4x4 Grahame Dixie, Executive Director Grow Asia

This is a summary of **CASA 4x4 Boxset 1**, which was driven by Grahame Dixie, Executive Director of Grow Asia. We asked Grahame four questions and allowed him four minutes to share his viewpoint on each subject.

What is the case for investment in agriculture in developing markets – and is there a difference between international and local investors in this respect?

In Southeast Asia compound annual growth rate in agriculture is about 6.6%, meaning expenditure on food will double over the next decade. Similar growth rates will be experienced in eastern and southern Africa.

Inherent risks

Agriculture can be a risky investment. Investors are constantly battling with weather, external events and volatile food prices globally. But with high risk comes high reward for investors where they have good business models.

Situational analysis

When new businesses work with outgrowers, there is often a lack of trust. This is more pronounced when farmers are working with a large multinational company. The multinational is terrified that the outgrowers engage in side-selling. Companies do not get the raw material, and farmers also try to default on their loans. Outgrowers are terrified that the multinational will rip then off. The outgrowers are often more comfortable with local businesses, with whom they share a local language and a more nuanced cultural understanding.

Why should investors care about smallholder farmers when business models that rely on them are less effective, more complex and ultimately less profitable

In many countries, smallholder farmers are the dominant structure. There the private sector must establish how to work effectively with smallholders.

Competitive labour costs

Smallholder farmers are often more cost-effective in labour intensive operations.

Reduced capital requirements

Using a network of outgrowers keeps your own capital costs low, because you do not have to buy that land. It also keeps the working capital requirements lower, because outgrowers are co-investing in tractors and labour. So, it is the lower cost business model.

Reduced risk

Smallholder farmers cannot afford to be exposed to financial risk and a high percentage of businesses fail. One smart solution is what is called the repeatable business model, which has a much higher success rate.

What would you say to private sector investors who are keen to learn aspects of good investment in agriculture?

Private sector investors want to learn and not to make the same mistakes as previous investors. The World Bank and UNCTAD produced a study that came up with 24 working notes for investors. One study looked at 178 investments by the CDC Group in agriculture over a 50-year period. Another study retrofitted the principles of responsible investment to mature agri-businesses to see, in retrospect, how responsible they had been. How many of the sort of classic processes that you see in responsible investing had they applied? The study then ground-truthed its findings by asking the community around the agribusiness to share their experiences.

Lower risk solutions

What emerged was that a low percentage of businesses initially covered their cash flow. This drives first investors to sell at a loss. It is often the investor who bought the distressed assets, that produced a profitable business.

Large farming operations were riskier than a nucleus farm approach. The nucleus means that produce can be sourced from a cluster of farms around a processing operation. The financier likes this because it is a good way to ensure continuity of supply of raw materials to the processing plant. The network of farms can also be developed to increase supply with a minimum of capital investment. Experienced investors do not make investments until they are pretty sure of the business model. From time-to-time disruptive technologies come along and change the sector norms.

What are the rookie mistakes being made by new investors in smallholder-led agriculture?

New investors tend to acquire land and then try to get permission from the government for some agricultural activity. They find a potential crop and search for finance afterwards, trying to build an enterprise incrementally. This is not a recipe for disaster, but there is a better way. Experienced investors can access more finance and know the market better.

Investors can find evidence on what works. The CDC developed guidelines by retrofitting principles to their successful investments.

Heroic failures

Failures often give the most focused learning. Grow Asia organises confessionals; a safe environment under Chatham House rules, where 13 to 15 investors discuss some of their projects honestly. So much learning happens when you hear the authentic voice of someone that's made that mistakes and found a work around.

Project completion reports are written to a formula but when you meet the person who led a project, you discover so much.

Relevant links

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