Agriculture as an asset class: Financialisation of the South African farming sector

Antoine Ducastel & Ward Anseeuw
Summary

• Contextualisation
• Investment funds in South African agriculture
• Producing the South African agriculture asset class

• Conclusion: What financialisation is it the name?
Context

• The multiple food-energy-climate-finance crisis (Margulis, 2013)
• Increasing competition around natural ressources control
• The (financial) rising of Africa (Vallée, 2011)
Agriculture as an opportunity for financial actors

• Increasing interest from financial markets for agricultural investment:
  – Macroeconomic fundamentals (i.e. rising food prices, increasing global population)
  – Specific historical returns on land investment (i.e. US, Argentina)
  – Farmland as an equity: current income and capital appreciation
  – Diversification: uncorrelated returns with the bonds market
  – Strong hedge against inflation

• Three investments’ options:
  – Commodity future contracts or commodity index funds
  – Public companies’ equities related to agriculture
  – Farmland

• South African agriculture as a « frontier » market
Investment funds in South African agriculture

- Plurality of investors
- Delagation of management to a fund manager
- Diversity of funds’ structures and managements
- An investment fund as a negociation entity

Buxton et al, 2010
South African fund managers as financial intermediaries

• Market intermediaries’ roles (Bessy & Chauvin, 2013):
  – Mediating the supply and demand
  – Translating capital and ressources

• An asset as a value recognized by financial markets:
  – Financial beliefs (i.e. outperformed the average profit)
  – Financial devices (i.e. calculation devices)

• How such intermediaries “frame” the South African agriculture to produce a new asset class?
  – 3 steps toward a profitable, predictable and liquid asset
1. Mitigate the risks

• « Unlock » the financial value through risk mitigation:
  – Natural risks (i.e. flood, drought)
    • Geographical diversification
  – Market risks (i.e. prices volatility)
    • South African Futures Exchange
  – Human ressource risks (i.e. decentralization)
    • Contracting model and advanced technologies
  – Iliquidity risks (i.e. immobility, taxation)
    • Bilateral double taxation agreements

• DFI’s multiform support: financial participation, technical assistance facilities, institutional support
2. The production of a standardized information flow

- The corporate finance instruments (i.e. Discounted Cash Flow model)
  - Calculation device
  - Implementation in the South African agriculture

- A standardized benchmarks (a common metric) for financial markets:
  - Decision making support
  - To compare and evaluate the assets’ profitability and complementarity
3. The neutralization of social «interferences»

- Occupiers: “A person residing on land which belongs to another person, and who has, or on 4 February 1997 or thereafter, had consent or another right in law to do so”, Extension of Security of Tenure Act, 1997

- The «depolitization» as a attempt to unlock the financial value
- The «cross-border regulation» attempts
- Limits and contraints of the translation process
Financialisation as a mediation process

• Translation: from the « bush » to the financial language

• « Bottom-up financialisation »: daily interaction process

• Fund manager as « brokers in financialisation »: set up the instruments and cognitive framework of this “emergent” asset class
Financialisation as a channeling power

• A new financial channel in the South African agriculture:
  – Corporate farming
  – Contracting model

• Financial representations and narratives:
  – Public vs. Public
  – Categorisation (e.g. «frontier » market)
Financialisation as a public policy?

- Public policies and instruments for the production of a (South) African agriculture asset (i.e. Futures commodity market, double taxation agreement, MIGA, etc.)
- Circulation of employees between public institutions (national and international) and South African agriculture fund managers’ industry
- Public capital through DFI’s and public pension fund involvement
Thank you

Antoine Ducastel
Antoine.ducastel@cirad.fr