

EMERGING IMPACTS OF COVID-19 ON THE KENYAN FOOD AND BEVERAGE MANUFACTURING SECTOR

Following the first case of Covid-19 in the country on 14 March 2020, the Kenyan government implemented containment measures which came into effect on 15 March 2020. These included restrictions to air transport, the progressive closure of schools and universities, restrictions on gatherings, issuing of sanitation procedures and rules on public transport requirements. The government put a strong emphasis on home-based work in non-essential services.

As the number of new COVID-19 cases slowly grew, the restrictions became more stringent, including a curfew along with other restrictions on movement. The ban on movement across counties was lifted from 6 July 2020. Whilst firms in the food and beverage sector were classified as essential services, they were nevertheless operating in an abnormal national context. In parallel, restrictions were applied by trading partners.

This brief presents the result of a rapid assessment on **how the containment measures have affected the performance of the Kenyan food and beverage manufacturing industry and what measure companies need to support them during the pandemic.**

How have companies' operations been affected by the lockdown?

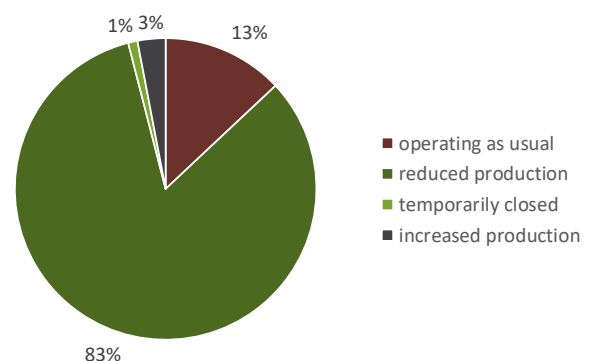
The vast majority of surveyed companies were still operating, but most (83%) had reduced production volumes. Only one firm had temporarily stopped production. 14% were operating as usual and 3% had increased production (Figure 1). Producers of sugar and confectionery products were least affected by production decreases (64% of firms) while meat, bakery and oil producers mentioned this coping strategy most frequently.

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. The 13 firms that had to be dropped from

SUMMARY OF KEY FINDINGS

- The vast majority of surveyed firms were still operating in May, but most of them at reduced capacity.
- The number of temporary or permanent closures is likely to be higher than reported here.
- Many firms had to pay higher prices for raw materials and for procuring these materials.
- Most firms adjusted their production patterns in response to the situation, in particular by reducing production volumes of some products.
- Companies for the most part held on to their employees, but at times had to reduce salaries. Many increased shifts to ensure social distancing.
- Around 70% of companies were impacted by foreign governments' measures, in particular through delays and additional requirements at the border as well as drops in exports.
- To reduce the economic impact of Covid-19 containment measures, companies most frequently called for practical and business-survival interventions, such as measures to facilitate the movement of goods, tax relief and support in the area of health and safety.

Figure 1: State of operations





the survey because they could not be reached were mainly medium-sized and large companies, operating primarily in the beverage sector.

For smaller the firms, more of them were forced to reduce production volumes. Thus, while 80% of large firms were affected, this figure rose to 84% for medium-sized firms and 91% of small companies

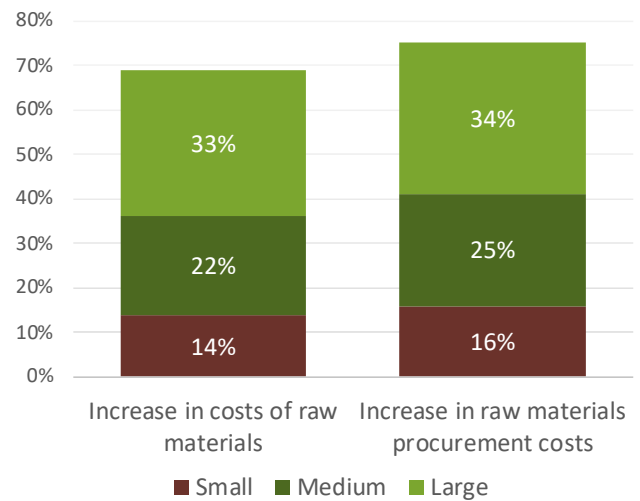
Did companies have to pay higher prices for raw materials?

Both the cost of raw materials and the cost of locating and procuring these materials increased for roughly three quarters of the companies (69% and 75% respectively among the 104 firms who could answer this question) (Figure 2). For most of the remaining companies the costs did not change. Larger companies were more likely to be affected by increases in both types of costs. In terms of sectors, firms producing grain mill products saw input prices rise most frequently and, along with bakery companies, they were also more likely to experience increased procurement costs.

Have production patterns been disrupted?

The firms typically responded to the COVID-19 restrictions by decreasing production, in particular by decreasing the volume of some products (88% of firms) and/or stopping the production of some products altogether (6% of firms). All companies in meat, dairy and fat & oil manufacturing were forced to re-

Figure 2: Increase in Costs

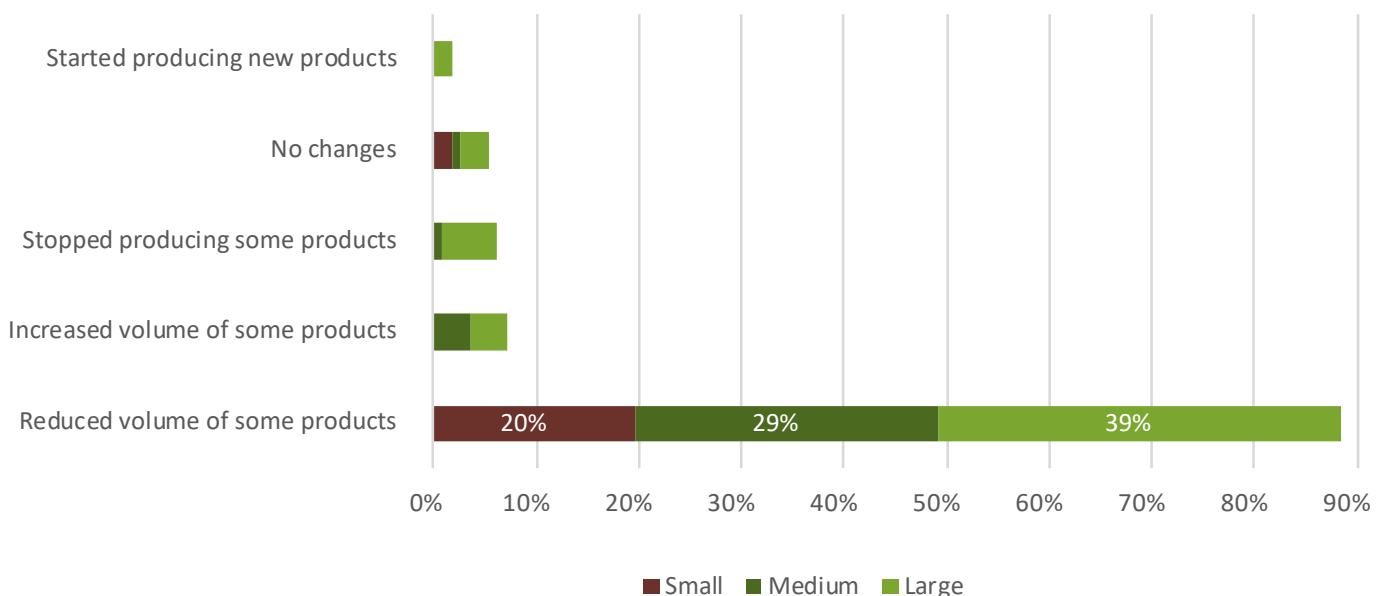


duce production volumes. Some of the medium-sized and large companies were able to increase production; eight companies increased the volume of some products while two companies started producing new products (Figure 3).

How did the disruptions impact employees?

Overall, companies made efforts to retain their staff during the pandemic, at least at the time of the survey. Among the multiple strategies employed by the firms, 41% had sent some staff on paid leave. Nevertheless, some of the employees suffered income losses where companies reduced salaries (4% of firms), sent staff on unpaid leave (10%) or laid off staff (9%).

Figure 3: Changes to production





These losses affected in particular workers in fruit & vegetable and in beverage manufacturing. Overall, none of these strategies were cited as most commonly applied, however. Instead, the most common coping strategy was to move to shift work in order to ensure social distancing (94% of companies).

Staff strategies appear to have evolved over time in response to the changing context. Comparing interviews conducted early on in the survey period to those conducted later shows that some options, such as putting staff on leave (notably paid leave) and reduced salary were pursued more frequently in the second period; lay-offs were more prevalent in the first compared to the second period (though not prevalent overall).

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

As many as 70% of firms reported being affected by measures imposed by foreign governments. In particular the ease of trading across borders was hampered due to delays (cited by 71% of firms) and/or the need to comply with new requirements at the border (43%). Only 8% of companies had issues with workers not being able to cross the border to come to work.

Just over half of the companies saw their exports drop while 39% reported drops in the import of inputs. This is indicative of the strong export orientation of the firms in the sector. Larger firms were more frequently affected by export declines, but, in contrast,

were least affected by import declines. Large firms are also markedly less affected by new requirements for imports or exports.

How can government help the food and beverage manufacturing industry?

In general, firms were more concerned with **practical and business-survival interventions** than the need to push for a broader stimulus package or to advance specific industrial development plans.

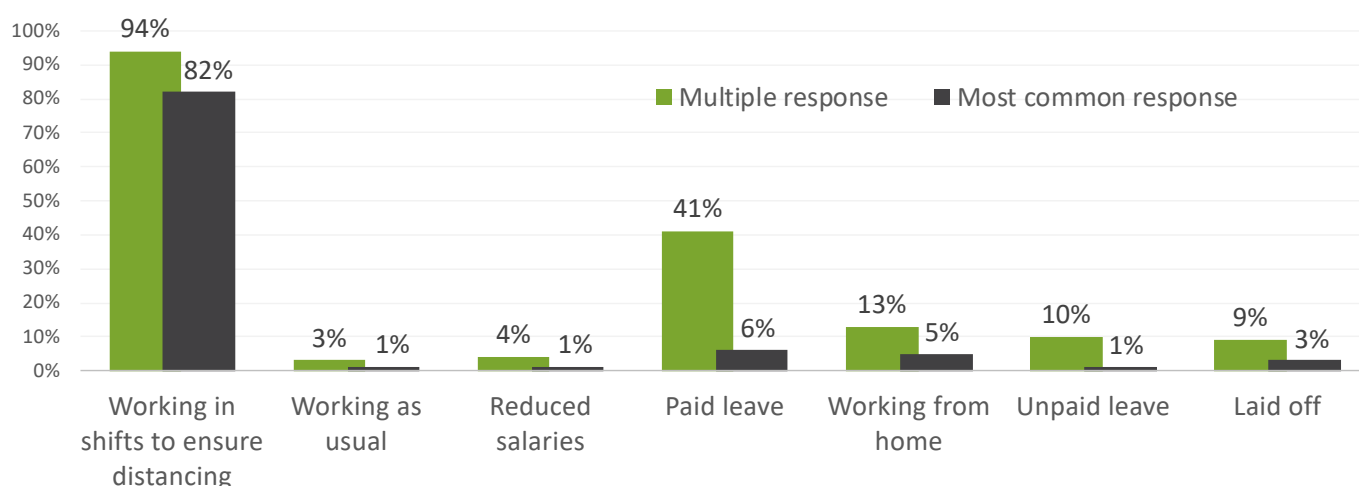
Firms requested measures to help facilitate movements and to relax restrictions. The issues mentioned are broad in this regard; they range from simple requests to relax some or all the restrictions (notably the curfew) to specific trade facilitation interventions, notably to speed up slow documentation processing.

Companies also called for direct relief measures, including tax reductions. While none of the firms requested zero VAT, they suggested several VAT-related measures, such as accelerated VAT refunds for export or reducing the pressure to generate VAT documents.

Companies need health and safety support. They most frequently called for the provision of personal protective equipment and sanitizers. They would also like to see testing to be expanded around production sites and prioritised for drivers.

Positively for Kenya, several changes, in line with some of the requests drawn out above, have been set in motion. Besides a reduction in corporate taxes (for PAYE and turnover), government has enacted a reduc-

Figure 4: Effect on Staffing



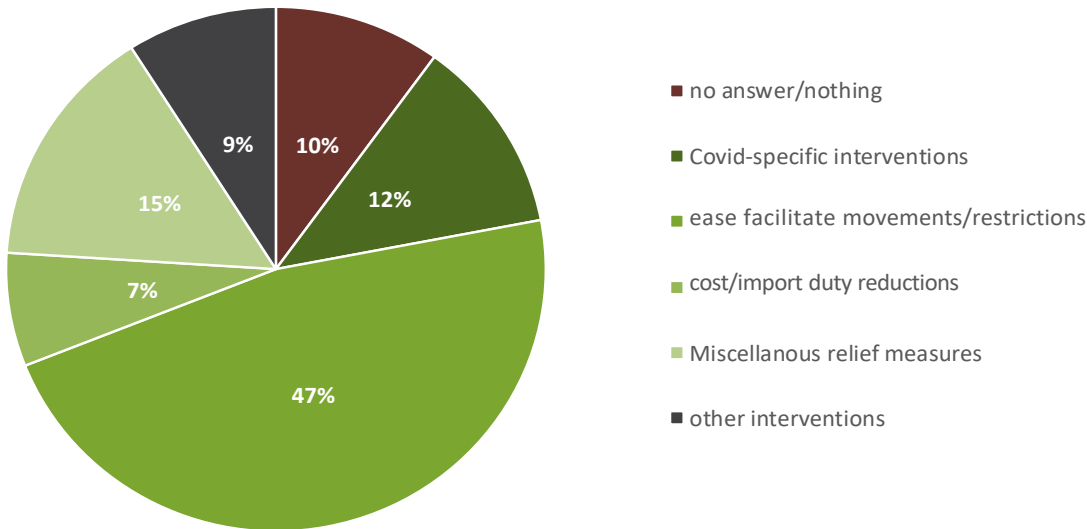
Note: The green columns show the share of responses by companies (multiple answers possible). The grey columns show the strategy that the firm indicated as most common.



tion of VAT and relaxed some rules around loan defaulters. It remains to be seen whether the changes are sufficient to protect the workforce and the firms.

Among the surveyed firms, 10% did not call for any government action because they felt that nothing else could be done or that enough had been done already.

Figure 5: Help from Government



RESEARCH METHOD

A sample of 113 firms were interviewed by telephone. Of those, 1 firm had temporarily closed. The full questionnaire was administered to the remaining 112 firms. The sample was drawn from the full list of 247 food and beverage manufacturing firms that were identified as operating in Kenya 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). Among the companies surveyed, 21% were classified as small (up to 50 employees), a third as medium (51-250 employees) and just over half as large (>250 employees). Interviews took place between 5 May and 2 June 2020.

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