

Current Challenges Facing Small- and Medium-Sized Enterprises in the Food System

RESULTS OF AN ONLINE SURVEY

AUGUST 2022



EXECUTIVE SUMMARY



- The [Scaling Up Nutrition](#) (SUN) [Business Network](#) (convened by the [World Food Programme](#) (WFP) and [GAIN](#)), undertook an online survey of food system SMEs in July 2022, aiming to assess the impacts of the food price crisis and other contextual factors on their businesses.
- **219 responses** were received from 12 countries, mostly from micro- or small-sized firms; respondents were primarily firms in the processing and farming sectors and grains, vegetables, fruit, eggs, meat, and roots/tubers value chains.
- **79% reported that high or volatile prices were a current challenge for their business**, with about a third ranking this as their main challenge and 17% saying high prices were having such a severe impact on their business that it risked closure. This challenge cut across all countries. Most firms estimated the amount of price increase they had seen for inputs as being over 30% in the past 6 months.
- This was, however, **not the only challenge faced**: considering firm-specific challenges, most named either difficulty accessing financing or limited financial reserves; for larger contextual challenges, firms cited poor economic growth, climate issues, war/conflict, and political instability.
- The main strategy firms used to respond to input price increases was increasing their sales prices: **71% of respondents had changed their product's price in the prior 6 months**; of these changes, nearly three-quarters were increases.
- About 66% of firms reported **changes to input availability** since the start of 2022; of these, 68% reported a decrease.
- This comes as 77% of firms are still feeling impacts from the COVID-19 pandemic on their business.
- **Few firms reported government actions** to support businesses to cope with the rising prices, though 93% felt that these were needed—particularly in the form of financial support.
- Encouragingly, **most firms also saw opportunities**, with about half wishing to explore new business areas due to the present challenges. And 63% of firms reported that actions they had taken to adapt to the COVID-19 pandemic had helped them to cope with the current situation.
- **Food system SMEs are crucial to ensuring food security**; they are feeling the impacts of the current crisis alongside ongoing challenges, and some will require support to continue to provide nutritious, safe foods in the future.

* This survey follows two surveys that were conducted on the impacts on COVID-19 on SMEs, in May and November 2020, results of which are available [here](#) and [here](#).

METHODOLOGY



ELIGIBLE RESPONDENTS

Owners and/or managers of micro, small- and medium-sized businesses (SMEs) in the food system in low- and middle-income countries, including firms that directly produce, process, or sell food as well as those providing supporting services (e.g., agricultural inputs, cold chain services).

TOPIC & FRAMING

Respondents were asked about general challenges and opportunities they see in their business, as well as specifically about the effect of rising prices and actions taken to adjust. Some questions also covered their experience related to the COVID-19 pandemic.

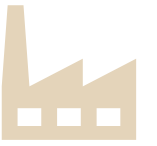
DISSEMINATION

The online survey was shared via email with firms in the SUN Business Network in July 2022. Information about the survey was also shared via Twitter. The survey could be completed in English, French, Spanish, or Portuguese. 219 eligible firms responded. All respondents provided written informed consent to participate.

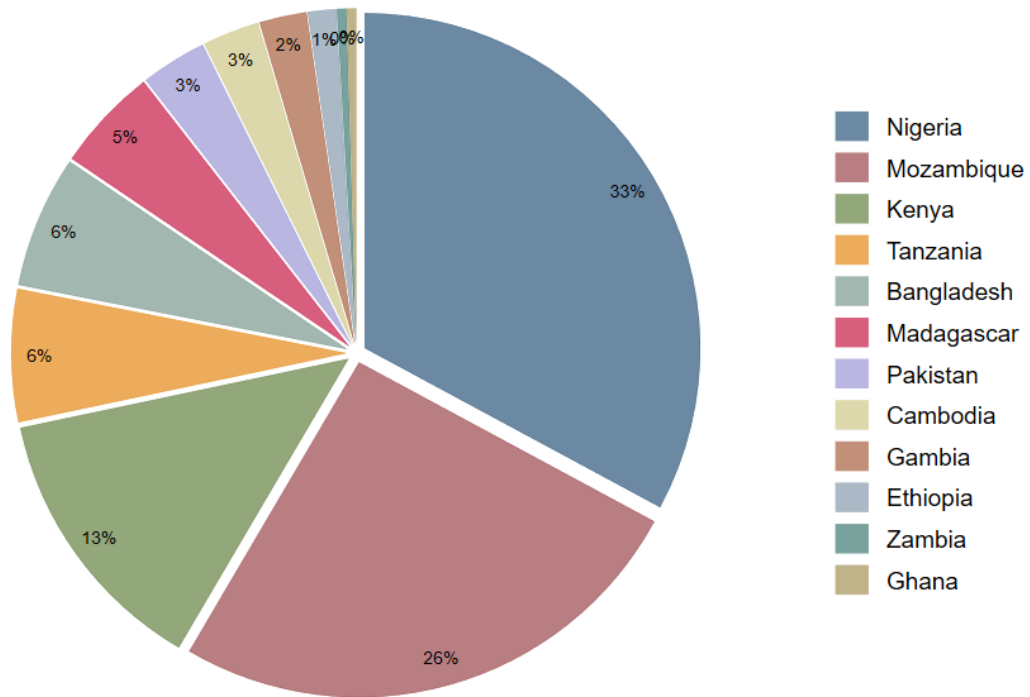
ANALYSIS

Data were cleaned and analysed using Stata SE15 (StataCorp, 2017). This rapid assessment report presents basic summary statistics across all 219 firms; differences in outcomes between women-led and youth-led firms are noted. All data are presented in anonymised form. Quotations have been edited for length and to correct minor grammar and language issues.

RESPONDING FIRM CHARACTERISTICS



Share of Respondents, By Country



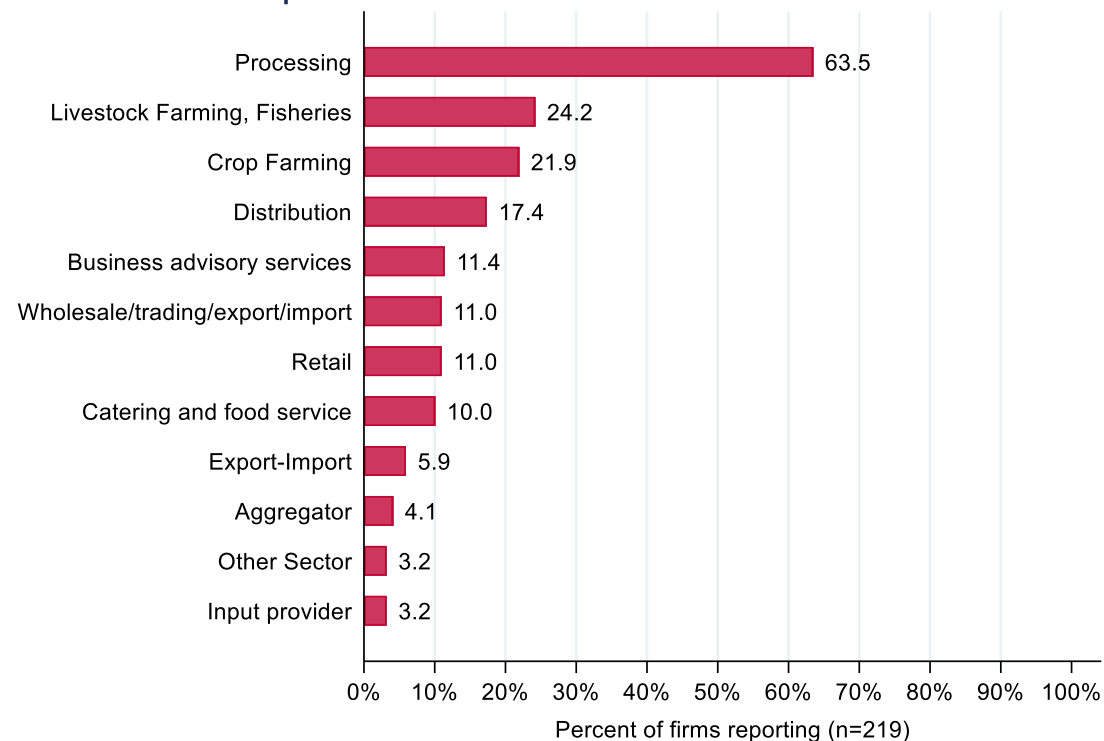
Key firm characteristics	Percent / Mean	n. / SD
Age of firm (mean, SD)	7.6	6.9
Pct. less than 5 y. old	37.9%	83
Pct. female-owned	34.3%	75
Pct. youth-owned (under 35y)	28.3%	62
Turnover (2021)		
Less than \$50,000	53.0%	116
\$50k to \$100k	14.6%	32
\$100k to \$500k	10.5%	23
\$500k to \$1M	3.7%	8
\$1M or more	6.4%	14
Unknown / Prefer not to say	11.9%	26
Number of employees		
10 or fewer	58.5%	128
11-50	29.2%	64
51-300	8.7%	19
Over 300	0.9%	2
Unknown / prefer not to say	2.7%	6
n.		219

219 eligible responses were received from 12 countries, with two-thirds of responses from Africa and the majority coming from Nigeria, Mozambique, and Kenya. Firm characteristics reveal the participating firms to generally be small or micro-sized, with less than \$100,000 USD in annual turnover. About 34% were from women-owned businesses and about 28% from youth-owned businesses. The women-owned firms tended to be younger and smaller in terms of both turnover and staff. Youth-owned firms were more recently founded and had fewer staff.

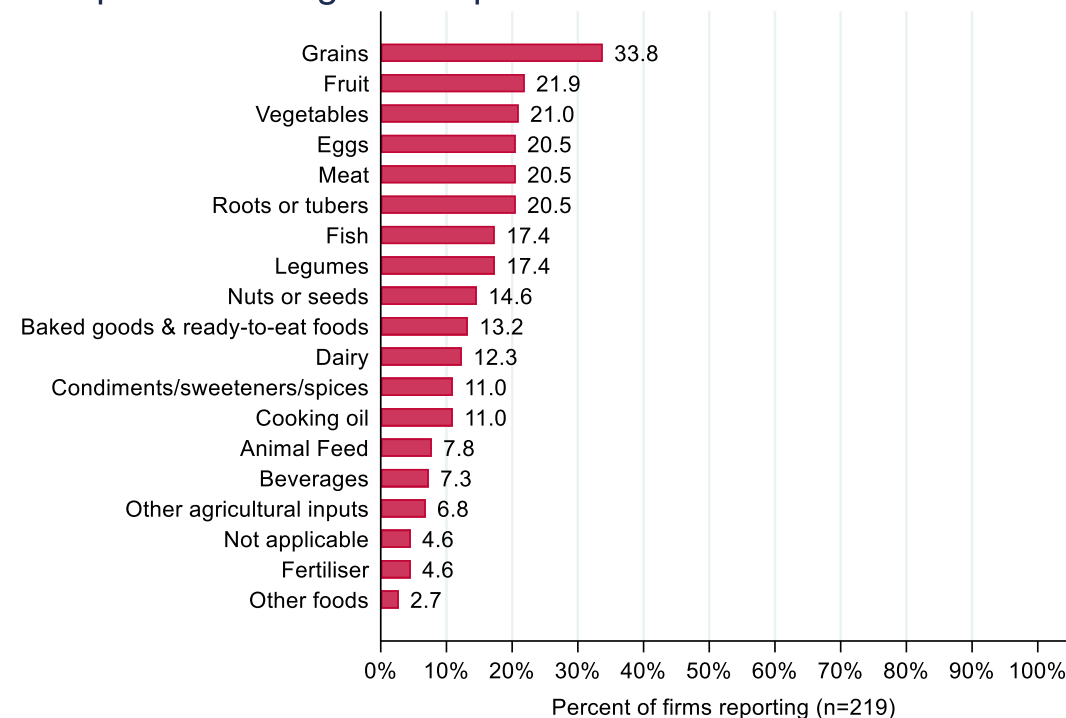
RESPONDING FIRM CHARACTERISTICS: SECTOR



Main sectors represented



Main product categories represented

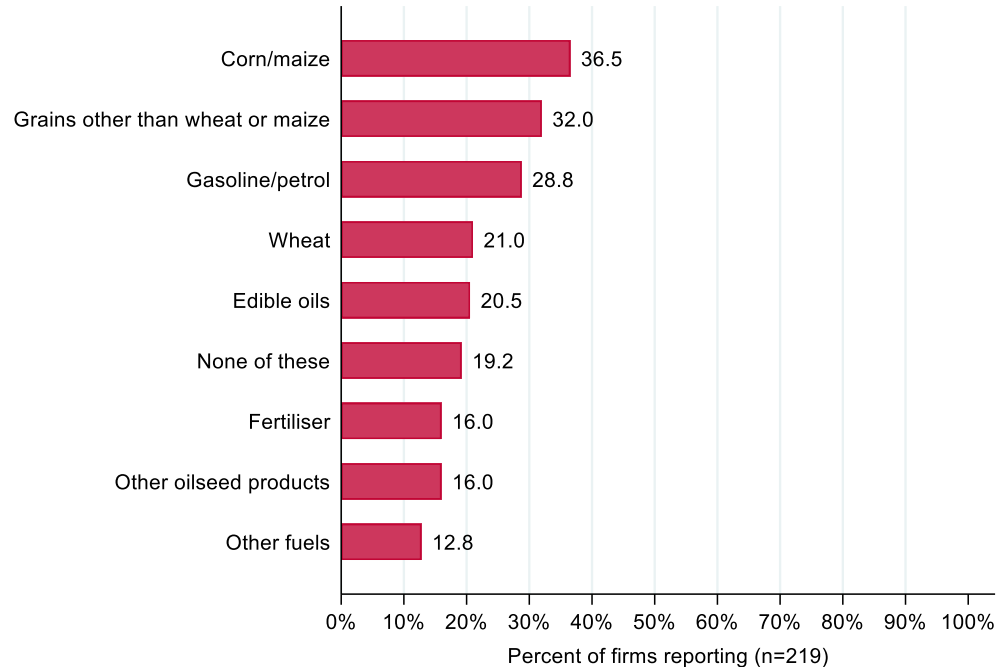


Most firms were in the processing sector (63.5%), followed by livestock farming and fisheries (24%), crop farming (22%) and distribution (17%). The main food categories represented included grains (e.g., maize and maize flour) (34%), fruit (22%), vegetables (21%), eggs (20.5%), meat, (20.5%), and roots/tubers (20.5%), with 12-17% for each of fish, legumes, nuts/seeds, baked goods & ready-to-eat foods, and dairy. (Firms could work in more than one sector or food category).

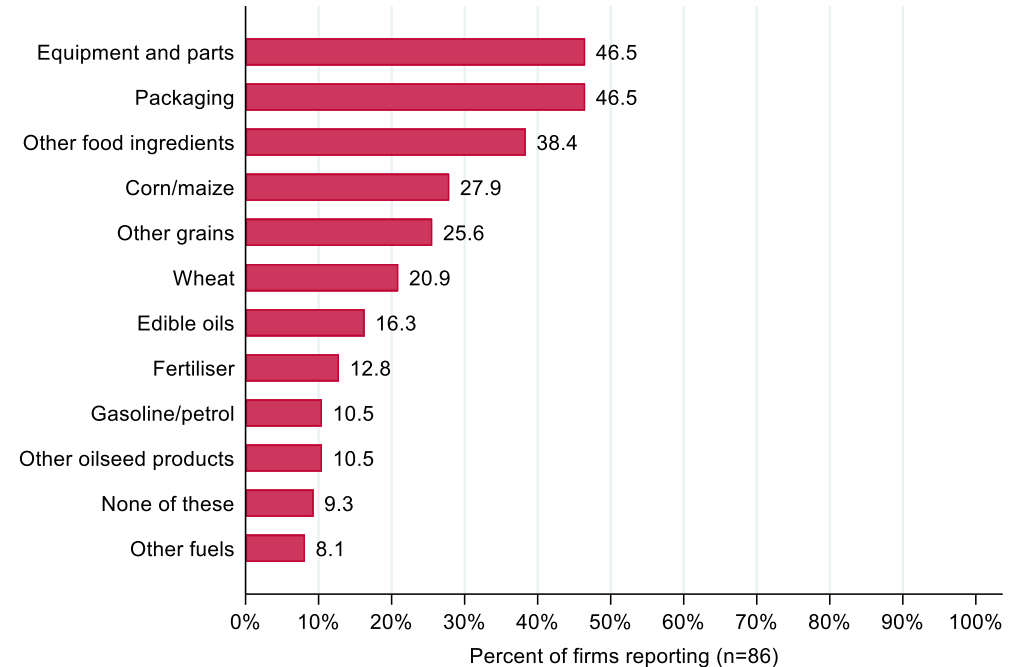
RESPONDING FIRM CHARACTERISTICS: INPUT USE



Inputs used



Inputs imported

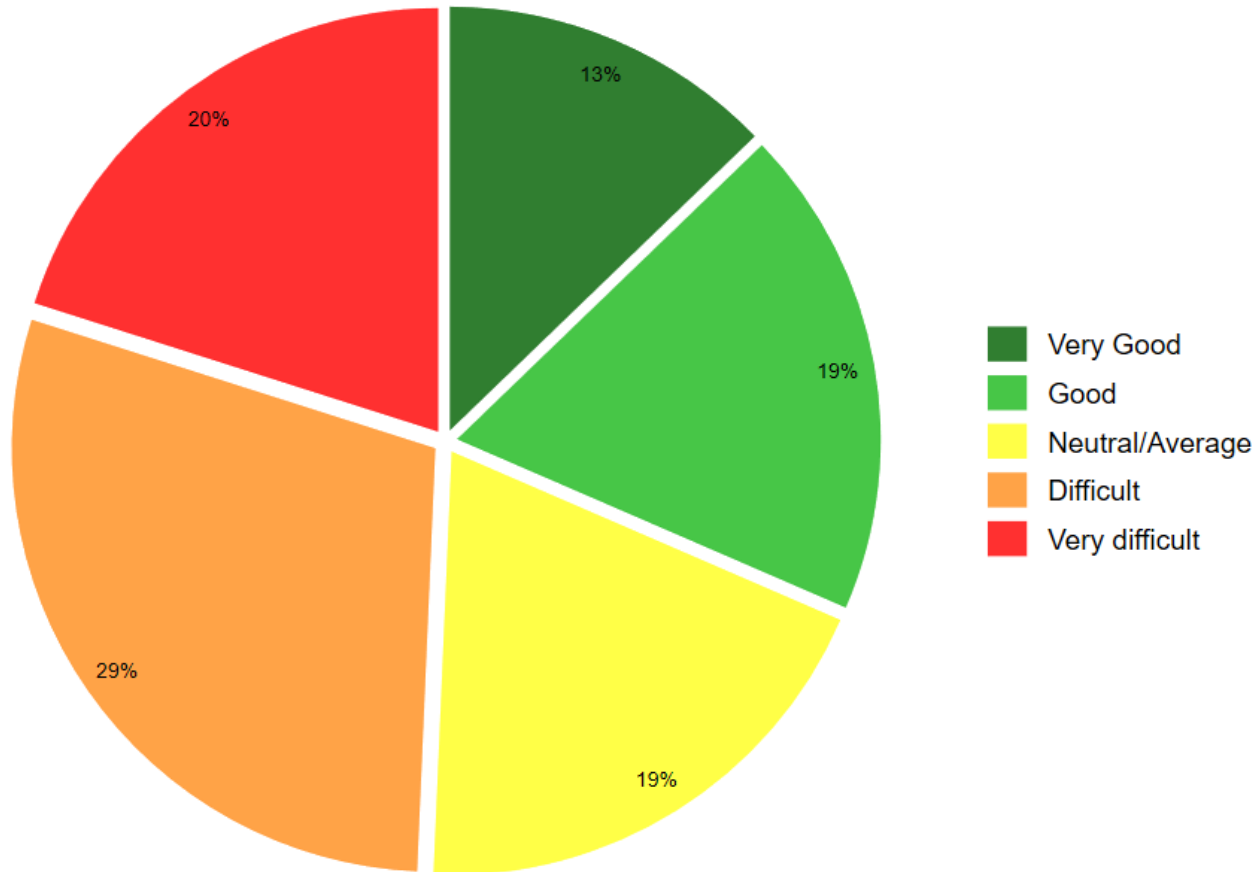


Most firms use inputs that have been strongly affected by recent price changes, particularly maize or maize flour (36.5%), wheat or wheat flour (21%), other grains besides wheat and maize (32%), petrol (29%), and edible oils (20.5%). Slightly less than half of respondents (n=86) imported their inputs, mostly through an intermediary, though the main imported inputs were packaging and equipment and parts. Most inputs were imported from China, India, or neighbouring countries in Africa, though some also imported from the Middle East and Europe, including Russia and Ukraine.

CURRENT BUSINESS SITUATION



Current Business Situation (n=219)



About half of firms (49%) reported that the present was a difficult or very difficult time for their business, though about one third (32%) found it be good. The remaining 19% found it to be average.

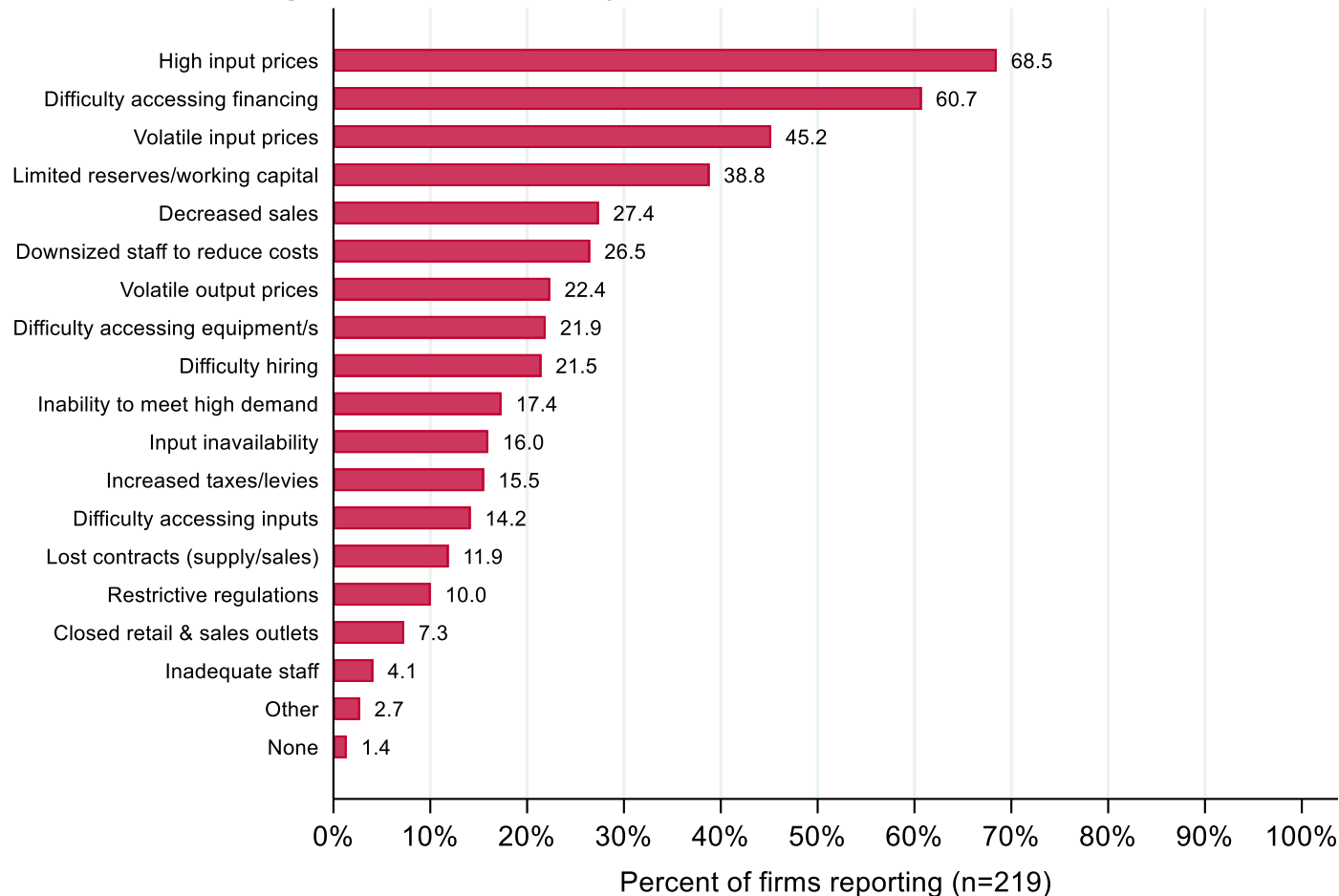
For those experiencing a difficult period, most (52%) reported that this had begun about 1-2 years ago (i.e., after the beginning of the COVID-19 pandemic).

There were no significant differences in these indicators across countries, between male- and female owned firms, or between youth-led and non-youth-led firms.

MAIN CHALLENGES FACED



Main challenges reported by businesses



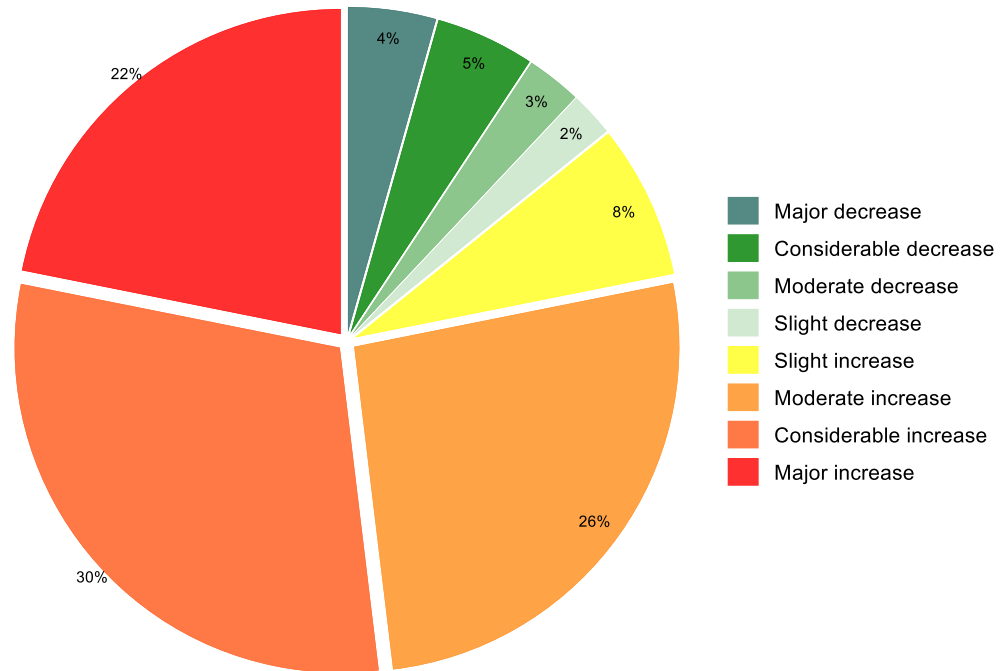
The challenges faced by businesses are mainly related to costs and funding. When asked about the main challenges their business currently faced, 68.5% named high prices for their inputs and 45% named volatile prices for their inputs, while 61% named difficulty accessing financing and 39% named limited financial reserves. Other challenges mentioned included limited access to foreign currency (in Ethiopia) and high shipping costs. Women-owned firms were more likely to report staffing challenges and volatile output prices but less likely to report limited input availability. Youth-led firms were more likely to report high input prices and less likely to report decreased sales

When asked to choose their **one top challenge**, 25% and 6.5% named high and volatile prices, respectively, while 33% and 12% named difficulty accessing financing and limited reserves, respectively, with no differences by owner age or gender.

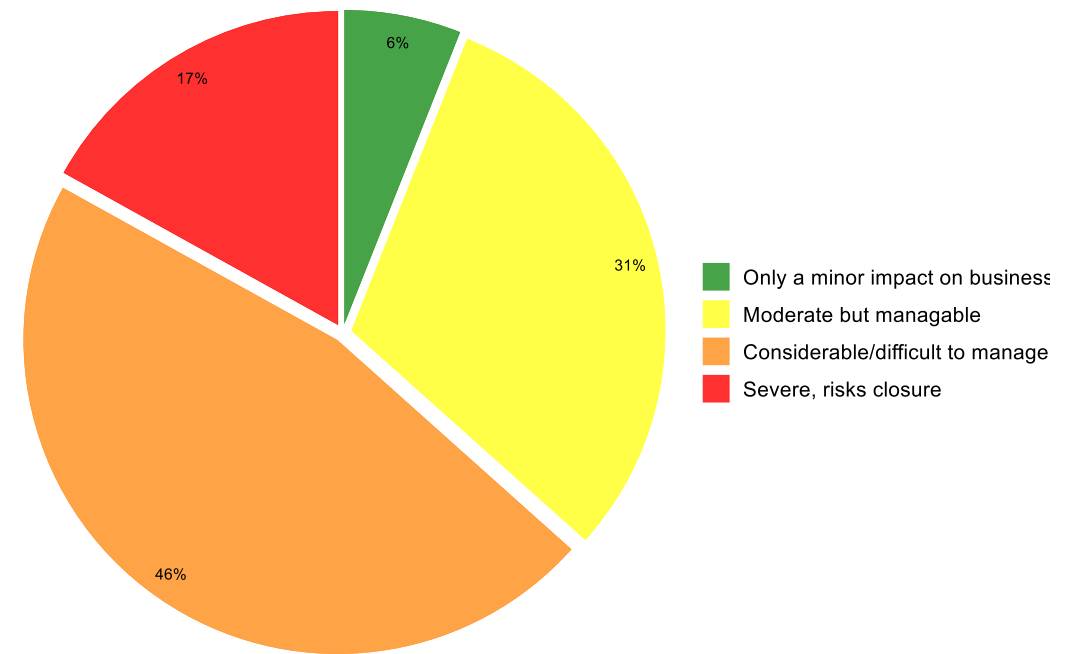
CHANGES TO INPUT PRICES



Changes in Input Price (n=183)



Severity of Impact of Price Changes (n=183)



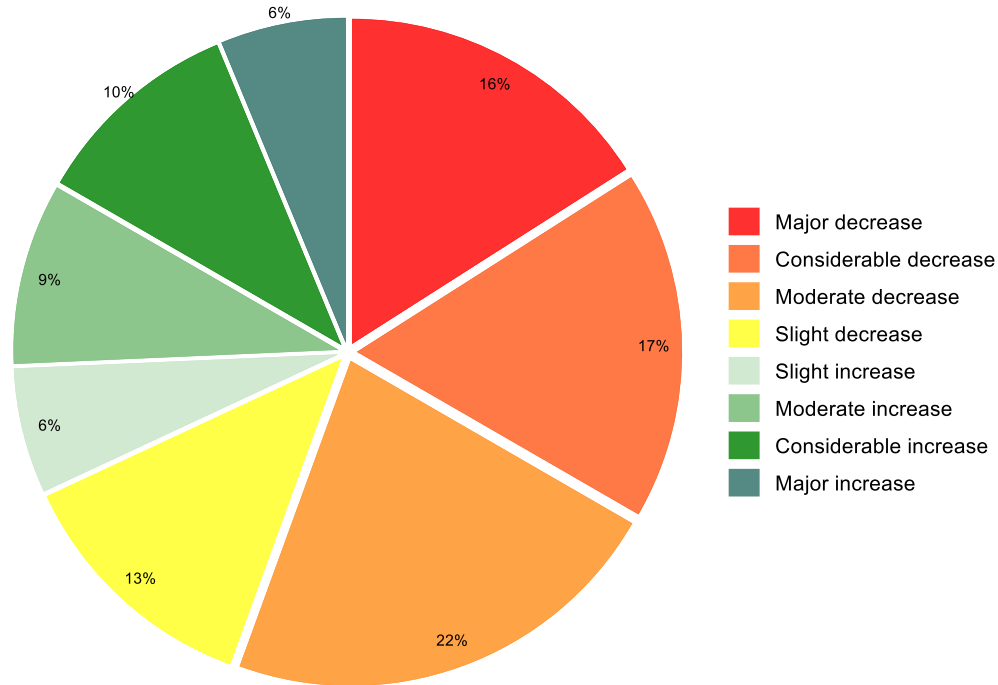
About 86% of firms reported **changes to their input prices** since the start of 2022, with no significant differences across countries; of these, 88% reported an increase: 22% reported a major increase (over 50%), 30% a considerable (30-50%) increase, and 26% a moderate (15-30%) increase. The inputs affected covered a wide range, including grains, edible oils, feed, fertiliser, and packaging.

Considering the **impacts of these input price changes on their business**, 63% reported either a considerable impact, which would be difficult to manage, or a severe impact that threatened firm closure. 31% reported a moderate impact and 6% only a minor impact on business. Women-owned firms were more likely to report severe impacts.

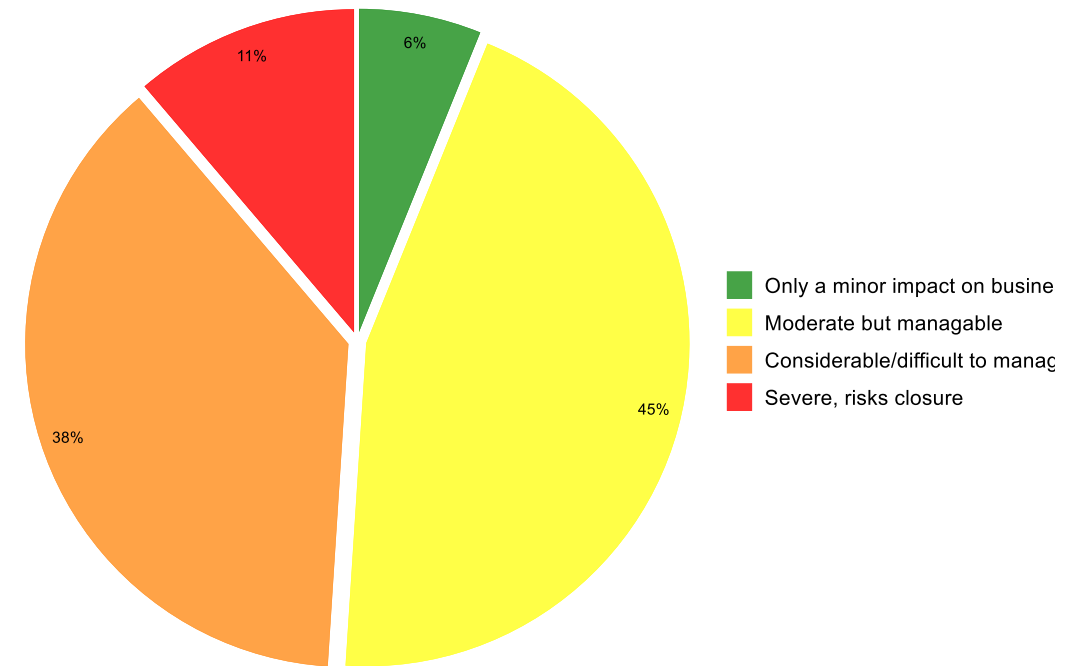
CHANGES TO INPUT AVAILABILITY



Changes in Input Availability (n=144)



Severity of Impact of Availability Changes (n=98)



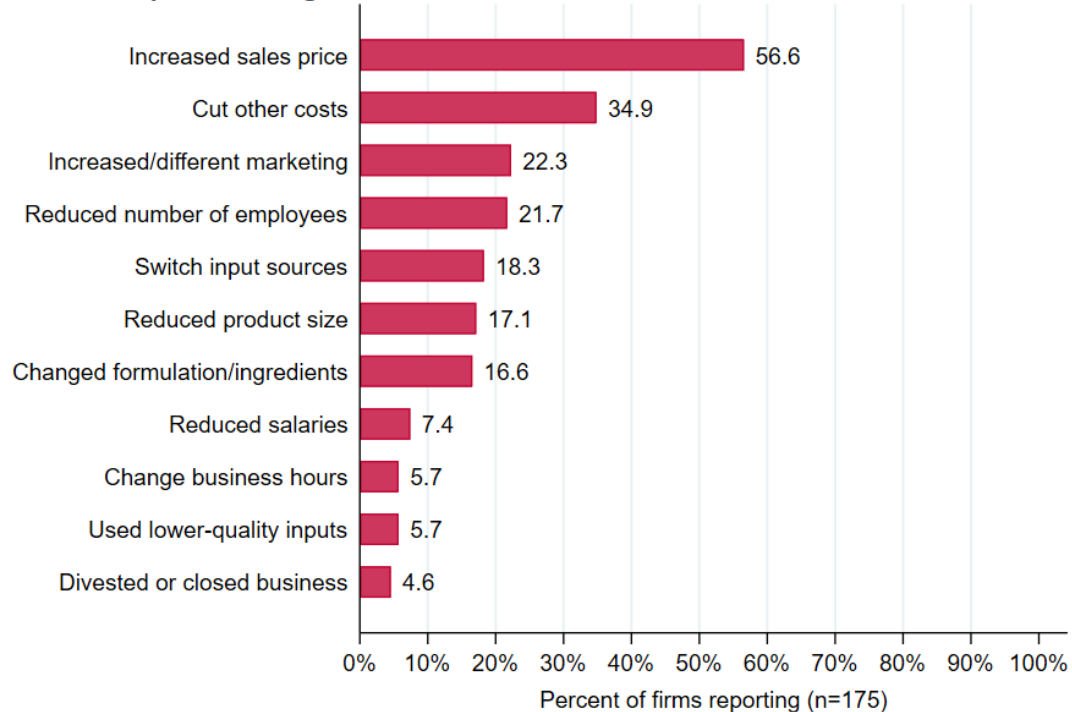
About 66% of firms reported **changes to input availability** since the start of 2022, with no significant differences across countries; of these, 68% reported a decrease, with 16% reporting a major (over 50%) decrease, 17% a considerable (30-50%) decrease, and 22% a moderate (15-30%) decrease. However, 16% reported a considerable or major increase. The inputs affected also covered a wide range, including grains, edible oils, feed, fuel, fertiliser, and packaging.

Considering the **impacts of these changes on their business**, 45% of the firms reporting decreased input availability reported this having a moderate impact on their business, with 38% describing the impact as considerable and 11% reported the impact as being severe.

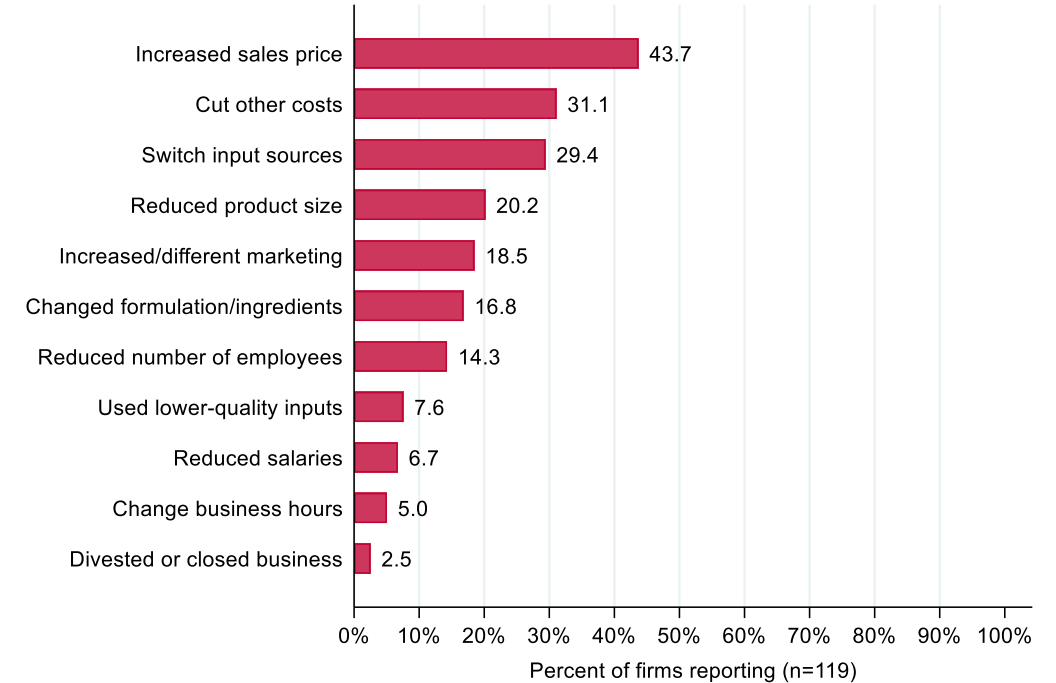
FIRM ACTIONS TO MITIGATE IMPACTS OF PRICE & AVAILABILITY CHANGES



Price Impact Mitigation Actions Taken



Availability Impact Mitigation Actions Taken

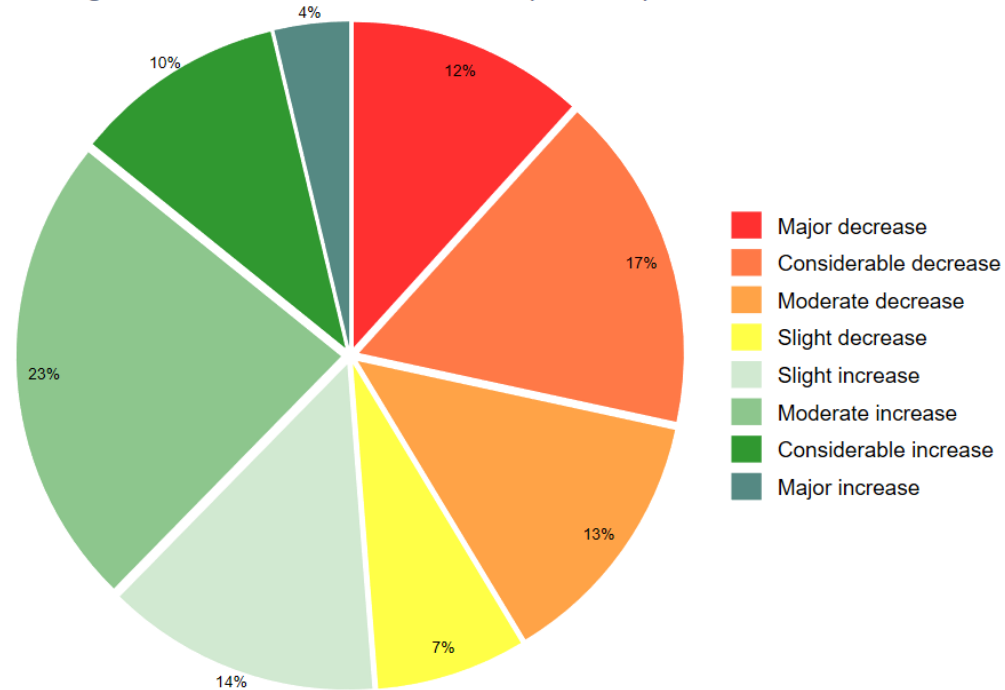


Approximately 88% and 66% of firms reported taking actions to mitigate the impact of the input price and availability issues, respectively. Considering the former category, main actions included increasing sales prices (56.6%), cutting non-salary costs (35%), changing marketing (22%), reducing staff (22%), switching input sources (18%), reducing product size (17%), and changing product formulation (17%). Considering input availability, main actions taken were similar, though switching input sources was more common (29% of respondents). Actions taken were similar across male- and female-owned firms.

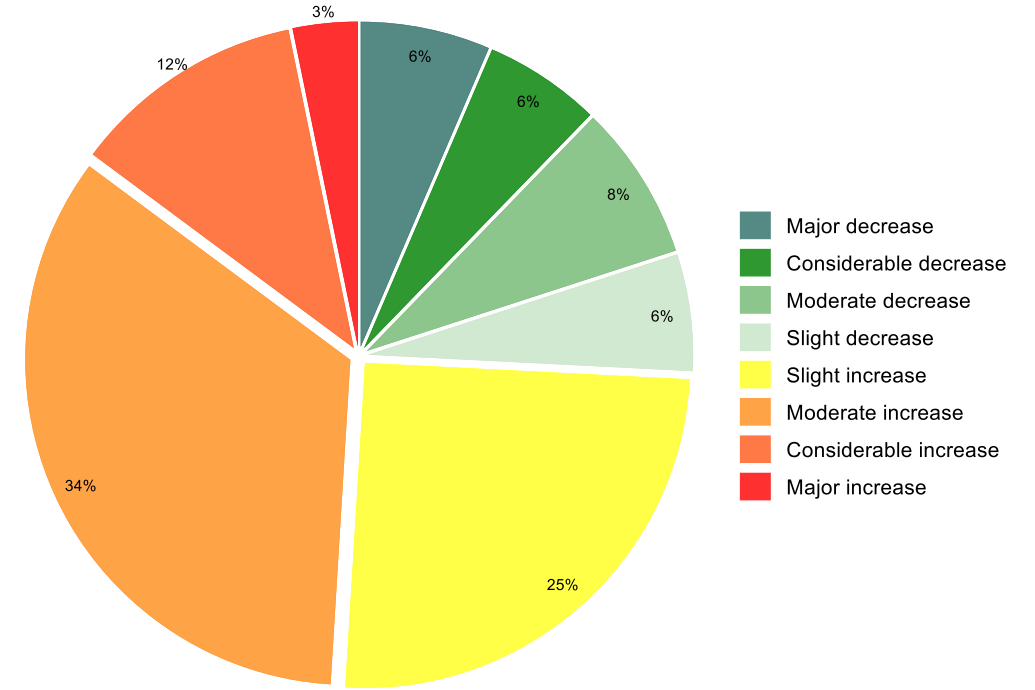
CHANGES TO PRICE & PRODUCTION VOLUME



Changes in Production Volume (n=162)



Changes in Sales Price (n=155)



About 74% of firms reported **changes to their production volume** since the start of 2022; of these, responses were fairly evenly split among increases and decreases. Considering the firm's product's sales price, **approximately 71% of respondents had changed their product's price** in the prior 6 months; of these changes, **nearly three-quarters were increases**: 34% represented a considerable (30-50%) increase and 12% a major (over 50%) increase.

POTENTIALLY POSITIVE ADAPTATIONS



Some respondents elaborated on adaptations they had made in response to the price shocks. These included potentially positive long-term adaptations, like strengthening local supply chains and switching to renewable energy sources:

[Our firm] is using more of organic matter and less of bio-fertilizer, thus cutting costs considerably. - A vegetable farmer in Kenya

We introduced solar options to reduce the cost of energy. - A processor of legumes, grains, and roots/tubers in Nigeria

[We now] make contracts with farmers to secure our obtaining of raw materials and train farmers to improve their production to provide good-quality products.... We have allocated more funds for the storage of raw materials when prices are affordable during harvest periods.... - a legume processor and producer of ready-to-eat foods in Madagascar

We established a black soldier fly farm to produce flies and supplement our feed formulation with protein. - A chicken farmer in Kenya

As a way of reducing the impact, we are investing in raising the chickens in the aviary instead of acquiring the chickens already in the production phase. - An egg producer in Mozambique

For our bread-making, we've opted to use a blend of wheat flour and yellow [sweet] potato flour, which is rich in vitamin A. - A bakery and service provider in Tanzania

We are searching for local suppliers closer to the production site and establishing new partnership contracts with suppliers and workers.' - A farmer and retailer of fruit and vegetables in Madagascar

POTENTIALLY NEGATIVE ADAPTATIONS



They also included coping strategies like reducing staffing, product sizes, and increasing prices, which could hinder long-term firm performance or customers' food access:

To ensure we survive we have reduced the number of employees; in addition, the size of our fish sausage has [been] reduced as a result of a lack... of white flour. - A fish processing firm in Kenya

I have lost three staff, sales have reduced by more than 50%, I have reduced sizes of the ingredients while still maintaining quality, I have reduced hours of work to save fuel, and we have sought other ways of selling our products. - A processor and retailer of edible oils and condiments in Nigeria

'Due to the changes in input prices, the firm was unable to run, and hence it collapsed. A lack of financing also contributed to its collapse.' - A dairy processor in Kenya

'Since the cost of raw materials and packaging has increased tremendously and there is no availability of funds, I had to shut down the business and only produce in small quantities when customers order and pay in advance.' - A legume processor in Nigeria

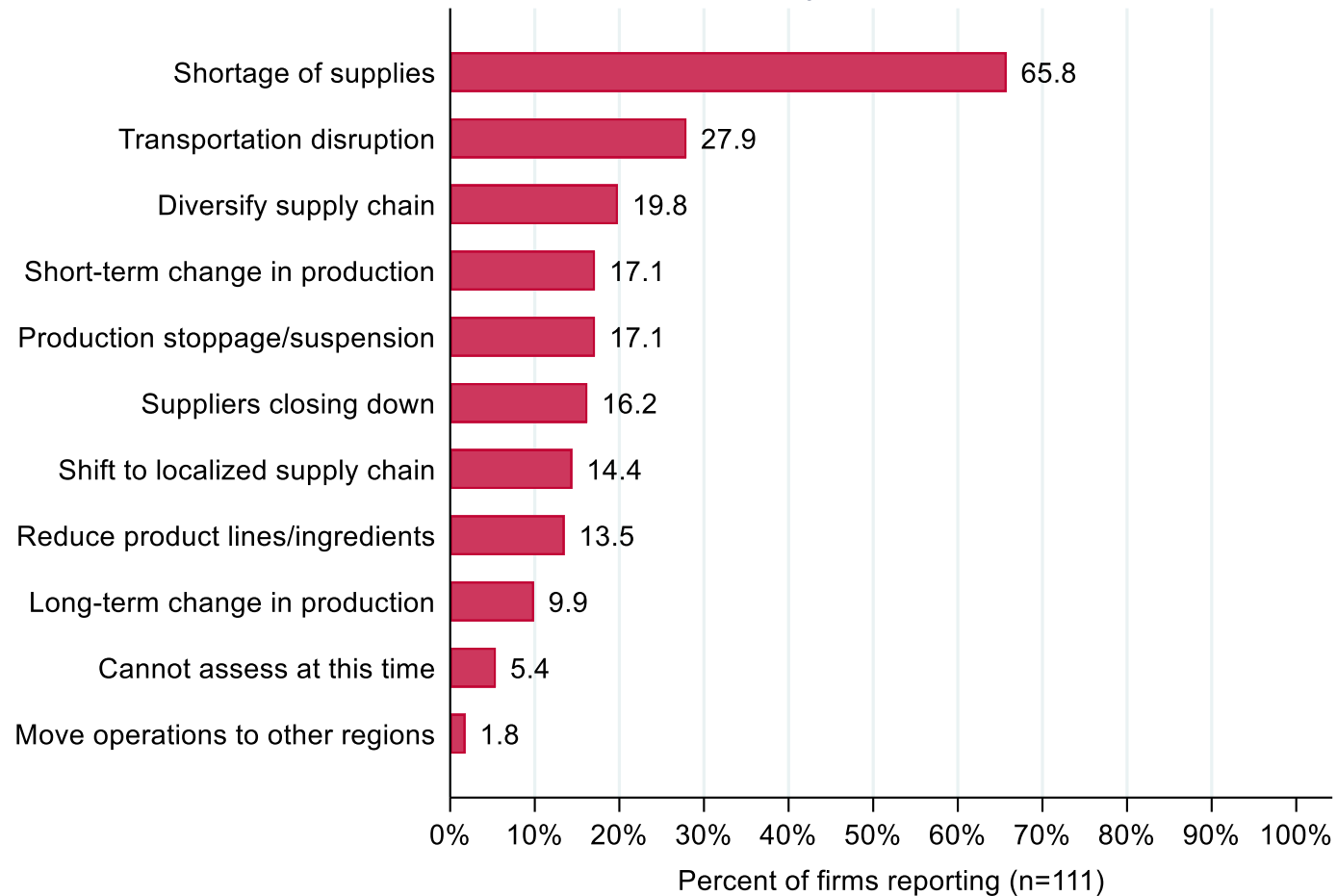
'The youngest chicks I feed with [high-quality commercial poultry feed]; after 22 days, I buy feed from other suppliers at an affordable price and mix it with [local grain], all to minimise the cost.' - A chicken farmer in Mozambique

'Many out-grower farmers contracted to keep chickens for our company have closed down due to increasing cost of feeds' - An egg producer in Kenya

ANTICIPATED FUTURE IMPACTS



Anticipated Future Impacts on Supply Chains

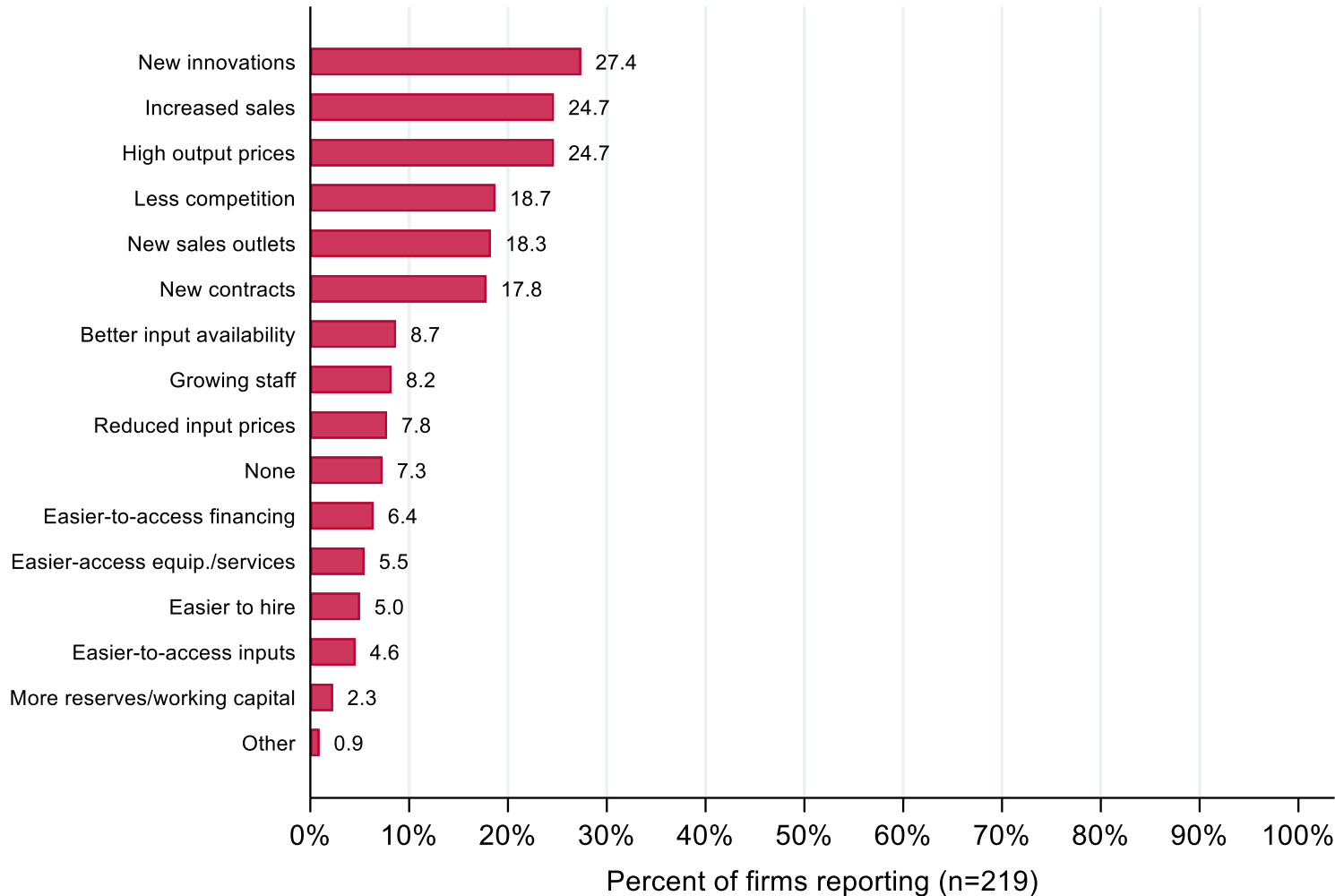


Looking to the next 6 months, **51% of firms expected disruptions to their supply chains**. The main anticipated impacts cited were shortages of supplies (66%) and transportation and distribution disruptions (28%); about 17% each expected suppliers to close down, to make a short-term change in production, or to suspend or stop production.

MAIN OPPORTUNITIES SEEN



Main opportunities reported by businesses



At the same time, 93% of firms also saw opportunities, primarily as related to new product and technological innovations (27%), higher sales prices for their products (25%), increased sales (25%), less competition (19%), and new sales and contracts (18% each). Very few, however, saw opportunities related to financing or working capital.

OPPORTUNITIES



About 54% of respondents noted wanting to explore new business areas as a result of the rising prices. Those commonly named included adding new products, shifting to more local input sourcing or local markets, adapting products to increase their affordability or appeal, and internalising aspects of their supply chain (e.g., animal feed).

I would like to set up my own feed mill to have control on the timely production of chicken feeds to avoid risk of chicken going without feeds and reducing egg production. - A poultry and egg producer in Kenya

We would like to start an employer-managed mini dairy farm to ensure at least 50% of the raw milk needed for our production comes from sources we can control. - A dairy processor in Tanzania

I would also like to invest in the business of producing packaging for eggs and producing laying hens locally. - Egg producer in Mozambique

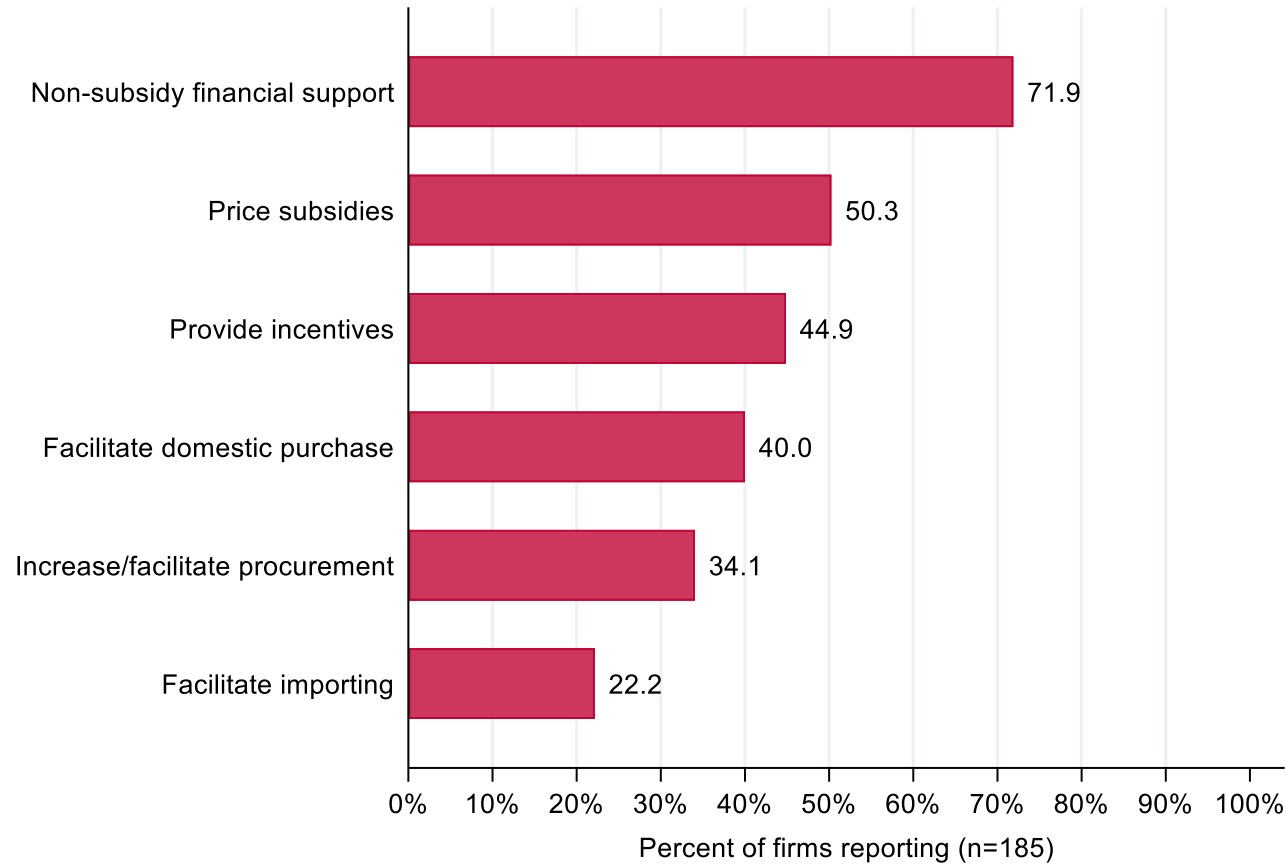
We are currently trying to diversify our services... [to] offer dehydration services to customers in the food sector. We help them dry their food products so as to prolong their shelf life. Most people don't have this equipment, so we decided to start offering this service to help us generate additional income. - a wholesaler and retailer of grain, root, legume, fruit and vegetable products in Nigeria

To curtail the impact, we will need to access more markets both locally and internationally, get third-party certification in order to attract more high-net-worth customers. - a grain, root/tuber, and legume farmer and processor in Nigeria

GOVERNMENT SUPPORT IN PLACE & DESIRED



Government Actions Requested



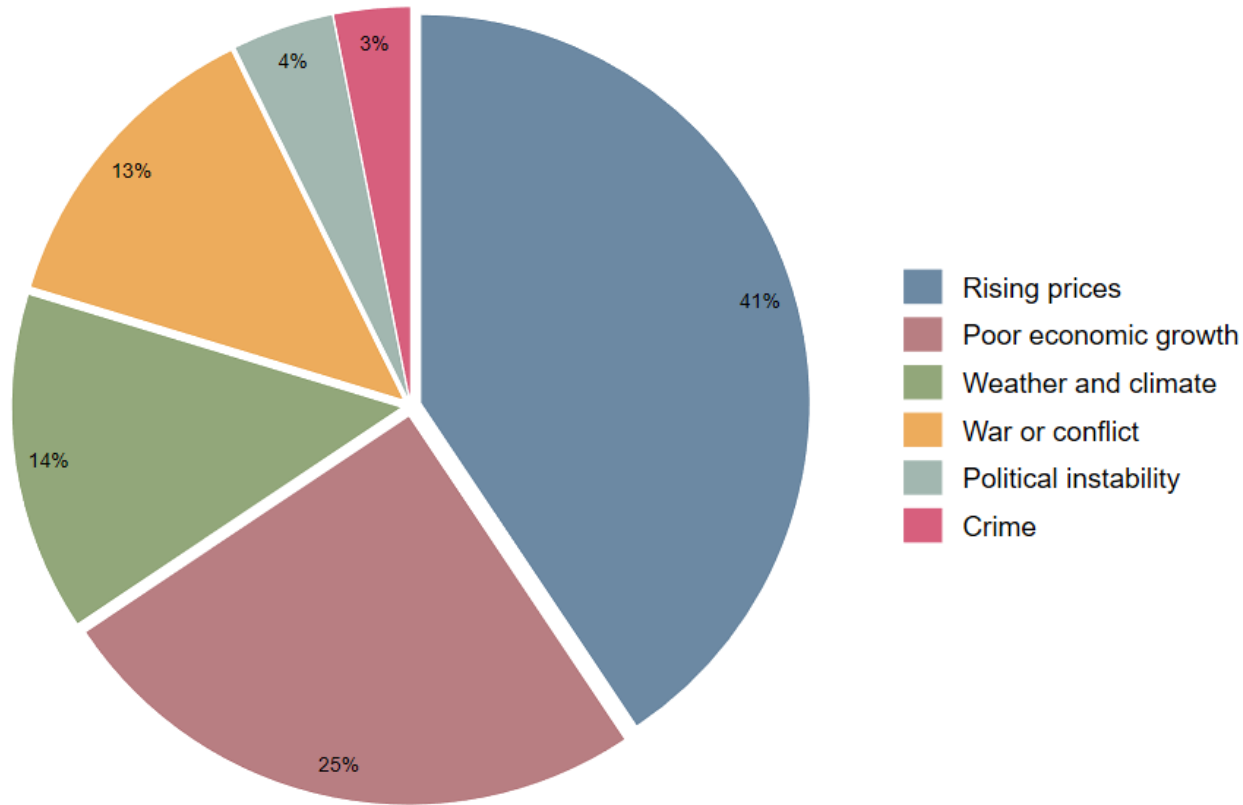
Only 14% of respondents reported that the government had taken actions to support businesses to cope with rising prices. The main actions cited were facilitating domestic purchasing, providing financial support and incentives, price subsidies, government procurement, and facilitating importing. Of these, the most helpful was thought to be financial support, followed by subsidies.

However, 93% of respondents thought (additional) government actions were needed. The most popular included price subsidies (50%), non-subsidy financial support (72%), providing incentives (45%), and facilitating domestic purchases (40%), with similar preferences across male- and female-owned firms, though youth-led firms significantly preferred price subsidies.

OTHER CONTEXTUAL CHALLENGES



Main contextual challenge faced (n=219)



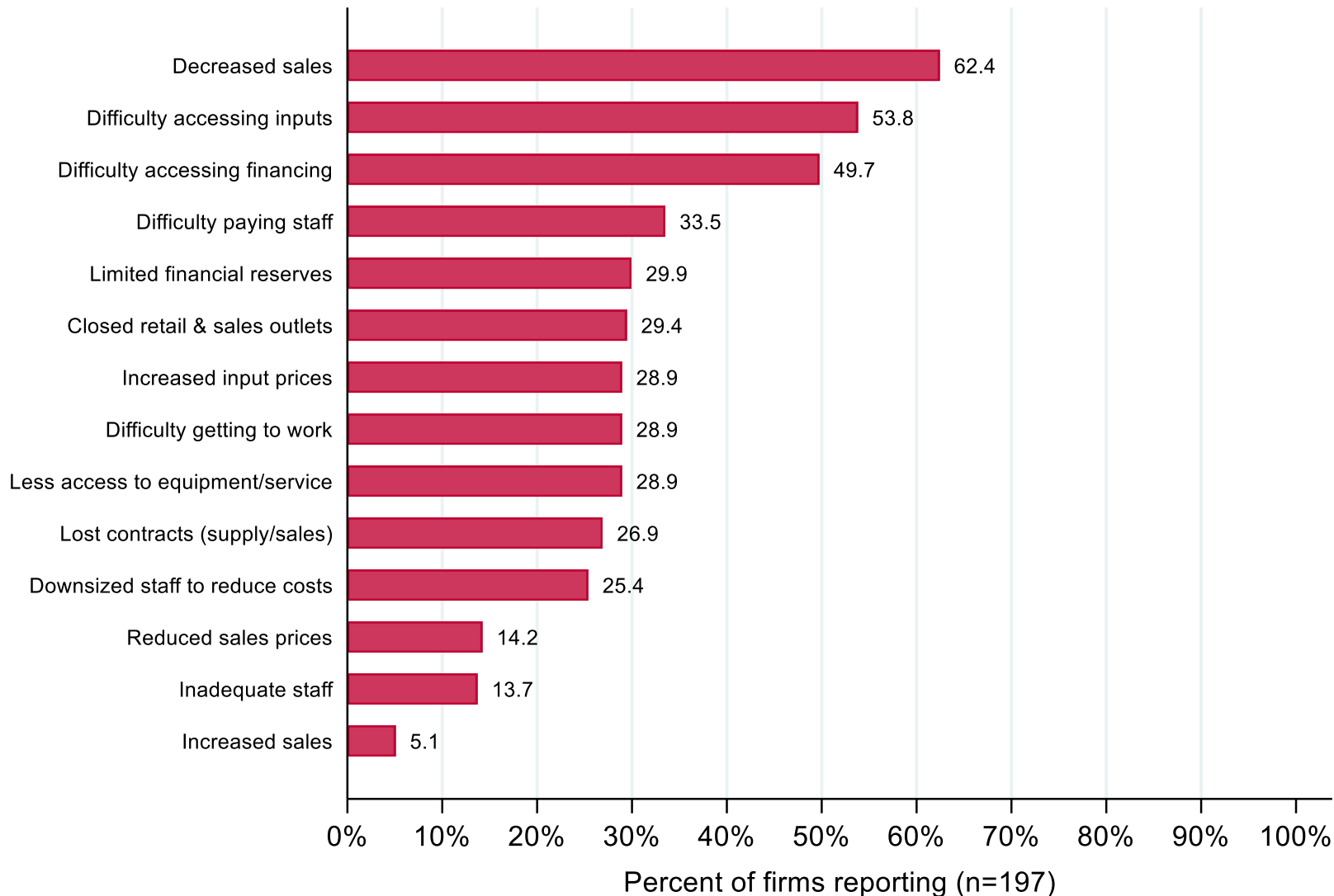
In addition to the rising prices, 90% of respondents reported their business being impacted by other contextual challenges. Of these, 61% named poor economic growth, 58% named climate and weather issues, and 31% named war or conflict (domestic or nearby), 29% named political instability (domestic or nearby), and 15% named crime.

When asked to rank one of the contextual challenges as the most serious, however, 41% chose rising prices, with this being significantly more common among youth-led and female-owned firms; this was followed by poor economic growth (25%), climate/weather issues (14%), and war or conflict (13%). This varied significantly across countries, with firms in certain countries (Bangladesh, Madagascar, Kenya, Mozambique, Tanzania) more likely to choose weather/climate and those in others (Mozambique, Ethiopia, Pakistan) more likely to choose war/conflict or political instability.

IMPACTS OF COVID-19



Main COVID impacts reported by businesses



90% of respondents reported that their business had been impacted by the COVID-19 pandemic. For most, the impact had been considerable and difficult to manage (47%) or severe, risking firm closure (21%). The majority reported that the pandemic continued to affect their business, but only slightly (57%); only 15% reported that their business had fully recovered.

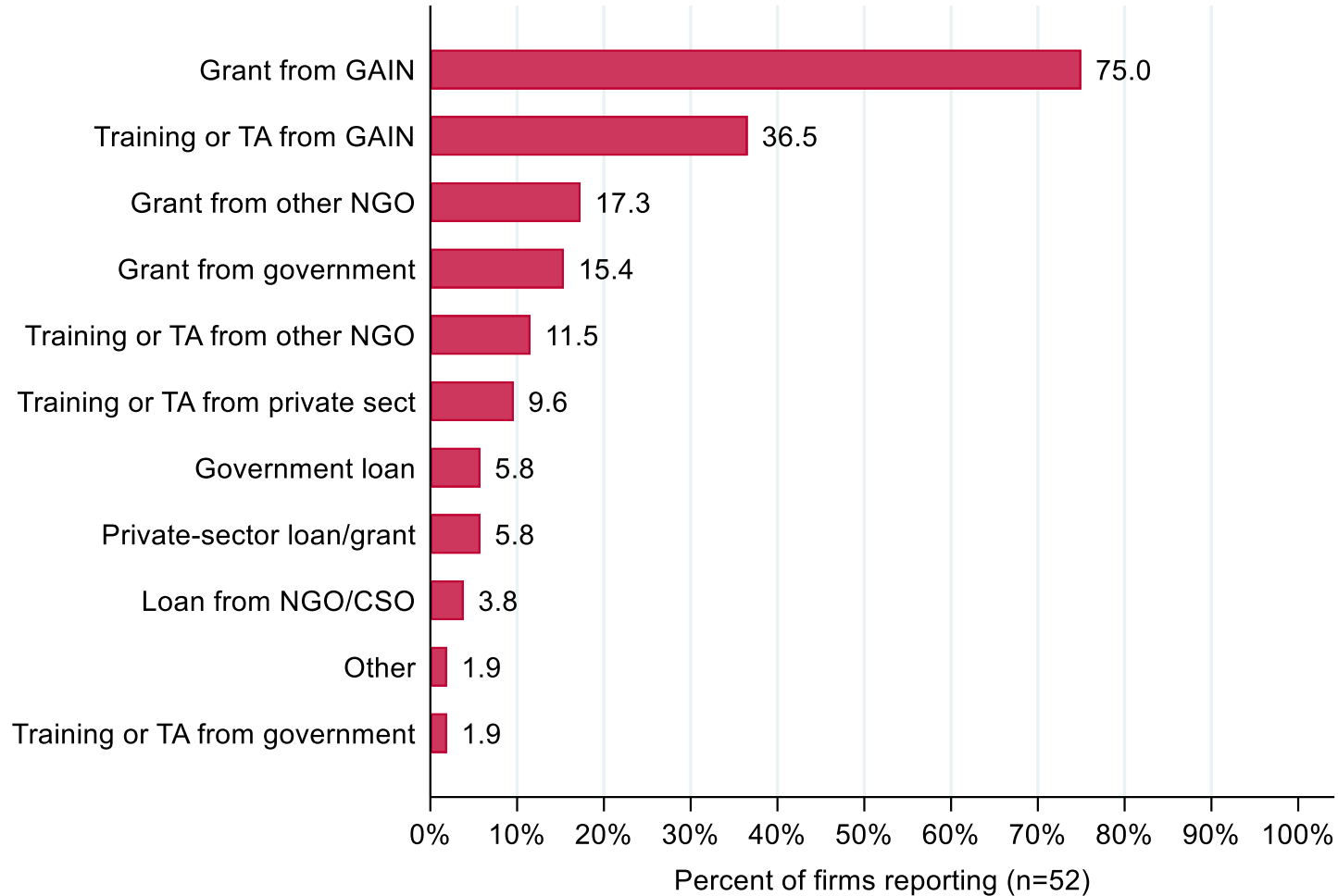
The main impacts cited were decreased sales and difficulty accessing inputs and financing.

Responses to these questions were similar across male- and female-owned firms.

PANDEMIC SUPPORT RECEIVED



Support Received



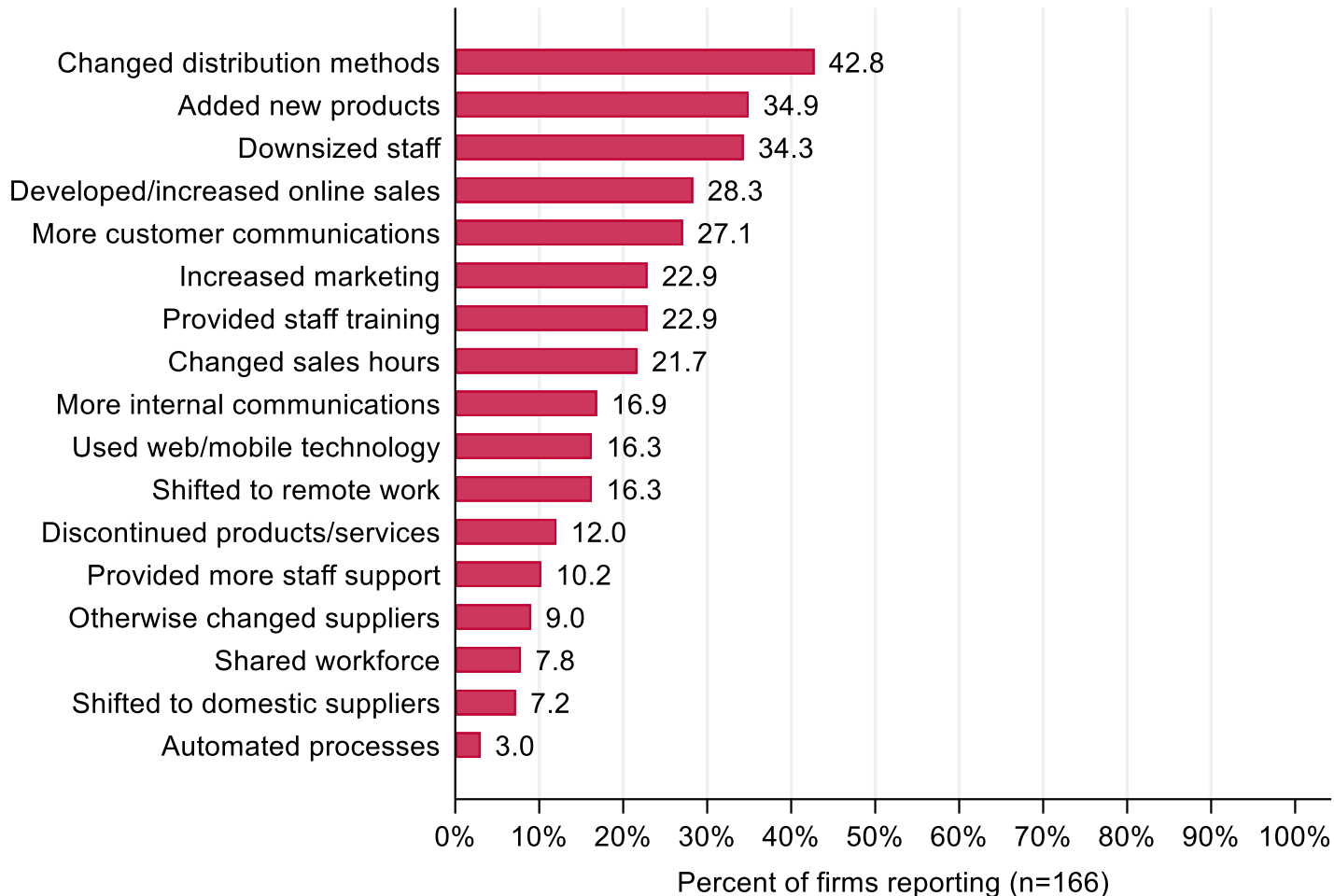
About one-quarter of respondents reported having received some type of support (government, private-sector, or NGO-provided) to cope with the COVID-19 pandemic's effects, with no difference by gender of firm owner.

The main types of support cited were grants and training from GAIN (75% and 37%, respectively, of those reporting support; likely high due to the sample being drawn from GAIN networks), grants from other NGOs (17%), and grants from government (15%).

PANDEMIC ADAPTATIONS MADE



COVID-19 Impact Mitigation Actions Taken



84% of respondents reported taking actions to adapt to the impacts of COVID-19. The main actions taken were changing distribution methods (43%), adding new products (35%), downsizing staff (34%), developing/increasing online sales (28%), and more customer communications (27%).

Of the 166 adapting firms, 83% opined that these earlier actions had helped their firm to cope with the current situation. The most commonly cited pandemic-response actions that were helpful for building current resilience were adding new or adapted products or services (37%), changing distribution methods (37%), increased marketing/advertising (26%), and online sales (23%).

ADDITIONAL DETAILS ON HOW PANDEMIC RESPONSES SUPPORTED COPING WITH THE PRESENT SITUATION



Some respondents elaborated on how the adaptations they had made in response to the pandemic helped them to cope with the current challenges. Representative quotes include:

We used to distribute our products to educational institutions alone but during the pandemic we had to find new areas to distribute because the educational institutions were closed, so we started dealing with retail shops as well. - A root/tuber processor in Tanzania

We stopped the physical distribution to other states, and we are more visible online; this curbed cost of distribution, marketing and overheads. We reduced the workforce and cut down overhead costs, too. - A grain processor in Nigeria

We reduced reliance on distributors to sell our products, thereby reducing number of handlers between our production and consumers. This enabled our pricing to be competitive and our products affordable. - A chicken and egg producer in Kenya

We added a perishable products unit in our product portfolio, which brought new customers and additional margins for the company. - A retailer of diverse food products in Bangladesh

We changed distribution method. Rather than the distributors coming to our office we started going to them. This increased our sales volume. Secondly we started marketing the open market locations. This ensured additional distributors and resulted to increased sales volume. - A processor and distributor of nuts/seeds and cooking oil in Nigeria

Online sales has seen [our business's] community grow from 700 to currently above 3000 followers; this has increased our visibility, which has resulted in more sales. - A vegetable farmer and distributor in Kenya



ONGOING AND ADDITIVE CHALLENGES



However, many respondents also noted that they faced multiple and compounding challenges related to the current price increases coming on top of lingering effects of COVID as well as impacts of conflict and climate:

Since the COVID 19 crisis, business is slowly restarting. Even though consumers like our products, their purchasing power has also decreased significantly, especially for people who really need to consume these healthy and very nutritious products. Currently, the rising fuel prices in Madagascar and the increasing food prices will make business even more difficult and uncertain.... - A legume and ready-to-eat food processor in Madagascar

It's continually getting tougher doing business with the current realities. Almost all costs components have gone up and these increases can't be passed on fully to clients. There is huge pressure on companies to manage their profits. - A fruit and vegetable processor in Nigeria

For the last two seasons our exports have been decreasing as a result of our buyers using their stocks and keeping minimum inventory. This year we were expecting increased demand coming from our buyers, but our raw material (dates) crop has been badly damaged by heavy monsoon rains. According to an initial estimate, about 50% of the date crop has been damaged by rain. - A date processor in Pakistan

The wars abroad, and those in Cabo Delgado [northern Mozambique], have affected my business. Purchasing power has lowered considerably for my clients, mostly the rural population. - A chicken and egg producer in Mozambique

COVID-19 and conflict in our regions saw us losing some opportunities that were committed via email [beforehand]... We had had daily sales of 300-400 chickens, but saw a big reduction because of displaced population [due to conflict]. Then COVID-19 came to add more Pain... [with the restrictions], families were staying at home, so no need for restaurants to buy our products. - A chicken farmer in Mozambique



CONCLUSIONS & RECOMMENDATIONS



This online survey has shown that:

- Many of the responding firms are **facing challenges related to recent price increases and volatility**, with most reporting significant increases in input prices. This challenge cuts across the 12 countries covered in the survey
- **These issues exist alongside ongoing firm-specific challenges with accessing financing as well as other contextual challenges** like conflict, climate shocks, weak economic growth, and political instability.
- The **main action taken to mitigate these price changes was increasing sales prices**, with over half of firms having increased their prices in the prior 6 months. Very few firms reported government support to cope with the present challenges.
- These **challenges are coming as firms continue to cope with lingering effects of the COVID-19 pandemic**, which generally had negative impacts on their business.
- **Many firms do, however, see additional opportunities for new business models or products** in the current situation; many also found that actions they had taken to mitigate the impacts of COVID-19 were proving helpful for increasing their resilience to the present challenges.

Disruptions to global and local food markets are likely to continue amid ongoing conflict, while being exacerbated by other challenges like insecurity and climate shocks. To ensure a resilient food system, it will be important to mitigate these impacts on SMEs in low- and middle-income countries and facilitate the opportunities that emerge for them – thereby buffering the impacts on consumers. Specifically:

- It is essential for governments and development partners to **continue to facilitate access to key food products** such as grains, edible oils, fertilisers, and other key inputs, including for SMEs who may struggle to import in the difficult current climate.
- As access to financing and working capital remains a persistent challenge, it will be important for global and local financial services providers to **ensure that SMEs can access the capital they need** – on terms they can afford – to weather the current challenges and make lasting investments in their resilience.
- **Technical assistance** can be provided to help SMEs adapt business models, such as by changing product formulation or internalising aspects of their supply chain.

CAVEATS



- This survey, a rapid assessment, is subject to **certain biases**: opt-in bias; imperfect representativity (especially of smaller, less internet-savvy firms) within the network studied; imperfect representativity of the SUN Business Network itself (especially of firms producing less-nutritious foods); response bias due to the survey being fielded by an organisation that provides business support; and potential misinterpretation of questions, given the online survey mechanism.
- Certain countries are also over-represented in the responses, due to the greater presence of the surveyed network in those countries.
- The situation is also **likely to change rapidly**; the information presented here can only be considered a snapshot in time.



ACKNOWLEDGEMENTS



We wish to thank:

Rafael Ricardo Nzucule, Catia Manguene, Jean Sebastien Kouassi, Mohammad Hemayet Hossain, S M Mahmudul Hasan, Sameul Nawaz, Egide Nsengimana, Sok Chea Hak, Patrice Badibanga, Ana Lemus, Laminfb Drammeh, Haddy Crookes, David Nataren, Lucia Escobar, Jorge Argueta, Valentine Staub, Stefanus Indrayana, Charles Opiyo, Maureen Muketha, Manuela Tolmino, Gulzat Kadyrali, Jieun KIM, Khangneun Oudomphone, Maree Bouterakos, Souphalack Inphonephong, Thierry Nohasiarivelo, Lilly Musaya, Misola Mali, Zarnihtet Hlaing, Shilu Shakya, Tomisin Odunmbaku, Muhammad Usman Ali, Rhea Deleon, Akanksha Hulangamuwa, Kalana Peiris, Malika Fernando, Arthur Pagiwa , Shamsiya Miralibekova, Arshia Khan, Haika Malleko, Bernadetha Shosho, Mark Lule, Karima Mopic, Marjolein Mwanamwenge, Safinaz Ahmed, Miyanda Kapepe, Patience Asiedu, Vera Kwara, Hana Yemane Wodajo, Seble Feleke, Christina Nyhus Dhillon, Yetunde Olarewaju, Emily Heneghan Kasoma, Hannah Rowlands, Stella Nordhagen, Ritta Sabbas Shine, and all respondents to the survey.



Recommended Citation:

GAIN. 2022. Challenges Facing Small- and Medium-Sized Enterprises in the Food System: Results of an Online Survey. Geneva: Global Alliance for Improved Nutrition (GAIN).

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