



# **The Effects Of Kwacha Depreciation On Small And Medium Enterprises (Smes) In Zambia**

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**Abstract-** The depression of the Zambia kwacha against major affiances directly raises operational costs for Small and Medium Enterprises (SMEs) because most are imparted even and must pay more kwacha for raw materials, goods, fuel, and equipment which erodes profitability and straits working capital. Using Kasama based SMEs as context, the study identifies the currency depreciation primarily increasing operating costs as cross border traders see capital eroding with profits per unit dropping sharply when they can no longer afford to travel to Nakonde border for stock. This is because weaker kwacha increases imparted costs, forces price adjustments, disrupts financial planning and pushes up transport expenses and contributing to job cuts. Repayments are harder especially for SMEs with USD – denominated debts and high interest rates triggered by currency volatility leading to slow business activity sometimes leading to closures.

**Keywords:** currency depression, Zambian, SMEs, capital eroding, working capital, financial planning.

## **I. Problem Statement.**

Small and Medium Enterprises contribute to 70% of employment and significant share of Gross Domestic Product, but persistent depreciation of the Zambia kwacha against major currencies creates volatile operating environment threatening survival and growth studies show depreciation raised impart cost for 23% of SMEs, disrupts financial and planning and budgeting for 19% ad increase transportation costs for 31%, while facing price adjustments that reduce competitiveness and customer demands.

## **II. Objectives Of The Study**

- To establish how kwacha depreciation increases operational costs for SMEs.
- To assess the effects of depreciation on Small and Medium Enterprises profitability and employment.
- To identify strategies Small and Medium Enterprises use to survive currency volatility.

## **III. Research Questions**

- How do SMEs cope with Zambian kwacha depreciation in Kasama?
- Which strategies SMEs use to survive the currency volatility in Kasama?
- Are there interventions by government to improve the value of the Zambian kwacha?

## **IV. Significance Of The Study**



The findings will help SMEs owners, policy makers and institutions to understand how kwacha depreciation affects costs, pricing cash flow and competitiveness. this will guide all stakeholders involved and the bank of Zambia in formulating targeted interventions to cushion SMEs from exchange rate shocks.

## V. Presentation Of Findings

The findings show that Kasama of northern Zambia is a trade hub and there are Small and Medium Enterprises retail dominated agro-processing, transports and cross-border trade with Tanzania where goods are imparted via Nakonde/Tunduma border with few exports, this merges and limited hedging tools when kwacha falls, Kasama shops, workshops and traders fell it first through fuel and impart costs. Here is how kwacha depreciation impacts areas of concerns for Kasama Small and Medium Enterprises:

| <b>Impacted area fuel/ transport</b> | <b>Finds for Kasama SMEs 34% Nakonde – Kasama costs to 25%</b> |
|--------------------------------------|--|
| Impart costs                         | Agro-dealers: fertilizer, spares up to 20 – 30%                |
| Stock levels                         | Traders cost inventory a cut afford full trucks                |
| Pricing                              | Customer resist price hicks and last sales                     |
| Debt                                 | Millers with USD loans fail to repay                           |
| Employment                           | 1 in 5 SMEs reduced to casual workers                          |

To this effect, Kasama Small and Medium Enterprises use local sourcing, bulk buying by teaming up to hire trucks from Nakonde/Tunduma border and share costs.

They also cut stock levels, work with cash on delivery and value to raw local crops and drop import-heaving products and add local ones.

However, Kasama SMEs are helped through financial literacy programs on managing currency risks for traders, encouraging them to join cooperatives for bulk-importing and also linking with Kasama chamber of commerce for training.

## VI. Limitations Of The Study

- The study only focused on SMEs operating within Kasama Central Business District (CBD) and major trading corridors like Chikumanino market.
- Only 60% SMEs were sampled due to time and resource constraints.
- Data collection covered January to march 2026, a short period which had volatile exchange rates and SMEs impact vary by season.
- Many SMEs did not disclose details of foreign – denominated loans due to sensitivity.

## VII. Success Of The Study



Met all objectives, obtained a strong participation from 60 Kasama Small and Medium Enterprises, documented real coping strategies, provided the first district level, evidence on kwacha effects in Northern province, and produced practical recommendations for SMEs and policymakers.

Demographic respondent of 60 Small and Medium Enterprises Owners

| Type of SMEs      | Gender | Number |
|-------------------|--------|--------|
| Hardware          | Male   | 10     |
| Hardware          | Female | 6      |
| Kitchen equipment | Male   | 10     |
| Kitchen equipment | Female | 15     |
| Food              | Male   | 5      |
| Food              | Female | 6      |
| Booths            | Male   | 4      |
| Booths            | Female | 4      |

## VIII. Discussion

Kwacha depreciation is a double – edged sword. For most SMEs it's a cost shock that threatens survival because they import and sell locally. This also creates openings for exporters and local producers. The difference is whether the SME can adapt fast which comes down to planning, cash reserves, and access to information.

## IX. Conclusion

Kwacha depreciation acts as both a threat and a signal: it exposes the structure vulnerability of import – dependent Small and Medium Enterprises while creating incentives for local production and export diversification.

The sustainability of SMEs, which form the backbone of Kasama's and Zambia's employment and trade, therefore, depends on a dual response. Small and Medium Enterprises must Continue strengthening internal risk management, while policy makers, financial institution and local authorities must create an enabling environment through targeted forex support, value chain development and financial literacy.

## X. Recommendations

Effects of kwacha depreciation on Small and Medium Enterprises in Zambia can be resolved by the following:

- Tracking bank of Zambia exchange rates weekly.
- Prioritize local and regional suppliers to reduce import exposure.
- Joining cooperatives and associations to bulk – buy to reduce cost.



- Government to provide tax breaks, grants or subsidies for SMEs that source raw material or invest in local production.
- Government and other stakeholders to support value chain development like funding programs for processing cassava and honey production.
- Financial institutions to promote savings in stable assets.
- Non-governmental organizations to facilitate linkages and support digital tools for example, introducing simple mobile apps for exchange rate tracking.

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