The financialisation of South African grain cooperatives. What room for the agrarian capital?

Antoine Ducastel & Ward Anseeuw

CIRAD, UMR Art-Dev & University of Pretoria, Post-graduate school of agriculture and rural development;

Paper prepared for IIPPE conference, Naples, September 16-18, 2014

Introduction

During Apartheid, the South African agro-food sector has been structured in order to guarantee the collective power and control of white commercial farmers (Bayley, 2000). The grain co-operatives were key institutions to ensure the domination of this "agrarian capital" (Bernstein, 2013) in the sector. On one hand, these co-operatives were the financial intermediaries of the commodities' Board (Vink & Van Rooyen, 2009) and as such collected and managed the agricultural surplus on behalf of its farmers' members. On the other hand, they benefited from the Land Bank subsidiaries to build progressively many agricultural infrastructures (silos, retail shops, etc.) which they then managed, ensuring the commercial farmers a cheap access to agricultural services. These co-operatives were controlled by the farmers, with their boards being exclusively composed of farmers representing the different geographical areas.

The 1990's have been characterized by the deregulation of the agricultural sector. The Marketing of Agricultural Products Act (1996) abolished the commodities Board system and overhauled the co-operatives' regional monopoly (Ortmann and King, 2007). In this framework and related to the 1993's amendment of the cooperative Act, most of these co-ops changed their status becoming public companies[1] (Bernstein, 2013). As such, their members became shareholders receiving shares according to their volume of production.

Almost 20 years later the South African agro-food sector and its transformation are considered as static, reproducing the same domination structure inherited from Apartheid. As states by Bernstein (2013), "Measures to safeguard capitalist farming and agriculture in the 'new South Africa' following the abolition of the institutional apparatus of apartheid were anticipated and initiated in the final years of apartheid, and have continued since 1994". The former co-ops in particular are denounced as an obstacle for broader sectorial transformation and empowerment as they maintained their strategic positions in the agro-food value chains in spite of the sector's deregulation. This being said, even though these entities are still alive, their transformation paths have not been without consequences. Through the deregulation of the South African economy, these companies got more and more exposed to the global transformation of capitalism, especially financialisation.

The financialisation process has been characterized as "a pattern of accumulation in which profits accrues primarily through financial channels rather than through trade and commodity production" (Krippner, 2005). Such "gravitational shift" (Gunnoe & Gellert, 2011) has been defined in many different ways (Fine, 2008; French, 2010) as it seems multiform. In the South African case, the

[1] South African Company Act, 1998

privileged channel regarding the financialisation of the former agro-food co-ops seems to be through a direct involvement and a direct control of finance capital in these companies. Finance capital tends to penetrate these specific agro-food entities either through public takeover on the stock exchange (Orléan, 1999) or private equity transaction (Burch & Lawrence, 2013). Several studies have analysed the impacts and challenges of such finance capital takeover focusing on the imposition of a particular conception of control known as the "shareholder value" (Fligstein & Shin, 2007). According to this framework based on the agency theory, shareholders are the "residual claimants" and as such must control the company's resources' allocation (lazonick *et al.,* 2013). The concrete implementation of such conception relies on a specific industry and professions -i.e. asset and fund managers, consultants, etc.- and a specific financial engineering or "financialisation devices" (Chambost, 2013), i.e. management instruments and benchmarks (e.g. EVA), remuneration structure (e.g. stock option) and control instruments (e.g. corporate Board control) (Weinstein, 2010).

The paces and the patterns of this finance capital's insertion depend and rely on the social structure and the specific configuration of interests in the firm, and the position of the firm in its sector or industry (Palpacuer & al., 2006; Gunnoe & Gellert, 2011). Indeed, several studies highlight the interactions, alliances or conflicts between the finance capital's agents, both firm's insiders and outsiders, and other group of actors involved in or around the firm. For instance, analyses focus on the evolving relations between the top management structure and the shareholders or investors (Palpacuer *et al.,* 2005 ; Petit, 2005). Other focus rather on the negotiations and resistance with firms' stakeholders such as engineers (Pezet & Morales, 2010) or workers' unions (Kadtler & Sperling, 2002). In the agro-food system, the financialisation's impacts on power distribution and social structures have been handled by several studies at different levels[2], from retailers (Burch & Lawrence, 2012; Beaud & Durand, 2011) to primary production (Daniel, 2012; Fairbain, 2014). Burch & Lawrence (2013) in their article about private equity and retail companies note for instance that « finance capital is complementary to all other forms of capital, at least at this stage of capitalist development» and further "finance capital in the form of private equity is not generally in long-term competition with the manufacturers or retailers with whom they may interact for a limited period". Isakson (2013) about the agro-food system in general concludes about the financialisation process, "It has redistributed wealth and power from agricultural producers and workers to financial elites and exacerbated the fragility of the global industrial food system".

Therefore, we will analyse the tumultuous relationships between the agrarian and the finance capital and the reconfiguration of both the accumulation process and the social relations underlying it in the South African agricultural sector. How does the finance capital shake the firms' and agro-food chains' social structures in order to increase its value? And how do such attempts change the relations and redistribute the balance of power in the South African agro-food value chains?

This paper endeavors to contribute to this debate, more particularly to the financialisation's impacts on the structures of accumulation by focusing on the former South African grain co-operatives. A specific question related to this regards the role of the (white) commercial, the so-called "agrarian capital, in this transition process and the way it faced these new challenges in order to keep these former co-ops as a privileged channel to secure their domination. Such a perspective seems original and interesting to better understand the implications of financialisation on the organization of the

[2] For a broad overview see Isakson, 2013

agro-food chains. Firstly, our case studies attempt to illustrate the implementation of the financialisation's devices and mechanisms in these companies to "unlock" value in order to reward the shareholders/investors. As framed by Burch and Lawrence (2013), we will carefully look at how they "shake out its (the company) capital". Then, as we mentioned before these former co-operatives were and, for most of them, are currently at the basis of the wealth and power of the "organised agriculture" (Bernstein, 2013) in the South Africa's agricultural sector. The attempt from finance capital to penetrate and transform these entities must take in consideration such atypical balance of power and social relations' configuration and deal with it. Does it lead to a new alliance between agrarian and finance capital to control these companies and the value chains? Are the specific accumulation strategies of both compatible or are they mutually exclusive? Finally, we will see that these companies have been differently integrated and penetrated by "shareholder value" principles, actors and devices and have been affected with different temporalities. Through various case studies we will show the diversity of the financialisation's paths but also the uneven resistance capacities along the agro-food value chains and between the different groups inside these entities.

In order to grasp the diversity of financialisation paths, based on a political economy and socio-genesis approach of capital, the paper is developing two main case studies. We will start with the Afgri case, a former co-op based in Mpumalanga, from its listing on the JSE in 1996 until its recent takeover by private equity investors. Such trajectory could be regard at the first glance as an ideal-type of corporate financialisation, from a farmer-controlled cooperative to a private company hold by South African and foreign institutional investors. Subsequently, we will look at the attempts of investment holding company Zeder to acquire and restructure several unlisted former co-ops. Such project has since been abandoned but it gives a concrete example of tensions generated by the penetration of finance capital and its impact on accumulation strategy.

1. The transformation of Agri: from a farmers' cooperative to an investment firm

a. The private equity takeover (2014)

Afgri was a grain cooperative known as the Oos Transvaal Kooperasie (OTK), grouping maize farmers and based in the Mpumalanga province. In 1996, the Board of the co-op decided to change the status becoming a public company and to list it on the JSE. Today, the company is structured around three operational divisions: the agricultural services division (i.e. grain management, retail and equipment) the food production division (i.e. animal feeds, poultry, milling, oil and protein) and the financial services division (i.e. insurance, loans and broking) (Afgri, 2013)[3]. In addition, Afgri has progressively expanded its activities beyond its traditional scope, in other South African provinces (Free State, KwaZulu-Natal, etc.) but also abroad in Southern African countries –Botswana, Mozambique, Zimbabwe, etc.-, in Nigeria and Australia[4]. Before the transaction, the main Afgri shareholders were all professional asset managers holding these public shares on behalf of

[3] In its annual reports, the company distinguishes between its "core operation (grain management and industrial foods sector operations) and its "value added operations" (retail, mechanisation and financial services) (Afgri, 2012 & 2013)

[4] In its corporate structure, Afgri separated its South African and its foreign activities; the latter being grouped into a Mauritian holding (Afgri, 2013)

institutional and individual investors[5]; in addition a BEE trust hold 26,77% of the Afgri's South African entity (Afgri 2013).

The 1st of April 2014, the company Afgri Limited is delisted from the Johannesburg Stock Exchange (JSE) and became a private company after its takeover by a holding company named AgriGroupe. The process started on the 27th of September 2013, when Afgri's Board and AgriGroupe released a common media statement about the intention of AgriGroupe to buy all the Afgri shares at a price of R7 per share, representing a total price for the company of R2.4 billion[6]. As mentioned in that same media statement:

> "*The offer is fully financed and represents a premium of 49% to the volume weighted average share price of R4.70 for the 30 trading days prior to Afgri's cautionary announcement on 06 September 2013 and a 22% premium to the 52-week high of R5.75"*.

This arrangement has been accepted by 99,9% of Afgri's shareholders the 19th of November[7].

AgriGroupe is a South African registered entity controlled by a consortium based in Mauritius. Such consortium is led by a pool of North American investors holding 60% of AgriGroupe[8]. The main investor in this pool is Fairfax Financial Holdings, a financial holding company listed on the Toronto Stock Exchange (Canada). Fairfax is mainly engaged "*in property and casualty insurance and reinsurance and investment management*"[9]. As mentioned in the Competition Tribunal of South Africa decision[10], "*In relation to agricultural activities, Fairfax's subsidiary, namely Ridley Inc, is a commercial animal health nutrition business that manufactures and markets a full range of animal nutrition products. Ridley operates in North America, serving customers mainly in the United States and Canada*". Beside these North American investors, the AgriGroupe consortium is held for 15% by South Africa's Private Investment Corporation (PIC), the asset manager of the South African Government Employee Pension Fund[11]; 20% by a Black Economic Empowerment Trust named Bafepi Agri; and 5% by the Afgri management team led by its actual CEO Chris Venter[12]. The Bafepi trust has been funded by PIC and is composed by various black individual entrepreneurs and consortia[13].

During the transaction process, AgriGroupe insisted on the continuity of Afgri's business plan, reassuring all the stakeholders (i.e. farmers, government, etc.):

> "*AgriGroupe supports the strategic vision of the CEO and the process that he and his team have undertaken to restructure underperforming operations, strengthen its core grain*

---

[5] Allan Gray (23.2%), Sanlam Investment Management (6.8%), Stanlib Asset Management (12.3%), Momentum Asset Management (2,7%) and the Private Investment Corporation -PIC- on behalf of the Government Employee Pension Fund –GEPF- (7%)

[6] Afgri and AgriGroupe joint media release Johannesburg, 27th September 2013

[7] SENS, results of scheme meeting, 19th November 2013; a majority of 75% is requested for the transaction to be accepted

[8] Business day, 6th November 2013

[9] Fairfax website, consulted on 18th of August 2014

[10] Competition commission, case n° 017939, 15th of April 2014

[11] PIC is a public entity under the supervision of the Department of finance. It invests mainly on behalf of the GEPF, the pension fund of the South African public servant, also under the tutorship of the Department of finance. Recently, these entities claimed their intention to increase their developmental investments, especially in the agricultural sector (Address by John Oliphant, GEPF Principal Executive Officer, Cape Town Press Club, 23th of April 2013).

[12] Afgri and AgriGroupe, Joint press statement, 31th of March 2014

[13] Afgri, Circular to shareholders, 22th of October 2013

management business and position the company for long-term investment and growth in South Africa and the rest of the African Continent[14]*"*.

b. From OTK to Afgri, the first wave of financialisation (1996-2014)

To better understand the reasons and motivations behind such takeover, it seems important to analyse the company in a longer perspective and follow the different steps of its transformation. OTK was summer grain's co-operative ruled by the Cooperatives Act (1922, 1939) and the Marketing Act (1937). In such structure, the farmers who belong to the co-op appointed the Board members who represented the farmers' constituency. This representation system was based on the farmers' production volume while a regional quota system ensured the representation of the diversity of this constituency. The co-ops played a crucial role in the regulation of the sector and the enforcement of white agrarian capital during Apartheid until the first years of the 1990's (Bernstein, 2013). Indeed, the cooperatives were in charge of channelling Land Bank's advantageous loans and public funding (e.g. drought relief); co-ops benefited from tax exemptions and public subsidies to build strategic agricultural assets (e.g. silo building loan programme) ; and they controlled most of the commodities Board (Bayley, 2000). The deregulation process initiated in the 1980's (Bernstein, 2013) and concluded with the new Marketing of Agricultural Product Act in 1996 triggered the dismantling of the commodities Boards and abolished public subsidies (Bayley, 2000). As such, co-ops were deprived of their main economic and politic leverages.

To face this new situation and preserve the interest of the commercial farmers, most of these co-ops decided to become public companies, with their members becoming the shareholders of these 'new' entities. Then, the Boards of these co-ops chose different company statuses and strategies; OTK being the only one going for a listing on the JSE. Such listing was a way to protect the co-op from the intrusions of the new government. In addition, after few months the OTK's share price on the JSE increased significantly, "from an issue price of 192c to a high of over 600c[15]", resulting in the farmers-shareholders to get a good premium from their shares. The end of the 1990's has been characterized by a consolidation process when former co-ops merged: OTK expanded its business buying another former co-op the Sentraal-Oos co-operative, based in the Free State.

Until 2000 all the OTK Board members except the CEO were farmers, which resulted in the company being ran in its 'old same way' considering themselves as farmers' delegates:

"*Being director in a co-op is about representing the farmers and it is different to be a director in a Board company where you have to represent the shareholders*[16]".

But as a public company OTK started to be more and more scrutinized by institutional investors, who were acquiring more shares into the company. In 2000, the South African private equity firm BRAIT capital acquired 19% of OTK's shares on the JSE. Together with investment management firm Allan Gray, which detained already 34%, it engaged in a restructuration process of the company[17]. This takeover happened while the OTK share price was dropping below 400c and critics concentrated on company's management and its bad impact on the group profitability.

---

[14] Afgri and AgriGroupe joint media release, 27th September 2013
[15] Unlocking value", Finance week, 16th of February 2001
[16] Interview J.J. Ferreira, former Afgri board member, Warden (SA), 24th of July 2014
[17] "Unlocking value", Finance week, 16th of February 2001

BRAIT started substituting most of the farmer-directors of OTK's Board by their own directors. Only four farmers remained on the Board, while the newly appointed directors had more financial backgrounds[18]. They also changed the managing team of the company[19] in order to implement a more shareholder-friendly value approach. In addition, during the first four years (2000-2004), BRAIT capital implemented major changes in the company's management. Firstly, they decided to sell its debtors' book to Westbank and the Land Bank for R921 million, which gave them the capital to reward the shareholders with a dividend of R2.45 per share[20]. In parallel, they also sold OTK's milling division[21] and other "non-core businesses" (e.g. an egg producing entity), while they acquired two others former co-ops[22], and tried to develop a branch for cotton production in other African countries[23]. They also reduced the company's staff by 1200 to about 2800 employees. Finally, in 2002 they changed the company's name, becoming Afgri[24].

The transformation process has been largely driven by the implementation of financial ratios and benchmarks, especially the adoption of an "Economic-value-added" (EVA)[25] model (Afgri, 2002), which focused primarily on shareholders' remuneration[26], as stated in the 2002's annual report "Investments that destroyed shareholders value were sold". In addition, they implemented an EVA-based mechanism for the remuneration of the director (Afgri, 2002). Such instrument also drove a change in their capital structure. Indeed, as "OTK" used only its own capital, they started borrowing money and increased the company's indebtedness. In short, BRAIT capital restructured the company according to "shareholder value" mainstream principles, i.e. focus on the core businesses, rationalization according the EVA, reduction of staff, in order to get a quick reward for their investors.

As we mentioned most of the farmer-directors have been kicked out in 2000 from the OTK's Board. There were 4 of them until 2006, only 2 from 2007 to 2011, none thereafter. Such marginalization within the Board reflects the progressive loss of control over this agribusiness firm and its assets by the white commercial farmers in favour of these institutional investors. During this period of time, several farmers left the company because they no longer identified themselves with it:

> "*They left because they had the feeling that the company was now run by people from the city, from Johannesburg (…) and there were also cultural and language aspects; in BRAIT they were only English-speaking, while 95% of the farmers are Afrikaans-speaking*[27]".

The reduction of staff on the ground and the selling of several of Afgri's assets (e.g. mills) were also perceived as a reduction of farmer services' level for the only benefit of shareholders' remuneration.

---

[18] Mervyn King (corporate attorney and Chairman of King committee on corporate governance), Anthony Ball (Group Chief executive of BRAIT), Eduardo Gutierrez-Garcia (Principal at BRAIT's Private Equity Fund III), MJ Van Der Merwe (Managing director at Allan Gray), Neill Davies (Executive and director of BRAIT), SC Marais (executive chairman of Allan Gray) (Afgri, 2002)

[19] Hiring Graham Ebedes and Jeff Wright from Tiger Brand

[20] OTK sells debtors book for R921m, Reuters, 27th of February 2001

[21] OTK sells its maize mills to management, SENS, 27th of May 2001

[22] The "Natal Agricultural Co-operative Limited" in KZN and "Laeveld Korporatiewe Beleggings Beperk" in the Northern Mpumalanga- (Afgri, 2004)

[23] Clarke cotton

[24] OTK Holdings Limited: Change Of Name, SENS, 15th of July 2002

[25] EVA= the net operating profit after taxes – the percentage cost of capital * total capital, "l'EVA intègre *ex ante* un niveau de rémunération des fonds propres attendues investisseurs", Palpacuer *et al.,* 2006.

[26] "By ensuring that Return on equity invested exceeds the group's weighted average cost of capital"

[27] Interview J.J. Ferreira, Warden (SA), 24th of July 2014

In 2004, BRAIT left the company, selling its shares to public shareholders and to a black economic empowerment (BEE) Trust, the "Agri Sizwe Trust"[28], but no majority shareholder held a controlling block after them. From 2005 to 2013, the company evolution is characterized by the increasing role of the Afgri management team and its empowerment as an autonomous "corporate capital" in between commercial farmers and financial industry. Indeed, in 2008 Chris Venter[29] became CEO of Afgri group and initiated changes in the management team and tend to centralize the managing structure. This management team kept focusing on shareholder value principles and evolving "market requirements"[30], but in the same time, also got closer to the white, particularly Afrikaner, commercial farmers. This re-emphasised their "agricultural backgrounds", and is reflected through various farmers' initiatives such as the AgriSA[31] project in the Democratic Republic of Congo. In 2010, the Afgri BEE trust is restructured as the 'Afgri black employees' trust, acquiring 100% of the BEE entity while the "external" partners exited. Such restructuration through the promotion of a black minority illustrates the increasing control on the company by professional managers[32].

During this period, Afgri's strategy tended to be more and more focus on grain management and the food industry, acquiring new assets in these two areas[33]. They restructured what they considered there "value-added operations" through businesses' sales[34] or mergers[35]. In 2012, the company also entered in a partnership agreement with the Land Bank, the South African governmental development finance institution for the agricultural sector, in which Afgri sells both its farmer's debtors book and its corporate lending book to the bank (Afgri, 2012). Through this agreement, Afgri will continue to manage these books but on behalf of the land bank who owns and funds it[36]. Finally, from 2012, the expansion in Africa became a strategic dimension[37] illustrating the evolution of the company as an investment firm North to Limpopo.

---

[28] This first Afgri BEE trust were composed by individual black entrepreneurs, black emerging farmers organisation (i.e. the National Emergent Red Meat Producers' Organisation and the National African Farmers' Union) and Afgri black employees' trust (the Izitsalo Employee Investments)

[29] "Chris obtained valuable merchant banking experience during seven years with Standard Merchant Bank (now Standard Corporate and Investment Bank), where he was primarily involved with trade and project finance. He concluded his employment with SCIB as Head of the Export Credit Finance Department. Chris joined Absa Corporate and Merchant Bank in 1999 as team leader of the Structured Trade and Commodity Finance team. In total he spent seven years with Absa Corporate and Merchant Bank of which three years were in New York as Head of the Structured Trade Finance unit focusing on commodity financing in Latin America. On returning to South Africa in December 2004 he was appointed as head of the Global Structured Trade and Commodity Finance Team. In June 2006 Chris joined AFGRI as Managing Director of AFGRI Financial Services and Insurance and assumed responsibility for the Group's Treasury division. Subsequently, he has held various director positions within AFGRI, including Chairman of Agricola and AFGRI Western Cape. He was appointed to the Board of AFGRI Operations Limited in July 2007 and appointed as Group Chief Executive Officer with effect from 1 October 2008". Afgri, 2013

[30] For instance they followed the recommendations from the King III report about corporate sustainability, introducing for instance a sustainability component in their annual report

[31] The representing body of South African commercial farmers, heir of the "South African Agricultural Union", white farmers union during the apartheid

[32] "Afgri enriches employees via a broad-based BEE deal", Afgri, 29th of July 2010

[33] Rossgro chicken in the poultry industry

[34] Clark Cotton in 2006

[35] They disposed their retail branch in a new joint-venture entity in partnership with Senwes

[36] "Land Bank acquires AFGRI's corporate lending book in landmark transaction", Land Bank, 11th of July 2012

[37] Construction of bunkers facilities in Zambia, acquisition of an agricultural service provider in Nigeria

c. The battle for Afgri's assets

In 2013, the company knew financial difficulties partly due to the losses within its poultry operations. Its share price dropped from around 555c at the beginning of the year to 412c at the end of June. However, the company remained attractive enough for AgriGroupe to offer a bid of R7 per share and R2.4Bn for the entire company. Such attraction and the appetite from these financial investors seem to result from four different factors.

Firstly, as we mentioned before, the company as former co-op and through its various acquisitions, has accumulated strategic agribusiness assets, especially silos[38]. The silo market is local-based and as the costs of acquisition - and thus of entry - are very high, Afgri holds a regional monopoly position in Mpumalanga, Northern KwaZulu-Natal and Northern Free State. Many financial analysts highlighted the gap between the company's Net Asset Value and its market price before transaction[39].

Secondly, as we mentioned before Afgri entered into an agreement with the Land Bank in 2012. Through this partnership, Afgri became the Land Bank's preferential intermediary for commercial and emerging farmers. Performing such functions gave the company access to preferential loan rates of the Bank, resulting in better margins[40]. Not only does the Land Bank's sponsorship give Afgri financial incentives and a secure position, it also positions it (and the bank) as a key player in the transformation process of the sector as.

Thirdly, Afgri had progressively developed its "African footprint" (Afgri, 2013), especially through its Mauritian platform which groups its foreign investments. The "off-shorisation" of these foreign activities allows the company to avoid the South African tax regime, and fluidifies its financial flows. AgriGroupe underlined several times its intention to expand the African dimension of Agri's businesses[41].

Finally, Afgri was probably the most accessible company for a buyout on the South African agro-food market. As we detailed before, the "first wave" of Afgri's financialisation had turned the company into a "market friendly" company fulfilling the mainstream shareholders' requirements in terms of governance, structure, etc. Conversely, as we will show in the last section of this paper, the other former co-ops holding similar assets are still largely controlled by farmers' blocks and as such protecting farmers' interests.

Other potential investors emerged during the transaction process, proposing different deals with different purposes. The African Farmers' Association of South Africa (AFASA), a black farmers' union

---

[38] Afgri hold slightly more than 25% of the silos in South Africa (Competition Tribunal, Case no. 17/LM/Mar04)

[39] Takeover discussions under way at ailing conglomerate Afgri, Business day, 9th of September 2013

[40] As the agribusiness head of a major South African commercial bank states "*The Land Bank doesn't have to pay tax or go through processes such as the Financial Intelligence Centre Act, which sharply drives up the costs of commercial banks. But commercial banks have to compete with them and I believe that's unfair*"(*"Farmers in bid to block R2.5bn Afgri sale*", Business day, 13th of November 2013).

[41] "We will support management's strategic vision for African food security through development of critical supply chain infrastructure, logistics solutions and financial services for both smallholding and commercial farmers in Africa" (Afgri and Agrigroupe, Joint press statement, 31th of March 2014)

claiming to represent 12.000 farmers[42] - both emerging and commercial, identified Afgri as strategic company and asset[43], particularly for the empowerment of black farmers into the agricultural value chains:

> "*The rationale for acquiring Afgri and using it as a base for further direct black participation across the entire agricultural value chain in South African and beyond South Africa's borders. However, the AFASA consortium has from the onset made it very clear that it sees South Africa as home and that the needs of South Africa and the food security imperatives in the country must come first including ensuring that vehicles like Afgri become transformative agents in what continues to be a very closed sector to blacks[44]*".

As such, they firstly tried to raise capital in order to directly buyout the company. But as the AgriGroupe's transaction moved on, they started a campaign against such a deal[45] and engaged into a legal case with the national competition authorities[46] and grasped support from the SA communist party[47]. It led to several government departments raising concerns about this transaction to the competition authorities.

The conflict over the Afgri deal and the coalitions who emerged reflect the tensions and conflicts surrounding the on-going, post-apartheid, agricultural transformations and the role finance capital plays in this process of reconfiguration of the accumulation structures. On one hand, AgriGroupe succeeded thanks to the commitment of Afgri's management team, who emphasised its African expansion project developed since 2012 (Afgri, 2012 & 2013). Indeed, the two main institutional investors, the Canadian Fairfax Financial Holdings and the South African Private Investment Corporation (PIC) have a very limited background in agriculture and agribusiness if any, and rely on the management team for value creation in the sector. The same could be said about the BEE trust involved, formed around black entrepreneurs[48] part of an "incumbent black capital elite" (Marais, 2011) promoted through the actual BEE model (Freund 2007). Finally, the apparent neutrality of commercial farmers and their representative body regarding this transaction is worth mentioning here.

On the other hand, AFASA failed to group institutional investors around its project of using Afgri to further the empowerment and the development of black farmers. According to Andrew Makenete, one of AFASA's economic advisers, this is due to the misunderstanding of the South African market by these foreign investors:

> "*For the poultry operation for instance, as black, I would get access to new contracts, like KFC which is looking for such partners. But this is something Americans don't understand; because unlocking the value in South Africa is a different game[49]*".

---

[42] AFASA is born from a scission of the "National African Farmers' Union" *(*NAFU*)*, which has been the first black farmer union in South Africa

[43] As Chabane (2004) notes about the maize sector "the vertical integration and the combination of related activities (which) makes the silos so pivotal in the market".

[44] Afasa's reaction to media reports about Afgri's transaction", AFASA, 14th of October 2013

[45] "Why takeover of Afgri must be stopped?", AFASA, 1st of October 2013; "Black farmers aim to block Afgri takeover", Business day, 30th of October

[46] Farmers in bid to block R2.5bn Afgri sale", Business day, 13th of November 2013

[47] SACP press release, 1st of December 2013

[48] Such as Kholofelo Maponya

[49] Interview Andrew Makenete, special adviserAFASA, Pretoria (SA), 27th of May 2014

Then, the positioning and support of the South African government to AFASA have been very divided and ambiguous. Several departments foreclosed the Competition authorities about this deal and raised AFASA's concerns[50]. But on the other side, PIC had accepted the "AgriGroupe's" bid and the Land Bank, while a privileged partner of "Afgri", has been totally absent from this debate. Finally an agreement has been reached between the Departments and Afgri's shareholders[51] and the government endorsed the transaction. This support raised questions about the model of agricultural development and empowerment promoted by the government – as detailed in the conclusion hereafter.

Afgri's trajectory gives us an original example of a firm's financialisation path and its impacts on the firm's social structures. Firstly, the establishment of shareholder value principles within Afgri led to a progressive marginalization of the commercial farmers, who from co-op members became shareholders and then simple clients. Secondly, we note the empowerment of professional managers who get an increasing room for manoeuvre with regards Afgri's public shareholders and the commercial farmer community. The AgriGroupe buyout is the culmination of such autonomization process, turning Afgri into a private company. Such reconfiguration of the manager profile and power and the convergence of interests between them and the finance capital have been analysed elsewhere as a major financialisation impact on the capitalist firm (Weinstein, 2010; Widmer, 2012). Thirdly, white commercial farmers tend to be marginalized in the South African value chains. However, Afgri's management team tends to preserve them, at least some of them, as they rely on this group for their African expansion strategy. Indeed, if finance capital relies on professional managers for the value extraction from corporates, they both rely on agrarian capital for the value extraction in the African agricultural sectors. Finally, the emerging of (black) small-scale farmers remains at the margin of this accumulation process. As such, this Afgri case-study shows the changing structures and alliances underlying the accumulation process in the agro-food value chains and the attempts from different form of capital to secure their profit shares.

2. The resistance of the agrarian capital: the Zeder offensive

Afgri's trajectory is unique in the sector, as it has been the first, and so far the only, former co-op being listed on the JSE. Other similar entities, with similar assets but positioned in other geographical areas, have adopted different conversion strategies. Indeed, in order to preserve farmers' control over these entities while becoming public companies (Company Act, 1998) they also implemented specific protection mechanisms such as private share trading platforms. Recently, financial investors have been assessing these entities, but got confronted to such mechanisms. These confrontations highlight a different process compared to the Afgri one and illustrate the cohabitation into South Africa's agricultural sector of different modes of accumulation. We will consider a particular case, the one of the acquirers of Zeder, to better understand these financialisation resistance strategies.

Zeder is a holding company focusing on agricultural, food, food processing and beverage related sectors (Zeder, 2009), describing itself as a long term investor, and listed on the JSE. It has been set

[50] About a foreign entity controlling 25% of the South African silo facilities and the potential consequences on food prices, the risk of Afgri moving to Mauritius because of tax benefits and the undervaluation of Afgri

[51] Competition Tribunal, case N° 017939, 15th of April 2014

up in 2006 by the "PSG Group", a South African listed investment holding company promoter of the "Afrikaner capital"[52] (Ashman & Fine, 2013). Except for the PSG group that holds slightly more than 42%, Zeder's other shareholders are public entities listed on the JSE. From its inception, Zeder's strategy focused on investments in former co-operatives in order to "assist" their transition and to benefit from "arbitrage opportunity" (Zeder, 2012). As described by Jannie Mouton, while recognising the gap between the co-ops net asset value and their share market value, they'll focus on:

> "*The complete transformation of co-operatives to profitable public companies with good management, sweating the rich assets and shares that are freely tradable, reflecting a share price that is closer to fair value*" (Zeder, 2008).

Indeed, Zeder's appetite has been motivated by the fact that former co-operatives are "*profitable and asset rich with a loyal client base*" (Zeder, 2008) of which the value has been locked because of "restrictions on transferability of the shares" and "non-profit oriented management"[53]. To "unlock" this value, Zeder acquired "non-controlling strategic stakes" in these unlisted entities[54] (Zeder, 2008). In the following years, Zeder engaged in a financial rationalization of these companies. However in 2012, they announced a radical change in their investment strategy[55] and sold most of this portfolio.

Indeed, they achieved very mixed successes. On one hand, it had succeeded in its unbundling strategy with Kaap Agri disposing its Pionneer Foods interests into a newly created entity named Agri Voedsel Beleggings (Zeder, 2012)[56]. Such unbundling operations generated considerable returns for the shareholders. On the other hand, as they stated in their 2012's annual report:

> "*In many other co-ops we have found that it may still take a long time for them to become more shareholder orientated*".

Therefore in 2014, they had disposed all their stakes in the former co-operatives except Kaap Agri.

These former co-operatives have been turned into public companies in the late nineties. But rather than getting listed on the JSE, it was decided to create their own share trading over the counter platform. Such mechanism gives the company an oversight on its ownership structure as it directly

---

[52] Founded in 1995 by Jannie Mouton based in Stellenbosh, its major shareholders are its directors (36.6%); Steinhoff, a furniture production company led by Markus Jooste (19.6%), other relatives and friends (10.1%) and Thembeka Capital (5.2%) ("BEE firms need to take a leaf out of PSG's book", Business Live, 25th of June 2013). In addition, PSG annual meetings are mostly hold in Afrikaans and the shareholders present are mostly Afrikaners (observation from the author).

[53] *"Most were cooperatives, some between 50 and 100 years old and there was no motivation for them to make a profit. Their sole purpose was to sell goods at low prices to members who were also the owners"* (Interview Jannie Mouton, Farmers' weekly, 10th of February 2009)

[54] In 2008, Zeder owned such positions in MGK Business Investment Limited (29,8%) based in the Northwest province; Kaap Agri Limited (33,6%) in the Western Cape; Suidwes Investment Limited (15,5%) in the Northwest province; KWV Limited (20,8%) in Western Cape; NWK Limited (4,4%) in the Northwest; BKB Limited (3,3%) in the Eastern Cape; Senwes Limited (5,8%) in the Free-State; KLK Landbou Limited (10,0%) in the Northern Cape; Tuinroete Agri Limited (5,9%) in the Eastern Cape; OVK Operations Limited (8,1%) in the Free-State.

[55] Acquisition of controlling stakes, with a focus on Southern Africa, no longer considered as the "*dark continent*" but rather as "*a land of opportunity*" (Zeder, 2012) and they directly invested in primary production (Chayton in Zambia).

[56] The same happened with the unbundling between the KWV operations and its share in the South African wine company "Distell" which have been grouped into the Capevin holdings (Zeder, 2010)

manages such platform and limits the takeover's risks from institutional investors because of the bonds' low liquidity. In addition, in many former co-ops, they progressively implemented farmers' shares controlling blocks in order to secure their positions. Such blocks often take the form of holdings or investment companies, with restrictive share trading options[57].

While Zeder got stakes in these entities and tried to introduce a financial rationalization plan, tensions raised with these controlling blocks. One of the major source of tension emerged in several cases around the disposal of specific branches or services. Indeed, Zeder pushed for refocusing on what it considered as the companies' core business, often the grain storage, and for selling off the other activities, particularly the farmers' debtor books considered as a low profit and capital intensive business. On the other side, shareholders-farmers were concerned about these disposals as most of these co-ops give them access to preferential loans or debts regards to what commercial banks offer. Thanks to their majority on the board and the share trading restrictions, they could prevent such strategy maintaining Zeder as a minority shareholder. From 2012, Zeder started to dispose its interests in these companies and farmers-shareholders' blocks often bought back these shares, reaffirming their authority and control[58].

However when we look carefully at several of these former co-operatives, we surprisingly note recent changes in their managements and structures, which could be analysed as an import of a financialised conception of the firms. For instance, Suidwes decided in 2012 to unbundle its more "traditional agricultural activities" from its "investments in the agricultural value chains" (Suidwes, 2013); Senwes started a consolidation strategy through the implementation of joint-venture and partnerships with Afgri for its retail activities or with Bunge for its international grain trade division (Senwes, 2013). In addition several of these entities (e.g. Senwes, Suidwes, NWK, etc.) are implementing reporting policies on the same basis as for listed companies (Senwes, 2012). Finally, they develop their investment portfolios through new business acquisitions especially abroad in Africa. Such transformations raised questions while we just noted the failure of the finance capital to fully takeover these companies. But it seems that such strategy is progressively adopted by the dominant shareholders-farmers and the professional managers of these companies as the most profitable accumulation strategy.

Related to specific mechanisms which ensure their cohesion and collective power, white commercial farmers have been able to maintain their control over these companies and their agricultural assets. Indeed, even when confronted to Zeder they have been able to maintain their control over these assets and to block what they considered as a threat to their farmers' collective interests while it could benefit them as shareholders. However, through Zeder's influence and the change in the industry, we observe an indirect financialisation, or a financialisation from inside, of these

[57] For instance, in the case of the NWK Holdings Limited, "this company may not dispose of shares held in NWK Limited without a prior resolution by its members, approved by 75% of all the votes of its members, if the disposal of shares will lead to its interest in the voting power of NWK Limited decreasing to below 51%". Therefore, Senwesbel hold 51,09% in Senwes in 2013 (Senwes, 2013); Suidwes holding limited hold this same year 51,06% in Suidwes; SA Besproeiings Korporasie Limited had 51.33% in MGK Limited; and "NWK holdings limited" hold 59% in "NWK Limited".

[58] "Since the controlling interest in the business is held by a shareholding structure with a long term agricultural vision, the other partners have to be aligned accordingly" (Senwes, 2012)

companies as the dominant farmers-shareholders tends to reframe its accumulation strategy progressively adopting a financialised conception of the firm and a shareholder perspective.

3. Conclusion

South African former grain co-operatives have been through different transformation paths during the last two decades and faced differently the financialisation dynamics. Afgri, once the bigger co-op, decided to list on the stock exchange. After few years, a pool of institutional investors took control over Afgri and implemented a corporate rationalization according to the shareholder value principles and devices. One of the consequences has been the empowerment of a management team in charge of this company's valorisation. These managers tended to increase their power along this process and finally they concluded an alliance with private investors to take over the company. Many other co-ops had adopted a much more conservative strategy to keep these entities into the hands of the white commercial farmers. While they converted the co-ops as public companies, they ensured the farmers' control through trading restrictions. However, recently such companies had attracted private institutional investors who tried to "unlock the value" in these companies through restructuration, abandonment of trading restrictions and unbundling strategies. If these takeovers attempts had partly failed, it seems that some of these companies are currently engaged in a reframing of their accumulation strategy which tends to become more and more financialised.

Afgri is the only case where finance capital has been able to take the full control over the company and progressively marginalized the commercial farmers. However, such control has been limited (2000-2004, during BRAIT's term), just the time to implement the "financialisation devices" (Chambost, 2013) -i.e. EVA, staff restructuration- and "shake out its capital" (i.e. sale of the debtor book). The implementation of these particular devices is ensured from inside by professional managers. In 2013, these professional managers concluded an agreement with private investors which give them a higher margin of manoeuvre to run the company. In the Zeder's case study, the different management teams tended mostly to support farmers' claims as they are both their customers and their shareholders[59]. On the other hand, these management teams, supported by their farmers-shareholders, progressively implemented transformations in the companies' structures and strategies illustrating a shift in their accumulation strategies much more oriented toward financial profits. These two cases show the crucial role played by professional managers in the financialisation process, as highlighted by many scholars (Widmer, 2012; Petit, 2005; Weinstein, 2010). In the co-ops system there were already involved but marginalized in the decision-making structure. The deregulation and the change in these entities' status gave them a higher control, while the pressure from finance capital increased their room of manoeuvre. In addition, they play with the division into this finance capital as illustrated by the Afgri case where the privileged an alliance with private investors rather than public shareholders to increase its power. Therefore, regarding the social structure of the firms, these managers concluded diverse alliances with either white commercial farmers or financial industry's players to ensure their participation in the accumulation process.

[59] « Employees must always remember that Intrax value (the MGK employees and managers Trust holding 32% in the company) is 0 without the farmers; my shares lost value if I lose my customer », Interview Ben Lombard, former MGK CEO, Brits (SA), 12th of August 2014

Regarding our initial question about the relations between financial and agrarian capital we must underline their ambiguities. On one hand, they were confronted with regards the control over South Africa's agricultural assets and companies. On the other hand, they depend of each other in the perspective of their African expansion as the South Africa commercial farmers need capital, and the financial investors need the know-how and operators to implement their projects. Thus, even when white commercial farmers got marginalized in the running of and control over the South African sector, as in the Afgri case, it can maintain its position in the accumulation process through its expansion in Africa, with the support of finance capital. However, just a small fraction of commercial farmers are integrated into these accumulation channels as illustrated by the concentration process at the farmers' level[60]. Black emerging farmers are the absent of such transformations. Indeed, they face both the inertia from the old agrarian structures and the farmers' marginalization from the new financial ones; both of them tend to keep them at the margin of the sector.

We adopted a theoretical framework structured around two different poles, namely the finance capital and the agrarian capital. However, we noted several times during our analysis the internal divisions or conflicts which divided them, e.g. between private and public financial investors or between the larger commercial farmers and the smaller ones. The financialisation movement relies on these divisions promoting new alliances beyond their specific sectors.

Our study also illustrates the changing in the financialisation dynamics and pace and its specific chronology in the South African agro-food value chains. As such, we distinguish two "waves" of former co-ops' financialisation, the first one started just after the deregulation in the late 1990's of which the first Afgri takeover is a good example; the second one took place from the late 2000's illustrated by Zeder's investments and the second Afgri takeover. We identified several differences between these two financialisation steps which give us a better idea about the dynamics with regard the content and form, rather than seeing it as static and homogeneous practices and principles.

- Firstly, the targets of the finance capital and the form of its control have changed. In the first wave, financial investors were focused on listed companies like "Afgri", and the takeover happened through the stock option market. Nowadays, private equity investments are a privileged form of takeover targeting either unlisted companies or listed companies which are then delisted (Burch & Lawrence, 2013).
- Secondly, the first wave was focused on companies' restructuration according to the shareholder value principles and devices. In the last transactions, such companies' restructuration remains a central aspect of the financial work but it comes along with other mechanisms and strategies such as the geographical expansion toward "frontier markets". Such expansion in Africa is becoming a crucial factor for financial involvement in the sector.
- Finally the investors involved are not the same: In 2000 the "Afgri" takeover had been led by South African institutional investors, while the recent one has seen a foreign majority taking the corporate's control. But the key change is probably the involvement in the transaction of both a Black economic empowerment trust, and the Public Investment Corporation, a public entity managing the savings of public servants.

[60] One of South Africa's biggest farmers, Kallie Schoeman of Schoeman Boerdery: 'It is natural, simply capitalism . . .you must get bigger, get better, or get out.' (*Financial Mail*, 19 January 2012), in Bernstein (2013)

In the 1990's, the conversion of co-operatives as public companies should be understood as an attempt to keep away the agricultural assets from the new government's control. Public markets were seen as a protection from government influences and potential redistribution attempts. Almost twenty years later, PIC's involvement in Afgri's takeover could be seen as an attempt from government to put hands on these assets; but it rather illustrates the current conception of economic developmental policy especially regarding black empowerment. Indeed, the South African government tends more and more to promote private equity vehicles as a political instrument for empowerment and development. It support BEE trusts or gets directly involved in such operations through various Development Finance Institutions –IFD- or other public financial vehicles such as PIC. In partnership with the private equity industry, IFD highlight the potential of such instrument for job creation or skill transfer (SAVCA & DBSA, 2013). As such, they promote redistribution from above[61] with the main beneficiary of such project being the black financial elite, while the rural or agricultural beneficiaries are grouped into trusts where their voice is marginalized and redistribution minimalized.

Bibliography:

Afgri Limited. *Annual report*, 2002. http://www.africanfinancials.com/Report.aspx?afr_year=2002&CountryDOMAIN=za&CshortName=AFR

Afgri Limited. *Annual report*, 2004. http://www.afgri.co.za/downloads/afgri-annual-report-2004.pdf

Afgri Limited. *Integrated Annual report*, 2012. http://www.africanfinancials.com/Report.aspx?afr_year=2012&CountryDOMAIN=za&CshortName=AFR

Afgri Limited. *Integrated Annual report*, 2013. http://www.afgri.co.za/financials/2013/AFGRI_Annual_Report_2013.pdf

Baud C., Durand C. Financialization, Globalization and the Making of Profits by Leading Retailers. *Socio-Economic Review*, 2011. doi:10.1093/ser/mwr016.

Bayley B. *A Revolution in the Market: The Deregulation of South African Agriculture*. Oxford Policy Management, 2000.

Bernstein H. Commercial Agriculture in South Africa since 1994: 'Natural, Simply Capitalism'. *Journal of Agrarian Change* 13, n° 1, 2013: 23-46.

Burch D., Lawrence G. Financialization in Agri-Food Supply Chains: Private Equity and the Transformation of the Retail Sector. *Agriculture and Human Values*, 2012 :1-12. doi:10.1007/s10460-012-9413-7.

Chabane N. *Markets, efficiency and public policy. An evaluation of recent influences on price in the maize market and government responses*, 2004

Chambost I. De la finance au travail. Sur les traces des dispositifs de financiarisation. *La nouvelle revue du travail*, n° 3, 2013. doi:10.4000/nrt.1012.

Cousins, B. Smallholder Irrigation Schemes, Agrarian Reform and "Accumulation from Above and from Below" in South Africa. *Journal of Agrarian Change*, *13*(1), 2013 :116–139.

Daniel S. Situating private equity capital in the land grab debate. *Journal of Peasant Studies* 39, n° 3-4, 2012: 703-29. doi:10.1080/03066150.2012.674941.

[61] In opposition with the "accumulation from below" (Cousins, 2013)

Fairbairn M. 'Like gold with yield': evolving intersections between farmland and finance. *Journal of Peasant Studies*, 2014: 1-19.

Fligstein N., Shin T. Shareholder Value and the Transformation of the U.S. Economy, 1984–2000. *Sociological Forum,* 22, 2007: 399–424. doi: 10.1111/j.1573-7861.2007.00044.x

Fine B. La financiarisation en perspective. *Actuel Marx* 51, n° 1, 2012: 73. doi:10.3917/amx.051.0073.

Fine B., Ashman S. Neo-Liberalism, Varieties of Capitalism, and the Shifting Contours of South Africa's Financial System. *Transformation*, n°81/82, 2013:145-178.

French S., Leyshon A., Wainwright T. Financializing Space, Spacing Financialization. *Progress in Human Geography* 35, n° 6, 2011:798-819. doi:10.1177/0309132510396749

Freund B. South Africa: The End of Apartheid & the Emergence of the "BEE Elite". *Review of African Political Economy* 34, n° 114, 2007: 661-78.

Isakson S. Food and finance: the financial transformation of agro-food supply chains. *Journal of Peasant Studies*, 2014:1-27.

Kadtler J., Sperling H.J. The power of financial markets and the resilience of operations : argument and evidence from the German car industry. *Competition & Change* 6, n° 1, 2002: 81-94. doi:10.1080/10245290212672.

Krippner G. The Financialization of the American Economy. *Socio-Economic Review* 3, n° 2, 2005:173-208. doi:10.1093/SER/mwi008.

Lazonick W. From Innovation to Financialization: How Shareholder Value Ideology Is Destroying the US Economy. In *The Handbook of the Political Economy of Financial Crises*, edited by Martin H. Wolfson and Gerald A. Epstein. OUP USA, 2013.

Marais H. *South Africa Pushed to the Limit: The Political Economy of Change*. London; New York: Zed, 2011.

Orléan, André. *Le Pouvoir de La Finance*. Odile Jacob, 1999.

Ortmann G.F., King R.P. Agricultural Cooperatives I: History, Theory and Problems. *Agrekon*, Vol 46, N°1, 2007

Palpacuer F., Pérez R., Tozanli S., Brabet J. Financiarisation et globalisation des stratégies d'entreprise : le cas des multinationales agroalimentaires en Europe. *Finance, contrôle, stratégie, vol.* 9, n° 3, 2006: 165-69.

Petit P. D'un capitalisme managérial...à l'autre. *Innovation*, n° 23, 2006.

Pezet A., Morales J. Les contrôleurs de gestion, « médiateurs » de la financiarisation. *Comptabilité Contrôle Audit,* vol. 16, n° 1, 2010: 101-32.

SAVCA & DBSA. *The Economic Impact of Venture Capital and Private Equity in South Africa*, 2013

Suidwes, *Integrated Annual report*, 2013. http://www.suidwes.co.za/Docs/2013/Annual%20Report%202013.pdf

Vink N., Van Rooyen J. *Perspectives on the performance of agriculture in SA since 1994 and implications for its role in archieving sustainable food policy*. Working draft paper University of Pretoria, 2009.

Weinstein O. P*ouvoir, finance et connaissance: La transformation de l'entreprise capitaliste entre XXe et XXIe siècle*. Editions La Découverte, 2010.

Widmer, Frédéric. *La Coordination Patronale Face à la Financiarisation. Les nouvelles règles du jeu dans l'industrie suisse des machines*. Editions Seismo, 2012.

Zeder, *Annual report*, 2008. http://www.zeder.co.za/wp-content/uploads/pdf/Zeder_AR_2008.pdf

Zeder, *Annual report*, 2009. http://www.zeder.co.za/wp-content/uploads/pdf/Zeder_Annual%20Report_2009_.pdf

Zeder, *Annual report*, 2010. http://www.zeder.co.za/wp-content/uploads/pdf/Zeder%20Annual%20Report%2028%20Feb%202010.pdf

Zeder, *Annual report*, 2012. http://www.zeder.co.za/wp-content/uploads/pdf/Zeder%20Investments%202012%20Annual%20report.pdf