Doing business during COVID-19

Lessons from AECF investees in the renewable energy and agribusiness sector

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Introduction: Doing business during COVID-19

COVID-19 has changed the playing field for businesses in Africa significantly. While the overall socio-economic impact of the pandemic is not yet well understood, the United Nations Economic Commission for Africa (UNECA) estimates that 4 out of 5 of businesses in Africa have been severely affected through lockdowns, travel restrictions, and supply and demand shocks. Businesses currently operate at only 43% of their total capacity on average and some have been forced to shut down completely. At the same time, the crisis also sparked a wave of innovations. The Africa Enterprise Challenge Fund (AECF) conducted an assessment to better understand how the pandemic has impacted investees in its renewable energy and agribusiness portfolio. AECF is a development institution that supports businesses to innovate, create jobs, leverage investments and markets in an effort to create resilience and sustainable incomes in rural and marginalized communities in Africa. This learning paper presents the findings and recommendations of AECF's assessment.

Assessment tools

- **Surveys** to 100 investees from 17 countries in East, West and Southern Africa
- **Virtual meetings** with investees from all 8 programs
- **Risk categorization exercise:** an in depth analysis of 127 investees to rank them as high (red), medium (amber), or low (green) risk.
  - » Data collection: interviews supplemented with existing documentation.
  - » Assessment matrix with 6 indicators: Business model risks, cash flow & funding risks, development impact, AECF reputational risk, compliance and character risk.

Context: Rapid changes and emerging challenges

Since the start of the pandemic, investees have had to navigate a series of changes in the global and domestic economy, mostly stemming from supply and demand shocks. The disruption of global supply chains is one of those changes. 73% of investees indicate that their supply chain has been affected by delayed imports, price volatility of imported goods, or longer turnaround times, especially for goods coming from China. In some cases, businesses completely shifted to local sourcing to sustain sales.

73% of investees indicate that their supply chain has been affected

In countries with lockdowns or movement restrictions, local and regional supply chains are also facing challenges. Besides unreliable supply, countries such as Zambia, Ethiopia, Zimbabwe and Mozambique are experiencing fluctuations in exchange rates. This has made it more difficult for investees to finance their imports and in some cases, it has put a strain on loan repayments.

Domestic effects depend on the containment measures adopted in each country. At least 42 countries in Africa announced full or partial lockdowns to restrict the movement of people and goods . Besides their impact on domestic supply chains, movement restrictions forced investees to scale down their presence in the field and restricted access to markets for both businesses and clients. Businesses that are using technology-based solutions to communicate with clients and collect payments are less affected by these measures. Movement restrictions also have serious economic implications for clients, whose disposable income has declined in the course of the pandemic resulting in payment delays and defaults. This is mostly affecting renewable energy companies with PAYGO models and agribusinesses that provide loans without technology-based collection processes.

Significant impact on operations, finances and clients

These sudden changes have had a vast impact on businesses' operational and financial situation. 82% of surveyed investees had to slow down operations and 11% shut down completely.

82% of surveyed investees had to slow down operations

Financial challenges

Investees face significant cash flow problems and funding gaps. On the one hand, revenues have declined due to lower sales, payment defaults and client losses. 17 investees have lost between 10 and 100% of their client base. On the other hand, operational costs increased because of high freight costs for imports and exports, hyperinflation and currency devaluation and higher overhead costs for staff, storage, energy and transport.

Many businesses find themselves at a crossroad since short-term loans to cover such funding gaps have become hard to access and generating new business and creating new markets turns out to be difficult. This poses a particular risk for the agribusiness portfolio, where investees do not have cash reserves to sustain operations beyond 3 months. If the situation persists, it may also affect the energy portfolio where cash reserves are between 3 and 6 months.

Operational challenges

Operationally, supplies have become less predictable and reliable, making it more challenging for businesses to manage their stock. Replenishing stocks has been especially difficult when importing. The seasonality of some crops causes additional operational challenges if investees cannot access inputs and markets. Reduced field activity has also affected operations because it limits investees' ability to collect loan payments, offer after-sales services, or to interact with smallholder farmers, and provide extension services. Other operational challenges include poaching of staff by competitors and disruptions in operational planning.

Staff layoffs

In the wake of these challenges, 13.4% of the 127 investees that took part in the risk categorization exercise had to lay off staff. The crisis mostly affected casual workers and consultants, but in some cases full-time workers were being laid off as well. The highest number of layoffs occured in the agribusiness sector. Investees in renewable energy seem to have more bandwidth to handle the crisis, but only for a short period. Renewable energy companies can draw on higher cash reserves which cover a period of 3-6 months. If the crisis persists during the next months, more than 50% of employees will be laid off. As alternatives to layoffs, some investees reduced salaries or worked in shifts.

13% of 127 investees had to lay off staff

Clients

The adverse impact on investees also trickles down to their clients. Their incomes have declined and costs of living and doing business have risen. Cost increases are particularly high in the energy sector, where clients pay up to 65% more for energy and fuel. Some clients and their families are also directly impacted by staff layoffs. Because of these challenges, they are unable to settle bills and loans. This resulted in client losses for investees, and in a lack of access to necessary goods and services for clients. It is needless to say that COVID-19 has had a significant impact on people's livelihoods; in some cases it has driven clients back into subsistence farming.

Risk mitigation: promising efforts

The financial and operational effects of COVID-19 led 85% of investees to adjust their usual way of doing business. Investees took several different measures. They suspended all non-critical business travel, discouraged personal travel and minimized face-to-face meetings. Within their offices, they adjusted seating arrangements to allow for the necessary spacing.

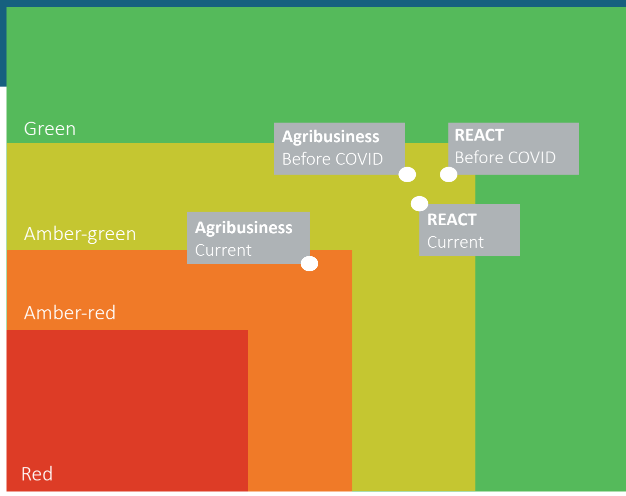
85% of 127 investees adjusted their way of doing business

To mitigate the risk of infections, staff received Personal Protective Equipment (PPE), especially when working in the field. Investees also maximized the use of electronic payment methods, facilitated remote approvals, established a hotline where employees can ask questions and increased their capacity in call centres to provide after sales services. During the pandemic, most countries classified renewable energy as an 'essential service'. Investees in this sector therefore have had better access to domestic markets than investees in agribusiness.

In terms of safety and security measures, investees initiated Crisis Management Teams to ensure the implementation of contingency plans. They also started testing everyone entering the premises with a thermometer and put up signs in different languages to raise awareness about symptoms and preventative measures. Some investees organised training sessions by a doctor to educate employees and clients about COVID-19. These risk-mitigating strategies are encouraging and an important part of addressing financial and operating challenges, while ensuring the safety and security of both staff and clients.

More to be done: Increasing risk levels in the AECF portfolio

Figure 1: change in risk levels by sector



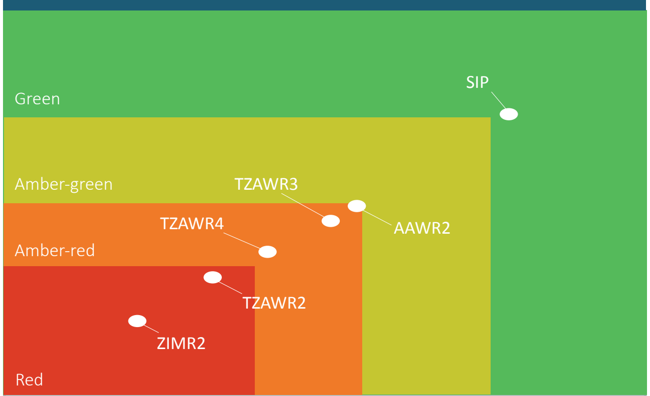
	REACT		Agribusiness	
	pre-covid	current	pre-covid	current
Green	55%	32%	47%	26%
Amber	38%	51%	49%	47%
Red	7%	17%	5%	28%

Despite mitigating measures taken by investees, the emerging challenges posed by COVID-19 and their impact on cash flows, business models and development translate into a steep increase in risk levels of the agribusiness portfolio and a moderate increase of risk levels in the REACT (renewable energy) portfolio. The overall risk category remains 'medium', which is the same as before COVID-19.

Renewable energy vs agribusiness: a comparison

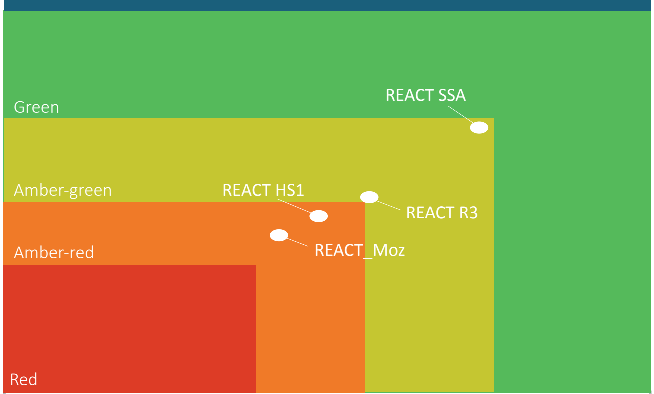
This section compares the two sectors and zooms in on the challenges and realities of investees. An important finding of the risk categorization exercise is that renewable energy companies have more adaptable business models than agribusinesses. In line with this, the REACT portfolio (renewable energy) is less affected by the pandemic than the agribusiness portfolio. Many countries labelled energy as an essential service giving business in this sector permission to continue operations. Another factor to explain the better rating is that the renewable energy portfolio includes a large number of new programmes, which generally rate better because external effects are not yet reflected in their performance.

Agribusiness



In the **agribusiness portfolio,** access to markets and rising costs are cross-cutting challenges. In Zimbabwe, poultry farmers were hit by the rise in prices of chicken feed and the distribution of stockfeed got disrupted by the lockdown. An investee from Tanzania explains that the costs of raw materials from Kenya has doubled, and because farmers cannot export their produce, they are not able to pay the investee for its supplies.

Renewable energy (REACT)



In the **REACT portfolio**, providing after sales services and collecting payments from PAYGO models are common difficulties. In Sierra Leone, sales agents were unable to go out and because their income is on commission basis, they did not get paid. In Malawi, businesses actively tried to get clearance from the government to continue providing essential services. In Rwanda, the government refocused spending on health, which affects the cash flow of REACT investees with the state as their biggest client.

New opportunities: towards robust business models

While the COVID-19 pandemic has changed conventional ways of doing business, it has also been a driver of innovation and highlighted the importance of adaptive business models. This section presents some of the opportunities investees can capitalize on.

Technology as a coping mechanism

10% of 127 investees identified new business opportunities, with a central role for technology. E-commerce offers the possibility to sustain sales during movement restrictions for instance. In agribusiness, digital technologies can help to continue the communication with farmers. In the renewable energy sector, there is a need for Digital Financial Services that speak to the informal sector, who lack a regular income and are hard-hit by the pandemic. So far, the uptake of digital solutions has been highest in markets with increased levels of mobile connectivity such as East and Southern Africa and less so in markets with low levels of connectivity such as West Africa. Some investees expressed an interest in digital solutions, but need additional funding, resources and time to plan and implement such innovations.

Agribusiness: sales and investment opportunities

The disruption of domestic food production and the strain on imports are likely to exacerbate food insecurity across the continent, especially in areas already battling locust plagues and persistent droughts. Investments in the seed sector to support the development of high yielding varieties is an important preventative measure that can help sustain production levels to meet growing domestic needs in the near future. COVID-19 also opened up new opportunities to export dried foods to Europe, to sell more to governments and NGOs and to rely more on online sales and delivery services.

10% of 127 investees identified new business opportunities

Renewable energy: opportunities to sell solar and serve vulnerable households

There are opportunities to place renewable energy at the heart of COVID-19 recovery measures. For example by financing MSMEs with government and NGO tenders to supply medical equipment or by directing funding to businesses that support the health sector.

Businesses selling household solar items already benefited from an increase in the demand for their products. This is a direct result of the stay at home directives issued by governments. Now families spend more time at home and the need for information increases, we can also expect to see a rise in demand for domestic cooking fuel and for solar TV's and radio's.

Finally, the group of low income households affected by the pandemic is growing. Considering steep hike in prices for fuel and energy, these households are in need of affordable and accesible renewable energy solutions. This opens up opportunities for renewable energy companies to roll out PAYGO models targeted at vulnerable households, especially those whose disposable incomes were affected by COVID-19.

Support to investees by AECF and funding partners

Based on findings from this assessment, AECF identified ways to support investees. AECF is currently implementing two relief funds with support from key funding partners in agribusiness and renewable energy. The relief funds are pivotal to help investees bridge the working capital gap that stems from their inability to access inputs and markets. In doing so, AECF enables investees to continue operations and to sustain jobs. AECF also identified cross-cutting Technical Assistance (TA) needs amongst investees and has positioned itself to provide the necessary TA. Immediate areas of TA intervention include business continuity planning and adaptation of business models to ensure that business survive the pandemic.

AECF is implementing two relief funds that help investees to continue operations and sustain jobs

Needs are evaluated on a case-by-case basis but can include:

Agribusiness

- Adjusted milestones
- Investments in the seed sector to boost food production and prevent expected increases in food insecurity
- Access to working capital and cash flows to maintain payments to staff, farmers and suppliers
- Early disbursements and loan rescheduling
- Trainings, strategy formulation and funds to retain critical staff
- Link investees with digital front-runner in the supply chain

Renewable energy

- Flexibility of repayment plan, implementation period and raising of marching funds
- Increase in first disbursements of newly contracted investees
- Link investees with local companies offering cheaper prices
- Expedite the completion of the contracting period
- Offer a rescue package

Looking ahead: expectations for the next 3-6 months

According to the latest trends, COVID-19 is stabilizing in Africa. Daily confirmed cases have been dropping during the last two months in most countries, except in for example Ethiopia and South Africa. If this decline continues, there could be a further opening of domestic economies, which can spur a moderate revival of sales and business opportunities for investees in these countries. Investees relying on foreign markets where cases are rising will still be hit if they cannot find suitable alternatives for their import and export goods in the region.

Investees' current cash reserves of 3 months in the agribusiness sector and 3 to 6 months in the renewable energy sector puts them in a vulnerable position if the COVID-19 pandemic persists. In the next 3-6 months, businesses' ability to capitalize on emerging market opportunities, coupled with a rapid mobilization of relief measures will be crucial for AECF investees to survive. Investees with limited cash resources in countries with rising COVID-19 cases and a continuation of movement restrictions are particularly vulnerable and need to be closely monitored during the next 3-6 months.

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