



# AgriBusiness

*“Farming fertile minds ..... Growing fertile futures”*

## AGRI SA COMMODITY & FARMER DEVELOPMENT CONFERENCE

### Risk Management

*“You cannot manage risks until you understand them.”*



**25 & 26 February 2010**

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1. What is Risk
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# 1. What is Risk

## Definitions

- Risk is the possibility of a negative occurrence and the higher the probability of such occurrence the higher the assumed Risk.
- Risk is the uncertainty which influence an individual's wealth, usually associated with negativity or loss (Harwood, et al. 1999).
- The probability of a negative outcome (Paterson).
- Risk is part of our every day live.
- .....Risk



## 2. Sources of Risk in Agriculture

- Production & Technical
- Market & Price
- Finances
- Personal
- Technology

# 2. Sources of Risk in Agriculture

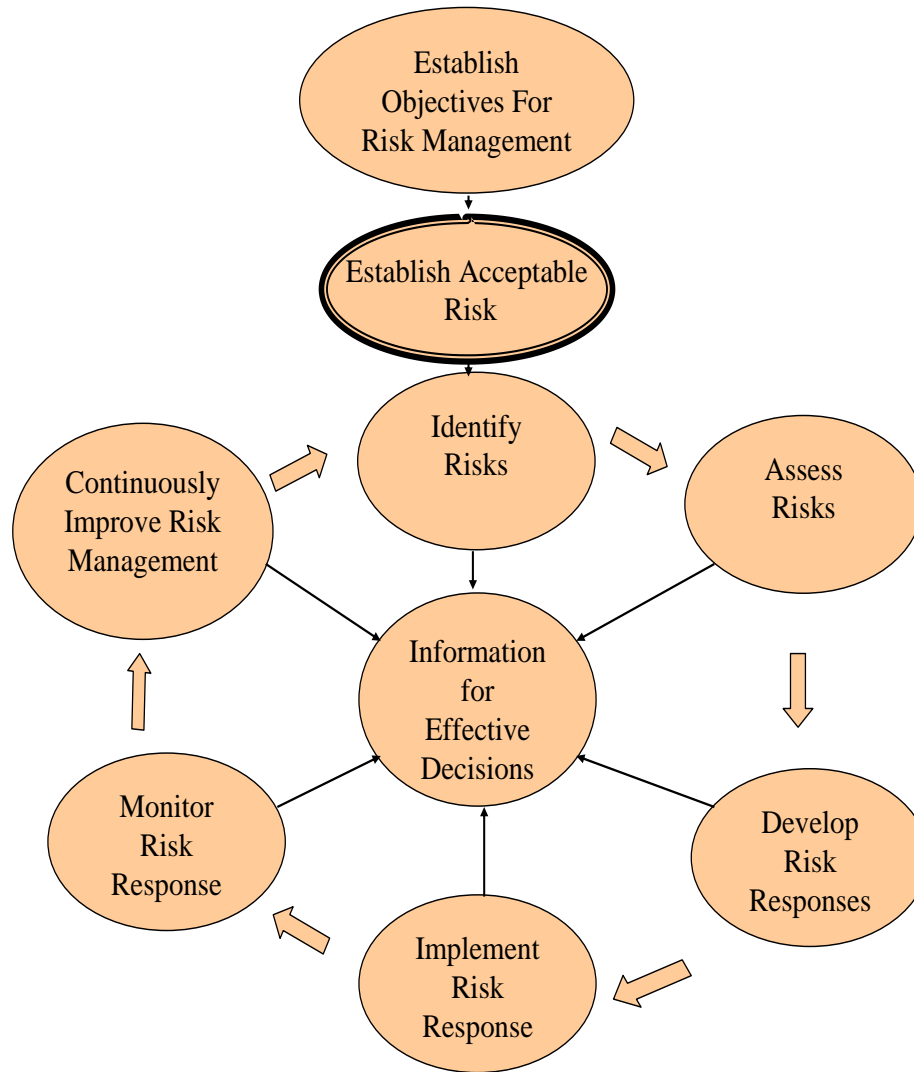
<b>TYPES of RISK</b>	<b>RISK CONSEQUENCES</b>	<b>TYPES of RISK</b>	<b>RISK CONSEQUENCES</b>
<b>Nature</b>	<ul style="list-style-type: none"><li>➤ Property Damage</li><li>➤ Personal Injury</li><li>➤ Business interruptions</li><li>➤ Liability Claims</li></ul>	<b>Strategic Risk</b>	<ul style="list-style-type: none"><li>➤ Future Planning</li><li>➤ Government Policy</li><li>➤ Economic market powers</li><li>➤ Technology</li><li>➤ Regulatory changes</li></ul>
<b>Resource Risk</b>	<ul style="list-style-type: none"><li>➤ Soil erosion</li><li>➤ Degradation of land</li><li>➤ Alien Infestation</li><li>➤ Water Quality</li><li>➤ Droughts</li></ul>	<b>Human Resource Risk</b>	<ul style="list-style-type: none"><li>➤ Succession Planning conflicts</li><li>➤ Limited Human resources</li><li>➤ Management</li><li>➤ Key Personnel</li><li>➤ Motivation</li></ul>
<b>Production Risk</b>	<ul style="list-style-type: none"><li>➤ Personal health problems</li><li>➤ Availability of Labour</li><li>➤ Availability of inputs</li><li>➤ Weather conditions</li><li>➤ Mechanical failure of equipment</li><li>➤ Technological Changes</li></ul>	<b>Social Risk</b>	<ul style="list-style-type: none"><li>➤ Market loss – Reputation</li><li>➤ Loss in production – Relations</li><li>➤ Limited growth – Relations</li></ul>
<b>Market Risk</b>	<ul style="list-style-type: none"><li>➤ Price</li><li>➤ Product Quality</li><li>➤ Market accessibility</li><li>➤ Exchange rate volatility</li><li>➤ Consumer Preferences</li><li>➤ Input cost increases</li></ul>	<b>Business Risk</b>	<ul style="list-style-type: none"><li>➤ Legal</li><li>➤ Supply Chain</li><li>➤ Trade Disputes</li></ul>
<b>Financial Risk</b>	<ul style="list-style-type: none"><li>➤ Insufficient financial information</li><li>➤ Cash flow</li><li>➤ Interest rates</li><li>➤ Credit</li><li>➤ Debt Structure</li></ul>		

## 3. Risk Management

### Things to Consider.....

- Information
- Transfer of Risk
- Personal Risk Appetite
- Business Risk Appetite

# 3. Risk Management



# 4. Instruments to Manage/Hedge Risks

- Various instruments are available to manage risk
- Some instruments aim to reduce the quantity of risk and other to reduce the negative impact

## 1. Production Instruments

- Stable Enterprises
  - Certain enterprises in the sector is know for their stable income
  - Irrigation = stable yields
- Diversification
  - Avoid dependence on only one enterprise
  - Production in more than one enterprise
  - Returns must not correlate – not be low at the same time/conditions
- Insurance - Different types of insurance can reduce production and/or financial risks

# 4. Instruments to Manage/Hedge Risks

## 2. Instruments to mitigate Marketing risk

- Timing of sales: Don't sell whole harvest all at once or over to short a time frame
- Contract Sales: Conclude contracts with buyers even before production
- Hedging: Sale of Future contracts/Options
- Commodity Options: Options to sell grain at a specific price

## 3. Financial Risk Instruments

- Fixed Interest rates: Protect against rising interest rates
- Liquid Reserves: Assets that can easily be converted to cash
- Credit reserves: Don't utilise all credit facilities granted
- Owners Equity: Owners equity ensures solvency

## 4. Legal Risk Instruments

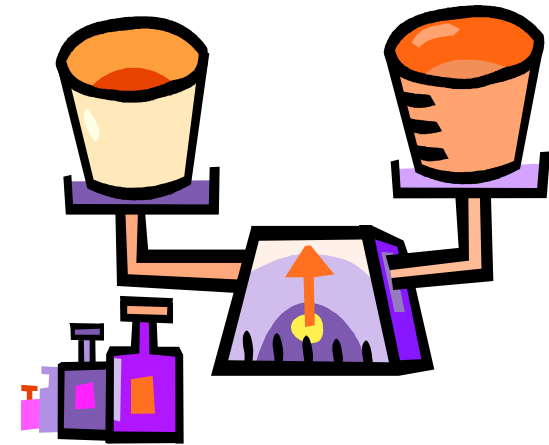
- Business Organisation
- Estate Planning
- Liability Insurance

## 5. Personal Risk instruments

- Health Insurance
- Life Insurance

## 5. Summary

- Information
  - Appetite
  - Policy
  - Strategy
  - Manage
- 
- Risk also creates opportunities
    - “NO RISK NO REWARD”



**THANK YOU** for the  
**opportunity to share some ideas**

**Disclaimer:** Although everything has been done to ensure the accuracy of the information, the Bank takes no responsibility for actions or losses that might occur due to the usage of this information.