

Smallholder Families in COVID-19: Distinct Segments, Different Impact



Photo Credit: World Bank Group. Social distancing in a local market in Kenya (April 2020)

Since our [April blog](#), more field reports and anecdotal evidence have emerged to gain a more holistic picture of the COVID-19 impact on smallholder farmers. The spillover effects of this health crisis are unprecedented, spreading across all sectors with major damages to food systems, transportation, trade and tourism as well as altering businesses and daily lives around the world through control measures. In our work, we also see farmers suffering economic impact from business shutdown, movement constraints and supply chain disruption. For example, inputs/animal feed are not available or become more expensive due to temporary closure of agro-dealer shops and logistical delays in delivering inputs to rural areas. Decline in access to affordable seasonal labor, market and limited loans as well as reduced remittances are also reported, increasing the vulnerability of many who already live at the edge of poverty.

However, the world's 500 million smallholder households do not share the same experience: while agricultural activities are relatively stable in some Asian countries with reopening of export in [Vietnam, Cambodia and Myanmar](#), some regions suffer from compounding effects of the pandemic, locust invasion and natural disasters such as floods in East African

countries and intensifying social instability in fragile states such as Somalia and Yemen. To refine understanding of smallholder households and uncover general commonalities and differences of their COVID-19 situation, this blog looks at the following three segments of smallholders, as [defined by CGAP](#), based on their livelihood profile– subsisting, commercializing and diversifying.

[According to GCAP](#), facing COVID-19, subsistence farmers who grow food to primarily feed their families are reducing consumptions and weathering the price fluctuations in local markets due to lack of coping strategies; commercializing farmers, considering farming to be a business, are experiencing the impact of trade slowdown and reduction of demand especially on perishable products, whereas diversifying farmers with a multi-dimensional livelihood strategy are struggling to maintain the income streams while staying safe. The following table summarizes the characteristics and general impact on the three groups of smallholder farmers from multiple angles.

| Segment | Description | General Impact |
|------------------------|--|---|
| Subsisting | <ul style="list-style-type: none"> • Farm less than one hectare with little or no surplus for sale in local market • Supplement farm income with casual labor, social networks or government assistance | <ul style="list-style-type: none"> • Most vulnerable to financial shocks due to little savings • High liquidity constraints and risks to food insecurity • Fewer income-generating opportunities |
| Commercializing | <ul style="list-style-type: none"> • Farm less than two hectares of land • Agriculture as main source of income but many are one or two bad harvest away back to subsistence agriculture • Have more incentive to increase production value | <ul style="list-style-type: none"> • Impact largely depends on value chains, sales channel and financing |
| Diversifying | <ul style="list-style-type: none"> • Earn some income from agriculture, though their primary income source is more likely their own business or regular or casual employment • Work in rural, peri-urban and urban areas • In transition out from subsistence farming | <ul style="list-style-type: none"> • Decrease in employment opportunity • Likely to go back to subsisting state |

Sources: CGAP, ISF Advisors and the RAF Learning Lab

In general, during difficult times, smallholder families cut spending on agriculture needs (e.g. inputs and insurance) to cover other household expenditures. In the current pandemic,

reduction in services delivery in terms of training, financing or input provisions by farmer groups and aggregators has been observed in many places, which aligns with general experiences from GIIF implementing insurers on reduction in farmer workshops due to movement restrictions. The delayed arrival of inputs into rural areas can be particularly alarming for subsistence households who are largely very poor since access to farming inputs is critical to ensure their medium- and long-term food security. Furthermore, while vibrant off-farm rural economies create diversifying employment and livelihood options, underdeveloped agriculture systems combined with COVID-19 difficulty tend to block farmers' linkage to markets, leaving them with few means to effectively organize to be economically viable (e.g. scale efficiencies achieved through collective action).

Compared to subsisting and diversifying farmers, smallholders in the commercial segment are better connected to value chains and derive most of their earnings from agriculture. More successful small commercial farmers may hire seasonal labors from subsisting segments to work on the farm. In contrast to subsisting farmers, they are more embedded in the ecosystems of input providers, financial service providers, extension services and markets; therefore, more interested in on-farm investment to increase production value, risk mitigation and income protection through agriculture insurance. COVID-19 effects on commercial smallholder farmers depend on the season during which the virus arrived, and movement restrictions placed. Crop production in harvest seasons are likely to be disrupted by the pandemic. For example, [in India](#), national shutdown came at the harvest season of Rabi (winter) crops such as cereal and oilseed, which created shortage of seasonal labor and harvesting equipment. Consequently, in some places the harvest has been delayed with limited and more expensive labor, while in others, the crops have been abandoned.

The severity of impact also depends on value chains – short, medium and long based on number of intermediaries involved from farm to table - as can be seen in the table below. Notably, closures of restaurants, schools and coffee shops reduce the demand for dairy and horticultural products (medium value chains), resulting in a loss of sales that can also be attributable to a simultaneous shift in consumer preferences to staple and long-shelf-life food in some lockdown cities. For a comprehensive discussion on commercial smallholder farmers and COVID, refer to ISF Advisors and the RAF Learning Lab's recent paper [here](#).

| Subsegment | Example | General Impact |
|---------------------------|--|---|
| Short Value Chain | Staple food such as maize, rice and beans for local consumption | <ul style="list-style-type: none"> • May benefit in short term farmgate price increase due to demand surge, but countries such as Mali and Rwanda have set price limit for staples • May reduce quantity sold in market for household consumption and due to decrease in traders collecting goods |
| Medium Value Chain | Perishables such as vegetables, fruit, meat and dairy | <ul style="list-style-type: none"> • Decrease in demand for perishable goods and closure of service industry (e.g. restaurants/hotels) • Potentially large on-farm losses and large income drop due to lack of buyers (households, market vendors, processors, etc.) |
| Long Value Chain | Export-oriented produce such as tea, coffee, cashews, horticulture and cocoa | <ul style="list-style-type: none"> • Some short-term resilience from support from cooperatives, businesses and financial service providers • Market volatility, reduced availability of labor and input investment are likely • Side selling to prioritize quick cash |

Source: ISF Advisors and the RAF Learning Lab

While many countries have adopted stimulus packages to sustain SMEs, very few are specifically targeted towards smallholder producers. [An estimate](#) before the pandemic shows that approximately 70% of the global demand for smallholder finance, which amounts to \$170 billion, is unmet. With COVID-19, farmers in all three segments suffer from lacking financial resources to overcome a gap in income. According to the April issue of [Africa Pulse](#), agricultural production in Africa could contract between 2.6% and 7% due to trade blockages. In addition, over [400 million livelihoods](#) will be likely at risk in primary production.

Against this backdrop, FAO promotes [three general policy considerations](#) to safeguard smallholder farmers:

- Provide short-term stimulus packages that support sales, cash flow and working capital;
- Enhance access to finance by incentivizing the creation or extension of guarantee schemes for smallholder credit, direct public lending and setting targets for MFIs for lending to smallholders;
- Provide grants, subsidized loans and tax incentives.

A more holistic approach to fit the policies should incorporate responses tailored to address the differences between smallholder segments and value chains. The CGAP farmer segmentation could provide a viable foundation to assist policymakers, donors and financial services providers in crafting strategies to increase targeted efficiency and overall program outcome for the smallholder communities. Equally important is to secure physical supplies of necessary agricultural and livestock inputs such as quality seeds, fertilizer and feeds to carry on farming activities especially for the upcoming season. Efforts should be also channeled to remove artificial barriers to domestic trade and facilitate links between farmers and markets to minimize food system disruption. Moreover, overlapping with food security and health objectives, nutrition-sensitive investments become important to [link agriculture to nutrition](#) for these households, which comes with additional benefits of increasing incomes and diversifying food production and availability.

The pandemic indeed reveals long-standing challenges in the development sector to empower smallholder farmers with stable market outlets, access to finance, technology, knowledge and job opportunity. While the world is undergoing multiple transformations due to COVID-19, this can also be a transformative time to unleash creativity and renewed cooperation to build smallholder resilience through an ecosystem approach for the diverse needs of 500 million smallholder households that are the backbone of world's agricultural system.