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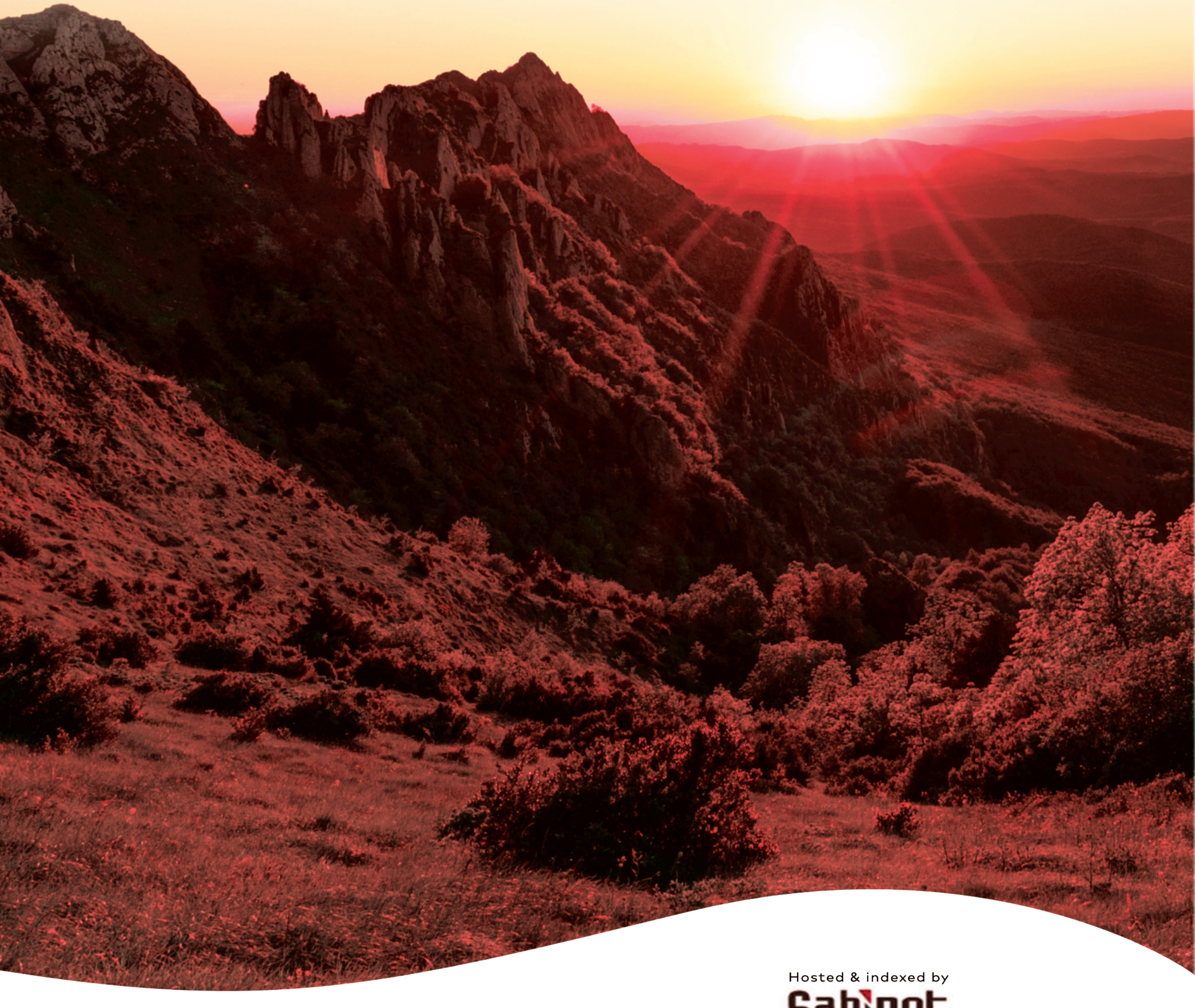

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Assessing the impact of exchange rate volatility on the informal economy in Zimbabwe: A case study of *Mbare Mupedzanhamo* (Flea market) in Harare.

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Abstract

This study aimed to evaluate the impact of exchange rate volatility on Zimbabwe's informal economy, with a specific focus on Mbare *Mupedzanhamo*. The case study approach was chosen for its suitability in assessing the effects of exchange rate fluctuations within an authentic business environment. A random sampling technique was employed to ensure representativeness, and from a population of 200 informal traders, a sample of 80 participants was selected. The study's findings revealed significant challenges for traders arising from exchange rate volatility. One of the primary issues identified was capital erosion, which severely impacted traders' ability to restock goods and sustain their businesses. As a result, many traders found it increasingly difficult to maintain operations, while borrowing as a means of financing became unsustainable in such an unpredictable environment. In response to these findings, the study came up with several key recommendations. First, it was suggested that financial institutions develop more affordable credit lines accessible to small traders, with fewer stringent requirements, such as collateral, which many informal traders lack. Additionally, it was recommended that the government prioritise financial support for informal traders by expanding funding access through Small to Medium Enterprises (SMEs) structures. By offering targeted financial resources, both financial institutions and government bodies could support the resilience of informal traders facing economic instability and enable a more sustainable environment for growth within Zimbabwe's informal economy.

Keywords: Impact, currency, exchange, volatility, informal, economy

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Introduction

This study explores the impact of exchange rate volatility on Zimbabwe's informal economy, focusing specifically on *Mbare Mupedzanhamo*, a well-known marketplace in Harare. Given the critical role of the informal economy in Zimbabwe, where many rely on informal trading for their livelihoods, understanding the effects of exchange rate fluctuations on this sector is essential. The study provides an in-depth assessment of the challenges faced by informal traders in managing business operations amid frequent currency fluctuations, which significantly impact capital stability, purchasing power, and overall economic resilience (Chitambara, 2021).

The research framework was developed to include a comprehensive review of related literature, contextualising the informal economy within Zimbabwe's broader economic landscape and examining similar studies on exchange rate volatility in emerging economies (World Bank, 2021). This background review provides foundational insights, identifies key themes and knowledge gaps that this study addresses. The study's core objectives were designed to understand how fluctuating exchange rates affect traders' capital retention, access to stock, and financing options. As currency instability is a prominent challenge in the region, research from other African economies, such as Kenya and South Africa, also offered comparative insights into how informal traders manage under volatile conditions (Mwangi & Maina, 2020; Kapaya & Kinyondo, 2024).

The research questions guiding this study were formulated to explore the nature and extent of the impact of exchange rate volatility on the informal economy and to identify potential support mechanisms for informal traders. Methodologically, the study employed a case study approach, which was chosen for its capacity to capture the unique dynamics of *Mbare Mupedzanhamo's* trading environment. A random sampling technique was used to ensure that the sample was representative of the diverse trader population; from an estimated population of 200 informal traders, 80 participants were selected for detailed analysis.

The study also considered several assumptions, limitations, and delimitations. Assumptions included the expectation that exchange rate volatility would negatively affect capital and stock levels for informal traders, a trend seen in similar studies across the region (Nyasha & Odhiambo, 2022). Limitations primarily involved data accessibility challenges due to the informal nature of the trading environment, while delimitations focused the study on Mbare Mupedzanhamo to provide a detailed, context-specific analysis.

The following sections provide a review of related literature, delving into prior research on exchange rate volatility, informal economies, and the socio-economic resilience of informal traders. This literature review serves as a foundation for the research, framing the study's contributions within existing scholarship and highlighting its relevance to economic policy and support frameworks in Zimbabwe's informal sector (Tafirenyika & Mpofu, 2023; Mafusire & Bonga, 2023).

Review of related literature

Financial liberalisation has significantly affected global economic structures, especially in developing economies, exposing them to increased exchange rate volatility due to fewer capital restrictions (Barguellil et al., 2018). Fofana (2022) highlights that such volatility leads risk-averse investors to adopt a 'wait-and-see' approach, delaying investments, which restricts employment opportunities and hampers economic growth. Developing nations with flexible exchange rate regimes face more pronounced volatility, causing economic actors to defer trade and investment and severely inhibiting national growth (Barguellil et al., 2018).

The informal market, particularly Zimbabwe's Mbare Mupedzanhamo, epitomises the struggle against currency volatility. This vibrant Harare market, reliant on cash transactions and foreign-sourced goods, faces constant disruption due to currency devaluation. When the Zimbabwean dollar depreciates, Mbare traders encounter restocking challenges as import costs surge, eroding capital and forcing them to price in US dollars for stability, which limits access for local customers without foreign currency (*The Herald*, 2023). Such scenarios underline the broader consequences of volatility in informal economies, where traders face unsustainable profit margins.

Currency volatility complicates international trade, often resulting in 'de-internationalisation', as transaction costs rise, dissuading cross-border trade (Lal et al., 2023). African economies, particularly within the East African Community (EAC), have faced increased volatility post-liberalisation, with regional trade dynamics shaped by external factors like money supply and foreign investment (Mosbei et al., 2021). For Mbare Mupedzanhamo vendors, such volatility affects their ability to afford imports, impacting product availability and pricing stability. As Alagidede and Ibrahim (2016) show in Ghana, currency instability disrupts market stability, discouraging investor interest and diminishing growth opportunities in the informal sector.

Exchange rate instability affects exports, employment, and inflation in developing economies. Ghana's adoption of a floating exchange rate increased volatility, impacting macroeconomic stability and hindering export growth (Alagidede & Ibrahim, 2016). In Zimbabwe, currency fluctuations at Mbare Mupedzanhamo result in employment instability, as traders scale back operations, cut jobs, or avoid new hires due to unpredictable cash flows. Volatility influences government bond performance and sectoral growth. In South Africa, for instance, currency instability has dampened bond yields and limited foreign investment (Meyer & Hassan, 2020). Tarasenko (2021) notes that while currency fluctuations hurt exports in sectors like agriculture and manufacturing, others, such as fuel, benefit from volatility. In Zimbabwe, informal traders in sectors dependent on imports, such as clothing and electronics, face disproportionate impacts from currency shifts, affecting inventory costs and customer affordability (ZimStat, 2022).

To counter economic volatility, Mbare Mupedzanhamo vendors use adaptive strategies like partial dollarisation, accepting US dollars to stabilise revenue against local currency devaluation. Although helpful, this solution limits access for customers without foreign currency, exacerbating inequality (International Monetary Fund, 2022). Strategies observed in countries like South Korea, where businesses price goods in foreign currencies, reflect similar efforts to reduce exposure to domestic currency fluctuations (Nyunt, 2019). Mbare traders also maintain minimal stock, focusing on high-turnover items to avoid holding devaluing currency, a "just-in-time" strategy akin to those in inflation-impacted economies like Venezuela (Rodríguez & García, 2021).

Policy inconsistency around foreign currency usage exacerbates currency volatility in Zimbabwe. Shifting policies on dollarisation create uncertainty for informal traders, who often operate outside formal regulations to secure revenue stability (Mano & Odhiambo, 2021). This inconsistency deepens economic inequality, as lower-income Zimbabweans who lack access to foreign currency face barriers in the informal market (*The Standard*, 2023). The transition from fixed to floating exchange rates in the 1970s introduced heightened volatility globally, with regions like Eastern Europe and Southern Africa particularly vulnerable due to liberalisation and economic integration. Zhugri and Vangjel (2022) emphasise that this volatility disrupts trade and increases the cost of imports, impeding economic resilience in transitional economies.

Within the Southern African Development Community (SADC), currency instability directly impacts inflation, interest rates, and growth, especially in import-dependent economies (Olamide et al., 2022). For Zimbabwe's Mbare Mupedzanhamo, this regional instability compounds inflationary pressures, affecting traders' ability to maintain stock and retain customers.

Partial dollarisation within SADC countries, including Zimbabwe, reflects broader regional adaptations to currency volatility. Although useful, reliance on foreign currency creates a dual economic system, complicating pricing and reducing inclusivity for consumers without USD. Such reliance reveals the necessity for managed exchange rate policies within SADC to reduce volatility and support economic growth (Olamide et al., 2022). Well-managed exchange rate regimes can stabilise transitional economies. Crises like Mexico's 1994 Tequila Crisis and Asia's 1997 currency collapse show the risks of mismanaged exchange rate policies, as speculative attacks can lead to economic downturns (Ameziane & Benyacoub, 2022). For Zimbabwe, a managed float regime, with the Reserve Bank actively stabilising the currency, could reduce inflation and support informal traders at Mbare Mupedzanhamo. China's managed float regime provides a useful model, showing how targeted interventions can control inflation while fostering growth.

Statement of the problem

The exchange rate volatility has created problems on the global economy with some investors preferring a wait-and-see attitude until the risks subside (Fofanah, 2022). Exporters or importers, unsure of the domestic value of their costs or revenues, might be unwilling to take part in risky international transactions (Bahmani-Oskooee *et al*. (2014). Fofanah (2022) further observes that the implications of exchange rate movement for economic growth have become a growing focus of attention in the recent policy debate and the debate concentrate on the degree of volatility in the exchange rate.

This study examines the impact of exchange rate volatility on Zimbabwe's informal economy, particularly focusing on adaptive strategies developed by traders to manage ongoing currency instability. Conducted in Mbare, a bustling high-density suburb in Harare, the research aimed to understand how fluctuations in exchange rates affect informal market participants and their economic resilience. Key objectives included assessing the extent of exchange rate impact and identifying coping mechanisms among traders. The study assumed that Zimbabwe's informal sector is heavily affected by currency volatility and that traders have established methods to mitigate these effects. However, challenges such as interruptions from customers during interviews, limited funding, and time constraints posed limitations to data collection. Despite these obstacles, the study sheds light on the critical adaptive strategies employed by informal traders in response to Zimbabwe's economic instability, contributing valuable insights into the resilience of the informal sector.

Methods

This study employed a qualitative approach, chosen to capture in-depth, textural responses aligned with the study's objectives and research questions (Mohajan, 2018). A qualitative methodology was suitable for exploring the nuanced impact of exchange rate volatility on Zimbabwe's informal economy, as it allowed for detailed perspectives directly from participants. The sample comprised of 80 respondents, randomly selected from a target population of 200, ensuring a diverse representation of experiences and insights within the informal market sector. This approach enabled the research to gather rich, contextual data that quantitative methods might overlook, providing a comprehensive understanding of the adaptive strategies employed by informal traders amidst currency instability.

Findings

This study investigated the impact of exchange rate volatility on Zimbabwe's informal economy, focusing on how currency fluctuations influence business sustainability and capital stability in informal markets. Based on qualitative data from traders in Harare's Mbare market, this research explored the multiple challenges posed by exchange rate instability and the adaptive strategies employed by businesses in response. The findings illustrate the pervasive effects of currency volatility on capital, employment, financing, business planning, and operating costs, as well as government interventions aimed at stabilising the economy.

Capital Erosion Due to Exchange Rate Volatility

The study found that exchange rate volatility has a profoundly negative effect on the capital of informal businesses in Zimbabwe. Frequent currency fluctuations erode traders' purchasing power, devaluing their working capital and limiting their ability to restock goods. Approximately 78% of respondents reported experiencing significant capital erosion, often rendering them unable to maintain inventory levels and meet consumer demand. This result aligns with Fofana's (2022) findings, which argue that exchange rate volatility creates uncertainty, leading to hesitancy in trade and investment. Zimbabwean traders, facing unpredictable exchange rates, often experience "speculative erosion," where anticipation of further currency devaluation compounds losses as businesses delay or limit investment to preserve capital.

The findings also echo Barguellil et al. (2018), who observed similar capital erosion in emerging markets facing high volatility. The uncertainty associated with currency instability in Zimbabwe forces informal businesses to adopt highly conservative investment practices, as they seek to safeguard limited capital resources in a depreciating economic environment.

Employment losses and reduced business activity

The study revealed that exchange rate volatility has led to significant employment losses within Zimbabwe's informal sector. Many businesses, facing reduced capital and rising costs, have adopted cautionary measures to manage financial risk, often scaling down operations to minimise exposure to currency fluctuations. Approximately 64% of respondents reported reducing workforce numbers or refraining from new hires, while some traders cited the need to limit daily business activities due to an uncertain economic future.

The findings align with Fofana (2022), who highlights that the 'wait-and-see' approach adopted by businesses under volatile currency conditions reduces job creation and dampens economic growth. In Zimbabwe, this risk-averse approach among informal traders translates into reduced employment opportunities, impacting the broader socio-economic landscape. Adeniyi and Olasunkanmi's (2019) study also supports these findings, as it indicates that currency instability disrupts resource allocation, prompting businesses to prioritise capital preservation overgrowth, often at the expense of employment.

Unviability of Borrowing for Business Operations

Exchange rate volatility has rendered borrowing for business operations unsustainable for many informal traders. The risk of currency devaluation has led lenders to raise interest rates, increasing the cost of borrowing to account for potential default risks and the loss of value over time. As a result, informal businesses face significant barriers to financing, with high-interest rates creating a prohibitive environment for loans. Over 70% of respondents reported refraining from borrowing due to unsustainable costs, with many opting to rely solely on internal capital despite limitations on expansion.

The findings resonate with Meyer and Hassan's (2020) research, which indicates that currency instability can drive up interest rates, creating high-risk lending environments that deter businesses from seeking credit. In Zimbabwe, the high-risk environment in the informal sector has similarly constrained traders' access to affordable financing, further limiting their ability to grow or stabilise operations in a volatile economic climate.

Challenges in Business Planning

The uncertainty generated by exchange rate volatility has severely disrupted business planning within Zimbabwe's informal sector. Traders reported that the unpredictability of currency value made it nearly impossible to devise long-term business strategies, with 82% indicating that they could only plan on a day-to-day basis. As traders manage immediate challenges rather than future growth, business planning becomes reactive, diminishing the role of strategic foresight in the informal economy. This finding aligns with studies by Tarasenko (2021), who noted that exchange rate fluctuations complicate planning processes in volatile economies, forcing businesses to focus on short-term survival over sustainable growth. Zimbabwe's informal traders similarly emphasise that effective planning is hampered by economic uncertainty, putting their businesses at risk of operational disruption as they navigate day-to-day currency shifts.

Impact on Operating Costs and Overheads

The study found that exchange rate volatility also affects the cost of business overheads, particularly rent and supplier costs. Landlords and suppliers in Zimbabwe frequently adjust their rates to match currency depreciation, leading to substantial hikes in rental costs, which traders struggle to absorb. Nearly 75% of respondents reported that rent and other overheads had increased with little regard to their return on investment, further straining their capital and eroding profit margins. Results are consistent with Bahmani-Oskooee et al. (2014), who argued that currency volatility can drive up operational costs, particularly in informal economies where businesses lack institutional protection against inflation. In Zimbabwe, the lack of regulation over rent increases compounds the difficulties for informal traders, as higher operating costs reduce their ability to remain competitive and sustainable in an inflationary environment.

Government Interventions to Stabilise Exchange Rates

In response to these challenges, the Reserve Bank of Zimbabwe (RBZ) introduced a managed exchange rate auction system, which allows businesses to access foreign currency at stabilised rates to fund essential imports and production costs. This intervention aims to reduce demand-driven currency pressures and provide informal traders with more predictable access to foreign exchange. Nearly 65% of respondents indicated that the auction system offered limited relief, as it provides access to foreign currency essential for sustaining business operations. Additionally, the government has promoted local manufacturing to reduce dependency on imports and alleviate foreign currency demand, hoping to stabilise the ZWL. The RBZ has also suspended the floating of the ZWL to control currency depreciation more effectively. These policy shifts are intended to provide a stable economic framework that supports both formal and informal sectors. However, traders continue to face practical challenges in accessing the auction system, as limited foreign currency allocations do not always meet demand.

Discussion

The findings highlight the profound challenges that exchange rate volatility presents to Zimbabwe's informal sector and underscore the importance of effective policy measures to stabilise currency values. The capital erosion, employment losses, unsustainable borrowing costs, and inflated operating expenses reported by Mbare traders reveal the multidimensional impact of currency instability on informal businesses.

Capital Erosion and Speculative Instability

The study's findings on capital erosion due to speculative instability align with Barguellil et al. (2018), who observe that currency volatility creates conditions where businesses limit investment to avoid losses. In Zimbabwe, informal traders experience this effect acutely, as capital erosion reduces their purchasing power and restricts their ability to maintain stock, further inhibiting growth potential. The speculative environment in Zimbabwe encourages informal traders to adopt conservative strategies, which prioritise capital preservation over risk-taking. Exchange rate volatility's impact on employment in Zimbabwe's informal sector supports Fofana's (2022) conclusion that economic uncertainty leads businesses to adopt a wait-and-see approach. In this study, employment losses were common as traders scaled back operations, choosing to operate conservatively rather than expanding. Adeniyi and Olasunkanmi (2019) similarly note that in volatile currency environments, employment becomes a secondary consideration as businesses focus on immediate financial survival. These employment challenges highlight the broader socio-economic impact of currency volatility, where job insecurity becomes a persistent issue for informal sector workers.

Borrowing and high-interest rates

The unsustainable borrowing environment in Zimbabwe's informal sector parallels findings by Meyer and Hassan (2020), who argue that high-interest rates in volatile economies discourage credit access. In Zimbabwe, lenders' concerns about currency devaluation drive up interest rates, creating a prohibitive borrowing environment for traders. This high-cost lending environment restricts growth, as traders cannot secure affordable financing, pushing them towards internal capital solutions that limit business expansion. The study confirms Tarasenko's (2021) finding that exchange rate volatility complicates business planning, as informal traders focus on daily operational needs rather than long-term growth. In Zimbabwe, currency instability hinders strategic planning, leaving traders to operate with minimal foresight. This lack of planning stability further exposes businesses to risks and disrupts continuity, as unpredictable currency shifts prevent effective forward-thinking.

Rising operating costs and socio-economic inequality

The increase in operating costs due to currency fluctuations aligns with Bahmani-Oskooee et al. (2014), who highlight the inflationary impact of currency volatility on business overheads. In Zimbabwe, informal traders face frequent rent hikes and rising supplier costs, creating an unsustainable cost structure. This finding emphasises the exacerbation of socio-economic inequality, as businesses unable to meet these costs are forced to downscale or close, reducing market accessibility for low-income consumers. The government's managed exchange rate auction system and focus on local manufacturing reflect efforts to stabilise currency volatility and reduce import dependency. A managed exchange rate, as described by Ameziane and Benyacoub (2022), could offer informal traders' greater predictability by stabilising the ZWL. However, the study's findings reveal limitations in access to foreign currency through the auction system, indicating that further policy adjustments may be required to ensure that informal traders benefit from these interventions effectively.

Conclusion

This study reveals that exchange rate volatility poses significant challenges to Zimbabwe's informal economy, particularly in capital erosion, employment loss, and inflated operating costs. Informal traders at Mbare Mupedzanhamo experience a range of adaptive challenges due to currency instability, including limited access to credit, rising overheads, and constrained planning capacity. These findings underscore the need for effective currency stabilisation policies, such as managed exchange rate regimes and targeted financial support, to alleviate the economic pressures faced by informal traders.

The results of this study contribute to existing literature on currency volatility in emerging economies, confirming that informal sectors are particularly vulnerable to the economic consequences of currency instability. As Zimbabwe's government continues to pursue measures to stabilise the ZWL, ensuring access to affordable foreign currency and promoting local manufacturing could offer informal traders a more predictable operating environment. Addressing these challenges with supportive policies is crucial for enhancing the resilience and sustainability of Zimbabwe's informal economy, where adaptive strategies alone are insufficient to offset the negative impacts of prolonged currency volatility.

Recommendations

The study provides the following recommendations to mitigate the adverse effects of exchange rate volatility on Zimbabwe's informal economy:

1. ***Affordable working spaces***
   The City of Harare should offer affordable working spaces for informal traders. By ensuring rental costs remain accessible, despite economic fluctuations, traders can maintain business operations without excessive overheads that undermine profitability. This measure would provide stability for traders already struggling with unpredictable financial conditions.

2. ***Accessible credit facilities***
   Financiers such as banks should introduce low-cost credit lines tailored to the needs of small traders. These credit facilities should have minimal collateral requirements, recognising that many informal traders lack traditional security assets. Accessible financing would enable traders to sustain and grow their businesses, even under volatile currency conditions.

3. ***Monetary subsidies***
   The Monetary Authorities notably the Ministry of Finance, Trade and Economic Development should consider implementing subsidies for informal traders to help them remain operational amidst exchange rate fluctuations. Such subsidies could reduce operating costs, enhance traders' resilience, and stabilise the informal economy against currency shocks.

4. ***Promote local manufacturing***
   The Government should prioritise local manufacturing of goods to reduce dependence on imports, thereby lowering demand for foreign currency and alleviating exchange rate volatility. A focus on local production would stabilise currency needs, reducing traders' reliance on imported goods, and strengthening the local economy.

Recommendation for Further Research

Future research should explore the contribution of informal traders to national economic development, providing insights into how this sector supports economic growth and identifying areas for further support.

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Conflict of interest statement

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