How would agricultural finance look in a "new normal"?

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Augustin Baharanyi, the Director for Planning at the Ministry of Agriculture in the Democratic Republic of Congo is discussing with his colleagues at the Ministries of Planning and Finance how exactly and for how long COVID-19 will affect the economy and the agrifood system, which is a critical economic and social sector, and what the world we live in will look like until medical solutions, be it a cure or a vaccination, are effective and widely available. All these are critical questions that many public sector officials are struggling with as they design policy responses under a scenario of huge uncertainty.

Governments, like the one Mr. Baharanyi works for, have been trying to mitigate the impact of COVID-19 on their country's economy and some are now in the process of starting to emerge from shutdowns gradually and very cautiously. Measures so far aim to preserve jobs during the hibernation period of the lockdown, supporting the real sector as much as possible, in hopes that the situation will return to new normal and economic activities will ramp up soon. These shutdowns and the hibernation of private sector activity are having important impact on the financial sector.

There are signs that the agriculture loan portfolios may be somewhat less impacted than the loan portfolios in other sectors, as the results of a small survey of financial institutions serving agriculture indicates. Financial institutions seem to have liquidity, which is hard to deploy with so much uncertainty in the real sector in absence of further public interventions in the form of guarantees and/or of lines of credit. At the same time, several solutions are being proposed that would not have been considered before COVID-19, which include providing public equity to firms, and even to go as far as to nationalize systemically important enterprises. The big question is whether firms that were doing well and were viable before the pandemic will be able to face the new realities in a "new normal" world? Answers to this question will likely be sector specific, with some sectors of the economy likely to see higher business "mortality" rates compared to others.

How will agriculture, farmers and agribusinesses fare? While people can live without most other goods and services, they will always need food. But on the other hand, agriculture is not immune from what is happening in the broader economy. As the economic recession starts hurting household income, overall food demand, especially high value products, will drop. Furthermore, food production and distribution systems are already under serious strains, with agro-logistic marketing disruptions happening due to sanitary restrictions, social distancing, and labor shortages. The shutdown of restaurants, hotels, bars, resorts, event venues, etc. along with closure of food processing plants and farmer markets in several countries has fundamentally changed the way food is processed, distributed, and consumed. Food consumption has moved now to home consumption and away from out of home consumption. Demand for some foods that are more likely to be consumed outside home, such as shellfish, fish, etc. is seeing collapse in its demand. With the gradual opening of the economies, this will start changing again, likely shifting gradually towards out of home consumption, but with measures of social distancing still in place, even during recovery. How many establishments will be able to afford serving half of less of their capacity?

Food distribution during COVID-19 has shifted more towards retail outlets and e-commerce platforms are emerging to facilitate the P2P transactions (from the farm to the consumer's table) which also needs adaptation of the logistics: smaller packages, smaller quantities to transport, etc. Food processing plants and food markets are having to be retrofitted for social distancing and new sanitary standards. Business plans, investments, and financing would need to adapt to these new norms. And there may be some new opportunities emerging for financing new contact-less processes and transactions, logistics infrastructure, and e-commerce platforms. Early indications also point to warehouse or inventory finance increasing in importance as concerns over food availability are leading to higher demand for food stocks.

There is some information on the supply side of agriculture, where farmers report some negative impacts on their activities, mainly due to movement restrictions of labor to farms, rising prices for inputs (also due to devaluation in some currencies), and loss of household incomes and shutting down of some markets where to sell their products. On the other hand, agro-dealers report more significant disruptions due to COVID-19 in sourcing and distributing inputs to farmers, reduced access to trade credit and bank credit, and with shorter repayment periods being requested. What these early anecdotal indicators may imply is that at least on the supply side, especially for the staple food production, farmers and agro-dealers that were viable before COVID-19, will likely to be viable under the "new normal", particularly if they continue accessing adequate finance during the pandemic.

Supporting trade finance and availability of credit for agriculture and food processing inputs will become critical to maintain food supplies as we move to the next crop season and enable moving food from surplus areas of the world to food deficit areas. Within countries, finance would need to enable and facilitate the retrofitting to sanitary and social distancing measures and the shift in logistics and distribution that accompany changes in where food is consumed and how is distributed. For example, as the case of China has already shown, the rise of e-commerce platforms goes hand in hand with e-payment systems and financing.

Finance to agriculture needs to be timely available at critical times of the crop year to enable activities for input purchases, planting, harvesting, post-harvest processing, trading, distribution, etc. to continue and adapt. If such funding is not available, disruptions can happen anywhere in the food value chain which can translate to less food on the table and to increase food insecurity. So far there are not specific responses to COVID-19 by governments dedicated to agriculture finance beyond the economy and financial sector-wide policy measures, such as MSMEs. So, given the uncertainty that policy makers like Mr. Baharanyi and his colleagues are facing these days, it is clear that the priority should be to ensure that financial resources continue to flow to agriculture during and after the pandemic. Finance can go a long way in reducing food system disruptions, adapting the food supply chain to the new sanitary standards and keeping the cost of food affordable for the most vulnerable populations. It is also crucially important that the flow of such finance is continually monitored. In addition to monitoring the activities banks, it is of special relevance that the situation and activities of public banks, financial cooperatives, MFIs and of value chain firms engaged in financing are subject to a close follow up, as these entities are the main providers of finance to smallholder farms and agricultural MSMEs.