

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 \approx 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,

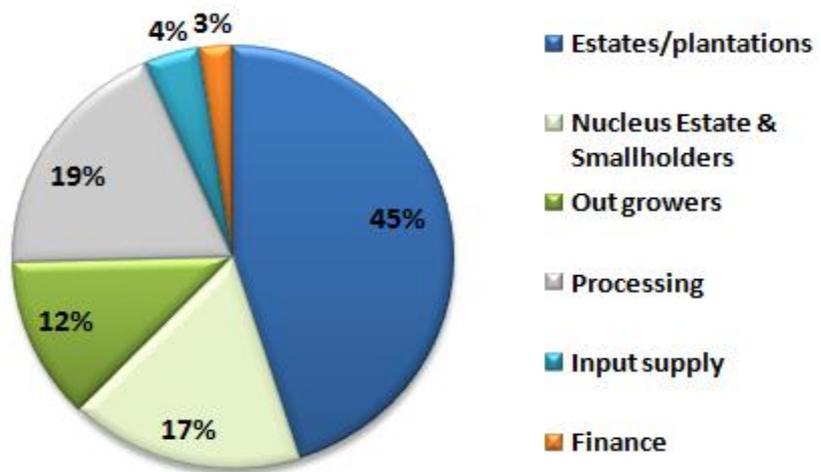
Equity Returns

- **Fail** – Loss of more than 25% of equity value
- **Moderate Fail** – loss of equity value, but less than 25%
- **Moderate Success** – Some return on equity capital 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.

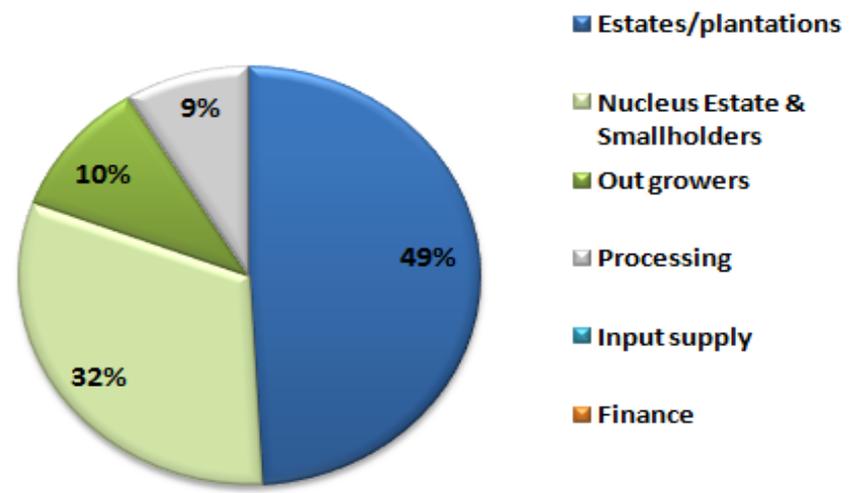
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AFRICA

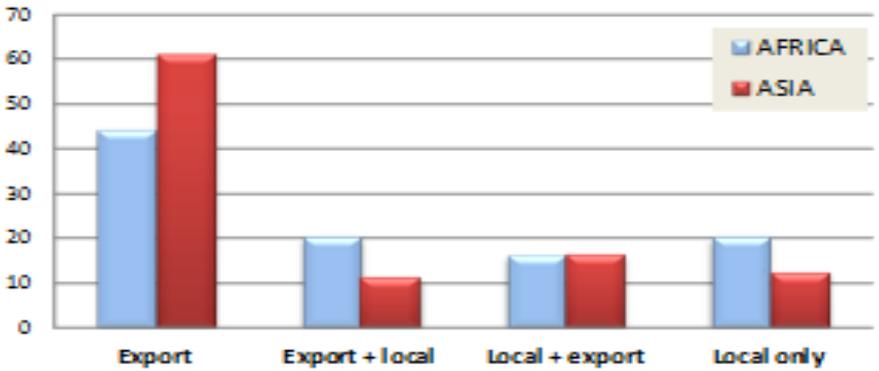


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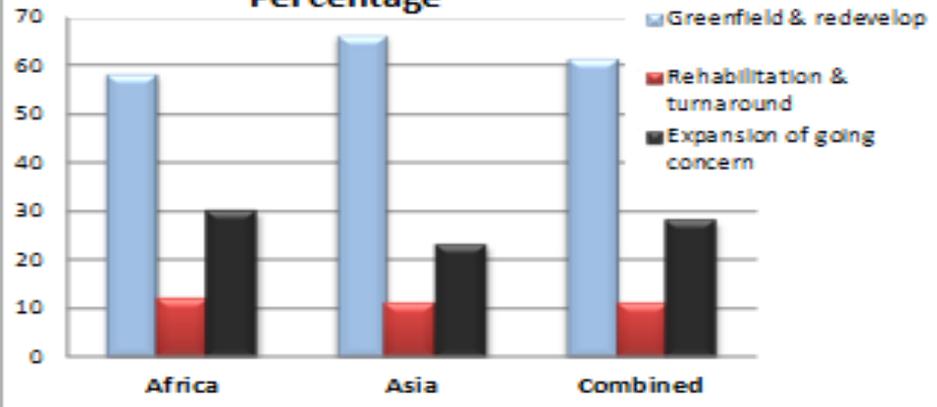
ASIA



Market Focus of Investments in Africa and Asia in Percentage

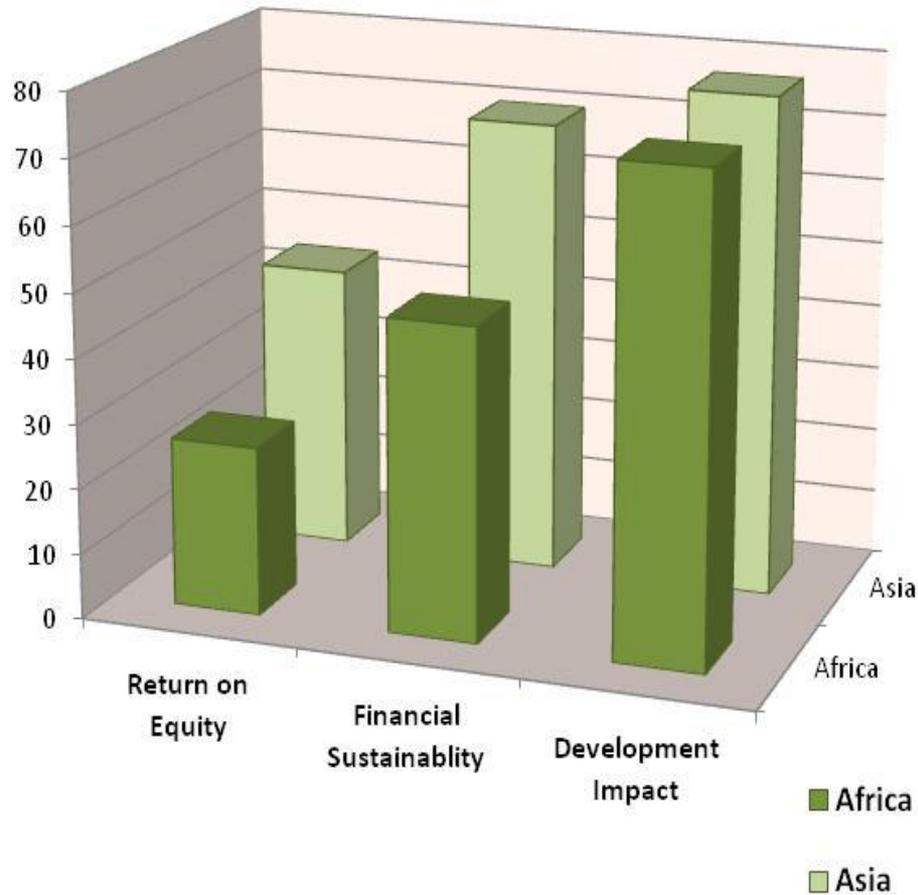


Type of Investment project as a Percentage

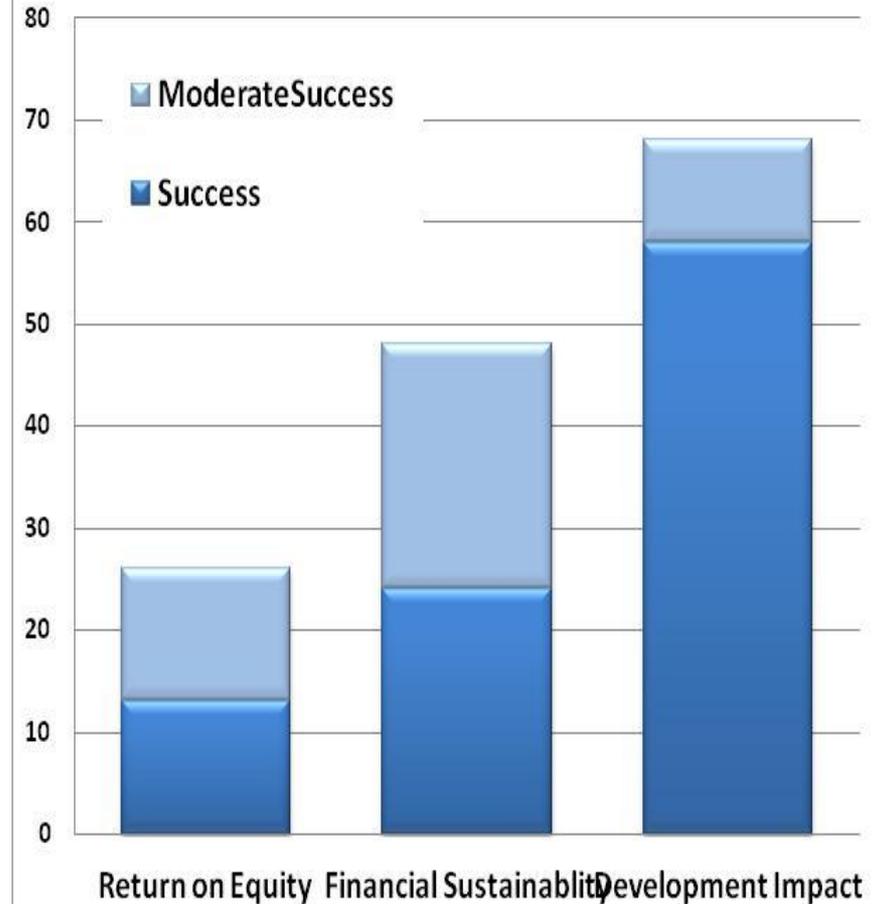


Although African projects were slightly less successful than in Asia – the most significant difference was between generating sensible equity returns (only 15% success, and 15% moderately successful), and the fact that ultimately most of the investments (70%) finally delivered a long term economic benefits

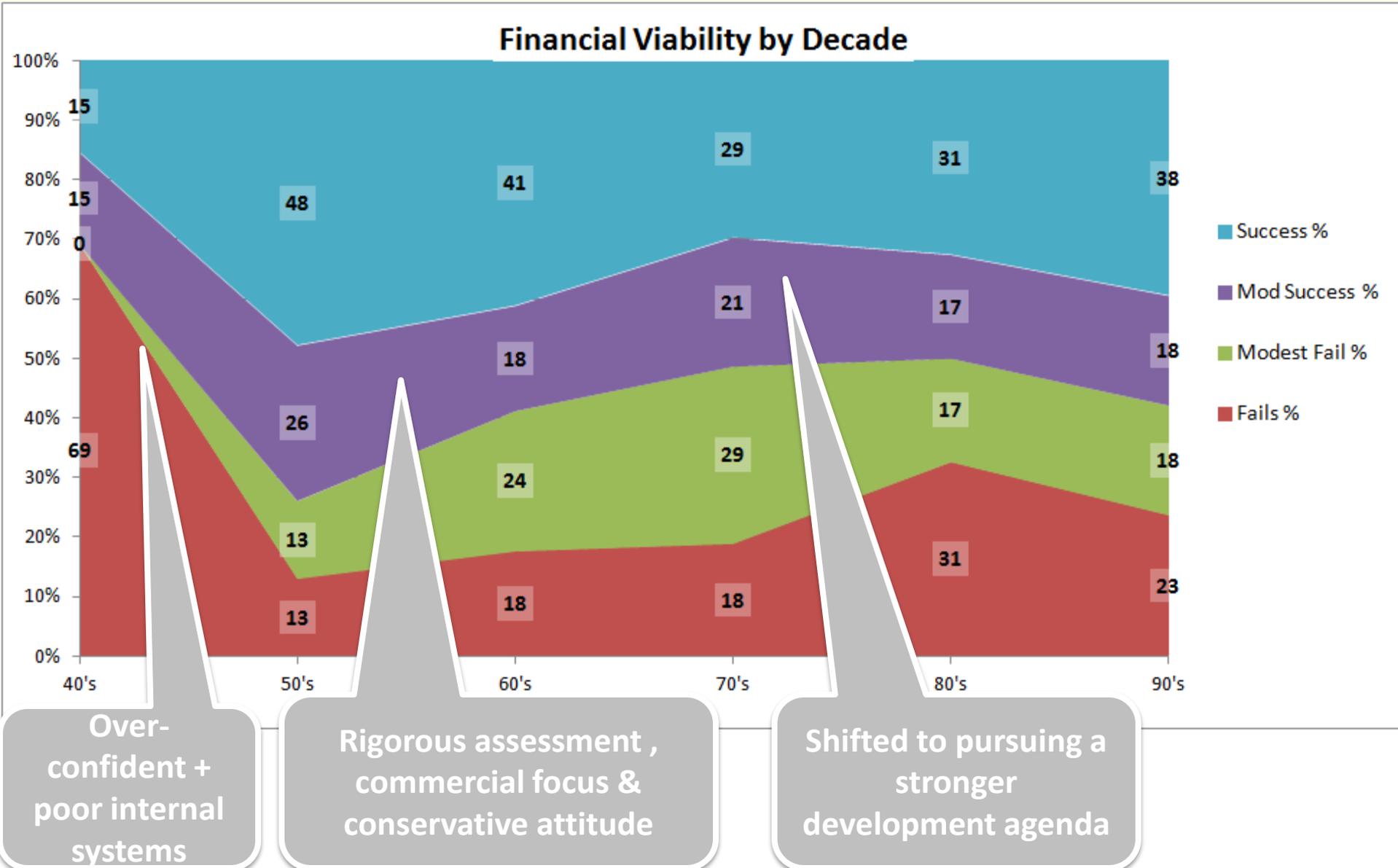
African vs. Asian Investments



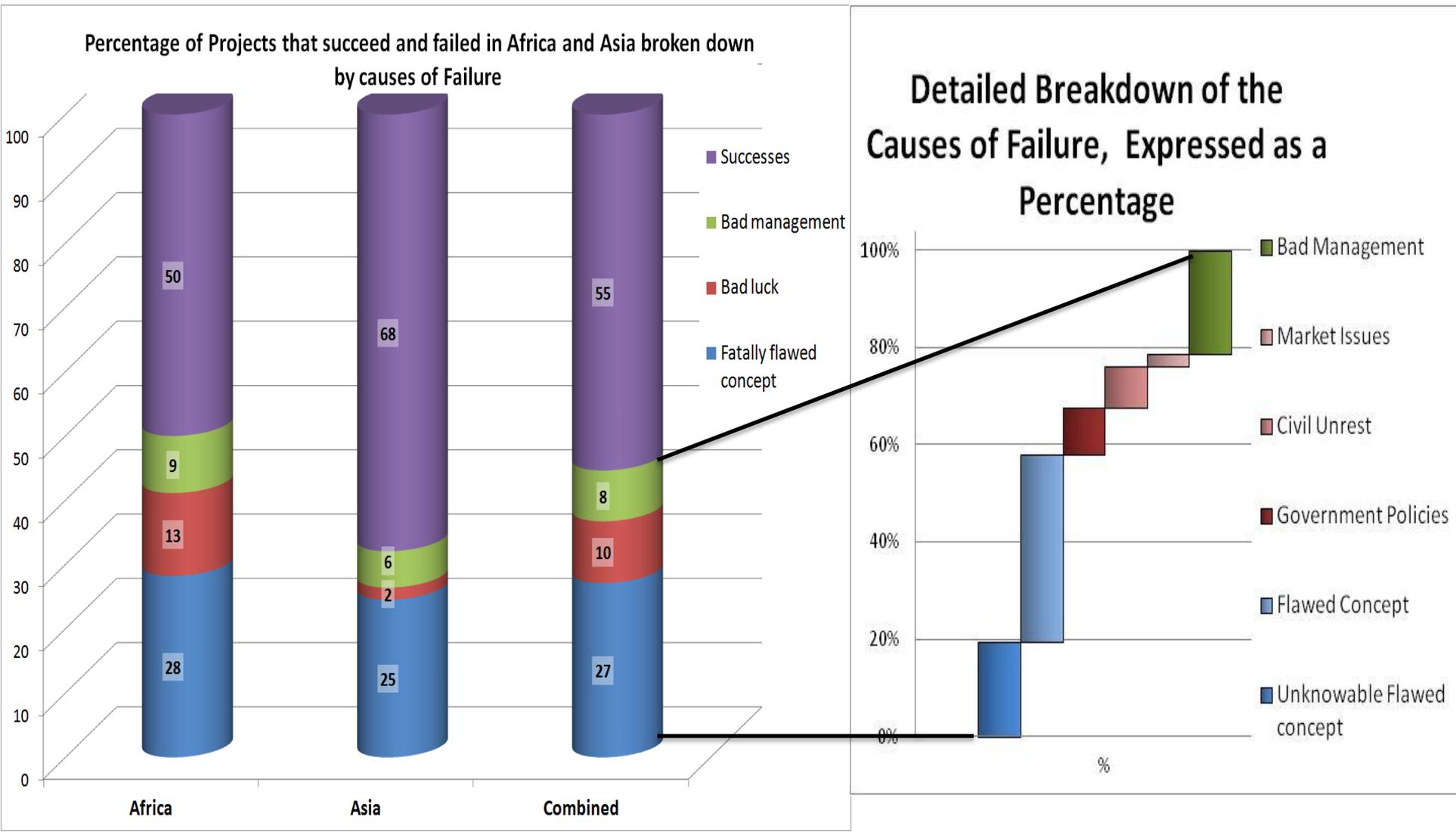
African Investments



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

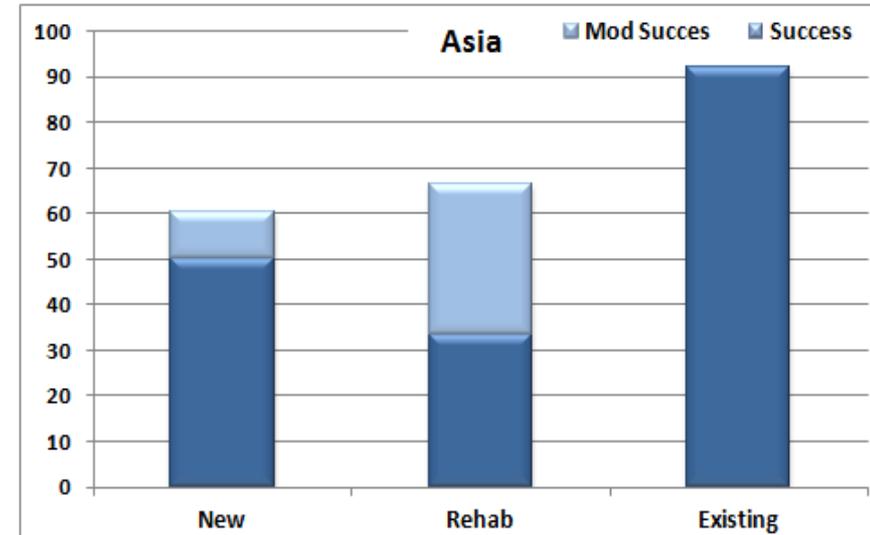
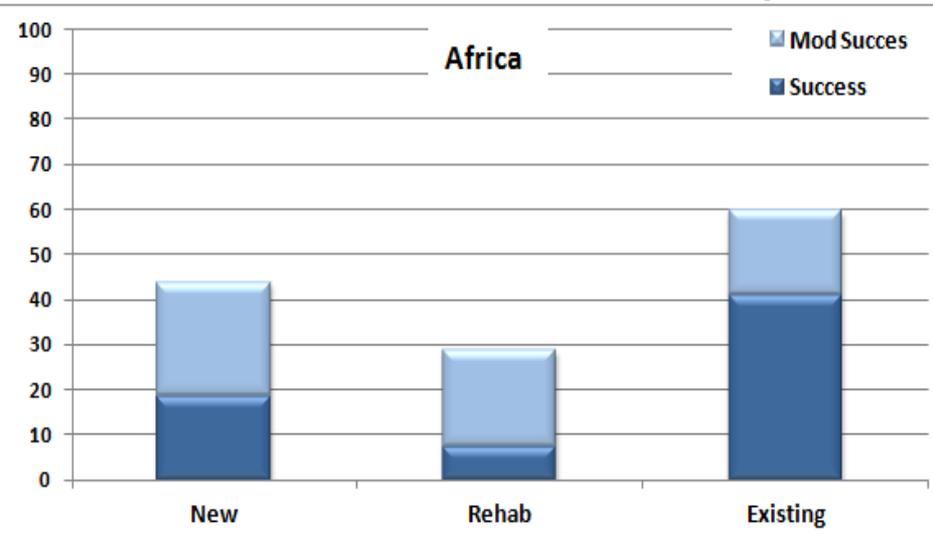


The causes of failure in projects in Africa and Asia was broadly the same level in both 'Flawed Concept' and 'Bad Management'. The major difference being in the higher level of 'Bad Luck' in Africa. In particular in Government Policies and Civil unrest.

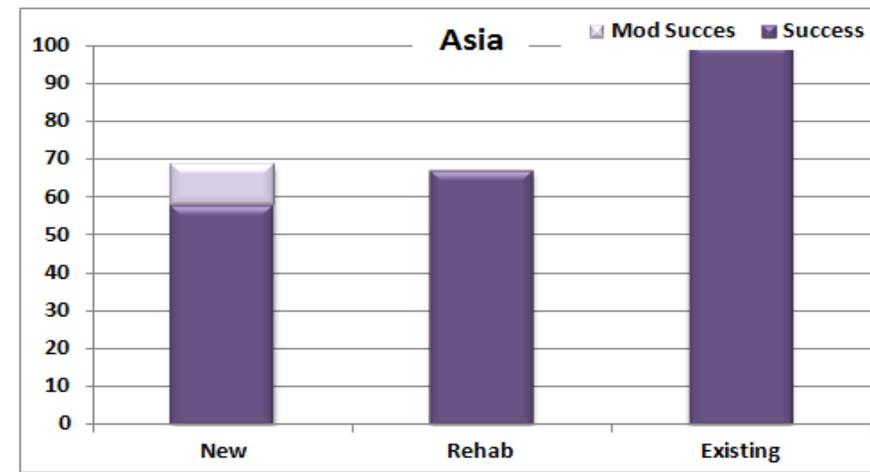
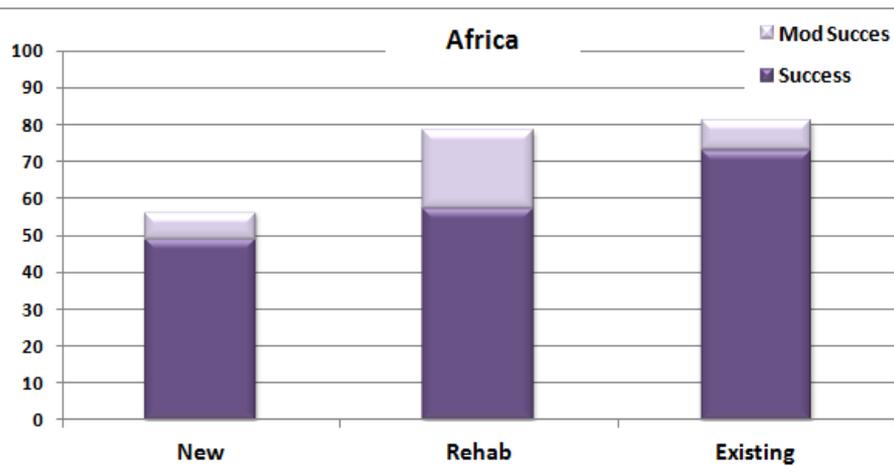


New start ups are significantly more risky than when investments are being made into existing agribusinesses. 'Turn arounds' might ultimately result in a sustainable business generating economic benefits, but financially the risks are high.

% Financial Viability : Success & Modest success

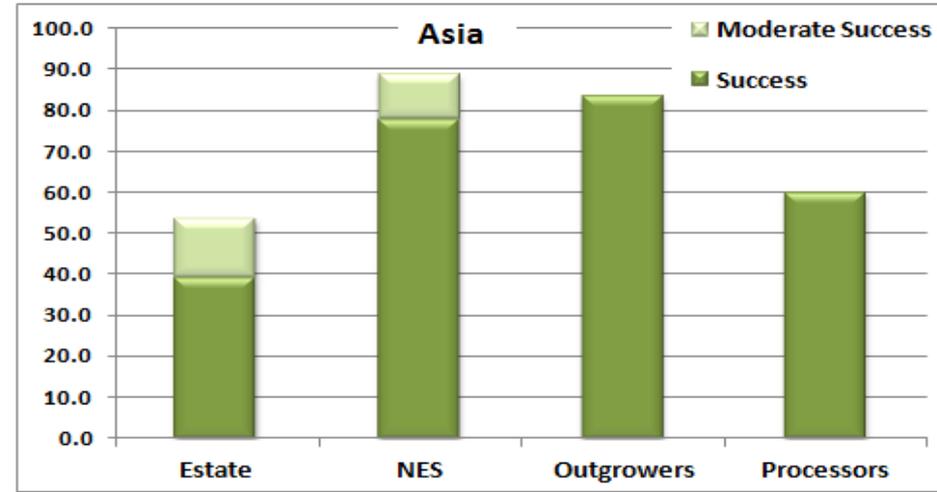
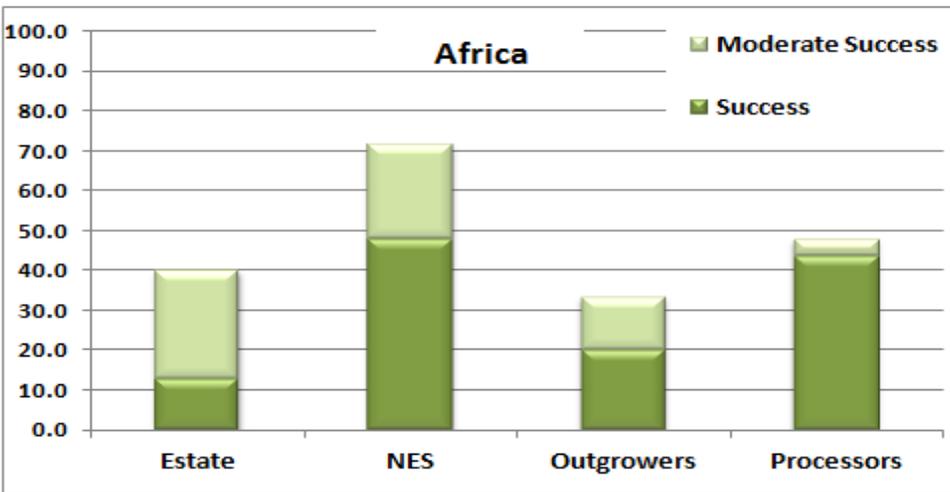


% Development Impact : Success & Modest Success

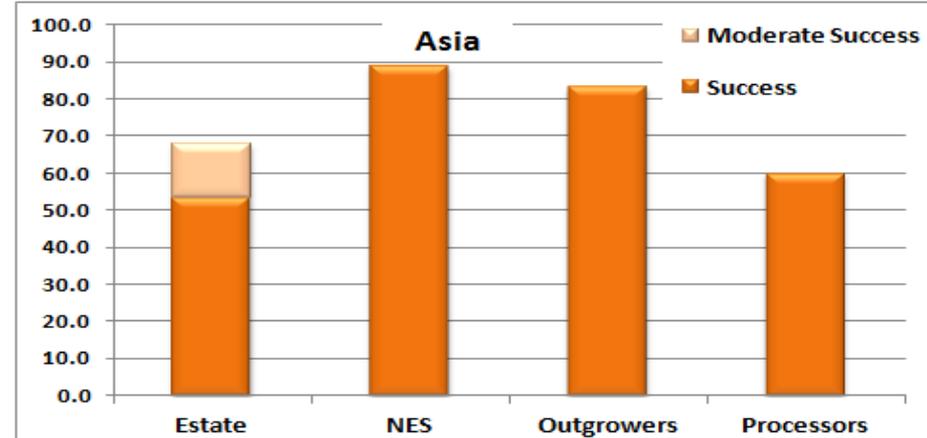
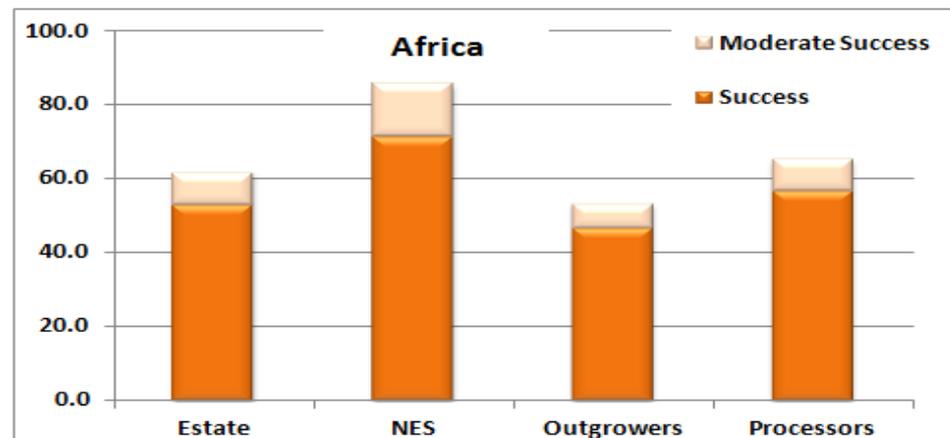


Nucleus estates (NES) with out growers provided the most successful business model – but for a limited range of industrial crops (oil palm, sugar, tea, rubber), followed by processing. Pure out grower schemes were broadly about as successful as estate farming operations. Asian out grower schemes worked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

% Financial Viability : Success and Modest Success



% Development Impact : Success and 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%) and just over ½ are financially viable
- Risks are reduced when investing (a) in established agribusinesses, rather than start ups, (b) in well resolved business models,
- If smallholders are to be integrated into the business model this is best done after the initial production & market risks are resolved
- Although the initial investor may lose money, eventually after additional resources & new ownership, generally ($\approx 70\%$) 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 Policy Makers

- Investments in existing agribusinesses is largely benign,
- When/if existing investments fail – mechanisms needed to avoid lose : lose situations, e.g. facilitate entry of new investors
- Large farming operations are probably more risky than many 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 later investors.
- Out grower & NES investments for food production have a poor track record – mainly thru side selling.
- If professional financial institutions have difficulty in identifying phase fatally flawed projects, how can host Governments properly vet agribusiness investments proposals ?
- The changes in staple crop prices is incentivizing the private sector to invest in food crops

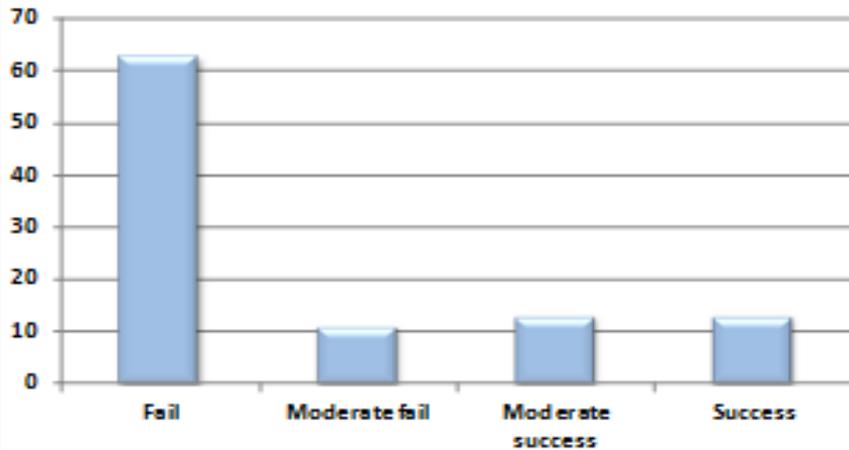


And if you have been . . .

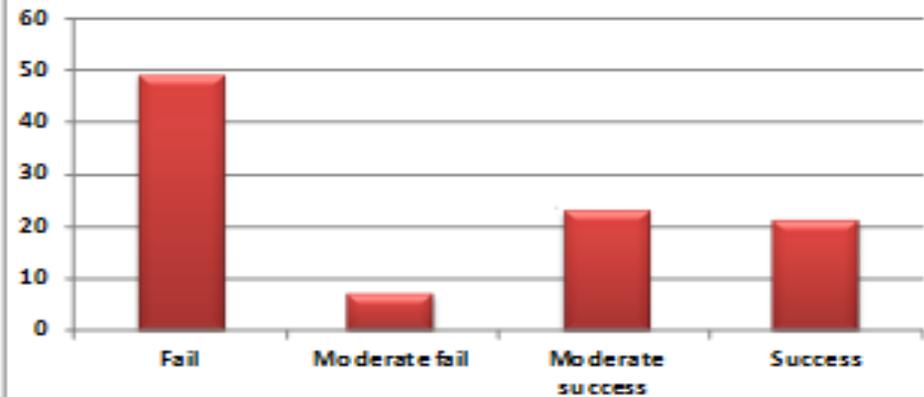
Thanks, for listening

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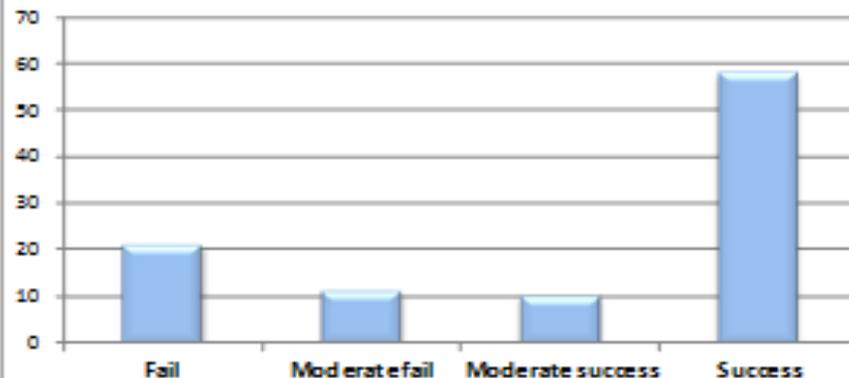
Percentage of African Agribusiness Investments that generated sensible returns for Investors



Percentage of Asian Agribusiness Investments that generated sensible returns for Investors



Percentage of African Agribusiness Investments that ultimately delivered financially sustainable businesses



Percentage of Asian Agribusiness Investments that ultimately delivered financially sustainable businesses

