

Insight Brief
**Impact of COVID-19 on
Smallholder Farmers, Producer
Organizations and MFIs in
Burkina Faso, Ethiopia,
Rwanda and Senegal**



TOP 5 STUDY INSIGHTS:

- The COVID-19 restrictive measures have far-reaching effects on every phase of the agricultural cycle, and at all levels of market systems.
- The flows of agricultural inputs, labor and produce are inhibited, which results in lower quantity and quality of produce.
- Smallholder farmers and producer organizations experience great difficulties in marketing their produce and accessing buyers, which results in less income, while costs for transportation are increasing, because of scarcity.
- MFIs report repayment delays and increasing numbers of clients defaulting on loans, which puts their own liquidity at risk.
- The observed effects of COVID-19 (restrictions) are expected to continue having a negative impact in succeeding seasons.

Introduction

This insight brief draws together ICCO Cooperation's findings resulting from a study investigating the diverse impacts of the COVID-19 pandemic and associated restrictions on smallholder farmers and microfinance institutions across the four STARS¹ program countries. The objectives of the study are to gain insights into these impacts in order to mitigate emerging challenges, leverage opportunities, and maximise the impact and sustainability of STARS achievements for target groups across these countries.

Research Study Design

The study used structured telephone interviews to collect and record qualitative primary data from farmers and stakeholders from participating Producer Organizations

¹ Strengthening African Rural Smallholders (STARS) is a five-year (2017 – 2021) project of ICCO Cooperation in partnership with Mastercard Foundation. Through a market system development approach the project focuses on improving access to finance and markets for more than 200,000 smallholder farmers in Ethiopia, Rwanda, Senegal and Burkina Faso.

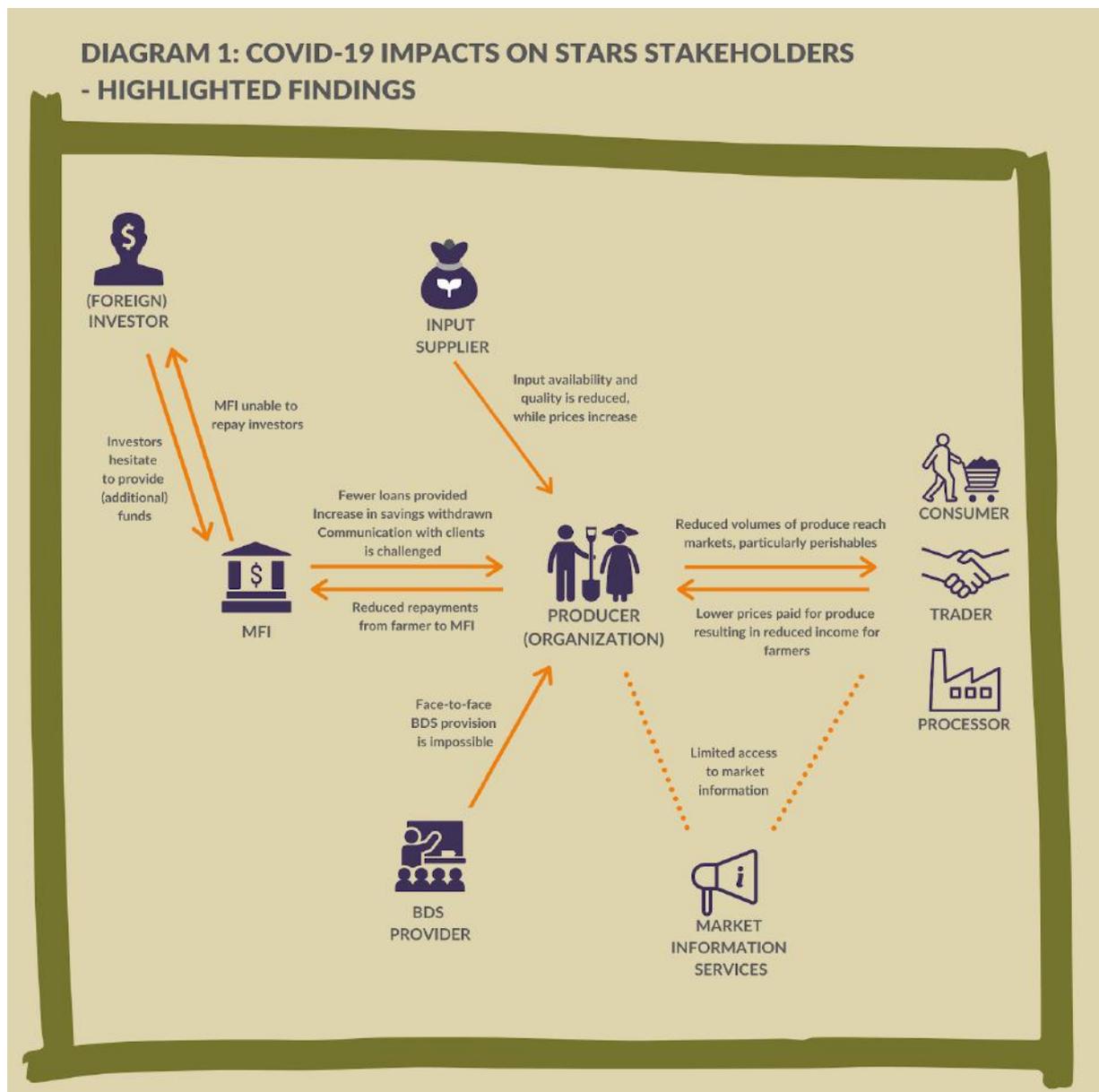
(POs) and MFIs. The data have been gathered amongst 24 smallholder farmers, 11 MFIs (or branches of MFIs) and 16 POs across the four countries in the period from 11 to 22 May 2020. The research tools have been designed to collect rich, fine-grained qualitative data from selected representatives of each stakeholder group using standardised, remote data collection techniques to ensure that robust data can be collected and analysed despite the restrictions on movement and assembly and while minimising the risk of harm.

Market Systems in the Pandemic

The COVID-19 pandemic has sparked a severe public health crisis across the world. To reduce the spread of the virus, the governments of Burkina Faso, Ethiopia, Rwanda and Senegal have imposed a number of restrictions on movement and assembly. The effects of these restrictions are manifesting within every phase of the agricultural cycle, and at all levels of market systems. The COVID-19 pandemic is having, and will continue to have significant impacts on market systems across the developing world, and it is important to identify, acknowledge and mitigate the negative impacts whilst leveraging emerging

opportunities across the sector. While the negative effects are more obvious,

some opportunities as a result of the crisis, were also identified by respondents.



Breaking the (Value) Chain: Securing the Future of Food

The impacts of the pandemic reverberate through the value chain, affecting producers, processors, traders and customers at all levels. Diagram 1 provides an overview of the most important impacts on some of the STARS' stakeholders, as resulting from this study.

One of the most significant impacts of the COVID-19 pandemic on agricultural value chains identified across all four target

countries has been the extensive restrictions imposed on the movement of goods and people across countries and regions, and between rural communities and urban centres. Flows of agricultural inputs, labour and produce are inhibited; scarcity and price increases are the inevitable result. Producers report that farm labor is scarce and expensive as laborers are unable to travel to rural areas, and both farmers and seasonal laborers struggle to access the fields given the

reduced capacity of local transport. Input dealers are restricted from travelling from urban centres and between regions, and international border crossings are prohibited. As a result, quality agricultural inputs are reported to be increasingly scarce and expensive, as the costs and logistical challenges associated with their transportation increase.

Study participants also report that they are struggling to market their produce and access buyers through traditional channels, either independently or through their POs. This is partly due to market closures, and those markets which remain open, face reduced days and hours of operation and restrictions on attendance and interactions. In addition, transportation restrictions inhibit the movement of produce and increase costs, buyers are inhibited from travelling to rural areas, and perishable crops are worst affected by these challenges. Producers also report that their alternative income generating activities are also affected as public services are scaled back and public gatherings are restricted.

The study also highlighted concerns around contamination of agricultural produce and processed goods, the increased hygiene measures required to reassure traders and consumers, and the impacts of these measures on price and demand. In Burkina Faso for example, shea butter producers are taking steps to ensure that they are processing quality shea butter while reducing risks of COVID-19, and in Ethiopia, participating fruit and vegetable producers also report reduced market demand and price resulting in increased wastage, attributed to movement restrictions and compounded by widespread reductions in customers' appetite for eating raw foods, such as fruits.

The immediate impacts experienced by producers in terms of reduced access to inputs, labor and markets, reduced income and capacity to meet loan repayments are likely to have impacts on yield and quality of produce on the long term. The implications for farmers' income and food security are significant. An overview of these challenges faced by farmers is visualized below, in diagram 2.

DIAGRAM 2: CHALLENGES FACED BY PRODUCERS DURING THE COVID-19 PANDEMIC



Producer Organizations Practicing Social Responsibility

The restrictions on movement and assembly implemented in response to the pandemic also affect POs, who report that they are struggling to communicate with their members, committees and offtakers, and also face challenges in coordinating sales of aggregated produce and

negotiating with bulk buyers, many of whom are also affected by the restrictions. POs are reliant on income from members and loans, and in the current climate both income sources have been significantly affected. For example, in Rwanda, POs report challenges in accessing finance, with restrictions on assembly preventing them withdrawing funds from MFIs where all signatories must be present. Across all

countries, reduced income for farmers also results in reduced income for POs.

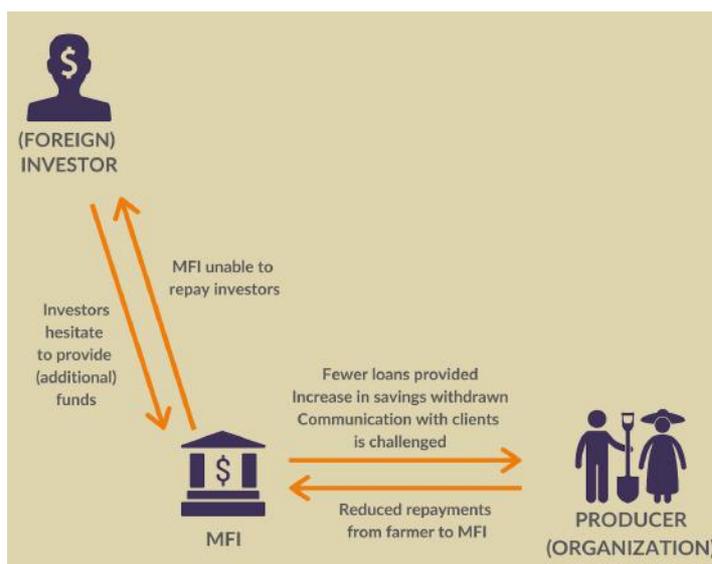
POs are increasingly relied upon to provide inputs and consumer goods for members in areas affected by market closures and scarcity, and in some cases are providing social support functions including awareness-raising around COVID-19 risks and prevention measures, advice on adapting spending and business practices in the pandemic, and providing hand soap and other protective equipment to members and, in one case in Burkina Faso, local communities and state structures.

POs provide a lifeline for members and communities where opportunities for individuals are restricted, both in terms of accessing inputs, protective products and consumer goods, and for accessing wider markets for produce. To maintain the valuable communication with farmers, some POs resorted to digital or telecommunication means (e.g. whatsapp, google meet, calling plan), while others organized gatherings in smaller groups. Having such additional means of communication at their disposal, makes POs more resilient and allows for quick and cost-efficient communication with members now and in the future.

Finance on the Frontline

As the crisis deepens, farmers' economic security nets fail. During crises and disasters, it is common for rural communities to reach out to family and friends for help, with these networks functioning as informal social security systems. In a more localised crisis, this strategy is effective as struggling individuals can seek support from individuals located in distant communities, urban centres, or even remittances from overseas. The global impacts of the COVID-19 pandemic are unique, and disrupt these traditional safety nets.

Formal sources of finance are also affected, with participating MFIs reporting repayment delays and increasing numbers of clients defaulting on loans as they are unable to market their goods, and withdrawing funds to support their farms and households in the face of increasing costs and unstable markets. These trends are affecting MFIs' liquidity, low savings mobilization capacity, savings withdrawals and performance ratios such as PAR (Portfolio at Risk).



Simultaneously, MFIs face increased operational costs associated with protective equipment to adhere to the virus control measures, such as facemasks and hand sanitizer. Furthermore, MFIs also face pressure from the governments to grant maturity extensions and exercise leniency with clients who are unable to meet repayment deadlines due to the pandemic.

If these trends continue, MFIs express the concern that they will be unable to meet their own financial obligations in terms of repaying loans and staff wages, and report that they are taking measures to reduce available agri-lending for the coming seasons, and rejecting new and high-risk clients. They face challenges including staff unemployment, recovering unpaid debts, portfolio quality, financing the next agricultural campaigns, and reduced repayments from investors for refinancing.

MFIs are seeking to navigate these challenges by digitizing their services where possible to provide mobile banking facilities for clients, overcoming restrictions on movement and assembly and reducing costs of protective equipment required to meet clients face-to-face. While some MFIs already started providing digital services to their clients, the current crisis accelerates this development by emphasizing its benefits for customers and MFIs.

Horizon scanning to Future-Proof Farming

Build resilience to disruptive shocks and market volatility

While the pandemic is a global emergency, rural producers face crises and disasters on a regular basis. Building resilience to

market disruptions and fluctuations is likely to have long-lasting and powerful effects for producers and POs. Building skills and capacities in appropriate post-harvest handling, storage and processing is likely to minimise wastage and increase opportunities for marketing produce when prices are favorable, with particularly significant implications for perishable crops.

Mobile banking for the future

Digital financial services have been increasingly popular across Africa over the past years, and these trends look set as mobile network penetration and handset ownership continue to increase. The pandemic has highlighted the importance of mobile banking for facilitating access to finance during crisis conditions, and the potential of remote financial access for reducing both the costs and risks associated with traditional banking practices.

Support producer organizations to support their members

The crisis shows that POs are vulnerable to (temporary) restrictions on assembly and movement. The services they provide to their members largely depend on the ability to meet with them face-to-face. Since it is highly likely that similar restrictions continue or return in the future, they require a mechanism allowing them to continue functioning. Increasing their capacity to communicate and do business digitally with members, but also MFIs, input suppliers or traders, would be a good initial step. Those POs that provide agronomic training, should build the flexibility of switching to a remote modality when the circumstances demand. When it comes to the actual distribution of inputs or aggregation of produce, movement restrictions are more difficult to

circumnavigate. In that case, improved local storage and processing could possibly provide a solution.

Finally, given the perceived risks associated with transmission of COVID-19 through produce (vegetables in Ethiopia) and products (shea butter in Burkina Faso), POs should disseminate the information that producers need to produce safely but also the information needed to take away unnecessary concerns that remain.

MFIs and (novel) risk management

Maintaining liquidity turns out to be the main challenge for MFIs during the COVID-19 crisis as a result of direct effects on and actions of their clients and

investors. This affects the MFIs ability to provide services and has potentially far reaching consequences for farmers, now and in future seasons. Therefore, MFIs require improved risk management. ICCO Cooperation could contribute through capacity building. Furthermore, it is essential that the impact (also in the longer run) is clear to all those involved and action is taken by governments and investors/loan guarantors, to avoid MFIs from defaulting or having to stop providing services. ICCO Cooperation could also play a role in advocacy to this end.

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We Help Farmers and Small Businesses Grow.



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