



**International  
Finance Corporation**  
World Bank Group

# Innovation in Agribusiness Response to Rising Food Prices

Richard Henry  
Lead Economist, IFC Agribusiness Department

Development Marketplace 2008  
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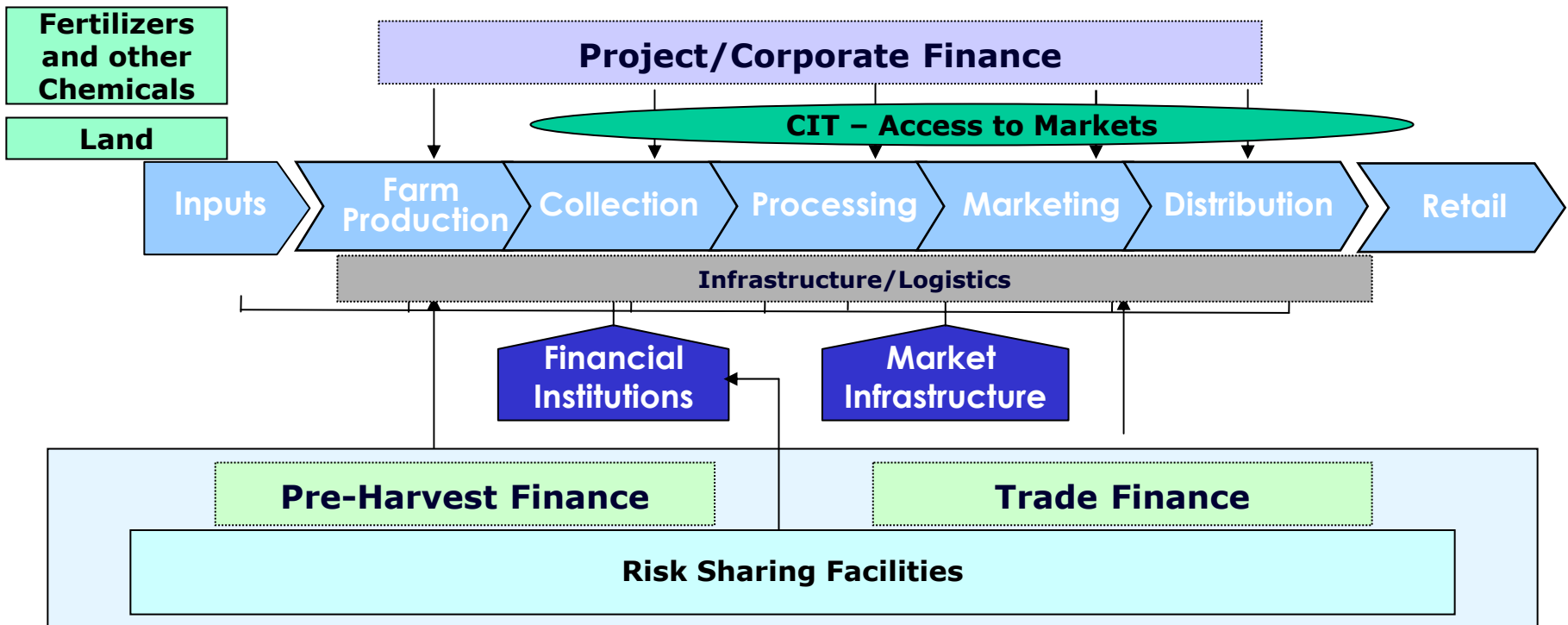
# Agenda

- **IFC Agribusiness**
- **Snapshot of current operations**
- **Food Price Crisis – Impact on Supply Chains**
- **IFC Response and Adjustment to Food Crisis**
- **Some Recent Interventions on Land and Financial Services**

# IFC Investment in the Agribusiness Value Chain Exceeded US\$1.4 Billion in FY 2008

## **IFC's Goal:**

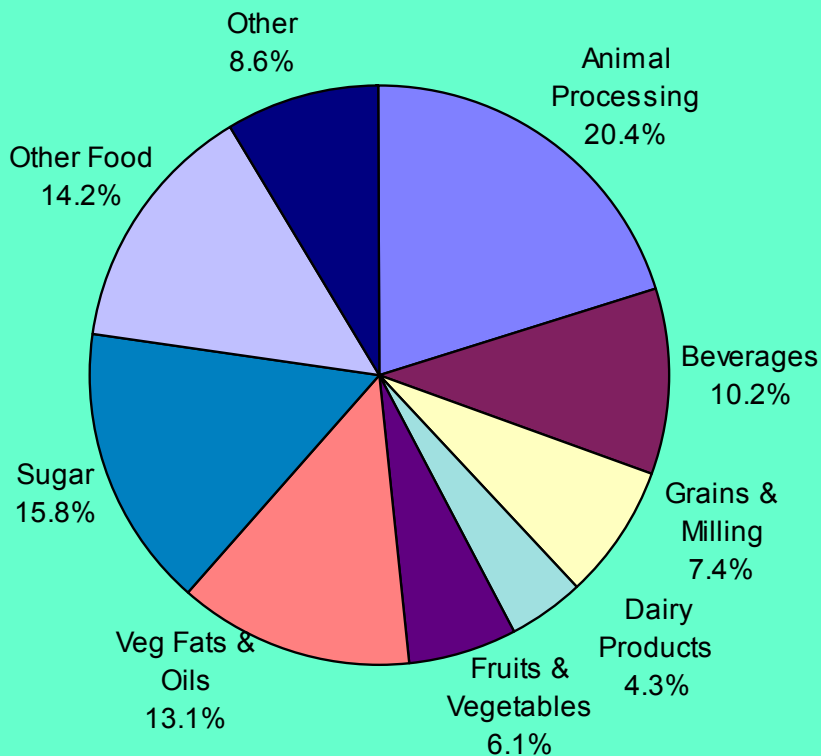
Deliver development impact along the global agri-supply chain, through investments and advisory services with the private sector, to create opportunities and improve peoples' lives



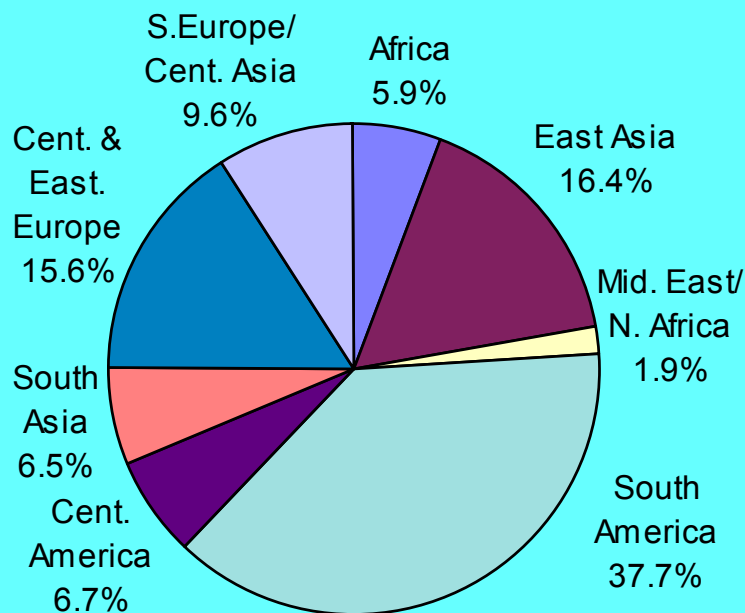
# Agribusiness Committed Portfolio

**\$2.2 Billion Committed Portfolio As Of June 30, 2008**

**By Sector**



**By Region**



## Food Price Crisis Financial Impacts on Supply Chain

- **Not only a food price crisis but conjunction of:**

- Food price escalation
- Increased food price volatility
- Freight cost
- Input cost



- Cash flow under pressure
- Huge incremental demand for working capital along the supply chain
- Increased operational risk
- Financial institutions reach their credit/prudential exposure limits to the sector and/or to single borrower

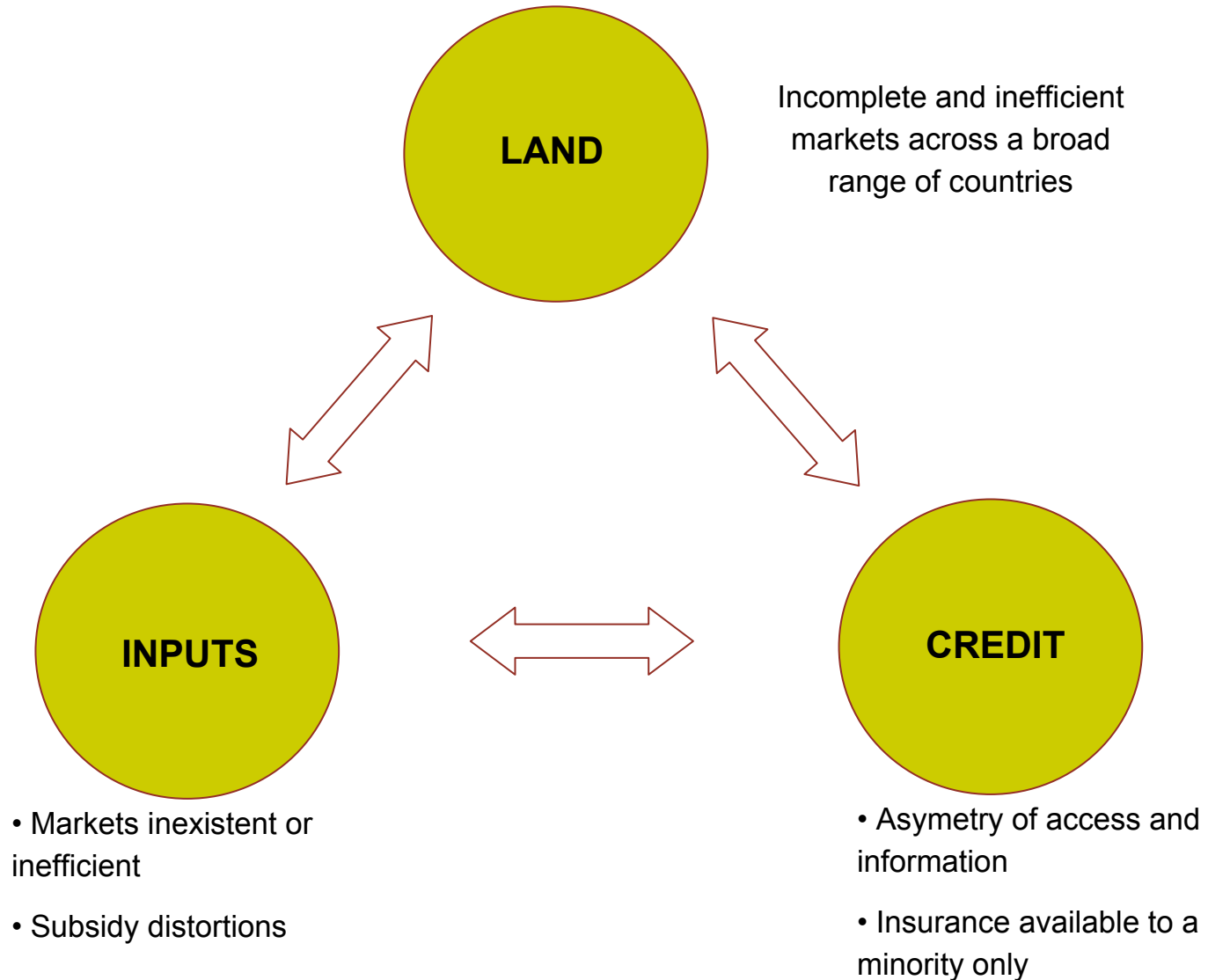
- **Plus significant liquidity crisis**

- Flight to quality
- Reduction of exposure to sector/companies
- Even better credits cannot renew their credit lines



- Bank lending constrained
- Prefinancing by intermediaries (traders, processors, input suppliers, etc) severely curtailed

# Institutional Challenge (WDR 2008)



## IFC is Well Positioned to Provide Interventions in the Short Term



### Short Term Response

- Strengthen Supply Chain Coordination and Increase Liquidity via **Working Capital Facilities**
  - Prevent disruption of prefinancing
  - Ensure continued provision of essential inputs (seeds, fertilizers, chemicals, fuels).
  - Processors, traders and input suppliers in good standing eligible
  - Increasingly input producers (seeds) and suppliers
  - New clients
  
- Increase rural credit through **Wholesaling Facilities with Financial Institutions**
  - Risk sharing (e.g. partial credit guarantees)
  - Access to Finance - reach a new class of smaller clients (farmers, MSMEs)
  - Channel technical assistance to financial institutions (agribusiness credit analysis) and clients (environment and social, linkages, etc)

# IFC is Well Positioned to Provide Interventions that Address Long-Term Imbalances

Medium Term  
Response

## SUPPLY STRATEGY

### 1. Restore Land as an Investable Asset Class

- Bring land into sustainable production (CIS, Latin America, Africa)
- Package land into economically viable lots
- Partnership with **World Bank** to improve efficiency and transparency of land markets

### 2. Unlock the Productive Potential of Land

- Application of better agronomic practices (conservation, seeds, fertilizers, chemicals)
  - **Regional focus on countries with upside potential: Argentina, Brazil, Russia, Ukraine**
  - Variety of investments: Funds, Input distribution, Primary Farming
- Improve sustainability of operations through Technical Assistance (cleaner production, water efficiency)
- Support sustainability progress/ global standards through commodity roundtables (palm oil, soybean, sugar, cotton, beef)

# IFC is Well Positioned to Provide Interventions that Address Long-Term Imbalances

Medium Term Response

## 3. SUPPLY CHAIN STRATEGY

- **Infrastructure**
  - Strengthen and support the development of
    - Bulk ports and Terminals (Timbues, Aguirre)
    - Land, Rail, River and Sea Transportation (UABL, TransAmerica)
    - Logistics and Warehousing (Merec, Trio, Ransa)
    - Modern retail (Rubliovskiy, EvroTech, Agrokor)
  - **Irrigation Infrastructure (especially through PPPs and Municipalities)**
- **Rural credit and trade finance**
  - **Wholesaling Facilities with Financial Institutions, Processors and Traders** to increase rural credit to farmers and MSMEs.
  - Trade finance
  - Warehouse receipts
- **Risk management**
  - **Explore** the systematic development of **Financial Instruments related to Agriculture** that deepen markets and allow for efficient intermediation of financing and risk management (e.g. GIRIF parametric insurance, weather-index insurance)

# Recent experience in Land Projects

## SE Europe

EUR 15 million

Land Real Estate Investment Trust (REIT)

Business Model:

- Acquire small agri-land plots.
- Consolidate into economically viable holdings and rent out to farming company
- Realize value through higher land productivity translating into higher land prices for REIT
- IFC to invest equity to scale up operations

## Global Land Agri Fund

USD 75 million

Agri-Land Focused Fund Manager

Business Model:

- Identify and invest in regional agricultural farming companies.
- Build companies into scalable platforms by providing growth capital, increasing productivity and yields
- Geographic and product diversification in strategic areas.

## Regional Land Fund - South America -

USD 50 million

Regional Fund for Land Consolidation & Farm Development

Business Model:

- Consolidate tracts of land (primarily grazing land) and develop for farming purposes.
- Apply best-in-class techniques and inputs

## Land Development - South America -

USD 50 million

Large-Scale Farm Operator

Business Model:

- Farms large tracts of purchased or leased land, creating economies of productive scale.
- Provides technical expertise, including use of best-in-class techniques and inputs
- Intent on rapidly increasing size of managed areas

# Recent experience in Financial Services Projects

**LAC**

**USD 30 million**

**Financial Intermediary**

Business Model:

- Financing of family-owned SMEs engaged in agribusiness
- Country and product diversification
- IFC to invest loan to scale up operations

**Mexico**

**USD 2 million**

**Financial Intermediary**

Business Model:

- Identify and invest in local agribusiness companies
- Build companies into scalable platforms by providing growth capital
- IFC to invest in equity to support the growth of the company

**Tajikistan**

**USD 10 million**

**Local Bank**

Business Model:

- On lending to farmers and cooperatives
- Leasing
- IFC to invest loan to scale up activities and share risk

**6 IDA countries in SSA and East Asia**

**USD 55 million**

**Trader**

Business Model:

- Development of the coffee supply chain.
- Financing of sponsor's and farmers permanent working capital needs
- Sponsor provides technical expertise, including techniques and inputs for sustainable production
- IFC to invest loan to scale up activities and share risk

# IFC Advisory Services Supports Integration into Markets

- **Linkages programs to integrate farmers into market-driven supply chains**
  - Government mandated or purely private based
  - Some supply chains more conducive to contractual arrangements: pork, poultry, plantation crops (palm oil, rubber, etc)
  - Demand for traceability and sustainability of production are strong drivers of increased coordination
- **Food quality and safety management systems**
  - HACCP, ISO 9000 and 22000
  - Private standards – GlobalGAP and others
- **Environmental and social performance**
  - Basic IFC Performance Standards
  - Environmental management systems – ISO 14000
  - Increasingly private standards
  - Support to the emergence of global standards for commodities: palm oil, soybean, sugar, cotton
- **Financial transparency/corporate governance**

# Rubber sector: Salala Rubber (Liberia)

## The Project

\$29m project to rehabilitate plantation dilapidated during the civil war. In addition to productivity gains by new plantings and renovation of processing plant, rehabilitate social infrastructure (housing, schools, clinics) which is in a very poor state.

- \$10m A loan

## IFC Role

- Provide loan with long tenor appropriate for plantation cycle and not available in post conflict environment
- Political and country risk cover
- Implement environmental and social policies and guidelines
- Long term partnership with SocFin, one of the shareholders

### Employment Creation

**2,000  
Direct  
Jobs**



**Training,  
Health,  
Education,  
Housing**

### Farmers Reached

**2,000  
Smallholders  
Reached**



**40,000  
Persons  
Reached**

### SMEs Reached

**14 SME  
Transport  
Tapping  
Pallets**

# Smallholder Coffee: ECOM (6 IDA countries)

## The Project

5-year corporate loan facility to ECOM, a leading supply chain manager of coffee and IFC client since 2006. To be on lent by local subsidiaries to farmers for capital expenditures and crop financing in 6 IDA countries

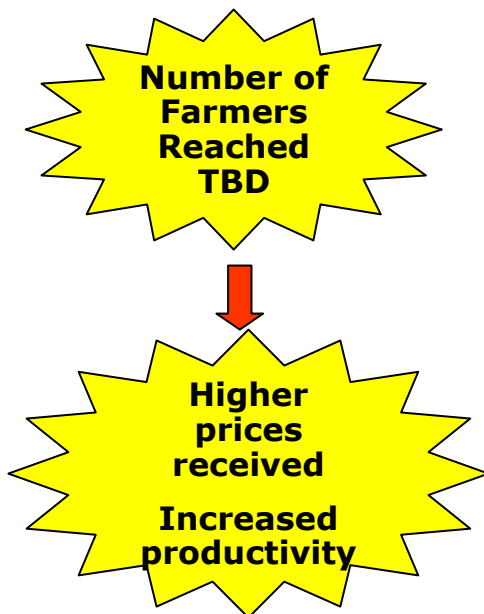
(Indonesia, Vietnam, PNG, Kenya, Tanzania, Uganda).

- \$50m A loan

## IFC Role

- Long-term finance currently not available to ECOM
- LT partner with strong E&S culture
- Sustainable farm practices for Nestle, Starbucks, etc.

### Farmers Reached



### Technical Assistance



# Logistics: Bakhresa (Mozambique-Tanzania-Malawi)

## The Project

\$33.4m project to the Bakhresa Group, a leading Tanzanian wheat miller to implement a regional corporate investment program. Establishment of grain handling port and storage facility in Mozambique to lower the delivered cost of wheat to the North Mozambique/Malawi Region.

- \$20m investment package for three operating entities in Mozambique, Tanzania and Malawi

## IFC Role

- Long-term financing with tenors not available locally
- Provide working capital needs following increase in wheat prices
- Financial transparency
- Technical assistance: corporate governance and HIV/AIDS

### Logistic Cost Reduction

**\$50/mt  
wheat**



**Surplus for  
company  
and  
consumers**

### Employment

**Create 70  
permanent  
jobs**



**Better  
livelihoods**

### SMEs Reached

**5  
Wholesale  
Distributors**



**Increased  
incomes**

### Technical Assistance

**Corporate  
Governance  
HIV/AIDS**



**Sustainable  
supply  
chain**

# Dairy sector: Conaprole (Uruguay)

## The Projects

\$108m and \$62.5 m expansions of dairy product facilities to efficiently utilize global competitive advantages of Uruguay's largest dairy cooperative, and one of its largest employers.

### 2002

- \$20m A loan
- \$10m C loan

### 2007

- \$20m A loan
- \$10m standby loan

## IFC Role

- Provide LT loans not available in local market
- Assist small farmers' productivity
- Implement environmental and social best practices and guidelines

### Employment Creation

**1,450  
Total  
Direct  
Jobs**



**250  
Seasonal  
Workers**

### Farmers Reached

**2,300  
Farmers  
Reached**



**3,300  
additional  
indirect  
jobs**

### SMEs Reached

**60 Ind.  
Distributors  
Over 250  
jobs**



**15,000  
Points of  
Sale**

### Technical Assistance

**Efforts to  
improve  
small farmer  
productivity  
and income  
50-80%**

# Irrigation: Jain (India)

## The Project

Jain Irrigation Systems (JIS) is India's largest provider of micro irrigation systems (MIS). JIS is growing rapidly and expanding its manufacturing capacities for MIS as well as its processed fruits and vegetable production.

- \$30m A loan

## IFC Role

- Stamp of approval as the Company prepares for its international expansion
- Global agribusiness partner
- Implement environmental and social best practices & guidelines

### Employment

**5,600  
Total  
Direct  
Jobs**



**Improved  
livelihoods**

### Farmers Reached

**2,300  
contract  
farmers  
reached**



**Improved  
incomes**

### Technical Assistance

**Cleaner  
production  
technologies**

### Environmental

**Reduce  
demand for  
water  
through  
efficient  
delivery**

# Thank You

Richard Henry  
Lead Economist,  
IFC Agribusiness Department  
[rhenry@ifc.org](mailto:rhenry@ifc.org)