



## **Impact of Covid19 on Agricultural Market Players**

Musika Development initiatives

## Executive Summary

The outbreak of the COVID-19 pandemic has resulted in unprecedented global public health and economic crises. The effect of the pandemic has been felt by all key stakeholders, most especially the private sector as it has continued to impact on their business operations. This study specifically takes a snap shot of the effect of the pandemic on the private sector operating in the agricultural sector. Below were the key findings from the study;

## Key findings

- ***The pandemic is likely to have an effect on food security:*** The study revealed that 67% of the firms felt that the pandemic will have an impact on national food security. The majority of the firms (33%) which felt that the pandemic will have an effect on national food security were from the crop sales and services sub sector. The majority of the firms (38%) also indicated that the pandemic affects all agricultural stakeholders.
- ***Covid19 has Impacted agricultural businesses negatively:*** the majority of the firms (95%) felt that the pandemic had an impact on their businesses. And of the total firms captured, 81% indicated that the pandemic had a negative effect on their business. The majority of the firms (77%) indicated that the pandemic had resulted into a loss of more than 10% of their revenue between the start of the year and 15<sup>th</sup> May, 2020.
- ***The sector most hit by the pandemic is the financial sector:*** this is likely to be in the short term as a result of removal of some of the fees. The majority of the firms in the other sub sectors such as agricultural technology, crop sales and services, and livestock sales and services rated the impact of the pandemic on their businesses as medium.
- ***Most firms experienced less demand for their goods and services during the period under consideration:*** much of this outcome could be supported by the second most important challenge which involved the depreciation of the kwacha and also the restrictions in movements.
- ***The most common remedial measure by most firms was cutting down the work force:*** the majority of the businesses sought to either rotate or cut down on their work force as a remedial measure. This was necessitated by the reduction in revenue as a result of the pandemic.
- ***The majority of agricultural businesses appealed for government support:*** the majority of the agricultural firms (86%) felt that there was a need for the government to incentivize local businesses and prioritize supply of domestically produced goods to the major chain stores.

## Recommendations

- ***A need to Support digital financial services:*** this sub-sector provides opportunities for the private sector to support given the flourishing policy environment and also the potential demand from the consumers in the medium and long term, and most especially the rural households could stand to benefit.
- ***Enhance support to agricultural technologies:*** the agricultural technology sub-sector like the crop sales and services sub-sector was moderately affected by the pandemic, at the time of this publication. One key area of support in need of support as indicated by the agricultural firms was mechanisation.
- ***A need to support crop sales and services sub-sector:*** the majority of the agricultural firms in this sector appealed for support in form of tax relief and also access to loans and grants during the pandemic. Special efforts will be needed in supporting partners in ways which will still encourage farmer-private sector buyer transactions i.e. special grants to private firms in supporting specific value chains of interest.

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## Introduction

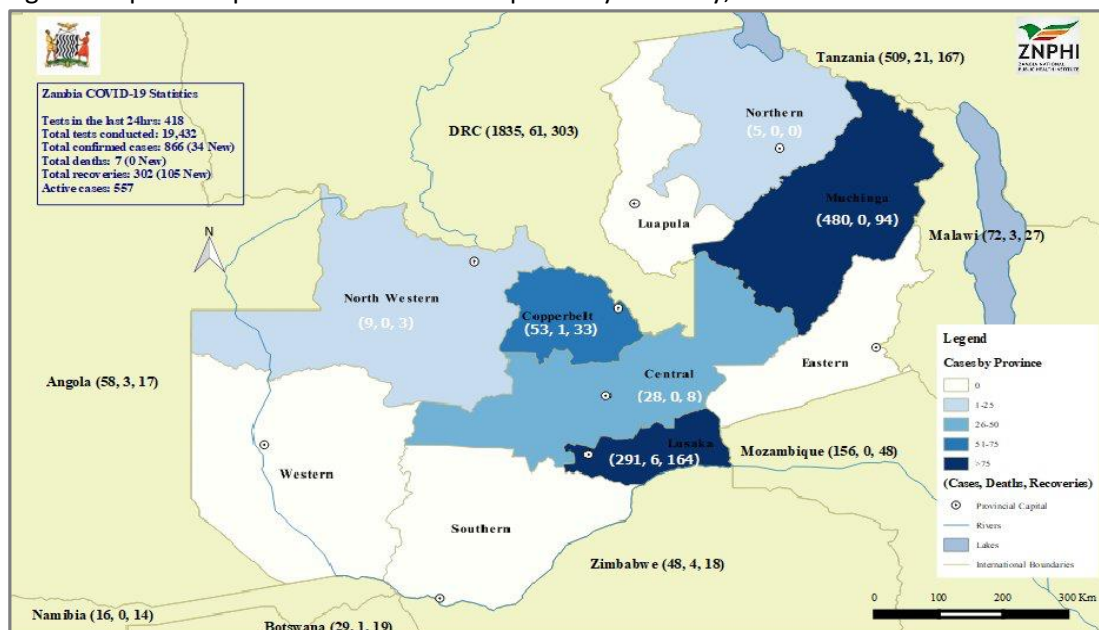
The outbreak of the COVID-19 pandemic has resulted in unprecedented global public health and economic crises. At the time of this publication, an estimated 4.7million<sup>1</sup> cases had been recorded with a 6.7% death rate. Africa is currently contributing about 1.25%<sup>2</sup> to the total global cases.

Protecting lives and allowing health care systems to cope have required isolations and lockdowns to slow down the spread of the virus. As a result of the pandemic, the IMF (2020) projects that the global economy might contract sharply by -3% in 2020, much worse than during the 2008-09 financial crisis. Sub Saharan African economies are projected to slow down by -1.6%. The World Bank (2020) predicts that an estimated 60 million people will be pushed into extreme poverty.

Zambia has not been spared by the pandemic as the number of cases keep on fluctuating to an accumulative total of 866 by 21<sup>st</sup> May, 2020 (ZNPHI, 2020). By the time of this publication, there had been a reversal of some of measures which had been earlier taken in order to contain the spread of the pandemic<sup>3</sup>. Despite all these measures, IMF (2020) projected that the Zambian economy might contract by 2.6%, slightly lower than the global average but higher than the sub-Saharan average. MoF (2020) estimates that the budgeted revenue will fall short of target by at least K14.8billion or 19.7 % of the approved 2020 budget. This is in addition to the surge in external debt levels, climate change challenge, declining global commodity prices for base metals(copper) etc.

The effect of the pandemic has been felt by all key stakeholders, most especially the private sector as it has continued to impact on their business operations. This study specifically takes a snap shot of the effect of the pandemic on the private sector operating in the agricultural sector. Obtaining insights from the agricultural sector players is critical as the pandemic has the potential of impacting Zambia's food security status through the slowing down of economic activities. For instance, by the time of this publication, the pandemic had spread to six (6) of Zambia's provinces, see figure 1.

Figure 1: Spatial depiction of the covid19 spread by 21<sup>st</sup> May, 2020



Source: Zambia National Public Health Institute (2020)

<sup>1</sup> <https://coronavirus.jhu.edu/>

<sup>2</sup> <https://covid19.who.int/>

<sup>3</sup> Restaurants, cinemas, gymnasiums, casinos, hospitality industry etc. were allowed to conduct business.

Musika is cognisant of the potential effects that the pandemic might have on both the operations of the private players and the smallholder farmers. It is against this background that Musika undertook this study to generate evidence to inform its approach going forward on how best to intervene.

### Objective

Assess agricultural private sector players' perceptions of COVID19 impact on their businesses

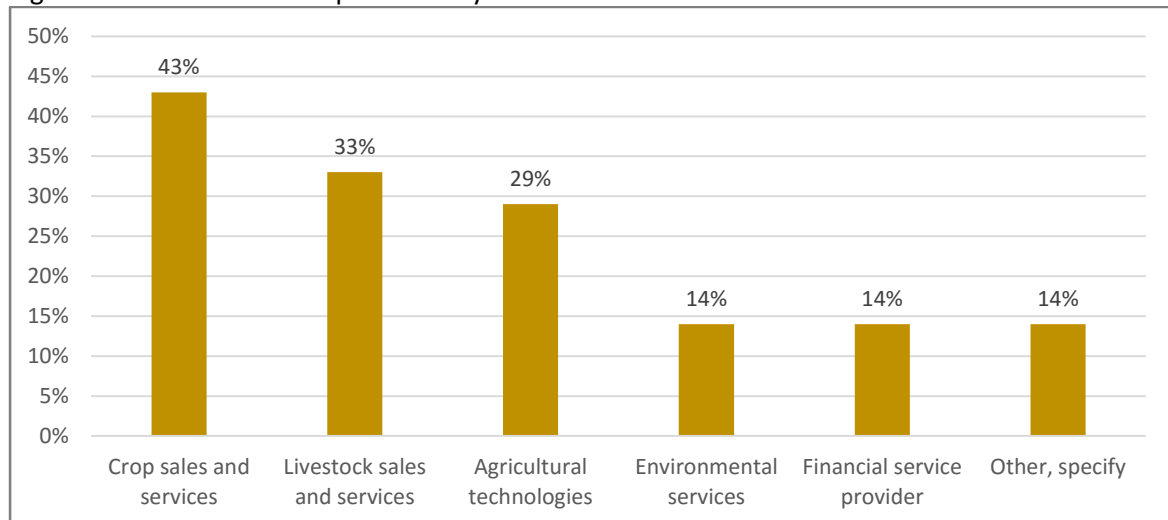
### Methodology

The data was collected using an online platform (survey monkey). The online form was shared with 69 Musika corporate clients. The survey was conducted between 4<sup>th</sup> May, 2020 and 15<sup>th</sup> May, 2020.

### Key findings

The survey only managed to obtain a 30% response rate. The majority of the firms captured were from the agricultural diversification thematic area, see figure 2 below. However, 33% of the firms were involved in more than one thematic area, some firms provided more than one specific service.

Figure 2: Distribution of respondents by thematic area

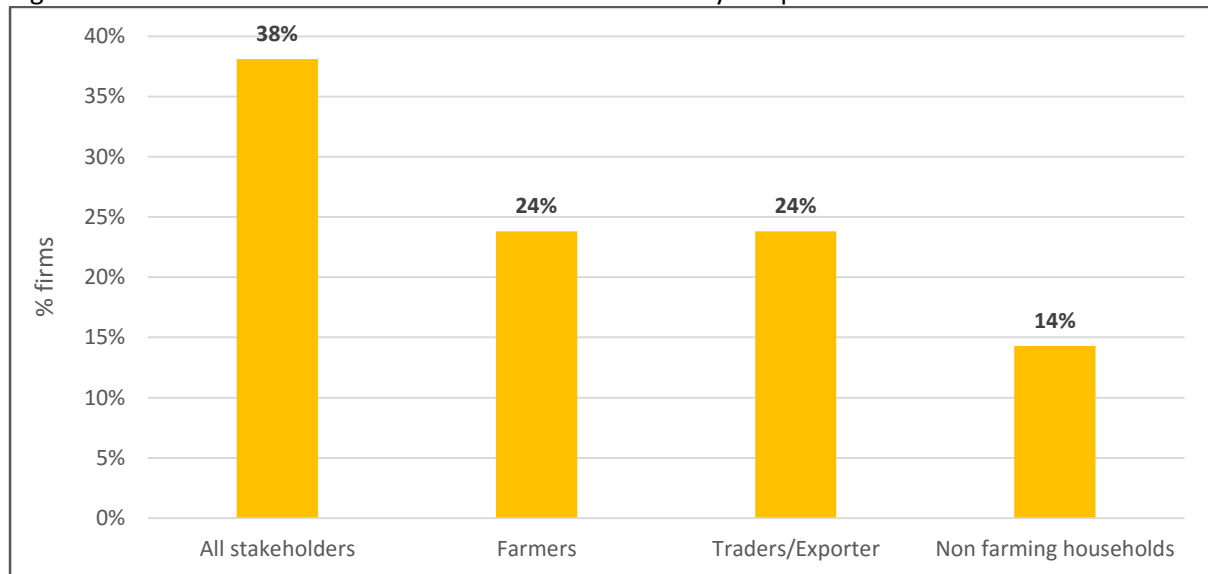


Source: Covid survey (2020)

### Generalised impact on the agricultural sector

Although it can be hypothesized that the pandemic is yet to have a significant economic stranglehold on the agriculture sector, the largest sector in most of the developing countries, risks of food insecurity are eminent due to containment measures such as border closures among other measures. This is even more probable as the pandemic spreads further into the rural areas. The study revealed that 67% of the firms felt that the pandemic will have an impact on national food security. The majority of the firms (33%) which felt that the pandemic will have an effect on national food security were from the crop sales and services sub sector. In terms of stakeholders most affected by the pandemic, the majority of the firms (38%) indicated that the pandemic affected all the stakeholders, see figure 3. This was an obvious outcome as the devastating effects on both economy and its harrowing cost in form of loss of human life has been felt by the entire globe. The firms also indicated that most farmers (24%) and traders (24%) will specifically be affected by the pandemic. The similar level of impact on both traders and farmers could also imply the reciprocal roles that each play in the economy i.e. producers will need a market, and the market will need producers.

Figure 3: A distribution of stakeholders affected the most by the pandemic

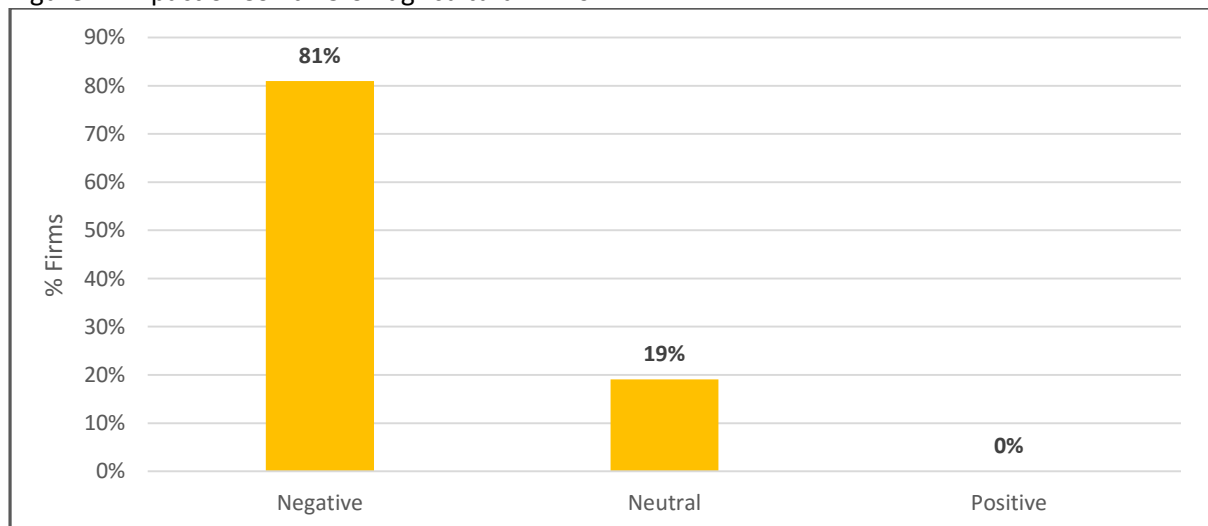


Source: Covid survey (2020)

### Impact of Covid19 on Agricultural firms

The majority of the firms (95%) felt that the pandemic had an impact on their businesses. And of the total firms captured, 81% of the firms indicated that the pandemic had a negative effect on their business, see figure 4. No firm indicated any positive effect on their business, 19% of the firms felt that the effect was neutral. The majority of the firms which indicated a neutral effect on the business were from the agricultural technology. Thus lockdowns and related business disruptions, travel restrictions, and other containment measures have had a sudden and drastic negative impact on agricultural enterprises.

Figure 4: impact of Covid 19 on agricultural firms

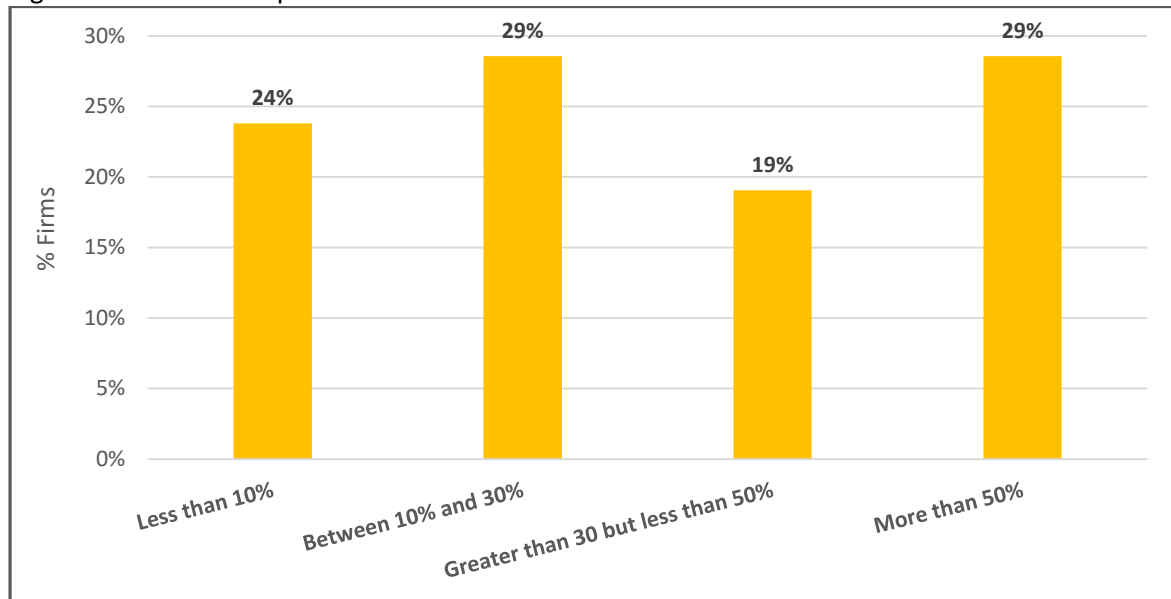


Source: Covid survey (2020)

Whilst the spread and intensity of the pandemic proliferates, the exact and full impact it has exerted on local businesses cannot yet be measured. The agricultural firms attempted to estimate the impact of the pandemic on their businesses. The majority of the firms (77%) indicated that the pandemic had resulted into a loss of more than 10% of their revenue between the start of the year and the time of

the interview, almost a third of the firms indicated losses of more than 50% of the expected revenue during the stipulated period, see figure 5 below.

Figure 5: Estimated impact on the businesses



Source: Covid survey (2020)

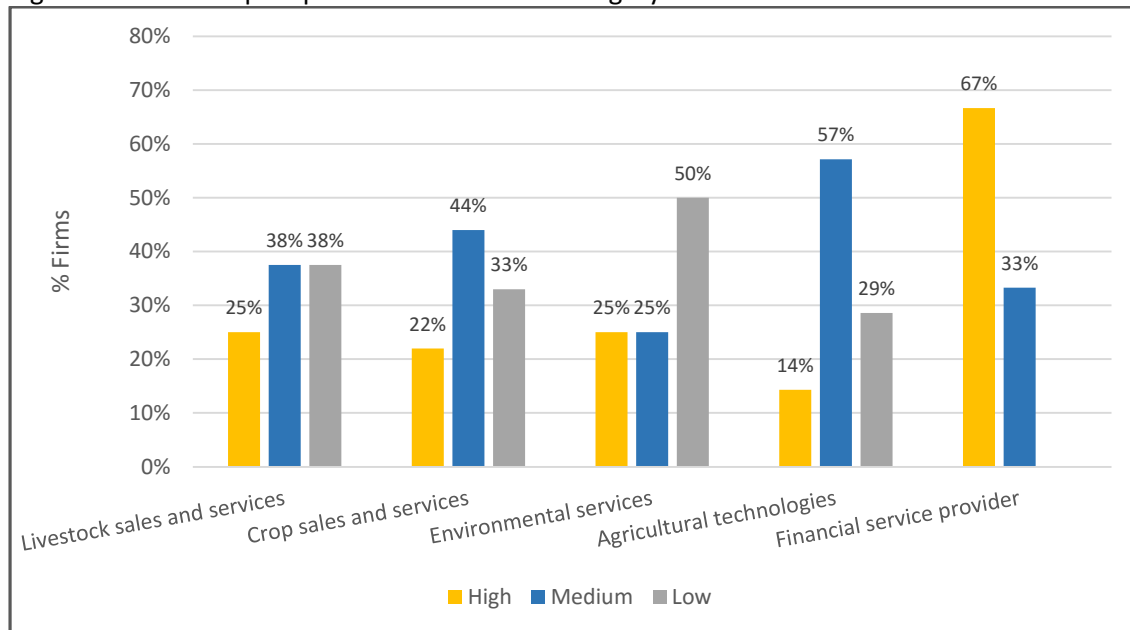
According to the study, the sector most hit by the pandemic is the financial sector, see figure 6 below. Whilst this can be argued that the financial sector has been one notable beneficiary of most recent pronouncements which include but not limited to;

- Upwards revision of transactions and balance limits for individuals, small scale farmers and enterprises (BOZ, 2020). This measure predicts a positive impact in decongesting banks;
- Removal of transaction and balance limits on agents and corporate wallets (BOZ, 2020). This implies that agents and other financial retailers have more float to deal with transactions. This ideally gives the financial service providers scale, and ultimate benefits in rendering the financial services.

However, it is possible that other measures such as waived charges for person to person electronic money transfers, whilst encouraging financial inclusion could impact negatively on the financial sector in the short term. This is more so because most of the financial transactions currently are conducted in small amounts albeit repetitively (Sichilima and Ngoma, 2018). Other losses could be through the reduced processing fees for Real Time Gross Settlement System.

The majority of the firms in the other sub sectors such as agricultural technology, crop sales and services and livestock sales and services rated the impact of the pandemic on their businesses as medium. On the other hand, environmental services providers rated the impact to be low, see figure 6 below.

Figure 6: level of impact per business venture category

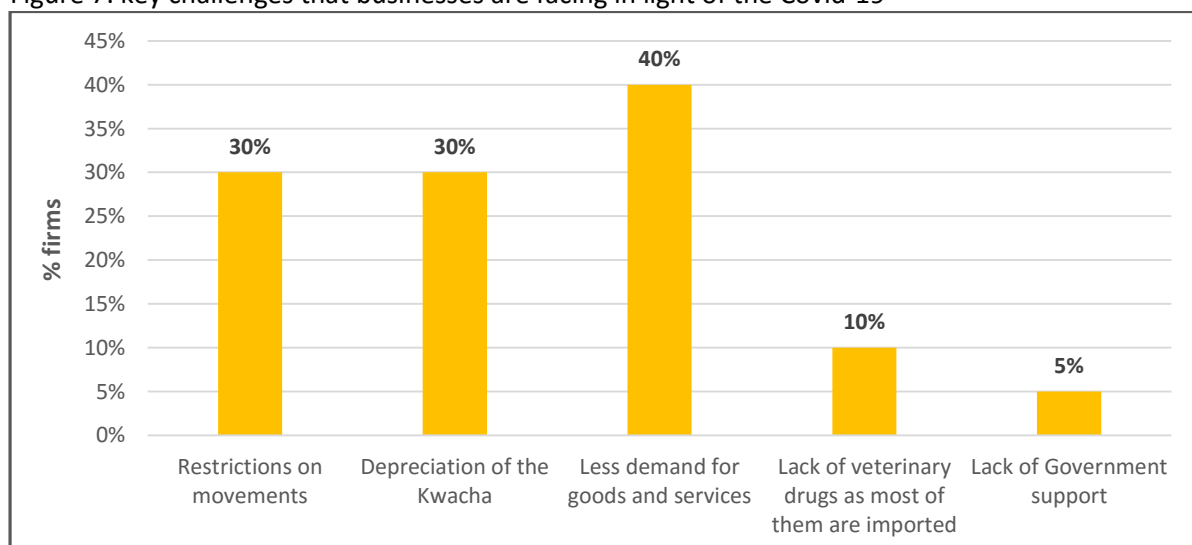


Source: Covid survey (2020)

### Key Challenges faced by the businesses

In terms of the key challenges faced by the businesses, it was highlighted that most firms experienced less demand for their goods and services during the period under consideration, see figure 7. Much of this outcome could be supported by the second most important challenge (s) which involved the depreciation of the kwacha (in the month following the onset of the pandemic, the currency depreciated by 26%) and also the restrictions in the movements (this has been in form of border restrictions and delays).

Figure 7: key challenges that businesses are facing in light of the Covid-19



Source: Covid survey (2020)

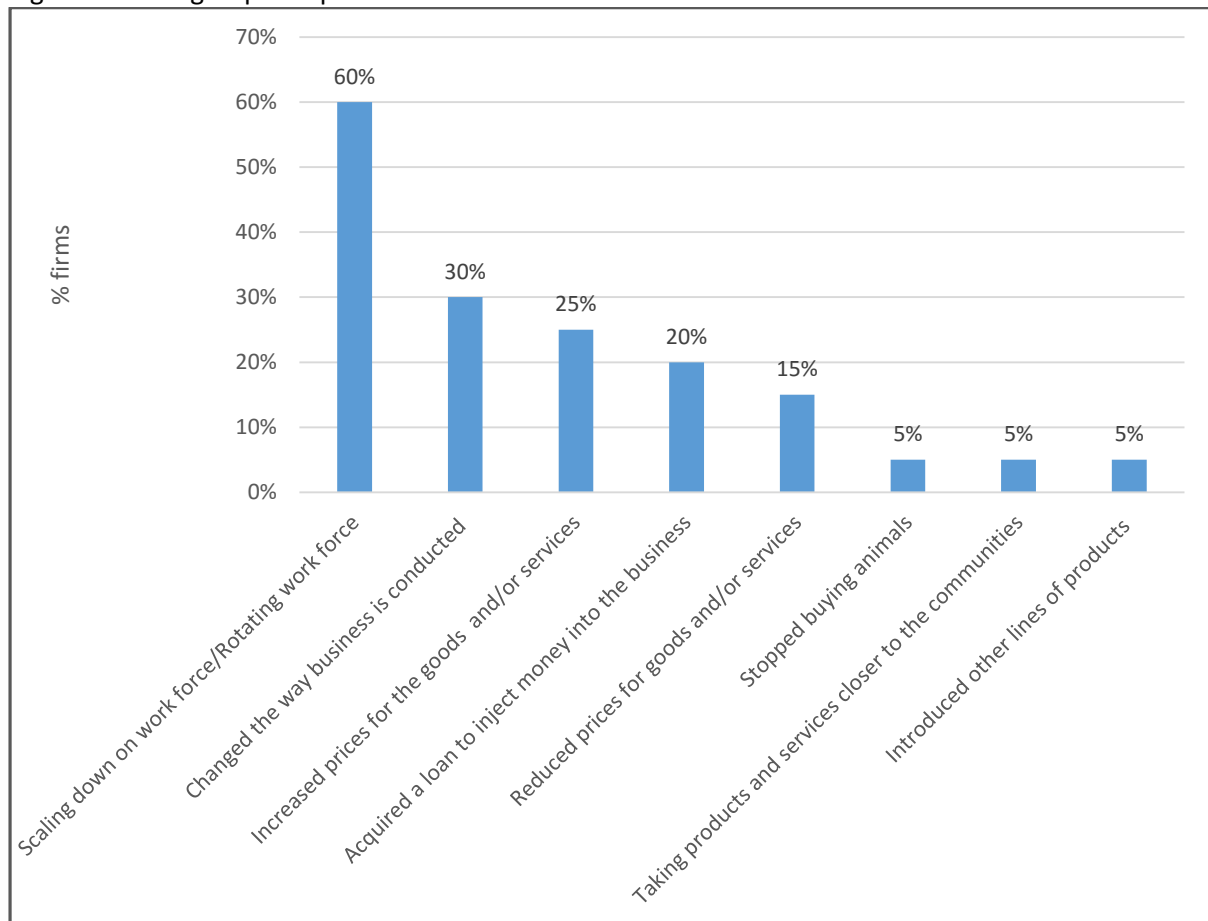


The challenge on restrictions on movement could further be sustained albeit in a negative way by Statutory Instrument (SI) number 22 of 2020 which provides additional regulations to facilitate management and control of COVID-19 (MoH, 2020). For instance, the mandatory quarantine of transporters for a minimum of 14 days (applied mainly for transportation of goods from high risk areas/countries) could have ripple effects on the private sector revenues, which could have a negative effect on the private sector in sustaining business operations.

### Measures taken by agricultural firms

The majority of the businesses sought to either rotate or cut down on their work force as a remedial measure, see figure 8. This was largely necessitated due to the reduction in revenue as a result of the pandemic. The cutting down of the work force was mainly practised by firms involved in crop sales and services (25%) followed by firms engaged in livestock sales and services (15%). The second most important turn around business strategy was changing the way the firms conducted businesses i.e. a move from cash to digital transactions.

Figure 8: strategies put in place as remedial measures for the covid19



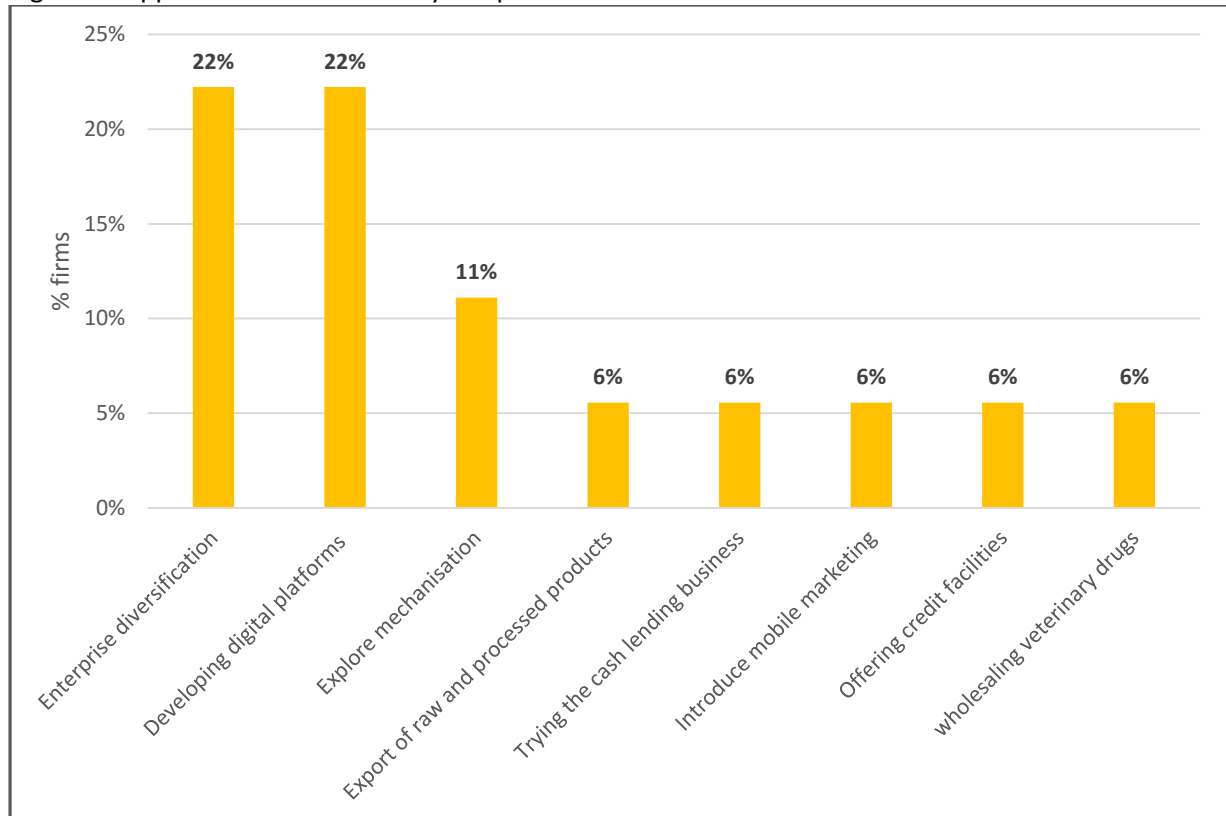
Source: Covid survey (2020)

### Opportunities identified by the private sector

The majority of the firms revealed that diversifying their enterprises and also developing digital platforms as key opportunities they felt could be explored, see figure 9. In terms of enterprise diversification, firms alluded to locally manufacturing some of the agricultural equipment, others felt a need to engage in the production of sanitizers etc. Some firms (22%) were contemplating the

development of digital platforms such as the development of offsite working systems to enhance efficiency and reduce costs, start online linked businesses etc. Mechanisation services (11%) was also another key aspect indicated by some firms as an opportunity to explore in order to reduce drudgery amongst smallholder farmers, and also as a way of increasing productivity and production amongst the smallholder farmers. Despite the majority of the firms indicating possible opportunities which could be harnessed during the pandemic, only 47% of the firms indicated that they were actually exploring such opportunities. The majority (53%) had not yet started exploring such opportunities. One of the key reason for this was that the majority of the opportunities required significant CAPEX injection.

Figure 9: Opportunities identified by the private sector

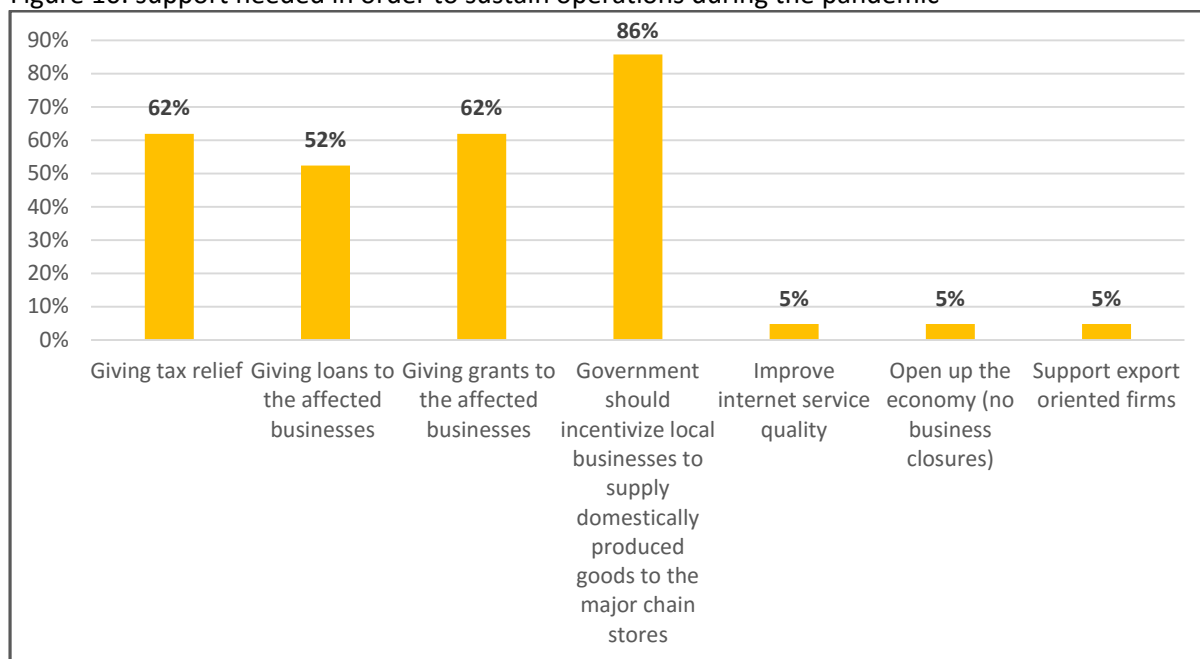


Source: Covid survey (2020)

### Type of support required

The majority of the agricultural firms (86%) felt that there was a need for the government to incentivize local businesses and prioritize supply of domestically produced goods to the major chain stores, see figure 10. Although this came out as the most important concern and call for support, this can only be realized by incentives i.e. tax reliefs (62% felt the need for this), grants (62%) and also credit facilities (52%).

Figure 10: support needed in order to sustain operations during the pandemic



Source: Covid survey (2020)

## Recommendations

The socio-economic impact of the Covid-19 crisis is real. This calls for initiatives which are cognisant of the pandemic. This might call for special incentives in order for the private sector to thrive. From this research, we would suggest the following;

- **A need to Support digital financial services;** this sub-sector provides opportunities for the private sector to support given the flourishing policy environment and also the potential demand from the consumers in the medium and long term, and most especially the rural households could stand to benefit. The current environment, despite the pandemic, could help in enhancing rural financial inclusion. The pandemic itself could be an enabler in the adoption of digital financial products.
- **Enhance support to agricultural technologies;** the agricultural technology sub-sector like the crop sales and services sub-sector was moderately affected by the pandemic, at the time of this publication. However, the sub-sector remains a critical component in the Zambian agricultural sector to be harnessed for improved productivity and production. One key area of support in need of support as indicated by the agricultural firms was mechanisation. This need coupled with other researches which revealed a need for interventions around irrigation facilities will need to be addressed. Specifically, on mechanisation, the private sector called for support in manufacturing of locally produced equipment i.e. acquisition of laser cutting technologies in manufacturing to reduce the need to import certain agricultural equipment. One point of entry would be through simple mechanisation technologies specifically tailored towards the rural communities. Nevertheless, agricultural technologies can go beyond hard solutions i.e. equipment to soft solutions (apps, software etc.) which could help businesses improve efficiency.
- **A need to support the crop sales and services sub-sector;** the majority of the agricultural firms in this sector appealed for support in form of tax relief and also access to loans and grants during the pandemic. The 2019/20 crop marketing season is expected to be adversely affected by the pandemic due to restrictions in movements coupled with limited liquidity in the

economy (field observations, southern team). Therefore, special efforts will be needed in supporting partners in ways which will still encourage farmer-private sector buyer transactions i.e. special grants to private firms in supporting specific value chains of interest, brokering credit facilities enabling smallholder farmers to purchase equipment with commodity etc.

- ***Musika as a source of technical information***; during this period Musika will need to play a key role in availing different funding facilities available to the private sector both by the government and also other cooperating partners, and how the private agricultural players can benefit from such facilities. This will entail following closely pronouncements of different funding opportunities and also on seeking out potential cooperating partners in helping to mitigate the scourge.