

THE WEEKEND READER

"Your Weekly Read on Debt, Development & Socio-Economic Justice"

DEMYSTIFYING THE RECENTLY INTRODUCED ZIMBABWE GOLD-BACKED TOKENS (ZIG)

In line with the resolutions of the Monetary Policy Committee (MPC) meeting held on the 26th of September 2023, the Governor of the Reserve Bank of Zimbabwe (RBZ) announced that with effect from the 5th of October 2023, Zimbabwe Gold-Backed Digital Token (ZiG) will become one of the means of payment for domestic transactions. According to the Bank, the tokens are fully backed by physical gold held in its vaults. These tokens (e-gold cards/ wallets) were first injected into the economy for investment purposes on the 8th of May 2023.

The latest announcement means that in addition to value-preservation purposes, the tokens have become legal tender (currency) where they are now tradable and capable of facilitating person-to-person (P2P) and person-to-business (P2B) transactions and settlements. The ZiG value is at par with the value of the physical gold coin while the value is informed by international gold prices and banks will intermediate ZiG transactions in the same way they are intermediating ZWL or USD transactions.

Gold Tokenization

Gold tokenization is the process of creating a token that represents a specific amount of gold, with the token's value and ownership directly corresponding one-to-one with the value of the physical gold it represents.¹ It operates on the premise that the use of technology such as distributed ledger technology (block-chains) enables the conversion of real-life tangible assets such as gold into digital tokens representing them. These can be further split into fractions, meaning that everyone can own a part of the asset they are keen on without possessing a large financial capital.

In simple terms, if one owns a Zimbabwe gold-backed digital token (ZiG), they own the physical gold it represents and they can move it around with a click of a button instead of a truck and do so in seconds instead of several days. So, tokenized gold is an inclusive asset that expands citizens' access to precious gold while also facilitating increased liquidity, faster settlement and lower costs.

Government Policy Response

The latest consumer spending patterns estimated by the national statistics agency, ZimStat, show that 80% of transactions are now being conducted in USD. The economy is rapidly dollarizing. However, many medium-to-long-term costs than benefits come with increased USD use in a small, developing and open economy like Zimbabwe.²

¹<https://paxos.com/2022/08/31/gold-is-a-prime-asset-for-tokenization/>

² An economy where not only domestic factors but also entities in other countries engage in trade of products.

So, to help stabilize the ZWL and de-dollarize the economy, the monetary authority (RBZ) has tried to implement a myriad of policy actions including the enactment of an infamous ban on all commercial bank lending and the introduction of gold instruments. The latter were first introduced as physical gold coins in July 2022 and are largely being sold in ZWLs.

The gold coins' act as alternative investment instruments seeking to curtail the domestic demand for the USD as well as mop up excess ZWLs circulating in the system. However, the failure of these gold coins to arrest prevailing elevated ZWL depreciation pressures led to the introduction of gold-backed digital tokens in the first half of 2023 (1HY23). Hypothetically, these gold-backed digital tokens complement physical gold coins in deepening Zimbabwe's shallow financial markets, increasing economy-wide payment methods, slowing the re-dollarization of the economy and strengthening the local unit.

ZiG Prospects

Zimbabwe has one of the largest gold reserves on the continent and the yellow metal represents a stable asset class. Even if it experiences some cyclical fluctuations, it is generally known to return to value after downturns and remains an enduring haven for storing value. So, it is better to have a currency backed by gold reserves kept in the vaults of a nation's central bank where it has greater access & control than holding forex reserves which are sometimes held in foreign bank accounts and prone to political interference.

To extract the maximum benefit from ZiG, RBZ must also adopt advanced technologies that guarantee transparency and efficiency of transactions and are even difficult to disrupt. Further, advanced technology ensures that all transactions are relatively safely recorded as no documents can be falsified since all data is immutable, meaning it cannot be modified by any person. This will circumvent the dangers of reliance on centralized traditional database systems that are highly prone to manipulation, may be hacked and are susceptible to genuine human error.

Furthermore, this tokenization initiative will require frequent auditing of gold reserves in RBZ vaults by reputable and independent audit institutions. This will help avoid prior experiences with bond coins which were introduced in 2014. The RBZ introduced the bond coins on the pretext that they were supported by a US\$50 million facility extended by the African Export-Import Bank (Afreximbank). The bond notes were later introduced as export incentives.

However, over time, it emerged that authorities minted the coins & printed bond notes beyond their collateral limit due to a lack of frequent audits. These bond coins & notes ended up trading at a premium in the market as opposed to the official one-to-one fixed rate. So, if there are no trusted, independent audits of the quantum of gold reserves in vaults versus issued digital tokens circulating in the system, the tokens risk suffering the same fate as bond coins. More so, there is a great need to guard against gold leakages caused by theft and fraud.

ZiG Challenges

In reality, the use of gold or its variants will likely fail to ameliorate the fragility of the local currency mainly due to dwindling market confidence and trust in the government & its institutions.

This is largely emanating from ongoing political legitimacy issues caused by recent electoral disputes, inconsistencies in policymaking & policy implementation and a lack of transparency and accountability & rising corruption by public officials. Zimbabwe also lacks adequate infrastructure to support advanced technologies which are key in ensuring gold production tracking & monitoring to minimize chances of gold leakages and illicit trading. These rampant illicit flows are militating against the accumulation of gold reserves which are crucial in supporting the value of gold e-cards/ wallets.

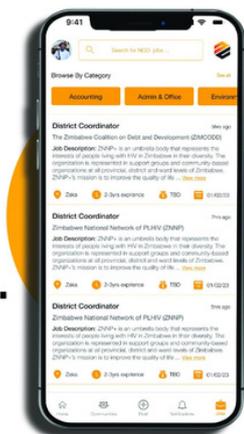
As such, ZiG risks compounding existing economic problems of exchange rate multiplicity which is fueling excessive rent-seeking behaviors and round-trip transactions. ZWL stability will not come from increasing payment methods but from instituting confidence-building measures such as embracing sustainable and inclusive policies & reforms to revamp the existing legal & institutional framework, strengthen democracy, increase government efficiency, provide strong social safety nets, and subdue existing market pricing distortions.

OPPORTUNITIES



**Discover
NGO Jobs
& other
opportunities.**

Download this app on:



Download the CitizenApp:

Android:

<https://play.google.com/store/apps/details?id=com.CitizenApp>

iOS: <https://apps.apple.com/zw/app/citizen>

For more info visit: www.zimcizen.app