Agriculture as an asset class: Investment funds’ role in the South African agricultural sector

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Summary

- Context
- Investment funds in (South) African agriculture: an overview
- Producing the (South) African agriculture asset class: the African intermediaries’ role
- Conclusion: What financialisation is it the name?
Context

• The multiple food-energy-climate-finance crisis (Margulis, 2013)
• Increasing competition around natural resources control (i.e. farmland)
• The (financial) rising of Africa (Vallée, 2011)
Agriculture as an opportunity for financial markets

• Increasing interest from financial markets for agricultural investment:
  – Long-term macroeconomic fundamentals (i.e. rising food prices)
  – Specific historical returns on land investment (i.e. US)
  – A mix of current income and capital appreciation
  – Uncorrelated returns with the equities/bonds market
  – A strong hedge against inflation

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

• African agriculture as a « frontier » market
Investment funds in (South) African agriculture: investor(s) and manager

- Plurality of investors
- Delagation of management to a fund manager
- An investment fund as a negociation entity between these two groups of actors for the control of internal ressources

Buxton et al, 2010
Investment funds in (South) African agriculture: Structures and management

• Diversity of funds’ structures and management strategies:
  – Fund status & life-span (i.e. Private equity, Holding company, Property trust, Exchange traded fund, etc.)
  – Specialized or generalist fund
  – Strategic asset allocation (i.e. green/brown investment, « sheer asset »/diversification along the value chain or among crops)
  – Geographical targets (i.e. country, region, continent, emergent market)
  – Governance organization (i.e. disclosed/non-disclosed fund, remuneration & bonus)
Producing the (South) African agriculture asset: « unlocked » the financial value

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

• African intermediaries’/fund managers’ roles:
  – Mediating the supply and demand
  – Translating capital and ressources

• 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)
  – Multi-peril insurances and geographical diversification

• Market risks (i.e. prices volatility)
  – Commodities exchange (e.g. South African Futures Exchange)

• Human resource risks (i.e. decentralization)
  – Contracting model: « network organization »
  – Advanced technologies (e.g. precision farming): centralized management

• Illiquidity risks (i.e. immobility, taxation)
  – Bilateral double taxation agreements

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

• The corporate finance instruments: The Discounted Cash Flow model (DCF)
  – Calculation
  – 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 their complementarity in a portfolio
3. The neutralization of social « interferences »

• « Conform » the social reality to financial models:
  – Example of occupiers

• The « depolitization » as a attempt to unlock the financial value: remove competing land value conceptions

• The fund manager as a political entrepreneur

• Limits and contraints of the translation process: Indigenous capital vs. Reputational risk
A financialisation process?

• Mediation: fund manager as « brokers in financialisation »
• Translation: financial instruments and « bottom up » financialisation
• Abstraction & categorisation: asset-fiction
• Valuation process; both evaluation and valorization (Vatin, 2013)
• A new channeling power in agriculture:
  – Corporate farming
  – Contracting model
Thank you

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