Impacts of COVID-19 on Small- and Medium-Sized Enterprises in the Sri Lanka 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 Sri Lanka 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.

33 responses were received, with most being from micro- or small-sized firms; respondents were primarily processors within the fruit value chain.

91% of surveyed firms recorded that the pandemic had an immediate impact on their business, mainly via decreased sales (73%).

82% of firms that participated in the survey reported changing their production volume as a result of the pandemic, generally decreasing it; 48% had changed their product’s sales price.

85% of respondents anticipated future impacts on their supply chains, with shortages of supplies (64%) cited as the largest expected impact.

82% of firms reported taking actions to mitigate the impact of the pandemic on their business and 76% of firms took action to support the health and safety of their employees.

79% and 33% 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.
Methodology

ELIGIBLE RESPONDENTS
Owners and/or managers of micro, small- and medium-sized businesses (SMEs) in the food system in Sri Lanka, 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 a food system network convened by WFP from 29 April to 24 May 2020. 33 eligible firms responded. All respondents provided written informed consent to participate. Of the businesses approached, the survey response rate was 33/60 (55%).

ANALYSIS
Data were cleaned and analysed using Stata SE15 (StataCorp, 2017). This rapid assessment report presents descriptive statistics across 33 responding Sri Lankan firms; all data are presented in an anonymised form.
Responding Firm Characteristics

**Number of Firms**
33 responses were received from 8 provinces

**Small /Micro Sized**
52% of participating firms are small or micro-sized, with less than $100,000 USD in annual turnover and fewer than 50 staff

**Women Owned**
39% of respondent firms were women-owned businesses and 21% of the businesses were jointly co-owned by women and men

**Years in Operations**
55% of participating firms have been in operation for less than 5 yrs (median: 5 yrs, IQR: 4-18, range: 1-40)

**Processing**
Majority of firms were involved in distribution (79%)

**Fruit Value Chain**
Largest share of firms (33%) surveyed operate in the fruit value chain
The majority of firms were in the processing sector (79%), followed by distribution (39%) and retail (24%). The main food category represented was fruit (33%), grains (27%), vegetables (24%) and nuts/seeds (21%), with the representation of beverages, baked goods/ready-to-eat foods, eggs, dairy, legumes, fish, roots/tubers and condiments/sweeteners/spices/oils ranging from 3-15%. Firms could work in more than one sector or food category.
30 surveyed firms (91%) reported that the pandemic had an immediate impact on their business. Of the impacted firms, 43% reported the impact as being difficult to manage; 37% reported the impact was moderate but manageable; whilst 7% reported the impact as minor; and 13% reported a severe impact that would likely lead to business closure. The main impact cited by firms was decreased sales (73%), followed by difficulty accessing inputs (63%) and limited financial reserves (57%).
27 firms (82%) reported changing their production volume as a result of the pandemic; of these, 41% reported a considerable reduction in production (>30%), 15% reported reducing production volumes moderately (15-30%), 19% reported a smaller decrease (<15%), 15% stopped production entirely, whilst 11% of firms reported an increase in production. Considering the firms’ product sales price, only 16 respondents (48%) reported changing their product price as a result of the pandemic; of those making changes, 25% of respondents noted they had decreased their product prices moderately (15-30%), 25% reported a considerable decrease in product prices (>30%), 19% reported a slight decrease (<15%), whilst 32% firms reported increasing their product price by less than 30%.
28 respondents (85%) reported that they expected impacts of the pandemic on their supply chains over the next 6 months, with shortages of supplies (64%) cited as the largest expected impact.
Some respondents elaborated on the impacts of the pandemic on their business. Representative quotes include:

“Since we are a company involved in exports, we need to quickly digitise the business in order to overcome movement restrictions and ensure we are linked to all stakeholders.” - retailer and distributor based in Western Province

“We really need to be more active on social media promotion as a company compared to before, as it is the best way to overcome the current COVID scenario and improve our market penetration.” - retailer in North Western Province

“We can’t carry out site visits and clients are also affected” - business advisory service based in Western Province

“We are mostly dependent on imported materials which has proven to be risky. We are therefore evaluating how to develop rice/grain based products from locally sourced materials” - processor based in Western Province

55% 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.

**New Product Range**
Firms are actively considering how to expand their product portfolios such as developing shelf-stable and foods thought to be ‘immune-boosting’.

**Diversifying into New Markets**
Some respondents have been keen to explore export markets.
27 surveyed firms (82%) reported taking actions to mitigate the impact of the pandemic on their business. Of these firms, 70% reported increasing customer communication, whilst other actions included; reviewing/adapting supply chains (48%), increasing internal communications (41%) and varying product/input delivery times (37%). 25 surveyed firms (76%) reported taking actions to support employee health and safety. These actions included providing personal protective equipment (80%), cleaning work areas more frequently (72%) and providing information on COVID prevention (68%).
26 respondents (79%) reported urgently needing financial assistance to cope with the effects of the pandemic on their business; most required less than 50,000 USD (47%) or 50,000-100,000 USD (26%). Main uses of such financing included working capital (77%), inventory purchase (46%) and technology development (31%). Only 11 respondents (33%) reported urgently needing technical assistance to cope with the effects of the pandemic on their business. Respondents sought advice mainly on marketing (55%), business resilience planning (55%) and development of online platforms (46%).
32 surveyed firms (97%) felt that government actions were needed to help firms weather the effects of the pandemic. Recommended actions included providing financial support (84%), incentives (69%) and support to ensure workforce continuity e.g., permitting travel, keeping public transport open (66%).
Conclusions

This rapid assessment has shown that:

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

   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.

2. 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.

3. 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 post-lockdown.

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.
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.

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

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

Due to the small sample size, the survey was not powered to analyse gender differences.
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