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Adaptations, Female Labour Participation, and Innovation among SMEs in Zambia during Covid-19 Pandemic

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Abstract

The covid-19 pandemic has had a devastating impact on the operations of all enterprises but particularly on Small and Medium Enterprises (SMEs). In the case of Zambia, SMEs experienced a significant decrease in revenue, while confronting a dramatic increase in the costs of inputs. Furthermore, few SMEs had access to financial support from the government. This paper implements a binary Probit regression model to analyse the impact of the level of fulltime female workers, the business environment, and adaptations on innovation among SMEs in Zambia. Our results show that those SMEs that are willing to adapt are also more likely to innovate. Our results also show that an increasing presence of women as full-time workers is a conduit for innovation. Among other things, we conclude that Zambia must focus on the development and promotion of domestic markets and SMEs resilience, as well as strategies that support female labour participation, female entrepreneurs, and job creation.

Keywords: SMEs; Innovation; Probit Regression; Zambia
JEL Classification Codes: I15, L26

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1. Introduction

The Covid-19 pandemic, as a follow-up to the 2014 commodity price crash, put sand in the wheels of the Africa Rising discussion; the notion that, as Roitman (2021) explains, an up-and-coming middle class was going to be the tipping point of a new era for Africa.

While Covid-19 has been a global pandemic, there is no denying that its impact has been unevenly distributed among countries and within countries. In terms of Zambia, the focus of this paper, as Mudenda, et al., (2022) explain, we know little about the Covid-19 experience given that the research available in terms of lessons and challenges is limited. Furthermore, following Mwiinga (2020), even less research is available in terms of firms' operation strategies. Moreover, as Moonga, Sichombo, Mwene, and Mweemba (2022) explain, Zambia's debt burden makes the provision of services, particularly healthcare, difficult. Following Smith (2020), Zambia was the first African nation to default on its Eurobonds during the Covid-19 crisis.

As Bloom *et al*., (2022) argue, while the impact of pandemics in terms of both, the human toll and economic burden could be overwhelming, early economic interventions are key to mitigate this impact. According to Mudenda et al., (2022), Zambia confronted three Covid-19 waves, and while the government designed a series of potentially effective strategies, the lack of resources hindered the effort. Thus, reinforcing the argument regarding the distributive impact of pandemics, more recently presented by Alfani (2022), about the fact that the institutional setting at the onset of any outbreak is of utmost relevance.

Moreover, and as expected, the pandemic has had a devastating impact on the operations of all enterprises but particularly on Small and Medium Enterprises (SMEs). In the case of Zambia, as Mwaanga, et al., (2021) explain, SMEs experienced a significant decrease in monthly revenue, while confronting a dramatic increase in the costs of inputs. Furthermore, few SMEs had access to financial support from the government.

As it was the case in the rest of the world, logistics, order delays, and lockdowns hindered the supply chain flows among SMEs in Zambia. As Qasim (2020) explains, Covid-19 arrived in Zambia in March 2020 with a significant impact on SMEs. Following Deka-Zulu (2021), SMEs are a powerful engine in Zambia as they comprise the majority (97%) of businesses, with a contribution of 70% of GDP. Furthermore, a significant share of vulnerable segments of the workforce, particularly women, find in SMEs their source of income. As Qasim (2020) explains, the female labour force participation rate decreased significantly as a by-product of the pandemic. Nevertheless, as Evans (2014) argues when writing about Zambia, economic insecurity has been a significant driver behind the breakdown of gender roles, particularly the rising flexibility in the division of labour in terms of gender. From this perspective, the increase in the share of women performing work traditionally associated with men has diminished gender stereotypes relating to competence and status (Evans, p. 981).

Using data from the World Bank, we implement a binary Probit model to analyse the relationship between the female labour participation and innovation among SMEs during the Covid-19 pandemic in Zambia. We intend to use the data from 601 surveys to analyse firms' adaptations to the Covid-19 pandemic and the impact of those adaptations on innovation.

With so many former British colonies achieving independence quick succession, even the keen observer of world affairs may be some tendency towards diminishing interest. Yet when Rhodesia became the Republic of Zambia on 24 October 1964, was certainly not accorded routine treatment as 'just one more', Zambia has since become a familiar name more quickly than many have predicted. There are a number of important reasons for this and several of these have a wider significance. (Heron-1965, p.83)

As reported by the World Bank (2021), Zambia, with a population of over 18 million people and a land area of approximately 752,612 square kilometres, is a landlocked country in southern Africa. Its geographical location, abundant natural resources, and improving economic policies make it a key player in both the African and world economies. Zambia's economy is characterized by a diverse range of sectors, with mining, agriculture, and services being the primary contributors. Following IMF (2023), Zambia has achieved significant progress over the last two years developing and deploying policies to stabilize the economy, promote growth, and job creation. At the same time, government officials were able to negotiate a debt restructuring agreement with all official creditors.

As Vandome (2023) argues, Zambia finds itself in the middle of several international key topics. For example, as an active member of the G20 Common Framework for Debt Treatments. Zambia is also an important producer of natural resources at the centre of the international effort for a green transition. Furthermore, As Vandome (2023) emphasizes, all eyes are on Zambia as a democratic state and potential African ally for Western powers.

According to the African Development Bank (2021), Zambia has invested in infrastructure development, including roads, energy, and telecommunications, to support economic growth. Furthermore, Zambia's strategic location in southern Africa positions it as a gateway to regional markets. The country is a member of the Southern African Development Community (SADC) and the Common Market for Eastern and Southern Africa (COMESA), which promote trade and economic cooperation among member states. Nevertheless, infrastructure gaps, particularly in energy and transportation, hamper economic development.

Following United Nations (2023), Zambia joined all 193 United Nations (UN) Members States in adopting 17 Sustainable Development Goals (SDGs). Among other things, these goals emphasize poverty reduction, health and sanitation, affordable and clean energy, education, and promoting gender equality. As is the case in most of the countries that joined in adopting the SDGs, Zambia is off-track mainly because of the Covid-19 pandemic, the COVID-19 pandemic has slowed down progress towards the 2030 Agenda and has reversed progress made.

The pandemic's negative consequences swept across all sectors of the economy, particularly manufacturing, tourism, and the service industry. For manufacturing, however, the negative consequences were mainly the result of external factors such as supply chain disruptions that caused extreme shifts in supply and demand. This reality had a significant negative impact on SMEs; the two major challenges reported by all SMEs were the loss of customers and supply chain issues. Thus, SMEs had to rethink operating costs and consequently, SMEs halted production lines, applied for subsidies from relevant government agencies, developed partnership strategies, as well as negotiated for reduce/exempt rents and lower financing costs/extending repayment cycles. As a result, as Mulenga et al. (2023) explain, approximately 3% of firms closed operations in the first Covid-19 wave, follow by another 5% during the second wave, with closures

disproportionally affecting SMEs with female managers. Furthermore, closures and strategic adjustments paved the way for extensive job losses, with an average decrease of 29% during the first wave, followed by a 20% decrease during the second wave, again with female-owned firms accounting for most of the losses. As Sankwa (2016) explains, female labour market participation not only improves the economic status of women but also contributes to economic growth. This is particularly important, as it is a critical factor in any strategy to achieve SDGs as it directly relates to promoting gender equality

1.1 Entrepreneurship and SMEs

While often described as a tool for poverty reduction and employment creation (Easterly, 2006; Patzelt and Shepard, 2001), entrepreneurship, at is core, is the art of taking advantage of opportunities. This is particularly true in countries that lack the resources to confront social and economic problems (Valente and Crane, 2010). Thus, SMEs become the default economic engine with significant influence over the GDP's growth rate and structure (Ganji and Metzker, 2021).

Several factors contribute to the emergence of SMEs, main among them are, as Cepel et al., (2018) explain, economic factors (e.g., macroeconomic environment, monetary policy, and financing). Furthermore, technological, political, and social factors also play key roles (Cicea et al., 2019; Hema et al., 2019; and Gavurova et al., 2019).

More recently, the focus on SMEs has shifted from a catalyst of domestic development to global expansion opportunities and potential rival to established international businesses (HSBC, 2016; Bibau et al, 2018; and Child et al., 2022). Although it might sound counter intuitive, as Jones (1999) explains, the internationalization process of SMEs does not necessarily follow a series of steps. While the exports avenue seems like the logical path, there are significant speedbumps (e.g., foreign trade regulations, and competition with SMEs from the importing country) along that path (Laufs and Schwens, 2014; Stoian et al., 2018).

The internationalization avenue might present itself as the next logical step in countries with reliable infrastructure and institutions. Nevertheless, SMEs will continue to be the default prime mover for development and growth in developing countries. Among other things, developing countries rely on SMEs for growth, employment, and entrepreneurial skills nurture. At the same time, as Mwika, et al. (2018) explain, SMEs confront significant challenges including the impact of globalization on the domestic business environment. Additional challenges include sluggish productivity, financial constraints, adverse regulatory environment, political instability, ineffective infrastructure, as well as a heavy regulatory burden (Subhan et al., 2014). And now we must add a global pandemic to the list of challenges. As Eniola and Ineba Decster (2022) explain, Covid-19 will continue to have a devastating and demoralizing impact on SMEs, particularly on their workforce. Thus, as Nuwagaba (2015) argues, any strategic development plan should focus on investing on SMEs because, among other things, they play a critical role in both employment creation and income generation. In the case of Africa, SMEs are not only job creators but also an important source of tax revenue (Africa Business, 2013).

1.2 Entrepreneurship, Female Participation, and SMEs in Zambia

Zambia gained its independence from Britain in 1964 and, as Choongo (2020) explains, it ranks as one of Africa's middle lower income countries. Zambia's colonial legacy have played a role in the development of an entrepreneurial class, particularly in urban centres. Furthermore,

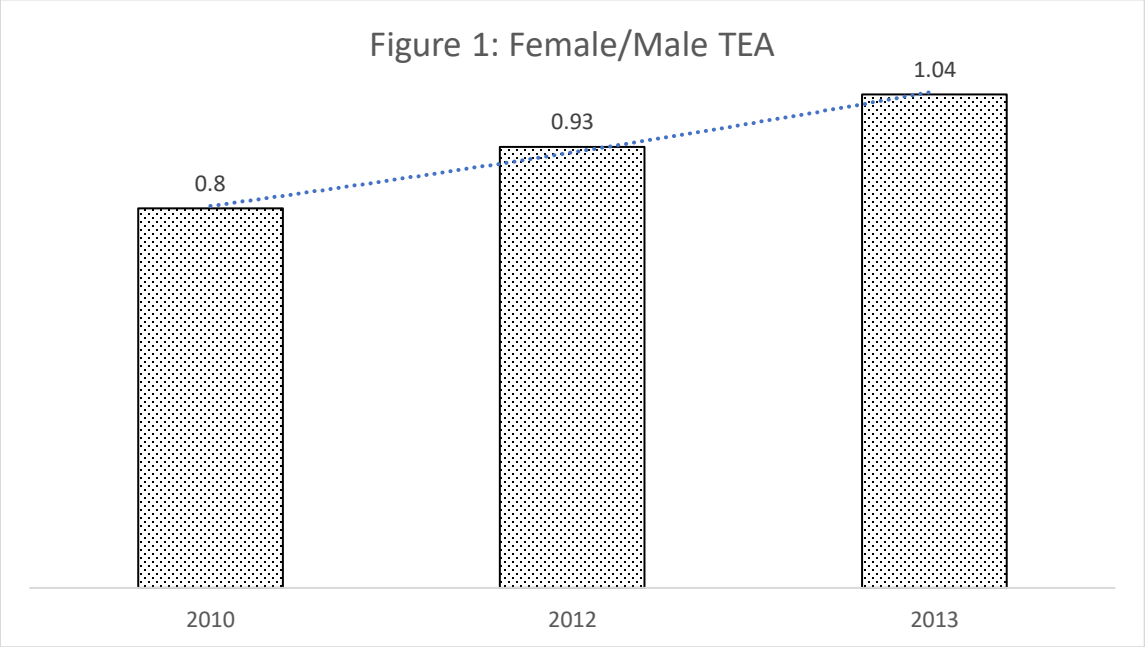
in addition to historical and institutional factors, taxation/tax avoidance seems to be a core disincentive/incentive to the entrepreneurial class.

The development of an entrepreneurial class in Zambia is inevitably tied to its colonial past; from colonial legislation banning indigenous Africans from carrying out certain business in the 1930s to price-fixing regulations that allowed white farmers to obtain higher prices (Kaunda, 1968; Malekano, 2009; and Mfune, 2019). As Kaunda (1968) explains, the colonial administrations limited the indigenous population to labour opportunities preventing them from pursuing business and entrepreneurial opportunities. Today, according to Muya and Bande (2013), the development of SMEs is a core principle of government policy and, following Mfune (2019), the government has created agencies with the sole purpose of developing entrepreneurial skills.

Entrepreneurship as a movement continues to expand in Zambia. As Xavier et al., (2012) argue, Zambia has experienced significant momentum in recent decades with more than 40% of residents active in entrepreneurial activities. Furthermore, according to SME Development Minister Elias Mubanga (as quoted by Global Council for the Promotion of International Trade-GCPIT, 2023),

> Zambia's government has prioritized the development of small and medium-sized enterprises (SMEs) in the country as they fuel economic growth. SMEs make up around 97% of all businesses and contribute 70% of Zambia's GDP. (gcpit.org)

As data from the Global Entrepreneurship Monitor shows, the momentum also reflects gains for women. Figure 1 below shows the trend in terms of the Female-to-Male Total Early-Stage Entrepreneurial Activity (TEA). In other words, the percentage of the female 18-64 population who are either a nascent entrepreneur or owner-manager of a new business, divided by the same measure for males.



Source: www.gemconsortium.org

While the male labour force participation rate (the proportion of the population ages 15 and older that is economically active) is greater than the female (68% vs. 54%), following the World Bank, the female labour force participation has been increasing since 1990s. Furthermore, Zambia's labour participation rate gap between (male vs. female) is lower than the rest of the lower-middle income group. Thus, positioning Zambia on better footing regarding promoting gender equality standards for the SDGs.

As Evans (2018) explains, the support for gender equality is strong in urban centres. This support has been eroding gender ideologies. In the case of Zambia, people living in interconnected, heterogeneous, densely populated areas are more likely to see women performing socially valued, masculine roles (Evans, p.1096). Furthermore, the emerging support observable in urban centres is simultaneously influenced by national and international policies, as well as macroeconomic conditions.

2. Methodology

Using a proprietary dataset from the World Bank, this paper attempts to analyse the relationship between the female labour participation and innovation among SMEs during the Covid-19 pandemic in Zambia. The World Bank has been conducting firm-level surveys to analyse the impact of Covid-19 on the private sector via its Enterprise Analysis Unit. When deploying a survey, the World Bank targets the population of all registered establishments with at least five employees. In the case of Zambia, the sample contains 601 establishments with interviews conducted between September 2019 through March 2020.

We intend to use the data from the 601 surveys to analyse firms' adaptations to Covid-19 and the impact of those adaptations on innovation, particularly the relation between the proportion of females as fulltime employees and innovation. Following the World Bank's survey terminology, we are defining innovation as the introduction of new or improved products. In other words, we are trying to capture the relation between SMEs adaptations to Covid-19 and firms' ability to survive by implementing modifications (Innovation) to production. Thus, we are trying to measure the impact of confronting the inherited risk involved when a SME changes the production strategy.

Our focus on innovation is based on the premise that, following Okum *et al*., (2019), employment growth has a positive correlation with innovation. Furthermore, in terms of firms in Africa, employment growth requires policies and programs that incentivize innovation. We are deploying a binary Probit regression model to implement our analysis.

Following Greene (2018), firms either innovate (as defined above) or not, with a set of factors collected in a vector x:

$$Prob(Y = 1|x) = F(x, \beta) \quad (1)$$

$$Prob\,(Y = 0|x) = 1 - F(x, \beta) \quad (2)$$

Hereβ is a set of parameters that captures the impact of changes in $\boldsymbol{x}$ on the probability. From here, the Probit model follows:

$$Prob(Y = 1|x) = \int_{-\infty}^{x'\beta} \phi(t)dt = \Phi(x'\beta) \quad (3)$$

As Greene (2018) explains, the function $\Phi(x'\beta)$ is common notation for the standard normal distribution. In terms of our analysis:

$$Innovate_i = B_0 + B_1\, BusActOnline_i + B_2\, DeliveryCarryOut_i + B_3\, Liquidity_i + B_4\, WorkNormal_i + B_5\, FemShareWork_i + B_6\, SalesExpectations_i + B_7\, Manufacture_i + e_i \quad (4)$$

Where:

Innovate	=	1 if the firm Innovates, 0 otherwise.
(A)BusActOnline.	=	1 if firm started business activity online, 0 otherwise
(A)DeliveryCarryOut	=	1 if delivery/carry out of goods/services was adopted, 0 otherwise.
(I)Liquidity	=	1 if the firm experienced a decrease in cashflows, 0 otherwise.
(I)WorkNormal	=	1 the workforce is back to normal levels, 0 otherwise.
(I)FemShareWork	=	the proportion of females as fulltime employees.
(I)SalesExpectations	=	1 if firms expect sales to increase, 0 otherwise.
Manufacture	=	1 if the firm is in the manufacturing sector, 0 otherwise
e_i	=	error term

The variable Manufacture is an industry control variable to account for the split among firms in the sample between manufacturing firms and firms in retail/services. The agricultural sector is not included in the survey. It is important to mentioned that, as Cheelo et al., (2022) explain, the agricultural sector, in contrast to services/retail, and manufacture, did not experience a reduction in poverty during the years preceding the Covid-19 pandemic.

It will facilitate the discussions if we classify the remaining variables as either an adaptation strategy (AS) or a structural adjustment (SA). The "AS" variables account for the firms' reaction to the pandemic. For example, firms move operations online, and/or start delivery as a response to Covid-19. It is our expectation that the coefficients for AS variables should have a positive sign, as research shows that adaptation (e.g., having an online presence) positively correlates with innovation (Konde, 2021).

To be more precise, firms that tend to adapt to new circumstances would also tend to innovate. On the other hand, SA variables reflect core features of the firm (e.g., decision making and expectations). For example, the decision to hire women, the cashflow decisions that impact liquidity, and expectations about sales and workforce. While liquidity constraints would hinder innovation, having your workforce at a healthy level would encourage it. Furthermore, the expectation of getting back to normal in terms of sales should negatively correlate with innovation, as the sense of normalcy will diminish the innovation flame.

Finally, women's integration to the labour force and the increase in SMEs ownership by women could be viewed as a structural adjustment following Evans (2014 and 2018). Our logic for labelling SA, is the assumption that it answers the How and Why (SA) questions rather the What (AS) question for the firm. What do we (the firm) do? We (the firm) adapt and innovate.

How do we (the firm) adapt and innovate? We do it through our workforce. Why do we (the firm) do it? We do it because we are owners, as Figure 1 above shows.

2.2 Data and Descriptive Statistics

As mentioned above, we are using a dataset from the World Bank's Enterprise Analysis Unit. Our sample contains 601 firms. The data tells a story about the struggles and resiliency of SMEs in Zambia. For example, approximately 80% of the firms in our sample had 50 employees or less. Only one percent (1%) of the firms received Covid-19 support from the government, with "I didn't expect to get it because I don't have the right connections" as the most common explanation (17% of respondents) presented for not getting support, followed by "Too cumbersome or costly to apply" (11%) and "I have applied but not received it" (7%).

When asked about the most needed policies to support their businesses over the Covid-19 pandemic, the top responses were: 1-Loans with subsidized interest rates (25% of respondents); 2-Deferral of tax payments (23%); 3-Access to new credit (11%); and 4-Cash transfers for businesses (10%). At the onset of Covid-19 governments reallocated resources, particularly financial resources, to mitigate the pandemic. Thus, less financial resources available to support SMEs. However, one of the top survey responses to the question of support was the deferral of tax payments. In other words, while loans with subsidized rates would have been preferred by SMEs (and injection of financial resources from the government to SMEs), a deferral program for tax payments (a transfer of resources from SMEs to the government) would have been greatly received by SMEs.

Furthermore, only 7% of respondents listed their businesses as closed. Thus, most businesses remained in operation. However, 85% of respondents confronted a decrease in sales due to Covid-19. The gender split in terms of the number of workers that quit or took leave due Covid-19 was almost even, with 52% of workers quitting/leaving listed as men. Nevertheless, men carried the bulk of layoffs, with only 17% of those workers listed as women.

All in all, the data aligns with the findings in the literature described above. The revenue struggles are present in our sample as captured by the generalized decrease in sales. The lack of institutional support is also captured in the sample with 99% of firms not receiving pandemic assistance from the government. Finally, the data also shows women coping proportionally with men in terms of quitting/leaving positions due to Covind-19, but men carrying the burden of layoffs relative to women.

3.0 Results

Table 1 shows the results of the binary Probit regression model targeting innovation as the dependent variable with the above-mentioned controls.

Table 1: Probit Results

Dependent Variable: Innovate Method: ML - Binary Probit (Newton-Raphson / Marquardt steps) Coefficient covariance computed using observed Hessian				
Variable	Coefficient	Std. Error	z-Statistic	Prob.
C	-1.50	0.222	-6.72	0.0000
BusActOnline	1.0	0.164	5.80	0.0000
DeliveryCarryOut	0.64	0.155	4.10	0.0000
Liquidity	-0.60	0.158	-3.56	0.0004
WorkNormal	0.42	0.157	2.64	0.0082
FemShareWork	0.92	0.331	2.77	0.0057
SalesExpectations	-0.34	0.149	-2.27	0.0235
Manufacture	0.54	0.158	3.39	0.0007
McFadden R-squared	0.204	Mean dependent var		0.203
S.D. dependent var	0.403	S.E. of regression		0.359
Akaike info criterion	0.836	Sum squared resid		62.471
Schwarz criterion	0.904	Log likelihood		-197.67
Hannan-Quinn criter.	0.863	Deviance		395.33
Restr. deviance	496.80	Restr. log likelihood		-248.40
LR statistic	101.469	Avg. log likelihood		-0.41
Prob (LR statistic)	0.0			

As Table 1 above shows, all coefficients are both significant and with the expected signs. Overall, SMEs in manufacturing are more likely to engage in innovation than SMEs in retail/services. Furthermore, SMEs adapting to the pandemic by moving activities online, and implementing carryout/delivery services are more likely to engage in innovation. As expected, liquidity constraints are a damper on innovation. By the same token, SMEs expecting to get back to normal soon, as measure by sales expectations, are less likely to engage in innovation. Thus, the "getting back to normal soon" expectation quenchers innovation as the goal at this stage is trying to stay afloat and innovation could be perceived as risky. On the other hand, "getting back to normal soon" as measured by workforce provides an incentive to innovate. From this perspective, the foundation is perceived as solid and with that, incentives to innovate to keep up with competitors emerge. Finally, SMEs with more women as full-time workers are more likely to innovate. In other words, the share of women as full-time workers is positively correlated with innovation. This further validates the arguments presented by Evans (2014, 2018), as well as the data from the Global Entrepreneurship Monitor presented in Figure 1 above.

4. Conclusions

The impact of Covid-19 as a global pandemic has been devastating in terms of both, the human toll and economic burden. In the case of Small and Medium Size Enterprises (SMEs), the impact of Covid-19 has been overwhelming. Furthermore, Covid-19's impact has been unevenly distributed among countries and within countries. In terms of Zambia, the focus of this paper, the research has been limited in terms of lessons and challenges, as well as SMEs' operational strategies.

Our analysis demonstrates the struggles the SMEs in Zambia confront. In terms of innovation, our results show that those SMEs that are willing to adapt are also more likely to innovate, and that liquidity constraints are an important obstacle to innovation. Finally, our results also show that an increasing presence of women as full-time workers is a conduit for innovation.

Echoing Jeppesen and Kragelund (2021) and Mukosa (2021), we will argue that as Zambia emerges from the Covid-19 pandemic, it must focus on the development and promotion of domestic markets and SMEs resilience. The government must consider the development of capacity building and upgrading, the business environment, the expansion of domestic consumer demand, and SMEs incubation and promotion. In addition to firm mortality and resilience, following Mulenga et al., (2023), strategies that support female labour participation and female entrepreneurs, as well as job creation must be priority. Thus, the institutional setting must not only support current SMEs but also promote an inclusive expansion.

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