Exploring the Dynamics of Informal Foreign Currency trading: The Case of Harare's Black Market Traders

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DECLARATION

I hereby declare that the work contained in this dissertation entitled; "Exploring the Dynamics of Informal Foreign Currency Trading: The Case of Harare's Black Market Traders" has not been submitted before for any degree or examination in any other university, and that all the sources used or quoted have been acknowledged and referenced properly.

The research was done in the School of Development Studies at the University of KwaZulu Natal. It was conducted under the supervision of Ms Caroline Skinner between November 2007 and May 2008.

Onesimo Lovemore Mazarura

Signed

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ACRONYMS AND ABBREVIATIONS

CBD	**Central Business District**
CSO	**Central Statistical Office**
DRC	**Democratic Republic of Congo**
ESAP	**Economic Structural Adjustment Programme**
FDI	**Foreign Direct Investment**
FOREX	**Foreign Exchange**
FTLRP	**Fast Track Land Reform Program**
GDP	**Gross Domestic Product**
ILO	**International Labour Organisation**
IMF	**International Monetary Fund**
OECD	**Organisation for Economic Co-operation and Development**
SADC	**Southern Africa Development Community**
UDI	**Unilateral Declaration of Independence**
USD	**United States Dollar**
ZIMPREST	**Zimbabwe Programme for Economic Transformation**
ZWD	**Zimbabwe Dollar**

Table of Contents

Chapter 1: Introduction

Zimbabwe's economy has shrunk by 40 percent over five years (Bratton and Masununngure 2006:23). The country currently faces an unemployment rate of at least 80 percent, and an inflation rate of 165 000 per cent (BBC News, 8 /10/2008). Many Zimbabweans have turned to the informal sector as a source of livelihood and survival with formal employment estimated to constitute only 16 percent of the labour force in 2006 (Tibaijuka, 2005). The violation of political and civil rights as well as the state's approach to regulation of the economy has translated into low investor confidence. In addition the country has serious foreign currency shortages. The sheer scale of informality combined with radical attempts by the state to regulate these and other economic activities make Zimbabwe a unique context within which to understand the nature of the informal economy.

Recent research on the Zimbabwean informal economy has focused on its destruction through the Operation Murambatsvina (Potts, 2007; Tibaijuka, 2005) as well as the nature and extent of cross border trading (Muzvidziwa, 1998). Other authors have explored the nature of the informal economy in crisis states in particular Zaire / Democratic Republic of Congo (MacGaffey, 1997; Dehart and Marysse, 1997). There however is no research which explores the dynamics of informal foreign currency trading in this or other contexts.

The objective of this study is to explore the nature of informal foreign currency trading in Zimbabwe. The research aims to investigate the dynamics of informal foreign currency trading by tracing the role of state regulation in these operations, linkages between the formal sector and informal currency traders, the role of social networks, the lived experiences of traders involved and the social-economic benefits derived by these operations.

The research approach drew on ethnographic methods. The researcher spent considerable time with the people whose realities the research aims to understand. In total 10 traders were observed and interviewed in January 2008.

This research shows that excessive state intervention in the foreign exchange market leads to the emergence of informal foreign currency trading on the 'black market'. As the black market premium widens, the intensity of informality with regards to foreign currency trading increases. The existence of informal–formal linkages is strongly demonstrated by this research. It shows that there is a strong relationship between the informal currency traders and the private sector including other government entities. In order for this relationship to be sustained the research also reveals that social networks are essential for informal foreign currency traders. The study shows that informal foreign currency traders operate mainly from the streets and rented office space although deals can done from any environment as long as it is secured from law enforcement agencies. The benefits of informal foreign currency trading accrue more at the household level (micro level) rather than the macro level.

This research reveals that in a state of economic crisis the formal economy fails to provide adequate basic services and commodities. As a result, an informal economy is created to ensure the supply of scarce goods and services. The study shows that Zimbabwe's economy has managed to sustain itself despite economic collapse. Informal activities are identified as playing critical role in sustaining the population of the country. The study shows that foreign currency is being traded entirely on the parallel market. Private sector and government entities totally rely on informal foreign currency traders for their supplies of foreign currency.

Chapter 2 reviews the literature on the informal economy. Various theoretical approaches to the informal economy are outlined. Much of the research on informality draws attention to the role of networks of trust and reciprocity - social capital. Debates about this notion are also reviewed.

In Chapter 3 the background to the Zimbabwean economic and political crisis generally and the foreign currency problems facing the country particularly is outlined. The foreign currency regulations of Zimbabwe and how they have changed over time are also considered. International experience of parallel exchange rate regimes and currency crises are also reviewed.

Chapter 4 reflects the research methodology. This chapter explains how the data was collected, analyzed and interpreted. The ethical concerns and potential biases arising from the methodology are explored.

Chapter 5 presents the findings from the interviews. It analyses and interprets the various views gathered from the participants.

The concluding chapter, Chapter 6 reflects back on the literature and outlines the policy recommendations drawing from the research findings.

Chapter 2: Ways of Understanding Informality

This chapter reviews the substantial literature on the informal economy. It starts by assessing the evolution of the idea of the informal sector. It then considers the structure of the informal economy and how this has changed over time. The theoretical perspectives are then considered focusing on the neo- liberal approach and structuralist approach to informality. One of the core sources of disagreement is the nature of formal-informal economy linkages – the literature on this is thus reviewed. In addition to these theories, the livelihoods approach will be reviewed focusing mainly on the role of social networks in informal sector operations. Finally, given the current Zimbabwe context, it is important to consider literature on how the informal economy endures in crisis states such as Zaire. This will assist in putting the current study into perspective.

2.1 The Evolution from Informal Sector to Informal Economy

In 1973, Keith Hart coined the phrase 'informal sector' to describe the range of subsistence activities of the urban poor in Ghana (Hart, 1973). Since then, there has been considerable debate about what exactly the term refers to (Devey, Skinner and Valodia 2006). The relevance of informal activities to developing economies prior to this was unclear. Informal activities were largely ignored, rarely supported and often discouraged by governments. Hart (1973: 84) noted that "informal activities are recognised as typical of economic life in the cities of developing and developed countries, but the overall significance could be dismissed as negligible except of course for the unfortunate individuals forced to live in this way".

The International Labour Office (1972:6) stated that informal activities are "a way of doing things characterised by ease of entry, reliance on indigenous resources, family ownership of enterprises, small scale of operation, labour-intensive and adapted technology, skills acquired outside the formal school system and unregulated and competitive markets". The International Labour Office attempted to develop further the concept of informality that Keith Hart had originally applied to urban, small-scale, and often illegitimate self employment in the shantytowns of Accra, Ghana (Gerry, 1997:109). The International Labour Office's work in Kenya broadened the term's currency beyond Hart's anthropological concern with the underworld of illegal brewers, unlicensed traders, prostitutes, and others to embrace the entire urban working poor (International Labour Office, 1972). The ILO (1972) mission also described informal sector as activities that are unrecognised, unrecorded, unprotected or unregulated by public authorities. They did not confine their definition to marginal activities but included profitable enterprises. It was recognized that not only did the informal sector persist but it also expanded over time.

Informal activities encompass different types of economic activity, different employment relations and activities with different economic potential features (Devey, Skinner and Valodia, 2006; Xaba, Horn and Motala, 2006)). These economic activities could not be adequately captured by the term informal sector. The definition of informal sector has thus changed over time. Mead and Morrisons (1996) emphasizes that the different definitions lead to quite different inclusions and exclusions. Skinner (2002) and Valodia (2007) argue that the term 'informal sector' makes distinguishing between the formal and informal sector very difficult since there is a very strong link between the formal and informal economy. It would then be appropriate to use the term economy as it implies to a greater range of activities than sector. As Becker (2004:8) emphasizes that the "informal sector is increasingly being referred to as the informal economy to get away from the idea that informality is confined to a specific sector of economic activity but rather cuts across many sectors". If both formal and informal activities are seen as part of the economy, it is easier to see the linkages between the two.

The informal economy is universal, similar arrangements are found in countries and regions at very different levels of economic development (Castels and Portes, 1989:12). The informal economy is heterogeneous thus determining the production and distribution activities as they vary widely even within single societies. In order to explore the informal economy, it is important to analyse the aspects relating to the systematic connection with formal economy, the special characteristics of the labour employed in the informal activities and the government's attitude toward these activities.

By the 1990s, there was consensus that the informal sector as a whole accounted for a significant share of employment and output and cannot, therefore, be dismissed or disregarded (Carr and Chen, 2001; Becker, 2004). As we entered the 21st century, it was clear that the informal sector was here to stay and needs to be better understood by exploring its various activities. Verick (2001) emphasised that the informal activities are on the increase not only in the developing world but also in industrialized countries.

Informality may be officially "illegal", but it is not "immoral" because it does not violate any basic moral codes (Mead and Morrisons, 1996). It is a necessity for the poor in order to make a living and satisfy their basic needs. In short, informality exists when the means are illicit but the ends are licit (Bromley, 1990).

2.2 Structure of the Informal Economy

The share of informal employment may be as high as 70-80 per cent in many developing countries (Maiti and Matij, 2005:1). "Over the past two decades, despite predictions to the contrary, employment in the informal economy has risen rapidly in all regions of the developing world and various forms of non-standard employment have emerged in most regions of the developed world" (Carr and Chen, 2001: np). Chen (2001: 72) highlights that 93 percent of new jobs created in Africa during the 1990s were in the informal sector, an indication that the informal economy is here to stay. This reflects the negative impacts of globalization, economic reforms and competitive pressures on the labour market in recent years particularly in developing countries. Developed countries gained more from liberalisation policies and economic reforms hence their unemployment rates remained at low levels compared to the developing countries. In developing regions, "self-employment comprises a greater share of informal employment outside of agriculture (and even more inside of agriculture) than wage employment: specifically, self-employment represents 70 per cent of informal employment in sub-Saharan Africa, 62 per cent in North Africa, 60 per cent in Latin America and 59 per cent in Asia" (Chen, 2007:6). On the other hand, self employment is less important in the developed regions where it is about 12 per cent of non agricultural employment (ILO, 2002).

It is now well established that in most contexts a higher percentage of women than men work in the informal economy (Chen, 2001; Chen, 2002; Carr and Chen, 2001; Verick, 2001). This has been an important aspect of informalization where significant representations of women in Africa are informally employed; most women are normally self-employed or unpaid home-based workers (Verick, 2001: 9). Unfortunately, statistical data on the employment patterns of informal sectors is difficult to capture in most developing countries. In aggregate terms the contribution of women in the informal economy is greater than men. Chen (2007:6) highlights that

> Other than in North Africa, where 43 per cent of women workers are in informal employment, 60 per cent or more of women non-agricultural workers in the developing world are informally employed. In sub-Saharan Africa, 84 per cent of women non-agricultural workers are informally employed compared to 63 per cent of men; and in Latin America the figures are 58 per cent of women in comparison to 48 per cent of men. In Asia, the proportion is 65 per cent for both women and men.

Chen (2002) states that for both developing and developed countries women's labour force participation rates are lower. Women in developed countries represent the vast majority of part time work than men (ILO, 2002:27). The proportion of women engaged in the informal economy is higher in developing countries surpassing the proportion in developed countries.

The informal economy has done much in uplifting the living standards of the poor in developing countries. Carr and Chen (2001:3) noted that there is a link between working in the informal economy and being poor. Most of poor people resort to the informal economy as a way of escaping poverty.

2.3 Theoretical Approaches to the Informal Economy

This present study will be informed by the theoretical debates on the nature of the informal economy. Different schools of thought on the informal economy differ primarily with respect to their views on the causes and outcomes of informality and in the role of the informal economy in economic growth (Rakowski, 1994:35). It is important for the purpose of this present research to critically review and assess the causes and outcomes of informality posed by these approaches. In retrospect the debates on the nature of informality of the 1970's and 1980's have been categorised into two approaches or schools of thought - neo-liberal and structuralist approaches. These are both considered in turn.

2.3.1 Neo-liberal Approach to the Informal Economy

The neo-liberal position is exemplified in the works of De Soto. This was a position on informality which was increasingly championed by the World Bank (Meagher, 1995; Bromley, 1990). The neo-liberal approach holds that those working informally are forced into extra legality because of discriminatory state regulations (De Soto, 1989). The powerful economic interest groups tend to compete unfairly with those operating informally who have no property rights and no access to credit. It is argued that the bulk of the population is forced to meet their own needs outside the regulatory framework of the formal economy. Those working informally deliberately break all unreasonable official rules and regulations. This is in order to make a living and to satisfy basic needs of the poor members of a nation (Bromley, 1990:331). Furthermore, informality can be seen as the response to excessive state bureaucracy. According to De Soto micro-entrepreneurs will continue to produce informally if government procedures continue to be cumbersome and costly. In this view, unreasonable government rules and regulations become a burden on private enterprises.

According to Bromley (1990:331), "De Soto developed his arguments from research on the organization of street and market traders, the workings of the bus systems, and the growth of squatter settlements as self-help housing areas in Lima, Peru". His work concentrated more on the emergence of grass root organisations and entrepreneurship. This approach depicts the neo-liberal approach of the World Bank and other international financial institutions centred on policies based on economic liberalisation (Meagher, 1995; Bromley, 1990). De Soto's work is thus viewed as in line with the policy prescriptions of the World Bank and the IMF such as the Structural Adjustment Programmes. The neo liberal position can be credited as the first to recognize that, in the modern context of state crisis, there is a potential for the informal sector to play an increasingly central role in contributing to the economic growth rather than merely as a residual (Meagher, 1995).

In this regard, the neo-liberal approach to informality draws our attention in investigating the extent to which government regulations and interventions in the foreign exchange system in Zimbabwe contributes to the emergence of informal foreign currency trading in this present research.

2.3.2 Structuralist Approach to the Informal Economy

The structuralist approach popularized by Moser and Portes (among others), in the late 1970s and late 1980s respectively, describes the existence of a dense network of relationships between formal and informal enterprises (Rakowski, 1994; Wilson, 1998; Portes and Benton, 1984). This approach emphasizes that informality is the expression of the uneven nature of capitalist development. The informal sector characterises the periphery while the formal sector is the centre in the capitalist structure. Both informal and formal activities are features of capitalism that fulfil necessary functions for the accumulation of capital. Meagher (1995) emphasises that the formal sector accumulates capital making use of cheap unprotected informal sector resources, labour and networks. The structuralist approach views the structure of formal-informal economy relationships as facets of the same economic system (Portes and Schauffler, 1993; Henken: no year).

It focuses on the exploitative relationships between the informal economy and the formal economy (Moser, 1978; Rakowski, 1994). This approach views the formal economy as exerting a dominant power relationship over the informal economy to fulfil its own interests (Chen and Carr, 2001). The first linkage is the supply of low-cost goods and services for workers in formal enterprises (Portes and Schauffler, 1993, Wilson, 1998).

The informal economy's existence ensures lower operational costs for the formal enterprises as it provides cheap factors of production.

For the purposes of this research, this approach draws attention to the existence of informal and formal linkages (between the informal foreign currency traders and private sector including government agencies). It suggests that the research should explore the nature of relationships between the informal currency traders and other stakeholders such as business, banks and government.

2.4 Linkages between the Informal Economy and Formal Economy

A key issue in these debates is whether and how the informal economy and formal economy are linked (Chen, 2007:6). Earlier analysis treated the informal segment as self-contained without any vertical relationship to the formal sector (Marjit and Maiti, 2005). Studies have shown that there is strong evidence of systematic linkages between formal and informal sectors, following the requirements of profitability (Castells and Portes, 1989:11). The informal economy has a tendency to rely on the formal economy via subcontracting which can be viewed as network based.

Researchers such as Chen, (2002), Skinner (2002), Valodia (2007) and Castells and Portes (1989) argued that there are strong linkages between the formal and informal economy. They argue that if both formal and informal activities are seen as part of the economy we are better able to see the linkages between the two. Devey, Skinner and Valodia (2006) suggest,like the formal sector, the informal economy is made up of a heterogeneous set of economic activities and thus policy should be sectorally-based. Valodia (2007) argues that the informal economy continues to be marginalized because it may be weakly integrated or adversely integrated, into the formal economy. Chen (2007:10) claims that since the informal and formal economies are intrinsically linked, what is needed is an appropriate policy response that promotes more equitable linkages between the informal and formal economies and that balances the relative costs and benefits of working formally and informally. The informal – formal economy linkages tend to be dynamic. Castells and Portes (1989:12) emphasize that "any change in institutional boundaries of regulation of economic activities produces a parallel realignment of the formal - informal relationship".

This research also seeks to establish the nature of the linkages between the informal foreign currency traders and formal economy.

2.5 Livelihoods Approach

The livelihoods approach encompasses the dimensions of human, social, physical, financial and natural capital (Start and Johnson, 2004). A livelihood comprises of various combinations of assets (material and social) as mediated by social factors, policies, trends, processes and shocks to determine the types of livelihood activities people engage in, and how vulnerable or robust their livelihoods may be (Chambers and Conway 1992; Carney 1998). The livelihoods approach assists in organizing the factors which inhibit or enhance livelihood opportunities, while showing how they relate to one another.

A particularly controversial aspect of the livelihood debate has been the notion of social capital. Putman (1995:67) defines social capital "as the features of social organization such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit". Miles and Tully (2007:857), define social capital as "the personal contacts and social networks that generate shared understandings, trust and reciprocity within and between social groups, and which can facilitate co-operation and collective action, a basis for economic prosperity and economic inclusion". Social capital is often seen as the social glue that holds together an economy. Mohan and Stokke (2000: 256), state the "social capital is thus seen as a local endowment fostering local development. Schneider (2006) noted that the concept of social capital has diffused widely across many different academic disciplines.

Different authors have opposing views about the role of social capital. Putman (1995) who popularised the term, claims that those societies that are better connected, tend to be more prosperous. Most studies on social capital show correlation between the social capital and economic development. Putnam's thesis was subsequently expanded to include membership of informal networks as well as participation in voluntary associations, together with an assertion that strong social networks have positive outcomes across a range of areas, such as improved school performance, lower crime rates and better public health, both for members and for non-members (Putman, 1995; Putman, 2004).

On the contrary, scholars such as Hart (2001), Fine (1999) and Mohan and Stokke (2000) have criticised social capital on theoretical and empirical grounds. It is stated that social capital is definitional elusive as it has many variables included. Social capital is thus highly inconsistent as it is under theorised and poorly understood. It is also difficult to measure the contribution of social capital to the outcome of a policy intervention. There exist a down side to social capital which is ignored in most debates. According to Mayoux (2001:438) citing Collier (1998) "social networks which provide people with access to markets through reputation and repeated transactions can exclude new entrants". The traditions of a community hinder an individual's creative abilities as members who do not comply with norms of the family are ousted in the community (Mayuoox, 2001). Social capital organised along ethnical and or religious lines in a community can be harmful to society as a whole. Furthermore, gender dimensions of social capital have been ignored in most debates. Such omissions have presented serious consequences for gender outcomes of policies using social capital.

There is much debate about the role of social networks in development. Social networks are an important aspect of social capital playing a vital role in promoting informal economy activities (Cope, Jack and Rose, 2007; Meagher, 1995). Hart (1973) analyses the importance of social networks in facilitating access to informal employment while providing a safeguard against marginalization by the informal sector. The network becomes a resource underpinned by social capital, which constitutes an intangible asset

(Field, 2003). Those involved in informal activities take advantage of the wider social relations and ties to work in their favour. Individuals are able to achieve more as they establish contacts with others, with whom they share the same values (Cope Jack and Rose, 2007). It becomes possible to gain more rather than if they acted alone. In relation to this, Schneider (2006) highlights that people trust those within their own networks, with whom they have much in common. Furthermore, individuals gain access to resources through reference to a recognized individuals or organizations displaying appropriate cultural behaviours, not simply through face-to-face interactions.

Lyon and Snoxell (2005: 1094) concluded that social capital in the market place is increasingly important to informal traders' economic capital, in their study of the role of urban social capital on informal traders in Kenya. Thus, interventions in informal trading situations generally take place in highly complex networks of interdependence between the traders. Meagher (2006) in the study of social networks in informal manufacturing in Nigeria, addresses the question why social networks have failed to promote economic development in Africa when they have been associated with economic growth in other parts of the world. The economic potential of social networks is undermined by the pressures of liberalization, differentiation, survival strategies, and political opportunism. Social capital weaknesses are due to state neglect and the instability of the wider institutional context in which these networks are embedded (Meagher, 2006: 579).

De Herdt and Marysse (1997:228) explored the role of solidarity networks in the crisis state of Zaire, solidarity networks were used as a coping strategy for survival helping households to build family enterprises. Solidarity networks play a role to ensure social cohesion. Hulse and Stone (2007:118) state that social cohesion is about reducing inequalities, divisions and cleavages, not between individuals but primarily between social groups, including those which have an ethnic and/or spatial basis. Social exclusion prompts people to come together against economic exclusion.

This research will focus on social capital as an aspect of the livelihoods approach, in particular the role of social networks in the informal currency trading activities.

2.6 The Informal Economy in Crisis States

According to MacGaffey (1998:39) the collapse of the official economy in Zaire was accompanied by a political crisis. These political and economic challenges had many consequences that severely affected entrepreneurs. The collapse was characterised by shortages of supplies and goods; the collapse of the official banking sector and the unavailability of foreign currency through banks, to name a few (MacGaffey, 1983, 1998). MacGaffey (1983), states that the "second economy increased to over half the GDP in response to shortages caused by state failures, and may have produced a radically new economy". Deherdt and Marysse (1997:228) emphasise that economic regression affects different occupational groups in different ways. Such crisis meant that the local populations had to make some attempts to cope with economic insecurity (Leonard, 2000:12).

In Zaire the small entrepreneurs manage to devise strategies and find opportunities in the chronic state of crisis. MacGaffey (1998) showed that there was an extraordinary degree of resilience shown by the Zairian entrepreneurs to cope with the extreme unpredictability and uncertainty of the economic and political crisis. MacGaffey (1997) highlighted that the entrepreneurs had to "be bold, creative, innovative and respond quickly to changes in the economic conditions of the economy". Studies on the organization of entrepreneurs in Zaire (now known as Democratic Republic of Congo) stated that relationships were important for ensuring successful operations. "By manipulating ties, it was "a crucial strategy for coping with the exigencies of the current political and economic situation (MacGaffey, 1998:98)". Maloney (2004: 1173) highlights that even, if the nation faces economic and political crisis a job will not lead to an exit from poverty, but the informal option may actually offer a measure of dignity and autonomy that the formal job does not.

2.7 Conclusion

This chapter explores debates around informality that inform this study. It has highlighted how definitions of informality have evolved. The trends and structure of the informal economy over time have been reviewed. Two schools of thought on informality – the neo-liberal and structuralist approaches have been explored. Debates about the role and significance of social networks in the functioning of the informal economy have been outlined. Finally, literatures on coping strategies in contexts of economic crises have been explored.

Chapter 3: Context

This chapter provides a background to the Zimbabwean economic crisis leading to the severe foreign currency crisis. It first outlines Zimbabwe's economic reform programmes since 1991 it then goes onto highlighting the economic trends of the economy over time. The chapter further gives a brief outline of the foreign exchange system and regulation for Zimbabwe. Furthermore, this chapter briefly reviews existing information on the informal economy in Zimbabwe and state responses to this, particularly focusing on Operation Murambatsvina.

3.1 Zimbabwe's Economic Reform Programmes

Over the past several decades, national governments across the developing world implemented structural adjustment programmes (Marquette, 1997). In 1991, Zimbabwe implemented the Economic Structural Adjustment Programme (ESAP) (Republic of Zimbabwe, 1991). The objectives of ESAP, stated that by the end of 1995 there would be a 25% cut in the civil service, accompanied by the reduction of all labour restrictions, price controls, exchange controls, interest rate controls, investment regulations, and import restrictions, as well as many government subsidies (Bond, 2007: 167). Unfortunately, during the implementation period of ESAP, Zimbabwe experienced two severe droughts in 1992 and 1995. These climatic conditions contributed to the dismal outcomes of ESAP (Marquette, 1997).

However, in reality, ESAP did not achieve its intended goals (Bond and Manyaya, 2002; Dhliwayo, 2001; Mhone, 1995). Bond (1998:381) states

> Gross Domestic Product (GDP) growth only reached 5% during one year 1994, and averaged just 1.2% from 1991-95. Inflation averaged more than 30% during the period, and never dropped anywhere near the 10% goal. The budget deficit was more than 10% of GDP during the ESAP era. The economy experienced an economic down turn, as all ESAP targets for growth and development were missed by huge margins.

The Zimbabwe dollar crushed on the 14th of November 1997 losing 74 % of its value as international investors panicked (Carmody and Taylor, 2002: np). Bond and Manyanya (2002:31) argued that this signified the impeding collapse of the economy. Bond and Manyanya (2002) highlight that food riots also erupted in 1997 due to the high costs of living faced by the citizens.

In 1997 the Government of Zimbabwe embarked on the second phase economic recovery programme known as Zimbabwe Programme for Economic and Social Transformation (ZIMPREST). ZIMPREST continued the same thrust of macroeconomic policies set under ESAP but putting focus on social dimension, empowerment, indigenisation of the economy and land reform (Dhliwayo, 2001:2).

In the face of these failures, economic policy makers under the directive of the state reverted to interventionist economic mode which existed before ESAP. The market restrictions targeted for removal by ESAP were reintroduced (Bond and Manyanya, 2002). Three controversial decisions by President Mugabe and his government followed– land distribution policies, payouts to the war veterans and sending Zimbabwean troops to the Democratic Republic of Congo.

In February 2000, President Robert Mugabe began authorizing land invasions initiated under the Fast Track Land Reform Program (FTLRP) to redistribute land (Hill, 2005; Bond, 2002, IMF, 2005). By the end of 2004, about 9,000 farms were listed for acquisition (IMF, 2005:11). It is also important to note that agriculture is the back bone of the Zimbabwean economy. Zimbabwe was once referred to as the "bread basket of Southern Africa" as it used to be the second largest food producer in Africa (SABC News, 2008; Hill 2005). Under the SADC protocol, Zimbabwe was assigned as the country responsible for securing the food security of the SADC region. However, the World Food Programme (2007:np) reports that food insecurity caused by poor agricultural policies and a declining economy sees 45% of the total population being malnourished. Since land has been acquired and redistributed, it has failed to address Zimbabwe's poverty and unemployment (Hill, 2005).

Of particular relevance to this study is that these policies led to a loss of a large portion of export revenues and thus foreign currency. During the land invasions, Zimbabwe lost its traditional markets for agricultural produce (Hill, 2005; IMF, 2005). Tobacco exports were one of Zimbabwe's major foreign currency earners. The tobacco production fell due to the farm disturbances. Most Tobacco buyers incapable of fulfilling their needs went elsewhere and signed new contracts. Foreign currency inflows which used to benefit Zimbabwe were diverted to the gain of other countries in the region.

The government further funded the DRC war and payouts to war veterans using finances which were not budgeted. All these policies led to a collapse in domestic and international investor confidence. According to the World Bank (2007), on the ease of doing business rankings Zimbabwe was placed at 152 out of 178. This survey ranks economies on their ease of doing business, from 1 – 178, with first place being the best. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business. In this regard, the regulatory environment in Zimbabwe is not conducive for business.

3.2 Zimbabwean Economic Trends

Zimbabwe's macroeconomic environment has deteriorated severely over the past 10 years. Real GDP fell by an average of more than 6 per cent in 2000-01 and by more than 30 per cent in 2002-03 (OECD, 2003:357). By 2006, the economy had shrunk by 40 per cent (Bratton and Masunungure, 2006:23). Inflationary pressures worsened between 2003 and 2008. Currently inflation is 165,000 per cent which is the highest in the world while facing an unemployment rate of about 80 per cent (BBC News, 2008) This has been coupled by a massive flight of skilled professionals from both the public and private sector (International Monetary Fund, 2005). The major reason for the mass departure of professionals from the public sector has been inadequate remuneration.

Large unbudgeted payments and a surge in interest payments, have pushed the overall budget deficit to nearly 18 percent of GDP by 2000 (International Monetary Fund, 2005:18). Poor management of the budget by the state authorities initiated the macroeconomic challenges faced by Zimbabwe to this present day. Government spending has been difficult to control as it continued to surge. Agricultural exports have declined dramatically in recent years. These exports have been traditionally important drivers of growth in the Zimbabwean economy, given the sector's extensive backward and forward linkages (IMF, 2005). Zimbabwe needs about US$3 billion annually to meet its requirements (The Herald, 26/7/2007).

The government's explanation of the poor economic performance has been attributed to the sanctions imposed by the west and particularly the former colonial powers. The state has implemented state led policies formulated and implemented without consultations with relevant stakeholders.

3.3 The Zimbabwean Foreign Exchange System and Regulations

The regulation of foreign exchange in Zimbabwe is governed by the Exchange Control Act (Chapter 22.05). The government is the sole legal buyer and seller of foreign currency (Sawyer and Sprinkle, 2003). The Reserve Bank of Zimbabwe (on behalf of the government of Zimbabwe) has a monopoly in dealing in foreign currency. All residents and firms are legally obliged to sell any foreign currency to the government at the same fixed price. The Act was passed in 1965 and only revised in 1996. In 1996, the Act enforced stiff penalties in the form of fines and imprisonment terms for contravention.

Political interests have driven the monetary policy in Zimbabwe and this has undermined the credibility of the central bank (Mujutwya, 2006). The central bank has no independence. The Central Bank in Zimbabwe acts under the directive of the Ministry of Finance. From the 1980 to 1990, the foreign exchange rate regime adopted by the Zimbabwean Central Bank was the pegged exchange rate system. This saw the Zimbabwean dollar being pegged to a trade weighted basket of fourteen currencies which included the United States dollar (USD) and other major currencies. This regime was the sole market on which foreign currency was traded.

In 1991, the government committed itself under ESAP to a phased process of trade liberalisation to move away from the old foreign exchange allocation system to a market based system by 1995 (Republic of Zimbabwe, 1991:7). The state aimed towards a floating exchange rate to support trade liberalisation and resource shift in favour of export sectors (Republic of Zimbabwe, 1991). By the end of the ESAP period the exchange rate regime aimed for the removal of foreign exchange rationing mechanism. Dual exchange rates emerged in 1994 these were quoted by the inter-bank and the central bank respectively. The inter-bank rates emerged due to the introduction of Foreign Currency Accounts (FCA) (Global Financial Data, 2008). However, adverse effects of this liberalizing the exchange rate system were felt in the period 1996 to 1998, the value of the Zimbabwe dollar crashed and currency speculative activities increased in the economy.

In 1999, due to the failure of ESAP, the authorities reverted to the full fixed official exchange rate regime (Global Financial Data, 2008). The dollar was pegged at ZWD 38 per US Dollar. Ideally, the government would provide foreign exchange for the necessary imports (such as food production, medical equipment and drugs, fuel and electricity) and give low priority to unnecessary imports (business travel, school fees) (Sawyer and Sprinkle, 2003; Reserve Bank of Zimbabwe, 2007). The government thus decided on who gets foreign exchange and who does not. The demand for foreign currency remains critically high resulting in most of the requirements being unmet.

According to Reserve Bank of Zimbabwe (2007) due to the widening foreign currency shortages, a more comprehensive foreign currency management framework was announced by the central bank. The new approach, called the Pooled Foreign Exchange Allotment System, involves a bi-weekly allocation of foreign currency to productive sectors of the economy, through a Centralized Foreign Currency Pool at the Reserve Bank of Zimbabwe. Foreign currency allocation is based on a national priority list that ranked the essential inputs into the productive sector. Its main objective is to restore confidence in the foreign exchange market. However, this system has not achieved its objectives due to the severe shortage of foreign currency supplies to the auction system.

It is difficult to acquire and transfer foreign financial assets and foreign direct investment from abroad. The Exchange Control Act Section 2:2 states that 'the prohibition or restriction of dealings in or possession of any gold, currency or securities'. Exchange control violations in most cases have seen the violators facing legal action and arrest by the state.

3.4 Emergence of the Parallel Currency Market

The parallel foreign exchange market, which is usually created in response to foreign exchange scarcity in the formal economy, is common in most developing countries (Degefa, 2001:15). According to Goldberg and Karimov (1997), the existence of pervasive shortages, rigidities and vestiges of central planning and controlled prices lead to secondary or black market production structures to operate in tandem with secondary markets for convertible currencies.

Fardmanesh and Douglas (2003:2) state that where the degree of foreign currency rationing associated with foreign exchange controls is strong, and the central bank does not have sufficient reserves to satisfy the demand for foreign currency, parallel markets tend to develop. The controls are imposed to protect the government's limited foreign exchange reserves (Grosse, 1991; Goldberg, 1993). An excess demand for foreign currency at the official rate gives an incentive to those who have an excess supply of foreign currency to sell it illegally at a price higher than the official rate (Degefa, 2001; Diamandis, Kouretas and Zarangas, 2006). As a result of extensive controls on foreign exchange, more foreign currency deals are diverted away from the formal banking systems ((Degefa, 2001; Bahmani-Oskooee and Goswami, 2006; Diamandis, Kouretas and Zarangas, 2006; Fardmanesh and Douglas, 2003; Grosse, 1991). The existence of exchange rate controls causes a divergence between the equilibrium rate and the official rate and this leads to the emergence of a parallel or 'black' market for foreign exchange in the country. Degefa (2001:6) emphasizes that the expansion of the parallel market for foreign exchange leads to the loss of government control over the economy as more and more of the official transactions are diverted to the parallel market.

In the short-run, there is a tendency for the black market rate to deviate substantially from the official rate. Bahmani-Oskooee and Goswami (2006:319) emphasise that other factors contribute to a wider gap between the black market and the official exchange rate, mainly widespread corruption, absence of the rule of law, order, and an efficient judicial system, smuggling, money laundering, tax-evasion, currency-substitution, domestic inflation, lack of property and contract rights, and political uncertainty.

Democratic political processes affect currency markets in a variety of ways. Leblang and Bernhard (2006:70) find that periods of potential political change do often have an effect on exchange rate volatility; a measure of the predictability of exchange rate movements. Bahmani-Oskooee and Goswami, (2006:103) show that less political rights and less civil liberties result in a higher black market premium. Black and official premiums depend on the structure of announced and implemented policy initiatives operating in an economy under going transition (Goldberg and Karomov, 1997:364).

Other empirical studies have shown that real exchange rate misalignment is negatively correlated to economic growth (Frenkel, 1990; Toulaboe, 2006). Munoz (2006) found that different measures of real exchange rate misalignment and its instability have negative effects on the growth rate of real per capita income, exports and agricultural output as well as on investment for a sample of 33 sub-Saharan African countries including Zimbabwe. Inappropriate exchange rate policies therefore contribute to the poor economic performance that many developing countries experience (Toulaboe, 2006:57). It is therefore important to ensure that the real exchange rate is at a suitable level crucial for economic growth in developing countries.

Other studies on dual foreign exchange regimes have revealed that the dual/parallel rates have been used as a form of "back door" floating exchange rate systems, even if they were usually accompanied by capital controls (Diamandis, Kouretas and Zarangas, 2006). Furthermore, in this particular study, it has been documented in numerous studies that the parallel market premium often serves as a reliable guide to the direction of future official exchange rate changes.

It is important to understand the relationship between the parallel exchange rate and the official exchange rate, for instance in ensuring the success of any foreign exchange rate unification attempt (Fardmanesh and Douglas, 2003). In their study Fardmanesh and Douglas reveal that exchange controls exert the strongest impact on the premium once again reveals the pivotal role of such controls for the emergence and behavior of parallel markets for foreign exchange. Bahmani-Oskooee and Goswami (2006:326) in the study to establish the co integration between the black market exchange rate and the official rate found that the black market rate to be weakly exogenous implying that in the long-run, movement in the black market rate induces central banks to adjust the official exchange rate and eventually unify them.

According to the Global Financial Data (2008), the exchange rate history for Zimbabwe indicates emergence of a parallel market in the 1970s, during UDI. The Rhodesian regime faced international isolation from Britain for excluding blacks in their government (Bond, 1998). The black market premiums were very minute though. In 1980, the Zimbabwean dollar was introduced replacing the pound. Its value was at par with the US Dollar. In 1999, the parallel market value of the Zimbabwean dollar fell by a wider margin against most of the hard currencies. The data shows existence of a vibrant parallel market to date. The black market premium has widened to this present day.

3.5 The Informal Economy in Zimbabwe

In his analysis of the informal sector during the colonial period Mhone (1995: np), states that the apartheid-type regulation of economic activity and labour flows in Zimbabwe had the effect of impeding the growth of unregulated small scale activities in urban areas. Informal sector activities during this era were suppressed by the government so as to lock in African labour in the formal sector's wage employment in the mines and on farms. The post independence era saw the relaxation of the stringent regulations on the urban informal sector giving a boost to informal sector activities. The government saw the informal sector operations as the breeding ground for capitalism. Due to economic stagnation in the mid 1980s, the informal sector continued to grow in Zimbabwe

Xaba, Horn and Matala, (2002:8) citing the work of Shinder (1998) state that, in 1999, the formal economy had negative job growth and some jobs in the informal economy had shown positive growth. In 1996 in Zimbabwe, 1.56 million people worked in the informal economy compared to 1.26 million people in the formal economy. The total labour force increased from 3 million in 1980 to 5 million in 1999, 44 per cent of whom were women (Xaba, Horn and Matala, 2002:8). The growth of the informal sector in Zimbabwe in 1999 can be attributed to the after effects of the structural adjustment programme. Many people lost their jobs due to retrenchments and widespread job cuts mainly in public service sectors of the economy (Mupedziswa and Gumbo, 1998). As the unemployment rate surged, most of the unemployed resorted to the informal economy for employment. The informal economy served as the only avenue of survival for most of the jobless, especially women.

Mupedziswa and Gumbo (1998:10) in their study of women traders in the informal sector found that 31% of women in the informal economy are traders selling fruit and vegetables. Women involved in cross-border activities comprised the second largest economic activity in the Zimbabwean informal economy (Muzvidziwa, 1998). The home-based work in Harare is widespread, but it is not well documented. However, this and other forms of informal work such as small businesses, vendors and "illegal" trade lack recognition by the Government (Xaba, Horn and Matala, 2002). As the informal economy continues to grow in Zimbabwe, only limited number of studies on the informal economy in Zimbabwe has been done. Other research by Shinder (1997) and Mhone (1995) investigated the growth of the informal economy in Zimbabwe as a result of ESAP. Furthermore, Muzvidziwa (1998) has done some work mainly on informal food vending and cross border trade activities.

3.6 Operation Murambatsvina and its Impact on the Informal Economy

The government failed to formulate policies aimed at stabilising prices so as to divert the sale of basic commodities and even fuel and foreign currency away from the informal channels. As a result, many Zimbabweans benefited from trading informally whether via proceeds from sales, by gaining access to scarce commodities or by evading taxes. These trading activities also guaranteed the unemployed with a source of income.

In an effort to stop these activities, the state in May 2005 unleashed the security forces into the urban areas with orders to shut down and destroy all illegal business activities mainly in the informal economy (Potts, 2007). The nationwide operation clean up campaign was approved by the Zimbabwean Government. It was code named 'Operation Murambatsvina', meaning 'get rid of the filth' (Bratton and Masunungure, 2006; Potts, 2007). A UN (Habitat) mission to Zimbabwe reported, on the basis of official government figures and average household size, that about 570,000 urban people had lost their homes and around 98,000 their informal sector livelihoods (Potts,2007: 265). Using information gathered during the mission, the UN suggested that between 650,000 and 700,000 people had been directly affected and a further 1.7 million indirectly affected by, for instance, knock-on economic impacts. Thus a total of 2.4 million or around 18 per cent of the total population was affected (Tibaijuka, 2005:34).

The hallmarks of the informal economy in Africa are adaptability and resilience (Bratton and Masunungure, 2006; DeHerdt and Marysse, 1997; MaGaffey, 1997). According to Bratton and Masunungure (2006:38), "despite of the attack on their livelihoods, the self-reliant occupants of this sector in Zimbabwe quickly tried to recover". The people continued to buy and sell on the informal economy, despite the attack. The economy continued to experience shortages of basic commodities such as fuel and foreign currency. The government implemented price controls as the shortages of commodities persisted. This drove the basic commodities from formal suppliers to private entrepreneurs who sold them at higher prices. As a result private entrepreneurs made supernormal profits. The architects of the Operation Murambatvina campaign clearly underestimated the difficulties involved in breaking the backbone of the popular economy (Bratton and Masunungure, 2006).

3.7 Conclusion

This chapter showed how the Zimbabwean economy has been subjected to various economic reform policies ranging from market oriented policies to state interventionist policies. The market oriented policies under ESAP and ZIMPREST were operational between 1991 and 1999. These policies were combined with fiscal mismanagement. As a result, Zimbabwe suffered a decline in economic growth. The chapter also highlighted the emergence of foreign currency parallel markets. The foreign exchange regimes and policies have been briefly outlined in this chapter. This chapter finally reviews previous research on the informal economy in Zimbabwe as well as the destruction of the informal economy under Operation Murambatsvina.

Chapter 4: Research Methodology

Ten informal currency traders were interviewed and observed in the city of Harare. This chapter outlines how the data was collected, analyzed and interpreted. The ethical issues presented by researching an activity that is regarded as illegal are then assessed. Finally, this chapter explores the various strengths and weaknesses of using this methodology and the potential biases.

4.1 Access to the Informal Currency Traders

Six of the ten interviewees were people with whom the researcher was very well acquainted. These participants then provided access to the other four participants. It is through these acquaintances that ease of entry into a wider group of informal traders was made possible. It allowed the researcher to get a broader picture about the informal currency traders' activities.

Gaining access into the social setting of the informal traders was an important step in conducting this research. It helped in the process of negotiating entry and speeded up the research. This also helped in devising appropriate behaviour and mannerisms for interacting with the traders. It was also important to work out the proper way of greeting the traders and introducing the nature of the visit. The researcher ensured that communication with the traders had to be very interactive allowing them to express themselves. This was followed by signing of the consent letter. The observations and the interviews followed.

4.2 Data Collection

This study drew on qualitative research methods. As Babbie and Mouton note (2001) this type of research "gives a more in-depth description and understanding of events or actions and this helps the researcher to gain insight into why and how these events or actions take place rather than just presenting a phenomenon". Qualitative research also allows participants to put across their beliefs and views in their own words. The study draws on ethnographic techniques. An "ethnographic study seeks to capture, interpret and explain how a group, organisation or community live, experience and makes sense of their lives and their world (Robson, 2002:89). In order to answer the research questions and gather the necessary research material, the researcher spent a considerable amount of time with the informal currency traders, whose realities the research aims to understand (Bryman, 2004: 138).

This method saw the researcher shadowing ten informal currency traders for a period of 14 days. The setting for the field work was in Harare the capital city of Zimbabwe. Street traders who participated in this research were observed and interviewed at their location of trading. The large proportion of traders operated from a busy street and the other group traded from rented offices. Each informal trader who participated in this research was observed for about 4 hours. This time was spent observing the currency traders, listening to their conversations and asking questions. During this period at the various settings, the researcher also had the opportunity to observe a larger group of informal currency traders.

Use was made of field notes. Field notes allowed the researcher to recall the events observed in their chronological order. These field notes acted as summaries of the events in the social setting of the informal traders. These field notes for each participant were written during the observation period. Sometimes the traders would be attending to some of their client. This gave the researcher some time to take brief notes.

Although a formal questionnaire was not administered, structured questions were prepared (see Appendix 1). The questions were based on the key themes identified in the literature review. The structured questions for the interviews were designed to explore, demographic nature of the informal traders. The ownership and structure of informal currency operations were also investigated by the questions. The calibre of their customer base was gauged while understanding how traders gain access to clients and the place of operations. It was important for the questions to get the traders' perspective on the emergence of informal currency trading. In a nutshell, the questions also aimed to assess the roles played by social networks and state in informal foreign currency trading. The linkages between the informal foreign currency traders and private sector were assessed by the questions. Attitudes of traders towards exchange control regulations and their legality were also evaluated by the questions. The questions had to establish the socio-economic benefits derived by traders from informal currency trading. Furthermore, the coping strategies employed to minimize losses in these operations were examined. The structure questions acted as a standard guide during the interviews.

For each participant an interview was conducted before being observed by the researcher. During the interviews the interviewees were asked to give their approval to allow the researcher to record the interviews using a voice recorder. Eight participants consented. The two who refused said the following:

> "I am not comfortable with being recorded. I do not know where this conversation will end up being played. I am proposing that you write some notes down. Furthermore, I will be happy if you do not observe me for a long time. Maybe you are with the police or other law enforcement agencies (she said laughing). Anywhere you have being referred to me by a very close connection of mine. I will assist you with your school project. When you get employed you should remember us." (Interviewee 6, 14 January 2008)

> "My brother, I do not know who you are? Recording me! No ways. My voice can be recognised. It's okay if you write some points down." (Interviewee 9, 21 January 2008)

In addition to the interviews, the researcher further gathered data through the collection of documents relating to the research topic. The research reviewed primary documents such as Reserve Bank of Zimbabwe monetary policy statements, newspaper articles and other government publications. The review of these documents focused on the period of 1991 to this present day. The changes in economic policies under ESAP triggering economic events currently occurring began in 1991.

4.3 Research Context, Ethical and Confidentiality Issues

Given that these activities are considered illegal by the Zimbabwean Government, the researcher did pay a lot of attention to confidentiality. Participants were given the opportunity to withdraw from the research at any moment. Every effort was made to conceal the identity of the participants in this research. No names were used from the onset of the research in the field notes and the final report. The actual location of the informal trading will not be revealed in the study. All participants who consented to participate in the study were satisfied by the above mentioned conditions of the research. The researcher did abide with these preconditions of conducting the research, creating a friendly relationship with the traders at the same time.

The researcher was reminded about the sensitivity of the research by a participant early on in the process. In an initial meeting discussing the research at a potential participant's home a third person arrived. Having overheard some of the conversation this person said:

> "You can not just go around wildly asking people about foreign currency. When you are caught by the police, you will be stressed big time. At the Central police station, they will give you a hard time. I would advise you to be careful as to whom you speak to." (Personal correspondence, 8 January 2008)

Participants in this research were mostly males. Women informal currency traders are active in these operations but often not willing to be observed and interviewed. The main informants in this research tried to link up the researcher with some female informal currency traders to take part in the research. Three female traders refused to be involved. Those traders who refused to participate in the research bluntly reacted by saying:

> "You want me to sleep in the police holding cells now. Why are you going around interrogating traders like this? I can not participate." (Trader 1, 10 January 2008)
>
> "Foreign currency is controversial my brother, I can not provide you with any information now." (Trader 2, 10 January 2008)

Some of the participants seemed a bit uncomfortable with the presence of the researcher especially the informal currency traders on the street. They feared being reported to the authorities. Others asked the researcher if he was an operative of the intelligence or an undercover police officer. Though this was put across as a joke, it reflected serious concerns. The researcher allayed these fears by showing the participant the university identity card and re-emphasising the conditions on the consent letter. The researcher expressed maximum interest and willingness to understand how the traders operated. Traders were convinced that the researcher was interested in learning about their way of life by trading foreign currency on the street.

4.4 Data Analysis

Hammersley and Atkinson (1995:160) state that in ethnography, analysis usually takes place throughout the project. In this instance, the researcher ensured that substantial amount of data analysis was done on the day of the interview. This implied that the researcher had to learn from the data gathered during one visit to the field as it helped to identify what to watch for, notice, or ask during the next visit. Detailed notes and write up was done during the evenings. Data analysis was an ongoing process. It was important to reflect on the content of details reviewed in the literature study, linking them as well as assessing the information gathered from the fieldwork. As a way of achieving the researcher attempted to identify common themes through the semi-structured questions. Some codes were created to represent various questions and problems. The outcomes relating to these themes were critically assessed and analysed basing on the arguments brought forward by the literature.

The researcher went through the field notes and interview recordings for all the participants. This required noting similarities and contrasts in their responses asking questions as to why they were some divergent views. The literature review was an important reference tool used as a benchmark for analysing the data collected from the observations.

4.5 Strengths and Limitations of the Research Methodology

The process of shadowing the traders allowed the researcher to experience what the traders go through on a daily basis - to have 'a feel' of their lives on the street. This method allowed me to develop an understanding of the culture and behaviour of the informal currency traders. Although qualitative research methods have advantages, they also have disadvantages. The most significant disadvantage is that the sample size is not big enough to generalise to the group as a whole. Given the illegal nature of these activities and the associated difficulties of the research context, a quantitative survey would not have been possible. These findings are thus give some indication of how these activities occur but at no point is the research claiming to be true for all informal currency traders operating in Harare.

The structured questions for the interviews served as an aide to the process. These specific questions helped to narrow down the focus of the ethnographic technique. Life employment history questions in the interviews were conducted allowing the participants to share their life experiences giving an account of their life leading to trading foreign currency on the black market. The face to face interviews gave the research an opportunity to note and interpret the mannerisms and body language of the interviewee as they responded to the interview questions. This made it possible for the researcher to pay more attention to the questions which needed to be further evaluated.

Given the illegal nature of these activities the researcher noted when the actual observations commenced there was some reluctance to reveal and disclose some business details. It is thus likely that there is under reporting of turnovers in foreign currency

The difficulties experienced in securing participation from women traders noted above mean that this research was not able to interrogate the issues that face these traders particularly.

The nature of the economic conditions in Zimbabwe where there are frequent power cuts and fuel shortages made for a challenging research environment. Power cuts meant that field notes could not be typed, nor findings analysed using a computer. Fuel shortages meant that it was expensive to get to trader sites and to follow them around.

4.6 Conclusion

The research methodology allowed the researcher to experience the lived experiences of the informal currency traders. The chapter further highlighted some of the limitations were unobserved deals, under representation of females due to fear, unrecorded interview details, no quantitative data to compliment this method and logistical problems during the fieldwork. The chapter also highlights how the setting of the fieldwork was influenced by the fear of security agencies making the field work more challenging. The researcher had to be very careful in his mannerism and approach to the informal currency traders.

Chapter 5: Findings and analysis

In this chapter the research findings gathered from the fieldwork are presented, interpreted and analysed. The chapter aims to answer the main research questions which were posed in Chapter 1. The presentation of this chapter will begin with a context section, highlighting the environment in which the traders operate. An outline of the demographic analysis of the participants will then be given. Following this, the chapter will elaborate on the place and mode of operations involved in informal foreign currency trading. Social and economic benefits derived by the respondents from their trading activities will be briefly outlined next. The chapter will then provide an explanation of the emergence of informal currency trading in Zimbabwe. A concise overview on the role of the state in influencing informal foreign currency trading will be given afterwards. The ownership structure of these activities will then follow. Next, the chapter will explore the formal informal linkages involved in informal foreign currency trading. The role of social networks in informal currency trading will follow. Finally, the chapter will explore the various copying strategies employed by the informal currency trading.

5.1 Context

In Harare there are a few streets that are the hub of the city's informal currency trading. The traders operate mainly from places where they are in constant contact with the public places such as bus terminus, busy streets and rented offices. There are numbers of both men and women who traded foreign currency. It was not possible to get exact numbers but just on one street it was estimated that there were between 100 and 150. From sun rise to sun set they solicit customers in a bid to sell or buy foreign currency. They persistently whistle and gesture by rubbing the thumb to the index finger. This acts as an indication that they deal in foreign currency. These traders also cautiously approach potential customers whispering the following words:

> "Toita sei nhasi, ndine maRates anoita nhasi" meaning "what can we do for you today? I have favourable rates today".

There is a heavy police presence on these streets. These police are heavily armed and are a mixture of riot police and bicycle patrols. This symbolizes the depth and seriousness of the state's attempts to root out the foreign currency 'black market'. It also indicates the extent to which the state goes in an attempt to control the economy.

5.2 Demographic Analysis of the Participants

The age of the participants to this research ranged from 23 to 33 years. This age group constitutes the economically active group of the population in any economy. Since so many Zimbabweans face unemployment and experience economic hardships, this group has resorted to informal currency trading as a way of earning a living. The group comprised eight males and two females as more males. As outlined in the previous chapter there was reluctance on the part of female traders to participate in the research. Women informal currency traders are active in these operations but often were not willing to be observed and interviewed.

Of the ten traders interviewed 5 were single and remaining 5 were married. They all had dependents. The number of dependents ranged from 2 to 5. Most of the informal currency traders are the bread winners in their families. From the observations, these traders exhibited some level of selflessness and vowed to make it their duty to provide for the day to day needs of their dependents.

Six of the traders were once formally employed while the other four had never been formally employed. The informal currency traders interviewed had varying skills and educational backgrounds. Some of the traders have high levels of professional qualifications in a variety of disciplines. Informal foreign currency traders interviewed showed that they once belonged to a group of highly skilled individuals once contributing positively to their economy. Their skills ranged from accounting, fund and treasury management, marketing and teaching. There are two groups of informal foreign currency traders; those who have been formally employed and those who have never employed formally. Six traders interviewed were once formally employed in the banking sector. These tend to trade mostly from rented offices. Four traders had never been employed formally. The latter operates mostly from the streets. However, the different levels of skills and education do not inhibit any one from dealing on the black market for foreign currency in Zimbabwe. The level of skills and connections established determine the success of the traders. An informal currency trader commented:

> "Gone are the days when people would value education as a basis for earning a good living in the future, some are even dropping out from colleges and universities to engage in these underground deals (illegal trade in , fuels, foreign currency and precious stones." (The Herald, 31 January 2007)

Most traders who were employed formally left their jobs to trade on the informal currency market. The traders gave an account of how they were forced to supplement their monthly incomes by borrowing or getting involved in illegal deals as a way of earning extra money. Therefore, the main reasons for leaving formal employment were largely due to; the insufficiency of remuneration to cover all monthly expenses due to the hyper inflationary condition of the economy. Interviewee 8 emphasised as follows:

> "I have been a teacher for eight years. I resigned to operate full time on cross border activities and trading in foreign currency. I was not getting adequate monthly salary to meet the needs of my family. It was just stressful for me and my husband who was also a teacher." (Interviewee 8, 18 January 2008)

Traders further noted that company closures led to dwindling productivity levels. Most private firms folded their operations leading to the retrenchment of workers. The financial market failure saw most bank employees being retrenched as well. Interviewee 2 said:

> "This profession (referring to money market dealing) died with the collapse of the financial markets resulting in the closure of most finance houses." (Interviewee 2, 7 January 2008)

Finally, one interviewee noted that some firms could only offer short term contract and meagre remuneration. They never got permanent employment. Interviewee expressed his experience:

> "Over the years I have worked temporarily as an administrator. I was thus tired of

> being laid off after the employment contracts expired. It was just frustrating." (Interviewee, 8 January 2008)

The stimuli for leaving their formal employment was also critically linked to the miscalculated economic policy decisions of the present government having adverse effects on the economy.

5.3 Place and Mode of Operations

The research revealed that currency trading happens in a number of different locations at different scales. Two of the interviewees operated from formal rented office space while the rest are street traders. These activities were mostly street vending in nature. The traders solicit for clients on the street. Traders spend the whole day trading foreign currency on the streets no matter what the weather conditions. Most of the traders have cars to provide shelter from adverse weather conditions. There are also frequent police patrols. Cars also provide a safe haven from the constant police patrols. The possession of a car indicates these traders are not survivalists and are operating in the upper echelons of informal work. During the day their cars are parked in street parking bays. Upon securing a deal, the traders and their clients would simply take a drive around the block so that money is not exchanged on the street. The drive around the block signifies the completion of the deal and transaction.

The street informal currency traders mark their territory of operations authoritatively making sure everyone passing through gets to know that foreign currency trading is taking place. They boldly refer to the street they operate from as their 'office' implying they are there to stay. They regard the street as their place of work, sustaining their livelihoods. Alternatively, the location of operations is also referred to as the 'pot' where foreign currency is 'cooked and served'. One trader shouted loudly:

> "You have arrived at our office. This is the pot where we cook and produce any amount you want; we have greens, mbeki's, brits and bots in any quantities" (Trader, 5 January 2008)

As the quote indicates traders use code names to refer to major trading hard currencies, the US Dollar is referred to as the greens, the South African Rand is referred to as 'mbeki', British Pounds is referred to as the Brits and Botswana Pulas is referred to as Bots. Code names are meant to divert the police. The code names for the currencies are constantly changed. The traders revealed that US dollars and the South African rand were the most traded currencies followed by the British Pound, Pula and the Euro.

It soon became clear that, apart from the less sophisticated street informal currency trading, there was another form of trading foreign currency on the black market - group operating from offices. These traders utilise other business operations as fronts. These businesses focused on better off clients and trade in larger volumes of hard currency. One of the interviewees had a very well equipped office with the latest office furniture and technology. Amongst the office hardware was a money counting machine.

He explained how the mobile and landline phones are the key to communicating with potential and trusted clients/ traders. Most clients visit his office to conduct large foreign currency transactions. He would not disclose the magnitude of the deals involved. He also is in the business of selling cars and fuel. His former line of work as a money market dealer allowed him to have a deep understanding of management practices. This gives him an edge over the street traders in terms of trading in large volumes. He hinted at how he would convert cash in local currency to hard currency, cars and or fuel which has the ability of bringing in more returns. He described how these speculative activities have made him earn as he described 'a fortune' in just a short period of time.

From overhearing his phone conversations it was clear that money and business dominated the discussions. Some callers were inquiring about the black market foreign exchange rates for the day. Interviewee 2 relayed the following:

> "Rates determine how trading during the day would be conducted. This information on rates determines whether one has to convert the existing currency into other assets for storing value such as fuel and cars." (Interview 2, 7 January 2008)

Deals were confirmed via the phone before the actual transaction was done. As he described it, no negotiations were done when exchanging the currency it was just a matter of, as he described it 'pick and drop'.

Another trader who trades from rented office space was interviewee 5. Upon arriving at his offices and waiting for him on the backyard porch, two brand new vehicles could be seen parked in the drive way. Two young women came out, looked suspiciously at the researcher asking what my business was. Upon getting a satisfactory response from me, they opened the boot of one of the vehicles and offloaded two heavy sacks from the car. For a while, I thought it was mealie meal but it soon became clear they contained blocks of local currency notes. These notes would run into billions if not trillions. At this establishment it was noted that the office functioned as a formal establishment covering up for informal currency trading changing amounts of hard currency. Some of their customers are the big corporations, prominent businessmen and even politicians.

The research found two forms of foreign currency trading - street currency dealers transacting in smaller amounts and office dealers involving larger amounts of cash. The two forms of trading are strongly linked via middlemen and mutual clients. However, foreign currency can be traded informally at any location in Zimbabwe. It can be at a residential home, work place, public places and other locations just as long as it is securely shielded from the law enforcement authorities.

Some of the strategies and tactics employed by the informal currency traders in the market are meant to ensure sustainability. Traders emphasised the importance of being informed about exchange rate movements. The direction of exchange rates movements depending on whether the trader is buying or selling ensures greater returns. Interviewee 3 explained this strategy:

> "The strategy I employ when dealing foreign currency is to buy my hard currency at a lower rate and sell when at a higher rate." (Interviewee 3, 8 January 2008)

Unofficial exchange rates are determined the forces of demand and supply. In some instances the traders create a slight shortage of foreign currency to the clients. They hold onto their currency as a way of pushing the rates up to make some profits. Trader through repeated transactions with their clientele created loyal clients. The clients rely heavily for currency supplies from the traders. Interviewee 8 highlighted:

> "I have secured a ready market for foreign currency with my regular client. If foreign currency would be in short supply but the potential buyers are always eager to buy from me at any time." (Interviewee 8, 18 January 2008)

Traders avoid moving around with all their cash either in local or hard currency. They do this to reduce chances of being detected by the police. Interviewee 2 (7 January 2008) cautioned by saying "You cannot move around with all your local and hard currencies". Such a strategy reduces the risk of losing all their currency. In some instances, traders combine their foreign currency cash reserves to match requirements of certain clients. In combining their cash, traders can negotiate for a higher rate which ensures greater returns for them. Interview 6 highlighted this strategy as follows:

> "Sometimes we traders combine our hard currency to come up with a bigger amount to trade" (Interviewee 6, 14 January 2008)

5.4 Social and Economic Benefits of Informal Currency Trading

Most of the traders expressed that they have benefited from informal currency trading. Informal currency trading is seen by many as a form of employment in a country facing serious economic hardships with an unemployment rate of about 80 %. Informal currency trading has enabled the traders to earn a living while improving their standards of living. The incomes earned from trading have transformed their lives positively. Some traders managed to buy properties, cars and acquire other assets. Informal traders alluded that some of the proceeds from currency trading are channelled towards better education and health services for the family. Most of their children are enrolled in better schools receiving decent education. This creates a brighter future for them.

One trader gave an account of the benefits:

> I get food on the table. As of the economic benefits I am not sure whose benefits you are referring to, is it my benefit or the benefits of the economy as a whole? The country has not benefited in any way from the black market foreign currency trading, but my home economy is booming I am telling you. I am telling you last

> time I used my salary meaningfully was when I went to the supermarket and bought a bag of salt. Other wise everything else including properties it's my earnings from the foreign currency deals. (Interviewee 5, 11 January 2008)

However, these benefits experienced at the micro level by the informal currency traders and their families do not necessarily manifest at the macroeconomic level. The economy as a whole has suffered as evidenced by negative macro economic indicators.

5.5 Emergence of Informal Currency Trading

As stated by Degefa (2001:15), parallel foreign exchange markets are usually created in response to foreign exchange scarcity in the formal markets in most developing countries. The outcomes from the interviews reflect the same notion. The responses point to the fact that excessive government controls on the limited foreign exchange reserves drives those who are in need of hard currency to seek it from the illegal channels. Fardmanesh and Douglas (2003) revealed that exchange controls exert the strongest impact on the black market premium. These controls were said to have caused the divergence of the official and black market exchange rates. As a result the official rates became lower than the black market rates.

The responses from the interviewees highlighted that Government continually and stubbornly overvalued the Zimbabwean dollar against all major trading currencies, further suppressing the official exchange rate. As a result, the gap between official and black market exchange rates continued to widen as the black market exchange rate devalued in response to the market forces. As a result, the level of informality with regards foreign currency trading in Zimbabwe is dependent on the widening of the black market premium (the gap between the official and black market rate). A wider the black market premium leads more individuals to engage in informal foreign currency trading. The current foreign currency shortages intensified the black market premium. The responses on the emergence of the parallel market for foreign currency were as follows;

> "From my knowledge these activities emerged sometime around 1997, the day they called the Black Friday when the Zim Dollar fell from 5 to 25 against the USD. From there through sanctions, political situation, decline in agricultural

production and exports foreign currency inflows into the country has been decreasing hence a shortage in foreign currency. As we continued from that crush forex supplies decreased hence these activities continued to grew." (Interviewee 4, 10 January 2008)

"The RBZ exchange rates were unreasonable and uncalled for hence they had to emerge a better way of doing business on the forex market through informal trading. These activities became more prevalent about 3-4 years ago in 2002, the after the land invasions, crushing of the Zimbabwe dollar." (Interviewee 2, 7 January 2008)

"As I see it hard currency was hard to get from the banks. People who had the opportunity of accessing forex from where ever saw it as an avenue to get more returns for the hard earned hard currency especially the cross border traders and companies. For example a cross border trader could bring in R100 and decides to trade it on the parallel market at a rate where Zim$1 000, 000. 00 is traded for R100. This rate will be 4000 times bigger than trading at the official rate. They are no problems with such a trader earning more from such an opportunity." (Interview 8, 18 January 2008)

The repressive state policies initiated by the controversial land reform program resulted in less political rights and civil liberties in the economy. As the study by Bahmani-Oskooee and Goswami, (2006:103) showed that less political rights and less civil liberties result in a higher black market premium. In this regard, the Zimbabwean economy experience higher black market premium.

According to Gogo (2006), "rate convergence is now an urgent matter because the dual system has created serious distortions by imposing a heavy tax on exporters and hampering export competitiveness". Most traders are aware that the persistence of higher black market premiums is detrimental to the economy. Therefore, addressing these is important in an attempt to normalise the foreign exchange market operations. Fardmanesh and Douglas (2003) underscored the importance of understanding the relationship between the black market and official rate in order to approach unification attempts. However, exchange rate unification is far from the agenda of government exchange rate policies. Most traders show that the persistence of this situation in the foreign currency market secures their livelihoods. The traders will continue to source foreign currency on the black market and these informal currency trading practices are given a boost. Participants shared their views on the emergence of the informal currency trading as follows;

> "In my personal capacity foreign currency black market trading emerged purely because of the monetary gain involved. Since the country could not produce to full capacity for export and all sources of foreign currency collapsing over time, it led to severe shortages of foreign currency. Those who can supply it gain in monetary terms." (Interviewee 5, 11 January 2008)

Informal foreign currency traders indicated that the combination of foreign currency scarcity and the high unemployment in Zimbabwe pushed the unemployed into trading the scarce hard currency which assures them of greater returns. Generally, foreign currency provides a global hedge against risk and loss of monetary value. Under the current economic conditions faced by Zimbabwe with an inflation rate of 100, 000 % and an unemployment rate of 80 % speculative activities have become very lucrative. Two informal currency traders clearly emphasized that the combinations of severe shortages of foreign currency and unemployment provided the opportunity for them to informally trade foreign currency their responses were as follows;

> "The main causes for the emergence of informal trading are the shortages and unemployment." (Interviewee, 8 January 2008)
>
> "Due to shortages in foreign currency and the high unemployment levels in the economy. And also, about 7 years ago, the central bank ordered the closure of the bureau de changes these closures prompted informal currency trading." (Interviewee 6, 14 January 2008)

The respondents also indicated that poor exchange policies devised and implemented by monetary authorities worsen the poor economic performance. A negative economic growth is associated with real exchange rate misalignment, where the official and black market rate diverge widely (Munoz, 2006; Toulaboe, 2006). In this regard, exchange rate misalignments in Zimbabwe have negative effects on the economic growth characterised by low income, exports and agricultural production. Thus, getting the exchange rate right to create a conducive for economic growth becomes difficult as distortions favouring informal currency trading become more prevalent.

> "It all started due to the decline in the economy, to a large extent the government paved the way to the emergency of these activities. People lost confidence in the government policies." (Interviewee 6, 14 January 2008)

5.6 Role of State Regulation

At one point in the research the researcher was thoroughly searched - from head to toe and ordered to remove shoes and socks – by the police. Fortunately, both the researcher and the trader being shadowed had no foreign and local currency to link us to informal currency trading. The trader told me that if they had found foreign currencies we would have been arrested. During this ordeal the trader was neither afraid nor bothered. He spoke very casually with the police officers. The researcher in contrast was terrified. The police later released them from this intimidating and inhuman body search. The trader informed me later, that he was on the verge of initiating a bribe.

Sometimes bribes are paid to the state authorities (mainly the police and undercover police officers); this creates an exploitative link between the state and informal currency traders. The police threaten traders and solicit for payments in exchange for turning a blind eye to informal foreign currency transactions. Interviewees noted that the average bribe was US$5 or some lunch and/or bus fare. Information concerning possible police raids on the traders can also be accessible by paying a certain fee to the police officers. Such an arrangement would allow both parties to gain. These relationships engaged by the police effectively connect the informal currency trading with the state since the police are mandated by the state. This corruption is an indication of state failure. Most of the participants mentioned such practices. With regards to the conduct by the police some traders reacted by saying:

> "The police are showing us hell on earth, they are a big problem. Some of their

> operatives come disguised as buyers and arrest us. It is hard to distinguish. But now we can manipulate them by giving bribes. As we are speaking right now you (referring to the researcher and laughing) might just be one of them and arrest me right now." (Interviewee 9, 21 January 2008)
>
> "The police usually make life difficult for us by arresting and harassing us. Since the government is not paying them well, the police officers tend to be very corrupt. We usually pay them bribes to leave us alone." (Interviewee 1, 5 January 2008)

Informal currency trading has stirred up a lot of controversy and criticism from the government of Zimbabwe. During the launch of Sunrise 2 a programme which aimed to entrap disruptive illegal dealers. The central bank governor, Dr Gideon Gono said:

> "As Monetary Authorities, we say NO to this callous path, and hereby declare total war against the illegal dealers who are causing havoc in our markets." (Reserve Bank of Zimbabwe, 2007).

The state has strictly and excessively enforced the Exchange Control Act regulations in the formal system of foreign currency trading. It was observed that this behaviour by state is the main force driving private companies into sourcing foreign currency on the black market. As a result, fostering the informal currency trading as those repelled from the strict formal system, perceive it as beneficial to trade foreign currency on the black market. Interviewee 4 revealed that:

> "The regulations have become tighter and tighter overtime as the good Governor wants to stem out these activities. Unfortunately, as the regulations grow tighter and tighter, informal currency deals have become more lucrative." (Interviewee 4, 10 January 2008)

The expansion of the parallel market for foreign exchange leads to the loss of government control over the economy as more and more of the official transactions are diverted to the parallel market (Degefa, 2001). The disjointed foreign exchange market creates distortions and perverse incentives in an economy (Reserve Bank of Zimbabwe, 2006). Informal currency traders have gained from the rewarding benefits associated with speculating on the black market activities. Traders emphasised they are not directly affected by the strict controls imposed by state. Most traders admit they are just benefiting from the miscalculations of the state's foreign exchange policies. However, these controls have resulted in unfavourable outcomes for the private sector. The interviewee's responses of their perceptions to the state's exchange control regulations were as follows:

> "We just hear from the media what the central bank governor is doing to curb these activities but we traders do not feel the pinch of the strict regulations put in place. It is now a trend that when ever the central bank tightens controls, we gain a lot." (Interviewee 6, 14 January 2008)
>
> "The exchange control regulations they have come down to nothing, they no longer apply to the underground deals in the informal currency trading. Foreign currency trading is now being done in a dual manner (official and unofficial)." (Interviewee 5, 11 January 2008)

Some of the informal currency traders were highly critical of the failure by the state to formulate policies to turn around the misfortunes of the foreign exchange system. The participants passionately expressed their opinion about the issue of poor policy formulation. Most of these traders had lost confidence with the government's policy making initiatives. For example traders said:

> "The government has failed to consider the pleas of the ordinary people of Zimbabwe to rethink its economic policies. People have no choice but to engage profitably in these so called 'illegal' activities. It is the failure of the state which makes these activities legal in our eyes as traders." (Interviewee 5, 14 January 2008)
>
> "The state has tried to restrain these activities for quite some time now but the efforts are in vain due to their failure to formulate policies." (Interviewee 2, 7 January 2008)
>
> "Rules and regulations are there, but some of these laws are just idle such that we no longer take them seriously. If we follow some of these toothless laws we will end up not trading forex due to the fear of breaking such inferior laws, so we just

ignore some of the laws." (Interviewee 8, 21 January 2008)

The informal currency traders boldly consider their operations to be legal, stressing that it is actually the state's formal system which is now illegal. In the interviews the traders justified their stance by saying;

> "Officially it is illegal considering the exchange control regulations of Zimbabwe. ....On the street the US Dollar fetches more than when you change your money at the banks considering high prices due to inflation. It then turns out that government is actually illegal and the informal trade is legal in my own view." (Interviewee 7, 16 January 2008)

In support of their stance, the informal currency traders consider themselves as offering a competitive exchange rate which is in accordance with the prevailing black market rates of the day. The black market rates are considered by the traders to be in line with the current inflation trends. Customers would be cushioned in the inflationary environment of Zimbabwe. Furthermore, access to foreign currency on the informal market has no unnecessary restrictions and formalities attached unlike in the formal system. Traders however do feel that the overvalued official exchange rates expose the people to the value eroding effects of inflation. Informal traders considered official exchange rates as unfavourable to individuals and the private sector. The official exchange rate is therefore seen as unrealistic given the current harsh economic situation in Zimbabwe. The failure by the state to devalue the currency accordingly, led people to engage in speculative activities such as trading in foreign currency informally.

Other traders recognized these activities as being illegal. It is the persistence of trading foreign currency on the black market by most businesses and individuals which made these activities to be perceived as legal.

> "They are no two ways about it, it is illegal. I know it, you know it and they know it. The law of the land says it's illegal. The excessive prevalence of black market foreign currency dealing makes it some what legal. It is like the city of Sodom and Gomorra in the bible, where everyone was sinning in that city and it became part of their daily lives. Same with black market currency trading, we begin to see

it as legal thus some how makes it legal." (Interviewee 5, 11 January 2008)

Informal currency traders thus regard these activities as their life line, an avenue for survival in the harsh economy. In their minds it becomes apparent that these activities are legal. Private companies are dependent on informal currency traders for their foreign currency needs. Informal currency traders view themselves as being vital in the informal foreign currency market. In their own opinion, they regard their operations and services to be way above the central bank and the formal banking system in foreign currency dealing. Interviewee 9 responded to the question relating to the legality of informal currency trading by proudly saying:

> It is hard my brother. As I see it, our operations are legal but they (referring to state police) come and arrest us. Their so called banks no longer have money. As you can see us (traders) here now, we are actually the banks. …Banks are no longer functioning, we are representing the banks. Gono (referring to the central bank governor) does not know what he is doing. Since we are now the banks he is no longer working. All bank clients are coming to us. (Interviewee 9, 21 January 2008)

Meagher (1995) emphasized that the neo-liberal approach to informality states that "…informal sector was recast as victim of excessive government (state) intervention which monopolized resources in favour of a small and inefficient formal sector, forcing the bulk of the population to meet their own needs outside the regulatory framework of the formal economy". The nature of this notion by Meagher, De Soto and others can be observed as leading to the emergence of informal currency trading activities in Zimbabwe. From the interviews it could be gathered that the state in Zimbabwe has played a similar role through imposing strict rules and regulations with regards to foreign currency regulations.

5.7 Ownership Structure

All the traders interviewed were self employed. Each individual was responsible for running and managing his or her own operations. In this case the sole accountability and responsibility rests on an individual running the operation. All the participants revealed that they operate individually though they maintain a close interaction with the other informal currency traders. I could sense from their responses that they feared the misunderstandings which might arise from bad deals requiring to be explained to the other partners. For this reason operating individually is the most favoured arrangement by the informal currency traders. In relation to ownership some of the traders responded by saying the following:

> "Each one for him self. One man for himself." (Interviewee 4, 10 January 2008)
>
> "I operate alone working as a group in this case has a lot of problems associated with it. Money becomes a problem when operating in this set up of informal trading, issues of trust and accountability become factors to consider, you must minimise the risk of default when dealing as a group. Money can cause arguments and quarrels; it can be a nightmare if one is not careful. Therefore traders see it fit to operate individually but we share information most of the times. I favour working alone, people even come to my house and transact with me." (Interviewee 8, 18 January 2008)

5.7 Linkages between Informal Currency Trading and Formal Private Companies and Government Entities

Chen (2007) emphasised that the key issue in the debates on the informal economy are whether and how the informal economy and formal economy are linked. From the observations and interviews, it was established there is a strong linkage between the informal currency traders and private firms including certain parts of the government. Interviewee 1 gave an account of how he constantly interacts with the big private firms to conduct foreign currency deals:

> "The major players in the informal foreign currency market are the big companies and other banks. Business people and some of the big corporations are the main culprits trading on the informal currency market. They call us up regularly giving us big bags of money in local currency. We then act as intermediaries for them changing the local currency into hard currency on the black market. As long as the government fails to satisfy the foreign currency requirements of the industrial

sector these companies will continue to come to us to source forex. After sourcing hard currency for them at the end of the day, I will return an empty bag to the company's contact. If they are satisfied they will contact me the following day for another transaction. I just act as a middle man." (Interviewee 1, 5 January 2008)

Private firms operate through an intermediary or middleman acting on their behalf in the black market since they prioritise maintaining their anonymity. As noted by a trader interviewed by local paper:

> "Most of the guys and women you see here are errand boys who do the running around on behalf of the big people, owners of the money. The owners of the money, man. They hardly come to the streets. We are talking of politicians and business people. These are people who appear on TV all the time describing the foreign currency black market as an evil." (The Herald, 26 July 2007)

Interviewee 3 and 6 confirmed this:

> "Private firms engage with intermediaries who operate on their behalf." (Interviewee 3, 8 January 2008)
>
> "Most of the people who come here to conduct large transactions are middlemen in actual fact working on behalf of the private companies." (Interviewee 6, 14 January 2008)

During the research traders sometimes left the researcher for about an hour. The traders would politely excuse themselves. It is likely that during these times the traders would be engaging in some deals which the preferred not to be observed by me. These are likely to be deals that involve some 'big clients' (possibly state officials, politicians and or private sector middleman) whom the informal traders did not want to be disclosed.

Due to persistent foreign currency shortages, the formal systems for trading foreign currency mostly between banks and private sector firms were phased out as private firms formed an underground alliance with the informal currency traders. Foreign exchange deals were therefore diverted to the parallel market. According to the traders interviewed the severe foreign currency shortages are responsible for creating the strong linkages between the informal currency traders and the private formal establishments. The persistent foreign currency shortages ensure the sustainability and continuity of these linkages.

> "Here is a relationship if not a marriage. Most of the private sector firms require raw materials and other supplies. They can not get enough currency from the banks to procure their requirements. They frequently come into the market via an intermediary (middle men) acting on their behalf. We are in very close contact with the private sector just as long as we keep our mouths shut about our relationships." (Interviewee 5, 11 January 2008)

Conversely, assuming there is a future improvement of foreign currency inflows in Zimbabwe in the near future the linkages between informal currency trading and the private sector will be vulnerable due to possible collapse as the private sector resuscitates its previous links with the formal systems of sourcing foreign currency. As long as this scarcity in foreign exchange is prolonged, companies will require foreign currency to sustain their operations. Companies have no choice but to rely on the black market for their foreign currency to procure raw material and other supplies. These supplies of foreign currency allow private companies and corporation to sustain their daily operations. Interviewees 4 and 6 responded by saying;

> "This is simple. The private sector requires foreign currency which is not available through official means to survive." (Interviewee 4, 10 January 2008)
>
> "You can not explain how importing companies are surviving in these harsh economic conditions. It means somehow, someone is facilitating for them to have access to foreign currency. It can only be the black market providing for the needs of the private companies." (Interviewee 6, 14 January 2008)

Two interviews stressed that even the government was sourcing foreign currency from the black market. Government requires foreign currency to pay for the electricity bill and fuel supplies. Traders reflected that some political and government officials were also dealing and or buying foreign currency anonymously on the black market.

> "As of government entities we really can not tell, but the grape vine says other agencies of the government enter the black market to source foreign currency on

> behalf of the government….. Where else can the government get forex other than the black market?" (Interviewee 5, 11 January 2008)
>
> "Some government entities also require foreign currency to supplement their requirements for example the national power utility Zimbabwe Electricity Supply Authority (ZESA). They have no choice but to rely on the black market for foreign currency." (Interviewee 4, 10 January 2008)
>
> "…the RBZ itself is secretly sourcing foreign currency on the black market for fuel and power imports from neighbouring countries." (Interviewee 2, 7 January 2008)

Rakowski (1994) highlighted that the structuralist approach focuses on the exploitative relationships between the informal economy and the formal economy. The structuralists subscribe to the notion that the formal economy exerts a dominant power relationship over the informal economy in its own interests (Chen and Carr, 2001). The formal economy makes use of the cheap unprotected informal sector's resources, labour and networks to benefit at the own expense. Contrary to the notions put forward by the structuralist approach on exploitative relations between the informal and formal economy, this present research has established that the linkages between informal currency traders and private sector entities are far from being exploitative but rather mutually beneficial. Informal currency traders and private sector are highly dependent on one another. The shift in the institutional boundary of regulations of economic activities with regards to the foreign exchange policies in Zimbabwe have realigned the linkages between the informal currency traders and formal private entities into a mutually beneficial relationship. It could be referred to as a symbiotic relationship. For the purposes of this research, two dissimilar sectors of the Zimbabwean economy an informal currency segment and formal private sector entities are in close contact and association via trading foreign currency with one another ensuring tangible benefits for both sides.

However, the private sectors face more risk. They are more exposed to police harassment and intimidation. Private sector is not intimidated by these state apparatuses. Currently, Informal currency traders benefit from their exploitation of the currency crisis in

Zimbabwe. Assuming recovery from the crisis, informal foreign currency traders will be the ones who suffer the most. The private sector will simply resume sourcing foreign currency from the formal banking system.

All the parties in a foreign currency deal would not intend to be worse off from any foreign currency deal; optimum satisfaction has to be attained by all parties. Informal currency trading works through an intense process of negotiating between the parties involved. Every foreign exchange deal is negotiated until all parties are satisfied. This effectively reduces to some extent the vulnerability of the informal foreign currency dealers. All counterparties to the informal currency deals have to benefit mutually. The agreed black market rate represents an optimum point of satiation between the parties to the deal.

Foreign currency is offloaded on the parallel market, where exchange rates are higher than official market rates. Higher black market rates attract more inflows of foreign currency to be sold on the parallel market. The main sources of foreign currency supplies for the informal foreign currency traders are the individuals. Large volumes of remittances from the Diaspora are received by families in Zimbabwe. Other sources of foreign currency for the traders are employees working for international organisations mainly NGOs, cross border traders, tourists, emigrants visiting their home country, government officials and business people returning from overseas business trips, and informal money transfer agencies. In most cases, these suppliers are trading their foreign currency for domestic consumption. Informal traders tend to suppress their rates when dealing with this group of suppliers. Traders would then get a higher rate from trading with the private sector. The difference between proceeds from suppliers and demanders (private sector) of foreign currency represent informal currency traders' mark up.

Policies to influence these activities need to be linked to the monetary policy. However, in its linkage with the state a reverse exploitative relationship exists between state and informal currency trading. Informal foreign currency traders take advantage of loop holes in the state policies allowing them to gain access to cheap government foreign currency which is in turn traded on the black market. As a result, government is exploited by the traders who gain more than the state.

5.9 Role of Social Networks in Informal Currency Trading

Informal currency traders spend the greater part of their day interacting with people and seem to have developed excellent interpersonal skills. Most traders had at least two cell phones each. These cell phones would be constantly ringing. One after the other their cell phones rang as if they were the reception of a dealing room at a high profile financial institution, only that they were just informal currency traders. Dominating their conversations was foreign currency issues and deals. People would be enquiring about the daily rates on the market. It is thus clear that cell phones play a pivotal role in the informal foreign currency trading in Zimbabwe. It connects the traders to potential clients while helping to maintain well established existing relationships between the traders and their clients.

Cope, Jack and Rose (2007) highlighted that social networks are the most important aspect of social capital playing a vital role in promoting informal economy activities. In informal currency trading social networks proved to be an essential aspect of these operations. The traders emphasized that social networks facilitate the smooth running of their operations on a daily basis. Traders are able to maintain close links and ties with one another and their customers. In some cases the traders acquire valuable information from the policymakers themselves with regards to future foreign exchange policy expectations. In the official foreign exchange markets, exchange rates are advertised through the media, banking hall electronic exchange rate boards and over the internet. In the setting of informal currency trading the equivalent of advertising exchange rates can only be achieved via connections and contacts, all encompassed in social networks. Interviewees 4 and 5 clearly related to this role played by social networks in informal currency trading, he responded with:

> "Social networks are the oil of the whole machine facilitating our operations. Since we can not advertise our operations through the media, they are no other ways to do this than to make use of the society via contacts." (Interviewee 5, 11

January 2008)

"Networks are vital to our operations. We also have people in high places for example in the RBZ telling us of what to expect from the policymakers." Interviewee 4, 10 January 2008)

The social networks ensure that trust and loyalty are eventually built between the informal currency traders and their client. The informal traders make an effort to serve their clients in a transparent manner, which leaves the clients satisfied. Once this trust is established it is up to the customer to contact the informal currency trader for another transaction or recommend the trader in question to other potential clients. Strong networks are thus created between the informal currency traders and their customers. The two participants responded as follows:

"Yes this trade is based on trust and networks. The more I serve the clients in a transparent manner the more they come back. A satisfied customer is a loyal customer." (Interviewee 4, 10 January 2008)

"Social networks play a large role for us in this trade. You need to rely on other people to source the foreign currency. It is more like a network of people with similar interests empowering each other on the market thus establishing trust. It is very important in this market, you can not stand alone." (Interviewee 2, 7 January 2008)

The wants and needs of each group of people then interacts forming a market condition conducive for the foreign currency trading. In this regard, making connections with others, with whom they share values, individuals are able to achieve more than if they acted alone (Cope Jack and Rose, 2007). In the informal currency market one can not afford to work alone without interacting with the other traders, cooperation and coordination with other traders brings in more benefits and returns. The participants responded to the value of social networks as follows:

"That's how we get information about the market trends. These networks are very effective in transmitting black market exchange rates. If you go right now to different traders you would notice some form of uniformity in the rates.

> Variations tend to be very minimal. Black market news actually travels fast like wild fire, all the credit should be given to these networks". (Interviewee 8, 18 January 2008)

Under the current repression in Zimbabwe, people work in solidarity as noted in Interviewee 6's response. Solidarity amongst the people is achieved through the networks as people aim to tackle the harsh economic exclusion. People around the traders also assist them by providing some leads and connections to potential foreign currency deals.

> "It is important to be connected in these activities. I am now connected to the extent that my connections call me on my cell phone to have some transactions done. Even the people from the community I come from provide me with some clients and some leads of where to get some clients wanting to change large amounts of money. People being aware of the hardships faced by everyone in the Zimbabwean economy, they know and understand that this is work for me hence they do everything in their power to get me connected to the right people." (Interviewee 6, 14 January 2008)

However, there are processes of exclusion. Traders are very suspicious of new comers. New foreign currency traders are often suspected to be part of law enforcement agencies. This acts as a barrier of entry into this trade. Some potential traders might fail to establish them selves. The new traders can only gain access into market through the established traders. The research was unable to trace the gender dimensions of social networks due to low participation by females.

5.10 Copying Strategies Employed by Informal Currency Traders

As noted by Bratton and Masunungure (2006), DeHerdt and Marysse (1997) and MacGgaffey (1997) the informal economy in Africa is centred on adaptability and resilience. Informal currency traders indicated that with the current crisis of the economy in Zimbabwe in order to survive, they had to be very creative and innovative. Traders had to be diligent, resilient and clever to cope with the economic regression. MacGaffey (1997) noted the same behaviour with the entrepreneurs in Zaire. She stated that entrepreneurs need to be innovative, bold and quickly responsive in time of economic crisis. The changes in the economic conditions require them to adapt quickly to the dynamic economic environment. These acquired strategies allow the informal currency traders to survive in the state of economic and political crisis in Zimbabwe. Traders responded to copying strategies by highlighting that:

> "When trading on the black market you need to be diligent and clever, you need to have that urge to survive. You have to manipulate certain circumstances for things to go into your favour like lying about the rates (to make a gain). The market is getting flooded you really have to stay on top and be creative in the way you do your deals." (Interviewee 5, 11 January 2008)
>
> "We have become more innovative as we dodge the central bank regulations and law enforcement agents. This ensures that we to survive on the market." (Interviewee 7, 16 January 2008)

The traders base their survival strategies on creating long lasting relationships with one another and also with client. Again social networks are an important aspect to the creation of these relationships. The flow of information guarantee the survival of these trading operations. MacGaffey (1994) in the study of Zaire also emphasized that relationships were very crucial in ensuring the survival of the entrepreneurs in the state of economic and political crisis. The same trend is noted in this research:

> "Social networks play a large part. Information travels through these networks." (Interviewee 9, 21 January 2008)

Some of the traders are aware of the fact that the life span of trading foreign currency on the street might be short lived. Interviewee 9 for further said:

> "We are uncertain as to how bright the future is for us as traders." (Interviewee 9, 21 January 2008)

The economic atmosphere could change for the better, if a new government enters into power. It implies that informal currency trading will be phased out completely as formal foreign currency systems are improved. If this occurs the traders have to adapt to the new environment swiftly. Traders diversify into new areas of business regularly as a way of spreading their risk. Some sell motor vehicles, fuels, gold, diamonds and other goods. It was these traders who managed to accumulate wealth.

Chapter 6 Conclusion and Recommendations

6.1 Summary of Findings

The demographic analysis of participants showed that the age of participants ranged from 23 to 33. The participants comprised eight males and two females. Women informal currency traders were active in these operations but often were not willing to be observed and interviewed. The findings show that all the traders had dependents. Some of the traders were married while five traders remained single. The findings also revealed that other traders were once formally employed while some had never done any formal work. Evidence from the findings showed that large numbers of traders left formal employment to engage in informal foreign currency trading practices.

The findings show that informal foreign currency deals can take place in any location. The two main locations for informal foreign currency trading were found to be the street and rented offices. Ownership of the operations is mostly sole ownership. Each trader is accountable for his or her own operations.

The evidence gathered from the observations showed heavy police presence on the streets. Most of the police officers engaged in acts of soliciting and accepting bribes. A bribe was noted to be US$ 5 or some lunch money and or bus fare. The findings also indicate that for a certain fee police officers could provide to traders, information about possible police raids. Traders identified state exchange control regulations as the main cause for the emergence of informal foreign currency trading. It is noted that the government persistently overvalued the currency against all major currencies. A large black market premium thus exists. This premium has been noted to be widened due to factors as less political and civil liberties, poor exchange policies and loss of confidence in the government.

The findings show strong linkages between the informal and formal economy with regards to informal traders and private sector. These strong linkages are created due to the presence of social networks. Evidence shows that informal traders utilise social networks in order to operate efficiently and effectively.

Traders devise strategies to minimise their loss on the informal foreign currency market. By building relationships, it ensured their survival in the market place. However, traders expressed their uncertainty regarding the life span of the informal foreign currency trading practice. They exhibited a certain attribute of being risk takers. Traders would spread the risk by venturing into other activities. They would sell illegal diamonds, gold, fuels and other scarce basic commodities. Traders reflected that their turnovers become higher when they engage in these risky activities.

The findings indicated that social and economic benefits accrue at a micro level, mainly to the households of informal currency traders. At the macro level, the state has not benefited significantly from the informal foreign currency trading. Furthermore, evidence shows that informal currency activities are thriving despite harsh economic conditions.

6.2 Policy Recommendations

The informal foreign currency trading depicts the floating exchange rate system where market forces prevail. In this trading environment, state controls are non existent. The black market foreign exchange rate system is self regulated without any constraints. More importantly, exchange rate movements on the informal currency market for foreign currency can potentially play a pivotal role as a 'back door' floating exchange regime to be adopted by the government if and when it reconsiders the exchange rate unification attempts. Foreign exchange policies can be crafted by devaluating the Zimbabwe dollar to match the black market rates of all the major trading currencies. This might effectively wipe out the black market premium as the official exchange rate equals the black market exchange rate. However, the prerequisite of such a policy stance is that it needs to be accompanied by proactive reforms which should see the restoration of democratic rule, rule of law, respect for property rights and redesign of the political landscape. Furthermore, another priority for the economy is enhancement of the productive capacity. The successful reversal of the state formulated foreign exchange policies would, however, mark the demise of the informal currency trading activities in Zimbabwe and vice versa.

Areas for further research would be to assess the black market premium for Zimbabwe, study the repressive state policies and informal foreign currency trading, and investigating the role of social networks in informal foreign currency trading.

6.3 Conclusion

In relation to the neo- liberal notion, the research shows that excessive state regulation in the formal economy has led a large number of Zimbabweans to venture into the informal economy activities. Excessive state interventions through imposing strict foreign currency controls resulted in the emergence of the informal currency trading activities. In addition, the state has gone further by deploying the streets with state security agencies mainly the police. These are mandated to enforce the controls and arresting any violator of the exchange control act. Therefore, the hypothesis that excessive government regulations in the foreign exchange market results in the informal foreign currency trading on the black market is true. The research establishes that intensity of informality with regards to the informal foreign currency trading is determined by the black market premium. The higher the black market premium, more people engage in informal foreign currency trading.

The research establishes strong linkages between the informal foreign currency traders and formal private sector firms and other government entities. It is the persistent shortages of foreign currency responsible for these prolonged linkages between the two sectors. The Structuralist approach for informality's notion advancing the existence of exploitative relations between the informal and formal economy does not fully hold to some extent in this study. Uniquely, the linkages between the informal currency traders and formal private sector and other government entities is far from being exploitative but rather are mutually beneficial relationships. Both sectors are highly dependent on one another. The research characterises this relationship as a symbiotic relationship where the survival of one sector is dependent on the other. Trading under informal currency trading is negotiated up to a satiation point ensuring that both parties are well off. However, exploitative relations still exist between the state and informal currency traders. These manifest when police as an arm of the state insist on bribes from the informal traders in exchange for their freedom and some vital information. The traders are more at risk than private sector as they regularly face police harassment and intimidation.

The study shows that foreign currency is traded via two main channels; the small organised street traders and advanced office traders operating from the rented offices in the CBD of Harare. However, foreign currency can be traded in any location in Zimbabwe as long as it is away from the long arm of the law enforcers. For most operations, there is sole ownership of the informal foreign currency trading operations. Each trader is accountable and responsible for their trading operations. This is the most convenient way of operating favoured by the traders. In the trading structure of operations, the private sector and other government entities interact with the informal traders through middlemen or intermediaries.

The study asserts that social networks play a crucial role in informal currency trading activities. These established networks are responsible for connecting the traders acting as a channel for transmitting vital information. Social networks ensure sustainable livelihoods for the traders. If a trader fails to be connected in the network of traders they become totally excluded. Traders can not trade in isolation they depend on one another, though their operations are sole ownership.

As a way ensuring their survival in the crisis state of Zimbabwe informal currency traders tend to be very creative and innovative. The traders utilise their networks making use of the information flowing through the networks. The survival strategies are highly dependent on creating relationships.

Households have gained from the benefits accruing from informal currency trading. In particular those households whose members engage in informal currency trading receive the benefits. Unfortunately, for the state these benefits from informal currency trading have not accrued to the whole economy. The social and economic benefits are limited to the micro level and not at the macro level.

Traders are doubtful and uncertainty about their future as informal currency traders, given a change in the government and or an improvement in the policy environment of Zimbabwe. Informal currency traders have become adapted to a culture of risk taking. They are always expecting the worst to happen hence they devise strategies that guarantee them some benefits in the future. It is their nature to get out of any unfavourable situations and conditions while ensuring some gains.

The Zimbabwean economy has managed to sustain itself when most of international institutions have predicted a total collapse. The economy has been in a state of distress for the last decade. It seems as if the economy has been on 'auto pilot'. The policy makers have not delivered any tangible outcomes in the economy. The economy 'miraculously' continues to sustain its citizens. It is my belief that the informal economy activities have unnoticeably sustained the economy through this economic and political ordeal. Informal activities such as the informal foreign currency trading have ensured that the economy continues to produce up to a certain amount of output ensuring the survival of the citizens. The informal economy has acted as a 'hidden hand' providing the needs of the population. However, the government fails to recognize the contribution of the informal economy activities towards economic survival. The state has stipulated stiff penalties for any parallel market deals which are deemed to be illegal. As state repressive policies fail to achieve their goals, more controls are introduced. Physical force is also used to complement these strict controls.

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Appendix 1: Interview Guide

Interview Themes

Date of interview

Respondent no:

Sex of respondent:

Section A: Demographics

1. How old are you?
2. What is your marital status?
3. How many dependents do you have?
4. What is your educational background?
5. What is your employment history?

Section B: Broad themes

1. How long have you been trading forex informally?
2. What were you doing before?
3. How you started trading in foreign currency on the Black market?
4. How do you access forex?
5. How do you find customers and how has this changed over time?
6. What are the sizes of the daily, weekly and monthly foreign currency transactions? How have these changed over time?
7. What necessitated the emergence of the informal currency trading? From when did these activities become prevalent?

Section C: Specific Themes

8. What role does social networks and trust and reciprocity play in facilitating this

trade?

9. What relationships do exists between the informal currency traders and the private sector and other government entities?

10. What socio-economic benefits do you derive from the informal currency trading?

11. What coping strategies do you employ when trading on the black market?

12. What is the ownership and structure of the operation?

13. What has your experience been of the state's response to these activities?

14. What do you think the state should be doing about these activities?

15. How has this changed over time?

16. In your own view do you consider the informal currency trading as illegal or legal? Explain your response

17. In your view, how has the exchange control regulations evolved over time