PARI POLICY BRIEF NO 28

May 2021

RESILIENCE OF AFRICA'S FOOD AND BEVERAGE MANUFACTURING SECTOR

Evidence from the Covid-19 pandemic

Outbreaks of various epidemics or pandemics have been recurrent throughout history. However, a pandemic of such a global scale as the Covid-19 pandemic can be considered as an unprecedented crisis in modern days. To contain the spread of the diseases, governments around the world started putting in pace stringent measures in early 2020, bringing about unusual challenges for populations and businesses alike. The African food and beverage manufacturing sector warrants particular attention in this regard, due to its importance for food security, income generation and employment on the continent. Evidence from four African countries (Ethiopia, Kenya, Nigeria and South Africa) shows that the sector has proven to be relatively resilient during the pandemic, but some impacts, for instance on staff and access to raw materials, also worsened over time.

This brief presents the result of two rounds of rapid assessments (May and September/October 2020) on **how Covid-19 containment measures have affected the performance of the food and beverage manufacturing industry in the four countries and what measures companies need to support them during the pandemic.**

How were companies' operations affected by Covid-19 containment measures?

In all four countries, most companies in the sector managed to continue operating throughout the pandemic. Overall, 87% of firms were operating in May, even though most of them (65% of all firms) had reduced production volumes (Figure 1). The rest had ceased their operations, but largely only temporarily. South Africa reported the highest proportion of firms operating as usual (34% compared to 19% in the total sample) even though the country also reported a substantial number of business closures (12%). Nigeria was hardest hit: 22% of companies ceased operations, either temporarily or permanently, and only 5% were operating as usual.

SUMMARY OF KEY FINDINGS

- Most companies were operating throughout the pandemic. For many of them the situation had improved by October, though most companies were still operating with reduced production volumes and consequently lower revenues.
- Around 7-15% of companies had temporarily or permanently ceased operations by October.
- Smaller companies were more affected by Covid-19 containment measures than larger firms. The beverage sector in South Africa suffered most among the sub-sectors.
- Overall, companies held on to their employees and the share of companies where staff was working as usual had increased significantly by October; however, the share of firms that had to lay off staff rose simultaneously.
- Difficulties in procuring raw materials at reasonable prices were widely felt among the companies and in many cases the situation deteriorated over time.
- The more internationally oriented the economy, the more affected the companies were by foreign governments' measures, notably through reductions in imports of inputs (especially Nigeria) and exports of products (especially Kenya).
- Companies mainly called for financial support followed by better access to raw materials and revisions to general Covid-19 related policies.

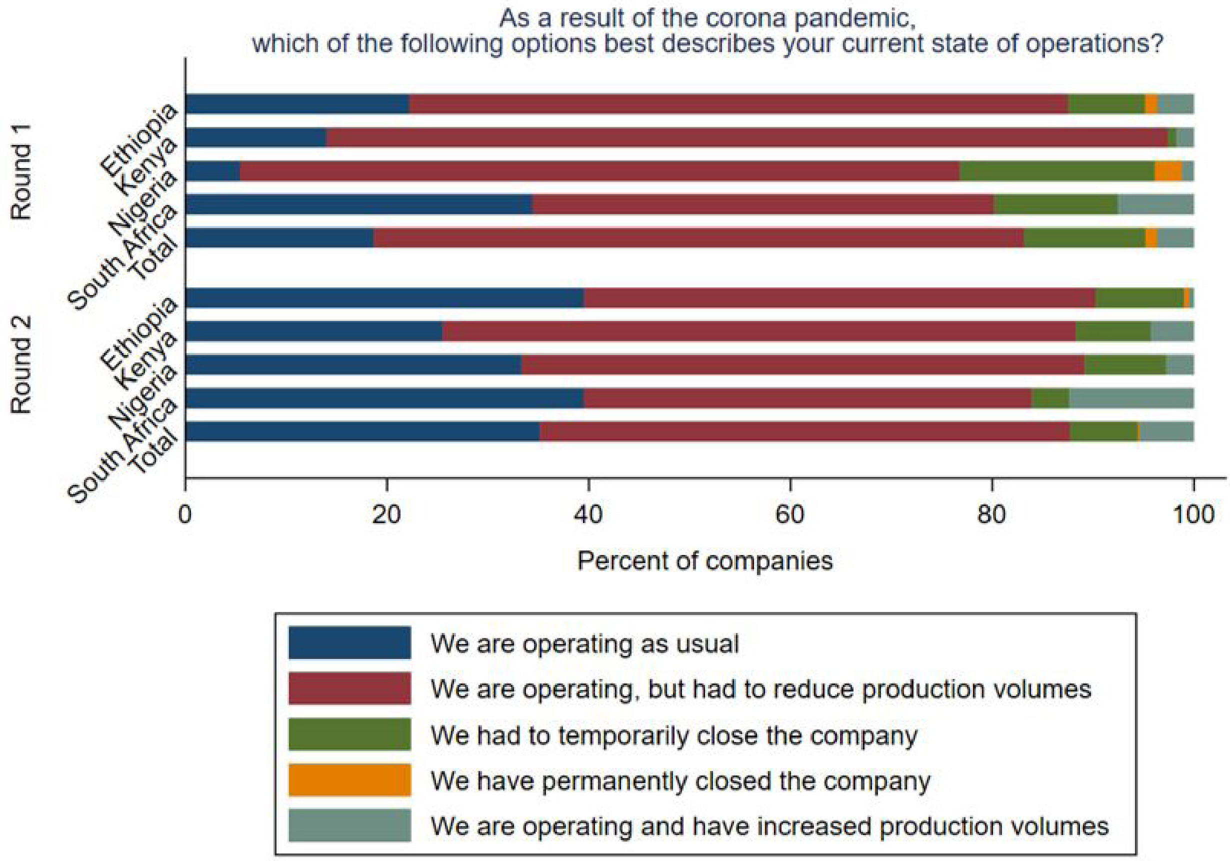

Figure 1: Impact of Covid-19 on firms' operations in food and beverage manufacturing sector

Source: Authors' own elaboration. Full sample.

By October 2020, the share of operational firms had increased to 92%. Among all firms, the share of companies that reduced production volumes had fallen to 53%. Around 8% of companies had temporarily or permanently ceased operations (possibly up to 15% when accounting for attrition). The beverage sector was hardest hit, in particular in South Africa, due to restrictions on the sale of alcohol and closure of restaurants, bars and hotels.

Small companies proved less resilient to the Covid-19 shock than other firms. Not only did they suffer more during the initial stages of the pandemic, they also had lower capacity to recover than larger firms. As disruptions in the supply chain are one of the principal mechanisms through which the Covid-19 pandemic affected firms in the food and beverage manufacturing sector, large firms with better established and better functioning supply chains are less vulnerable to such disruptions.

Did Covid-19 containment measures disrupt production patterns?

The majority of the companies adjusted production patterns by reducing production volumes of some products. Companies that managed to positively adapt to the situation mainly did so by expanding their production volumes of existing products (12% of firms in the first round and 16% in the second round) rather than introducing new ones. In particular large firms reported an increase in production volumes, especially in the second round (26% of firms). Small firms turn out to be slightly more innovative in times of crisis, with almost 10% of them starting production of new products compared to 7% of large firms. vulnerable to such disruptions.

Did companies have to pay higher prices for raw materials?

A large and growing number of firms in the food and beverage manufacturing sector (68% in the first round and 77% in the second round) reported raw material price increases. Bakery products and grain mill products were affected to a greater extent than other industries, especially in the first round. In the second round, the meat industry was hit by rising prices of raw materials, with 77% of firms reporting such increases. The impact on prices of raw materials was the highest in Nigeria where close to 95 percent of companies reported increases already in May 2020.

How did the disruptions impact employees?

While the number of firms where staff was working as usual increased significantly in the second round (from 27% to 41%), the share of firms who laid off workers increased simultaneously (from 4% to 12%) (Figure 2). This negative trend in the second round, where redundancies increased and salary was moreoften reduced, is worrisome. Only Ethiopia managed to keep redundancies low, likely due to regulations passed by the government forbidding redundancy during the State of Emergency imposed to contain the Covid-19 pandemic. In the remaining countries, many more firms laid off workers by the second round: 10% in South Africa, 15% in Kenya, and 18% in Nigeria. Workers in the beverage sector bear the strongest adverse impacts of the Covid-19 pandemic. The share of companies that laid off workers by the second round was 11% in the food sector and 16% in the beverage sector.

How did Covid-19 containment measures put into place by foreign governments impact firms?

More than 60% of firms reported to have been affected by foreign governments' measures in the first round (Figure 3). In Nigeria and Kenya, this share is even higher (70% or more) while in Ethiopia it is much lower (4%). These differences are partially due to different levels of import and export orientation. Among the Nigerian firms affected by foreign governments' measures the highest share (62%) reported a reduction in their import of inputs. For Kenya the proportion of affected firms reporting falling exports was more prevalent than in other study countries (54%). Firms exporting to the European Union or other non-African markets were more likely to see their exports decline than those exporting mainly to African countries.

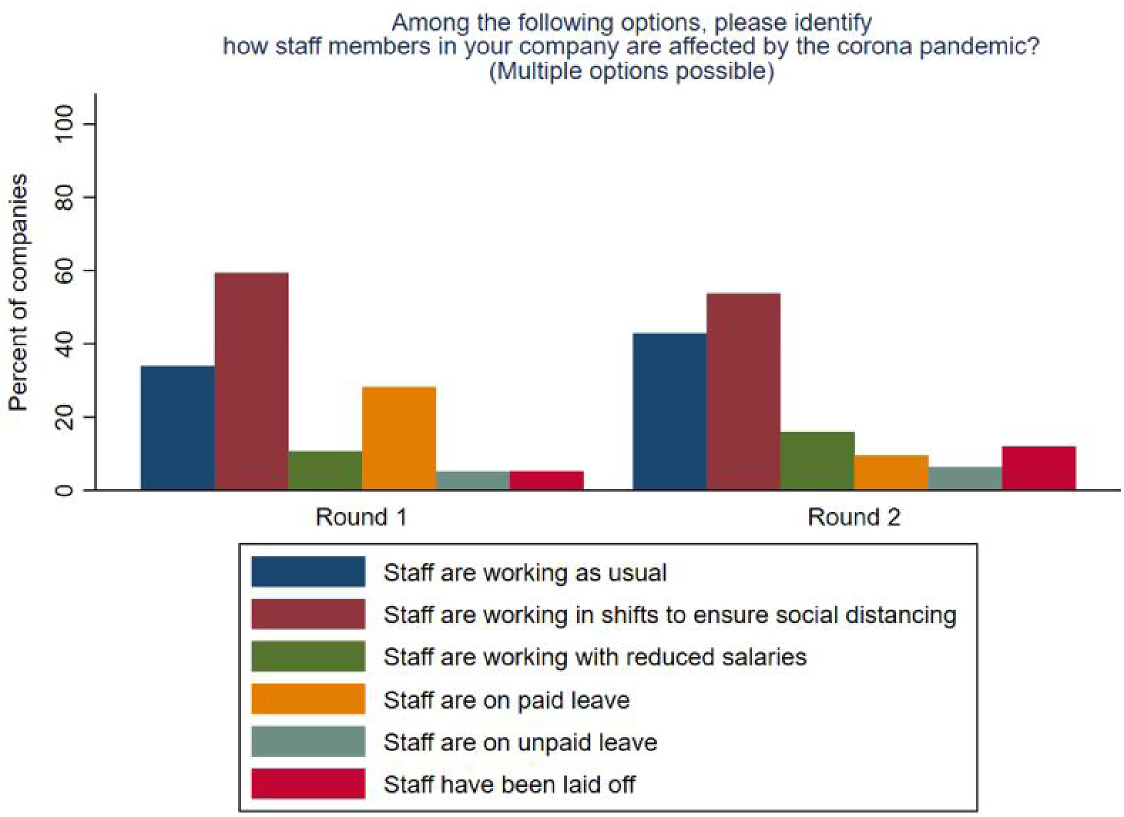

Figure 2: Impact of Covid-19 and related containment measures on workers

Source: Source: Authors' own elaboration. Panel sample (N=438).

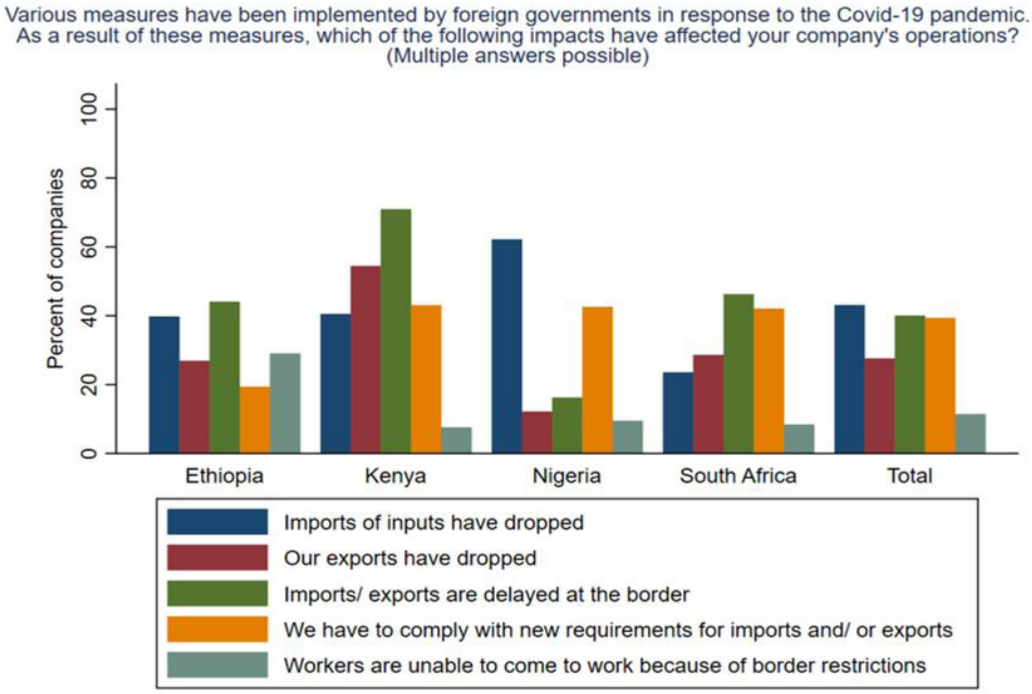

Figure 3: Impacts of Covid-19 containtment measures implemented by foreign governments (excluding unaffected firms)

Source: Authors' own elaboration. Round 1 only.

How can government help the food and beverage manufacturing industry?

Companies most frequently called for financial support, in particular tax reductions, low-interest loans and direct assistance (30% of all measures called for by firms) (Figure 4). Measures to improve access to raw materials ranked second highest among firms' policy demands (17%), followed with 16% by revisions of general Covid-19 related policies. Priorities differed noticeably between the four countries. Ethiopian companies seem to struggle most with procuring raw materials, in particular wheat, and were calling on their government to actively remedy the situation (41% of measures demanded by Ethiopian companies). Nigerian companies suffered most from a lack of financial resources which they would like to see address through tax reductions and low-interest loans rather than through direct financial assistance (50%). South African companies most frequently called for revisions of general Covid-19-related measures (36%), notably an easing of the lockdown. Kenyan companies were most diverse: facilitate transportation, trading and marketing of goods (24%), revisions to general Covid-19-related measures (22%), and the implementation of staff-related measures (18%).Union or other non-African markets were more likely to see their exports decline than those exporting mainly to African countries.

POLICY RECOMMENDATIONS

To assist African food and beverage manufacturing firms to cope with the fallouts of the Covid-19 pandemic, the following measures should be prioritised:

- Provide long-term social safety nets for employees that may be negatively affected by production shortfalls and firm closures, given that impacts are likely to worsen in the long-run.
- Ensure access to reasonably priced raw materials by implementing measures that reduce price spikes, facilitate transport of raw materials and enable farmers and their workers to operate.
- Provide access to finance for affected firms, for instance in the form of tax reductions, subsidies or low-interest loans.
- Streamline requirements at the border to smooth the import of raw materials and export of products.
- Conduct longitudinal studies to fully understand the income effects of Covid-19 containment measures on both the formal and informal sectors, including on the number of employees and entrepreneurs affected, actual incomes lost among workers and businesses, and the effectiveness of social safety nets.

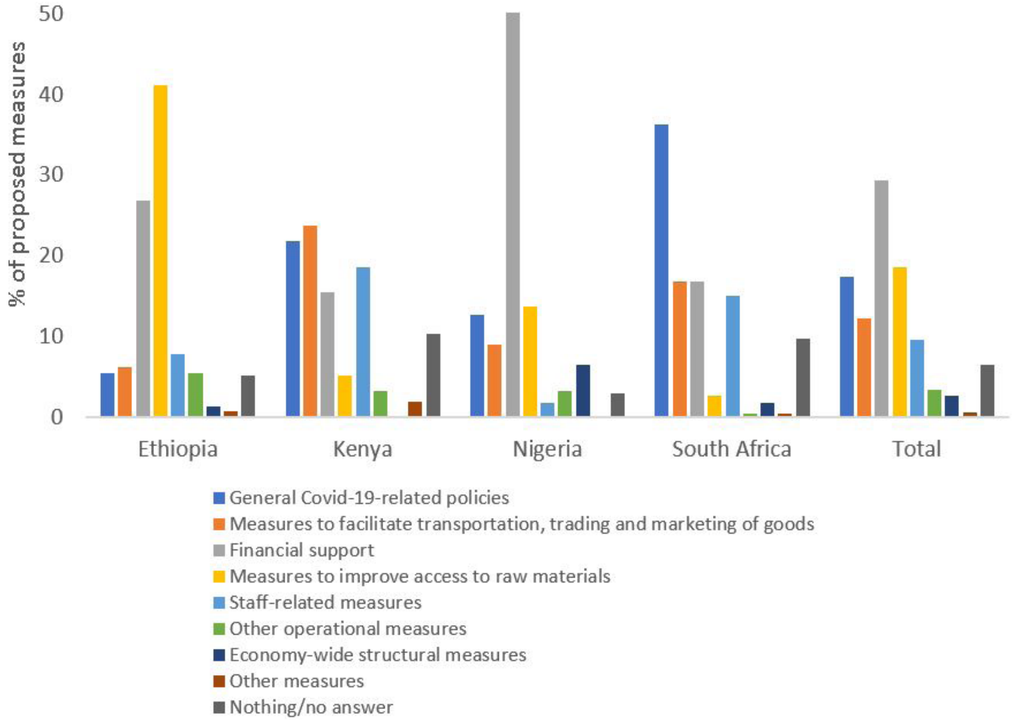

Figure 4: Policy measures proposed by the surveyed companies

Source: Authors' own elaboration. Round 1 only.

RESEARCH METHOD

Overall, 896 registered firms were surveyed for this study (248 in Ethiopia, 149 in Kenya, 287 in Nigeria and 212 in South Africa). Out of those, 438 companies were interviewed in both rounds. The first round took place between the end of April and beginning of June 2020 and a second round in September-early November 2020. The sample was drawn from the full list of 1421 companies that were identified as operating in the four countries in early 2020.

Firms were classified according to the US-based 10-level Standard Industrial Codes: 201: Meat; 202: Dairy; 203: Canned, frozen and preserved fruit and vegetables and food specialties; 204: Grain Mill products; 205: Bakery products; 206: Sugar and Confectionary; 207: Fats and Oils; 208: Beverages; 209 Miscellaneous Food Preparation and Kindred Products. A replacement strategy was employed to ensure that in case of non-responses or refusals, the final list was representative of the entire sector in terms of company size, ownership types and sub-sectors (i.e. food and beverage). The total sample is roughly equally distributed between small, medium and large enterprises (although shares differ between countries). Most of the companies are privately-owned and mainly domestic.

This Policy Brief is based on the study:

Baumüller, H., Kubik, Z., Dallimore, A., Getahun, T. & Velia, M. (forthcoming). Impact of Covid-19 on Africa's food and beverage manufacturing companies: Evidence from selected African countries.

Available at www.research4agrinnovation

PARI implementing partners: ZEF/University of Bonn, University of Hohenheim, the Forum for Agricultural Research in Africa (FARA) and its national partners, the African Growth and Development Policy Modeling Consortium (AGRODEP) facilitated by AKADEMIYA2063, and research collaborators in India.

PARI is funded by the German Federal Ministry for Economic Cooperation and Development (BMZ).

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Center for Development Research (ZEF)
Genscherallee 3 | 53113 Bonn | Germany
E-Mail: presse.zef@uni-bonn.de
Phone: +49-(0)228 - 73 18 46
Brief prepared by: Paula Rothenberger.
Layout: ZEF PR

SADC RESEARCH CENTRE

zef Center for Development Research University of Bonn