Some modern economists such as King and Kaldor (2016) accept that the influence of money on the economy is not entirely neutral. However, this school of thought is not in tandem with early economists such as Hayek (1952) who used the term “neutral money” to explain that money does not actively influence the real economic variables of a country. Anderson (2016) postulates that dollarization reduces inflation, eliminates inflationary expectations, and brings about stability in a country’s general price level. Conversely it is also noted that the number of non-performing loans (NPLs) borne by developing countries also increased during the dollarization era. Zimbabwe has been found to be among the highest loan defaulters compared to other developing countries. This sad development noted in Zimbabwe has been attributed to its unique macroeconomic conditions. The country’s NPLs led to stagnation of economic resources and activity together with threats to macroeconomic stability (RBZ, 2015). It was also observed that banks are an integral part of the financial system and play a fundamental role in the global economy and therefore NPLs did affect the whole economy of a country (Mileris, 2014). Dollarization has been noted to bring about some positive and negative effects on the economy of a country, which are to be elaborated in this paper. Policymakers must, therefore, critically look at the impact that dollarization has on a country in order to come up with the way forward. The effects of dollarization may change from time to time, as has been the case for Zimbabwe where inflation was arrested in 2008 at the inception of dollarization and hence the need for policies to be put in place to promote economic growth and development.

Dollarization and Global Spread of the US Dollar

Dollarization of emerging economies is a fairly widespread phenomenon mainly due to the existence of administered financial systems that do not bring about growth and development of such countries (Matanda & Madzokere, 2015). A recent International Monetary Fund (IMF) compilation has indicated that in 1998 foreign currency deposits exceeded 50 percent of national money supplies in seven developing countries that have had programs with the fund since 1986. On the other hand it was noted that the foreign currency deposits accounted for 30-50 percent in another dozen or so “highly dollarized” programme countries. Rossini and Quispe (2015) postulate that the deposits commonly reached 15-20 percent in programme countries where residents were allowed to maintain such accounts. In fact it is argued that ratios of 30-60 percent prevailed in most transitional economies in Eastern Europe and the former Soviet Union during the period 1990-1995 and were prevalent in Latin America as well. Most of the countries that experienced these challenges were very small while the largest included Turkey (with a foreign currency share of 46%), Argentina (44%), Russia, Greece, Poland, and the Philippines (all about 20%). Mexico on the other hand was only at 7% while Bolivia had the highest ratio of 82%. The only fully dollarized countries remained Panama and Liberia. The United States had it on record then that about two-thirds of all dollar currency was held outside the United States spread out to most Asian and African countries. About three quarters of recent increases in such cash holdings was accumulated beyond the USA’s borders. It was also noted that USA exports of dollar currency totalled \$44 billion to Russia and \$35 billion to Argentina alone during the period 1989-1996, a scenario that has significantly worsened through adoption of the currency as legal tender by countries in the Sub Saharan Africa such as Zimbabwe. This literature section of the study is centred on examining the impact of dollarization on

the performance of the Zimbabwean economy according on a sector by sector basis.

Dollarization and the Monetary Policy of a Country

Ize and Parrado (2006) talk about real dollarization, financial dollarization, and how these relate to the monetary policy of a country. It is therefore important from the onset that we start off by distinguishing between *de facto* and *policy* dollarization. The former occurs when the residents of foreign countries seek refuge in the dollar (or other strong currencies of the world) to hedge against rampant inflation, default, or confiscation of their property by their own governments. One new observation in the 1990s was that *de facto* dollarization occurred beyond those risks, at least in their most obvious manifestation, in at least some parts of the world. Argentina and a few other countries of the world to lesser extents began to consider *policy* dollarization, a situation where the countries' monetary policies would be changed by demonetizing the domestic currency and monetizing the currency adopted as the new legal tender. It can also be noted that Europe's creation of the euro sparked interest in the possible payoff from explicit abandonment of monetary sovereignty for a common currency rather than someone a particular country's currency. Countries of the world have three basic choices in determining the monetary linkages between their economies and the rest of the world, assuming that they maintain a currency of their own as most do. One of the choices was letting their currency float freely in the exchange markets against all other currencies. Secondly countries of the world could proceed and fix the price of their currency against a specific foreign currency or a basket of foreign currencies. Countries were also free to pursue intermediate approaches, letting rates float to some extent but intervening to limit those fluctuations either managed floating or pursuant to some pre-determined parameters.

Newly dollarized economies such as Zimbabwe should know that there is increasing intellectual and policy consensus that "fixed but adjustable" exchange rate regimes do not work well for emerging market economies. Hence such countries must either float to some extensive degree or fix convincingly even though both courses of action have clear costs and benefits. Floating exchange rate systems allow a country to maintain a degree of national control over its monetary policy together with other national macroeconomic policies. This is because it does not have to use them to defend the exchange rate regime. However, markets could overshoot the economic fundamentals for example they can push a currency far below its underlying economic value, generate inflation and large debt servicing costs, or far above that level, haunting the country's competitiveness and throwing its trade balance into large deficit as is the case in Zimbabwe of late (Matanda & Madzokere, 2015). Fixed exchange rates on the other hand can avoid those costs if the authorities can successfully set them at a sustainable level and convince the markets of both their ability and will to keep them at those levels. It is further argued that fixed rates could reduce the transactions costs of international trade and investment. In addition fixed exchange rates can provide useful anchor for price stability by linking a small country to world economies with relatively stable prices, like the United States and Germany. However, governments of emerging economies may try to sustain exchange rates at unsustainable levels and private capital flows would eventually force devaluations that could be extremely costly to their countries. Successful application of a fixed rate can often be costly too, as this could require a country to raise interest rates and/or slow its economy's growth rate to avoid speculative attacks. There is thus a clear trend away from fixed rates in emerging markets, particularly in the wake of the recent global crisis where a number of relatively fixed-rate countries were forced to abandon their pegs while countries with various types of floating exchange rate regimes generally fared better.

Dollarization and International Trade

There is no doubt that dollarization could lead to a further increase in trade and investment between countries that were already integrated to a substantial degree (Klein, 2002). The associated trade costs would be reduced if there were already relatively free flows of capital and labour between the country and the United States. The capital flows would represent the alternative mechanisms of adjusting to economic conditions that affected the two economies differentially. Mexico and Canada for example as trading partners of the United States-might seriously consider dollarization of their economies. About one-third and one-fifth of all Canadian and Mexican production respectively is exported to the United States. Conversely the ratio is less than 1% in Argentina or Brazil. In other words dollarization would not shield Argentina from the substantial impact of devaluation by Brazil, by far its largest trading partner. In other words full financial integration of these countries with the United States would have some appeal along with the presumed advantages of greater price stability and lower interest rates.

The European Union has done the same with the USA through the euro in part because of the members' extensive trade ties as noted above and attained massive growth in some of the less industrialized members of the Euroland such as Italy, Portugal, and Spain. The concept of dollarization can therefore be conceptualized as a "currency board plus", in three senses. Dollarization imparts even greater credibility to a country's commitment to renounce the devaluation option. Secondly it assures that the country will import stable prices and presumably lower interest rates from the United States. Thirdly, it minimizes the transaction costs and promotes further long-term integration with the US economy. The price countries would incur in such engagement which would be to give up two major policy instruments, which have traditionally been viewed as integral elements of a country's national sovereignty. These are the monetary policy and the exchange rate system. Klein (2002) adds that dollarization has been suggested as a policy that among other goals, promotes trade between a country adopting the dollar and the United States of America. Evidence supporting this school of thought could be drawn from a recent series of papers by Rose et al. who show that a currency union increases bilateral trade among its members. The paper goes further to suggest that this effect is both large and statistically significant. However although Zimbabwe dollarized in 2009, trade with the USA has not improved significantly mainly due to strained relations emanating from our failure to observe human rights, democratic rights of the citizens and equality of all people before the law. Under dollarization a country abolishing its Central Bank should also abolish its lender of last resort function, and so would have no agent to respond to a domestic financial crisis when it manifests in the economy. The absence of a Central Bank in an economy also eliminates the normal supervisor and regulator of the whole financial system, although a separate agency can be created for that purpose. Dollarization therefore makes sense only for countries in one of the three positions namely a very small and open economy that has no real autonomy over its exchange rate, a country desperate to overcome a legacy of hyperinflation, or a country that is already deeply integrated with the United States. Zimbabwe faced some critical hyperinflation pressures in the period 2006-2008 and hence was forced into dollarization as the only way out of the inflationary predicament. It was therefore advisable that other countries of the world should continue to seek alternative exchange rate systems that suited their positions as relatively closed economies that were relatively noninflationary and not tightly linked to the United States.

Dollarization and Economic Performance

A study on the impact of dollarization on economic performance done by the Central Bank of Chile (in

2003) discovered that dollarization resulted in a lower inflation rate and faster economic growth. The study found out dollarized nations' inflation rates were significantly lower than those in non-dollarized economies. However on the other hand it was discovered that dollarized nations had lower rates of economic growth than non-dollarized countries. On another note the study realized that macroeconomic volatility was not significantly different across both dollarized and non-dollarized economies. It was concluded that the lower rates of economic growth in dollarized countries was attributable to the difficulties these nations had in accommodating external disturbances, such as major terms of trade and shocks from capital flows (IMF, 2018). Another study was carried out by Edwards (2001) to investigate the impact of dollarization on a country's economic performance. The study revealed that countries that had lived under a "dollarized" monetary system were a small group, most of which had operated under very exceptional circumstances, and for which there were very limited data. The results realized in this paper suggest that, when dollarized countries were compared to other countries, they were found to have significantly lower inflation rates, grew at significantly lower rates, similar fiscal records and were not spared from major current account reversals. An analysis of Panama's case postulated that external shocks resulted in greater costs to the nation measured in terms of lower investment and growth rates compared to non-dollarized countries.

Chidhakwa and Munhupedzi (2017) examine the effects of dollarization on business in Zimbabwe focusing mainly on economic indicators such as inflation rate, gross domestic product (GDP), employment and ease of doing business during the period 2009-2015. The study discovered that Zimbabwe experienced a very difficult business cycle characterized by hyperinflation, negative economic growth rates, and unavailability of basic commodities during the period 1998-2008. In 2009 the country demonetized the Zimbabwean dollar and substituted it with a multiple currency system led by the United States Dollar, the South African Rand, and Botswana Pula. There has been general speculation that Zimbabwe's economic problems are due to dollarization. The research study established that dollarization brought about stability in the economy, arrested inflation, and caused a marginal increase in the country's GDP. However, the study also realized that the country's employment rate was independent of the dollarization. This could be attributed to other factors such as the 1991-1992 Economic Structural Adjustment Programme (ESAP), the global economic crisis in 2008, and the absence of reliable financial data. This study therefore sought to examine the main costs and benefits that countries drew from dollarization in their desire to grow towards self-reliance and sustainable development.

Research Methodology

According to Rajasekar, Philominathan, and Chinnathambi (2013), research methodology is a science discipline that systematically finds a way of solving a problem by describing, explaining, and predicting phenomena. On the other hand, Saunders, Lewis, and Thornhill (2012) argue that researches can be classified as exploratory, descriptive, or explanatory depending on the purpose for which they are needed. An exploratory study is carried out by way of in-depth or semi-structured interviews where the researcher wishes to understand the context and an inductive approach is adopted and implemented. The descriptive study on the other hand is used where structured interviews are carried out in order to find a general pattern as a deductive approach to test a given theory. The explanatory research study uses both semi-structured and structured interviews in order to comprehend the relationship between given variables (Saunders et al., 2012). The exploratory method was employed through the use of semi-structured interviews to draw research data from a variety of target respondents who included economists, academics, bankers, informal traders, business people, those in

small-to-medium entrepreneurs, parastatals, government departments, and the general public. The researcher contracted research assistants in order to reach out to a large sample of 100 various respondents in the desire to make the findings of the study inferable at the end. The main reason for use of the exploratory approach was its suitability for small-scale research studies based on qualitative data (Denscombe, 2010).

Cooper and Schindler (2008) postulate that there are two main types of sampling techniques used in drawing samples from populations of interest, namely probability and non-probability techniques. The probability sampling methods are based on statistical theory of normal distribution of events by using representative samples (Denscombe, 2010). Non-probability sampling techniques on the other hand are methods that are used when researchers do not wish to use a sample based on pure chance of being drawn for the sample. The latter methods are mainly because when the researcher does not have enough information about the population of interest to draw inferences from probability sampling. Non-probability methods are thus used when it would not be practical to have sufficient examples in the study at hand (Denscombe, 2010). The study therefore used the judgmental sampling type of non-probability sampling whereby part of a sample was taken subjectively based on the researcher's choices of how suitable the individuals from the above categories of respondents were. Saunders et al. (2012) advise that this type of sampling technique is often used when dealing with very small samples, for example in case studies for studies that are particularly informative in nature. The sampling method used was very subjective and prone to researcher bias and hence the bias was minimized as the judgments were based on clear and theoretical criteria spelt out for the purpose of this particular study. The in-depth interviews were booked and professionally held by trained research assistants on behalf of the researcher.

Findings and Discussions

The research data drawn from the respondents used in the study are hereby presented, analyzed, and interpreted in preparation for generation of the conclusions and recommendations.

Dollarization and the Zimbabwean Banking Sector

The dollarization of the Zimbabwean economy in the period under review has seen mixed fortunes coming into the banking sector. In the period 2009-2012, the introduction of the US dollar led to a hive of activities in banks which included massive lending to individuals, institutions, and firms. In this respect banks accumulated assets, investments, and shareholders' wealth from interest income drawn from lending activities. This phenomenal growth saw the Reserve Bank of Zimbabwe changing the minimum capital requirements of various financial institutions as illustrated below.

The table below summarizes the nature of the financial institution, the old and new minimum capital requirements as well as the set deadlines as stipulated by the RBZ in 2012 and 2013 together with the reviewed or extended deadlines:

Category of Institution	Old Minimum Capital Requirement (MCR, \$m)	New Minimum Capital Requirement (MCR, \$m)	Initial Deadline for Attainment of MCR	Deadline for Attainment of New MCR
Commercial Banks	12.50	100	31-12-14	31-12-20
Merchant Banks	10.00	100	31-12-14	31-12-20
Discount Houses	7.50	60	31-12-14	31-12-20
MFIs	1.00	5	31-12-14	31-12-20

Source: RBZ, MPS, 2013.

The above figures represent the RBZ set and increased banks' and other financial institutions' minimum capital requirements in line with the stipulations of the Basel II Capital Accord. Bailey and Zheng (2012) notes that banking crises and runs threatened the macroeconomic stability of financial sectors through potential effects on savings, monetary supply and control, banking confidence, financial flows, and budgetary impact on banks' rescue packages. The above challenges characterized the Zimbabwean financial sector since the year 2000 and these have become more compounded by day even in the period 2009-2018 under review. The Zimbabwean Central Bank's Monetary Policy Statements (MPS) (2017) argues that banks' financial performance was heavily premised on its measures in place such as the monetary policy (MP) instruments that were being employed to redress the liquidity crunch the country is going through. The country's liquidity challenges worsened particularly from end of 2016 to date a development that most respondents attributed to the introduction of the bond notes, a surrogate currency. The above minimum capital requirements (MCRs) were varied by the Central Bank when the authorities thought the economy was set to grow and banks and similar financial institutions' were geared towards meeting the set minimum capital requirements by 2020. However the inconsistencies in the Central Bank's monetary policy statements led to the disappearance of the US dollar from the formal banking system and to resurfacing in the black market in the period 2013-2018. The introduction of bond notes, a surrogate currency, in November 2016, did seriously worsen the country's liquidity crunch as characterized by absence of foreign currency from the formal system, weekly withdrawal limits of bonds and in most cases in the form of coins. This development did worsen the situation as characterized by the inability of the citizens, businesses, and institutions to transact business on foreign markets. To make things worse, retailers, wholesalers, and other service providers are demanding payment in foreign currency yet all domestic salaries and transactions are in bonds and real time gross settlement (RTGS) systems. Hence the country's banking and similar financial institutions are sitting on a knife edge as far as their growth and development prospects are concerned. It is very painful to note that while the black market is flourishing the formal financial system is facing total collapse due to illegal and corrupt activities that are purported to be spearheaded by senior government officials who have access to the foreign currency.

Dollarization and the General Price Level in Zimbabwe

The general price of a country cannot be separated from the supply and demand levels for money in the economy. Coming from the inflationary pressures of the period 2006-2008, citizens, households, and firms gained hope for survival in the period 2009-2012 when all transactions in the country were in US dollars. The prices of goods and services in the period became very stable as the inflation rate fell from 231 million percent by end of 2008 to less than 10% in 2009. The stability in the general price level was maintained until distortions came into being after the 2013 disputed harmonized elections. Although prices surged in the last quarter of 2013, the volatility was not very significant. However it was after the July 2018 harmonized elections that the general price level of goods and services shot to fivefold or more per good or service. This very sad development was again attributable to another disputed election result and the continued use of the bond note surrogate currency. The lack of confidence and faith in the government of the land has seen the black market grow exponentially and the cost of living of almost 90% of the citizens shrink significantly to unprecedented levels. To make matters worse a deadlock has been reached between business and government. The government is surviving on the use of the bond note which has eroded the purchasing power from the hands of households and firms, leading to incapacitation by those employed and closure of businesses or

operating at less than 50% capacity.

The Influence of Dollarization on Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is as indispensable as water, fuel and electricity when it comes to growing an economy towards sustainable development. It is very difficult to talk about economic growth and development of a country when there is no FDI and credit lines being accessed by a nation. In the period 2009-2012 when the economy dollarized genuinely, the growth rate of the country rose from 2% in 2009 to about 6% in 2012. This was because the country managed to experience phenomenal growth characterized by financial injections in all sectors of the economy including drivers such as agriculture, education and health, energy and fuel, industry and commerce and tourism and hospitality. However, it was not long after the 2013 disputed election results that hundreds of firms across the land crowded out. One of the main reasons was the erosion of ownership rights through the enactment of the Indigenous Economic Empowerment Act (IEEA, 2013) that mandated the government to own 51% stake to 49% in all foreign owned corporations. The development saw most foreign firms operating in the country closing business, retrenching or scaling down their operations. Potential investors with interest in investing in the country became scared and directed their capital inflows into other fair and receptive destinations where private ownership rights of the means of production were guaranteed. This development did not spare even listed firms on the Zimbabwe Stock Exchange (ZSE). The scaring of potential investors and providers of FDI saw the economy's unemployment rate rising from around 80% in 2013 to more than 90% in 2016 after the introduction of the bond note which has worsened the country's liquidity crisis and bank withdrawals by both households and firms. The situation has worsened after the recent and seriously disputed July 2018 election results as characterized by more company closures and de-investments even by international banks such as Barclay's Bank, Zimbabwe. The parent owners of Barclay's bank have sold the bank to First Capital Bank of Malawi as enough testimony that it was too risky to do banking business in Zimbabwe. It can therefore be argued that while dollarization has the capacity to bring stability and growth to an economy, inconsistent policies such as IEEA, country and political risks as well as human rights abuses could scare providers of FDI and credit lines.

The Effects of Dollarization on the Agriculture Sector

The Zimbabwean economy has always been funded since 1980 at the attainment of independence, as an engine for growth and development of the economy as a whole. However it is sad to note that a repressed system on both supply and demand side led to massive crowding of white commercial farmers leading to the country losing its bread basket status of Sub Saharan Africa. Furthermore politicization of the land issue led to incapacitation of small scale farmers and subsistence levels of production. Season in and out small scale farmers have continued to cry for inputs from the government leading to them being priced out on their cash crops and other agricultural commodities. When the economy dollarized in 2009, investment in agriculture by the government increased particularly in cash crops such as dairy, maize, wheat, tobacco, and cotton. However the operation of the Grain Marketing Board for instance under an administered system led to the government pegging prices of commodities well below the equilibrium or market levels. This rendered the efforts put into agricultural production by the small scale farmers going unrecognized and non-profitable. The exploitation of these farmers by those in authority has seen them continue to produce at subsistence levels despite having been allocated vast hectares of prime land. On realizing that the agriculture sector has continued to produce at subsistence level without the capacity to be transformed into an industrialized sector, the government came up

with the Command Agriculture conception. It was inceptioned in the 2016-2017 agriculture season and politicized since it was spearheaded by the uniformed forces. The general public does not have the success or failure story of the Command Agriculture on hand but known with certainty is the fact that the Grain Marketing Board (GMB) silos and depots dotted around the country are not as full as what is advocated for on the national media from time to time. Hence it can be noted that despite the country having dollarized in 2009 to date, our agriculture sector needs more technical progress, innovation and capitalization to drive the economy towards sustainable development.

Dollarization and the Mining and Manufacturing Sector

The discovery of diamonds in the Chiadzwa area of Manicaland province of Zimbabwe around 2009 was supposed to be a landmark for turning the country's economy towards the sustainable development path. The diamonds were located at the same time the economy had dollarized. It is on good record that the government invited many firms to participate in the mining of the diamonds but under the supervision of the ministries of National Security, Defence and Mines and Mining Development. Remittances to government were to be made by licensed firms through the Minerals Marketing Corporation of Zimbabwe (MMCZ). It was in 2013 that the then President of the Republic of Zimbabwe, Mr. Mugabe proceeded to inform the nation that US \$15 billion raised through diamond sales had gone missing. The public domain has bemoaned the lost fortune that would have been used to finance the development process of the country towards sustainable development and self-reliance. The politicians in whose hands the funds disappeared are busy running around the globe seeking for credit lines that were proving very difficult to come by in the desire to counter the underdevelopment levels currently being experienced by the nation. While the country's mining and manufacturing sector has growth capacities characterized by rich mineral deposits in the form of gold, asbestos, chrome, and diamonds, the levels of monopoly, greed, nepotism, and corruption by senior politicians put the country off being funded through huge sums of money generated through this sector.

The Impact of Dollarization on the Gross Domestic Product (GDP) and Employment Creation

Empirical evidence shows that dollarization brought economic stability in Ecuador and higher economic growth. The country's labour markets have not reacted accordingly and unemployment rates have remained stubbornly around 10%. However the country recorded a substantial expansion of labour demand or scale effect in the dollarization era. On the other hand, changes in relative factor prices brought about by the dollarization process played against employment creation that is the substitution effects. However, real minimum wages in the country increased while the real price of imported intermediate goods and the cost of capital declined steadily. It was further noted that the price changes noted above showed that labour was becoming a more expensive factor of production and thus signalled for substituting of labour away. The Zimbabwean experience after dollarization was characterized by improved growth ranging from 2% in 2009 to 6% in 2012 and has been falling since then to the year 2018. In other words stability in the general price level brought about by dollarization was a key determinant of the economic growth or increases in the country's GDP in the period under consideration. However, on a sad note the country's labour markets have continued to be dormant and more people being retrenched despite the government claiming to be creating employment through indigenization. The country's unemployment level which almost got to 100% in 2008 fell to about 80% in 2009 and has gradually score above 90% by 2018. Unless the country goes back to the drawing board to address the shortcomings in its economic policies and strategies, the real GDP of the nation would continue to sink, imports

increased, the black market ballooned and the unemployment level driven towards 100%. In other words instead of the government creating employment, it would in fact be known since the year 2000, for driving unemployment towards 100% due to lack of separation of party business from government and economic issues.

The Effects of Dollarization on Economic Development

Zimbabwe like all other member countries of the United Nations, aimed at the attainment of a number of Millennium Development Goals (MDGs). The majority of these goals were aimed at addressing the welfare issues of the citizens which had been neglected by governments of most developing countries since their attainment of independence from the former colonial masters. With consensus from the African Union, the United Nations System set as to redouble its efforts towards accelerating the Goals process in Africa. It was agreed that the United Nations System should work towards ensuring that the post-2015 development agenda reflected the priorities highlighted in the African common position on attainment of the MDGs. The priorities to be pursued for economic development purposes included the need for structural economic transformation and inclusive growth and industrialization, science, technology, and innovation. It was also argued that the countries should go for people-centred development, including education, health care, gender equality, and women's empowerment, harnessing Africa's youth population and environmental sustainability. Furthermore developing nations were called upon to undertake natural resources management, risk management of natural disasters, peace and security and finance and partnerships for infrastructural development. However on a sad note, despite the stability needed for growth brought about by dollarization, the Zimbabwe government has moved further and further away from meeting the agreed UN System MDGs. People's living conditions improved significantly in the period 2009-2012 before sliding downwards in 2013 and worsening badly by end of 2016 to 2018. Initially the government came up with vision 2020 for attainment of the MDGs. It is on a very sad note that since 2020 was fast approaching the target date has been shifted further upwards to 2030. This is how unfaithful and irrational the majority of governments in developing economies are when it comes to financing the welfare of the citizens. In Zimbabwe the provision of food, water, air, shelter, and clothes has become so expensive that the majority of the citizens, the working class included cannot afford at least two decent meals per day, and the government does not have sleepless nights about it.

Dollarization and the Zimbabwean Industrial and Commercial Sector

The country's industry and commerce sector's failure to be well regulated and funded is said to be one of the major reasons for the unprecedented levels of unemployment obtaining in Zimbabwe of late. Truly this sector has not been performing since time immemorial due to many reasons including country and political reasons, lack of foreign currency, and the compromised property rights as required under pure capitalism. However, when dollarization was introduced, some closed firms were reopened and some people got employed in the hope that democracy, confidence, and rationality were going to prevail on the land. The period 2009-2012 saw retail and wholesale outlets that had ceased to function trade afresh at full capacity. This was enough evidence that firms and households had reconnected and it was business as usual between these two critical sectors. Even though salaries and wages were pegged below the poverty datum line (PDL) in most cases, households could afford decent meals each day because of the stability that dollarization brought to the economy. However this good and enjoyable period of time between households and firms did not last long. When the July 2013 election results were rejected by the Movement for Democratic Change (MDC) as the

main opposition party to the government of Mr. R. G. Mugabe, a substantial number of firms closed by mid-August, 2013. The state of affairs in the sector continued to deteriorate in 2016 after the introduction of the bond note. People in employment were retrenched as firms continued to wind up their businesses due to unbearable economic conditions. The situation further deteriorated in 2018 after another disputed election result between the same parties fuelling more company closures due to repetitive unfavourable operating environment characterized by corruption, lack of democracy and high consumer and company taxes.

The Impact of Dollarization on Tourism and Hospitality Sector

One of the engines of growth and development in Zimbabwe is the Tourism and Hospitality sector. This is because the country has the Great Zimbabwe Monuments and the Victoria Falls which are among the Seven Wonders of the World. It is this sector that has been a cash cow for the nation since even before the attainment of independence in 1980. When the country dollarized in 2009, the citizens had high spirits concerning access to foreign currency in their trading activities in and out of the country. The number of tourists increased significantly in the period 2009-2012 due to the political discourse of the period, optimism for growth and rebuilding of the damaged reputation of the country. In other words hotels and service providers' foreign currency earning capacity improved as tourists needed accommodation and food during their visits to Zimbabwe. As visits by both locals and foreigners to our places of attraction increased at the same time diamond sales were at their highest pick, one was forced to believe that the country's growth prospects were set to attain very high levels. However by the year 2013, all this optimism of a continuously growing economy was thrown into disarray. Some of the arguments forwarded were the failure by the politicians to separate their party, Zimbabwe African National Union Patriotic Front (ZANU PF) from government business, mismanagement, fraud, corruption and their self-enrichment tendencies at the expense of the citizens.

The Impact of Dollarization on Education and Health Sector

In developed countries education means money but in developing nations getting an education is synonymous with self-impoverishment. At the attainment of independence in 1980 from Britain, a mere Ordinary Certificate holder would go to a college, train, complete, and be deployed by government and be fairly remunerated. In the same period even those people from poor families could get an education through government loans and grants as well as social safety nets, from primary to University levels. Life was so meaningful and livable in Zimbabwe. However by the year 2000 things were no longer as palatable as they had been since 1980. The period 2000-2008 was the worst experience that we faced as an economy leading to total collapse of the system in the period June to December 2008. Educated people such as teachers, nurses, and other professionals left the country for greener pastures all over the world. Schools, colleges, and universities stopped operating and the same happened to clinics and hospitals. The majority of people with chronic diseases such as TB, asthma, and HIV/AIDS died in their numbers as there were no drugs to subvert their situations and save life. When the economy dollarized in 2009, schools, colleges, universities, clinics, and hospitals were funded and services became provided in earnest. Those people with chronic diseases who survived the 2006-2008 mayhem got drugs from clinics and hospitals. Schools, colleges, and universities enrolled and things appeared to be going back to normalcy then. It was in the period 2013-2018 that after the collapse of the Government of National Unity (GNU) that the ZANU PF government mismanaged the country's resources and saw the economy fall backwards again. It is argued that the liquidity challenges facing the country, lack of foreign currency, and withdrawal of donor funds from the Ministries of Education and Health led to the

hardships facing the nation today. Education has become so expensive in Zimbabwe to the extent that students from poor and vulnerable backgrounds have been seen to be withdrawing from institutions in large numbers in the period under review. Worse still even those that were able to go through their education programmes graduated and increased the number of people romping on the streets unemployed. The health sector is not spared either; the nurses employed were outweighed by those that were trained and unemployed. On the other hand citizens' purchasing power has been eroded by the introduction of the bond note to the extent that all chemistries were demanding foreign currency from patients accessing their salaries in bonds, and the government has no capacity to resolve this issue. When they themselves fall sick, they seek for health care in South Africa or in the far east in countries like Singapore, because they are aware of the repercussions of the collapsed system they have created back home, which is a death trap to the poor and vulnerable citizens.

Dollarization, National and Foreign Debts, and the Balance of Payment (BOP)

Although dollarization is known for stability and growth in almost all countries that adopted it, the situation is different in the Zimbabwean experience. The government of Zimbabwe has serious domestic and international debts with the African Development Bank (ADB), Afrexim Bank, World Bank, and IMF amounting to about \$20 billion as at the end of the year 2018. To make matters worse the government continues to go round the globe seeking for more credit lines against a ballooned total obligation of about \$20 billion alluded to above. It is against the above background that all efforts to grow the economy become futile and hopeless to the detriment of the welfare of the citizens. Worse still, the continued stay in power by the government of the day since 1980 means sinking deeper and deeper of all vulnerable citizens into abject poverty. Although engagement with funders in the period 2009-2012 had yielded some mutual consent with the then government, things became worse when the GNU was made to collapse and we are back to the drawing board. Human rights abuses, international condemnation, lack of democracy, and equality of citizens before the law have kept the country isolated and under-developing at a time smaller countries like Rwanda are experiencing substantial growth and stability. It is therefore a fact that our over indebtedness to the main providers of development finance in the dollarization era would keep us not creditworthy and without a currency into the foreseeable future. One thing for certain is that people's life expectancies currently pegged at 33 and 34 years for men and women respectively would continue on a downward trend unless some economic miracle comes our way soon. As if that was not enough, the country's balance of payment (BOP) position is in a critical state of disequilibrium due to the non-performance of the private sector over the last 20 or so years. By the balance of payment (BOP) we mean a record of the business transactions the country maintains with other countries of the world. Zimbabwe's imports have been significantly higher than its exports for a long time period mainly due to the collapse of quasi government firms and the private sectors. This predicament is not favourable for a country operating under a serious liquidity crunch and acute shortage of foreign currency. It is clear that the continued importation of critical goods and services by the government, households, and services would keep the parallel market growing and exchange rates unpredictable and relatively unbearable. In other words if the country cannot recapitalize and effectively regulate the private sector to boost production, the need to change the fortunes of the economy would remain a myth even in the dollarization era.

Dollarization and the Informal Sector

The Business Dictionary argues that this is a sector that encompasses all jobs that cannot be recognized as normal income sources and on which taxes cannot be paid to the government. The term can also be used to

refer to all illegal activities where people can be forced to work without pay or foreign currency tradings where incomes are earned but are not provided for on one's income taxes. However the sector can also be interpreted to include legal economic activities such as jobs that are carried out in exchange for something else other than monetary rewards. The informal sector therefore refers to the unregulated and unstructured systems of economic activity which run parallel to the formalized system. The sector is characterized by unregulated buying and selling activities and would encompass even the operations of the black market in Zimbabwe. On a sad note the massive and continuous growth of the informal sector in Zimbabwe has come as a result of the failure of the formal sector to meet its mandate to the people. The collapse of both the public and private sectors of the economy over the past 20 or so years gave birth to this formidable sector in order for people to earn a living. Instead of the Monetary Authorities and the Ministry of Finance and Economic Development running false wars with foreign currency dealers (when they buy foreign currency from them), it is high time realistic incentives are put forward and employment created if the formal system is to reclaim its position in the economy. Zimbabwean citizens are well informed that the main funders of foreign currency dealings in the black market are the politicians themselves and claims made to do away with the market players are not genuine. The black market's success story is heavily pinned on the failure by the government to operate formalized foreign currency markets and the continued use of a repressed or administered financial system. The Zimbabwean informal system has extended in the dollarization error to include illegal fuel dealings and flea market systems where tax evasion is rampant and the government's income generation ability is dwindled. Therefore unless and until the government comes up with prodemocracy and people oriented policies and strategies, the informal sector would continue in existence into the foreseeable future, growing from strength to strength.

Conclusions and Recommendations

The MDGs (2015) report proved that critical goal setting can lift millions of people out of poverty, empower women and girls, improve health and well-being of people, and provide vast new opportunities for better lives. Therefore based on the major findings of the study outlined above, the following conclusions and recommendations were attained from the study on costs and benefits Zimbabwe would draw from dollarization.

Dollarization and the Financial Sector

Zimbabwe dollarized in 2009 and managed to harness the hyperinflation environment realized at the end of 2008. The introduction of the US dollar restored the purchasing power that had been eroded by the Zimbabwe dollar back into the hands of the households and firms. However the introduction of the bond notes in November 2016 gave birth to similar financial challenges like those experiences in 2006-2008 such as erosion of purchasing power, limits of withdrawals, and a serious liquidity crunch. It is therefore the study's recommendation that monetary authorities must come up with policies and strategies that would contain the challenges faced by the financial sector before the situation gets out of control.

Dollarization and FDI

Zimbabwe needs to define its own economic model and policies that are unique to its philosophy, ideology, values, principles, and goals. It was concluded that in a dollarized country, it was imperative to develop an environment that fostered growth and development and encouraged FDI from time to time. Hence in the absence of domestic savings and liquidity, the ability to attract FDI becomes essential to attain long-term development. A

lot has been written off about the loss of competitiveness as a result of the weaknesses inherent in the South African rand. Zimbabwe is the only African country that has fully dollarized and managed to stabilize the economy for investors to set up their businesses. However it was surprising that no greater interest to exploit the stable economic environment in Zimbabwe was observed in South African-based firms to diversify risk, accumulate assets, and grow their shareholders' wealth.

A graphical comparison of Zimbabwe with its neighbours namely Mozambique and Zambia showed that each country has had its own unique successes and failures in the period 2000-2011:

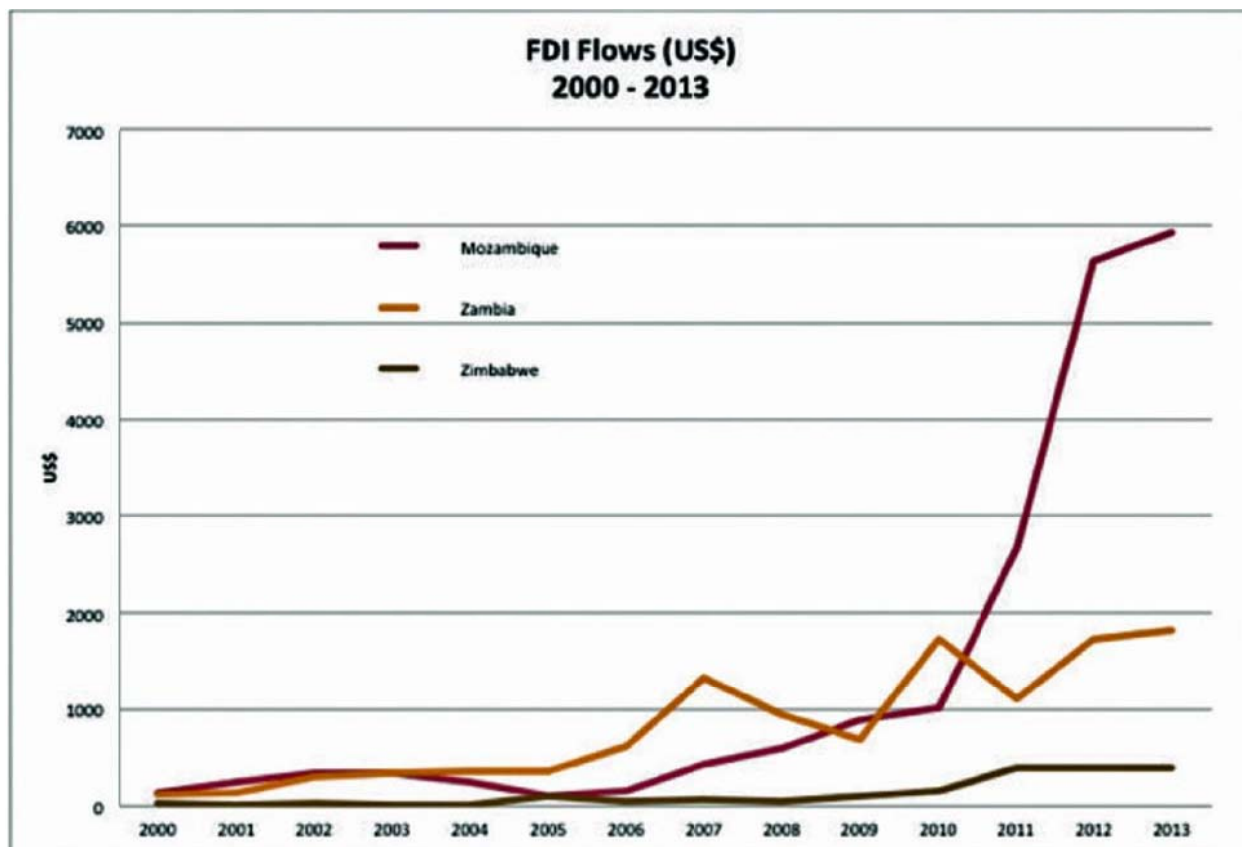


Figure 1. The chart demonstrates FDI flows to Zimbabwe, Mozambique, and Zambia between 2000 and 2011. Source: IMF, 2013.

It was concluded that Mozambique's annual GDP grew at an average rate of 7.4% over the past two decades. This level of economic performance was attributed to sound macro-economic management, large-scale FDI projects, political stability, and significant donor support. However it was postulated that a growth rate of 36% in Mozambique's GDP per capita by 2003 only brought about a 14% reduction in poverty; the growth in the country's GDP did not imply significant reduction in poverty. Hence there was a weakened relationship between growth and poverty reduction in the country due to changing patterns of growth as driven by capital-intensive, import-dependent sectors in the past decade. Since the year 2000, Mozambique raised US \$11.5 billion following discovery of coal and gas deposits, Zambia US \$18.7 billion, and Zimbabwe only managed less than US \$2.0 billion in FDI. This is the reason why Zimbabwe's growth rate for the period 2000-2013 has continued to be far below those of its neighbours, whose economies were badly performing towards the close of the 20th century. Before Zimbabwe dollarized in 2009, FDI was not of concern to the government as they could print money to

support the economy and investment, which does not work after dollarization. Under full dollarization, the country can only rely on domestic savings, credit lines, or FDI for all its investment needs since the circulation of the USD would be foreign-managed by the USA.

It was therefore concluded that Zimbabwe must define an investment policy that is synonymous to the needs of the investors and calls on appropriate participation by the locals. In other words FDI must benefit the local communities and the society at large through employment creation and mutual beneficial equity shareholding. Mozambique significantly benefited through transformation from a controlled to a market economy, crafting sound macroeconomic policies, structural reforms, opening to the global economy and political stability after its civil war. Therefore Zimbabwe must learn more from the experiences of Mozambique, Tanzania, Zambia, and Rwanda of late, in its desire to grow towards sustainable development in the 21st century through adopting an open market economic policy. The country's involvement of China in its economic activities must be employed with caution because the recent slowdown in the global economy was likely to have a negative impact on a number of African economies in the short term. Although Zambia has already laid down foundations for sustainable development, it was already showing signs of economic weakness with its currency depreciating by over 30% in the recent past, because of its bilateral ties with China.

The Impact of Dollarization on the Zimbabwean General Price Level

Dollarization of the financial sector in Zimbabwe immediately worked to reduce inflation and stabilize the general price level of all goods and services. Trading on both domestic and foreign markets became possible due to affordable buying and selling of currencies in the formal system at bearable exchange rates. Dollarization of the economy reduced the instability of the country's overall economic performance for example supply and demand variables, allowing it to increase its citizens' buying power and realize increased economic growth. Furthermore the country's long-term economic planning became easier for the country, since the stable dollar attracted some foreign investment. Consumers and firms were able to buy durables such as motor vehicles and invest in real estate especially in the period 2009-2012. However when the Government of National Unity (GNU) which came into office in February 2009 was disbanded in 2013, the general price level negatively deteriorated between 2016 and 2018. The monetary authorities and the Ministry of Finance and Economic Development are called upon to be knowledgeable, non-partisan, and rational and stick to their core business if the distortions in the general price level are to be harnessed soon in the desire to restore people's tastes and preferences to normalcy.

Zimbabwe's Economic Growth and Development and Dollarization

The dollarization of the economy in 2009 enhanced capacity of firms to produce goods and services for both domestic and foreign markets. The country's GDP phenomenal increased between 2009 and 2012 before falling significantly from 2013 to 2018. The interplay between households and firms was resurrected as firms opened their doors and employed some of the locals in the desire to reduce the level of unemployment in the country. The living standards of the citizens shot up from 2009 to 2012 as they were able to meet their tastes and preferences and buy durables despite earning salaries and wages paid in US dollars were below the poverty datum line (PDL). The fall in the purchasing power in the hands of households and closure of firms that had reopened for business in 2009-2012, was attributable to inconsistent economic policies that scared firms and potential providers of FDI. Worse still our sewerage infrastructural systems, bridges, roads, schools, and hospitals are so dilapidated that safety of workers and other conditions of service are seriously compromised. The study therefore recommends

that the government of the day must be able to draw lines between party and public sector operations of confidence which is to be built in both domestic and foreign providers of capital for investment purposes.

Dollarization and the Country's Public Sector

It was concluded that dollarization managed to instil a new lease of life across all the major economic sectors of the country. The agriculture sector that had been ruined in the period 2000-2008 due to the fast track land reform programme (FTLRP) spearheaded by the war veterans was revived and its contribution to the country's GDP increased due to significant investments in tobacco, cotton, tea, sugar, maize, and cattle ranching businesses. The mining and manufacturing sectors were also revamped led by massive investment in gold, chrome, and diamond mining and manufacturing businesses which managed to raise billions of dollars for the economy. The industry and commerce and tourism and hospitality sectors were also funded by both the government and foreign players to the extent that their contribution to the fiscus in 2009-2012 became substantial. On the other hand the education and health sectors that had almost totally collapsed by end of 2008, got funding from organizations such as UNICEF, UNESCO, USAID, and other sister international institutions in the period 2009-2012. However the hay days did not last long as these folded by the year 2013 together with the expiration of the GNU. The situation has been worsening since then and reached unprecedented levels by 2018 as signified by dropouts in schools and colleges and incapacitation by almost 90% of the citizens to access health facilities. A situation where people paid in bond notes would be required to pay US dollar for medical checks and drugs shows how dire the situation in which we are in. The majority of households in Zimbabwe have been thrown back into the 2008 economic quagmire where decent meals cannot be afforded because of the resurgence of a hyperinflationary environment experienced in the 2016-2018 period. It is thus recommended that the donor community must intervene in provisions of basic necessities of life for example water and shelter together with social variables such as education and health that have seriously deteriorated in 2016-2018, lest the economy is doomed due to chronic diseases that are on the increase. The failure of the government to demonetize the bond, which is the major such of our underdevelopment of late, is enough testimony that we are on a free fall path to abject poverty.

Dollarization and Zimbabwe's National Debt and BOP

It is concluded that the country's poor management of both the national and BOP obligations were a serious drawback towards meaningful investment in the country's development process. The use of politically oriented economic policies, corruption, greed and awarding of national tenders to connections are some of the factors that have continued to erode the country's ability to meaningfully finance the operations of both public and private sectors of the economy. The country's domestic and foreign debts have gone more than 2.5 fold to the country's national budget, and the interest components continue to grow since the government continues to be unable to service both interest and principal components. It is also sad to note that the borrowing will continue to drive the government of the day in the desire to finance energy, fuel, and other shortages that have been manifested after the 2018 harmonized elections. The country's trade deficit, terms of trade, and foreign investments which improved at the inception of dollarization have fallen drastically between 2016 and 2018 mainly due to uncontrollable government expenditures and distortions in the financial sector brought about by the bond notes. The country's domestic and foreign debts with the Bretton Woods Institutions together with the BOP deficit are critical issues that require urgent attention as they were so bad that they could lead to a state of disaster being declared in the foreseeable future. They have continued to haunt the poor and vulnerable citizens to the extent that life expectancies for men and women have been reduced to 33 and 34 years respectively. The country is no longer

prepared to move towards attainment of the fundamental MDGs as the 2020 vision target has since been moved forward to 2030. The study therefore recommends that the government must earnestly observe human rights, democratic freedoms, and improve its foreign policy and the country's reputation internationally in order to lure helping hands and FDI needed for changing the country's fortunes the other way round. Any lack of commitment to the above variables could lead to the public's lack of patience and confidence in the government, whose end results may not be easily predictable.

Dollarization and the Zimbabwean Informal Sector

Due to the lack of commitment on the part of the government to provide the basic necessities of life to people retrenched in the period 2000-2008 due to its inconsistent policies, the illegal of informal sector was born. The sector is characterized by trading in currencies, agriculture commodity and clothing and other durables imported from beyond our geographical borders. It can be concluded that the sector has grown significantly since the dollarization of the economy in 2019. Almost 80-90% of the population operates in the informal sector in order to earn a living out of their own means. The US dollar which can no longer be accessed in the formal sector is readily available in the informal sector but the exchange rates are extremely unbearable. It has also been concluded that as long as some of the politicians continue to drawing US dollars from the Central Bank into the black market, the sector would continue to exist and grow from strength to strength and at the expense of the formal sector. The government is unable to regulate and harness taxes from informal players and hence continues to fleece the 10% in formal employment through a family of taxes such as high income and corporate taxes, carbon tax, value added tax (VAT), aids levy, toll gate fees and the newly introduced 2% consumer tax per every \$10 dollar or more transactions by the general public. This development's major effect is the continuous erosion of the purchasing power from the hands of the vulnerable citizens into the hands of the politicians who are heavily paid and untaxed. Finally the study recommends that the monetary authorities and the Minister of Finance must have an allocation in every national budget for capital market and real asset investments around the globe dedicated to the country's outstanding obligations and development process, if it were to move out of the repressive financial system and state of continued underdevelopment conditions faced since attainment of independence in 1980.

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