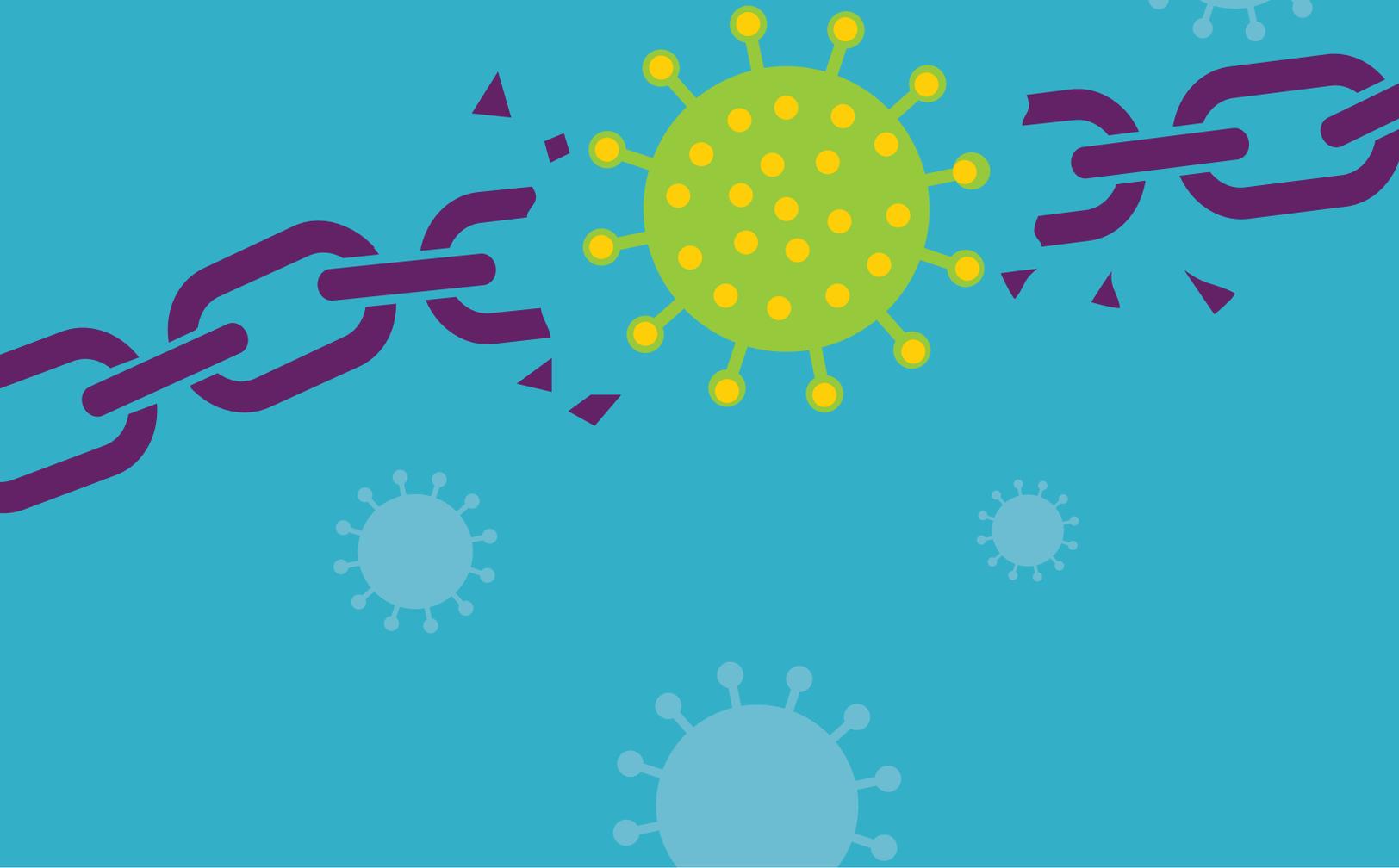


MAY 2021

# POVERTY AND PROCUREMENT THROUGH A PANDEMIC

A case for new business practices that build supply  
chain resilience and improve farmer incomes



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The Farmer Income Lab is a collaborative ‘think-do tank’ to improve farmer incomes and build resilient supply chains that work for farmers and business. As an industry-led collective, the Lab harnesses the expertise of academic, public, private and civil society partners to generate insights and connect solutions in order to influence industry action. By understanding what works and what doesn’t, and why, we can create solutions that can be activated, replicated and scaled. In order to build fit-for-purpose supply chains, where smallholder farming enterprises and companies both thrive, we cannot be satisfied with incremental improvements. Through individual and collective action, we must push boundaries and extend our ambitions—because poverty won’t be solved with the same approaches that perpetuate it.

Mars, on behalf of the Farmer Income Lab, has led this work on COVID-19.

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## ABSTRACT

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The COVID-19 pandemic offers procurement practitioners an opportunity to understand how the food and beverage industry's current procurement model creates risks to business and farmers alike. Even prior to the pandemic, the global food system was under significant socioeconomic, environmental, and governance risks. The pandemic is accelerating these risks and placing farmers' already low incomes in jeopardy. This paper aims to identify how farmer enterprises and farming family incomes were disrupted during COVID-19, how procurement functions have mitigated these impacts, and how businesses can improve supply chain resilience to prepare for future challenges to agriculture supply chains.

## APPROACH

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Insights for this report were derived from a set of stakeholder interviews and a review of existing research and case studies. Leveraging its convening power, The Farmer Income Lab researchers interviewed 35+ leaders across agri-businesses (representing roughly USD220 billion in total revenues) and their NGO partners. The analysis encompassed a wide variety of commercial supply chains, both domestic and global for raw materials sourced by multinational food and beverage companies and with a strong presence of smallholder farmers ranging from cocoa and coffee to barley, dairy, and mint.

The sourcing regions included in this analysis range from East to West Africa and Latin America to Southeast Asia. Because The Farmer Income Lab advances pre-competitive solutions to making meaningful improvements to farmer incomes, we will not share the names of the organizations involved in this paper or make findings attributable to individual participants.

We acknowledge the data limitations of this report. First, the impacts of COVID-19 on farmer incomes and food supply chains are incredibly diverse. Generalizations are thus difficult to make through research that focuses on a small number of commodities and geographic contexts. Second, while we have triangulated interview findings through supplemental data sources, there are limitations to the degree of data reliability. Most importantly, due to continuing health concerns and the short timeline of this project, the ability to obtain primary farm-level data was limited. Instead, we compiled and analyzed existing farm-level surveys and selected interviews with key informants with first-hand insights into farm-level impacts of COVID-19.

# INTRODUCTION

## COVID-19: A Crisis and an Opportunity for Procurement and Farmers

**COVID-19 has presented challenges along many of the world's agri-food supply chains.** Buyers have had to overcome unparalleled barriers to securing supply, adjusting to new restrictions on trade, quality concerns, and availability of essential raw materials. Suppliers have had to reconcile unpredictable demand with unpredictable supply. And farmers have dealt with limited access to markets, disrupted input supply chains that provide fertilizers, pesticides and seeds, reduced off-farm and household income and uncertainty that their product would be purchased among other challenges. The COVID-19 pandemic created immediate risks to farmers — participants in our research identified links to short-term impacts including supply risk, yields, and quality, as well as long-term implications on supply and reputation.

**Prior to the pandemic, agri-food supply chains that begin with smallholder farmers were already volatile and rife with challenges.** Causes of these supply chain challenges are rooted in lack of good governance, poor access to markets, finance and inputs, lack of transparency, environmental degradation, inequitable distribution of power and risk between supply chain actors, and gendered social norms, among many others. These causes often result in low yields and low incomes for farmers and significant risks for supply chain participants.

**Risks to supply chain actors are not shared equally, nor is the ability to absorb and adapt to shocks.** While buyers, often multinational companies, have avenues through which they can manage and redistribute risks, many farmers do not have the same arsenal of buffers to absorb shocks, compounding the risks facing the 122 million people living in smallholder farming households on less than \$3.10 per day.<sup>1</sup> COVID-19 has augmented both long- and short-term risks for many smallholder farmers.

**COVID-19 has shown the current efficiency-dominated procurement model is not resilient.**<sup>2</sup> While supply chain efficiency mechanisms such as price transparency, vertical integration, and digital payment can improve conditions for smallholder farmers, many supply chain efficiency gains are not equitably redistributed from end-users back up to farmers. The pandemic is challenging companies' more common transactional practices, which too often deliver value for global business at the expense of farming enterprises. Procurement teams have historically been rewarded on cost savings and ensuring supply chain efficiency, often forgoing longer-term strategies that create sustainable, profitable, and thriving business conditions for both buyers and supplying farmers.<sup>3</sup>

**This paper draws on the experience of farmers and multinational enterprises through the pandemic to identify how business can develop more resilient supply chains through an axis of action to improve farmer incomes.** As the pandemic evolved from a health to a humanitarian crisis, COVID-19 has sparked massive disruptions to already precarious farmer livelihoods. From labor shortages and loss of diversified incomes to price fluctuations, farmers have been subjected to unpredictable market conditions and business has an important role and responsibility in mitigating relevant risks.

**As companies around the world commit to “build back better” they should aim to pioneer more rigorous approaches to resilience that start and end with a more equitable distribution of income and wealth across agriculture supply chains.** Procurement officers have the opportunity to deploy procurement practices that enable farming enterprises to become resilient, profitable, and ultimately for farm incomes to increase. Enabling smallholder farmers to be profitable, to increase assets, to reduce liabilities and have stable cash flow will reduce food system vulnerabilities and provide value to business by:

- Reducing supply risk of essential raw materials as farmers may seek more profitable opportunities outside of agriculture or are unable to meet quality standards when they cannot adequately invest in productive and cost-optimized farming systems.
- Managing increased reputational risks as upstream vulnerabilities to people become increasingly scrutinized by media, civil society organizations, consumers, and government agencies, and as expectations rise that businesses, and in particular CEOs, approach societal challenges like inequality with the same rigor, thoughtfulness and energy used to deliver profit.
- Meeting business responsibility and reporting requirements under internationally recognized frameworks such as the United Nations Guiding Principles on Human Rights.

**COVID-19 is a shot across the bow—a signal that shocks to an efficiency-oriented food system can have detrimental and prolonged effects across value chains for farmers and companies.** For some farmers, the impacts of the pandemic are still unfolding, and last year’s impacts won’t be fully felt until this year’s harvest. We are facing an era of increased risk—from climate change and aggravated drought to locusts, social inequality, political crises, economic recession, and potential inflation. **In a time of uncertainty one truth seems self-evident—COVID-19 is not the last disruption procurement practitioners and farmers will face. The current challenges that COVID-19 has exacerbated for farmers do not stand alone as a moment in time—instead, they make this the time for a movement so that business and farmers can thrive through the future.**

Midway through 2021, the unequal access to vaccines, medication, and lifesaving oxygen is having disproportionate negative impacts across the Global South. As countries grapple with second and third waves of ever-more contagious and deadly strains of COVID-19, there is increased risk that we will see disruptions in supply chains and farmer incomes that were experienced throughout 2020. In this report, Procurement through a Pandemic, we discuss 7 key steps business can and must take to build resilience into global supply chains – realizing that the cost of inaction compounds over time.

# PART 1

## A Shock to the System

COVID-19 created significant unexpected stress and disruption to the global food and agriculture system. The pandemic—like other crises—has been characterized by high levels of uncertainty, marked not only by the primary public health crisis, but also government efforts to stop the spread of the virus through restrictions on movement of people and goods and closures of retail businesses.

**The impacts of the pandemic and its policy responses have been significant. COVID-19 has already undone decades of progress on world hunger, poverty, education, and gender equality:**

- The World Bank estimates that as many as 150 million people could be pushed into extreme poverty in 2021, the characteristics of which are deprivation of basic needs such as food, water, shelter, healthcare, and education.<sup>4</sup>
- The World Food Program estimates that 270 million people could face acute food insecurity.<sup>5</sup> Oxfam estimates 12,000 people could die daily from hunger linked to COVID-19.<sup>6</sup>
- UN Women reports of a shadow pandemic—drastic increases in physical or sexual violence by an intimate partner. Some countries are already reporting a 30% increase in reported cases.<sup>7</sup>
- And World Vision reports that 8 million children have already been pushed into child labor and begging due to COVID-19.<sup>8</sup>

**When COVID-19 first started to spread across the globe, many food companies went into crisis response mode.** Fears of a collapse of supply chains were widespread among procurement teams of global agri-food buyers. Companies responded by intensifying the engagement with their suppliers, diversifying their supply base, stockpiling supply of critical

raw materials, collecting information from partners on the situation at the farm level, and, in some cases, re-working contracts enabling a diversified supply base to meet supply chain targets.

**The COVID-19 context recalibrated cost-benefit formulations for food companies.** Leading up to the pandemic, there had been decades of increased investment in the social and environmental sustainability of agri-food supply chains. Investors and businesses increasingly saw the value of investing in sustainability, realizing that supply chain investments can yield returns through supply stability, stronger appeals to consumer preference, and a focus on innovation to stay a step ahead of punitive regulatory intervention. To date across multinationals, supply chain investments have balanced short-term value creation and growth targets with less emphasis on longer-term social, environmental, and financial benefits. As the pandemic spread, business leaders found themselves in a paradox of greater need for supply chain investment to safeguard supply but more uncertainty regarding the availability of financial resources due to volatile market conditions.

**These tradeoffs were also felt by farmers navigating their way through the pandemic as their vulnerability to the disruption brought by COVID-19 became clear.** Faced with health risks, movement restrictions, and declining income prospects, many faced their own set of difficult cost-benefit calculations. For some, these day-to-day tradeoffs include: *Should I buy fertilizers, or should I buy food? Should I sell to a global buyer or a local intermediary? Should I continue to grow cocoa when oil palm seems more stable? Should I send my child to school, or should I have him work to help feed our family?* This very different set of decisions highlights the differing capacity business and farmers have to absorb shocks.

**COVID-19 thus became a stress test for the resilience of many agri-food supply chains**—a 'stress test' for the emerging era of climate shocks and a stress test for agri-business resilience strategies. Resilience has taken a back seat in the procurement considerations of many food companies as cost savings and flexibility have been the guiding principles. Recognizing the implications of COVID-19, companies now face the critical task of identifying effective and targeted strategies to improve supply chain resilience against future shocks.

**Until farmers can thrive, supply chains are inherently fragile.** Where farmers' incomes are insufficient and precarious, they are not able to invest in farms, productive assets, and safeguards that benefit their farming enterprises and their families. And while these limitations are a call to action in themselves, their impacts on business amplify the need for action from agri-businesses that depend upon smallholder farmers for essential raw materials.

## DEFINING RESILIENCE

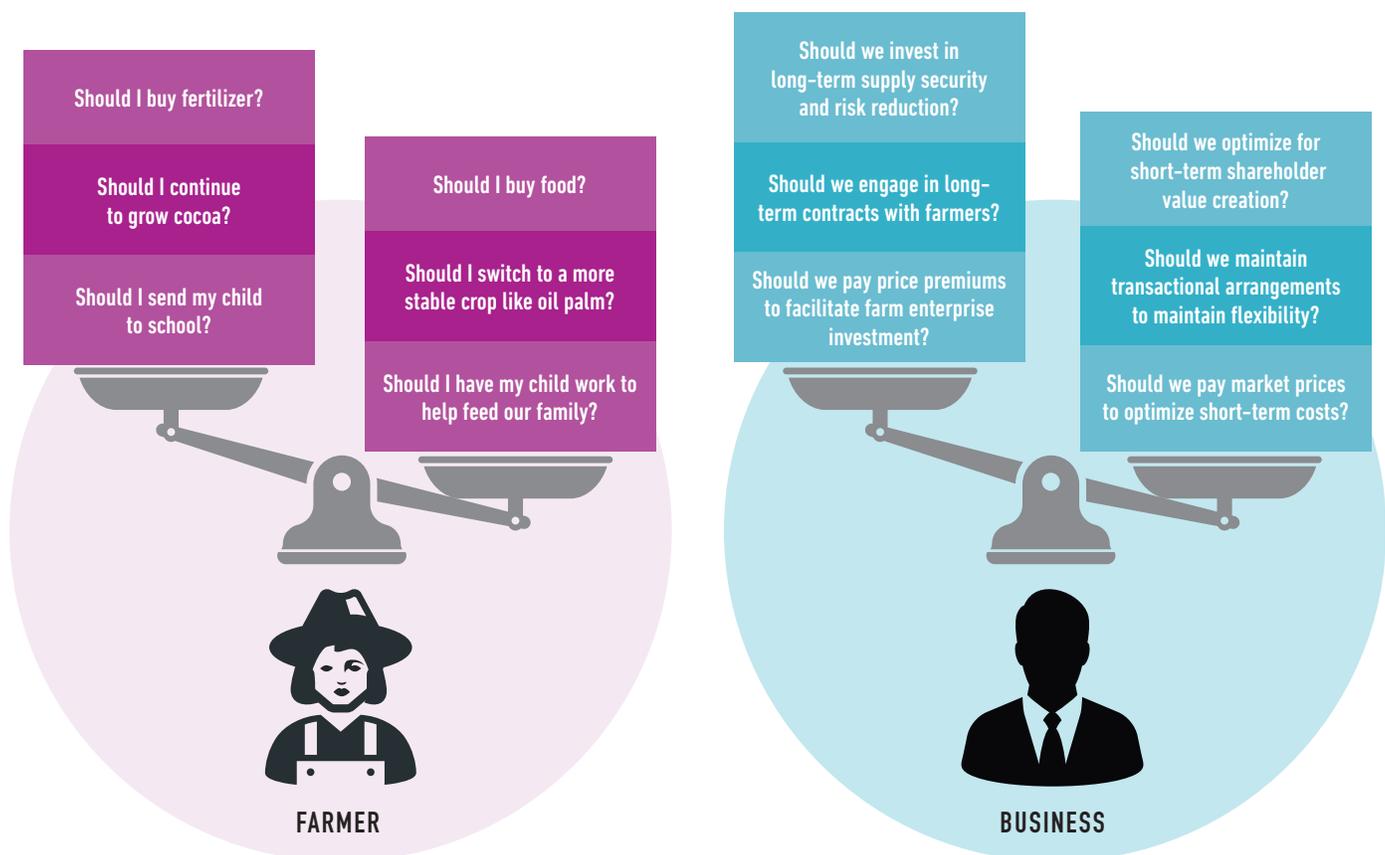
Resilience or resiliency has become a much-used term to describe people or systems' ability to withstand or recover from shocks, risks and uncertainty. Given its various uses and applications, the term resilience does not always convey in a uniform way.

For commercial supply chains, resilience can be defined as "...their ability to be prepared for unexpected risk events, responding and recovering quickly to potential disruptions to return to its original situation or grow by moving to a new, more desirable state in order to increase customer service, market share and financial performance."<sup>9</sup>

Oxfam defines resilience as "the ability of women and men to realize their rights and improve their wellbeing despite shocks, stresses and uncertainty... [it] affirms people's right to determine their own futures by enhancing the capacities of people and institutions to address the causes of risk, fragility, vulnerability and inequality."<sup>10</sup>

These two definitions are not identical, but should be complementary and inter-dependent. Resilience in the context of this paper requires that both definitions hold.

## TYRANNY OF TRADEOFFS



## PART 2

### How Buyers Weathered the Pandemic

**During COVID-19, responsive companies tended to focus on three priorities:** Protecting the health and wellbeing of their employees, participating in the global efforts to protect lives and livelihoods through the distribution of food, direct cash transfers and PPE, and delivering the goods and services that customers and consumers demand.

**To meet consumers' demand, successful procurement through an ever-changing landscape of challenges was key.** Despite numerous impediments, COVID-19 has highlighted the many strategies businesses can deploy to manage supply risks during episodes of disruption and uncertainty.

**The standard procurement approach emphasizes cost-savings and supply risk minimization, although the methods employed to secure supply vary by supply chain.** Corporate procurement executives in agricultural supply chains report their priority key performance indicators as: ensuring food safety, reliability, and quality of supply, optimizing costs, managing reputation, and promoting product differentiation. With these priorities, the well-being of farmers can often fall out of sight for procurement teams.<sup>11</sup>

**Companies employ a range of commercial strategies to ensure the delivery of raw materials that meet price, quality, and quantity specifications.** Buyers often diversify risk across a portfolio of procurement pathways which allowed them to facilitate business continuity during peak supply chain disruption. Practices like spot market purchasing and futures contracting allowed companies to balance cost and quality concerns and protect themselves against price, demand, and supply fluctuations throughout COVID-19. Their vast sourcing networks allowed companies to find alternative sources, sometimes creating new transactional relationships. In some cases, companies identified substitutes for

raw materials, including synthetic sources. While regulations around substitutes and food labeling requirements were temporarily eased by the FDA in the United States, for example, temporary raw material substitutions and reformulations in the long run are not a sustainable approach to product delivery. And their bargaining power vis-à-vis suppliers and farmers allows buyers to renegotiate the terms of their supply contracts in times of fluctuating market conditions.

#### 1. FARMERS ARE HIT HARD BY NON-PROCUREMENT



COVID-19 highlighted how easily supply chain disruptions caused by declines in demand and restrictions on the movement of goods and people can impact farmers and their incomes.

In India, protests erupted in June 2020 as sugarcane farmers faced widespread non-procurement of their crop. Sugarcane mills in the region had been shut due to the compounding effects of health concerns and dwindling demand, which had resulted in sugarcane rotting in their fields.

In Uganda, social distancing requirements limited the number of workers able to load barley into trucks. The delays left the crops vulnerable to the longer than usual rainy season which deteriorated the quality of the grains such that buyers were no longer able to procure the crops.

These examples of non-procurement highlight how few safety nets farmers have at their disposal. Companies doing business in these supply chains can reduce risks for farmers by creating more localized points of sale with infrastructure that supports farmers' quality and safety standards.

**These procurement strategies can come at the expense of guaranteeing stable and sufficient incomes for smallholder farmers.**<sup>12</sup> Even before the pandemic, commodity procurement practices sheltered business from fluctuations in supply, demand, and subsequently pricing, but often left small farmers exposed to risk. Futures contracting, for example, allows businesses to control for demand fluctuations by stabilizing anticipated pricing. During times of surging demand, these hedged bets produce cost savings for end-users. On the flip side, when demand plummets, contracted volumes might be procured for a raw material for which there might not be a strong market.

**Overall, COVID-19 pushed buyers into more transactional procurement pathways with farmers.** Farmers across supply chains reported experiencing fewer orders, slower response times, and worse trading terms compared to previous seasons. As buyers were trying to manage the volatility and market risks caused by the pandemic, several decided to shift these risks and damages down their supply chains. While this mitigated buyers' short-term supply risks, it intensified farmers' income volatility.

**Some agri-food buyers relied on suppliers to manage their supply risks caused by COVID-19.** The reliance on suppliers was particularly stark for buyers of standardized commodities including grains, oils, and nuts that are less quality-sensitive and less visible to consumers and thus require less direct buyer involvement.

**While agile procurement practices prevailed during the height of the pandemic, global business agility is not supply chain resilience until farmers' businesses at origin are equally able to mitigate risks and absorb shocks.** Spot market premiums, unpredictable quality, and reputational risks all accompany behaviors that procurement relied on during this disruption. If weaknesses in the supply chain go unaddressed, future disruptions will again be detrimental to procurement officers' capacity to deliver against business performance metrics. Strength and agility for farmers will derive from greater intentionality around improved farmer incomes, market conditions, regulation, incentives and enabling environments in regions of origin.

## 2. MANY FARMERS ALREADY LIVE IN POVERTY; COVID-19 EXACERBATED IT

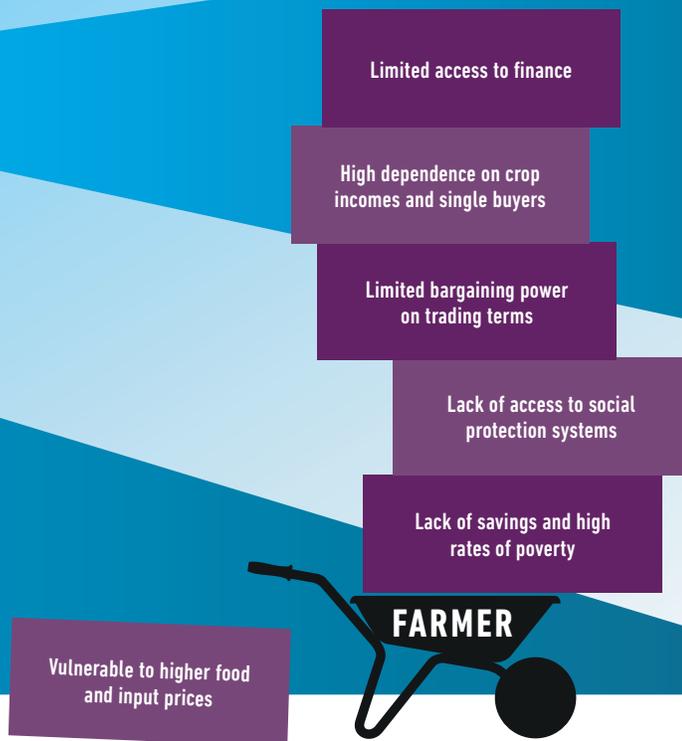


Farmer incomes have been affected by COVID-19 across countries and commodities. One of the most comprehensive farm-level surveys reviewed for this paper, covering multiple crops (fruits, vegetables, cashews, poultry, grain, coffee and spices) across three continents indicated that, in August 2020, 40% of smallholder farmers reported reduced incomes as a result of COVID-19 (an improvement over the 54% reporting reduced incomes the previous month).

Similarly, a ten-country survey conducted in July including smallholder farmers growing coffee, barley and cashews, among other crops, found that 54% of them reported a decline in income due to COVID-19 related disruptions.

Causes for income declines were diverse and included loss of income from the sale of cash or food crops, increased cost of inputs and loss of off-farm income.

# BUSINESS AND FARMERS ARE UNEQUALLY EQUIPPED TO NAVIGATE SHOCKS



## PART 3

### How COVID-19 Deepened Farmer Poverty

**COVID-19 amplified pre-existing risks to already low farmer incomes, creating a new and exacerbated set of challenges in smallholder communities.** Farmers often have to manage their businesses where the market context is most fragile, the enabling environment is not in place, and volatility is high. In many regions of origin, health infrastructure is lacking, access to markets is precarious, and incomes are low and sensitive to market fluctuations. Too often, farmers are price takers. COVID-19 impacts on farmer lives and livelihoods varied in different supply chains and regions of origins, due to nuances in geography, type of crop, the nature of trading relationships, and harvest timing, among other factors.

**Before the pandemic, smallholder farmers around the world already faced poverty from cash crop incomes that were insufficient to support smallholder farming households.** The Farmer Income Lab *Poverty Hotspot* report estimates suggest 122 million people in smallholder households could be living in poverty using a poverty line of \$3.10. Of that, nine million smallholder farming households, roughly 47 million people, fall under the \$1.90 poverty threshold.<sup>13</sup>

**Measures aimed at protecting global health limited access to labor, inputs, markets, and financing, resulting in income loss for farmers.** As governments enacted restrictions on movement to slow the spread of COVID-19, farmers dealt with the impacts of those restrictions. In some cases, both domestic and foreign migrant labor were unable to reach on-farm employment. This inability to reach farms not only resulted in the loss of income for farm workers but forced farmers to carry out additional on-farm labor or pay premiums for scarce local labor. Simultaneously, input

markets including fertilizers, seeds, and pesticides were heavily disrupted in some regions. The resulting outcomes include short-term yield decreases, but also potential future yield implications as pests and disease in some cases may mature during upcoming cropping seasons.

**Variable demand benefited some farmers, and severely harmed others.** For crops like rice where there were marked spikes in demand, COVID-19 has represented a potential windfall, but this did not always reach the farmers. Where these farmers were able to consistently get their crops to market, their incomes were secure throughout the crisis, in some cases defaulting on contracts in pursuit of higher spot market prices. Many farmers, however, experienced a downward trending demand context in which their produce was heavily discounted. Given that most smallholder farmers depend on a primary crop's income to finance inputs for upcoming crop cycles, these losses in cash crop income represent long-term risks. As farmers exhaust the few financial safety nets they have, they are at greater risk of entering cycles of debt, often securing loans at predatory rates given their inability to provide down payments or offer substantial collateral.

**Reduced off-farm incomes and increased cost of goods have placed strain on farmer households.** The contributions of off-farm income streams are an increasingly important source of cash for many rural households, accounting for 35–50% of rural household income across low and middle income countries, including remittances.<sup>14</sup> Off-farm incomes have been hit the hardest by COVID-19. Restrictions on movement resulting from government mandated lockdowns had

significant impacts on people working in the service sector, including members of farming households in peri-urban or commercial rural areas. Meanwhile, cost of farm and household goods increased worldwide during the pandemic. Some farming communities experienced a doubling of food costs, including staple foods like rice, increasing food insecurity. To compound these challenges, regional recessions and currency devaluations have increased the relative cost of goods, premiums aside.

**Input prices also rose for many farmers as the availability to inputs was hampered by movement restrictions.** The resulting price inflation was compounded by closures of local markets, which had material implications on households' ability to carry out diversified income generating opportunities – jobs that were disproportionately lost by women.

**Through COVID-19 women in smallholder farming communities experienced a unique set of exacerbated vulnerabilities.** In farming communities where women are primarily responsible for off-farm income generating activities, market closures and restrictions on movement have resulted in significant loss of household income and financial independence. Where women continued on-farm work, school closures resulted in increased unpaid childcare which increased the net workload of women disproportionately. And in some farming communities, there have been increased reports of gender-based violence through the pandemic. These effects are compounded by pre-existing vulnerabilities where women already contend with less access to needed inputs, markets for sale of raw materials, and access to finance.

**Some farmers were supported by government and/or benefited from timing of harvest.** For certain cash crops, government intervention allowed for the continued and relatively uninterrupted flow of crop commodities that are strategic national economic priorities. Timing for some commodities meant that harvest and payment occurred before significant lockdowns and volatility, securing income through the first portion of COVID-19 lockdowns. Despite these support systems, the poorest farmers and farming communities often had to rely on humanitarian aid rather than business partners, which is not a sustainable solution to farming community vulnerabilities.

**Farmers with strong connections to buyers were better able to weather disruption.** For instance, in the dairy sector some buyers ensured that milk collection from their established farmer networks could still happen despite movement restrictions. Other dairy farmers who relied on more transactional arrangements with buyers were quick to lose their market access as these supply chains broke down more easily.

**Vulnerable smallholder farmers will continue to struggle with long-term impacts of COVID-19.** For farmers that were unable to invest in inputs like pesticides and fertilizers, upcoming yields and quality could be jeopardized, impacting the quantity and price of their goods well into the future. For others that were unable to sell their crops altogether, increased loan burdens could place them at risk of cycles of debt. And for still others, transitions to new crops may not prove profitable in the first few years as they begin exploring alternate crop incomes.

### 3. DIVERSIFIED CROP INCOMES PROVED BENEFICIAL TO FARMERS



COVID-19 highlighted the importance of looking beyond cash crop income when considering farm profitability and income volatility.

Diversified crop incomes proved beneficial to farmers through market volatility. Importantly, cash and export crops were not always the most impacted sources of income. Staple crops also proved to be volatile income sources as lockdowns significantly limited local transportation and farmers' access to local markets.

Take coffee farmers in Uganda, many of whom inter-crop coffee with bananas, which are sold locally. However, due to the restrictions in transport and the lack of disposable incomes, prices for bananas dropped by almost half according to local observers while coffee sales remained relatively stable.

In other instances, higher incomes from food crops compensated for a decline in export sales. Mint farmers in India, for instance, benefited from a bumper potato crop, which helped reduce the pressure from a decline in mint income due to lower market demand.

# IMPACTS OF COVID-19 ON FARMER INCOMES



## PART 4

### Procurement Practices that Reduce Farmer Poverty Deliver Value to Farmers and Business

**Increased farmer poverty creates serious risks to agri-businesses.** If not today, then tomorrow.

The way agri-businesses procure their raw materials must change if we want to build more resilient supply chains. Leveraging the scale and influence of procurement functions to improve farmer incomes is smart business and a business responsibility. Doing so is a long-term cost-saving strategy that directly returns value to business.<sup>15</sup>

**When efficiency-oriented practices make farming enterprises unprofitable, farmers are pushed out.**

Every farmer has a transition threshold—a price or risk level at which he or she will abandon one cash crop in favor of another where there seems to be greater income potential and stability. For crops where demand or trade conditions during COVID-19 resulted in reduction or loss of income, farmers are being pushed closer to that threshold. Without correction, some businesses will begin to see a loss in productive capacity. At the same time, parents who have lived through cycles of debt and trans-generational poverty are more likely to push their children to seek off-farm or urban employment, jeopardizing an entire generation of potential farmers.

**Farmer poverty also exacerbates risks to quality and food safety.**

Without profitable farming enterprises, farmers of highly perishable crops will not be able to invest in storage capacity that shelters crops during procurement delays. Extreme and pervasive poverty in farming communities might lead to increases in food fraud and substitutions, placing at risk the procurement of high-quality raw materials. Quality and food safety issues can have substantial financial implications, either prior to

manufacturing when additional raw materials need to be bought, or after sale which can lead to costly recall efforts.

**And last, there are increased reputational risks as governments, civil society organizations, and consumers look to corporations to build back better.**

Businesses now have the opportunity to accelerate transformative procurement practices and improved partnerships that address pervasive farmer poverty in extended supply chains and protect license to operate. In extreme cases, where poverty leads to human rights risks, government agencies may seize raw materials at port or impose extra duties. Consumers, meanwhile, are becoming increasingly aware of supply chain realities, especially as civil society and news agencies continue to report on farmer poverty in agriculture supply chains.

**And expectations are rising.** The 2021 Edelman Trust Barometer revealed a heightened expectation of business to solve challenges such as the pandemic and rising inequality, and to approach such societal challenges with the same rigor, thoughtfulness, and energy used to deliver on profits.<sup>16</sup>

Farmer poverty challenges their ability to perform against existing procurement priorities of high quality and low costs. We know COVID-19 has made farmer incomes more volatile, and future disruptions will continue to challenge these priorities.

As the Farmer Income Lab's previous *What Works* research found, procurement practices are a key determinant of farmers' resilience. Connecting farmers into long-term and 'tight' relationships is a critical success factor for resilient supply chains and higher farmer incomes.<sup>17</sup> COVID-19 confirmed this hypothesis. Across commodities, the observation was shared that farmers with close-knit and direct relationships with buyers were less affected by COVID-19 impacts than farmers participating in a less direct and formalized way. This was especially true if a buyer upheld its offtake commitments despite market demands, helping to overcome logistical barriers like transportation and access to inputs, and provides support such as information and PPE. For instance, dairy buyers in West Africa with direct sourcing relationships to farmers were able to continue their milk collection while more disintegrated supply chains collapsed as intermediaries did not have the same level of commitment to maintaining trading relationships.

## WITHOUT PROFITABLE FARMING ENTERPRISES, FARMERS OF HIGHLY PERISHABLE CROPS WILL NOT BE ABLE TO INVEST IN STORAGE CAPACITY THAT SHELTERS CROPS DURING PROCUREMENT DELAYS

### LINK BETWEEN RISK TO PEOPLE AND RISK TO PROCUREMENT



## FARMERS WITH CLOSE-KNIT AND DIRECT RELATIONSHIPS WITH BUYERS WERE LESS AFFECTED BY COVID-19 IMPACTS THAN FARMERS PARTICIPATING IN A LESS DIRECT AND FORMALIZED WAY

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**Farmers with limited access to buyers faced greater challenges to maintain their market access in the early phase of the pandemic.** They had to rely on intermediaries for continued market access during COVID-19. These intermediaries gained significant bargaining power during COVID-19. As farmers depended on them for market access, intermediaries were able to push down farm gate prices and increased transport costs for farmers.

**For food companies, close relationships with farmers also provided benefits** as it allowed them to access information about the situation at the farm level more quickly and respond to challenges farmers faced. Where information and communication flowed more readily, companies were better able to support in crop production and sale, including through the distribution of essential inputs and ensuring transportation to points of sale. It also enabled companies to roll out a quick health response, which many of them prioritized early on in the pandemic including the delivery of PPE, health guidelines, and hygiene kits.

**The evidence is clear—procurement practitioners must begin to recognize farmer poverty reduction as a key lever to deliver against their KPIs.** Through future fit practices that improve farm enterprise profitability, businesses can realize cost savings, secure quality and food safety, improve supply security and reliability, accelerate product innovation, and advance corporate reputation.

### 4. GLOBAL AND DOMESTIC SUPPLY CHAINS EXHIBIT DISTINCT VULNERABILITIES



Neither global nor domestic supply chains proved more resilient than the other during COVID-19. Instead, domestic and global supply chains faced a distinct set of challenges for business and for farming families. These distinctions are important to consider as they call for differentiating procurement and sustainability strategies to correct them.

Supply chains supplying domestic consumer markets had the advantage of potentially offering quicker and more effective ways to support farmers with information, equipment and logistical support. However, buyers and farmers in domestic supply chains, such as grains, dairy, or fresh fruits and vegetables, are vulnerable to disruption due to their lack of alternative trading partners. Commercial buyers often rely on a small group of farmers to fulfill their specifications as sources for raw materials while farmers often rely on a single buyer and have few alternatives for market access.

Global supply chains, in contrast, often draw a more diversified supply base and produce for several consumer markets and thus were not as vulnerable to lockdowns in individual countries. Some global supply chains, such as cocoa or coffee, also were exempted from movement restrictions. However, they were faced with a different set of vulnerabilities, particularly related to quality, logistics and the length and timing of supply chains.

## PART 5

### COVID-19 Will Continue to Impact Agri-Food Supply Chains

**While the immediate health impacts of COVID-19 might appear to recede, the long-term structural and economic shifts from the crisis look dire for some smallholder farming communities.** COVID-19 has exposed, and has the potential to further amplify, existing sustainability challenges that will continue to manifest over time. Companies will see increased tension between short-term business needs, and longer-term investments needed to secure strong, stable, and sustainable supply chains. Strategies that deliver social and environmental impacts at the same time, such as regenerative agriculture, and procurement terms favorable to farmers incorporating sustainable practices can improve resilience.

**Beyond its immediate impacts, for farmers, risks arising from COVID-19 will unfold over years to come.** One of the most profound impacts of the pandemic is the fear of continuing economic downturn. Last year, at the height of the pandemic, experts expected a deep global economic recession and the decline in world trade (13-32%) in 2020 and beyond. The January 2021 report from the IMF on World Economic Outlook indicates a forecast of 5.5% increase in 2021 and an October 2020 re-forecast by the WTO showed a 7.2% increase in the volume of world merchandise trade for 2021. While this forecast is more promising, it still leaves world trade well below its pre-pandemic trend.

#### 5. FARMERS LACK BARGAINING POWER WHEN DEMAND RISES: THE CASE OF RICE



During COVID-19, prices for staple foods like rice soared worldwide in some regions by as much as 30%. More than any group, exporters were in a position to gain from these fluctuations. In countries like India, for example, buyers honored pre-determined minimum floor prices, procuring a farmer's entire crop.

With limited bargaining power, however, farmers were unable to leverage global spikes in demand to secure higher prices and lift their incomes. Importing companies and countries, meanwhile, paid premiums for imported rice. Food insecurity resulting from rising rice prices and trade barriers are expected to increase risk of hunger for 17 million poor rice-dependent consumers.

**It is likely that COVID-19 will drive up inequality in nearly every country on earth, simultaneously.**<sup>18</sup>

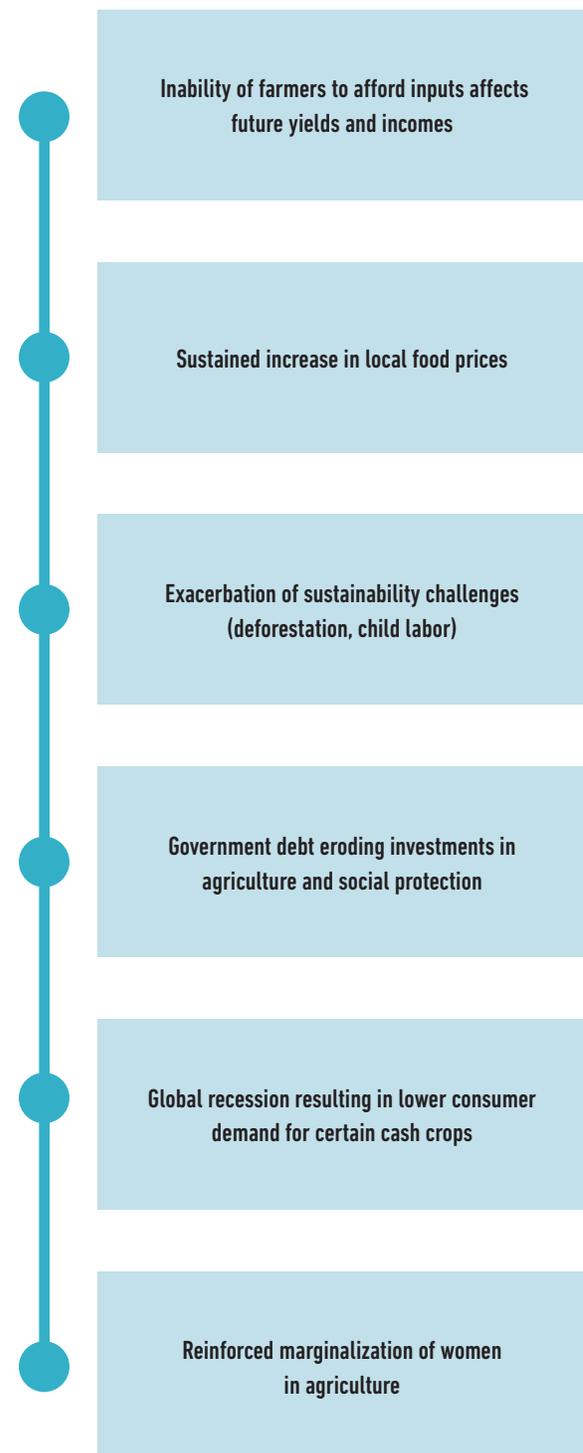
Staggering government debt and reduced tax revenues could limit social safety nets and investments in agriculture. Labor markets will be restructured due to COVID-19. Poverty gains will be rolled back and hunger will become an even more prevalent problem than in recent years. Progress in women's economic empowerment in agriculture will be stalled due to the gendered impact of COVID-19.

**These risks linked to COVID-19 will be compounded further by forthcoming disruptions.** When the spotlight on COVID-19 dims, climate change and its associated challenges will quickly take center stage. As the realities of a climate change become increasingly evident and extreme, risks of drought, political instability, mass human migration, and economic depressions are already coming to fruition. The very same risks that farmers have faced during this pandemic will become increasingly persistent and pronounced in the coming years, creating substantial risks to agri-food businesses as well.

**The economic impacts on food supply chains will be felt for a long time on both the demand and supply side.** Demand dynamics for agricultural commodities are likely to continue to vary widely, with demand increasing for some (e.g., rice) and retracting for others (e.g., cocoa).<sup>19</sup> Significant, long-term declines in per-capita incomes<sup>20</sup> are likely to impact global consumer demand. For farmers already living in poverty, COVID-19's long tail will continue to challenge sustainable and sufficient incomes for many of them, even if consumer demand for their crops rises (see right).

**Farmer poverty is already reaching new heights as a result of COVID-19.** Estimates show that the number of people living on less than \$5.50 a day could have increased by between more than 200 million<sup>21</sup> to half a billion<sup>22</sup> in 2020. Many of these are in agriculture.<sup>23</sup> The World Bank's reforecast of those pushed into extreme poverty by COVID-19 increased to between 119 and 124 million.<sup>24</sup> Food insecurity will also remain a major challenge. The FAO estimates that the pandemic will add millions to the population affected by hunger and undernourishment (83-132 million).<sup>25</sup>

## THE LONG TAIL OF COVID IMPACTS



**Gains in combating child labor in agriculture could also be erased by COVID-19.** The closure of schools combined with the lack of availability of hired labor and family's economic pressures has exacerbated the continued prevalence of child labor.<sup>26</sup> Mandatory human rights due diligence for high risk commodities, often those in regions where poverty is pervasive, must be a business and government imperative.

**Long-term progress in women's economic empowerment in agriculture will also be stalled due to the gendered impact of COVID-19.** Market closures and movement restrictions have limited women's and girls' abilities to access agricultural supplies and sell their produce, decreasing their productivity and income.<sup>27</sup> In most farming communities, women are significantly more vulnerable to these restrictions than their male counterparts because they already contend with less access to needed inputs, markets for sale and access to finance and shoulder the burden of increased unpaid care work. And around the world, girls who have left school during closures are less likely to return than their male counterparts.

**Addressing inequality is becoming a business and government imperative.** As in many crises, the poorest were hit disproportionately by COVID-19 and will continue to be. The pandemic exposed the threadbare nature of protective mechanisms to safeguard many farmers participating in commercial supply chains. While rapid risk reduction deployed by many companies can address short-term vulnerabilities, an over-reliance on humanitarian interventions risks leaving farmers as recipients of aid, as opposed to actors whose potential has been unlocked through equitable trading practices where risk and value are shared. COVID-19 has highlighted the importance of strategic public-private partnerships and social safety nets where governments play a critical role in ensuring their people are protected and prospering.

**Solutions to these compounded sustainability challenges will fall in part on commercial teams.** Innovative sourcing strategies will be key to unlock long-term solutions to entrenched and novel upstream challenges. While complex in their nature, below we propose are immediate actions that procurement teams can take to begin mitigating key costs, quality, reputational risks, and human rights impacts that will arise from increased poverty.

**“WE’RE COGNIZANT OF THE FACT THAT THE RESULTS OF THIS PANDEMIC ARE NOT MERELY ACUTE JUST FOR THIS GROWING SEASON. IN SOME INSTANCES THE IMPACTS HAVE BEEN SEVERE ENOUGH THAT FARMERS ARE NOT SURE HOW THEY’LL BE ABLE TO MAKE UP FOR THESE LOSSES”**

Sustainability Manager for a global food company

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## PART 6

### Axis of Action: How Buyers Can Build Back Better

**Above all, COVID-19 reveals the need for global agribusinesses to invest and design resilience into procurement strategies and business processes so that farming communities in regions of origin have the opportunity to thrive. To support thriving rural communities and sustainable, resilient supply chains, smallholder farmers' need the conditions and opportunities to develop profitable farms and stable and improved incomes.**

As buyers take on the task of building back better, the following should be lessons they learn from the COVID-19 crisis.

#### 1 DEEPEN SUPPLY CHAIN RELATIONSHIPS

**We must move beyond purely transactional relationships with suppliers and farmers.** For business and farmers to thrive through the future, long-term and mutually beneficial relationships are critical. These longer-term contracts shelter business from shocks of supply and farmers from shocks to livelihoods. **As future disruptions come to fruition, trust-based and mutual relationships can promote agility in emergency response to supply chain origins and secure essential raw materials for end-users.**

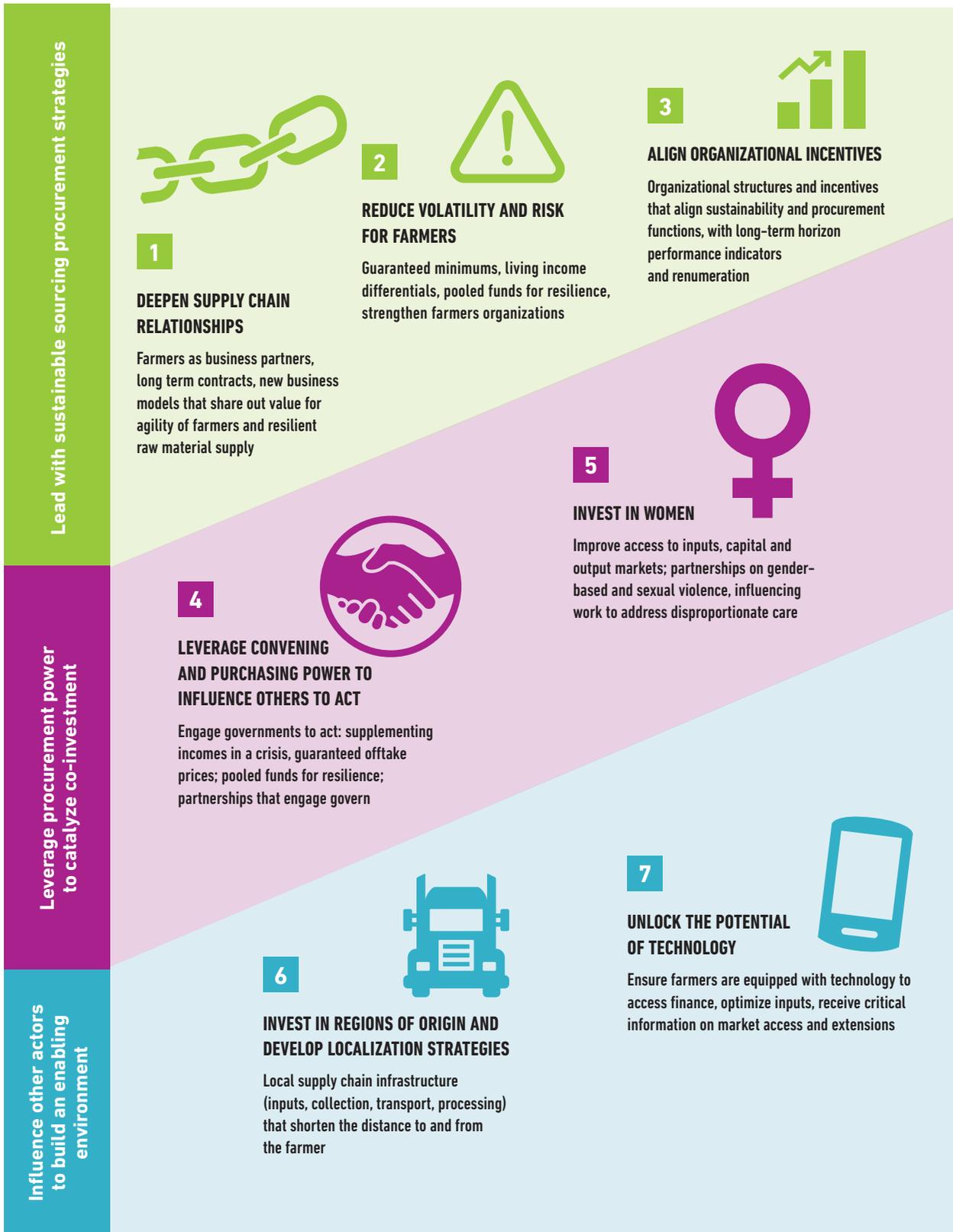
**During COVID-19, strong lines of communication between trading partners became a key variable affecting supply chain continuity in the ambit of uncertainty created by the pandemic.** A lack of transparent and real time feedback mechanisms between all actors in the extended supply chain, specifically for the farmer, reduced trust and increased risk. As the principal intermediary between farmers and agribusinesses, suppliers are key enablers of trust as they manage business stability and humanitarian relief for farmers during times of extreme disruption.

**COVID-19 demonstrated how deeper relationships with suppliers provide a range of benefits.** During the pandemic's supply chain volatility, suppliers had the complex task of managing fluctuating demand with variable supply – trying to meet the often-conflicting needs of upstream and downstream actors. Where companies had pre-existing deep relationships with suppliers, information on how to effectively support farmers was more reliable. Although largely anecdotal, evidence and information around realities on the ground was able to flow more clearly and more quickly where partnerships with buyers were not strictly transactional. In contrast, surface-level supplier engagement yielded little insight for companies, making risk mitigation strategies harder to design and deploy at the urgent pace required during such significant disruption.

#### 2 REDUCE VOLATILITY AND RISK FOR FARMERS

**Price volatility and declines can prove detrimental to farmers who often are 'price takers' and whose incomes can take significant hits as a result.** Even before the pandemic, global commodity prices for many crops were insufficient for many farmers to escape poverty.<sup>28</sup> COVID-19 and the resulting slowdown in many consumer markets further increased the downward pressure on these prices. In the long-run,

# AXIS OF ACTION: HOW BUYERS CAN BUILD BACK BETTER



low commodity prices might prevent farmers from investing in their farms or even cause them to abandon a particular crop all together.

**Transparent price regimes including guaranteed minimum prices served as a key mechanism to lower crop income risks for farmers.** Take cocoa as an example. In the regulated cocoa markets of Cote d'Ivoire and Ghana, farmgate prices are set by the government and buyer volumes are locked in through future contracts. As a result, most cocoa farmers were able to sell cocoa at a stable price. Unregulated cocoa markets, on the other hand, were directly affected by a drop of market price from roughly \$2,900/ton to roughly \$2,200/ton through the first half of 2020.

In commodity sectors with market-based pricing mechanisms lower consumer demand for certain export crops like coffee or mint translated into lower farm gate prices. Although some commodity prices, such as coffee, recovered, price volatility remained a key risk to many farmer incomes.

**COVID-19 exhibited the detrimental impacts of many commodities' pricing regimes.** Comparing the effects of COVID-19 on prices highlights the way risks and rewards are distributed across supply chains. While declines in demand were immediately felt by farmers in the form of lower market prices (e.g. coffee, mint), farmers did not appear to benefit from an increase in demand (e.g. rice) by receiving higher prices.

**Addressing farmers' exposure to price volatility is a key pathway to greater resilience.** Guaranteed minimum prices or innovations such as cost-plus model to pricing, where the costs of production are covered plus a premium,<sup>29</sup> are useful ways of stabilizing farm gate prices. Setting up resilience funds, such as Fairtrade's Producer Resilience Fund, to cover costs or income declines for farmers when a supply chain disruption occurs is another potential intervention companies should seek to support.<sup>30</sup>

**Building resilience into contracting terms with farmers is another key lever procurement teams have at their disposal.** Contracts with fair trading terms including long-term commitments, fair pricing, and fast payments make farmer incomes more resilient while at the same time building loyalty and securing supply.

**Investments in strengthening farmer organizations is another pathway to reducing farmers' risks of participating in commercial supply chain** as they can help increase farmers' bargaining power and provide them with important information and technical support.<sup>31</sup>

### 3 ALIGN ORGANIZATIONAL INCENTIVES

**Companies' executive leadership should be incentivized by linking remuneration to achieving targets to meaningfully improve farmer incomes so they are able to maintain a decent standard of living.** It is at the leadership level where strategic changes to procurement can either be accelerated or stalled. Tying executive compensation to living incomes at origin can help ensure much-needed executive level attention and support to raising the living standards of farmers.

**Until the incentives of procurement teams are aligned with companies' sustainability objectives to support farmers' well-being, implementing a new procurement model will be an uphill battle.** If a company's largest sustainability risks sit in its supply chains, integrating the sustainability and procurement functions in the company's organizational structure can be critical to success. Some companies are already doing this, thereby promoting synergies as sustainability helps procurement teams to achieve their objectives (supply security, quality, price, risk mitigation, etc.).

### 4 LEVERAGE CONVENING AND PURCHASING POWER TO INFLUENCE OTHERS TO ACT

**With their convening power and advocacy ambitions, business must engage governments to act.** COVID-19 provided several examples of the critical role of government responses to protect farmers, from supplementing incomes with cash transfers to guaranteeing offtake prices. The pandemic has also led to renewed calls for stronger social protection for vulnerable populations. Over the last few months, many countries around the world have implemented such programs in response to COVID-19. **Companies should leverage their convening and purchasing power to build partnerships that encourage governments to expand and maintain their commitment to the social protection of vulnerable farming populations.**

Some companies are already considering expanding more localized input distribution or processing facilities. Some are also adapting their sourcing processes in a way that accommodates farmers, such as delivering inputs directly or picking up crops closer to sourcing villages. These localization strategies protect farmers from supply chain disruptions, thereby protecting businesses' first point of trade.

## 5 INVEST IN WOMEN

**Supply chains are more resilient when women can reach their full potential.** COVID-19 has disproportionately had negative effects on women. In agriculture communities around the world, women continue to face structural barriers to equal opportunity including access to education, access to finance, and disproportionate expectations for unpaid childcare. Yet, women remain key unlockers of sustainable development, investing a greater portion of their earnings back into their businesses, families and communities. Above all, it is women's right to participate in economic activity on a level playing field.

**Sustainable sourcing strategies need to account for the unique opportunities that a women's rights lens provides in reducing community vulnerability and improving supply chain resilience.** This means improving women's access to agricultural inputs, capital and output markets.

## 6 INVEST IN REGIONS OF ORIGIN AND DEVELOP LOCALIZATION STRATEGIES

**Strong local supply chain infrastructure enables farmers to manage disruptions and reduces volatility of supply.** COVID-19 showed that geographic distance between trading partners creates risks for buyers and farmers. Where inputs, collection, aggregation, transport, and processing were farther apart, susceptibility to supply chain disruption increased correspondingly. In instances where these extended and fragile supply chains resulted in loss of income for farmers, business has the responsibility to help in the response

**COMPARING THE EFFECTS OF COVID-19 ON PRICES HIGHLIGHTS THE WAY RISKS AND REWARDS ARE DISTRIBUTED ACROSS SUPPLY CHAINS. WHILE DECLINES IN DEMAND WERE IMMEDIATELY FELT BY FARMERS IN THE FORM OF LOWER MARKET PRICES, FARMERS DID NOT APPEAR TO BENEFIT FROM AN INCREASE IN DEMAND BY RECEIVING HIGHER PRICES.**

## 7 UNLOCK THE POTENTIAL OF TECHNOLOGY

**COVID-19 has shown that technological innovation is a key driver of supply chain resilience.** The difficulties of engaging with farmers in-person has led many companies to experiment with remote ways of training and communication. Vulnerabilities to labor supply shortages has renewed debates regarding the potential to mechanize farms. And uncertainties regarding supply risks has augmented calls for better farm-level data.

**Looking ahead, mobile technology will have a central role in building supply chains that can survive the future's challenges.** From providing access to finance, optimizing inputs, disseminating critical information, and deploying extension services, technology has shown incredible potential to improve farmer incomes and deliver value for business. Yet while technology will be the bedrock for future fit supply chains, it is critical that it be equitable accessible to farmers who have historically been left out.

# MOVING FORWARD TOGETHER

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**In aggregate, the implications of COVID-19 on farmer incomes has been devastating—creating vulnerabilities that manifested in a variety of ways.** The business implications of this drastic backslide are a call for action and commercial buyers should be leading in these efforts. The pandemic exposed faults in business as usual, but it also revealed a range of potential pathways to help create more resilient supply chains that deliver for both farmers and companies.

**Through individual and collective action, we must push boundaries and extend our ambitions—because poverty won't be solved with the same approaches that perpetuate it.** That is why The Farmer Income Lab's private sector partners launched a workstream called Disrupting Commodities where we have identified key trends and signals that inform recommendations for future fit procurement strategies. COVID-19 has accelerated these trends, and there is a troubling increase of food insecurity in farming communities which will have a long-lasting ripple effect on global GDP.

**The pandemic has pressure tested 'business as usual' strategies and revealed that business cannot solely focus on efficiency at the expense of empowering the women and men that produce essential raw materials.** COVID-19 allows us to identify promising practice and we must now unlock the power of procurement strategies to build back better in a way that recognizes the business realities of farmers and engages farmers as business partners. Recently we have seen private sector and civil society build coalitions to advocate for improved social safety nets, social protections and provide key recommendations to the government as these influencing actions are key to ensure durability of progress.

**If COVID-19 has taught us anything it is that business as usual is no longer a viable option if companies are going to turn sustainability commitments into corporate action.** The cost of investing in resiliency will be less than the long-term costs of volatile supply chains and will allow farmers and business to profit with purpose. As businesses rally around a campaign to build back better we must think beyond commodities and invest in people — developing inclusive and equitable supply chains so that everyone working in them can earn a decent standard of living.

**COVID-19 ALLOWS US TO IDENTIFY PROMISING PRACTICE AND WE MUST NOW UNLOCK THE POWER OF PROCUREMENT STRATEGIES TO BUILD BACK BETTER IN A WAY THAT RECOGNIZES THE BUSINESS REALITIES OF FARMERS AND ENGAGES FARMERS AS BUSINESS PARTNERS.**

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