

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

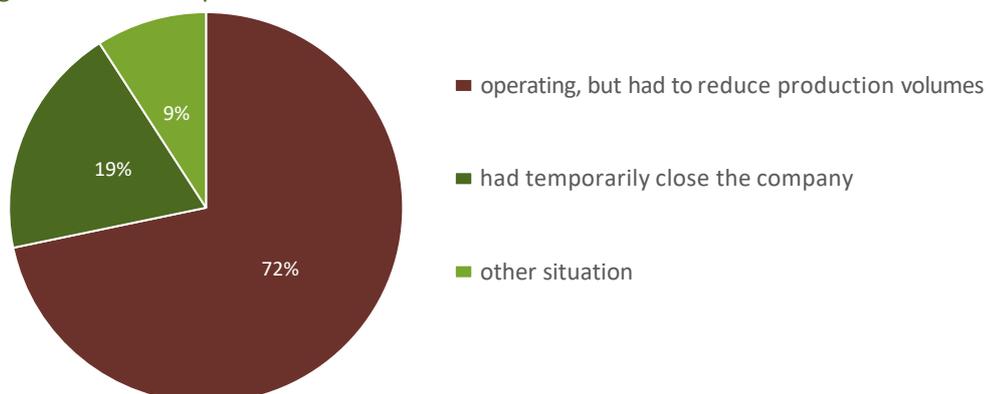
Nigeria was the first country in Sub-Saharan Africa to report a case of Covid-19 in late February. Since then, the Nigerian government has put in place a number of measures to combat the spread of the pandemic. President Muhammadu Buhari directed the cessation of all movements in Lagos and the capital region on 30 March as well as an overnight curfew across the entire country on 27 April. As of early May, lockdown measures in the major cities have gradually been eased, allowing some businesses recommenced operations and enabling interstate movement outside curfew hours. The eased lockdown has been extended several times

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

How have companies' operations been affected by the containment measures?

Most firms (71%) were still operating, but had had to reduce their production volume. Two out of 10 business had to temporarily close the company and only 5% of the responding firms were operating as usual. Seven companies were able to increase their production volume. Small and medium-sized firms were more likely to have experienced a temporary shut-down than large firms.

Figure 1: State of operation



SUMMARY OF KEY FINDINGS

- The 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.
- Almost all of the 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.
- Almost three quarters of companies were impacted by foreign governments' measures, in particular through drops in imports as well as delays and additional requirements at the border.
- To reduce the economic impact of Covid-19 containment measures, companies most frequently called for financial assistance, followed by measures to facilitate the movement of goods and to reduce input prices.



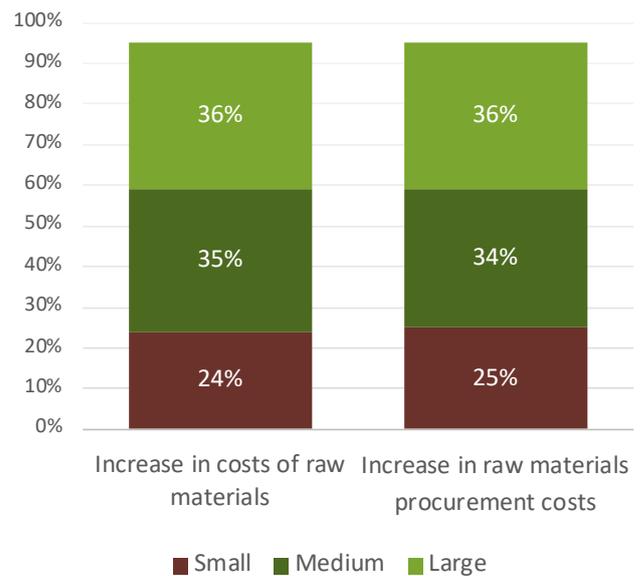
Reductions in production volumes were most frequently reported producers of bakery products where around 90% experienced a production decline during May 2020. This is a sector with a prevalence of medium-sized firms. Firms in the fats and oils sub-sector also frequently reported temporary closure. Overall, the beverage sector was more affected by temporary closures than the food sector.

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 103 firms that had to be dropped from the survey because they could not be reached were mainly small- to medium-sized companies, operating across all sectors.

Did companies have to pay higher prices for raw materials?

Almost all of the firms (95%) that were still operating at the time of the survey had experienced increases in the price of raw material and in the cost of locating and procuring raw materials. Of the 50 firms that had temporarily closed, 15 indicated that lack of access to raw materials was the reason for the closure. Price increases were most frequently cited by producers of fruit & vegetable and bakery products. It is likely that raw material price increases and the related costs of procuring new sources or cheaper raw materials caused a rise in the price of processed food items.

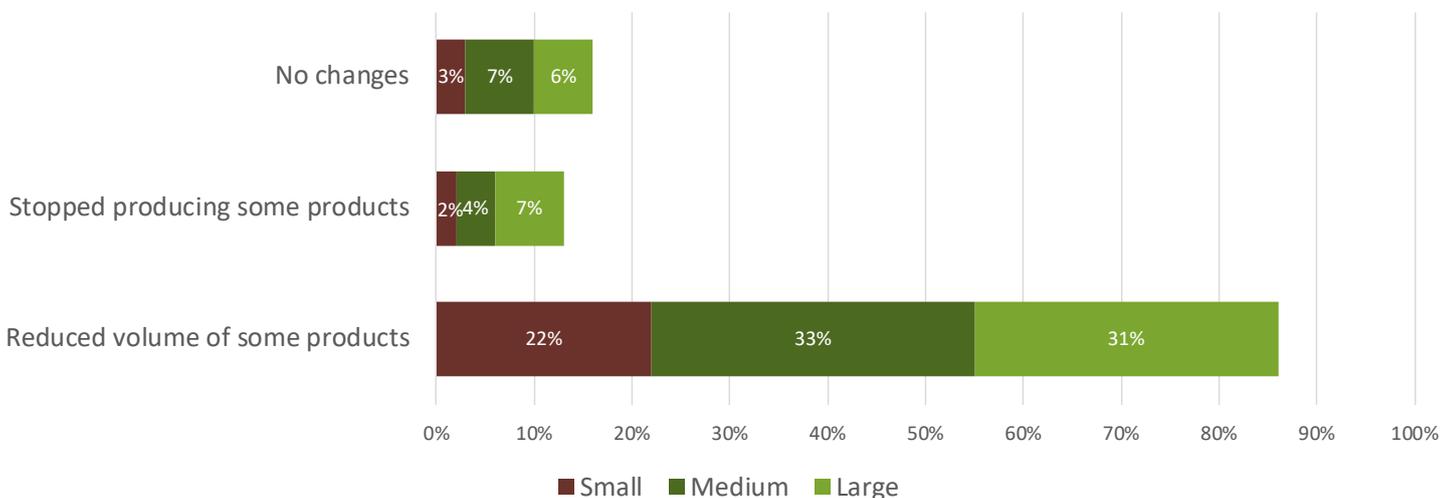
Figure 2: Increase in Costs



Were production patterns disrupted?

Firms predominantly adapted to the situation by **reducing the volumes of some products** (81% of firms) rather than other options (see Figure 3). For just over two thirds of companies this was in fact the sole strategy. Some firms (13%) reported stopping the production of some products entirely. 14% of the responses, notably in the grain milling sector, indicated no change. The smaller the size of the company, the more likely they were to reduce production of some products.

Figure 3: Changes to production





How did the disruptions impact employees?

Overall, companies made efforts to retain their staff during the pandemic, but several also had to reduce payments to their workers. Thus, while only 3% of firms had laid off workers, 19% had reduced salaries while 7% sent some staff on unpaid leave. The most common strategy was to use shift working to enable social distancing requirements to be observed (77% of firms). Smaller companies appeared better adapted to implementing such changes in working hours.

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

Almost three quarters of firms were affected by Covid-19 measures implemented outside of the country's borders. The main impact felt was a drop in imports (62% of companies that were affected). In contrast, only 12% of affected companies reported reductions in exports. Many companies also experienced difficulties in moving goods across the border, in particular due to new requirements (43%) and to a lesser extent due to processing delays (16%). Manufacturers of fruit and vegetable products were particularly impacted. Only 9% of affected companies had issues with workers not being able to cross the border to come to work.

How can government help the food and beverage manufacturing industry?

What companies most frequently requested financial assistants. This included (i) interventions related to loans in the form of either government supplying soft loans or extending an existing loan repayment period (a third of firms); ii) relief measures such as tax reductions and exemptions; and, (iii) measures in the form of grants or more generally measures that are "palliative" in nature (such as temporary VAT payment cancellations to help the business stabilize).

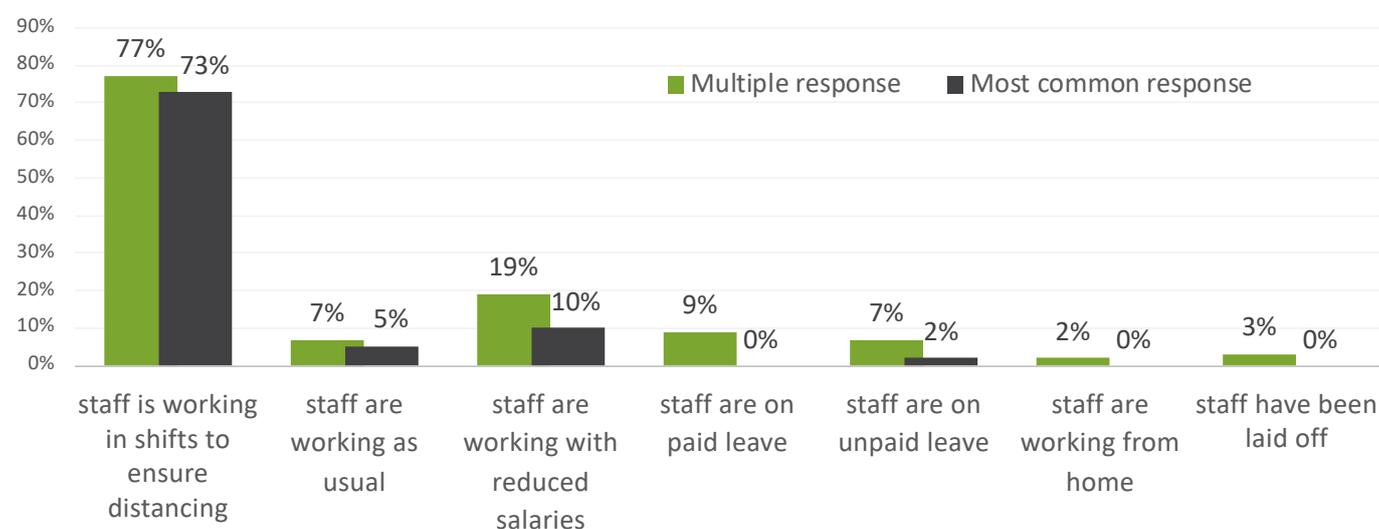
Some trade-related interventions were called for including the waiving of import duties. A further call to reduce import duties and to relax access to imports was made as well as interventions in the form of releasing forex to procure raw materials.

Companies also requested interventions to help reduce the price of raw materials and to tackle pronounced intra-regional price differences. Requests for support to agriculture in the form of subsidies for fertilizers were also made.

Companies wanted movements and transport bottlenecks to be eased (at ports, borders, inter-state, etc.), as well as a request to not unduly stop, control and/or harass those that allow businesses to operate, that is workers, drivers, and suppliers.

Firms further highlighted the need for economic stability, to relax the lockdown and also to find solutions to the disease itself.

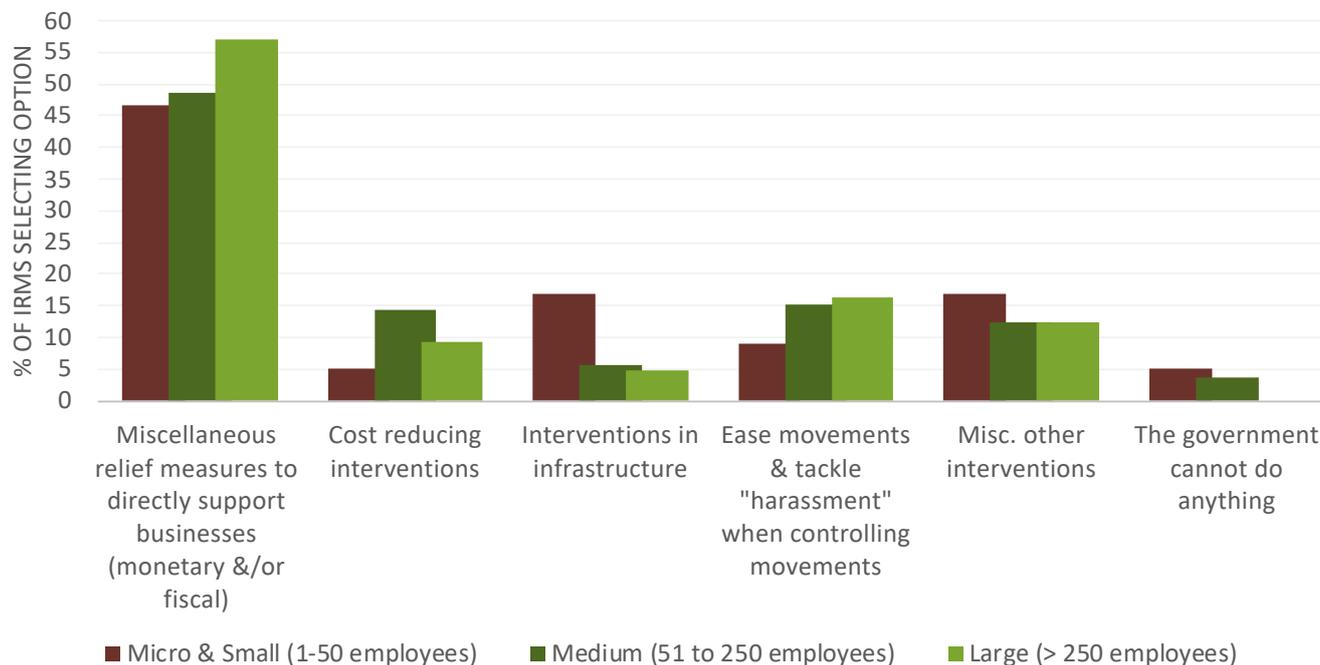
Figure 4: Effect on Staff



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.



Figure 5: Help from Government



RESEARCH METHOD

Overall 259 firms were interviewed by telephone. Of those, 50 firms had temporarily closed and 7 permanently. The full questionnaire was administered to the remaining 202 firms. The sample was drawn from the full list of 477 food and beverage manufacturing firms that were identified as operating in Nigeria 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, 28% were classified as small (up to 50 employees), 38% as medium (51-250 employees) and 34% as large (>250 employees). Interviews took place between 5 May and 3 June 2020.

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