

Impact of COVID-19 on Agribusinesses for Investors

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The CASA programme is a flagship programme of the UK Foreign, Commonwealth & Development Office (FCDO) and is intended to increase global investment in agribusinesses which trade with smallholders in equitable commercial relationships, increasing smallholders' incomes and climate resilience. The programme aims to help agribusinesses to scale up and trade in larger commercial markets. As part of its work CASA generates new evidence and analysis that supports a stronger, fairer and greener agribusiness sector.

CASA is a consortium of organizations (CABI, NIRAS and Swisscontact) working with associate partners (IIED, Malabo Montpellier Panel and TechnoServe).

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Executive summary

Evidence from this assessment indicates that, without deliberate support from impact investors, banks and development finance institutions (DFIs), large numbers of agricultural small and medium enterprises (agri-SMEs) will not be able to continue operations following the lockdowns imposed in response to Coronavirus Disease 2019 (COVID-19). The COVID-19 pandemic has had significant negative effects on the operations of agri-SMEs. It has made capital less available, as impact investors and financial institutions take a more cautious approach to extending credit and making investment decisions. Supply chains have been disrupted, resulting in delayed access to inputs (such as seed and fertiliser for smallholder farmers) and in fewer or no deliveries for agri-SMEs. The closure of restaurants and schools has decreased consumer demand. Some agri-SMEs have experienced labour shortages due to restrictions in the movement of people, although some have benefited from family labour as people moved back to their rural homes. The disruptions have created uncertainty for impact investors and financial institutions, which have been compounded by their inability to conduct in-person due diligence assessments for new investments.

This evidence report seeks to assess the impact of COVID-19 on agri-SME operations by analysing emerging global evidence and insights from six countries. These are Commercial Agriculture for Smallholders and Agribusiness (CASA)'s three focus countries (Malawi, Nepal and Uganda), as well as Ethiopia, Ghana and Nigeria, which (along with Malawi) formed part of a rapid market assessment (RMA) between April and May 2020. This was carried out by Agricultural Policy Research in Africa (APRA), a research programme funded by the Foreign, Commonwealth and Development Office (FCDO). APRA seeks to understand which pathways to agricultural commercialisation are the most effective at empowering women, reducing rural poverty and improving food and nutrition security in Sub-Saharan Africa. The report uses a market system lens to analyse impacts and craft recommendations for intervention, as agri-SMEs are linked to other value chain actors – such as farmers, impact investors and regulatory authorities – that govern the functioning of the system. The report focuses on the effects of COVID-19 on impact investment and especially on agribusiness impact investors, given their key role in supporting the growth of these enterprises.

While the profit motive is paramount for impact investors, the current consolidation and recovery phase calls for investors to take a longer view on returns: they should shore up their investees and build a robust pipeline for after the recovery. A business-as-usual approach to activities such as due diligence will not work given current travel restrictions. Digital and drone technologies, however, offer alternatives and could be ramped up to close the face-to-face gap created by the pandemic.

Key findings

The major impacts of COVID-19 across the agribusiness market system identified in this report include the following:

Supporting functions

Low lending appetite among traditional lenders

Formal lenders such as banks, impact investors and monetary financial institutions (MFIs) are taking a cautious approach to new investments and loans as they wait to see how long the lockdown and the concomitant economic downturn lasts. Evidence from Uganda revealed that financial services providers are facing difficulties recovering existing loans from SMEs, resulting in a decrease in new loans offered to agri-SMEs.

Disruption of input supply channels

SMEs such as agro-dealers and agrovet shops that normally supply farmers are experiencing severe liquidity crunches due to reduced demand for their products. In turn, they cannot stock up to service those clients still able to purchase from them. This has resulted in lower availability of inputs such as seeds, fertilisers and pesticides. In severe instances, SMEs have had to scale back operations and downsize staff. In Nepal, farmers have anticipated a shortage of vegetable seeds and fertilisers for the coming season due to labour and transport disruptions caused by the pandemic.

Lack of advisory services

Restrictions in the movement of people have meant that extension officers have not been able to travel to farmers to provide technical agronomic advice. This has affected husbandry practices, which could affect productivity at harvest time. In Nepal, farmers have had to resort to receiving technical support from agrovet shops instead of extension workers. However, these shops provide a low quality of service as they ordinarily only sell inputs without significant technical advisory services.

Low use of mobile technology and e-commerce platforms

Use of mobile technology and e-commerce platforms was already low among SMEs and smallholder farmers interviewed in the RMA of Malawi, Nepal and Uganda. COVID-19 has exposed this lack of “remote connectivity”, as farmers cannot physically supply to traders, wholesalers and retailers. In Nepal, the few agri-SMEs that had access to online selling platforms were faring better than their counterparts that were not using e-commerce platforms.

Disruption of transportation and logistics services

Global, regional and national agricultural supply chains have been severely disrupted due to lockdowns imposed by most countries around the world. Sea freight, air freight and road logistics were all drastically reduced in the first two months of lockdowns, with a gradual easing in May 2020. However, the backlog of container ships is still significant after ports in China and the US were closed temporarily to curb the spread of the virus. At the local level, disruption of transportation in Nepal resulted in smallholder farmers dumping milk or losing vegetables that were ready for collection. This was compounded by a lack of appropriate on-farm storage facilities.

Core value chain issues (core transaction)

Farm-level production and labour dynamics

At the farm level, a shortage of labour for harvesting has been highlighted as a major impact of COVID-19 restrictions. This was especially so where migrant workers were the major source of labour, as they could not move freely between countries due to restrictions. However, planting is not reported to have been significantly disrupted, as most farmers have used household or hired labour from within the community. In Ethiopia, Ghana and Nigeria, fewer workers were available to agri-SMEs due to absence, social distancing requirements and transport difficulties. Consequently, these SMEs had to pay higher wages to access the reduced available labour.

Storage and post-harvest management

A reduction in consumers demand due to closures of schools, hotels and restaurants meant that traders and wholesalers were buying less from farmers. Farmers whose products were ready for market had to either store unprocessed products or process them for storage until markets reopened. Both storage and post-harvest processing capacity were reported to be low, resulting in farmers giving away products or in some instances disposing of perishables such as milk and vegetables. In Ghana, a shortage of packaging materials, especially imported ones, was reported in the cocoa sector. This led agri-SMEs to switch to local materials for packing cocoa products, which could potentially affect access to export markets, given their strict packaging requirements.

Demand reduction and market access

As highlighted above, there was a significant reduction in market demand due to the closure of hotels, schools and restaurants. Consequently, market access has become a major issue for both farmers and agri-SMEs. In Nepal, for example, some milk co-operatives reported decreases in milk collection, sales and revenue. The main reasons for the decreases were the closures of local markets and reduced demand for milk from dairy processors.

Inability to access credit

Lenders are generally aware of risks and the COVID-19 crisis has reduced their risk appetite, given the uncertainty over the spread of the virus and over the length of the economic downturn stemming from the restrictions. This has resulted in reduced loans to farmers and agri-SMEs. In Ghana and Nigeria, SMEs experienced difficulties accessing loans during the lockdown, as most institutions stopped issuing new loans and group loan schemes and other microfinance institutions had limited funds.

Rules and regulations

Reduction of the base lending rates

Central banks in Malawi, Nepal and Uganda have reduced their base lending rates with the aim of injecting cheaper money through banks to SMEs to help them through the liquidity crunch. However, respondents in Malawi, Nepal and Uganda reported not having received any subsidised loans at the time of the market assessment. In Ghana, larger palm oil and cocoa producers and SMEs benefited from subsidised bank loans, thanks to central bank interventions.

Extension of tax payment deadlines

Revenue authorities in some countries have extended deadlines for the payment of corporate and pay as you earn (PAYE) taxes to provide a liquidity buffer for SMEs. In Uganda, the deferral of PAYE taxes applied only to tax-compliant businesses. Since not all the respondents in the market assessment were tax-compliant, these businesses did not benefit. However, the general sentiment among qualifying SMEs was positive. There were no similar interventions in Malawi and Nepal.

Liquidity support

Central governments have injected significant amounts of money into the formal banking sector for lending on to the manufacturing, services and agricultural sectors. In Nepal, the size of the Refinance Fund was increased, injecting extra liquidity aimed at agriculture and other priority sectors. However, the qualifying criteria disqualified most of the respondents, with demand for the fund far outstripping supply but only few companies being able to access the money. Agri-SMEs in Nepal stated they had not managed to access any liquidity support through the central government intervention.

Recommended areas of support for agri-SMEs

The recommended areas that CASA and its partners could support agri-SMEs include the following.

Digitisation and technology

Overall use of technology remains low among smallholder farmers and agri-SMEs in Malawi and Uganda. But in Nepal, agricultural e-commerce and local supply chains have increased sharply during the COVID-19 pandemic, primarily to fill the gap in essential food supplies created by restrictions in imports from other countries or provinces. During the pandemic, business-to-consumer (B2C) and business-to-business (B2B) e-commerce platforms have partly addressed access to agricultural products. Innovative technologies that can help SMEs overcome the pandemic restrictions include mobile selling platforms, digital platforms for matchmaking and market linkages and drones to deliver supplies.

Digital financial services

If digital financial services had been accessible during COVID-19 restrictions, they would have been useful, especially in rural areas where access to physical branches was not possible. As noted above, the digitalisation of agricultural value chain actors is the first step towards achieving financial inclusion in agribusiness value chains.

Flexible funds

Many grants and loans to organisations that support SMEs have restrictions on how the funding can be used. However, the most urgent financial needs of these organisations today are to cover operational costs such as payroll and rent. This means they can only use funds issued by funders and investors that are flexible regarding deployment.

Loan pricing during COVID-19

Loan pricing during the crisis period cannot be fully determined by the market. This is partly because markets are not functioning and market prices are often not observable. It is also because crises are times when DFIs must function as first movers, which means they must bear some of the costs and risks themselves. To this end, some DFI initiatives – such as the R3 Coalition, DFI Alliance and the Centers for Disease Control (CDC) Group's COVID-19 Business Response Facility – have already mobilised funds to help agri-SMEs weather the liquidity crunch.

Major ways to facilitate SME investment readiness

Working with local partners

In-person due diligence is not possible, so a reinforcing network of local partners with expertise is now important. This might include the engagement of local transaction advisors.

Technological innovation

Some enterprising dealmakers are turning to drones to help complete transactions in the era of social distancing. This is being done by flying drones across manufacturing facilities so that investors have an appreciation of a company's operational setup. This is still a nascent approach in developing countries, but drones have been used to transport medical supplies in Rwanda with some success, so their use in the agricultural sector can be explored.

Strengthening of local capacity development organisations (CDOs)

It is critical for SMEs to have access to the mentorship, networks and other tools and services provided by CDOs. These include technical assistance providers, incubators, accelerators, entrepreneur networks and researchers. The availability of CDOs has implications for both current and potential investees.

Urgent funding support

Many CDOs working with agri-SMEs have developed business models that minimise the use of grant funding. This has put them in peril, given the inability of the SMEs to pay for services as a result of the business downturn. This has created a critical need for bridging finance to cover urgent short-term needs, either in the form of grants or cheaper loans.

The rest of this report is structured as follows

Section 1 gives an overview of COVID-19 and agriculture and how the pandemic has affected global demand and supply patterns. It describes how global supply chains have been disrupted by the closure of retail buyers, wholesale buyers, ports, sea routes and air freight. It concludes that on-farm production of key staples such as maize and rice has not been severely affected at this stage, but it cautions that this could change as the full effects of the pandemic at farm level are yet to be felt.

Sections 2 and 3 describe agribusiness impact investing prior to the pandemic. Section 3 highlights that, while 58% of respondents invest in agriculture, agribusiness investments

represent just 10% of their portfolios, suggesting smaller average investment sizes than in other sectors. It concludes by looking at the impact investment landscapes in Africa and South Asia, noting that the markets in Kenya and Uganda are more advanced than those in Nepal. In Kenya, for example, combined investment by impact investors and DFIs amounted to over \$1.5bn¹ in 2013, while in Nepal the figure was only \$17m.²

Section 4 describes the market system lens through which analysis was conducted, differentiating between the core value chain segment where demand and supply interactions occur. It also describes supporting functions such as investment finance and information and regulatory functions that govern the sector through policies and regulations.

Section 5 presents the evidence from a global perspective, using insights and examples from the three CASA countries. COVID-19 impacts and dynamics are presented across the three layers of the agribusiness market system.

Sections 5 and 6 present analysis and recommendations for action that could help agri-SMEs weather the pandemic and enhance their investment readiness. The report concludes with a summary of key findings and actions.

To access the full report, please go to: <https://www.casaprogramme.com/wp-content/uploads/Impact-of-COVID-19.pdf>

¹ GIIN and Open Capital Advisors (2015) "[The landscape for impact investing in EastAfrica](#)".

² GIIN and Dalberg Global Development Advisors (2015) "[The landscape for impact investing in South Asia](#)".



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