

Pathway 4

Agri-SMEs operating in uncertain financial, operational, and supply chain conditions

In this emergency briefing series, ISF Advisors and the RAF Learning Lab will look at how the COVID-19 crisis is likely to affect different types of rural households in emerging markets and what the cascading effects may be on markets, food security, and national security.

This briefing series seeks to be pragmatic and elevate the real experiences of smallholders and service providers who are most affected by ripple effects in the economy. The series builds on the 2019 Pathways to Prosperity report and provides tangible recommendations to critical decision makers on how rural agricultural livelihoods can be supported. In this brief, we look at how the COVID-19 crisis will impact small and medium agricultural enterprises (agri-SMEs) in emerging markets that, in many value chains, are squeezed between a drastic decline in consumer demand and difficult operating conditions along the supply chain.

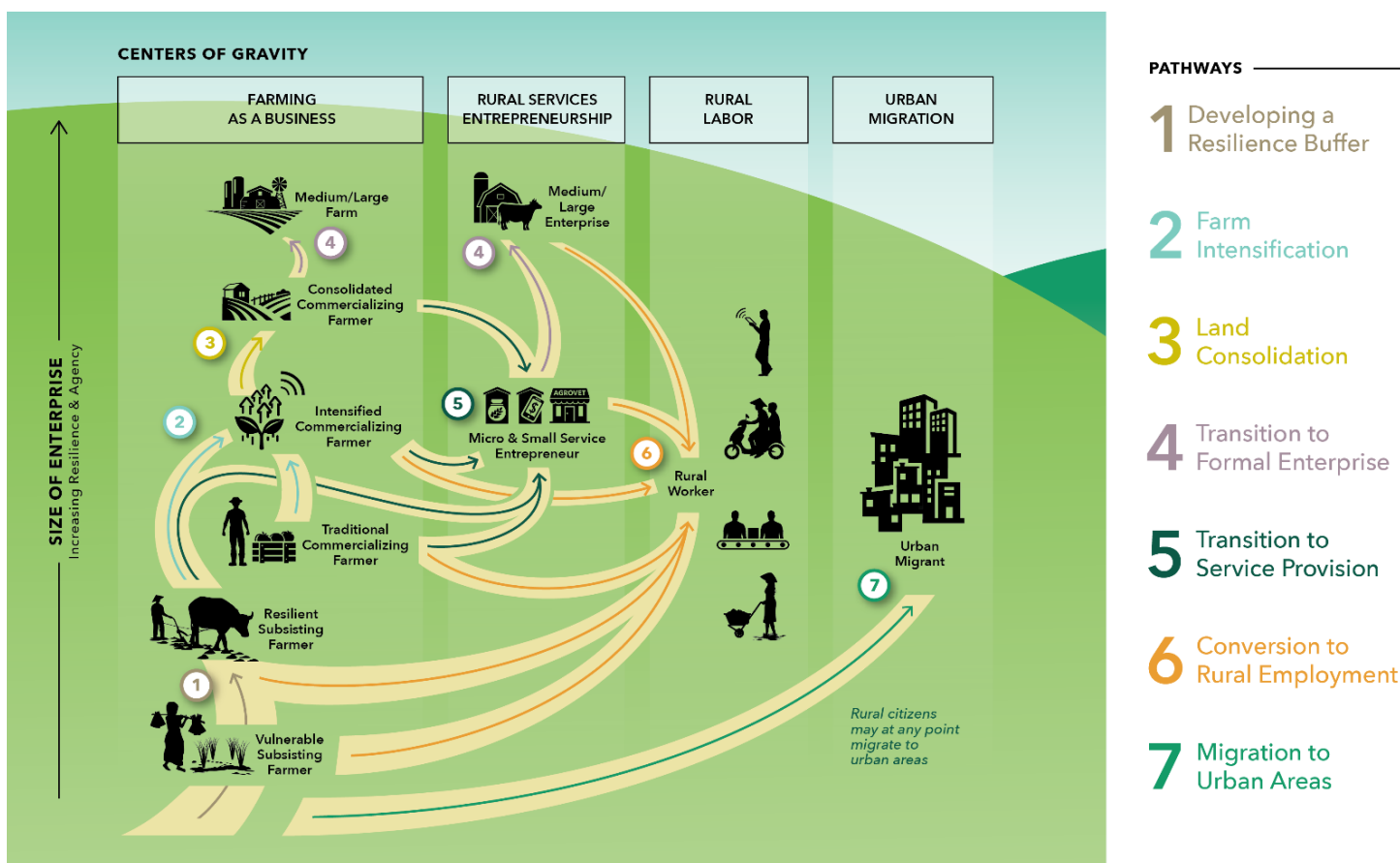
Pathway 4 Overview

Pathway 4 businesses range from commercial farms to small and medium agricultural enterprises (agri-SMEs) such as input suppliers, agro-dealers, cooperatives, traders, and processors.

They are formal enterprises that typically rely on hired labor and mechanization. These enterprises are the lifeblood of agricultural value chains and local food security. In Africa, it is estimated that agri-SMEs sell 80% of the food produced for local consumption and generate 25% of rural employment¹. Despite their importance, it's very challenging for commercial farmers and entrepreneurs to access financing, since financial service providers often consider them high risk and higher cost to serve. In fact, in sub-Saharan Africa alone, a Dalberg and KfW report estimates that there is a \$100 billion lending gap for agri-SMEs². Lack of access to financing means that agri-SMEs* are particularly exposed to changes in demand or operations—such as those resulting from the COVID-19 pandemic. The impacts of COVID-19 on these businesses are likely to be felt all along the supply chain, from producers to consumers, with significant long-term consequences for rural livelihoods and food security.

* For ease of reference, commercial farms that meet Pathway 4 criteria will be referred to as agri-SMEs in this briefing paper, unless otherwise specified.

Pathways to Prosperity



Pathway 4 is diverse and complex in terms of the variety of enterprises and how these enterprises are integrated into value chains. To manage this complexity we have divided the briefing into four sections:

1 - THE EXTERNAL VIEW

Understanding the impacts of disrupted markets on agri-SMEs

2 - THE INTERNAL VIEW

Managing agri-SME challenges to survive a prolonged shock

3 - THE LONG TERM VIEW

Responding now to mitigate longer-term market impacts

4 - MOVING FORWARD

How governments, donors, and service providers can best support this pathway

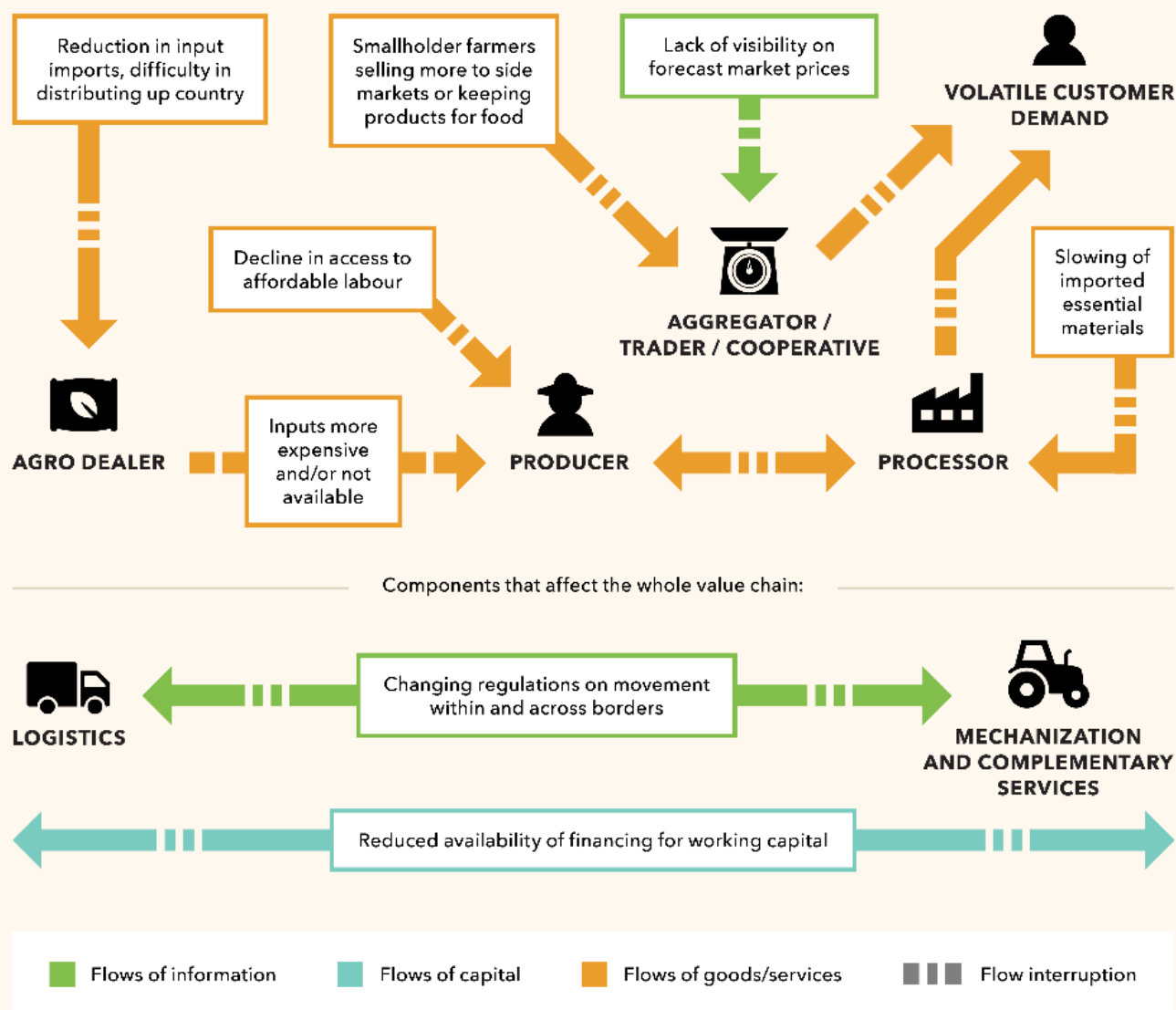
1 - THE EXTERNAL VIEW

Understanding the impacts of disrupted markets on agri-SMEs

Pathway 4 businesses rely both on the steady demand for their goods and services, and the provision of goods, services, financing, and information to their business. The COVID-19 crisis is disrupting both of these critical needs.

Across value chains, the biggest impact of COVID-19 on agri-SMEs is changes in demand, followed by disruptions to the flow of goods, information, and capital³. Some businesses may benefit from increased demand for staple goods—but, for many, the supply chain disruptions will have a negative effect. The graphic below shows how typical COVID disruptions can impact Agri-SMEs.

Impact of COVID-19 on common types of Agri-SMEs within value chains



This graphic is illustrative. The magnitude and effect of these disruptions will differ by company, value chain, and country.

STARTING WITH DEMAND

Volatile demand for products is disrupting the ability of agri-SMEs to maintain their businesses, across all types of value chains.

Shifting consumer demand from international markets. While the health risks of the pandemic reached developed

economies first, changes in international demand for agricultural goods were felt immediately in emerging markets. This demand is projected to drop further, forcing traders to shift their forecasts for the rest of the year. Depending on a country's main export commodity, there are a variety of industries whose disruption will significantly affect foreign earnings.

- Floriculture for example is one of the hardest-hit markets. A spokesman from Royal FloraHolland, the Netherlands' largest cooperative of flower growers, reported that, from February to March, revenue had dropped by 85%. This hurts countries like Kenya, Ethiopia, Colombia and Ecuador that count flower exports as one of their largest sources of foreign currency⁴.
- In the coffee market changing buying patterns have shifted demand from a previously growing specialty market, to mass market home coffee. This affects the coffee reserves, and has led to a lot of uncertainty for coffee traders unsure as to when restaurants will reopen. For now coffee prices have remained high, and East African growers have been able to export, but there is significant uncertainty for the Latin American markets expected to harvest later in the year.

More broadly, with COVID-19 expected to lead to a global recession, there is still significant uncertainty as to when, or if, international demand for many export goods will return to pre-pandemic levels.

Decline in local demand, due to restrictions and loss of income. Changes in demand are also noticeable in local markets, driven by both decreased incomes and social distancing regulations. While there is limited data available, in Nigeria, IFPRI's research estimates an 18% decline in agri-food GDP during a five-week lockdown; in Rwanda, a 27% decline over a six-week period⁵.

- In the direct consumer markets the biggest cause of declining demand is from decreasing household income. In Nairobi's informal settlements, for example, a recent study shows 68% of respondents had skipped a meal or eaten less in the past two weeks because they did not have enough money to buy food⁶. Demand for staple foods, such as maize and rice, has increased; however, markets struggled to fulfill the demand in the face of government regulations limiting transport. The decrease in income also creates a shift in demand from higher-value horticulture toward more basic vegetables and staple crops. As lockdown measures continue in most emerging market economies, it is unclear as to when, or if, consumer purchasing power will increase again.
- While in business markets (hotels, restaurants, etc.) tourism has been halted across most countries, and social distancing or curfew measures have forced many businesses to close. This has forced agri-SMEs to think differently about how they can serve local customers.

Resulting price volatility. Prices of goods have been very volatile as demand for different types of food continues to change. In general, the price for staple goods has increased with demand. IFPRI's Food Security Portal, which monitors global markets for staples, found that prices of most key foods in Uganda have increased >15% since mid-March⁷. In Ethiopia, the price of cabbage dropped by over 60% in just two weeks due to decreased urban demand, the lack of traders traveling to rural areas, and oversupply of some goods in March⁸. Similarly, in Bangladesh, two studies showed that low demand has led to 17-70% decreases in vegetable farmgate prices⁹. These price fluctuations make it very difficult for agri-SME to forecast and manage their cash-flow which in turn has a significant effect on financing their operations and servicing any financing commitments.

In response to COVID-19, Clover—a network across India that brands and sells farmers' greenhouse produce through B2B and B2C channels—has shifted its business from hotel, restaurant, and catering channels to other retail and business channels.

Omnivore Partners, the venture capital fund that has invested in Clover, reported that during the first week of COVID-19 restrictions, Clover's business declined by about 80%. However, in recent weeks, the business has been able to capitalize on changing markets and recover to nearly pre-COVID-19 levels of revenue. Clover has begun selling to two segments that have seen an increased demand due to COVID-19: food delivery and local general stores¹⁰. Clover was able to pivot its operations, in part, due to supportive investors and established connections to capital providers. This financial support is necessary for agri-SMEs to remain agile and adjust their operations during this crisis.

THE FLOW OF GOODS AND SERVICES

The flow of agricultural inputs and availability of labor has been disrupted as government regulations around social distancing are enforced.

Flows of inputs. The supply and distribution of inputs for agri-SMEs has been severely disrupted by both international and domestic travel restrictions. This includes inputs such as seeds and fertilizer for commercial farms, and raw materials for processors. A survey of 54 agri-SMEs across Ghana, Malawi, Mozambique, Tanzania, and Uganda found that over 40% of respondents reported a significant negative impact on their ability to source agricultural inputs for sale¹¹. And 55% of food processors reported not having enough raw materials to meet current demand¹². These disruptions are forcing businesses to proactively manage their inventory, stocking up when they can. This is difficult, however, without access to credit lines—especially as the price of some inputs, notably fertilizer, is increasing by up to 20%¹³. It is particularly difficult for commercial farmers, for whom the arrival of their inputs is very time-sensitive to planting season. For aggregators and processors that source from smallholder farmers, there is a particular constraint to their access to raw materials if the farmers are keeping their harvest for their own consumption rather than selling to traders or processors. For example, in Lagos, Nigeria food trading has been restricted to only four hours every other day¹⁴.

Labor availability. The travel restrictions and risk of the virus have also impeded the availability of labor, a crucial factor in agri-SME operations. Travel restrictions, limits to public transport, and curfews have all forced changes to labour use—varying based on the severity of the government interventions and the density of labour needed for the business' operations. The impact is also felt differently depending on when the curfew and travel restrictions hit according to the planting or harvest seasons. Coffee growers in Colombia and Ecuador, interviewed at the end of April, cited labor as their most critical concern for the upcoming harvest (61% and 46% of respondents respectively). They plan to use community or family labor to mitigate this effect, however around half of the producers expect to lose more than 30% of their harvest¹⁵. Youth, who rely on rural employment in many countries, will be particularly hard hit. As the virus spreads, there are also health risks for the labor force of agri-SMEs, especially in the case of older employees.

Female employees face unique challenges during COVID-19.

As women make-up, on average, 43% of the agricultural labor force in emerging markets this is particularly important within agricultural value chains¹⁶. Women's employment is shaped by domestic and caregiving responsibilities, especially in emerging markets. These caregiving responsibilities fall disproportionately on women; they perform 76.2% of the total hours of unpaid care work globally, more than three times as much as men¹⁷. In times of crisis this is amplified, as women are often forced, by a partner or economic circumstance, to give up paid work to care for children, the elderly, or sick relatives at home¹⁸. Women's care burden during the COVID-19 crisis will likely have long-term impacts on their economic independence. Evidence from the Ebola crisis in West Africa shows that women employees will have a more difficult time returning to their prior income levels¹⁹. Traditional expectations that caring for children, the elderly and the sick should be done for free, and usually by women, obscure the true economic value of this work, and this crisis has highlighted the extent to which unpaid domestic labor is subsidizing public services and private profits. Without policies or protections to help women maintain their jobs throughout this crisis, the post-COVID recovery will happen at the expense of women's financial stability and economic independence.

THE FLOW OF INFORMATION

The flow of information favors SMEs that are integrated into more formal networks and systems; it is much more difficult for smaller, more rural agri-SMEs.

Understanding public health requirements. Governments have issued public health guidance writ large, but guidance for essential services is not always clear. In transporting goods, agri-SMEs fall into a grey area. In some cases, security services don't recognize agri-SMEs as "essential service," which leads to additional unnecessary delays²⁰. Owners of agri-SMEs often do not have specific guidance on PPE and social distancing for their industry, causing confusion and potentially unnecessary costs for the businesses.

Clear market information. Access to market information is an existing gap for many agri-SMEs. With the arrival of COVID-19, and the corresponding volatility in demand

and supply of products, this information gap is even more apparent²¹. Farmers may be in touch with traders and suppliers, but do not have the information to plan or forecast for the future. Some are holding off on investments for next season while they await more information—which will significantly impact next season’s harvest. Cooperatives supported by large institutional buyers have the benefit of information and potentially even support with planning for future scenarios, but there are still high levels of uncertainty.

Becoming aware of support options. Some governments have provided support for small businesses, but it is typically focused on reducing taxes and providing loan extensions via central banks. There are a number of opportunities for SMEs being provided by NGOs and development finance institutions (DFIs). For example, FINCA International launched the FINCA Emergency Response Fund, which will provide support to entrepreneurs and startups across agriculture, health, education, and energy²². Organizations that work with SMEs, such as Open Road Alliance, Vital Capital, and Equalife, are offering bridge loans off their balance sheet. DFIs and multilaterals, such as IFC and KfW, are providing emergency liquidity funds. However, these funds are likely to be too small to meet demand, not necessarily targeting agriculture, and agri-SMEs are likely to have difficulty accessing information about the funds if they are not already well-connected to donor programs. John Dlodlu of the Small Business Institute in South Africa noted “there is quite a lot of support from the private sector as well as from the government aimed at supporting small businesses in South Africa but [small business owners] just don’t have access to this information.”²³ There is a risk that this funding will go to the “usual suspects” who are already known to donors, missing important SMEs.

THE FLOW OF CAPITAL

Flow of capital is already constrained for agri-SMEs, and is now further constrained as agri-SMEs become more risky and commercial banks retreat.

The existing financing gap was already significant: In sub-Saharan Africa alone there is a \$100 billion lending gap for agri-SMEs²⁴. This is partly driven by the higher cost to serve agri-SMEs, which is driven by small ticket sizes and the higher risk profile²⁵. The Kenya Bankers Association noted that, “the primary underlying reason for [low levels of bank lending to agriculture] is that the risk-adjusted returns to capital are too low to justify commercial lending to agriculture when other opportunities exist.”²⁶ Financing challenges are even more severe for women-owned SMEs, of which an estimated 70% have inadequate or no access to financial services²⁷.

For women, lower rates of savings, lack of networks, discrimination, and social norms can pose additional challenges to securing the capital needed to grow or expand their business.

COVID-19 is creating even more financing pressure for agri-SMEs: Volatile markets and ongoing restrictions of movement are putting additional pressure on agri-SMEs’ finances. Approximately six weeks into the crisis, a survey of 43 of 2SCALE’s private sector partners in Africa found that 39% experienced difficulties paying off loans, 23% have been forced to let go some of their employees, and 8% have closed their operations entirely²⁸. Many more of the respondents expected to face these same difficulties in the subsequent eight weeks. Central banks in some countries are looking for ways to support SMEs, but the measures have not been sufficient. In Kenya, the Central Bank has directed SMEs to contact their banks for assessment and restructure of their loans, but the system can take weeks to process; many agri-SMEs cannot wait this long.

While many commercial banks stage a retreat: Banks are facing challenges in serving customers as their own credit lines are constrained, particularly for foreign currency. As international demand contracts for exported cash crops, countries that rely on agriculture exports may see a decline in foreign reserves. This, in addition to the currency devaluations being seen across the world, could decrease the ability of countries to import essential supplies. For example, Ethiopia relies on coffee and flower exports to generate foreign exchange. The two products contributed 45% of export revenue generated in the first 8 months of the country’s 2019-20 fiscal year²⁹. Banks’ risk appetites are also declining as a result of the global contraction of financial markets. The cost to serve agri-SMEs is expected to increase due to COVID-19 restrictions, as banks need to reach rural clients while adhering to safety measures. Agri-SME loans in Africa are already 22% higher-cost than loans in other regions, and this pandemic is likely to further dissuade banks from lending³⁰.

2 - THE INTERNAL VIEW

Understanding the impacts of disrupted markets on agri-SMEs

In the short-to-medium term, agri-SMEs must focus on surviving the effects of the COVID-19 pandemic, a challenge that centers around how they manage disruption of linkages, create agile responses, and manage their cash reserves.

For many agri-SMEs, the COVID-19 crisis is an existential threat. Findings from a USAID-sponsored ACIDI/VOCA survey in Honduras found that 83% of enterprises will close their operations within three months if the situation does not change³¹. Whether enterprises survive the crisis will be heavily dependent on their balance sheet, ownership structure, contracts, location, and systems. Agri-SMEs have different starting points that will heavily influence their ability to pivot into new opportunities. However, three factors are likely to be most important to agri-SME survival through the initial phase of the COVID-19 crisis: linkages, agility, and liquidity.

LINKAGES:

Agri-SMEs are highly interdependent actors in agricultural value chains, meaning any disruption has immediate consequences.

Agri-SMEs depend heavily on the continuous flow of goods and services - what we call functional linkages. These linkages broke very quickly in the face of social distancing

measures, transport restrictions, and consumer spending decreases. Traders, aggregators, and transporters—agri-SMEs sitting at transitional points in the value chain—were hit first. Very quickly, however, their inability to operate led to bottlenecks more broadly.

In emerging market agricultural value chains, these are often based on trusted relationships rather than formal contracts. The informal nature of most of these linkages increases the vulnerability of agri-SMEs. When the flow of goods is constrained at even one point in the value chain, it can create challenges throughout. Data on small and growing businesses already show that 62% of early-stage businesses are unable to deliver on existing orders or contracts due to logistical challenges³² while in Ghana and Uganda, 30-40% of agri-SMEs surveyed cite that their input suppliers have not provided credit with the arrival of COVID-19³³.

Where there are more formal contracts in place, the impact of COVID-19 may be less immediate. For example, Aceso, a social enterprise in El Salvador that connects small commercial farmers to large retailers, has been working with its retail partners to maintain its supply chains³⁴. However, even where there are established contracts, COVID-19 may impact agri-SME financing in the longer term. Traders and some cooperatives establish contracts with smallholder farmers to provide inputs and guarantee offtake for an agreed price. This value chain financing system enables the flow of inputs in the short term; but as the crisis continues, farmers may seek immediate cash through side selling rather than honoring their supply commitments. This would erode trust and disrupt many formal supply contracts over time.

Most important factors for agri-SME survival through the initial phase of the COVID-19 crisis



LINKAGES

To ensure that disruptions don't stall trade



AGILITY

To adapt to new ways of operating and find potential opportunities



LIQUIDITY

To ensure cash flow despite reduced revenue and higher operating costs

AGILITY:

To mitigate the risk of broken linkages, agri-SMEs need to adapt quickly to new circumstances, potentially changing fundamental parts of their business.

Like businesses around the world, many agri-SMEs have had to adjust their operations to comply with social distancing regulations, provide PPE, and keep their teams safe. In other cases agri-SMEs may be forced to “hibernate” or close their business completely. In countries with extreme lockdown measures, some larger processors (e.g., Olam and Great Lakes coffee processors in Uganda) have even provided accommodation for their staff. These types of measures, while safer, increase operating costs and may unintentionally exclude women if they have caregiving responsibilities or are not permitted to work away from home.

Transportation restrictions are also forcing agri-SMEs to find new ways to distribute their products, leading many to ramp up in the adoption of e-commerce and digital technology. Producers and processors that typically serve urban areas have begun to sell their products on e-commerce platforms or via social media. Many are leveraging existing platforms: AgriBazaar, a Delhi-based e-commerce platform, has seen significant increase in demand since the lockdown in India, with transactions growing 400% in one month³⁵. For businesses that are not serving more tech-savvy urban areas where e-commerce is an option, the shift to new ways of working is more difficult. Agro-dealers, for example, need to find safe ways to collect their stock and reach their remote clients.

Some agri-SMEs will have to make more fundamental changes to their business model but the changing market dynamics in the aftermath of COVID-19 will also lead to opportunities—notably in import substitution and staple crops. In import substitution, there may be opportunities for businesses to shift their operations to replace costly and delayed imports. For example, Tanzania currently imports palm oil, but could use locally grown and processed sunflower oil. While these types of shifts could be transformative for agri-SMEs, they are often risky and difficult to finance.

LIQUIDITY:

The breakdown of strong linkages—particularly demand—makes agri-SMEs even more reliant on difficult-to-access commercial financing for survival

Agri-SMEs are historically underserved when it comes to commercial financing. This lack of financing will almost certainly be exacerbated by the COVID-19 crisis—right

when agri-SMEs need access to financing the most. Most agri-SMEs do not have the balance sheet to continue their operations in the face of extended decreases in revenue and increases in compliance costs. Surveys by BFA Global found that if revenues fall by half, companies have an average of four to six weeks of runway to keep operating³⁶. Further, a recent study from Startup Genome found that only 60% of startups based in emerging markets have more than three months of cash runway in the bank; for agri-SMEs, this percentage is likely to be even lower³⁷. In a situation where 50% of food processors surveyed by Technoserve indicated a 50% or greater reduction in sales (with 14% saying sales had halted completely) this situation quickly becomes dire³⁸. The effects of this are already apparent—Technoserve’s survey of food processors found that only 31% of companies are retaining their full workforce³⁹.

3 - THE LONG-TERM VIEW






Responding now to mitigate longer-term market impacts

It is not yet clear how agricultural value chains will be shaped by COVID-19 in the long term. However, as outlined in our initial Emergency Briefing, the potential cascading effects from rural livelihoods to markets to food security and ultimately national security are critical to understand.

Without sufficient action now, the wholesale failure of rural agri-SMEs risks to, at best, cripple national commodity markets, and at worst lead to their complete collapse.

The survival of agri-SMEs has high stakes. With tourism collapsing, many countries will be forced to rely even more heavily on agriculture—both to feed their own population and to generate highly sought-after foreign exchange to enable central banks to continue to service their debt obligations and maintain the liquidity needed to import necessary goods - particularly important to economies that rely on staple food imports. The five illustrative scenarios below project what might happen to agri-SMEs, markets, and livelihoods if sufficient support is not provided throughout the COVID-19 crisis.

Long term effects of COVID-19 on Agri-SMEs

Cause		Effects		
Potential scenario	Likely long term Agri-SME impacts	Potential long term market impacts	Potential food security and livelihood impacts	Commodities to watch
Extended* collapse of exported commodity demand 1	Unsustainable conditions for traders, aggregators, and processors that would lead to insolvencies or acquisition by large companies. Delayed effects may be felt by agro-dealers.	Farmers move into other value chains. Mid-stream aggregation and trade networks could collapse or be consolidated by downstream anchor traders. Broader foreign exchange impact in countries that rely on exported commodities.	Severe food insecurity by primary producers due to commodities having no value on local markets.	<ul style="list-style-type: none"> • Cocoa • Cashews • Flowers 
Extended* volatile high-value commodity demand 2	Significant cash flow and operating challenges for traders, aggregators, and processors, many of which will go out of business without stabilizing contracts or flexible, low-cost capital.	The collapse of national trading and aggregation systems causes a significant contraction in the commodity market. Larger traders may consolidate market share, creating a longer-term power shift away from producers.	Uncertainty makes markets difficult for smallholder farmers, who may hang onto commodity crops hoping for better returns in the future—at the expense of food crops.	<ul style="list-style-type: none"> • Coffee • Tea • Horticulture • Soy 
Extended* increase in demand for staple crops 3	Many local traders, retailers and input providers would benefit. However, operational costs may increase and these businesses may be vulnerable to government intervention (e.g., food safety net programs)	Higher prices and more value for producers, traders, and retailers. If short-term profits are invested in continued productive capacity and market infrastructure, staple food markets may mature.	Primary producers are able to feed themselves with their crops. Significant impact on food availability and cost in urban areas.	<ul style="list-style-type: none"> • Rice • Wheat • Maize • Palm oil 
Extended* collapse of processed food demand 4	Processors may not have enough capital to maintain operations until demand increases. Processor closures would lead to upstream impacts on many traders and commercial farmers.	Price for suppliers will decrease, while closure of processing companies could collapse the market, leading to fragmentation and localization.	Loss of income leads to food and nutrition insecurity for farmers. The collapse of the market could increase prices in the form of more expensive imports.	<ul style="list-style-type: none"> • Dairy • Livestock • Fruit 
Extended* trading and movement restrictions 5	Added operational costs and trade friction may put the least profitable tiers of agri-SMEs (including some commercial farmers) out of business or lead to consolidation.	A smaller number of agri-SMEs in supply chains will likely lead to less competition, higher prices, and less coverage for last mile logistics and services	The partial collapse of agri-SMEs in rural areas will have a significant impact on the flow of last mile goods, rural employment, and the incomes of affected commodities	All commodities 

*Extended defined as more than 6 months

While the scenarios above are dire predictions, there are also opportunities for agri-SMEs. The many agri-SMEs that do survive can build back better with:

- **More agility:** The crisis will make many agri-SMEs more agile, as they are forced to adopt new technologies, potentially increasing digitization and spurring broader rural digital technology usage. These enterprises may find new input suppliers when the regular supply chain is delayed. They may also pursue new business opportunities, including distribution channels, product offerings, and customers. Some may form partnerships with other businesses, ultimately strengthening their own business model.
- **More flexible finance options:** Investors will change their needs assessments or find more effective ways of conducting them with social distancing—potentially even lowering the costs of operations and therefore increasing the potential for profit. Similarly, investors may speed up their process due to the urgency of the pandemic. Some may change their requirements in recognition of the unique situation and the collapse of other national industries, such as tourism. There is a particular opportunity at this juncture to embed a gender lens throughout the investment process, and set ambitious targets for financing youth-owned agri-SMEs, bringing inclusion to previously unbanked or underbanked business owners.
- **Greater resilience:** Investors are likely to refocus their efforts with agri-SMEs on resilience: the business' ability to bounce back from a crisis. The CDC Group, for example, has stated that its investments will prioritize resilience, resource efficiency, adaptation, and ability for businesses to withstand future shocks. This provides an opportunity for agri-SMEs to rise to the challenge of investors, and local financial institutions to rise to the challenge of serving agri-SMEs.

4 - MOVING FORWARD

How governments, donors, and service providers can best support this pathway

Agri-SMEs are vital to agricultural markets: they facilitate trade, keep people employed, and enable food security. To ensure they continue to operate throughout and beyond the pandemic, it is critical that we invest in maintaining their linkages, increasing their liquidity, and supporting their agility.

We believe governments, donors, and service providers should consider five major pitfalls as they develop their approaches:

Pitfall #1

Underestimating the potential for catastrophic long-term costs and large-scale failures of agri-SMEs.

The devastating, holistic impact that could ripple out from the collapse of agri-SMEs cannot be underestimated. Agri-SMEs failure will severely disrupt value chain linkages – affecting rural livelihoods and employment, as well as food security in urban areas. In worst case scenarios we may see entire domestic production systems fail. The general lack of data around agri-SMEs can lead to these disruptions and effects being underestimated due to lack of effective quantification. Work must be done quickly and comprehensively to estimate the cost of emergency aid to these businesses, compared to the long-term aid needed to rebuild them.



Action Needed

Governments will need to take the lead on rapid scenario planning to ensure the scale of the agri-SME challenge is understood and defined. Any upfront investment (however large) should be weighed against the longer-term costs (to employment, rural incomes, food security and trade) should large numbers of agri-SMEs fail.

Pitfall #2

Relying on current models of agri-SME financing to step in without creating more effective, faster ways to deploy funding to the right places.

Commercial lending has historically been expensive and difficult for agri-SMEs to access; the COVID-19 pandemic will cause commercial banks to become even more risk averse. Chronic lack of access to long-term financing means that women-led businesses are particularly vulnerable; previous economic recessions have taught us that they are much less likely to survive such a crisis, due to their low level of capitalization. This crisis should be used as a catalyst to find new and more effective ways of lending to agri-SMEs, with a particular focus on ensuring that financing and support mechanisms are tailored to also meet the needs of women-led agri-SMEs.



Action Needed

Governments, donors and impact investors will need to rapidly bolster commercial bank lending to agri-SMEs through risk-sharing mechanisms and relaxed regulatory requirements where appropriate; while at the same time using less traditional financing channels including fin-tech models and direct government programs to get credit flowing.

Pitfall #3

Failing to prioritize and target the most critical value chains for food security, and the most vulnerable points of dependency within those value chains.

Certain value chains are critical for national food security, either because they are staple crops or significant cash crops. And within each value chain there are also linkages that are more vulnerable to the constraints from COVID-19 than others. Actions to support agri-SMEs must identify which value chains are high priority for food security, and where the weak spots are within those value chains.



Action Needed

Governments need to identify critical value chains for food security (including those that earn foreign exchange for food imports) and find ways to support the most vulnerable linkages through program support, regulations, or cash injections.

Pitfall #4

Assuming technology is a simple solution for agri-SMEs.

The need for social distancing as a critical mitigation measure of COVID-19 has led many agri-SMEs, donors, and service providers to proactively leverage digital technology. In many cases, digital tools can help with reaching customers or suppliers safely and more cost effectively. However, the adoption of digital technology often takes time. Rushing this implementation for the sake of social distancing can lead to significant sunk costs and long-term ineffective tools.



Action Needed

Donors and service providers who are working to bring technology systems to agri-SMEs need to be careful about how and where technology is applied.

Pitfall #5

Missing the opportunity to shape more resilient and inclusive markets, even as some businesses fail.

With the looming global recession, many investors and governments are in disaster management mode. However, they may be overlooking opportunities to develop more robust local and regional supply chains, and to build inclusive and resilient employment opportunities - particularly for women and youth. There are a number of products that could potentially be produced locally—given the right investment and support—and could increase long-term resilience and generate additional employment for rural areas.



Action Needed

Governments and donors should be thinking outside of the box in terms of how the pandemic could lead agri-SMEs to build back better within more resilient and inclusive food systems.

Footnotes

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We want to hear from you!

As new information about COVID-19 emerges on a daily basis, we hope this series will serve as an opportunity to open dialogues and share perspectives.

If you would like to get in touch or contribute to the forthcoming research, please reach out to:

Matt Shakhovskoy

ISF Advisors

matt.shakhovskoy@isfadvisors.org

Mikael Hook

RAF Learning Lab

mikael.hook@rafllearning.org

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