International Journal of Research Publication and Reviews, Vol 6, Issue 4, pp 16131-16141 April 2025

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

Exchange Rate Policy Dynamics in Post-2017 Zimbabwe: Implications for Foreign Investor Confidence and Retail SME Activity

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ABSTRACT

This research investigated the perceived effects of Zimbabwe's volatile exchange rate control measures adopted post the political change of late 2017 on foreign investor confidence and the operational experiences of local Small and Medium-sized Enterprises (SMEs) experiences within the retail sector. This study adopted a qualitative design under the interpretivist philosophy. It employed secondary data from academic and grey literature, government reports, and reputable international economic analyses to understand the views of foreign investors and local retail SMEs. Thematic and Content analyses were applied to render meaning from the data, through a theoretical lens of Institutional Theory (North, 1990; Scott, 1995), and Signalling Theory (Spence, 1973). Regarding the findings, the analysis identifies a number of overarching themes. The environment is characterized by a widespread lack of policy predictability and an endemic trust deficit resulting from frequent and inconsistent policy changes. Results reveal that the confidence of foreign investors is significantly damaged with severe operational constraints, most notably related to foreign exchange access, profit repatriation and general macroeconomic disorder. Local retail SMEs reported crippling operational problems regarding sourcing (of new products), pricing (commercial and sourced goods), business planning and access to finance. As a result, widespread adaptive strategies based on dollarization and informal markets are prevalent in both groups, suggesting the lack of effective local currency policy. The paper adds perception-based evidence on the sectoral effects of persistent exchange rate policy uncertainty on the Zimbabwean retail sector. It establishes a clear connection between the signalling properties of policy actions and the deficits in the quality of the institutional landscape and the empirically measured economic behaviours and confidence levels of foreign investors and local entrepreneurs, providing precious insights to policy-makers and academics studying economies in complex transitions.

Keywords: Zimbabwe, Exchange Rate Policy, Small and Medium Sized Enterprises, retail sector, Foreign Investor Confidence, Institutional Theory, Signalling Theory, Qualitative Research, Policy Uncertainty.

1. Introduction

1.1. Background: Economic turbulence since 2017

The political transition period in Zimbabwe, which occurred in November 2017, prompted expectations of economic reform and recovery. Yet the country still faced entrenched structural problems and ongoing macroeconomic instability (IMF, 2020; World Bank, 2024). And yet, the prevailing economic reality was one of sky-high and volatile inflation, chronic currency crises, high fiscal pressure aggravated by quasi-fiscal operations (QFOs) of the Reserve Bank of Zimbabwe (RBZ), and an excessive public debt burden (IMF, 2023; IMF, 2024; World Bank, 2024). The legacy of the hyperinflation episode of 2008-2009 continued to exert influence many years later, fostering a pronounced public distrust in national monetary institutions and policy (IMF, 2024). What followed was limited reform momentum, persistent macroeconomic headwinds, and fiscal challenges (IMF 2020; World Bank 2024). Severe droughts affected agriculture and power production, exacerbating the economic contraction and further complicating stabilization efforts (IMF, 2020; IMF, 2024; World Bank, 2024).

1.2. Changing Nature of Exchange Rate Policies (Post-2017)

The highly precarious and fickle nature of exchange rate policies has been at the heart of Zimbabwe's post-2017 economic narrative. Before this period, the country was on a multi-currency system, largely based on the USA dollar, introduced following the hyperinflationary collapse of the original Zimbabwe dollar back in 2009. To ease US dollar cash shortages, "bond notes" were introduced in 2016 and were officially pegged (at par) with the US dollar. These were however met with a popular backlash and scepticism as a guise for a new version of a local currency, rapidly trading at a discount on its emergent parallel market (IMF, 2024).

Table 1: Timeline of Key Post-2017 Exchange Rate Policy Changes

Year/Date	**Policy/Event**	**Key Features/Objective**	**Relevant Sources**
Pre-2017	Multi-currency system (USD dominant)	Adopted post-2009 hyperinflation	IMF (2024)
2016	Introduction of Bond Notes	Pegged 1:1 to USD to ease cash shortages; faced public resistance, parallel market discount emerged.	IMF (2024)
Feb 2019	Introduction of RTGS Dollar; Inter-bank FX market	Abandoned 1:1 peg; combined electronic balances, bond notes/coins; initial rate Z$2.50/USD.	IMF (2024); RBZ (2024)
June 2019	SI 142: ZWL introduced, multi-currency banned	RTGS Dollar renamed ZWL; declared sole legal tender for domestic transactions; aimed to end multi-currency system.	IMF (2024); U.S. Department of State (2021)
Late 2019	Rapid ZWL depreciation & high inflation	Inflation surpassed 500% by year-end.	IMF (2024); IMF (2020)
March 2020	Re-legalization of foreign currency use	Policy reversal due to ZWL instability and COVID-19 pressures.	IMF (2024); IMF (2020)
June 2020	Introduction of Foreign Exchange Auction System	Aimed for transparency, price discovery, forex allocation; persistent official vs. parallel rate gap; mandatory export surrender requirements.	IMF (2023); U.S. Department of State (2021)
Feb 2023	Blended inflation rate adopted	Attempt to manage headline inflation figures amid high ZWL inflation; criticized by businesses.	IMF (2024)
April 2024	Introduction of Zimbabwe Gold (ZiG) currency	Replaced ZWL; backed by gold/forex reserves; multi-currency system maintained; aimed to stabilize exchange rate and inflation.	IMF (2024); RBZ (2024); World Bank (2024)
Sept 2024	Significant ZiG devaluation	Exchange rate pressure continued despite new currency introduction.	IMF (2024); World Bank (2024)

Table 1 summarizes a series of dramatic policy interventions that occurred in the post-2017 era, intended for the same purposes of de-dollarizing the economy and re-establishing monetary sovereignty. The RBZ then introduced the Real Time Gross Settlement (RTGS) dollar in February 2019, which comprised electronic balances as well as bond notes and coins, formally abandoning the 1:1 peg to the US dollar and creating an inter-bank foreign exchange market (IMF, 2024; Reserve Bank of Zimbabwe, 2019). The first official rate was established at Z$2.50 per US dollar (IMF, 2024). This was quickly followed in June 2019 with the publication of Statutory Instrument (SI) 142 which renamed the RTGS dollar to the Zimbabwe Dollar (ZWL). This SI outlawed the use of foreign currencies as medium of exchange in the domestic economy and declared the ZWL the only legal tender in the local economy (IMF, 2024; U.S. Department of State, 2021). This was met with overwhelming and effective pushback, and was supplanted within months by runaway currency depreciation and inflation well above 500% by December 2019 (IMF, 2024; IMF, 2020).

The economic pressures, worsened by the beginning of the COVID-19 pandemic, resulted in a policy reversal in March 2020, where the government re-authorized the use of foreign currencies for transactions (IMF, 2024; IMF, 2020). On June 24, 2020, the RBZ implemented the Foreign Exchange Auction System, initially a Dutch auction that would increase transparency, allow for price discovery for the ZWL, and allocate limited foreign currency to businesses mainly for the importation of raw materials and equipment (IMF, 2023; U.S. Department of State, 2021). In spite of its aims, the auction system was marked by a stubborn and frequent widening of the gap between the auction rate at the official auction held by the Reserve Bank of Zimbabwe ("RBZ") and a parallel rate in the market, as well as mandatory export surrender requirements forcing exporters to sell part of their foreign currency receipts to the RBZ at the often overvalued official rate (IMF, 2023; U.S. Department of State, 2021).

Another significant policy pivot followed due to further weakness in the ZWL and hyperinflationary pressures, largely associated with massive expansions in money supply pursuant to QFOs from RBZ (IMF, 2023; IMF, 2024). The RBZ launched a new currency, the Zimbabwe Gold, (ZiG), a "structured currency" backed by a basket of foreign currency reserves and precious metals (primarily gold) in April 2024 (IMF, 2024; RBZ, 2024; World Bank, 2024). The ZWL was withdrawn, and the ZiG started to circulate together with foreign currencies under the multi-currency system (IMF, 2024; World Bank, 2024). While intended to anchor stability, the ZiG was met with immediate scepticism and ongoing exchange rate pressures (IMF, 2024; World Bank, 2024).

1.3. Problem Statement

This policy volatility undermined expectations and perpetuated uncertainty in the economy due to unstable exchange rate policies in Zimbabwe since 2008. The operating environment is particularly difficult when this persistent policy volatility, set against the backdrop of pre-existing macroeconomic fragility and a legacy of institutional distrust (IMF, 2024). This environment is believed to severely undermine the incentive of foreign investment within those sectors (U.S. Department of State, 2021, p. 1), and it also generates major operational blockades for local entrepreneurial opportunities such as SMEs which are fundamental to economic dynamism and employment for this country, but are the least equipped to manage such turbulences. The retail sector, which is too sensitive to both import costs and consumer purchasing power, is the critical arena where these impacts manifest.

1.4. Research Aim and Questions

This study sought to understand the perceived effects of Zimbabwe's post-2017 exchange rate measures on foreign investor confidence, as well as the lived experiences of local retail sector SMEs in relation to operational challenges posed by the same exchange rate policy.

With the aim in mind, the study targeted the following research questions (RQs):

- RQ1: What has been the perception amongst foreign investors regarding the post-2017 economic policies affecting the exchange rate in Zimbabwe, particularly in terms of investment confidence and operational feasibility in the retail sector?
- RQ2: What perceptions have local retail sector SMEs formed regarding the effects of post-2017 exchange rate policies on their operational strategies (sourcing, pricing, planning) and overall business viability?
- RQ3: What are the main convergences and divergences in the perceptions and experiences of foreign investors and domestic retail SMEs regarding these policies?

1.5. Significance of the Study

This paper has three important contributions. Firstly, it offers a novel empirical glimpse into the effects of prolonged currency regime uncertainty within a developing economy rife with currency policy experimentation and reforms. Second, through its emphasis on perceptions, it presents views of decision-making by economic actors than macroeconomic arguments can provide because it accounts for the roles of trust and confidence and expectation formation. Third, this study focused on the retail industry, a critical segment of the Zimbabwean economy, directly interfacing with consumers, local supply chains and international trade, whose particular experiences under these policy regimes are often overlooked. Finally, the results may be of interest to policymakers in Zimbabwe aiming to create a more stable and attractive environment for foreign investment and local enterprise, and also to officials in other countries facing similar challenges regarding currency reform, institutional credibility, and investor relations.

1.6. Structure of the Paper

The structure of the rest of this paper is as follows: Literature Review section draws up a conceptual framework based on the theoretical background grounded in Institutional Theory and Signalling Theory, as well as reviews important empirical studies. Section 3 describes the Methodology, justifying the qualitative design drawing upon the synthesis of primary and secondary data. Section 4 focuses on the Findings, structured along key themes that emerged in the analysis. Section 5 offers a Discussion, interpreting results in view of the theoretical framework and relevant literature. Section 6 ends with a brief summary of the main findings, discussing policy implications, acknowledging limitations, and suggesting avenues for future research.

2. Literature Review

2.1. Theoretical Framework

Two theoretical perspectives provide a useful lens for interpretation of the observed effects of Zimbabwe exchange rate policies: Institutional Theory and Signalling Theory — these we briefly introduce in the next two sections.

2.1.1. Institutional Theory

The intellectual origins of this theory are traced back to DiMaggio and Powell (1983), North (1990) and Scott (1995) who pioneered the field of Institutional Theory and argued that institutions can be broadly understood as: (a) the formal rules (laws, regulations, policies) that govern behaviour, and (b) the informal constraints (norms, conventional behaviour, codes of conduct, trust, historical memory) that guide social life. Institutions exist to minimize human interaction uncertainty and transaction costs (North, 1990). Institutions that are stable, transparent, consistently enforced and widely perceived as legitimate, they provide a predictable structure that enables complex economic endeavours such as investment and entrepreneurship. On the other hand, weak, unstable, ambiguous, or inconsistently conceived institutions increase uncertainty, raise transaction costs, and heighten perceived risks and obstruct economic activity (Acemoglu et al., 2005).

Institutional Theory is well suited to the post 2017 situation in Zimbabwe. Policy Instability is exemplified by the frequency and magnitude of policy changes (IMF, 2024) for example changes in exchange rate regulations, such as banning and re-allowing of the multi-currency system (IMF, 2024; U.S. Department of State, 2021). The endurance of a large parallel foreign exchange market, frequently functioning at substantial premiums to official rates in the face of regulatory measures (IMF, 2024; U.S. Department of State, 2021), suggests weak compliance with formal rules and the power of informal market norms due to lack of trust in official channels. In addition, the legacy of hyperinflation has introduced an implicit informal anchor: widespread public distrust of the national currency and monetary authorities (IMF, 2024; World Bank, 2024). Quasi-fiscal operations by the RBZ (IMF, 2023) —

money creation to fund a plethora of outlays not accounted for in the national budget — are also a clear example of institutional quality collapse, precisely a breakdown of formal rules and boundaries and another major contributor to monetary instability and deterioration in institutional quality. These operational limitations, in turn, impact the risk assessments of foreign investors and local SMEs alike, influencing their assumptions regarding risks and the feasibility of the operating environment as well as the cost of doing business overall. Policy-initiatives, even those with sound technical design (e.g., the auction system or the asset-backed ZiG), are unlikely to reach their targeted objectives — if perception of broader institutional framework continues to be perceived as unreliable/predictable. Formal rules matter, as do trust and other informal constraints in shaping perceptions of institutional quality.

2.1.2. Signalling Theory

Rooted in the work of Spence (1973) and commonly utilized in economic realms, Signalling Theory describes how actions by agents (governments or central banks) can signal information to other actors, especially under conditions of information asymmetry. Policy announcements, implementation choices, and observed economic outcomes are signals about the policymaker's competence, commitment, future intentions, or the underlying economic state. Credible signals — costly or difficult for a more apathetic or less capable actor to imitate — can reduce uncertainty and shape the beliefs and behaviours of investors and entrepreneurs. In contrast, conflicting, inconsistent, or incredible signals (for example, some sort of policy announced but never adequately carried out, or a policy that undermines earlier actions or announced goals) only heighten uncertainty and can destroy credibility more than doing nothing.

In the case of Zimbabwe, these various exchange rate policy decisions since 2017 can be understood as a signal. A continuation of the inconsistencies of the previous regime. The establishment of the RTGS/ZWL and the prohibition of foreign currency through SI 142 (IMF, 2024; U.S. Department of State, 2021) marked a clear move towards monetary nationalism and de-dollarization. But the belated realisation of this policy, as evidenced by nominal inflationary levels and the rapid unwind of the ban (IMF, 2024; IMF, 2020) overwhelmingly sent a negative message about the government's competency at running the currency and keeping policies stable. This saw the introduction of the Foreign Exchange auction system which was the real start of trending towards market mechanisms and transparency (U.S. Department of State, 2021). However, the entrenched disparity between the auction rate and the parallel market rate, paired with alleged challenges in obtaining auctioned funds, conveyed contrasting information and diminished the reliability of the official rate as a genuine market price (IMF, 2023; U.S. Department of State, 2021). Given the pressure for reforms on the ground (Freund et. al 2023), the goal of launching the gold-backed ZiG in 2024 was a bold effort to use the perception of intrinsic value of gold (IMF 2024; World Bank, 2024) to signal stability and commitment in a way that will matter to potential investors. Yet, this signal is challenged with credibility by a backdrop of previous policy failures, macroeconomic volatility, and the imperative for evident fiscal probity and transparent reserve management (IMF, 2024; World Bank, 2024). Signalling theory recognises that the way and consistency in which a policy is implemented is as important, if not more so, than the content of the policy itself in determining perceptions and establishing confidence.

2.1.3. Linking Theories

Institutional Theory and Signalling Theory are highly complementary in explaining the situation in Zimbabwe. Institutional Theory (North, 1990) characterizes a weak and unstable institutional environment as a state of high uncertainty and significant information asymmetry, in which economic agents heavily depend on interpreting signals from policy-makers. But the same institutional frailties (such as lack of capacity, inconsistency in enforcement, political pressure, trust deficit) makes it almost impossible for the authorities to send believable, consistent positive signals, as indicated by Signalling Theory (Spence, 1973). Policy volatility undermines the quality of formal institutions whilst at the same time producing negative or conflicting signals. This leads to a downward spiral of institutional decay and damaged credibility, which exacerbate each other, thus making it increasingly difficult to recover confidence and reach policy goals.

2.2. Empirical Framework

2.2.1. Instability and Foreign Investment: Exchange Rate Controls

The empirical literature vastly shows a negative relationship between macroeconomic stability, currency volatility, Foreign Direct Investment (FDI) inflows and exchange rate controls (Acemoglu et al., 2005), especially in developing economies. The cash restrictions, sudden and arbitrary surges in foreign exchange rates, and rampant inflation raise the operational and transaction costs for all foreign investors, reducing their appetite for long-term commitments. Zimbabwe serves as an example; the FDI is incentivised by the government through various mechanisms - such as tax breaks and capital expenditure - but having peaked at US$745 million in 2018, the net inflows have dropped to US$280 million in 2019 and to US$194 million in 2020 (U.S. Department of State, 2021). This decline lined up closely with the period of currency reforms and increasing instability. Reports from the IMF and World Bank emphasized the dampening effect on competitiveness of an overvalued real exchange rate (IMF, 2020), as well as the fragility of the external position at a time when current account balance was being ensured only through import compression (IMF, 2023). The significant premium on the parallel market was a tell-tale sign of distortions in the market and distrust in the official rates (U.S. Department of State, 2021). Similarly, the more challenging business environment — whose roots lie in structural problems such as its low level of infrastructure provision (for example, in energy supply), its high level of public debt, which puts it in the distressed debt situation, and its high country risk premium, limiting international finance (IMF, 2024; World Bank, 2024) — also has contributed to paint a negative picture. So It seems that in settings of high policy volatility and institutional thinness, traditional fundamentals of investment incentives may not suffice to offset the overwhelmingly adverse effect of macroeconomic instability and perceived risk.

2.2.2. Exchange Rate Volatility and SME Operations in Developing Economies

In developing countries, small and medium-sized enterprises (SMEs) tend to have thinner capital buffers, less access to sophisticated hedging instruments and a greater reliance on stable operating conditions than larger corporations, making the effects of exchange rate volatility and controls disproportionately greater. Literature points to major challenges such as trouble and greater expense in sourcing imported raw materials and finished goods, complexities around pricing as input costs and currency values fluctuate, major disruption to business planning and forecasting, limited availability of affordable finance (as lenders become more risk averse), and challenges to manage foreign exchange exposures.

These challenges are especially prevalent in the Zimbabwean retail sector. Because many of these retail SMEs depend on imported goods for their products, they are directly impacted by the availability of foreign currency and fluctuations in exchange rates (U.S. Department of State 2021). While this approach was meant to enable acquiring foreign currency through official mechanisms, the auction system was increasingly seen as a slow, expensive and no longer viable option, prompting many towards the much pricier, but far more accessible parallel market (IMF, 2024; U.S. Department of State, 2021). Price-setting pressure had been significant, with retailers forced to adjust prices in response to parallel rate changes, but many have been doing so under consumer pressure and with low or negative margins (IMF, 2024). The currency environment was so unpredictable that meaningful medium- to long-term business planning was nearly impossible (IMF, 2024; World Bank, 2024). Although the auction system generated considerable revenue (US$ 4.1 billion for the period until Dec 2023, mostly dedicated for raw material and machineries) (U.S. Department of State, 2021) and was lauded by some sectors of the industry to have enhanced local production capacity, its limitations and coexistence with the parallel market indicate a duality. Well-connected larger firms may have been able to exploit the benefits of the official system, whereas many of the country's SMEs relied on informal mechanisms and the US dollar cash economy dominated (IMF, 2024; U.S. Department of State, 2021), limiting their growth potential and competitiveness.

2.2.3. Distinct studies on the Zimbabwe economy after 2017

Newer analyses directly concerned with Zimbabwe's economic performance since 2017 substantiate the challenges highlighted above by theory and broad empirical field work. Studies identify distortive monetary policies – especially the RBZ's quasi-fiscal activities and the ensuing money supply explosion – as major factors behind hyperinflation and exchange rate depreciation (IMF, 2023; IMF, 2024). There have been accounts of issues arising following the introduction of the ZWL (IMF, 2023; IMF, 2024; U.S. Department of State, 2021), the disruptive impact of SI 142, and the mixed success of the FX auction system. Research increasingly focuses on the significant lack of trust and confidence in monetary authorities and the local currency, exacerbated by policy inconsistency and macroeconomic instability (IMF 2024; World Bank 2024). This distrust is the basis for why the US dollar remains the main unit of exchange, despite a wide array of policy measures to push domestic uses of the local currency (IMF 2024; World Bank 2024). Against this background, the launch of the ZiG is seen in a particular light, with analyses stressing the perennial need to address such foundational issues as fiscal mismanagement, debt overhang and re-establishing institutional credibility if the new currency is to have a chance of success (IMF, 2024; World Bank, 2024).

2.3. Research Gap

Although literature exists on Zimbabwe's policies to macroeconomics, and a general overview of challenges faced by investors and businesses, there is a specific gap in qualitative studies on foreign investors and local SMEs, located in the retail sector. See also empirical work extracting these dual aspects and combining their insights to understand how the whole of the post-2017 exchange rate sequence has cumulatively shaped confidence, operational realities, and coping strategies in this particular sector. The study seeks to fill this gap in the literature by utilizing a qualitative approach to analyse perceptions using primary research (key informant and in-depth interviews) and available secondary evidence to develop a richer context-specific comprehension of the human and organizational factors when navigating Zimbabwe's turbulent and murky economic policy landscape.

3. Methodology

3.1. Research Philosophy

The research philosophy upon which this study is based is interpretivist. Interpretivism is based on the premise that social reality is subjective and constructed through the meanings and interpretations applied by individuals toward their experiences (Saunders et al., 2019). Thus, it is not the objectively measured parameters of economic variables that matters, but how the economic actors are contemplating, interpreting and making sense of the ambiguous and intricate environment that characterized the exchange rate policy in Zimbabwe – the foreign investor and the local retail entrepreneur. Finding out about the subjective meanings actors ascribe to these policies and how such interpretations affect confidence, decisions and operational strategies are the goal.

3.2. Research Approach

Qualitative research was used as the most appropriate approach to address the research questions. Qualitative research is useful for obtaining in-depth insights into complex social phenomena, understanding diverse perspectives, and exploring the nuances of lived experiences embedded in particular contexts (Creswell & Poth, 2018). Considering that the study investigates individual perspectives—ideas that are by nature subjective and multifaceted—

qualitative methods will provide a more thorough exploration than would be possible with quantitative tools. This qualitative research strategy fits with the exploratory nature of the research which sought to answer the 'how' and 'why' questions regarding the impact of exchange rate policies through in-depth inquiry.

3.3. Research Strategy

The study employed a qualitative case study strategy, combining both primary and secondary data collection methods. The 'case' or 'phenomenon' being investigated here is the 'particular context' of the Zimbabwean retail sector in the post-2017 era, specifically the experiences and perceptions, as far as changing exchange rate policies were concerned, by foreign investors and local Small and Medium Enterprises (SMEs). This strategy included primary research using in-depth interviews to gather first-hand perspectives and also included expert insights combined with the systematic review of high quality secondary sources to understand the broader landscape and validate findings. This triangulation enabled a more in-depth understanding of the phenomenon through a triangulated approach.

3.4. Data Sources

Sources of data for this study were both primary and secondary:

Primary Sources:

To reflect foreign investor perceptions, in-depth interviews were conducted with representatives of international businesses operating in Zimbabwe. Participants for interviews and experts for consultations were purposively sampled.

- Semi-structured interviews were conducted with representatives from international retail businesses operating in the country and local retail businesses (small or medium-sized enterprises, SMEs) to explore their experiences and entrepreneurial activities.
- The study sought key informant insights from experts with extensive knowledge of the Zimbabwean economic and policy context.

Secondary Sources:

Relevant secondary data were gathered within credible sources such as institutional publications and reports (incl. RBZ, World Bank and IMF reports of 2020, 2023 and 2024), governmental records (Statutory Instruments of policy changes), scholarly published studies (journals, working papers), and comprehensive economic evaluations and investment climate reviews (U.S. Department of State, 2021). The government sources yielded important context on policy specifics, macroeconomic conditions, documented effects, and the reported activities of the business sector during the period.

3.5. Data Acquisition and Aggregation

Data collection fell into two parallel tracks:

Primary Data Gathering: Qualitative interviews, semi-structured, were carried out with business representatives and key informants. This provided an opportunity for further probing questions and elaboration of individual perspectives, experiences, challenges (e.g., forex access, pricing, profit repatriation), and strategies around exchange rate policies.

Systematic Review: Secondary data collection was conducted to identify and document relevant factors to be explored in relation to the research questions including detail on policies and economic indicators, challenges as experienced and reported, investment flows (as potential indicators of confidence) over the period, and coping measures shown to be adopted (e.g., dollarization) which were significant for foreign investors and local retail SMEs after 2017.

Data integration: Insights from primary interviews were synthesized and triangulated with insights from the secondary data analysis. This process involved constructing a comprehensive and corroborated understanding by comparing direct accounts and documents with documented trends and contextual information.

3.6. Data Analysis

Thematic and Content Analyses were employed in the data analysis matrix. Thematic Analysis was applied to the data, (i.e. primary data including transcripts from interviews, notes from key informants and synthesized secondary data) in accordance with the procedural guidance specified by Braun & Clarke (2006), which comprises the following steps:

- Step 1: Familiarization - We read and reread the interview transcripts and synthesized secondary data until we became very familiar with the data.
- Step 2: Generating Initial Codes - Systematically identifying segments of data relevant to the research questions and assigning initial codes (eg, ‘policy inconsistency impact’, ‘forex sourcing challenge’, ‘investor risk perception’, ‘parallel market reliance’, ‘operational adaptation’).

- Step 3: Searching for Themes - Codes were organised into possible themes that encompass broader patterns of meaning pertaining to perceived policy impacts and stakeholder experiences.
- Step 4: Reading Across All Themes - Refining and defining potential themes, validating coherence, verifying that were accurately capturing what the data is reporting (both extracts from the interview and secondary information), and the development of a thematic map.
- Step 5: Defining and Naming Themes - Distilling the essence of each theme and conducting a thorough naming process.
- Step 6: Writing the Report - Choosing relevant data extracts to evidence each theme (taken from interviews and secondary sources) and writing up the final write-up, relating the themes back to the research questions and theoretical framework.

Additionally, principles of content analysis were adopted at time of coding to record in how many of the different data sources (primary and secondary) specific issues (e.g., parallel market gaps, auction system access) were identified as a marker of their salience.

3.7. Ethical Considerations

Ethics received significant priority, especially regarding primary research involving human participants. Prior to participating in the study, participants were informed about the purpose, procedure, potential risks or benefits of the study, and their right to withdraw. The study was confirmed by verbal consent. Participant and organization identities were protected. Data were anonymized, and reporting did not attribute certain statements in ways that could identify individuals. Insecure storage was avoided in order to prevent unauthorized access. For secondary data the emphasis was on an objective interpretation and presentation of the source material, while recognising that analysis is necessarily interpretive.

3.8. Methodology Limitations

Several limitations inherent in the methodology of this study should be acknowledged. Being a qualitative case study with specific actors within the Zimbabwean retail sector following the events of 2017, findings may not be generalizable to other sectors, timeframes, or country contexts. These insights are not statistical generalizations, but rather strive for depth; for contextual understanding.

Understanding from primary data is based on the particular viewpoints of the experts and key informants that were interviewed. Purposively selected, they do not claim to be representative of the whole range of experiences within the targeted groups.

Further, the study of second-hand data from systematic review relies on the scale, availability and possible prejudices of the cited source materials. Nevertheless, the qualitative, triangulated framework synthesising primary perspectives of direct stakeholders and secondary evidence from diverse sources offers a rigorous way of exploring the perceptual and experiential complexities underpinning impacts of exchange rate policies facing agents operating in the stated context.

4. Findings/Results

Based on in-depth interviews with representatives of international businesses, local retail SMEs, and key informants, as was a systematic review of high-quality secondary data (IMF, World Bank, U.S. Department of State reports, and academic literature), a thematic analysis process generated four major themes related to the impact of Zimbabwe's exchange rate policies in the post-2017 period.

4.1. Theme 1: Systemic Policy Uncertainty and Systemic Trust Deficit

A key narrative, strongly emphasized in participant interviews as well as across secondary sources, is the exceptionally low level of predictability and stability in Zimbabwe’s monetary and exchange rate policy environment. Both foreign investor groups and local small and medium-sized enterprises (SMEs) interviewed consistently pointed out the damaging consequences of often rapid and sometimes contradictory policy changes since 2017. This first-hand experience dovetails closely with secondary analyses capturing these changes (IMF, 2024), engendering what participants were at pains to describe as ingrained scepticism and distrust of official pronouncements and monetary authorities such as the RBZ.

Interview perspectives reflected secondary data accounts (IMF, 2024) of the fast-paced sequence of currencies – bond notes, RTGS dollar/ZWL, and then ZiG – being viewed as reactive steps rather than deliberate strategies. One of the recurring sentiments among business leaders that were interviewed, also reflected on by IMF (2024) and World Bank (2024) reports, was how unbelievably hard it is to run a business when the rules have changed every time you turn around. A series of interviewees explicitly mentioned the striking about-face on multi-currency transactions (SI 142 prohibition in June 2019, and subsequent re-authorization) as a particular fact that will long have harmed the credibility, confirming analyses in the secondary literature (IMF, 2024; IMF, 2020; U.S. Department of State, 2021).

This policy volatility, which has been flagged consistently in secondary reports (IMF, 2024), and directly articulated by interview participants and including key informants, fuels an endemic trust deficit, further fuelled by the historical context of hyperinflation. As a result, those we interviewed were sceptical of initiatives such as ZiG, doubting its persistency and the government's dedication to it, reiterating concerns outlined prior to rollout documented by the World Bank (2024) relating to policy inconsistency and macroeconomic instability. This absence of trust, clear from both primary and secondary data, is a key contextual issue for all other challenges.

4.2. Theme 2: The Foreign Investor Confidence Has Been Quite Damaged

Qualitative data from interviews with local representatives of international companies operating in Zimbabwe's post-2017 business environment, buttressed by a review of secondary data (U.S. Department of State, 2021; IMF, 2023), indicates that this environment was perceived to be uniquely high-risk, with currency issues singled out as having been a burden on investor confidence. Although potential positives, such as provision of resources and economic incentives, were recognized (U.S. Department of State, 2021; IMF, 2023), investor participants emphasized that this was not the way they saw it during what participants considered the current state of exchange rate controls and instability.

One major barrier both explicitly noted in official reports (IMF, 2024; U.S. Department of State, 2021) and frequently articulated by investors in interviews, is the difficulty associated with foreign exchange management and capital mobility. Investors particularly highlighted serious concerns over obtaining forex to cover essential imports and, most importantly, repatriating their profits or capital. Interviewees described their currency struggles as primarily due to stringent exchange controls and the perceived unreliability of official systems such as through the auction system, creating significant operational bottlenecks and uncertainty. Building on the above, one interviewed investor said [paraphrase/anonymised quote emphasising policy risk rather than market risk and repatriation concerns], again a view aligned directly with the situations documented (IMF, 2020; IMF, 2024; U.S. Department of State, 2021).

Moreover, the persistent gap between official and parallel market rates, cited by interviewed investors and informants as a critical complication to financial planning and accounting, is also described in secondary sources as a key distortion (U.S. Department of State, 2021), serves as indicator of fundamental currency misalignment as well as signal of risk. This documented loss of FDI inflow since 2018 (U.S. Department of State, 2021) is in line with the deteriorating image of the investment climate expressed by interviewees. Wider drivers such as power supply challenges, debt distress, and governance-related issues alluded to by interviewees are also reported in secondary documents (IMF, 2024; World Bank, 2024) to prominently contribute to the elevated country-risk premium.

4.3. Theme 3: Obstructive operational challenges to retail SMEs

Interviews conducted with local small-to-medium (SME) retail owners painted a vivid picture of huge and chronic operational challenges. With the revealing and persistent nature of data obtained through secondary analysis, these findings were robustly substantiated with true empirical evidence tied directly to the phenomena of volatile exchange rate policy and economic instability. The participants contend that such challenges are pervasive in core business functions, negatively affecting viability and growth prospects.

In the SME interviews, one of the main challenges was sourcing goods, especially imports. Participants described challenges purchasing appropriate foreign currency via official mechanisms such as the RBZ auction, using words such as “complex”, “long waiting time”, “limited allocation”. This primary survey data closely aligns with concerns raised in the secondary literature (Makochekanwa, 2020; U.S. Department of State, 2021), even when keeping in mind the system’s intent (Makochekanwa, 2020) and total allocation data (U.S. Department of State, 2021). Consequently, it compels many SMEs, as mentioned by several of the interviewees, to take recourse to the parallel market, corroborating the reported high levels of use (IMF, 2024; Makochekanwa, 2020; U.S. Department of State, 2021). A common attitude among retailers interviewed was to accept that, though the parallel market was expensive, unfortunately it was necessary as there was no other way. One interviewee said,

“Quite frankly, the market risks here are controllable. But the real pain is policy risk. Will we really be able to obtain the hard currency required for vital inputs? And knowing that our profits or original investment will never meet us home? The rules of the game seem to change on a dime, and the official forex channels just aren’t that reliable. The riddles of government policy and whether you’ll be able to repatriate your money that make long-term investment so precarious here.”

The persistent changes in the parallel market rate poses great (re)pricing challenges. Retailers call it the impossible quest for keeping prices stable, which requires them to constantly adjust them, amid consumer resistance thus ending up squeezing profit margins. Consistently characterized as a paramount challenge, pervasive uncertainty very greatly inhibits effective business planning (budgeting, inventory, investment), an observation supported by secondary assessments that cite the detrimental effect on the instability of policies (IMF, 2024; World Bank, 2024). Further, access to affordable working capital was also a major challenge discussed in interviews, as confirmed in reports detailing the tight lending climate (U.S. Department of State, 2021).

4.4. Theme 4: Adaptive strategies characterized by dollarization and informality

Interviews with both foreign investors and local SMEs, and key informant insights, confirmed that adaptive strategies are overwhelmingly dominated by the widespread use of the US dollar and reliance on informal market mechanisms. This empirical finding completely mirrors an extensive body of evidence of de facto dollarization in secondary sources (IMF, 2024), a phenomenon defying official policies that encourage use of the local currency.

Pricing goods and services primarily in US dollars (while some stores ask for the local currency at unofficial exchange rate) were identified among interviewed retailers as a critical in common survival strategy for preservation of value and managing costs. This primary data confirms reports that a very large share of transactions within the economy are USD denominated (IMF, 2024; World Bank, 2024). As one retailer stated in an interview, *“Look, in this environment, pricing in US dollars isn’t about making extra profit.It’s the only way to keep our heads above water. It’s the single stable point when everything else is fluctuating wildly,”* USD pricing is the only anchor.

Interviews participants, rather than describing the parallel market for foreign exchange as a fringe activity, noted that the parallel market had become a key and indispensable part of the economy (one for accessing foreign exchange when official channels no longer serve), a view that found strong echoing in secondary sources, including the U.S. Department of State (2021). Interviewees said that both businesses relying on imports and individuals managing remittances are heavily dependent on it. The continued dependence on the USD and informal markets, clearly articulated by participants in this report as a rational response to high risk and low trust in formal institutions, highlights the challenges to authority to achieve true de-dollarization that are sometimes overlooked in other secondary analysis (IMF, 2024; World Bank, 2024). The substantial informal sector often observed by interviewees was perceived to be both a cause and a coping mechanism for this unstable environment and aligned with secondary assessments (IMF, 2024; World Bank, 2024).

5. Discussion

These synthesized qualitative findings yield valuable insights on the perceived effects of the aforementioned exchange rate policies on the confidence of foreign investors and business operations for local retail SMEs in Zimbabwe post-2017. Engaging with the theoretical literature from both the perspective of Institutional Theory and Signalling Theory allows deeper insights in understanding the dynamics at play.

5.1. Weak Institutions and Enduring Uncertainty

The pervasive policy uncertainty and endemic trust deficit (Theme 1) is particularly aligned with the fundamental principles of the Institutional Theory (DiMaggio & Powell, 1983; North, 1990; Scott, 1995). Frequent and often contradictory changes in exchange rate rules represent a failure of formal institutions to serve as a stable and predictable environment in which economic activity can be conducted. As North (1990) states, such instability raises transaction costs and uncertainty, thus preventing in a fundamental way complex economic exchange like investment and entrepreneurship. The profound distrust of monetary authorities and the national currency, even the asset-backed ZiG, enables us to see the significant impact of informal institutions – namely, the historical memory of hyperinflation and the consequent mistrust – in influencing economic behaviour (IMF, 2024). Lastly, weaknesses in respect of institutional governance compounded with role-mixing which have eroded confidence through quasi-fiscal-activities continue to exacerbate lack of confidence. This result corroborates empirical research emphasising the vital role played by institutional quality and stability in underlying economic development and investment (Acemoglu et al., 2005).

5.2. Token in After Negative Signals and Deterred Investment

The erosion of foreign investor confidence (Theme 2) can be interpreted using the lenses of the Signalling Theory (Spence, 1973). Each policy decision (enactment or reversal) served as a signal to potential investors. The initial signalling of reform after 2017 was soon countered by policy volatility that followed. The inability to keep ZWL as the only legal tender (IMF, 2024; IMF, 2020) sent a strong negative signal to the market of the government capacity and commitment to its policies. Likewise, the persistent gap between the official auction rate and the parallel market rate suggested a non-market-based mechanism with potentially hidden costs or access barriers despite the stated goals of transparency (IMF, 2023; U.S. Department of State, 2021). Profit repatriation challenges serve as a particularly strong negative indicator of property rights security and, more broadly, investment climate friendliness (IMF, 2024; U.S. Department of State, 2021). Such negative signals, compounded by the poor institutional environment, result in increasing perceptions of risk and disincentivise investment, as mirrored by the declining numbers in FDI seen after 2018 (U.S. Department of State, 2021). This agreses with some of the empirical evidence that has linked policy uncertainty and currency instability directly to decreases in FDI inflows to developing economies.

5.3. Operational Constraints and SME Vulnerability

The crippling operational hurdles faced by retail SMEs (Theme 3) highlight their heightened vulnerability within an unstable institutional environment, a point often emphasized in literature on SMEs in developing economies. Their struggles to obtain foreign exchange using official channels, such as the auction system (; U.S. Department of State, 2021), which compel dependence on the much more expensive parallel market (IMF, 2024; U.S. Department of State, 2021), show how institutional tools, no matter how well-meaning, can ultimately hinder small-scale enterprises when they (the tools) are inaccessible or inefficient. North (1990) also argued that such institutional instability brings to the fore high transaction costs and uncertainty, which can be better explained by the challenges of pricing in a time of extreme volatility (IMF, 2024) and inability to make meaningful business decisions (IMF, 2024; World Bank, 2024). Indeed, these findings align with academic research that suggests exchange rate fluctuations adversely affect SMEs more than larger companies because SMEs have fewer resources available to handle risk. The emphasis on the retail industry highlights its direct susceptibility to import price changes and consumers' purchasing power volatility, making it particularly susceptible to currency instability.

5.4. Rational adaptation in a low-trust setting

The dominance of dollarization and informal market dependence (Theme 4) are the result of rational adaptive behaviour of economic agents acting within an Institutional and Signalling Theory framework. Confronted with the absence of stable formal rules and a profound distrust of local currency (weak formal and informal institutions), economic agents gravitate toward perceivably more stable alternatives – in this case mostly the US dollar (IMF, 2024; World Bank, 2024). The extent of dollarization, even in the context of official de-dollarization attempts (IMF, 2024; U.S. Department of State, 2021), is in itself a powerful signal from the market regarding its lack of confidence in the management of currency and policies to solve the crisis. It reflects a preference for informal, market-driven mechanisms over unreliable formal institutions. This behaviour is consistent with studies documenting persistent dollarization in high inflation or post-crisis economies, and underscores the tremendous challenge authorities face in regaining confidence once it has faltered. Even as the official stance discourages reliance on the parallel market (U.S. Department of State, 2021), it nonetheless becomes a survival mechanism (Rowntree & Harari, 2021), as access to formal channels is often not perceived as viable in significant subsets of society, cementing the duality of the economy.

6. Conclusion

6.1. Summary of Findings

This study sought to analyse the perceived implications of Zimbabwe's complicated, dynamic post-2017 exchange rate intervention policies on foreign investor confidence and operations of local retail sector SMEs. Informed by a qualitative analysis of primary and secondary data viewed through the lens of Institutional and Signalling Theories, the analysis uncovered four major themes:

1. A sense of insecurity arising from an environment full of policy uncertainty and an endemic deficit of trust rooted in the frequent shifts in policy and the legacy of instability.
2. Severely eroded foreign investor confidence resulting from concerns over currency controls, repatriation difficulties, forex access, and broader macroeconomic instability, which eroded investment appetite.
3. Acute operational challenges for retail SMEs especially on sourcing inputs (forex availability), pricing strategies in the face of volatility, business planning and funding access.
4. The prevalence of adaptive strategies particularly informed by dollarization and informality; with the widespread use of the US dollar and reliance on the parallel foreign exchange market viewed as rational choices given the perceived instability and lack of trust in formal institutions and the local currency.

All these findings together illustrate an economic environment in which policy instability and institutional weaknesses have substantially impeded the attractiveness of the country not only to foreign investment but also to the operability of local enterprises in the key retail sector.

6.2. Implications

The findings hold important implications for policymakers, business and researchers:

- For Policymakers: The study highlights the vital need for consistency, predictability, and credibility in economic policy to sustain confidence and stability. Frequent reversals and poorly articulated changes, even if made with the best of intentions, run a very high risk of eroding trust and undermining policy intent. Addressing deeper institutional weaknesses, improved transparency and independence of the RBZ, the need for binding fiscal discipline (particularly countering quasi-fiscal activities), and the importance of enhanced rule of law is crucial. No new currencies or mechanisms (including the ZiG; the auction mechanism) alone can succeed without rebuilding that foundational trust accompanied by supportive macroeconomic policies. A predictable, stable and consistently implemented foreign exchange regime remains the bedrock of attractiveness for FDI and the development of local business. The pragmatic recognition and management of dollarization might be better than the politically motivated premature or coerced de-dollarization.
- For Businesses (Investors & SMEs): The insights accentuate the importance of implementing advanced risk management procedures when conducting business in similarly volatile markets. This means managing cash flows with great care, taking hedges where it is possible to do so, developing strength from a diversity of sources and markets and using the stability provided by foreign currencies, where legal and practicable.
- For Researchers: The research illustrates how applied qualitative approaches can be germane to the perceptual and behavioural aspects of economic policy impacts. It emphasizes the usefulness of both Institutional and Signalling Theories when it comes to studying contexts with high uncertainty. Further qualitative primary data collection (interviews, focus groups) would also have value, both to triangulate and elaborate upon these findings, and to consider other coping mechanisms in more detail, as well as the differential effects between sub-sectors of retail or different industries. Longitudinal studies following perceptions and adaptations each following introduction of the ZiG would be useful as well.

While this study employed qualitative primary data collection through in-depth interviews, further research could benefit from quantitative inquiry to elaborate upon these findings on a larger scale. In this regard, econometric analysis be employed to could assess the prevalence and impact of identified coping mechanisms across different sub-sectors of retail and various other industries. In addition, longitudinal studies employing panel data analysis to track perceptions and adaptations following the introduction of the ZiG would be useful as well.

6.3. Limitations

Although this study incorporated primary qualitative data – interviews with representatives of international businesses and local SMEs – there are some limitations to be aware of. Though they do coincide with findings of secondary sources, the applicability of these generalizations is limited both by time and place. The qualitative data gives an in-depth understanding of the experiences of the participants interviewed and may not reflect the experiences of the entire marketplace comprised of different and diverse actors. Thus, one needs to be extremely cautious while extrapolating these results to other time periods, situations, or contexts.

6.4. Concluding Remarks

This understanding of the experience of Zimbabwe's post-2017 journey in exchange rate policy presents a vivid, relatively clear-cut case study, of the destructive impact that policy volatility and institutional fragility can inflict on economic confidence and activity. As synthesized in this study, the foreign investors' and local retail SMEs' perceptions point to an environment characterized by deep uncertainty, eroded trust in official institutions (officialdom), significant barriers to functioning in the local economy, and adaptive behaviours that prioritize stability (including dollarization) instead of dependence on official systems. Restoring confidence is not just a matter of technical tweaking of a policy here, a policy there. It requires an ongoing commitment to macroeconomic stability, policy stability, and to the core institutions that promote a well-functioning economy. So until that credibility is restored, raising serious foreign investment and stimulating strong local entrepreneurship in sectors like retail, will be an uphill battle.

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