



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

Summary of Second Survey Results and Root Capital's Response

September 9, 2020



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INTRODUCTION

Agricultural businesses are the backbones of resilient rural communities, providing critical support in the face of challenges like climate change, market disruption, and now, COVID-19. Operating in remote areas where government services often don't reach, these businesses are lifelines—not only preserving economic livelihoods amid the pandemic, but delivering basic health information and materials that can save lives.

Root Capital has always known these small and growing agricultural businesses are engines of impact in rural communities, and we're committed to mitigating our clients' vulnerability while harnessing their potential to power effective COVID-19 response at scale. In early April, we conducted a telephone survey of 134 clients across Africa, Latin America, and Indonesia to better understand our clients' needs and determine how Root Capital could leverage its model to help them adapt. The story that survey told was clear: Rural businesses and farming families are facing a myriad of challenges—and their needs aren't being met. This baseline survey guided our response over the last several months as we have pivoted to modify clients' payment timelines, deploy grants to 58 businesses to boost their resilience, and provide over 500 days of remote advisory services support.

Since our initial survey, the virus has spread to more of the rural communities where we work, government restrictions have changed, and even factors as basic as the shifting seasons have affected the way our clients are experiencing the pandemic. To understand this evolving landscape, we conducted a follow-up survey in late June and found that, while the health and economic situation has worsened in rural communities, our clients appear increasingly prepared to tackle the challenges the pandemic poses. We feel confident that—if we continue to equip them with the right resources in the form of flexible financing, business training, and grants—these businesses can help rural communities respond to COVID-19 and build resilience in the face of future shocks.

This report presents a high-level summary of the second survey results and an update on Root Capital's response.

KEY GLOBAL FINDINGS

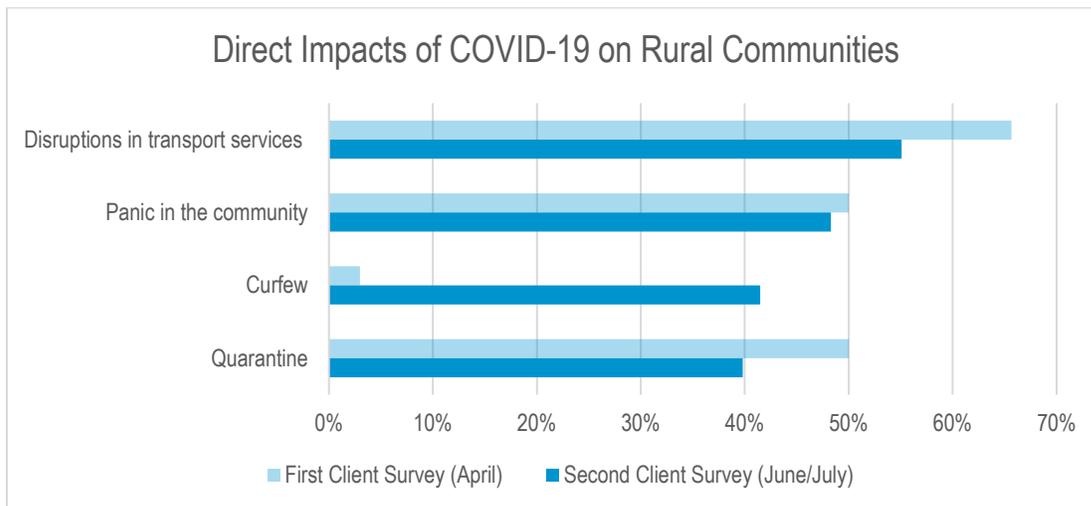
While the COVID-19 pandemic has impacted the lives of nearly everyone around the world, the health impact of the virus—and the corresponding economic impacts brought about by public health measures—don’t affect us all equally. Rural communities are often far from healthcare facilities and may lack access to public health information, soap, or running water. As shutdowns and uncertainty about the future linger, the impacts on both rural communities and our client businesses have compounded.

Impacts on Rural Communities

Many of the disruptions to daily life reported in early April were still present in the second survey. But by late June, clients were more likely to report that these disruptions were having a negative impact on the safety and wellbeing of their communities.

COMMUNITY IMPACT #1: DISRUPTION OF SERVICES CRITICAL TO DAILY LIFE

All clients reported at least some change to their community’s normal activities. The most commonly reported disruption, as in the first survey, was to transportation services—impacting 55% of surveyed clients, a slight decrease from the 66% who reported so in the first survey. Further changes to daily life were reported, most notably state-imposed curfews, which were reported by only 3% of respondents in April, but by 42% by late June. Consistent with the first survey, nearly half of clients (48%) reported panic in the community as farmers, employees, and business leaders alike grappled with economic uncertainty and the threat of the virus itself.



Beyond these impacts, the disruptions cited by different communities varied widely by region. While quarantine/lockdown was reported by about two-fifths of the respondents, the effect wasn't felt evenly. In South America, where the virus has spread rapidly, 78% of respondents reported quarantine requirements that impacted their daily lives. Meanwhile in West Africa, only 8% reported such measures being in place by late June. There were similar discrepancies across regions in curfew and rising prices for fuel and other basic needs.

COMMUNITY IMPACT #2: SHORTAGES OF FOOD AND MEDICAL CARE

Public health measures like stay-at-home orders and restrictions on movement are necessary to mitigate the spread of COVID-19, but the survey also reflects the real-life consequences these steps have for farming families already battling poverty. In the first survey report, conducted in the early days of the pandemic, only 11% of clients reported food shortages. By late June, that number had increased to nearly 20%. An even greater proportion (84%) noted increased difficulty for the community in accessing food. While food is still available in local stores, the prices might be too high or the logistics of getting to the store too difficult for individual families. This could be driven by a number of factors, including the logistical disruptions noted above and the economic hardship detailed in the section below.

In addition, 72% of clients reported a shortage of medical care in their communities. This is particularly troubling as the virus begins to spread beyond populous urban centers. Anecdotally, Root Capital has heard reports from one client in the Peruvian Amazon that 80-90% of the local indigenous community has experienced symptoms of COVID-19. This shows how even the most remote communities are vulnerable to transmission—and without proper medical care, the impacts will be devastating.

RESPONSE TO THESE IMPACTS BY AGRICULTURAL BUSINESSES

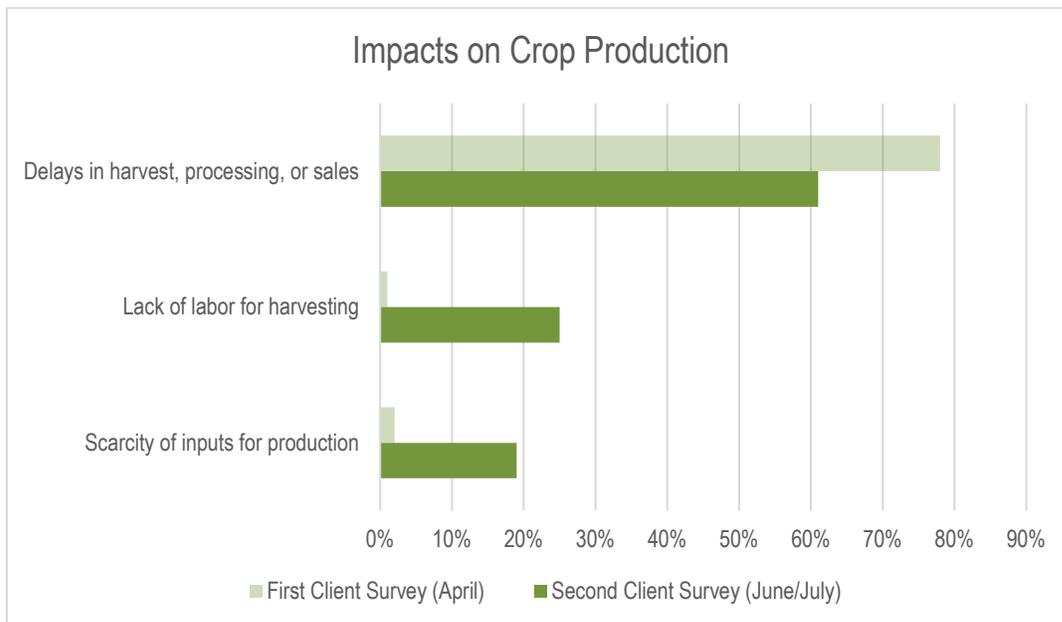
In the face of these challenges to their communities, rural businesses are showing how they can continue to power impact and resilience within their community. Over 70% of respondents in our second survey reported having programs in place to help their farmers, employees, and community withstand the impacts of COVID-19. These businesses are harnessing their unique platforms through programs like employment protections, paid sick leave, internal credit fund, and seed provision to support food security. More on these client's efforts, and our support of them, can be found in the section of this report on "Root Capital's Response."

Impacts on Agricultural Businesses

As different regions begin their annual harvest, the market continues its volatile swings, and local governments change their guidelines, the impacts on our clients—and their responses—are quickly changing. To ensure the safety of their farmers and employees while minimizing potential business disruptions, 100% of surveyed clients reported implementing new sanitary protocols. These included 49% providing their employees with PPE, 64% cleaning their enterprise facilities more frequently, and 88% requiring more frequent handwashing. And yet, challenges persist for these businesses.

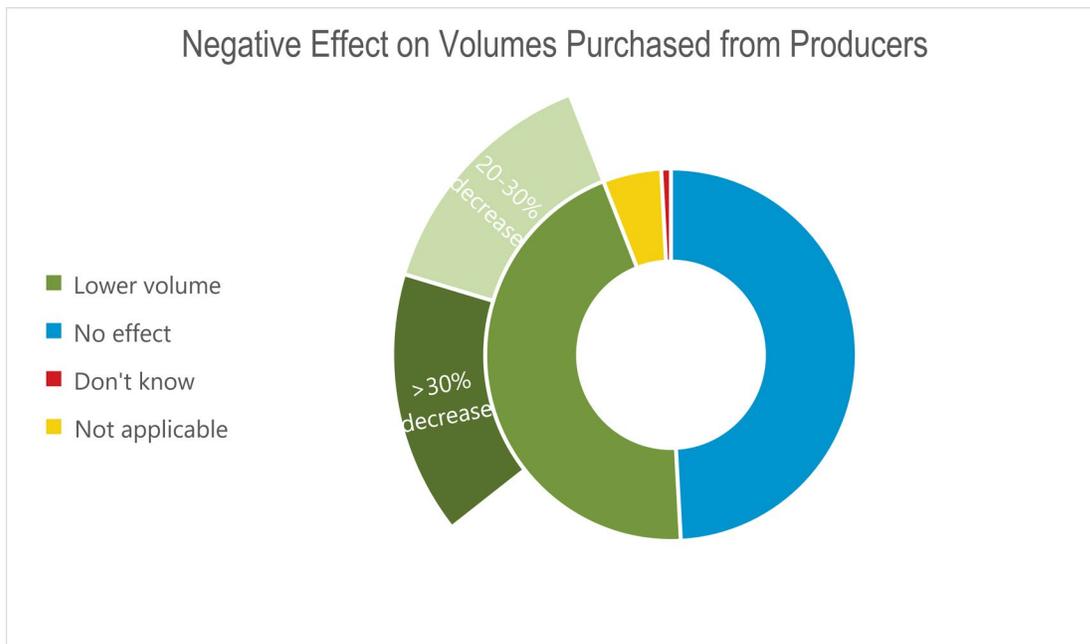
BUSINESS IMPACT #1: CONTINUED DELAY IN BUSINESS OPERATIONS

Similar to the results from our last survey, 61% of respondents reported or anticipated delays in harvesting, processing, or selling their product. On the supply side, there was a sharp uptick in concern about the lack of labor available to assist in the harvest, which was only expressed by 1% of respondents in early April, but which 25% of clients mentioned in late June. This could be due to border closures and governmental restrictions on movement that make it difficult for labor or goods to come from neighboring regions or countries. Another concerning supply-side shock came in reports of scarce inputs for crop production, reported by 19% of respondents in late June, a large increase from the 2% who reported this in the first survey.



In all, 45% of clients predicted they would purchase fewer crops from farmers due to COVID-19. A majority of those predicted that their volume drop would be greater than 20% and over a third predicted a decrease of more than 30%. Apart from lower revenues for the business, this will also mean lower incomes for farmers who are dependent on the annual harvest.

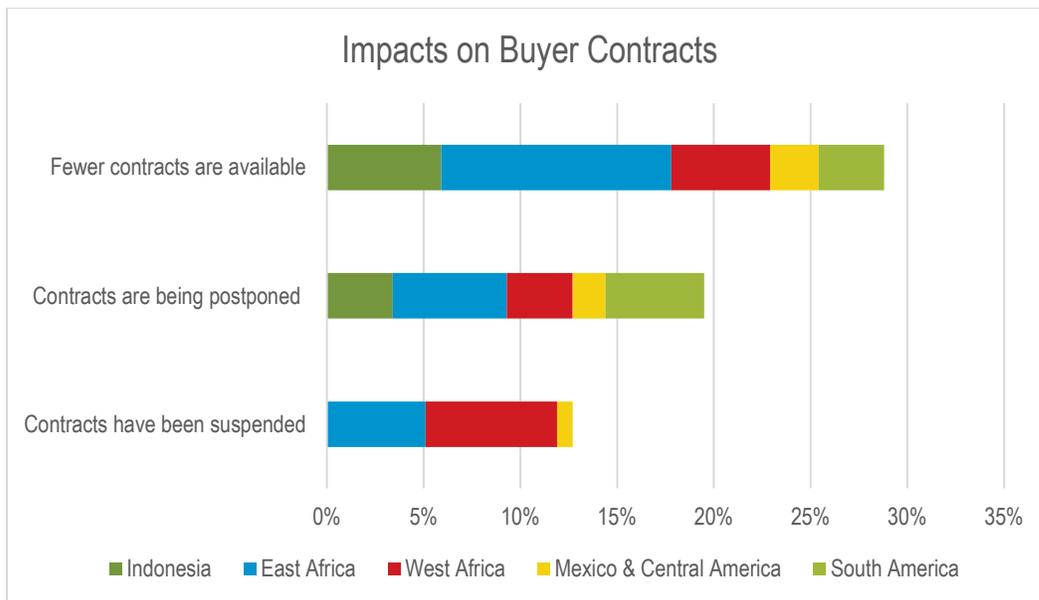
There was significant regional variation for this impact. Clients in Mexico and Central America, which had wrapped up their harvest season just before the pandemic hit, were able to operate with fewer delays (only 38% reported or anticipated delays) than clients in the midst of the coffee and macadamia nut harvests in East Africa (84% reported or anticipated delays).



BUSINESS IMPACT #2: CONTINUED MARKET DISRUPTIONS

On the demand side, 43% of respondents reported that demand for their product is “somewhat lower” or “much lower” due to COVID-19. This is a striking difference from the initial survey results where only 18% of clients reported decreased demand and a number of clients in Mexico and Central America actually reported increased demand driven by stockpiling of coffee.

This change in demand isn’t just affecting new contracts. Twenty percent of clients reported postponement of existing contracts and 13% reported contract suspensions, nearly double the same figures in the first survey. Again, there is significant regional variation with Indonesia and East Africa clients more commonly reporting demand disruption—the latter perhaps due to the macadamia nut market, which is experiencing a greater decrease in demand than the coffee market.



In general, the supply challenges and demand shrinkage are conspiring in the same direction to lower sales volume, meaning that 71% of respondents actually reported they would still be able to meet buyers’ demands, helpful in maintaining long-term buyer relationships, even if their short-term revenues fall.

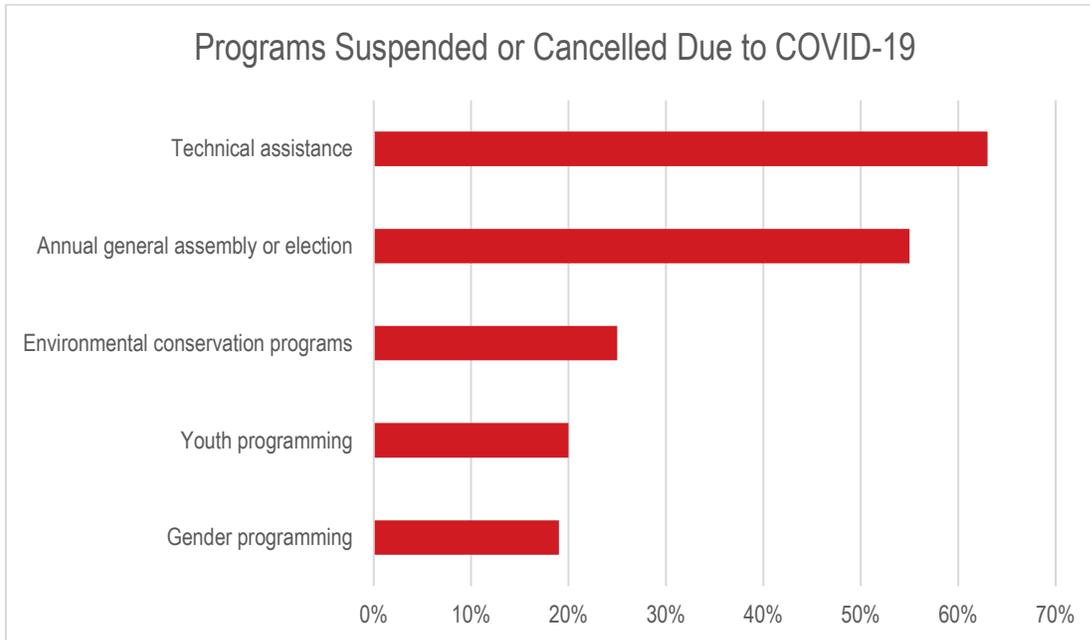
BUSINESS IMPACT #3: SUSPENSION OF KEY SOCIAL AND ENVIRONMENTAL PROGRAMS

Decreased revenue and general uncertainty have forced many organizations to make difficult cost-cutting decisions. In all, 61% of respondents are cutting at least some investments they had originally planned for this year, particularly equipment purchases (48%), crop renovation (35%), and input provision to farmers (23%). For both health and economic reasons, 63% of clients have reduced the technical assistance they’re offering to farmers. These are crucial services that help farmers improve their yields and crop quality while helping the business grow and reach premium markets. We’re committed to working with clients to find digital, scalable solutions that can help them continue to provide many of these services more cheaply and efficiently throughout and beyond the pandemic. For example, we are partnering with Precision Agriculture for Development to enable businesses to reach their farmers with agronomic tips through their cellphones in lieu of on-farm visits.

Nearly one-quarter of clients that have an environmental conservation program said that COVID-19 had negatively impacted their work—a frightening prospect as clients face down the already-present danger of climate change and environmental degradation in rural communities. Nineteen percent of clients reported cutting programs designed to reduce gender inequity while 20% had reduced programs aimed at serving young people—vital services that promote inclusion, boosting long-term resilience of the business and community.

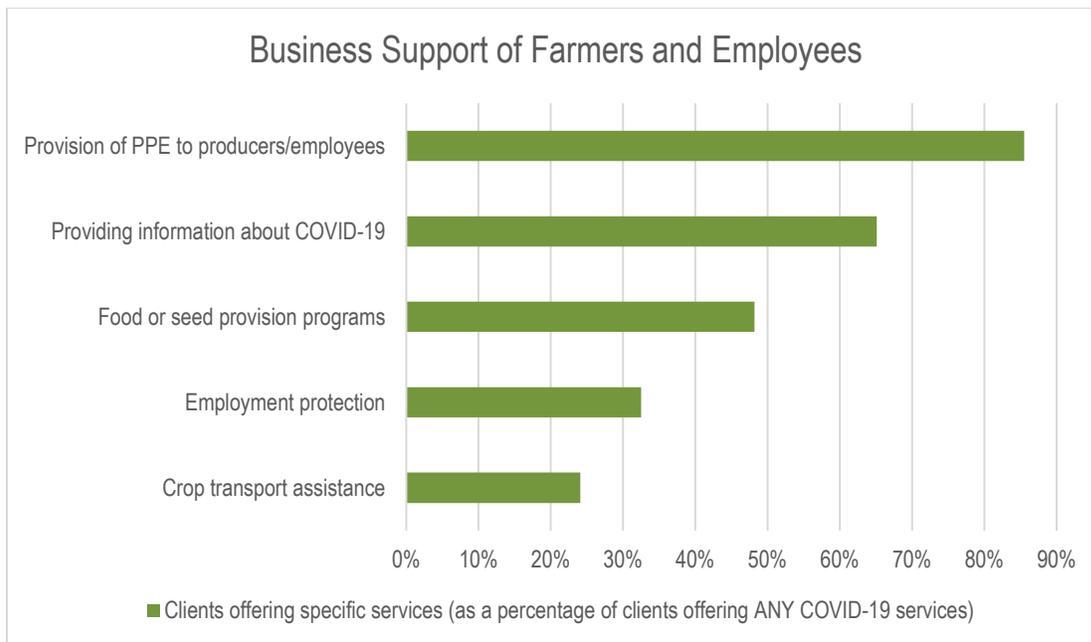
Driven by public health concerns, 55% of respondents have delayed or cancelled annual general assemblies and elections. This minimizes health risk for farmers and employees, but these regular

meetings are key to making business decisions and could play a role in hampering businesses' ability to plan for the future.



BUSINESS IMPACT #4: PIVOTING TO SUPPORT FARMERS AND EMPLOYEES IN NEW WAYS

One of the most encouraging differences between the first and second survey was the number of clients who reported implementing programs to help employees and farmers mitigate the impacts of COVID-19. While fewer than half of clients in the April survey reported even planning such programs, 70% of all clients surveyed in late June had already begun their implementation—fairly evenly spread across all regions. These diverse projects are specific to each client’s needs and resources, but include: providing soap and facemasks to community members (being implemented by 86% of those with programs), disseminating COVID-19 health information (65%), and delivering food and seeds to vulnerable farmers (48%). Many of these were developed with the help of Root Capital’s advisory team or implemented with the support of our resilience grants, both of which are detailed in the response section of this report.



And clients are prepared to do more—81% said that they would put in place new programs or extend existing ones if they had access to greater resources.

BUSINESS IMPACT #5: PREDICTED IMPACTS TO CONTINUE IN THE MEDIUM- AND LONG-TERM

When asked to look to the future, a majority of clients had grim predictions. Over 53% said the negative impacts of COVID-19 would affect their sales during the next harvest. This was especially prevalent in West Africa and Indonesia where 76% and 100% of the clients surveyed, respectively, reported fear over the pandemic’s long-term impacts. Nearly 20% of businesses predicted it would take at least a year to rebound from COVID-19, with even more unable to forecast a recovery timeline. The importance of sustained support is clear as many agricultural businesses are staring down months and years of economic hardship.

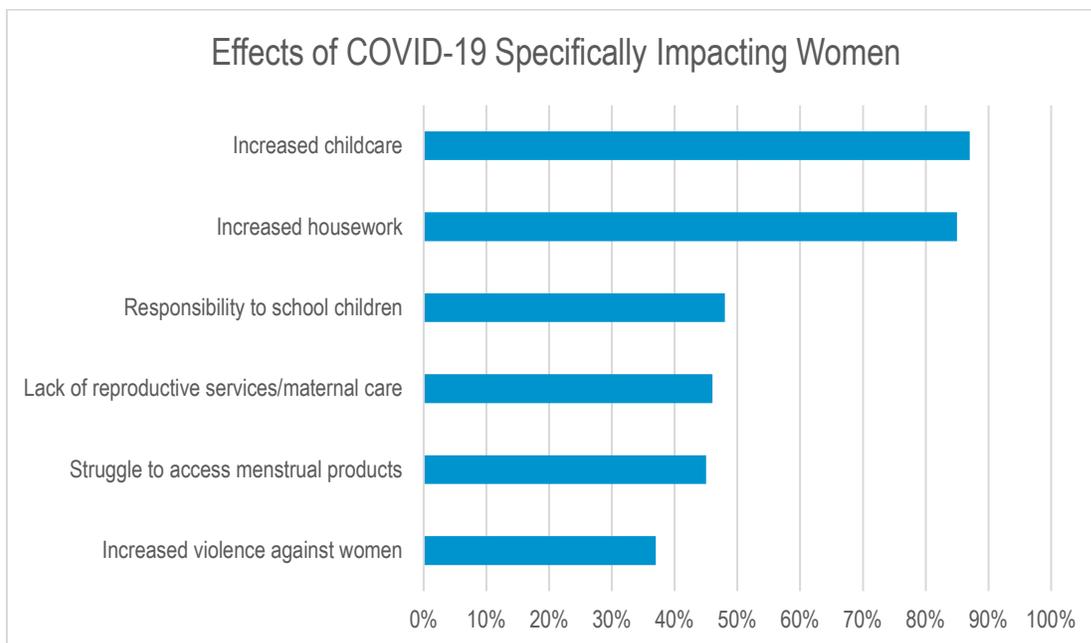
Impacts on Rural Women and Young People

As rural communities in low-income countries are feeling the impacts of COVID-19 more acutely, women and young people are bearing the brunt of the pandemic’s burden within those communities. After seeing evidence of these differing impacts in our first client survey, we went even deeper into these questions. As family members spend all of their time at home, women have taken on increased responsibility and have lost their financial independence as alternative income streams dry up. This is all taking place amid a tragic increase in violence against women. And, as businesses are forced to make cuts, young employees are losing their jobs at a disproportionate rate. Similarly, young farmers lack the resources to be resilient to the pandemic’s impacts.

INCLUSION IMPACT #1: DISPROPORTIONATE IMPACT OF THE PANDEMIC ON WOMEN

As a result of the pandemic, clients reported an increase in women’s domestic responsibilities, with 81% reporting that women have seen their amount of household work increase more than men’s during the pandemic. This was led by increased childcare (87%), housework like extra cleaning (85%), and schooling for children (48%). At the same time, domestic violence is on the rise across all regions with 37% of global respondents indicating an increase in violence against women during the pandemic.

The situation is also grim for women when it comes to accessing medical services. Forty-five percent of clients reported women were struggling to access menstrual products during the pandemic, and 46% shared concerns that women lack sufficient access to reproductive services and maternal care. There were, however, some promising results out of Indonesia where all of our clients reported continued access to these services for women.

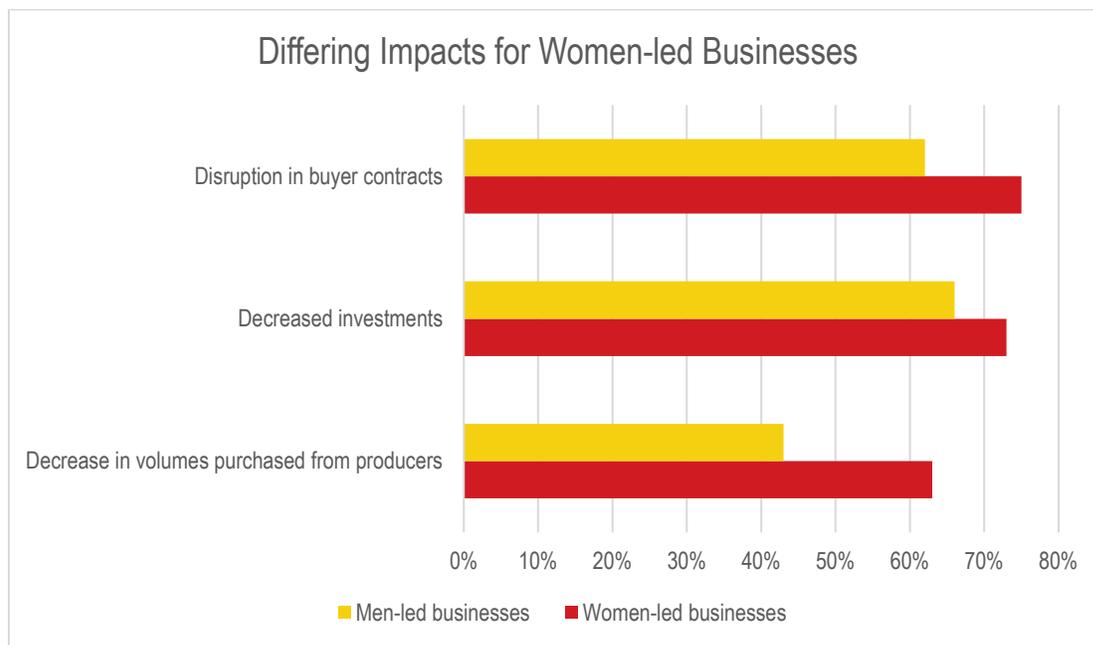


Women farmers and employees are disproportionately feeling the pandemic’s economic impact as well. For clients who reported their farmers were losing crops and income during the pandemic, nearly half of them reported that impact was being felt by women more than by men. And for clients who had to lay off or furlough workers without pay, 45% say that their move disproportionately impacted women employees. These numbers might be contributing to another striking statistic: 53% of businesses that indicated their members were experiencing food insecurity estimated that women and girls were more affected than men and boys.

These farmer- and employee-level statistics paint a clear picture of how women uniquely experience this pandemic and why any response must center their needs.

INCLUSION IMPACT #2: DISPARITIES IN IMPACT FELT BY WOMEN-LED BUSINESSES, AND THEIR RESPONSE

In normal times, women-led businesses face barriers to financing and business education, and our survey showed these enterprises face unique challenges during the pandemic as well. Women-led businesses were more likely to report a decrease in purchase volumes (63% compared to 43% for male-led businesses), disruption in buyer contracts (75% compared to 62%), and decreased investments due to COVID-19 (73% compared to 66%).



Despite the deeper challenges these businesses face, in the first survey they were much more likely to report implementing programs to mitigate the health threat of the virus and help farmers and employees weather economic impacts. That difference has been mostly erased—a good sign that clients across Root Capital’s portfolio are able to meet their community’s needs regardless of their women-led status—but

women-led businesses were still more likely to have programs that addressed the unique needs of women farmers and employees.

INCLUSION IMPACT #3: LESS SUPPORT TO HELP YOUNG PEOPLE ADAPT

While 45% of respondents with programming that responds to COVID-19 said they accounted for the specific needs of women in the pandemic, only 29% said the same about considering the needs of youth employees and farmers. While the reported challenges were less prolific for young people than they were for women, the lack of support is glaring. Young people have less capital and savings than older generations and despite being more resilient to the virus, may be more vulnerable to the economic impacts of the pandemic. The long-term sustainability of smallholder agriculture relies on the next generation. We need to account for their needs to ensure that this pandemic doesn't force young people to abandon their fields and migrate, affecting medium- and long-term sustainability goals.

ROOT CAPITAL'S RESPONSE

In countries where public funds are in short supply, many rural communities are at the back of the line when it comes to receiving assistance in responding to the pandemic. National governments are focusing their response efforts on populous urban areas, leaving many rural communities to fend for themselves. Fewer than half of our survey respondents reported receiving COVID-19 services from the government or NGOs. Explanations for this varied: in some cases, agencies are not offering COVID-19 support in their region (reported by 30% of those who weren't receiving services) and in others, businesses had applied to, but hadn't heard back from, the government or NGO (reported by 14% of those not receiving services).

Agricultural businesses have big ideas and a developed infrastructure to help their communities withstand this crisis. For these businesses, COVID-19 is just the latest in a series of shocks that threaten their existence. Root Capital has invested in building the resilience of these businesses for over 20 years by providing them with the credit and capacity building they need.

Our Four-Part Response Framework

Root Capital's response is broken into four stages aimed at ensuring agricultural businesses and the rural communities they sustain don't just bounce back, but bounce forward from this crisis more resilient and readier for the challenges that lie ahead:

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 business 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."

Many of these stages will be concurrent with each other, and while we're currently supporting clients in the "Withstand" phase, we'll continue to focus on understanding client needs and the constantly shifting reality of laws, markets, and the virus.

What We're Doing

Under our “Withstand” phase, Root Capital has blended one-time cash infusions with digital training and credit flexibility to ensure that our clients have all the tools they need to respond to the immediate impacts of the pandemic while preparing for its medium- and long-term impacts.

RESPONSE PILLAR #1: RESILIENCE GRANTS

Root Capital has provided direct support to reduce financial strain on clients while bringing much-needed public health materials to hard-to-reach areas. With the support of our donor partners, we've disbursed over \$900,000 in Resilience Grants to 58 clients reaching 212,000 farmers and employees. Clients are using these funds to bolster business and community resilience, including through payroll protection for employees, sanitary material for business facilities, and seed assistance to farmers to boost food security.

We also saw an early opportunity to leverage the power of agricultural businesses to reduce the spread of COVID-19 in rural communities. Our clients are highly adept at delivering agricultural inputs and training to their farmers—with Resilience Grants, they were able to repurpose these service delivery channels to provide high-quality soap, face masks, gloves, medical supplies, and handwashing stations to their local communities.

RESPONSE PILLAR #2: REMOTE TECHNICAL ASSISTANCE

In March, our global team of advisors quickly adopted digital tools that would enable us to keep reaching businesses with vital training. While nearly all of our clients can still access their offices on a full- or part-time basis, most have mandated at least some of their employees work from home. Forty-five percent of the respondent businesses reported unstable internet at business offices, an issue that was particularly prevalent across Africa. Despite these challenges, 57% of respondents were able to receive remote advisory services, with an average satisfaction of 8.75 out of 10—an encouraging sign for this new delivery channel.

Clients most often requested help with business and financial planning, reflecting the uncertainty that many entrepreneurs feel about the future. In addition to resilience-building support, our advisors have also provided guidance specific to COVID-19, including a youth-led effort to help clients in West Africa take advantage of government tax relief designed to help mitigate the pandemic's economic impact.

Much of our training is offered one-on-one as it might have been during normal times, but the overwhelming demand for support has pushed us to find novel approaches for broader advisory services delivery. In July, we hosted a successful webinar on climate vulnerability, taking the place of our more traditional workshops. Specific to COVID-19, our South America-based team hosted webinars on the actual and predicted market impact of the pandemic. This was coupled with a tailored guide for coffee businesses to use in creating healthy harvest guidelines so they can continue to operate safely.

This need to adapt has also pushed us into innovative cross-sector collaborations, including with leading public health NGO, Last Mile Health. We hosted a webinar to connect agricultural businesses to information on how to mitigate the spread of COVID-19 in their communities.

RESPONSE PILLAR #3: BUILDING RESILIENCE TOGETHER

We continue to take pride in our role as a high-impact lender, operating where others won't. Throughout the pandemic, we've worked to be flexible in our funding—by understanding our clients' unique challenges, we can tailor our credit products to fit their needs. The main challenge our clients face in meeting payment deadlines are delays caused by disruptions to supply chains. In these cases, we've shifted payment schedules by a matter of weeks or months to ensure that these businesses can maintain the liquidity they need as they make purchases from their farmers and get their goods to a market that is still clamoring for their product.

In some situations, market disruptions have caused severe strains for clients as demand has dropped significantly—particularly in the sorghum and macadamia industries of East Africa. In these extreme cases, Root Capital has provided rigorously vetted loan forgiveness to ensure these businesses will be able to survive this pandemic and continue generating impact in rural communities.

How You Can Help

In this follow-up survey, our team set out to listen to our clients so we could celebrate their successes and address their ongoing pain points. We continue to monitor the situation and adjust our response, determined to leverage our position—and that of our clients—to serve rural communities. Together we can effectively respond to this crisis, ensuring that saving lives and preserving livelihoods go hand-in-hand.

In this survey, our clients signaled that, with access to more resources, they would expand PPE provision, extend credit funds to employees and farmers, provide employment protections, and assist with medical care. In many cases, these ideas already have shape, and with your support we can make them a reality. Join our rapid response effort today by visiting rootcapital.org/covid19.