“The more distant we look into the past, the farther we can see into the future.”
Winston Churchill

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

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Presented by
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Why take a historical view?

- longer term view, investments take a time to play out,
- public domain a better understanding of risks and returns, across a range of types of investment,
- Larger numbers of investments

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 & Environmental 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

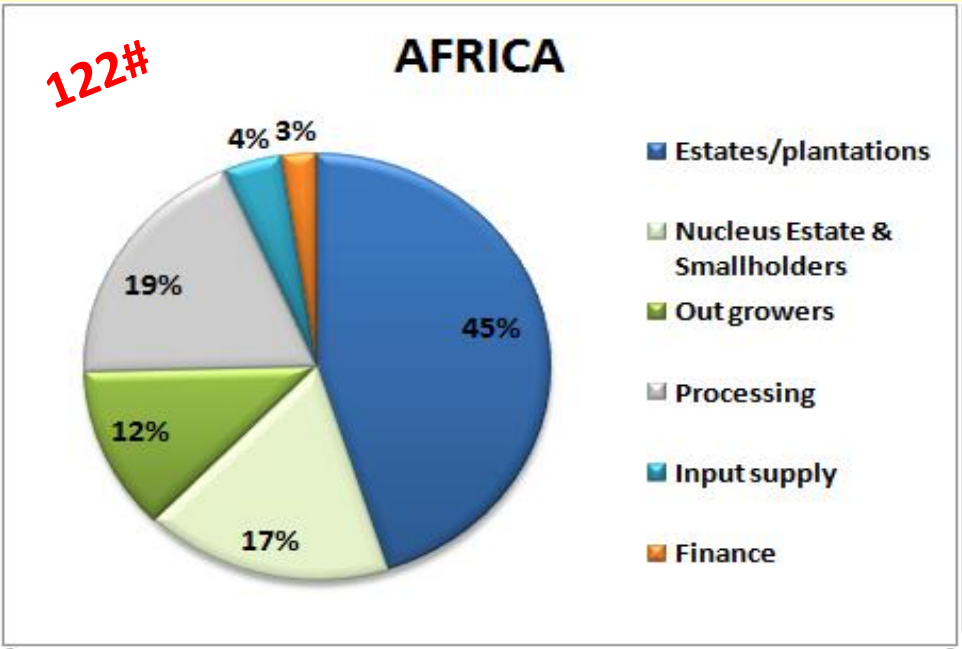
Development Impact: sustainable livelihoods, achieve development goal

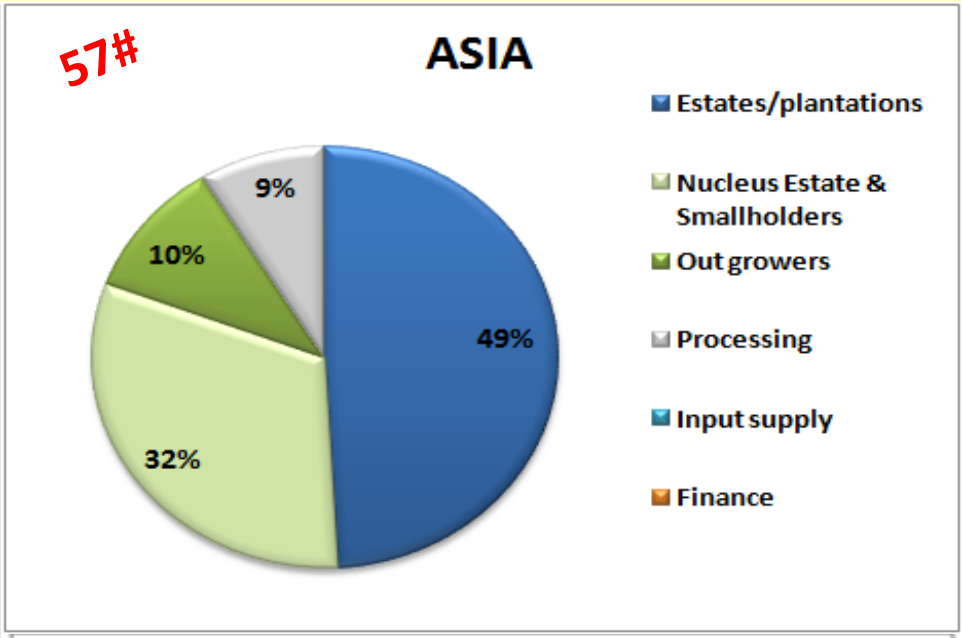
Equity Returns: dividends & capital gain to shareholders

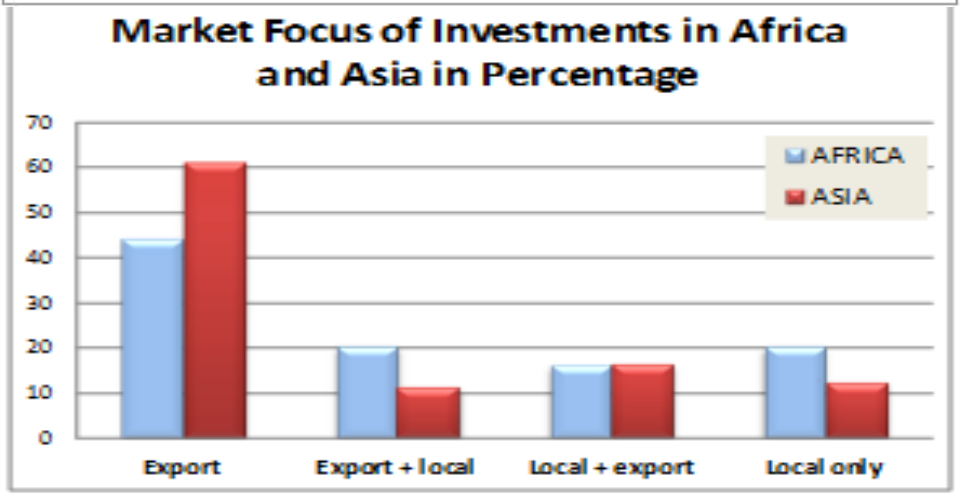
Financial Viability: creation of financially self-sustaining enterprises

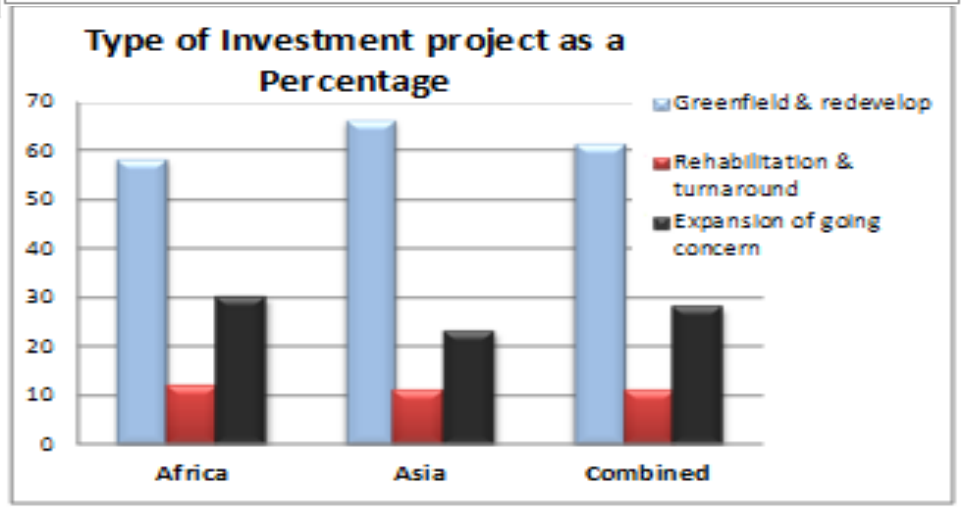
- ***Fail:*** total or substantial project collapse during implementation or shortly after completion
- ***Moderate Fail:*** some positive achievements, but far fewer than planned
- ***Moderate Success:*** substantial on-going benefits although fewer than planned
- ***Success:*** main objectives achieved or exceeded

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.

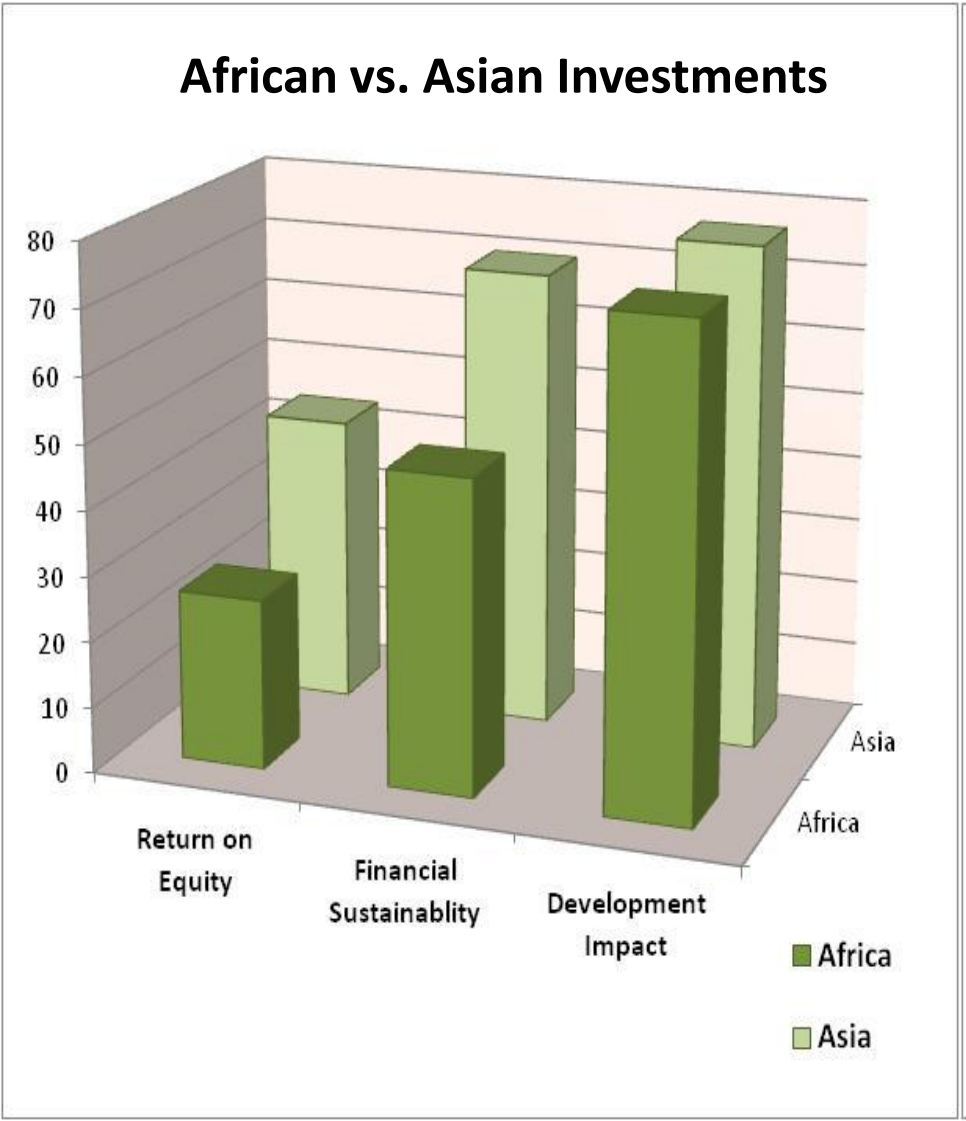


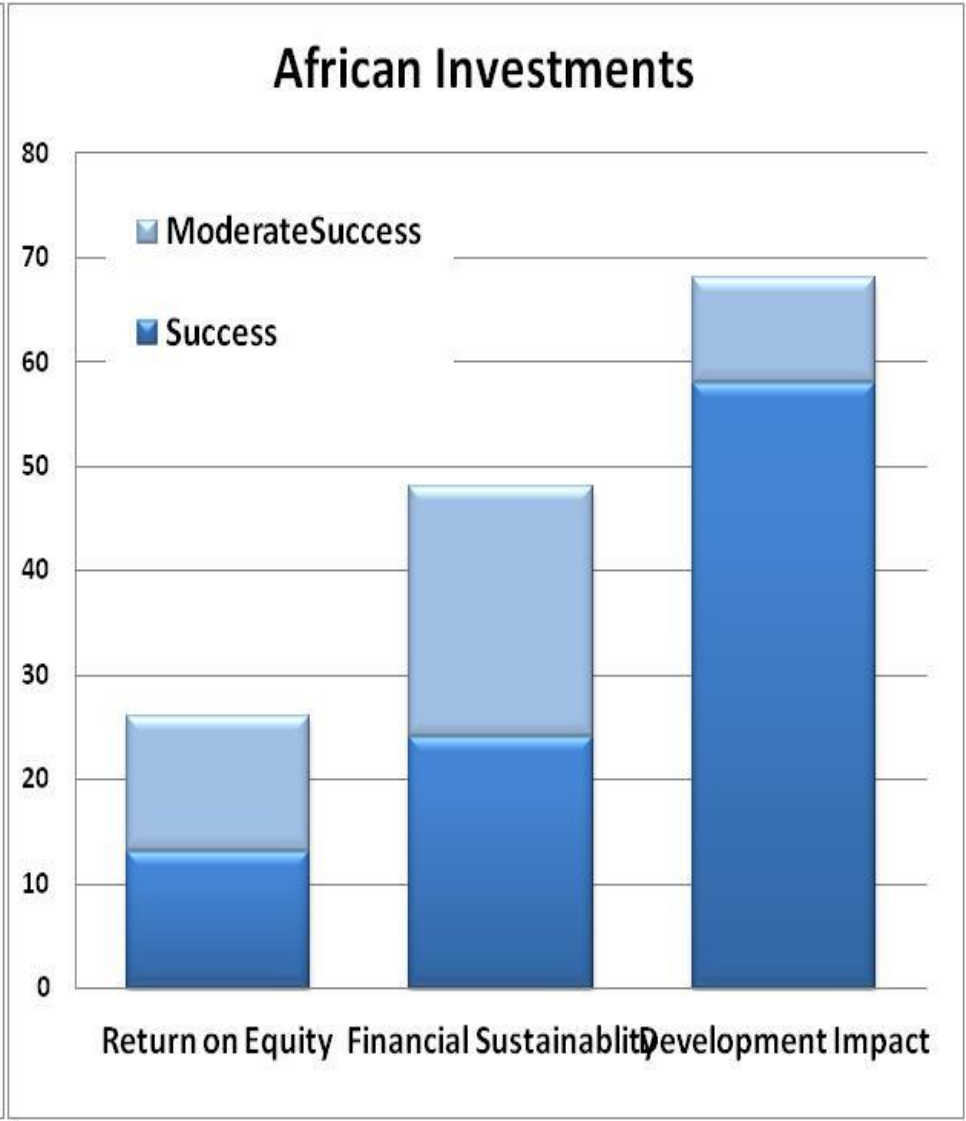




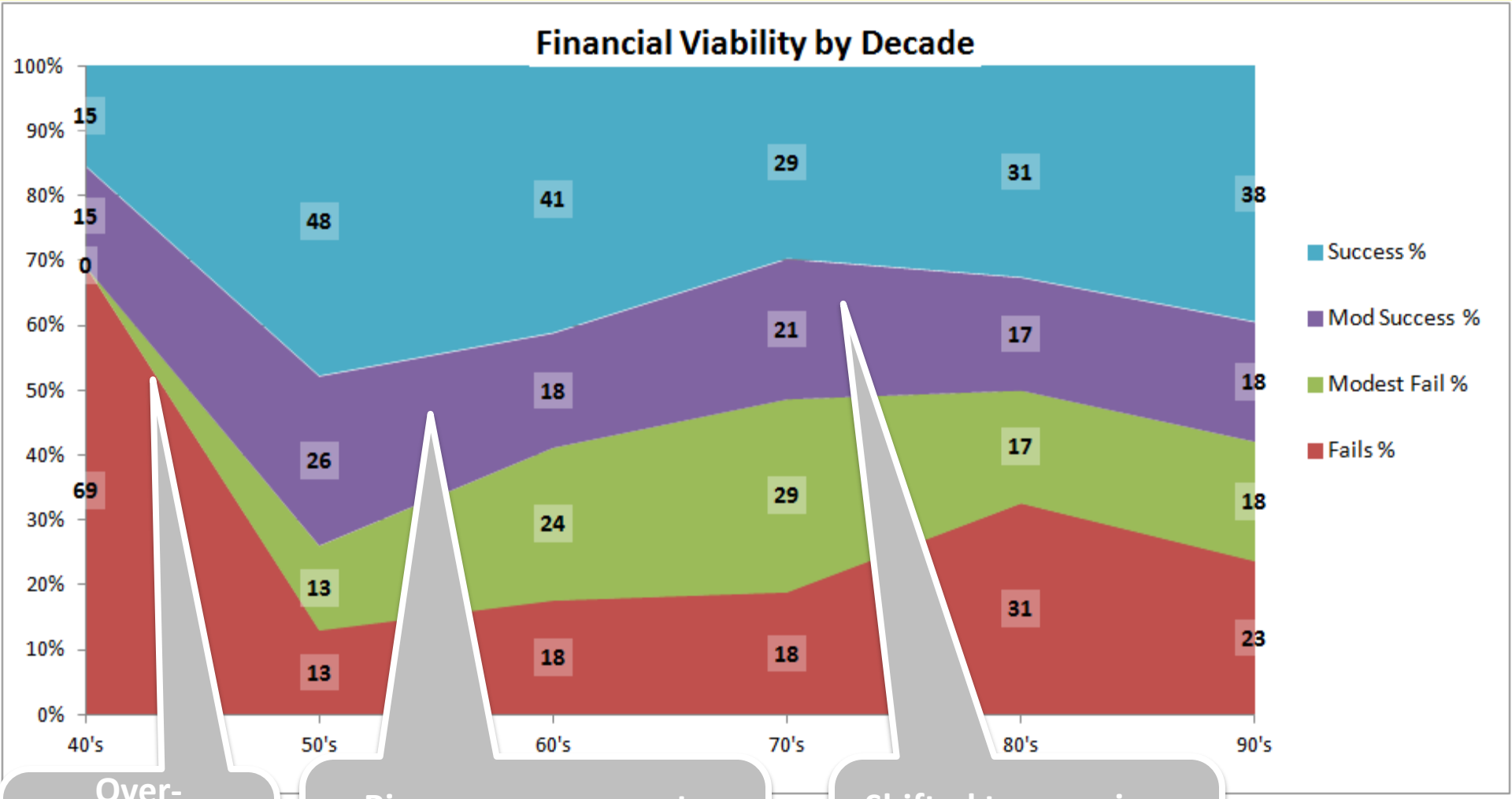


Although African projects were slightly less successful than in Asia – the most <u>significant difference was between generating sensible equity returns</u> (only 15% success, and 15% moderately successful), and the fact that ultimately most of the investments (70%) finally delivered a <u>long term economic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





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

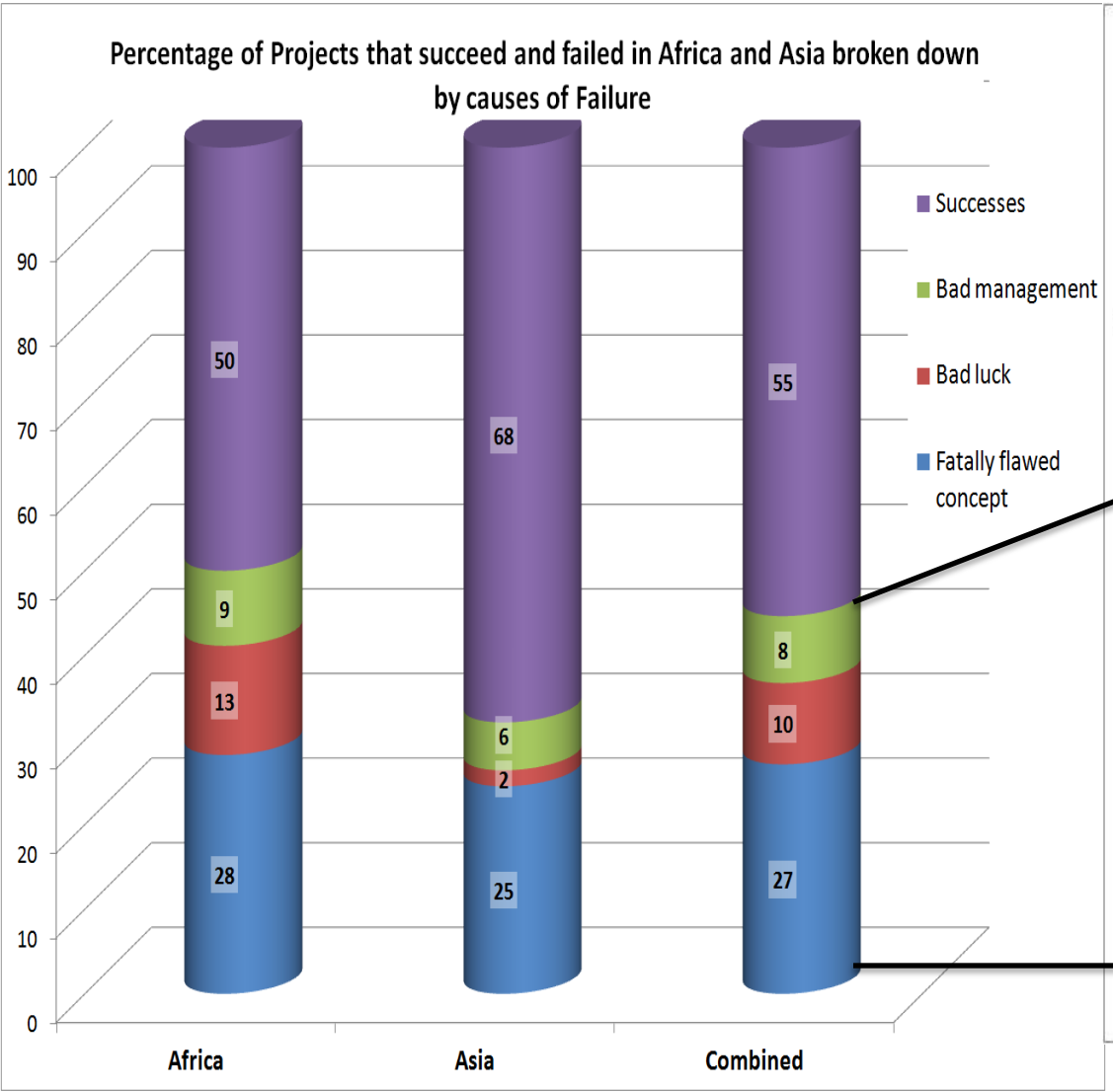


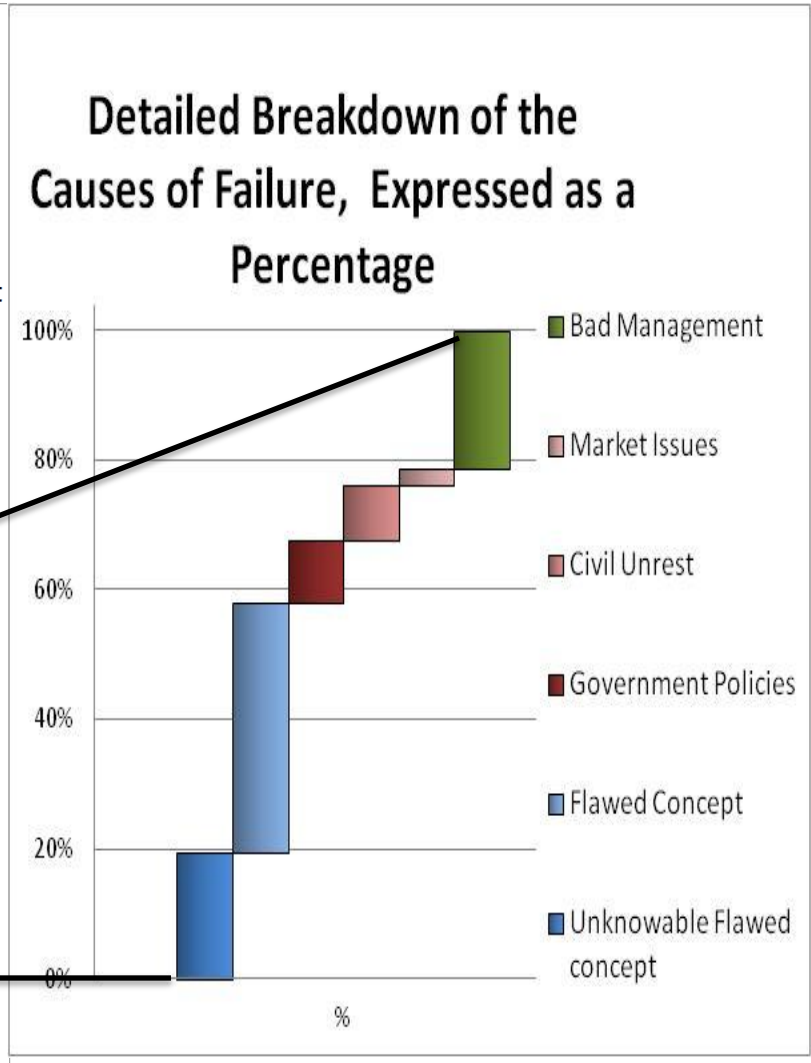
Over-confident + poor internal systems

Rigorous assessment , commercial focus & conservative attitude

Shifted to pursuing a stronger development agenda

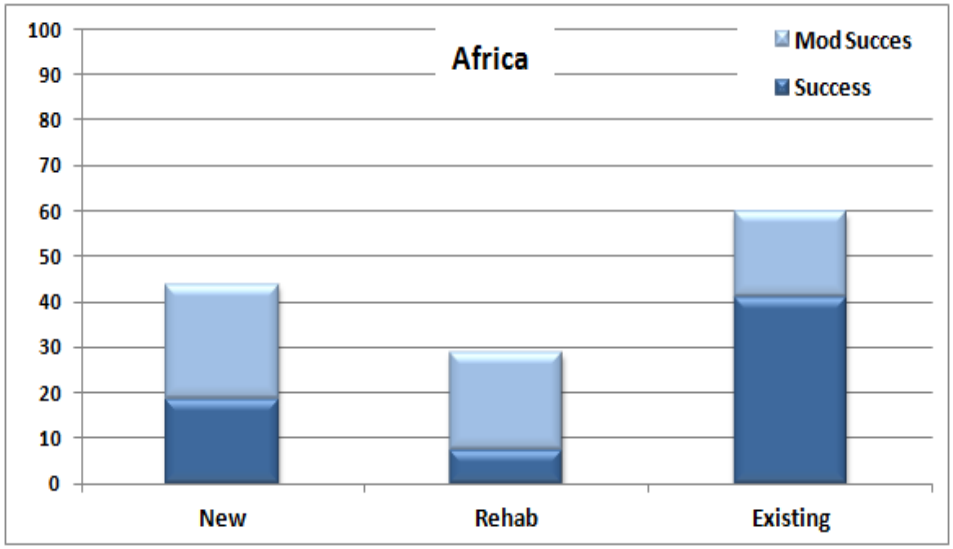
The causes of failure in projects in Africa and Asia was broadly the same level in both 'Flawed Concept' and 'Bad Management'. The major difference being in the higher level of 'Bad Luck' in Africa. In particular in Government Policies and Civil unrest.

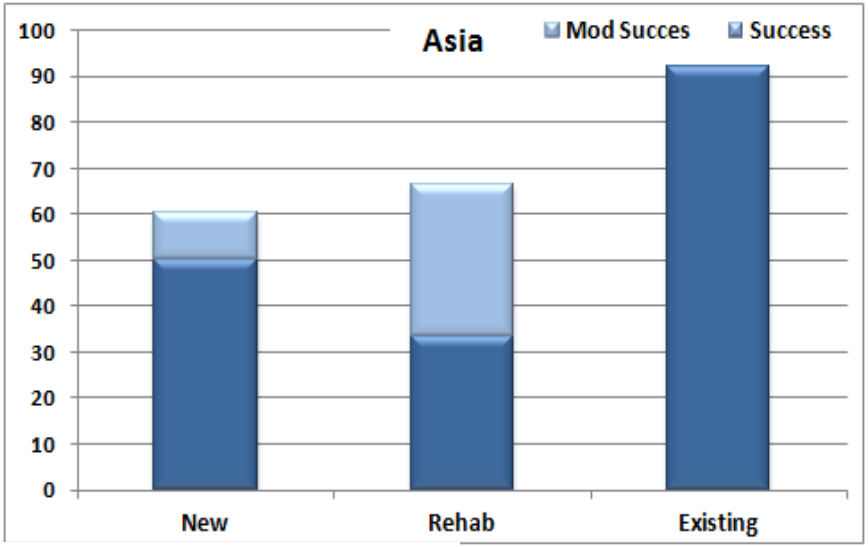




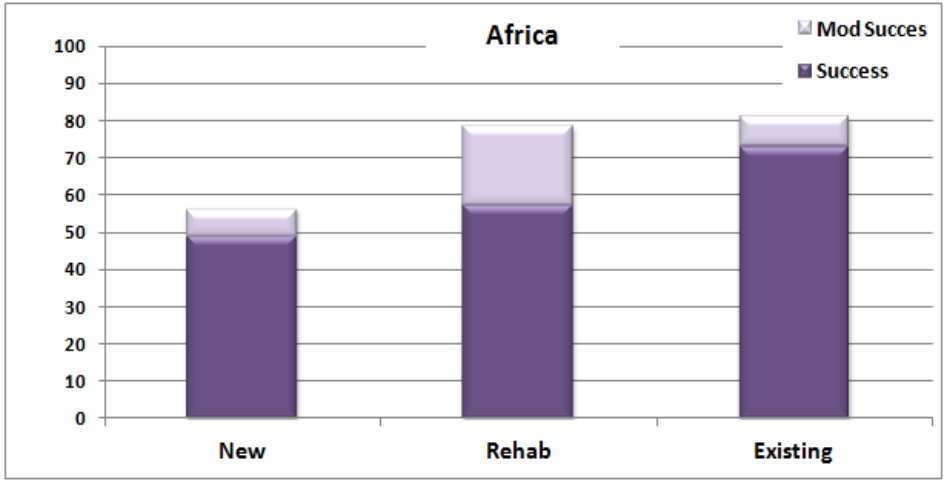
New start ups are significantly more risky than when investments are being made into existing agribusinesses. 'Turn arounds' might ultimately result in a sustainable business generating economic benefits, but financially the risks are high.

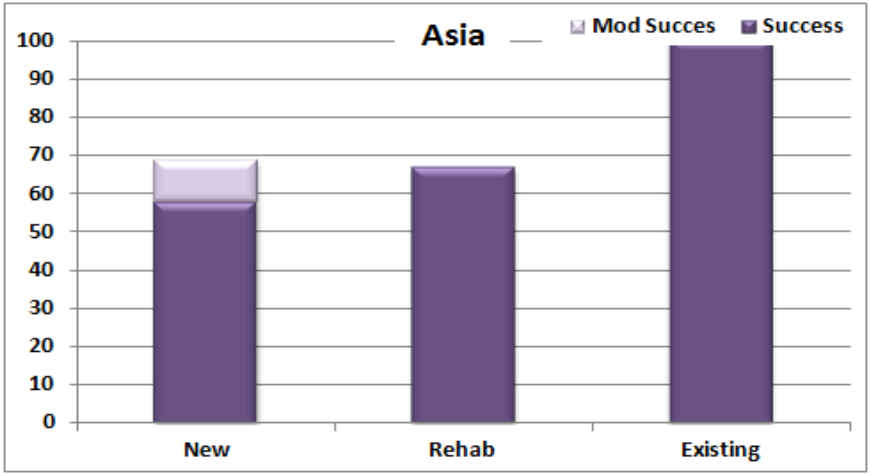
% Financial Viability : Success & Modest success





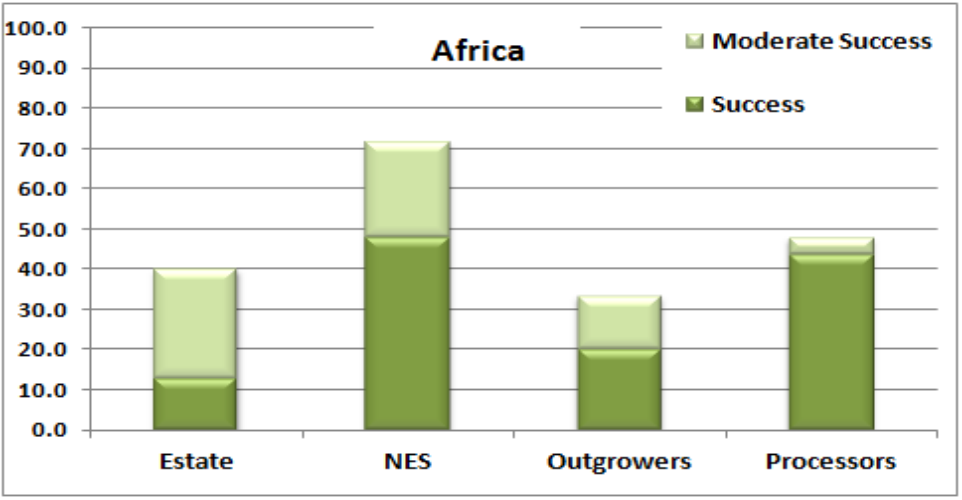
% Development Impact : Success & Modest Success

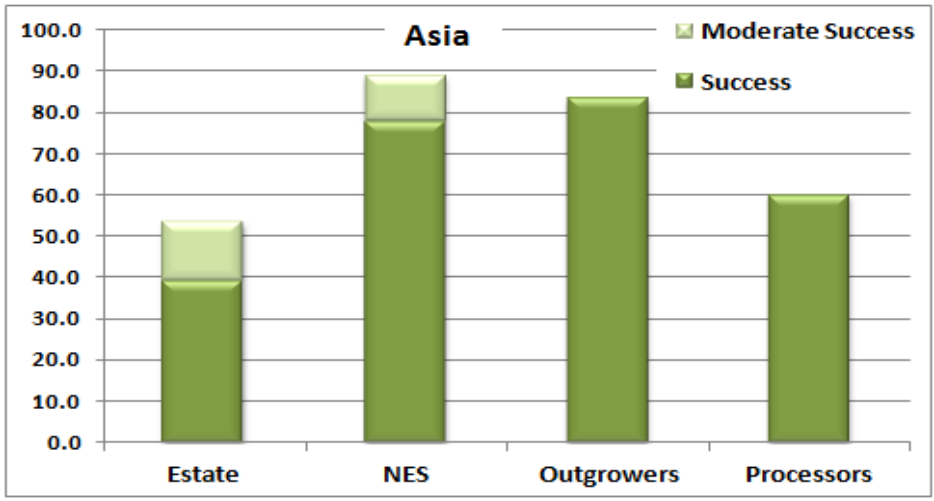




Nucleus estates (NES) with out growers provided the most successful business model – but for a limited range of industrial crops (oil palm, sugar, tea, rubber), followed by processing. Pure out grower schemes were broadly about as successful as estate farming operations. Asian out grower schemes worked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

% Financial Viability : Success and Modest Success





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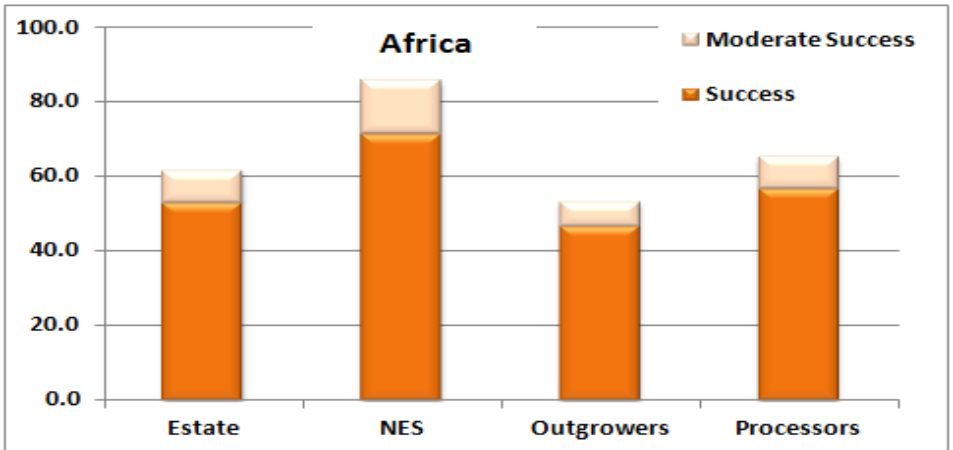

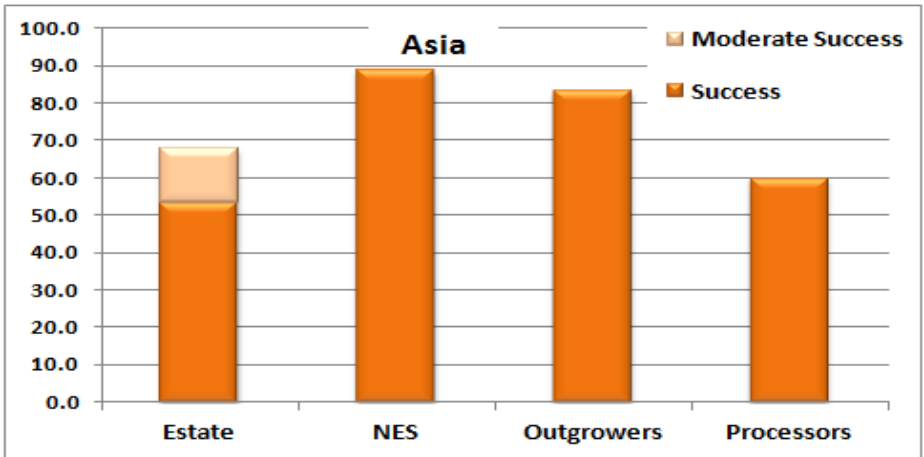

Summary of lessons learned

- The private sector takes on huge financial risks when it invests, esp. in agribusiness.
- 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 (≈ 70%) become sustainable businesses,
- 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 difficultly in identifying phase fatally flawed projects, how well can host Governments vet agribusiness investments proposals ?
- The changes in staple crop prices is incentivizing the private sector to invest in food crops

Advice For Policy Makers: Agribusiness Investments

Do

- Know what development you want,
- Be more choosy about the investor, Business model, enterprise,
- Set up process, review investments systematically
- Encourage alternatives to large scale land investments,
- Support 1st movers, but not at scale,
- Have a plan B for failure,

Don't

- Offer more incentives to foreign investors than local.
- Do mega land deals,
- Make multiple gambles on same new business model,
- Allow people to have land without making productive investments
- Short cut existing land regulations


And if you have been . . .
Thanks, for listening