



THE IMPACT OF COVID-19 ON SMALL SCALE BUSINESSES IN ZAMBIA

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Abstract: This article brings out discussion on the impact of COVID-19 on small scale businesses in Zambia, it analyses reports from government and other independent reports from the United Nations and the World Bank regarding Zambia's economic performance. The article and research findings have been informed through a thorough literature review of research work and journal articles written by other scholars. The method of data collection was done through a desktop analysis of various internet sources regarding the topic. The findings indicate that the small scale businesses in Zambia are huge contributor to the overall economy of Zambia and that they depend on a robust middle class for their survival and sustainability. The findings also indicate that the over taxed middle class in Zambia might die out and subsequently the small scale businesses will slump as a results of a lack of a market for their products and services. Government in Zambia has a huge challenge to balance off government expenditure and ensuring that the economy thrives during and after the COVID-19 pandemic.

Introduction

The outbreak of COVID-19 has posed so many challenges especially to Sub Saharan African economies whose average economy size is 5% and are growing at 5.6% (World Bank, 2020). The World Bank reports that the Sub-Saharan region is the worst hit economically with 2020 growth forecasted to fall to between -2.1% to -5.1% coming from a low growth 2.5% in 2019. This economic effect on Sub-Saharan economies implies that the Small Scale Businesses are the worst hit since most of the economies depend largely on them for employment and sustaining the middle class economy. Zambia is an economy that is largely driven by the middle income bracket with high spending power and ability to provide employment to a large percentage of Zambians. The

unemployment rate in Zambia stands at 40% of the total employment population (Central Statistics office, 2011). Small scale businesses in Zambia are mostly run by people from the middle income bracket and depend largely on daily cash revenues to sustain their business. The outbreak of COVID-19 is a huge threat to the survival of small scale businesses particularly in Zambia.

The cultural change due to COVID

Culture is an important aspect in any business, it is highly linked to performance in a highly visible manner. A Business that wants to succeed must ensure that there is effective alignment of culture to its strategy, and that it has mapped strategy to the correct structure and business model (Kavale, 2012). The challenge perhaps with the connection between structure, strategy and culture is that

Banking and Insurance Academic Journal

An official Publication of Center for International Research Development

Double Blind Peer and Editorial Review International Referred Journal; Globally index

Available www.cird.online/BIAJ/: E-mail: BIAJ@cird.online



strategy in a changing business environment cannot remain a constant. Strategy must respond to changes in the environment and allow businesses to become adaptive and responsive to changes in the dynamic environment.

According to Groysberg et al (2018), strategy and culture are among the primary levers of top leadership in an organisation in order to maintain viability and effectiveness. Culture therefore is a huge ingredient in business success largely responsible for business sustainability and shaping the norms of ethical behaviour of business. The advent of COVID-19 has brought about change in the way businesses are conducted worldwide. Zambia, in particular, is one of those countries that has experienced a sharp shift in the way business is conducted across all its business sectors. The traditional business concept in Zambia largely has been premised on brick and mortar models despite incorporation of digital media in some instances. Brick and Mortar is a business setup which is based on physical presence or face to face interaction (Raabe, 2013). The outbreak of COVID-19 pandemic has caused changes in the Public health Act in Zambia and resulted in the signing of statutory instruments number 21 and 22 of 2020 that restrict face to face interaction and the ultimate closure of small and large business enterprises in sectors such as tourism, education and the food industry (ESID, 2020). The changes put in place to curb COVID-19 seem appropriate for health responses but on the other hand the economic effects on business requires proactive measures to protect economic collapse.

The changes in the COVID-19 pandemic period have resulted into a heavy use and dependency on online services for business sectors in Zambia especially those in the education and banking sectors. It should also be noted that most corporates in Zambia are relying on online applications to conduct their meetings and businesses. The shift from a traditional brick and mortar model in a country fully dependant on face to face interaction is

heading towards a complete e-commerce environment. Electronic commerce or e-commerce is the use of internet technologies and applications to conduct business (Laudon & Traver, 2020) . This means that the culture of conducting business has moved dynamically to E-commerce or E-business applications. Schools and learning institutions in response to the problem of reduced cash flows and revenue have resorted to the use of online learning in order to satisfy their customers and attract cash inflows. Businesses that will fail to invest in online services risk falling into strategic wear-out.

Economic challenges under COVID

A simple survey involving small scale businesses conducted around Lusaka, the capital city of Zambia, shows a deep impact on the social and economic factors and the measures put up by government to curb COVID-19 pandemic in order to improve cash flows (Ministry of Commerce, 2020). The impact of reduced cash flows on small scale businesses implies that most of these may not be able to sustain their businesses if there are no interventions, which might result in these businesses closing down drastically. Research indicates that small scale businesses are important to all economies of the world, particularly emerging or developing economies such as Zambia since they are the major employment providers and income distributors (Oluoch, 2016). The questions that arises are in two dimensions if the Zambian government does not provide financial aid to these small scale businesses:

- i) What will be the impact of their closure on the economy?
- ii) Are these businesses capable of re-engineering their business models in order for them to survive?

Zambia's current GDP stands at \$23.5 billion with a huge debt ratio and an overall inflation rate of 15.7% (Bank of



Zambia, 2020). This therefore means that there is no capacity to bail out small scale businesses which in actual fact represent 70% of the GDP and 88% of employment rates (International Labour organisation, 2017). In reality, if there is no solution for small scale businesses in Zambia, the country's GDP will drop drastically and the unemployment levels are likely to increase. The increase in the levels of unemployment would definitely result into social instability in Zambia. In the year 2016, the Development Bank of Zambia lent up to \$30 million to the small scale businesses and repayment is expected around 2020/2021, however, with the negative effects of COVID-19 on the small scale businesses cash flows, this may not be achieved. What then is the alternative to recover the economy?

Small scale businesses in Zambia usually depend on small cash takings on a daily basis to remain operating. Most of them have between 2 to 8 employees according to a survey conducted around Lusaka small scale businesses and they need to meet their day to day operational costs in addition to paying salaries at the end of each month. The closure of restaurants and other businesses implies that these companies are not taking in any cash at close of business each day and at the end of each month. However, they still need to pay rentals and pay their employees the result of this largely is closure of such businesses. A research conducted by Quartey, et al indicates that the growth of small scale businesses depends on financing to this sector (Quartey, et al., 2017). The financing of small scale businesses implies that they have a responsibility to account for such resources and this is only possible when they are operating at full scale. The question that arises is that, will the banks write off these liabilities? And if they do so what will be the implication on an economy that is already debt burdened.

Innovations for the small scale businesses

Many small scale businesses have not invested in ICT infrastructure for them to survive during the COVID-19 era, this can be attributed to the high cost of internet services particularly in Zambia where the costs are higher than in many other African countries (ZICTAR, 2018). The biggest innovation for such businesses is to be able to conduct their business online and offer delivery to their clients. This has been a highly successful business model for food shops and Pizza shops around Lusaka that are getting orders through their social media pages and then delivering to households. Many small scale businesses will have no option but to start running as full e-commerce platforms particularly that ZICTAR reports are indicating that access to the internet in households has increased from 12.7% to 17.7% by 2015 (ZICTAR, 2018). This increase in internet access means that virtual markets in Zambia are increasing and it's up to businesses to innovate business apps and electronic storefronts and electronic malls to survive the advent of outbreaks such as COVID-19.

Restaurants and food industries can introduce mobile canteens and services, similar to what barbershops are doing were clients simply call in and they can come to the door step and provide services to clients under their own health controls. Mobile phone addiction can easily be transformed into potential expansion of virtual markets (Subramani , et al., 2017). Culture plays a huge role in the success of internet and technological innovations. ISPs must play a huge role in investing heavily in internet technologies as trends in business practice changes.

None technologically-driven innovations

Business process re-engineering is defined as a radical redesign of processes to gain significant reduced operational costs and perhaps improve product or service quality (Muhammad & Attaullah , 2013). Business process re-engineering is the best way for small scale businesses to survive the downside economic effects of



COVID-19. They need to look at their business structures and processes and remove all the unnecessary cost centres and bottlenecks in their businesses. There is no fixed or standard model or innovation for small scale businesses, each business has its own business model that it needs to innovate. In the period of COVID-19 only those businesses that are adaptive and responsive to change are the ones that will survive. The characteristics of a surviving organisation is one that is adaptive to its external business environment (Hill, et al., 2015). This implies that the small scale businesses will have to innovate business models that enable them to survive economic recession. The challenge comes in where the small scale businesses have little or no financial support due to lack of a well-established financial support system.

Macro-Economic impact of COVID-19 on Zambia

Macro factors influence the small scale businesses in Zambia largely in that the key sectors such as tourism,

education and manufacturing are the main feeders of revenue for such businesses. Most of the middle class work in these industries. The middle class comprises of over 65% of Zambia's population (United nations, 2015), and when this class is impacted in terms of higher taxes the economy experiences reduced liquidity. The low spending power of the middle class means lower business profits for the small scale businesses. One of the solutions by the government can be to reduce tax in terms of pay-as-you-earn so that the middle class can keep the small businesses running. On the other hand when taxes are reduced the government might have challenges in annual budgeting, but this can be resolved through reduction of non-essential government expenditure and cutting down on government structures that are not value adding.

Table 1: Zambia's macroeconomic indicators

| Main Indicators | 2017 | 2018 | 2019 (e) | 2020 (e) | 2021 (e) |
|--|--------|--------|----------|----------|----------|
| GDP (billions USD) | 25.87e | 26.72 | 23.95 | 23.34 | 23.42 |
| GDP (Constant Prices, Annual % Change) | 3.5 | 4.0 | 1.5 | -3.5 | 2.3 |
| GDP per Capita (USD) | 1,501 | 1,503e | 1,307 | 1,236 | 1,203 |
| General Government Gross Debt (in % of GDP) | 61.9 | 78.1 | 91.6 | 95.5 | 98.0 |
| Inflation Rate (%) | 6.6 | 7.0 | 9.8 | 13.4 | 12.1 |
| Current Account (billions USD) | -1.01 | -0.71 | -0.85 | -0.79 | -0.69 |
| Current Account (in % of GDP) | -3.9 | -1.3 | 1.0 | -2.0 | -2.6 |

Source: IMF – World Economic Outlook Database, 2016



Note: (e) Estimated Data

Macro indicators in table 1 above shows a projected negative growth in Zambia's economy by 2021 and this means that there will be a huge implication for small scale businesses who might not survive a recession. The government needs to trade-off between chocking the middle class income with taxes and giving them relief so that this can feed back into the small scale businesses. The trade-off also means that the government must look elsewhere for revenue. Sectors such as gold mining, emerald mining, agriculture and manufacturing seem to be a more strategic and full dependency on a narrow tax base. Surviving this financial shock due to the advent of Covid19 pandemic requires governments to diversify from usual money generating activities to other untapped potential areas (Scott, et al., 2019). Zambia has for a long time been talking about diversification which has failed lamentably to be implemented. The country has great potential for mining other minerals such as gold and emerald and investing in the agriculture sector because of the favourable farming environment. Covid-19 pandemic has exposed many economies, and Zambia is not an exception hence the need to avoid over-dependence on copper and consider investing in untapped potential areas such as agriculture.

Conclusion

Small scale businesses in Zambia largely depend on an active and alive middle class and this means that whatever solutions are generated to improve the economy must focus on increasing spending power to this class so that they can have the spending power to support employment levels and also to support the small scale businesses. Small scale businesses are critical to the survival of Zambia's economy since they make up 70% of the total GDP contribution and this means that during the advent of COVID-19 the government has no option but to ensure that these remain viable. The macroeconomic indicators look like Zambia will

experience a huge economic slump and this implies that the manufacturing sector and the agriculture sector become key sectors in economic growth.

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