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An Evaluation of the Impact of Currency Devaluation on Small and Medium Enterprises (SMES) in T/A Tsabango, Lilongwe, Malawi

***Joann Mtalika* [1] , *Dr. T. Velmurugan* [2]**

[1] *Master Of Social Work In Project Management Monitoring And Evaluation.*

[2] *(Phd) Lecturer Dmi St Eugene University. P.O Box: 330081, 9 miles, Greta North Road, Lusaka, Zambia.*

ABSTRACT

Currency devaluation is usually talked about in big-picture, macroeconomic terms, but what it really does to small, everyday businesses is not always clear. This study, therefore, looks at how the November 2023 drop in the Malawian Kwacha affected informal and small-scale traders in the peri-urban area of T/A Tsabango. Using a mixed-methods approach, 109 traders were surveyed to capture both the numbers (like changes in costs and profits) and the stories of what they actually went through. The findings show that costs went up for everyone, profits dropped for most many traders had to use risky coping strategies just to survive, and accessing formal financial support was really hard for almost all of them. Overall, the study shows the urgent need for targeted, practical policy interventions and highlights how current government and stakeholder support fails to reach the traders who need it most.

In Malawi's peri-urban areas, informal business is pretty much the backbone of everything. It is how families survive; buying food, paying kids school fees, and just getting by day to day. The truth is, the small businesses live on very fragile ground. Any small shake in the economy, like for example when the Kwacha lost value in November 2023, hits them real hard. It is not just numbers changing on paper but it is real people struggling to figure out if they can afford stock tomorrow or even put food on the table.

Keywords: *Currency devaluation, informal businesses, small-scale traders,Small and Meium businesses, Malawi, economic shocks, T/A Tsabango*

1. Introduction

Informal businesses are really the backbone of many peri-urban communities in Malawi. They provide essential goods, jobs, and a bit of income for families, yet they operate under very fragile conditions that make them super sensitive to shocks like when the currency suddenly loses value. Most studies look at devaluation from a macroeconomic perspective, but the day-to-day experiences of small-scale traders, especially in peri-urban areas, do not get much attention.

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Globally, small and medium businesses are likely the first ones to feel the pinch when currency values shift or when inflation rises. Reports from the World Bank (2024); show that across developing countries, these groups face high risks because they do not have buffers like access to affordable credit or safety nets. Since small traders pass on the shock directly to households, the IMF (2025) has also warned that repeated devaluations in fragile economies often lead to rising poverty levels.

In Sub-Saharan Africa, the story is much the same, only sharper. The region has one of the highest rates of informality in the world, with most people depending on small, unregistered businesses to survive (Demirgüç-Kunt et al., 2022). Studies have shown that when currencies lose value fuel, transport, and food prices shoot up almost immediately. Another consequence is that the small-scale traders are the ones stuck between higher costs and customers who cannot afford higher prices (Chirambo, 2022; NSO, 2023).

This study is trying to close that gap by looking at what happened on the ground after the Kwacha was devalued in November 2023 in T/A Tsabango. It is not just about the numbers or the profits going down, but also about how the small traders managed to adjust, the coping they had to do just to keep going. The aim is to show clearly how a big policy from the top ends up touching people's daily survival down here.

2. Literature, Theoretical and Conceptual Review

Currency devaluation is when a government lowers the value of its money against foreign currencies. According to Krugman, Obstfeld, and Melitz (2023; original: Krugman & Obstfeld, 2009), this is different from depreciation because it is a deliberate decision. Classical theory (Lizondo & Montiel, 1989) says that devaluation helps exports become cheaper and imports more expensive, and this should improve trade balance. In Malawi, devaluation was used in 2023–2024 mainly to align the kwacha to the parallel market and meet IMF conditions. However, in reality, studies show uneven results.

The World Bank (2024) reports that devaluation likely brings imported inflation because costs of fuel and raw materials shoot up. After Malawi's 2023 devaluation, inflation passed 30% and fuel prices went up. This made life harder for households and businesses. Debt repayments also became more expensive since most of it is in foreign currency, taking up about 25% of government budget.

Small and informal businesses are the most affected because they depend on imports and already struggle with finance. For example, Chiphwanya (2023) found that 75% of SMEs in Blantyre saw revenues drop from exchange rate changes. The World Bank and ActionAid also mention that many small businesses were pushed into poverty, forcing them to use coping strategies like raising prices and reducing workforce. Some more positive strategies include diversifying income and joining village banks, but these too are under pressure when poverty deepens. Safety nets like the Social Cash Transfer Program and donor support are vital, although they face challenges such as poor mobile money networks and uncertain donor funding (Capacity Foundation, 2024).

Theoretical views explain these realities. Monetary theory and the exchange rate pass-through (Goldberg & Campa, 2010; Yilmazkuday, 2024) show how devaluation quickly leads to higher prices in import-reliant countries. Resilience theory (Holling, 1973; Sundstrom, 2023) explains how businesses adapt through coping and transformation strategies, while financial inclusion theory (Beck et al., 2007; Beck, Demirgüç-Kunt, & Levine, 2023; Afonso, 2024) shows the importance of access to credit and savings to survive shocks.

The conceptual framework links these ideas. The external shock, which is the devaluation itself, leads to higher costs and reduced profits, which creates financial pressure. Businesses then respond with coping strategies like cutting costs or diversifying. Their survival also depends on external support like finance, government policy, and donor aid. The final outcome is either survival, scaling down, or closure. Informal businesses in Malawi are highly vulnerable due to low capital and lack of safety nets, but resilience and access to support can increase their chances of continuity.

3. Methodology

A mixed-methods approach was employed to ensure the research captured both the breadth of operational change and the depth of human experience (Taherdoost, 2021; Vasileiou et al., 2018). The study was conducted in the peri-urban area of T/A Tsabango, chosen for its high concentration of informal business activities and its proximity to both rural supply chains and urban economic pressures (Strachan, 2020; Lilongwe Urban Profile, 2011).

3.1 Research Design and Approach

The study used a Descriptive Research Design mainly to explain and document what was happening to small businesses after the currency crash. To get a full picture, a Mixed-Methods Approach was applied, combining both quantitative and qualitative data so that numbers and people's real experiences could be looked at together.

3.2 Study Population and Sample Size

Because there is no official register of small businesses in T/A Tsabango, the population had to be estimated. Using the 2018 NSO figure of 63,076 residents and applying the FinScope 2019 SME density of 0.091 SMEs per person, the estimated SME population came to around 5,700 enterprises.

The sample size was then worked out using Yamane's (1967) formula with 8% precision, which gave a target of 120 SMEs. In the end, 109 SMEs actually took part in the study, which is still a strong number for analysis.

3.3 Sampling Strategy

Probability Sampling was used so that every business owner had a fair chance of being chosen. More specifically, Stratified Random Sampling was done. The population was divided into groups based on type of business (food, retail, services) and the owner's gender, so that the sample would represent the key differences in the community.

3.4 Tools for Data Collection

The main tool was a Structured Questionnaire. This included closed-ended questions to collect numbers about costs, sales, and profits, and also open-ended questions so respondents could explain in their own words the coping strategies they used and their thoughts on government or donor support.

3.5 Ethical Considerations

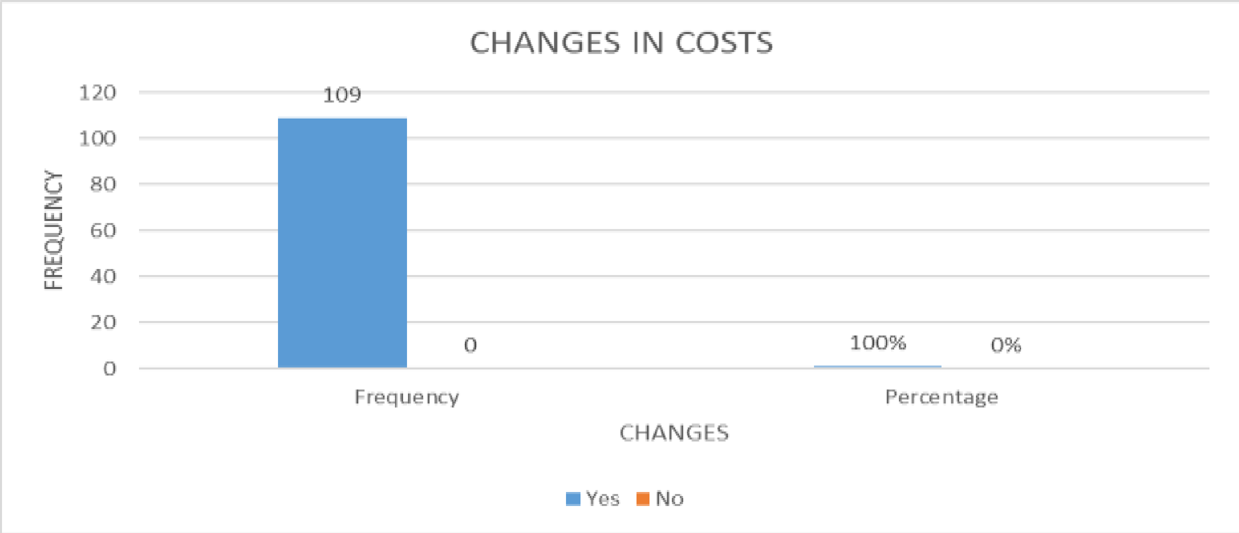
All participation was voluntary and people were free to withdraw any time. Informed consent was obtained, and respondents were assured of confidentiality. The principle of non-maleficence (avoiding harm) guided the whole process, making sure the study did not put extra stress or risk on already struggling business owners.

4. Findings

The findings are presented according to the main objectives of the study, showing both the numbers and the human side of how traders experienced the Kwacha devaluation.

4.1 Impact on Cost of Goods and Services

The devaluation hit costs immediately and pretty hard.



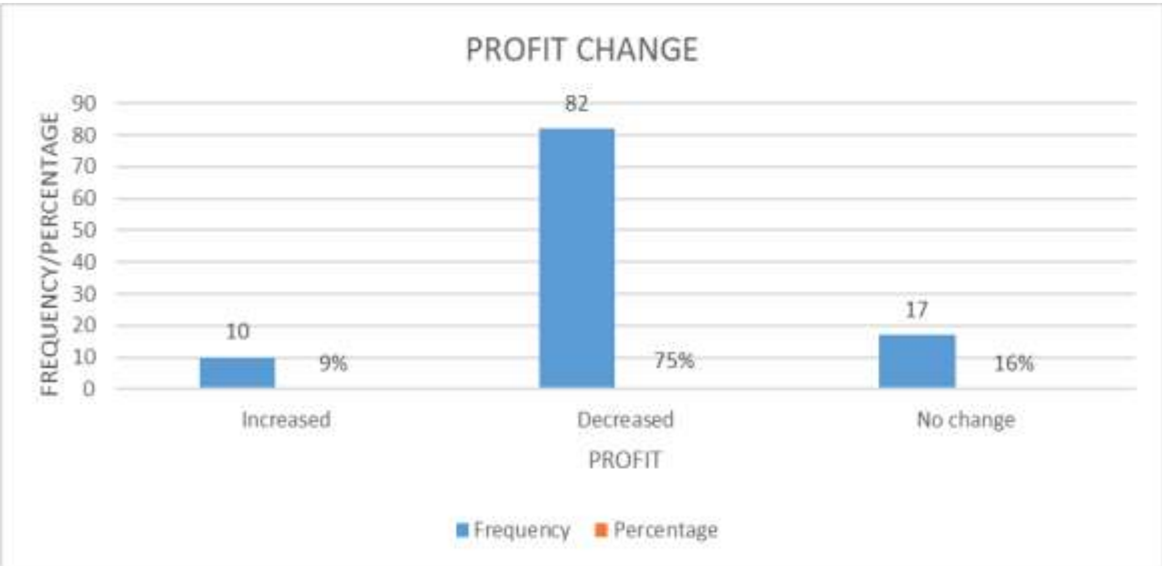
Every single respondent (100%) said that the cost of getting stock and paying for services like transport or market fees went up.

Most traders blamed the high import component of things like fuel and basic goods, which jumped almost instantly after the new exchange rate.

Even though input costs went up fast, some of traders said they could not raise their own prices the same way because they feared losing customers. That meant they had to absorb the costs themselves, eating into their little capital.

4.2 Influence on Profits and Sustainability

The imbalance between cost and profit was a big threat to keeping businesses running.



The survey shows that almost every small and medium business was hit negatively. All 109 respondents said their costs had gone up, most of them describing the increase as either very high or at least moderate. Because of this, profits dropped badly, with 82 businesses (around 75%) saying they made less money than before. The situation was so tough that more than a third of the businesses said they were either severely affected or had to close down or scale down their operations. This really shows how exposed and vulnerable the SME sector is when there is a big economic shock.

4.3 Coping Strategies Employed by Business Owners

Without much proper support, most traders just tried whatever they could to survive, though some of the strategies sometimes bring negative effects.

Changing suppliers (28 References) – Many owners decided to change where they buy their goods, looking for cheaper suppliers or those that give them a bit of flexibility. This helped reduce some costs, but it also meant that sometimes the quality was lower or supply was not very reliable.

Reducing stock (23 References) – Quite a number of them started buying less stock, just to manage the little money they had. While this saved them from bigger losses, it also made their shops look empty and customers had less choice which could hurt sales.

Raising prices (19 References) – Some business owners increased prices of their items to cover the rising costs. This worked for a bit to protect profits but it also made customers angry or pushed them away because people already had very little money to spend.

4.4 Challenges in Accessing Financial Support or Credit

43% of respondents attempted to access financial support or credit, while 57% did not.

Challenges: Among those who sought credit, the biggest challenges were lengthy processes (21%), followed by high interest rates (19%), collateral requirements (19%), and being denied credit (19%). Limited information (13%) and Other (13%) were also reported as challenges.

Table 1: Access Financial Support

Accessed Financial Help/Credit	Frequency	Percentage
Yes	47	43%
No	62	57%
Total	109	100%

47 of the 109 respondents (46.8%) attempted to access financial help or credit, while 62 respondents (53.2%) did not.

Table 2 Challenges

Credit Challenges	Frequency	Percentage
Lengthy processes	10	21%
High interest rates	9	19%
Collateral requirements	9	19%
Denied credit	9	19%
Limited information	6	13%
Other	6	13%

4.5 Role of Government, Community Groups, and Stakeholders

Most institutional responses were either too little or too hard to access.

Experience Accessing Support – Many business owners shared that getting financial help is not easy at all. The most common problem was paperwork (28 references), which a lot of informal traders found confusing and too demanding. High interest rates (24 references) also discouraged many, while others complained about the lengthy processes (21 references) that wasted their time. Some even had their applications rejected (21 references) and quite a few could not meet collateral requirements (15 references). Altogether, these challenges show there is a clear mismatch between what financial programs expect and the reality of small businesses, especially those operating informally.

Suggestions for Support – When asked what should change, traders had very practical ideas. The most common suggestion was to simplify loan processes (29 references), since many feel the current system is made for bigger businesses, not them. Some asked for grants instead of loans (24 references), as loans just add more pressure. Others talked about strengthening community cooperatives (23 references) where they can support each other. Reducing interest rates (17 references) and offering training for SMEs (16 references) were also mentioned. These views highlight not just frustrations with the system but also the vision that traders themselves have for a fairer and supportive environment.

5. Discussion

The findings really show how fragile T/A Tsabango's informal sector is when big economic shocks hit. The Kwacha devaluation did not slowly trickle through the economy but it hit like a sudden, heavy tax on every trader's working capital. Costs for stock, transport, and other inputs shot up, but traders could not just raise their prices without losing customers, so all the burden landed squarely on their already tight profits.

The biggest threat to survival comes from this mix of shrinking profits and risky coping strategies Traders are often stuck choosing between reducing what their family eats and eating into the money they need to keep the business running. Many have turned to village banks or loan sharks or supplier credit not because it is smart, but because they have no other choice. It is more like gambling with their future, and for some, it could spiral into a cycle of debt and business collapse.

On top of that, the study shows a huge gap between policy and what actually happens on the ground Government programs might exist, but the hurdles are just too high; interest rates, collateral, complicated paperwork and most traders do not even know how to access them. Right now, these programs feel like they were built for formal SMEs, leaving the very backbone of the economy totally exposed when crisis strikes.

Local cooperatives and market committees are the only real first responders, but they cannot stretch their support enough to cover everyone. If government wants to make a difference, it needs to work with these community structures deliberately, using them as the main way to reach traders with both information and financial help when shocks hit again.

6. Conclusion and Policy Implications

Currency devaluation hits fast and hard, and for the informal traders in T/A Tsabango, the consequences are real and immediate. Most traders find themselves in a very shaky spot, watching their capital shrink and getting trapped in unsustainable debt. The problem is not that policies do not exist, it is that they are often too complicated, too far away, or just do not reach the people who need them the most.

Policymakers really need to think about interventions that are practical, targeted, and delivered in ways that traders can actually use otherwise the informal economy, which is the backbone of peri-urban Malawi, keeps taking the hit.

Policy Implications:

1. **Restructuring Crisis Finance :** Banks and financial institutions, together with the Reserve Bank of Malawi (RBM) and the National Empowerment Economic Fund(NEEF), should come up with Zero-Collateral, Low-Interest Emergency Loans specifically for market traders. These should be easy to access, maybe through mobile money or local SACCOs, so traders do not get stuck dealing with formal banking hassles.
2. **Using Local Networks for Communication:** The government must team up properly with Market Committees, Traders' Associations, and local radio stations to make sure all policy info actually reaches traders, in local languages. Right now, about 64% of traders do not even know the programs exist.
3. **Consumer Cushioning:** Temporary subsidies on essential imported inputs, like fuel for transport, should be considered immediately after devaluation. This would help traders manage costs and keep prices from shooting up for consumers, protecting both sides of the market.
4. **Promoting Productive Coping:** NGOs and CSOs should step in to provide business literacy and basic financial management training. This can help traders move away from destructive coping strategies, like consuming their own working capital, and instead adopt smarter approaches like diversifying suppliers or simple inventory management
5. **Make Help Simple**: A lot of these institutions make things way too complicated. Forms, approvals, rules everywhere. It is just too much for small business people to deal with. If someone just made the process easier, like less paperwork, or even just gave some guidance while filling stuff out, it would be a huge help. Businesses could actually get the support when they really need it instead of getting stuck in a bunch of confusing rules.

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