What does the past teach us about agribusiness investments?

A retrospective view of 179 Agribusiness Investments made by a Development Bank over a 50 year Period

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Why take a historical view?

- Important to take a longer term view, investments take a time to play out,
- Bring into the public domain a better understanding of risks and returns, across a range of types of investment,
- Larger numbers of investments, more confidence than a few anecdotes,
- Paints a picture of the types of investments being made and how they have performed

But situation is very different now, from 1950-2000

- Prices are higher ≈ greater chances of profitability,
- Policy environment generally more supportive of private investments ,
- Food security issues more to the forefront while input prices higher,

50 year time line, + 179 agribusiness investment made by the Commonwealth Development Corporation (CDC) of which 122 were in Sub Saharan Africa and 57 in East Asia. Analysis was made on the basis of annual project reports, informed opinion from CDC staff & used to generate four categories of success/ failure

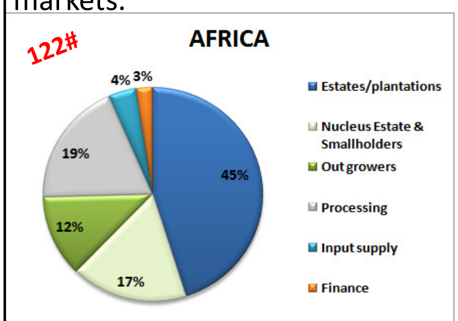
Development Impact

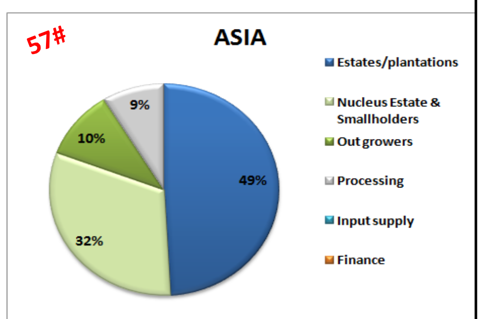
- Fail – no sustainable incomes/jobs created,
- Moderate Fail– some employment & income creation continues but far less than planned,
- Moderate Success – substantial, on-going development benefits, but less than planned,
- Success – substantial commercial activity continues, equaling or exceeding expectations,

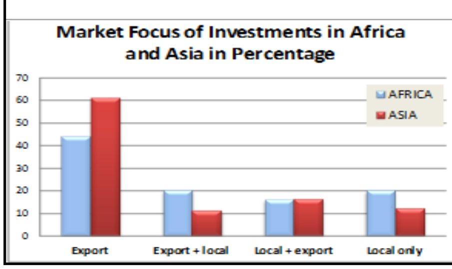
Equity Returns

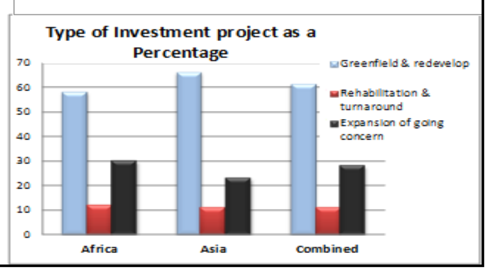
- Fail – Loss of more than25% of equity value
- Moderate Fail – loss of equity value, but less than 25%
- Moderate Success – Some return on equity capital, but less than 12% IRR
- Success – Annualized return of over 12%,

Over 179 investments, of which 131 were purely private sector / profit motivated. The majority were large farms, followed by nucleus farms and out grower operations - mostly start ups with a focus on export markets.

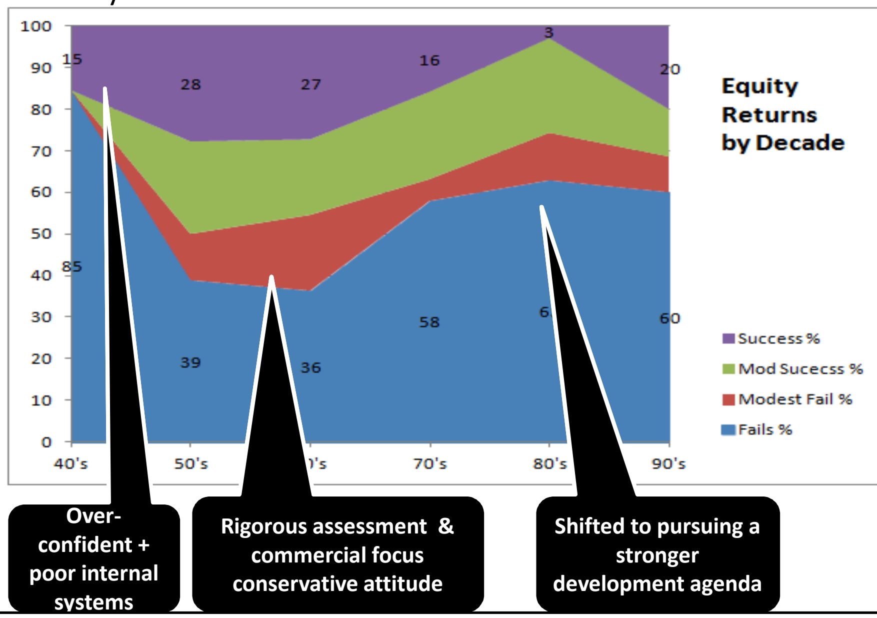




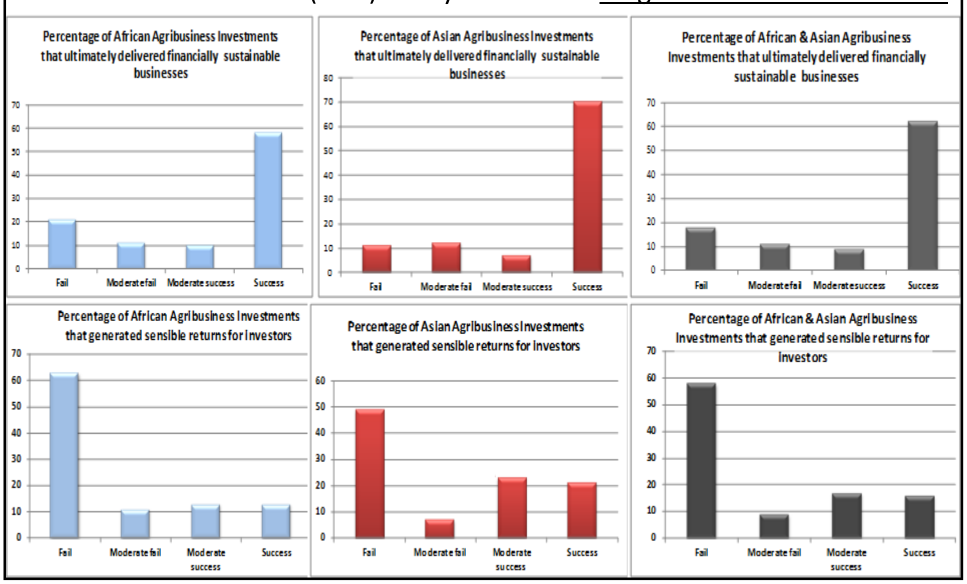




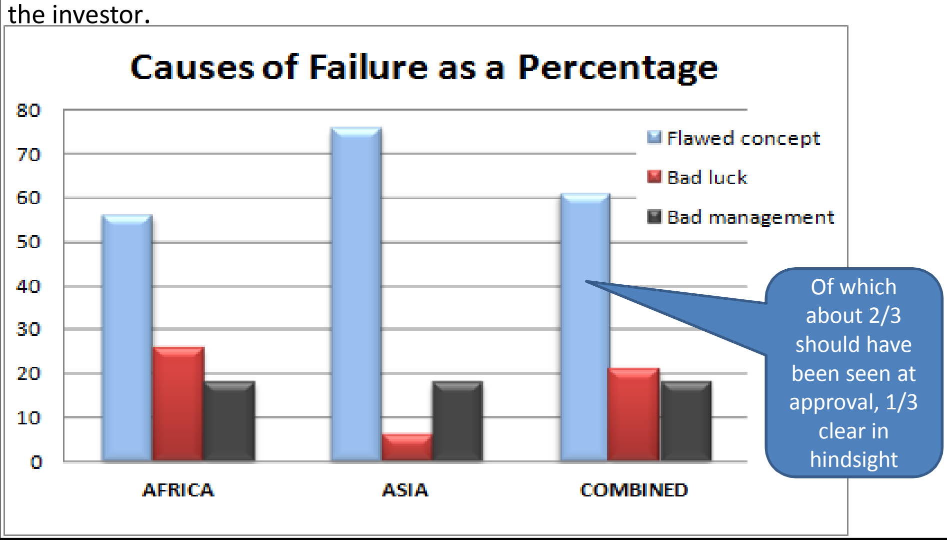
Agriculture investing is not for the naïve, overconfident or inexperienced - mistakes are common & expensive, but outcomes significantly effected by the Financiers aims & attitude



Although African projects were overall less successful than in Asia – the most significant difference was between generating sensible equity returns (only 15% success, and 15% moderately successful), and the fact that ultimately most of the investments (70%) finally delivered a long term economic benefits

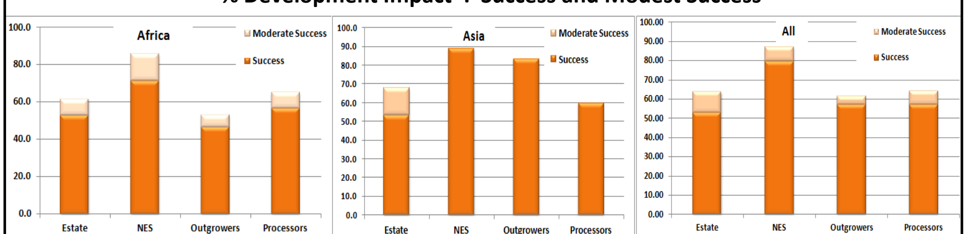


About 60% of failed projects had a flawed concept – about 2/3 should have detected at approval . About 20% failed because of issues that were beyond the control of the business and just under 20% because of bad management - but ' bad luck' issues were proportionately higher in Africa. (polices 50%, war 40%, markets 10%). In other words 60% of the causes of failure could have been controlled by the investor.

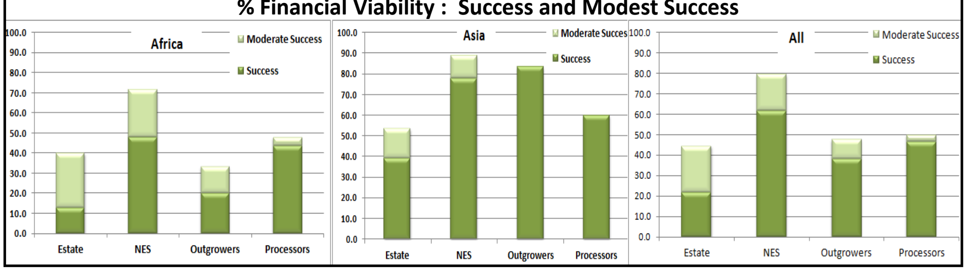


Nucleus estates (NES) with out growers provided the most successful business model – but for a limited range of industrial crops (oil palm, sugar, tea,rubber), followed by processing. Pure out grower schemes were broadly about as successful as estate farming operations. Asian out grower schemes worked particularly well.

% Development Impact : Success and Modest Success

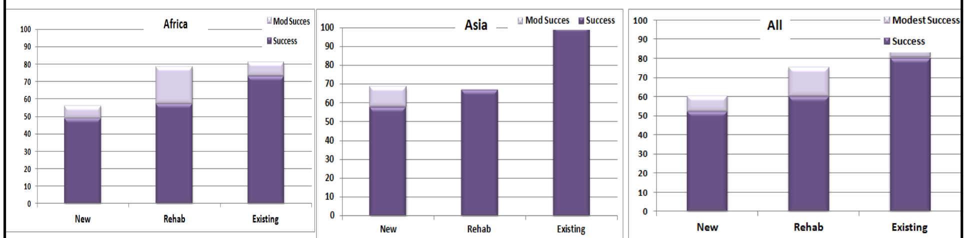


% Financial Viability : Success and Modest Success

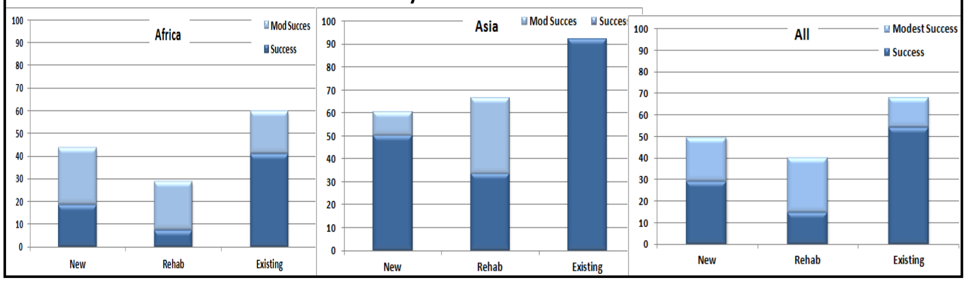


New start ups are significantly more risky than when investments are being made into existing agribusinesses. ‘Turn arounds’ might ultimately result in a sustainable business generating economic benefits, but financially the risks are high.

% Development Impact : Success & Modest Success



% Financial Viability : Success & Modest success



Summary of lessons learned

- The private sector takes on huge financial risks when it invests, esp. in agribusiness. Only 1/3 of investments generating moderate or attractive IRR’s (+12%) ,
- Risks are reduced when investing (a) in established agribusinesses, rather than start ups, (b) in well resolved business models,
- Some exogenous risks can be insured against, other suggest greater evaluation,
- Although the initial investor may lose money, eventually after additional resources & new ownership, generally (≈ 70%) become sustainable businesses,
- Rather like venture capital, occasionally investments bring huge & on-going economic benefits (e.g. small holder tea in Kenya, oil palm in East Asia),
- Historically few investments in staple food crops for local markets,

What all this might mean for the RAI

- Investments in existing agribusiness is largely benign,
- When/if existing investments fail – mechanisms should be put in place to facilitate the entry of new investors to avoid lose : lose situations,
- Large farming operations are probably more risky than some of the alternatives , i.e. pure processing operations, Nucleus Estate Scheme,
- Out growers & NES can work well, but historically only for a limited range of industrial crops,
- Occasionally private investments create (i) new industries, (ii) open new markets, (iii) bring in new technology / enterprises, and (iv) shoulder the initial risks for others later investors. The risks are high, the positive results can be transformative. How to balance opportunity with risks & create platform for innovation & positive change?
- Out grower & NES investments for food production have a poor track record – mainly thru side selling. How can this difficulty be lessened going forward?
- If professional Financial institutions have difficultly in being able to identify at the inception phase fatally flawed projects, how can host Governments properly vet new agribusiness investments proposals ?
- Will the changes in staple crop prices incentivize the private sector to invest in food crops?