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Structure, Function and Performance of the Financial Services Sector in Zimbabwe since 1980

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Abstract

This article diagnoses and discusses the structure, function and performance of the financial services sector in Zimbabwe since 1980. It adopted a document review approach. An extensive literature scanning from reports, plans, statutes and statutory instruments was done. It made use of thematic analysis to understand and assess the financial service sector in Zimbabwe during the post-colonial era to date. The financial sector in Zimbabwe has gone through various economic policy regimes since independence in April 1980. After it attained independence during this first decade, Zimbabwe's financial sector was still relatively small and dominated by foreign institutions. The country has experienced financial repression and high financing costs have discouraged domestic investment. High real interest rates continue to limit private credit growth, despite low financial intermediation due to lack of effective competition and a high level of non-performing loans. While the effects of mild, periodic financial repression on growth are ambiguous, there is adequate evidence that large negative interest rates cannot be sustained and are eventually leading to reduced growth. Therefore, there is need for an efficient financial system that enhances a country's growth prospects by channelling resources to their most productive uses, thereby fostering a more efficient allocation of resources. It also helps boost aggregate saving and investment rates, thus speeding up the accumulation of physical capital. Finally, growth is enhanced by strengthening competition and stimulating innovative activities, promoting dynamic efficiency.

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INTRODUCTION

Zimbabwe's financial sector is well-diversified. It has gone through various economic policy regimes since its independence in April 1980. The sector was characterised by controls on interest rates and prices, foreign exchange and credit allocation. Such controls suppressed inflation and stifled economic growth. Over the period 1990-1999, the financial sector was modified, with entry requirements being relaxed. As a result of this, financial institutions, including indigenous ones emerged. There was the removal of controls on foreign currency allocations, credit allocations, prices and interest rates. Inflationary pressures increased because of price decontrols and bank financing of the growing fiscal deficits. Over the period 2000-2008, the economy experienced a crisis in which economic growth declined by a cumulative 40% and inflation peaked at 231 million percent in August 2008 (Zimstat, 2011). Several financial institutions shut down and others were liquidated. The contribution of the financial sector to economic activity in this period was minimal. In a multi-currency regime, the financial sector experiencies various challenges. The major constraints include a lack of affordable long-term credit, weak confidence in the financial sector and the Central Bank and Government (Makochekanwa, 2009). These constraints have resulted in the sector's minimal contributions to economic activity.

CONCEPTUAL FRAMEWORK

Finance is defined as the control of money and includes activities like investing, borrowing, lending, budgeting, saving and forecasting (Brooks, 2019). Three main types of finance are personal, corporate and public/government. It involves the art and science of managing money and the provision of money at the time it is required. The procurement of funds and their effective utilisation in business concerns is the major function of finance. The concept of finance includes capital, funds, money and amount. Hence it involves the position of money at the time it is wanted (Hoffmann, 2001). According to Christensen and Hampton (2005), the term 'finance' can be defined as the management of the flow of money through an organisation, be it a corporation, school, bank or government agency.

Finance may also be viewed as that administrative area or set of administrative functions in an organisation that relates to the arrangement of each and credit so that the organisation may have the means to carry out the objectives as satisfactorily as possible.

Financial services can be defined as activities, benefits and satisfactions, connected with the sale of money, that offer to users and customers financial-related value (Meidan, 1996). Financial service means any service of a financial nature. It includes all insurance and insurance-related services and all banking and other financial services (excluding insurance), as well as services incidental or auxiliary to a service of a financial nature. Activities related to financial services include Insurance and insurance-related services and banking and other financial services (excluding insurance). Functions that comprise financial services include Payments, Insurance, Market Provisioning, Deposits and Lending, Investment Management and Capital Raising (Kono *et al.,* 1997). Defining financial services as "any services that have a financial association" would be too wide to be meaningful (Mugwati *et al.,* 2013). The financial services sector comprises banks, insurers, fund managers, Stock Exchange, micro-finance companies and pension funds. The sector is backed by a sound regulatory and legal framework.

STRUCTURE AND FUNCTION OF THE FINANCIAL SERVICES SECTOR: AN OVERVIEW

The financial structure can be defined using various terms such as the mix, composition, organisation or the relative importance of various financial institutions and the services they offer in each economy at a particular point in time (Merton and Bodie, 2006). However, such a combination is unique for each country at its phase of development. The structure of the financial service sector can comprise four major components that are financial institutions, financial markets, financial instruments/assets/securities and financial services

Financial services are the services provided by financial institutions. These services generally include *banking services,* foreign *exchange services, investment services, insurance services* and a few others (Claessens, 2006). **Banking** services include all the operations provided by banks, from the simple depositing and withdrawal of money to the issue of loans and credit cards. **Foreign Exchange** services include currency exchange, foreign exchange banking or wire transfer (Berger *et al.,* 1999). **Investment** services generally include asset management, hedge fund management and custody services. **Insurance** services deals with the selling of insurance policies, , insurance underwriting or reinsurance or brokerages.

The role of the financial services sector is to expand the economy. It provides the opportunity to reduce vulnerability of the people through services and it allows managing assets (Sutton and Jenkins, 2007). The sector offers the opportunity to transform risks and re-allocate capital funds by bringing together demander and supplier and mobilising savings and facilitating transactions. Financial services are fundamental to economic growth and development (Kim *et al.,* 2018). Banking, savings and investment, insurance and debt and equity financing, help private citizens save money and guard against uncertainty. They also help and build credit while enabling businesses to start up, expand, increase efficiency and compete on local and international markets. Overall, these services reduce vulnerability and enable people to manage the assets available to them in ways that generate income and options ultimately creating paths out of poverty.

The financial sector should provide the following services that are valuable tools for a community to have:

- **Value exchange:** a way of making payments.
- **Intermediation:** a way of transferring resources between savers and borrowers.
- **Risk transfer:** a means for pricing and allocating certain risks.
- **Liquidity:** a means of converting assets into cash without undue loss of value.

The efficient operation of financial intermediaries' banks, insurance and pension fund firms and government agencies, is instrumental in the efficient functioning of the financial system. Herring and Santomero (1991)prove a comprehensive contemporary analysis of the role of the financial sector in economic performance. While the efficiency of the financial markets has been studied and debated at length, much less has been done in understanding the performance of the institutions that operate in these markets (Berger *et al.,* 1993; Merton, 1995). Under intense competitivepressures, financial institutions are forced to take a careful look at their performance and role they are called upon to play in the economies of the 21st century.

LITERATURE REVIEW

Financial services are fundamental to economic growth and development (Herring and Santomero, 1995).

In European countries, investors in financial services are bullish on the prospects of the sector's market, despite a variety of political, regulatory and economic uncertainties. Financial services investors ranked financial services as the second-most important driver of growth in the region, after information technology. However, a gap remains between the optimism they express and their level of actual investment. Global financial services investors believe Europe is still the most attractive region in the world in which to invest in financial services (Danthine *et al.*, 2000). However, although financial services investors express more optimism about Europe than global investors in other sectors, the growth of financial services projects did not keep pace with the general growth of foreign direct investment (FDI) across Europe (Haskel *et al.*, 2007). The combination of improving macroeconomic fundamentals and technological advances offers a rare opportunity for financial services executives and policy-makers to create a sustainable robust future for the industry.

A decade after the start of the global, yet quintessentially European, political, social and legal race to find the real culprits of the financial crisis, the current landscape is paradoxically opposed to where the prevailing winds were supposed to be taking European financial infrastructure (Stern, 2019). There is evidence that from north to south, a European banking sector with quote prices that are far below their book value and returns on equity that are unsustainable given the current costs of capital but, surprisingly, with efficiency ratios that differ and where some players, based in southern countries, beat their northern neighbours by far (Bekaert and Hodrick, 2017). This could be attributed to the short-, medium- and long-term response driven by certain moral and social cohesion factors, rather than by practicality and determination of costs.

The experience of other emerging markets and developing countries offers some useful lessons. In the 1980s and 1990s, a wave of developing countries moved to liberalise their financial sectors (Barajas *et al.,* 2013). Countries in central and eastern Europe privatised large parts of their financial systems in the early 1990s as they moved to restructure their previously centrally planned economies. In Latin America, countries, including Mexico, liberalised their banking sectors following the debt crisis of the 1980s. Most, but not all, financial liberalisations were a success (Coleman, 2016). It is crucial to have independent strong regulatory authorities to oversee the transition. The global experience also suggests it is important to carry out transitions during moments of strength when macroeconomic conditions are balanced and the nation is on a strong economic and fiscal footing.

India has made efforts to shore up the financial system. The Reserve Bank of India has worked hard to monitor asset quality. The government's plan to consolidate public-sector banks is an opportunity to strengthen governance, supervision, efficiency and risk management (Buch *et al.,* 2019). These steps will form the basis of a broader strategy to reduce the role of the public sector in the financial system. A mix of private-capital injections into state banks and full privatisation would boost the sector's ability to support credit, facilitate effective financial intermediation and reduce moral hazard and fiscal exposures.

The financial models of the advanced countries are now in some disrepute and this is considered a factor in the failure of financial services in Africa. For African countries, seeking to develop their financial systems, that means the destination is no longer clear and will not be for some time (Growth Commission, 2010). That anchor can only be removed and replaced by the adoption of a new system that will have to function for long enough to earn confidence.

There is a near consensus that the African financial and economic crisis is the result of regulatory failure. There are two distinct categories of financial regulation according to its motive (Currie, 2006). First is the economic regulation (controls over interest rates and credit allocation) that aims at mitigating market failures in the allocation of resources. Second is prudential regulation that aims at protecting the stability of the financial system (prevent systemic failures or financial crises) and at protecting depositors, especially small depositors. There is evidence of the deterioration of asset portfolios of financial institutions. During the introduction and implementation of structural adjustment programmes, the financial sector suffered losses (Ikhide and Alawode, 2001). Some finance companies also suffered heavy losses after lending for stock market speculation.

In Africa, the role of the formal financial sector, ranging from microfinance institutions, banks, the capital market to central and development banks, is crucial (Kauffman, 2005). Specific policy choices for African countries, including exploiting the ongoing communications and information technology revolution for payments, are important. It is well established, in both theoretical and empirical literature, that financial development is generally good for growth. It entails the wider use of existing financial instruments as well as the creation and adoption of new ones for intermediating funds and managing risk (Chami, Fullenkamp and Sharma, 2010).

For sub-Saharan Africa, with external demand and financing conditions significantly worsening and a much less favourable growth outlook for the region, identifying untapped or underutilised sources of growth and reducing the volatility of that growth, have become even more urgent. While debates have revolved around whether financial development is an engine for growth or just a lubricant, any factor that can significantly ameliorate growth prospects for the region is worth examining in detail. Theoretically, financial development positively affects growth through several channels that are important for sub-Saharan Africa (Akinlo and Egbetunde, 2010). It helps catalyse savings into more usable forms and supports efficient allocation of capital and enhancement of total factor productivity. It also supports diversification and management of risk. Financial development reduces information asymmetries and transaction and monitoring costs. Fourth, it can reduce the volatility of the economy by providing a variety of instruments and information to help households and firms cope with adverse shocks through consumption and investment smoothing.

RESULTS AND ANALYSIS

STRUCTURE AND FUNCTION OF THE FINANCIAL SERVICES SECTOR IN ZIMBABWE SINCE 1980

ACCOUNTANCY COMPANIES

The accounting profession in Zimbabwe is largely self-regulating through the Chartered Accountants Act: 27.02 of 1918. Over the past decades, the accounting profession went through regulatory reforms that saw the establishment of a regulatory board under the Public Accountants and Auditors Boards (PAAB) in 1993 through an Act of Parliament, the Public Accountants and Auditors Act of 1996 (Chapter 27: 12). The Act was formulated in response to the need to address a scenario where chartered accountants had the dual role of being a regulator and an accountancy body. Following the establishment of PAAB, the World Bank review exercise was meant to identify any developmental gaps over the past years within the profession in Zimbabwe (Ndamba and Matamande, 2016). This exercise identified potential technical and financial support areas to strengthen the accountancy profession in Zimbabwe (World Bank, 2011). The World Bank report (*ibid.*) highlighted a significant case for understanding the regulatory framework for the accountancy profession in Zimbabwe. While the Zimbabwe Report on Observation of Standards and Codes (ROSC) managed to provide documentation of the accounting profession regulation, it struggled to outline the regulatory framework of PAAB.

Accountancy companies perform financial functions related to the collection, accuracy, recording, analysis and presentation of a business, organisation or company's financial operations. In a smaller business, an accountant's role may consist of primarily financial data collection, entry and report generation (Puxty, 1990). Middle to larger-sized companies may utilise an accountant as an adviser and financial interpreter, who may present the company's financial data to people within and outside of the business. Generally, the accountant can also deal with third parties, such as vendors, customers and financial institutions.

Credit Card Companies

There is no specific legislation that covers the field of interbank payments and settlements. Participants of the Clearing House have themselves put together a set of rules that regulate the operations of the Clearing House. This set of rules, the Bankers Clearing House Rules, lay down the criteria relating to specific areas that include membership, management, clearing times and processes. The business of the Clearing House is conducted on the premises of the Reserve Bank of Zimbabwe (RBZ) and is managed by a Committee composed of one representative from each member bank (Robb and Vilakazi, 2016). The RBZ chairs the Committee and also supervises the operations of the Clearing House. The central bank does not impose decisions but plays a coordinating role to ensure the efficient functioning of the system (Maziriri *et al.,* 2018). Membership of the Clearing House is currently restricted to the RBZ and the seven commercial banks that currently exist in Zimbabwe. There is a standing requirement for all registered commercial banks to automatically become members of the Clearing House since it is this category that handles payments through the cheque instrument. Transactions for other financial institutions like building societies and merchant banks are indirectly cleared through respective commercial banks where they hold accounts.

Insurance Companies

Insurance is defined as a type of risk management in which the protected exchanges the expense of potential misfortune known as the premium to another entity in return for money-related remuneration (Mukayami, 2016). Insurance offers financial protection from known risks occurring or exposed within a stated period (Mwangi, 2019). It is an exceptional product in that a definitive expense is normally obscure until long after the timeframe. Insurance is thus a risk-sharing arrangement. It is an agreement entered into by both the insurer and the insured that in the event of the latter having suffered a loss, the former will indemnify the insured in return for a price that is premium.

According to the Insurance and Pensions Commission (IPEC) (2012), the Zimbabwean insurance market is well developed with 25 insurance companies transacting short-term business and nine transacting life business. The market is also served by over 20 insurance brokers with some international broking houses such as Aon and Marsh. The long-term and short-term industries are both represented on the Zimbabwe Stock Exchange by players in the sectors. Players in the life assurance industry are Altfin, Evolution, Fidelity, First Mutual Life, IGI, Old Mutual, CBZ Life, ZB Life and Zimnat. Major players in the short-term insurance industry are Nicoz Diamond, Cell, Alliance, RM and Zimnat.

Government-Sponsored Enterprises

In Zimbabwe, State Enterprises and Parastatals (SEPs) play a major role in the provision of infrastructure and services like water, electricity, telecommunications, transportation, health and education (Chirasha and Gauya, 2018). In some cases, SEPs are involved in advancing state policy. Ensuring that SEPs are accountable, transparent, efficient, effective and viable is important for the country's efficient allocation of resources, competitiveness, economic development and poverty alleviation (Muzapu *et al.*, 2016). SEPs are assets owned by the state on behalf of the public. In terms of the Constitution of Zimbabwe, state-controlled commercial entities are expected to maintain commercial viability and adopt generally accepted standards of good corporate governance in their operations.

The legal instruments that establish and govern state-owned enterprises (SOEs) are subdivided into two categories. These are individual Acts of Parliament that establish and govern statutory corporations referred to as "Parastatals" and the Companies Act that establishes corporatised entities referred to as "State Enterprises". The country follows a decentralised ownership model for its SOEs. This ownership model is characterised by dispersed ownership of SOEs across line Ministries. The line Ministers have the responsibility to exercise direct control over SOEs under their purview (Ministry of Finance: Medium Term Fiscal Policy Review, 2015).

Role of the Central Bank Since 1980

The most important role of the RBZ is to formulate and implement monetary policies (RBZ, 2014). The objective of this is to maintain the domestic money supply at levels consistent with the increase in overall economic productivity under conditions of low inflation. The RBZ also acts as the sole issuer of banknotes and coins. The level of notes and coins issued by the the central bank in circulation is determined largely by the cash demands of the economy.

The central bank is also the custodian of gold and other foreign assets. Until 1994, the Reserve Bank, as a Government agent, held the bulk of the country's gold and foreign assets with authorised dealers, commercial and merchant banks, retaining small amounts as working balances.

The Reserve Bank is also the banker and advisor to the government. It performs various normal banking services such as handling accounts of government departments and making short-term advances to the government (Dhliwayo and Gardener, 1996). In addition to providing banking facilities for the government, the Bank also accepts deposits from banking institutions. The central bank also acts as a lender of last resort to the banking institutions to ensure that liquidity is readily available for the smooth operation of the banking system.

It is the role of the RBZ to feed into the formulation of fiscal policy and to ensure monetary policies are consistent and supportive of fiscal initiatives of the government. The bank also has the sole responsibility for the management of the national payment system and promoting alternative forms of payment mechanisms and the use of plastic money platforms such as ATMs, Point-of-Sale facilities, as well as electronic, cellphone and internet banking products and services.

PERFORMANCE OF THE FINANCIAL SERVICES SECTOR IN ZIMBABWE SINCE 1980

ACCOUNTING COMPANIES

Accounting information can be assembled and evaluated in a way that can help the management of small firms to make informed decisions concerning the operations, survival and growth of a firm. An accounting information system is a powerful tool that collects information about different transactions to help management keep a record of what happens or affects the organisation. The accounting information systems can be manual or automated. Nyathi *et al.*

(2018) argue that keeping proper books of accounts enables small firms to have accurate and reliable information which will help in making economic decisions. Lack of accurate and proper accounting records is believed to be one of the causes of the closure of many SMEs and it makes it an important aspect of business success.

Credit Card Companies

Credit transfers are a commonly used payment medium in Zimbabwe. The transfer is usually executed from a standing order or a variable order that is given from time to time. The orders are given mainly in paper form. However, some customers deliver their payment orders to banks on diskettes and magnetic tapes. The main users of credit transfers are big institutions like the government, pension funds and local authorities (Kaseke, 2012). Credit transfers are used mainly for recurrent payments like salaries, dividends and pensions. These are generally issued by banks and allow cardholders to obtain cash advances from their accounts and to pay for purchases at outlets of all participating merchants or service providers. Credit cards like Visa or Mastercard are issued by banks under licence from international organisations (Nzaro and Magidi, 2014). International credit cards can be used both locally and internationally (Nyoni and Bonga, 2017). If they are issued for external use, banks are required to comply with certain Exchange Control requirements that govern the issuance of these cards. Several retail outlets also issue their in-house credit cards that allow their customers to conduct credit purchases within a specified credit limit. Credit card companies have gained much recognition in periods of cash crises. The financial sector, particularly the RBZ, has been largely criticised because it failed to provide cash to the citizens.

Insurance Companies

Insurance companies have been affected by the financial crisis in the country, especially during periods of hyperinflation. For many insurers, direct exposure to the epicentre of the crisis, the US mortgage market and related securities, appears to have been limited. Nonetheless, the financial crisis has had an increasingly visible impact on the insurance industry, primarily through their investment portfolios, as the crisis spread and financial market valuations and the outlook for real activity deteriorated significantly. While insurers as a group may have cushioned rather than amplified the downward pressures during the financial crisis, some have added to downward pressures. Financial instruments that were at the core of difficulties served an insurance function and, thus, it is not surprising that some institutions from that sector have been affected by the crisis on one or the other side of their balance sheets.

During the period 1980-1989, among other sectors, the insurance industry was the ninth largest contributor to the Gross Domestic Product (GDP). The Manufacturing, agriculture and distribution industries were the top three largest contributors, contributing 22.9%, 12.4% and 12.3%, respectively. Over this period, the insurance industry did not receive much attention from policy-makers, as evidenced by its exclusion in the First and Second Five-year Transitional National Development Plans (TNDPs). At this stage, the financial sector was still small, dominated by foreign banks and entry conditions into the sector were still restricted. According to Zimstat (2012), over the period 2000-2008, the contribution of the finance and insurance industry to GDP averaged 6.6%. This was lower than the average of 8.2% from 1990-1999.

Government-Sponsored Enterprises

State-owned enterprises and parastatals play a key role in promoting socioeconomic development by providing a wide range of products and services to the nation (Zuva and Zuva, 2018). In the 1990s, state enterprises and parastatals in Zimbabwe accounted for over 40% of the country's GDP (Chirasha and Gauya, 2018). In recent years, however, the sector's contribution to the GDP has been declining gradually due to a myriad of factors such as undeveloped infrastructure and the shortage of key technologies (Ministry of Finance, Mid-Term Fiscal Policy, 2015). Weaknesses in governance structures have also contributed to the declining performance in the sector (Chikobvu, 2017; Muzapu *et al.,* 2016). Notwithstanding the effects of the harsh domestic or external business environment such as the global recession, some SOEs, such as Air Zimbabwe, Civil Aviation Authority of Zimbabwe (CAAZ), National Railways of Zimbabwe (NRZ) and the Zimbabwe Broadcasting Corporation (ZBC), have since become technically insolvent and many a time have failed to meet even their contractual obligations to their employees.

In 2014, Zimbabwe's Auditor-General exposed evidence of corporate management challenges in SOEs and parastatals, especially in terms of corrupt tendencies and financial scandals. SOEs and Parastatals are afflicted with structural and organisational problems, incomplete accounting and financial statements, illegal governance practices and poor management of investment decisions (Ministry of Finance: Auditor General Report, 2015). The interference by politicians in the internal affairs of SOEs and parastatals was also found to have compromised the government's will and resolve to deal decisively with the corrupt practices in the sector (Dlamini *et al.,* 2017). The reality on the ground shows that most SOEs are operating sub-optimally and have been posting perennial losses. For instance, Air Zimbabwe Holdings, NRZ, ZBC, Cold Storage Commission (CSC), Premier Service Medical Aid Society (PSMAS), Grain Marketing Board (GMB), City Councils and CAAZ, are struggling with heavy debts and very limited production capacity. This average-to-poor performance is attributed to the poor state of infrastructure and equipment, lack of critical skills and expertise, non-compliance to good corporate governance practices, inadequate fresh capital injection from the shareholder, lack of access to lines of credit, low capacity utilisation and market penetration, high operating costs especially the wage bills, poor debt recovery strategies, debt legacy and high inter-parastatal debt (Ministry of Finance: 2014 Fiscal Report).

PERFORMANCE OF THE CENTRAL BANK SINCE 1980

Considering the size of its real economy, Zimbabwe's financial system is comparatively sophisticated and comprises a wide range of banking institutions, insurance companies, development institutions, stock exchange and trust companies (Dhliwayo and Gardener, 1996). The financial institutions provide a wide and expanding array of financial services within the domestic economy. The Reserve Bank of Zimbabwe is at the apex of the financial system and performs the usual central bank functions. The role of the Reserve Bank has increased in importance since Zimbabwe gained its independence in 1980 and subsequently joined organisations like the International Monetary Fund (IMF), the World Bank, the African Development Bank and the Preferential Trade Area (PTA).

Due to unstable economic conditions and failure to control inflation (RBZ, 2007), economists have suggested that the Reserve Bank be abolished. Some economists have suggested that the Reserve Bank of Zimbabwe be reformed (Coomer and Gstraunthaler, 2011). Legislation in 2008 was debated in the lower house of the Zimbabwean Parliament to limit the so-called quasi-fiscal activities of the Reserve Bank.

Banks have been characterised by insufficient money for withdrawals as there was a shortage of cash. During the then Governor of the RBZ Gideon Gono era, the the central bank implemented various policies such as the introduction of the Basic Commodities Supply Side Intervention (BACOSSI) programme and price controls to combat inflation, but it did not succeed to resolve the problems. In 2008, 4 287, people died as a result of the cholera outbreak and it brought the economy to a standstill as it worsened an already bad situation (Mukuhlani, 2014).

The central bank in Zimbabwe is suffering due to the absence of a domestic currency (Noko, 2011). Without a domestic currency, the RBZ is restricted in its ability to influence the amount of 'hard cash' in the system and has thus for a long time suffered an acute liquidity crisis. For example, the restrictions arising from the 2001 US Zimbabwe Democracy and Economic Recovery Act (ZDERA) and sanctions, discussed later in this article, mean that the RBZ is unable to work with the US Federal Reserve to access dollars (Sai and Zinyemba, 2017). Zimbabwe is dependent on exports, remittances, foreign investment and credit lines to inject hard currency into the economy. The country has effectively become a 'bureau de change for Southern Africa', as the country pays dollars for its imports from its neighbours. Ordinary Zimbabweans rely critically on diaspora remittances, amounting to nearly US $1 billion in 2015, almost half of foreign financial inflows into the country (RBZ, 2012).

Confidence in the banking system evaporated after 2008, when hyperinflation wiped out savings, meaning that many people bypass formal financial institutions. Government efforts to extract revenue from the informal economy are a further disincentive for depositors and for many Zimbabweans, the reality is, as popularly put, '*Mari yangu, inorara neni*' (I keep my money with me). The cash in the country is, therefore, not making its way into the banking system and without cash, base credit has been further squeezed. Cash is also being directly taken out of the system through what the government refers to as 'leakages' – people taking suitcases of money out of the country (RBZ, 2014). There is a shortage of notes to dispense from ATMs, despite the repeated lowering of the daily withdrawal limit.

To ease the liquidity and cash crises, the RBZ has been implementing innovative quasi-monetary measures, as well as attempting to plug the leakages of cash externalisation. One of the measures undertaken by the RBZ was the introduction, in 2014, of 'bond coins' –coins pegged to the US dollar – backed by a US $50 million bond issued by the central bank.

Government and central banks are limited in the number of goals they can achieve in the short term. For instance, there may be pressure on the government to reduce inflation, reduce unemployment and reduce interest rates, while maintaining currency stability. If all of these are selected as goals for the short term, then the policy is likely to be incoherent, because a normal consequence of reducing inflation and maintaining currency stability is increasing unemployment and increasing interest rates (Sai and Zinyemba, 2017). To achieve policy goals, governments use policy tools that are under the control of the government. Most microfinance institutions (MFIs) are currently operating on a weak capital base and face dwindling funding sources. The global financial crisis has implied reduced funding to MFIs. The Financial Inclusion Fund (FIF) proposed by Government and the RBZ has not yet been set up due to lack of funding.

DISCUSSION

Lack of fiscal restraint plus a very accommodating monetary policy are still the biggest threats to the country's macroeconomic good health (Furman, 2016). Support for investment and social sectors continues to decline in real terms as recurrent expenditure remains disproportionately high. Monetary financing of the deficit and sustained growth of credit to the private sector fuelled the 12-month money supply growth rate, that rose from 56.9% in January 2001 to around 400% by December 2003. Annual inflation reached an all-time high of 622.8% in January 2004, up from 228% in March 2003. The fiscal deficit in 2003 was estimated at 3.7% of GDP compared to 10.2% in 2002 (African Economic Outlook, 2012).

Zimbabwe's overall economic and social situation has continued to deteriorate. Real GDP fell by 30%. Structural changes have weakened the economic base, in particular, the disorderly implementation of the land reform programme sharply reduced agricultural production and contributed to widespread food shortages (Dhliwayo and Gardener, 1996). Concerns about economic and political governance have discouraged productive investment and promoted capital flight and emigration. Inflation reached 600% in November 2003. Real wages and formal sector employment have fallen sharply and social conditions are dire. The food security situation remains difficult. Poverty levels continue to rise and the HIV/AIDS pandemic remains largely unchecked.

After a period of sustained growth, the macroeconomic situation in Zimbabwe has deteriorated markedly and since 1998 the country has been facing a deep crisis. Following a flat real GDP in 1999, the crisis has exacerbated and GDP declined by 5.1% in 2000 and a further 7.4% in 2001. The excessive recourse to bank finance by the fiscus (treasury) fuelled money supply growth that led to an upsurge in inflation (Furman, 2016). The impact of such an inflationary environment has been a dramatic increase in production costs and reduced export competitiveness.

Weakening public institutions are characterised by fiscal and debt mismanagement, corruption accompanied by infrastructure and public service degeneration. Fiscal affairs in Zimbabwe have been grossly mismanaged over a long period. Fiscal deficits have been deepened by uncontrolled spending on government salaries and benefits. International debt has fallen into arrears resulting in the failure of the country to access external financing and there are low and falling levels of tax collection (Casu *et al.,* 2006). The lack of fiscal prudence has resulted in critical aspects of public goods and services suffering from a lack of funds with a subsequent degeneration in basic infrastructure and health and education services.

The financial sector is vulnerable. Many banks are undercapitalised and the ratio of non-performing loans is dangerously high. There is no lender of last resort. Treasury Bills issued to finance the growing fiscal deficit have pushed US-dollar interest rates up to 28%, that crippling business. To finance its deficit, the Government has also been raiding bank balances kept at the the central bank, further weakening the banking sector.

The instability in the performance of Zimbabwean financial institutions holds important lessons. In this regard, they are compared against developed countries' banks. The regulator plays a key role in determining the nature of competition, and hence performance, in their jurisdiction. For instance, the Reserve Bank regards financial returns submitted by institutions as “confidential”. This attitude fosters an atmosphere of secrecy that inhibits transparency. On the other hand, the American regulator takes the returns and creates benchmark indicators of performance for the industry and sub-sectors that are freely available to the market and used to whip miscreants into line. Berger and Humphrey (1997) contend that it is important to monitor bank performance to separate the good from the bad performers. Furthermore, monitoring bank performance can inform policy-makers by assessing the effects of deregulation, mergers and market structures on efficiency.

Bank regulators evaluate banks’ liquidity, solvency and performance to enable them to determine when to intervene as well as to gauge the likelihood for problems to emerge (Casu *et al.,* 2006). Bank performance measurement is a crucial tool for improving managerial performance through the identification of the best and worst practices that lead to high and low indicators of efficiency. Therefore, banks wishing to improve their performance, compare the performance of their peers and evaluate the trend of their financial performance over time. The central bank’s role in this context is to provide such information that facilitates peer comparison.

CONCLUSION AND RECOMMENDATIONS

Financial improvement promotes economic growth by improving the efficiency, stability and accessibility of the financial system. An efficient financial system reduces information and transaction costs. The Zimbabwean financial service sector has shown to have challenges in its performance after independence. This is because it lacks producing ex-ante information about possible investment and allocating capital, monitoring investment and providing corporate governance after providing finance, facilitating trading,

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