

Investing in Agricultural Funds: Relieving Poverty and Food Security in Canada and Worldwide

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SUMMARY

This paper outlines how investing in a private equity agricultural fund is the solution to current and expected food crises. A business model will be outlined on fund objectives, implementation and methodology. The paper will continue on to outline why it is important for Canada to address the shortage of food, as well as overcome certain challenges within the Canadian economy. Needs of the overall agricultural market within developing/emerging markets will be outlined as well as how Canada can meet gaps within this sector. Finally, examples of successful North American agricultural funds will be discussed regarding their implementation and generation of returns while helping the community at large.

AGRICULTURAL FUND MODEL

I propose to invest in a small cap private equity agricultural fund that has a long term focus of financial returns. Social problems the fund will address are the current shortages of food, which is bound to get worse worldwide, with the poorest nations being most affected.

The fund will address the shortage of food problems of farming communities by reducing spoilage levels, increasing yield/acre, and implementing efficient business-customer operations. These solutions can be implemented by providing economical storage means, basic modern farming technologies, educating small scale farmers, and introducing key customer service practices.

Investors in the fund will be individuals and/or organizations, where they contribute in multiple small portions or large scales. The fund will succeed and acquire profit by keeping costs low, having a long term focus, and targeting a niche market of investors. Fund returns will be channeled to investors, farmers, and management. Refer to diagrams below on generic structure of fund.

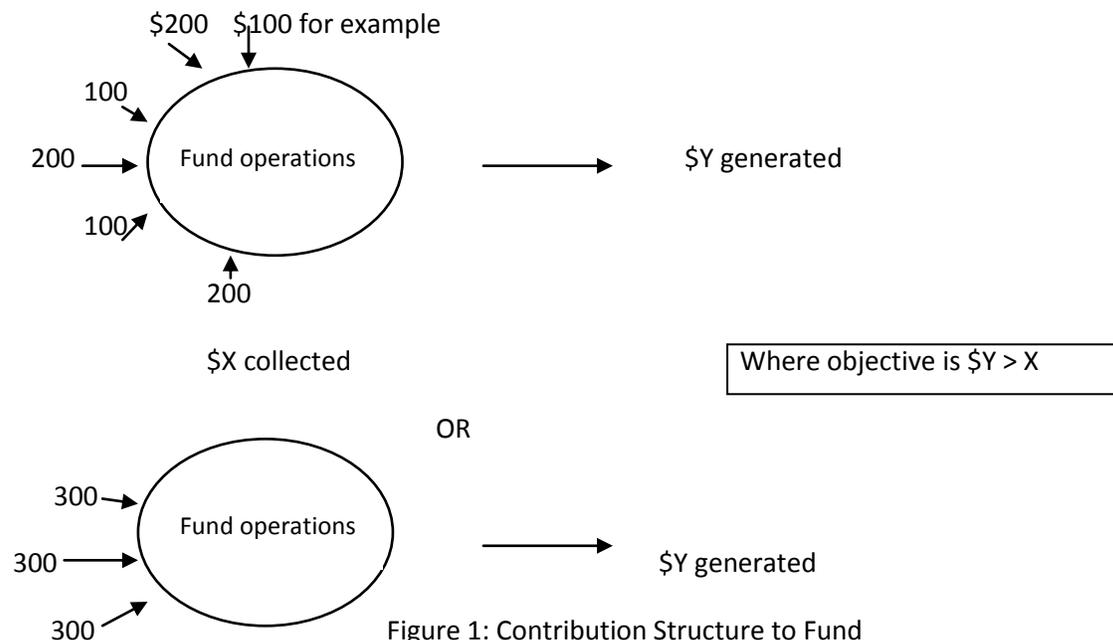


Figure 1: Contribution Structure to Fund

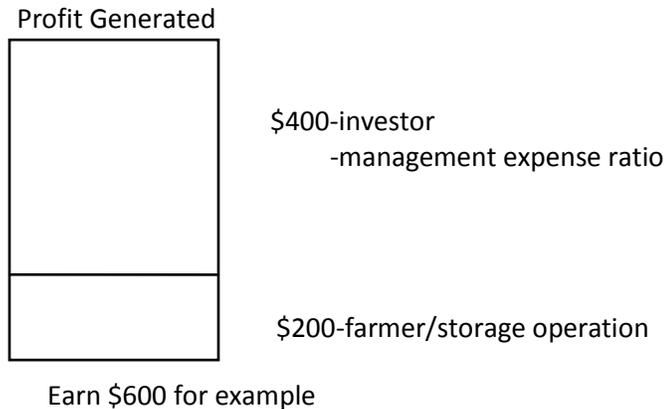


Figure 2: Channeling Fund Earnings

At the same time, setting up agricultural funds will help to address current and expected problems Canada is facing economically within the food and agricultural industries.

WHY CANADA REQUIRES AGRICULTURAL FUNDS

Agricultural funds in Canada must be instilled for a number of reasons. National revenue needs to increase, healthy foods need to be more affordable, the health care system needs to be de-burdened, and trade relations must be diversified as economic realities shift in today's global market.

Agricultural funds offer a more aggressive entrepreneurial effort for Canadian small businesses to expand by stepping on to international platforms. As of 2010, small businesses contributed to the Canadian GDP by over 30%, carrying out 86% of Canadian exports in 2010, and accounting for \$68 billion of exports in 2009¹. Small businesses create immeasurable resulting income, wealth, and services for a country given all the intermediary operations, purchases, and tax revenue involved. Up to 47% of jobs have been created within the last decade thanks to small businesses¹. The impact of GDP on standard of living is significant in any country: every yearly GDP increase of 2 to 3% can double the population's standard of living for 30 to 40 years². Such standard of living needs to be improved in Canada given that living expenses continue to rise.

An increased cost of living is making life difficult for many Canadians, especially those living on fixed incomes. Food prices have risen significantly in Canada within the last few years³, while minimum wage income increases have not kept up when indexed against cost of living and inflation⁴. Consumers are substituting higher-priced fresh foods with lower-priced saturated fat meals⁵, affecting personal health and burdening the Canadian healthcare system⁶. Simultaneously, Canada's limited grocery retailers have created an oligarchic scenario between food suppliers and consumers; consumers have no choice but to purchase foods at predetermined prices.

Canada will need to find ways to make foods more affordable given input production will become more expensive. Canada presently has limited productivity abilities in terms of human capital to grow food: currently the population of 32 million has an elderly dependency ratio of 18%, and it is expected to be 43% by 2040⁷. A country which has a large aging population typically has a lower labor force, and risks

lower productivity and GDP. A lower GDP can mean a lower standard of living. Two manners by which Canada can defeat the risk of decreasing GDP is by technological advancement and innovation, or by importing more low-cost intensively sourced means of productivity⁸.

According to a Canadian study released in 2010 by the Institute for Research on Public Policy, importing from low-cost producing countries will be economical for Canada, as well as offer an opportunity to develop its own terms of trade. Canada should not shut itself off against three-quarters of the global economy by trading mainly only within North America. Importing food goods will also lower the Consumer Price Index for its Canadian citizens. In addition, Canada can benefit by focusing on regions with booming, youthful and emerging markets as they continue to demonstrate the most potential growth. However, Canada must first overcome certain economic trade challenges prior to taking advantage of the opportunities.

ECONOMICAL CHALLENGES AGRICULTURAL FUNDS FACE IN CANADA

The main challenges hindering the expansion of Canadian-based agricultural funds are legislative barriers of mercantilism, protectionism, and limited trade partners. Over governing supply management system, mercantilism, has resulted in Canadian-made products being more expensive to local consumers while being cheaper in markets to which the products are exported, such as the dairy market⁹. In addition, research indicates protectionism – the blocking out of foreign-made products to promote domestically made ones – leads to potential trading partners placing their own import barriers, shutting Canada out from future export opportunities altogether¹⁰. Canada requires as many trading partners as it can get for the long term given the labor shortage it expects, and current global economic expansion towards the East and South. The Canadian government should respond to the “wind of market-driven import diversification” – where trade should be carried out as per long term importing benefits rather than the typical short sighted export benefits¹¹.

HOW AGRICULTURAL FUNDS BENEFIT DEVELOPING/EMERGING MARKETS

Emerging markets are growing at a staggering rate where demand for food is to skyrocket¹² and cultivation needs are greater today than ever before. The manner by which Canadian-based agricultural funds can reduce food shortage problems is by providing funds for proper storage and training, creating financial sustainability within communities of the developing/emerging markets, and leveraging the multicultural human capital.

One of the backbone industries for many developing/emerging markets is the agricultural sector¹³. It is estimated that approximately half a billion individuals rely solely on subsistence farming¹⁴, where their own harvests feed their own family, let alone produce for the country itself. Many developing/emerging markets can and do produce sufficient food amounts to feed their own population, but approximately one-third of harvests normally spoil due to inadequate storage or insufficient number of buyers¹⁵.

Agricultural funds invested in developing/emerging markets can finance storage, distribution, machinery, and animal husbandry. Currently, harvests are left in open-air or stored in already used gunny bags, which lead to seedling moisture and bacterial ruin; or, farmers lack the funds or education

on needing to store seeds in a hygienic environment¹⁵. Agricultural funds can be used to provide economical storage means such as silos or gunny bags, or train farmers on importance of storage hygiene. Agricultural funds can also finance second-hand farming equipment to replace outdated farming machinery and cultivation practices with basic modern equipment and practices; this will help increase crop yields¹⁶. In addition, agricultural funds can finance animal husbandry since demands for quality meat products are skyrocketing for growing middle-income families in emerging markets, making it unaffordable for low-income families altogether. Addressing storage, distribution, machinery, and animal husbandry within agricultural sector consequentially contributes to the manufacturing, retail, and services sectors, creating cash flow and wealth for the economies.

Implementing agricultural funds will also be an effective manner by which Canada can help reduce global poverty as per the United Nations Millennium Development Goals¹⁷. In 2010 Canada only contributed 0.32% of Gross National Income to Foreign Aid, when the UN goal is 0.7%; also by 2014, Canada is expected to reduce its contribution to 0.28%, which is the lowest of 22 official donors¹⁸. It is more long standing and worthwhile to economically empower an individual or community to be resilient entrepreneurs and value-conscious consumers by partnering up with them, rather than making them financially dependent¹⁹. Culture and human capital is a valuable resource that can be leveraged to create financial sustainability for communities within developing/emerging markets.

Canadian citizens offer a rich network of cultural connectivity to regions that require the above mentioned agricultural solutions. Agricultural funds financed from Canada's multiethnic communities offer a natural economic bridge to strategically boost agricultural trade for Canada at an international level by investing it into their respective heritage country's agricultural infrastructure, technologies, customer service, and operational efficiency. It is forecasted by 2030, one out of three Canadians will be of a visible minority, which includes of South Asian or Pacific Asian descent²⁰. Studies have found that Canada has greater trade relations with those nations that have provided large numbers of immigrants²¹. Cultural ties, trusts, and networks provide fund entrepreneurs invaluable elements for Canada's long term interest and encourage entrepreneurship effort and expansion. Below are examples of agricultural fund based organizations that finance contributions from individuals, corporations, and hybrids irrespective of cultural connectivity in order to make an overall impact to communities. Outlined below are such organizations that have instilled such empowerment through agricultural funds.

CASE 1 – One Acre Fund

The One Acre Fund was launched in 2006 by Andrew Youn in United States to gather funds and provide low interest loans to farmers in East Africa. Loans are used to purchase basic modern farm equipment and commercial seeds, provide education on key agricultural methods and improvements, and insure farmers to double profits within a planting season. What makes the fund particularly successful is monitoring and evaluating the service model effectiveness throughout the input, credit, training, and facilitation stages. Specific metrics such as rates of acre profitability, repayment, farmer income increase, and families reached are tracked to determine value of the fund itself. For example, from 2010 to 2012 31,000 to 145,000 farm families were served, while financial sustainability of field costs covered by farm revenue from 2010 to 2012 was 60% to 85% respectively. In addition, the One Acre Fund

measures its success not only by social impact, but also investor retention on number of unique donors and investment members rate of increase. These metrics are published by One Acre Fund within regular 6-month report newsletter distributed among its investors and is publicly available. Reporting such metrics reinforces investors' social impact of contributed funds²².

CASE 2 – e-Coupal - ITC Group

Dr. Prahalad of University of Michigan presents in his book Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profit a case study on the ITC Group offering more efficient and fairer ways for Indian farmers selling their harvest. The company installing 6,500 kiosks – or e-Choupals – in 40,000 Indian farm villages served 4 million farmers and allowed harvest to be sold at competitive market level prices, omitting middle party costs and reducing reliance on monopolistic purchasers. The technological solution ITC provides is a model many farmers in developing/emerging markets can utilize, where they are primarily fund and partnered with the agricultural fund²³.

CASE 3 – Developing World Markets

Since 2003 Developing World Markets, based in United States has been an asset manager and investment bank structuring and investing funds to 140 micro-financing and other socially geared institutions promoting sustainable economic and development worldwide. In 2007, DWM invested over \$150 million in 20 countries in Africa, Asia, Europe and Middle East – including 350 Initial Public Offerings on local stock exchanges. As of 2012, DWM is managing approximately \$785 million, in realms of debt issuance, private equity, and capital markets. DWM has geared itself more towards institutionalized based investors who have a stake on investments made in the agricultural sector. For example, in 2007 DWM debt issuance raised \$25 million for Azerbaijan based small businesses where all lenders of the debt were foreign owned and based within Europe²⁴.

Final Word

Canadian-based agricultural funds are the means of providing a vast scale of resources addressing the agricultural demands of emerging markets. These funds are vehicles to leverage the powerful multicultural network, advanced agricultural technologies, and essential business-customer protocols Canada already abides by that can be exported to regions that require it most. At the same time, some key economical Canadian problems can be addressed, such as the expected labor shortage, current increasing food prices and burdens on the health care system by overcoming withstanding national economical challenges of mercantilism, protectionism, and limited trade partners. Addressing such problems and challenges via agricultural funds will be key to solving the essential demand for food nationally and internationally, where innumerable families within Canada and worldwide are affected for the better.

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