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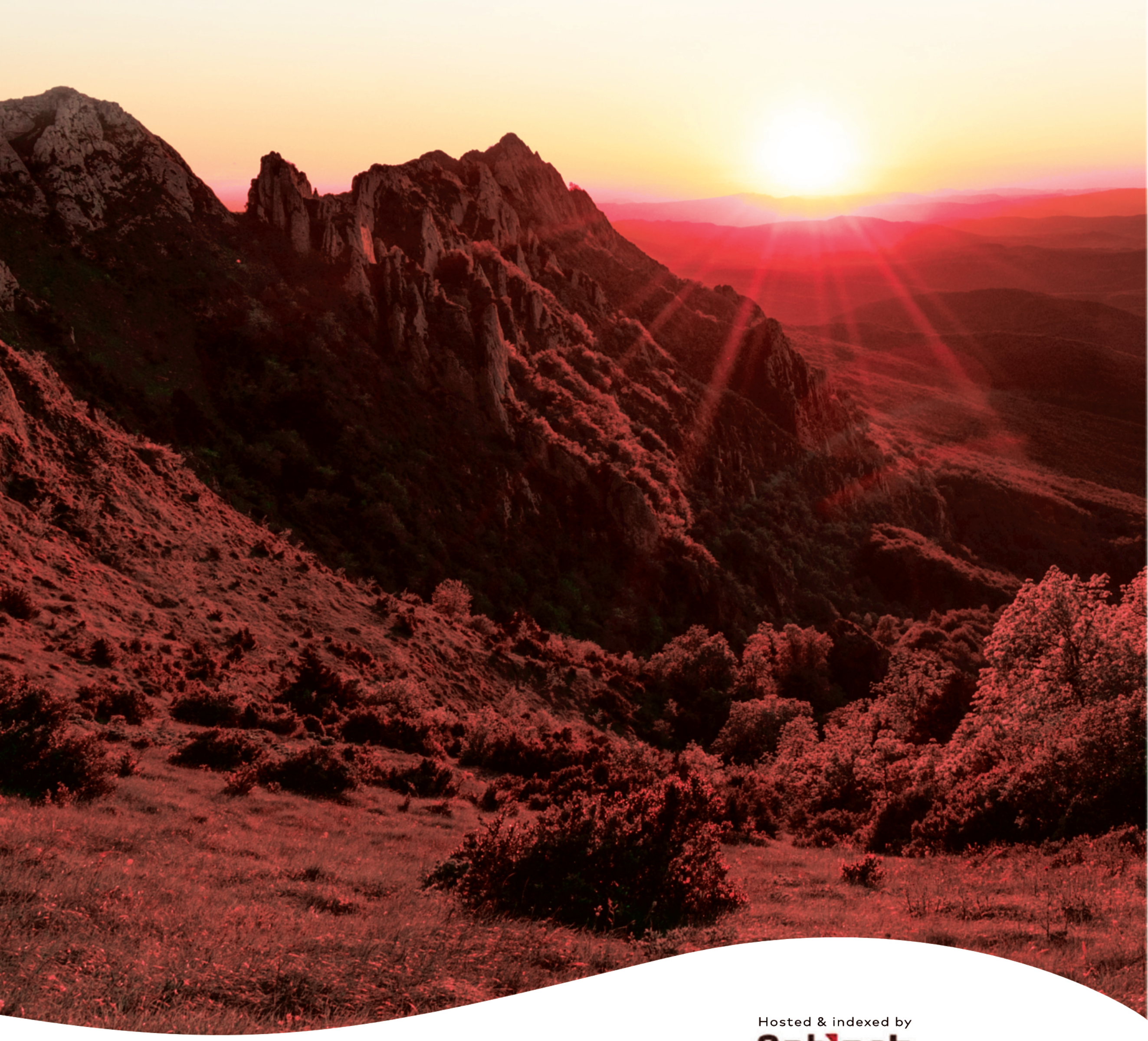

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The efficacy of the use of ZiG money as a sole legal tender in Zimbabwe. The case of Chinhoyi Town, Zimbabwe.

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Abstract

To decide on the acceptability and usability of ZiG on the Zimbabwean market, the paper traces the history of the use of the local currencies and the operation of the Reserve Bank of Zimbabwe's monetary policy dating back to 1980. The history made it clear that there was poor monetary policy by the Reserve Bank of Zimbabwe which compelled the people to lose confidence in the use of any future local currencies. This research adopted a qualitative research approach. Primary data supplemented secondary data. The research population consists of all Chinhoyi residents above 18 years and a convenience sampling method was chosen to select respondents. Four focus group discussions (FGDs) were done, and a questionnaire was distributed to key informants. Observations were also done to argument FGDs and the questionnaire. The research revealed that populace does have confidence in the use of ZiG instead prefers to use foreign currencies. The main drivers for this lack of confidence in the use of ZiG was noted as emanating from citizens past experiences in the use of local currency and the high inflation rates associated with local currencies. The paper, thus, provides some policy recommendations on how best to boost the acceptability and usability of ZiG.

Key Words: ZiG, sole legal tender, market confidence, fiscal discipline, Reserve Bank of Zimbabwe

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Introduction

This article intends to have a holistic understanding of the acceptance and usage of the ZiG currency. To measure the usage of a currency, this study employed two aspects, that is the confidence in which the people have to use it and secondly, the stability of that currency. This research provides a case study on the effectiveness of introducing a new currency to combat hyperinflation, it also offers insights into its feasibility, sheds light on factors contributing to Zimbabwe's hyperinflation, and the impact of ZiG money on stabilizing the economy. The study also provides a comparison with other countries that have experienced hyperinflation thus enriching the understanding of this economic phenomenon.

Background

Monetary history'

This article made a tremendous effort to trace the history of Zimbabwe's use of local currency dating back from 1980 so that the reader has a better imprecision of the usage of the ZiG in the market. Zimbabwe has a bleak history as far as using its local currency is concerned. When the country gained independence from its erstwhile colonizer Britain in 1980, the local currency was pegged at $1, 60 with the United States dollar (Bishop, 2020). Zimbabwean made six monetary changes to its local currency. The government's poor and mismanaged fiscal and donor fatigue which limited the support put the Reserve Bank of Zimbabwe in a precarious position and into hyperinflation. There are a lot of government policies which were done which made the local currency fall and it will be discussed in the following subheading on government policies. In 2008, Zimbabwe was ranked as having the second highest inflation in history with monthly inflation rates in mid-November 2008 reaching a rate of 79, 6 billion % (Hanke and Kwok, 2009). To restore normalcy to the market, the Reserve Bank of Zimbabwe officially devalued the local dollar at least 3 times but with no success. The market on perceiving this, resorted to dollarization and rejecting the Zimbabwean dollar. Due to the pressure of the market, the Reserve Bank of Zimbabwe towards the end of September 2008, introduced Foreign exchange licensed warehouses and shops (FOLIWARS) as a trial for 18 months to 31st March 2010 with retail and wholesale outlets licensed as foreign currency dominated shops mandated to legally sell goods and services in foreign currency (Gono, 2008).

In January 2009, the Reserve Bank of Zimbabwe through a monetary policy, allowed for the circulation of multiple currencies in the economy thereby giving up on seigniorage. Zimbabwe adopted 5 currencies, ie United States Dollar, the Euro, the United Kingdom Pound, the South African Rand, and the Botswana Pula. In 2014, this multiple foreign currency basket was expanded to include 4 other new currencies namely, the Australian Dollar, the Chinese Yuan, the Indian Rupee, and the Japanese Yuan (Reserve of Zimbabwe, 2014). It needs to be noted that, the multiple currencies brought stability to the macro economy by containing inflation as it fell to an average of 2 to 3% during the period 2009-2015 and it also helps for short-term and long-term planning (Nyarota et al, 2016). The adoption of multi-currency has its fair share of drawbacks because it erodes the obligation of the Reserve Bank of Zimbabwe to control monetary and exchange rate policies.

The Zimbabwean government to do away with the dollarization which they said made the export more expensive, introduced the bond note on 18 December 2014. This bond note according to the Zimbabwean government was backed by a US$50 million facility extended by the African Export-Import Bank (Afriximbank) (The Weekender Reader, 2023). Initially, the bond was only for coins in denominations of 1c, 5 cents, 10 cents, 25 cents, and 50 cents. Two years later, in November 2016, the Reserve Bank of Zimbabwe went on to introduce bond notes. Just like the previous Zimbabwean dollar which was devalued three times before dollarization, the Zimbabwean government went on to print more bond notes beyond their collateral limit due to a lack of frequent audits which resulted in the bond notes trading at a premium in the market as opposed to the official one on fixed-rate (ibid). This increased in lack of trust in the market for the local currency.

The Reserve Bank of Zimbabwe through Statutory Instrument 33/2019, introduced the RTGS pegged at par with the US$ (1:1 exchange rate) meaning to say if you have US$50 in your account you have 50 RTGS. RTGS refers to an electronic payment system used for settling financial transactions in real-time. This policy of having RTGS at par with the US$ was an artificial rate and was very unsustainable as the Zimbabwean economic fundamentals were not able to support it and as a result of the policy, if one gets 50 RTGS he was unable to get US$50 on the black market as the black market where the US$ was easily available had a different rate and at times it was 5 times than the official rate. This put a lot of pressure on the US$ as everyone wanted to change his/her RTGS into US$ which was a stable currency thereby creating an incentive for the black market. This further destabilises the market. In June 2019, the Zimbabwean government in their quest to have a currency of their own and to dump the US dollar, introduced the Zimbabwe local dollar (ZWL). ZWL was the new name for the RTGS dollar which was previously used as a virtual currency. The Reserve Bank of Zimbabwe through Statutory Instrument 33 of 2019, introduced the RTGS as the sole legal tender. This ZWL local currency did not manage to drive against the tide as the market was self-dollarizing and it was volatile as it lost over 70% of its value in the first three months of 2024 (The Weekender, 2024). Owing to this reason, it resulted in unbearable price growth for consumers who like the civil servants were getting their salaries in ZWL. Inflation stood at 2 647% and was the highest in the world at that time (Institute for Security Studies, 2024). The Reserve Bank of Zimbabwe on perceiving this high inflation rate was forced to adopt a new currency ZiG in 2024 to reduce inflation.

The Zimbabwe Gold money popularly known as ZiG was introduced on 5 April 2024 through the 2024 Monetary Policy Statement by the new Reserve Bank Governor John Mushayavanhu and this ZiG was being supported by Statutory Instrument (SI) 60/2024 (The Weekender, 2024). When this ZiG was introduced, it was meant to become one of the means of payment only for domestic transactions. This ZiG is said to be backed by physical gold weighing 2,522 kilograms held at vaults at the Reserve Bank of Zimbabwe which were first injected into the economy for investment purposes on the 8th day of May 2023 in addition to gold reserves, Reserve Bank of Zimbabwe backed the ZiG with reserve assets of $100 million in cash (Reserve Bank of Zimbabwe 2024). According to the Reserve Bank of Zimbabwe, this ZiG is a structured currency in that it is pegged to a specific exchange rate or currency basket. The ZWL in banks and in circulation were converted into ZiG guided by the closing interbank exchange rate and the price of gold on the day is determined by international gold prices. This then means that if one owns a gold-backed currency, one owns the physical gold it represents. Initially, the value of ZiG on the commencement of its use was 13, 5326 ZiG to US$1 and ZWL33, 905 (Business Weekly, 2024). The other characteristic of the ZiG that needs to be brought to the attention of the reader is that the ZiG was not able to buy fuel, pay for a passport, pay for duty, and other government services (ibid).

Government Policies

The bleak situation on the Zimbabwean monetary policy can be pronounced as having begun in 1997 when the government of Zimbabwe to circumvent pressure put up by war veterans in August 1997 awarded a compensation package and monthly allowances to approximately 60 000 war veterans in the tune of a value amounted to about 3% of gross product at the time (Coomer & Gstraunthaler, 2011). The amount of money distributed to war veterans was approximately equivalent to US$3000 at the time and US$125 monthly payments to each of the 60,000 war veterans (Beigut, 2015). The distribution of the money was above board and was the genesis of the hyperinflation in Zimbabwe because the money was not budgeted for and the government just printed the money. The local currency is said to have lost 74% of its value in one day and the state was forced also to default on its debt payment (Institute for Security Studies, 2024). This day was later dubbed the Black Friday.

The other reason that contributed to the loss of value of the local currency was the military adventurism of the Zimbabwean government when they sent troops to the Democratic Republic of Congo (DRC) to support the beleaguered President Laurent Kabila in September 1998. According to Kairiza (2009), it is estimated that the cost to Zimbabwe for this military adventurism could be in the range of US$1, 3 billion per month. This dented the already affected fiscus.

In addition to the above, the announcement and invasion of former white land by the black peasants on the direction of the government without a clear indication of how this was to be financed, put a strained relationship with the World Bank and the International Monetary Fund (IMF). The land reform though a noble policy, meant that the collateral value of farmland was reduced from billions of dollars to zero as the skilled farmers had their land dispossessed while the small-scale farmers were given land freely resulting in the land losing market value. This means that the new farmers unlike the white commercial farmers were unable to use their land as collateral for bank loans. The new farmers were only able to feed for themselves and were unable to feed the whole country resulting in the government having to foot the bill for imported food every year since land reform thereby putting more pressure on its dented fiscus (Bishop, 2020).

Fast forwarding to the period after the adoption of the ZiG, and with less than a year of its use, the President of Zimbabwe Emmerson Mnangagwa, addressing the commissioning of the Mutare Teachers College's fruit juice and water processing plant on July 2024, hinted that the dollarization could end in 2026 wherein the country was to adopt the Zig as the sole legal tender. He stated that:

> ***In two years, two years is too far off, but there will come a time when our ZiG currency has fully penetrated the market, then I will give a directive that the country will be using the ZiG only… Biden does not like us but you like the money from his country, does that work? So, as ZANU PF, we cannot keep using and relying on a currency that belongs to people who do not like us because one day they will try to hamper our efforts, and then we will not have a leg to stand on. That is why we now have the Zimbabwe Gold currency (ZiG), which is our currency, a currency which we were propelling. We are propelling our currency. If you go to the shops to buy with the US dollar, they will refuse it. Even those who were performing and entertaining us today, who were being given US dollar tokens, in two months' time you (they) will be given the ZiG and no US dollars because that is our currency and we should propel it (Pindula News 2024).***

Given this announcement, which also caused the two researchers to analyse the efficacy of the usage of ZiG as a sole legal currency in the market, the statement contradicted Statutory Instrument 218 of 2023 which legalises mono currency up to the 31st day of December 2030, It was promulgated to give confidence to banks who were now unwilling to lend foreign currency to borrowers after scepticism that the government would terminate, without warning, the usage of foreign currency thereby leaving them in a loss. Finance, Economic Development, and Investment Promotion Minister Mthuli Ncube indicated that:

> ***We are headed for mono currency, let's be clear about that, but we want an order. So, extension to 2030 was to create order and calm in the market (Pindula News 2024).***

The above two scenarios triggered Rand Merchant Bank (RMB) to conclude that Zimbabwe was the worst investment destination in Africa due to its history of policy inconsistency and currency fluctuations (Nehanda Radio, 2024).

Factors affecting confidence

i) Transparency

Many factors affect the confidence people have in a currency and one of them is transparency. Transparency helps have clear and accessible information which helps to hold monetary institutions accountable for their actions and this increases confidence in which the people have in the usage of a currency. In the Zimbabwean scenario, the central bank is not transparent in that the new ZiG currency is backed by gold because if it is truly backed by gold, why is it that while the price of gold has increased by 28% hitting just over $590 an ounce, the ZiG has been devalued by 44% (Langa, 2024). Chipinda (2024) quoted John Mushayavanhu who stated that the "Bond note was never backed by anything" which is contrary to what the Reserve Bank of Zimbabwe at the time was voicing that it was backed by an Afreximbank loan facility and this lack of transparency on the part of the government pose a danger in that the people will shy any future local currency in favour of foreign currency. Transparency also entails that the government promotes the same currency by fully adopting it rather than making other services exclusively priced in US$ and threatening arrests and closure of those businesses that refuse the ZiG. This has not helped to instill public confidence in the currency as there is a lack of transparency on the part of the government. The question which the public would question is why if the government does not accept its currency, why should the public be coerced to use that currency? The other issue on transparency on the Zimbabwean issue is that the state has enacted statutory instruments to shield parastatals from public scrutiny which undermines public trust in the financial governance.

ii) Trust

The second factor affecting confidence in the use of a currency is trust. Since ancient times, trust sustained money and before the use of money, human beings used cowrie shells, grain livestock, and gold in exchange for goods and services, with the major underlying pillar factor trust which formed the construct between the citizen and the government as Harari (2014, p. 12) stated that,

> ***In other words, money isn't a material reality-it is a psychological construct. Money is not coins and banknotes. Money is anything that people are willing to use to represent systematically the value of other things to exchange goods and services.***

Ncube (2024) concurs with this by stating that only 8% of the world's money exists in notes and coins with the bulk of it existing in computer servers as a trust which is binding this fiction together. As such, for the social construct to hold, all stakeholders must be willing to go along with consent, not by decree. Therefore, trust is an important factor in the confidence that people have in the use of any currency. If they do not trust the currency, they are more likely not to have confidence in its use.

iii) Stability of the currency

The third acceptance of the confidence of the citizens that they have in a currency is the stability of the currency. If the currency is susceptible to inflation pressure then the citizens shun that currency for a stronger currency as a store of the value of their money. Chipinda (2024) stated that in Zimbabwe, very few people care or know what backs the US$ but they perceive it as a reliable medium of exchange and store value. In Zimbabwe, 70% of all transactions are made in US$ while only 30% are made in local currencies and this shows that the stability factor plays a critical role in determining the confidence that the people have in a currency. Mundell (1998 p. >) quoted Thomas Gresham who stated that "bad money drives out good money" as everyone wants to get rid of a less stable currency for a stronger currency.

Literature Review

Philip Cagan's *The Monetary Dynamics of Hyperinflation* of 1956 is the first work to spell out the root causes and effects of hyperinflation with mathematical rigor (Conkling, 2010). Countries on the losing side of World War I, such as Austria and Hungary, were obligated by the Allied Forces to pay repatriation. Resultantly, Austria and Hungary used high debt and tax enforcement models to finance the state. Austria and Hungary had much of their agricultural land being taken and this resulted in heavy reliance on food imports thereby depleting their foreign reserves (Conkling, 2010). To solve this problem, the two countries, like other countries in the same predicament, used money printing machines to finance government expenditure thereby decreasing real cash balances resulting in hyperinflation.

Austria and Hungary were able to overcome this hyperinflation within a few years by thoroughly redesigning their monetary systems under the guidance of the League of Nations which made these two countries create independent central banks and a fully backed currency that was financed by reparations debts along with international reconstruction loans. Conkling (2010) asserts that in the Zimbabwean scenario, the country is not able to deal with hyperinflation in the way Austria and Hungary did in the sense that Austria and Hungary were bailed by their neighbours who did not want to see a collapsed neighbour. Zimbabwean neighbouring states do not have the resources to implement such programs while the Western nations who have the means to fund are not eager to fully devote themselves to reconstruction.

Venezuela, with its substantial oil resources, was booming after World War I as the oil boom of the 1920s made Venezuela the wealthiest state in Latin America and its oil exports continued to increase sharply until 1935 (MacKinnon, 2024). Venezuela is one of the countries that has been affected by hyperinflation and Nicholas Maduro, the President, was forced in 2016 to declare a state of emergency after the inflation rate hit 800% in 2018. The inflation rate is estimated at 80 000% (Carmody, 2019). By tracing the problem that culminated in this hyperinflation, the global price of oil dropped in 1973 and 1979 which resulted in the Venezuelan Bolivar which heavily depended on oil exports crashing (Kulesza, 2017). The government's response was to print more money as "Maduro made the central bank his personal minting ministry, in a country where the constitution establishes an independent central bank," (Monaldi, 2016 p. >). This worsened the situation because it resulted in too much money chasing too few goods on the market which causes prices to rise.

Venezuelans reacted to the economic challenges by converting their savings into a stable US Dollar (US$) while on the other hand, the government responded by controlling the exchange rate to stop the official value of the Bolivar from dropping against the US$ and they made it difficult to get permission to exchange Bolivares into US$ (Monaldi, 2016 p. >). The black market flourished and it created a difference in the exchange rate for the official rate set by the government and the other one for the black market. Carmody (2019, p.12) stated that by 2018, the Bolivar currency was worthless and that "it was more prudent to use cash for toilet paper rather than buy toilet paper." The government also devalued the Bolivar by 95% which was a world record for restoring the value of the currency and it also tied the price of oil to the new currency in an experiment designed to show the citizens that the economy has now solid foundations but the citizens were not convinced to relinquish the US$ for the Bolivar citing that policies which were contributing to low productivity were not addressed (Haussmann & Rodriguez, 2014). Venezuela, at the time of the study was still in the middle of hyperinflation since December 2017 and suffered the worst hyperinflation on the planet in 2023 (MacKinnon, 2024).

Before the Great Depression in 1930, Argentina was ranked among the wealthiest nations, and at the end of World War II, the Argentine Peso was one of the most stable currencies in the world alongside the British Pound and the US Dollar (USD$) (MacKinnon, 2024). Ocampo (2021) stated that Argentina since 1945 has consistently led global inflation rankings and until the early 1990s, it shared the distinction with other South American countries such as Brazil, Bolivia, Chile, Uruguay, Venezuela, and Peru. In 2020, Argentina was reported to have a fiscal deficit of 8,5% of Gross Domestic Product which limited access to debt financing locally and internationally which led to analytics to predict Argentina heading to a 3-digit modern hyperinflation (Iprofessional, 2020).

In Argentina, the government is blamed for regularly intervening in foreign exchange and imposing strict controls on capital movements. In 1946, Juan Domingo Peron when elected into power introduced a policy of radical protectionism which means that the state becomes the key decision-makers in the allocation of resources which resulted in government deficits being funded by the central bank (MacKinnon, 2024). Peron tripled state expenditure and by the time he was ousted a second time in 1955, he had doubled state employees and he would print money thus stocking inflation (ibid). Peron's reign's policies triggered an inflation rate of 300% in just 6 years to the end of his first term in 1951 which earned him the dubious honour of being called an "economic gravedigger." (ibid). From 1992- 1999, Carlos Menem who became the President also increased state expenditure by 50% which also resulted in 2001 the country's debt amounting to a whopping $160 billion, and in December 2001, the country was declared bankrupt (ibid).

Methodology

This research used a qualitative research approach. The target population for this research was all residents of Chinhoyi town 18 years and above. The sampling method used was convenience sampling because every one of the population uses and has information on the usage of ZiG. Primary data methods used were Focus group discussion, questionnaire, and observation. In addition to primary data, secondary data was also used to compliment the data obtained from primary data. Secondary data was obtained from journals, newspapers, bulletins, and Reserve Bank question-and-answer documents. There were key respondents in this study and were used for their expertise and are 3 inance lecturers at Chinhoyi University of Technology (CUT) and 7 bank tellers and managers at Post Office Savings Bank (POSB), Central African Building Society (CABS) and ZB Bank. Information from these key informants was obtained through the use of an open-ended questionnaire.

There were four focus group discussions selected, one consisting of seven beer patrons at Tikwiri business centre, ten women at the Chinhoyi Agriculture marketplace rank area, 11 students at Chinhoyi University of Technology (CUT), and seven black marketers at the 24-hour centre in Chinhoyi town centre. In addition to focus group discussions and questionnaires from key informants, the researchers also used observation to gather data. The observations were done at the 24-hour area in town where black marketers are changing local currency to US$ and *vice versa* to people coming to do transactions. In adopting this small sample, the researchers recognised that data had been saturated at some point as further acquisition of data was unnecessary as it does not add anything to the existing findings.

In qualitative research, data saturation is achieved when the researchers find out that no more patterns and themes are being gained by further carrying out the research. Data was analysed through the use of thematic content analysis which is a method that is used to identify, analyse, and interpret patterns within qualitative data. Having laid the groundwork for methodological parameters in which the study was employed, the focus now is shifted to a discussion of its findings.

Results

Public confidence in government policies has significantly diminished due to pervasive mistrust. One respondent, via questionnaire, remarked:

> *Political legitimacy issues arising from contested elections dating back to the early 2000s, policy inconsistencies where the same government implements and subsequently reverses statutory instruments within a short timeframe, and the absence of transparency, accountability, and widespread corruption by public officials, all contribute to a persistent lack of public confidence in government* (Respondent 4).

This sentiment is echoed by The *Weekender Reader* (2024), which notes that each time a new currency is introduced, the public tends to lose the monetary value of their deposits and savings. A notable example is the 2019 issuance of Statutory Instrument 33/2019 by the Reserve Bank of Zimbabwe (RBZ), which equated United States dollar balances to a new local currency, leading to significant financial losses for many citizens. As a result of such precedents, public trust in government-led monetary policy has eroded. Consequently, many citizens, especially those in the informal sector, have resorted to storing cash at home, a practice colloquially referred to as 'pillowcase or mattress banking'. A striking 95% of research respondents indicated a lack of confidence in the government and expressed scepticism about the viability of the newly introduced ZiG currency.

For any currency to gain legitimacy and function effectively, there must be a constructive relationship between political and economic institutions. Political stability and legitimacy are essential to support economic policy. However, in Zimbabwe, the opposite appears true. According to a focus group respondent, public participation in policymaking, which could inform, evaluate, and legitimise such policies is virtually non-existent:

> *Citizen participation is vital because it ensures legitimacy and public acceptance of government policies. In Zimbabwe, however, policies are developed using top-down approaches, effectively coercing the public into compliance, which in turn fosters resentment rather than acceptance* (Respondent 11).

This viewpoint aligns with analysis by the Institute for Security Studies (2024), which criticises the lack of public consultation in introducing the ZiG currency. The process, described as opaque and secretive, has further fuelled public suspicion that the government lacks sufficient gold reserves to back the new currency. Economist, Gift Mugano, challenged official claims from the Reserve Bank of Zimbabwe, asserting that the bank holds merely 2.5 tonnes of gold and foreign exchange reserves valued at $100 million, an amount sufficient for only 11 days of imports. Mugano contends that at least $4.5 billion would be necessary to sustain a six-month import cover, contrary to the central bank's claim of a three-month buffer (Langa, 2024).

Additional issues identified through questionnaires and focus group discussions pertain to the rejection of ZiG in retail transactions. Several shops, allegedly citing malfunctioning point-of-sale systems, have preferred transactions in US dollars. For instance, *Bulawayo News 24* (2024) reported that Green Gardens and Oceans supermarkets in Bulawayo refused to accept payments in ZiG, despite the existence of Statutory Instrument 81A/2024, which imposed a ZiG200,000 fine for such violations. Similarly, in Masvingo, Nyaningwe Supermarket and Bhola Hypermarket were also reported to be refusing to accept payments in ZiG (*Zim GBC News, 2024*).

Field research conducted in Chinhoyi revealed that only major supermarkets such as Pick n Pay, OK Zimbabwe, and Farm & City accepted payments in ZiG, whereas the majority of retail outlets, including those selling food, clothing, and construction materials, insisted on US dollar payments. At the Chinhoyi transport rank, including nearby fuel stations, US dollars were predominantly demanded. This disparity indicates a lack of uniformity in government enforcement and undermines efforts to promote confidence in the local currency. When the state selectively permits transactions in foreign currencies for essential commodities such as fuel, it signals its own doubt regarding the resilience and credibility of its currency.

If the government seeks to restore trust, it must adopt consistent and transparent monetary policies. Furthermore, the mandatory use of local currency for all transactions, including tax payments and fuel, would demonstrate genuine confidence in the ZiG and help rebuild public belief in its value and stability.

Public Concerns Over Monetary Discipline and the ZiG Currency

Some respondents in this study expressed scepticism regarding the sustainability of the new ZiG currency, despite assurances that it is backed by natural gold and foreign currency reserves. They emphasised that the government must demonstrate fiscal prudence and allow the RBZ to regulate the supply of ZiG responsibly. The RBZ historically has faced criticism for excessive money printing, which has resulted in an oversupply of local currency, depreciation against the US dollar, and high inflation.

According to Alafarika for Studies and Consultancy (2024), a similar scenario unfolded in 2014 when the RBZ introduced bond notes under the pretext that they were supported by a US$50 million facility from the African Export-Import Bank (Afreximbank). However, the RBZ exceeded this limit by persistently printing additional bond notes without regular, independent audits. These funds primarily facilitated government expenditure, and as a result, bond notes began trading at a premium in parallel markets, diverging significantly from official rates.

Focus group participants, particularly black-market currency traders at the 24-Hour Centre in Chinhoyi, alleged that they frequently received bond notes and mobile money in Zimbabwean dollars from senior government officials and ZANU-PF Politburo members to purchase foreign currency. Such practices suggest that the RBZ was complicit in fuelling informal currency markets, thereby undermining its credibility.

Given this history, many citizens remain unconvinced that the RBZ possesses the institutional discipline to manage the ZiG effectively. Respondents voiced concerns about the continued absence of independent audits verifying the amount of gold reserves relative to the ZiG currency in circulation. One student from the Chinhoyi University of Technology (CUT) remarked, "*The ZiG will suffer the same way as other local currencies suffer*" (Respondent 16).

These anxieties are compounded by reports of rampant corruption and illicit gold outflows, which further weaken confidence in the system. Without stringent mechanisms to protect national gold reserves and ensure transparency, any claims about the gold-backed nature of the ZiG become questionable. The *Weekender Reader* (2024) warns that the government's past behaviour, characterised by unchecked money printing and inadequate gold reserve management, may reoccur. If this trend continues, the government may again resort to excessive money issuance to offset smuggled gold losses, thereby undermining the stability of the ZiG.

Exchange Rate Challenges and Dual Currency Market

A significant number of respondents in this study identified the exchange rate as the most contentious issue concerning the implementation of the ZiG currency. Their scepticism stems from historical experiences, where similar assurances were made regarding previous local currencies, such as the bond note, which were purportedly backed by credit facilities but ultimately succumbed to hyperinflation and currency collapse.

When the government introduced the ZiG, it declared that the exchange rate would be determined by market forces, specifically, the interbank 'willing buyer, willing seller' framework, with the RBZ intervening only to stabilise any major imbalances. However, respondents expressed concerns that this commitment is inconsistent with historical precedents, where similar promises were later undermined by state interventions and manipulation.

Officially, the government has pegged the exchange rate at ZiG13.75 to US$1. However, observational research conducted by the authors in Chinhoyi town, particularly at the 24-Hour Centre, revealed that the black-market rate is significantly different, hovering around ZiG25 per US$1. This discrepancy highlights the existence of a de facto dual exchange rate system. Citizens frequently resort to the parallel market due to limited access to foreign currency through official banking channels.

Despite the government's stipulation under Statutory Instrument 142/2019, that only banks are authorised to conduct foreign currency exchanges, field visits to commercial banks such as CABS, POSB, and ZB Bank revealed that they were unable to provide foreign currency in exchange for ZiG. As a result, individuals are forced into informal markets, often at personal risk, fearing arrest for engaging in what is technically illegal activity.

Respondents noted that this dual rate system reflects a deeper lack of confidence in the ZiG. People are eager to convert ZiG into more stable foreign currency, perceiving it as a more reliable store of value. Moreover, this disparity between official and parallel market rates is exacerbated by the RBZ's apparent deviation from its own policy, where instead of allowing market forces to determine the exchange rate, the central bank appears to be enforcing an artificial peg.

Further compounding the issue is the limited availability of physical ZiG notes. A respondent at a local agricultural market observed that this shortage has led to differing valuations between ZiG notes and electronic ZiG balances. For example, the cash version of ZiG was reportedly being exchanged at a rate of ZiG20 per US$1, as opposed to the digital rate of ZiG25. This scarcity also affects daily transactions. One student from Chinhoyi University of Technology (CUT) noted, "*Due to difficulties in accessing ZiG notes, transport which was charging 50 cents US$ before the adoption of ZiG is now charging US$1*" (Respondent 20). This reflects the inflationary pressures and transactional inefficiencies created by inconsistent currency availability. These dynamics reveal structural weaknesses in the exchange regime and suggest a continued erosion of public trust in monetary authorities. Without credible enforcement of a market-based exchange rate system and the widespread availability of the local currency, the ZiG is unlikely to gain the traction or stability required to function as a legitimate national tender.

Critique of Gold-Backed Currency: Economic viability and government credibility

One respondent, a banker, participating through a questionnaire, criticised the notion of backing a currency with gold or any other precious metal, describing it as an "archaic method" (Respondent 11). They argued that such an approach is obsolete in modern monetary systems, as the global price of gold is volatile, and any decline in its value could lead to a corresponding weakening of the currency it backs. Furthermore, the respondent cautioned that adopting a gold standard does not constrain a government historically prone to currency manipulation, as the same authorities retain full control over how much gold is actually allocated to support the currency.

Alafarika for Studies and Consultancy (2024) supported this critique, noting that while commodity-pegged currencies may have functioned effectively in the 1850s, today's economies are significantly more complex. The stability of a currency now depends on broader factors, including credit systems, international trade dynamics, and government fiscal responsibility. The institution concluded that pegging a currency to gold may offer symbolic reassurance but contains inherent structural weaknesses, as no commodity can independently dictate the trajectory of a currency's value in a modern economy.

Hungwe (2014) reinforces this perspective by highlighting the global shift to fiat currency systems, wherein the value of money is not linked to any physical commodity. Instead, central banks regulate the money supply through monetary tools such as interest rates and reserve requirements to maintain economic stability. Referenced was the British Pound as a free-floating currency influenced by market dynamics rather than gold reserves. Similarly, the value of the United States dollar was upheld by the government's capacity to generate revenue through taxation and debt instruments, as well as its power to enforce usage of its currency globally.

The respondent further suggested that Zimbabwe's attempt to back the ZiG with gold parallels Venezuela's failed effort to stabilise its currency, the Bolivar—by linking it to oil. In Venezuela's case, citizens rejected the new Bolivar, favouring the US dollar instead. The Zimbabwean strategy may thus be perceived as a superficial effort to project stability while ignoring structural deficiencies.

Mbofana (2024a) argued that claims by Zimbabwean authorities that the ZiG is genuinely backed by gold are misleading. He asserts a clear mismatch between official statements and empirical realities. Notably, while the government had previously stated that the bond note was supported by a facility from Afreximbank, the newly appointed RBZ Governor, Mushayavanhu, later admitted that the bond note had no real backing, a revelation that contributed to the note's collapse. Mbofana suggests that similar tactics are now being used to mislead citizens regarding the true nature of the ZiG. Moreover, Mbofana (2024b) highlights that the government's insistence on promoting the local currency is not necessarily rooted in national economic interests but may be driven by opportunities for arbitrage. According to this view, politically connected individuals gain preferential access to foreign currency at official rates and later resell it on the black market for substantial profits, exploiting the discrepancies between formal and informal exchange rates.

This combination of institutional mistrust, opaque monetary policy, and historical precedent casts doubt on the sustainability and authenticity of Zimbabwe's gold-backed currency claims. Unless independently verified audits and transparent monetary governance mechanisms are instituted, public confidence in the ZiG is unlikely to improve.

Government's role in undermining demand for the ZiG

A recurring theme among respondents was the government's failure to generate sufficient demand for the ZiG currency. A lecturer from CUT, responding via an open-ended questionnaire, observed that the government itself appears to lack confidence in the ZiG. The lecturer remarked:

> *The same government that is campaigning for the ZiG to be accepted as the sole legal tender continues to demand payment in US dollars for key services such as fuel, passports, customs duty, and other essential services. This sends a contradictory message to the public* (Respondent 6).

The observation highlights a structural inconsistency in the government's monetary policy. If the state, which serves as the largest economic agent in the country, does not prioritise use of the local currency in public transactions, it weakens the credibility and utility of the currency in the broader economy. Mbofana (2024) supports this criticism, questioning how Zimbabwe's economy can achieve stability when the government itself actively undermines the currency it seeks to promote. He argues that the state's dual pricing practices are tantamount to 'currency sabotage', eroding the public's willingness to hold or transact in ZiG. The *Weekender Reader* (2024) added that for the ZiG to become a widely accepted and stable medium of exchange, the government should permit, and even mandate, that 100% of payments for public goods and services be made in ZiG. Doing so would create organic demand and integrate the currency into everyday transactions, ultimately increasing its legitimacy and perceived stability. A respondent at Tikwiri shops, participating in a focus group discussion, summarised public sentiment by stating:

> *How can you trust money which the same government refuses to accept for services they claim are most important? This money is useless, just like the bond note, and is doomed to fail from its inception* (Respondent 7).

The responses reflect a broader issue: currency acceptance depends not only on policy rhetoric but also on practical implementation. By continuing to transact in US dollars for high-demand government services, the state inadvertently signals to the population that the ZiG is unreliable. This dissonance undermines policy objectives and contributes to the persistence of a dual currency economy.

Lack of economic diversification to support the local currency

A finance lecturer at CUT, responding to the questionnaire, highlighted the critical role of economic diversification in sustaining a stable local currency. The lecturer asserted that:

> *For a local currency to gain public trust and demonstrate resilience, the economy must diversify beyond reliance on primary sectors. In Zimbabwe's case, dependence on mining and agriculture alone is insufficient to support the ZiG* (Respondent 9).

Zimbabwe's economy historically has relied on the extractive and agricultural sectors, both of which are vulnerable to external shocks such as climate variability, fluctuating commodity prices, and geopolitical influences. While these sectors can generate foreign currency inflows, they are inherently unstable and offer limited insulation against macroeconomic volatility. The lecturer argued that without expansion into value-added industries, services, manufacturing, and technology, the country's monetary system lacks the structural foundation necessary to instil confidence in the ZiG. This view was echoed by the majority of respondents in the study, who expressed scepticism regarding the viability of the ZiG as a sole legal tender. Many noted that a currency cannot maintain strength or public confidence without a robust and diverse economic base capable of absorbing external shocks and generating consistent revenue.

A diversified economy enables governments to broaden their tax base, mitigate dependency on a few export commodities, and ensure more sustainable growth. As *The Weekender Reader* (2024) noted in a parallel analysis, economies with broader income-generating sectors are better positioned to stabilise their currencies and protect against inflationary pressures, particularly when introducing or sustaining a fiat currency regime. Thus, without deliberate investment in industrial development, innovation, and export diversification, the ZiG may remain vulnerable, both in perception and reality, failing to meet the public's expectations for monetary stability.

Independence of the Central Bank

One of the key impediments to the acceptance and effectiveness of the ZiG currency is the lack of independence of the RBZ from direct governmental control. This concern was consistently raised during focus group discussions. A student at CUT remarked:

> *The RBZ is not independent of government influence. Whenever the government faces fiscal pressures, it directs the RBZ to print money indiscriminately, disregarding whether there are adequate commodity reserves to back the currency* (Respondent 3).

The perception reflects a broader scepticism about the central bank's ability to implement objective and disciplined monetary policy. In a functional monetary system, central banks are expected to operate autonomously, making data-driven decisions aimed at promoting price stability, sustainable growth, and investor confidence. However, in Zimbabwe, the central bank is often perceived as an extension of executive power, frequently responding to political rather than economic imperatives.

Ncube (2024) emphasising this concern pointed out that structural issues within the country's monetary governance framework. Ncube cites the politically sensitive appointment of Kudakwashe Mnangagwa, the President's son, as Deputy Minister of Finance, and highlights allegations by Christopher Mutsvangwa that gold was stolen from RBZ vaults during former President Mugabe's tenure. The RBZ Governor is appointed by the President in consultation with the Ministry of Finance, further signalling a close alignment between political leadership and central banking, an arrangement that compromises the credibility and neutrality of monetary policy decisions.

Comparative international cases provide compelling evidence for the importance of central bank independence. Venezuela and Argentina, for example, experienced severe hyperinflation largely due to excessive government interference in monetary policy and unchecked money printing. In contrast, countries such as Austria, Hungary, Israel, and Poland successfully managed to de-dollarise and restore monetary sovereignty largely due to their institutionalised central bank independence, which enabled them to control inflation and foster economic stability.

If Zimbabwe is to restore confidence in the ZiG and stabilise its monetary system, a critical step must, therefore, involve the legal and functional insulation of the RBZ from political interference. Without this, the public will remain doubtful of the central bank's ability to resist inflationary financing and manage the currency in the national rather than partisan interest.

Conclusion

This study established that public confidence in the ZiG currency, as a sole legal tender in Zimbabwe, is critically low. This scepticism is deeply rooted in historical experiences with previous local currencies, which were marked by hyperinflation, sudden redenominations, and substantial losses of personal savings. These past monetary failures continue to shape public attitudes and undermine trust in any new domestic currency.

The findings also suggest that the introduction of the ZiG does not presently offer a viable long-term solution to Zimbabwe's currency challenges. The foundational economic conditions required for a standalone currency, such as strong foreign exchange reserves, diversified revenue streams, and sound fiscal governance, remain unfulfilled. For the ZiG to gain credibility, the government must first establish robust and competitive export sectors and accumulate sufficient foreign reserves to legitimately support the currency.

The research further indicates that one of the primary causes of currency instability is the government's habitual resort to excessive money printing. This practice, typically undertaken to meet fiscal obligations, floods the market with local currency without corresponding increases in production or reserves. The result is an inflationary environment where local currency competes for limited foreign currency, leading to exchange rate volatility. A key factor enabling this trend is the absence of independent oversight mechanisms, particularly an autonomous Reserve Bank. As evidenced by the experiences of Venezuela, Argentina, and Zimbabwe's own hyperinflationary episode under Gideon Gono, central bank subservience to the executive weakens monetary discipline.

In addition, the study found that pegging the ZiG to gold does not inherently resolve these structural challenges. The international price of gold is highly volatile, and Zimbabwe's limited gold reserves, coupled with fiscal indiscipline and an undiversified economy, severely constrain the efficacy of a gold-backed model. As in Venezuela, where the Bolivar was pegged to oil, the failure to account for commodity price shocks and fiscal mismanagement led to rapid currency devaluation. Furthermore, there is evidence that the introduction of the ZiG has been accompanied by policy contradictions. While the government promotes the ZiG as the national currency, it simultaneously mandates that essential services such as fuel, passports, and vehicle import duties be paid in US dollars. This inconsistency signals to the public that even the government lacks faith in its own currency, further eroding its legitimacy and utility.

It is therefore concluded that the ZiG is, in effect, a rebranded version of the failed bond note, merely adjusted to appear more credible through redenomination and the superficial promise of a gold peg. As admitted by the Reserve Bank Governor Mushayavanhu regarding the bond note, the currency was not in fact backed by the Afreximbank facility as previously claimed. The same pattern appears to be repeating with the ZiG, creating a perception of deception rather than economic reform.

In summary, Zimbabwe's attempt to de-dollarise has largely followed the trajectory of other failed currency experiments. Rather than rebuilding confidence through structural reforms, the state has relied on administrative enforcement without addressing the core instabilities that led to dollarisation in the first place. Until there is genuine institutional reform, enhanced central bank independence, fiscal discipline, and economic diversification, the ZiG is unlikely to achieve sustained acceptance or stability.

Recommendations

In light of the study's findings and conclusions, the following recommendations are proposed to strengthen Zimbabwe's monetary framework and enhance the credibility of the ZiG currency:

- *Adopt a formal dual currency system:*

The government should institutionalise a dual currency regime that allows both the ZiG and foreign currencies, particularly the US dollar, to circulate concurrently. This flexibility would enable market participants to choose their preferred currency, thereby reducing economic shocks and fostering gradual confidence-building in the local currency.

- *Enhance transparency and consistency in monetary policy:*

Public trust can be restored through regular, clear communication regarding monetary and fiscal policy decisions. Furthermore, to drive demand for the ZiG, it is critical that all government services, including fuel, passport issuance, and import duties, be paid exclusively in the local currency. Mixed pricing signals currently undermine confidence and discourage local currency use.

- *Ensure central bank independence:*

The Reserve Bank of Zimbabwe must be structurally and functionally independent from the executive arm of government. Autonomy in policy-making would allow the central bank to implement robust monetary controls, particularly limiting excessive money printing and curbing unsustainable government borrowing. Such reforms are essential for stabilising inflation and safeguarding the long-term value of the ZiG.

- *Combat corruption and improve governance:*

Addressing corruption is imperative, as it significantly undermines economic stability and public confidence in monetary institutions. Anti-corruption measures, along with improved financial accountability, will enhance the institutional credibility necessary for currency acceptance.

- *Strengthen foreign currency reserves:*

The government and the RBZ should focus on building foreign reserves to support the ZiG and provide a stabilisation buffer in the foreign exchange market. This can be achieved by:

- *Promoting export growth in key sectors such as mining and agriculture.*
- *Enhancing remittance flows from the Zimbabwean diaspora by offering incentives or improved transaction infrastructure.*

Pursue economic diversification:

To reduce vulnerability to commodity price shocks, the economy must diversify beyond mining and agriculture. Investments should be channelled into emerging sectors such as tourism, technology, and services. These industries offer more stable revenue streams and can protect the currency from fluctuations in international commodity markets.

- *Explore regional monetary integration:*

Zimbabwe should consider long-term options such as joining the Common Monetary Area (CMA) or aligning with the Rand Monetary Zone. Member countries like South Africa, Namibia, Lesotho, and Eswatini operate under a more stable, well-managed currency system. Regional integration may offer monetary stability, reduced inflationary risk, and increased investor confidence.

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