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The 20% Hurdle — and Why Borrowing Costs Double That

What capital actually costs in Zimbabwe in US-dollar terms, why the figure is so often miscalculated, and what the gap between the theoretical hurdle and real borrowing rates reveals.

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This report is educational economic analysis. It is not investment, financial, or business advice, and it does not recommend any specific transaction, security, or financing decision. Figures are dated and sourced; the cost-of-capital estimates are model-based and carry the stated limitations. Decisions should reflect your own circumstances and, where appropriate, professional advice.

Keywords: cost of capital; cost of equity; country risk premium; equity risk premium; hurdle rate; lending rates; dollarisation; Damodaran; Reserve Bank of Zimbabwe; Zimbabwe.

Executive Summary — the hurdle is about 20%, the market charges double

"What does capital cost in Zimbabwe?" is a question every business, lender and investor answers implicitly every time they price a deal — and most answer it wrongly, in one of two directions. This report builds the number from the ground up using the standard international method (Damodaran's country-risk framework), states it plainly, and sets it against what borrowing actually costs at the bank. The method is a transparent build-up of the US-dollar cost of equity, a correction of the most common practitioner error, and a comparison against official Reserve Bank of Zimbabwe lending rates.

1. **The USD hurdle is about 20%.** Building up from a US risk-free rate of 4.3%, a mature-market equity risk premium of 4.2%, and Zimbabwe's country risk premium of 11.7% (Damodaran, January 2026) gives a US-dollar cost of equity of about 20.2%. In plain terms: a project must clear roughly 20% in hard-currency return just to compensate for risk.
2. **The most common error overstates it to ~32%.** Adding the country risk premium twice — once inside the equity risk premium and again on top — inflates the hurdle to about 31.8%. This double-count is widespread and makes viable projects look unviable; the report shows how to avoid it.
3. **Actual borrowing costs roughly double the hurdle.** The RBZ's policy rate is 35% and the weighted bank lending rate was about 43.6% in January 2026 — more than twice the ~20% theoretical USD hurdle. The gap between what fundamentals justify and what the market charges is the report's central observation.
4. **The gap is a credibility and currency premium.** The wedge between a ~20% fundamentals-based hurdle and ~44% observed lending is not explained by global risk pricing alone; it reflects local

currency, liquidity and credibility conditions — the same premium that surfaces in prices and in the cost of holding money.

5. **Regional context.** Zimbabwe's country risk premium of 11.7% sits among the highest in the region — level with Zambia and below Mozambique (13.0%), and far above South Africa (3.9%) and Botswana (2.1%).
6. **Methods, in brief.** A risk-free-plus-premia build-up of the USD cost of equity; an explicit double-counting guard; a comparison against official RBZ policy and lending rates; and a regional country-risk-premium benchmark. All inputs are dated and sourced in the Appendix and workbook.

1. The question every Zimbabwean business answers — usually wrongly

Every pricing decision, every expansion, every inventory build and every loan embeds an answer to a single question: what does capital cost? In a stable economy the answer is close to the bank rate and rarely worth a second thought. In Zimbabwe it is the difference between a business that compounds and one that quietly destroys value while looking profitable on paper. Yet the number is usually wrong in one of two ways: informal pricing assumes capital is cheap — single digits, as if dollarisation imported US interest rates — while careless professional valuations overstate it by double-counting country risk. This report builds the number correctly, from the ground up, and then does something most cost-of-capital notes never do: it sets the theoretical figure against what a Zimbabwean business actually pays to borrow.

The result is a gap that is the real story. The fundamentals-based US-dollar hurdle is about 20%. The bank lending rate is about 44%. Understanding why those two numbers differ — and which one applies to which decision — is the most useful thing a Zimbabwean decision-maker can carry out of this report.

2. Building the hurdle: the USD cost of equity

The international standard for estimating the cost of equity in a risky market is a build-up: start with a risk-free rate, add the compensation equity investors require in a mature market, then add a premium for the specific country's risk. Following Damodaran (2026), the components for Zimbabwe are a US-dollar risk-free rate of 4.29%, a mature-market equity risk premium of 4.23%, and a Zimbabwe country risk premium of 11.66% — the last derived from the country's sovereign rating and the relative volatility of frontier equity. Summed, they give a US-dollar cost of equity of **about 20.2%** (Figure 1). This is the hurdle: the annual hard-currency return a Zimbabwean equity investment must clear simply to compensate for the risk taken.

Figure 1. What capital costs in Zimbabwe: the ~20% USD hurdle

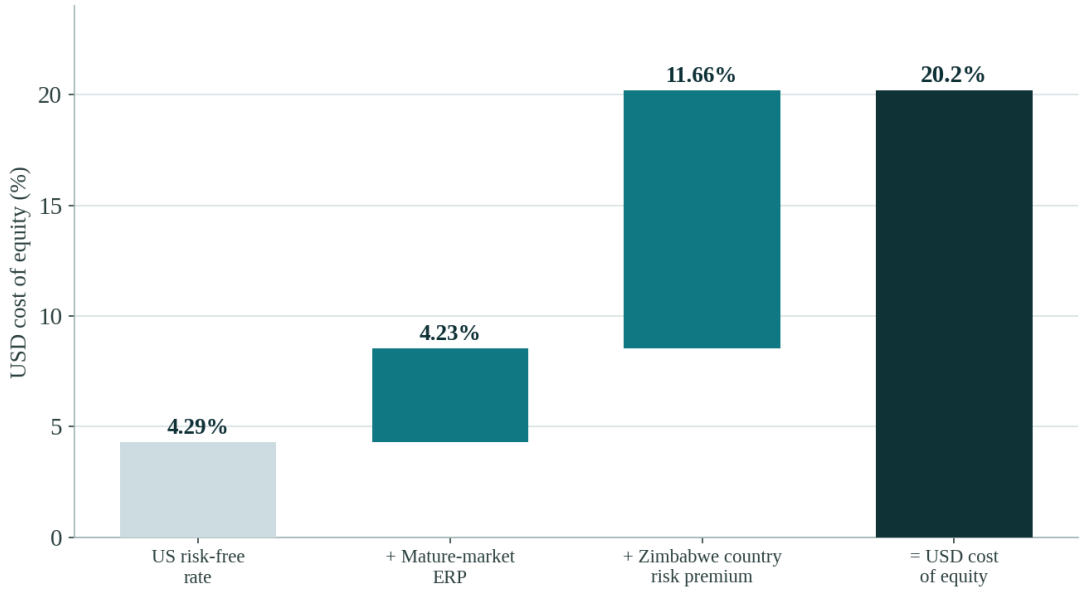


Figure 1. The USD cost-of-equity build-up. Risk-free rate plus mature-market and country risk premia give a hurdle of about 20.2%.

Two framing points matter. First, this is a *US-dollar* hurdle — it already prices Zimbabwe's risk, so it is not reduced by holding dollars; dollarisation does not make capital cheap, it simply denominates an expensive cost of capital in a stable unit. Second, the 11.66% country risk premium is the single largest component, larger than the risk-free rate and mature-market premium combined. Most of what makes Zimbabwean capital expensive is Zimbabwe-specific risk, not global conditions.

3. The error to avoid: counting country risk twice

The most common mistake in applying this framework is to add the country risk premium *twice*: once as part of the total equity risk premium (the 15.89% figure Damodaran reports, which already contains the 11.66% country component) and again as a separate line on top. Doing so inflates the cost of equity from about 20.2% to about 31.8% (Figure 2) — an 11.7-point overstatement that turns sound projects into apparent value-destroyers and can freeze investment that should proceed.

Figure 2. The common error that overstates the hurdle by 12 points

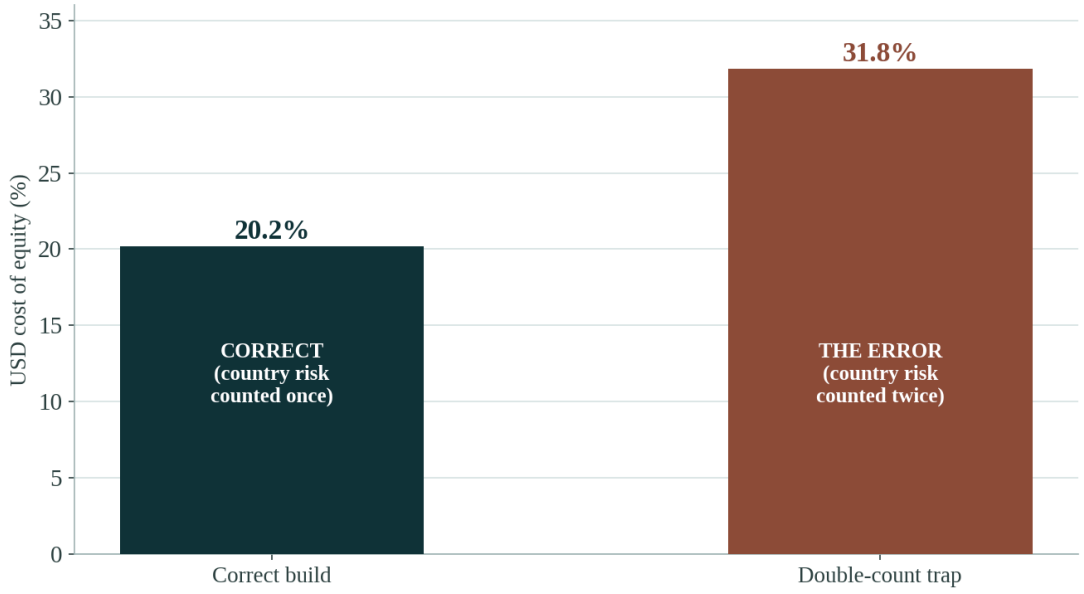


Figure 2. The double-counting error. Adding country risk twice overstates the hurdle by about 11.7 points.

The discipline is simple and worth stating explicitly because it is so often missed: country risk enters the cost of equity **once**. Either build up from the mature-market premium and add the country risk premium once, or use the published total equity risk premium as-is — never both. The accompanying workbook enforces this with a single country-risk cell referenced once, so the build is auditable and the error cannot creep back in.

> ***"The hurdle is about 20% in US dollars. Anyone quoting 32% has counted Zimbabwe's risk twice."***

4. What borrowing actually costs: the RBZ rates

A theoretical cost of equity is one thing; what a business actually pays to borrow is another. Here the official data is stark. The Reserve Bank of Zimbabwe's policy rate — the rate at which it lends to banks — stood at 35% in early 2026, held there since the tightening cycle that began in September 2024. The weighted commercial bank lending rate, the rate businesses actually face, was about 43.6% in January 2026. Against the ~20.2% fundamentals-based USD hurdle, the cost of borrowing in the local currency is **more than double** (Figure 3).

Figure 3. The hurdle in theory vs. what borrowing actually costs

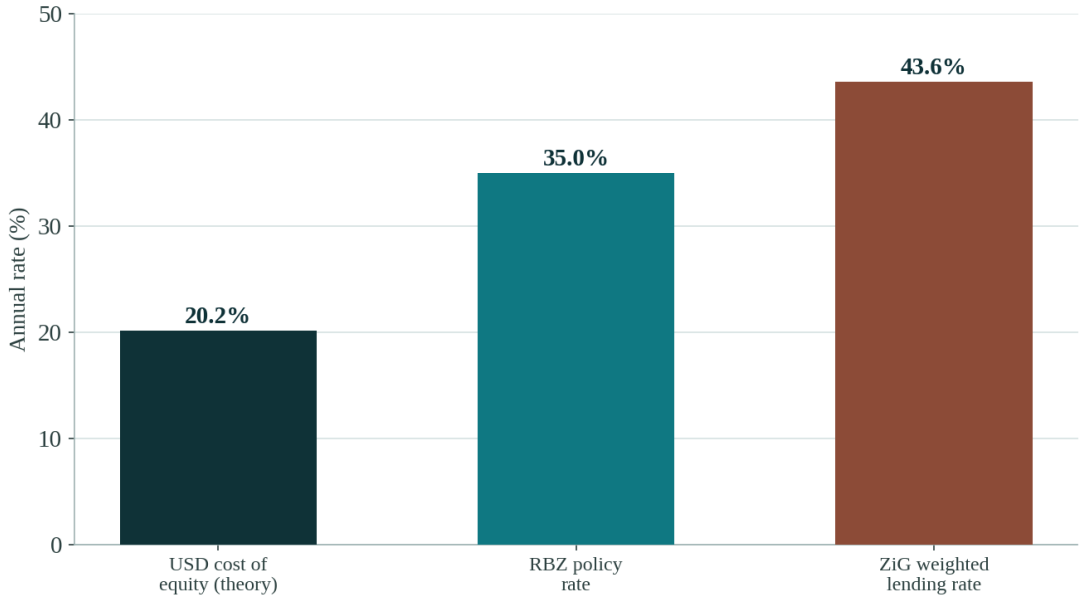


Figure 3. The hurdle versus observed rates. The ~20% USD cost of equity against the 35% RBZ policy rate and the ~44% weighted bank lending rate.

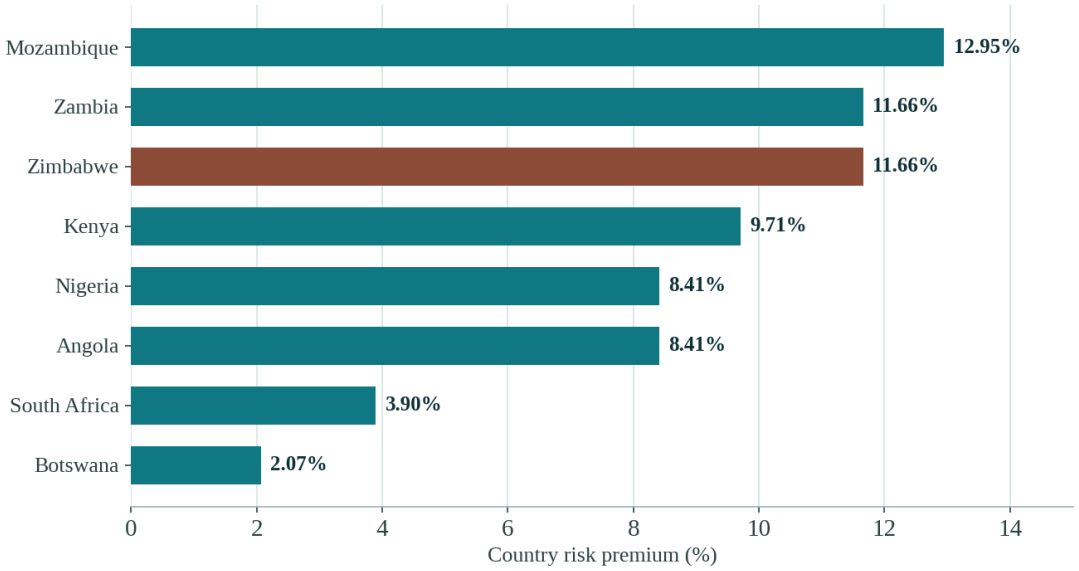
Part of this gap is currency: the lending rate above is a ZiG (local-currency) rate, and it embeds expected local-currency depreciation that the US-dollar hurdle does not. But not all of it. Even allowing for currency, the spread between what fundamentals imply and what the market charges is wide — and it points to factors beyond global risk pricing: thin liquidity, weak contract enforcement, and a credibility deficit that makes every lender demand a premium for uncertainty about forward conditions. On the deposit side the same story runs in reverse: the RBZ's minimum US-dollar deposit rates are just 2.5% (savings) and 4% (time) — so a saver earns low single digits in dollars while a borrower pays in the forties, a spread that is itself a measure of how the system prices risk and illiquidity.

For decisions, the distinction is practical. The **~20% USD hurdle** is the right benchmark for testing whether a hard-currency project or investment creates value. The **~44% lending rate** is the actual price of local-currency debt — the cash cost of financing working capital or inventory through the bank. A business that borrows at 44% in ZiG to fund an activity returning 20% in USD is, after currency and financing cost, almost certainly destroying value. The two numbers answer two different questions, and confusing them is its own expensive error.

5. Regional context: among the most expensive in the neighbourhood

Zimbabwe's country risk premium of 11.66% is not an outlier created by one analyst's judgement — it is the standard Damodaran figure derived from the sovereign rating, and it sits among the highest in the region (Figure 4). It is level with Zambia (11.66%) and below Mozambique (12.95%), but far above regional anchors such as South Africa (3.90%) and Botswana (2.07%). The honest reading is not "Zimbabwe is the worst" — it is not — but that Zimbabwe sits firmly in the region's high-risk tier, and that the difference between its premium and Botswana's (nearly ten points) is, in effect, the market's price for the difference in monetary and institutional credibility between the two.

Figure 4. Zimbabwe among the region's highest country-risk premiums



Source: Damodaran, NYU Stern (ctryprem, January 2026). Country risk premium by Moody's-equivalent rating.

Figure 4. Country risk premiums across the region (Damodaran, Jan 2026). Zimbabwe is level with Zambia and below Mozambique, well above South Africa and Botswana.

6. What this means, by reader

Business owners and CFOs

- **Test hard-currency decisions against ~20%, not single digits.** A project, expansion or inventory build that cannot credibly return about 20% in US dollars is destroying value even if it looks profitable. Most informal pricing assumes capital is far cheaper than it is.
- **Treat the ~44% ZiG lending rate as the real price of bank debt.** Financing working capital locally is expensive; the spread over the USD hurdle is the cost of the currency and credibility premium, and it should be priced into any decision to borrow rather than self-fund.

Lenders and investors

- **Use the correct hurdle to avoid mispricing.** A double-counted ~32% hurdle rejects sound projects; the correct ~20% (in USD) is the benchmark for hard-currency return. For local-currency exposure, the observed lending rate already embeds the market's risk and currency view.
- **The premium is mostly Zimbabwe-specific.** Roughly three-fifths of the USD hurdle is the country risk premium; diversification away from common Zimbabwean risk — where lawfully available — is the only way to reduce exposure that local diversification cannot touch.

Policymakers

- **The fastest way to cut the cost of capital is to compress the country risk premium.** Nearly ten points separate Zimbabwe's premium from Botswana's. That gap is the price of credibility — policy predictability, enforceable contracts and consistent monetary rules — and closing it lowers the hurdle for every firm at once, which no subsidy can do.

7. Limitations

- **Model-based country risk.** The country risk premium is a standard model estimate (sovereign rating plus relative equity volatility), updated periodically; it is a considered benchmark, not a market-quoted price, and it moves as ratings and volatility change.
- **Currency basis of the lending rate.** The ~44% lending rate is a ZiG rate and embeds expected local-currency depreciation; it is not directly comparable to the USD hurdle without adjusting for currency, which is why the report treats them as answering different questions rather than as a single spread.
- **Equity-cost focus.** This report builds the cost of equity and compares it to observed lending rates; a full weighted-average cost of capital for a specific firm would blend in its actual debt mix and tax position, which is firm-specific work.
- **Point-in-time.** All figures are dated; rates and premia move, and the report should be read as of its stated vintages (Damodaran Jan 2026; RBZ to Jan–Feb 2026; ZIMSTAT to May 2026).

About Streetwise Economics & the author

Streetwise Economics is an independent economic research and advisory practice founded by **Isaac Jonas**, an applied economist based in Abbotsford, British Columbia, working at the intersection of North American markets and Southern Africa's real economy. His work spans monetary policy, inflation and exchange-rate dynamics, cost of capital, and property and asset valuation. He holds a Master of Food and Resource Economics and an MA in Resource, Environment and Sustainability from the University of British Columbia, and a BSc in Economics from the University of Zimbabwe, and is a Mastercard Foundation Scholar.

This is the second report in an ongoing Streetwise research series applying transparent, reproducible methods to the questions Zimbabwean businesses, investors and institutions actually face. The cost of capital established here is the benchmark against which later reports in the series — on asset valuation, institutional exposure, and the wider price of risk in Zimbabwe — measure returns. Methods are stated, data is dated and sourced, and every figure is auditable in the accompanying workbook.

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If you have a real financing, valuation or investment question — and the data to go with it — Streetwise Economics undertakes commissioned analysis on a project basis: firm-specific cost-of-capital and hurdle-rate work, deal and valuation reviews, and recurring economic briefings for businesses, financial-sector clients, pension funds and institutions operating in Zimbabwe's volatile environment. If a question in this report maps to a decision you are weighing, you are warmly invited to get in touch.

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Methodology & Data Appendix

A.1 The cost-of-equity build-up

The US-dollar cost of equity is estimated by the standard build-up method: $k_e = r_f + ERP_{mature} + CRP$, where r_f is the US-dollar risk-free rate (4.29%), ERP_{mature} is the mature-market equity risk premium (4.23%), and CRP is Zimbabwe's country risk premium (11.66%). The sum is 20.18%, reported as approximately 20.2%. Equivalently, $k_e = r_f + ERP_{total}$, where $ERP_{total} = 15.89\%$ is Damodaran's published total equity risk premium for Zimbabwe (which already includes the 11.66% country component). The two formulations are identical; using both the total ERP and a separate CRP is the double-count error described in Section 3, which yields 4.29% + 15.89% + 11.66% = 31.84%.

A.2 Country risk premium derivation

The country risk premium follows Damodaran's method: a default spread is estimated from the sovereign's local-currency rating (Moody's, or the Moody's-equivalent of an S&P rating), then scaled by the relative volatility of equity to bonds in frontier markets to convert a bond-default spread into an equity premium. Zimbabwe carries no Moody's sovereign rating (it is listed as "NR" \u2014 not rated); Damodaran therefore assigns it the default spread of the Caa2 rating tier by judgment rather than deriving it from an actual rating. On that basis the adjusted default spread is 7.65% and the resulting country risk premium is 11.66%, giving a total equity risk premium of 15.89%. These are the published January 2026 values for Zimbabwe, retrieved directly from the source.

Table A1. USD cost-of-equity build (Damodaran, January 2026).

Component	Value	Note
US-dollar risk-free rate (rf)	4.29%	US T-bond rate net of US default spread
+ Mature-market equity risk premium	4.23%	Damodaran mature-market ERP
+ Zimbabwe country risk premium (CRP)	11.66%	Zimbabwe is NR (not rated); Caa2-tier spread 7.65% × equity-vol scalar
= USD cost of equity (the hurdle)	**20.2%**	Required hard-currency return
Memo: total equity risk premium	15.89%	Already includes the 11.66% CRP — do not add CRP again
Memo: double-count error	31.84%	rf + total ERP + CRP — the mistake to avoid

Source: Damodaran (NYU Stern), country risk premiums, January 2026, retrieved 13 June 2026.

A.3 Official interest rates

Policy and lending rates are official Reserve Bank of Zimbabwe figures. The Bank Policy Rate of 35% was confirmed in the 2026 Monetary Policy Statement (27 February 2026) and has been held since the September 2024 tightening that delivered single-digit ZiG inflation from January 2026. The weighted bank lending rate — the sum of minimum nominal lending rates weighted by banks' loan-book sizes, as published by the RBZ — was 43.57% in January 2026 (43.50% in December 2025). Minimum US-dollar deposit rates are 2.5% (savings) and 4.0% (time). All are RBZ-published series.

Table A2. Official rates (Reserve Bank of Zimbabwe).

Rate	Value	Source / date
Bank Policy Rate	35.0%	RBZ Monetary Policy Statement, 27 Feb 2026
Weighted bank lending rate	43.57%	RBZ-published, January 2026 (43.50% Dec 2025)
USD deposit rate — savings	2.5%	RBZ minimum
USD deposit rate — time deposit	4.0%	RBZ minimum

Source: Reserve Bank of Zimbabwe (rbz.co.zw), Monetary Policy Statement and published interest-rate statistics, 2026.

A.4 Regional comparison

The regional country risk premiums in Figure 4 are the published Damodaran (January 2026) values: Mozambique 12.95%, Zimbabwe 11.66%, Zambia 11.66%, Kenya 9.71%, Angola 8.41%, Nigeria 8.41%, South Africa 3.90%, Botswana 2.07%. Each is derived from the country's sovereign rating by the same method, so the comparison is like-for-like.

A.5 Reproducibility

The accompanying workbook holds every input as a live formula with a single country-risk cell referenced once (enforcing the no-double-count discipline), a build sheet that computes the 20.2% hurdle and the 31.84% error side by side, an official-rates sheet, and a Sources sheet tracing each figure to its dated primary. The Python chart script reproduces all four figures from the same inputs.

References

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