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Title

ASSESSMENT OF THE IMPACT OF CURRENCY DEVALUATION ON SELLING PRICES OF SMALL BUSINESSES: A CASE OF KAUNJIKA CLOTHES SELLERS AT TSOKA MARKET, LILONGWE

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ABSTRACT

This study assessed the impact of currency devaluation on the selling prices, sales volume, and revenue performance of small-scale Kaunjika (second-hand clothes) traders at Tsoka Market in Lilongwe, Malawi. Using a quantitative research design, data were collected from 60 traders through structured questionnaires and analyzed using SPSS. Descriptive statistics summarized the demographic characteristics of respondents, while a paired sample t-test was conducted to compare pre- and post-devaluation business performance. The results revealed that the majority of traders were young (25–35 years, 38.3%), moderately educated (46.7% with secondary education), and experienced (73.3% had 4–10 years in business). The paired t-test results showed a significant decline in monthly sales volume (Mean = –16,554.50; t = – 2.61; p = .012), and a highly significant reduction in monthly revenue (Mean = –1,095,583.33; t = – 9.29; p < .001), indicating that devaluation negatively affected both sales and income levels. Conversely, the average selling prices increased significantly (Mean = 7,066.67; t = 10.31; p < .001), reflecting traders' price adjustments in response to increased import costs. Furthermore, 77% of traders reported raising prices as their main coping strategy, while smaller proportions reduced stock variety (15%) or operational costs (8%). The main reasons cited for price adjustments were decreased customer purchasing power (60 respondents) and increased cost of procurement (59 respondents). These findings suggest that currency devaluation led to higher prices but lower sales and revenues, highlighting the inflationary burden on small traders and consumers alike. The study concludes that while Kaunjika traders demonstrate resilience, they remain financially vulnerable to macroeconomic shocks. It recommends enhancing SME financial resilience through credit support, business training, and local sourcing strategies, coupled with exchange rate stabilization policies to mitigate future devaluation effects.

Keywords: Currency devaluation, Kaunjika traders, selling prices, sales volume, revenue.

INTRODUCTION

In many developing countries, macroeconomic instability particularly currency devaluation continues to pose serious challenges for small businesses. Currency devaluation, often implemented to address trade deficits and stimulate export growth, can have unintended negative consequences for firms that rely heavily on imports. As the cost of foreign goods rises, local businesses are forced to adjust their pricing structures, often passing increased costs on to consumers. These shifts can lead to inflationary pressures, suppressed demand, and reduced profitability, especially among small and medium enterprises (SMEs) operating with limited financial buffers *(Kravis & Lipsey, 1977).*

In the context of Malawi, repeated episodes of currency devaluation have significantly affected the cost structures and market behavior of small traders. Among the most affected are Kaunjika (second-hand clothes) sellers, who depend almost entirely on imported stock. Tsoka Market in Lilongwe serves as one of the country's major centers for Kaunjika trade, hosting hundreds of vendors who must constantly adjust their pricing strategies in response to changing exchange rates and import costs. The rising prices of second-hand clothing, caused by currency depreciation, often result in decreased sales volumes and narrower profit margins, threatening the viability of these small businesses *(Moffat, 2024).*

This study aims to assess the impact of currency devaluation on the selling prices of small businesses, using Kaunjika clothes sellers at Tsoka Market as a case study. Specifically, the research

investigates how these traders have responded to economic pressures resulting from the depreciation of the Malawian Kwacha between 2023 and 2025. It delves into changes in selling prices, sales volume, and revenue performance to understand the broader implications of exchange rate policies on informal market enterprises.

Background of the Study

SMEs play a critical role in economic growth, employment creation, and innovation. However, they face obstacles such as limited financing, regulatory burdens, and vulnerability to economic shocks like currency depreciation. In Malawi, Kaunjika traders rely heavily on imported stock, making them particularly sensitive to exchange rate fluctuations that increase operational costs and reduce profitability.

Historical Background

The global effects of currency devaluation on small and medium-sized enterprises (SMEs) differ based on the economic situation of each country and the specific type of business operated by the SME *(Abang et al., 2024).* For those SMEs that primarily export goods or services, devaluation can be advantageous as it lowers the prices of their products, enhancing competitiveness in international markets, which may result in higher sales and revenue when converted to local currency. Conversely, most SMEs, especially those focused on domestic markets or dependent on imported raw materials, components, or technology, face considerable challenges due to devaluation. The rise in import costs can erode profit margins, compel price hikes (which might diminish demand), or require seeking more costly domestic substitutes. Additionally, access to foreign currency may become limited or more expensive.

In Africa, many economies are vulnerable to fluctuations in currency and often depend on importing manufactured goods and essential inputs. As a result, devaluation frequently presents significant challenges for small and medium-sized enterprises (SMEs) *(Kose & Riezman, 2001).* African SMEs typically encounter increased costs for imported machinery, spare parts, and raw materials that are vital for their operations. This situation can result in higher production expenses, diminished competitiveness, and limitations on growth opportunities *(Rahmandad, 2012).* Although some export-oriented SMEs might experience advantages, the overall effect across the continent generally includes rising operational costs, decreased consumer purchasing power which impacts domestic demand and heightened uncertainty, all of which impede investment and growth for numerous small and mediumsized businesses.

Malawi's economy is facing numerous challenges, including inflation and fluctuations in currency value *(Kayanula, 2003).* Recently, the Malawian kwacha has depreciated, raising concerns among local businesses, particularly small and medium-sized enterprises (SMEs) that play a crucial role in the economy. Tsoka Market, located in Lilongwe, features several vendors who sell Kaunjika clothing. Understanding how these businesses respond to the currency depreciation is vital for policymakers and stakeholders aiming to bolster the economy. Research indicates that a decline in currency value can lead to increased costs for imported Kaunjika bales of clothing, potentially compelling sellers to adjust their prices. For instance, a study conducted by the Reserve Bank of Malawi highlighted that SMEs typically experience elevated expenses during periods of currency devaluation due to rising prices of raw materials and goods. Furthermore, previous research indicates that small and medium-size enterprises (SMEs) are vital for job creation and economic stability in developing nations such as Malawi *(Majanga, 2015).* The

Malawian economy has encountered numerous difficulties due to inflation and fluctuations in currency, which have impacted local businesses, including those selling Kaunjika garments at Tsoka Market. It is essential to comprehend how these businesses respond to currency devaluation in order to foster economic stability.

Conceptual Framework

The study is guided by the Resource-Based View (RBV) and Purchasing Power Parity (PPP) theories. RBV explains how internal resources such as experience and supplier networks influence firms' resilience to economic shocks. PPP illustrates how currency depreciation leads to higher domestic prices for imported goods, prompting traders to adjust pricing strategies.

RESEARCH OBJECTIVE

General Objective of the Study

- To assess the impact of currency devaluation on the selling prices of Kaunjika clothes among small businesses at Tsoka Market, Lilongwe.

Specific Objectives of the Study

- Examine changes in sales volume and revenue before and after devaluation.
- Determine differences in selling prices pre- and post-devaluation.
- Identify common business response strategies adopted by traders.

Research Gap

Based on the literature above, the effects of devaluation given are in terms of general trade performance or other industries like oil industry, stock market and agriculture *(Tafesse, 2019; Khadivi et al., 2022; Lavallière et al., 2023),* thus, there is no literature that talks about clothing industry with focus on small-scale retailers of second-hand clothes hence the gap.

LITERATURE REVIEW

Existing studies show that currency devaluation generally increases import costs, reduces consumer purchasing power, and lowers SME revenues. While some export-focused firms benefit, most small traders experience declining profitability. Common coping strategies include price adjustments, cost control, supplier diversification, and operational efficiency improvements.

Theoretical Review

This research will be guided by two theories; theory of Resource-Based View (RBV) of the Firm *(Barney, 1991)* and the theory of Purchasing Power Parity (PPP) *(Cassel, 1923).* The theory of Resource-Based View of the Firm was originally developed by Jay B. Barney in 1991. This theory emphasizes that firms attain and maintain competitive advantage through internal resources that are: valued in a sense that they can help to utilize opportunities or defuse threats; erratic as they are hardly possessed by many competitors; unique as they can never easily be replicated; and can never be substituted *(Barney, 1991).* According to Barney, the resources include; tangible assets (e.g., capital, inventory), intangible assets (e.g., brand loyalty, local market knowledge), and human capital (e.g., experience, relationships, negotiation skills).

In the context of the current study, some vendors may have special internal capabilities (e.g., trusted international suppliers, inventory foresight, or bulk purchasing power) which may enable them to cushion themselves against the

impact of devaluation. Additionally, those vendors with informal trade networks or better knowledge of currency cycles may sustain more steady prices and hence profits margins. Basically, the theory of Resource-Based View of the firm explains why some sellers cope better than others during macroeconomic tension, thus uncovering the heterogeneity existence among the sellers.

On the other hand, the theory of Purchasing power Parity (PPP) was developed by a Swedish Economist by the name Gustav Cassel in trying to reinstate constant exchange rates post to World War I. In his theory, Cassel proposes that equal goods should fetch the same prices across countries when they are valued using a common currency, given the assumption that the transportation costs, trade barriers, and other market resistances are not in place *(Cassel, 1923).* This means that when currency of one country weakens, the prices of goods adjust to match with the prices of the same goods in another country.

RESEARCH METHODOLOGY

Research Design and Methodology

The study adopted an ex post facto quantitative design to analyze changes that occurred after currency devaluation.

Methodology

Structured questionnaires were used to collect primary data, supported by secondary sources such as reports and publications. Data were analyzed using descriptive statistics and paired sample t-tests in SPSS.

Research Setting

The study was conducted at Tsoka Market in Lilongwe, the capital city of Malawi. Tsoka Market is a vibrant and well-known marketplace that serves as the main center for *kaunjika* (second-hand clothes) trading. It is a place where people from all economic backgrounds— both low- and high-income earners—come to buy quality second-hand clothing at affordable prices. Its central location near the business district attracts a constant flow of customers from across the city, making it one of the busiest markets in Lilongwe *(Mwanakatwe et al., 2022).* The market's surroundings include both high- and low-income residential areas, reflecting the diverse social composition of Lilongwe.

Study Population

A population refers to the entirety of individuals or units of interest, usually encompassing data that is not readily available for all members whereas a sample constitutes a portion of the individuals within a population, typically involving data that is accessible for those included in the samples *(Hanlon & Larget, 2014).* For the present study, the target population comprised of the second-hand (kaunjika) clothes sellers at Tsoka market.

Sampling Methods

This study employed simple random sampling technique to get the sample. Simple random sampling is the probability sampling technique wherein every item in a particular population has equivalent likelihood of being selected into the sample and each sample has the chance of getting included in the sampling process *(Downs, 1990).* It is a sampling method where every possible sample of the same size has equal likelihood of being chosen *(Hanlon & Larget, 2014).* According to *(Hanlon & Larget, 2014)* estimates obtained from simple random sampling are unbiased, signifying the absence of any systematic differences between sample estimates and the corresponding values in the population, with large samples being more accurate.

The researcher had the list of all the kaunjika sellers (population) at the market and assigned numbers to all these individual sellers, then the researcher randomly selected a pre- calculated sample from the list using random number generator.

Sample Size

The sample size for this study was determined using a Crochran's formula specified below. According to *Edriss, (2003),* the formula is used to determine sample size with single proportion. Therefore, using this specified formular:

$$n = [Z^2 (1-p) p] / E^2$$

Where n= sample size, Z (Z-score) = 1.645 desired confidence level (90%), P=0.50, population proportion (uknown population proportion) and E= ±10% sampling error allowance for subnational population estimates, the sample size is found to be 68. However, due to limited time factor, the sample was reduced to **60** which is still large enough and representative *(Edriss, 2003).*

Research Instrument

This research was purely quantitative in nature hence employing a survey method. Thus, a structured questionnaire was used to collect data from the participants. This method is effective in gathering quantifiable data *(Saunders et al., 2019).*

Data Collection Procedure

The study used both primary and secondary data. The primary data was collected directly from respondents through survey. The researcher, along with the well-trained numerators, also administered a structured questionnaires to the study participants at Tsoka Markert. This method ensures accuracy, allows clarification, and enhances reliability of responses *(Sekaran & Bougie, 2016).* Conversely, supplementary secondary data was gathered from government reports, newspapers, and internet.

Data Analysis & Interpretation

Response Rate

All 60 selected traders participated, resulting in a 100% response rate.

Demographic and Socio-economic Characteristics of the respondents

The descriptive statistics reveal that the majority of Kaunjika traders at Tsoka Market are young adults, with 38.3% aged between 25–35 years and 28.3% between 18–25 years, indicating that the trade is dominated by energetic and adaptive youth seeking self-employment opportunities in an economy with limited formal jobs *(Abang et al., 2024; Kayanula, 2003).* The gender composition shows that 46.7% of respondents were male, 31.7% female, and 21.7% preferred not to disclose, suggesting a slightly male-dominated market but with significant female participation, reflecting the vital role of Kaunjika trade in women's empowerment and informal sector income generation *(Moffat, 2024; World Bank, 2020).* In terms of education, 46.7% of the respondents attained secondary education, 20% tertiary, while 33.4% had primary or no formal education, implying that the trade attracts individuals with moderate educational attainment who possess practical business skills, though higher education levels likely improve resilience to economic shocks such as currency devaluation *(Basir et al., 2021; Ahmad et al., 2024).* Furthermore, 73.3% of traders have between 4 and 10 years of business experience, reflecting a mature and knowledgeable trading community capable of adjusting pricing, sourcing, and sales strategies during macroeconomic fluctuations. This aligns with the Resource-Based View (RBV) theory by *Barney (1991),* which posits that experience and knowledge constitute valuable competitive

resources that enhance firms' adaptability under economic stress.

Source: field work

Presentation of findings

The change in sale volume and revenue of SMEs selling Kaunjika Clothes before and after the devaluation

n = 60; df = degree of freedom; *** significant at 1%, ** significant at 5%; Source: Field Work

The paired sample t-test results for monthly sales volume show a mean difference of -16,554.50, a t-value of -2.61, and a p-value of .012, indicating a statistically significant decline in sales volume after the currency devaluation. This means that, on average, Kaunjika sellers at Tsoka Market sold fewer items each month following the devaluation than they did before. The decline can be attributed to the reduced purchasing power of consumers as inflation rises due to higher import costs (Ahmad et al., 2024). When the local currency weakens, the prices of imported second-hand clothes increase, leading many customers to reduce their consumption. This finding is consistent with *Lavallière et al. (2023),* who found that SMEs in Lebanon experienced lower sales volumes during devaluation periods due to increased costs and reduced consumer demand. Hence, the result reflects how currency instability directly constrains sales activities in informal retail sectors dependent on imports.

Likewise, the results also show a mean revenue difference of -1,095,583.33, a t-value of -9.29, and a p-value of < .001, signifying a highly significant reduction in monthly revenue after devaluation. This implies that the Kaunjika traders' overall income dropped sharply as a result of the weakening Kwacha. Even though some traders adjusted their prices upward, the decline in sales volume outweighed the price increases, leading to substantial losses in total revenue. This outcome supports the findings of *Abang et al. (2024) and Kose and Riezman (2001),* who observed that currency devaluation erodes SME revenues by inflating import costs and depressing local demand. The result further aligns with the Resource-Based View (RBV) theory *(Barney, 1991),* suggesting that only businesses with stronger financial resources or superior market knowledge can partially withstand such economic pressures. In general, this significant drop in revenue indicates that most Kaunjika traders lack sufficient financial resilience to cope with exchange rate shocks.

The different in Kaunjika clothes selling prices pre and post devaluation

Mean Difference

Source: Field Work

This shows that the selling price mean difference of 7,066.67, a t-value of 10.31, and a p-value of < .001 indicate a highly significant increase in the prices of Kaunjika clothes following devaluation. This means that traders raised their prices considerably in response to increased importation costs and declining currency value. The finding supports the Purchasing Power Parity (PPP) theory *(Cassel, 1923),* which explains that as the local currency depreciates, the domestic prices of imported goods rise proportionally to maintain equilibrium in purchasing power across countries. It also echoes *Tafesse (2019),* who found that currency devaluation in Ethiopia led to general price increases and inflationary trends. For Kaunjika traders, this price adjustment represents a coping mechanism to protect profit margins amid rising costs. However, while higher prices help vendors recover some costs, they simultaneously discourage demand, contributing to the declines in sales volume and revenue observed earlier. This dual effect underscores the inflationary burden of devaluation, where

businesses raise prices to survive, but consumers reduce purchasing power limits overall trade performance.

The most common business response strategies adopted by SMEs selling Kaunjika clothes due to devaluation

Presents business response strategies after currency devaluation. As it can be noted, the majority of respondents (77%) indicated that their primary strategy was increasing prices, followed by reducing the variety of stock (15%), and a smaller proportion (8%) who reported reducing operational costs. This pattern signifies that most traders reacted to devaluation by transferring increased import costs to consumers through price hikes, a coping mechanism consistent with the Purchasing Power Parity (PPP) theory *(Cassel, 1923),* which postulates that domestic prices adjust in response to changes in exchange rates. The dominance of price escalation as a strategy aligns with findings by *Tafesse (2019) and Ahmad et al. (2024),* who observed that SMEs in developing economies often resort to price adjustments to preserve profit margins amid inflationary pressure caused by currency depreciation. The smaller proportions adopting cost-reduction or inventory rationalization strategies suggest that most Kaunjika traders operate with limited flexibility in supply chain management and production efficiency. According to *Barney's (1991)* Resource-Based View (RBV), this reflects limited internal capacities, such as poor supplier diversification or weak cost-control mechanisms, constraining traders from deploying more sustainable coping strategies beyond price increases.

Reasons for price adjustment after currency devaluation; Source Field Work

In terms of the reasons for price adjustment, the most cited reasons for adjusting prices were decreased customer purchasing power (60 respondents) and increased cost of procurement (59 respondents), followed by higher transportation costs (22 respondents), increased competition (16 respondents), and difficulty in restocking inventory (2 respondents), as seen in the figure 2 above. The dual dominance of decreased purchasing power and higher procurement costs underscores the inflation–income paradox common in developing economies during devaluation periods, businesses face rising costs while consumers experience diminished real incomes (Lavallière et al., 2023; Kose & Riezman, 2001). As a result, traders are trapped in a trade-off between maintaining affordability and sustaining profitability. The mention of transportation cost further reflects the pass-through effects of devaluation on logistics and import expenses, echoing *Moffat (2024)* who found that SME operating costs in Malawi's urban centers surge during currency depreciation episodes. The minimal reporting of restocking difficulties may suggest that while access to stock remains possible, affordability constraints are the more pressing challenge.

RECOMMENDATIONS

- Provide targeted credit facilities to enhance SME financial resilience.
- Offer business training on financial management and cost control.
- Promote local sourcing to reduce dependence on imports.
- Implement policies that stabilize exchange rates and control inflation.
- Improve market infrastructure to lower operational costs.
- Strengthen consumer support measures to maintain purchasing power.

CONCLUSION

The study confirms that currency devaluation negatively affects small-scale traders by increasing prices while simultaneously reducing sales and revenue. Although traders attempt to cope through price adjustments, limited resources constrain their ability to sustain profitability. Strengthening financial support systems, improving policy stability, and promoting adaptive business strategies are essential for enhancing SME resilience in the face of economic instability.

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