

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

Antoine Ducastel¹ & Ward Anseeuw²

Introduction

According to portfolio management industries, from institutional to “alternative” investors, agriculture is often presented as an emerging asset class (Chen *et al.*, 2013). The arising of such assets is based on fundamental³ and financial analyses by investors which all tend to underline the very same driving factors: “Strong long-term macroeconomic fundamentals; attractive historical returns on land investment; a mix of current income and capital appreciation; uncorrelated returns with the equities market and a strong hedge against inflation” (HighQuest Partners, 2010). To take advantage of these different trends, there are various investments’ options: commodity future contracts or index funds/exchange traded funds⁴, public companies’ equities related to agriculture or farmland (Goldberg *et al.*, 2012).

This interest from financial industries in farmland, agricultural production and/or agricultural infrastructures is not totally new. In the US for instance, it is estimated that institutional investors, especially long term institutional investors such as pension funds or university endowment funds, possessed 27% of the country’s farmland in 2007 (GlobalAgInvest, 2012). However, its spread towards new geographical regions, (Latin America - beyond Brazil and Argentina -, as well as Asia and increasingly in Africa (Land Matrix, 2013)) seems to announce a new wave of agricultural investments. This renewed investor dynamic towards deeper integration of agriculture must be related to “the multiple food-energy-climate-finance crisis” (Margulis, 2013) which, inter alia, drove a sharp increase of commodity prices and pushed financial investors toward “emergent” and/or physical asset classes.

The African continent tends also to be more and more integrated by financial markets. In fact, since these crises, new narratives and representations are being spread around the African resilience to the financial crisis and the sharp continental projections regarding both

¹ CIRAD, UMR Art-Dev & University of Pretoria, Post-graduate school of agriculture and rural development; antoine.ducastel@cirad.fr.

² CIRAD, UMR Art-Dev & University of Pretoria, Post-graduate school of agriculture and rural development; ward.ansseuw@cirad.fr.

³ Based on macro-economic data (i.e. growing world population, rising incomes in the developing world, etc.)

⁴ A commodity future contract tracks a specific commodity; an exchange-traded fund track a basket of agricultural commodities (Goldberg *et al.*, 2012)

economic and demographic growth⁵. As shown by Vallée (2011), this change in perception has been largely fuelled by financial industry actors, such as the McKinsey global Institute or the Emerging Markets Private Equity Association (EMPEA)⁶, through their own surveys and indicators. In the same time, a full range of African financial service providers, from rating agencies to portfolio managers, have been established with the aim to support these expected financial flows. These innovations are not passive responses to the demand from investors looking for opportunities on the continent, but rather emanate from African actors playing an active role mediating demand and offer. As such, they select and structure the African investment offers on one hand, raise and channel the international and/or national demands on the other hand. In addition, they play a key role by converting capital and resources from these two different arenas. Through their actions, these African intermediaries set up the instruments and cognitive frameworks of these “emergent” markets and assets (Bessy and Chauvin, 2013).

In our case, the production process of an “asset” will be analyzed as a financialisation process. We define an asset as any value recognized as such by financial markets. To get such recognition, a particular good, service or activity must be framed to fit with the financial market requirements and values. An asset is based on specific beliefs, that it can generate a positive cash flow in the future, preferably outperforming the average profits on financial markets, and is liquid enough (Orléans, 1999); and on specific devices, this it can be evaluate and compare to others thanks to standardized benchmarks. This financial valuation, both evaluation and valorization (Vatin, 2013), is not a natural given but rather produced by particular actors or group of actors in a specific social environment.

In this paper, we will try to understand how – the above mentioned - intermediaries create and increase, or “unlock”, this specific value out of African agriculture to produce a new asset class⁷. We will analyze the financialisation as an active work of mediation between the investors and the African agricultural actors with an emphasis on a specific intermediaries’ category, i.e. the fund or portfolio managers servicing in African agriculture. Indeed, these managers are trying to “shape” African farmland and/or agricultural infrastructures as an investment opportunity for financial investors. These “pioneers” face a multifaceted mediation as a “financialisation mediator” (Morales and Pezet, 2010) between global financial industries in one hand, national agricultural sector on the other hand. By analyzing their daily management, their interactions with investors, farmers, workers and government, we aim at understanding the concrete mechanisms of diffusion of financialisation. This particular financial channel is still new-flanged and thus narrow, at the margin within Africa’s agricultural financing. However, in our view such innovations are an interesting case study for the financialisation debate as an attempt to expand the financial markets’ realm.

⁵ For instance both Time magazine and The economist have run out covers on “Africa rising”; Time magazine, November 2012 and The economist, December 2011

⁶ McKinsey Global Institute, Lions on the move: the progress and potential of African economies, 2012; EMPEA, Global limited partners’ survey. Investors’ views of private equity in emerging markets, 2013

⁷ In its presentation an investment fund specialized in South African agriculture states that “The objective remains to not only become the most successful food producer in SA, but almost more importantly, the most valued food producer”

To illustrate and better understand these issues we focus on South Africa. South Africa has lately seen a significant development of such financial channels toward agriculture, offering a set of market instruments and techniques which suit these innovations. In addition, it is often considered as a stepping stone for Africa in particular through the expansion of its companies in search for new markets (Hall, 2012). As intermediaries often position themselves according to and are active on different African countries, the African scale will often have to be considered.

Another point needs to be clarified: the category of assets we are talking about and the frontier of these categories. In general, in the financial industries, a trend toward a deeper specialization on an asset basis is observable. For instance, in the US financial industry some managers are only servicing in farmland investment or even in a specific crop (Goldberg, 2012). However, African or South African agriculture doesn't seem to be structured on such basis, and -in our view - it is still possible to speak about agriculture as an overall asset. Indeed, investments in agricultural commodities, public shares or farmland in South Africa seem to be driven by the very same dynamics. In addition, as mentioned before, the agricultural industry is still narrow with intermediaries often offering a full range of services/investments in agriculture. Unless specified more precisely, when we refer to agricultural asset, it includes the different investment's options (e.g. commodities, equities, and farmlands).

This paper is based on empirical work which included extensive time periods spent with fund managers specialized in agriculture, as well as interviews with investors, farmers and farm managers and service providers involved in this process. Because of the sensitivity of agricultural investment, overall as well as in (South) Africa, often related to the culture of secret and opacity diffused in the financial industry, naming the actors will be avoided.

The paper will start by a general characterization of the financial vehicles servicing in (South) African agricultures focusing on the interactions between investor(s) and manager. Then, we will detail the production process of a (South) African agriculture asset distinguishing the mitigation of the specific sectorial and national risks and constraints, the production and the management of the information flow and the neutralization's attempts of social "interferences". Finally, the conclusion will try to contribute to the financialisation's academic debate by considering in particular the political dimensions of such process.

1. Investment funds in African agricultures: the structuration of new financial channels

Academics (Daniel, 2012), cooperation agencies (FAO, 2010) and media pay more and more attention on the emergence and development of financial vehicles investing in African agriculture. Such funds raise capital on financial markets and channel it toward investment opportunities which they identified, building progressively an "asset portfolio". These structures are usually split into various legal entities, sometimes located in different countries,

with capital flowing through them. For instance, a funding vehicle established by European or North American investors, might be registered in Mauritius, having its operating body in (South) Africa. Because of this multiple positioning and the opacity which often surrounds such activities, investment funds operating in (South) African agriculture remain a misunderstood phenomenon.

These funds are specialized financial vehicles grouping limited partner(s), the investor(s), and a general partner, the asset manager. In order to better understand these financial vehicles as well as their diversity (from a structural as well as strategy and activity point of view) it is important to detail both investor's and asset management's construction and trajectory as well as the relationships and interactions between these two actors.

On the investors' side, those currently investing in (South) African agriculture include institutional investors⁸ (i.e. public or corporate pension funds, endowment funds, fund of funds, insurance companies or commercial banks), development financial institution (DFI, e.g. the African Development Bank or Norfund) but also private foundations (e.g. "Alliance for a Green Revolution in Africa" or "Soros Economic Development Fund") and Family Office or Private Trusts. The source of the capital, mainly related to their liability structures (Aglietta and Rigot, 2009), weighs significantly on the investment policy, and thus on their choice and expectations regarding agriculture. For instance, pension funds are looking for long term and stable return investments to reward their subscribers, while endowment funds focus on a diversification of their asset classes which are not correlated with one another (Campbell, 2011). Development finance institutions are either national (e.g. Norfund from Norway, CDC from UK), regional (e.g. African Development Bank) or multilateral (e.g. International Finance Corporation), providing "long term finance for private sector enterprises in developing countries" (Daniels, 2012). Rather than financing directly a project, or a company, they tend more and more to delegate the investments' management to financial intermediaries (OXFAM, 2012). Such institutions pursue a double objective, generate returns for their shareholders on one hand, and achieve political goals in terms of economic development or poverty reduction on the other hand.

The fund managers, from their side, are the implementers of the projects, agricultural ones based in (South) Africa in this case. They claim a field experience and a deep network with countries/regions they invest in. Through the valorization of such "indigenous capital", they affirm their essential role as gateway to the continent and its agricultural sector. Indeed, they are at the margin between this indigenous capital on one hand, and a financial capital on the other hand (Dixon, 2012); between "the bush" and the "financial language". As African agriculture is not yet a formalized asset, a diversity of managers' profiles compete each other in this structuration process and impose it "read gate" to channel these capital flows. As such, although still narrow and still representing a new investment category, there are several fund managers operating in the (South) African agriculture who differ from a project and strategy

⁸ An Institutional investors can be defines as "a specialized financial institution collectively managing contractual saving plans for a third with specific risk, performance and maturity goals"; Aglietta and Rigot, 2009

point of view (Oakland Institute, 2012). Considering their characteristics and trajectories, fund managers from different areas could be identified: firstly with a background in development and cooperation realm, with often a previous experience in a DFI, either national (Proparco) or international (World Bank group); others have a more financial profile but with a full range of different specialties: private equity, properties, emergent market or commodity trading. By engaging into the African agricultural sector they mobilize different beliefs and schemes, which often refer to their professional fields. These differences appear clearly during the fund raising process, when the managers “sell” their project to investors, mobilizing different argumentative and discursive registers. As such, because of the conviction that a price increase on commodity markets will be “discounted” on land price, a manager coming from commodity trading sell farmland as an exposure on commodities without volatility⁹. Another one, with a Private equity or “Frontier market” background, accentuates on the “consumption boom” in African food markets, driven by the development of a continental middle class and the perspectives for agro-food companies. These beliefs and representations lead to different strategies, which are different strategic allocations among African agriculture assets, and the use of different technics in the valuation and management processes.

A fund is basically the alliance of these two types of actors, each with their own interests and beliefs. Usually, the manager initiates the fund’s project and then raises capital from investors; but a couple of investors, especially DFIs, have also launched a tender for a manager with a specific mandate. The concrete aspects of the investment vehicle, the structure of the fund in one hand, its strategy and practices on the other hand, are then defined through negotiations between the parties and formalized into an investment policy and a shareholders agreement. This is, however, not a static process and we observe in different cases an evolution of this policy front to specific issues faced.

Such agreement reflects the balance of power between these actors. Indeed, according to the number, the profile and the size of investors seating on the board, but also to the track records of the manager, the balance of power and the room of manoeuver of the actors change. For instance, managers usually take advantage from the diversity of investors by arbitraging between their expectations.

Looking at funds operating in agriculture in (South) Africa, a set of relevant aspects can be identified, illustrating the diversity of such vehicles:

- The *status of the financial vehicle*, which determines the life span of the fund and the asset class focused on. So far, several main categories are identified: Private Equity funds, buying equities in agro-food companies with a limited life span, from 7 to 12 years in average¹⁰; Holding companies, buying equities but also physical assets (e.g. farmland) without expirations; long term funds such as Exchange Traded funds which

⁹ Interview realized in the framework of this research, May 2013

¹⁰ A bit longer than “standard” private equity funds which life spans comprised from 5 to 7 years (Daniels, 2012). We observe another trend illustrating the agricultural investments specificities which the conversion process of short term funds into long term, or even immortal, funds.

are listed – in our case - on the Johannesburg Stock Exchange (JSE) with public shareholders; as well as Property Entities which can be listed (e.g. Real estate investment trust).

- *The proportion of African agriculture assets in the fund's portfolio.* As an alternative asset, African agriculture is often managed by a specialized manager who builds a full portfolio of this asset category. But sometimes generalist funds or emergent/frontier market funds also invest in the African agricultural value chains related to opportunities or driven by a diversification strategy. Generally, these generalist or regional funds buy a minority stake and adopt a passive approach on management.
- *The stage of investment* is also varying significantly, as is illustrated by the difference between “brown” or “green” fields’ investments or “core” and “conversion” strategies¹¹ (Goldberg *et al.*, 2012), indicating the development of the asset. However, because of the actual low competition around African agricultural assets, but also because of the short-term evaluation on asset profitability by investors, managers so far focus on investment already “on the road”, i.e. a good track record, a confirmed management team, a global exposure and sometimes a listing on stock exchange
- *The strategic allocation and the diversification strategies* which can be:
 - *Among asset classes;* funds can invest at the same time in various assets in African agriculture: equities, commodities on Futures market, farmland and agricultural infrastructures. Indeed, many of them invest on both agricultural physical assets and commodities.
 - *Along the value chain;* some funds invest only in one segment (e.g. fertilizers, primary production, retailers) while others diversify their investments along the value chain, with sometimes explicit targets for each segments.
 - *Among productions and crops;* certain funds have an investment charter emphasizing certain focuses or sectors or, on the other hand, preventing managers to invest in specific sectors such as tobacco or timber. When they are focusing on primary production, they often balance between “a sheer asset strategy”, which is invested in one specific crop (e.g. cash crop) and a “flex crop and commodities” strategy (Borras, 2013) with different crops on the same farm during the year or from a year to another one.
- *The geographical mandate* is also variable and funds can focus on one country (it is the case of several funds active in South Africa), on one region (Southern Africa), on the entire continent or on an “emergent/frontier market” scale¹².
- Another factor to consider is *land property and ownership*. Many managers consider agricultural physical assets, especially farmland, as a specific category of property investment, such as real estate for instance, and are driven by land price increase expectations. But African farmland can be a risky asset as witnessed by the recent mobilizations around large scale acquisitions (Andrianirina-Ratsialonana *et al.*, 2011). While some take direct control over land, others prefer just lease it.

¹¹ “A core strategy invests in currently producing agricultural land in highly productive areas”, while “A conversion strategy targets non-producing properties or low-yielding land in marginal areas” (Goldberg *et al.*, 2012)

¹² Such funds rather than plan a strategy on a geographic scale are focused on markets’ trends.

- The *governance structure* also varies, especially the implication of the investors in the day-to-day operations. The “non-disclosed funds” don’t have to inform the managers about these daily operations, while “the disclosed funds” have an obligation to build an informational flow from the grounds to the investor(s). This communication process can take many forms: weekly/monthly meetings; accounting, financial and/or operational reports; oversight or monitoring committees, etc.
- Some funds implement, often on request of the investors, social and environmental performance standards (e.g. IFC’s performance standards), investment charters including land policies, or exclusion lists. For vehicles funded by the IFC, there exists a “redress and compliance mechanism” for people affected by these investments (i.e. Compliance advisor/ombudsman).
- Finally the *remuneration and the bonus structure* differ also between the funds. All perceive a management fee around 2% while the profit-sharing varies around 20%, starting either with the first dollar of benefit or after reaching a determined level of benefit.

Rather than a unique financial channel toward African agriculture, these investment funds are diverse, built around a plurality of the investor/manager relationship. However, they are all engaged in the same production process of a specific asset class. In such process, managers play a key role at the interface of two different arenas.

2. Toward the production of the asset: from (South) African agriculture to financial investors

As we have defined in the introduction, an asset is any value recognized as such by financial markets. Such financial value relies on an active work of shaping and promoting by intermediaries which aim to attract financial flows. This work can be described as a translation process from a particular good, service or activity inserted in a specific environment to a reliable and sustainable investment for financial markets and actors. For this translation, intermediaries will mobilize a set of techniques and instruments (Lascoumes and Le Galès, 2005) such calculative processes (Callon *et al.*, 2007) as well as benchmarks and standards. Such production process is embedded in a broader social and political environment. Indeed, the ability to mobilize these instruments relies on specific policies and social structures historically and spatially situated.

African agricultures seem to be currently the object of such a translation attempt. Therefore, the production of an asset through the specific case study of South African agriculture and focusing on the intermediaries’ role will be analyzed. Three different modalities of such translation can be identified for this research, but concomitant to the reality: firstly, managers have to manage the characteristics and constraints surrounding agriculture production to “unlock the value”; secondly, they must build an information flow toward investors which relies on recognized standards and benchmarks; finally, this shaping work is faced with resistances which managers have to deal with.

A. Agriculture as a liquid, profitable and predictable asset

To be recognized as an asset, that is a financial value, a good or an activity must be considered as liquid (Orléans, 1999) and generating a predictable positive cash flow by financial markets. Agriculture faces several inherent risks (e.g. natural risks, market risks, etc.) which historically discouraged private investments because of its random returns. So, to attract financial capitals, managers have to build a stable and positive cash flow in one hand and to increase the liquidity of such assets on the other hand.

The mitigation of agricultural risks relies on the mobilization of specific instruments, which are “ a set of rules and procedures, more or less coordinated, which govern interactions and behaviors of actors and organizations (...) provide a stable framework of anticipations which reduces uncertainties and structures collective actions” (Iascoumès and Le Galès, 2005). For our case, we identified different instruments which seem to play a crucial role in the asset production process in the South African agriculture:

- In 1996, with the Marketing Act, the *South African Futures Exchange* (SAFEX) is created, i.e. a futures market which substitutes the previous regime’s agricultural commodity price regulatory and marketing boards (Vink and Van Rooyen, 2009). Such institution allows agricultural value chain actors to hedge the sales/purchases of their products, reducing the uncertainty around the price. In the same time, most of the public financing structures for agriculture have been dismantled forcing producers to look for private capital sources. These innovations have led to new actors to engage in the agricultural sector by creating a demand for future trading services in a sector where the “single channel fixed price” model was the norm. These “market players” have acquired an increasing role in the sector’s restructuring until involved themselves in primary production investments.
- In addition, this futures market creates *a centralized and standardized informational flow available to the public*. A good example thereof is the system of the silo receipt which guarantees the amount and the grade of the grain delivered.
- To mitigate the natural risks (flood, drought), fund managers utilize either *multi-peril/risk crop insurance or geographical diversification*. The insurance ensures the production against all natural risk inherent to the agricultural activity. Geographical diversification relates to the acquisition of farmland in different areas in the country with different agro-ecological characteristics. As for the diversification of the “optimal investment portfolio” theory (MacKenzie, 2006), well known in finance, the objective is to dissolve the specific risk from one asset by a global mitigation in the portfolio based on the complementary between assets and the returning force to the mean (Aglietta and Rigot, 2009).
- These financial flows toward agriculture also benefit from the global environment in favor of free movement of capital. Indeed, these funds are often split into various entities, or special purpose vehicles, for instance between a local company which hires workers and a second company, registered abroad often in tax havens, which holds the

assets. Thereby, Mauritius is becoming a hub for investments both in Asia and Africa thanks to an *incentive tax policy*¹³ and a set of *bilateral double taxation agreements*¹⁴.

- Another aspect which increases these financial flows is the *involvement of Development finance institutions*, both at the financial and the technical levels. Firstly, in several funds servicing in African agriculture, DFI's are shareholders. Secondly, they implement innovative financial mechanisms to leverage private capitals, by accepting a deferred profitability or by promoting specific securing instruments, i.e. the "master contracts of guarantee"¹⁵ from the World Bank's "Multilateral Investment Guarantee Agency" (MIGA) or the "Secondary Fund"¹⁶ implemented by the IFC (Daniels, 2012). Thirdly, they are also active as agricultural and agri-business support services through training sessions or technical assistance facility funds. Fourthly, they play a key role in the promotion and the organization of such financial industries in Africa; for instance the World Bank Group supports the creation and the development of the "Emerging Market Private Equity Association" (EMPEA).
- Furthermore, managers implement *innovative human resources' models* in the sector. Indeed, labour tends to be both salaried and contracted. Based on a structured hierarchy from the farm worker, via the back offices, to the head office, they establish a salary scale and - sometimes - implement bonus incentives. Some funds try to externalize part of the operations through contracting agreements, either for the overall process or for specific tasks. This "network organization" (Goldberg *et al.*, 2012) aims to externalize the risks of such operations but also the depreciation of agricultural equipment. These strategies into the agricultural landscape transform radically the status of the South African farmers, from family farmer to employee, manager or contractor.
- Fund managers also benefit from the structuration of the *South African farmland market*. Firstly, it is a secured market based on individual property deeds and with a freehold which is constitutionally guaranteed. Secondly, this market is dynamic and every year, almost 10% of South Farmland is exchanged. These factors increase the liquidity of farmland market and of the overall South African agricultural assets' market.
- Finally, they rely on the utilization of *advanced technologies*, often imported from other geographical areas or sectors, which enable a centrally management: no till farming, precision farming, biotechnologies, soil analysis and correction, etc. This capacity of innovation and experimentation confers them a comparative advantage in the agricultural sector.

Managers mobilize a set of devices from different sectors and areas. They largely benefit from the post-apartheid deregulation of the South African agriculture which characterized by the implementation of financial instruments and techniques as regulation mechanisms. But they

¹³ For instance, the Mauritius' regime for global business company (GBC1 regime) offers a harmonized corporate and income tax of 15% and tax free on dividend.

¹⁴ Mauritius and South Africa are bound by a bilateral double taxation agreement signed the 20th July 1996

¹⁵ Specifically dedicated to Private Equity, this master contract is an insurance against political risks in emerging markets

¹⁶ This secondary Fund "provides an exit option for emerging markets limited partner investors" (Daniels, 2012)

are also capitalizing on technical, managerial and financial innovations. By combining these different instruments, they tend to create a predictable and fluid environment suitable for the financial industry. As Chen et al., claim, “Farmland was a value due in part to farm policies, technology, crop insurance as well as commodity prices, and macroeconomic measures”. The value of South African farmland, from a financial perspective, derives from this specific “agencement” (Callon *et al.*, 2007).

B. The production of the information flow: agriculture as a standardized asset

A financial asset is also a set of standardized benchmarks which allows institutional investors to compare and evaluate their profitability and their complementarity in their portfolio. This “commensuration”, i.e. “the translation of different qualities into a common metric that can support, for instance, decision-making” (Styhre, 2013), is a central part of the managers’ work to attract financial capitals. In our case, managers apply the standards of financial analysis on South African agriculture from the specific “agencement” we described before.

These benchmarks are borrowed from the corporate finance sector and aim at modeling a specific investment on the medium/long term through a cash flow. The production of this information flow is a central part of the fund managers’ role and success as they endeavor to translate a specific environment/investment into “global language”. Once validated by the investor(s), they guide the managers’ action and constitute the benchmarks of their evaluation.

This modeling is largely based on the Discounted Cash Flow (DCF) model which actualizes in present value an investment cash flow on a discounted period (Dufumier, 1996). This financial evaluation is realized before any investment, and re-actualized regularly during the project’s life-span. It is used as support both to the decision by the manager/investor whether the investment is profitable and to the evaluation criteria by investors in the asset markets. It is a representation device of the productive world as well as a control device (L’Italien *et al.*, 2011)

The utilization of the DCF model is not new in agriculture, particularly for the cash/grain crop sectors, of which the characteristics fit well with this modeling. Indeed, the seasonality of such agricultural productions give a predictable character to the operations/schedule (planting, fertilizing, spraying, harvest) and, therefore, the costs (seeds, fertilizers, irrigation, labour). For these specific crops, the “translation” work has not been too complex, which could explain why cash crops remain the main target for the financial investors. Today, fund managers in the (South) African agricultural sector seem to look for a broader application of such model in order to attract investors to other agricultural productions. For instance, several are currently applying this framework to cattle production, implemented by themselves or through consultancy agencies’ consultancy. But so far the valuation of cattle remains on

productivity per capita or per hectare without any possibility to build a dynamic cash flow model which constitutes a limit to drain financial capital¹⁷.

This DCF model is built on a set of assumptions regarding the discounted period which include macro-economic projections (inflation rate, interest rate, taxes), market estimations (price of commodities and inputs –fertilizers and labor) and financial device calculations (Capital Asset Pricing Model). One of the central tools in such model is the “Present Value Discount Rate” which is used to discount the annual cash flow in present value. This rate is specific to each fund as it corresponds to a particular vision of the environment: For instance, in some cases, it takes in consideration the political risk. With this model, managers diffuse a new valuation of risk, between macro-economic and financial parameters, which differs, between others, from raw macro-economic indicators (Vallée, 2011). The managers’ skills and dexterity to deal with these models and implement it toward new activity areas are central issues in their competition to channel capital flow from institutional investors.

Finally, this DCF model reflects also the relationship between managers and investors. In fact, the discount rate is negotiated and scrutinized by investors according to their own representations and interests. For instance, in some specific cases, foreign investors impose to express these calculations in their specific currency. Sometimes, they request other market references, e.g. the Chicago Board of Trade grain prices rather than the SAFEX prices.

As noted, this standard modeling is primarily used by investors to arbitrate between different investment opportunities, in agriculture but also between different asset classes. Managers specializing in South African agriculture participate actively to the double movement of deepening the financial market, by the inclusion of “hybrid goods” (Aglietta and Rigot, 2009) as new asset classes, and connecting the different national markets, by the production and diffusion of worldwide recognized benchmarks (Vallée, 2011).

C. Beyond modeling: “neutralization” and “politization” of the asset

A financial asset is both a cash flow and an information flow. To be valued by financial markets it must be considered according to these financial parameters. The production of this specific value is not only an abstraction work of modeling but it is also sometimes an attempt “to conform” the social reality to these flows. Indeed, managers often face tensions and resistances from “the ground” trying to incorporate the different parameters and variables in their models. Managers undertake a “neutralization” of the asset in order to fit it into the financial flows. Such work is particularly visible when they have to deal with social or political issues surrounding their asset as they often have to face actors or group of actors who embody and defend other, often incompatible, conceptions of the value. It produces sometimes a distortion and a diversion of their approach and can interfere with the managers’ relationships with the investors. Such confrontation sheds light on the political dimension of

¹⁷ Interview realized in the framework of this research, May 2013

the production of an asset and how the “ferryman” (Morales and Pezet, 2010) manager turns into a political entrepreneur.

Beside other, a concrete example from the field is the case of occupiers on the farms. During the apartheid era, farm workers, particularly in the Mpumalanga and KwaZulu-Natal provinces were allowed to live on the farm they worked on as “labour tenants”. In 1997, the Extension of Security of Tenure Act¹⁸ conferred formal residential rights to these (former) workers and their families. This act includes a set of rights and duties for these “occupiers” and for the owners (e.g. security of tenure, access to service, no commercial use of the land, an income under the prescribed amount of R5000) but leaving a margin of maneuver to the two parts to manage and organize their relationship (Sibanda and Turner, 1999).

Most of the farmers in the eastern part of South Africa have to deal with these occupiers’ issues. However, this case sheds light on some concrete aspects and specificities related to the effective production of an asset. One of the funds investigated acquired several farms with occupiers. Gradually, such cohabitation generated tensions between the new farm owners and the occupiers¹⁹. The question of occupiers progressively interferes between the international investor and the South African manager in the fund. Indeed, the investor was more and more anxious about this concern, seen as a potential source of mobilizations and contestations either from the occupiers themselves or from national (e.g. Nkuzi Development Agency) and international coalitions (e.g. Via Campesina) focusing on this topic. This concern regarding investors’ reputational risk was particularly strong after one of the investors in (South) African agriculture was targeted by an activist campaign against land grab (Oakland institute, 2012).

The fund manager tried to implement different strategies to “clean” what he considered to be a “better asset”. They started by realizing an identification/registration of all the occupiers and their family on the farms and introduced a code of conduct which all occupiers should sign. They also implemented a “livestock permit” to register the different owners and a three steps warning system in case of abused from the occupiers. Then, they proposed to remove all occupiers to another piece of land, outside the farm, with official property titles. But occupiers refused such proposition arguing that this land was far away from services and useless for grazing.

This failure raised increasing concerns from investor and they push managers to propose new solutions to disengage themselves. This manager expresses its disappointment facing such decision which attributed to the investor’s lack of understanding of the South African context. However, by virtue of their specific agreement, the manager had no choice and two options are envisaged:

¹⁸ RSA (Republic of South Africa). Extension of Security of Tenure Act 62 of 1997. Pretoria. Government Printers.

¹⁹ These occupiers own cattle who graze on the farm and managers accused them to put them on their grazing land, threatening their cattle by disease contamination. Then, the access to their family graves, situated outside of their area, became also a tension source when the manager trying to control and regulate this access.

- The manager invited South African investors to acquire the farms. In this perspective, the manager wishes to keep the control over the operations, but with what he expects to be a more comprehensive (local) investor on South African land issues.
- The second plan would be to list a property fund, grouping the farms, on the Johannesburg Stock Exchange. In such a case, the international investor would become one shareholder among others of a listed fund. Regarding the manager's perspective, it allows him to keep the control over the operation on one hand, and to balance the investor's power on the other hand.

This example illustrates some of the difficulties faced in the translation process between an international investor and a local manager, and misunderstandings that may arise. Indeed, while the manager attempts to valorize its indigenous capital to minimize such issue, investor seems more concerned by reputational risk, especially in its home country. Such a gap reflects the different positionings of these actors and gives a concrete example of the intermediation's difficulties.

Secondly, through the implementation of various initiatives and policies to regulate the presence of occupiers on farmland (e.g. code of conduct, livestock permit), fund manager tend to become a political entrepreneur. In fact, to "unlock the value" of agricultural asset they have to mitigate the political and the social issues surrounding farmland and agriculture in South Africa. Paradoxically, even if they claim a purely financial approach through the "asset-fiction", they find themselves engaged in particular forms of "cross-regulation" (Bessy and Chauvin, 2013) alongside other public and private actors.

Thirdly, the proposition to list these farmlands, through a property fund, on the Stock exchange illustrates the political dimension of such market. Indeed, a listed fund is a public fund, which means open to others investors, i.e. to the public. Confronted to the occupiers' issue, such strategy aims to dissolve the individual responsibility of the investor into the collective ownership of the market. Thereby, the financial markets' notion of "public" challenges the notion of "public good" as a use by those who live or work on it.

Conclusion

Even if African/South African agriculture still represents a minor asset class, investment funds focusing on them are diverse. Their structures, their portfolio and their strategies vary. This paper explained this diversity by focusing on the specific interactions and balances of power between investors and manager portfolios

Such innovations are spatially and historically situated. Indeed, these financial vehicles mobilized specific institutions and instruments both at the national (e.g. SAFEX) and international (e.g. bilateral double taxation agreements) levels. From this specific configuration, or "agencement" (Callon *et al.*, 2007), managers are able to implement financial analysis tools to produce a standardized informational flow. By producing these recognized benchmarks, managers allow institutional investors to evaluate these agricultural assets and potentially integrate it in their portfolios. But these benchmarks are not enough to produce an asset and managers also try to "neutralize" the political and social issues related to

agriculture and farmland in South Africa. Even if they claim a purely financial and corporate approach, they find themselves engaged as political entrepreneurs.

By considering financialisation as the production of a new asset class and taking as case study (South) African agriculture, we are able to shed light on a number of financialisation process characteristics:

- Firstly, financialisation is a mediation or translation process which often relies on mediation chains. For instance, in our agricultural case, we note a separation between fund managers and farm managers. Such intermediaries take advantage from their interstitial position. Indeed, by becoming “brokers in financialisation” (Bierschenk, 2000) they get resources and legitimacy in their specific fields.
- Through this mediation, managers, under investors’ pressure or not, import techniques, instruments as well as narratives and representations from others cultural, professional or geographical arenas.
- However, we have also seen a “bottom-up financialisation”. Indeed, funds have to deal with the constraints from local environments to which they are confronted and, subsequently, adapt. Financialisation is not a one way process but rather the product of daily interactions and negotiations between actors with diverse interests and values, which take place inside specific institutions or organizations (Kadtler and Sperling, 2002).
- The financialization process is supported by both State(s) and multilateral institutions involvement. Firstly, such innovations are broadly sustained by specific policies and instruments (i.e. SAFEX, international treaties, MIGA etc.) which increase the financial value of African agricultural assets. Secondly, there is an important transfer of employees and managers between public development institutions and private funds which create a private-public network. Thirdly, through DFI investments as well as public pension funds (Greenberg, 2010) or sovereign funds (Cotula, 2012), there is a substantial public flow fueling such dynamic. Public development support takes on multiple forms but all converge toward the promotion of an African agriculture asset class and its inscription on the developmental agenda.
- Financialization processes also produce abstractions and categories. For instance, an asset tends to reduce a good, a service or any other human or natural activities to financial parameters. Thereby, as an asset, farmland could circulate through different jurisdictions. The “brokers in financialisation” are also engaged in boundaries’ drawing. As for the “emerging market” for instance, they try to create their own asset class, or category, which matches with their position in the financial industries. South African agriculture is still a fuzzy asset category in structuration and from one intermediary to another such category covers different goods, services, properties or activities.
- Financialisation implies a valuation process. Indeed, an asset is a particular value. As we have seen such valuation must be understood as an evaluation and a valorization (Vatin, 2013) which rely on standardized benchmarks recognized by the financial markets. This commensuration (Styhre, 2013), i.e. the translation in a common metric,

is a support for the decision-making but this is especially a comparison tool as an asset acquires a value only compared to others.

- Finally, we raised the political dimensions of such financialisation process at different levels (Linhardt and Muniesa, 2011). Firstly, with its particular abstractions, for instance the asset-fiction, financialisation tends to produce an alternative representation of the social reality through its “representative devices of the productive work” (L’Italien, 2011), i.e. standard, benchmark, category or modeling. The financialisation’s spokesmen, the intermediaries, tend to diffuse such narratives and instruments which are progressively taken in by other actors from other fields. Secondly, in some situations asset managers raise tensions in their attempts to produce an asset and impose their specific and exclusive conception of value. In such case, as with the occupiers, they clearly become political entrepreneurs, implementing “corporate policies” or collaborating and negotiating with different actors in order to protect, or increase, the asset value. Thirdly, by channeling and allocating this capital flow toward specific projects, they push and legitimize a specific form and conception of agriculture and food production, and therefore specific actors, to the detriment of others (Ortiz, 2008).

Since (South) African agriculture as a financial asset is relatively new-fangled, more time is needed to better understand the implications of its development. So far, we have seen that the translation process is not a long quiet river with several funds practicing in dire straits with many of their activities not being profitable or even collapsing, particularly in other, less well-established African countries (Anseeuw and Boche, 2012). Others are adapting, implementing innovative schemes aiming at considering up- and downstream opportunities and constraints.

The attempts to integrate African and South African farmlands in the financial markets as an asset class illustrate the cognitive and political work asset categories undergo. However, in this specific case such works are probably more visible because of the political and social conceptions and representations around farmland in (South) Africa. Polanyi (1983) had already shed light on the “land-commodity fiction” which was an attempt to subordinate land to the industrial society needs. However, he underlined “society’s self-protection” movement which curbed such dynamic. Today, is this “land-asset fiction” fully materializing through the subordination of farmland to the financial society needs?

Bibliography

- Aglietta, Michel, and Rigot, Sandra. *Crise et rénovation de la finance*. Odile Jacob, 2009.
- Anseeuw, Ward, Alden Wily, Lizzy, Cotula, Lorenzo and Taylor, Mike. “*Land Rights and the Rush for Land: Findings of the Global Commercial Pressures on Land Research Project*”. ILC, 2012.
- Anseeuw, Ward and Boche, Mathieu. *Large-scale land acquisitions in Southern Africa. Current state and investment models implemented*. SACAU research report, 2012

- Andrianirina Ratsialonana, Rivo, Ramarojohn, Landry, Burnod, Perrine and Teyssier, André. "After Daewoo ? Current Status and Perspective of Large-Land Scale Acquisitions in Madagascar", Rome: Observatoire du Foncier à Madagascar, CIRAD, ILC, 2011.
- Bessy, Christian, and Chauvin, Piere-M. The power of market intermediaries: From information to valuation processes. *Valuation studies* Vol. 1 (1), 2013
- Bierschenk, Thomas, Chauveau, Jean-Pierre, and Olivier de Sardan, Jean-Pierre. *Courtiers en développement. Les villages africains en quête de projets*. Khartala, APAD, 2000.
- Callon, Michel, Millo, Yval, and Muniesa, Fabian. *Market Devices*. Wiley-Blackwell, 2007.
- Campbell, John. *Investing and Spending: The Twin Challenges of University Endowment Management*. Forum Futures, 2012
- Chen, Songjiao, Wilson, William W., Larsen, Ryan, and Dahl, Bruce. *Investing in Agriculture as an Asset Class*. Agribusiness and Applied Economics Report 711, Department of Agribusiness & Applied Economics, North Dakota State University, 2013
- Cotula, Lorenzo. The international political economy of the global land rush: A critical appraisal of trends, scale, geography and drivers. *The journal of peasant studies*, Vol. 39, N°3-4, 2012.
- Daniel, Shepard. « Situating private equity capital in the land grab debate ». *Journal of Peasant Studies* 39, n° 3-4, 2012.
- Davis, Graham. *Farmland as an Asset Class: The Focus of Private Equity Firms in Africa*. 2011
- Dixon, Marion. « The corporate standard and the reproduction of dominant class in Egypt ». *Conference global land grabbing II*, Land deal politics initiative, 2012.
- Dufumier, Marc. *Les projets de développement agricole : Manuel d'expertise*. Khartala, 1996
- EMPEA, *Global limited partners survey. Investors' views of private equity in emerging markets*, 2013
- FAO. *Agricultural investment funds in developing countries*, 2010.
- GlobalAgInvest. *Farmland: an untapped asset class? Quantifying the opportunity to invest in agriculture*, 2012.
- Goldberg, Ray, Segel, Arthur I, Herrero, Gustavo, and Terris, Andrew. "Farmland Investing: A Technical Note." *Harvard Business School Background Note* 211-022, 2012.
- Greenberg, Stephen. *Contesting the food system in South Africa: issues and opportunities*. Research report. PLAAS, 2010.
- Hall, Ruth. "The next Great Trek? South African commercial farmers move north". *Journal of Peasant Studies* 39(3-4), 2012.
- HighQuest Partners. *Private Financial Sector Investment in Farmland and Agricultural Infrastructure*". *OECD Food, Agriculture and Fisheries Papers*, No. 33, OECD Publishing, 2010.
- Kadtler, Jurgen, and Sperling, Hans Joachim. « After globalisation and financialisation : logics of bargaining in the german automotive industry ». *Competition & Change* 6, n° 2, 2002.
- Land Matrix, <http://landportal.info/landmatrix/get-the-picture>, 2013
- Lascoumes, Pierre, and Le Galès, Patrick. *Gouverner par les instruments*. Les Presses de Sciences Po, 2005.
- Linhardt, Dominique, and Muniesa, Fabian. « Tenir lieu de politique ». *Politix* 95, n° 3, 2011.
- L'Italien, François, Hanin, Frederic, Duhaime, Eric, and Pineault, Eric. « La financiarisation du secteur forestier : le cas de Produits Forestiers Résolu ». *Revue Interventions économiques. Papers in Political Economy* n° 44, 2011.
- MacKenzie, Donald A. *An Engine, Not a Camera: How Financial Models Shape Markets*. MIT Press, 2006.
- McKinsey Global Institute, *Lions on the move: the progress and potential of African economies*, 2012
- Margulis, Matias E., McKeon, Nora, and Borrás Jr., Saturnino M. « Land grabbing and global governance: critical perspectives ». *Globalizations* 10, n° 1, 2013.

- Oakland institute. *Betting on World Agriculture: US Private Equity Managers Eye Agricultural Returns*, 2012. <http://www.oaklandinstitute.org/betting-world-agriculture-us-private-equity-managers-eye-agricultural-returns>.
- Orléan, André. *Le Pouvoir de La Finance*. Odile Jacob, 1999.
- Ortiz, Horacio. *Anthropologie politique de la finance contemporaine : évaluer, investir, innover*, PHD, 2008.
- OXFAM. *Risky business. Intermediary lending and development finance*, 2012.
- Pezet, Anne, and Morales, Jérémy. « Les contrôleurs de gestion, « médiateurs » de la financiarisation. » *Comptabilité Contrôle Audit* 16, n° 1, 2010.
- Polanyi, Karl. *La Grande transformation: Aux origines politiques et économiques de notre temps*. Gallimard, 1983.
- Sibanda, Siphon, Turner, Stephen. *Land tenure reform and rural livelihoods in southern Africa*. Overseas Development Institute. Natural resource perspectives n° 39, 1999.
- Styhre, Alexander. The economic valuation and commensuration of cultural resources : Financing and monitoring the Swedish culture sector. *Valuation studies* Vol.1 (1), 2013.
- Vallée, Olivier. « L'économie africaine saisie par la finance ». *Politique africaine* n° 124, 2011.
- Vatin, François. « Valuation as evaluating and valorizing ». *Valuation Studies*, Vol. 1 (1), 2013.
- Vink, Nick, and Van Rooyen, Johan. *Perspectives on the performance of agriculture in SA since 1994 and implications for its role in achieving sustainable food policy*. Working draft paper. University of Pretoria, 2009.