Feed the Future Nepal Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN) II Project

Rapid Market Assessment on Impact of COVID-19 on Private Sector Partners and Farmers

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KISAN II Rapid Market Assessment on Impact of COVID-19 on Private Sector Partners and Farmers
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In response to the COVID-19 pandemic, the Government of Nepal issued a strict preemptive nationwide lockdown to protect its citizens against the virus, which halted public movement, closed non-essential businesses, and drastically reduced economic activities throughout the country. The Feed the Future Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN) II project conducted a rapid market assessment of roughly 150 agribusiness partners—who jointly reach nearly 185,000 farmers—to better understand the economic impact of the current crisis and the future outlook for agriculture sector actors in Nepal.

BACKGROUND AND OVERVIEW
On March 24, 2020, with just one confirmed COVID-19 case in the country, the Government of Nepal took drastic measures to curb the spread of the disease by imposing a strict nationwide lockdown that severely restricted public movement and travel, and ordered all non-essential businesses closed. The lockdown, which was still in place as of June 2020, helped curb the spread of COVID-19, but also crippled the overall economy by bringing businesses to a halt. This has had a significant impact on the supply chain of essential goods, including agriculture commodities, and disrupted the efficient functioning of agriculture supply chain actors. To better understand the impact of the lockdown on agribusiness operations and farmers, KISAN II conducted a rapid market assessment of its 150 small, medium, and large agribusiness partners, including agrovets, cooperatives, traders, rice mills, crop farmers, and goat farmers. Many of the agribusinesses share the same challenges as they try to survive during this time.

Agribusinesses take a hard hit during the crisis
Lockdown restrictions resulted in a shortage of agri-inputs, decreased trade of agriculture commodities, and increased operational costs. Farmers’ incomes have also decreased based on low farmgate prices for vegetables. Below are some challenges market actors face during this crisis:

- **Agrovets** have seen plummeting sales due to limited opening hours and limited availability of agri-inputs. They have been forced to increase credit lines to hard-hit farmers.
- **Cooperatives** are facing a liquidity shortage, with increased withdrawals from farmers, but fewer deposits and logistical difficulties collecting loan repayments.
- **Traders** have experienced reduced sales due to lower demand for fresh vegetables and logistical challenges which have increased post-harvest losses.
- **Rice mills** have experienced limited paddy stock and labor shortages, as well as logistical bottlenecks and halted distribution which has limited mills’ access to markets.

The way forward for business survival
KISAN II and its government and development partners are helping the agriculture sector adapt to the current crisis in many ways.

- Helping agribusinesses identify and form strategic partnerships with financial institutes who can provide loans and inject much-needed liquidity during this crisis;
- Facilitating more efficient payment models, such as Digital Payment Platforms, e-wallets, etc. to help agribusinesses stay competitive and conduct business safely;
- Linking rice mills, large wholesale agrovets, and feed mills with business development services to help them adapt and transition their business operations to a more efficient post-COVID-19 market;
• Equipping agri-entrepreneurs with the skills needed to anticipate, plan for respond to shocks, and to adapt their business models, in order to build long-term resilience; and
• Enabling farmers to keep producing during the crisis by helping agribusinesses explore innovative ways to reach customers with valuable inputs and technical support while avoiding group-based activities (i.e. SMS and virtual outreach).

IMPACT ON SPECIFIC MARKET ACTORS

Agrovets
The government-imposed lockdown has largely disrupted the supply chain of agri-inputs in Nepal. Many of KISAN II’s partner agrovets are only partially open (limited hours) and reported a 60-80 percentage decrease in sales. This is mainly due to the decrease in the number of customers visiting the agrovet to buy inputs and the limited supply of agri-inputs available. Agrovets are struggling to procure necessary agri-inputs from wholesalers and suppliers, many of whom are outside of their district and/or province. Even in districts which are allowing inter-district trade of agriculture goods, many retail agrovets are unable to stock their inventory because it is not cost-effective to procure small quantities of inputs through hiring of a transport vehicle.

In the short run, the number of farmers buying agri-inputs on credit has increased because farmers have limited access to finance (banks and cooperatives are closed and/or just partially open) and some have not been able to sell their produce. As a result, agrovets are forced to deal with decreased sales, increased costs (mainly transportation), and increasing credit sales to farmers. In the coming months, there is a high risk that farmers will not be able to repay the credit owed to agrovets and will not have the capacity and/or willingness to invest in agri-inputs. Small agrovets will be especially vulnerable as they face a shortage of working capital and will not be able to restock inventory, thus risking full closure.¹ Closure of smaller agrovets and limited availability of agri-inputs will create a shortage in some districts and will result in an increase in prices for these goods.

Meanwhile, demand for agri-inputs will continue to contract and the risk of default will increase in the medium term. There will be a perceived risk of default by all supply chain actors due to uncertainty and decreased demand of agri-inputs, which could trigger more transactions to be conducted in cash and less on credit. Some manufacturers have already started tightening credit policies for importers and distributors. Such tightening of credit policies will subsequently trickle down to wholesalers, retailers, and farmers. Consequently, farmers will not easily be able to purchase inputs on credit. Thus, farmers who do not have access to expendable cash or financing will scale down operations, thereby decreasing the amount of inputs purchased. In turn, the income of all supply chain actors associated with agri-inputs will decline. If this condition persists, many large and wholesale agrovets will become vulnerable as they will not be able to cover their high operational costs, leading to high risk of closure. However, there may be some exceptions. In some cases, new companies and wholesalers or retailers looking to displace established market players and gain market share, might choose to adopt generous credit policies.

¹ For example, Arjun Krishi Tatha Pashu Aushadhalaya in Rukum are already facing severe shortage of working capital and could be forced to close because they cannot pay the rent for operation of the agrovet.
Cooperatives

The lockdown has significantly impacted cooperatives who were fully restricted from operating during the early weeks of the lockdown and have since transitioned only to partial operation. The vast majority of KISAN II’s partner cooperatives are primarily focused on providing financial services, such as savings and credit, to its members. Only a handful of cooperatives are providing financial services via mobile device or tablet. Since the lockdown has severely restricted public mobility, most cooperative members have not been able to visit their cooperative to conduct transactions. Consequently, cooperative transactions have drastically decreased, and in some cases, has dropped close to zero. In addition, many farmer members are withdrawing their savings to finance their day-to-day expenses, since they have only been able to sell a limited quantity of their produce, and at lower prices due to decreased market demand. For instance, Jagrukh Agriculture Cooperative and Namuna Krishak Bahumukhi Sahakari Sanstha Limited—both in Kathmandu—have witnessed 130% and 100% increases in savings withdrawals, respectively.² In addition, due to the decreased income of farmers and travel restrictions due to the lockdown, cooperative members are also not making any saving deposits.

On the credit side, cooperatives are experiencing a sharp decline in loan demand and loan disbursement. Historically, loan demand is highest during paddy plantation season. Yet presently, though paddy plantation season has begun, cooperatives are experiencing a decreased demand for loans. As a result, the lending ratio of cooperatives will take a steep dive during this year’s paddy season, a period in which cooperative usually tend to have highest lending ratio. In addition to the depressed loan demand and poor loan disbursement figures, cooperatives are also dealing with poor loan repayment; collection of loan repayment has dropped by an average of 90%. Thus, in an effort to encourage members to increase their loan demand and loan repayment, some cooperatives have introduced discount on interest, flexible repayment rates, offering emergency loans up to NPR 10,000 and are providing door-to-door saving and credit services. But despite these efforts, many cooperatives have not been able to improve their saving and credit performances as members are still not participating in economic activities. In addition, various profit centers (agrovet, collection center, school, etc.) of the cooperatives have also not been fully operational during the lockdown, which has further decreased income.

Considering that the economic impact of the lockdown is expected to be felt by the farmers long after the lockdown has been lifted, the financial performance of cooperatives will likely not improve significantly in the coming months. Some cooperatives are already facing severe liquidity crisis. While cooperatives have to typically maintain 10-15% liquidity, many of KISAN II’s partner cooperatives, including Navratna Agriculture Cooperative (Gulmi), Kasturi Multipurpose Cooperative (Jajarkot), and Rukumkot Mahila Bahuudhayasiya Sahakari Sanstha (Rukum), have dropped below the 10% minimum.³ If cooperatives are unable to improve their liquidity status, they may not be able to pay their installments for wholesale loans, and their members may not be able to withdraw their own savings. Given the risks, many cooperatives, particularly smaller ones catering to poor and rural households, will likely find it more difficult to recover from the losses in the near future and could collapse.

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² Based on survey findings of cooperative assessment done by Finance Team. Final report is being prepared.
³ Based on survey findings of cooperative assessment done by Finance Team, 15 out of 25 cooperatives (i.e. 57.7%) surveyed has an average liquidity of 3%.
**Traders**

During the lockdown, many institutional buyers of agricultural produce, such as hotels, restaurants, schools, and universities have shut down, which has drastically decreased demand for vegetables. For home consumption, the government has allowed vegetable retail shops to remain open for limited hours (early morning and evening), which has further reduced the demand as people cannot readily buy vegetables. At the same time, limited opening hours, along with the widespread fear of contagion of COVID-19 throughout the agriculture supply chain, has forced many households to increase their consumption of food staples (cereals and processed food) over fresh vegetables. Despite a decrease in demand of fresh vegetables, vegetable traders are facing logistical difficulties in collecting and supplying fresh vegetables to the market due to the limited opening hours and various other travel and transport restrictions imposed during the lockdown. Traders are currently only able to collect vegetables from nearby farmers and supply to the local markets. As a result, traders have experienced 70-90% reduction in sales. However, in Kathmandu, many online grocery delivery businesses have sprouted to capitalize on this market opportunity presented by lockdown and the COVID-19 crisis and are currently delivering fresh vegetables to customers. However, the volume of online delivery is limited and only some traders around Kathmandu are able to collect and supply fresh vegetables to such grocery delivery businesses.

Though the government has selectively allowed the movement of licensed vehicles within provinces, which has allowed some traders with vehicles to obtain the required paperwork and supply vegetables, the logistical challenges and supply chain disruptions have also increased post-harvest losses faced by traders. Many traders have reported that they are only able to sell about 50% of the vegetables collected from the farmers. Owing to the decrease in sales and the increased post-harvest losses, many traders are experiencing a shortage of working capital. In fact, some traders have not been able to make timely cash payments to farmers. At the farmer level, many are facing increased post-harvest loss with scarce markets for their perishable produce. Meanwhile, decreased market demand has reduced the farmgate price of vegetables. As a result, farmers’ incomes have significantly decreased along with their investment capacity. This, along with the shortage of necessary agri-inputs and farmers’ increased focus on production of staples for personal food security, could lead to reduced vegetable production in the coming season. Consequently, traders could face a shortage of vegetables for collection and sales, which would reduce their sales even further and force some traders to temporarily shut down or scale down their businesses.

**Rice Mills**

Rice millers have largely been able to operate their businesses amid the nationwide lockdown, although not at optimal capacity. The impact of the lockdown on rice mills varies greatly depending on the administrative restrictions of the district in which they are operating, the stock of paddy in their warehouse, the availability of labor, and their access to markets.

Though rice mills have been allowed to operate during the lockdown, travel restrictions imposed by the government has led to labor shortages and logistical difficulties. In Banke district, Sunil Rice Mill has been unable to operate due to labor shortages since laborers are not allowed to travel to the mill. Meanwhile, Sahu Rice Mill in Banke has not faced a labor shortage and has thus been operating the mill as normal. The mill provided identity cards to its workers, divided them to work in alternate shifts, and is abiding with social distancing measures. Sahu Rice Mill was able to sell 4 MT of rice to its dealers in Jajarkot.
during the lockdown. While millers, such as Sahu Rice Mill and Marutinandan Rice Mill, have been able to operate during the lockdown, the mills only have limited stock of paddy in the warehouses and with their respective gallawallas. Meanwhile, many millers have only been able to collect nominal amount of paddy from the farmers. Though the mills have been able to sustain the business operation till date, they are likely to scale down their production as stocks dwindle and procurement from farmers continues to be plagued by logistical challenges due to travel restrictions. However, Bina Foods in Kailali has adequate stock of paddy to last this season and due to a relaxed travel restriction, it is able to procure paddy easily from traders and farmers as well.

Meanwhile, some rice mills have already reduced the scale of their operations to reduce the costs of doing business due to the lockdown (logistical costs, required health and safety precautions, etc.). Shanti Khadya Udhyog in Bardiya is now operating 3-4 hours per day with only four workers who follow social distancing measures. Since many millers are currently operating or will be operating at sub-optimal capacity in the near future, they are likely to experience decreased sales and profits. Most rice mills procure and trade wheat and lentils, but this season, according to Sahu and Sunil Rice Mills, wheat collection has decreased by 80% in Banke, as farmers were unable to harvest wheat due to travel restrictions and many held on to stocks for food security purposes.

In the coming season, rice mills fear that the production of medium fine and fine rice varieties will decrease due to the current seed and fertilizer shortage. Many farmers' incomes decreased because they were unable to sell their produce, mainly vegetables, due to the lockdown. Decreased income, along with a continued lockdown in the near future, will force farmers to store paddy for their own food security. Consequently, rice mills could face a paddy shortage in the coming season, forcing them to operate at below optimal production capacity. Increased costs, labor shortages, disruptions in supply chains, and decreased sales could all increase mills' business risk with high loan exposure, forcing them to default on their loans and shut down business operations completely.

**Crop Farmers**

The nationwide lockdown led to the closure of all non-essential businesses and institutions in Nepal. With the complete shutdown of schools, colleges, offices, restaurants, and hotels, the demand for agriculture commodities has plummeted. While some of the demand has been redistributed on a household level, restricted public movement, limited operating hours of local grocery shops, and the widespread fear of contagion due to lack of hygiene and traceability in the agriculture food supply chain, has pushed households to shift consumption from fresh vegetables to staple foods, such as cereals and processed foods. Due to the sudden decrease in demand for fresh vegetables and the logistical challenges faced by producers accessing market, the farmgate price of vegetables has significantly decreased compared to previous years. Farmers with weak market linkages and limited access to markets have faced severe post-harvest losses as they struggle to find buyers for their perishable produce.

On the other hand, the lockdown in India – a major source of vegetables for Nepal – and restrictions on trade between Nepal and India has prompted a decrease in imports of agriculture commodities. Unfortunately, farmers in surplus production areas, namely Bardiya, Kanchanpur, and Palpa, have not been able to transport their excess produce to supply deficit areas. While this has led to high losses and
decreased income of farmers in excess production areas, food deficit areas have witnessed high food prices. As a result, farmers with access to markets have been able to fetch good prices for their produce. For instance, farmers in Banke and Bardiya were able to get on average Nrs. 35-45 (USD 0.30-0.37) per kg for fresh vegetables. Similarly, in Karnali Province, which has banned the import of agriculture commodities from other provinces, farmers with access to markets sold their produce for double the price they got last year.

While the lockdown has undoubtedly limited farmers’ access to markets and reduced their incomes, travel restrictions and limited operating hours of essential services, such as agrovets, has affected farmers’ ability to buy necessary agri-inputs. Agrovets are struggling to provide agri-inputs to the farmers since the lockdown has compromised the flow and availability of agri-inputs. At the same time, farmers are facing difficulties accessing necessary financial services from cooperatives and banks due to travel restrictions. As the stock of agri-inputs from agrovets begins to dwindle and the logistical costs increase, agrovets will refrain from providing credit to farmers. In turn, farmers without access to finance will be unable to procure the necessary agri-inputs. If farmers fail to get the necessary agri-inputs on time for the upcoming production season, it will have a ripple effect on farmers’ overall production and income in the coming months. Even if the lockdown is lifted and the market opens up for business as usual, farmers will not have the requisite produce to sell in the market, which will extend their vulnerability into the post-lockdown period. This could trigger a vicious cycle of poverty where farmers do not have access to finance, cannot procure agri-inputs, and consequently cannot produce and sell agriculture commodities to earn a sustainable income.

**Goat Farmers**
The COVID-19 lockdown has also impacted goat farmers, although to a lesser extent than that faced by those involved in crop farming. While the lockdown has led to a shortage of formulated feed, the majority of small- to medium-scale goat farms have been able to rear their goats on a forage or fodder-based diet. Meanwhile, large commercial farms are struggling to provide nutritious balanced diets to their herds.
Most agrovets are stating that they have limited or depleted stocks of livestock medicines, supplements, and vaccinations. Travel restrictions have worsened the situation as they are unable to replenish their stocks and goat farmers are deprived of the necessary services. As a result, there is a high risk of herd loss resulting from disease outbreaks. Most technicians who provide artificial insemination are no longer able to provide the service, as the supply of liquid nitrogen and buck semen from the National Livestock Breeding Office (NLBO) and Veterinary Hospital and Livestock Expert Center (VeHLEC) has come to a complete halt. Most of the inseminators were forced to destroy the buck semen straws as there was no liquid nitrogen to safely store the specimens. KISAN II partners, Santosh Agrovet (in Palpa) and Dhungana Agrovet (in Makwanpur) destroyed 60 and 50 semen straws, respectively.

Travel restrictions and limited mobility has heavily impacted the sale of goats (for meat and breeding) and of forage and fodder saplings. KISAN II partner, Hill Park Agriculture and Livestock Farm, which sells goat kids, fodder, forage, seeds and saplings to other goat firms and farmers, has reported a loss of Nrs. 500,000 (USD 4,106) during lockdown from the halted sale of seeds and saplings. Another partner, Simalthali Bakhra Farm, is concerned about not being able to sell their pure-bred Boer kids for breeding purposes, which usually range from Nrs. 150,000-300,000 (USD 1,200-2,500). They may be forced to rear them instead, with limited resources. This has heavily increased goat farmers’ cost of production and reduced their profits from goat farming. Some goat farms are facing a dilemma on whether to castrate male bucks for meat or continue rearing them for breeding purposes. There is still demand for quality breeding stock, but farmers are unable to purchase based on demand. Rather, farmers are forced to use the available low-quality breeding stock, which has hampered overall herd productivity.

The demand for chevon (goat meat) has also drastically decreased as institutional buyers, such as hotels, restaurants, schools, and colleges have shut down or are operating at a minimal capacity. Household consumers are diverting from the consumption of chevon, which is relatively expensive, as their spending capacity has drastically decreased. Even where there is demand, traders are unable to supply goat meat. Thus, farmers are currently only able to sell their goats in local markets.

To mitigate these challenges, farmers are doing the best they can with their limited resources. Some are focusing on traditional goat feeding practices, relying on forage, fodder, and household waste. Some semi-commercial farmers with access to local mills are getting bran or husk and mixing it with forage and fodder to feed their herd. As artificial insemination is not available, farmers are forced to utilize locally available bucks or skip a breeding season.

Currently, KISAN II is focusing on mitigating the major challenges related to feed, pharmaceuticals, and artificial insemination. KISAN II is in contact with Hester, a manufacturer of animal vaccines, supplements, and animal health products, to link them with partner agrovets and goat farms, to facilitate a smooth supply of products. KISAN II has also conducted multiple meetings with the Department of Livestock services to initiate the operation of buck semen and liquid nitrogen in NLBO, Banke, so they can easily supply buck semen and liquid nitrogen to three provinces. In addition, KISAN II is encouraging partners to adopt strong bio-security measures to curb diseases and is linking goat farmers and agrovets with VEHLEC to receive support from the government. As a result, KISAN II is helping farmers continue to rear goats during this challenging time, which will increase their overall resilience in the long-term.

**THE WAY FORWARD**

Together, KISAN II and its government and development partners can support agribusinesses in adapting and innovating their business approaches in order to survive the current crisis. Below are some specific recommendations to support various market actors.
• Many of KISAN II’s partner agribusinesses are likely to face varying degrees of liquidity shortages and/or working capital as a result of the nationwide lockdown. KISAN II should support partners to assess their susceptibility to liquidity and/or working capital issues, and work with them to develop and implement plans to minimize their risk in the coming months.
  a. KISAN II can help partners identify and form strategic partnerships with financial institutes who can provide loans and inject much-needed liquidity for those facing liquidity problems.
  b. KISAN II can work with partners to provide faster and more efficient payment models to reduce strain on their cash flow and ensure activities continue without compromising quality or putting businesses at additional risk. In addition, activities may need to be modified to ensure each partner’s core function is strengthened to decrease their business and financial risk. KISAN II can facilitate partners in scaling-down activities that do not yield quick business results.
• KISAN II can help introduce and promote Digital Payment Platforms, such as digital wallets amongst partners. Even after the present lockdown ends, any spike in COVID-19 cases can bring about additional lockdowns and cripple mobility. Thus, having access to digital financial services can help partners stay competitive and conduct business safely without being hampered by restrictions in mobility.
• Rice mills, large wholesale agrovets, and feed mills should be linked to Business Development Services to help them transition their business operations to make them more efficient in a post COVID-19 market.
• Through its Enabling Environment Component, KISAN II should develop the capacity of respective provincial governments to introduce policies and programs that will benefit all actors involved in the agriculture ecosystem.
• KISAN II should collaborate more closely with umbrella organizations such as trade associations. This would ensure that not only the subset of KISAN II grantee partners, but a majority of the value chain actors, can access resources that will help maintain the market system.
• KISAN II should explore innovative ways to implement activities at partner and farmer level. In the coming months, large group-based formats will not be possible given the increased risk and fear of COVID-19, with safety implications on participating farmers. KISAN II and its partners should develop alternative models for group-based activities to provide much-needed technical services to farmers while minimizing risk to farmers and trainers.
• Given the current crisis, there may be some natural displacement of non-KISAN partners. Improved business performance of KISAN II grantees owing to project activities and/or support could come at the expense of non-grantee businesses, creating a systemic imbalance. Thus, KISAN II needs to ensure a strategy is developed to curb displacement so as not to distort the market.
ANNEXES
Annex 1: Graphical representation of COVID-19 impact on various actors

Impact of Covid-19 on agrovets

- Limited mobility and supply chain disruptions
- Shut down of all nonessential business and institutions
  - Difficulty in procuring agri-inputs from wholesales and suppliers
  - Agrovets open limited hours and farmers cannot visit agrovet
  - Farmers have limited access to the market
  - Farmers sell less produce
  - Farmers receive low price
  - Decreased income of farmers
  - Farmers are not able to buy necessary agri-inputs
    - Increased cost of procurement
    - Increased price of agri-inputs
  - Decreased sales of agrovet
    - Small Agrovets face Risk of closure
      - Wholesale/Large Agrovets face Shortage of working capital

Situation
Output
Outcome
Impact
Impact of Covid-19 on cooperatives

- Difficulty in operating the cooperative
  - Restricted mobility of farmers
    - Cooperatives cannot provide saving and credit services
      - Farmers have limited access to finance

- Farmers are not able to buy necessary agri-inputs
  - Decrease in production
    - Farmers sell less produce
      - Farmers receive low price
        - Difficulty in operating profit centers
          - Decreased income of farmers
            - Decreased income of cooperatives
              - Cooperatives face liquidity crunch
                - Decrease in loan repayment
                  - High demand for loan
                    - Reduced savings

Situation → Output → Outcome → Impact
Impact of Covid-19 on Vegetable Traders

- Limited mobility and supply chain disruptions
  - Traders are not able to collect and supply vegetables.
  - Consumers are focused on buying dry staples over fresh vegetables.
    - Farmers sell less produce and/or receive low price
      - Decreased income of farmers
      - Traders cannot supply as per market demand
        - Decreased sales of traders
        - Risk of temporary closure
- Shut down of all nonessential business and institutions
  - Reduction in demand from institutional buyers (hotels/restaurants/schools)
    - Decreased demand of vegetables
    - Farmers are demotivated to cultivate vegetables and focus more on crops and staples
    - Decrease in production
  - Farmers are not able to buy necessary agri-inputs

Situation → Output → Outcome → Impact
Impact of Covid-19 on Millers

Limited mobility and supply chain disruptions

- Shortage of agri-inputs
  - Farmers are not able to buy necessary agri-inputs
  - Decrease in production

- Shortage of raw materials
  - Mills operate at below optimal capacity
  - Decrease in profit

- Shortage of labor
  - Millers cannot supply finished product to the markets
  - Decrease in sales

Mills face liquidity crunch

Situation → Output → Outcome → Impact
Impact of Covid-19 on farmers

Limited mobility and supply chain disruptions

- Shortage of agri-inputs
- Increased price of agri-inputs
- Limited access to finance

Shut down of all nonessential business and institutions

- Limited access to market
- Decrease in demand of agriculture commodities

Farmers are not able to buy necessary agri-inputs

- Decrease in production

Farmers face difficulty in marketing their produce

- Farmers sell less produce
- Farmers receive low price

Decreased income of farmers

Situation

Output

Outcome

Impact