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The Impact of Bond Coins in Business Transactions at Nkayi Growth Point in Zimbabwe

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Abstract:

Bond coins are a currency of coins backed by a bond. The introduction of bond coins by the Zimbabwean monetary authorities was made in December 2014 within the context of a multicurrency economy. Among major purposes of introducing these coins was to eliminate overpricing of low priced goods and facilitate availability of change so as to create economic fairness to consumers especially the marginalized such as the poor and those in rural areas. This study focuses on the impact of bond coins in business transactions of a rural community, Nkayi growth point in Zimbabwe. A survey of both consumers and the business community was made. Thirty-five consumers randomly selected and fifteen purposively selected business entities were the respondents of the study. Findings showed the acceptance of bond coins has been gradual among the consumers, with only a few accepting them at the time of their introduction and the majority, but not all, appreciating them in due course. Almost the entire business community appreciates the economic significance of bond coins and has as a result altered the pricing system in response to the introduction of the coins.

Keywords: *Bond coins, rand coins, change, pricing of goods.*

1. Introduction

The collapse of the Zimbabwe economy which climaxed at the beginning of 2009 resulted in the phasing out of the then Zimbabwean dollar currency and the introduction of a multi-currency regime in February 2009.

The United States of America dollar (US dollar) was adapted as Zimbabwe's official currency and was supplemented by the South African rand the Botswana pula. The two later were available in both notes and coins whilst the US dollar, being the main currency was available only in notes which were in denominations of \$1, \$2, \$5, \$10, \$20, \$50 and \$100.

Bond coins were accordingly introduced to complement the US dollar notes. These coins are legal tender issued in terms of section 44 of the Reserve Bank of Zimbabwe Act (Chapter 22: 15). They are termed bond coins to clarify the fact that they are anchored to a US \$ facility that is giving the coins the strength of being at par with US cents (Mangudya 2015) (Asbury S and Dzirutwe M, 2015). Since the bond coins' value is at par with the United States dollar, it is expected that consumers will not be short changed by indexing the bond coins to the rand coins since the latter have lower values than the former (Newsdze Zimbabwe, April 2015)

The bond coins were distributed through the banks. In an attempt to improve the distribution channel, all Easy Link Money Transfer Agent outlets were also tasked to participate in making the coins available to the public without charging commission or withdrawal fees with effect from January 2015 (Mangudya 2015).

At the time of this study, there has been scanty research on the impact of bond coins in the community owing to the fact that use of bond coins by jurisdictions appears not to be common. Moreover, Zimbabwe adapted this initiative only a year ago.

2. Literature Review

2.1. Reasons for Introducing Bond Coins

Bond coins were introduced so as to correct Zimbabwe's mistake of discarding its national currency and using United States notes without making provision in terms of changes for items lowly priced (Mangudya 2015). Bond coins were therefore brought into use to reinforce the multicurrency regime by making change available in United States currency and to facilitate correct pricing of goods and services through the coin system.

Coins are to ease the problem of small change and eliminate the problem of rounding up of prices to a dollar where there is no option to buy more goods and ease the hassle commuters go through trying to break up a dollar to find change (Zengeni 2014). Moreover, in a system where prices are rounded off, local goods lose their competitiveness to imports (Mangudya 2015).

In the absence of coins' citizens did not get the best in terms of value from the US dollar in circulation as sellers were entailed to round off their prices to the detriment of consumers especially the marginalized whose purchases are mainly of low priced goods.

2.2. Envisaged Benefits of Bond Coins

Bond coins are expected to result in price corrections as commodities will be correctly priced since the coins facilitate divisibility of the US dollar. Both retailers and consumers are expected to benefit from proper prices. In addition, the Reserve Bank of Zimbabwe Governor indicates that Bond coins have an advantage of not being subject to cross rate fluctuations as has been experienced with the rand coins (Zengeni, 2014).

The Banker's Association of Zimbabwe is of the opinion that availability of coins is expected to replace the tendency of giving change in form of sweets for children by giving it in form of coins which parents can give to children for keeping in piggy banks and tins (Zengeni, 2014). This may help children develop habits of saving money.

Bond coins are also expected to promote and increase price competitiveness within the national economy

2.3. Value of Bond Coins Imported

Total value of \$10 million dollars in bond coins was imported in December 2014 with a further \$10 m being planned to be imported later (Zengeni 2014) in Zimbabwe's economy which at the time of the research had US\$5.2 billion in banking deposits (Xiinhua, 2014). Unfortunately, by January 3, 2015, only \$2.5 million of the \$10 million imported bond coins had been released for circulation through the banks (Sunday Mail, January 4, 2015). This calls for a need of improved efficiency in the distribution of the coin

The last denomination of bond coins imported was the 50c, which was brought into the country at the end of April 2015, (Masvora, 2015).

2.4. Backing of the Bond Coins

The reserve bank has shown that bond coins will be backed by real money (Masvora, 2015). The Sunday Mail, Jan 4, 2015 states that the first \$10m bond coins are backed by a \$50 million bond which translate to 2% of total bank deposits in the Zimbabwean economy.

2.5. Attitude towards Bond Coins

A negative attitude towards bond coins has been reported (Radio Dialogue 2015). Business people, especially informal traders expressed scepticism at the introduction of bond coins imagining that it was a way of bringing back the defunct Zimbabwe dollar (Dube G, 2014). In response to this hypothesis, the governor of the Reserve Bank of Zimbabwe explained that the Zimbabwe dollar cannot be brought back since there currently is neither meaningful production in the country nor foreign currency reserves on which to anchor it (Manyuke C 2014). On the other hand, the people of Bulawayo are reported to not have easily accepted the use of the US dollar when it was introduced and therefore did not easily accept the bond coins as expected (Masvora, 2015). Accordingly, the Reserve bank of Zimbabwe Governor, Dr. John Mangudya went around the city at the beginning of 2015 encouraging citizens to accept the use of the coins.

Street market vendors, commuter bus operators (kombis) and fuel service stations were cited as rejecting bond coins when they were first introduced. On the other hand, major retail shops readily accepted these coins and were therefore instrumental in implementing their circulation into the market (Sunday mail, 2015).

(Chiweshe, 2014) identified three possible scenarios expected to result from introduction of bond coins. These are: natural rejection of the coins; gradual acceptance then rejection and forced acceptance. The accurate prediction can be proved in due course.

2.6. Reported Economic Impact on Use of Bond Coins

The Reserve bank of Zimbabwe governor, Dr. John Mangudya has indicated that as at April 2015 prices of bread and beverages and communication charges are a few among many products and services whose prices have been adjusted downwards as a result of use of bond coins by producers (Newsdze Zimbabwe, 2015). Companies such as Delta, Inncor, Econet and Mohammed Musa have also been cited among entities which have positively responded to the use of bond coins (Mangudya).

2.7. Advice on Use of Bond Coins

The Reserve Bank of Zimbabwe governor advised businessmen to adjust their prices from the traditional \$1 and 50c to other denominations such as 75c since bond coins allowed this to be so (Sunday mail, 2015)

3. Methodology

A survey was employed in collecting data which was mainly qualitative in nature. The study attempted to analyze the extent of the impact of introduction of bond coins on both individuals and business entities in the month of September 2015.

A total of thirty-four randomly picked residents and fifteen business enterprises participated in the survey. The business enterprises were purposively selected and represented all the major types of businesses in the growth point. These comprised of retail shops specializing in groceries and other miscellaneous commodities, retail shops for clothes, retail shops for furniture, hardware shops, Barbour shops and butcheries.

Both primary and secondary data were used to evaluate the impact of bond coins. Questionnaires and interviews were major tools of data collection. After collection of primary data, it was analyzed and presented in tables and graphs.

4. Analysis and Results

4.1. Use of Bond Coins in Transactions

The business enterprises were asked as to whether they make use of bond coins in their transactions. 93.3% of businesses make use of bond coins in their transactions (figure 1). The only businesses which do not make use of the coins are businesses like furniture retailers which sell highly priced items which do not necessarily need to be priced in cents

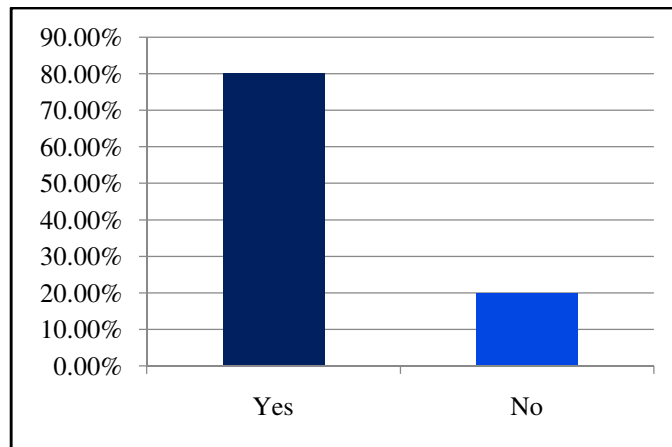


Figure 1: Use of Bond Coins

Respondents were asked if they had goods which sell at less than a dollar and consequently priced in cents so as to make use of bond coins. 80% of respondents indicated having a significant number of goods which sell at less than a dollar (figure 2), thereby making use of bond coins by pricing goods in cents.

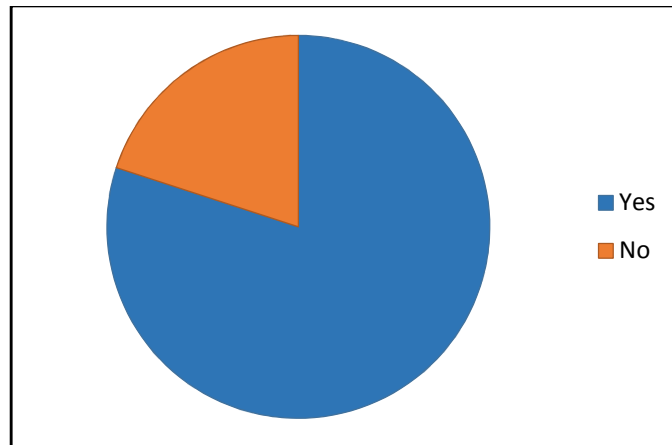


Figure 2: Less than a Dollar

These same respondents with goods selling in less than a dollar also have goods selling in dollars and cents (table 1) thereby ensuring that their pricing systems promote competitiveness of their goods (Mangudya, 2015). These business entities have shown to have made use of economic advantages purposed to be achieved through introduction of bond coins.

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------|-----------|---------|---------------|--------------------|
| Valid | Yes | 12 | 80.0 | 80.0 | 80.0 |
| | No | 3 | 20.0 | 20.0 | 100.0 |
| | Total | 15 | 100.0 | 100.0 | |

Table 1: Respondents who sell goods in dollars and cents

Moreover, the study showed that 97.1% of the respondents from the community of consumers had knowledge of availability and use of bond coins within the community during the time of the study (table 2). The other 2.9 % mainly constitutes the very few consumers who come from the rural section of the society (those from outside the township) most of whom showed a challenge of distinguishing between bond coins and rand coins.

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------|-------------|-----------|---------|---------------|--------------------|
| Know | | 33 | 97.1 | 97.1 | 97.1 |
| | Do not know | 1 | 2.9 | 2.9 | 100.0 |
| Total | | 34 | 100.0 | 100.0 | |

Table 2 - Knowledge on use of bond coins in the community of consumers

The study further attempted to ascertain the number of respondents from the community of consumers who had actually handled and used the various bond coins. Results showed that 59% had used a 5c coin; 82% had used a 10c coin; 85. % had used a 25c coin and 71% had used a fifty cent coin (figures 3). The twenty-five cent coin shows to be the most popular whilst the 5c coin is the least popular

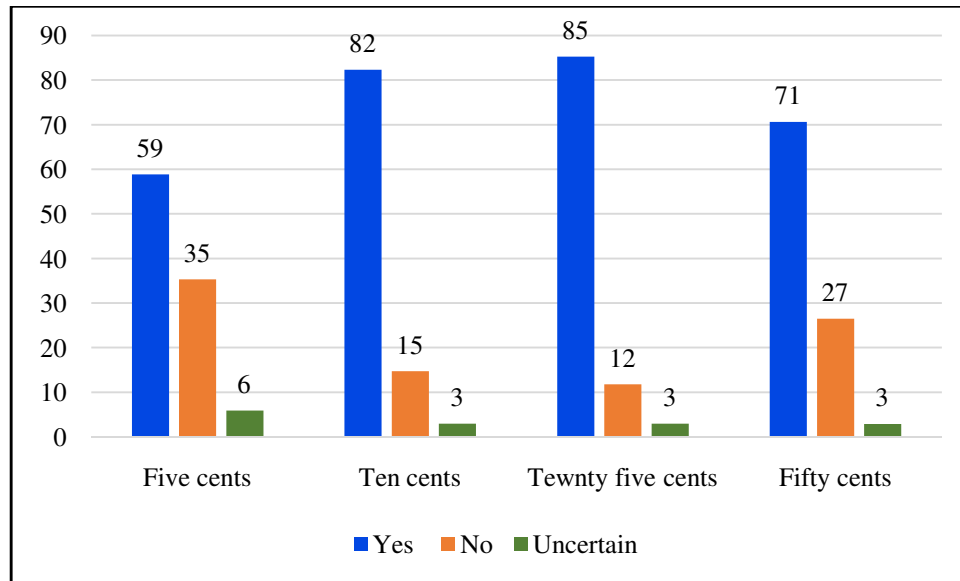


Figure 3: Familiarity with bond coins

4.2. Acceptability of Bond Coins

Business entities were asked to indicate the first reaction of consumers when bond coins were introduced. Responses from businesses showed that the majority of consumers did not readily accept payments in bond coins at first. Only 13.3 % of respondents reported excellent responses during introduction of the coins (figure 4); 40% reported fair responses; another 40% reported poor responses; 7% of respondents were not sure as they were not yet in their current business positions at the time when the coins were introduced.

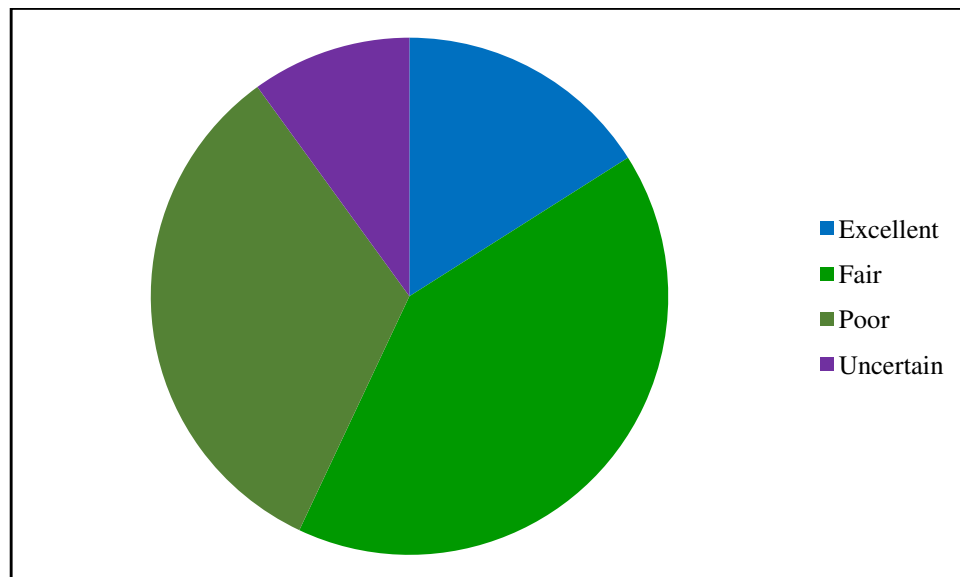


Figure 4: Acceptance at Introduction

Responses from the community of consumers revealed that among those who currently accept being paid in bond coins 17.6% accepted being paid in bond coins as soon as such coins were introduced (figure 5); 41.2% only accepted being paid in bond coins a few weeks after the introduction of the coins; 38.2% only accepted being paid in bond coins after more than a month from their introduction in the community and 2.9% could not indicate how long it took them to accept the coins. It is therefore concluded that the introduction of bond coins is not an event but a process which yields good results in due course.

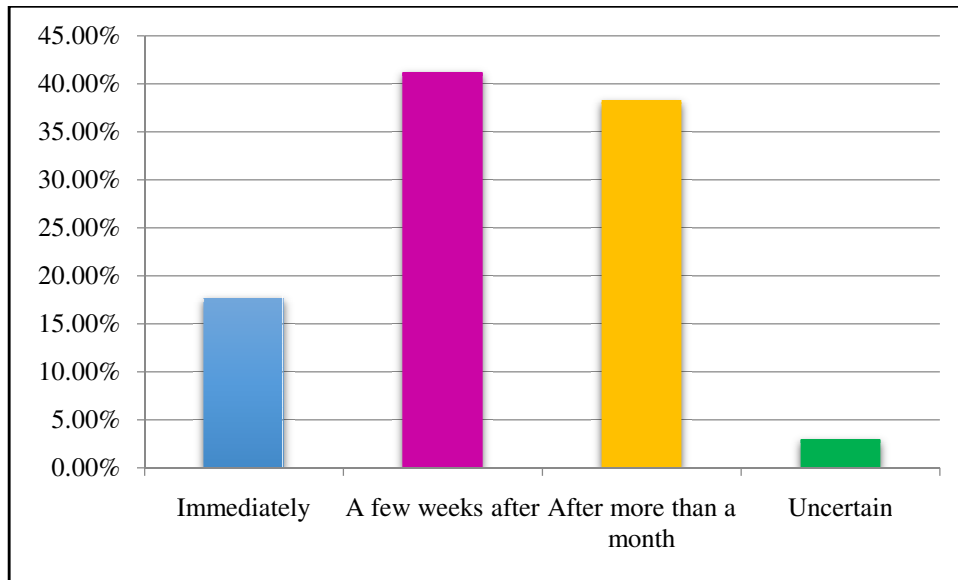


Figure 5: Time Taken to Accept bond Coins

Furthermore, businesses were asked to indicate the current level of acceptance of bond coins by their customers 53.3% of respondents showed that they currently do not have challenges with customers who do not accept being given change in bond coins (figure 6); 40% of the respondents indicated that they still have challenges with a few customers who do not accept bond coins; 6.7 % of the respondents reported a significant number of customers who do not accept bond coins. Most of these customers are said to be coming in remote areas which are out of the growth point centre.

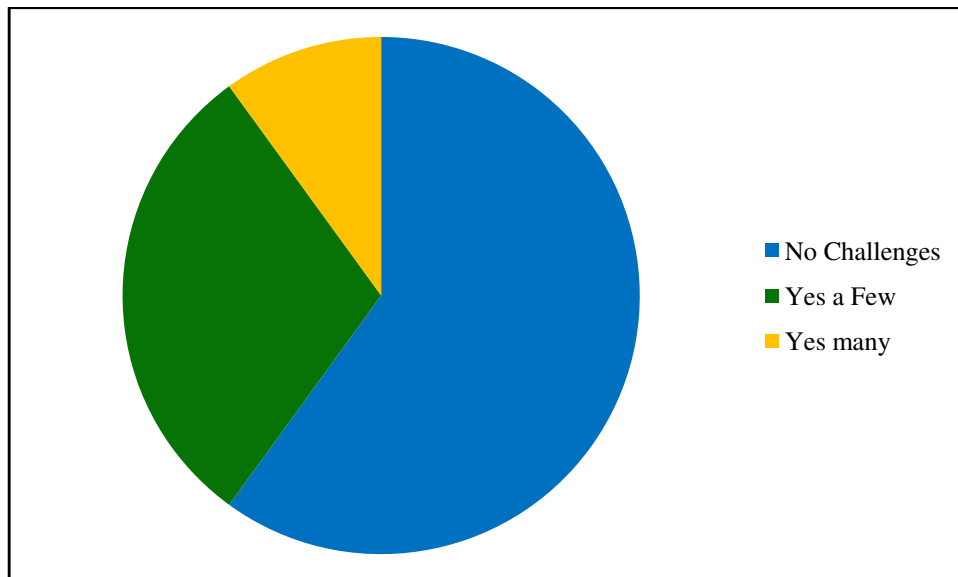


Figure 6: Current Acceptance

67.6% of all the respondents from the community of consumers expressed full contentment in using bond coins (figure 7). 17.6 % of the respondents indicated that though they use bond coins, they are not happy about them. 14.6 % of the respondents showed that they still do not accept being paid in bond coins. This shows that though the majority accepts bond coins, there is still a challenge on their use among a significant portion of the community

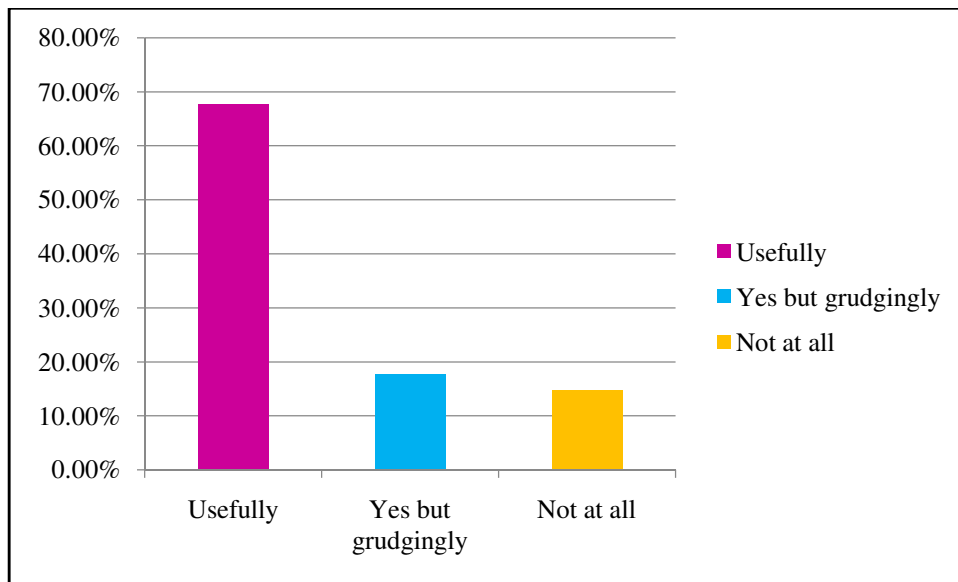


Figure 7: Acceptance of Bond Coins

4.3. Preferred Coin by Community

A determination was made as to the more preferred type of coin between the rand and the bond coin and results showed that 52.9 % of respondents from the community of consumers preferred bond coins to rand coins (Figure 8). Thus, only a slim majority recognizes the economic advantages of bond coins over the rand coins

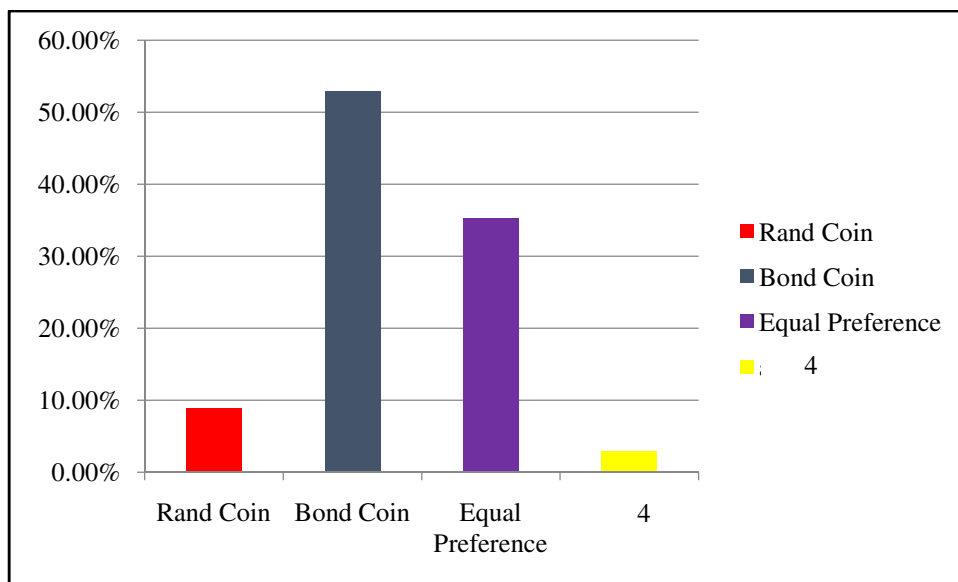


Figure 8: Preferred Coin by Community

4.4. Preferred Coin by Business

The inquiry within the business community showed that 80 % of businesses showed priority of transacting in bond coins as opposed to transacting in rand coins (figure 9); 13% showed equal preference of both whilst 6.7% showed preference of use of rand coins. Thus the economic advantages of bond coins are evident to most but not all businesses. The businesses which did not show preference of bond coin over the rand coins are mainly those whose transactions do not necessarily need use of cents.

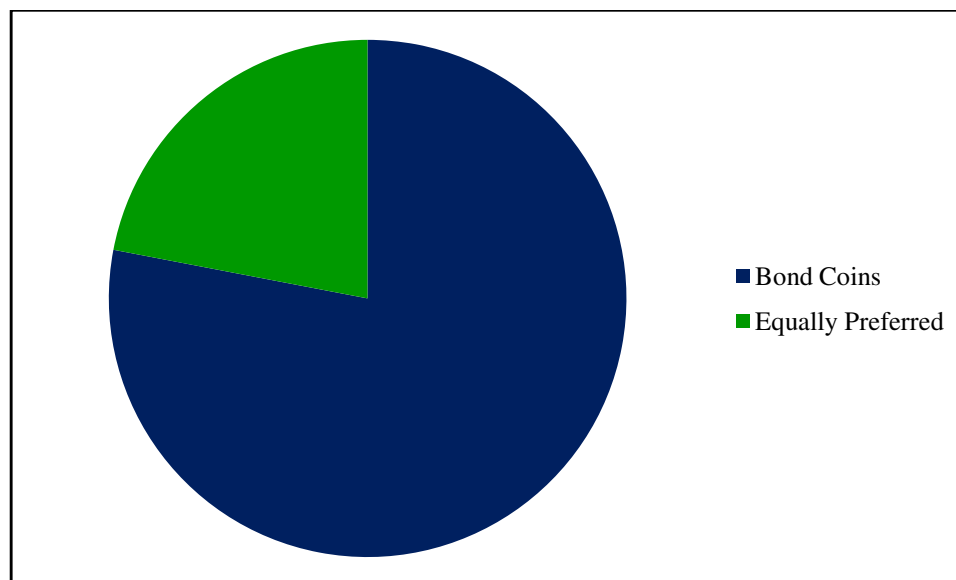


Figure 9: Preferred Coin by Business

4.5. Conclusion

Almost all businesses at Nkayi accepted the bond coins and use them in their daily transactions. The use of bond coins has greatly affected the pricing of goods as there is now a significant number of goods which are priced at less than a dollar and some which are priced at prices which combine both dollars and cents. Those businesses which are not making use of the bond coins are those which deal with highly priced goods which do not necessarily need to be priced in cents. This study therefore concludes by noting that the introduction of bond coins has significantly improved the pricing system within the business community at Nkayi.

Results of the study showed that the business community's willingness to transact in bond coins has been hindered by the consumers who have and are still taking a longer time to appreciate the usefulness of bond coins. However, there has been a gradual increase in the number of consumers who fully accept transacting in bond coins from less than 20% when the coins were introduced to more than 50% at the time of the study, about nine months after their introduction. Accordingly, the introduction of bond coins is envisaged to fully achieve its intended purpose if it regarded as a process rather than an event.

It is recommended that more education be given to the educationally and economically marginalized members of the society in rural areas on the features of the bond coins, its value and its relationship with the US dollar.

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