

Policy Briefing

Supporting Small Food Businesses to Build Resilience During Crises

Small food businesses are vital to delivering affordable, nutritious food to low-income communities. Yet food systems are under threat from multiple stressors. During the Covid-19 pandemic, government support was directed at maintaining business activity, so understanding how this affected small food businesses offers insights for future policy design. Most policies aligned primarily with the short-term financial needs of larger businesses, leaving a gap for timely support for small enterprises. The recurrent nature of shocks means that such businesses also require longer-term agility to respond to shocks. Interventions to build this capacity can be integrated into nutrition programming.

Key messages

- Persistent shocks deplete the limited financial reserves of small food businesses, threatening their ability to provide for low-income communities.
- During crises, emergency grants address liquidity issues, but timeliness is crucial. Grants should be designed to ensure accessibility and relevance for small businesses, with specific measures to reach women-led businesses.
- Short-term support does not ensure resilience to persistent disruption. Longer-term resilience requires agility enabled by business and innovation capacity.
- Support is best embedded in established structures, such as programmes supporting businesses to develop and market more nutritious products.
- Donor efforts can be better aligned with government business support. A focus on inclusion is essential as government measures tend to benefit larger formal businesses.

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Introduction

Globally, food systems are under stress from rising prices, a changing climate, and shocks like the Covid-19 pandemic. The pandemic, alongside the measures introduced to contain it, had a significant impact on different economic sectors, including within the food system. Lockdowns, curfews, closure of borders, and social distancing protocols resulted in supply-side disruptions. Loss of incomes created demand shocks, which were exacerbated in some cases by food price increases. In response, international agencies and governments stepped up to provide business support to cushion these effects. Understanding how this affected small food businesses can offer insights for future policy design. This Policy Briefing draws lessons from these efforts, particularly from the Keeping Food Markets Working (KFMW) programme implemented by the Global Alliance for Improved Nutrition (GAIN), to inform ongoing and future development programmes targeting small food businesses.

The findings are based on two related assessments of business support measures during the initial stages of the pandemic. The first assessed 15 cases of support for small business resilience in five African countries: Ethiopia, Kenya, Mozambique, Nigeria, and Tanzania. These cases are from the KFMW programme that provided rapid support to small- and medium-sized enterprises



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with the aim of strengthening resilience. The second is a desk-based review of national government support measures in nine countries in Africa and Asia. These assessments identified the relevance and contribution of such measures to small food business resilience and the potential for better food security and equity in the longer term.

Food businesses that process and sell food in smaller quantities, often in the urban informal sector, play a vital role in food and nutrition security in developing countries, as well as creating significant employment opportunities. The expectation is that these smaller-sized businesses, owned by both women and men, will continue to increase their dominant position in the food systems of sub-Saharan Africa and large parts of Asia over the next few decades.

The resilience of these businesses to shocks and crises is therefore vital. Yet as the Covid-19 pandemic demonstrated, they are highly vulnerable, in large part due to having limited financial reserves to cope with shocks to their revenues. As the effects of the pandemic spread, business owners responded by lowering prices, changing marketing channels, cutting production, and/or reducing staff. These changes had complex knock-on effects on the availability and affordability of food for those on low incomes.

What does resilience mean for smaller-sized food businesses?

Resilience is the ability to absorb disruptions and maintain functions, allowing businesses to recover quickly from shocks. It also refers to building the capacity to respond to future crises in the longer term. Resilience capacity is determined by the assets that businesses possess: social, human, financial, natural, and physical. Importantly, resilience carries the notion of avoiding retreating strategies, such as laying-off employees, selling assets, or taking on debt, which undermine longer-term survival.

Small business resilience from a KFMW participant

A small woman-owned company producing biofortified flour sells its products through over 200 shops, especially targeting infants, lactating mothers, and those with diabetes. Sales reduced during the pandemic as families chose to prioritise cheaper foods. Delayed payment from creditors, especially supermarkets, also affected cash flow meaning the company could not pay suppliers and workers on time. The company acted quickly to restore production by penetrating new markets, switching to distributing through smaller retail shops that paid up front in cash. To better suit this market, the company reduced packaging sizes, rebranded to make its products more attractive, and came up with an innovative way to increase visibility in crowded shops. These responses were enabled by the company's management style, notably its regular strategy meetings, and by the flexibility of its workers. The KFMW grant created breathing space by helping to meet the firm's short-term operational costs, such as packaging material and premix for fortification, and paying salary arrears to workers.

Elements associated with short-term resilience include:

- Improvisation to cope with day-to-day cash flow issues;
- Rapid, flexible responses to maintain core functions, such as changes in workforce or marketing;
- Collaboration and maintaining connectivity, especially with existing suppliers and customers;
- Diversification to restore or adapt operations through increasing supply base or changing products offered.

Elements associated with longer-term resilience include:

- Financial and physical capital, e.g. equipment to improve the quality and volume of food produced;
- Increased capacity for business and financial planning, enabling better management with the potential for better business results;
- Increased capacity for innovation through ongoing reflection, learning, and experimenting;
- Collaboration and establishing networks to strengthen social capital.

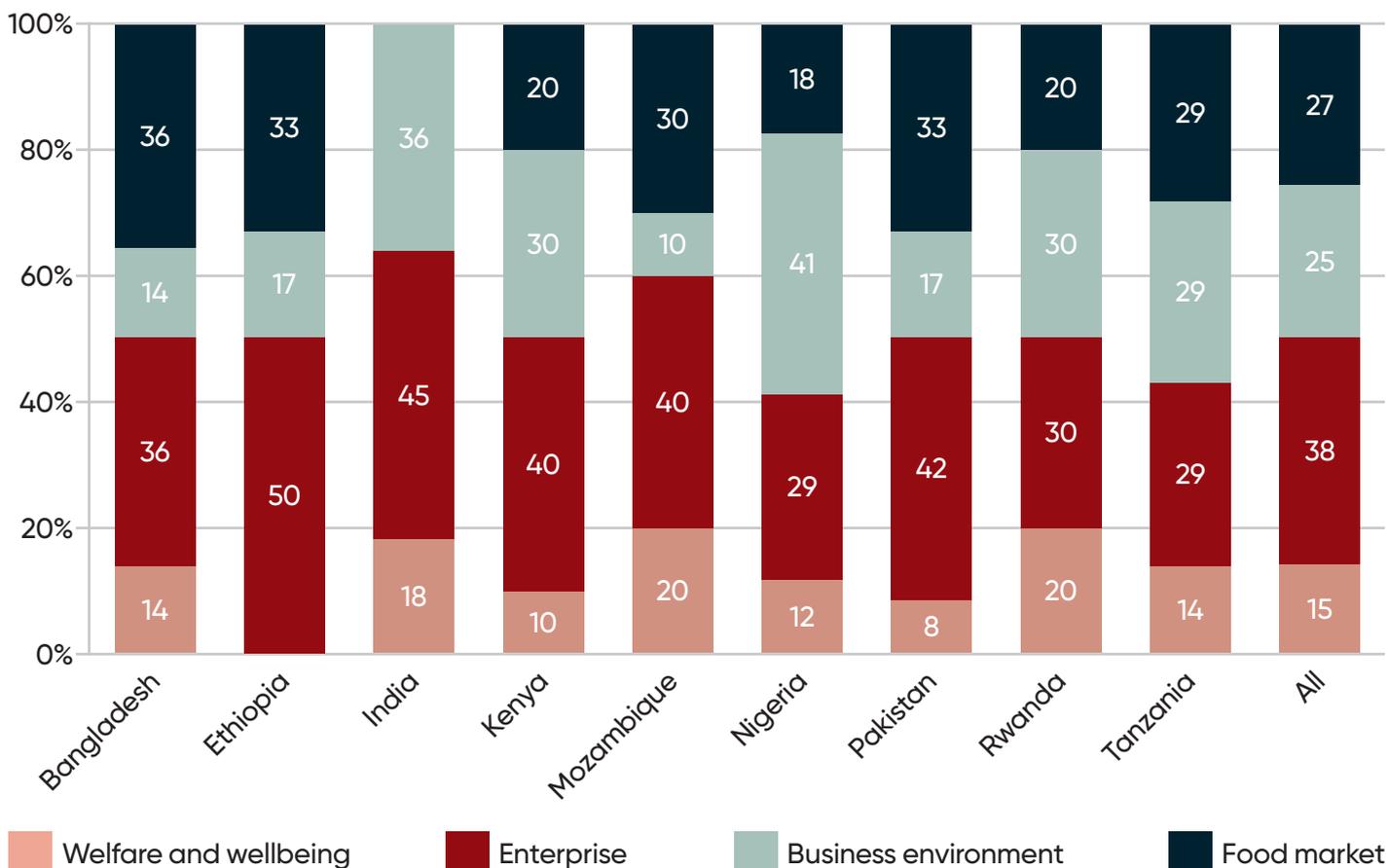
What measures did governments take to support businesses during the pandemic?

Our assessment of government support to business across nine countries identified 163 support measures (Figure 1). These were predominantly enterprise support measures to address a business's debt, cash flow disruptions, and the risk of bankruptcy through reducing taxes or improving access to finance. Where measures specifically targeted the food market, access to affordable inputs was the main focus, especially through subsidies or low-interest loans. Most of the support was time-limited and did not extend to investment in capacities and infrastructure. Non-financial measures, such as providing technical assistance and training, were rare.



Short-term measures address acute shocks, but do not build the capacity of small food businesses to respond to persistent disruptions, such as recurrent waves of the Covid-19 pandemic.

Figure 1 Distribution by policy type across countries: Bangladesh, Ethiopia, India, Kenya, Mozambique, Nigeria, Pakistan, Rwanda, and Tanzania



Source: Authors' own. Based on a mapping of these support measures between March 2020 and March 2021.

The assessment also analysed the availability, accessibility, and relevance (short term and long term) of support measures for small food businesses.

Availability: financial support, tax relief and import–export support were the key policy measures intended to reach businesses. However, most were only available to legally registered companies. Wage support measures were similarly designed for the formal economy. In other words, these key measures exclude the many small food businesses operating in the informal economy.

Accessibility: the accessibility of support measures relies on companies' awareness of them, the cost and time to obtain them, and the complexity of procedures vs company capacities. Policies that are burdensome will exclude smaller enterprises, even those in the formal economy.

The assessment did identify some positive examples that addressed availability and accessibility to small businesses. Collateral-free loans offered in Ethiopia and India can be more inclusive, especially for women business owners who are more likely to lack assets that could be used as collateral. However, awareness gaps or overly complex application procedures are potential issues. In addition, investments in improved and more timely registration and verification systems, like those offered in Nigeria, may help ensure the most vulnerable get access to support.

Short-term relevance: support measures with high short-term relevance address the specific challenges that small food businesses face. Examples included policies in Nigeria to enable safe food trading and selling to end consumers during the pandemic. The short-term relevance is particularly high where financial support is

accessible to small food businesses for use as working capital. However, inappropriate terms such as short-term payback times diminish the relevance for smaller and informal food system enterprises.

Longer-term relevance: policies designed to 'build back better' in the longer term are those that enable small food businesses to build resilience capacity. These could include longer-term loans, for example. However, there were few linkages to broader structural changes needed to resolve the finance gap for small businesses. Policies with the greatest longer-term relevance were comprehensive investment and recovery programmes, including broader measures such as infrastructural investments.

How do development agencies support resilience among small food businesses?

The experiences of 15 businesses supported by KFMW across five countries show how emergency grants contribute to short-term business resilience. Businesses led by both women and men used the grant to smooth their cash flow, enabling them to restore salaries and pay for costs such as rent, electricity, and protective equipment. Grants were also used to secure access to raw materials and strengthen supply relationships by paying off debts to suppliers or placing larger orders. Generally, the grants arrived six months or more after the start of the pandemic, by which time owners' own savings and other coping mechanisms were exhausted.

Choices regarding the channels used to publicise the support and the complexity of application procedures affected the accessibility and timeliness of the grants. Grants that narrowly targeted business liquidity with a simple selection process arrived most quickly.

As well as providing breathing room, the emergency grants enabled business flexibility. Businesses moved production operations



Resilient food systems require broad measures aimed at building business skills and innovation capacity that increase agility.

or introduced new delivery mechanisms in response to restrictions, or adopted new marketing mechanisms to help sales recover. Some also diversified products, offering cheaper but often still nutritious alternatives at a time when incomes were constrained. Notably, although government enterprise support measures were also available in four of the five countries, businesses either did not know about this support or applied unsuccessfully. Hence in most cases, no other short-term funding was available, although one business used the grant to leverage a bank loan.

However, these grants on their own did not support longer-term resilience capacity, except where they were used to purchase equipment for long-term use. Some businesses did demonstrate innovation capacities characteristic of long-term resilience, which reflected an interaction between existing capacities of business owners, grant support, and additional technical assistance (TA) offered by KFMW. However, in cases where TA was offered alongside grants, a more intensive (and slower) application and selection process was required to identify businesses with innovation potential.

Finally, the resilience of small food businesses is a necessary but insufficient condition for food system resilience. This broader goal requires supporting businesses to produce food that is both nutritious and affordable. In addition, development agencies need to ensure that support to individual businesses is leveraged to generate systemic effects through targeting critical bottlenecks or aligning with others.

Policy recommendations

- **During times of crisis, development agencies supporting small food businesses will emphasise shorter-term resilience.** Emergency financing is vital to address working capital needs and can be accompanied by rapid business training with a focus on flexibility. These measures need to be targeted to ensure accessibility and relevance.
- **Outreach should explicitly target both woman- and male-owned businesses through appropriate networks.** Application and selection processes should focus on key information only. Donors can work together with local stakeholders, including those targeting women entrepreneurs, to increase awareness and widen their networks in order to better reach relevant businesses.
- **Aligning interventions with measures taken by other development agencies, development finance institutions, and government, will avoid replication and enable more transformational change.** As government support is most likely to

reach better-connected, larger enterprises in the formal economy, a focus on smaller, more vulnerable businesses makes sense. However, development agencies can also help businesses access government support, and increase governments' understanding of the essential role and needs of small food businesses.

- **Short-term measures address acute shocks but do not build the capacity of small food businesses to respond to persistent disruptions, such as recurrent waves of the Covid-19 pandemic.** This requires broader measures aimed at building business skills and innovation capacity that increase agility. It is difficult to integrate this type of support into a rapid emergency grant. However, it can be integrated into programmes targeting nutrition security and equity.
- **Small business resilience alone does not necessarily lead to improved nutrition and equity outcomes.** To secure these benefits, supported businesses need to produce food that is nutritious, accessible, and affordable, particularly in areas where low-income households live. ■

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Further reading

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