Agricultural Policy Actions for Building Back Better: A COVID-19 Mitigation Supportive Mechanism

January 2021

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Introduction

The economic crisis induced by the global coronavirus (COVID-19) pandemic hit Africa hard with the continent's real GDP shrinking by 3.4%, down by 7.3% from the growth projected before the outbreak of the pandemic[1], with smaller economies facing contraction of up to 7.8%[2]. This economic contraction is attributable to the export adjustments that have affected primary commodity exporters, as well as the resultant losses to tax revenue which negatively affected the capacity of governments to extend public services necessary to respond to the pandemic-induced crisis. The pandemic has also coincided with a number of other stressors, such as extreme weather events and locust infestations, among others, which have exacerbated the crisis and further curtailed efforts to mitigate the effects of the pandemic on food systems and human livelihoods[3].

The shock of the COVID-19 pandemic has reverberated through food systems across Sub-Saharan Africa. While the impacts of the pandemic on agriculture and food systems in the continent are yet to be fully evaluated, early assessments reveal that the Africa is facing a food crisis which could see more people dying from hunger than the pandemic itself. Managing this food crisis is going to be an enormous challenge because COVID-19 limited government spending on critical food programmes due to elevated levels of external debt. Experts have highlighted Africa's debt levels as an impending crisis that could surpass the negative effects of the 2008–2009 global financial crisis. With a subsequent contraction of commodity prices, debt servicing costs have ballooned, and more than a dozen African countries are at risk of debt distress.

Undoubtedly, countries facing these challenges have increasingly limited fiscal space and will need to make stark decisions about priorities within the agricultural sector and the broader agrifood system. This piece highlights some of the policy responses for easing the impacts on the pandemic on Africa's food systems and priorities for building back better.

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[1] https://www.afdb.org/en/documents/african-economic-outlook-2020-supplement
[2] https://unctad.org/webflyer/assessing-impact-covid-19-africas-economic-development
[3] FAO-WFP. (2020). *FAO-WFP Early Warning Analysis of Acute Food Insecurity Hotspots (October 2020)*. Rome: UN Food and Agriculture Organization and World Food Programme

Key Takeaways

As the world in general, and Africa in particular gradually reshape their responses and adapt to a post-pandemic reality, policies will need to be developed and implemented quickly to ensure that no one is left behind. For instance, the [4]World Economic Forum's *Future of Jobs Report 2020* underscores the need to focus on upgrading workers' skills noting that the workforce is automating faster than expected due to the pandemic. This will require governments to focus more on policies and investments which are centred on innovation, and particularly technology for smallholder farmers who are the lifeline for Africa's food security.

Given the fact that agriculture accounts for at least 23% of Africa's GDP, policies and investments that strengthen resilient farming systems will be pivotal to sustaining growth in a post-pandemic world. Furthermore, COVID-19 has exposed existing vulnerabilities and structural weaknesses, such as growing inequality. A renewed focus on inclusivity is now critical. This requires doubling down on efforts which expand the safety net to reduce poverty and food insecurity. These policy actions will avoid a "K-shaped" recovery whereby highly skilled and digital focused parts of the economy recover, and vulnerable groups are left behind resulting in growth but not development.

The COVID-19 pandemic illustrates that even well-intended policies can be undermined by unexpected shocks. The impact on agriculture and food systems in Africa will require deliberate cross-boundary coordination and support. These policy actions should not be aimed at returning to a pre-COVID era, but instead, propel Africa through technological leapfrogging as a means of overcoming existing challenges. As Africa takes swift actions to recover and grow, we must understand that we cannot and should not go back to the economy of yesterday.

We must innovate and adapt to the new world. Africa's agriculture cannot be left behind.

Some Country Experiences

Zambia has been implementing an expansive farm input subsidy for several years. Like other countries in parts of the African continent, Zambia has had to look expand its social protection programme by directly supporting households and businesses. This included the approval of USD 540 million by the Bank of Zambia for microfinance institutions and commercial banks to help businesses remain afloat, cash transfers for vulnerable households from the Disaster Management and Mitigation Unit (USD 21 to USD 42) per month, and others. However, Zambia defaulted on its debt commitments in late 2020, and the country is largely seen as the first of what is to become a phenomenon across Africa.[5]

In Nigeria, the COVID-19 induced lockdown is estimated to have led to a steep recession which saw GDP growth declining by as much as 34.1%, costing the economy USD 16 billion. Two-thirds of the losses have been estimated to be from the services sector. Although primary agricultural activities were excluded from the direct restrictions on economic activities imposed in lockdown zones, the broader agri-food system was affected mainly by weakening food demand, arising from lower household incomes. Households are estimated to have lost on average 33% of their incomes during the period, with the heaviest losses impacting rural non-farm and urban households. As a result, the agriculture sector, which serves as the primary means of livelihood for most Nigerians, suffered a 13.1% loss in output (USD 1.2 billion). The economic impacts of COVID-19 include a 14-percentage point temporary increase in the poverty headcount rate for Nigeria, implying that 27 million additional

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[4] The Future of Jobs Report 2020 https://www.weforum.org/reports/the-future-of-jobs-report-2020?utm_medium=email&utm_source=govdelivery

[5] Miyanda Malambo, Fwasa Singogo, Mulako Kabisa, and Hambulo Ngoma, 2020. BALANCING HEALTH AND ECONOMIC LIVELIHOODS. Policy Responses to the COVID-19 Pandemic in Zambia. IFPRI.

people fell below the poverty line during lockdown.[6] The government came up with several measures to help people. For example, the Nigerian government announced a three-month repayment moratorium to beneficiaries of the country's interest free loan programs for petty traders and market women, known as TraderMoni and MarketMoni, respectively.

In Malawi, the Ministry of Finance revised its 2020 and 2021 GDP growth projections from 5.5% and 5.8 % respectively to 1.9 % and 4.5 % respectively. This means the pandemic would erase the equivalent of 3.6 % of 2020 output that would have been attained without its impact. The economic loss is approximately MK56 billion (approximately USD 70.7 million) in real GDP (i.e. GDP in constant 2010 prices) which translates to approximately MK244 billion (approximately USD 308 million) in nominal GDP. This will amount to a 3.5 % loss in nominal GDP if the COVID-19 pandemic is contained by the second quarter of the 2020/2021 financial year.[7]

Which way to go

While the swift action by governments in the continent is quite commendable, much of the support was short-term and is now gradually winding down. Many of the benefits such as cash transfers, tax breaks, freezes on job cuts, temporary loans to businesses or subsidy on farm inputs have either expired or are set to expire this year. Furthermore, groups that were already poor and vulnerable are at risk of falling further below the poverty line. A recent study by IFPRI illustrates the effects of the pandemic on vulnerable groups. The study assessed the adverse impacts of the COVID-19 pandemic on food and nutrition security of households, mothers, and children who are beneficiaries of Ethiopia's social protection program, the Productive Safety Net Program (PSNP). Two thirds of the study respondents reported that their incomes had fallen after the pandemic began and almost half reported that their ability to satisfy their food needs had worsened[8]. With the onset of the second wave, the threats to economic recovery and growth remain. Thus, it is important that governments take steps to ensure food security. **The success of the pace of recovery will depend crucially on policies undertaken during the crisis. The recommendation to governments is as follows:**

1. **Prepare for the long haul by further guaranteeing the functioning of the agricultural sector**. While there is hope due to the vaccines, Africa is not expected to get these vaccines before the third quarter of 2021, and even then, there are concerns around affordability and access. The threat is not over- especially given the new variant of COVID-19 which is threatening the lives of children. The support measures taken last year proved to be quite effective, but they were short-term in nature and focused more on containment. Approximately 20% of Africans dropped below the poverty line but it could have been worse. It is likely to be exacerbated by the economic uncertainty that the continent is facing, aggravated by the huge debt burden. This is likely to increase the number of people who will go to bed hungry this year and worsen the ongoing food crisis.

A premature withdrawal of the support would result in further harm of smallholder farming households and will heighten the likelihood of widespread food insecurity while jeopardising recovery efforts. It is important that governments rationalize fiscal policy in order to increase access to finance for smallholder farmers and SMEs which could in turn help them avoid markets' unpredictability and further increase the price of food and agriculture products. For economies which are constrained in their ability to spend, a policy reprioritisation is required to protect the poorest and most vulnerable - especially women smallholder farmers.

As already discussed, rising budget pressures are being accompanied by sovereign debt downgrades, exposing governments to greater risks beyond what was experienced in the 2008 food

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[6] Kwaw Andam, Hyacinth Edeh, Victor Oboh, Karl Pauw, and James Thurlow, 2020. Estimating the Economic Costs of COVID-19 in Nigeria. Strategy Support Program, Working Paper 63. IFPRI.

[7] Edna Chamgwera, Derek Lakudzala, Chrispine Botha, Ellen Van Dessel, 2020. Status Report COVID-19. Exchange Malawi.

[8] Kibrom A. Abay, Guush Berhane, John Hoddinott and Kibrom Tafere, 2020. COVID-19 and Food Security in Ethiopia Do Social Protection Programs Protect? IFPRI Discussion Paper 01972 November 2020

crisis. Jordà, Singh, and Taylor (2020) [9] have noted that pandemics have long lasting effects on economies spanning long periods. Summer[10] (2014) has noted that given the historical trends of pandemics, secular stagnation would be a concern for fiscal stabilisation policy for the next decade. African countries are likely to be worse hit by this phenomenon**. The key policy challenge is to continue to counter the pandemic while facilitating a robust and inclusive agricultural transformation.**

2. **Governments must boost food production and distribution** by reducing the risk-taking for private sector players in the agriculture sector through low interest rates for facilities, provide longer term safety nets for those below the poverty line, and strengthen the domestic market efficiency through policy predictability for trade in agriculture and food. An integral part of this strategy is to strengthen the role of strategic food reserves in insulating against shocks of price instability and rising unemployment. Furthermore, there is a need to ease financing conditions for agriculture and food production by expanding existing short term programmes, debt payment suspensions and providing liquidity for agricultural programmes through grants or equity financing, wage subsidies, universal cash transfers, and a state guarantee scheme for bank loans to small and medium-sized enterprises. These policies need to be coupled with deliberate measures to protect workers and their jobs, as well as protecting vulnerable groups in agriculture, including women and young people.
3. **Fastrack the Digitalization for Agriculture (D4Ag) in Africa**: The global workforce is digitising faster than we expected and creating a double disruption that is seeing workers playing catchup and automation taking a centre stage in the way work is done. Globally, agriculture and food companies will produce more and with lesser human efforts. This has implications for African agriculture and its quest for economic recovery and growth.[11] With the continent spending approximately $72 billion on food and agriculture products a year and its imports rising by 3.6% annually, this poses a further threat to the continent's economic recovery and growth plan as well as deepens the trade deficit putting African economies at risk of further recession.

Digitalization for Agriculture (D4Ag) holds great promise for the transformation of African agriculture, only when it is understood as catalyst for agricultural development rather than a technological tool. The concept of D4Ag can be illustrated through four pillars: (1) digital agricultural innovations, (2) big data and analytics, (3) business development services, and (4) the enabling environment. These four pillars are being applied to various agricultural transformation challenges, including climate variability, low productivity and profitability, inaccessibility of financing, and exclusion of social groups, among others.

Digital agricultural solutions and services, in contrast, encompass services and products offered to end users with the support of digital technologies (Malabo Montpellier Panel 2019). The availability of D4Ag solutions and services across the continent has skyrocketed, increasing from about 42 solutions in 2012 to more than 390 active solutions as of early 2019. However, overall, the market remains largely untapped, as many services are still small in scale, scattered, and not financially viable. These solutions and services need an enabling environment that will allow agricultural stakeholders to improve productivity, income, access to financing, supply chain management, and policy- and decision-making.

The good news is that a lack of conventional literacy is not necessarily an obstacle to mobile phone ownership. Data from the Research ICT Africa (RIA) Beyond Access 2017/2018 survey show data from a number of African countries. The survey results show that illiterate users make up a sizable share of mobile phone owners, including both those who obtain income from agricultural activities and those who do not (Figure 1).

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[9] Jordà, Ò., S. R. Singh, and A. M. Taylor. 2020. "Longer-Run Economic Consequences of Pandemics." *Covid Economics: Vetted and Real-Time Papers* 1 (April 3): 1–15.
[10] Summers, L. H. 2014. "U.S. Economic Prospects: Secular Stagnation, Hysteresis, and the Zero Lower Bound. " *Business Economics* 49 (2): 65–73.
[11] Malabo Montpellier Panel Report 2020

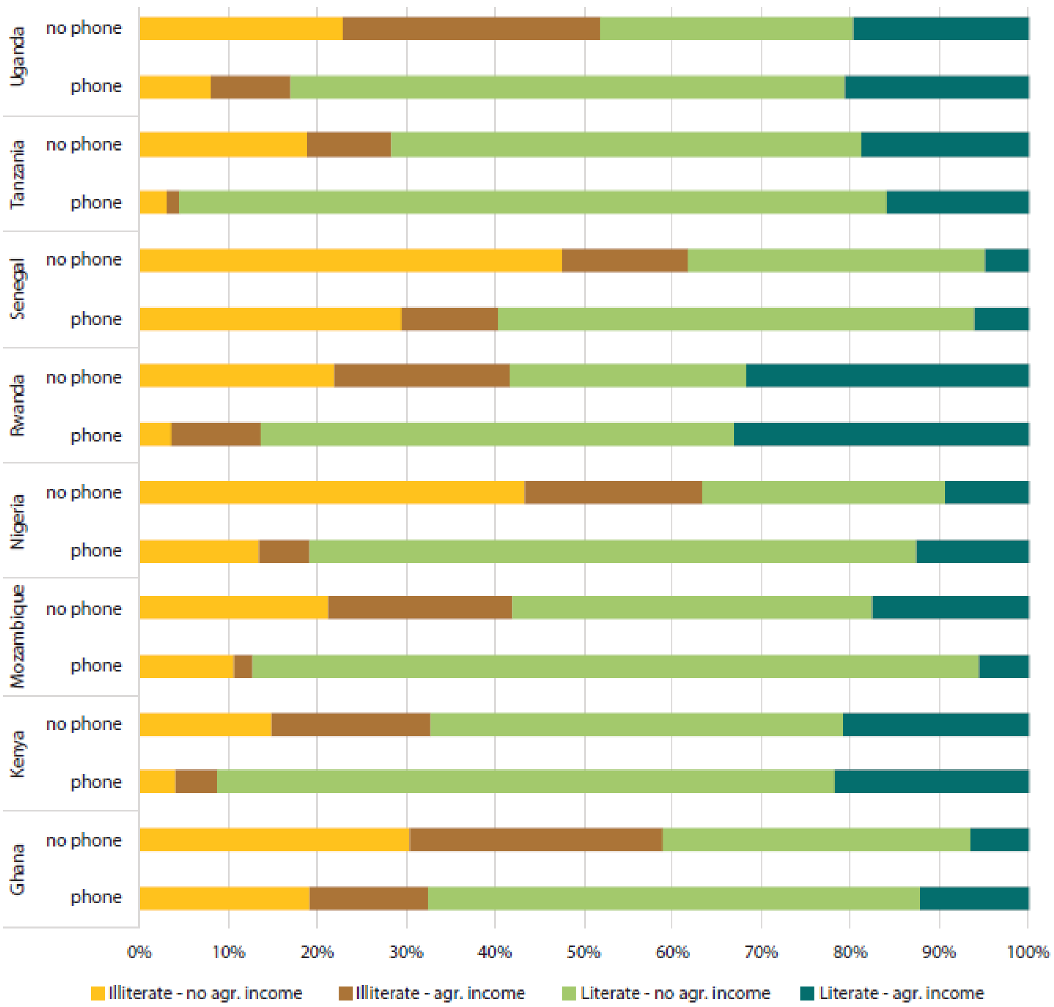

Figure 1: literacy levels among mobile phone owners and non-owners, by dependence on agriculture[12]

It is therefore important that governments fast track technology integration in agriculture and food systems by driving innovation, building a tech savvy workforce in the sector and increasing the financing of technology-based start-ups that can improve production, increase yields and enhance commercial farming to supply local and export markets. This will reduce import dependence, improve the trade balance, and ease balance of payment problems.

4. **Policies should transition from broad support to more targeted measures.** Every government faces the challenge on policy prioritisation, and policy dilemmas of appropriate measures to take, what restrictions to impose and when to loosen them, how to raise money and where it will be spent. These policy decisions are no less difficult with the negative effects of the pandemic.

First, agricultural policies must be targeted at investments that drive production and markets - especially since about 70% of the countries in the continent have more than 45% of their workforce in the agriculture sector. Developing and implementing policies for agriculture investments will keep unemployment rates low and trigger job growth in the medium term. **Second,** Africa's Small and Medium Enterprises (SMEs) are currently struggling with business continuity challenges aggravated by the pandemic. It is imperative that policies target providing financing incentives for SMEs in the agriculture sector to improve trade, ensure markets are functional and farmers are able to move

[12]Data source: RIA Beyond Access survey 2017/2018. Cited in Resnick, D., Diao, X., and Tadesse, G. (Eds.) 2020. Note: The graph shows mobile phone owners or non-owners who cannot read a letter or newspaper as a share of all respondents and by the share of agriculture as an income source.

produce from the farm gate uninterrupted. **Third,** strengthen smallholder farmer systems to become resilient and sustainable given the pivotal role they play in food security and employment. Given that agribusiness SMEs are hardest hit by the pandemic, investing in these small businesses remains critical because this sector will drive recovery efforts. **Fourth**, there is a need for financial institutions to increase funding for agriculture in Africa. Currently less than 1% of bank lending goes to agriculture. This represents less than 3% of the USD 300 billion required for the sector in the continent, and farmers are frustrated with traditional lenders. A policy that supports and delivers crowd farming which can connect farmers to working capital and meet market demands at scale is critical at this time.

5. **Strengthening resilience and sustainability of food systems:** As countries rebuild from the coronavirus and its impact, there is an urgent need for policy measures to build resilience in food systems and agricultural value chains. However, one area of concern has been the fragility of systems and institutions. Policies and investments that prioritise resilience of farming systems, especially with respect to reducing the impact of climate change will be pivotal to adapt agriculture systems to other major exogenous impacts, such as those presented by the current pandemic. Related to this are the fragility of institutions which are responsible for regulation, implementation and delivery of services for the sector.
6. **Strengthening intra-regional agricultural trade in Africa**[13]: Trading is an effective risk management mechanism in the face of climatic, health and socioeconomic shocks, as well as sudden policy changes. Moreover, there is evidence to suggest that regional trade agreements increase welfare by providing a rules-based trading system and trade liberalization.

The border restrictions arising from COVID-19 are expected to slow intra-regional trade across Africa in the short to medium term. Data and recent analyses suggest that Africa's trade volumes are projected to decrease by 8 percent for exports and about 16 percent for imports in 2020. However, intra-regional trade is expected to increase the resilience of countries to the COVID-19 pandemic or other future shocks as countries adapt and increase their dependence on each other for food trade.

The Africa Continental Free Trade Agreement (AfCFTA) is expected to consolidate and strengthen intra-regional agricultural trade in the continent, which will in turn benefit all actors along the value chain as well as consumers in rural and urban areas. Strengthening intraregional trade will foster economic growth through productivity increases, while generating new and much-needed employment opportunities, expanded markets for smallholder farmers, greater access to regional markets, while potentially improving food security and nutrition by facilitating access to more affordable, diverse and nutritious foods. However, the risks associated with increased trade, including environmental degradation, automation, and dependencies on trading partners may undermine the benefits of trade and increase exposure to new and unexpected shocks. These risks need to be factored in when designing and implementing new trade policies for the agriculture and food sector.

[13] TRADING UP: Policy innovations to expand food and agriculture trade in Africa. Malabo Montpellier Panel Trade Report 2020: