

Impact of COVID-19 on Agribusinesses for Investors

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Commercial Agriculture for Smallholders and Agribusiness

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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Contents

List of tables.....	2
List of figures.....	2
List of abbreviations and acronyms.....	3
Executive summary.....	4
1 Background and approach to the study	9
2 Introduction: COVID-19 and agriculture	9
3 Agri-SMEs before COVID-19.....	11
4 Investment in agri-SMEs before COVID-19	11
5 COVID-19 impacts through a market system lens.....	13
6 Market access and financing for SMEs.....	13
6.1 Evidence from market analysis.....	14
6.2 The dynamics supporting functions	15
6.2.1 Disruption of input supply channels	16
6.2.2 Lack of advisory services	16
6.2.3 Low use of mobile technology and e-commerce platforms	16
6.2.4 Disruption of transportation and logistics services	16
6.2.5 Reduced capacity of agri-processors.....	17
6.3 Financing and investment – a key support function	17
6.3.1 Traditional lenders’ low appetite	18
6.4 Core value chain dynamics.....	21
6.4.1 Farm-level production and labour dynamics.....	21
6.4.2 Storage and post-harvest management	21
6.4.3 Inability to access credit	22
6.4.4 Demand reduction and market access	22
6.4.5 Increase in business costs	22
6.5 Regulatory environment dynamics	23
6.5.1 Reductions in base lending rates.....	23
6.5.2 Extensions of tax payment deadlines	23
6.5.3 Liquidity support	23
7 Recommendations	24
7.1 Digitisation and technology	24
7.2 Financial services.....	26
8 Facilitating investment readiness support	27
8.1 Working with local partners.....	28
8.2 Strengthening business development service provision	28
8.3 Urgent funds.....	28
8.4 Help companies adhere to health regulations	28
9 Conclusion	29

Bibliography	30
Annexes	35
Annex 1: Price and quantity dynamics of the CASA focus value chains	35
Annex 2: Funding resources for agri-SMEs.....	45
Annex 3: Nepal synthesis summary	48
Annex 4: Uganda synthesis summary	51
Annex 5 Malawi synthesis summary.....	54
Annex 6: APRA rapid market survey summary of findings	57
Annex 7: Digital resource examples for agri-SME.....	60

List of tables

Table 1: Support for SMEs from impact investors and financial institutions.....	20
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List of figures

Figure 1: Illustrative agribusiness market system	13
Figure 2 The FAO Food Price Index for January–August 2020	14
Figure A3: Global price indices for energy and agricultural commodities, 2016–20	35
Figure A4: Global fish prices, 2016–20	36
Figure A5: Value of imports and exports of fish and seafood products, 2016–20.....	37
Figure A6: Poultry monthly prices, 2016–20	38
Figure A7: Value of imports and exports of live poultry, 2016–20	38
Figure A8: Monthly global bean price, 2016–20.....	39
Figure A9: Value of imports and exports of dry beans, 2016–20	39
Figure A10: Monthly price of sesame, 2016–20.....	40
Figure A11: Value of total imports and exports of sesame seeds, 2019–20.....	41
Figure A12: Dairy price index, 2016–20	42
Figure A13: Value of imports and exports of milk and cream, 2016–20.....	42
Figure A14: Global price of cauliflower, 2017–20	43
Figure A15: Value of imports and exports of selected vegetables (cabbages, cauliflowers, and brassicas), 2016–20	44

List of abbreviations and acronyms

ACE	Area Co-operative Enterprise
AMIS	Agricultural Market Information System
APRA	Agricultural Policy Research in Africa
B2B	Business-to-Business
B2C	Business-to-Consumer
CASA	Commercial Agriculture for Smallholders and Agribusiness
CDC	Centers for Disease Control
CDO	Capacity Development Organisation
CGD	Center for Global Development
COVID-19	Coronavirus Disease 2019
CVL	Central Veterinary Lab
DFI	Development Finance Institution
EDFI	European Development Finance Institutions
FAO	Food and Agriculture Organization
FCDO	Foreign, Commonwealth and Development Office
FDI	Foreign Direct Investment
FMO	The Netherlands Development Finance Company
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
ITC	International Trade Centre
LUANAR	Lilongwe University of Agriculture and Natural Resources
MFI	Monetary Financial Institution
MSME	Micro, Small and Medium Enterprise
MT	Megatonne
NAC	National Aquaculture Centre
OECD	Organisation for Economic Co-operation and Development
PAYE	Pay As You Earn
PPE	Personal Protective Equipment
SME	Small and Medium Enterprise
UNCTAD	UN Conference on Trade and Development
USDA	United States Department of Agriculture
RMA	Rapid Market Assessment
VPU	Vaccine Production Unit

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.

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](#)".

1 Background and approach to the study

The main objective of this research was to analyse how the COVID-19 pandemic has affected market access and financing for agri-SMEs at both a country and global level. The research examined emerging trends and interventions within the broader agricultural market system, using data on trade, marketing and finance from global public data sources. These included over 20 institutions, for example the Food and Agriculture Organization (FAO), the International Food Policy Research Institute (IFPRI), the Agricultural Market Information System (AMIS), the UN Conference on Trade and Development (UNCTAD), UN agencies (i.e. the World Food Program and International Fund for Agricultural Development), the International Monetary Fund (IMF) and the World Bank. In addition, insights on agribusiness finance and investment were gathered through desk research from global industry players and organisations. These included over 50 web sources, for example the CDC Group, the Center for Global Development (CGD) and the Global Impact Investing Network (GIIN).

RMAAs were then conducted by CASA country teams and by the APRA programme in the following sectors:

- CASA country team assessments in Malawi (aquaculture and poultry), Nepal (dairy and vegetables) and Uganda (beans and sesame): interviews were conducted with about 120 SMEs and over 300 farmers
- APRA assessments in Ethiopia (rice), Ghana (palm oil and cocoa), Malawi (groundnuts and maize) and Nigeria (maize, rice and cocoa): interviews were conducted with 75 market actors

This global-level and country-level evidence was then assessed to provide recommendations on how investor-supporting stakeholders can facilitate investment readiness among SMEs that source from smallholder farmers. The study also sought to provide insights on the implications for identifying and supporting SMEs to deliver impact and returns in the face of COVID-19.

A major limitation of this research was that the rapid market analyses were conducted remotely and with a limited number of SMEs. The findings might therefore not be statistically representative. However, they still give valuable insights into the challenges faced by smallholder farmers and SMEs in the wake of the pandemic.

Research started in March 2020 at the time when the pandemic was accelerating in the northern hemisphere and there were only isolated incidences in the south. However, as the research progressed (particularly between May and June), the pandemic began accelerating globally, while some economies in the north were beginning to reopen and the price of oil was rebounding. The analysis thus reflects a specific point amid rapid change. Nevertheless, the recommendations for intervention have attempted to reflect the emerging trends for recovery in the agribusiness sector.

2 Introduction: COVID-19 and agriculture

COVID-19 is affecting various value chain functions and market actors in global agribusiness and food systems. At the **primary production level**, there has been limited disruption to cultivation, but disruptions further up the value chain have affected on-farm activities. In addition, significant disruptions have been experienced in the **harvesting and marketing** of products such as fruit and vegetables in East Africa and South Asia. This paper draws on evidence from case studies in Nepal, Uganda and Malawi.

While the impact of the coronavirus crisis on global food availability has so far been limited, the pandemic poses a serious threat to food security at the local level. Food scarcity is not an issue at the global level, but there is concern over **moving food to the people who need it**. At the beginning of this study, the virus had not yet spread widely in countries where food insecurity is pervasive, most notably in Sub-Saharan Africa. However, infection and morbidity rates have risen exponentially, particularly in the poorer, highly populated residential areas of South Africa (Southern Africa's largest economy), where the infection rate surpassed 5,000 cases per day by mid-July.³

The historic plunge in oil prices, the fall in ethanol production and the deceleration in feed demand has led to sharp drops in maize prices. At the same time, protectionist trade policies, albeit temporary, has raised concerns over global flows of wheat and rice. The combination of **continued depressed demand** and normal supply volumes is likely to keep markets under pressure.⁴

Activities such as **storage and transportation** have been affected significantly more than primary production, especially in South Asian and Sub-Saharan African countries that depend on imports of agricultural products. Countries such as Malawi, Nepal and Uganda are vulnerable as shipments slow and their currencies devalue against the dollar, reducing their purchasing power. According to the Northwest Seaport Alliance, which operates the ports of Seattle and Tacoma, **total container volumes in March were down 21%**, bringing their year-on-date first-quarter decline to 15.4%.⁵ The Chinese Global Television Network reported a **25%–30% reduction in shipping demand around the world** and that tankers and ships were being used for storage on the high seas.⁶

In most countries, wholesale and retail trade of agricultural produce has continued because of its status as an essential service. Consumer demand fell drastically during the initial hard lockdown period, but it increased marginally as restrictions eased. Demand remains below normal levels, affecting volumes purchased from agri-SMEs and smallholder farmers. Early estimates had predicted that most major economies would lose at least 2.4% of the value of their gross domestic product (GDP) over 2020, leading economists already to reduce their 2020 forecasts of global economic growth down from around 3.0% to 2.4%. To put this number in perspective, global GDP was estimated at around \$86.6 trillion in 2019 – meaning that just a 0.4% drop in economic growth would amount to almost \$3.5tn in lost economic output. However, these predictions were made prior to COVID-19 becoming a global pandemic and before the implementation of widespread restrictions on social contact to stop the spread of the virus. Since then, global stock markets have suffered dramatic falls due to the outbreak.⁷

The COVID-19 pandemic has hurt ancillary services for agriculture such as finance and investment, extension services and information and technology. In investment finance, for example, global financial institutions such as the International Finance Corporation (IFC) have moved to “retention of development gains as opposed to creating new ones”.⁸ To achieve this, the IFC has adopted a three-phase approach to dealing with its investees in the agricultural sector: **relief, restructuring and recovery**.

On the positive side, production of key staple crops (maize, rice, soybeans and wheat), is unlikely to suffer major disruption. This is particularly the case in major exporting countries where much of the production is mechanised, relatively little labour input is required and production takes place in areas with dispersed, naturally socially distanced populations.⁹ CASA focus value chains that showed a similar trend were mainly field crops, where most of

³ www.coronatracker.com/country/south-africa/.

⁴ AMIS (2020) “Market Monitor”. No. 78. May.

⁵ <http://en.sisi-smu.org/index.php?c=article&id=18718>.

⁶ CGTN (2020), 27 May.

⁷ www.statista.com/topics/6139/covid-19-impact-on-the-global-economy/.

⁸ CASA (2020) “[Rethinking agri-business investment through the pandemic](#)”, e-convening. 30 April.

⁹ AMIS (2020) “Market Monitor”. No. 78. May.

the cultivation and on-farm production processes were minimally affected (beans and sesame). However, fisheries in Malawi were disproportionately affected because fishing vessels could not venture out due to government restrictions. Significant disruptions were also experienced in Nepal's dairy and vegetables value chains because of the products' perishability and the unavailability of critical inputs such as seed and fertilisers.

However, with COVID-19 and its economic fallout now spreading in the poorest parts of the world, many more people will become poor and food insecure. In a recent scenario analysis, the IFPRI food security portal estimated that, globally and without interventions, **over 140 million people could fall into extreme poverty** (that is, below the \$1.90 poverty line) in 2020 – an increase of 20%. This in turn would drive up food insecurity. IFPRI projects a contraction in global economic output of 5% in 2020. The poorest nations will face significantly greater adversity.¹⁰

3 Agri-SMEs before COVID-19

Significant value addition and employment is created along agricultural value chains in the form of agricultural trade, farm services and inputs, agro-processing, urban retailing and food services. The middle of the food value chain is particularly important, as it is the closest the market gets to the farmer. This midstream consists of traders, transporters and processors, which connect farmers with downstream retailers. The midstream constitutes about 40% of the total gross value of the value chains in Sub-Saharan Africa, the same as the share from farms. Together, they are the essence of food value chains in Africa.¹¹

About 80% of the midstream of the value chains is made up of SMEs. These are the motors of the value chain transformation and of off-farm rural employment.¹² These agri-SMEs are often overlooked in agribusiness development interventions, which usually focus either on the farmer or on large, corporate agribusinesses. Factors influencing the effective participation of agri-SMEs in national and global supply chains include access to finance and investment, access to secure markets, access to information, choice of value chain (as the complexities of value chains differ) and storage and transportation.

4 Investment in agri-SMEs before COVID-19

Starting in the 1950s, many governments established agriculture development banks or capitalised commercial banks with mandates to lend to smallholders at below-market interest rates. In the 1970s, fuelled by past failures, microfinance institutions and some commercial banks began providing microfinance in rural areas. This approach, too, faced challenges, as most microfinance providers (excepting some in Asia) ultimately did not sustain their outreach to smallholders. However, a drive at the beginning of the 21st century to connect farmers to financial services has ushered in a new era of farmer finance. Stakeholders from several fields (agricultural development, financial inclusion and information and communication technologies for development) have found common ground to provide agri-SMEs and smallholder farmers with tools for financial empowerment.¹³

Low formal lending to agri-SMEs

The gap today between the supply of and need for smallholder finance is significant. Even the projected growth of 7% per year in smallholder finance from formal finance providers will not significantly reduce the gap over the next five years. Credit provided by both informal and formal financial institutions, as well as value chain actors, currently only amounts to an estimated \$50bn of the more than \$200bn needed for smallholder finance in Sub-Saharan

¹⁰ www.foodsecurityportal.org/policy-analysis-tools/covid-19-impacts-global-poverty.

¹¹ AGRA (2019) "Africa agriculture status report".

¹² AGRA (2019) "Africa agriculture status report".

¹³ Dalberg Global Development Advisors (2016) "Inflection point: unlocking growth in the era of farmer finance".

Africa, Latin America and South and Southeast Asia. In addition, agricultural insurance reaches just 10% of smallholders.¹⁴

Many commercial investors do not invest in agricultural projects due to perceived high risk and relatively low financial returns, and DFIs and impact investors are increasingly filling the gap. Nonetheless, growth in agricultural investments is still constrained by a number of factors, including high transaction costs to reach remote rural populations, the absence of adequate instruments to manage risks, low levels of demand due to fragmentation and value chains that are still developing, and the lack of expertise of financial institutions in managing agricultural loan portfolios. These factors explain the relatively minor share of agriculture in the portfolios of some leading multilateral and bilateral DFIs, which ranges from 2% to 21% and averages 7%.¹⁵

Investment funds in agriculture operate with a defined social impact goal of improving the livelihoods of smallholder farmers by primarily investing in agri-SMEs that provide improved access to goods, services, quality employment opportunities and markets. The investments are intended to facilitate the growth of these businesses so they can scale their engagements with smallholder farmers through procurement or sales strategies. Typically, these funds use debt, quasi-equity and equity. They emphasise self-liquidating structures, because of the limited liquidity and exit environments in the nascent formalised developing-country agricultural sector.¹⁶

According to the 2019 impact investor survey conducted by GIIN, investors' allocations reflect demand for impact capital across sectors. Respondents overall indicated significant allocations to financial services (13% to microfinance and 11% to other financial services), energy (15%) and food and agriculture (10%). However, food and agriculture is the most common sector for investment: 58% of respondents reported some allocation to the sector, suggesting smaller-than-average investment sizes. Half the investors reported planning to increase their allocations to food and agriculture and 48% to energy, reflecting continued interest in these sectors.¹⁷

¹⁴ Dalberg Global Development Advisors (2016) "[Inflection point: unlocking growth in the era of farmer finance](#)".

¹⁵ TechnoServe (2020) "[A review of inclusive technical assistance in agriculture deployed by development finance institutions](#)".

¹⁶ Adapted from GIIN (2012) "[Diverse perspectives, shared objective: collaborating to form the African Agricultural Capital Fund](#)".

¹⁷ GIIN (2019) "[Annual impact investor survey](#)".

5 COVID-19 impacts through a market system lens

Agribusiness value chains are interconnected, so this report uses a market system lens to analyse and understand disruptions induced by COVID-19 and to recommend possible interventions. In addition, the report identifies emerging trends and impacts of the pandemic on agri-SMEs using specific examples and data from case studies in Malawi (aquaculture and poultry), Nepal (dairy and vegetables) and Uganda (sesame and beans). It focuses on agri-SMEs that source from smallholder farmers. The approach provides guidance for understanding the role of SMEs in market systems (analysis) and on how to bring about effective change (action). The analysis identifies the underlying causes (rather than the symptoms) of weak market systems that impede agri-SMEs from achieving sustainable commercial participation in agribusiness value chains. It draws on evidence from the six CASA focus value chains. Our recommended interventions therefore seek to leverage the actions of key market players (private and public) to bring about sustainable systemic change, now and beyond the immediate COVID-19 crisis, as highlighted in Figure 1.

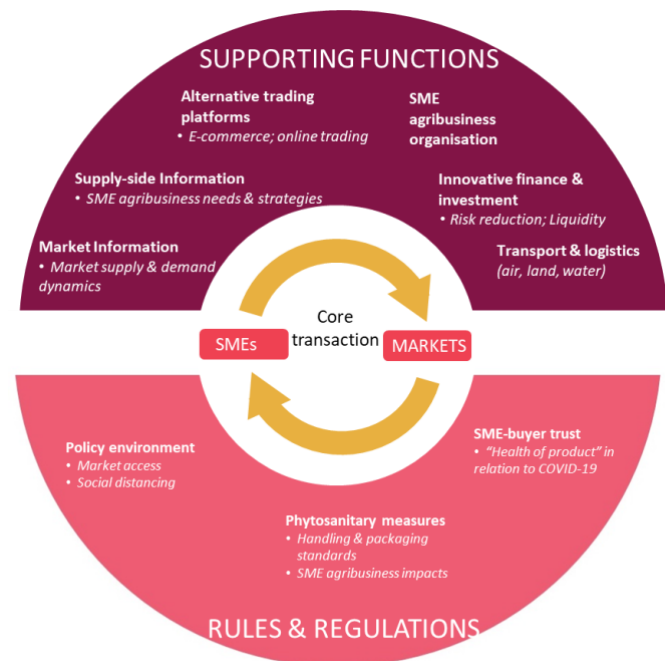


Figure 1: Illustrative agribusiness market system

Source: adapted from the Springfield Centre Operational Guide (2015)

6 Market access and financing for SMEs

Agri-SMEs are important for agricultural value chains and local food security in most developing countries. About 80% of food produced for local consumption in Africa is sold through SMEs; they generate 25% of rural employment, augmenting the 40% generated at farm level in the form of wage and self-employment.¹⁸ According to the Organisation for Economic Co-operation and Development (OECD), the majority of companies in Southeast Asia are SMEs and these provide employment to most of the workforce.¹⁹ In Nepal, for example, small-scale subsistence production units and micro and small collection-and-processing units dominate the dairy sector, which accounts for 33% of agricultural output, contributes 9% to GDP and provides employment to 130,000 people.²⁰ Smallholders and agri-SMEs are dominant in the Nepalese vegetable sector: they employ a combined 3.2 million people, which also contributes 9% to GDP.²¹

¹⁸ AGRA (2019) "[Africa agriculture status report](#)".

¹⁹ López González *et al.* (2019) "[Participation and benefits of SMEs in GVCs in Southeast Asia](#)". OECD Trade Policy Papers, No. 231.

²⁰ CASA (2020) "[Dairy sector strategy](#)". Nepal Country Team, April.

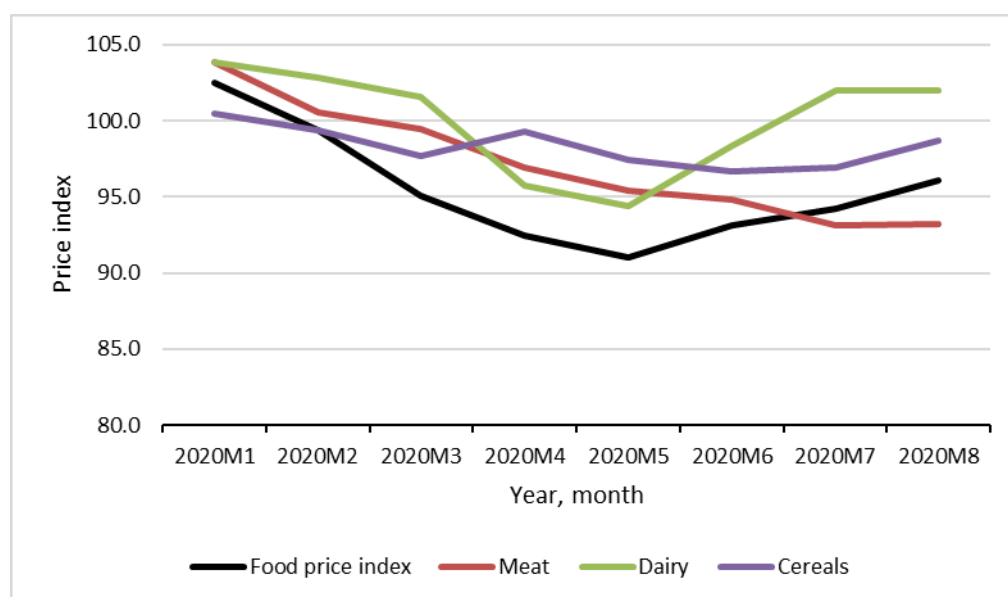
²¹ ILO (2019) "[Eight ways to grow Nepal's agricultural sector: a rapid market assessment and ranking of agriculture subsectors](#)".

6.1 Evidence from market analysis

Emerging evidence shows that, in countries already hit by acute hunger, people are increasingly struggling to access food as incomes fall and food prices rise. Box 1 highlights the movements of key food price indices monitored by the FAO.

By reducing incomes and increasing food prices, the COVID-19 crisis has diminished the access of both rural and urban households to adequate nutritious food.²² According to the June²³ and August²⁴ 2020 FEWSNET Malawi reports, the impact on rural household food security was mitigated by the availability of food from the April to June harvests. However, income for farmers, traders and other agri-SMEs was reduced by disruptions in activities due to the pandemic. Small traders of grain interviewed by APRA reported reduced market access and supply from smallholder farmers during the lockdown in Malawi. The food security status of rural households in Malawi is expected to come under stress over time, as food stocks are depleted and savings decline. Acute food insecurity was reported in low-income rural and urban households in Uganda, as the pandemic reduced incomes.²⁵ The international price of cereals increased between March and April, but then declined, according to the FAO Food Price Index (Figure 2). As of June 2020, a quarter of households in Nepal were reported to be food insecure: levels of food insecurity in April 2020 were similar to those during a typical lean season – September and October.²⁶

Figure 2 The FAO Food Price Index for January–August 2020



Source: FAO (2020)

²² www.worldbank.org/en/topic/agriculture/brief/food-security-and-covid-19.

²³ <https://fews.net/southern-africa/malawi/food-security-outlook/june-2020>.

²⁴ <https://fews.net/southern-africa/malawi/food-security-outlook-update/august-2020>.

²⁵ <https://fews.net/east-africa/uganda/food-security-outlook-update/august-2020>.

²⁶ www.futuredirections.org.au/publication/nepal-faces-an-unenviable-situation-as-covid-19-precautions-deal-a-blow-to-food-security/.

Box 1: Food price indices

World food commodity prices declined for the third month in a row in April, as the economic and logistical impacts of the COVID-19 pandemic resulted in significant contractions in demand for many commodities.

The FAO Food Price Index, which tracks international prices of the most commonly traded food commodities, averaged 165.5 points in April, 3.4% lower than the previous month and 3% lower than in April 2019.

The FAO Sugar Price Index hit a 13-year low in April, declining 14.6% from March, following an even larger drop from February to March. Collapsing international crude oil prices reduced demand for sugarcane to produce ethanol, diverting output to sugar production. Meanwhile, confinement measures in a number of countries resulted in additional downward pressure on demand.

The FAO Vegetable Oil Price Index declined 5.2% in April, driven lower by falling palm, soy and rapeseed oil prices. Reduced biofuel demand played a role, as did declining demand from the food sector. In addition, palm oil output in Malaysia was higher than expected, as were soy crushings in the US.

The FAO Dairy Price Index fell by 3.6%, with butter and milk powder prices posting double-digit drops amid increased export availability, mounting inventories, weak import demand and diminished restaurant sales in the northern hemisphere.

The FAO Meat Price index declined 2.7%. A partial recovery in import demand from China was insufficient to balance a slump in imports elsewhere, while major producing countries suffered logistical bottlenecks and a steep fall in demand from their food services sectors due to stay-at-home measures. The pandemic is affecting both the demand for and the supply of meat. Restaurant closures and reduced household incomes are leading to lower consumption. Labour shortages are impacting just-in-time production systems in major livestock producing countries.

The FAO Cereal Price Index declined only marginally, as international prices of wheat and rice rose significantly while those of maize dropped sharply. International rice prices rose in April by 7.2% from March, due in large part to temporary export restrictions by Vietnam that were subsequently repealed. Wheat prices rose 2.5% amid reports of a quick fulfilment of the export quota from the Russian Federation. In contrast, prices of coarse grains, including maize, fell by 10% because of reduced demand for its use in animal feed and biofuel production.

Source: FAO Food Price Monitor, May (2020): www.fao.org/worldfoodsituation/foodpricesindex/en/

Despite abundant family labour due to closures of schools and other institutions, the lockdown and related COVID-19 restrictions still had significant impacts. Country-level evidence and insights were gathered through RMAs in Malawi, Uganda and Nepal. Using the market system lens as an organising framework, we first assess COVID-19 impacts within the value chain supporting functions. We highlight finance and investment in agri-SMEs, given the importance of access to finance and investment. We then focus on the core value chain level to understand demand and supply dynamics. Finally, we assess impacts on the regulatory functions to understand any policy effects the pandemic has had on the agribusiness market system and agri-SMEs in particular.

6.2 The dynamics supporting functions

Supporting service providers such as impact investors, banks, microfinance institutions, input suppliers, extension service providers and transporters play an important facilitating role in the agribusiness market system. These services ensure that activities within the core value chain – such as production (coupled with productivity), buying and selling – are carried out as efficiently as possible to bring value to the end consumer. COVID restrictions have hampered these services and therefore affected the entire agribusiness market system.

Impact investors, for example, have adopted a cautious approach, preserving development gains rather than seeking new ones as they wait to see how disruptions will affect the companies they have invested in. New investments have also suffered, because impact investors cannot carry out in-person due diligence exercises.

6.2.1 Disruption of input supply channels

Agri-SMEs supplying inputs, such as agro-dealers that advance seeds and fertilisers to smallholder farmers, cannot perform this service at present because they cannot access working capital from banks and MFIs. These SMEs are concerned that inputs advanced to farmers on credit will not be recovered. In Uganda, area co-operative enterprises (ACEs) and producer organisations have little or no working capital to stock up with the required inputs, and there are reports of an increase in counterfeit seeds on the market to take advantage of the gap left by ACEs and producer organisations.²⁷

In Nepal, agri-SMEs and farmers stated there is likely to be a shortage of vegetable seeds and fertilisers for use in the coming season due to interruptions in collection and supply. Lockdowns in South Africa and Zambia disrupted the import of inputs such as poultry vaccines and floating fish feed into Malawi, which will adversely affect the productivity of these sectors in the absence of adequate local supplies.²⁸

6.2.2 Lack of advisory services

Evidence from the field in Sub-Saharan Africa and South Asia shows that COVID-19 restrictions have directly reduced access to extension and advisory services. Extension officers could not travel beyond certain geographical boundaries in some countries, while the numbers of farmers per advisory group was restricted to adhere to social distancing guidelines. In Uganda, farmers and SMEs made efforts to collect money to help extension workers travel to distant villages.²⁹ In Nepal, farmers received some technical support from agrovet shops, but these shops also require technical support, as they ordinarily only sell inputs without significant technical advice.³⁰

6.2.3 Low use of mobile technology and e-commerce platforms

As COVID-related restrictions make in-person meetings difficult, digital platforms could be an effective way to carry out a variety of activities, such as processing loan applications. Use of these technologies is currently low in Sub-Saharan Africa and South Asia. In Sub-Saharan Africa, e-commerce is held back by underdeveloped logistics, low internet use, the lack of a mass affluent class and the existence of large rural populations. However, the region also contains large, youthful consumer bases, offering the potential to expand e-commerce. In 2018, mobile subscriber penetration in the region was just 44%, well behind the global average of 66%.³¹ In Uganda, stakeholders said that partners such as the Bank of Uganda could use their digital financial services trainers to encourage ACEs to adopt digital payment technologies such as mobile money, e-vouchers and e-wallets.³²

6.2.4 Disruption of transportation and logistics services

Agri-SMEs usually transact with village-level aggregators who that sell their products to traders in major towns and cities. Traders facilitate transportation of these products to urban markets and fulfil contracts from institutional buyers. This system has been significantly

²⁷ www.futuredirections.org.au/publication/nepal-faces-an-unenviable-situation-as-covid-19-precautions-deal-a-blow-to-food-security/.

²⁸ CASA (2020) "[COVID-19: CASA partners' issues and possible programme responses](#)".

²⁹ CASA (2020) "[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda](#)". June.

³⁰ CASA (2020) "The implications of COVID-19 lockdown on farming sector of Nepal: rapid response survey". May. Unpublished CASA country intervention report.

³¹ www.zdnet.com/article/mobile-in-sub-saharan-africa-can-worlds-fastest-growing-mobile-region-keep-it-up/.

³² CASA (2020) "[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda](#)". June.

curtailed by COVID-19 restrictions on movement and further compounded by the closure of most institutional markets, in turn reducing the demand for transport services. In Nepal, where milk demand and sales have already fallen, limited transportation options have further affected dairy companies' ability to ship finished goods and transport raw materials for processing.³³

Traders and farmers in Ethiopia, Ghana, Malawi and Nigeria stated that reduced transportation harmed their operations and contributed to increased costs for both outgoing farm products and incoming production inputs. Similarly, in Nepal, inputs became less available and prices increased. Logistics businesses involved in the transportation of agro-products in Ghana reported challenges in repairing vehicles and lower availability of drivers due to movement restrictions, according to the APRA market assessment.

6.2.5 Reduced capacity of agri-processors

COVID-19 has had a significant impact on agri-SMEs' operations. Out of 30 dairy companies surveyed in Nepal during the early stages of the pandemic, only one was fully operational, while 26 were only operating partially. Of those in some form of operation, more than half reported decreases in milk collection volumes of over 50%. In Uganda, there is usually a huge demand for cash at the beginning of the harvest season, as aggregators must organise the collection of beans from satellite centres and make immediate cash payments to smallholders. However, this has been hampered because agri-processors have scaled back their business operations due to reduced demand and their inability to access bridging finance to pay for utilities and working capital. This means the demand by agri-processors for beans from aggregators has reduced significantly.

6.3 Financing and investment – a key support function

SME financing was already relatively difficult before COVID-19 because of perennial issues such as eligibility, collateral and low financial returns. According to the IFC, 40% of formal micro, small and medium enterprises (MSMEs) in developing countries have an unmet financing need, amounting to a combined annual total of \$5.2tn.³⁴

Impact investors require both financial and social returns: over 60% of impact investors surveyed by GIIN in the 2019 Impact Investor Survey stated they expected market-related financial returns. As a result, most impact investors slowed their activities as the pandemic broke out. According to UNCTAD, foreign direct investment (FDI) might fall by 30% to 40% during 2020 and 2021 relative to 2016 levels. Significant reductions in FDI have already been observed in Sub-Saharan Africa.³⁵

A survey carried out on 1201 businesses in 109 countries by the International Trade Centre (ITC) between 20 April and 4 May 2020 showed that 60% of businesses have been affected by the pandemic. The survey found that 74% of African and 59% of Asia-Pacific region businesses were strongly affected and faced challenges in both the supply and demand. A quarter of MSMEs were at risk of permanently closing within three months because they had less valuable assets and lower cash reserves than larger businesses. Based on findings from the African Management Institute, over 50% of small and growing businesses will require a loan of up to \$50,000 to survive the COVID-19 crisis. Furthermore, over 47% of businesses were finding it difficult to access information on government assistance programmes. There are also regional disparities. Business owners in Sub-Saharan Africa and South Asia are currently least likely to receive any financial assistance.³⁶

³³ CASA (2020) "[Rapid market assessment – Nepal: dairy and vegetable sector](#)". May.

³⁴ IFC (2017) "[MSME finance gap: assessment of the shortfalls and opportunities in financing micro, small and medium enterprises in emerging markets](#)".

³⁵ OECD (2020c).

³⁶ Copley *et al.* (2020) "Pandemic through a gender lens", Africa Gender Innovation Lab, World Bank.

6.3.1 Traditional lenders' low appetite

COVID-19 disruptions have affected the liquidity positions of most agri-SMEs, increasing their need for credit. In Uganda, financial services providers are facing difficulties recovering existing loans from these SMEs. There has been escalating demand for loans (for monetary and agricultural inputs) and savings at all levels have fallen radically. Agri-SMEs are grappling with an acute lack of working capital, as the appetite of conventional sources for risk has fallen due to a drastic reduction in deposits since the onset of COVID-19 restrictions.³⁷ Coupled with the limited appetite of lenders for lending, the level of formal borrowing by SMEs and farmers in Sub-Saharan Africa is low. This is highlighted in the summary findings of the APRA assessment in Box 2 and in more detail in Annex 6.

Box 2: Low formal borrowing by SMEs in Sub-Saharan Africa

Low formal borrowing by agri-SMEs and smallholder farmers in Sub-Saharan Africa

In the APRA assessment, none of the agri-SMEs surveyed in Ethiopia accessed financing from banks or microfinance institutions. A few SMEs were borrowing money from relatives or benefiting from government tax exemptions. Over 80% were making use of their own savings or re-investing profits to run their businesses. About a third of the grain traders in Malawi had access to financing, mainly through credit facilities with farmers who supplied them. In Ghana, about 48% of surveyed farmers and agri-SMEs in the cocoa and palm oil value chains had access to financing in the form of bank loans, credit financing, government subsidies (for large-scale farmers), credit unions, investment co-financing or funds from family members. Less than 30% of SMEs in Nigeria's maize, rice and cocoa value chains had access to financing, with banks and group lending schemes identified as sources of financing.

Of SMEs accessing formal financing, 20% in Ghana and 41% in Nigeria reported increased difficulties, because institutions had stopped issuing new loans and because group loan schemes and other microfinance institutions had limited funds.

Source: Author analysis of APRA assessment data

In addition to financial measures such as liquidity and cashflow support, investors and financial institutions are also providing advice to management and increasing the availability of technical support and sources of information.³⁸ CDC, for example, is focusing on three key areas in its response to COVID-19.

³⁷ CASA (2020) "[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda](#)". June.

³⁸ CDC has developed the Investment Works Guide for SMEs.

Box 3: CDC focus areas in response to COVID-19

Preserve: supporting our partners to safeguard impact and weather the crisis

CDC has investments in over 1200 companies in South Asia and Africa, employing over 800,000 people. Our first priority is to support our current investee businesses that have been affected by this global crisis, whether by providing finance or advice.

Strengthen: scaling up our response to the economic and health challenges of the crisis

Beyond assisting our current investees, we are also looking at how we can extend our support – whether that means working with local banks to provide the working capital that businesses, for example, need or exploring investments that can scale up access to healthcare and basic services.

Rebuild: a long-term partner to the countries where we invest

This pandemic will take many months to play out and its effects will be felt long after it is over in the countries where we invest. We know that finance and support from institutions like CDC will be critical to the rebuilding process. We will stand firm with our investee companies and support the countries where they operate through the pandemic and beyond to recovery and prosperity.

Source: www.cdcgroup.com/en/covid-19-response/

Financial measures

Globally, most investors and financial institutions are now focusing on providing financial assistance to current investees. They are providing access to working capital, loans, grants to meet operational costs, grants to pay for sick leave or care leave and benefits such as health insurance and income for workers who have been rendered inactive.

Table 1 summarises some of the financial measures that are being implemented by various investors and financial institutions. Some, such as The Netherlands Development Finance Company (FMO) investment bank, are **restructuring the loans of businesses in distress** with the goal of avoiding bankruptcy or default and the attendant loss of jobs. Other options include extending the due dates of liabilities, acceptance of partial repayments, late-fee waivers, suspension of foreclosures, reduction of loan rates, extension of overdrafts, interest-free overdrafts and bridging loans.

Financial resources are being provided to support other institutions, such as those providing health services and those exploring investments that can increase access to healthcare and basic services. Support is being provided to local finance providers and banks to lend working capital to SMEs (Table 1). CDOs, particularly those based in emerging markets, require financial support to continue operating and providing business and technical support to SMEs.

Provision of advisory support

Impact investors have an important role to play through providing advice and engaging and influencing management, as most SMEs have limited human resources or financial management skills. Technical support and advice can be provided on local and international sources of finance and on the judicious use of additional financing to maintain operations and provide protection for workers. This applies to especially vulnerable groups such as casual and temporary workers, migrants, women and people with disabilities. About 34% of blended finance transactions have provided a combination of pre- and post-investment technical assistance, according to a 2019 convergence study. CDC and TechnoServe (as part of the CASA programme) provide insights into technical assistance provision to agri-SMEs, as summarised below. TechnoServe, in a study commissioned by the CDC Group in 2019, have proposed a method of classifying types of technical assistance according to the primary objectives and beneficiaries. Four categories have been identified for agri-SMEs:

core business development services, inclusive business support, value chain development and market development.³⁹ The CDC’s COVID-19 Business Response Facility (Table 1) is another example of technical assistance provision.

Table 1: Support for SMEs from impact investors and financial institutions

Organisation	Financial measure	Technical support and collaboration
CDC	<ol style="list-style-type: none"> 1. Grants (up to £160,000 per company) under the COVID-19 Business Response 2. Funding (£25,000 per company) for customised expertise, advisory and capacity building to navigate the crisis 3. Medium-term capital for entrepreneurs 4. Guarantees to local institutions to help address the risks 5. Catalyst portfolio — takes on more risk and accepts lower returns for additional development impact 	<ol style="list-style-type: none"> 1. COVID-19 Business Response Facility advisory on adapting and upscaling 2. <i>COVID-19 Emergency Technical Assistance Facility</i> will support the development of specific guidance for companies on how to respond to the crisis 3. Potential for collaboration with local banks, e.g. with Standard Bank in Sierra Leone during the Ebola crisis
DFI Alliance: US International DFC, FinDev Canada, Association, European Development Finance Institutions (EDFI), 15 “bilateral” member institutions	<ol style="list-style-type: none"> 1. Liquidity provision through existing clients or relationships 2. Support local financial institutions that lend to SMEs and women-owned businesses 3. The Dutch development bank FMO is also working with current clients: liquidity financing, loan restructuring, local currency lending and guarantees 	<ol style="list-style-type: none"> 1. Due diligence technical support through sharing processes and pipelines 2. Exploring how different DFIs might be able to share their due diligence processes and pipelines 3. Collaboration on loan pricing
Alitheia Capital, Nigeria	<ol style="list-style-type: none"> 1. Grants and loans for working capital support 	<ol style="list-style-type: none"> 1. Co-investors have asked Alitheia to lead on due diligence, since it is a local partner based in Africa
GIIN Response, Recovery, and Resilience Investment Coalition (R3 Coalition)	<ol style="list-style-type: none"> 1. Fill financing gaps and quickly deploy capital 	<ol style="list-style-type: none"> 1. Connect investors and aim to highlight investment opportunities 2. Share learnings, insights and resources with the wider investment community
Village Capital-led coalition	<ol style="list-style-type: none"> 1. Invest about \$500,000 in the next few months 	<ol style="list-style-type: none"> 1. Boost collaboration around due diligence and investment pipelines 2. Peer evaluation of potential investments – online
COVID Response Alliance for Social Entrepreneurs	<ol style="list-style-type: none"> 1. About \$750m mobilised 2. 17,500 social entrepreneurs within their network 3. Across 190 countries 	<ol style="list-style-type: none"> 1. Support social entrepreneurs in pooling knowledge, experience and responses 2. Highlight available rapid response funding under one umbrella 3. Collaboration between over 40 global organisations 4. Co-ordinate between member organisations

³⁹ TechnoServe (2020) “[A review of inclusive technical assistance in agriculture deployed by development finance institutions](#)”. June.

Organisation	Financial measure	Technical support and collaboration
UNCDF SME Fund	1. Invest \$50m towards SME stabilisation and resilience to strengthen SMEs below the radar of DFIs and the formal banking sector	1. Support MSMEs that are not ordinarily supported by DFIs and mainstream credit providers

Investor influence can also be used to encourage responsible governance within SMEs, for example by ringfencing funds to pay wages and salaries to protect workers' incomes.⁴⁰ Guidance can also be provided on health compliance during the pandemic.

Increased collaboration – sharing due diligence processes and pipelines

Travel restrictions due to the COVID-19 pandemic have made it impossible to carry out in-country due diligence exercises on potential investees. Impact investors do not yet have the ability to conduct remote online due diligence, which makes decisions on new investments difficult. One approach being explored is to increase co-operation among DFIs so that they share due diligence information among several impact investors. The DFI Alliance, Alitheia Capital and the Village Capital-led coalition have been exploring how due diligence processes and pipelines can be shared (Table 1). The COVID-19 pandemic may even lead to **increased collaboration among investors and financial institutions** through unprecedented alliances and coalitions, as well as the development of new impact investment models.

6.4 Core value chain dynamics

6.4.1 Farm-level production and labour dynamics

Farming generally continued unrestricted during COVID lockdowns, as most government guidelines advised against abandoning cultivation and declared agriculture an essential service. Evidence from country-level assessments revealed that the pandemic did not result in significant disruptions to the first planting season in Uganda or to crops that were already in the ground in Nepal. The impact came with the onset of the harvest season. Labour became scarce; the little available labour increased in cost; and the movement of labour became difficult, especially for migrant workers in the border districts of Ntungamo and Kabale in Uganda.⁴¹ In Ethiopia, Ghana and Nigeria, agri-SMEs faced reduced availability of workers due to absence, social distancing requirements and transport difficulties, and some SMEs had to pay higher wages. In contrast, a few smallholder farmers in rice and palm oil farming reported increased access to family labour as a result of the lockdown.⁴²

6.4.2 Storage and post-harvest management

Demand has been reduced by the closure of restaurants, schools and other institutions, and farmers are unable to sell the bulk of their produce. At the same time, there is a lack of storage and post-harvest processing facilities. The combination will likely lead to post-harvest losses and lower-quality beans. Evidence from Uganda revealed that the lack of adequate post-harvest storage facilities have slowed and complicated the process of aggregation by the ACEs and other traders.⁴³ A recurring theme in West Africa was the shortage of packaging materials, especially imported ones. This led agri-SMEs in Ghana to

⁴⁰ CDC (2020) "COVID-19 guidance for investors and financial institutions on job protection", CDC Group, in association with Ergon.

⁴¹ CASA (2020) "[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda](#)". June.

⁴² Author analysis from APRA Assessment data.

⁴³ Author analysis from APRA Assessment data.

switch to local packaging for cocoa products. Smaller and new types of packaging were also used, and containers and rooms for palm oil were cleaned frequently.⁴⁴

6.4.3 Inability to access credit

Many smallholder farmers rely on informal sources of financing or on input taken on credit from agri-dealers, or agrovets in the case of Nepalese dairy and vegetable farmers. These informal sources of finance, while helpful, are also relatively expensive compared to formal sources. However, both informal and formal sources of liquidity and working capital for inputs such as seeds, fertiliser and pesticides have dwindled because of COVID-19 supply chain disruptions. In Nepal, smallholder farmers are trying to switch to organic fertilisers, as they do not have the money to buy from the few agrovets that are operating. However, it takes a long time to make organic fertiliser, which might not be ready in time for the next planting cycle.⁴⁵ In Uganda, extension workers noted that COVID-19 had exacerbated pre-existing credit and liquidity constraints among agribusiness SMEs: 69% of agri-SMEs surveyed reported no access to credit after the lockdown restrictions on movement to urban centres.⁴⁶ In Ethiopia, none of the agri-SMEs surveyed had previously accessed financing from banks or microfinance institutions, but this was predominantly through credit facilities extended by smallholder farmers in the form of products advanced as consignment stock to be paid for after the trader had sold the grain. In Ghana, the market was more advanced: about 48% of farmers and SMEs in the cocoa and palm oil value chains accessed formal financing, mainly in the form of bank loans and government subsidies, but this was only possible for large-scale farms and agri-SMEs.⁴⁷

6.4.4 Demand reduction and market access

There has been a discernible decrease in demand for some agricultural products, due in large part to the closure of restaurants and institutional buyers such as hotels and schools. Staples such as beans in Uganda experienced an upsurge in demand, driven mainly by government purchases for relief feeding purposes. This resulted in a significant drop in year-on-year export volumes of beans out of Uganda. In Nepal, all the milk co-operatives surveyed in an RMA conducted in May reported decreases in milk collection, sales and revenue. The main reasons for the decreases were closures of local markets and reduced demand from dairy processors. Milk co-operatives reduced their milk collection volumes to align with the reduced demand, but this affected smallholder dairy farmers. Farmers reported that they either sold milk at giveaway prices or had to throw some away, as they did not have the storage space for it. In Ghana, Malawi and Nigeria, a few SMEs reported increased supplies in cocoa, maize and palm oil because there were fewer buyers than before lockdown: some had scaled down operations or completely shut down.⁴⁸

6.4.5 Increase in business costs

Evidence from the rapid assessments conducted by APRA in Ethiopia, Ghana, Malawi and Nigeria revealed that agri-SMEs are experiencing an increase in their operational costs as a result of COVID-19. Agri-SMEs are providing water and soap or sanitiser – or else contributing money towards them – in the communities where they are active. Other changes include the fumigation of buildings, health check-ups and permitting workers to go on voluntary leave. These changes contributed to increased business expenses.⁴⁹ Annex 1 gives a detailed analysis of the price and quantity dynamics resulting from the pandemic,

⁴⁴ Author analysis from APRA Assessment data

⁴⁵ The Implications of COVID-19 Lockdown on Farming Sector of Nepal, Rapid Market Assessment, May 2020. Unpublished report.

⁴⁶ CASA (2020) "[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda – bean sector](#)".

⁴⁷ Author analysis of APRA assessment data.

⁴⁸ Author analysis of APRA assessment data.

⁴⁹ Author analysis of APRA assessment data.

focusing on aquaculture, beans, dairy, poultry, sesame and vegetables – the value chains CASA focuses on.

6.5 Regulatory environment dynamics

Governments around the world have instituted various forms of lockdown and prepared health facilities to care for the sick. Some have also brought in rules on social distancing, making workers wear personal protective equipment (PPE) and introducing health practices such as the use of hand sanitisers. Agri-SMEs reported that some of these measures increased their operational costs at a time when their revenues were falling. To mitigate these impacts, some governments have instituted stimulus packages to shore up operations of agri-SMEs.

In Uganda, agri-SMEs said the most important interventions by the government were the extension of loan terms and the reduction of financing costs for SMEs, as well as the extension of tax payment deadlines to the Uganda Revenue Authority. In Nepal, to provide liquidity to the financial system, the Nepal Rastra Bank lowered its cash reserve ratio from 4% to 3% and reduced the interest rate on the standing liquidity facility rate from 6% to 5%. In addition, the size of the Refinance Fund was increased to provide subsidised funding for banks willing to lend at a concessional rate to priority sectors, including SMEs in agriculture affected by the pandemic.⁵⁰ In Ethiopia, the National Bank set aside a \$450m liquidity facility for private banks to support businesses adversely affected by COVID-19. As noted earlier in the report, however, most of the agri-SMEs interviewed had not accessed any of this funding at the time of the assessment, primarily due to failure to meet qualifying criteria such as tax compliance and collateral.⁵¹

6.5.1 Reductions in base lending rates

The reduction of base lending rates by central banks supported easier financing terms for SMEs. The Bank of Uganda, for example, cut its central bank rate by 100 bps to an all-time low of 7%. The aim was to improve access to finance for businesses, especially MSMEs. In Uganda and Malawi, none of the agri-SMEs participating in the assessment had accessed cheaper financing from banks as a result of this measure. In Ghana, however, larger cocoa agri-SMEs reported having accessed cheaper finance thanks to a reduction in the central bank base rate.

6.5.2 Extensions of tax payment deadlines

To improve the liquidity position of agri-SMEs, a variety of measures were taken in different countries. Some examples from Uganda are the following:

- deferral of corporate income tax or presumptive tax payments for tax-compliant businesses
- deferral of PAYE tax payments until September 2020 for tax-compliant businesses facing hardship due to COVID-19
- waiving of penalties and interest on tax arrears accumulated before 1 July, to lessen the tax liabilities of businesses who voluntarily comply with their tax obligations
- fast-tracking VAT refunds by revenue authorities

6.5.3 Liquidity support

Central banks across the world injected capital to provide liquidity support for banks so they could lend to depressed sectors, including agriculture. In Rwanda, the central bank announced an extended lending facility worth approximately \$50m available to liquidity-constrained banks over six months: banks could borrow at the policy rate and benefit from

⁵⁰ IMF (2020) "Policy responses to COVID-19".

⁵¹ Annexes 3–6.

longer maturity periods. In Uganda, the government allocated \$25m to microfinance institutions to improve access to finance for MSMEs. It also increased Uganda Development Corporation funding for public–private partnerships. The Uganda Development Bank will receive approximately \$272m over the medium term so it can offer low-interest financing to manufacturing, agribusiness and other private sector firms.⁵² None of the agri-SMEs participating in the Uganda market assessment had accessed liquidity support via the government-supported facility.

To facilitate quicker access to information on such initiatives and to the funds available, governments should legislate to support e-commerce initiatives. One challenge is payment processes and mechanisms, where enabling policies and regulations for mobile money and digital payment systems will help expand digital markets and e-commerce for agriculture. In addition, legal frameworks must be adapted and modernised to encourage stakeholders to adopt e-commerce.⁵³ Another challenge is logistics, in which the application of food safety and traceability standards are particularly sensitive.

7 Recommendations

Development innovations from the recent past can be repurposed to protect livelihoods during the mitigation phase of the pandemic response. In particular, **fintech and mobile technology** can help vulnerable populations through interventions such as working capital support, mobile-transaction platforms and mobile information dissemination.⁵⁴

7.1 Digitisation and technology

E-commerce

In some developing countries in Latin America, agricultural e-commerce and local supply chains have increased sharply during the COVID-19 pandemic, primarily to fill the gap in essential food supplies. According to the FAO, B2C and B2B e-commerce platforms have facilitated access to perishable products such as fruits, vegetables, dairy products, meat, fish and semi-prepared and prepared foods. B2C e-commerce has increased, both in its mobile e-commerce modalities – i.e. those carried out from web platforms or applications dedicated to that end – and social e-commerce, which uses a social network as a marketing platform. A study of information and communication technologies conducted by CASA in September 2020 to improve the investment readiness of agri-SMEs revealed that 58% of the agri-value added services providers interviewed had experienced increased demand for their services since the beginning of the COVID-19 crisis, particularly regarding their role in facilitating cashflows and access to credit. The ability of agri-value added services to reinforce or develop value chain connections was also highlighted.⁵⁵

The use of digital technology at the farm level and among agri-SMEs such as traders and wholesalers will give them a better understanding of the quantity of products available so they can adjust prices accordingly. Banks, insurance companies and other financial institutions will also be able to customise their products for rural communities. Finally, consumers will benefit from the traceability, safety, quality and lower prices of food products. In Uganda, the CASA programme is putting mobile payment platforms with smallholder suppliers in place, while in Nepal the programme is piloting e-commerce business platforms with 10 SMEs and helping other SMEs to find new markets through social media and online platforms.

⁵² www.oecd.org/coronavirus/country-policy-tracker/.

⁵³ FAO (2020) “[Food systems and COVID-19 in Latin America and the Caribbean: the opportunity for digital transformation](#)”. June.

⁵⁴ www.cgdev.org/publication/covid-19-development-innovation-agenda-economic-and-financial-lens.

⁵⁵ CASA (2020) “[Information and communication technologies for Improving investment readiness of small and medium agribusinesses](#)”.

The FAO recommends investing in the creation of digital platforms with related services (inputs, finance, storage, logistics) that will help keep e-commerce solutions active. To facilitate linked services, it is essential to work with a variety of stakeholders within the agribusiness market system. Platforms should be designed with multiple access routes so they interoperate with and handle data from various types of devices and information systems in real time.⁵⁶

States and governments can promote inclusive e-commerce through some of these measures:⁵⁷

- implementing information monitoring systems, such as meta-searches for price comparisons between different online food suppliers and directories of MSMEs. This will help consumers make the right decisions and inhibit price speculation
- developing programmes for conversion to e-commerce – the offline-to-online migration of MSMEs in the food sector, as well as of producer organisations (production co-operatives, trade associations) and consumer organisations (consumer co-operatives). Agri-SMEs in Uganda pointed to the quick turnaround times of mobile-based credit applications compared to in-person interactions⁵⁸
- applying digital technology to logistics management in the agri-food system. This requires precise interactions, since profitability depends largely on the ability to locate products accurately and frequently. Technology can enable applications such as the real-time quantification of stocks, product tracking throughout the chain and more efficient transport

Digital platforms for **matchmaking and market linkages** can “match” agri-SMEs with farmers and buyers so they can continue trading under current restrictions. In Colombia, La Canasta is an organic delivery platform integrating producers and consumers. Weekly deliveries are based on a *canasta* (basket) of seasonal and fresh organic fruits, vegetables, root crops and eggs. Every *canasta* comes with a short print article about one of the delivered products and a recipe that uses it.⁵⁹ In Nepal, Paicho Pasal, a vegetable agri-SME, has started taking **online orders for door-to-door delivery** and is now looking for investor support to increase its scale.⁶⁰

Remote technology

The use of **drones to deliver agribusiness products directly** should be explored, given the success of this technology in delivering medical supplies. One such company in the US, Zipline,⁶¹ enables health workers to place orders by text message. The drones can carry about 2 kg of cargo, fly at up to 140 km/h and reach their destinations in an average of 30 min, according to the company. Drones also help minimise the spread of COVID-19 between truck drivers and communities.⁶² Although still a nascent approach in developing countries, drones have been used to transport medical supplies in Rwanda with some success and can be explored for use in the agricultural sector.⁶³

Dealmakers could turn to drones to help complete transactions. In the US, Coty Inc. and its potential investors are considering conducting due diligence by flying drones over

⁵⁶ FAO (2020) “[Food systems and COVID-19 in Latin America and the Caribbean: the opportunity for digital transformation](#)”. June.

⁵⁷ FAO (2020) “[Food systems and COVID-19 in Latin America and the Caribbean: the opportunity for digital transformation](#)”. June.

⁵⁸ CASA (2020) “[Impact of COVID-19 on micro, small, and medium agribusinesses in Uganda – sesame sector](#)”, May.

⁵⁹ Annex 4.

⁶⁰ CASA (2020) “[COVID-19: CASA partners’ issues and possible programme responses](#)”, May.

⁶¹ Zipline was launched in Rwanda in October 2016.

⁶² www.devex.com/news/remote-technologies-find-a-role-in-covid-19-response-97056.

⁶³ [https://en.wikipedia.org/wiki/Zipline_\(drone_delivery\)](https://en.wikipedia.org/wiki/Zipline_(drone_delivery)).

manufacturing facilities.⁶⁴ Impact investors could consider doing this in Sub-Saharan Africa and South Asia.

Tele-advisory and tele-mentoring services for farmers and agri-SMEs could make up for reduced contact hours with extension officers and business mentors.

Digital financial services

Digital financial services can help address chronic challenges in the value chain, especially those that the traditional sector cannot fully address, as in rural markets. Until now, digital financial services for farmers have been held back by high infrastructure costs and a lack of incentive to adapt products to their specific needs. In Nepal, for example, 87% of agri-SME transactions are cash-based, due to **low levels of digital and financial literacy** and a lack of trust in digital financial technology.⁶⁵

Digital services can nevertheless be particularly useful in rural areas and when external situations, such as the pandemic, prevent access to branches. Moreover, innovative insurance and financing products can be created by combining farmer profiles with satellite images, weather stations, sensor networks, digital warnings and big data analysis.

7.2 Financial services

Liquidity support for working capital

Impact investors should seek to create innovative financial products and vehicles to avoid a liquidity crunch that could wipe out decades of their investment efforts. Working capital facilities and concessional credit will be crucial for bridging agri-SMEs through the current economic downturn. Table 1 and Annex 1 highlight some funds and initiatives being deployed by impact investors and DFIs. Liquidity support can also be channelled to MFIs and banks to on-lend to SMEs – just as central banks inject liquidity into their financial systems via commercial and development banks.

Flexible funds

Many grants that support agri-SMEs include significant restrictions on their use. However, the most urgent financial needs of agri-SMEs now are operational concerns such as payroll and rent. Many funders have recognised this and 40 major US-based and international foundations have committed to more flexible funding to help partners meet emergency needs prompted by the COVID-19 crisis.⁶⁶ Impact investors and DFIs can also loosen or eliminate their current restrictions on grants. They could convert project-based grants to unrestricted support, accelerate grant payment schedules or not hold grantees responsible if they have to postpone or cancel conferences, events and other project deliverables.⁶⁷ Finally, investors can make new grants as unrestricted as possible to give investees maximum flexibility.

Loan pricing

Loan pricing cannot be fully determined by the market during the crisis period. This is partly because markets are not functioning, and market prices are often not observable. It is also because crises are times when impact investors and DFIs must function as first movers and bear some of the costs and risks themselves. In addition, the case for increasing the share

⁶⁴ www.bloomberg.com/news/articles/2020-04-10/dealmakers-plan-to-fly-drones-to-keep-m-a-on-track-in-pandemic.

⁶⁵ CASA (2020) "The implications of COVID-19 lockdown on the farming sector of Nepal", May. Unpublished CASA country intervention report.

⁶⁶ www.fordfoundation.org/the-latest/news/top-foundations-pledge-flexible-funding-to-grantees-in-wake-of-covid-19-crisis/.

⁶⁷ www.cof.org/news/call-action-philanthropys-commitment-during-covid-19.

of lending in a local currency becomes stronger in a crisis, as exchange rate volatility drives up repayment risk. DFIs, working together as in the case of The Currency Exchange Fund, can hedge currency risk by using diversified currency pools and differences in currency risk between regions.⁶⁸

Impact investors and DFIs must plan for significant balance sheet damage to their own accounts, as well as to the accounts of investee agri-SMEs. Investors cannot play a useful role in these circumstances without such damage. The challenge is to identify how to manage the damage and how reserves and other resources can best be used to address it. One avenue is to develop a robust pipeline for post-crisis investments so as to be ready with a promising set of investments when growth resumes. The main priority now should be to keep agri-SMEs, firms and banks solvent and operational.⁶⁹

8 Facilitating investment readiness support

To meet the needs of firms working to rebuild markets, impact investors should be seeking to create innovative financial products and vehicles to avoid a liquidity crunch that could wipe out decades of investing for social impact. Key global development innovations of the recent past can be repurposed to protect livelihoods during the mitigation phase of the pandemic response. Innovations highlighted above in fintech and mobile technology can be leveraged to reduce the economic costs of COVID-19 mitigation efforts for smallholder farmers and agri-SMEs.

It is crucial that investors and creditors should protect their portfolio firms and provide liquidity to see them through this period. DFIs should take on additional risk and exposure. Existing investors should build pipelines so that investing can begin again rapidly. However, existing vehicles are not sufficient for the challenges of SMEs and entrepreneurs in developing markets.⁷⁰

Investment vehicles are the first line of defence in this crisis phase, since they can move quickly and are already working closely with their investees to inject liquidity and defer payments on existing loans, according to the Consultative Group to Assist the Poor. However, investors' ability to provide support is constrained by their risk appetites and their shareholders' resources, which may be limited.

Behind them are bilateral and multilateral DFIs, which have deeper pockets and a strong development focus, enabling them to backstop investors that are more commercial. DFIs are already mobilising resources and will be instrumental in bolstering the balance sheets of commercially minded investors. However, DFIs are also meant to generate a return, so they cannot be expected to support losses indefinitely.

The third line of defence is investment support stakeholders, which may be needed to backstop more commercial sources of finance. A few are already working with DFIs on blended facilities that will provide vehicles to absorb greater risk during the COVID-19 crisis. The sector also needs to prepare for the possibility of bailouts and the consolidation of weaker institutions if the crisis persists. That process will require both financial and technical assistance.⁷¹

⁶⁸ www.cgdev.org/publication/eight-principles-dfi-crisis-response.

⁶⁹ www.cgdev.org/publication/eight-principles-dfi-crisis-response.

⁷⁰ www.cgdev.org/publication/covid-19-development-innovation-agenda-economic-and-financial-lens.

⁷¹ www.cgap.org/blog/cgaps-response-covid-19-coronavirus.

8.1 Working with local partners

Pandemic-related restrictions have resulted in abrupt changes for impact investors. In a GIIN survey in July 2020, 76% of investors said they were constrained by the inability to travel to meet with prospective investees, and 32% said that social distancing restrictions restricted their ability to meet with investees, co-investors and limited partners. This reduction in in-person engagement opportunities limits investors' abilities to reach a sufficient level of assurance to move forward with potential investments and negotiate investment terms.⁷² In the absence of in-person visits, investors said they were increasing relying on their existing relationships, including those with co-investors and local service providers such as consultants and advisors. Most commonly, investors have increased their use of reference checks with locally based contacts and co-investors to confirm the viability of prospective investees views of a business' operations and impact potential and to discuss an investee management team's vision and skillsets. Investors described a particularly enhanced use of reference checks to confirm and triangulate insights when conducting due diligence on new investment opportunities and deploying additional capital to companies already within their portfolios.⁷³

8.2 Strengthening business development service provision

Access to mentorship, networks and other tools and services could support investment readiness among agribusiness SMEs, especially as countries ease lockdown restrictions and investment pipelines begin to move. Other services could include access to technical assistance providers, incubators, accelerators, CDOs, entrepreneur networks and researchers.

8.3 Urgent funds

Many CDOs have developed business models that minimise the use of grant funding, putting them at peril given the current inability of SMEs to pay for services. This has created a critical need for new money to cover urgent short-term needs – primarily, helping CDOs to avoid laying off experienced, knowledgeable staff members so they can continue to support SMEs.⁷⁴

8.4 Help companies adhere to health regulations

Farmers, food processors and distribution channels are required to comply with protocols to reduce virus transmission routes and ensure consumer protection. Digital partnerships mean that auditing and origin verification processes can be carried out in seconds instead of days, contributing to compliance, safety and confidence among users and consumers. One example is a resilient food distribution model IBM is building, called IBM-Food Trust, which allowed origin logistics tracking at no cost until 20 August 2020.⁷⁵

⁷² GIIN (2020) "[The impact investing market in the COVID-19 context: response, recovery, and resilience investment coalition](#)", July.

⁷³ GIIN (2020) "[The impact investing market in the COVID-19 context: response, recovery, and resilience investment coalition](#)". July.

⁷⁴ https://ssir.org/articles/entry/how_funders_can_help_save_an_economic_engine_of_the_developing_world.

⁷⁵ Identifying and vetting these suppliers can be time-consuming and drains critical resources. IBM Rapid Supplier Connect provides emergency supplier onboarding and inventory availability. It is a consolidated source for buyers to meet non-traditional suppliers and see their inventory availability. IBM offered IBM Rapid Supplier Connect™ to buyers and qualifying suppliers initially at no cost until 31 August 2020.

Box 4: Key features of recovery investment vehicles

Key design features for COVID-19 recovery investment vehicles will include:

- flexible and customised instruments
- smaller investment tickets for DFIs and private equity fund investments; terms that meet the specific needs of innovators in developing countries; monetary and non-monetary support; and the construction of a pipeline for commercial investors downstream
- long-term, patient capital through a permanent capital vehicle
- local currency financing to match investment capital with the capital needs of business
- an investment strategy focused on benefiting the world's poorest
- a model designed to establish a track record, enabling more participation by non-concessional investors as the recovery strengthens

Source: CGDEV, available at www.cgdev.org/publication/covid-19-development-innovation-agenda-economic-and-financial-lens

9 Conclusion

The COVID-19 pandemic has disrupted the global agribusiness market system, the operations of agri-SMEs that source from smallholder farmers and the activities of impact investors looking to invest in those businesses. Financing and investment are critical to the sustainable operations of agri-SMEs as they facilitate technology upgrades, adequate working capital and access to markets. The demand for investment and financing has risen as participants try to cope with the COVID restrictions along the agribusiness value chain – but so too have the risks for investors. Restrictions on air, sea and domestic travel, combined with periods of national lockdown, have resulted in lower demand for some agricultural products; reduced trade in agricultural commodities; diminished risk appetite among traditional financial services providers; capital flight from developing markets such as Africa and South Asia; and the incapacitation of agri-SMEs suffering from low revenues and inadequate liquidity for working capital.

Many agri-SMEs play the roles of wholesalers, traders, transporters and processors – facilitating linkages between smallholder farmers and the rest of the value chain and keeping national and global supply chains functioning effectively. As a result, an inability to safeguard agri-SME operations during the pandemic will severely incapacitate the entire agribusiness market system.

However, the pandemic could also act as a catalyst for positive supply chain changes that had been in the pipeline and can now be accelerated. The use of technology and digitisation – such as electronic payment platforms and B2C product-selling platforms – has been shown to safeguard the operations of agri-SMEs and smallholder farmers in those supply chains that have adopted these innovations. The difficulty of carrying out in-person due diligence processes could strengthen local transaction advisory partners in Africa and South Asia.

Impact investors, DFIs and financial services providers are exploring different avenues to support both existing and potential new clients. The major aims are to preserve the development gains that have already been made and to start developing a pipeline of investments for when a semblance of normalcy returns to agricultural markets. Investors are exploring ways to lower hurdles for new applicants, and they are also deferring certain deliverables and reporting milestones to enable existing clients to maintain positive credit ratings for future applications.

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World Bank (2020) “Food security and COVID-19”. Brief. 14 September. Washington DC. www.worldbank.org/en/topic/agriculture/brief/food-security-and-covid-19.

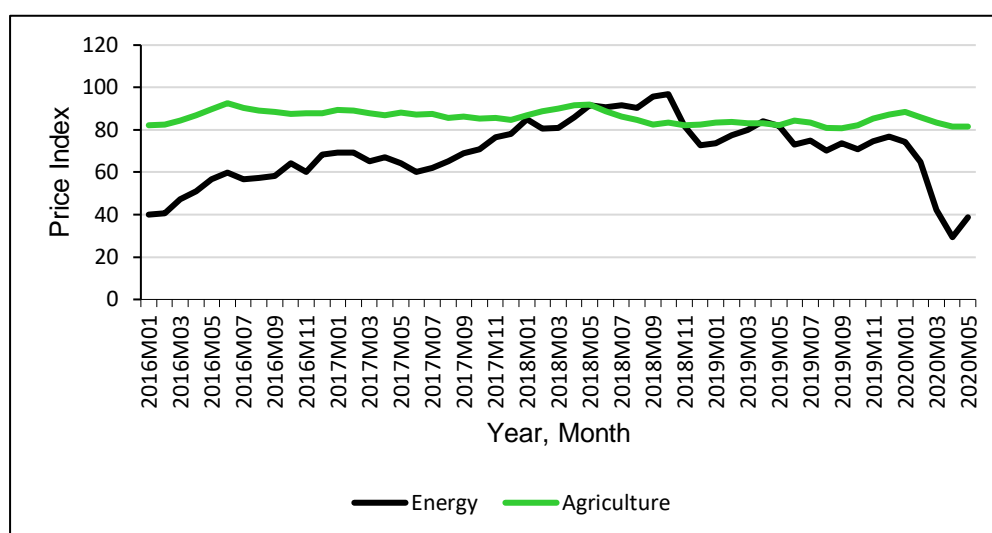
Annexes

Annex 1: Price and quantity dynamics of the CASA focus value chains

Price and quantity dynamics for select value chains

A comparison of trends in the first four months of the year showed a decrease in commodity indices of energy and agriculture during 2020 compared to trends during the same time in previous years (Figure A3). COVID-19 mitigation measures and the attendant reduction in economic activity led to a fall of 35% in the energy index in April relative to January, followed by a rebound in May 2020. In contrast, the fall in the agricultural commodities index was not as severe: the effect of COVID-19 on agricultural commodities appeared to depend on product demand, the labour intensiveness of production and/or processing and perishability.

Figure A3: Global price indices for energy and agricultural commodities, 2016–20



Source: World Bank (2020)

The disruption in transport networks has affected the trade in commodities according to the World Trade Organization Goods Trade Barometer, which recorded the index at 87.6 on 20 May, pointing to a sharp contraction in world trade extending into the second quarter of 2020.

Fishery and aquaculture

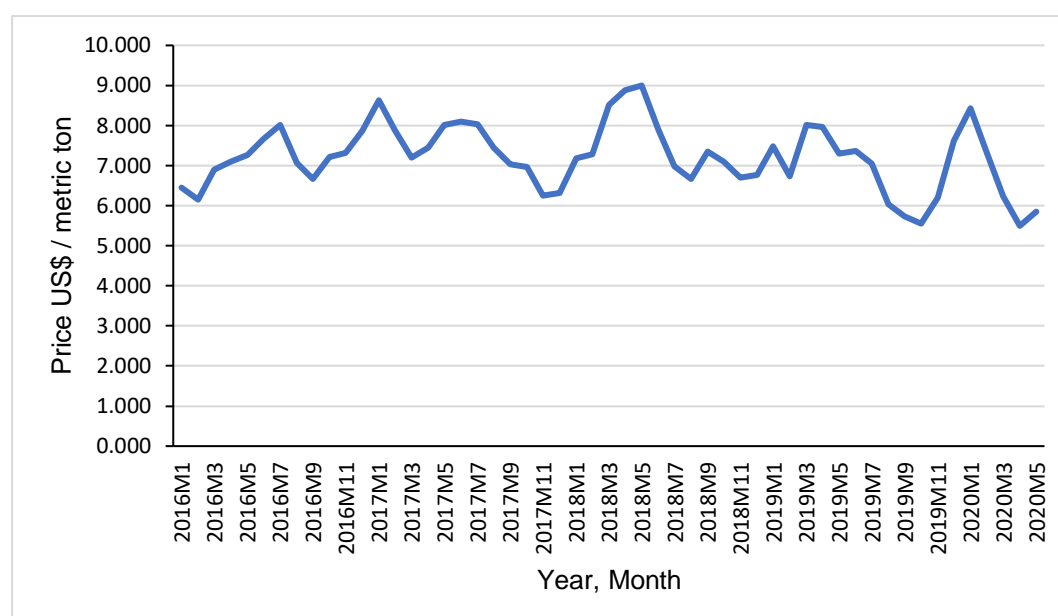
The global fish price decreased by 35% in April 2020 relative to January 2020. The decreasing trend in price as the first quarter of 2020 progressed contrasted with the increasing price trend observed during the same period during 2019, 2018, 2017 and 2016 (Figure A4). The price of fish in May 2020 increased by 6.6% relative to that in April 2020. The reduction in demand from the food service industry and volatile retail sales because of the lockdown measures implemented to mitigate against the spread of COVID-19⁷⁶ likely contributed to the fall in fish price. In Europe, high supply and low demand resulted in fish products being sold at discounted prices.⁷⁷ The fish sector relies heavily on the food services sector and the closure of restaurants, hotels and schools severely reduced demand,

⁷⁶ www.fao.org/in-action/globefish/market-reports/resource-detail/en/c/1271712/.

⁷⁷ FAO (2020) www.fao.org/3/ca7891en/ca7891en.pdf. European price report.

particularly for high-value fresh fish species.⁷⁸ As of mid-May 2020, a number of countries were beginning to ease restrictions and open schools and restaurants, which in turn may have increased demand for fish products.⁷⁹ Other consequences of the COVID-19 mitigation measures were increased air freight costs and cancellation of flights which affected transportation and the movement across borders of fish and fish products dependent on international trade. Both fish and seafood imports and exports fell steeply in the first three months of 2020, with the decline continuing into April (Figure A5). Reduced demand for fish and high transaction costs will have a knock-on effect on fish prices putting them beyond the reach of poor consumers.⁸⁰ In aquaculture, shortages of seeds, feed and vaccines may have resulted in reduced fish volumes in 2020. Due to restricted market access, processors, importers, exporters and traders are set to incur product quality losses and additional costs associated with storing products for longer than normal. Fish is a high-value commodity that requires significant human labour input whose supply has been disrupted by the restrictions on the movement of people across provincial and national boundaries. Contrastingly, these disruptions to global fish value chains may provide an opportunity for small-scale fish farmers due to reduced competition with fish imports.

Figure A4: Global fish prices, 2016–20



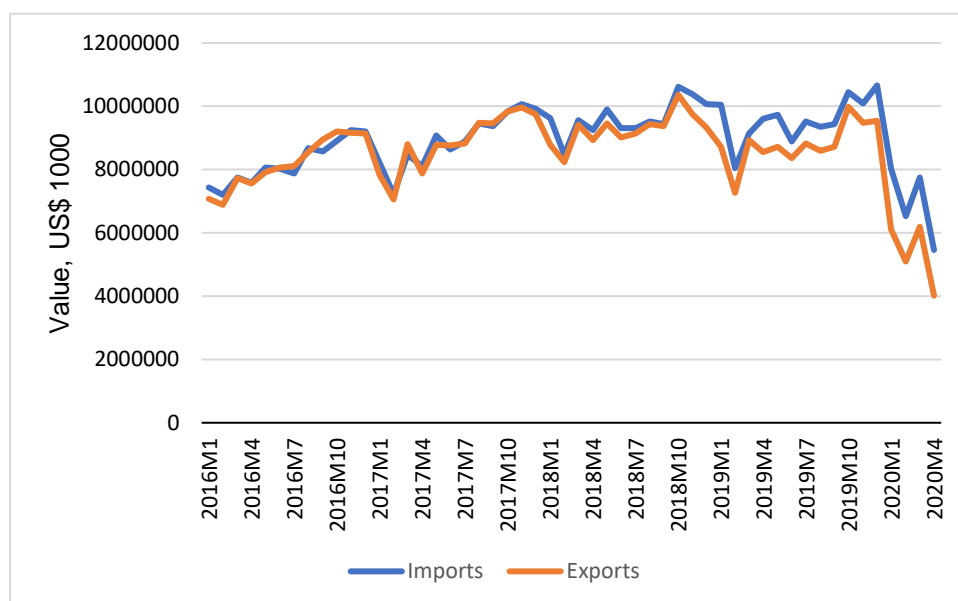
Source: IMF (2020a)

⁷⁸ <https://doi.org/104060/ca8637en>.

⁷⁹ www.eumofa.eu/documents/20178/376827/EUMOPA_COVID_WEEK+20.pdf/f8153864-1307-9677-3f36-99174827f80f?t=1590045857856.

⁸⁰ Johnston and Phillips (2020) "COVID-19 impacts on fish and aquatic food systems". www.worldfishcenter.org/pages/covid-19/.

Figure A5: Value of imports and exports of fish and seafood products, 2016–20



Source: ITC Access Map (2020)

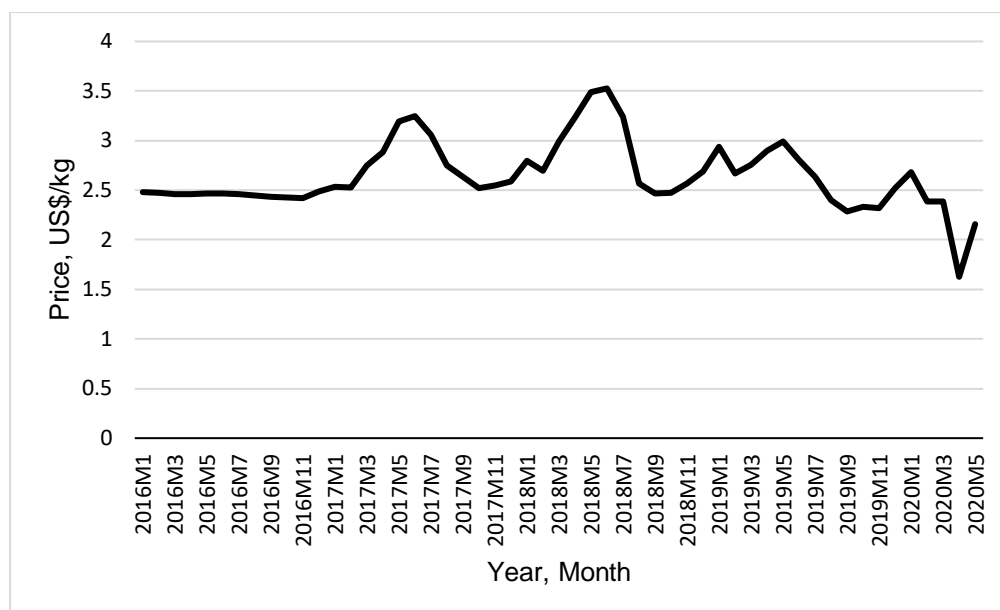
Poultry

The price of poultry fell between January and March 2020 relative to an increasing trend in price during the same period in the preceding four years (Figure A6). However, as of April 2020, the price of poultry appeared to be recovering. The price of chicken meat (in the local currency of 180 countries) changed on average by 5% between February and May 2020.⁸¹ Although the demand for chicken meat was expected to be more resilient to economic turmoil than red meat, the closure of the food services sector probably had a negative impact on demand. The trade in live poultry showed a sharp fall in both imports and exports during 2020 compared to similar periods in previous years (Figure A7). In April, the USDA decreased the forecasted global chicken meat trade by 4% due to the impact of COVID-19 on production and trade. As a result, a contraction of 1% in the world chicken meat trade during 2020 was predicted compared to last year due to disruptions in shipments between traders.⁸²

⁸¹ Datalab (2020) "FAO's big data tool on food chains under COVID-19 pandemic". Rome. <https://datalab.review.fao.org/dailyprices.html>.

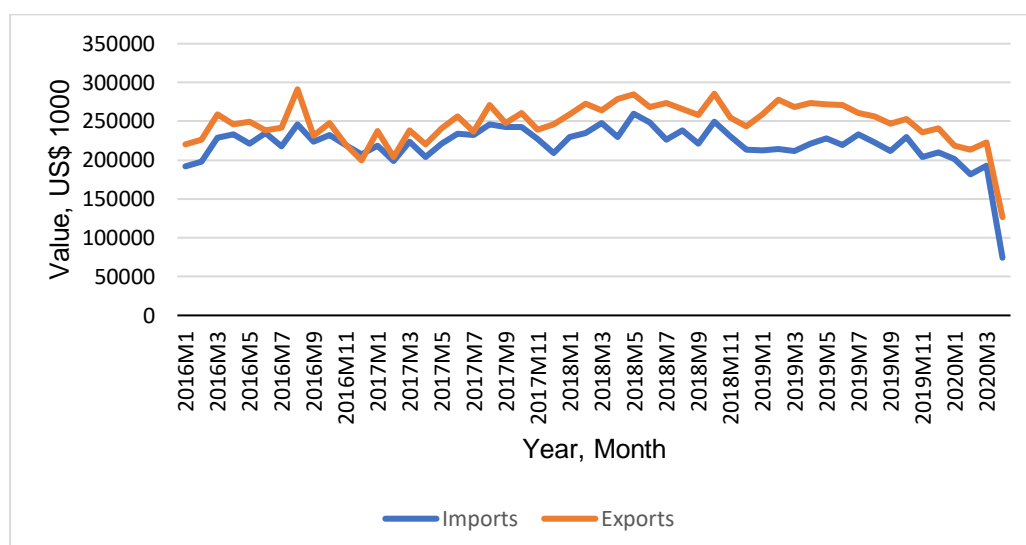
⁸² USDA (2020) "Livestock and poultry: world markets and trade COVID-19 upends global protein markets". https://apps.fas.usda.gov/psdonline/circulars/livestock_poultry.pdf.

Figure A6: Poultry monthly prices, 2016–20



Source: IMF (2020b)

Figure A7: Value of imports and exports of live poultry, 2016–20



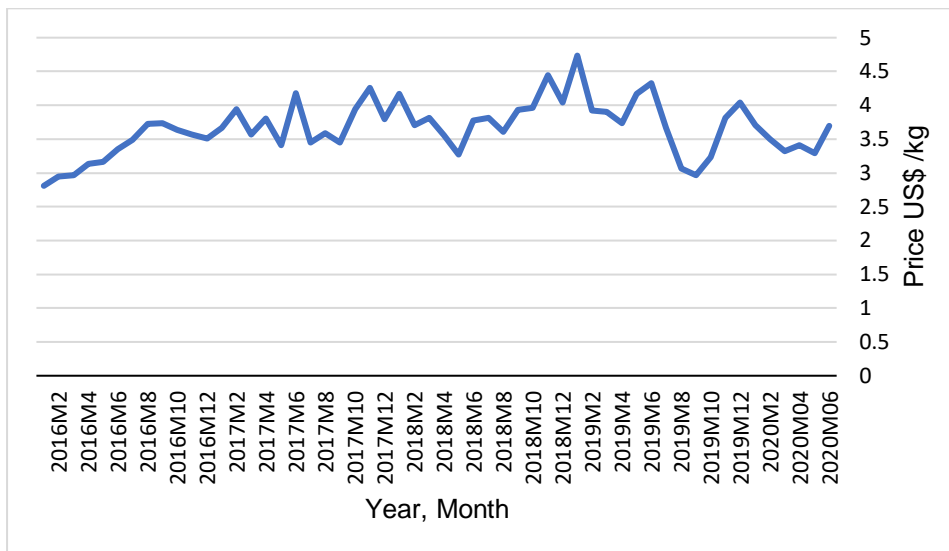
Source: ITC Access Map (2020)

Common beans

The price of beans fell between January and March 2020, followed by price fluctuations into May 2020 (Figure A8). Similar periods in previous years also showed a similar trend of fluctuating prices. Fluctuations were also observed in the value of traded beans over the past five years. During 2020, the decline in value of imports was reversed from March, while the value of exported beans fell to its lowest level in February, followed by an increase that peaked in March 2020 (Figure A9). Beans were one of the non-perishable products that saw an increase in demand

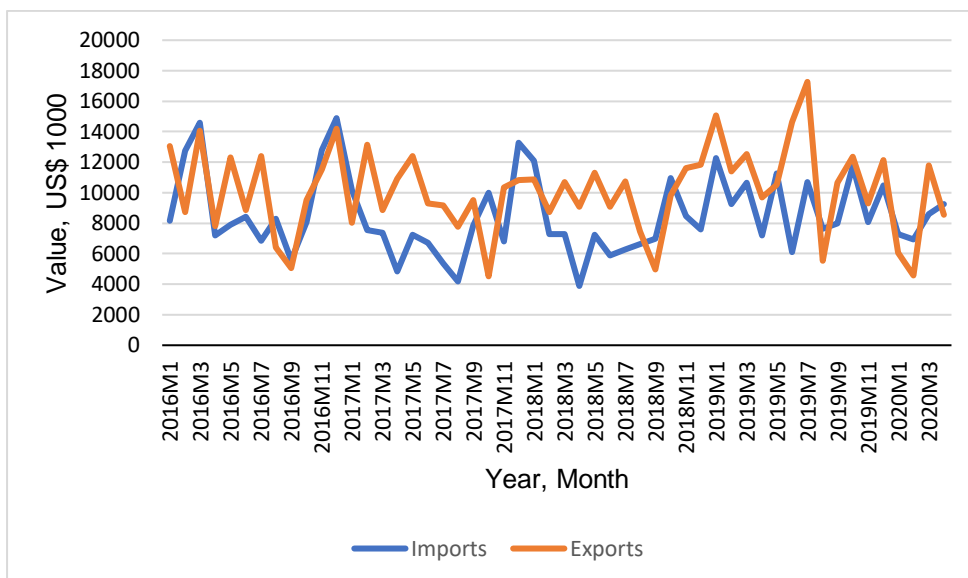
during the COVID-19 crisis,⁸³ with households reportedly stockpiling dry beans at the beginning of the lockdown. In contrast, the CASA RMA conducted in May 2020 showed that, in Uganda, the price of beans increased during lockdown and this was likely due to panic buying, scarcity as a result of disruptions in supply and the fact the government purchased large volumes for distribution as food relief to vulnerable urban and peri-urban households. A similar trend of an increase in price of beans during lockdown relative to before was reported in Malawi by APRA.

Figure A8: Monthly global bean price, 2016–20



Source: ITC Market Price Information (2020)

Figure A9: Value of imports and exports of dry beans, 2016–20



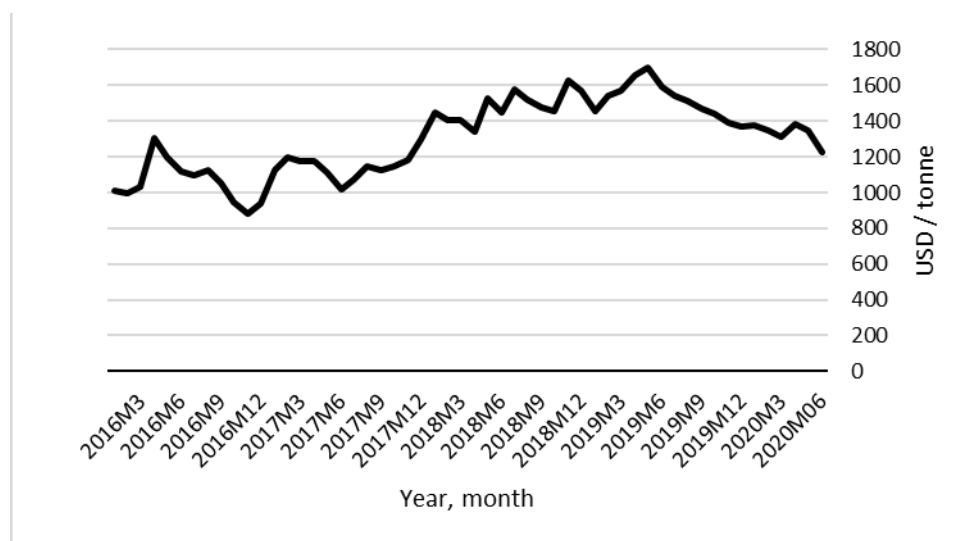
Source: ITC Access Map (2020)

⁸³ Tridge Market Insights (2020) www.tridge.com/stories/covid-19-update-ii-erratic-demand-for-food-products. 17 April.

Sesame

Sesame price showed a downward trend during the first three months of 2020 relative to the upward price trend observed during same period over the past four years (Figure A10). Although prices slightly increased between March and April, they continued to fall after April 2020. The fall in sesame prices in Tanzania, the largest producer in the world, was reported to be due to the uncertainty in the global market as a result of COVID-19 and the pandemic's effect on China the largest importer of sesame.⁸⁴ Sesame imports fell sharply in February 2020 relative to the trend in previous years where there had been an increase in imports during the same period (Figure A11). The period from January to May 2020 saw the lowest values for sesame exports in the past five years. India, the largest exporter of sesame seed, attributed the low exports in December 2019 and January 2020 to damage to sesame crops during November 2019, which resulted in reduced supply.⁸⁵ Although there was increased demand for commodities like sesame from March 2020, challenges in transportation and logistics due to COVID-19 adversely affected exporters, who faced issues such as container shortages, delays in vessels due to phytosanitary measures and/or denial of entry into ports, as well as delayed payments.⁸⁶ However, in Uganda, the price of sesame was reported to have almost doubled, selling at UGX 4500/kg prior to COVID-19 and UGX 7500/kg after. This was attributed to the limited supplies of the commodity on the market due to the lockdown and to disruptions in transport systems. However, farm-gate prices were reported to be much lower than those charged by middlemen, who were taking advantage of the uncertainty associated with the crisis.

Figure A10: Monthly price of sesame, 2016–20



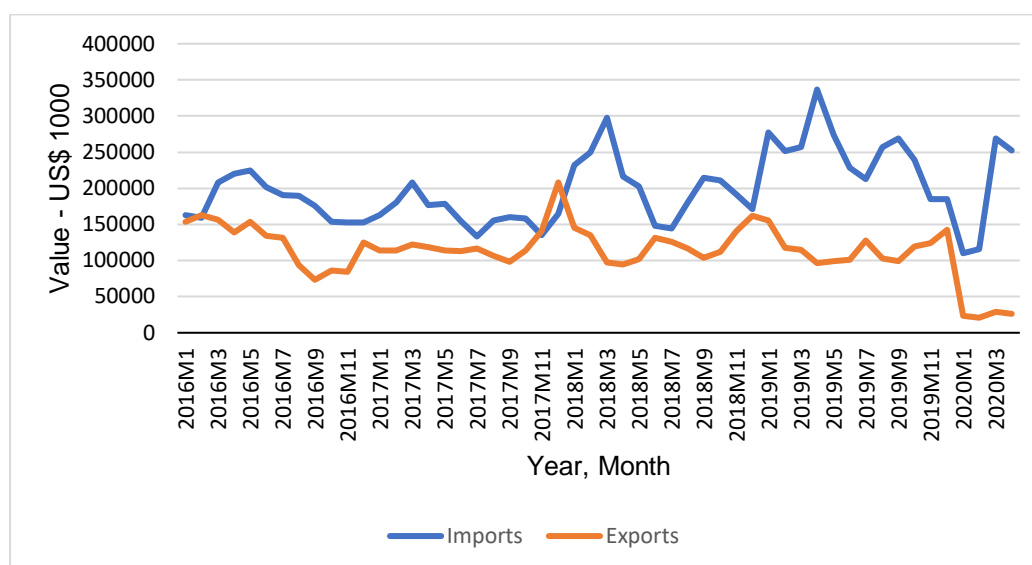
Source: ITC Market Price Information (2020)

⁸⁴ www.msn.com/en-za/news/other/sesame-prices-fall-due-to-global-market-uncertainty/ar-BB15IB1q. 19 June 2020.

⁸⁵ Tridge Market Insights (2020) www.tridge.com/insights/JOL-2E467E0D. 18 June.

⁸⁶ <https://economictimes.indiatimes.com/news/economy/foreign-trade/huge-demand-for-food-products-in-global-markets-due-to-covid-19-outbreak-india-can-tap-it-tpci/articleshow/74775766.cms?from=mdr> 23 March 2020.

Figure A11: Value of total imports and exports of sesame seeds, 2019–20



Source: ITC Access Map (2020)

Dairy

Dairy prices increased during January and February 2020, then fell from March 2020, which is at variance with trends observed in previous years during the same period (Figure A12). This was due to low buying volumes from food service accounts and decreased market demand.⁸⁷ Despite expectations dairy prices would rise during May 2020 due to the easing of COVID-19 restrictions and increases in dairy orders from the food service industry,⁸⁸ the index fell by 7.3% relative to April 2020. Although dairy prices did not fall as sharply as expected as a result of the COVID-19 pandemic, the return of dairy prices to pre-COVID-19 levels is expected to take some time, even with the easing of lockdown. This is because there will be limitations, such as seating restrictions, and extra caution by consumers in venturing out.⁸⁹ Both imports and exports of milk and cream declined sharply from March 2020 to reach their lowest values in the past five years (Figure A13). Disruption in supply chain logistics and reduction in demand resulted in reduced traded volumes and increased losses due to wastage and milk being dumped as storage space ran out.⁹⁰ The price of milk did not change for the majority of the respondents from SME dairy co-operatives and collection points interviewed during the CASA RMA in Nepal, as the price is set by the government.

⁸⁷ Dairy Market News (2020) "International dairy market news". 18–22 May. Volume 87, Report 21.

www.ams.usda.gov/mnreports/dybdairyinternational.pdf.

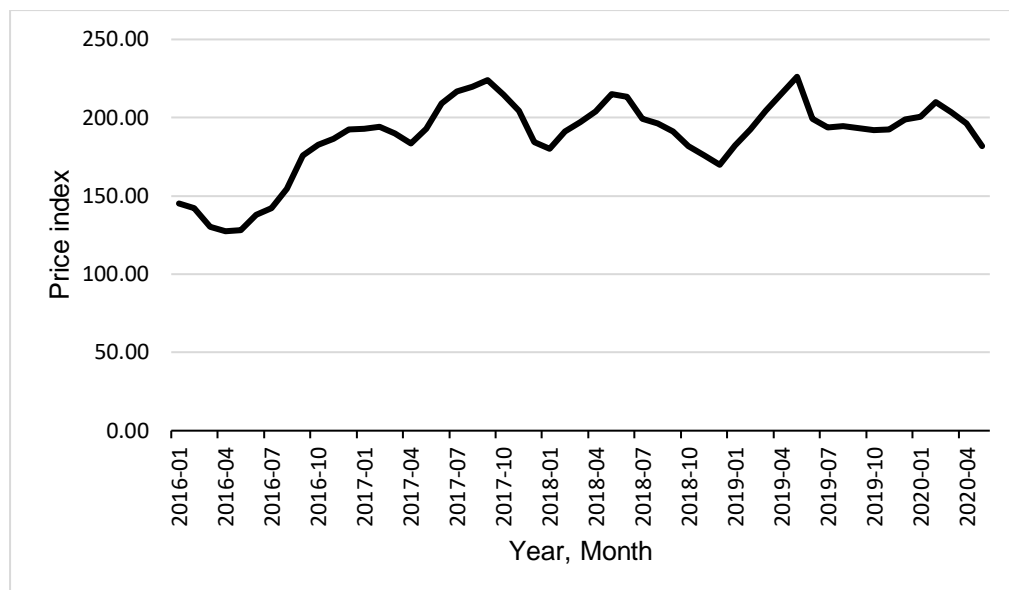
⁸⁸ Dairy Market News (2020) "International dairy market news". 18–22 May. Volume 87, Report 21.

www.ams.usda.gov/mnreports/dybdairyinternational.pdf.

⁸⁹ www.rabobank.co.nz/media-releases/2020/200616-improved-global-dairy-outlook-sees-lift-in-2020-2021-nz-milk-price-forecast-rabobank-report/. 16 June 2020.

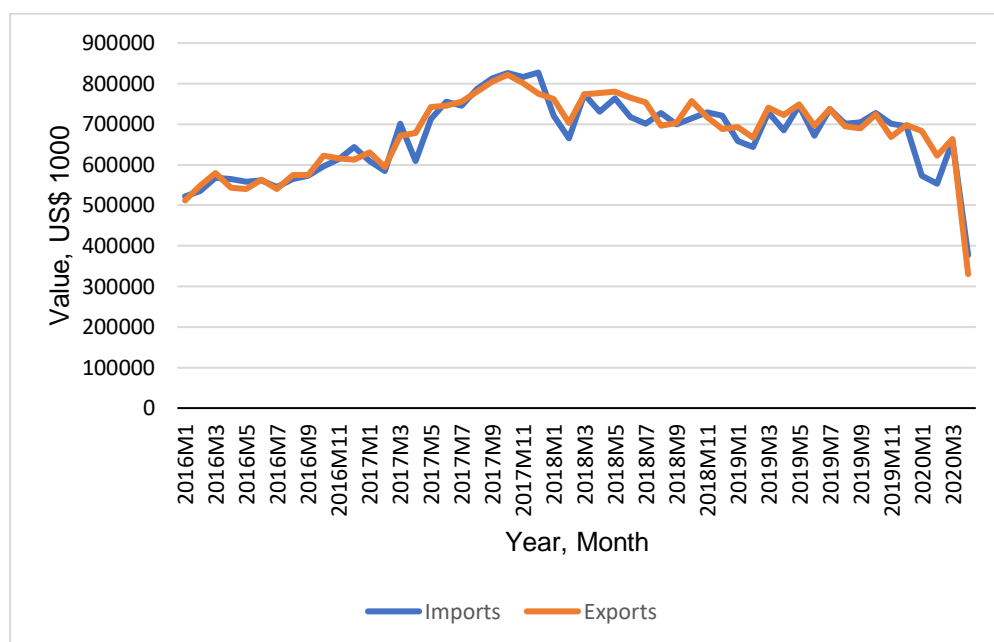
⁹⁰ Chimde, L. (2020) "Review on impacts of COVID-19 pandemic on life animals and dairy product processing industries of the world". www.heighpubs.org/hvsr/ivs-aid1022.php.

Figure A12: Dairy price index, 2016–20



Source: FAO (2020d)

Figure A13: Value of imports and exports of milk and cream, 2016–20



Source: ITC Access Map (2020)

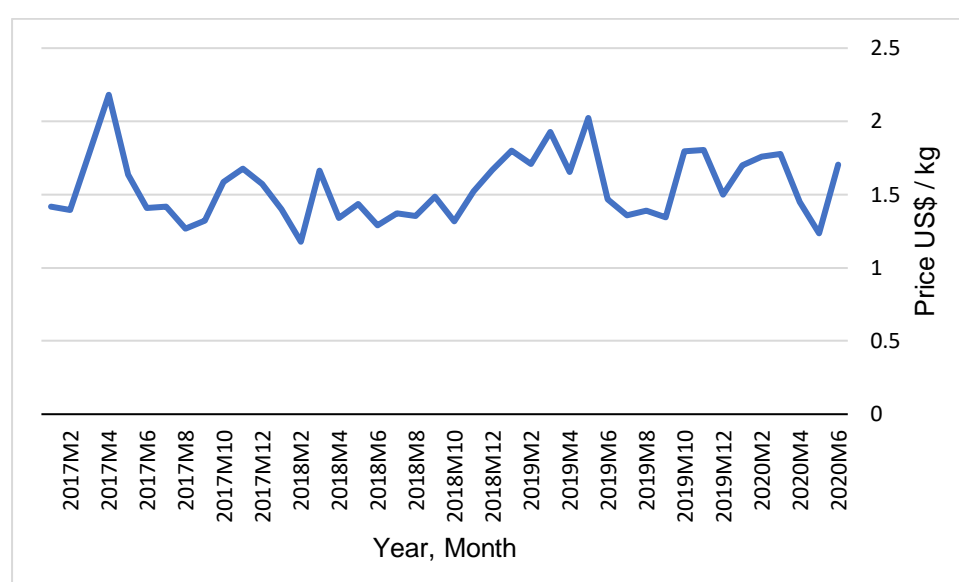
Vegetables

The impact of the COVID-19 pandemic on the vegetable value chains has been largely due to product losses and market pressures.⁹¹ For example, the global price of cauliflower increased during the first quarter of 2020, reaching a peak in March, after which prices fell

⁹¹ www.oecd.org/agriculture/fruit-vegetables/oecd-covid-19-impact-on-fruit-and-vegetables-trade.pdf, 11 May 2020.

(Figure A14). This differed from the increasing price trend during the same period in previous years. According to the Produce Marketing Association, sales of retail fresh produce increased in the US during early March 2020 due to panic buying, followed by a reduction in the number of purchases.⁹² The COVID-19 crisis was associated with disruptions in sales, transportation, logistics and the unavailability of migrant labour. From May 2020, the price of cauliflower has been on an upward trajectory (Figure A15), likely due to increases in demand as lockdown eases. The value of cabbage, cauliflower and other edible brassica exports was depressed in early 2020 compared to similar periods in previous years, with the lowest values recorded in February 2020 (Figure A15). Measures introduced to curb the spread of COVID-19 around the world resulted in movement restrictions that in turn disrupted transportation, leading to delays in ground and air shipping of products. In addition, requirements for physical distancing sometimes led to shortages in labour, for example of import/export inspectors at points of entry. According to OECD, imports and exports from Europe to countries like China and South Africa slowed almost to a standstill at the peak of the crisis. A majority of respondents from vegetable collection centres interviewed during CASA RMA in Nepal reported a fall in the price of vegetables during the COVID-19 crisis due to reduced demand for the commodity.

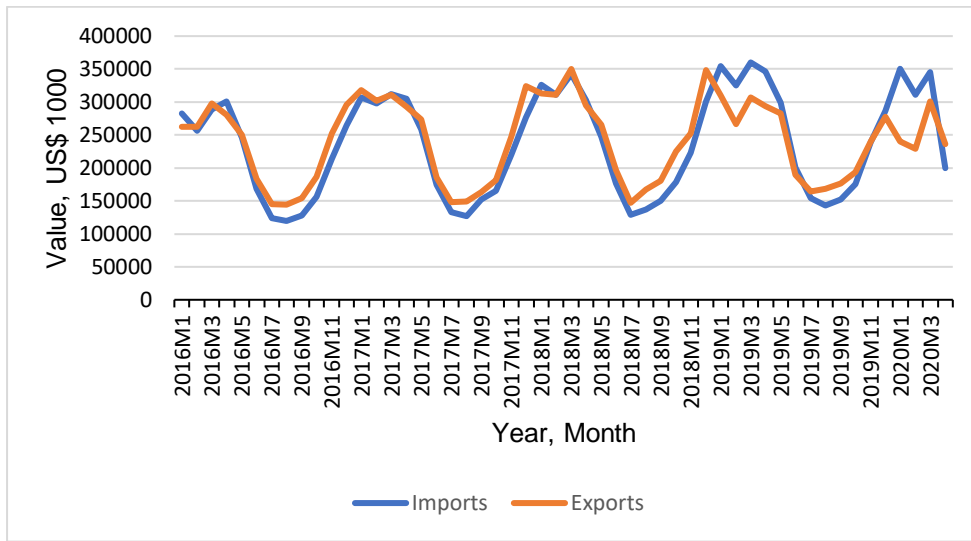
Figure A14: Global price of cauliflower, 2017–20



Source: ITC Market Price Information (2020)

⁹² PMA Weekly (2020) "Fresh produce sales up 33.9% amid growing number of COVID-19 cases". www.pma.com/-/media/pma-files/covid19/producesales325.pdf?la=en.

Figure A15: Value of imports and exports of selected vegetables (cabbages, cauliflowers, and brassicas), 2016–20



Source: ITC Access Map (2020)

Annex 2: Funding resources for agri-SMEs⁹³

Acumen, CDC, responsAbility, Shell Foundation, and others

Developed the EUR 100m COVID-19 Energy Access Relief Fund ([website](#)).

Big Society Capital

Social investors launching £100m programme of loans, including a new [Resilience and Recovery Loan Fund](#) ([announcement](#)).

BlackRock

Commits \$50m to help meet the immediate needs of those most affected by the COVID-19 pandemic ([announcement](#)).

BlueOrchard

Invests in IFC's COVID-19 social bond issuance ([announcement](#)).

Ceniarth

Committing \$3m in zero-interest loans to help rural Community Development Finance Institutions (CDFIs) accelerate lending to hardest-hit communities ([announcement](#)).

European Bank for Reconstruction and Development

Targets EUR 21bn of coronavirus financing through 2021, and is dedicating the entirety of its activities to help combat the economic impact of the crisis ([announcement](#)).

Ford Foundation, Non-Profit Finance Fund, and others

[NYC COVID-19 response and impact fund](#) ([announcement](#)).

IFC

IFC is increasing its COVID-19 related financing availability to \$8bn as part of a \$14bn World Bank Group package, up from an earlier \$6bn ([announcement](#)).

Inter-American Development Bank (IDB)

Issues \$2bn five-year sustainable development bond ([announcement](#)).

Impact Investment Exchange

Launching emergency financing facility to provide grants and loans to SMEs ([announcement](#)).

International Islamic Trade Finance Corporation

Providing \$850m to mitigate COVID-19 crisis in Organisation of Islamic Cooperation member countries ([announcement](#)).

MacArthur Foundation

Supporting a number of funds aimed at helping those affected by COVID-19 in Illinois, including the [Chicago Community COVID-19 Response Fund](#), the [Illinois COVID-19 Response Fund](#), the [Arts for Illinois Relief Fund](#), and the [Chicago COVID-19 Journalism Fund](#).

Mastercard, Bill and Melinda Gates Foundation, and the Wellcome Trust

COVID-19 Therapeutics Accelerator ([announcement](#)).

Omidyar Network

Omidyar Network India has announced rapid response funding to support lower income groups dealing with COVID-19 ([announcement](#)).

Open Road Alliance

[Open Road Impact Fund](#) (providing short-term bridge loans – [more info](#)) [COVID-19 loan products](#).

⁹³ GIIN (2020).

responsAbility

Launching an emergency liquidity facility to support MSMEs ([concept note](#)).

The Rockefeller Foundation

Commits \$20m in COVID-19 assistance to create a better tracking and management system and support vulnerable communities ([announcement](#)).

Village Capital in Partnership with Sorenson Impact Foundation

Launched coalition of active investors and an aggregated pipeline of innovative companies responding to COVID-19 challenges ([join here](#)).

Visa Foundation

Commits \$210m to support small and micro-businesses ([announcement](#)).

Vital Capital Fund

Launched emergency debt facility to offer critical funding to impactful African companies during the coronavirus pandemic ([press release](#)).

Surveys/calls to action**Acumen, Open Road Alliance and USAID**

Conducting impact investing [industry survey](#) to map what funding is available in the impact investing sector for social enterprises to manage the disruptions caused by coronavirus.

Domini Impact Investments

Urging shareholder advocacy through this [Investor Statement on Coronavirus Response](#).

Open Road Alliance

Collecting interest for ongoing collaboration through this [survey](#).

Investor actions**Big Society Capital**

Supporting their grantees and investees by information sharing, adjusting existing funding and exploring new funding ([announcement](#)).

DOEN Foundation

Providing tailored support to investees ([announcement](#)).

Finance in Motion

The EFSE Development Facility launched an advisory programme to assist SME investees with liquidity challenges, risk management, stakeholder communication, etc ([announcement](#)).

IDB Invest

Announces support areas for deploying financial and technical resources to countries affected by COVID-19 ([announcement](#)).

Impact investor memorandum of understanding for debt refinancing co-ordination:

BlueOrchard, Developing World Markets, Incofin, Microvest, Oikocredit, responsAbility, Triodos IM, Triple Jump and Symbiotics

Signed a memorandum of understanding for increased co-ordination in response to COVID-19. Impact fund managers are invited to join this initiative ([press release](#)).

IDB

Reprogramming existing portfolio to respond to COVID-19 ([announcement](#)).

Lemelson Foundation

Accommodating modifications and scheduling changes requested by their grantees.

PG Impact Investments

Announced senior executives are forgoing their salary in response to the COVID-19 crisis ([announcement](#)).

SANAD Technical Assistance Facility

Rolled out its crises response programme to support the financial sector in the Middle East and Northern Africa serving MSMEs ([announcement](#)).

Soros Economic Development Fund/Open Society Foundations

Considering the provision of bridging finance or follow-on investments, or funding capital calls, and continuing to look for new investments ([announcement](#)).

Village Capital

Insights from Village Capital CEO Allie Burns: how social enterprises and funders are responding to the crisis ([article](#)).

FACTS Africa, available at <http://factsafrica.com/>

Specialises in providing short-term working capital to SMEs, agribusinesses and emerging entrepreneurs that have limited access to finance from mainstream financial institutions. They provide supply finance to buyers who pay their suppliers cash-on-delivery but are strapped for funds. They also offer invoice finance solutions to sellers who require funding now instead of waiting for their invoices to get paid.

The Association of 15 Bilateral EDFI

www.edfi.eu/who-we-are/edfi/

EDFI member institutions are focused on the development of private sector enterprises and operate in developing countries and emerging economies. They are mandated by their governments to contribute to the Sustainable Development Goals by creating jobs, boosting growth and fighting poverty and climate change.

COVIDCAP

www.covidcap.com/

Covidcap.com is a searchable database of over \$1tn in COVID-19 cash relief resources available to small business and non-profit entrepreneurs everywhere.

Council on Foundations

www.cof.org/news/call-action-philanthropys-commitment-during-covid-19

More than 40 major US-based and international foundations announced their commitment to more flexible funding to help grantee partners meet emergency needs prompted by the COVID-19 crisis. Signatories include the William and Flora Hewlett Foundation, the Seattle Foundation, the Robert Sterling Clark Foundation and the Skillman Foundation, among many other leaders around the country dedicated to advancing social change and supporting vulnerable populations.

European Investment Bank

www.eib.org/en/about/priorities/sme/index.htm.

2X Challenge Financing for Women

www.2xchallenge.org/home

Four new members have joined the founding group of seven industrialised countries committing to the “[2X Challenge: Financing for Women](#)”. The group behind the initiative, which aims to collectively mobilise \$3bn in commitments for women’s economic empowerment in developing countries, now includes the DFIs of the Netherlands (FMO), Sweden (Swedfund), Finland (Finnfund) and Denmark (IFU).

Annex 3: Nepal synthesis summary

Impact of COVID-19 on the vegetable and dairy sectors in Nepal

Executive summary

In Nepal, COVID-19 impacts were disruptive both at the farmer and agribusiness SME level in the vegetable and dairy sectors. At the farm level, impacts were felt through reduction in demand and loss of the unsold products due to lack of storage facilities, disruption in transportation, unavailability of inputs and limited access to advisory services. The majority of agribusiness SMEs are facing financial insolvency due to the sharp fall in demand of products and lack of access to funding. Identified support included financial support, facilitation in transportation and the provision of advisory services.

Impacts at the farm level

Scarcity of labour

Shortages of hired labour were experienced during the initial total lockdown.⁹⁴ However, the effect of the lockdown on the daily operations of vegetable farms was reported to have been minimal as it coincided with a less labour-intensive production phase. According to surveyed farmers, labour scarcity will become one of the major challenges faced due to restrictions in movement, workers' caregiving responsibilities and the fear of contracting COVID-19.

On-farm storage and post-harvest management

On the back of falling demand for dairy products and vegetables, farmers resorted to leaving vegetables to rot in the field⁹⁵ and dumping or giving milk away.⁹⁶ Farmers and dairy co-operatives have limited knowledge regarding the storage, packaging and post-harvest handling of these perishable commodities.

Inability to access credit

Dairy and vegetable farmers indicated that the majority of them had not received any financial support to enable their businesses to recover from impacts of the COVID-19 crisis. They identified financial support through the provision of loans as an option.

Access to inputs and advisory services

Despite the Government of Nepal's directive to improve flow of agricultural inputs, agrovet suppliers, co-operative shops, agricultural markets, dairies and vegetable markets were observed to open irregularly.⁹⁷ Consequently, farmers identified the availability of inputs such as livestock feed and medicines, seeds and fertilisers as a key challenge, with majority buying from agrovet shops and co-operatives. Advisory services on technical matters were mostly available from agrovet shops and co-operatives, necessitating that their technical capacity should be strengthened.

Loss of micro markets

The volume of vegetables sold so far in 2020 was lower than what was sold during the same period last year, with half of farmers unable to sell vegetables during the lockdown. About 46% of surveyed farmers and dairy co-operatives were also unable to sell milk during this period. The closure of local markets, the food service industry and a downturn in economic activity resulted in a reduction in the demand of dairy products and vegetables. Milk collection centres were matching the volumes collected to market demand, resulting in an up to 25% decline in milk collected during lockdown.

⁹⁴ CASA (2020) "COVID-19: [CASA partners' issues and possible programme responses](#)".

⁹⁵ CASA (2020) "COVID-19: [CASA partners' issues and possible programme responses](#)".

⁹⁶ CASA (2020) "[Rapid market assessment – Nepal: dairy and vegetable sector](#)". May.

⁹⁷ www.aesanetwork.org/blog-118-impact-of-covid-19-on-nepals-agriculture-the-road-ahead/.

Price distortions

There were reports of increases in the price of transportation, and price of seeds and fertilisers also increased.⁹⁸ The farm-gate price of milk was less variable than that of vegetables.

Impacts at the SME agribusiness level

Storage capacity challenges

The vegetable sector is largely unregulated with few to no backward linkages. Most of the traders lack cold storage facilities and the capacity to co-ordinate the supply and demand of vegetables from smallholder farmers.⁹⁹

Operational constraints

Most agribusiness SMEs were not fully operational and operating below capacity, resulting in reduced revenues and cash flows leading to difficulties in repaying loans and paying suppliers. Constrained transportation and logistics hampered the movement of raw materials/inputs and finished goods. Implementing mandatory measures, such as social distancing and the provision of hand sanitisers and PPE, resulted in additional expenses most cannot afford over an extended period. Labour scarcity affected operations at vegetable and milk collection centres due to workers' reduced mobility, caregiving responsibilities or the fear of getting infected at work. On the other hand, some SMEs had to reduce staff working hours, request workers to go on leave or reduce the number of temporary workers.

Working capital

Many companies in Nepal are now facing imminent financial crisis and insolvency losses. Companies like Paicho Patal Pvt. Ltd, which had planned to expand making use of its own revenue and working capital, may have to delay this or alternatively seek investment from third parties.¹⁰⁰ Others such as Nepal Dairy are facing problems in paying back existing loans and paying farmers due to low working capital.

Financing and investment landscape in Nepal in the face of COVID-19

The central bank announced the deferment of loan repayments to banks due in April and May until mid-July assistance.¹⁰¹ Repayment schedules for working capital loans from banks were to be extended up to 60 days. If they showed a need for it, those in affected sectors qualified for additional working capital loans of up to 10% of the originally approved amount, with the loan to be repaid within a year. Banks were directed to apply interest rates of up to two percentage points lower in calculations of interest due for the period between mid-April and mid-July for borrowers from affected sectors. A 25% subsidy for the transport of agricultural products such as milk, vegetables, fruits and cereals to markets was announced by the Ministry of Agriculture and Livestock Development.¹⁰² In May, a lending programme to support cottage enterprises and SMEs was put in place. Additionally, the Refinance Fund was increased to provide subsidised funding for banks willing to lend at a concessional rate to priority sectors, including SMEs affected by COVID-19.

⁹⁸ CASA (2020) "The implications of COVID-19 lockdown on farming sector of Nepal: rapid response survey". May. Unpublished CASA country intervention report.

⁹⁹ ILO (2019) "[Eight ways to grow Nepal's agricultural sector: a rapid assessment and ranking of agriculture sub-sectors](#)". ILO, Geneva.

¹⁰⁰ CASA (2020) "COVID-19: [CASA partners' issues and possible programme responses](#)".

¹⁰¹ IMF (2020) "Policy tracker". 18 June. www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#N.

¹⁰² <https://risingnepaldaily.com/business/govt-announces-25-transportation-subsidy-for-agro-products>.

Emerging coping mechanisms

Coping strategies included matching collected/bought products to demand, processing products, diversifying the client base through new areas and online selling and/or door deliveries. A minority terminated the contracts of temporary staff and/or reduced staff working hours. The current strategy of using savings for working capital was reported as not sustainable, with the majority of companies able to continue for three more months under lockdown. Cash injections and loans or credit from the government and financial institutions were identified as being necessary for survival.

Conclusion

The COVID-19 pandemic has proved to be challenging to dairy and vegetable farmers and agribusinesses in Nepal due to the fall in market demand, disruptions in transportation, restrictions in movement and reductions in revenue. Although most are still operational, they are acting below capacity with limited working capital and require financial as well as advisory support going forward.

Annex 4: Uganda synthesis summary

Impact of COVID-19 on the beans and sesame sectors in Uganda

Executive summary

In Uganda, although the number of confirmed cases were low in comparison to other countries, the containment measures adopted to curb the spread of the virus have significantly affected both farmer and agribusiness SME operations. The COVID-19 pandemic has affected market access because the lockdown measures have reduced the availability of transport to markets.

With respect to the outlook, the major concerns highlighted by agribusinesses in the sesame sector, in the event that the COVID-19 situation persists for more than six months, relate to reduced product demand and potential inability to meet costs of operations. Most micro and small businesses indicated that they would exit business in the short term in the event the current situation persists. On the other hand, most medium and large firms, especially those in export, do not foresee closure. In terms of the workforce in the agribusinesses, if COVID-19 persists for the next six months, about 40% of employees would lose their jobs temporarily while 20% would lose their jobs permanently.

Impacts at the farm level

Despite the appearance of abundant family labour due to school closures and other closures freeing up time for farming, the lockdown and related COVID-19 restrictions have had the following impacts.

Group labour is constrained due to rules on social distancing. Smallholder farmers are observing social distancing in their fields, drastically reducing the number of people per farm consequently limiting the manpower available for land preparation. A reduction in sesame productivity is anticipated come harvest time.

The cost of inputs (seeds, fertilisers, farm tools) has skyrocketed due to increased transport costs and lack of access to stockists, who are mostly located in towns far away from farms.

As a result of closures, *many farmers have lost their markets in the form of schools and hotels.*

Restrictions on social gatherings at weddings, meetings, hotels, bars and restaurants mean *the loss of other major markets for farm produce.*

Another emerging challenge is that of *accumulated agricultural produce with a low shelf-life*, demanding innovative post-harvest practices and new processing avenues.

At the same time, there are reports of a *massive population surge to feed in villages due to heavy urban to rural migration*, driven especially by families worrying about their ability to meet their needs in urban settings during lockdown, as well as by fear of lockdown-related crime.

Impacts at the SME agribusiness level

Business operations

Overall, nine out of 10 businesses reported increases in operating expenses due to preventive measures instituted by government to curb the spread of the virus, e.g. the purchase of sanitisers.

Access to raw materials/inputs

Most SMEs reported a moderate reduction in access to inputs. The highest percentage of micro business (38%) reported no access to inputs at all, while 36% reported a severe decline.

Changes in demand of agricultural related products, including sesame

Approximately half the businesses in the country have experienced a decline in demand for their goods by more than 50%, and sesame agricultural product is not an exception. **A higher percentage of businesses in agriculture experienced a severe decline in demand (71%) compared to other sectors.** This could be attributed to the loss of income-earning opportunities, leading to a decline in the consumption of agricultural products, as their demand is more income elastic.

Unemployment in agribusinesses

The workforce in Ugandan agricultural businesses has undergone significant restructuring. About 80% of businesses in the agriculture sector have reduced their workforce by more than a quarter.

Credit and liquidity limitations

Risks associated with COVID-19 have exacerbated pre-existing credit and liquidity constraints among agribusiness SMEs. Of the businesses surveyed, 69% reported a decline in access to credit. This finding might also suggest that fewer businesses in agriculture qualify for credit.

The agribusiness turnover effect

There is also a reduction in turnover due to a sharp reduction in volumes produced coupled with low demand for products or fewer distributions due to transport difficulties, the closure of some potential markets such as schools and hotels, and less engagement in production by the target farmers, as well as a sudden turndown in the number of orders placed.

Enabling environment

The survey also asked the opinion of the participating companies about the effectiveness of the relief measures introduced by the government and financial institutions. The two most appreciated measures were an extension of loan terms and the reduction of financing costs for SMEs.

Financing and investment landscape in Uganda in the face of COVID-19

Reduction of the base lending rates to support the reduction of financing terms for SMEs

The Bank of Uganda cut the central bank rate by 100 bps to an all-time low of 7%. The aim was to improve access to finance for businesses, especially MSMEs.

Extension of tax payment deadlines by revenue authorities

To improve the liquidity position of agribusinesses SMEs, a number of measures were taken:

- deferral of corporate income tax or presumptive tax payments for tax-compliant businesses
- deferral of PAYE tax payments for tax-compliant businesses facing hardship due to COVID-19 until September 2020
- waiving of penalties and interest on tax arrears accumulated before 1 July to lessen the tax liability of businesses who voluntarily comply with tax obligations
- fast-tracking VAT refunds by revenue authorities

Emerging coping mechanisms

Most agribusiness SMEs looked to cut costs as a survival strategy during the pandemic. One such strategy was to reduce working hours for staff, and in some instances to lay them off temporarily or permanently. Some SMEs sought credit facilities from informal lenders, but at punitive interest rates that are not sustainable in the long run.

Conclusion

The COVID-19 pandemic has proved challenging for beans and sesame farmers and agribusinesses in Uganda due to the fall in market demand, disruptions in transportation, restrictions in movement and reductions in revenue. Although most are still operational, they are acting below capacity with limited working capital and require financial as well as advisory support going forward. Access to finance and investment remains a major challenge: investors take a cautious approach, given the uncertainties surrounding the pandemic.

Annex 5 Malawi synthesis summary

Ability of agribusiness SMEs to address floating fish feed and poultry vaccine challenges caused by COVID-19 in Malawi

Executive summary

Although there was no official COVID-19 lockdown in Malawi, the limited movement of people and goods within the country and across borders due to lockdowns in important trading partners such as Zambia, Tanzania, Zimbabwe and South Africa has had an effect on the aquaculture and poultry sectors. Floating fish feed and the I-2 vaccine for Newcastle Disease in poultry are imported, as local production is insufficient and/or not to the required quality standard. Border closures exacerbated the supply challenges of these critical inputs. To address this, RMAs were carried out by CASA to assess the commercial viability of selected agribusiness entities (National Aquaculture Centre (NAC), Lilongwe University of Agriculture and Natural Resources (LUANAR), Chonona Aquaculture Ltd and the Vaccine Production Unit (VPU) at the Central Veterinary Lab (CVL)) to produce floating fish feed and I-2 vaccines locally. Findings showed increased demand for floating fish feed and the I-2 vaccine and that, with financial and technical support, the local production can contribute to addressing the shortages of these imported inputs in Malawi.

Impacts of COVID-19 crisis at the farm and agri-SME level

Although the RMAs did not implicitly look at the impact of COVID-19 on the aquaculture and poultry sectors, the following factors were identified.

Operations

According to the Small and Medium Poultry Farmer Association, the COVID-19 crisis has had a limited impact on business operations.¹⁰³ The Viphya Chambo Fish Farm, however, indicated that the pandemic was likely to have an impact on operations if it persisted beyond June due to the limited availability of inputs. In terms of agri-SMEs, the temporary suspension of activities by the national power company ESCOM during this period resulted in a delay in the connection of electricity to Chikhwawa District, where a new floating fish feed milling plant was to be installed for Chonona Aquaculture Ltd.¹⁰⁴

Labour scarcity

At the time of the RMA, NAC had produced only 7 MT of fish feed during the first half of 2020. In the whole of 2019, NAC produced 80 MT, leaving a gap of over 70 MT to be produced during the rest of the year. However, at the time of the RMA, the production of fish feed had almost stopped at NAC due to the reduction of staffing by 70% during the COVID-19 pandemic.¹⁰⁵

Access to inputs/raw materials

The COVID-19 lockdown significantly impacted the importation of floating fish feed from Zambia into Malawi¹⁰⁶ and imported vaccines, drugs and raw materials for use in the poultry sector.¹⁰⁷ NAC's procurement activities were severely affected by the COVID-19 pandemic,

¹⁰³ CASA (2020) "COVID-19: [CASA partners' issues and possible programme responses](#)". May.

¹⁰⁴ CASA (2020) "A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi". July. Lilongwe. Unpublished CASA country intervention report.

¹⁰⁵ CASA (2020) "A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi". July. Lilongwe. Unpublished CASA country intervention report.

¹⁰⁶ CASA (2020) "COVID-19: CASA partners' issues and possible programme responses". May.

¹⁰⁷ CASA (2020) "Rapid market assessment feasibility of I-2 vaccine production at CVL-VPU-MALAWI". July. Lilongwe. Unpublished CASA country intervention report.

resulting in reduced access to raw materials such as maize and soybeans sourced from farmers, as well as to vitamin and mineral premixes due to border closures.

Access credit/working capital

Public institutions like NAC and LUANAR depend on the government for support. However, due to the COVID-19 crisis, the government cut monthly grants by 50%.¹⁰⁸

Emerging opportunities for agri-SMEs

The shortages of imported floating fish feed and poultry vaccines are an opportunity to strengthen local production through the support of local businesses. Although the imported fish feed is expensive due to transport and other landing costs, low supplies and poorer quality of local feed limit its use by fish farmers.¹⁰⁹ Newcastle Disease is a prevalent disease in poultry, but there is low and inconsistent local production of the thermo-tolerant Newcastle Disease I-2 vaccine that is widely used in smallholder poultry production in Malawi. Supporting agribusinesses already involved in the production of fish feed and the I-2 vaccine can help improve the productivity and growth of the poultry and aquaculture sectors in Malawi.

Assessment of selected business entities

The commercial viability of selected agribusiness entities with the potential to address the availability challenges of locally produced floating fish feed¹¹⁰ and the I-2 vaccine¹¹¹ in Malawi was conducted.

NAC has an operational floating fish feed plant, but this was at 50% utilisation capacity due to technical challenges such as machinery breakdowns due to overheating motors and worn-out parts. LUANAR and Chonona Aquaculture Ltd have new plants that are not yet operational. When fully operational, NAC will have the capacity to produce 2 MT of floating feed per day, and LUANAR and Chonona Aquaculture Ltd 0.8 MT per day each. The demand for fish feed is estimated to be increasing, as more fish farmers realise the benefits of using it. This demand is mainly being met through imports. Although operational and reported to be making a profit of \$7 per bag, NAC did not have contractual agreements with suppliers and buyers and lacked business plans and marketing strategies.

For poultry, the VPU CVL under the Department of Animal Health and Livestock Development is responsible for I-2 vaccine production. The VPU CVL has the capacity to produce 60% of the required vaccine, but is currently only producing 5%.¹¹² If the VPU is well supported and efficiently operated, it would be able adequately to address the current shortage of the I-2 vaccine. For the CVL, the financial, capacity and material problems often result in the erratic production and supply of the I-2 vaccine, resulting in buyers such as Ziweto Enterprises expressing dissatisfaction and opting to import the vaccines.¹¹³ The RMA recommended a public–private partnership model that involves the government and the private sector as the most feasible, with production carried out by VPU, marketing by

¹⁰⁸ CASA (2020) “A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi”. July. Lilongwe. Unpublished CASA country intervention report.

¹⁰⁹ CASA (2020) “A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi”. July. Lilongwe. Unpublished CASA country intervention report.

¹¹⁰ CASA (2020) “A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi”. July. Lilongwe. Unpublished CASA country intervention report.

¹¹¹ CASA (2020) “Rapid market assessment feasibility of I-2 vaccine production at CVL–VPU–MALAWI”. July. Lilongwe. Unpublished CASA country intervention report.

¹¹² I CASA (2020) “Rapid market assessment feasibility of I-2 vaccine production at CVL–VPU–MALAWI”. July. Lilongwe. Unpublished CASA country intervention report.

¹¹³ CASA (2020) “Rapid market assessment feasibility of I-2 vaccine production at CVL–VPU–MALAWI”. July. Lilongwe. Unpublished CASA country intervention report.

agrovets and the service provision for vaccination by community-based animal health workers.

Support for agri-SME at the agribusiness level

Financial support

In aquaculture, all three business entities studied, demonstrated the capacity to mobilise financing and resources.¹¹⁴ Previous financial support came from the government's AgriTT project, supported by the UK Department for International Development (now the FCDO). From the RMA, it was estimated that the financial need for each was between \$60,000 and \$83,000. Financial support for the CVL would also optimise production of the I-2 vaccine.

Technical support, capacity building and certification of products

Staff at NAC and other SMEs should receive training and technical backstopping on maintaining and repairing machinery. In addition, assistance should be provided when setting up buildings in plants for the efficient functioning of machinery (e.g. to ensure adequate ventilation and adequate storing space). There is a need to build the capacity of staff to develop business plans and to negotiate contractual agreements with suppliers and buyers. To compete with imported products, local SMEs need to certify their products with the Malawi Bureau of Standards.

The financing and investment landscape in Malawi

There are a few impact investors and private equity funds with impact capital, making up a small portion of the total capital available in Malawi.¹¹⁵ Furthermore, there is limited understanding of equity instruments by SME business owners. There are currently limited financing opportunities for commercially oriented SMEs.¹¹⁶ The COVID-19 pandemic is likely to have worsened this situation. The RMAs highlighted the need for financial support of agribusinesses that are already active in the poultry and aquaculture sectors.

Conclusion

Through restrictions in movement and the closure of borders, the COVID-19 pandemic has worsened supply problems of imported inputs such as floating fish feed and the I-2 vaccine for Newcastle Disease in poultry. There is increasing demand in Malawi for these two commodities but the agribusinesses that are currently active in local production require financial and technical support to contribute to addressing the problem. Local production would reduce the risk of shortages in the future, should another global pandemic similar to COVID-19 occur.

¹¹⁴ CASA (2020) "A rapid market assessment of floating fish feed production for the aquaculture sector in Malawi". July. Lilongwe. Unpublished CASA country intervention report.

¹¹⁵ CASA (2020) "[Aquaculture sector strategy, Malawi](#)". April. Lilongwe.

¹¹⁶ CASA (2020) "[Aquaculture sector strategy, Malawi](#)". April. Lilongwe.

Annex 6: APRA rapid market survey summary of findings

A total of 75 respondents were surveyed from Ethiopia (rice), Ghana (palm oil and cocoa), Malawi (groundnuts, maize and other grains) and Nigeria (maize, rice and cocoa). Most respondents were SME agribusiness, encompassing small to medium scale traders, processors, wholesalers, input suppliers and farmers. A few of the respondents were involved in transportation, seed production and aggregation.

Market access

Operational changes in SME agribusiness operation in response to COVID-19 increased business operating costs

Except for Ethiopia, the majority (70%+) of respondents reported changes in health practices within their business operation. New practices included providing water and soap/sanitiser or contributing money towards the purchase of these in the communities where they were active. Social distancing and wearing of masks were also identified as common changes in response to the pandemic. Other changes included the fumigation of buildings, health check-ups and involuntary leave. These changes contributed to increased business expenses.

Changes in packaging practices

A recurring theme in West Africa was the shortage of packaging materials, especially imported ones. This led to switching to local products for packing cocoa products in Ghana. Other changes related to packaging were the use of smaller packages and new packaging, as well as frequent cleaning of the containers and rooms used for palm oil. Over 40% of respondents in Nigeria reported using new bags for maize as one of the changes they had made.

Labour supply challenges experienced by farmers and agri-SMEs

Shortages of labour were reported in Ethiopia, Ghana and Nigeria. Over 60% of the respondents experienced a shortage of workers due to absence, social distancing requirements and a lack of transport to travel to work. Half of the respondents had to pay higher wages for the available labour. In a few instances in Ghana new workers were hired, but there was an equal reduction in the use of casual labour to reduce outside transmission of the virus. Interestingly, in Ethiopia and Ghana some SMEs involved in rice and palm oil farming experienced increased access to family labour as more people returned home in adherence to lockdown regulations announced by the governments in the respective countries.

Market access changes experienced by farmers and agri-SMEs

Most SMEs and farmers in the four countries experienced changes in market access. A fall in demand, disruption in transportation options and import and export restrictions were all experienced in the four countries across all the value chains. Shortages in commodities due to supplier hoarding were reported in grains in Malawi and in rice in both Ethiopia and Nigeria. Other changes in market access were attributed to the fear of traders of getting infected, difficulties faced by traders in accessing credit from suppliers, the lack of funds for working capital and irregular price increases.

Most SMEs experienced a reduction in supply from smallholder farmers, although a minority in certain geographical locations experienced an oversupply of maize, cocoa and palm oil because there were fewer buyers than before lockdown. Some SMEs reported losing contracts due to the closure of institutions such as restaurants and schools. Only a few SMEs in West Africa increased their revenue through market expansion and product

diversification. This was mainly for the supply of maize to states in Nigeria that were facing shortages and palm oil processors producing more soap on the back of increased demand for handwashing purposes.

Pricing

Over 70% of SMEs reported an increase in the price of maize and rice from their smallholder farmers. Some traders in Malawi attributed this increase to hoarding by farmers in anticipation of price increases during the lean season.

Logistics

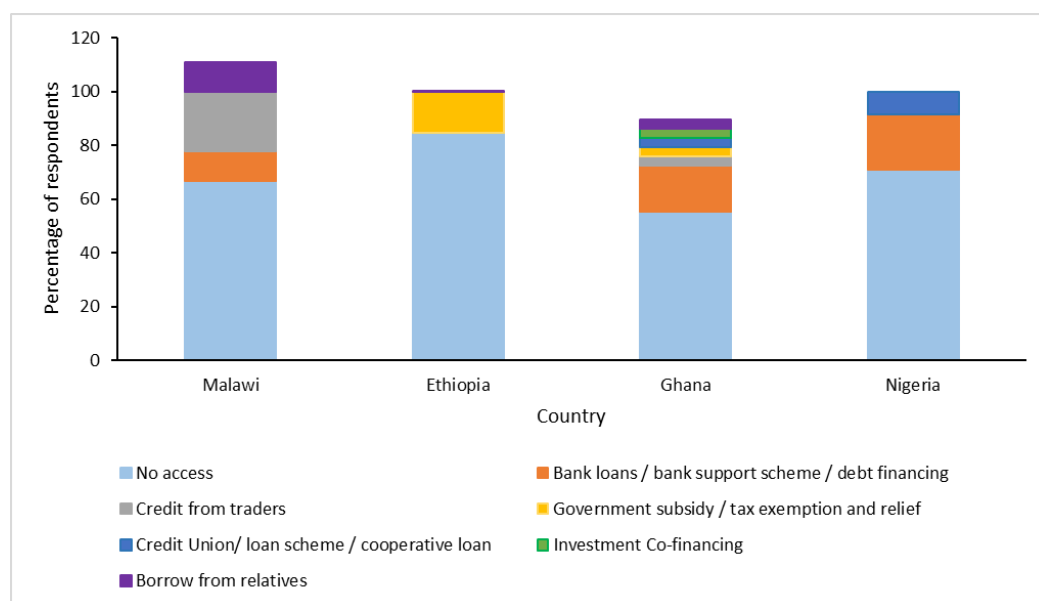
The restrictions in movement because of COVID-19 disrupted transportation, leading to a reduction in the frequency and increase in price of available transportation options. In Ghana, this challenge was more pronounced in the export of cocoa products.

Financing

Access to formal finance and investment was low among the surveyed SMEs. In Ethiopia, for example, none of the surveyed agri-SMEs had accessed financing from banks or microfinance institutions before. Some SMEs were borrowing money from relatives or benefiting from tax exemptions. Over 80% were making use of their own savings or reinvesting profits to run their businesses where this was still an option. About 30% of grain traders in Malawi had access to financing, but predominantly through credit facilities extended to them by smallholder farmers. In Ghana, the market was more advanced, with about 48% of farmers and SMEs in the cocoa and palm oil value chains accessing formal financing mainly in the form of bank loans, government subsidy (for large-scale farmers), credit unions and investment co-financing. In contrast, in Nigeria, less than 30% of SMEs involved in the maize, rice and cocoa value chains had access to financing, with banks and group lending schemes identified as sources of financing (Figure A16). Twenty percent of SMEs in Ghana and 41% in Nigeria experienced difficulties in accessing loans, as most institutions had stopped issuing new loans and group loan schemes and other microfinance institutions had limited funds.

These findings provide further evidence of the limited access to financing by farmers and agri-SMEs in Sub-Saharan Africa, with most using their own resources or borrowing from family members.

Figure A16: Access to and source of financing for farmers and agri-SMEs in SSA



Emerging coping mechanisms

SMEs and farmers are adopting several measures to cope with the supply chain disruptions detailed above. Among the measures being used are product diversification, expanding markets (new areas or using online and social media for marketing), the use of mobile phones for transactional purposes, SMEs providing farmers with transport to deliver products to aggregation centres, improved financial management for cashflow purposes and seeking credit from suppliers.

Although difficult to access for the SMEs and farmers surveyed, government support has been announced in Ghana and Nigeria in the form of a subsidy and loans in Nigeria and a COVID-19 Relief Fund in Ghana.

Annex 7: Digital resource examples for agri-SME

La Canasta <https://la-canasta.org>

Initiative that aims to connect small producers and consumers and to facilitate access to agroecological food in the city, following the principles of solidarity economy and fair trade, generating minimal waste of food and packaging and seeking alternatives for the value chain to have a low carbon footprint.

Online Farmers' Market www.indap.gob.cl/covid-19/mercados-campesinos-online

Created in 2020 by the Agricultural Development Institute (INDAP) in response to the COVID-19 contingency, it seeks to promote and publish contact information for family farmers who have products for sale.

Cooperative Foods <https://alimentoscooperativos.com>

Network of family farming organisations and co-operatives that seeks to build solidarity value chains, where producers sell their products and consumers access the products from their homes.



Commercial Agriculture for Smallholders and Agribusiness

