Impacts of COVID-19 on Small- and Medium-Sized Enterprises in the Kenyan Food System

RESULTS OF AN ONLINE SURVEY
JUNE 2020
GAIN and partners, including the Scaling Up Nutrition (SUN) Business Network (co-convened by the World Food Programme (WFP)), undertook a survey of food system SMEs in Kenya in early May 2020, aiming to assess the impacts of the COVID-19 pandemic and associated control measures on their businesses and their support needs.

54 responses were received, with most being from micro- or small-sized firms; respondents were primarily processors within the vegetable and grain value chains.

All 54 respondents reported being impacted by the pandemic, mainly via decreased sales (94%), lost contracts (57%), and difficulty paying staff (54%).

91% of firms reported changing their production volume as a result of the pandemic, generally decreasing it; 54% had changed their product’s sales price.

98% of respondents anticipated future impacts on their supply chains, including shortages of supplies (72%), transportation and distribution disruptions (68%) and shifting to a localised supply chain (43%).

91% of firms reported taking actions to mitigate the impact of the pandemic on their business and to protect their employees.

91% and 78% of firms reported urgently needing financial and technical support, respectively, to cope with the effects of the pandemic.

Based on these results, we recommend that government, development partners, and others take steps to support these crucial yet vulnerable food systems SMEs during this period, to ensure they remain in a position to provide nutritious, safe foods in the future.

Executive Summary

1. GAIN and partners, including the Scaling Up Nutrition (SUN) Business Network (co-convened by the World Food Programme (WFP)), undertook a survey of food system SMEs in Kenya in early May 2020, aiming to assess the impacts of the COVID-19 pandemic and associated control measures on their businesses and their support needs.

2. 54 responses were received, with most being from micro- or small-sized firms; respondents were primarily processors within the vegetable and grain value chains.

3. All 54 respondents reported being impacted by the pandemic, mainly via decreased sales (94%), lost contracts (57%), and difficulty paying staff (54%).

4. 91% of firms reported changing their production volume as a result of the pandemic, generally decreasing it; 54% had changed their product’s sales price.

5. 98% of respondents anticipated future impacts on their supply chains, including shortages of supplies (72%), transportation and distribution disruptions (68%) and shifting to a localised supply chain (43%).

6. 91% of firms reported taking actions to mitigate the impact of the pandemic on their business and to protect their employees.

7. 91% and 78% of firms reported urgently needing financial and technical support, respectively, to cope with the effects of the pandemic.

8. Based on these results, we recommend that government, development partners, and others take steps to support these crucial yet vulnerable food systems SMEs during this period, to ensure they remain in a position to provide nutritious, safe foods in the future.
ELIGIBLE RESPONDENTS
Owners and/or managers of micro, small-and medium-sized businesses (SMEs) in the food system in Kenya, including firms that directly produce, process, or sell food as well as those providing supporting services.

TOPIC & FRAMING
Respondents were asked how the COVID-19 coronavirus pandemic and any measures to control it (e.g., movement restrictions, border closings) were impacting their business, referencing the period since the pandemic began affecting their country.

DISSEMINATION
The online survey was shared via email with firms in two food system networks convened by GAIN and/or WFP from 29 April to 16 May 2020. 54 eligible firms responded. All respondents provided written informed consent to participate. Of the businesses approached, the survey response rate was 54/93 (58%).

ANALYSIS
Data were cleaned and analysed using Stata SE15 (StataCorp, 2017). This rapid assessment report presents descriptive statistics across Kenya’s 54 responding firms; all data are presented in an anonymised form.
Responding Firm Characteristics

**Number of Firms**
54 responses were received from 21 counties, with the majority coming from Nairobi (16/54)

**Size**
78% of participating firms are small or micro-sized, with less than $100,000 USD in annual turnover and fewer than 50 staff

**Gender**
26% of respondent firms were women-owned businesses and 41% were co-owned by women

**Years in Operations**
56% of participating firms have been in operation for less than 4 yrs (median: 4 yrs, IQR: 3–6, range: 1-15)

**Sector**
Majority of firms were involved in processing (67%)

**Value Chain**
Largest share of firms (32%) surveyed operate in the vegetable value chain
The majority of firms were in the processing sector (67%), followed by crop farming (28%), aggregation (19%), and livestock farming (19%). The main food categories represented included vegetables (32%), grains (30%), dairy (22%), roots and tubers (20%), with the representation of fruit, nuts/seeds, meat, legumes, eggs, fish ranging from 5-15%. Firms could work in more than one sector or food category.
All 54 firms that participated in the survey recorded that the pandemic had an immediate impact on their business. Of the impacted firms, 54% reported the impact as being difficult to manage; 30% reported the impact as moderate but manageable; whilst 17% reported that the impact was severe and likely to cause business closure. The main impacts cited by firms included decreased sales (94%), lost contacts (57%), difficulty paying staff (53%), limited financial reserves (52%), closed retail and sales outlets (50%), difficulty accessing inputs (48%), and difficulty accessing financing (46%).
Impacts of COVID-19: Price & Production Volume

49 firms (91%) reported changing their production volume as a result of the pandemic; of these, 8% reported stopping production, 63% reported a considerable (>30%) decrease, 6% a smaller decrease (0–30%), and 2% a considerable (>30%) increase. Considering the firm’s product sales price, 29 respondents (54%) had reported changing their product price as a result of the pandemic; of these changes, 41% represented a considerable (>30%) price decrease, 21% a moderate (15–30%) price decrease, 7% a slight (<15%) price decrease, 17% a slight price increase and 14% a moderate price increase.
Additional Details on Impact

Some respondents elaborated on the impacts of the pandemic on their business. Representative quotes include:

"Fisheries and particularly fish farming is a young industry in Kenya, and the effect of the Corona virus crisis is a big problem because farmers are getting frustrated, inputs are very expensive and fish production from capture fisheries has reduced tremendously" - aggregator in Nairobi County

"Packaging materials and services are usually collected from Nairobi County which is locked in. I have also faced challenges making deliveries of my products to customers" - crop farmer and processor in Kisii County

"The entire food value chain from production is set to be disrupted especially for the youth and women groups we engage in agriculture (totaling nearly 25,000). We offer market for their produce in Bungoma, Busia and Trans Nzoia counties and now they run the risk of effectively being unemployed" - crop farmer and processor in Nakuru County

"We have had to make arrangement for staff to work in weekly shifts for business continuity" - processor in Kiambu County
53 firms expected impacts of the pandemic on their supply chains in the next 6 months. The main anticipated impacts cited were shortages of supplies (72%); transportation and distribution disruptions (68%); shifting to a localised supply chain (43%); less than 20% anticipated a long- or short-term change of their production focus (e.g., toward production of hand sanitiser or similar).
49 firms (91%) reported taking actions to mitigate the impact of the pandemic on their business. Over half of these responding firms (57%) reported downsizing their workforce. Other actions included, adapting supply chains (53%), increasing communication with clients and customers (55%) including through social media (41%) and promoting online sales (27%). Considering employee support, 49 firms (91%) reported taking actions to support employee health and safety. These actions included providing information on prevention of COVID-19 transmission (92%), providing personal protective equipment (80%), and cleaning work areas more frequently (78%).
Opportunities

About 57% of respondents noted wanting to explore new business areas as a result of the pandemic. Those commonly named included:

- **Digitising Operations**
  Explore the introduction of online sales and delivery, including use of smartphone apps.

- **Diversifying into Other Sectors**
  Some respondents expressed interest in diversifying into the production of medical supplies, protective equipment. Others are looking to produce food supplements and therapeutic foods, especially for use in relief projects.

- **New Business Strategies**
  Firms are looking to optimise their supply chain by exploring upstream, midstream and downstream investments.

- **New Product Range**
  Firms are actively considering how to expand their product portfolios such as developing shelf-stable products (e.g., via drying, canning, or UHT processing).
All 54 respondents felt that government actions were needed to help firms weather the effects of the pandemic. Recommended actions included financial support (89%), providing incentives (82%), and over half (54%) indicated the need for support to ensure workforce continuity (e.g., permitting travel, keeping public transport open). Relatively few respondents, however, requested expanding working hours (17%) or keeping boarders open (19%).
49 respondents (91%) reported urgently needing financial assistance to cope with the effects of the pandemic on their business; most required less than 50,000 USD (35%) or 50,000-100,000 USD (32%). Main uses of such financing included working capital (82%), inventory purchase (45%) and equipment financing (43%). 29 respondents (54%) indicated that they were looking to access loans, with most preferring short and medium term debt.

<table>
<thead>
<tr>
<th>Uses of Financing Preferred</th>
<th>Percent of firms reporting (n=49)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital</td>
<td>81.6</td>
</tr>
<tr>
<td>Inventory purchase</td>
<td>44.9</td>
</tr>
<tr>
<td>Equipment financing</td>
<td>42.9</td>
</tr>
<tr>
<td>Technology Development</td>
<td>24.5</td>
</tr>
<tr>
<td>Refinancing</td>
<td>22.4</td>
</tr>
<tr>
<td>Research &amp; Development</td>
<td>22.4</td>
</tr>
<tr>
<td>Staff development</td>
<td>20.4</td>
</tr>
<tr>
<td>Service existing loans</td>
<td>20.4</td>
</tr>
<tr>
<td>Capital intensive asset purchase</td>
<td>18.4</td>
</tr>
<tr>
<td>Other</td>
<td>4.1</td>
</tr>
<tr>
<td>Construction</td>
<td>4.1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Type of Financing Preferred (n=29)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bridge financing (3-6 months)</td>
</tr>
<tr>
<td>Debt short-term (6-12 months)</td>
</tr>
<tr>
<td>Debt Medium term (1-3 years)</td>
</tr>
<tr>
<td>Debt long-term (&gt;3 years)</td>
</tr>
<tr>
<td>Convertible loan or quasi equity</td>
</tr>
</tbody>
</table>
42 respondents (78%) reported urgently needing technical assistance to cope with the effects of the pandemic on their business. Two thirds of business sought advice on business resilience planning, and half on development of online platforms and marketing advice. On improving the nutritional value of products, 29% of firms needed advice on product reformulation and 29% on fortification.
Gender Differences

Of the businesses that were surveyed (n=54), 30% were owned by men, 26% owned by women, 41% were co-owned by women and men and 4% opted not to disclose the gender of the firm’s owner. Four survey questions were analysed for gender differences, namely (1) technical support requested, (2) type of finance preferred, (3) finance support requested and (4) the immediate impact of COVID-19 on business operations.

1. Technical Support Requested
   Although there was a significant association between gender and the need for marketing advice (p=0.046) and advice to improve staff health and nutrition (p=0.011), individual pairwise comparisons (e.g., male-owned firms vs female-owned firms) were not significant.

2. Finance Preferred
   Although the association between gender and preferred type of financing was significant (p=0.004), individual pairwise comparisons (e.g., male-owned firms vs female-owned firms) were not significant.

3. Use of Finance
   - Men-owned firms reported needing financial support for refinancing (0%) less often than women-owned firms (38%) (p=0.039)
   - Although the association between gender and the funding need for capital intensive assets was significant (p=0.031), individual pairwise comparisons (e.g., male-owned firms vs female-owned firms) were not significant.

4. Immediate Impact of COVID-19 on Business Operations: No significant gender differences observed

*Please note: Fisher’s exact test was used to assess associations between gender and survey responses. Where significant associations (p<0.05) were observed, pairwise comparisons (i.e. men vs women, co-owned vs women, unknown vs women) were made with a Bonferroni correction for multiple tests. Significant pairwise comparisons are presented using Bonferroni-corrected p-values.
Conclusions

This rapid assessment has shown that:

1. Food system firms in Kenya are experiencing financial hardship as a result of the pandemic and related control measures.

2. In many cases, the pandemic has resulted in decreased or stopped production, which could have negative impacts on the food supply in the short and medium term.

3. A sizeable minority of firms also report or anticipate layoffs or pay cuts for staff, exacerbating the pain of the existing economic slowdown on workers.

4. Many firms do, however, see opportunities for new business models or products as a result of the pandemic.

While not assessed here, these changes could have negative impacts on consumer access to safe, nutritious foods and may risk increasing food loss.
Recommendations

Based on these conclusions, it is essential for the government and development partners to support these crucial yet vulnerable SMEs to ensure they remain in a position to provide nutritious, safe foods in the future. To that end, we make the following recommendations:

1. Particularly important is partnering with local financial services providers to develop a comprehensive package of financial support for SMEs, including grants or short-term low-interest bridge loans to meet critical needs (e.g., payroll), prevent bankruptcy, and support investment in production postlockdown.

2. The government can also provide subsidies to banks to enable them to waive loan fees or extend payment deadlines and inject capital into the agri-food sector to help SMEs and their workers stay afloat.

3. Technical assistance can be provided to help SMEs adapt business models, reach consumers online, or adopt processing or packaging to extend products’ storage or shelf life.

4. Ensuring the free movement of food-related goods and equipment within and across national borders is also essential.
Caveats

1. This survey, a rapid assessment, is subject to certain biases: opt-in response bias, imperfect representativity (especially of smaller, less internet-savvy firms) within the networks studied; imperfect representativity of the networks themselves (especially of firms producing less-nutritious foods); and potential misinterpretation of questions, given the online survey mechanism.

2. Certain counties are also over-represented in the responses, due to the greater presence of the surveyed networks in those counties.

3. The situation is also likely to change rapidly; the information presented here can only be considered a snapshot in time.

Recommended Citation: