

**BINDURA UNIVERSITY**



**FACULTY OF COMMERCE**

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**BACHELOR OF ACCOUNTING**

**THE EFFECTS OF INFORMAL FOREX TRADING IN THE ECONOMY. A CASE  
STUDY OF HARARE**

**STUDENT REGISTRATION NUMBER: B191024B**

**A DISSERTATION SUBMITTED TO THE BINDURA UNIVERSITY OF SCIENCE  
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AWARD OF BACHELOR OF ACCOUNTING.**

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## APPROVAL FORM

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## DECLARATION

I student number B191024B do hereby declare that this research report is the result of my own work except to the extent indicated in the acknowledgements, references and this work has not once been submitted to in part or in full for any other degree to any other university.

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## **DEDICATION**

I dedicate this dissertation to my parents, the family, relatives and friends who made me understand the important of education and their support throughout.

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I need to express my great thankfulness to the almighty God for his love, guidance, through my project and other academic work, for without him it could have been impossible to be alive and work on the project. Great appreciation also goes to my supervisor for taking his special time to assess the research and helping me during the study. Great gratitude furthermore goes to Bindura University Lectures for their constructive training and knowledge they imparted in me. Great appreciation moreover, goes to the family for their love and support in my academic work. Great thanks, also goes to the study respondents in Harare for the time they gave to me in the answering of questionnaire and interviews, without their support the research project was not going to be a success.

## ABSTRACT

This study was carried out to establish the effects of informal forex trading in the economy. A case study of Harare. The objective of this study was to identify the causes of informal forex trading, to examine the effects of informal forex trading and to explore ways for dealing with informal forex trading. Descriptive survey research design was employed by the research and the sample size used was 385 respondents in which random sampling were utilized in selecting the sample, people affected by the activities of informal forex trading in Harare created the sample. The data was presented in form of tables, pie charts and graphs and it was analysed using the SPSS software. It was established that foreign currency shortage, means of survival, economic slide, lack of employment and rise of inflation were the causes of informal forex trading, losing power of the local currency, high price of goods and services, lack of economic development, employment creation and rise inflation were the effects of informal forex trading. Based on the research findings, it was recommended, government to create employment for people so as to end informal forex trading through employment creation, blacklisting illegal forex dealers so as to end informal forex trading by instilling fear in people, identifying and freezing accounts by banks of informal forex traders so as to end informal forex trading and education and training by the government to people on the importance of formal forex trading to the economy so as to end informal forex trading.

**Key words: Informal forex trading, economy, Harare**

### Table of Contents

APPROVAL FORM.....	ii
RELEASE FORM.....	iii

DECLARATION .....	iv
DEDICATION .....	v
ACKNOWLEDGEMENTS .....	vi
ABSTRACT.....	vii
LIST OF TABLES .....	xi
LIST OF FIGURES .....	xii
LIST OF APPENDICES .....	xiv
LIST OF ACRONYMS .....	xv
CHAPTER 1 .....	1
THE PROBLEM AND ITS SETTING.....	1
1.0 Introduction .....	1
1.1 Background of the study .....	1
1.2 Problem Statement .....	3
1.3 Research objectives .....	3
1.4 Research questions .....	3
1.5 Significance of the study .....	3
1.5.1 To the researcher .....	3
1.5.2 To Bindura University .....	3
1.5.3 To Zimbabwe economy .....	4
1.5.4 To the society.....	4
1.6 Delimitation of the study.....	4
1.7 Limitation of the study .....	4
1.7.1 Sharing of adequate information. ....	4
1.7.2 Access to information.....	4
1.7.3 Bias .....	5
1.8 Assumptions of the study .....	5
1.8.2 The researcher made the assumption that the respondents were eager to participate in the research process. ....	5
1.8.2 It was assumed by the researcher that the environment would be conducive to conducting the research.....	5
1.9 Definition of key terms .....	5
1.10 Research structure .....	5
1.11 Chapter Summary.....	5
CHAPTER 2 .....	6



LITERATURE REVIEW .....	6
2. 0 INTRODUCTION.....	6
2.1 THEORETICAL FRAMEWORK .....	6
2.1.1 Classical Growth Theory .....	7
2.1.2 Neo Classical Growth Theory .....	7
2.1.3 Endogenous Growth Theory.....	7
2.2 CAUSES OF INFORMAL FOREX TRADING .....	7
2.2.1 Unemployment .....	7
2.2.2 Inflation .....	8
2.2.3 Foreign currency shortage .....	8
2.2.4 Means of survival .....	8
2.2.5 Wealth creation.....	8
2.2.6 Economic slide .....	8
2.2.7 Accessibility .....	9
2.2.8 Profitability.....	9
2.2.9 Low Barriers to Entry .....	9
2.2.10 A 24 hour market.....	9
2.2.11 Poverty.....	9
2.2.12 Lower interbank rate as compared to black market.....	10
2.2.13 Lack of economic growth.....	10
2.2.14 High black market rate .....	10
2.2.15 Government rules and regulation .....	10
2.2.16 Choice of illegal operation .....	11
2.2.17 The pattern of economic growth.....	11
2.2.18 Economic restructuring and Economic crisis .....	11
2.2.19 Globalization .....	12
2.2.20 Rural urban migration.....	13
2.2.21 Trade Liberalization and Poverty .....	13
2.2.22 Social and other factors .....	14
2.3 EFFECTS OF INFORMAL FOREX TRADING .....	14
2.3.1 Inflation .....	14
2.3.3 High price of goods and services.....	15
2.3.4 Lack of economic development.....	15

2.2.5 Foreign currency shortage .....	15
2.4 WAYS FOR DEALING WITH INFORMAL FOREX TRADING .....	16
2.4.1 Naming and shaming of illegal forex dealers who promote informal forex trading	16
2.4.2 Identifying and freezing accounts by banks of promoters of informal forex trading .....	16
2.4.3 Punish businesses pegging prices on the black market rate .....	16
2.4.4 Blacklists illegal Forex Dealers .....	17
2.4.5 Employment creation by the government.....	17
2.6 LITERATURE GAP .....	19
2.7 CONCEPTUAL FRAMEWORK .....	20
CHAPTER 3 .....	22
RESEARCH METHODOLOGY.....	22
3.0 INTRODUCTION.....	22
3.1 RESEARCH DESIGN .....	22
3.1.1 Descriptive Research .....	23
3.1.2 Justification for using Descriptive Research .....	23
3.2 POPULATION AND SAMPLE .....	24
3.2.1 Target Population .....	24
3.2.2 Sample and sample size.....	24
3.3 SAMPLING METHOD AND TECHNIQUE.....	25
3.3.1 Random Sampling technique.....	26
3.3.2 Justification for using probability random sampling technique .....	26
<b>3.4 RESEARCH INSTRUMENT .....</b>	<b>26</b>
3.4.1 Description of a questionnaire.....	27
3.4.2 Description of interview .....	27
3.4.3 Justification for using questionnaires and interviews.....	27
3.5 TYPE OF DATA.....	28
3.5.1 Justification for using primary data and secondary data .....	28
3.6 DATA COLLECTION PROCEDURES.....	28
3.6.1 Justification for the data collection procedures .....	29
3.7 DATA PRESENTATION AND ANALYSIS PROCEDURES .....	29
3.7.1 Justification for data presentation and analysis procedures.....	30
<b>3.8 MEASURES FOR ENSURING VALIDITY AND RELIABILITY OF INSTRUMENTS .....</b>	<b>30</b>

3.8.1 Pilot study .....	30
3.9 ETHICAL CONSIDERATIONS .....	31
3.10 CHAPTER SUMMARY .....	31
CHAPTER 4 .....	32
DATA PRESENTATION AND ANALYSIS .....	32
4.1 Introduction .....	32
<b>4.2 Respondents rate</b> .....	32
4. 2 RESPONDENTS DEMOGRAPHIC INFORMATION .....	33
4.3 REALIBILITY TESTS CRONBACH'S ALPHA .....	35
4.4 THE CAUSES OF INFORMAL FOREX TRADING .....	36
4.5 THE EFFECTS OF INFORMAL FOREX TRADING . .....	38
4.6 WAYS FOR DEALING WITH INFORMAL FOREX TRADING. ....	40
4.7 CHAPTER SUMMARY .....	42
CHAPTER 5 .....	43
SUMMARY, CONCLUSION AND RECOMMENDATION .....	43
5.0 Introduction .....	43
5. 1 Summary .....	43
5.2 Conclusion.....	44
5.4 Recommendations .....	44
5.5 Area for further study .....	44
REFERENCE LIST .....	45
APPENDIX 1: RESEARCH QUESTIONNAIRE.....	50
<b>APPENDIX 2</b> .....	54
<b>The Interview Guide</b> .....	54

## LIST OF TABLES

Table 4.1 Questionnaire response rate.....	34
Table 4.2 Population of respondents and participant’s personal data.....	36
Table 4.3 Reliability statistics for effects of informal forex trading.....	37
Table 4.4 The causes of informal forex trading.....	38
Table 4.5 The effects of informal forex trading.....	40
Table 4.6 Ways for dealing with informal forex trading.....	42

## **LIST OF FIGURES**

Figure 2.1

Conceptual framework.....	21
Figure 4.1 Interview response rate.....	35
Figure 4.2: Interviewees response on causes of informal forex trading.....	39
Figure 4.3 Effects of informal forex trading.....	41
Figure 4.5 Interviewee’s response on ways for dealing with informal forex trading.....	43

**LIST OF APPENDICES**

Questionnaire.....51

Interview Guide.....55

## **LIST OF ACRONYMS**

SMEs Small to Medium Enterprise

GDP Gross Domestic Product





## CHAPTER 1

### THE PROBLEM AND ITS SETTING

#### 1.0 Introduction

Informal forex trading activities gives effects to the economy. Informal forex trading resulted in sharp increase on prices of goods and commodities and haunting economic recovery efforts. In addition, it resulted in inflation and affect the growth of the economy. As a result, in the decline of the economy, more attention has been given to informal forex trading. The study looked at the effects of informal forex trading in the economy, a case study of Harare, With the introductory chapter, outline of the aim and goals of the research was presented, conceptualisation and contextualization for the research was also provided in this chapter and lastly gives outline to the rest of the study.

#### 1.1 Background of the study

Informal forex trading is illegal forex dealing and money laundering performed by individuals with their mobile lines and social media (RBZ, 2021). Informal forex trading is an unformalised act on foreign currency exchange (Newsday, 2019). Despite the various definitions used in defining informal forex trading, the researcher defines informal forex trading as illegal act performed by individuals or companies in forex trading.

In China, China commenced to rein illegal currency trading. Punishments and tougher restrictions were put in place by China's Supreme People's Court (SPC) and Supreme People's Procuratorate (SPP). According to SPC and SPP any illegal forex trading involving above 5 million yuan (\$741 600) or producing a make up of above 100 000 was classified as severe violation as such it could attract a fine (Global Times, 2019)hence the need to come up with the recommendations after envisage the effects of informal forex trading to the economy.

The issue of informal forex trading in a global phenomenon, in South Africa, Mboweni warns about illegal forex trading by individuals, as the majority of individuals are performing illegal forex dealing which is haunting the economy (Ensor, 2020). There is a disaster which needs

to be addressed in the economy of South Africa before it haunts the economic growth of the country.

Moreso, in Zimbabwe, The Reserve Bank of Zimbabwe (RBZ) has published an additional list of 47 illegal currency dealers who are now black listed and barred from using financial and mobile telecommunication services (Zim latest, 2021). In addition RBZ says to freeze bank accounts of 30 Individuals over illegal forex deals (Dzirutwe, 2021), there is a catastrophe in the country which needs to be looked at to enhance economic development of the country.

Informal forex dealing has resulted in sharp increase on prices of goods and commodities and haunting economic recovery efforts (Correspondent, 2019). In addition, it had resulted in inflation, as recorded on May 2020, the country had one of the highest inflation rates in the world, standing at 785.55% according to the Zimbabwe National Statistics Agency, informal forex trading has contributed to the so called inflation (Matiashe, 2021). With the informal forex trading, inflation is recorded high as the black market move unbeatable as such effort recovery will be a challenge to achieve.

Considering the potential impacts, several methods have been suggested in previous research, particularly through investigations conducted in emerging countries. These ways included but not limited to the government to declare the official source of foreign currency, forfeit whatever you have to the state (Correspondent, 2019). Every person needs to be answerable on the money in his/her account failure to be answerable on the money in the account, the money will be the property of the state

In addition, fining the culprits involved, failure to pay the fine will result in culprits being jailed (Herald, 2010). This is promoted in a way to insure informal forex trading is reduced as people will be afraid of being fined and jailed by promoting informal forex trading as such informal forex trading is minimized.

Moreover, the government to communicate to everyone that dealing with foreign currency informal trading is a no go area because of the consequences that come with being caught (Herald, 2010). With communication, it makes everyone aware thereby it reduces informal forex trading as people will be afraid of the consequences that come with being caught. Given this, the study aims to address the fact that we have not adequately anticipated the consequences of informal foreign exchange trading in developing nations.

## **1.2 Problem Statement**

This study aims to address the issue of informal foreign exchange trading that is having adverse effects on the economy of the country. The Reserve Bank of Zimbabwe (RBZ) has prohibited 30 individuals who engage in illicit currency trading from conducting any transactions through bank or mobile money accounts for a duration of two years. The proliferation of informal forex trading has led to a significant surge in the prices of goods and commodities, thereby impeding economic recovery efforts. Furthermore, the aforementioned phenomenon has led to a surge in inflationary pressures. As evidenced by the latest data from the Zimbabwe National Statistics Agency in May 2020, the country has registered one of the highest inflation rates globally, reaching 785.55%. This inflationary trend has been attributed, in part, to the informal foreign exchange trading activities. The study, therefore in terms of purpose aimed at examining the effects of informal forex trading in the economy.

## **1.3 Research objectives**

The objectives of the study were

1. To identify the causes of informal forex trading.
2. To examine the effects of informal forex trading.
3. To explore ways for dealing with informal forex trading.

## **1.4 Research questions**

1. What are the major causes of informal forex trading?
2. What are the impacts of informal forex trading?
3. What are the ways for dealing with informal forex trading?

## **1.5 Significance of the study**

The study is believed to benefit the following category

### **1.5.1 To the researcher**

Researcher will acquire knowledge through literature review which improve researcher skills and knowledge.

### **1.5.2 To Bindura University**

Through publishing of journal and article there will be credit to the Bindura University as it improve its ranking among other universities, thereby earning preferences.

### **1.5.3 To Zimbabwe economy**

By identifying the causes of informal forex dealing, effects as well as coming with measures to deal with informal forex dealing economic development is achieved

### **2.5.4 To the society**

A better society will be creating after dealing with the effects of informal forex trading in the economy

## **1.6 Delimitation of the study.**

Simon (2011) posits that research limitations refer to potential flaws and shortcomings in a research investigation, over which the researcher has no authority. Armstrong (2001) identified certain factors that constrain the extent and establish the parameters of research. The study has included participants from Harare in its geographical scope. The research sample was selected from unregistered foreign exchange traders operating in Harare. The term "informal forex dealers" refers to individuals and corporations engaged in informal forex trading, typically within the age range of 20 to 50 years. The study has been constrained by its research objectives and questions, which have restricted its scope solely to literature pertaining to the research's intended aim. The present study is centred on the theoretical examination of the impact of informal foreign exchange trading on the economy. This paper presents a case study analysis of Harare, the capital city of Zimbabwe. The present study conducted a comprehensive review of theoretical literature spanning two decades, with earlier publications consulted primarily for the purpose of enhancing clarity.

## **1.7 Limitation of the study**

### **1.7.1 Sharing of adequate information.**

The researcher faced difficulties when the participants were unwilling to provide required information. In order to solve such encounters, the researcher practiced good ethical performs like confidentiality so that people provide information enthusiastically without fear of being wronged. Furthermore the researcher needs not to include names or any form of proof of identity on the questionnaire.

### **1.7.2 Access to information**

Access to data proved to be also other limitation as required information may not be disclosed to the investigator for fear of break of Oath of Confidentiality. This constraint will be solved

by assuring the participants that the information was mainly for academic commitments and that their characteristics will not be make known anywhere.

### **1.7 .3 Bias**

There is bias or personal opinions that could affect the accuracy of the findings from the respondents.

### **1.8 Assumptions of the study**

The researcher assumed on the following assumptions:

1.8.1 The researcher operated under the assumption that the responses provided by the respondents were truthful and given in good faith.

1.8.2 The researcher made the assumption that the respondents were eager to participate in the research process.

1.8.2 It was assumed by the researcher that the environment would be conducive to conducting the research.

### **1.9 Definition of key terms**

Informal forex trading is un legalized trading of forex

Economy is the state of a country

### **1.10 Research structure**

The research was divided into five chapters. Research problem and its setting was the first chapter which consist the research topic, introduction of the study, background of the study, aims, objectives, research questions, justification of the study, statement of the problem together with definition of key terms. Following was chapter two in which related studies were reviewed. Research methodology was chapter three which included research design, research instruments, target population and probability technique. Data analysis and presentation was the chapter four. The last chapter was the summary, conclusion and recommendations.

### **1.11 Chapter Summary**

The chapter introduces the subject matter under investigation, that is, the effects of informal forex trading in the economy. In address the area under study, the researcher looked at the

background of the study, problem of the statement, research objectives, and research questions, delimitation of the study, limitation of the study, significance of the study, methodology, ethical consideration, research budget and timeline as clearly highlighted above. The next chapter reviewed literature of the study

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

Literature on the effects of informal forex trading in the economy was reviewed in this section. Theoretical framework, conceptual framework, empirical review of literature to mention just a few was looked by the researcher. Literature was reviewed based on objectives, causes of informal forex trading, effects of informal forex trading and ways for dealing with informal forex trading was reviewed by the researcher.

#### **2.1 THEORETICAL FRAMEWORK**

Classical Growth Theory, Neoclassical Growth Theory and Endogenous Growth Theory were used to relate informal forex trading to the economy.

### **2.1.1 Classical Growth Theory**

According to Classical Growth Theory, there exists an inverse relationship between a nation's economic growth and its population growth, such that an increase in population leads to a decrease in economic growth (Gordon, 2022). The theory holds significance in the context of the study, which sought to infer the impact of informal foreign exchange trading on the economy. The researcher will be aided in comprehending the correlation between economic growth and population by delving into the fundamental principles of the theory. The research endeavour also seeks to identify the underlying reasons for informal forex trading, which can be addressed by classical growth theory.

### **2.1.2 Neo Classical Growth Theory**

According to Gordon (2022), the Neo-Classical Theory posits that a stable economy is achieved through the interplay of labour, capital, and technology. According to the theory, the attainment of short-term economic equilibrium is contingent upon the manipulation of labour and capital inputs, both of which are integral to the production process. The theoretical framework holds significance in the research as it will aid the investigator in comprehending the basic principles of a sustainable economy. The research reviewed the effects of informal forex trading on the economy, and in doing so, found that the neo-classical growth theory was pertinent in identifying the key pillars of a robust economy, namely labour, capital, and technology.

### **2.1.3 Endogenous Growth Theory**

The Endogenous Growth Theory posits that government policies aimed at promoting economic growth play a crucial role in this regard. Additionally, there are increasing returns to scale associated with capital investment in knowledge-based industries such as education, health, and telecommunications (Gordon, 2022). The study is pertinent as it seeks to explore strategies for managing informal forex trading and its impact on the economy. In this regard, the Endogenous Growth Theory is germane as it elucidates the significance of government policies in fostering economic stability.

## **2.2 CAUSES OF INFORMAL FOREX TRADING**

### **2.2.1 Unemployment**

Zimbabwe is characterised by a rise in unemployment as it started in the 1990s. The rate of unemployment continues to increase progressively, in 1982 it was recorded at 11%, 22% in 1992 and 30% in 1995 (Ncube. 2000). Unemployment rate continued to be evidenced with

37% in 2004 and continued to rise upto 50% in 2013. Massive retrenchments was evidenced as a result of structural adjustment programme put in place by the government. Declining in manufacturing output by 40% from 1991 to 1995 caused the retrenchment to take place (Mbiriri, 2010) as such informal forex trading come into play as a high rate of unemployment.

### **2.2.2 Inflation**

Furthermore, inflation is another reason which cause informal forex trading. In the Zimbabwean context, in 2018 inflation rose by 10.6% and jump dramatically to 577.21 %in 2022 giving Zimbabwe a poor monetary policy (O'Neill, 2021) hence with the rise of inflation, informal forex trading come into existence as a way to obtain a survival to individuals and businesses.

### **2.2.3 Foreign currency shortage**

In addition, foreign currency shortage was another reason for the cause of informal forex trading in Zimbabwe. Zimbabwe is faced by shortage of foreign currency since the re launching of the interbank market in February 2019 as such Zimbabwe faced difficulties to attract foreign currency to the financial sector which created unbearable foreign currency shortage in the economy hence informal forex trading come into play as a result of shortage of foreign currency (Bhoroma, 2020)

### **2.2.4 Means of survival**

In addition, means of survival was among other reasons which caused informal forex trading. With the increased rate of unemployment, informal forex trading come as a means of survival as it provides sources of livelihoods to the individuals hence need for survival was other reason behind the cause of informal forex trading (Sakuhuni, 2014)

### **2.2.5 Wealth creation**

From 2000 to 2008 characterized by economic crisis, informal forex trading become a way to create wealth in responding to hyperinflation. Thereafter, informal forex trading continued to be in existence as a result for the need of individuals to create wealth in their survival hence informal forex trading come into existence with the need to create wealth by individuals (Sakuhuni, 2014)

### **2.2.6 Economic slide**

Furthmore, economic slide was seen as the other reason for informal forex trading. From the year 1999 to 2008, the was 6.3% annual average rate declining of the economy (Mbiriri, 2010),



businesses seized operation and inflation continued to rise which erode savings and investment. There was increase in savings ratio from 16.5% (1986-90), 17.8% (1991-96) and decline to 15.9 % in 1997 to 1999 and 0.7% in 2000 to 2005. With investment ratio it tooks a similar trend, 16% in 1986 to 1990, 21.7% in 1991 to 1996, deteriorating to 17.1% in 1997 to 1999 and 8.1% in 2000 to 2005 (MPSLSW, 2009). Mbiriri (2010) pointed out that in 2000, 400 established businesses closed and in the period of 18 months another 700 businesses had shutdown hence economic slide caused the informal forex trading.

### **2.2.7 Accessibility**

Informal forex trading come into play because of accessibility. Informal forex trading in more accessible unlike formal forex trading. It's easy to start informal forex trading as huge amount of capital is not required (Finsmes, 2022) hence the cause of informal forex trading was due to its accessibility.

### **2.2.8 Profitability**

Profitability is among other reason which cause informal forex trading ( Finsmes, 2022). Profitability is the other reason most of the people are into informal forex trading. Informal forex trading is very profitable with the potential to multiply initial investment hence the emergence of informal forex trading as a result of profitability.

### **2.2.9 Low Barriers to Entry**

Starting as informal forex trader has low barriers to entry as compared to formal forex trading. Informal forex trading is regarded as low start up cost (Babypips, 2022). In the Zimbabwe context, informal forex trading is seen as accessible to anyone who can wish to start as informal forex trader and it's a reason for the emergence informal forex trading in Harare.

### **2.2.10 A 24 hour market**

Moreover, informal forex trading is a 24 hour market, trading of forex is held 24/7 . This is an advantage to those trading in the informal forex as the participants in the market choose when they want to trade in every time of the day (Babypips, 2022) hence the cause of informal forex trading in Harare as individual are free to trade 24/7.

### **2.2.11 Poverty**

Informal forex trading result from poverty among individuals. Zimbabwe is struggling with the internal corruption, hyperinflation as well industrial mismanagement. In addition poverty

in Zimbabwe affected 76.3% of the Zimbabwean in the year 2020 and as such informal forex trading come into play (Borgenproject, 2022) hence poverty is a cause of informal forex trading in Zimbabwe.

#### **2.2.12 Lower interbank rate as compared to black market**

Moreso, Zimbabwe's central bank raise benchmark interest rate upto 60% from 40% in attempting to stabilize a free falling currency and rein in surging inflation (Marawanyika, 2021) as such this triggered informal forex trading in Zimbabwe as a result of low bank rate compared to black market with a higher market in black market as compared to the lower interbank rate.

#### **2.2.13 Lack of economic growth**

The informal forex trading activities have been identified as a pushing factor that contributes to a sluggish rate of economic growth and/or a rapid rate of population growth. Consequently, the industrial sector is unable to generate job opportunities for surplus labour, leading to the emergence of informal forex trading as an alternative means of income. This phenomenon has been attributed to the absence of economic growth. (Chen, 2012).

#### **2.2.14 High black market rate**

High black market rate causes the informal forex trading in Harare. Zimbabwe allowed banks to put their preferring rate in trading with united states dollar . With the result of this, lenders are able to use willing buyer , willing seller as they are no longer restricted to the official exchange rate (Ndlovu, 2022) as such high black market rate triggers the informal forex trading through a willing buyer, a willing seller.

#### **2.2.15 Government rules and regulation**

The escalation of informal forex trading can be attributed to the tax burden. This phenomenon can be explained by the neoclassical economic model, which posits that an increase in marginal tax rates can influence an individual's decision to prioritise leisure over work. Consequently, individuals may opt to substitute formal sector employment with informal sector activities, thereby reducing their waged time in the former (BoyanBelev, 2013). The concept within the legalist school posits that informal foreign exchange trading can be attributed to the response of micro-entrepreneurs. Chen (2012) posits that informal operations are often chosen by

individuals or entities due to excessive government regulations and oversight, which result in the avoidance of formal registration processes, thereby saving costs, time, and effort.

#### **2.2.16 Choice of illegal operation**

The selection of illicit activities is a contributing factor to the perception that informal foreign exchange trading is being pursued by entrepreneurs with the deliberate intention of evading the expenses associated with formal operations, such as regulatory fees, taxes, and utility costs. The occurrence of informal forex trading can be attributed to the lack of formality among entrepreneurs who opt to engage in illicit activities (Maloney, 2004).

#### **2.2.17 The pattern of economic growth**

Carr et al. (2001) highlighted that the configuration of economic growth is a primary determinant of informal foreign exchange trading. The following pattern has been described as a state of little or no economic growth, wherein there is an insufficient creation of employment opportunities for all individuals seeking work. A significant number of individuals who have been unsuccessful in securing formal employment have turned to informal forex trading as an alternative means of income generation. The second point pertains to the phenomenon of capital intensive/jobless growth, wherein the intensification of capital leads to a reduction in the workforce. This is commonly referred to as "downsizing" in the United States. Those who are unable to secure gainful employment in the modern sector due to this trend often become part of the informal workforce or join the ranks of the unemployed. (Chen, 2002) . Moreover, the objective of the high-tech expansion was to generate a greater number of service sector employment opportunities that require advanced skills, as opposed to manufacturing jobs that require lower-level skills. In such circumstances, individuals lacking the necessary qualifications to compete for high-tech formal employment opportunities may seek employment or persist in working within the informal economy, such as in informal foreign exchange trading. The small business and micro-business sectors generate a greater number of employment opportunities in comparison to the formal sector.

#### **2.2.18 Economic restructuring and Economic crisis**

Financial crises result in an increase in joblessness as formal sector positions decrease while informal foreign currency trading increases. A significant proportion of individuals who experienced job loss resorted to exchanging currency as a means of generating income for sustenance and mitigating the effects of inflation. This phenomenon occurs due to the downsizing or closure of enterprises resulting from economic restructuring or crises. In such instances, laid-off employees may struggle to secure alternative formal employment, leading them to engage in informal foreign exchange trading (Chen, 2012).

### **2.2.19 Globalization**

According to John (2000), the current shifts in the global economy are linked to postmodernity, and postmodernism is characterised by a greater willingness to embrace informal forex trading as a means of fostering new businesses. The shift from the current global economic system to a post-modern economic system has rendered informal forex trading ineffective as a source of growth and flexibility.

The phenomenon of globalisation provides advantageous conditions for large corporations, while the availability of data facilitates their interconnectivity. Additionally, the competitive pressure exerted on these corporations fosters agreements on employment. According to the International Labour Office (2002), the process of flexibilisation has resulted in the adoption of sub-contracting, piece-rate or casual arrangements for workers, which has led to a shift from formal wage employment to informal job plans. These informal job plans lack minimum wages, assured work, and benefits.

Chen and Carr (2001) have highlighted that the escalation of informal foreign exchange trading can be attributed to global trade and investment. Venture capitalists tend to be drawn to countries with low labour costs for the purpose of production and distribution along global commodity chains, with attractiveness being a key factor in their decision-making process. Globalisation has a tendency to confer advantages to large corporations, enabling them to swiftly and effortlessly penetrate new markets. This, in turn, places small and micro entrepreneurs at a disadvantage as they encounter challenges in acquiring knowledge of emerging markets. Moreover, the phenomenon of globalisation results in the compression of wages and bargaining power of low-skilled workers and small-scale producers, as they face

heightened competition in the global market. Africa's underdevelopment can be attributed to low levels of technological investment and capital accumulation, resulting in widespread poverty. This has led to high levels of dependency, prompting many individuals to turn to informal forex trading as a means of earning a livelihood.

### **2.2.20 Rural urban migration**

Todaro (1981) identified several factors that contribute to informal foreign exchange trading in emerging countries is because of rural-urban migration. These factors include social, physical, demographic, cultural, and communication factors, such as transportation improvements and the impact of modernization through media outlets like radio, television, and cinema. Furthermore, the creation of a single job within the formal sector results in the attraction of additional migrant workers. The migration rate from rural to urban areas is higher than the number of jobs created in the formal sector due to the influence of push and pull factors. According to the Todaro Model, the informal foreign exchange sector in urban areas has the capacity to create employment opportunities for individuals by employing labor-intensive technologies. This finding contradicts the Lewis model's assumption that industrial growth and urbanisation outpace population growth, resulting in a migration rate from rural to urban areas that matches the number of jobs created by the formal sector.

According to Hayat (2000), the informal sector's prime example is the agricultural sector. The agricultural industry exhibits inadequacy in effectively accommodating the swiftly expanding workforce within rural regions. The phenomenon of rural-urban migration is characterised by a significant influx of individuals from rural areas to urban centres, often resulting in a dearth of skills and education among the migrant population. This trend is further exacerbated by the inability of the formal sector to generate sufficient employment opportunities, thereby compelling individuals to engage in informal economic activities as a means of immediate sustenance and livelihood.

### **2.2.21 Trade Liberalization and Poverty**

The report on the least developed countries. The phenomenon of expanding urban informal sector is frequently associated with trade liberalisation. The presence of the sector is validated

by the availability of disadvantaged individuals in both urban areas and rural villages of emerging states. Informal forex trading is a sector that is predominantly characterised by the participation of individuals from low-income backgrounds, who engage in this activity as a means of fulfilling their basic needs. According to Hayat (2000), a significant proportion of individuals allocate a majority of their income, ranging from 70 to 80%, towards the purchase of food items. This trend is observed to be on the rise due to the increasing prevalence of urban poverty and the consequent demand for essential goods. Consequently, the informal sector continues to expand.

### **2.2.22 Social and other factors**

In contrast to other low-wage urban occupations such as daily labourer and housemaid, a significant proportion of individuals opt for this particular job due to the perceived freedom from additional employer-related responsibilities, the ease of its operations, and the variable and adaptable working hours that facilitate the fulfilment of social obligations and domestic duties, among other factors. According to Webster and Fidler's (1996) findings, the presence of overly restrictive and inefficient administrative policies can result in expensive obstacles and hinder the progress of formal economic endeavours. The absence of adequate permissible and institutional control mechanisms represents a deficiency in the government's oversight of informal sector operations. Maliyamkono and Bagachwa's work from 1986 is referenced.

Individuals are driven to participate in the informal sector due to a combination of easier opportunities and/or necessity. This dualistic perspective can be viewed as a strategy of necessity, but also as a choice to participate in the informal economy in order to have the freedom to work in their own business, flexibility in determining their hours or days of operation, and the ability to utilise and develop their creativity. According to Williams (2009).

## **2.3 EFFECTS OF INFORMAL FOREX TRADING**

### **2.3.1 Inflation**

With the informal forex trading has resulted in the inflation as the Zimbabwe dollar falls on parallel market, with the informal forex trading played a role (Ndlovu, 2021). Informal currency traders were arrested who were blamed in fueling the latest collapse of the local

unit on black market hence through the informal forex trading has resulted in causing inflation to and for the country.

### **2.3.2 Losing power of the local currency**

In addition, in Zimbabwe informal forex traders by illegal forex traders, is causing the losing power of the local currency (Matiashe, 2022). In 2019, Zimbabwe currency failed on rate to black market . In addition Zimbabweans were affected by price hikes which affect cost of basic commodities which was high beyond people salaries , uncontrolled inflation and poverty.

### **2.3.3 High price of goods and services**

With the role of illegal forex traders in promoting informal forex trading, has led to high price of goods and services (Marufu, 2022). Prices of basic goods and services are moving out of control as the business owners are responding to a huge black market rate caused by illegal forex dealers on the parallel market. This result in annual inflation which stand at 60% in December 2021. Businesses are pricing their goods and services in relation to black market rate as the Zimbabwean dollar lose its value on the auction floor (Marufu, 2022)

### **2.3.4 Lack of economic development**

From the year 1999 to 2008, the was 6.3% annual average rate declining of the economy (Mbiriri, 2010), businesses seized operation and inflation continued to rise which erode savings and investment. There was increase in savings ratio from 16.5% (1986-90), 17.8% (1991-96) and decline to 15.9 % in 1997 to 1999 and 0.7% in 2000 to 2005. With investment ratio it tooks a similar trend, 16% in 1986 to 1990, 21.7% in 1991 to 1996, deteriorating to 17.1% in 1997 to 1999 and 8.1% in 2000 to 2005 (MPSLSW, 2009). Mbiriri (2010) pointed out that in 2000, 400 established businesses closed and in the period of 18 months another 700 businesses had shutdown hence economic slide was caused the informal forex trading.

### **2.2.5 Foreign currency shortage**

Furthermore, the practise of informal forex trading has led to a deficit in foreign currency. Zimbabwe has encountered a dearth of foreign currency since the reintroduction of the interbank market in February 2019. This has resulted in challenges for Zimbabwe to attract foreign currency to the financial sector, leading to a significant shortage of foreign currency in the economy. Consequently, informal forex trading has had an adverse impact on the shortage of foreign currency (Bhoroma, 2020).

### **2.3.6 Employment creation**

Informal forex trading has created employment as it creates source of livelihood and survival to the individuals (Mazarura, 2008). Zimbabwe is characterised by a rise in unemployment as it started in the 1990s. The rate of unemployment continues to increase progressively, in 1982 it was recorded at 11%, 22% in 1992 and 30% in 1995 (Ncube. 2000). Unemployment rate continued to be evidenced with 37% in 2004 and continued to rise upto 50% in 2013. Massive retrenchments was evidenced as a result of structural adjustment programme put in place by the government. Declining in manufacturing output by 40% from 1991 to 1995 caused the retrenchment to take place (Mbiriri, 2010) as such informal forex trading come into play as a high rate of unemployment.

## **2.4 WAYS FOR DEALING WITH INFORMAL FOREX TRADING**

### **2.4.1 Naming and shaming of illegal forex dealers who promote informal forex trading**

30 black market dealers were banned by the Reserve Bank Of Zimbabwe from operating any bank or any other financial services for the 2 years. In addition, RBZ further stated promoters of informal forex trading need to be banned in using cellphone lines. (Chronicle, 2021). Through naming and shaming illegal forex dealers who promote informal forex trading it will limit the participants in informal forex trading as they will be afraid to be tarnished their image hence naming and shaming of illegal forex dealers who promote informal forex trading as a way for dealing with informal forex trading.

### **2.4.2 Identifying and freezing accounts by banks of promoters of informal forex trading**

The Financial Intelligence Unit (2021) has issued a directive to banks and other financial service providers to identify and freeze the accounts of individuals involved in informal foreign exchange trading. Additionally, it is imperative for FIU to formally request Potraz to prohibit unauthorised foreign exchange traders from conducting business through cellular phone lines. It is imperative that Dr. Mangudya collaborates with the Financial Intelligence Unit (FIU) and law enforcement agencies to persist in monitoring social media and bank accounts in order to take appropriate action against those who facilitate informal foreign exchange trading.

### **2.4.3 Punish businesses pegging prices on the black market rate**

In a bid to deal with informal forex trading, businesses pegging prices on the black market rate need to be punished. There is quick action needed by the government in a way to monitor price hike as well as punishing businesses price their goods and services on black market rate. In addition names of businesses pegging prices in black market rate need to be named on public



(Chronicle, 2021). In addition, businesses pricing goods as well as services on top of the ruling exchange rate need to be named, shamed and fined heavily.

#### **2.4.4 Blacklists illegal Forex Dealers**

Illegal forex dealers who facilitate informal forex trading need to be identified and blacklisted (Gerede, 2021). Reserve Bank of Zimbabwe Financial intelligence Unit (FIU) identify and pick 30 individuals who were part of promoting informal forex trading by being participating in illegal foreign currency trading using cellular phones and other social media platforms. Banks, mobile money operations as well as other financial services were instructed by FIU to pick and freeze accounts of illegal forex traders to a bid to stop informal forex trading and promote formal forex trading.

#### **2.4.5 Employment creation by the government**

There is great need for the government to create employment in a bid to stop informal forex trading (Scott, 2014), high number of jobs are needed is a bid to stop informal forex trading which can boost economic activity. Through this action, jobs will be created in every city and districts thereby boosting GDP, boost jobs as well as reducing unemployment.

### **2.5 EMPERICAL REVIEW OF LITERATURE**

**Sibhat (2020)** examined the causal connection between the informal sector and its impacts, with a specific emphasis on street traders in Addis Ababa, Ethiopia. The objective of the research was to examine the significance of the informal sector in the economy of Ethiopia. The researcher employed the construct structure interview method to collect data from a sample of 91 street vendors. The researcher employed both descriptive and regression analysis methods. The study's results indicate that the emergence of the informal sector is primarily attributed to the dearth of employment opportunities in the formal sector. The study has also found that the informal sector serves as a means of generating income for individuals who are socioeconomically disadvantaged.

Moreover, a research conducted by **Ngundu (2010)** investigated the influence of the informal sector on the societal and economic progress of households led by women in the urban district of Chegutu, Zimbabwe. The objective of the study was to investigate the effects of the informal economy on the social and economic progress of households led by women. The research employed a qualitative methodology, utilising the case study as the chosen research design. The data was collected through the utilisation of semi-structured interviews. The study

employed snowball sampling as a method for identifying suitable respondents to participate in the research. The research revealed that female-led households operating in the informal sector derived advantages from their involvement in said sector. It was deduced that the informal sector presents challenges for women, and it was concluded that the integration of social and economic development is crucial for poverty eradication.

Furthermore, **Ndiweni (2013)** conducted a study examining the emergence of informal entrepreneurs in Zimbabwe and whether it signifies economic growth or a failure of economic policies. The objective of the study was to examine the potential correlation between the increase in informal entrepreneurship in Zimbabwe and either economic growth or ineffective government policies. The research indicates that the informal traders in Zimbabwe do not possess the potential to foster sustainable development, albeit their capacity to substantially augment the economic growth. The adoption of social entrepreneurship has been suggested as a viable approach to tackle social issues.

Furthermore, a research conducted by **Mazarura (2008)** investigated the dynamics of informal foreign currency trading, specifically focusing on the case of Harare's Black Market Traders. It has been inferred that the country is currently experiencing an unemployment rate of no less than 80% and an inflation rate of 165,000%. Consequently, a significant proportion of individuals transitioned to the informal sector in order to secure their means of subsistence and ensure their survival. A sample of ten informal currency traders was interviewed and observations were conducted in Zimbabwe. The study employed qualitative research methods. The research has established a robust correlation between foreign currency traders and formal private sector enterprises, along with other governmental organisations. The study conducted a review which suggests that in order to ensure survival during times of crisis in Zimbabwe, informal currency traders must exhibit high levels of creativity and innovation.

In 2009, **Tamukamoyo** conducted a research study on the characteristics of informal economic practises among urban traders in the city of Harare, located in Zimbabwe. The case study approach was employed to depict and examine the characteristics of informal trading practises among traders. The research findings indicate that a significant proportion of traders experience income instability, leading them to engage in informal transactions. Hence, it was suggested that the economic agents should foster economic growth in order to capitalise on the opportunities presented by economic development.

Furthermore, additional studies have discovered a favourable impact on commerce, frequently associated with the practise of subcontracting. **Carr and Chen (2002)** acknowledged the potential of the informal economy in facilitating the expansion of trade opportunities in situations where firms are vertically integrated with the formal sector, such as outsourcing and subcontracting. The informal economy, as evidenced in the realm of writing, has been instrumental in reducing production costs and overhead expenses. In alternative contexts, research has demonstrated favourable outcomes associated with the dualistic approach. Davis and Haltiwanger (1990, 1992), along with Davis et al. (1996), discovered that informality can facilitate trade, given the feasibility of transitioning from the informal to the formal sector with skill enhancement and acquisition of new skills. Trade generates employment opportunities in both sectors and also creates new jobs in response to emerging demands. This necessitates specific educational attainments, prospects for further training, and comparable considerations.

Additionally, **Kabonga and colleagues (2021)** conducted a research investigation on the difficulties encountered by youthful entrepreneurs engaged in informal trading within the Bindura region of Zimbabwe. The objective of the research was to document the challenges encountered by adolescent street vendors in the urban centre of Bindura, located in Zimbabwe. The study was conducted due to the inadequate consideration given by local and national governing bodies to the difficulties encountered by young informal traders. A qualitative methodology was utilized in the research, utilizing in-depth interviews, focus group discussions, and documentary analysis as the primary means of data collection. The study revealed that young informal traders encounter various obstacles, including insufficient capital, harassment from municipal authorities, and competition from established traders, as well as a lack of mentoring. Notwithstanding these difficulties, youthful businesspeople adopt various means of staying afloat, such as obtaining funds from friends and family and benefiting from varied mentoring and coaching schemes from different channels. The research findings suggest that it falls upon both the government and private sector to foster the growth of these young entrepreneurs amidst these challenging circumstances.

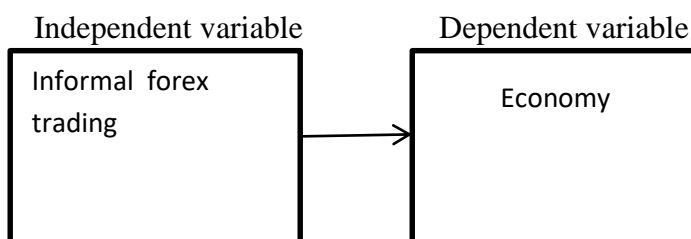
## **2.6 LITERATURE GAP**

As indicated with the above literature, the directly above detailed literature review highpoints that empirical studies has been carried on the effects of financial literacy on economic development in developed as well developing countries. The researches come up with mixed results. Though, a sizeable numeral of investigators researched the effects of informal sector to the economy, there are absence studies that have been studied on the effects of informal

forex trading to the economy, a case study Harare, this research therefore addresses. Variety of researchers has put much emphasis on informal sector as a whole. Other researchers found that there is a connection between informal forex trading and economic development where as some researches did not manage to establish any connection between them. Variety methodologies has been used by researchers for example multi regression, correlation test to mention just a few. Knowledge studies which make use of factor analysis is missing. As this study looked at effects of informal forex trading to the economy, as such this research closes the gap of informal forex in trading literature and take along a uniqueness.

## 2.7 CONCEPTUAL FRAMEWORK

The conceptual framework shown in Figure 2.1 reveals the dependent and the independent variable on the effects of informal forex trading to the economy as clearly represented below.



*Figure 2.1 Conceptual framework*

*Source: Author's constructions*

## 2.8 CHAPTER SUMMARY

Literature of the effects of informal forex trading to the economy was reviewed by the researcher. It deduced in the literature that informal forex trading is caused by high rate of unemployment, inflation, foreign currency shortage, the need for survival, need to create wealth, economic slide, low barriers of entry to mention just as clearly reviewed above in the literature. Employment creation, inflation, decline in economic development, loss of local currency value to mention just a few was reviewed in the literature on the effects of informal forex trading to the economy. Punishing the culprits who facilitate informal forex trading,

blacklist the players of informal forex trade to mention just a few were reviewed in the literature for ways for dealing with informal forex trading. Lack of studies conducted on the effects of informal forex trading to the economy in Harare was a gap which was found in the literature intended to be filled by the researcher.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

In this chapter of research methodology we saw elements as well as instruments to collect, analyse and present data being explained and justified. Procedures for conducting the research were also looked to. Sample size, population, sampling methods and sampling technique was clearly highlighted in this chapter. The researcher made use of probability sampling method in which researcher use simple random sampling where all participants have equal chances of being selected. The researcher adopted descriptive survey research design as it enables gathering of data from a large population. Justification for choosing research design, choosing research instrument, choosing sampling methods and technique were also made in this chapter for the reader to have an understanding why the researcher prefers the research design, instruments as well as sampling methods not giving preferences to other research design, instruments and sampling methods. In this chapter, the researcher used primary data and secondary in addressing to the purpose of the study and the researcher was guided by ethics in conducting the research as people were not forced to be part of research.

#### **3.1 RESEARCH DESIGN**

The research design elucidates the methodology and analytical approach employed in conducting and interpreting a study. According to Green and Tull (2010), a research design refers to the systematic plan and methodology employed in acquiring the desired information. The research design is a structured plan that has been formulated to elicit responses to specific research inquiries. Various types of research designs exist, such as case studies, experiments, and surveys (including cross-sectional and longitudinal surveys), as well as explanatory, conclusive, and descriptive research designs. This study employed a descriptive survey research design, characterised by its utilisation of specific factors such as the selection of samples from known populations. The utilisation of survey methodology was employed by the researcher due to its ability to gather the perspectives of a significant number of individuals simultaneously, through the implementation of a questionnaire and interview.

### **3.1.1 Descriptive Research**

The Descriptive Survey method was employed in this study in order to facilitate the evaluation and examination of specific behaviours and information. The primary objective of this study is to examine the impact of informal forex trading on the economy. The present study focuses on Harare and, therefore, the utilisation of the survey method was deemed crucial as it guarantees the acquisition of a substantial amount of data for research purposes. Whilst this approach may be laborious, it often incurs expenses and is contingent upon the willingness, veracity, and proficiency of the participants. The utilisation of a descriptive research design facilitates a comprehensive comprehension of phenomena and is acknowledged for yielding robust descriptive outcomes. According to Berry (2004), a descriptive research design is utilised to gather data on the present state of a phenomenon, with the aim of providing a comprehensive account of the conditions in a given situation.

### **3.1.2 Justification for using Descriptive Research**

The utilisation of a descriptive research design facilitates the researcher in obtaining perspectives from a substantial population at a singular instance through the administration of a questionnaire. The descriptive research design facilitates the study of multiple variables simultaneously. The selection of a research method is contingent upon the utilisation of both primary and secondary data. The research design employed was descriptive in nature and was undertaken with specific objectives in mind. Consequently, the conclusions drawn from the study were definitive (Penneerselman, 2004). The utilisation of the descriptive survey method would result in the acquisition of a greater amount of information, thereby rendering it suitable for various other applications. Leady (1980) argued that a descriptive survey is a more realistic approach as it recognises any observed phenomenon as normal and replicable under similar conditions. Therefore, the researcher employed a descriptive survey methodology. The descriptive research design is limited in its ability to establish causal relationships. Additionally, there is a potential for response bias as respondents may not provide truthful answers or may provide socially desirable responses when completing survey questionnaires. The selection and phrasing of inquiries on a survey instrument can exert an impact on the outcomes of the descriptive analysis.

## **3.2 POPULATION AND SAMPLE**

The research population refers to the entire population from which a sample is selected for a study. Population is a crucial component in research as it facilitates the execution of research. The absence of a population renders research impracticable, thereby underscoring its significance. The sample is derived from the population, and research inquiries are addressed based on the selected samples that are representative of the population. The utilisation of samples facilitates the ease with which researchers can collect data and draw conclusions based on the findings. It is imperative to obtain a representative sample of the population in order to effectively address research inquiries and draw accurate conclusions from resultant data. The forthcoming section will provide information on the population and sample size for the research.

### **3.2.1 Target Population**

Neuman (2013) defined target population as a collection of people or entities to which the researcher wishes to generalize the study's findings. Babbie (2016) defines population as 'the theoretically specified aggregation of the elements in a study' (p.40). Subjects of this study are people who are affected by the activities of informal forex trading in Harare. According to the Zimbabwe National Statistics Agency (ZIMSTAT) director general (Taguma Mahonde) 2022 the Harare population in 2022 census was 1,578,000.

### **3.2.2 Sample and sample size**

The number of people or organizations that the study wishes to include a research is known as the sample size, according to Creswell (2014) (p.175). The study used a sample size as it is often not feasible or cost-effective to study an entire population, instead a smaller data set can be more easily analyzed using statistical software and techniques, and the results can be more easily interpreted and communicated. Saunders' method was used to determine sample size. Saunders' method of determining sample size is a statistical approach that helps researchers to determine appropriate sample size for a study based on desired level of confidence, acceptable margin of error, and estimated population standard deviation, (Saunders, Lewis and Thornhill, 2005). In order to compute the sample size, the researcher calculated it as;

The study used Yamene's formula to determine sample size;



$$n = N / (1 + N(e)^2)$$

n=necessary sample size

N=estimated size of the population

e=level of precision/acceptance sampling error (usually 5%)

$$n = 1\,578\,000 / (1 + 1\,578\,000(0.05)^2)$$

=385

This suggests that a confidence level of 95% that the real value is within  $\pm 5\%$  requires 385 or more respondents.

### **3.3 SAMPLING METHOD AND TECHNIQUE**

Sampling refers to the systematic procedure of selecting individuals to participate in a study (Fraenkel, Wallen & Hyun, 2012). Sampling is a method employed to derive inferences from a subset of a population, which can subsequently inform decision-making processes. There are two distinct types of sampling techniques: probability sampling and non-probability sampling. Probability sampling methodology involves choosing a sample from a clearly defined population, where each member of the population has a known and non-zero chance of being chosen for the study (Hsia, 2014). This kind of sampling includes various techniques such as simple random sampling, stratified sampling, systematic random sampling, cluster sampling, and multi-stage systematic sampling (Showkat & Parveen, 2017). Non-probability sampling, on the other hand, is based on the researcher's subjective judgement to select participants from the population, rather than using random or probability techniques (Doherty, 1994). The methodology of non-probability sampling encompasses various techniques, including snowball sampling. This approach involves requesting participants who meet specific inclusion criteria to identify and recommend other individuals who may also be suitable for inclusion in the study. Snowball sampling is particularly useful in situations where locating participants is challenging (Cooper & Schindler, 2011). Two additional types of non-probability sampling are

convenience sampling and quota sampling. The research employed a random sampling methodology.

### **3.3.1 Random Sampling technique**

Simple random sampling is a wholly random method of choosing subjects which is a probability sampling technique. Every element in the population has equal chance and probability to be selected in sample. The selection is based on chance, a fair sampling method. Sample size need to be high more than limited hundred so enable simple random sampling to be applied in a good manner. In selecting simple random sampling, a list of every member is prepared, each member marked with particular number, from the population, random sample is done with methods either random number table or random number generator software. Two approaches in random sampling which focused on reducing error consist method of lottery, each participant of population is numbered systematically, writing each figure on a distinct piece of paper and the pieces of paper is mixed and lay in box and numbers are drained from box in random selection and use of random numbers another way also involve numbering the population(Simple Random Sampling :Definition and Examples) Random sampling, one of greatest ways to obtain unbiased outcomes in the research, covers selecting participants from population by random means, all participants have same chance to be selected from the population under research(Starners, 2008)

### **3.3.2 Justification for using probability random sampling technique**

Starners, (2008) pointed out that random sampling is a top way to obtain unbiased outcomes in conducting a research hence to avoid biased results the researcher choose simple random sampling (probability sampling) as each subjects have equal chance of being selected. Harare were characterised by many people in formal forex trading and by simple random sampling it enabled unbiased results as each participant has equal chance of being selected.

## **3.4 RESEARCH INSTRUMENT**

According to Eng (2013), a research instrument is a tool utilised to gather data that is appropriate for both qualitative and quantitative methodologies. The aforementioned instruments are utilised for the purpose of gathering empirical data pertaining to a particular research topic (Fletcher, 2016). The research method employed an assortment of tools, including surveys, interviews, observation, focus group schedules, case logs, psychometric

tests, history stories, life tells, and discussion groups (Trigueros et al., 2017). The study utilized a combination of interviews and self-administered questionnaires to supplement the primary data. The utilisation of personal experience in conducting research through observation, fieldwork, and reflection was also employed as a tool to produce outcomes in the study.

### **3.4.1 Description of a questionnaire**

A questionnaire is a series of written inquiries posed to respondents, who are required to provide answers (Bell, 1999). The process of developing a questionnaire involves identifying the research objectives, formulating the questionnaire content, and assessing its validity through testing. The Likert Scale was utilised to prepare the questionnaire in multiple sections. The researcher employed a closed-ended questionnaire, which presented respondents with a list of predetermined answer options for each question, from which they were required to select a single response.

### **3.4.2 Description of interview**

The term interview originates from Latin and middle French words meaning to ‘‘ see between’’ or see each other’’, private meeting among people when there is asking of questions and obtaining of answers (businesscommunication.com). Conversation done is to gather information so as to generate results and give recommendations. Research interview constituted interviewee, the one who responds to questions, answers asked questions in interview and interviewer who possess questions to be asked. Interview are categorised into three forms, structured interview which is formal, organized and including several interviewers denoted as panel interview, unstructured interview in which the interviewer provide structure to the interview, open ended question are asked as interviewer is willing to hear more from interviewee and semi structured interview where the interviewer is not following a formal list of inquiries, open ended question are asked, allowing for dialogue with interviewee instead questions as well as answers which are to the point. The researcher used structured interviews.

### **3.4.3 Justification for using questionnaires and interviews.**

Questionnaires offer a cost-effective means of gathering a vast amount of data from a significant number of individuals within a short period of time, unlike the time-consuming process of conducting discussion groups. Assist the researcher to conduct the research alone without influence on reliability as well as validity. Outcomes from questionnaires are simple

to be analysed by the investigator for recommendations and drawing of conclusion. Harare is characterized by many SMEs into informal forex trading and with questionnaire the researcher obtains information from many participants unlike having discussion group. Verbal and nonverbal cues to the question could be captured by the researcher, which helped the researcher to capture information through observation and give further clarity. With interview, quality data would be obtained by researcher through verbal and nonverbal communication. Despite their benefits, questionnaires have a disadvantage in that participants may choose not to answer some questions, resulting in missing data. Researchers must ensure that all questions are answered. Conversely, conducting face-to-face interviews can be a time-consuming and costly process. The cost of interviewing is the total expense of the time and resources required to conduct each interview. The researcher conducted online interviews as well to save time.

### **3.5 TYPE OF DATA**

Data can be classified into two distinct forms, namely primary data and secondary data. According to Oschman (2009), primary data refers to information that is collected firsthand and has not been previously recorded or analysed. This statement suggests that the data is recent and has been gathered recently. According to Robson (2002), secondary data refers to data that has been previously collected and is readily available from other sources. The acquisition of primary data is made possible by using various techniques like interviews, surveys, and questionnaires. Additionally, secondary data sources, including books, documented research, journal articles, and electronically stored data such as online information, are used in research. The researcher employs both primary and secondary data sources during the research process.

#### **3.5.1 Justification for using primary data and secondary data**

With the use of primary data, the researcher obtained first-hand information that helped in deducing the effects of informal forex trading to the economy, filling the gap that was found in the literature. For validity the researcher used primary data which ensures more validity. To add the researcher knowledge, the researcher preferred to use primary data and secondary data which yields more information.

### **3.6 DATA COLLECTION PROCEDURES**

The data was gathered by means of questionnaires, as employed by the researcher. The questionnaire consists of questions that aim to provide answers to the research objectives in

order to address the research problem. The study involves the distribution of questionnaires to a sample drawn from the population. Specifically, a sample size of 385 individuals will be requested to provide answers to the administered questionnaires. Additionally, 10 respondents will be selected to participate in interviews, resulting in a total sample size of 395 respondents. A designated area is allocated for participants to provide the necessary data on survey forms. The participants were allotted a maximum of 30 minutes to complete the questionnaire, after which the researcher collected the responses. This allowed ample time for the respondents to carefully consider and respond to the questions, thereby increasing the likelihood of providing accurate information. During the interview process, the researcher will engage in face-to-face communication with the participant and utilise structured questioning techniques. This approach involves the interviewer posing questions in various formats to elicit a substantial amount of information.

### **3.6.1 Justification for the data collection procedures**

The process of collecting data through questionnaires is comparatively more cost-effective than direct observation, as the latter requires a significant amount of researcher time and effort, and journal articles necessitate additional data extraction through further searching. Questionnaires are a cost-effective means of gathering information, as participants are afforded ample time to complete the questionnaire. Administering questionnaires to participants in advance allows them sufficient time to analyse the questions and provide thoughtful responses without feeling rushed. The completed questionnaires are then collected the following day. The researcher employed the method of conducting interviews to facilitate interaction between the interviewer and participants, thereby enabling the acquisition of additional information.

## **3.7 DATA PRESENTATION AND ANALYSIS PROCEDURES**

Data analysis is the processing of data to make well-expressed information (Saunders & Thornhill, 2009). Marshall & Rossman (1999) defined data analysis as a process of take along order, structure as well as meaning to bulk of collected facts. Data analysis gives summary to collected data. It contains the interpretation of facts gathered with the use of analytical as well as logical reasoning to deduce patterns, links or trends (business dictionary.com). Miles, (2013) pointed out that presenting data covers pictorial representation of the facts by graphs, tables, pie charts and further methods, in addition he pointed out that these ways helps in adding visual feature to data, which creates it simple and fast to understand.

The researcher used both qualitative as well as quantitative methods in the examination of data also the researcher check thoroughly on questionnaires given back by respondents for assessment and analysis of questionnaires not completed or get spoiled. Frequency tables, graphs were used in describing, clarify, present and analyse data so as to make recommendations and draw conclusion from respondents understood. On qualitative data analysis content analysis was used and in quantitative data analysis frequency and percentage was used.

### **3.7.1 Justification for data presentation and analysis procedures**

Data is offered qualitatively as well as quantitatively, though greater prominence in the qualitative method. With qualitative and quantitative methods, research would communicated, objectives become clear with appropriate evidences. The reader gained confidence in the research document with the presentation of facts, the research would presented in a systematic way. All the data gathered is arranged, presented and analysed, using both qualitative and quantitative methods for their respective presentations and analyses.

## **3.8 MEASURES FOR ENSURING VALIDITY AND RELIABILITY OF INSTRUMENTS**

Brumbery et al., (2005) pointed out that validity is the level in which instrument measures what it states to measure. Validity of research instrument evaluates the level to which tool measures what it is intended to measure (Robson, 2011). It is level to which outcomes are straight as such research instrument that is questionnaires need to properly measure the notions under the research (Pallant, 2011). It covers the whole experimental concept and creates whether the outcomes got meet all necessities of scientific research way. Data is believed to be reliable for a judgment when data gathering method as well as the instruments in collecting data produce same results when used frequently over time (Mugenda and Mugenda, 2012), When a tool would not usable, it's hardly difficult to be reliable since it was unsuccessful to measure what investigator wants to measure to dealing with research problem. To ensure validity as well as reliability of instrument, researcher used pilot study.

### **3.8.1 Pilot study**

Saunders, (2009) pointed out that pilot testing perfects the questionnaires such that respondents will having no problems in giving answers to research questions. Abstruseness as well as

sensitivity of items together with other issues linked to data gathering is noted as well as revised tools and procedures before the focal study (Mugenda & Mugenda, 2012). Pre testing makes the researcher to make corrections as well as improving the research tools thereby ensuring information needed for research is obtained. Through conducting pilot testing appropriateness of questions in questionnaire and interview is insured through amendments in the structured questions so as to fulfil purpose of conducting the research hence ensuring validity and realibility of research questionnaire and interview.

### **3.9 ETHICAL CONSIDERATIONS**

According to Creswell (2003:23), it is imperative for a researcher to demonstrate respect for the rights, values, and needs of study participants. The researcher will not coerce individuals into participating in the study, and will uphold the principles of respect for participants' rights, values, and needs. The researcher intended to inform the respondents that the data gathered from them would not be utilised for personal benefit, but rather for the fulfilment of the research objectives. Prior consent would be sought from participants before administering the questionnaires for completion. Furthermore, it is imperative that responses are handled with utmost confidentiality solely for the purpose of the study. To ensure a high level of confidentiality, personal identifiers such as names and addresses are excluded from the questionnaires. This approach reflects a commitment to ethical considerations in research conduct.

### **3.10 CHAPTER SUMMARY**

To ensure accuracy and precision in the gathered data, the research design is a major focus of this chapter. The researcher chose a descriptive survey research design as it effectively collected information from the vast population. Furthermore, population and sample concepts are discussed, as a sample of 385 participants was selected out of 1,578,000 individuals who engage in informal forex trading. Interviews and self-administered questionnaires were selected as the research instruments due to their benefits of allowing participants enough time to give thoughtful responses and collecting both primary and secondary data. Graphs and tables were also used for data presentation and analysis and a pilot study ensured the validity and reliability of the data. Ethical considerations were taken into account, with the researcher emphasizing voluntary participation.

## CHAPTER 4

### DATA PRESENTATION AND ANALYSIS

#### 4.1 Introduction

Data collected by the researcher was presented in this chapter. Response rate and demographic data of the participants who took part during the study was presented in this chapter. Data was presented and analysed in answering to the research objectives which was put in place by the researcher.

#### 4.2 Respondents rate

**Table 4.1 Questionnaire response rate**

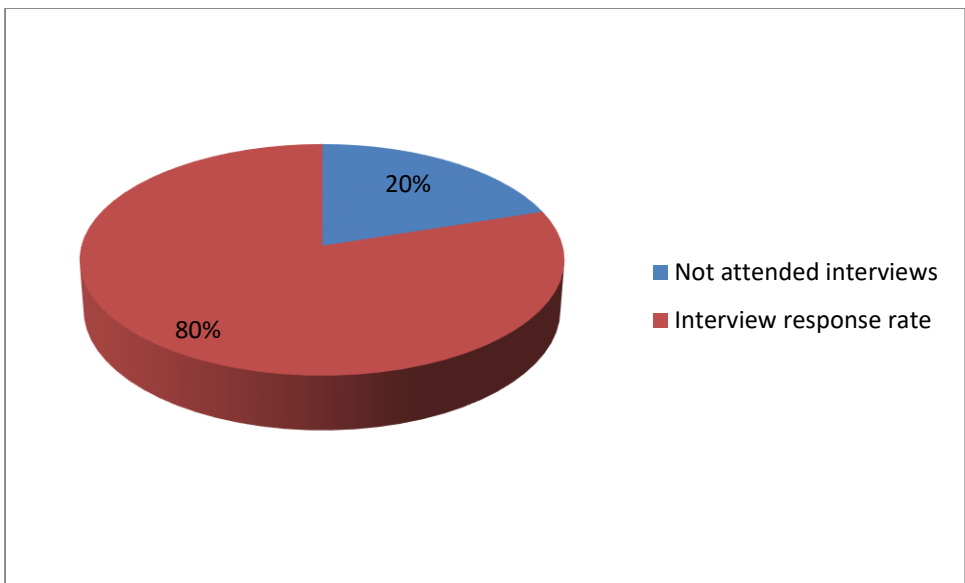
Number of questionnaires distributed	Number of questionnaires administered and returned correctly	Response Rate %
--------------------------------------	--	-----------------



385	320	83
-----	-----	----

**Source: Primary Data**

Table 4.1 indicated from the 385 questionnaires distributed, 320 completed and gave back the questionnaires demonstrating a 83% response rate. This response rate was higher enough in creating results representative (Saunders, Lewis and Thornhill, 2003).



**Source: Primary Data**

**Figure 4.1 Interview response rate**

Figure 4.1 showed, among 10 interviews administered, 8 attended demonstrating 80% response rate. This response rate was higher enough in making results.

**4. 2 RESPONDENTS DEMOGRAPHIC INFORMATION**

The findings on personal data were of vital importance in the research study as they give credibility of research findings, table below indicated the obtained data on the respondents’ demographic information.

**Table 4.2 Population of respondents and participant's personal data**

Characteristic		Frequency	Percentage %
Gender	Male	110	34
	Female	210	66
	Total	320	100
Employment position	Business owner	90	28
	Manager	80	25
	Hired manager	40	13
	Employee	110	34
	Total	320	100
Highest level of education	O level/ A level	60	19
	Certificate/diploma	80	25
	Bachelors degree	80	25
	Masters degree	80	25
	PhD	20	6
	Total	320	100
Period in the country	0 to 5 years	40	13
	6 to 10 years	40	13
	11 to 15 years	80	25
	16 to 20 years	90	28
	21years and above	70	21
	Total	320	100
Religion	Christianity	260	81
	Islam	40	13
	Hinduism	20	6

	African Tradition	0	0
	Other Specify	0	0
	Total	320	100

**Source: Primary data**

Respondents were asked their gender, and it was indicated that 210 respondents were female which constituted 66% and 110 respondents were male which constituted 34%, this shows data collected was valid since every gender was represented.

Participants were asked their employment position, 28% from 90 respondents indicated there were business owners, 25% from 80 respondents indicated they were managers and 13% from 40 respondents indicated they were hired managers, 34% from 110 respondents indicated they were employees and this shows that information obtained was valid as it was obtained from respondents in various category of work experience.

Participants in addition were asked their highest level of education, it was indicated that 19% from 60 respondents had o level/a level, 25% from 80 respondents indicated that they have certificate/diploma, 25% from 80 respondents indicated that have bachelor's degree, 25% from 80 respondents indicated they had masters degree and 6% from 20 respondent indicated they had a PhD, this indicated that data obtained was valid as respondents were able to read and understand the questionnaires as they all attended school.

Moreover, participants were asked their religion, it was indicated majority of respondents were Christians as indicated by 81% from 260 respondents who were Christians and this indicate information obtained had truth as the Christians are known of providing true information. However, limited respondents their religion were Islam and Hinduism as indicated by 13% and 6% respectively.

#### **4.3 REALIBILITY TESTS CRONBACH'S ALPHA**

**Table 4.3 Reliability statistics for effects of informal forex trading**

Cronbacha Alpha	Cronbachs Alpha based on Standardized Items	N of items
.823	.825	5

The table 4.3 above indicated that the Cronbach's alpha was .823 indicating that the questionnaire was reliable.

#### 4.4 THE CAUSES OF INFORMAL FOREX TRADING .

**Table 4.4 The causes of informal forex trading**

Causes	Strongly Disagree		Disagree		Neither Agree Nor Disagree		Agree		Strongly Agree	
	F	%	F	%	F	%	F	%	F	%
a) Foreign currency shortage	0	0	0	0	0	0	180	56	14	44
b) Means of survival	0	0	0	0	0	0	160	50	16	50
c) Economic slide	0	0	0	0	0	0	170	53	15	47
d) Lack of employment	0	0	0	0	0	0	180	56	14	44
e) Rise of inflation	0	0	0	0	0	0	160	50	16	50

**Source: Primary Data**

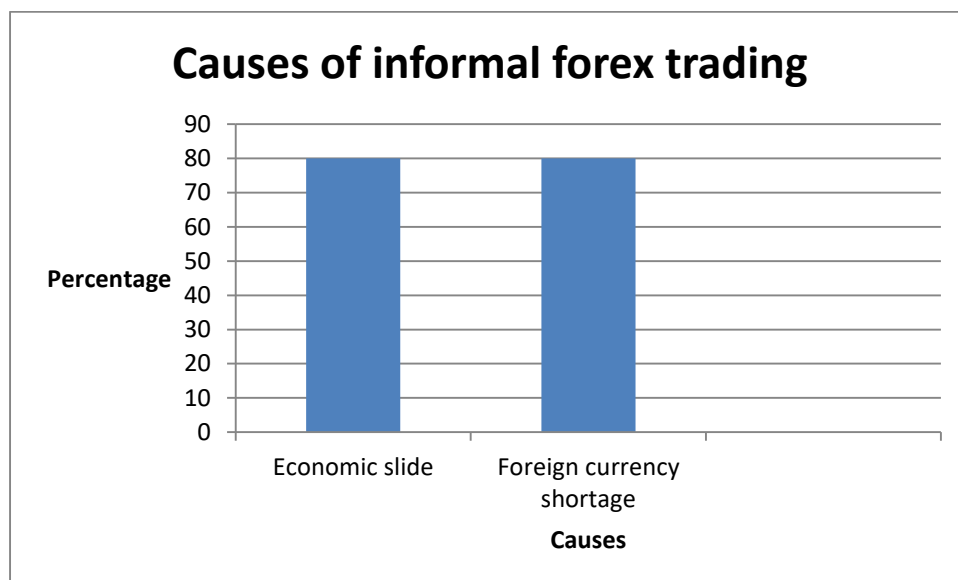
The respondents were asked on the causes of informal forex trading, majority of respondents indicated that foreign currency shortage is the cause of informal forex trading with 56% from 180 respondents who agree and 44% from 140 respondents who strongly agree. This was in agreement with Bhoroma (2020) who pointed out that foreign currency shortage is the cause of informal forex trading.

The respondents further indicated that a means of survival is the cause of informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. This was in agreement with Sakuhin (2014) who pointed out that a means of survival is the cause of informal forex trading.

The respondents further indicated that economic slide is the cause of informal forex trading with 53% from 170 respondents who agree and 47% from 150 respondents who strongly agree. This was in agreement with Mbiriri (2010) who pointed out that economic slide is the cause of informal forex trading.

The respondents further indicated lack of employment is the cause of informal forex trading with 56% from 180 respondents who agree and 44% from 140 respondents who strongly agree. This was in agreement with Mbiriri (2010) who pointed out that lack of employment is the cause of informal forex trading.

The respondents further indicated that rise of inflation is the cause of informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. This was in agreement with O’Neill (2021) who pointed out that rise of inflation is the cause of informal forex trading.



### Primary Data

**Figure 4.2: Interviewees response on causes of informal forex trading**

Figure 4.2 shows interviewees response on causes of informal forex trading, the respondents indicated that economic slide and foreign currency shortage cause informal forex trading. This

was in agreement with Bhoroma (2020) who pointed out that foreign currency shortage is the cause of informal forex trading and Mbiriri (2010) who pointed out that economic slide is the cause of informal forex trading.

#### 4.5 THE EFFECTS OF INFORMAL FOREX TRADING .

**Table 4.5 The effects of informal forex trading**

Effects	Strongly Disagree		Disagree		Neither Agree Nor Disagree		Agree		Strongly Agree	
	F	%	F	%	F	%	F	%	F	%
a) Losing power of the local currency	0	0	0	0	0	0	160	50	160	50
b) High price of goods and services	0	0	0	0	0	0	180	56	140	44
c) Lack of economic development	0	0	0	0	0	0	160	50	160	50
d) Employment creation	0	0	0	0	0	0	170	53	150	47
e) Cause rise in inflation	0	0	0	0	0	0	180	56	140	44

### **Source: Primary Data**

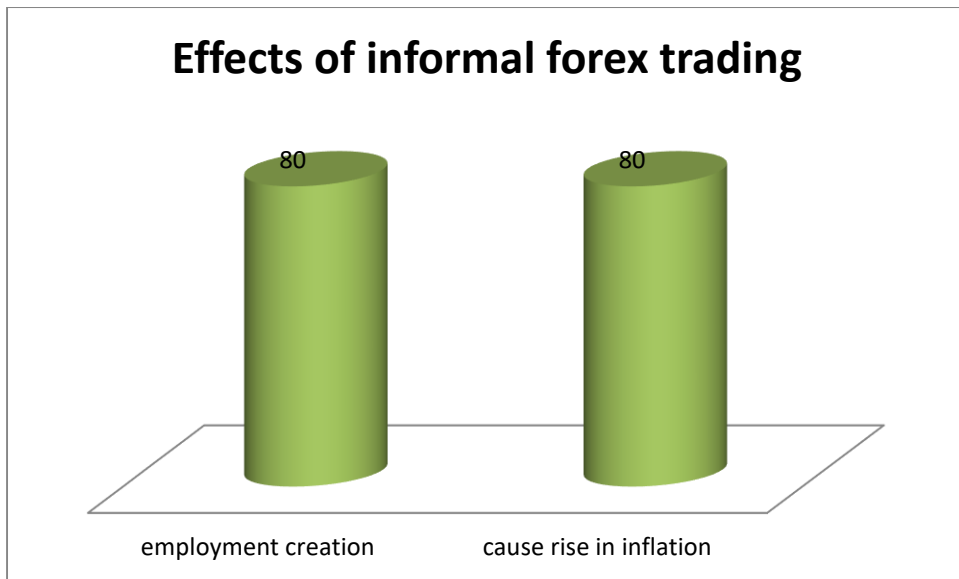
The respondents indicated that losing power of the local currency is the effect of informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. This was in agreement with Ma Matiashe (2022 ) who pointed out that losing power of the local currency is associated with informal forex trading.

Moreso, respondents indicated that high price of goods and services is the effect of informal forex trading with 56% from 180 respondents who agree and 44% from 140 respondents who strongly agree. This was in agreement with Marufu (2022) who pointed out that high price of goods and services is associated with informal forex trading.

Moreover, respondents indicated that lack of economic development is the effect of informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. This was in agreement with Mbiriri (2010 ) who pointed out that lack of employment development is associated with informal forex trading.

Furthermore, respondents indicated that employment creation is the effect of informal forex trading with 53% from 170 respondents who agree and 47% from 150 respondents who strongly agree. This was in agreement with Mazurura (2008 ) who pointed out that employment creation is associated with informal forex trading.

Moreso, the respondents indicated rise in inflation is the effect of informal forex trading with 56% from 180 respondents who agree and 44% from 140 respondents who strongly agree. This was in agreement with Ndlovu (2021) who pointed out that rise in inflation is associated with informal forex trading.



**Source: Primary Data**

***Figure 4.3 Effects of informal forex trading***

From the interviewed respondents, they indicated that employment creation and causing a rise in inflation are the effects of informal forex trading. This was in agreement with Mazurura (2008 ) who pointed out that employment creation is associated with informal forex trading and Ndlovu (2021) who pointed out that rise in inflation is associated with informal forex trading.

**4.6 WAYS FOR DEALING WITH INFORMAL FOREX TRADING.**

**Table 4.6 Ways for dealing with informal forex trading**



Ways	Strongly Disagree		Disagree		Neither Agree Nor Disagree		Agree		Strongly Agree	
	F	%	F	%	F	%	F	%	F	%
a) Employment creation by the government	0	0	0	0	0	0	180	56	140	44
b) Blacklists illegal forex dealers	0	0	0	0	0	0	160	50	160	50
c) Punishing businesses pegging prices on the black market rate	0	0	0	0	0	0	170	53	150	47
d) Identifying and freezing accounts by banks of informal forex traders	0	0	0	0	0	0	190	59	130	41
e) Education and training by the government to people on the importance of formal forex trading to the economy	0	0	0	0	0	0	160	50	160	50

**Source: Primary Data**

The respondents indicated that employment creation by the government deal with the informal forex trading with 56% from 180 respondents who agree and 44% from 140 respondents who strongly agree. This was in agreement with Scott (2014 ) who pointed out that employment creation by the government address the informal forex trading.

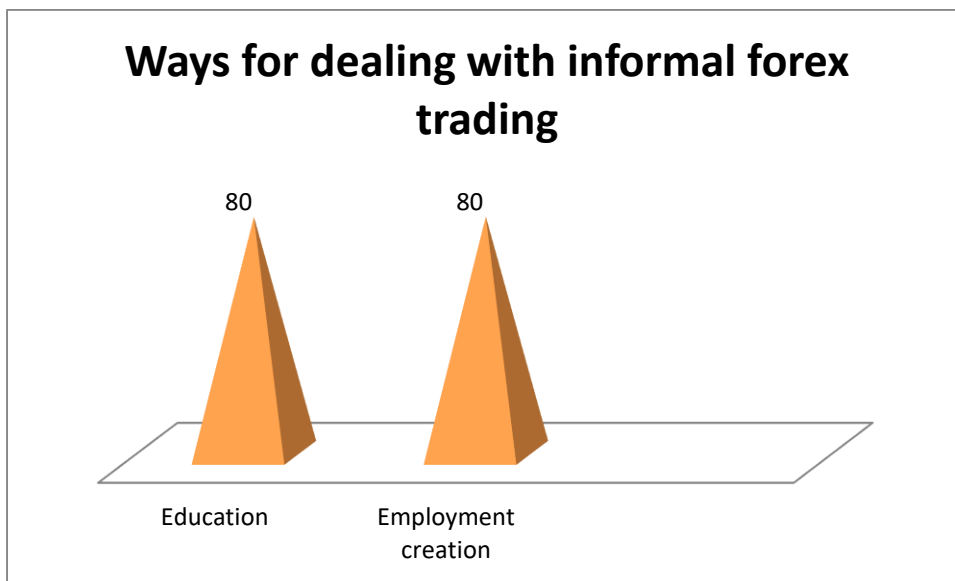
In addition, respondents indicated that blacklists illegal forex dealers deal with the informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. This was in agreement with Gerede (2021 ) who pointed out that blacklists illegal forex dealers address the informal forex trading.

Moreso, respondents indicated that punishing businesses pegging prices on the black market rate deal with the informal forex trading with 53% from 170 respondents who agree and 47% from 150 respondents who strongly agree. This was in agreement with the Chronicle (2021 )

which pointed out that punishing businesses pegging prices on the black market rate address the informal forex trading.

Furthermore, respondents indicated that identifying and freezing accounts by banks of informal forex traders deal with the informal forex trading with 59% from 190 respondents who agree and 41% from 130 respondents who strongly agree.

Moreso, respondents indicated that education and training by the government to people on the importance of formal forex trading to the economy deal with the informal forex trading with 50% from 160 respondents who agree and 50% from 160 respondents who strongly agree. .



**Source: Primary Data**

***Figure 4.5 Interviewee's response on ways for dealing with informal forex trading***

From the participants interviewed, it was indicated that education and employment creation deal with informal forex trading. This was in agreement with Scott (2014) who pointed out that employment creation by the government address the informal forex trading.

#### **4.7 CHAPTER SUMMARY**

In this chapter, there was discussion of study findings and presentation of the study findings. Comparison were made with earlier studies and presented using graphs, pie charts and tables. To analyse the findings, SPSS was utilised .Summary, conclusions and recommendations was shown in the next chapter.

## CHAPTER 5

### SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.0 Introduction

It is in this chapter in which summary, conclusion and recommendations was presented by the researcher in line with the research objectives and research findings. Area for further study was also presented by the researcher.

#### 5.1 Summary

The primary objective of the investigation was to ascertain the impact of unregulated foreign exchange trading on the economy. This study presents an analysis of the city of Harare, Zimbabwe, with a focus on its various aspects and characteristics. The stated objectives were to ascertain the underlying factors that contribute to the practise of informal foreign exchange trading, to analyse the ramifications of such activity, and to investigate potential strategies for addressing informal foreign exchange trading. The research was supported by classical growth theory, neo-classical growth theory, and endogenous growth theory as identified in the literature review. The development of research questions incorporated the findings of previous researchers. The study employed a descriptive research design and involved a sample size of 70 participants. The data collection method employed by the researcher involved the utilisation of questionnaires, which were designed to measure the participants' responses on a 5-point Likert scale. Subsequently, information was gathered and evaluated utilising the Statistical Package for Social Science. The methods of data analysis employed in the study included percentage and frequency. The presentation of data was facilitated through the use of pie charts and tables.

The research findings from the study highlighted that foreign currency shortage, means of survival, economic slide, lack of employment and rise of inflation are the causes of informal forex trading. Furthermore, in the research findings, it was established that losing power of the local currency, high price of goods and services, lack of economic development, employment creation and rise inflation are the effects of informal forex trading. Moreso, it was found that informal forex trading can be dealt with through employment creation by the government, blacklisting illegal forex dealers, identifying and freezing accounts by banks of informal forex traders and education and training by the government to people on the importance of formal forex trading to the economy.

## **5.2 Conclusion**

In accordance to the results given above, the researcher concluded that

- foreign currency shortage, means of survival, economic slide, lack of employment and rise of inflation are the causes of informal forex trading.
- Losing power of the local currency, high price of goods and services, lack of economic development, employment creation and rise inflation are the effects of informal forex trading.
- Informal forex trading can be dealt with through employment creation by the government, blacklisting illegal forex dealers, identifying and freezing accounts by banks of informal forex traders and education and training by the government to people on the importance of formal forex trading to the economy.

## **5.4 Recommendations**

- It was established that unemployed cause informal forex trading therefore it is recommended for individuals in Zimbabwe to start their businesses so as to end informal forex trading.
- Government to create employment for people so as to end informal forex trading through employment creation
- Blacklisting illegal forex dealers so as to end informal forex trading by instilling fear in people
- Identifying and freezing accounts by banks of informal forex traders so as to end informal forex trading.
- Education and training by the government to people on the importance of formal forex trading to the economy so as to end informal forex trading.

## **5.5 Area for further study**

Effects of informal forex trading on the global trade.

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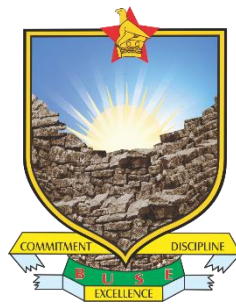
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## APPENDIX 1: RESEARCH QUESTIONNAIRE

### BINDURA UNIVERSITY



### BACHELOR OF ACCOUNTING

**Dear respondent**

Registration number B191024B and mobile telephone number 078 5803303 an undergraduate student at Bindura University of Science Education . As partial fulfilment of the requirements for the award of the Bachelor Of Science Honour's Degree in Accounting, I am conducting a research on the effects of informal forex trading in the economy. A case study of Harare . You are being invited to participate in this research study and I kindly request you to complete this form by putting a tick or an X in the appropriate space or box as honestly as you can. Any information obtained in connection with this study that can be identified with you and your business will remain confidential. **DO NOT WRITE** your name or anything that identifies you in any way. If you have any questions or concerns about completing this questionnaire contact me on 078 580 3303.

#### **Section A. Demographic information**

**1** Kindly indicate your gender

Male	1
Female	2

2. What is your employment position?

Business owner	1
Manager	2
Hired manager	3
Employee	4

3. May you kindly indicate your highest level of education?

O level/A Level	1
Certificate/Diploma	2
Bachelors' Degree	3
Masters' Degree	4
PhD	5
Other specify.....	

4. For how long have you been in this country?

0 to 5 years	1
6 to 10 years	2
11 to 15 years	3
16 to 20 years	4
21 and over	5

5. Kindly indicate your religion

<b>Religion</b>	1
Christianity	2
Islam	3
Hinduism	4
African Tradition	5
Other specify.....	

**SECTION B: CAUSES OF INFORMAL FOREX TRADING**

6a) Please indicate the extent to which you are agree or disagree with the following statements on the causes of informal forex trading on a scale 1 to 5, **1 being Strongly Disagree and 5 being Strongly Agree. (Key 1=Strongly Disagree, 2=Disagree, 3= Neither Agree nor Disagree, 4=Agree, 5=Strongly Agree.**

Statement	1	2	3	4	5
a) Foreign currency shortage					
b) Means of survival					
c) Economic slide					
d) Lack of employment					
e) Rise in inflation					

**SECTION C: EFFECTS OF INFORMAL FOREX TRADING**

8a) Kindly indicate the extent to which you agree or disagree with the following statements on the effects of informal forex trading on a scale of 1 to 5, **1 being strongly disagree and 5 being strongly agree. (Key 1=strongly disagree, 2=disagree, 3=neither agree nor disagree, 4=agree, 5=strongly agree)**

Statement	1	2	3	4	5
a) Losing power of the local currency					

b) High price of goods and services					
c) Lack of economic development					
d) Employment creation					
e) Cause rise in inflation					

**SECTION D: WAYS FOR DEALING WITH INFORMAL FOREX TRADING**

9a) Kindly indicate the extent to which you agree or disagree with the following statements on ways for dealing with informal forex trading on a scale 1 to 5, 1 being strongly disagree and 5 being strongly agree. (Key 1=Strongly Disagree, 2=Disagree, 3= Neither Agree nor Disagree, 4=Agree, 5=Strongly Agree)

Statements	1	2	3	4	5
a) Employment creation by the government					
b) Blacklists illegal forex dealers					
c) Punishing businesses pegging prices on the black market rate					
d) Identifying and freezing accounts by banks of informal forex traders					
e) Education and training by the government to people on the importance of formal forex trading to the economy					

**THANK YOU FOR YOUR TIME AND COOPERATION**

**APPENDIX 2**

**The Interview Guide**

1. What are the causes of informal forex trading?

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2. What are the effects of informal forex trading ?

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3. What ways for dealing with informal forex trading?

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**Thank you for your time and co-operation**

