J Soc Sci, 55(1-3): 66-70 (2018)
DOI: 10.31901/24566756.2018/55.1-3.2198

The Prevalence and Persistence of Barter Trading in the Informal Sector: The Case of Zimbabwe

Wadzanai Kachere

Department of Development Studies, University of Fort Hare, Private Bag 1314, Alice 5700, Eastern Cape, South Africa
Telephone: +27 (0) 40 602 2545/2562, Cell: +27 (0) 76 857 7514, Fax: +27 (0) 866 2828 12
E-mail: <wkachere@ufh.ac.za>, <wadzanaikachere3@gmail.com>

KEYWORDS Cash Shortage. Exchange Rate. Foreign Currency. Inflation. Poverty

ABSTRACT This paper seeks to show the increasing use of barter trading as a means of executing transactions in the informal sector of Zimbabwe, focusing on the Informal Cross Border Traders (ICBT). In the context of this paper, the term Informal Cross Border Trade, was used to describe the activities of small entrepreneurs who were involved in buying and selling across national borders. Survey was conducted, and secondary information was obtained from documentary searches. The paper established evidence of barter trade and that barter trade occurred as a result of the scarcity of cash, high inflation levels and an unstable exchange rate. Though barter at individual level was associated with primitive societies in the olden days, the study revealed that barter can develop and persist in deteriorating economies, which are characterized by cash shortages and unstable currencies, as traders and consumers sought a stable system to execute transactions.

INTRODUCTION

Barter is the act of trading goods and services between two or more parties without the use of money (Investopedia 2016). The Geneva Resource Centre in 2010 established that barter trade and ICBT markets in East African Countries (EAC) pre dates colonial and post colonial state boundaries. For this reason, what we see continues today as ICBT is simply a longstanding indigenous pattern of trade. In this perspective, ICBT is significantly influenced by simply a re establishment of the extensive barter trade and migration of people that were a feature of economic and social life predating colonization in EAC. During that primitive era barter trade was the medium of exchange as there was no established monetary system. However, Banerjee and Maskin (1996), Gumbe and Kaseke (2011) and Marvasti and Smyth (1998) specified that primary reasons for international barter are hyperinflation, trade restrictions, and foreign exchange problems. This was supported by Kachere (2011) who pointed out that the prevailing economic environment which was characterised by high levels of inflation, unstable exchange rate, scarcity of cash, and food shortages led to the emergence of barter trade in Zimbabwe. The Famine Early Warning Systems Network (FEWS NET), established that the liquidity crisis in Zimbabwe have resulted in increased use of credit and debit cards, mobile money transfers, electronic transfers, and some rural households are using barter trade to acquire food (Famine Early Warning Systems Network 2018).

This paper primarily focuses on barter in the informal sector. Bartering benefits individuals, companies and countries that see a mutual benefit in exchanging goods and services rather than cash, and it enables those who are lacking hard currency to obtain goods and services (Investopedia 2016). According to Cresti (2005), there exist two forms of barter, which is corporate barter and retail barter. Corporate barter occurs when companies (kind of brokerage houses) help large companies to exchange their products; trade often requires part of the settlement in cash. Retail barter occurs when networks such as barter clubs coordinate barter trade among their members' predominantly small and medium enterprises. While these definitions relate to formal trading, this paper primarily focuses on barter in the informal sector.

The paper analyses how transactions were being executed between traders and consumers in the third and last quarters of 2015 and a comparative analysis on reasons for trading is done using the 2008 survey findings. Section two highlights past research which has analysed barter trading system in some developing countries in the region. Section four presents findings of the survey on modes of payments, types of goods traded, types of transactions done, during the third and last quarters of 2015. Section five is the concluding remarks.

Literature Review

Different currency systems and pricing regimes contributed to the need for bartering in some regions. For instance, Kararach et al. (2010), in their occassional paper analysing possible currency regimes pointed out that, West Africa's trade is further complicated by the region's multiple currency and pricing regimes, which raise challenges for managing exchange rates. However, Randriamaro and Budlender (2008), referred to this as a resource, arguing that the differences between the Naira zone and the CFA Franc zone in currency and prices make trade attractive between Nigeria and neighbouring francophone countries. Marphatia et al. (2000) pointed out that traders respond to complicated exchange-rate fluctuations by developing bartering arrangements. An example being the bartering of salt for horticultural products such as potatoes and onions between traders in the Niger and Burkina Faso.

The Economic Commission for Africa (2010) established that women involved in trade at the border zones operate at different scales. There are a few wholesalers who purchase cloth from Sinkanse market in northern Togo in large quantities for distribution to retailers in markets in north eastern Ghana such as Bawku and Bolgatanga. Others purchase smaller quantities of cloth to retail themselves. A third group, mainly the shea-butter traders, also buy cloth for barter or outright sale in exchange for agricultural commodities in rural markets.

Zimbabwe is one of the few countries in the world that has experienced devastating economic meltdown which resulted in one of the highest rates of inflation in the world. The Zimbabwe Rural Livelihood Baselines Synthesis Report (2011) alludes that the economic melt-down in Zimbabwe was well chronicled, and stunning statistics summed up the dire situation: seventy to eighty percent joblessness in the formal sector in 2005, it rose to about ninety-five percent in February 2009 when the unity government was formed, and a forty-nine percent drop in tourism in one year alone. Bazar (2008) noted that barter trade is one such tool firms that people use in order to deal with difficult economic and business times. According to the Wikipedia 2016, Zimbabwe experienced the highest monthly inflation rate in November 2008 and the currency was the Zimbabwean dollar. The rate was 7.96 $\times 10^{1}$p percent, the equivalent daily inflation rate was 98.01 percent, and the time required for prices to double was 14.7 hours.

According to Ahamed (2009) in 1923 hyperinflation hit Germany and it was so bad that the country abandoned the currency and introduced a totally new currency, the Rentenmark, to be backed not by gold but by land. The bank issuing the new currency was granted a 'mortgage' on all agricultural and industrial property, on which it could impose an annual levy of five percent, a tax on commercial real estate. Bartering became popular in the 1930s during the Great Depression and it was used to obtain food and various other services through groups or between people who acted similar to banks (Anderson 2016). If any items were sold, the owner would receive credit and the buyer's account would be debited.

Zimbabwe's land mark highest monthly inflation rates occurred between 2007 and 2008 (Hanke and Kwok 2009). According to the Wikipedia (2016), by October 2008 Zimbabwe was mired in hyperinflation with wages falling far behind inflation. Many people depended on the informal sector for survival, ICBT being the major activity. Through ICBT, people got relief, but in a country where inflation was so high, it became increasingly difficult to execute transactions as the value of the local currency was literally changing every minute. To guard against this galloping rate of inflation, people resorted to barter trade in order to hedge against inflation. Kachere (2011) reiterated that Barter trade in Zimbabwe became common as traders exchanged goods (especially groceries) for either livestock or any other assets at hand. The findings further highlighted that traders mentioned that some landlords were even demanding rentals in kind, mostly in the form of groceries from their tenants.

According to the Zimbabwe Rural Livelihood Baselines Synthesis Report (2011), another way households coped locally was by maximizing their social networks, both giving and receiving gifts of food and meals during the year. In rural areas, the barter of goods to a large extent replaced cash sales and purchases, while payment for labour in food was also widespread.

METHODOLOGY

Survey was conducted to study the increasing use of barter trading as a means of executing transactions in the informal sector of Zimbabwe, focusing on the Informal Cross Border Traders. The paper used the surveys method in which in-depth personal interviews were conducted. Interviews were conducted making use of a questionnaire. A survey for this study took place during the third and last quarters of 2015. The survey focused on men and women who visit Zimbabwe's neighbouring countries and any other as their countries of destination. The traders were either in Zimbabwe, the country of origin, or South Africa during the time of interview. Only Zimbabwean traders were targeted. Data was collected on types of goods traded, modes of payment, types of transactions done, and period in business.

Sampling and Interviewing

Random purposive sampling was used for choosing informal cross border traders engaging in barter trading. Interviews were conducted on a random but purposive sample in towns and rural business centres of South Africa and Zimbabwe. Traders who go to countries other than South Africa were interviewed during their stay in Zimbabwe. Interviews were conducted both in urban and rural sites, and the population sample comprised both rural and urban, men and women dwellers. In the third and last quarters of 2015, 50 interviewees who have been engaged in ICBT for the past five years or more, and engaged in barter trade, were successfully interviewed through face to face in-depth interviews.

Data Processing and Analysis

The data were processed using the Excel Package. Responses from interviews and open-ended questions were summarized and were used to explain the responses in the closed ended questions or as justification for some questions or concepts. The analyses of data closely followed the surveys objectives, highlighting types of goods traded and modes of payment in ICBT activities. Descriptive statistics and analysis were used to explain how use of barter trading as a means of executing transactions is occurring in the informal sector in Zimbabwe.

RESULTS AND DISCUSSION

From a sample of 50 interviewees, 30 highlighted that they mostly use barter when executing transaction while 20 indicated they sometimes use barter but in fewer incidences. Interviewees mentioned that barter trade was sometimes practiced in countries of destination where buyers would offer their used household items in exchange for goods from Zimbabwe. However, it was mentioned that barter was not common in these countries of destination. Barter trade in Zimbabwe became common as traders exchanged goods for either livestock or any other assets at hand.

Reasons for engaging in barter trade cited are unstable exchange rate, non availability of cash, high level of inflation, and securing goods for resale. Out of the interviewees who practiced barter trade, the majority ninety-seven percent of the barter traders sample cited the scarcity of cash as their reason for practising barter trade. This was an increase from seventy-one percent of respondents (2008 survey by Kachere) who cited scarcity of cash as the reason for engaging in barter, and three percent cited that they engaged in barter trade in exchange for goods for resale in countries of destination. However, in the 2008 survey, twenty percent and seven percent, respectively cited high levels of inflation and an unstable exchange rate, as reasons for engaging in barter trade, and two percent of respondents mentioned that they engaged in barter trade in exchange for goods for resale in countries of destination (Table 1). For example, groceries were exchanged for arts and crafts items. Goods for resale were being secured through barter, since cash was not available. In the 2008 survey, the other reason was that it was difficult to price the items due to high levels of

Table 1: ICBTs' reasons for engaging in barter trade (comparative analysis)

Survey period	*Unstable exchange rate (%)*	*Non availability of cash (%)*	*High levels of inflation (%)*	*Secure goods for resale*	*Total (%)*
2008	7.0	71.0	20.0	2.0	100.0
2015	0.0	97.0	0.0	3.0	100.0

Source: Calculations from 2008 and 2015 surveys inflation and a fluctuating exchange rate. Thus barter was used to execute transactions during this difficult economic environment. This finding is in line with Anderson (2016), who established that bartering became popular in Germany in the 1930s during the Great Depression, and it was used to obtain food and various other services.

In an unstable economy which is deteriorating, even the introduction of foreign currency system may fail to address the situation. For instance, the introduction and the use of multiple foreign currencies, US dollar being the dominant, into the market in Zimbabwe in 2009 brought little stability as witnessed by the thriving of barter trading by 2015. This point was reiterated by the Minister of Finance in Zimbabwe in May 2016 when he was quoted mentioning that;

"For as long as we import more than we export, for as long as we are using a currency which is appreciating when we have neighboring countries that have currencies which are depreciating, we become a mopping house. People come to mop up our US dollars" (The Insider 2016).

This resulted in the dollar being siphoned out of the system and resulting in cash shortages in the banks, leaving the population, the majority being the poor and vulnerable, without the much needed cash to use. This pushed the people into barter trading as a means to survive in such a turbulent economic scene. This was pointed out by Kararach et al. (2010), in their occassional paper, that West Africa's trade is further complicated by the region's multiple currency and pricing regimes.

The interviews conducted in the third and last quarters of 2015, revealed that traders and consumers are engaging in barter, due to lack of access to cash since the majority is unemployed, and shortage of cash in banks due to externalisation of cash by those who are importing. They mentioned that even those receiving remittances from the diaspora also cited cash shortages hindering them from accessing those monies, hence leading them into barter trading.

CONCLUSION

From a theoretical perspective, the transacting public is not concerned about whether the currency in use is local or not as long it performs its functions as a store of value, medium of exchange, unit of account and is readily available. These functions are not restricted to money only as they can also be fulfilled by other commodities. Examples include exchange done on barter terms; storing value in terms of assets such as real estate, livestock, and precious minerals; using units of commodities such as ounces of gold, units of livestock as reference points for measuring value or as a unit of account. During turbulent times the transacting public loose confidence in the currency system and may resort to barter.

RECOMMENDATIONS

For money to perform its functions, it must be acceptable, trustworthy, have well defined rules governing its use as well as being more convenient than the other mediums, and the economy needs to be well functioning. In the absence of these, barter system always strives. Policy recommendations in this case would encourage governments to implement political, monetary, and economic policies which are conducive for growth and stability.

REFERENCES

Ahamed L 2009. *Lords of Finance.* USA: Penguin Books.

Anderson K 2016. Barter System History: The Past and Present. From <https://www.mint.com/barter-system-history-the-past-and-present> (Retrieved on 28 August 2016).

Banerjee AV, Maskin ES 1996. A Walrasian theory of money and barter. *Quarterly Journal of Economics,* 111(4): 955-1005.

Bazar E 2008. Bartering Booms during Economic Tough Times. USA Today. From <www.usatoday.com/tech> (Retrieved on 3 September 2016).

Cresti B 2005. US domestic barter: An empirical investigation. *Applied Economics,* 37(17): 1953-1966.

Economic Commission for Africa 2010. Assessing Regional Integration in Africa IV. Enhancing Intra-African Trade by the Economic Commission for Africa. May 2010. From <www.uneca.org> (Retrieved on 20 August 2016).

Famine Early Warning Systems Network 2018. Zimbabwe Food Security Outlook Report (February-September 2018). From <http://reliefweb.int/.....Zimbabwe> (Retrieved on 21 July 2018).

Gumbe S, Kaseke N 2011. Manufacturing firms and hyperinflation-survival options: The case of Zimbabwe manufacturers (2005-2008). *Journal of Management and Marketing Research,* 7: 1-22.

Hanke SH, Kwok AK 2009. On the measurement of Zimbabwe's hyperinflation. *Cato Journal,* 29(2): 355.

Investopedia 2016. Roots of Money. From <http://www.investopedia.com/articles/07/> (Retrieved on 3 July 2016).

Kachere W 2011. *Informal Cross-border Trade and Poverty Reduction in Southern Africa Development Community: The Case of Zimbabwe*. PhD Thesis. South Africa: University of Fort Hare.

Kararach G, Kadenge P, Guvheya G 2010. Currency Reforms in Zimbabwe: An Analysis of Possible Currency Regimes. *ACBF Occasional Paper No*. 10. Harare, Zimbabwe: African Capacity Building Foundation (ACBF).

Marphatia A, Morris G, Saul M 2000. Literature Review of Women Cross-border traders in West Africa (since 1985). In: Women's Business Links: A Preliminary Assessment of Women Cross-Border Traders in West Africa. *Final Report Submitted to the West African Regional Programme, Development Alternatives Inc.* WIDTECH, August.

Marvasti A, Smyth D 1998. Barter in the US economy: A macro-economic analysis. *Applied Economics*, 30(8): 1077.

Randriamaro Z, Budlender D 2008. Findings of UNIFEM Baseline Studies of Women in Informal Cross-border Trade in Africa. *Regional Cross-country Report*. USA: UNIFEM, CODESRIA.

The Insider 2016. Zimbabwe to Introduce Bond Notes. From <http://insiderzim.com/zim> (Retrieved on 30 August 2016).

The Zimbabwe Rural Livelihood Baselines Synthesis Report 2011. The Zimbabwe Rural Livelihood Baselines. *National Synthesis Report*. Harare, Zimbabwe: Food and Nutrition Council, Vulnerability Assessment Committee.

Wikipedia 2016. Hyperinflation. From <https://en.wikipedia.org/wiki/> (Retrieved on 22 August 2016).

Paper received for publication on November 2016
Paper accepted for publication on December 2016