NEW AGRICULTURAL FINANCE AND PRODUCTION MODELS
From investment funds and Finance-Value-Chains to questions about the African peasant

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• Introduction
• Presentation of 3 renewed models
  – 1- Commercial banks integration in agriculture production
  – 2- Investment Funds and agricultural engineering companies
  – 3- PPP and share equity schemes
• Concluding thoughts
Scope of the presentation

• Descriptive project to better understand how the agricultural sector – finance and production models - is evolving

• Results: identification and description of different finance and production models (and inherent elements/actors)

• South African based study – SA as a pilote country for several renewed models
Total integration and the concept of finance value chain

- Finance value chain as new agricultural development paradigm - sustained by international agencies (WB, Agribusiness and innovations in Africa)
- Interdependence between the different segments - Capital and information circulation along the chain
- Integration of primary production / finance in an overall cycle
- Spreading the risks / insurances / no collateral
- Implementation of new finance and productive mechanisms through this value chain integration
1- Commercial banks integration in agriculture production

- Banks are traditional creditors and partners of all the value chain actors
- “Traditional” financial way: loan secured by mortgage bonds

Transformation of the context:
- High cost of productive, competitive agricultural production (Input prices increase - the land is not enough as collateral)
- Collapse of public funding (land bank, etc.)
- Higher – fluctuating commodity prices
- Benefit from the introduction logistical and technical innovations (monitoring, transport, silo certificate, futures market)

2 different models:
- The pre-crop contract: the production as collateral
- The Input finance model: The intermediarisation by an agricultural engineering enterprise
The production is never owned by the farmer - the risk is managed thanks to hedging on futures market.

- Selling price, type of production & quantity are fixed at the beginning.
- The production risk (flood, drought...) is covered by the multi-peril insurance - banks.
- The repayment risk is transformed into performance risk.
- Monitoring during the crop and before the harvest by the bank or the insurance company.
- Farmer remuneration is the fixed price of the production less the inputs cost and the bank interest.

**Pre-crop banking model**

The diagram illustrates the flow of the pre-crop banking model, showing the interactions between producers, insurers, banks, and processors, as well as the inputs suppliers and the warehouse with the JSE certificate.
- **Management agreement**: the manager receives all finances, the multi-peril crop insurance and hedge in the name of Bank.
- The bank transmits all the risks on this intermediate.
- Contract growing or the land is leased by the manager; the producers are employees of this company.
- Crop (silo certificate) ‘owned’ by the manager.
- The manager gets inputs at lower cost thanks to reputation and economies of scale.
- Precision farming (satellite monitoring).
- Geographical diversification to mitigate the risk.
• This two models were first implemented in the cereal chain
• Pre-crop: 10% of the overall cereal production
• Input finance: 300/400 farms in SA (12% of the summer cereal production)
• Selection process (Solvability and track record experience, Application for multi-peril must be approved, Minimum superficies,500ha)
• Now, the banks are looking in other chain: cattle, fresh products industry.
• Banks are getting a major role (cf. Debt graph)
2- Investment Funds and agricultural engineering companies

• Agriculture as a new financial opportunity
• Cheaper financial option for direct engagement in agriculture

• Development of investment and equity funds focusing on agricultural production AND land
• Investors – international businesses, Commercial Banks, Development Banks, Financial companies
• A management company takes care of funds
• Diverse strategies, depending on expectations of investors (return rate, fund life-term...)

• 2 different models:
  – Direct investment in land
  – Equity fund
Direct investment on land

- Buying up land with the expectation of increased land and food prices
- Different strategies:
  - Example of Asset Management Companies; Direct production control (+40 farms as risk mitigator)
  - Speculation on land (Land as a risk asset in SA)
Equity funds
Buying shares (or equities) in agricultural and agri-business enterprise and/or primary production

- **Private**
  Strategy 1:
  - minority position (20 to 34%),
  - control on the managerial structure but not on the agri-business activities,
  - corporate approach,
  - Up and down stream activities,
  - only in SA

  Strategy 2:
  - majority position (50 to 75%),
  - direct control of agricultural and agri-business activities,
  - individual and corporate approach,
  - SA and Africa,
  - Primary production,
  - Buy farms
  - closed fund

- **Public**
  Public development Funds
  - Investors: Development Banks, International organizations, etc.
  - Local fund as management society
  - Investment along entire value chain – production and agribusinesses
  - Double focus on commercial/large scale agriculture (80%) and small scale (20%)
3- PPP and share equity schemes

- Equity scheme as agricultural development reference
- Division between land owners and business owners
- Community as labour and/or rent-seeker
- PPP, Special partnership
- State as direct investor

Operating/investment partner(s)

- EQUITY (50-60%)
  - BEE
    - High level Workers
    - Community
  - IDC direct
- DEBT (40-50%)
  - IDC ou autres banques

Operating company

- Small growers
- Core estate
- Processing unit
Some concluding thoughts...

The “revenge” of the agricultural sector after 30 years

- New financial models brought along by renewed actors
- New types (engineering, financial, industrial sectors)
- New origins (foreign capital)

Generate new productive agricultural models

&

Redraw the orthodox frontiers of the agricultural sector
Some concluding thoughts...
Economic implications of these renewed models

• What about Small-Scale Farmers??????????
  – Corporatization of the agriculture
  – Making the dominant model more dominant: The integrated/finance value chain approach favor bigger farms with capital and knowledge to achieve objectives
  – Reinforce the duality of the agricultural structure?

• Competition - All the participants in the value chain don’t get the same benefits
  – Certain macro-actors have an omniscient position (primary production, hedge, cleaning house...): The macro-actors grab most of the value
  – Finance opportunity or biased competition?

• Concentration and foreignisation of the sector
  – Financial and technical capital needs become higher and higher and limit the number of participants to enter
  – Different objectives (speculation) – What about food security? Food sovereignty?

The need for new regulations of the sector?
Some concluding thoughts...
Socio-Professional implications of these models

• Marginalization in the decision making process for the communities and independent family (small scale and large scale) farmers
  - probably more a ‘service provider’
  - The end of the peasant?

• Which future for agricultural sector?
  – No family farming anymore?
  – Only seasonal jobs expansion?

• Dependence cycle: with cycle production loan (12 months) impossibility to realize productive investment
Some concluding thoughts…
Where is the public policy debate?

• Since governments do not rethink own agricultural development policy, this integrated/finance value chain approach privately driven tends to become the overall reference

• Public sector tend to appoint private companies as new development partners

• From public norm to private norm, defined according to international market

• Project by project conception, no overall vision
Some concluding thoughts...
Export of renewed models?

- SA as a laboratory for the rest of Africa
- Models (by SA or local businesses) are spreading their activities all over the African continent
  - Certain banks already present in 14 countries
  - Asset management Co extending in 18 countries...
    - Linked to this expansion perspective, development of new instrument to do business in a less appropriate environment
- Questions all the more important in agricultural-based countries with very few job alternatives
  - What alternatives?
  - Towards a geographical working division, primary production abroad (cf. DCR) and processing/marketing/hedging in SA?
THANK YOU

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