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Key Success Factors for Investment in International Agricultural Land

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Introduction

Although the initial focus of Middle East-based investors in agriculture was the acquisition of land assets in developing and middle-income countries, a careful analysis of the sector reveals that the best investments may actually be located within highly developed economies.

Growth in Land Investment

The agricultural land investment sector has grown in prominence in recent years, due to concerns about food security in the Middle East and North Africa, but also because investments in land provide a good hedge against inflation, provide income, diversify portfolios and are resilient across economic cycles. However, early investments in poor and middle-income countries have often disappointed.

Additionally, GCC-based investors who focused their investments on less-developed countries received a significant amount of bad publicity from the global media, due to concerns about the potential impact on local ecosystems and the ability of local populations in target locations to achieve positive gains from these investments.

> It's important to decide what success would look like.

Risks

An analysis of the key factors for success in agricultural land management include a study of risk, climate, finance and management.

The country risks include factors such as political stability and land rights, which are often less certain in lower-income countries. For example, some early investors in Egyptian land found that their agriculture investments were not secure when the government changed.

Other country risks include the extent to which communications systems, financial systems, infrastructure and government support are available in the target investment country.

Quick read

- Middle East-based investors choose agricultural land assets for numerous reasons
- The main reason for such investment lies in food security, but also to counteract inflation and to boost resiliency through economic cycles
- Investing in land in developing countries can be a risk due to climate, finance and management
- Reputation can also be affected due to concerns around impact on local ecosystems
- More investors are looking at prospects in developed countries rather than low priced farmland in developing countries
- Minimising of risk, providing returns, quality of funding and suitability of management all point to developed nations as a better option for investment
- Before choosing, the investor needs to visualise what success looks like for them
- This means considering investment outcomes, including capital appreciation, current income yield and non-agricultural returns, such as mineral rights and land use change.

Industry risk relates to the state of development of the industry on a local and regional level and whether it has potential to grow at a significant pace, providing a return that is attractive to investors, who are investing in an emerging sector in an unfamiliar region.

> There's a strong argument for examining opportunities for agricultural investment in developed countries, rather than seeking fertile farmland at low prices in developing countries.

Legal risk encapsulates the security of land ownership and tenure, as well as the security of leasing and sharing agreements. The incorporation and acquisition requirements of emerging economies are likely to be less mature than those of developed countries. Finally, it is important to consider financial and tax factors, such as the repatriation of profits and corporate tax rates.

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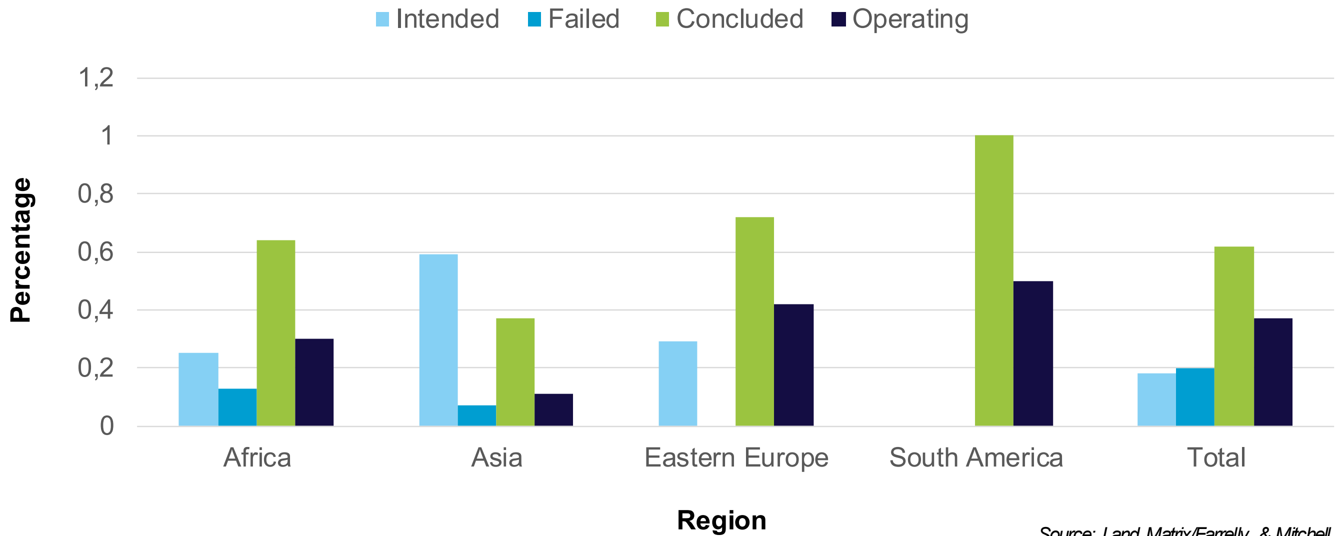
Figure 1: The status of GCC backed land deals by in less developed regions. Investments in Africa and Asia have a higher propensity to fail.



Source: Land Matrix/Farrelly & Mitchell

Investors also need to give careful consideration to climate risk, in terms of rainfall patterns, soil types, as well as the availability and accessibility of land, water and infrastructure. The countries that have the most developed infrastructure also tend to have the most available and reliable research data.

The financial risk for farmland investment must be carefully calibrated to ensure that it meets the needs not only of the promoters, but also of the investors. To reassure investors, it's important to do a feasibility study relating to the specific project, by compiling a business plan that covers the entire farm to fork process. ESG audits are also key considerations when establishing the viability of an opportunity for some institutional investors.

Funding

The funds for the project should include a mix of donor, institutional and private equity funds to ensure sustainability and the funding models should be geared towards medium to long term investment priorities. Understandably, investors often expect an above-average return on investment, due to the additional risk of investing in unfamiliar markets. Having a high equity contribution from the opportunity owners is helpful as this decreases investor risk, which could attract additional agriculture investments.

Management

Another key factor in putting together a viable agricultural investment project is the availability of suitable management on site, with the right skills and expertise to manage and execute on the business. Finding upper to middle tier management can be particularly challenging in less-developed economies.

Such managers would also need to be able to identify the most suitable – not necessarily the most advanced – technology available for animal husbandry, horticulture, cash cropping and aquaculture. For example, in less developed countries it is important to choose technology that is durable and requires little maintenance when operating remotely from major urban areas.

Success

Finally, it's important to decide what success would look like. This requires promoters to set a wide standard for the investment outcomes, including capital appreciation, current income yield and non-agricultural returns, such as mineral rights and land use change.

All of these factors build a strong argument for examining opportunities for agricultural investment in developed countries, rather than seeking fertile farmland at low prices in developing countries.

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Conclusion

Middle East-based investors choose agricultural land assets for numerous reasons . The main reason for such investment lies in food security, but also to counteract inflation and to boost resiliency through economic cycles. The minimising of risk, generation of sufficient returns, availability of quality funding and suitability of management all point to developed nations as a better option for investment .

Expert in this Insight

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