

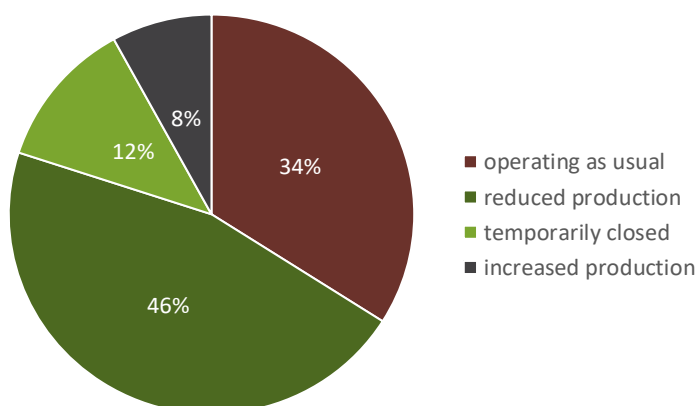
EMERGING IMPACT OF COVID-19 ON THE SOUTH AFRICAN FOOD AND BEVERAGE MANUFACTURING SECTOR

Following the identification of South Africa’s first COVID-19 case in early March, President Cyril Rhamaphosa announced a country-wide 21-day lockdown from midnight 26 March 2020. One of the strictest in the world, this so-called “hard” lockdown was later extended until the end of April. **This brief presents the result of a rapid assessment on how the lockdown measures have affected the performance of the South African food and beverage manufacturing industry and the critical issues that firms face during and post lockdown.**

How have companies’ operations been affected by the lockdown?

Almost nine out of ten surveyed firms were still operating, but most had to reduce overall production volumes. 12% of firms had to temporarily close down, whilst a third operated as usual. Just a small number (8%) had increased production (Figure 1).

Figure 1: State of operations



Small firms and alcohol producers have been the hardest hit, so far. Of those that had shut down temporarily, just over half were classified as “micro/small” and half of these companies produced alcohol. This can be partially explained by the temporary ban on alcohol sales put in place by the South African government.

SUMMARY OF KEY FINDINGS

- Most firms in the South African food and beverage manufacturing sector were still operating in May, but often at reduced capacity.
- The number of temporary or permanent closures is likely to be higher than reported here, in particular in the beverage sub-sector due to the ban on the sale of alcohol.
- A sizeable share of firms had to pay higher prices for raw materials, in particular smaller companies.
- Most firms adjusted their production patterns in response to the lockdown situation by reducing and/or increasing production volumes of some product, especially in the meat, dairy and beverage sub-sectors.
- Companies for the most part held on to their employees, but at times had to reduce salaries. Most increased shifts to ensure social distancing.
- Two thirds of companies were impacted by foreign governments’ measures, in particular through delays and additional requirements at the border.
- To reduce the economic impact of Covid-19 containment measures, companies called for a re-opening of the economy, financial support and assistance in the area of health and safety.

It is important to note that these figures most likely under-report the number of companies that have either closed down temporarily or permanently due to the lockdown, as they were less likely to answer the phone. Almost one third of the 38 companies that could not be reached at all were operating in the beverage sector, thus confirming the above-mentioned



finding. Size did not seem to make a difference, however, since an almost equal number were small, medium and large.

Did companies have to pay higher prices for raw materials?

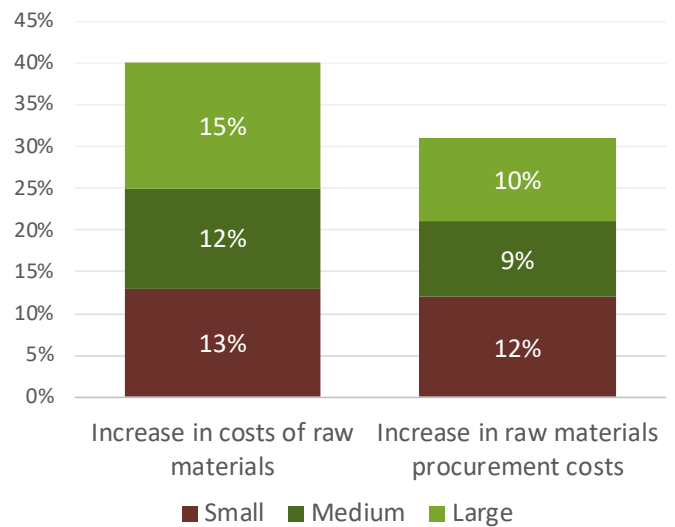
Despite Trade and Industry Minister Ebrahim Patel setting out guidelines on 19 March to prevent excessive price increases (known as price gouging), **a sizeable share of companies experienced increases in the prices of raw materials as well as additional costs to locate and procure these raw materials**, such as transport and administrative costs. Raw material costs increased for 41% of companies whilst 31% noted that search and procurement costs related to raw materials had increased (Figure 2).

Smaller companies were particularly affected by price increases. Half of all the small firms surveyed complained of cost increases in raw materials, whilst just over a third of medium and large companies did. When it comes to increases in search and procurement costs, large companies absorbed a slightly larger share of this burden (39% compared to 32% for small and 30% for medium). In terms of sector, input prices and related procurement costs rose most frequently for producers of bakery products.

Has the lockdown disrupted production patterns?

Most firms adjusted the production volumes of their products in response to the lockdown situation and resulting shifting demands. Most applied multiple strategies: 58% of firms had reduced and just over a quarter had increased volumes of some of their pro-

Figure 2: Increases in costs



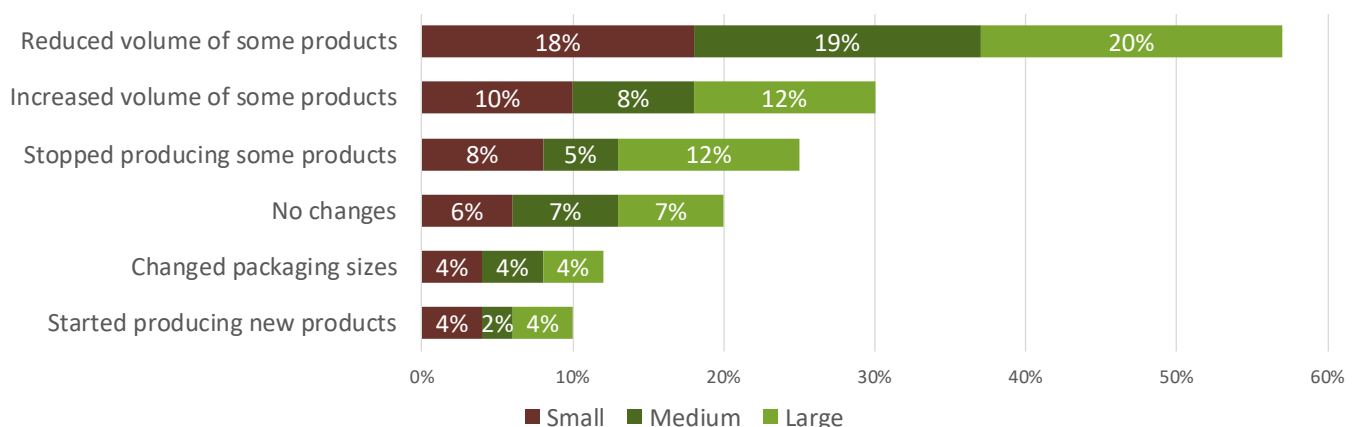
duct lines, and 9% of companies produced new product lines. Only 20% of companies had made no changes to their production volumes (Figure 3).

Different sub-sectors were affected differently. The dairy, meat, and beverages sub-sectors more frequently stated they had reduced production whilst firms in grain mill products, sugar & confectionary and fats & oils had the highest proportion of “no change” responses. Sub-sector specific demand conditions are likely to drive these results. Company size did not appear to influence these production decisions.

How did the disruptions impact employees?

Companies’ responses indicate a high degree of commitment to keep their workforce, at least at the time of the survey. Among the multiple strategies used by the firms in relation to their staff, most employers had to reduce salaries and/or gave employees paid and

Figure 3: Changes to production





unpaid leave. Only a relatively small fraction of formal employers had laid off workers. To reduce the risk of infections, most firms increased shifts to ensure that social distancing was possible and/or allowed employees to work from home (Figure 4).

How have measures put into place by foreign governments impacted South African firms?

Many companies that trade across borders or employ international staff (about two thirds of the sample) were impacted by foreign government measures. Delays at the border affected 48% of these companies and another 43% noted additional compliance requirements in relation to importing or exporting. One in five firms complained that their imports (mostly raw materials) had dropped, and one in four that their exports had declined. Workers were unable to cross the border to come to work for only 9% of companies.

How can government help the food and beverage manufacturing industry?

What companies wanted most from government was for the economy to be “opened up”, “returned to normal” or for lockdown restrictions to be removed or reduced (Figure 5). Many mentioned the need to recover their losses and to get their full complement of staff back to work. Specific requests were made in relation to opening **tourism** and **schools**, and normalising the **retail** sector. A number of respondents noted that they need the government to either “boost the economy” or to “stabilise the economic environment”. Related to this, a further 9% specifically mentioned wanting **restaurants** to open – with food outlets being an important market for their goods. Opening up the

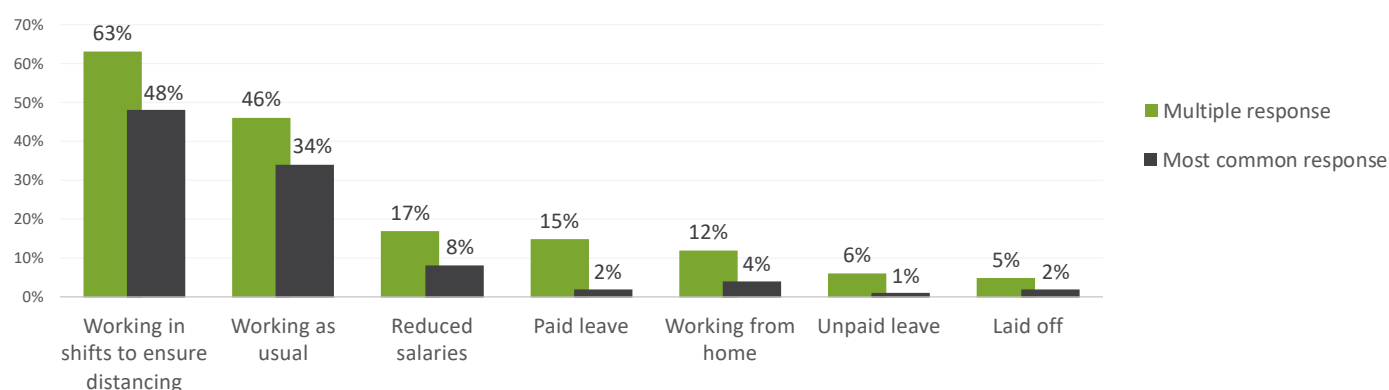
economy was the most frequently mentioned request by medium and large companies, and the second most frequent demand from small companies.

Small companies most commonly requested for financial assistance while for medium and large companies this was the second most common request. This reveals substantial demand-side pressures being faced by these companies. The type of financial assistance requested included: cash injections to help with cash flow and expenses, tax breaks, salary support and access to government procurement. Other requests included access to cheaper finance, the underwriting of loans, lower interest rates and market stimulus. Calls for the urgent payment of UIF (unemployment insurance fund) allowances were also made.

Companies also need support in the area of health and safety. Specific suggestions included the provision of personal protective equipment, screening services, information posters for the workplace and a drive to enforce social distancing; along with swifter and easier access to government-funded COVID-19 testing. To improve transportation, firms demanded reductions in travel costs, improved sanitation of public transport, the subsidisation of mini-bus taxis and a reduction in restrictions on the transport of goods.

With regard to imports and exports, firms called for an easing of border restrictions to reduce delays, including at harbours, and speed up imports. One firm also specifically requested a block on the importation of chicken to help local producers. There was also a request for government to improve its communication of new regulations, to increase transparency and provide clear directions. There were, of course, also requests for the ban on alcohol sales to be lifted to help the sub-sector.

Figure 4: Effects on staffing



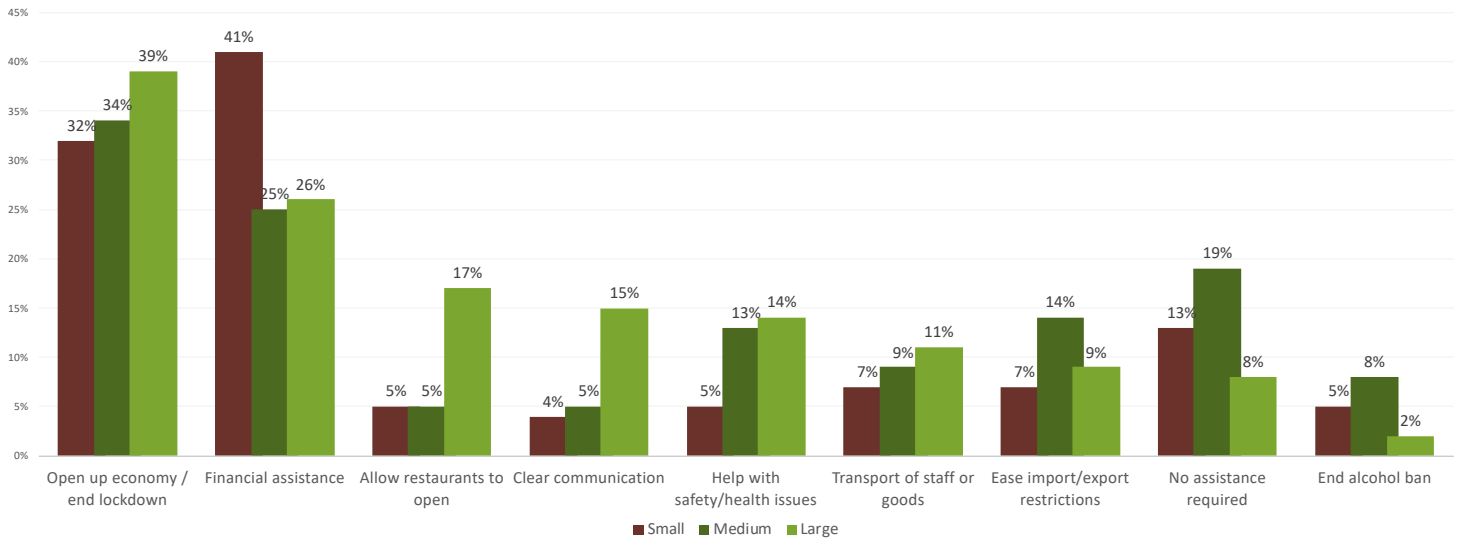
Note: The green columns show the share of responses by companies (multiple answers possible). The grey columns show the strategy that the firm indicated as most common.



Interestingly 13% of firms stated they did not require any assistance from government – noting that they were operating as usual, or that they did not think

there was anything specific the government could do – they just needed to ride this out. This type of response was more likely to come from medium-sized firms.

Figure 5: Help from government (by company size)



RESEARCH METHOD

Overall 212 firms were interviewed by telephone. Of those, 26 firms had temporarily closed. The full questionnaire was administered to the remaining 186 firms. The sample was drawn from the full list of 450 food and beverage manufacturing firms that were identified as operating in South Africa in early 2020. Firms were classified using the US-based 10-level Standard Industrial Codes: 201: Meat; 202: Dairy; 203: Canned, frozen and preserved fruit & 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). Given that companies in this sector are roughly equally spread between small (up to 50 employees), medium (51-250 employees) and large (>250 employees), the sample was also split equally (i.e. one third per size category). Interviews took place between 29 April and 1 June 2020.

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IMPRINT:

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 Dr Anthea Dallimore, SADC Research Centre
Layout: Katharina Zinn

