



Impacts of COVID-19 on Agricultural Businesses in Africa, Latin America, and Indonesia

Summary of Survey Results and Root Capital's Response

June 15, 2020



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INTRODUCTION

Agricultural businesses are vital platforms for COVID-19 response in rural communities. Each one connects hundreds—sometimes thousands—of farmers, workers, and their families to stable incomes during times of crisis. They provide critical services and infrastructure in remote areas that are difficult for governments to penetrate. During this social and economic upheaval, well-supported agricultural businesses can be a direct channel for delivering information, goods, and services to millions of people in hard-to-reach places.

Root Capital has always known that small and growing agricultural businesses are engines of impact for rural communities—indeed, that’s why we exist. Today, we are witnessing the crucial role they can play in reaching the most vulnerable during times of uncertainty and scarcity. Since the beginning of this pandemic, we have leveraged our unique position as a specialized lender and trainer to hundreds of rural businesses worldwide. We seek to both mitigate our clients’ vulnerability to this crisis *and* harness their potential to drive COVID-19 response at scale in rural communities.

As the very first step, we sought to understand more precisely the barriers and challenges our client agricultural enterprises are facing as a result of the pandemic. In early April, we conducted a telephone survey of 134 clients across Africa, Latin America, and Indonesia—made up of at least 40% of our clients within each region where Root Capital operates. We structured the survey as a telephone conversation consisting of 22 questions; a Root Capital loan officer or advisory consultant led each conversation. This was a baseline survey, and we will conduct a second survey starting in mid-June to ensure continued understanding of this evolving situation.

In this report, we present a high-level summary of the survey results, as well as an update on activities implemented and/or planned as part of Root Capital’s ongoing COVID-19 response.

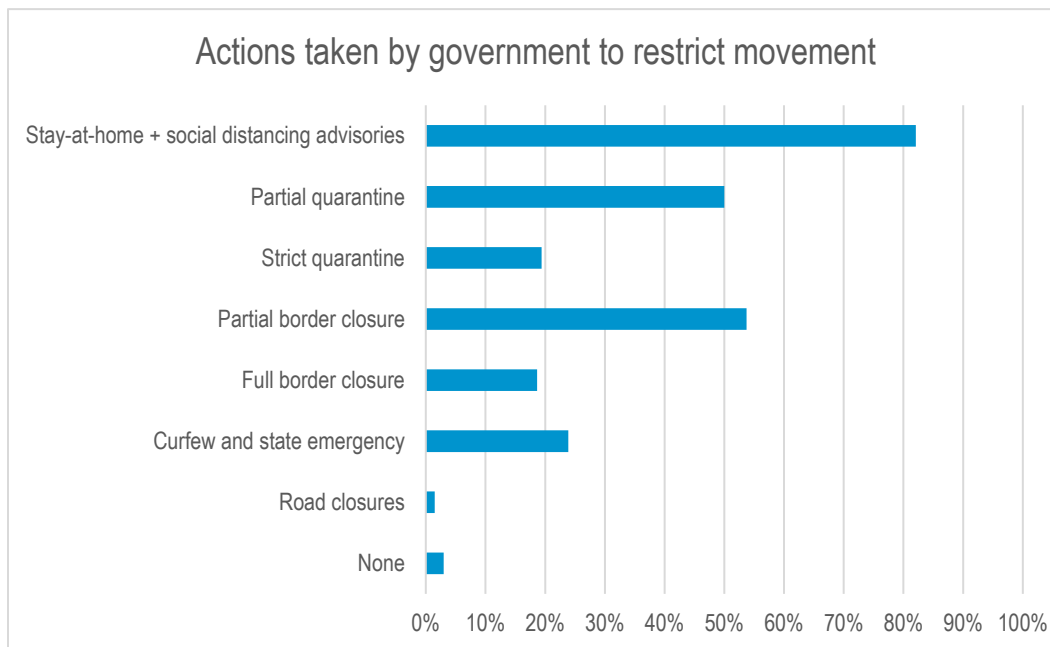
KEY GLOBAL FINDINGS

While the virus has yet to reach most rural areas, communities face labor shortages and increased food insecurity as local governments restrict movement. While these directives are critical to protect public health, they also put rural businesses and the livelihoods of farming families at risk.

Impacts on Rural Communities

Over the last two months, rural communities—like many places around the world—have been living under various levels of government-mandated lockdown. These restrictions, along with uncertainty about the future, are disrupting daily life in these communities.

COMMUNITY IMPACT #1 – RESTRICTIONS ON MOVEMENT

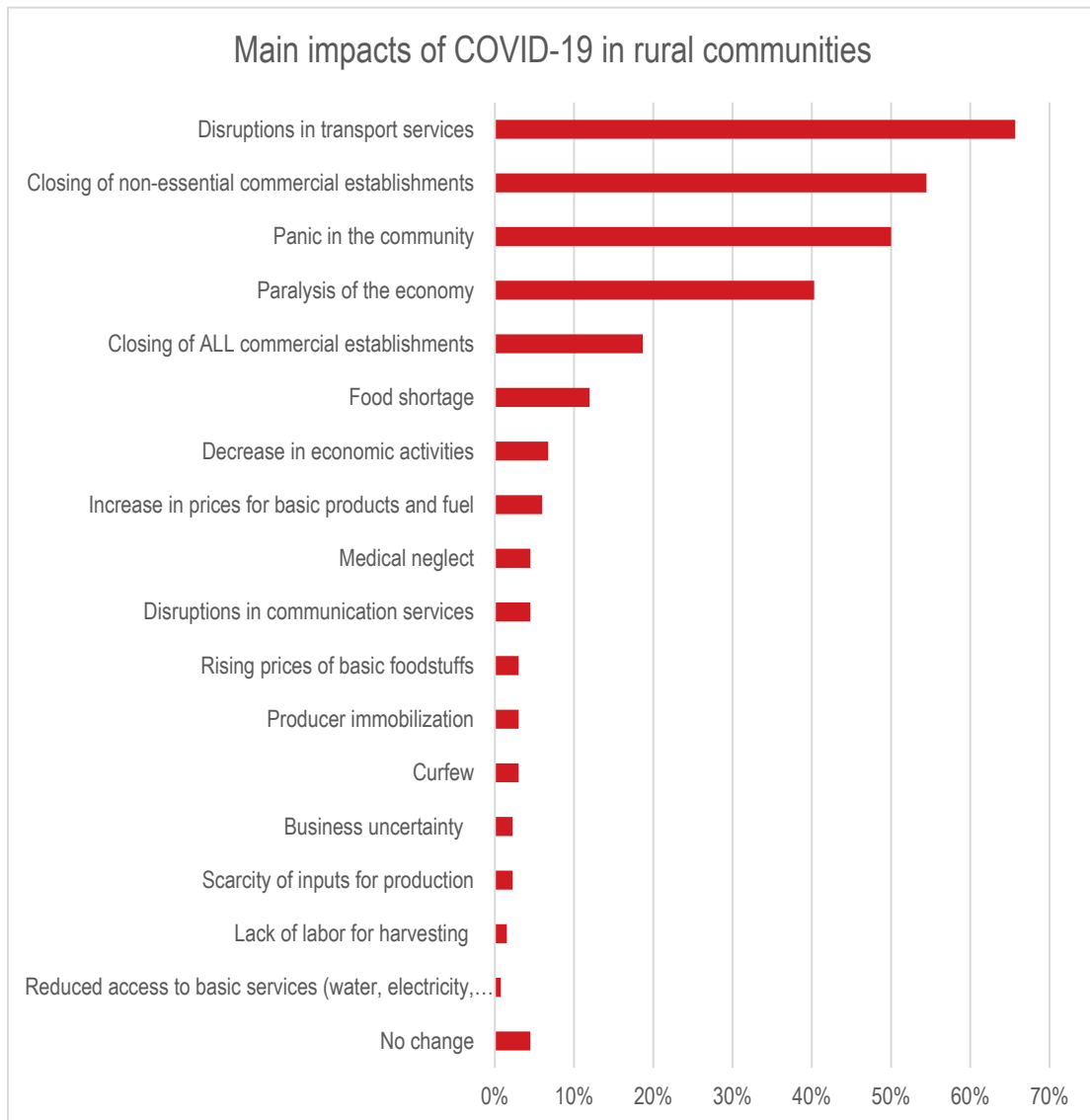


Eighty-two percent of respondents reported that governments have issued advisories encouraging people to “stay at home” and maintain social distancing. Half of those surveyed noted that a formal partial quarantine is in effect in their community, which limits working hours and congregation of groups, including at local markets. While 53% reported partial border

closure that still theoretically allows for the movement and export of food and essential supplies, 19% were living in countries where borders were fully closed.

COMMUNITY IMPACT #2 – DISRUPTION OF SERVICES CRITICAL TO DAILY LIFE

While respondents reported numerous disruptions to daily life as a result of COVID-19, the biggest were related to the closure of transportation services (66%) and commercial establishments other than banks, pharmacies, and food suppliers (54%). While few (12%) reported food shortages so far, the longer transportation disruptions continue, the more likely they are to pose a grave risk to rural food security. At the time, only 3% reported rising prices of basic foodstuffs, with twice that (6%) experiencing rising prices for other necessities like fuel.



COMMUNITY IMPACT #3 – PANIC AND ECONOMIC PARALYSIS

After disruptions to transportation and commercial services, the next two top impact areas identified by respondents were: panic in the community (50%) and paralysis of the economy (40%). With the future uncertain and the threat of a public health crisis looming, rural communities are sustaining a heavy psychological toll. Additionally, with so many restrictions on movement and commercial activity, people are unable to transact as they normally do—leaving the economy in a state of paralysis. The consequences of these psychological and economic impacts will likely be long term.

Impacts on Rural Businesses

The disruptions plaguing rural communities are also changing the way rural agricultural businesses operate. At the same time, we found that our client businesses are adapting to this new normal and mobilizing to provide critical information and resources to their farmers and employees.

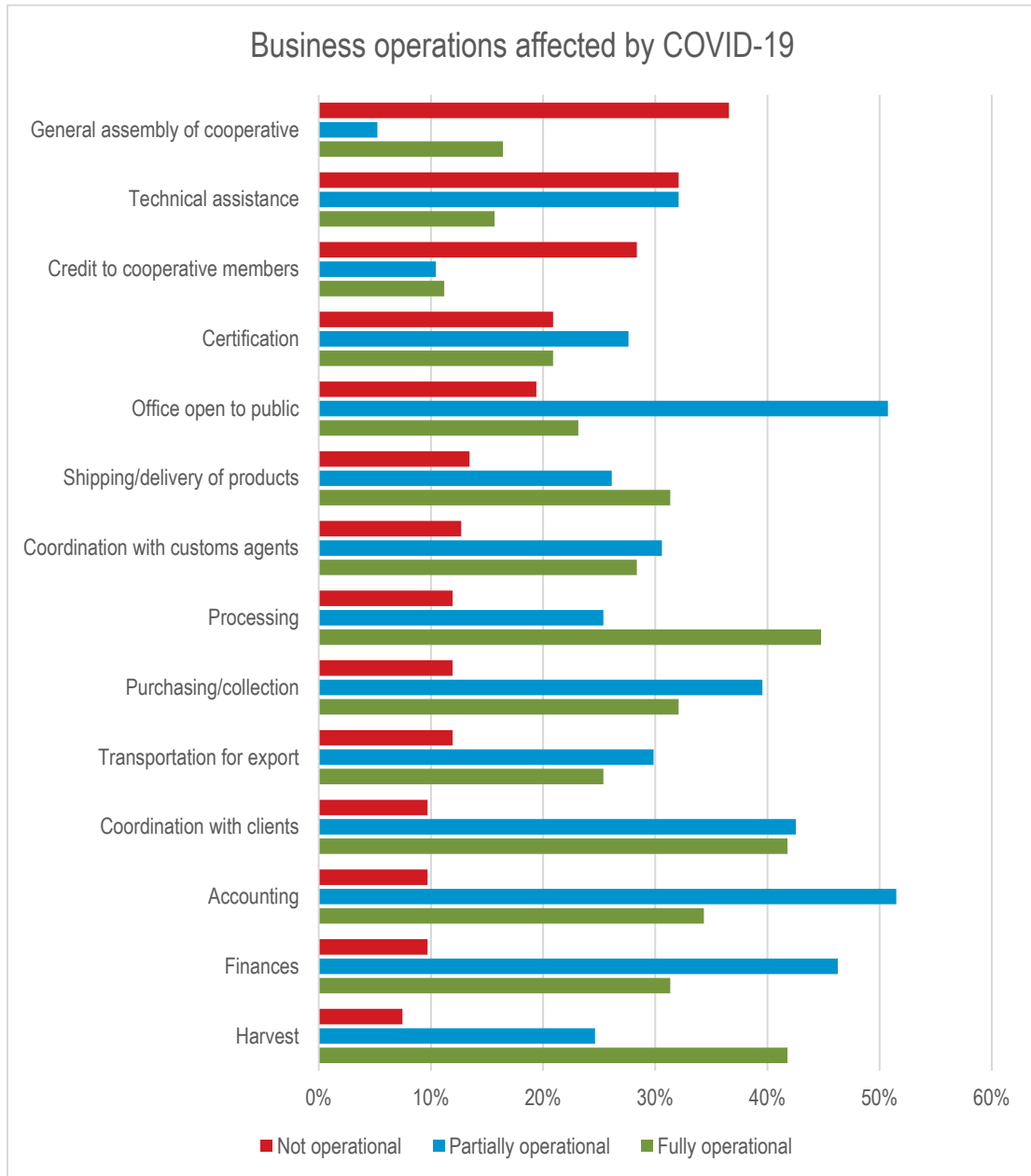
BUSINESS IMPACT #1 – INTERRUPTION OF NORMAL BUSINESS OPERATIONS

Government restrictions and public health advisories around social distancing have forced businesses to adjust their normal operating procedures. At the time of the survey, 62% of respondents had some employees working from home—primarily those from the accounting, finance, and administrative departments.

Business interruptions have looked different in different regions (see the section on “Regional Differences” on page 12). But overall, the main operations impacted by social distancing and other restrictions put in place to mitigate the spread of COVID-19 are those that require face-to-face and/or group interactions. For example, 37% of respondents said that cooperative general assemblies—where members vote on important decisions and elect cooperative leadership—have stopped altogether. Businesses have also suspended (32%) or dialed back (32%) the provision of technical assistance, which helps farmers increase yields, identify disease, and adopt climate-smart practices. Pausing these services may have negative repercussions not just for the current season, but for the next harvest as well.

Many businesses experienced at least partial (30%) or full (12%) disruptions in transporting their product to port, as well as partial (31%) or full (13%) disruption of their coordination with customs agents. Though governments have allowed production and transportation of essential services, including agricultural commodities, it's clear that mobility and transport restrictions are still causing disruptions throughout the supply chain.

Harvesting and processing operations were among the least impacted at the time of this survey, but this was due primarily to regional variations in harvest seasons (see section on “Regional Differences” for more information). Business functions related to finance, accounting, and coordination with clients (e.g., international buyers) continued to be partially or fully operational for most enterprises, perhaps because many of the relevant staff members are continuing to work remotely.



BUSINESS IMPACT #2 – CHALLENGING MARKET DYNAMICS

Many of Root Capital’s client agricultural businesses work in commodity markets (coffee, cocoa, tree nuts) that rely on international consumer demand. When that demand fluctuates—for example, as coffee buying patterns shift from café-ready specialty coffee to mass market at-home products—small businesses struggle to adjust. Of those surveyed, 75% of enterprises foresee future setbacks in harvesting, processing, shipping, or sale of their products. In fact, 25% reported some cancellation, postponement, or decrease in buyer requests thus far due to the pandemic. Most (41%) reported that buyer requests are unchanged—and a small proportion (16%) actually reported experiencing an uptick in demand at the time of the survey. However, given the instability of market dynamics in the short-term and uncertainty about the long-term economic impacts of COVID-19, this is unlikely to last.

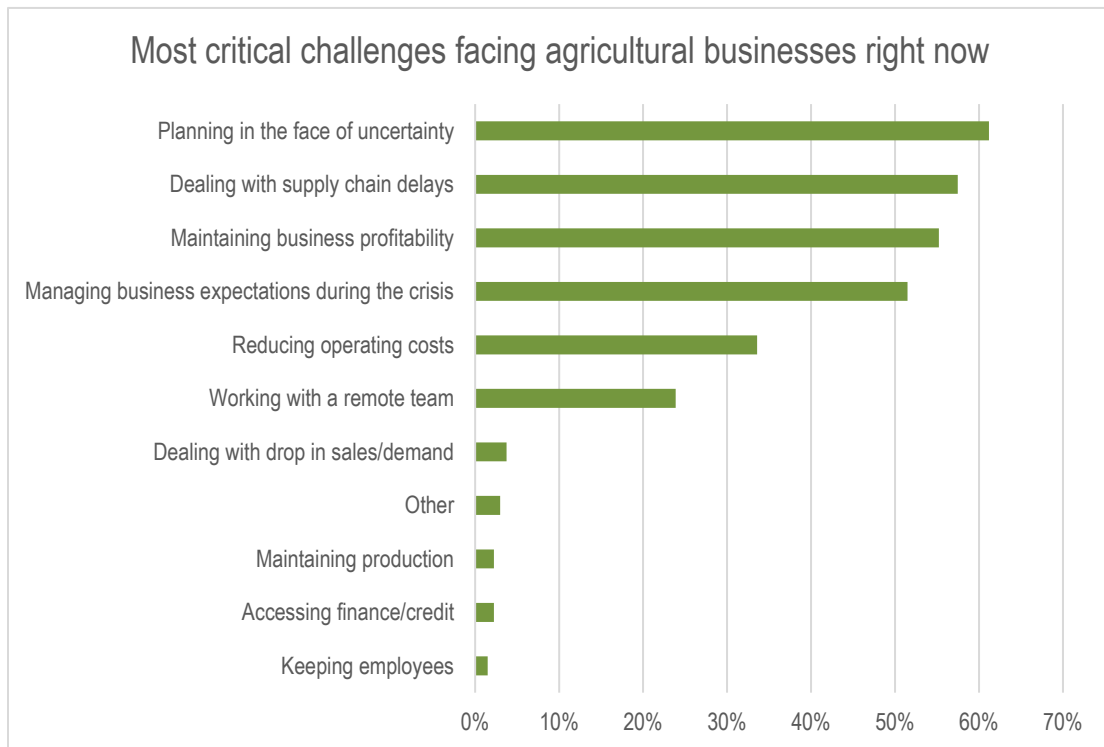


BUSINESS IMPACT #3 – DEALING WITH UNCERTAINTY ABOUT THE FUTURE

Perhaps unsurprisingly, when asked “What is the most critical challenge your organization faces today?” most businesses (61%) cited the challenge of planning in the face of uncertainty. With the precise market impacts—not to mention public health impacts—still to be determined, agricultural enterprises are struggling to plan ahead.

The other challenges identified by survey respondents hint at the *likely* impacts they will have to plan around in the weeks, months, and even year to come. With ongoing transportation and movement restrictions, 57% are concerned about dealing with continuing supply chain delays.

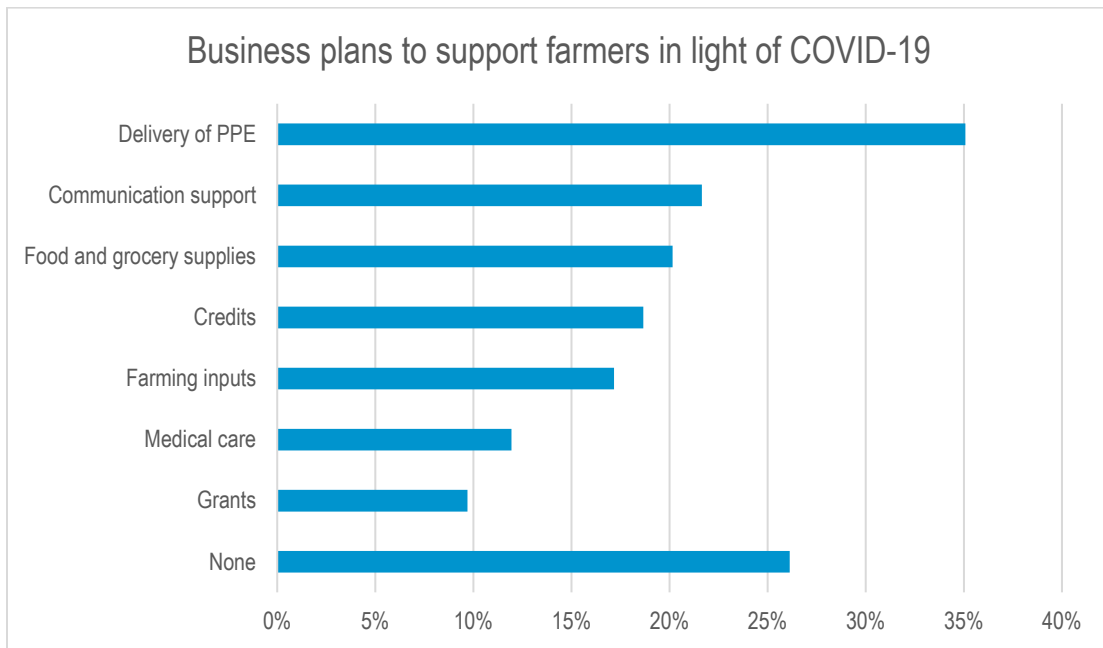
More than half of respondents are anxious about maintaining business profitability (55%) and managing overall business expectations (51%) during this crisis. These findings make it clear that, to survive this crisis, rural enterprises will need not just financing, but technical assistance aimed at strengthening business continuity and cash flow management, among other topics (for more information, see the section on “Root Capital’s COVID-19 Response” on page 14).



BUSINESS IMPACT #4 – PIVOTING TO SUPPORT FARMERS AND WORKERS IN NEW WAYS

While agricultural enterprises are rightly focused on dealing with urgent operational challenges, many are also quickly pivoting to provide urgent services to their communities. Overall, 84% of those surveyed say they have a plan to support their farmers and employees. The highest priority (35%) was to deliver personal protective equipment (PPE) to their members, especially for agro-processing enterprises in Africa that employ a large number of workers. Businesses are also planning to provide support with communication (22%), food and grocery supplies (20%), credit (19%), and farming inputs (17%).

At the same time, 57% of respondents did not have a specific person designated to coordinate COVID-19 response. This is a potentially simple step that rural enterprises could take to more systematically plan their response to mitigating the crisis.



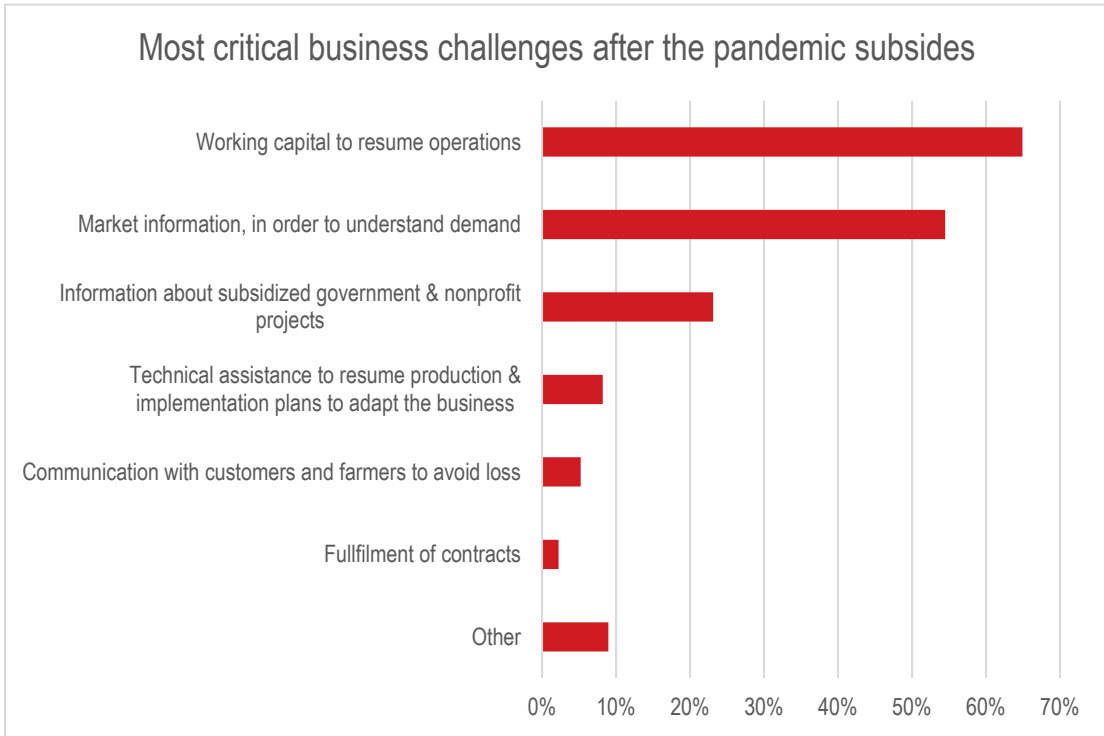
Examples of how Root Capital clients are supporting their communities:

- 🌱 **AMPROCAL, Honduras:** Setting up a fund for members to buy food crop seeds to ensure their families have enough to eat in the months ahead.
 - 🌱 **Ankole Coffee Producers Cooperative Union, Uganda:** Using its Fairtrade premium to supply farmers with hand sanitizer, soap, and face masks.
 - 🌱 **La Vivrière, Senegal:** Granting paid leave to older, at-risk employees.
 - 🌱 **Rio Azul, Guatemala:** Distributing emergency food kits to their farmer-members.
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BUSINESS IMPACT #5 – NEED FOR FINANCING AND MARKET ACCESS

Looking ahead, we asked respondents to share what they think will be the most critical challenge *after* the pandemic subsides. Some said it was a difficult question to answer given the early stage of the crisis and high level of uncertainty. However, 65% responded that the

biggest challenge is likely to be accessing working capital to resume operations, while 54% cited the need to obtain adequate market information. Both are areas where support from financial service and technical assistance providers like Root Capital will be badly needed.



REGIONAL DIFFERENCES

While the impacts above were reported across the globe, the particular challenges and levels of urgency differed across regions. In part, that's because clients in different regions and value chains were at diverse points in the harvest season when the pandemic began.

KEY FINDINGS

-  **In East Africa**, our clients' primary value chains—macadamia nuts and coffee—were in peak harvest/processing season at the time of this survey. Due to government directives, these clients are maintaining a leaner workforce and reducing shifts. This has caused smaller-than-normal volumes of product collection and processing. Going forward, clients expect delays in harvesting, processing, shipping, or selling products.
-  **In West Africa**, though most respondents reported that their buyer contracts have been maintained so far, a few have experienced postponement or suspension of contracts. Some food processing clients that sell products for local consumption (e.g., palm oil, rice, maize) reported an increase in the demand.
-  **In Mexico and Central America**, our survey was delivered at the end of the coffee harvest, when clients were beginning to export shipments. More than half of surveyed clients in this region are anticipating delays of between 30 to 60 days, on average. Almost a third of clients are partially operating or have stopped processing, shipping, and export operations.
-  **In South America**, governments ordered total and/or partial isolation, causing a major stoppage of passenger transport and bringing most customer service, warehousing, and community activities to a standstill. However, our clients have continued administrative, financial, and commercial activities through teleworking. In Colombia, some clients reported being 60% finished with the coffee harvest, with minimal impact so far. But with the harvest just beginning in Peru, there is still significant uncertainty about regional impacts.
-  **In Indonesia**, though the government has issued stay-at-home and social distancing advisories, our clients are almost fully operative. However, businesses there foresee setback or delay in shipping or sale of their product. All clients noticed lower demand or lower volume, and some have had contracts suspended or postponed.

GENDER-RELATED FINDINGS

Rural women are more vulnerable during the pandemic because they have less access to resources *and* more caregiving responsibilities than men. A gender disaggregation of our survey results showed that women-led businesses¹ are experiencing a wider variety of COVID-19 impacts, and are also responding in more diverse ways than men-led businesses.

KEY FINDINGS

- 🌱 In Africa and Latin America, men-led businesses were more likely to report being fully operational across various business functions relative to women-led enterprises.
- 🌱 Businesses led by men were 36% more likely to report that their buyer requests/contracts have *not* changed during the pandemic—in all regions except Mexico and Central America. Overall, women-led businesses appear to be experiencing more disruptions to their buyer contracts because of COVID-19.
- 🌱 Women-led businesses reported concern for a wider variety of COVID-19-related challenges, including food shortages (78% more likely to be reported by women-led businesses), transportation disruptions (77% more likely), and business closures (81% more likely).
- 🌱 In most regions, businesses led by men are 62% more likely to report that they have no plans for COVID-19 response. Across Africa, women-led businesses are planning a more varied response than businesses led by men.
- 🌱 In terms of services provided to their suppliers and employees, businesses led by men reported focusing more on delivering information about COVID-19 and direct farming support. Women-led businesses were more likely to report planning to provide food, groceries, medical care, and credit for farmers and employees, in most regions.
- 🌱 Women-led enterprises in every region were 36% more likely to report interest in remote advisory services from Root Capital—and, importantly, 85% have the capabilities to receive remote services.

¹ Women-led enterprises represented 16% of Root Capital's 2019 lending portfolio, and 18% of survey respondents.

ROOT CAPITAL'S COVID-19 RESPONSE

As the COVID-19 crisis unfolds, we believe that saving lives must go hand in hand with preserving livelihoods. Agricultural businesses can play a key role in reaching the most vulnerable populations with creative, rapid responses that build long-term resilience.

Root Capital's COVID-19 response will focus on two priorities: 1) mitigate our clients' vulnerability to this crisis and 2) harness their potential as platforms through which to assist rural communities in both the short and long term. As noted in the survey results above, agricultural businesses are currently facing challenges managing their cash flow projections, complying with safety regulations, and providing emergency assistance to their farmers and employees. Root Capital aims to provide our clients with the advice, capital, and flexibility they need to keep their business and impact going amid heightened uncertainty.

Though the pandemic will pass, we recognize that the world will not be exactly the same when this is over. To thrive beyond this crisis, Root Capital and our clients need to disrupt business as usual. And we need to think beyond the current emergency to reimagine a future where rural businesses and communities are more resilient to both short- and long-term challenges.

Our Four-Part Response Framework

We are focused on supporting agricultural businesses to take immediate action to mitigate negative impact, while planning for the future. Our response framework comprises four stages:

1. **Understand:** Assess the current situation for agricultural businesses and communities. Understand the key challenges and needs, especially for marginalized or under-resourced groups, like women and youth.
2. **Withstand:** Ensure the safety of farmers and workers, and the continuity of activities. Take immediate action to deploy capital, knowledge, and tools to help clients survive the crisis.
3. **Recover:** Work with clients to normalize operations and adapt business models as needed. Evolve our service delivery and offerings to address the needs of our rural partners as they shift into recovery mode.
4. **Reimagine:** Learn from the crisis and evolve programming to not only increase impact on rural businesses, but reimagine resilience in the prolonged "new normal."

What We're Doing

In collaboration with rural businesses—as well as donors, institutional partners, global platforms, and other technical assistance providers—Root Capital is scoping or implementing a number of COVID-19 response activities. During the most acute phases of this pandemic, we need to ensure that rural families can still access food and earn income. Right now, to help businesses “Withstand,” we aim to provide direct emergency support, ensure business continuity through remote technical assistance, and build resilience together with our clients. In all activities, we will utilize a gender lens to ensure women are included in decision making and benefit equitably from our response. Our immediate response spans three key activity areas:

1) RESILIENCE GRANTS

Where possible, Root Capital will provide direct support to reduce financial strain on clients, their employees, and their farmers, and help them meet emergency needs, including:

- 🌱 **Purchasing appropriate hygienic supplies** and getting them into the hands of employees, farmers, and their families, along with educational information on how to best mitigate the spread of COVID-19.
- 🌱 **Providing emergency cash transfers** to farmers and employees, either as cash or credit to farmers for food or seed purchases, or temporary compensation payments for employees when facilities are shut or they lack transportation to come to work.
- 🌱 **Relieving enterprises' own liquidity crises** due to operational delays, market upheaval, or logistical challenges—through flexible funding to cover immediate business costs.

2) VIRTUAL TECHNICAL ASSISTANCE

Root Capital is dialing up our existing mobile and digital capabilities so our advisory services team can help businesses implement new processes, policies, and best practices required for crisis management and contingency planning. Focus areas include:

- 🌱 **Crisis management and emergency operations**, so businesses understand how to assess changing situations, make sound decisions, and communicate with key stakeholders.
- 🌱 **Financial management and analysis**, particularly to support scenario planning based on emerging market and operational realities.

- 🌱 **Digital data collection and analysis** to increase business resilience and responsiveness, and build trust with both farmers and buyers.

3) BUILDING RESILIENCE TOGETHER

Our clients need us to continue doing our job, so they can do theirs—and so farmers can survive and adapt for the future. Our ability to accompany our clients through whatever challenges they face requires sufficient, flexible resources. With support from philanthropic partners, we can:

- 🌱 **Lean in to clients' shifting credit needs during this period of high uncertainty and risk:** As economic disruption continues, businesses will face new challenges. Flexible funding will ensure that we can continue to tailor financing solutions to help clients survive as viable enterprises.
- 🌱 **Stay the course when others leave:** Root Capital anticipates that our path-breaking role in the smallholder finance sector will only become more critical as economic and social uncertainty will cause other lenders to pull back even more, constricting enterprises' capacity to access the credit they need to withstand this crisis.

How You Can Help

Our approach is evolving, and will continue to evolve as different stages of the COVID-19 response unfold. Our first priority, in surveying our clients, was to listen and understand the challenges in rural communities. Importantly, we will continue to listen closely to our clients in order to identify support opportunities that are not being met by other actors. We are determined to leverage our unique platform and connections in rural communities to mobilize impactful responses to this ongoing crisis.

Our decision making around response activities is driven by three primary factors: 1) impact on rural businesses and communities; 2) strategic relevance to the existing organizational priorities and capabilities of both Root Capital and our clients; and 3) our ability to raise the appropriate capital to support activities in a timely way.

By supporting Root Capital, you can ensure that capital, training, and other resources—fit to each client's unique challenges and needs—get to the businesses and farmers that need them. Join our rapid response effort today by visiting rootcapital.org/covid19.