

Institutional Investment Into Agricultural Activities: Potential Benefits and Pitfalls

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LAND GOVERNANCE IN SUPPORT OF THE MDGS:
RESPONDING TO NEW CHALLENGES

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Presentation Themes

1. Fundamentals of Supply and Demand
2. Categories and Motives of Different Institutional Investors
3. Investment Destinations by Geography
4. Investment Positions in the Ags Chain
5. Contrasting Results to Date
6. Revisiting the Farm Size Efficiency Debate
7. Conclusion: Potential Benefits and Pitfalls

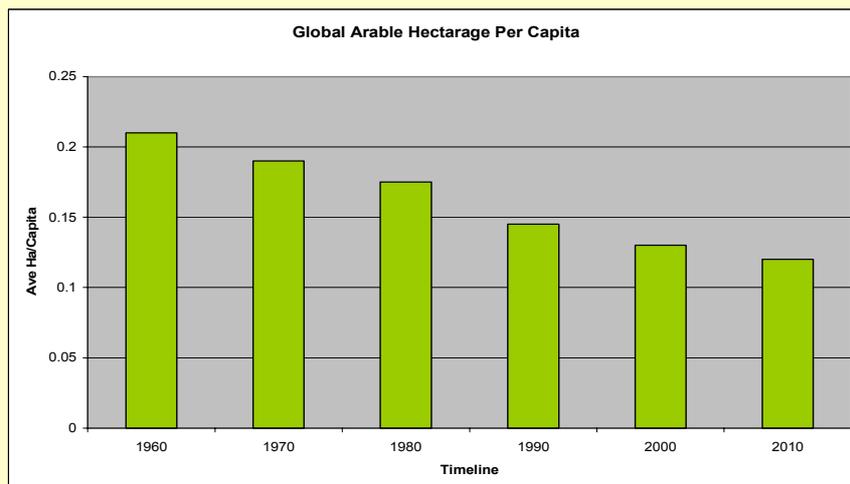
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Supply Fundamentals

- Key Concerns:
 - Soil
 - Water
 - Climate Change
 - Volatile Weather Patterns
 - Politics and Security (protectionism)
 - Crop Quality
 - Storage and Logistics/Infrastructure

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Arable Land Pressure



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Demand Fundamentals

- Key Drivers:
 - Population Growth
 - Dietary Shifts in Emerging Markets - Feed conversion ratios
 - Increasing Urbanisation in LDCs
 - Biofuel Policies
 - Historically Low Stock-Consumption Ratios
 - Quality Differentiation
- Key Destruction Factors:
 - Credit shortages
 - Speculative Premium

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Investor Categories

- Investment Banks
- Hedge Funds and Private equity Groups
- Pension Funds
- Sovereign Wealth Funds
- Sovereign Strategic Funds
- Established Agri-business

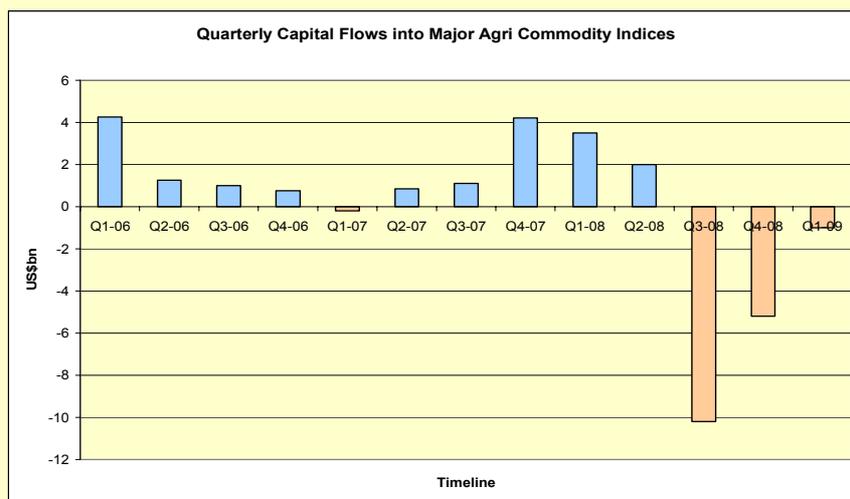
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Investment Strategies

- Public Sector - undervaluation of established Public entities allowing quick exposure lower risk good upside
- Private sector - thesis was that starting small and controlling stakes capture more potential upside
- Processing industry – suppliers, storage logistics processing
- Speculators (land play)
- Longer term equity and operational strategies

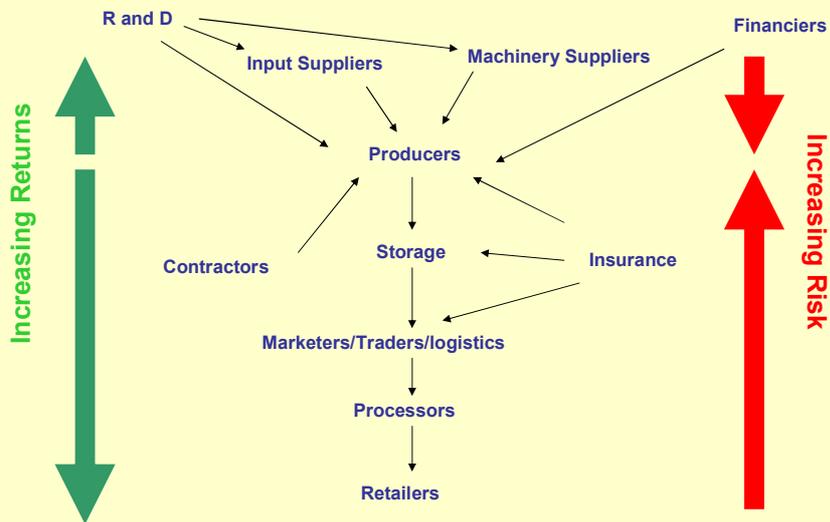
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Patterns of Investment into Public Vehicles



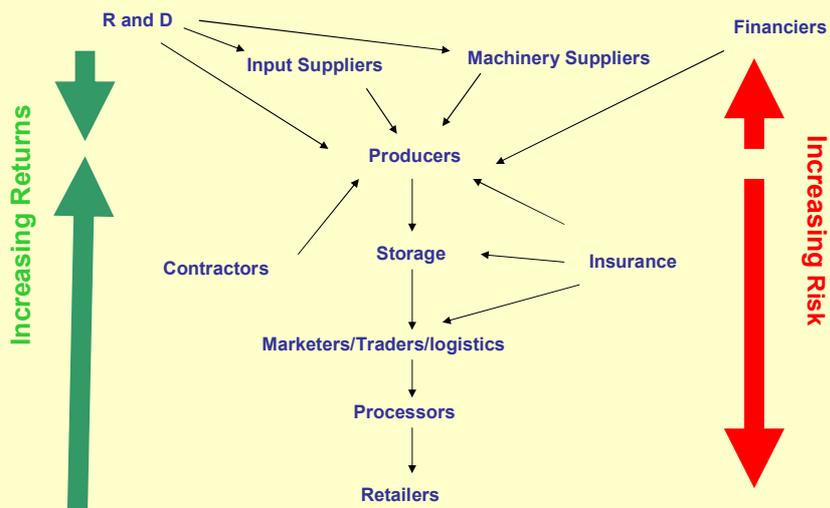
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Historical Risk-Return Patterns in the Ags Chain



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Recent Risk-Return Patterns in the Ags Chain



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Revisiting the Farm Size: Efficiency Debate

Misleading perspective in the development sector that production scalability is a myth, and that small farms are more efficient across the spectrum. Optimal farm size patterns vary between sectors, and systems.

- Selective literature on selective geographies and systems, which incorrectly isolates the production function from the integrated operating environment and its core interrelated elements: finance, inputs, management, storage, processing, logistics and marketing

- Not enough attention to the interrelated operational realities and complexities of the agri-chain and the benefits of aligned objectives, activities and scale.

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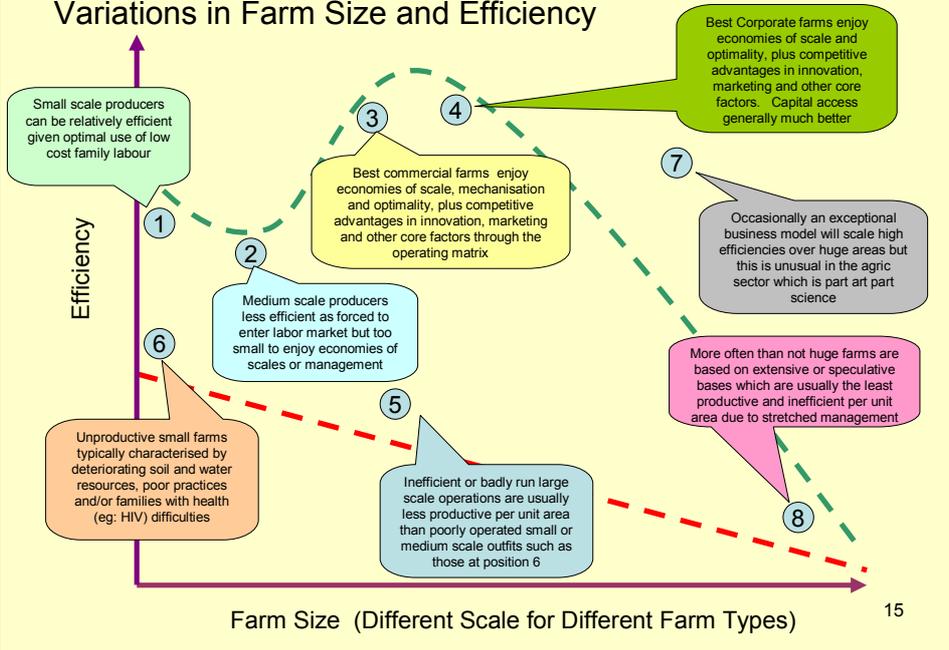
What does 'efficiency' actually mean in this context?

- Productivity/Output ?
- Profitability ?
- Food security ?
- Sustainability ?
- Optimality ?
- Linkages ?
- Integration ?
- Employment ?
- Skills transfer?
- Capital use efficiency?
- Management adaptability/flexibility ?
- Ability to manage risk ?
- Ability to access and influence policy (lobbying power?)

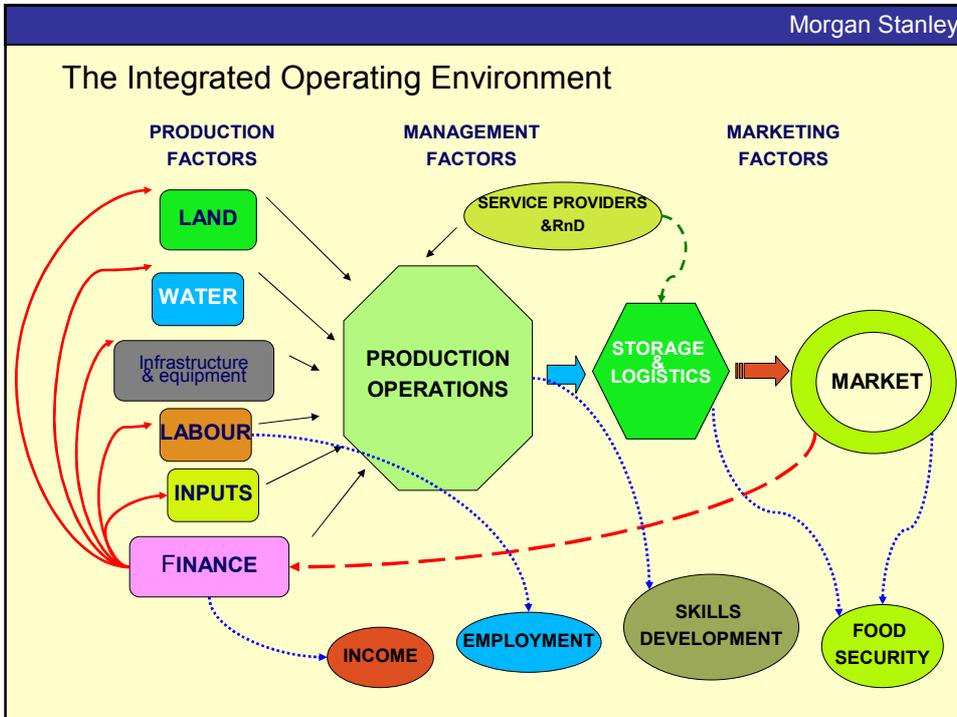
- Holistic integrated organizational concept of 'all the above' ?

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Variations in Farm Size and Efficiency



The Integrated Operating Environment



Yield and Cost Comparisons between traditional small scale production systems and Large scale professional producers

	Traditional Production Technology and Systems	Large Scale Professional Producers
Zimbabwe Maize (1980-1990)	1.7t/ha	5.2t/ha
Zambia Maize (2005-2008)	1.5t/ha	5.5t/ha
Ukraine Wheat (2005-2008)	2.2t/ha	5.0t/ha
Ukraine Wheat Costs of Production (2005-2008)	US\$230/t	US\$130/t
Zambia Maize Costs of Production (2005-2008)	US\$225/t	US\$185/t

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Farm Types and Farm Sizes

- Optimal farm sizes vary between crop types and systems. Dependent on:
 - Production system
 - Propensity for labour/machinery trade off
 - Product Value Ratios – also food v cash
 - Capital requirements
 - Perishability
 - Logistics
 - Markets

Contrasts Illustrated:

Eg 1: Staple commodity grains - 10,000ha mechanised farm in Ukraine

Eg 2: Mixed local food security – 2 ha Casava, vegetable and fruit tree farm in northern Zambia

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Potential Benefits

- Bridge the Capital Gap
- Introduce a Sustainable Business Model
- Facilitate Enabling Environment
- Improve Local and General Food Security
- Create Employment
- Catalyse Economic Linkages
- Local Processing and Value Add
- Technology Transfers
- Skills Development and Management Training
- Market Access
- Risk Management Systems and Strategies
- Improved Lobbying Power
- Environmental Awareness and Sustainability
- Partnership for Development

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Potential Pitfalls

- Monopoly/Cartels
- Market Manipulation
- Undermine Local Business Development
- Land Grabs
- Displacement of Local Farmers
- Exploitation of Local Communities
- Domination of Local Resources
- Expatriate Enclaves
- Social Instability
- Local Food Insecurity
- Environmental damage

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Investor Checklist:

- Core Objectives – to build a business? Arbitrage?
- Short or Long Term perspective ?
- Business Model
- Past Experience and Track Record in the sector
- Location of Investment in the Ags chain
- Operating Standards
- Impact on Local Communities, and Markets

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Conclusions

- Agriculture will be an increasingly strategic issue in the next decade
- Within this forecast are exceptional opportunities but also exceptional risks
- It will take a concerted effort of dialogue and collaboration between the interest groups to navigate these stormy waters successfully

THANKYOU !

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