“The effects of local currency absence to the banking market: the case for Zimbabwe from 2008”

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The effects of local currency absence to the banking market: the case for Zimbabwe from 2008

Abstract

Local currency based fee charges have always been one of the major contributors to bank profitability. A profitable banking market has more chances of stability compared to less profitable banking markets. The developments within the Zimbabwean on economy over the last six years merit more attention by researchers than has been given to it over the same period. Zimbabwe adopted a multicurrency approach to banking since the establishment of a government of national unity in 2008. To date the country has remained without a domestic currency a factor that seems to have contributed to the demise of some banks in Zimbabwe. Numerous press reports have indicated that Zimbabwean Banks are facing liquidity problems a factor that has culminated in the closer of and the surrendering of bank licences to authorities by at least nine banks to date. Using secondary data available on the banking situation in Zimbabwe, this study attempts to establish the impact of the unavailability of domestic currency on the stability of banking in Zimbabwe. There are many factors that influence the stability of financial markets and lack of a domestic currency is just but one of them. The study argues that local currency availability especially in the context of Zimbabwe has a significant effect on the bank's stability as it creates an avenue for the generation of profits which sustains the operations of a bank and thus influences its stability. It is hoped that this paper will go a long way in helping Zimbabwean domestic banks in their lobbying efforts with policy makers to introduce a local currency and that it will stimulate more interest to researchers on the situation in Zimbabwe.

Keywords: bank profitability, local currency, multicurrency.
JEL Classification: E50, E44.

Introduction

Zimbabwe adopted a multicurrency approach to banking since the establishment of a government of national unity in 2008. To date the country has remained without a domestic currency a factor that seems to have impacted negatively on the performance of Banks in Zimbabwe. Numerous press reports have indicated that Zimbabwean Banks are facing liquidity problems a factor that has culminated in the closer of and the surrendering of bank licences to authorities by at least nine banks in Zimbabwe from 2008 to date. The Zimbabwean independence, March 13, 2015 reported that more than one thousand jobs have been lost in the banking sector since 2009 owing to bank closures. The paper goes on to report that nine banks have closed shop since 2011. This it attributed to poor risk management, weak and ineffective regulatory and supervisory framework, poor corporate governance, high risk of non-performing loans and concentrated ownership. The underlying problem however is the liquidity crunch that was brought about as a result of the lack of local currency. The Financial Gazette, 5 March 2015 also reported on the imminent collapse of yet another bank again citing corporate governance malfeasance as the main cause.

This paper explores the challenges that commercial banks in Zimbabwe have been facing as a result of the lack of a local currency and insinuates that a lot of the closures of the commercial banks in Zimbabwe during the period from 2008 to date have a lot to do with poor profitability that has been caused in part by the lack of a domestic currency.

It is also with this background in mind that this paper seeks to generate debate on the currency situation in Zimbabwe, it further seeks to act as a catalyst for further research by researchers on the impact of the lack of a local currency on profitability and stability of banks not only in Zimbabwe but the world over.

Due to time and budgetary constraints, a desk top approach to this study has been adopted as the main mode of inquiry.

1. Literature review and theoretical background

The Zimbabwe's Banking sector is relatively sophisticated, consisting of the Reserve Bank of Zimbabwe, Discount Houses, Commercial Banks, Merchant Banks, Finance Houses, Building Societies and The Post Office Savings Bank. It is dominated by five large banks namely Barclays Bank of Zimbabwe, Standard Bank of Zimbabwe, Zimbabwe Allied Bank, Stanbic Bank and the Jewel Bank of Zimbabwe. Among them they account for more than 70% of the total deposits held by commercial banks (Reverse Bank of Zimbabwe quarterly bulleting 2004).

The development of the Zimbabwean banking sector can be analyzed within three separate periods that the industry went through. These are the period prior to 1991, post 1991 and the period from 2008 to date which is the focus of this paper. The financial system in Zimbabwe inherited a regulated environment and it has for years pursued segmented or specialized funding (Matapure, 2009).

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Merchant banks were restricted to export finance while commercial banks were restricted to the service of taking deposits and advancing loans. There was also specialization within each class of financial institutions. Specialization characterized the operations of the banks then with Barclays Bank of Zimbabwe, as an example, focusing on the financing of the agricultural sector and the First Merchant Bank concentrating on financing the mining sector (Matapure, 2009).

Building societies concentrated on mortgages and Discount houses focused on commercial activity and Reserve Bank of Zimbabwe (RBZ) an intermediation. The government had put some boundaries that separated institutions and gave them almost guarantee of core business segments. There were restrictions to entry into the financial market, a situation that enabled banks to form some cartels. A cartel is a combination of firms whose aim is to limit the scope of competitive forces within the market. The firms usually enter into agreements pertaining to interest rates.

Furthermore they did not go out to the market to solicit clients. There was no need for them to be innovative since they were cushioned from competition. They rarely ventured into risk management. They often required security from the would-be borrowers before advancing any funds to them and profitability was almost guaranteed.

1.1. Period 1991-2007. The Zimbabwe Banking sector was liberalized in 1991 which liberalization resulted in the establishment of local banks and an expectation on the part of The Reserve Bank of Zimbabwe (RBZ) of a substantial growth of the banking sector (The Cleaner Production Centre of Zimbabwe (CPCZ), 2013).

As early as 1994 the RBZ Annual Report indicates the desire for greater competition and efficiency in the banking sector, leading to banking reforms and new legislation that would allow for the conduct of prudential supervision of banks along international best practice, allow for both off- and on-site bank inspections to increase RBZ's Banking Supervision function and enhance competition, innovation and improve service to the public from banks (Reserve bank annual report, 1994).

For the first few years of independence, the government of Zimbabwe did not interfere with the banking industry. There was neither nationalization of foreign banks nor restrictive legislative interference on which sectors to fund or the interest rates to charge, despite the socialistic national ideology. However, the government purchased some shareholding in two banks. It acquired Ned bank's 62% of Rhobank at a fair price when the bank withdrew from the country. The decision may have been motivated by the desire to stabilize the banking system. The bank was re-branded as Zimbank. The state did not interfere much in the operations of the bank. The State in 1981 also partnered with Bank of Credit and Commerce International (BCCI) as a 49% shareholder in a new commercial bank, Bank of Credit and Commerce of Zimbabwe (BCCZ). This was taken over and converted to Commercial Bank of Zimbabwe (CBZ) (now the Jewel Bank of Zimbabwe) when BCCI collapsed in 1991 over allegations of unethical business practices after independence in 1980 (Makoni, 2010).

In the first decade, no indigenous bank was licensed and there is no evidence that the government had any financial reform plan (Harvey and Brownbridge, n.d., page 6).

Harvey argues that financial liberalization assumes that removing direction on lending presupposes that banks would automatically be able to lend on commercial grounds. But it contends that banks may not have this capacity as they are affected by the borrowers' inability to service loans due to foreign exchange or price control restrictions. Similarly, having positive real interest rates would normally increase bank deposits and increase financial intermediation but this logic falsely assumes that banks will always lend more efficiently. He further argues that licensing new banks does not imply increased competition as it assumes that the new banks will be able to attract competent management and that legislation and bank supervision will be adequate to prevent fraud and thus prevent bank collapse and the resultant financial crisis. Sadly his concerns do not seem to have been addressed within the Zimbabwean financial sector reform, to the detriment of the national economy.

The political environment in the 1990s was stable but turned volatile after 1998, mainly due to the unbudgeted pay out to war veterans after they mounted an assault on the State in November 1997. This exerted a heavy strain on the economy, resulting in a run on the dollar. Resultantly the Zimbabwean dollar depreciated by 75% as the market foresaw the consequences of the government's decision.

A poorly planned Agrarian Land Reform launched in 1998, where white commercial farmers were ostensibly evicted and replaced by blacks without due regard to land rights or compensation systems also aided to the demise of the local currency. This resulted in a significant reduction in the productivity of the country, which is mostly dependent on agriculture. The way the land redistribution was handled angered the international community, that alleges it was racially and politically motivated. International donors withdrew support for the economy and the currency of the country went on a free fall. An ill-advised military incursion, named Operation Sovereign Legitimacy, to defend the Democratic Republic of Congo in 1998, saw the country incur massive costs with no apparent benefit to itself and the elections which the international community alleged were rigged in 2000, 2003 and 2008 were all factors that contributed to the Zimbabwean currency loosing value at alarming speed.

These factors led to international isolation, significantly reducing foreign currency and foreign direct investment flow into the country. Investor confidence was severely eroded. Agriculture and tourism, which traditionally, are huge foreign currency earners crumbled.

For the first post-independence decade the Banking Act (1965) was the main legislative framework. Since this was enacted when most commercial banks where foreign owned, there were no directions on prudential lending, insider loans, proportion of shareholder funds that could be lent to one borrower, definition of risk assets, and no provision for bank inspection.

The Banking Act (24:01), which came into effect in September 1999, was the culmination of the RBZ's desire to liberalize and deregulate the financial services. This Act regulates commercial banks, merchant banks, and discount houses. Entry barriers were removed leading to increased competition. The deregulation also allowed banks some latitude to operate in non-core services. It appears that this latitude was not well delimited and hence presented opportunities for risk taking entrepreneurs. The RBZ advocated this deregulation as a way to desegment the financial sector as well as improve efficiencies. (RBZ, 2000, p. 4). These two factors presented opportunities to enterprising indigenous bankers to establish their own businesses in the industry. The Act was further revised and reissued as Chapter 24:20 in August 2000. The increased competition resulted in the introduction of new products and services e.g. e-banking and in-store banking. This entrepreneurial activity resulted in the "deepening and sophistication of the financial sector" (RBZ, 2000, p. 5).

This liberalization was accompanied by both financial deepening and financial engineering.

Financial deepening is the term used often by economic development experts to refer to the increased provision of financial services with a wider choice of services geared to all levels of society (Nyoka, 2009). The term deepening implies taking something to a new dimension or a new level which tends to be higher. This implies therefore that there are macro effects on the larger economy as a result of financial deepening.

Financial engineering refers to a process of developing new financial instruments and processes that enhance shareholders' issuers or intermediaries' wealth. It focuses on improving on existing products with a view of increasing returns to the investor. Financial engineering is heavily associated with the birth of most derivatives.

This process in meant to result in improved earnings, (hence higher returns, improved risk management) and is also meant to result in creative solutions to corporate finance problems.

Financial engineering should result in the issuers or developers or users of these instruments accomplishing something that they could not do previously and in a sense making the market more efficient.

Motivations for developing new instruments vary from risk management, tax advantages, agency and issuance cost reductions, regulation compliance or evasion, interest and exchange rate changes, technological advances, accounting gimmicks and academic research.

The Zimbabwean banking market benefited from all these developments over the period under review and profitability of banks was on the increase up to until 1998 when the country entered a new phase in its political history.

The Zimbabwe's financial system came under great stress in 1998 with the collapse of the United Merchant Bank a phenomenon that led to the RBZ increasing the capital adequacy requirement for banks to 10% compared to the internationally accepted minimum ratio of 8% (Reserve bank monetary policy document, 1998).

Economically, the country was stable up to the mid-1990s, but a downturn started around 1997-1998, mostly due to political decisions taken at that time.

Economic policy was driven by political considerations. Consequently, there was a withdrawal of multinational donors and the country was isolated. At the same time, a drought hit the country in the season 2001-2002, exacerbating the injurious effect of farm evictions on crop production. This reduced production had an adverse impact on banks that funded agriculture. The interruptions in commercial farming and the concomitant reduction in food production resulted in a precarious food security position. In the last twelve years the country has been forced to import maize, further straining the tenuous foreign currency resources of the country.

Another impact of the agrarian reform program was that most farmers who had borrowed money from banks could not service the loans yet the government, which took over their businesses, refused to assume responsibility for the loans. By concurrently failing to recompense the farmers promptly and fairly, it became impractical for the farmers to service the loans. Banks were thus exposed to these bad loans.

The net result was spiraling inflation, company closures resulting in high unemployment, foreign currency shortages as international sources of funds dried up, and food shortages. The foreign currency shortages led to fuel shortages, which in turn reduced industrial production. Consequently, the Gross Domestic Product (GDP) has been on the decline since 1997. This negative economic environment meant reduced banking activity as industrial activity declined and banking services were driven onto the parallel rather than the formal market.

During the same period, the Zimbabwe banking sector and the economy in general entered a period of hyperinflation unheard of in a peace time period. Inflation stresses banks. Some argue that the rate of inflation rose because the devaluation of the currency had not been accompanied by a reduction in the budget deficit. Hyperinflation causes interest rates to soar while the value of collateral security falls, resulting in asset-liability mismatches (Makoni, 2010).

In the last half of 2003 there was a severe cash shortage. People stopped using banks as intermediaries as they were not sure they would be able to access their cash whenever they needed it. This reduced the deposit base for banks. Due to the short term maturity profile of the deposit base, banks are normally not able to invest significant portions of their funds in longer term assets and thus were highly liquid up to mid-2003. However in 2003, because of the demand by clients to have returns matching inflation, most indigenous banks resorted to speculative investments, which yielded higher returns.

These speculative activities, mostly on non-core banking activities, drove an exponential growth within the financial sector. For example one bank had its asset base grow from Z$200 billion (USD50 million) to Z$800 billion (USD200 million) within one year (RBZ Monetary policy document, 2004).

1.2. Deteriorating operating environment. Entrepreneurs build their business within the context of an environment which they sometimes may not be able to control. The robustness of an entrepreneurial venture is tried and tested by the vicissitudes of the environment. Within the environment are forces that may serve as great opportunities or menacing threats to the survival of the entrepreneurial venture (Makoni, 2010).

For most of the late 1990's, Zimbabwe remained in a debt crunch as most of its foreign debts were either un-serviced or under-serviced. The consequent worsening of the balance of payments (BOP) put pressure on the foreign exchange reserves and the overvalued currency. Total government domestic debt rose from Z$7.2 billion (1990) to Z$2.8 trillion (2004). This growth in domestic debt emanates from high budgetary deficits and decline in international funding (RBZ Monetary policy document, 2004).

The developments on the banking front resulted in a mirage of other problems that had to be tackled.

Due to the volatile economy after the 1990s, the population became fairly mobile with a significant number of professionals emigrating for economic reasons. The Internet and Satellite television made the world truly a global village. Customers demanded the same level of service excellence they were exposed to globally. This made service quality a differential advantage. There was also a demand for banks to invest heavily in technological systems.

The increasing cost of doing business in a hyperinflationary environment led to high unemployment and a concomitant collapse of real income. The Zimbabwe Independent (2005, B14) observed, that a direct outcome of hyperinflationary environment is, "that currency substitution is rife, implying that the Zimbabwe dollar is relinquishing its function as a store of value, unit of account and medium of exchange" to more stable foreign currencies.

During this period an affluent indigenous segment of society emerged, which was cash rich but avoided patronizing banks. The emerging parallel market for foreign currency and for cash during the cash crisis reinforced this. Effectively, this reduced the customer base for banks while more banks were coming onto the market. There was thus aggressive competition within a dwindling market.

Socio-economic costs associated with hyperinflation include: erosion of purchasing power parity, increased uncertainty in business planning and budgeting, reduced disposable income, speculative activities that divert resources from productive activities, pressure on the domestic exchange rate due to increased import demand and poor returns on savings. During this period, to augment income there was increased cross border trading as well as commodity broking by people who imported from China, Malaysia and Dubai. This effectively meant that imported substitutes for local products intensified competition, adversely affecting local industries. The country went into elections in 2008 which culminated in the establishment of a government of national unit. In a bid to arrest any further economic collapse the unity government adopted the use of multicurrency without the country's own currency.

1.3. Other determinants of banking market stability. Availability of domestic currency, though important is not the only factor that determines stability and hence profitability. Much also depends on the quality of a bank's assets and importantly the level of provisioning a bank may be holding outside its capital against assets of doubtful value.

Other than availability of local currency, quality of assets and the level of provisioning, there are also other determinants of bank stability and performance that are worthy of discussion.

There are significant variations in the studies in terms of both their approach and subsequent findings.

Authors, such as Short (1979), Dermirguc-Kunt and Huizinga (1999 & 2000), Bikker & Hu (2002), Davis & Zhu (2005) examine and compare the determinants of bank stability and profitability across different countries, while authors like Berger (1995a &1995b), Goddard et al. (2004a & 2004b). Athanasoglou et al (2005) focus on individual countries' banking sectors. However, there is a relatively common list that is advanced in recent literature as the usual determinants of bank stability and profitability.

1.4. Lagged profitability. According to Ngo (2006) the persistence of profits (POP) literature concerns itself with testing the hypothesis that markets are sufficiently competitive such that any abnormal profits are eroded quickly and that all firms' profits tend to some long term average. Another view point is that firms pose some kind of market power or competitive advantage enabling them to achieve above average profits persistently over time.

There are a few empirical tests of the POP hypothesis in the banking literature but in spite of this, one recent example by Berger et al. (2000) presents evidence of POP in US banking. The results show that profit converses more slowly to its long run average value in banking than in manufacturing and that market power plays a crucial role in allowing abnormal profits to persist.

1.5. Bank size. Size is part of the argument in as far as the accounting of any (dis) economies of scale in the market is concerned. According to Akavein et al. (1997) and Smirlock (1985), there is a positive and significant relationship between size and profitability.

Other researchers (Berger et al., 1987; Boyd & Grahame, 1991) indicate that economies of scale in banking tend to be exhausted at relatively low sizes, which suggests that large banks could eventually face scale inefficiencies.

Athanasoglou et al. (2005) suggest that size is closely related to capital in that large banks are able to raise capital relatively cheaply consequently making them appear more profitable.

Large banks do possess market power due to established brands which enable them to attract low cost capital thus resulting in them appearing more profitable.

It is conversional wisdom that growth in demand is constrained by the size of the market, thus there are limits to the size that a firm can grow before adversely affecting profitability.

On the other hand, many authors have pointed out (for example Berger, 1995b; Goddard et al., 2004b) that a principal source of capital retains earnings.

As a result, under the current regulatory regime where banks are required to meet certain capital adequacy requirements, profit is an important determinant for the expansion of a bank's portfolio of risk assets.

1.6. Diversification. During the early 70s' international competition in banking started increasing, intensifying during the 1980s and 1990s resulting in a drastic fall in bank fees and margins. In an attempt to maintain market share and profitability levels, many banks responded by expanding their product portfolios, mergers and expansion to overseas markets. This resulted in more product diversification which allowed banks to spread risks across different assets and this was predominantly achieved via conducting a significant portion of their business "off balance-sheet" (OBS) – including loan commitments, letters of credit and derivatives.

Demsetz and Strahan (1997) examined the role of diversification in the US banking market and concluded that the risk reducing potential of diversification at large Bank Holding Companies (BHCs) is offset by their lower capital ratios and larger commercial and industrial loan portfolios.

The few other studies which included the size of a bank's OBS portfolio as a determinant of profitability have reported mixed results (see Goddard et al., 2004a).

1.7. Credit risk. Credit risk also plays a role in the profitability equation. Poor asset quality resulting in non-performing loans is a key element in bank failures. Given the above, it is therefore not out of order for one to associate poor quality loans with negative profitability *ceteris paribus.*

It is also safe to conclude therefore that banks can improve their profitability by improving screening, monitoring and forecasting of credit facilities.

Empirical literature has tended to find a negative relationship between credit risk and earnings (Athanasoglou et al., 2005).

1.8. Operating expenses. The cost component of a standard profit function is important and should be captured in any analysis of profitability. Bourke (1989) and Molyneux and Thornton (1992) amongst others include staff expenses as a proxy for general overhead expenses. Athanasoglou et al. (2005) suggest that higher staff expenses could be due to the hiring of higher quality management which then results in higher profits.

1.9. Concentration. The impact of concentration on profitability cannot be ignored. The literature on concentration and profitability was principally concerned with explaining the common empirical finding of a positive relationship between concentration and profitability. Berger (1995a) advances two opposing but nevertheless mutually acceptable explanations for this positive relationship – monopoly power (MP) or structure-conduct – performance (SCP) and the efficient structure (ES).

Although there are slight variants on the MP and ES hypothesis, broadly, the MP asserts that the positive finding reflects the setting of less favorable prices to consumers (lower deposit rates, higher loan rates) in more concentrated markets as a result of market power.

In contrast, the ES hypothesis – whether it is an X-efficiency or scale economies argument – advocates that larger firms can achieve cost savings and thus higher profits.

The focus of this thesis is however not to try and explain which of these hypothesis best explains the positive profit structure relationship, rather, concentration is simply included as a control variable for completeness.

2. Macroeconomy

The impact of demand side factors and the macroeconomic environment have always been recognized as potentially influencing bank performance. The variables that have been included in the past include but not limited to gross domestic product (GDP), some measure of growth in the banking market, inflation and /or interest rates.

GDP per capita and market growth – as typically measured by the annual growth in money supply (Bourke, 1989), growth in total deposits (Begger, 1995b) or growth in total assets – are generally included to account for changes in demand.

An expanding market, particularly those associated with entry barriers, should be accompanied with increased profits. Revell (1979) – cf. Bourke (1989), was the first to suggest that inflation may be an important determinant in explaining variations in bank profitability. Whether inflation affects profitability depends on whether wages and other non-interest cost, are growing faster than the rate of inflation.

2.1. Zimbabwe's experiences with a multi-currency system. Hyperinflation that was as a result of political and economic upheavals rendered the Zimbabwe dollar useless, and the unity government formally allowed use of multi-currencies in February 2009. The United States Dollar (USD) and South African Rand (ZAR) became the main currencies among others. The government did not formally dollarize the economy as no permission was sought from any country.

According to the financial gazette, 5th March 2015, citing the World Bank reports as its source, banking sector vulnerabilities in Zimbabwe remain too high, worsened by macroeconomic inconsistencies and low levels of confidence.

In its April economic report, the World Bank said non-performing loans are high at 15.9%, while liquidity conditions remain tight at 27.8% as at December 2013.

"Solvency concerns especially in smaller banks also remain a drag in the periphery, making the Reserve Bank of Zimbabwe (RBZ) to intensify the monitoring of troubled banks the report goes on to add. The RBZ floated treasury bills worth US$103 million in March 2014 to clear part of the US$1.35 billion RBZ debts taken over by government. The treasury bills will facilitate interbank lending, as they will be used as security", the bank says.

2.2. Banking sector challenges period 2008 to date. The need for the introduction of a local currency in Zimbabwe is not in question. The question is when it is appropriate to introduce one. There are a number of problems associated with the lack of a local currency and Zimbabwe has had its fair share of problems as a result (Guvamatanga, 2013).

Addressing the delegates and holding at a University of South Africa international banking conference in East London South Africa in 2013, Guvamatanga argued that the existence of local currency allows central banks to effectively discharge the lender of last resort function which currently is not available to Zimbabwean banks, he further attests that local currency promotes development of cost-effective money and capital market through the issuance of financial instruments like treasury bills (TBs), Bonds, Commercial paper, Repos and other such financial instruments. The task of deriving minimum lending rates is made much easier and there are business opportunities to the banks for foreign exchange trade and hedge instruments. Costs of serving clients are reduced particularly in cash based economies like Zimbabwe and, credit creation and risk appetite on Eurodollar loans is greatly increased.

2.3. The challenges and banks reactions to the situation and the implications to banks? The Zimbabwean banking sector has been deprived of business opportunities that come with the availability of local currency. Due to the absence of local currency, liquidity management has been a big challenge, deposits have assumed a transitory nature, and there has been no Lender of last resort, no proper inter-bank market and, a limited but very expensive number of credit lines.

The lending environment has remained very risky, the market experienced and continued to experience counterparty viability challenges due to structural issues and there has been an absence of a credit clearance bureau and buyers of bad debts.

There has been adverse selection and concentration risk, use of real-estate as security, and high interest rates on dollar loans. Customer servicing costs have increased, banks encountered (for those that could access this) high cash handling fees, through the importation and repatriation of cash processes, bank have high operating costs as branch banking remained the preferred channel and high cost of labor have been experienced due to inflexible labor laws.

The Banking Sector in Zimbabwe has been characterized by shallow revenue pools, low government expenditure on civil servants salaries, an absence of a strong middle class which will normally aid the stimulation of the economy, interest rate and fee caps, capital constraints, inability to underwrite big ticket deals, shareholders facing liquidity challenges resulting in rights issues being undersubscribed and policy inconsistencies particularly on indigenization.

All these factors have affected the smooth operations of the Zimbabwean banking sector and have led to the demise of some of the banks that have had to close shop.

2.4. Banking sector responses. There has been a development of a parallel market as a result and the entire banking sector has remained very fragile.

As a result, banks in Zimbabwe have adopted survival tactics which include among many strategies, resorting to maintaining high balances on nostro and settlement accounts, focusing on bilateral agreements between banks, and conducting bank-to-bank cash trade. Banks have also resorted to regular rollovers in an attempt to side step liquidity problems, have adopted stricter prudential lending practices which have stalled economic growth and had continuously been lobbying the government to take over bad debts.

Banks have also gone on to change their approaches to business management, they have introduced more e-channels in a bid to cut on branch infrastructure costs, they are rationalizing distribution networks, setting leaner organizational structures and developing outsourcing capabilities.

The banks have also in addition focused on adaptability as a way of staying relevant to the economy in order to collect everything on the table, they have started targeting sources of income that are sustainable in the long run, targeting bottom-of-the-pyramid bankable population, playing more in the payments space, arranging off-balance sheet financing for customers, seeking parental capital guarantees to underwrite more business embarked on private placements and preference shares as alternatives sources of capital.

2.5. Lessons that can be learnt from the Zimbabwean experience. Many banking markets particularly in Africa may want to learn from the Zimbabwean experience.

The key lessons are that a local currency is desirable for an efficient and effective financial system, a bank business model should always be relevant, sustainable and scalable, liquidity should be the prime priority and the depositor is always more important than the borrower, value chain analysis is still relevant as there is need for one to always understand one's business model as well as that of your counterparty before you lend and that the payer of the Invoice and Pay slip or the name on the Order is more important than everything else.

Conclusions

Zimbabwe's experience may be in the bigger skim of things seen as rare occurrence but the lessons from its experience are valuable to any banking market despite levels of sophistication. Baring the lack of statistical data to support the accessions of the writer, the developments within the Zimbabwe Banking sector seem to support the notion that banking in a multi-currency environment is challenging and it can safely be concluded that a local currency is desirable to promote stability in the banking sector, that liquidity trumps profitability and that banking models should be relevant, sustainable and scalable.

Recommendations for further studies

In many ways Zimbabwe's experiences are unique and that should make its experience attractive to researchers in the banking fields who may want to explore further on issues that are related to availability of a domestic currency in any country. The full impact of a lack of local currency on profitability of banks in Zimbabwe or anywhere else through the world has never been explored let alone debated.

It is recommended that a full study on the impact of the unavailability of local currency to the profitability of banks in Zimbabwe be examined.

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