Investors in Africa’s agriculture
From investment funds and Finance-Value-Chains to questions about the African peasant

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• Introduction
• Who are the investors
• Presentation of 3 renewed models
  – 1- Commercial banks integration in agriculture production
  – 2- Agricultural engineering companies
  – 3 - Investment and equity funds
• Concluding thoughts
Who are the investors?
Who are the investors?

- Capital-rich / food insecure (Gulf States)
- Land and water scarce populous but capital-rich Asian countries. (China: 20% of world pop / 9% of world arable land)
- Traditional Western food-producing, processing, and exporting companies seeking to “square the market”
- New actors – Investment funds

Avoiding markets:
- Direct gov. involvement
- Sovereign Wealth Funds
- State-owned enterprises

Speculation:
- Hedge funds
- Pension funds
- Invest banks

Private investors
Total integration and the concept of finance value chain

• Beyond land, the renewed interest to control land-based activities

• Land grabbing - top of the iceberg of wider dynamics, diverting attention from a dynamics of control over land-based activities/ production.

• Integration of the entire production cycle
  – Speculate
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)

- Integration of primary production / finance in an overall cycle
- Spreading the risks / no collateral / A reversal of the risk-profit relationship appears within the production chain
- South African based study – SA as a pilote country for several renewed models
1) Commercial banks integration in agricultural production

- High cost of productive, competitive agricultural production (Input prices increase - the land is not enough as collateral)
- The production is never owned by farmer
- Price risk - managed through hedging on futures market SAFEX
- Production risk (flood, drought...) is covered by the multi-peril insurance
- Monitoring during the crop and before the harvest by the bank or the insurance company
- Farmer remuneration (production less inputs cost or salaried position)
2) Agricultural engineering companies: Input finance & management model

- Management agreement: the manager receives all finances, the multi-peril crop insurance and hedges
- The bank transmit 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
- Price risk management through SAFEX
3- Investment and equity funds

- Development of investment and equity funds focusing on agricultural production AND land
- Investors – international businesses, commercial banks, development Banks, Financial companies, ...
- Asset 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
3a) Direct investment in land

- Buying up land with the expectation of increased/fluctuating 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)
3b) 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%)
Table 1: Examples of investment funds specialized in agricultural initiatives in South Africa

<table>
<thead>
<tr>
<th>Investment fund (date of establishment)</th>
<th>Fond owner</th>
<th>Origin of capital</th>
<th>Capitalization amount</th>
<th>Investment capital</th>
<th>Activity area</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emvest (2008)</td>
<td>Emergent Asset Management (UK-based investment fund, specialized in emergent markets) &amp; Russel Stone Group (SA agro-business)</td>
<td></td>
<td></td>
<td>-Land acquisition with direct engagement in production, transformation and commercialization -Several agricultural sub-sectors</td>
<td>Southern Africa</td>
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<td>Zeder (2006)</td>
<td>PSG (SA group dedicated to financial services)</td>
<td></td>
<td></td>
<td>-Minority position (between 20 et 34%) with agri-businesses -No direct implications regarding production but with managerial inference -Downstream and upstream activities</td>
<td>South Africa</td>
</tr>
<tr>
<td>Agri-Vie (2008)</td>
<td>Sanlam (SA insurance company)</td>
<td>Pension funds, Private foundations (Kellogs), Public (Industrial Development Corporation)</td>
<td>R700 million (70 million Euros)</td>
<td>-Majority position in agri-businesses (cereals, livestock, horticulture…) -Direct control over production Priority given primary production</td>
<td>Africa</td>
</tr>
<tr>
<td>African Agricultural fund (2009)</td>
<td>French development Agency (AFD) (?)</td>
<td>AFD, AfDB, AGRA, IFAD, West African Dev Bank</td>
<td>US$150 million</td>
<td>-Intégralité de la chaîne de production agricole primary (production, transformation, infrastructures…) -Towards commercial agriculture (80% of capital) and family-based agriculture (20%)</td>
<td>Africa</td>
</tr>
<tr>
<td>TransFarm Africa (2011)</td>
<td>NEPAD business foundation</td>
<td>Private foundations (Hewlett)</td>
<td>US$20 million</td>
<td>Strategy not developed yet</td>
<td>Africa</td>
</tr>
<tr>
<td>Fund of the Rand Merchant Bank (RMB – SA commercial bank)</td>
<td>RMB</td>
<td>Own funds</td>
<td></td>
<td>-Priority to transformation and commercialization agri-businesses - Shares of minimum 25% -Land acquisition (30 000ha in SA) -Management and direct implications for the company’s activities -Cereal and sugar cane</td>
<td>Africa</td>
</tr>
</tbody>
</table>
Some concluding thoughts...

* **Financiarization and corporization of agriculture**
  - New financial models brought along by renewed types of actors (MACRO-Actors - engineering, financial, industrial sectors)
  - Generate new productive agricultural models & Redraw the orthodox frontiers of the agricultural sector
    - Speculation henceforth long-term strategies, led by actors external to the sector, equivalent to other sectors

* **Concentration and dualisation within the sector**
  - Dominion of a few large international groups (Agricultural intermediaries & commercial banks and insurance companies)
  - Marginalization of the majority of the African farmers
Some concluding thoughts...

* Deregulation, private norms and foreign powers
  - Removal of stabilization mechanisms facilitates economic agents’ direct involvement and control over agricultural regulation mechanisms
    - Private norms developed by very same actors
  - Foreign economic powers control an increasing part of the production, emphasizing food sovereignty issues

* Socio-Professional implications of these models
  - Marginalization in the decision making process for the communities and independent (small scale and large scale) farmers
    - probably more a ‘service provider’
    - The end of the peasant? No family farming anymore? Which future for agricultural sector?
  - Dependence cycle: impossibility to realize productive investment
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. DRC) and processing/marketing/hedging in SA/abroad?
THANK YOU

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