CHAPTER 4

NUMBERS: WHAT WE KNOW (AND DO NOT KNOW) ABOUT FINANCE-GONE-FARMING

In 2013 I travelled to a large farm comprising several thousand hectares in northern Tanzania that was part of an agriculturally themed fund set up by a leading European bank. After obtaining a local research permit, asking my way around, introducing myself to the relevant authorities and making an appointment with the farm management, my Tanzanian colleague, Mangasini Katundu, and I finally managed to speak to the farm manager and minority shareholder. We had a pleasant chat. Some weeks later I met the asset managers entrusted with the bank's fund management at an investment conference in south-east Asia. Personal contacts helped me forge a link with one senior manager, with whom an interview had been planned after the conference. At the event itself I accidentally bumped into another senior manager of the firm. We also had a pleasant chat, until I mentioned that I had visited the firm's Tanzanian asset a few weeks beforehand. He was not pleased, telling me that I should have asked the company head office for permission. It dawned on me that I had been rather naïve. From previous research projects in Ghana and Kenya, I had become accustomed to knocking at farm gates to learn more about what went on there (Ouma 2015a). Getting access to and producing knowledge about farms backed by institutional investors was a different story, however. Whereas, in the past, you could normally carry out research on farms (or agribusiness companies) if the local managers approved, you now needed to get clearance from head offices in London, Singapore and the like. This was not without reason, as the general partners entrusted with managing the farms on behalf of limited partners could be accused of creating undue risk. After all, "financial instruments are … legal contracts" (Knorr-Cetina 2010: 334), so when a third party enters a farm without the consent of the GP/asset manager, one is in fact interfering with this legal relationship by introducing an element that may put value at risk. With all the controversy surrounding land grabbing in Africa, and the associated risks to reputation,

it turned out to be rather difficult to gain access to some of the institutional landscapes in Tanzania and acquire knowledge about them. Other scenarios may involve more mundane reasons, as fund managers are often first-timers still in the process of raising capital for their ventures. Why should they take the risk of letting you in?

If we wanted to trace the operations of the very same fund manager in Aotearoa New Zealand (the firm also has farms there), it would, fortunately, be much easier to get access to on-the-ground information. Although we may still have to ask for permission from the head office, there is some public information available on the land deals in which the manager has been involved, including the locations of such farms. All this data is provided by Aotearoa New Zealand's Overseas Investment Office (OIO), the mandated state agency, on its regularly updated home page. Across the Tasman Sea, we might be even luckier. The said asset management firm has recently launched a publicly listed broadacre farm investment product in Australia, which legally requires – unlike the private equity investments in Tanzania or Aotearoa New Zealand – the publication of annual performance reports and other kinds of informational material*. Although Australia, like many other countries, does not provide detailed information about investments on a state website, the government launched a comprehensive foreign land registry in 2016, providing the grounds for claims about dynamics and the size of foreign land ownership. Who would have thought that, in 2017, 2 per cent of all foreign-owned agricultural land – more than 1 million hectares – would be owned by investors from Jersey, the well-known Channel Island tax haven (Australian Taxation Office 2017)?

The examples mentioned here point to some larger issues. What do – and, equally importantly, *can* – we know about institutional landscapes and the global investment chains through which they emerge? Where is the money going and through which kinds of channels, and to what extent can we follow it? What sources of data can be harnessed for these efforts? Might a daring knock at the farm (or company) gate still work in some places, or would we definitely have to resort to an even more daring knock at some posh upmarket address in one of the world's financial centres? As will be shown in this chapter, the challenge to produce knowledge about the genesis, socialities, geographies and dynamics of institutional landscapes, and the underlying ownership issues, is not as such a new story. The Northfield Commission (mentioned in Chapter 3), established in the United Kingdom in the late 1970s to shed light on the state of financial land ownership, admitted somewhat helplessly in its 1977 report that it "was hampered by the lack of detailed information on many topics" (cited in Leftwich 2010 [1983]: 212). It encountered an age-old problem, which applies in many places:

> All attempts to obtain a detailed and accurate picture of land ownership and usage in Britain have been met with powerful resistance from land-owning groups who do not seem to believe the facts of ownership should be open and public information … Such a lack of information, and the associated secrecy about ownership and distribution of key national resources, raises questions about how democratic a society is and how democratic it can be.
>
> (Northfield Commission; cited in Leftwich 2010 [1983]: 212)

THE BASIC DATA PROBLEM

In the case of institutional landscapes, the opacity of land markets meets the opacity of global finance. Contemporary agricultural investments are often channelled through far-flung chains of delegation cross-cutting several jurisdictions, including ones of secrecy; are protected by non-disclosure agreements or hidden from the public because the channels used (for example, private equity structures) are not listed publicly and are therefore exempt from legal requirements, such as annual public reports; or cannot be easily separated from ordinary (so-called "strategic") agribusiness investments. Furthermore, in many countries of the Global South there is an insufficient level of reporting, and even institutions of the same state may report different figures due to vested interests or a lack of coordination (Cotula 2013). Moreover, asset managers or companies looking for future investors may inflate numbers, making their investments larger than they actually are. The popular data bank Land Matrix (www.landmatrix.org), a leading source on global farmland investments, does not adequately represent agricultural investments in broader terms and is biased towards the Global South, even though much of the agri-finance buzz is found in countries in the Global North. Sources that might shed some light on these trends, such as investment conferences, specialist industry intelligence or expert opinions, are obstructed by certain entry barriers, which need to be grappled with by any research into finance. At the same time, the means of gaining information on the state of the world have radically changed when compared to the late 1970s. Besides drawing on primary fieldwork, this book can, fortunately, draw on the work of numerous colleagues, NGOs such as Grain and FIAN, and several multi-stakeholder initiatives, such as farmlandgrab.org, in order to assemble a more comprehensive picture of the global land rush and its finance-driven variant. Moreover, I participated in four major agri-investment conferences in Europe, Asia and Australia and had access to three leading sources of proprietary market intelligence.

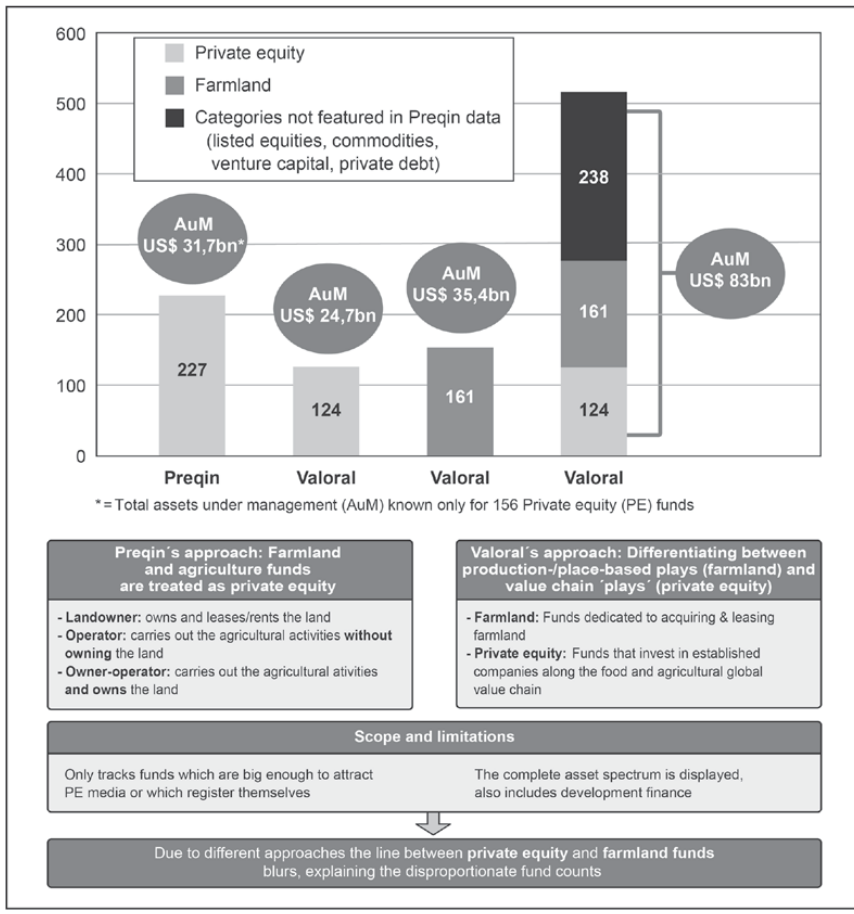

Figure 4.1 Comparison of two leading sources of agri-finance market intelligence

Source: Based on data provided by Valoral Advisors (2018a) and Preqin (2018a).

Nonetheless, even when broader access to different kinds of sources is available, the accounts we can derive may expose considerable differences. For instance, the leading agri-finance intelligence service providers – Preqin, Agri-Investor and Valoral Advisors – provide significantly different numbers on the rise in finance-driven agricultural investments over the past 15 years, owing to differences regarding data availability, historical depth and investment focus. Figure 4.1 highlights these differences for the two most detailed databases. The agricultural investment space may radically change if we include timber, water rights or even aquaculture in our frame of analysis. Differences may also be attributed to divergences in classification: is private equity used as a generic category for investments in land-based production, as well as for more classic "plays" in pre- and post-production (as Preqin

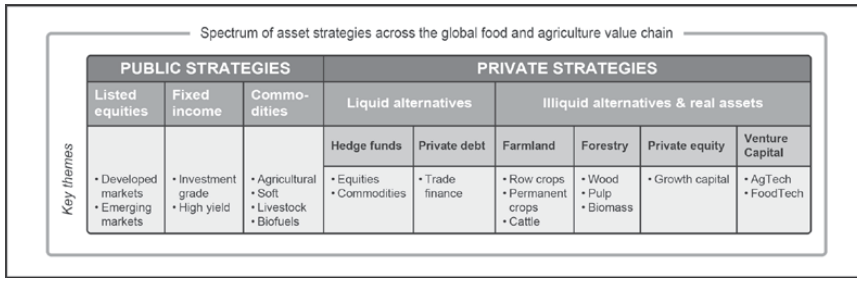

Figure 4.2 The many entry points for finance in global food and agriculture asset classes

Source: Modified after Valoral Advisors (2018b: 13) (reprinted with permission).

does), or do we treat it as a separate category from farmland (as Valoral Advisors do)? Is farmland/agriculture a fund's primary strategy, or only one among many? Finally, do the statistics in use reflect, or can they capture, complex ownership patterns among agricultural ventures? On the latter question, one brief example should illustrate the underlying problem. The Kenyan agricultural cultivation and manufacturing company Kakuzi Ltd is listed on both the Nairobi and the London Stock Exchanges. Its majority shareholder is quoted on the AIM market of the London Stock Exchange and incorporated and domiciled in England and Wales, and has several asset management and pension funds as co-owners, including Alcatel-Lucent Bell Pensioenfonds, which owns a 13 per cent stake.[1]

In what follows, I will largely stick to the data from Valoral Advisors, but complement and contrast this with other data when applicable. Their database is the most comprehensive in the marketplace, going back to the mid-2000s, when agri-finance was mainly about listed equities, commodities and a few farmland vehicles, with very little involvement by institutional investors. This also helps decentre the existing focus on farmland, showing that finance has many entry points for penetrating the world of farming. As one asset manager interviewed said: "Why make all the fuss about farmland? The real money is to be made elsewhere" (interview, 2014).

The agricultural investment space constituted by this extended perspective includes both public and private strategies across a range of crops, sectors and geographies, with different risk, return and liquidity profiles (see Figure 4.2). In the world of investment, "liquidity" describes the degree to which an asset can be converted into ready cash at any given time. Certain assets, such as farmland, infrastructure and private equity stakes in companies, lock in capital for a relatively long time, making it difficult to withdraw

1. See www.camellia.plc.uk/investors (accessed 12 December 2019).

for investors at any given time. Thus, they are called "illiquid" assets. Yet liquidity is not a natural quality but one that may change depending on social, technological and institutional arrangements (Orléan 2014). There are other, more macroeconomic takes on liquidity that often pop up in monetary policy debates (for example, a liquid market is one in which a lot of money flows around; the monetary policies embraced in the wake of the global financial crisis in 2007/8 in the United States and Europe were all about ensuring the liquidity of markets).

MACRO-TRENDS

Although they are not exclusively a thing of the recent past (see Chapter 3), the world has seen a sharp increase in agricultural investments in both "mature" and "emerging" markets since at least 2005, the earliest year for which such data is available. According to the broader view on the food and agriculture asset class espoused by Figure 4.3, the number of agricultural funds rose from 45 (with 23 farmland-focused), to 523 by the second quarter of 2018 (with 161 of these funds having direct exposure to farmland and 124 being more classic private equity plays), plus another 35 under formation. According to Valoral Advisors, by that time some US$83 billion had been invested in food and agricultural funds or other types of institutional platforms. Although a high number, this was only about half the size of all global timber investments at that time, and a tiny fraction of the US$533 billion invested in natural

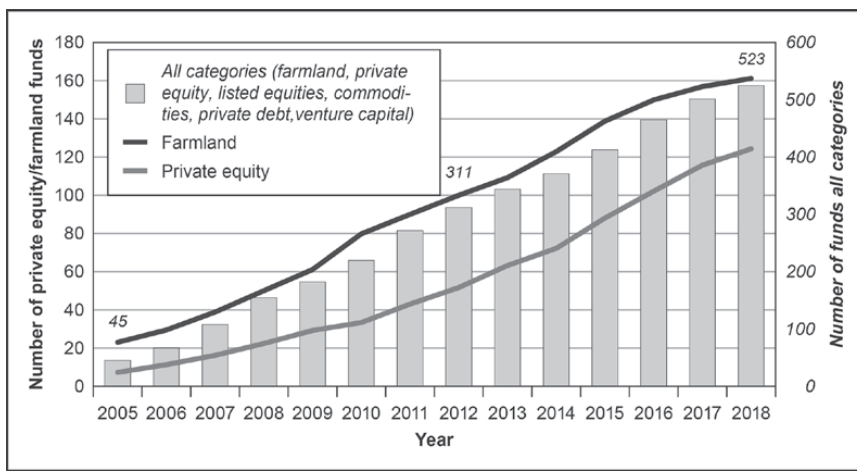

Figure 4.3 Evolution of investment funds specialized in food and agricultural assets, 2005–2018

Source: Based on data provided by Valoral Advisors (2018a).

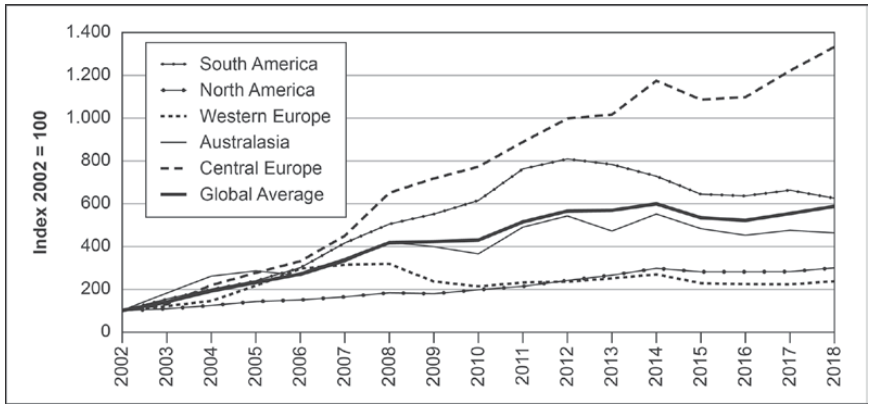

Figure 4.4 Development of the Global Farmland Index, 2002–2015

Source: Redrawn from Savills (2019: 3) (reprinted with permission).

resources in 2017 (Preqin 2018a: 56). Together, both farmland/agriculture and timberland represented 2.2 per cent of all alternative assets (such as private equity, hedge funds, real estate, infrastructure and commodity funds) under management in 2016, or 0.3 per cent of all global assets (= US$69 trillion) under management (Valoral Advisors 2018b: 8). Consequently, we have seen a rising demand for farmland in major crop-producing regions such as North America, South America, Australia, Aotearoa New Zealand, different parts of Europe and Russia (Lapérouse & Vitón 2017). This rising interest in farming by financial investors is also well reflected in the evolution of the Global Farmland Index, launched by the UK real estate firm Savills in 2012 (see Figure 4.4).

This shows a significant upwards movement since 2002, even though several key regions have experienced (commodity) market-induced volatilities or even declines in values since 2012. The green gold rush also is reflected in the performance of the US-focused NCREIF (National Council of Real Estate Investment Fiduciaries) Farmland Income Index, one of the few sources documenting institutional farmland returns. This index increased dramatically from US$1.1 billion to US$8.1 billion (= values of property) between 2008 and 2017 (Conrad 2018).

These trends have translated into rising land prices on the ground. In one of the frontier states of domestic institutional investments in farming, Iowa,[2] per hectare prices rose from slightly over US$2,000 in 1958 (inflation-adjusted, in 2015 US dollars) to more than US$8,500 in 2013 (Zhang *et al.* 2018). In the period from 2000 to 2012 alone farmland prices in Iowa

2. Note that in Iowa, as in some other US states, foreign land ownership is restricted.

quadrupled (Luyt *et al*. 2013: 19). Although prices dropped again between 2013 and 2017, because of a commodity slump, this increase was significant.[3] More is yet to come. With an ageing farming population, the United States "is then years away from the largest land transfer in history", with more than "600 million of the 900 million acres currently in production … expected to change hands in the next couple of decades" (Carolan 2018: 55), much of it said to be passing into the hands of financial investors (Keiffer 2017). Similar structural shifts are reported from other frontier regions of the finance-driven land rush, such as Aotearoa New Zealand and Australia. Even in the land-scarce and asset-pricey United Kingdom, competition between wealthy individuals and pension funds for farmland led to a doubling of land prices from 2010 to 2015, outstripping the price increases on the London property market since the financial crisis (Meads 2015). At the same time, it should be said that rising land prices and structural change in some frontiers, such as Tanzania and Zambia, are more driven by domestic, non-corporate forces and are related to the increasing entry of urban and educated elites in farming (Wineman & Jayne 2018).[4]

THE FLESH-AND-BLOOD INSTITUTIONS BEHIND FINANCE-GONE-FARMING

When the rising financial interest in farmland first made headlines in 2008, it was often presented as if Wall Street bankers themselves had moved out to "grab" some foreign land (Badgley 2014; Funk 2010). Yet abstract and disembodied narratives about Wall-Street-gone-farming obscure the internal heterogeneity of "finance capital" and the culturally diverse flesh-and-blood institutions that constitute the money management industry at large. To gain a better understanding of the concrete dynamics, investment chains and practical operations through which institutional landscapes emerge, we need to come to terms with the question of which actors are investing in the farming sector, into which kinds of socio-institutional relations they are embedded, which kinds of investment mechanisms they employ and where they eventually place their money.

3. By 2014 non-operator property owners, such as trusts, corporations, partnerships and individuals, owned 31 per cent of all agricultural land in the United States, with corporations accounting for 9 per cent, or 31.5 million acres (Bigelow *et al.* 2016). The Agricultural Economics and Land Ownership Survey 1988 found that, back then, only 4 per cent was owned by corporations and 85 per cent by individuals and families, albeit with no information reported on trusts (Bureau of the Census 1993).
4. This also suggests that a sole focus on foreign land acquisition when it comes to engaging with contemporary processes of rural change, at least in the Global South, does not do justice to the often "interlocking nature of land alienation" (Bluwstein *et al.* 2018: 824).

When it comes to agricultural capital placements, pension funds and insurance companies are undoubtedly the most important players. By mid-2018 at least 76 public and corporate pension funds had invested an estimated US$14.83 billion in farmland and agricultural ventures,[5] managed either in-house or by external fund managers (Grain 2018). Whereas most of these funds are located in countries in the Western Global North, such as the United States, the United Kingdom, Germany, Sweden and Denmark (see Figure 4.5), we have recently also seen South African and Japanese pension funds enter the game. Pension funds have also gained exposure to the farming domain through other investment themes, including, more recently, "digital agriculture" (Finistere Ventures 2018). Exact data on insurance companies is less easy to come by, but some of the leading global players, such as Allianz and Munich Re, have ventured into both timberland and farmland.

In addition, investment banks, university endowments, family offices, sovereign wealth funds and high-net-worth individuals have come to populate the "AG space". Many of these players have different "risk appetites" and investment philosophies from pension funds and insurance companies. Yet what unites them is the use of a variety of investment instruments, such as private equity fund structures and holding/private investment companies, to channel capital into agriculture. Unlike a fund with a definite lifetime, the latter are private, immortal entities (Ducastel & Anseeuw 2017) in which investors can buy private shares, offering more liquidity than a closed-end fund. Several institutional investors have shown interest in this more direct model in past years. These deals have been increasingly organized as co-investments or club deals, whereby several investors, acting as LPs, join forces. This structure may offer less diversification than a fund, but has a clear advantage: "No fees, no limited time frame and high transparency on the direct investments it makes" (Burwood-Taylor 2014a). Besides guaranteeing a more "efficient deployment of capital" (Valoral Advisors 2018b: 41) it also allows for greater control of the asset itself. In light of a more general spirit of "disintermediation" (Monk 2012) sweeping through the post-global financial crisis world of money management, the Teachers Insurance and Annuity Association (TIAA), the leading retirement provider in the United States for people working in the academic, medical, cultural, governmental and research fields, and the largest global farmland investor today, launched two agricultural funds, in 2012 and 2014. Managed by its subsidiary, Westchester Global Investment Management, these were also opened to other institutional investors, turning the pension giant itself into an asset manager (or so-called general partner).

5. By the end of 2018 the largest 22 pension markets in the world managed assets worth a whopping US$40,173 billion (Thinking Ahead Institute 2019).

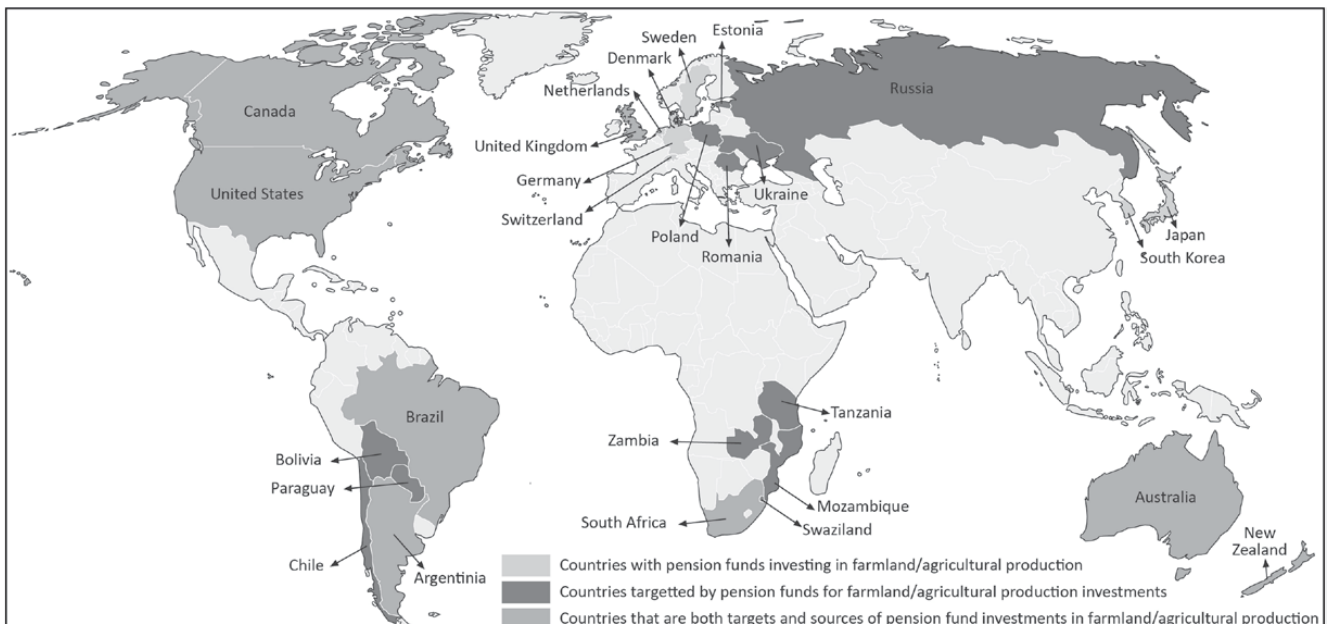

Figure 4.5 The geography of agri-investment-focused pension funds

Source: Modified after Grain (2018: 7).

Regardless of whether a fund structure is adopted or not, for taxation purposes, and when legally applicable, the players involved often adopt a limited partnership model known from other private equity domains to structure the relationship between investors, asset managers and the farms or agricultural companies themselves. As part of these deals, asset managers as GPs would also often invest their own money in order to align their interests with those of the LPs (see also Chapter 7). All these players may also invest in funds of funds, which are specialized institutional investment structures through which funds may invest in other funds, such as private equity or hedge funds, rather than in individual companies. Table 4.1 lists the largest agricultural funds in the market in late 2018.

Another trend in the institutional domain has been that large, land-owning agrobusiness companies or trading houses, such as Archer Daniels Midland, Bunge, Cargill and Louis Dreyfus (the so-called ABCD companies), have set up private equity subsidiaries. The most prominent of these is probably the commodity-trading giant Cargill's Black River Asset Management LLC (Salerno 2014), from which three fully fledged agricultural private equity funds emerged in 2016. The rationale here is to capitalize on existing in-house information and access to land, as well as further strengthening to gain control of the whole agri-food chain. More recently much of the dynamic in the trading house domain has been fuelled from the East, with investments, particularly in South America, coming from large Chinese, Japanese or Singaporean trading houses (Valoral Advisors 2018b).

State-backed players are also in the agri-food game. Sovereign wealth funds, such as Singapore's Tamasek or the Chinese Investment Corporation, increasingly target investments along the food chain, moving beyond their initial focus on primary production in order to vertically integrate their operations for both food security and financial reasons. They are joined by national and multilateral development finance institutions, providing risk insurance and/or debt and equity. For instance, out of the 54 agri-focused private equity funds targeting African agriculture in 2013, 27 were backed by development finance institutions (Silici & Locke 2013: 9). The latter increasingly see themselves as providers of "patient capital" (Palmer 2010) to private sector players in regions where infrastructural, political or other types of risk may act as barriers to (institutional) capital (Brooks 2016). One of the main players here has been the Commonwealth Development Corporation, which we encountered in the previous chapter. It underwent a controversial financial revamping in 2004, when it spun out an emerging markets private equity fund manager (Actis Capital), and now increasingly finances private equity ventures under the "smart aid" agenda of the UK Department of International Development (its sole shareholder) (Mawdsley 2018). In development finance, the fund of funds structure has become particularly

Table 4.1 Largest closed funds in the market, 2018

Fund	*Asset manager*	*Head offices*	*Fund size (mn)*	*Fund close date*	*Geographic focus*
TIAA-CREF Global Agriculture II	TIAA Asset Management (Nuveen)	US	US$3,000	Jul. 15	Global
TIAA-CREF Global Agriculture	TIAA Asset Management (Nuveen)	US	US$2,000	May 12	Global
NCH Agribusiness Partners	NCH Capital	US	US$1,205	Dec. 07	Central and east Europe
Paine & Partners Capital Fund III	Paine Schwartz Partners	US	US$1,204	Apr. 08	Global
Teays River Investments	Teays River Investments	US	US$1,175	Dec. 10	United States
Altima One World Agriculture Development Fund	Altima Partners	UK	€756	Nov. 08	Global
Mahaseel Agricultural Investment Fund	Kenana Agriculture	Sudan	US$1,000	Nov. 12	Middle East and north Africa
Paine Schwartz Food Chain Fund IV	Paine Schwartz Partners	US	US$893	Dec. 14	Global
AMERRA Agri Fund III	AMERRA	US	US$820	Sep. 16	Americas
Macquarie Pastoral Fund	Macquarie Infrastructure and Real Assets (MIRA)	UK	A$700	Apr. 11	Australia

Notes: Lists funds mentioned by Preqin (2018b) with a primary farmland/agriculture strategy. At the time of writing (Nov. 2018), one firm was raising capital for a considerably large fund: Paine Schwartz Food Chain Fund V, with a target size of US$ 1.2 billion and with its main geographic focus on the United States, managed by Paine Schwartz Partners. One fund, Laguna Bay's Agri Fund I, had a target size of A$750 million (and would have made it into the ranking), but closed in 2016 with only A$313 million raised.

Source: Own design, with data provided by Preqin (2018a).

popular. For instance, FOCIR, Mexico's investment fund for the rural sector, announced in 2017 that it was seeking to back agtech-focused firms through a fund of funds managed by independent asset managers (Favas 2017a).

The world of so-called sophisticated investors, defined by their professional knowledge of financial markets, can be contrasted with that of retail investors. A product of the massification of financial investments among middle classes over the last decades in many countries around the world (French *et al.* 2011), these "mom and pop" investors may join the food and farmland race on a number of tracks. First, they might gain exposure to the "AG space" through publicly listed mutual funds. Mutual funds are specialized, sector-focused funds that usually invest in stock-listed companies. As part of a more generic capitalization of food industries, agriculture-oriented mutual funds often place their capital along the full agricultural value chain. In such cases, the goal is to maximize "efficiency at every stage of the food supply chain – from farm to fork" (DWS Investments 2010: 7). Even though many of these funds also invest in the pre- and post-production nodes of the agricultural value chain, they often place considerable sums into companies that directly depend on farmland. For instance, out of the US$3.4 billion invested into Deutsche Bank's DWS Investments' agriculture-themed mutual funds in 2009/10, 8.2 per cent were directly placed into companies that cultivated land or acquired farmland on a large scale (Herre 2010). One alternative is the acquisition of shares in listed agribusiness companies, which nowadays may also be featured in agri-focused exchange-traded funds.[6] These are funds investing in several companies involved in agricultural or livestock production. Some of the single-listed agricultural companies, such as Sweden-listed Black Earth Farming, operating in eastern Europe, or the broadacre farming investment product mentioned earlier, have been established solely to capitalize on the rising interest in farmland. By 2013 there were around "15–20 'pure play' publicly listed farmland companies globally, of which 12 [were] … invested in CEE and the CIS" regions (Luyt *et al.* 2013: 45). Some of the publicly listed structures may also adopt the form of a real estate investment trust, "a mutual fund-like structure that distributes at least 90 per cent of its income to investors and is generally exempt from corporate income taxes" (Fritz 2010). The "pioneer" of these trusts (which may also be called exchange-traded farmland trusts: ETFTs) was Gladstone Company, going public in 2011. Bonnefield in Canada and Farmland Partners in the United States would soon follow. These schemes represented the first attempts at securitizing farmland in order to solve the asset's class "equity puzzle" (Sherrick *et al.* 2013: 27) (as the quoted authors put it: "There is no agreed

6. See, for example, https://etfdb.com/etfdb-category/agricultural-commodities (accessed 5 December 2018).

upon and tradable unit of farmland, nor a way to standardize across specific parcels or to fully homogenize shares": *ibid*.: 27–8). These innovations promised to bundle income streams from the leasing out of several individual farming properties into a single vehicle that can be listed publicly and into which investors can buy in and out, as they please (Stevenson 2014). It was hoped that this would make farmland more tradable, like other liquid assets such as securities, and make it accessible to the masses. In February 2017 Farmland Partners merged with American Farmland Company, "creating the largest and most diverse public farmland REIT with prime US farmland assets spanning 144,000 acres across 16 US states" (Valoral Advisors 2018b: 48). Figure 4.6 provides an overview of potential investment channels and actors in the "AG space".

As we shall see in Chapter 6, in order to understand the actions of all these different players in the "marketplace", one has to understand how an object acquires financial value, or, better still, financial worth. This in turn requires an understanding of the investment rationalities and relations shaping the money management industry. In this regard, it is particularly important to remember that institutional investors such as pension funds act as trustees only for the original asset owners, and usually delegate the management of certain asset class allocations to specialized asset managers in order to outsource legal risk and harvest external operational expertise (Clark & Monk 2017).

WHERE CAPITAL LIKES (NOT) TO GO

Looking back over the past ten years or so, it is striking that many scholarly, NGO and media accounts have described the finance-driven land rush as a "total phenomenon", identifying a structural coherence, global integration and effective assetization of farming and agriculture where one is yet to emerge (see, for example, Buxton *et al.* 2012; Fairbairn 2014). Financiers, with their global ambitions and inherently optimistic outlook, have equally contributed to this Promethean narrative. When we zoom in, however, we arrive at a more complex and geographically variegated story. In the early land rush literature, it appeared as if investors were mainly pursuing large-scale land acquisitions in Africa, South America and the central and eastern European (CEE) and Commonwealth of Independent States (CIS) regions. Africa, in particular, was frequently featured as the prime frontier region of the global land rush, including its finance-driven version (Grain 2008; Cotula 2013; Funk 2010). It soon became clear that this was a misrepresentation of actually existing dynamics. Today a more differentiated picture is emerging. It is clear that at least large Western institutional investors looking for

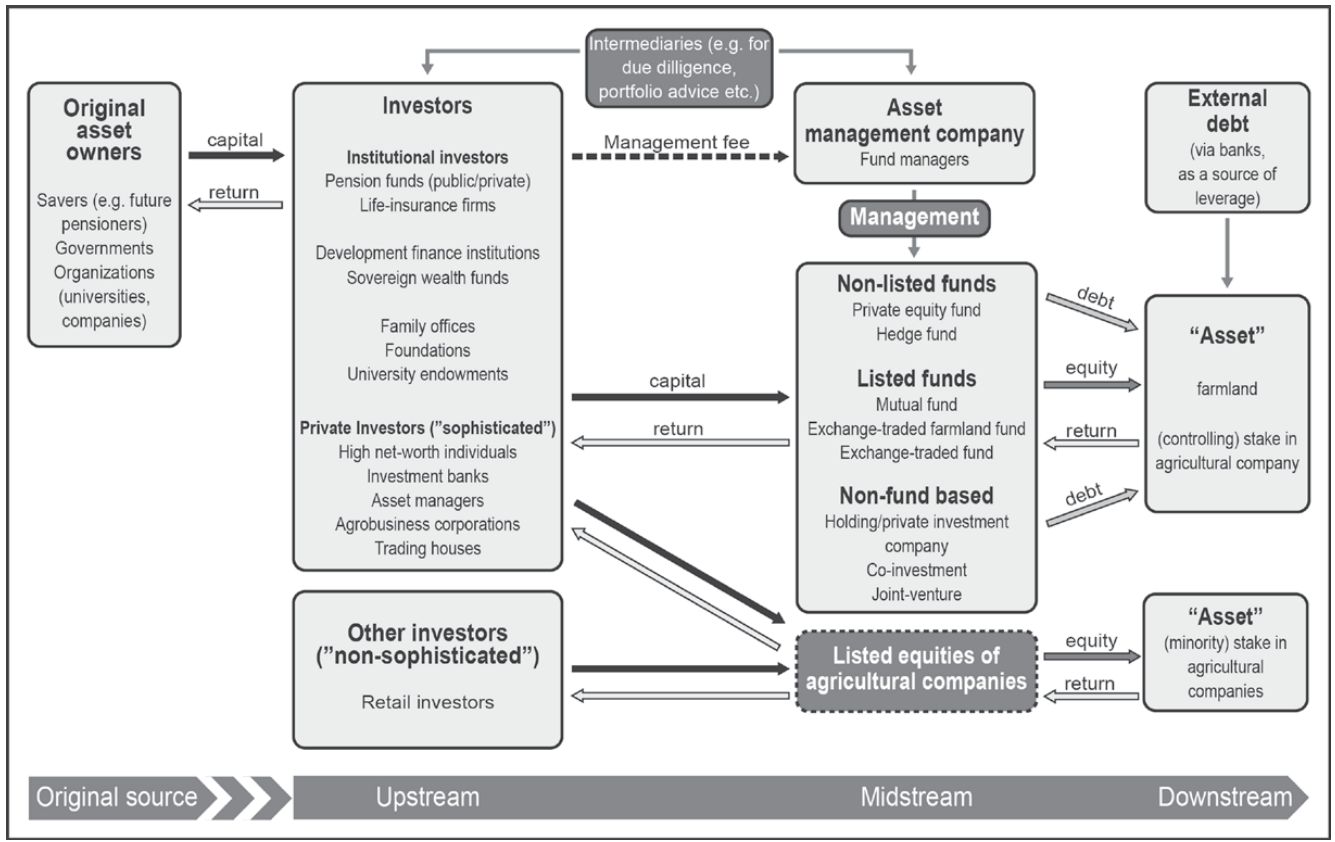

Figure 4.6 Actors along the agri-investment chain

Source: The author.

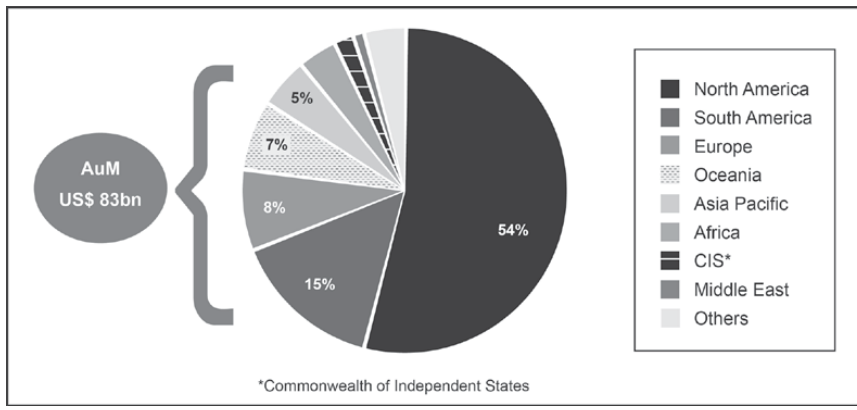

Figure 4.7 Investment funds specialized in food and agriculture by main region
Source: Based on data provided by Valoral Advisors (2018a).

large-scale agricultural investments tend to focus on North America, South America (particularly Brazil), Australia and Aotearoa New Zealand, four regions that account for "about 65–70 per cent of the currently investable market in farmland globally" (Luyt *et al.* 2013: 32) (see Figure 4.7).

What these regions have in common is a strong agricultural potential, well-developed farmland markets, a significant depth in farming expertise and effective legal and contracting processes, with each of them being a net food-exporting region. These are "institutional-grade" investment geographies, because they match the risk–return horizons of large beneficiary institutions, among which US institutional investors in particular seem to be more comfortable staying on their own turf, where they know the risks and feel confident about the legal environment. One asset manager interviewed for this book, for instance, eventually declined a deal with a large North American retirement provider because the latter demanded the contract terms to be subjected to the jurisdiction of the state where it was headquartered (interview, 2018).

If it is further broken down, this data contains some interesting details (see Figure 4.8). Aotearoa New Zealand and Australia are the regions with the highest share of purely farmland-based investments, followed by North America and South America, which already expose a sizable share of more classic private equity-based investments along the food chain. What becomes further evident is that financial placements into African farmland make up only a small share of the total number of funds targeting African food and agricultural sectors. This goes against the grain of headlines about African land being sold out to greedy Wall Street bankers, popularized in the global land rush debate. Although Africa has been hailed as the "final frontier of

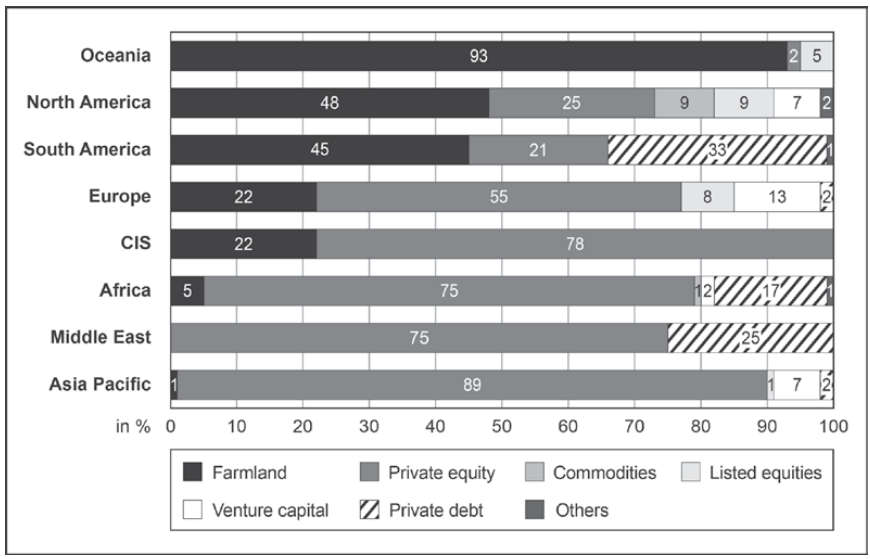

Figure 4.8 Agri-focused investment funds by target region and strategy

Source: Based on data provided by Valoral Advisors (2018a).

commercial market development" (James Cairns, an international agent at property group Savills; cited in White 2014), said to give "investors the chance to buy in at a low entry price and pioneer the creation of new farmland and develop large-scale operations from an early stage" (*ibid.*), the reality of at least institutional land acquisitions and ownership looks quite different. As one investment manager from South Africa noted: "Although there is a whole lot of discussion and a whole lot of noise, the actual amount which is being invested [in Africa] is fairly limited" (interview, 2014). Even though there are some specialized asset managers, who often would work for investors with a certain risk appetite or impact-oriented family offices or endowments, most (Western) institutional capital has shied away from agricultural investments on the continent owing to potential reputational, regulatory, political, operational or market risks:

> One of the biggest ironies unfortunately that the do-gooders of the world have achieved that has actually backfired is that institutional investors are too scared to go into the frontier markets because if anything goes wrong they will be accused of exploiting people. That the easiest thing for them to do is never ever to go into a country like Tanzania whereas those are the countries that most need those types of investors with their ethical roots and framework to go there. But they will never go there because they can't bear the scrutiny of

> being asked questions in a Swedish or English or German parliament about something that has gone wrong.
>
> (interview, asset manager, 2018)

The representative of an Africa-focused asset manager confessed in a moment of sober reflection that "the 'African AG space' is so particular, because you need to be able to speak so many different languages, and in the end it is not credited … because in the end they are only interested in numbers that matter to them" (interview, 2018). This did not just include plain numbers on returns, but returns that would compensate the investor effectively for the extra risk undertaken by investing in Africa (so-called risk-adjusted returns).

The lack of institutional-grade investments in Africa points to the larger problem of barriers to institutional farming in certain parts of the world. As one asset manager explained:

> Southern Sudan, Ethiopia and so on, Pakistan, Bangladesh. Again and again projects appear, and it is not at all to be denied that some of them work. Even in Ukraine, there are some that work very well. There are success stories in Russia. There are also success stories in all these geographies. Only that these are success stories which are not replicable, and which are not suitable for an institutional investor. These are success stories because people go there with their own Kalashnikov and take a local lover or marry in there and assimilate and play by local rules. And these are other rules by which we can invest. (interview, asset manager 1, 2014)

The greater institutional focus seems to be on the less political value chain nodes of pre- and post-production, where investors, some of them with an impact orientation, see a potential to disrupt existing transactional arrangements (e.g. by cutting out the middlemen so common across Africa), capture or nurture new markets or get involved in smallholder agriculture (e.g. via giving loans to cooperatives).[7] South African institutional investors have started to venture into the sector, however, and, recently, South Africa's Public Investment Corporation (PIC) – the trustee of pension funds for government employees and a domestic, black-owned and -managed agricultural investment firm – acquired a majority stake in Karan Beef Pty Ltd for US$360 million. The largest cattle company in Africa, this is also

7. Out of 226 impact investors surveyed in a recent Global Impact Investing Network report, 57 per cent had some allocation to food and agriculture, more than any other sector, although it accounts for just 6 per cent of total asset allocations (total US$228.1 billion AuM) (Mudaliar *et al.* 2018: 26).

a significant landowner (Kiernan 2018). In other places, re-regulation or a redirection of government policies have opened the doors for domestic institutional investments in farming and agriculture, in line with the emerging mantra that African pension funds need to be "unlocked" for private equity (Ashiagbor *et al*. 2014). In Kenya, the Capital Markets Authority allowed pension funds to invest up to 10 per cent of their portfolio in private equity and venture funds in 2015 (Mwaniki 2016). In neighbouring Tanzania, a similar regulation allows for up to 5 per cent (KPMG & EAVCA [East Africa Venture Capital Association] 2017). The government has pushed local pension funds to finance large-scale sugar estates as part of its ambitious agro-industrialization agenda (Kamagi 2018). Although it can be doubted that most African pension funds, notorious for having bypassed domestic agriculture in favour of less risky investments, such as real estate or infrastructure, for a long time, have the right in-house expertise, help is readily at hand. When interviewed in 2014, the representative of the largest agricultural fund manager from South Africa, today with existing agricultural assets in western, eastern and southern Africa, said that the firm was keen on capitalizing on domestic pension funds willing to venture into a sector virtually right on their doorsteps.

FROM HYPE TO SOBERNESS: THE AG INVESTMENT SPACE, 2008–2018

The AG investment space has undergone a complex set of dynamics over the past ten years. What appeared to be the safest bet in 2008, in the wake of the food price and financial crises, was met with a great degree of soberness in 2018. This is nothing unusual. Indeed, the workings of global finance gain traction through an "economy of appearances" (Tsing 2005), by which capital is mobilized on the basis of promises about the developments of future values (see also Chapter 6). In the early days, optimistic voices promised that farmers were "going to be driving the Lamborghinis; stock brokers are going to be driving tractors" (investor Jim Rogers; cited in Harding 2012), all backed up by solid "mega trends" and "market fundamentals". Return projections were fantastic, reaching up to 25 per cent or more a year (for owner-operated ventures) in some of the more adventurous cases.[8] Asset managers and market intelligence providers would predict increasing institutional allocations to the farmland/agriculture class, with the greatest

8. What makes it somewhat difficult to assess such promises is the fact that exits have not occurred on a large scale or – if they have – are rarely talked about. This may still allow us to assume that some investments may have been less successful than envisaged, and that a release of such data may potentially spoil the market.

optimists envisaging a new optimum of 3 to 5 per cent of all assets under management. REITs were hoped to provide more liquidity to the sector and make the asset class accessible to retail investors, and supposedly dormant and undervalued lands in Russia, eastern Europe, Africa and South America were heralded as the next frontiers.

These visions had not been realized by 2018, however. Although those with a commercial interest in the sector have been quick to emphasize that the asset class has matured (Conrad 2018), and all that remained now was to give it some definition (Janiec 2018a), it appears as if "farmland investments often led to headaches alien to those who stick to plain-vanilla stocks and bonds" (McDonald 2018). Accusations of land grabbing, as well as (geo)political risks, have deterred institutional investment in many parts of Africa, Ukraine and Russia.[9] In 2011 countries such as Argentina and Brazil became tougher on regulating foreign investments in farmland, and the North American investment haven of Saskatchewan started a review of its land investment regime in 2015 (Saskatchewan government n.d.). Even "all-time favourites" and supposedly liberal countries such as Australia and Aotearoa New Zealand tightened their foreign investment regimes in 2016 and 2017 respectively. After years of growth, commodity prices for row crops and dairy slumped from 2014 onwards, dwarfing the incomes of farmers and investors alike, and threatening the latter's bets on land appreciation. In the largest farmland market in the world, the United States, row crops such as maize and soy with relatively modest returns were considered an alternative when quantitative easing hit the market and ten-year US Treasury bills – until then a favourite among many institutional investors – started to have a "bad rep". The low-interest environment, combined with the global demand for both agrofuels and agri-food, made the agricultural investment space attractive.

When pension funds fearing that the low interest rate policy in the United States would come to an end in 2018, however, they started to expect more for their money. Some seem to have stopped making allocations to the classic own/lease back (also known as own/lease out) model for row crops (Janiec 2018b) and started to target other asset classes, such as infrastructure and real estate, for higher returns. In other cases, key players spectacularly downsized their asset allocations or even withdrew from certain geographies altogether. In some cases, it all depended on individuals within a certain investment team who thought "agri" was a good idea but, when they left, the portfolio strategy was readjusted. Apparently, this was the case with the Harvard Endowment Fund, which until 2016 was the largest endowment landowner in the world,

9. "Bad news stories stick to a new asset class," as one asset manager interviewed put it in when looking back in 2018.

with capital placements in New Zealand, South Africa, Brazil and North America. As part of a readjustment, the new senior manager wrote down the value of its farming and timberland portfolio by more than US$1 billion, from 13 per cent of its US$39 billion endowment to 6 per cent (McDonald 2018). In other cases, fund managers would succumb to public pressure and withdraw from the space, as recently seen in the case of the Canada Pension Plan Investment Board, which in 2017 announced that it would stop making further allocations to farmland and that it was open to selling its existing portfolio in North America, after it faced resistance from local farmers who feared farmland price hikes and being locked out from land markets (Tilak & Scuffham 2017).

As we shall see in the next chapter, a range of other factors, from fees and failed attempts at large-scale farming in certain geographies to "bad apples" among fund managers all created additional barriers to institutional capital. Moreover, at least one of the US ETFTs has recently shown a rather troubling performance, raising the critical question of whether something that was hailed as a long-term play, as a kind of counter-product to conventional financial schemes, should ever become exposed to the volatility of the stock market.

Crises can be opportunities, however:

> What we saw at our flagship event was … we had a record attendance, and we realised that there were a lot of initiatives to raise capital, and that was against a backdrop of four years low because of commodity slump, which had a depressive impact on farmland values, so crop prices were softening in the US, but those attracted to the macro theme realised that this could represent a buying opportunity. We also see investors looking at other markets they had not been previously focused on, like Chile, South America, speciality crops there, and just a broadening of crops investors consider investing in. At the beginning, it was focused at row crops. Investors are now also looking at investing in the agricultural value chain, looking into production systems, animal proteins, etc.
>
> (interview, organizer agri-investment conferences, 2018)

The falling land prices in the United States and the potential failure of farmers to pay back their mortgages or take up new ones create opportunities for institutional investors to take over indebted farms. Asset managers have adjusted their strategies, and now target permanent crops such as avocado or macadamia (e.g. in California or Western Australia), with higher risk premiums, or target integrating different sites of the agricultural value chains

in order to create superior returns (so-called "alpha"). Others look at new geographies, such as Chile or Peru, or rediscover good old Europe, where farms in the Mediterranean can be converted to high-value olive farms or vineyards.

THE MERITS AND LIMITS OF PUBLIC RECORDS

It is one thing to have aggregated data about macro-trends in the agricultural investment space, and another to accurately know who is buying up farmland and stakes in agricultural companies in specific places, on which terms and through which kinds of relationships. Although the macro-data presented above stems from players with privileged access to the agri-focused world of money management, answering the question of what goes on "on the ground" can quickly turn into an empirical nightmare. Accounts are often partial, as a result of the situated positions from which researchers produce knowledge or the "implicit epistemology" (Edelman *et al.* 2013) they adopt. Existing place-focused databases often contain "preliminary, anecdotal, unverified and moribund cases" (Scoones *et al*. 2013: 475), whereby "sources and reports of unknown reliability are opportunistically combined" (Oya 2013: 506). For instance, reports on Tanzania have often produced stunning figures about foreign land acquisitions since the mid-2000s, reaching up to 2,000,000 hectares in some reports (2.3 per cent of Tanzania's terrestrial area, excluding main water bodies) (Anseeuw *et al*. 2012; Bluwstein *et al.* 2018).[10] Such claims are seldom matched by the realities on the ground. As two fellow researchers argue, the "spreading of inaccurate data threatens the legitimacy of activists relying on those data to campaign against land deals, and … also the legitimacy of the research community and institutions publishing such data" (Locher & Sulle 2014: 571). So, what sources might we tap into to unpack what goes on "on the ground"? Might the good old state, with its panoptical gaze and its quality as the guardian of national statistics and regulator of cross-border flows, not be of help here? This question will be further pursued in the next chapter, but it is organically tied up with the larger questions of how such investments are regulated, how states help co-produce assets as part of projects of institutional landscape making and how they account in public for these practices.

10. Putting it in the top seven of the most targeted countries in the Global South (Anseeuw *et al*. 2012: 9). This figure came down to 281,777 hectares in 2014 (Locher & Sulle 2014) and saw further reductions by 2018.

CONCLUSION

The politics of information is too often sidelined in research on financialization. As Adeniyi Asiyanbi (2018: 544) has recently argued, unpacking the grounded operations of finance "can help unsettle the pretence of complexity that continues to subsume the political to the technical in debates on the operations of global finance". Doing so could open spaces for wider, more informed debates and political decision-making. But how can we practically produce knowledge about the grounded operations of finance when many of its key players keep their profiles low and doors closed, and are not legally required to make their investments public? One potential source of information harvested here and used to ground finance-gone-farming is specialized industry intelligence, but access to this information often requires considerable resources. As we shall see in the next chapter, one alternative source of information may be the state itself. The kind of information on (foreign) investments in the farming sector that states provide, however, is linked to the more general question of whether states have the capacity and willingness to make finance's footprints and operations visible. As we shall see for the cases of Tanzania and Aotearoa New Zealand, in some cases, the state – for example, via public records about financialized farms – may allow us to gather information of use for political deliberation and decision-making. In other cases, the state may systematically obscure what is going on, or may simply be ignorant about such data. Even when information is available, however, its unearthing alone is insufficient. As Chapters 6 and 7 will show, such information must be wielded in order to place the concrete operations of agri-finance investment chains in the larger world of money management, and to illuminate how these cut through and rework specific places. Before we turn to these situated operations, however, we engage with "the state", still the ultimate clearing house for financial capital.