New agricultural investment models and agrarian change in South Africa

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• Introduction
• Presentation of 3 renewed models
  – 1- Commercial banks integration in agriculture production
  – 2- Agricultural engineering companies
  – 3 - Investment and equity funds
• Characterizing elements
• Concluding thoughts
Introduction

• 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.

“Land based production and wealth grabbing“
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 is covered by the multi-peril insurance
  - (flood, drought...)
- Monitoring during the crop and before the harvest by the bank or the insurance company
- Farmer remuneration (on overall production or salaried position)
2) Agricultural engineering companies/asset management companies

- 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.
- 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 extra 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%)
Characterizing elements...

* Agric organization forms centralizing advanced management activities and primary production

  - Centralization (externalisation) of decision making powers
  - Advanced management and financial activities
    - Sophisticated financial (capitalist, shareholding) structures – different paradigms
    - Lowering transaction costs
  - Advanced technological adoption (satellite for example), also centralized (lowering production costs)

* Activity control and model differentiation according to degree of vertical integration

  - Although centralized, some models are less integrated based on outsourcing of some activities
    - Land lease
    - Certain activities implemented by land owner or contractor
  - Other, 100% integrated (from finance, inputs, to pre-prepared dishes)
Characterizing elements...

* **Land and land ownership**
  - No collateral
  - Large-scale land acquisition or LT leases (control)
  - ST leases (total land related rights)
    - Less sensitive / more flexible
    - Rent/forfaitary or related to production

* **Finance**
  - Can be minimal, but due to integration, often significant (covers debt, not covered by land as collateral)
  - Business plan, presented to investor or through own funds
    - Internalization of finance
  - Always transfer of ownership
  - Dependency
Characterizing elements...

* Risk management
  - Multi-peril insurance
  - Price risk - futures
  - Production risk strategies
    - Production/commodity diversification (several seasons)
    - Geographical diversification (40 farms – different reasons)

Non-traditional farming ventures / financing practices
Some concluding thoughts…

• *Production concentration – Production grabbing*

  – Less visible than land concentration or land acquisitions
  – Certainly not less – probably even more – large-scale
  – Huge long-term consequences
    • Corporization/financiarisation
    • Concentration/dualisation
    • Deregularisation/foreign powers
    • Social implication – status of farmers
Some concluding thoughts...

SA as a laboratory for the rest of Africa - Export of renewed models

Models are spreading their activities all over the African continent

• Certain banks already present in agriculture 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
THANK YOU

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