South Africa’s role in farmland investment funds in Southern Africa

Antoine Ducastel, Ward Anseeuw and Mathieu Boche
Context

• Land grabbing - top of the iceberg of wider dynamics, diverting attention from a dynamics of control over land-based activities/production
• Africa as “the last frontier”; Southern/Eastern Africa is the first target for farmland investment
• Growing interest in farmland and agriculture from investment funds especially since the 2007-08 world food price crisis

What is the role of South African farmland investment funds in this process?

– The what and the how of these investment funds
– Implementation into agriculture in South Africa and in the region
– Characterizing elements

• South Africa as an ideal case study – Presence and expansion towards Africa of farmland investment funds
Diversity of fund characteristics...

**Fund constitution**
- General partner/asset manager: fund manager (invests, manages, decides, supervises/implements)
- Limited partner/investors/shareholders (individuals, institutional investors – pension funds, insurance companies, banks...)

**Governance structure:**
- Fund status:
  - Closed funds: 8/12 years (equity fund, hedge fund)
  - Long term funds: without limited investment time (endowment fund, holding company)
- Contracts with investors
- Risk/return profil
- Direct management of the assets/ externalization (fund to funds)
- ESG concerns
determining different asset allocation strategies in agriculture

Different agricultural assets:

- Trading agricultural commodities futures
- Investment in company shares (equities)
- Farmland

Different focuses on agricultural sector:

- Specialized funds /Hybrid funds: agriculture as a complementary activity (to mitigate risks related to others assets)

Size of this phenomenon?

- 190 private equity firms investing in agriculture and farmland in the world (Buxton et al., 2010)
- 15 agriculture specialized equity funds ($2Bn) in Africa (USAID, 2011)
- 11 specialized funds in agriculture and agribusiness in South Africa: African agriculture land fund, Agri-Vie agribusiness fund, Futuregrowth agri-fund, Silverlands fund, Chayton atlas agricultural company, Pembani Remgro Infrastructure fund, RusselStone Group, BlackRock...
- Difficulties to evaluate: opacity, diversity of practices...
The investors/asset management company/investment fund relationship

Buxton et al, 2010
Farmland investment funds’ general model

- Price risk - managed through hedging on futures market SAFEX

- Production risk is covered:
  - by the multi-peril insurance (flood, drought...)
  - Geographical diversification to mitigate the risk

- Production by the fund or by an agricultural engineering company (through a management agreement)

- Farmer remuneration based on salaried position

- Precision farming (satellite monitoring)
Land vs/and agricultural production control strategies

Direct investment in land:

• Buying up land with the expectation of increased/fluctuating land and food prices

• The production can also be integrated in these strategies

Buying shares (or equities) in agricultural and agri-business enterprise and/or primary production:

• Enterprise restructuration/rationalization to then be refloated on stock exchange

• Minority or majority positions in the agricultural company which determine the type of control (on managerial structure or on the day-to-day operations)
Characterizing elements...

**Agriculture as an asset**

- Tend to be managed as any other sector (pro-innovation and rationalization conception or speculative incentive?)
- Funds are looking for a maximization of the “shareholder value” (the return to the shareholders)- other conception of agriculture production

**Centralization of agricultural activities**

- Centralization of decision making powers (thanks to sophisticated financial –silo receipt-, technical –satellite monitoring- and contractual –pre-crop contract- mechanisms)
Characterizing elements...

**Integration**
- Although centralized, some models are more or less integrated based on outsourcing of some activities (land lease) other are 100% integrated (from finance, inputs, to pre-prepared dishes)- macro-actors

**Regional export of the model**
- In several countries – Mozambique, Zambia, Tanzania, etc...
- Slower progress than in South Africa because based on well developed agricultural financial instruments (silo certificate, SAFEX)
- New adapted instruments/models are being developed: mobile silo, futures markets in Zambia (initiated by South Africa)
- South Africa as a stepping stone for Africa
Characterizing elements...

South Africa’s role: What is a South African farmland investment fund?

- South Africa hosts more and more fund managers/asset management companies because of its favorable legal and financial framework (SAFEX) and its specific experience and expertise in the agricultural and financial fields.

- Service providers/agriculture engineering companies/farmers generally South African.

- Funds are financed by international investors with often different segments registered in many countries.

South Africa positions itself as the intermediary between regional farmland investment opportunities and international investors.
## 2 contrasted examples

<table>
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<tr>
<th></th>
<th>African Agriculture Fund</th>
<th>Chayton Atlas agricultural company</th>
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<tr>
<td><strong>Fund status</strong></td>
<td>Closed fund (10 years)</td>
<td>Holding company</td>
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<td><strong>Capitalization</strong></td>
<td>$150M (fund raising target: $300M)</td>
<td>?</td>
</tr>
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<td><strong>Limited partners</strong></td>
<td>Agence française de développement, Africa Development Bank, private investors</td>
<td>Zeder, Norfund, private investors</td>
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<td><strong>Fund managers</strong></td>
<td>Phatisa fund manager (SA)</td>
<td>Chayton Africa</td>
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<td><strong>Investment strategy</strong></td>
<td>Pan-African; companies along the value chain with a focus on primary agriculture (25%)</td>
<td>SADC; Agricultural lands, staple crop (maize, soja, wheat)</td>
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<td><strong>Investment cases</strong></td>
<td>Golden Lay, Zambia (eggs-outgrowers scheme)</td>
<td>Chobe Agrivision, Zambia (6 farms : 4000ha)</td>
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Some concluding thoughts...

• We also note a strong participation of Development Finance Institution (World Bank Group, Overseas Private Investment Corporation) for the development of this funds (legal and technical assistance, financial support)

• At first glance, many farmland investment funds confronted to difficult implementation (ex. Jatropha project in Mozambique, etc)

• Are these farmland funds a sustainable way to invest in agriculture?

• Are they importing a financial paradigm of agriculture which underestimates agriculture specificities?
Thank You