An assessment about globally investment funds on agricultural areas

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Abstract

Agricultural investments has become very important investment areas day by day. Especially investment funds diversified with financial engineering implementations and so much investment funds transferred to agricultural areas. For instance hedge funds, with billions of pounds in assets, are recklessly gambling on food prices, with speculators driving massive price volatility that threatens the most vulnerable people on the planet. Funds offer investors the ability to pool capital and take advantage of larger investment opportunities that are not accessible to an individual investor. There are many funds that invest in multi-asset classes, but in recent years, there are a growing number of specific funds whose investment target is the agricultural sector; these include both public and private investors. In this study, we have been arrive at different evaluations about agricultural investment funds. Processing of agricultural produce is considered to have vast potential for increased demand for products from smallholders. The purpose of this paper is give some information about development of agriculture, particularly of small- and medium-sized agricultural enterprises around the world, facilitating access to export markets and capital is required with statistics.

Key words: Financial Funds, Investment Funds, Agricultural Funds, Agricultural Finance, Agricultural Economy

Introduction

Agriculture plays a vital role for economic growth and sustainable development. Investment in the sector has been shown to be an effective instrument to alleviate poverty and enhance food security. Evidence suggests that gross domestic product (GDP) growth originating from agriculture is twice as effective in reducing poverty as GDP growth linked to the non-agricultural sectors. In developing countries, agriculture generates on average 29 percent of their GDP and employs 65 percent of the labour force (World Bank, 2007: 3,6). Despite its importance, investment in developing world agriculture has been limited. However, agricultural investment has grown significantly in recent years, spurred by increased agricultural prices and food security concerns of developmental agencies and governments. A discernible trend in the growth of agricultural investment in developing countries is the increasing use of fund structures — agricultural investment funds. There are many funds that invest in multi-asset classes, but in recent years, there are a growing number of specific funds whose investment target is the agricultural sector; these include both public and private investors (FAO, 2010: 1-2). At the same time, agriculture and rural areas are being called upon to step up their efforts to meet the ambitious climate and energy targets and biodiversity strategy. Farmers, who are together with foresters the main land managers, will need to be supported in adopting and maintaining farming systems and practices that are particularly favourable to environmental and climate objectives because market prices do not reflect the provision of such public goods. It will also be essential to best harness the diverse potential of rural areas and thus contribute to inclusive growth and cohesion. Agriculture is a powerful resource for promoting sustainable development and reducing poverty in the twenty-first century yet it is a resource that must be constantly renewed
through knowledge and innovation. The kinds of knowledge and innovation required in agriculture will not be the same from year to year or from place to place. Agriculture requires a widening and perpetually changing array of knowledge and innovation to meet the diverse needs of the world’s growing population and to resist or mitigate the effects of climate change. The forces that generate knowledge and drive innovation in agriculture will also continue to change. Agricultural development is now driven less by production than by the forces of markets, urbanization, globalization, and shifting patterns of consumption, competition, and trade rules. The scope for technical innovation in agriculture continues to widen with advances in biotechnology. Information and communications technology (ICT) and the private sector significantly influence the production, use, and dissemination of knowledge. Where public institutions once presided over nearly all aspects of agricultural development, private firms have become far more active in developing technology and supplying it to farmers. It is obvious that agriculture increasingly relies on knowledge, and that this knowledge comes from multiple sources interacting to generate new ideas and develop responses to changing conditions (World Bank 2006b). Reforms directed at agricultural research, education, and services—often considered the center of innovation in the agricultural sector—have begun to make a difference, despite underinvestment in agriculture, especially in agricultural research and development. Even the most tradition-bound agricultural knowledge institutions increasingly consider clients’ demands, work with farmer groups, communicate more skillfully, and collaborate with the private sector. Funding mechanisms in the agricultural sector, such as those discussed here, also reflect new thinking about changing sources of innovation.

For all these reasons in this study I have discussed the characteristics of investment funds, their statistics and financial investment areas about agriculture. I have aimed in this study give some information about financial opportunities in agriculture areas.

Results and discussion

Characteristics of investment funds and agriculture

Investment funds are a mechanism to bring together assets of multiple investors in a collective investment scheme. The pooling of capital in such vehicles allows for investing the money in different asset types and financial instruments, investment targets (for example, certain types of companies) and across different countries. An investment fund is therefore a financial structure or instrument to share the benefits (financial returns) and related risks associated with the investment of capital among a number of different investors, thereby achieving diversification advantages for them. It allows the different investors with similar interests and risk-return expectations to jointly allocate their resources in the productive sectors of the economy where capital is needed. In addition, it provides an opportunity to invest money in a broader range of investment targets than would be possible for a single investor (FAO, 2010: 19-20).

Investment funds can generally be categorized according to various criteria. Usually, they are distinguished according to the following aspects:

Focus: They focus on investing in a specific region (e.g. emerging markets) or in different asset classes (such as commodities) and financial instruments (for example bonds, listed securities and derivatives). Targeted investor base and level of access for investors. These include public vehicles that are, in principle, available to the general public and often listed on stock exchanges (such as mutual funds); funds to which access is limited to certain investor groups (in most cases, institutional investors); and private investment funds (for example, those set up to manage the assets of only a fewer number of or high-net worth, qualifying investors investors).
Duration. A distinction can be made between closed-end (limited number of shares and/or limited duration) and open-end investment funds (i.e. a vehicle that can issue new shares at any time and accept new investors).

Agri-environment schemes, which reward farmers for replacing intensively farmed land with areas that provide food, shelter and safe breeding sites for wildlife, should be better designed and more competitively funded, include options for all farmers and other land managers, and pay according to the value of environmental benefits that they deliver. These schemes can help secure EU biodiversity commitments and should become the cornerstone of sustainable land management in rural Europe (COM, 2004: 2).

Given the resource constraints and environmental pressures, exacerbated by climate change and increased volatility, the major challenge for the agri-food sector is to increase agricultural productivity in a more sustainable manner. Sustainability of ecosystems is fundamental to maintaining the resilience in productivity growth. There is growing pressure on natural resources, including land, water, marine ecosystems, fish stocks, forests, and biodiversity, which are fundamental to sustainable production. Environmental pressures are also caused by agriculture, which accounts for about 14% of total anthropogenic greenhouse gas (GHG) emissions. Increasing productivity and improving sustainability of agriculture are not mutually exclusive objectives. Much can be done that contributes to both these objectives in a complementary fashion. However, the possible farm practices to undertake generally involve a long lead time before realising the benefits, suggesting that actions are needed now. Encouraging better agronomic practices, creating the right commercial, technical and regulatory environment and strengthening the agriculture innovation system (e.g. research, education, extension) are all essential steps. As the agri-food chain is essentially a business activity, the private sector will need to play a lead role in developing and adopting innovation but more emphasis on public-private partnerships, in such areas as research and extension services, can facilitate progress. Reducing food loss and food waste could significantly ease the pressure to increase productivity. Progress is being made. Governments have started to orient their policy priorities to take account of the environmental consequences of food and agriculture production and consumption, and to improve incentives for optimal resource use by farmers. The specific approach varies by agro-ecology, farming system and market conditions but consistently will involve increasing the conservation and sustainable use of natural resources in agricultural production systems, as well as the reduction of waste and pollution associated with inefficient input use and degraded ecosystems (OECD-FAO Agricultural Outlook 2012-2021, 2012:1).

Some statistics of selected investment funds (capital base)
The individual capital bases of the identified investment funds included in the stock-taking range from USD 8 million to almost USD 2.7 billion. Overall, all identified agricultural investment funds included in the stock-taking have a total (targeted) capital base of approximately USD 7.08 billion. When excluding MIVs and the Emergent Capital Land Fund, the identified agricultural investment funds have a total (targeted) capital base of about USD 3.7 billion (FAO, 2010: 24).
Graph 1. Distribution of agricultural investment funds according to capital base
Source: FAO 2010 Reports

Table 1. Capital base of selected agricultural investment funds

<table>
<thead>
<tr>
<th>Funds</th>
<th>No. of (private) equity funds</th>
<th>No. of debt/equity funds</th>
<th>No. of debt funds</th>
<th>No. of guarantee funds</th>
<th>No. of other funds</th>
<th>Total no.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>14</td>
<td>8</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td>31</td>
</tr>
<tr>
<td>Total (targeted) capital base</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>31</td>
</tr>
<tr>
<td>Total of microfinance investment vehicles (MIVs)</td>
<td>3,070</td>
<td>964</td>
<td>68</td>
<td>30</td>
<td>2,950</td>
<td>7,082</td>
</tr>
<tr>
<td>Total of hedge funds</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>664</td>
</tr>
<tr>
<td>Total, excluding MIVs and hedge funds</td>
<td>3,070</td>
<td>343</td>
<td>25</td>
<td>30</td>
<td>250</td>
<td>3,718</td>
</tr>
</tbody>
</table>

Note: Figures in USD million.
Source: FAO 2010 Reports

Graph 2. Geographic distribution of agricultural investment funds
Source: FAO 2010 Reports

Regarding the geographic distribution of the funds studied, 32 percent (ten funds) of the identified vehicles are focused on SSA and an equal number of funds invest on a global scale. The remainder is distributed at an equal share throughout the other regions of South Asia (SA), Latin America and the Caribbean (LAC), the Middle East and North Africa (MENA) as well as EECA.

Conclusion
Investments in agriculture play a crucial role in fostering the development of the agricultural sector in developing countries because it contributes to growth, productivity
increases, poverty reduction and hence sustainable development. Increasing interest of investors is being perceived, ranging from public and private investors to joint initiatives. In this respect, it can be said that the research findings underline the conclusions of the World development report (2008): “… with the right policies and supportive investments at local, national and global levels, today’s agriculture offers new opportunities to hundreds of millions of rural poor to move out of poverty” (World Bank, 2007:1). This publication provides a broad overview of efforts to tackle agricultural investment in developing countries through investment funds and to facilitate discussions on the importance of setting up effective investment vehicles for this purpose; however, it is beyond its scope to provide a role model of an agricultural investment fund that can be easily replicated. It is also important to mention that the current global financial and economic crisis has not spared developing and transition economies, and has affected all kinds of investors and providers of capital, ranging from hedge funds to the international donor community. While in principle, investments in agriculture have been affected by the same constraints as other sectors (lack or pulling-out of investors, more conservative investment strategies etc.) agriculture in developing countries offers investment opportunities to investors pursuing to invest in alternative asset classes. Many of these prefer investment through funds that can provide risk diversification among countries and individual investments. Overall, investments in agriculture in developing countries through investment funds can foster development, offer growth potential, and can be attractive to different kinds of investors (FAO, 2010: 53).

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