Leveraging Buyers’ Power And Forging Strategic Public-Private Partnerships

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Outline

• Economic Landscape: Interesting But Uncertain Times
• Leveraging Buyers’ power to avert the looming “Tragedy of the Commons 2.0”
• 3 Gs to Double In A Decade:
  • Exploring New Geographies
  • Reigning-in Germs
  • Forging strategic Public-Private Partnerships with Governments
Interesting But Uncertain Times
The Square Root Recovery or Double-Dip Recession?

January 2003 – July 2011

Source: TIGER Database, The Brookings Institutions
OECD Consumers’ Confidence levels still in negative territory

“Nowhere to hide”? 
Euro Fiscal and Sovereign Crisis: From Greece to Italy

- Potential consequences:
  - Credit crunch and contraction of trade credit in the eurozone
  - Temporary demand contraction as unemployment continues to rise (9% in the Euro Zone)
  - Increased demand elasticity to price of seafood
  - Currency risks in case of Greece disorderly default and exit from EU
In the USA

Economic Fundamentalism (Extremism) on both ends of the political spectrum is preventing the emergence of a “pro-growth” consensus and sensible economic policies that could mitigate the impact of the crisis.
Natural Catastrophes As New “Normal”

- Thai floods (Nov. 2011)
- Japanese quake and Tsunami (March 2011)
- Iceland Volcano (Dec. 2010; Oct. 2011)
- Chile Volcano (Oct. 2011)
Aquaculture is one of the few bright spots
Average Annual Growth Rate 2003-2011

Percent

- Atlantic cod: 23.3%
- Cobia (ex. China): 11.9%
- Barramundi (IN, TW, etc.): 5.9%
- Turbot: 9.4%
- Olive flounder: 8.2%
- European Sea: 8.4%
- Channel Catfish: 3.0%
- Pangasius catfish: 23.9%
- Rainbow trout: 6.0%
- Coho salmon: 6.3%
- Atlantic salmon: 4.9%
- Tilapia: 6.8%
Averting The “Tragedy of The Commons 2.0”: Buyers’ Power
Success of the industry in “Managing The Commons” is not alien to this result

• Managing the commons for the good of all requires a solution to the “collective action problem”, a huge but not insurmountable challenge.

• In fact, the GAA has been applying consistently some of the factors associated by Elinor Ostrom to avoiding “the tragedy of the commons”:

  1. Communication among participants
  2. Working with participants of good reputation
  3. Agreed sanctioning mechanism
  4. Longer time horizon

Elinor Ostrom
Nobel Laureate 2009 in Economic Sciences
However, there is a looming “tragedy of the commons 2.0” If Buyers Become Complacent!

- Given the gap in supply (more than 40 million Tons in 2010) and favorable prices, there is a risk for the industry to:
  - Become complacent
  - Lower the quality standards
  - Cut cost by suspending commitment to sustainability or certification

- Losing sight (even for a minute) on sustainability, safety and traceability would lead to a “Race to the bottom” and an ineluctable self destruction of the industry!

*Buyers’ leadership is critical in managing success!*
The Price of Complacency!
Italy Under IMF Monitoring

• The International Monetary Fund will monitor Italy's financial reform efforts, Mr. Berlusconi said Friday, Nov. 4, 2011

• Tens of thousands of demonstrators gathered in Rome Saturday, Nov. 5, 2011 asking for his resignation

• “Berlusconi Scaduto”? 
Market Rule: Buyers’ Power

Buyers have the power to:

1. Influence production processes around the world through adoption of certification
2. Influence the direction and sustainability of the aquaculture business
3. Help the industry diversify to new geographies
4. Improve disease control by encouraging individual farms to participate in regional health management programs
5. Engage governments and lending institutions more proactively in co-funding production and regional health management programs
How To Double Production In A Decade? The Key is in the 3Gs!

- Exploring new Geographies
- Forging strong Public Private Partnerships with Governments
- Reigning in Germs
Diversify production into new GEOGRAPHIES: AFRICA
Africa In Numbers

128 million
African households with discretionary income in 2020

50%
Africans living in cities by the year 2030

1.1 billion
Africans within the working age population (15-64) in 2020

Source: MGI (2010)
Africa: Unchartered waters?  
Asian countries’ presence in Africa

- Since 2006, China has completed over 20 investment deals into Africa, amounting to ~$26 billion
- 9% of total outward FDI from India went into African countries including Mauritius, the Ivory Coast and Senegal
- South Korea has made investments in the agriculture, mining and energy sectors in Africa
Growing Private Equity Activity in Africa

- Fundraising of private equity came up to nearly $1.5 billion for sub-Saharan Africa in 2010.

- At least 12 deals were closed in the first five months to May 2011 amounting to $1.8 billion, compared to 19 deals in the whole of 2010.

- Institutional investor interest in Africa has also grown with 38% of the LPs in the sample currently investing in Africa compared with only 4% in 2006.

- 44% of the global LPs find Africa as an attractive investment region, compared to only 21% in 2010.

Source: Preqin

Several Private Equity Funds have invested approximately $1 billion and above in Africa

- Citadel Capital: $1.8 billion
- Pamodzi Investment: $1.3 billion
- Emerging Capital Partners: $1.2 billion
- Carlyle Group: $0.8 billion

Source: Emerging Market Private Equity Association (EMPEA), Preqin
Returns to investments in Africa are high

Regional Champions in Africa (selected by BCG) offer higher returns compared to major indices.

- Warmholz (2008) finds that there is robust evidence on high returns in Africa.

- Findings by Bigsten, Collier, Zeufack et al. (2000) concur with this, finding that returns on physical capital in Africa exceed 20%.

Firm Profitability is also high in Africa.

And, like any new market, there are RISKS associated with investing in Africa

- The Business Environment in the African continent is still poor, especially the infrastructure gap is huge (Electricity, Water, Roads, connectivity)!

- Governance in African countries, on average, remains a challenge

Sources: World Bank Doing Business, World Governance Indicators
But, concerns over the Riskiness of African Investments are exaggerated

- Warmholz (2008) contends that a pervasive lack of information on African markets is a “dominating factor” to the exaggeration of risk

- Political stability has improved over the years and GDP growth has remained steady and resilient

- FDI has increased as well as investments from funds, quelling worries about excessive risks in Africa

FDI inflows into Africa is below Developing America and Developing Asia…

Source: UNCTAD

…but GDP growth has been resilient and robust from 2000-2009, trailing only Developing Asia

Source: IMF
Germs
Eradicating GERMS

1. Policy Options
   - Making biosecurity an element of national aquaculture development programmes;
   - Establishing regulatory processes and enforcement infrastructure;
   - Enhance compliance with regional and international treaties.

2. Knowledge Base
   - Application of risk analysis offers a tool to provide a balance between environmental and economic interests.
   - Information from risk analysis and options for mitigation needs to be communicated effectively.

3. Capacity Building
   - Capacity building should be part of the overall aquaculture program so that threats and uncertainties can be assessed rapidly.
   - It is less costly to detect, identify and prevent diseases than to contain them.

4. Partnerships
   - Engage Multilateral institutions.
   - More investment is needed in biosecurity infrastructure, human capacity, risk communication, regulatory frameworks.
Forging Strong Public-Private Partnerships (PPPs) with Governments
The Industry can not play alone and win! Governments need to play their role!

1. Research and Development (R&D) and Knowledge sharing
2. Bio-security at the national or regional level
3. Access to large scale production land and industry-specific infrastructure provision
4. Investment in human capital and capacity building for specific skills
An Example: A Public-Private Partnership to promote modern seafood production in Malaysia

Blue Archipelago Bd. a Khazanah’s company has implemented a sound PPP mechanism in Malaysia, working with both local and federal authorities.

1. Secured land (1000ha) from the state governments

2. Secured Government funding for infrastructure (water intake from the sea, roads, and power supply…etc) and managed to build the infrastructure according to the company’s specification

3. The plant has the ability to consistently ensure Quality, Safety & Ecology for all products and is providing job opportunities in rural areas and to develop a future generation of aqua SMEs

4. The Government of Malaysia has now internalized the approach, earmarked resources for 10 additional collaboration with the private sector by 2020 as part of the Economic Transformation Program (ETP).
A PPP Proposal

• Formally bring together major buyers, producers, and lending institutions into a Fund for aquaculture development in new geographies (Africa, parts of South America and Asia)!

• In order to have an impact, the focus should be on certified, fully traceable, large scale production, capable of ensuring consistency in supply
A Proposed PPP Funding Mechanism For Aquaculture in New Geographies

**Buyers**
- Provide forward purchasing contracts
- Set industry standards & certification program.
- Promote industry-wide market strategy
- Provide market intelligence
- Promote competitiveness
- Contribute to fund

**IFIs/Government**
- Coordinate public infrastructure support, e.g. industrial park development
- Facilitate land & sea rights issues, planning & zoning, etc.
- Support skills development and R&D programs
- Support industry standards & certification program
- National Bio-security

**Sust. Aquaculture Fund**
(Venture Fund, PE Fund, Aquaculture Infrastructure Fund)
- Investor match-making
- Investment advisory services

**Investors (PE, SWFs, Producers...)**
- Contribute to fund
- Equity Investment
- Direct investment
- Promote FDI & DDI into industry

**NGOs**
- Facilitate Knowledge sharing
- Facilitate technology transfer
- Partnerships for technology adoption and adaptation
- Promote industry innovation
- Support capacity building
- Contribute to fund
In Conclusion:

• Dare To Dream The Impossible, and say: why not?
• Doubling production in a decade may be achieved if the industry:
  – Diversifies in new Geographies, Africa for example
  – Combats Germs
  – Forms strategic PPPs with Governments, IFIs, NGOs
• Buyers’ Leadership is key to survival and growth of the industry
• Losing sight of the prize: sustainable, safe, certifiable, and traceable aquaculture products would lead to self-destruction of the industry!
Thank You