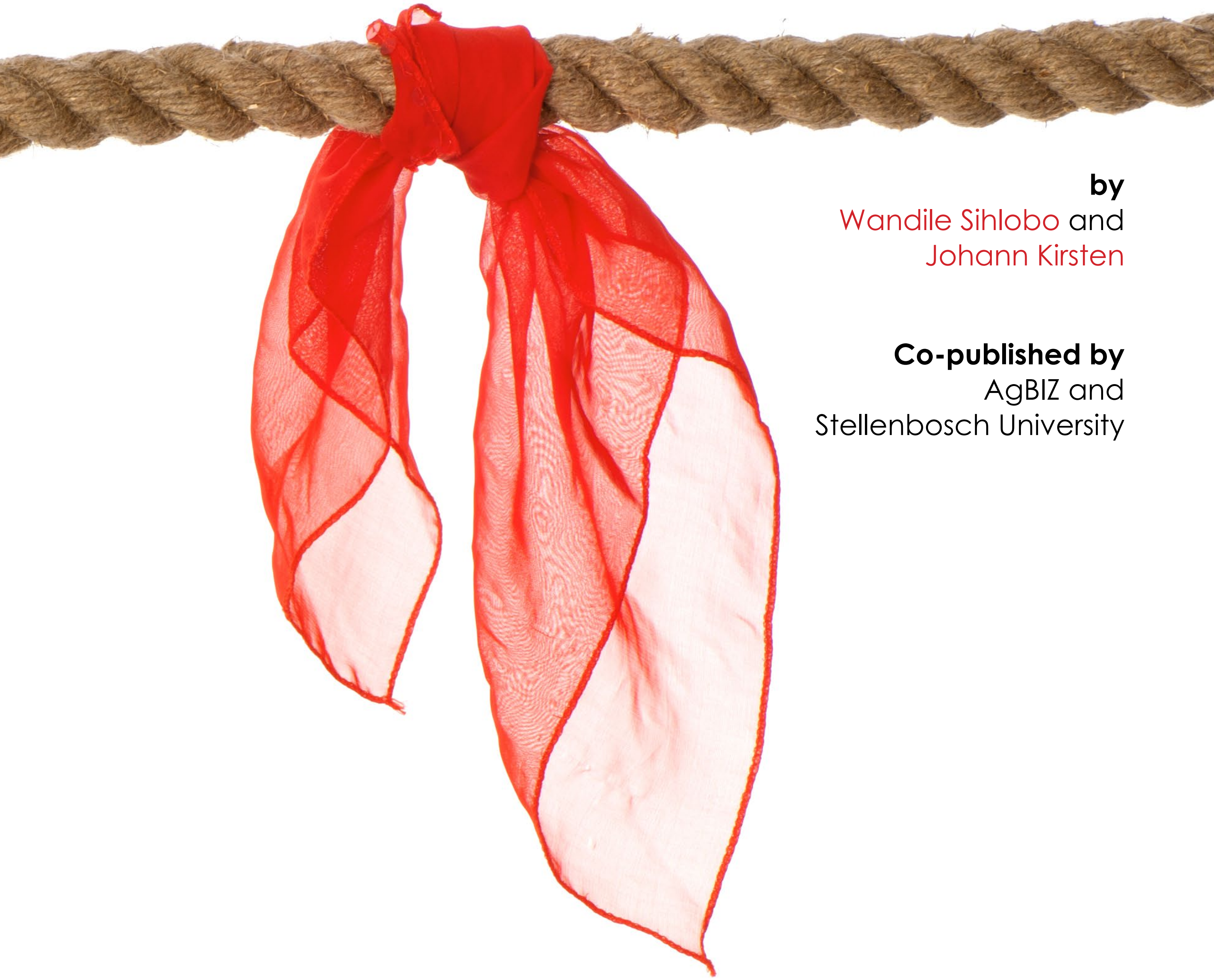
A compendium of essays on Land Reform in South Africa



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Introduction

Land reform is necessary in South Africa, but that is about the only issue regarding land reform on which there is consensus. When we start unpacking why land reform is necessary, some people say it is because the majority of South Africans were disenfranchised and disempowered through years of colonial conquest, segregation and apartheid, while others will argue that it is to contribute to economic growth or to alleviate poverty and achieve greater income equality. Some even think it is to put agriculture on a more sustainable growth path.

Then the arguments start, because these objectives do not necessarily represent a positive sum game: we don't all believe we can achieve one of these objectives without any detriment to the others.

What is clear, though, is that the more recent proposals on *Expropriation without Compensation* are a red herring, largely because they ignore the importance of property rights and their contribution to a stable financial and economic system.

In this regard, this monograph contains a collection of the essays that we have published in *Business Day* during the course of 2018, with the intention of shedding some light on these contested land reform issues in South Africa. The first four essays highlight the lessons learned with agricultural land reform internationally and also the expensive lessons we have learned here in South Africa over the 24 years of failed land reform. One of the critical lessons is that we have failed to implement the recommendations made in the early 1990s about the role of the State in the land reform process (Essay #2) and how land reform beneficiaries should be selected (Essay #4). An illustration of how the current land reform system is failing aspirant black farmers is highlighted through a real-life case study (Essay #3).

We then proceed in Essay #5 to the role of property rights in an agricultural setting and show that it has a substantive influence on the investment decisions, as well as the financial stability, of a farming business, and the ability to leverage capital for investment and expansion. Essay #6 considers the implications for the Land Bank and the other financial institutions if agricultural land suddenly obtained a value of zero because of an extreme proposal of full nationalisation of all land.

Our penultimate essay (Essay #7) considers solutions and highlights the role of agri-business and financial institutions in implementing successful land reform as an agent of the state. This implies that one can reduce the bureaucratic overload, save considerably on the fiscal costs of land reform, and leverage significant financial commitment from the privileged commercial farmers and agribusiness fraternity.

The final essay (Essay #8) tells a story of past successes: how the South African State implemented a very successful farmer settlement programme in the early part of the 20th century. The main lesson emerging here is the expansive support programme implemented by the State to commercialise agriculture. These lessons from history can be employed to good effect to help us design workable programmes to establish commercial black farmers.

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Essay #1

Land seizures are complex, costly and unwise - just ask Zimbabwe

The African National Congress (ANC) made a landmark decision in the December 2017 conference, where it indicated that it would start the process towards a constitutional amendment of Section 25, to make possible land redistribution without compensation. This is a marked shift in policy, and comes at a time when land reform (through both the State and market) has made more progress than experts and policy makers care to **admit**. Ironically, the ANC decision also comes at a time when the Zimbabwean government has established a Compensation Committee under its Land Acquisition Act to allow for dispossessed white former commercial farmers to be compensated for land seized 18 years ago. It also begs the question why the ANC is taking a position that its revolutionary counterparts from across the Limpopo are departing from. Nonetheless, if the Zimbabwean experience is not sufficient to proffer some fundamental lessons for South Africa, then it would be prudent to point out a number of facts that should call on policy makers to reconsider the December 2017 policy decision.

With the benefit of hindsight, the Zimbabwean experience tells us is that the notion of expropriation without compensation is a bad idea. The Zimbabweans might have seized the land without compensation 18 years ago, but they collectively paid for it through 8 consecutive years of economic decline that led to job losses, de-industrialisation and a loss of agricultural export revenues. In 2009, economist **Eddie Cross** estimated the cost of Zimbabwe's land reform at US$20 billion – which included lost export revenues, food aid imports and economic growth foregone, which could've sustained Zimbabwe's once promising economy, had it not seized farms without compensation. Ensuing unemployment rates of over 90% and tepid growth over the recent past, the Zimbabwean government is going back to correct the fundamental mistake it made 18 years ago – which is to compensate farmers, whose estimated compensation costs are set to amount to US$11 billion. The moral of the story is, if the government declines to compensate its commercial sector for land improvements – at the very least – then someone else will have to pay for it, indirectly. The compensation effect, as we would like to call it, will see the entire economy and its citizenry paying for land seizures through lost agriculture export revenues, job opportunities, etc.

Let us unpack the impact of the expropriation without compensation policy within the South African context. There are two immediate points that are worth noting, which speak to both the difficulty in implementing expropriation without compensation, and the implications thereof.

Firstly, if the constitution is amended accordingly to allow for land to be expropriated without compensation, how would the law cater for the assets on the farm and improvements made on the land?

The land on its own is roughly 10% (for intensive farming operations) of the total value of a typical farm operation, if fixed (immovable) and moveable assets are taken into account. Would sunk investments (such as general farm infrastructure and other investment assets such as farm machinery) – which are 90% of the value of the farm – be subject to expropriation without compensation too? If compensation is due for farm assets, and not the land itself, then the technical argument that arises is: Would it is prudent for government to pay 90% in compensating farmers for improvements to the land, in order to obtain the 10% that represents the actual land value.

Secondly, is the complication that would emerge from the fact that South African agricultural land is heavily indebted. Farm debt that is linked to the actual land through title deeds that have been already used to secure farm loans now stands at over R160 billion. In this case, two scenarios are worth considering if expropriation without compensation becomes reality. One scenario is how government handles heavily indebted land – the question here is: if compensation is not due to farmers, would there be compensation to banks who are de facto partial owners of that land through debt? If government exonerates itself from compensating the banks, this would translate to R160 billion wiped off the books of the banks.

continued

Another scenario is if government commits to cover debt associated with land, which per definition, becomes expropriation with compensation. The only difference is that the compensation goes to the bank that is owed money, rather than the farmer. Let us assume that the government is sensible enough to compensate the commercial farmer for improvements made to land on the one hand, and the bank through debt owed by the farmers. If it so happens that the government determines the value of infrastructure and investments on the farms, and then uses that same value to cover the debt that is owed to the banks, then there are situations that could arise where farmers receive "zero compensation". There might also be situations where seized farms are insolvent, in which case, the government would have to pay the banks the balance of what is owed by the farmers whose land they are seizing. This scenario is already permissible under the current constitution, and does not require an amendment of any law.

Thirdly, the South African government will awaken to the realisation of the extremely complex technical headaches of expropriating land without compensation, by which time land reform will have stalled altogether. This will lead to another wave of impatience that will seek to implement further draconian reforms to allow government to seize land with impunity. We saw this in Zimbabwe when commercial farmers took the Zimbabwean government to court over land seizures. The courts were inundated with litigations that would've taken the government an entire generation to resolve, and then in another moment of madness in 2003, the constitution was amended to nullify all those cases brought to the courts by commercial farmers. In that instance, the Zimbabwean government wanted to get rid of the headaches that emerged from land seizures, and in that thoughtless moment, wiped off US$10 billion in land value.

With the benefit of the Zimbabwean experience, most of which people are quick to ignore and dismiss, we learn an important lesson that needs to be the hallmark of land reform thinking in South Africa. This lesson is that there is no such thing as expropriation without compensation in a quasi-capitalist economy. The history of land expropriation under apartheid has left a sore wound in South African society, which indeed ought to be corrected. However, the enduring principle of compensation in contemporary economics serves as an important reference point. If government seizes private property for free, someone somewhere within the economy will have to pay, whether directly through loss in current and future on farm job opportunities as well as export revenues, or through protracted economic decline that will erode the purchasing power of money, losses in pensions and savings, and deindustrialisation that will destroy future economic growth and off-farm job opportunities for the current generation.

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Secret of land-reform success is to learn lessons from experience

Essay #2

Secret of land-reform success is to learn lessons from experience

The importance of successful land reform to correct the injustices of the past and to restore dignity to the majority of our population is well accepted and appreciated. There is a common understanding that the land reform process was too slow, bureaucratic and costly. This has created frustration and partly contributed to more radical views and proposals on how to deal with the inequality in land ownership in South Africa. These proposals quite often ignore the history of the land reform programme as well as the lessons learnt from our own and international experience.

This essay is intended to shed light on the various contested issues on land reform, particularly farmland. It highlights the lessons learnt from agricultural land reform internationally and the expensive lessons learnt in South Africa over the 24 years of our own land reform programme.

During the design years of the mid-1990s, it was well accepted that South Africa should not repeat the mistakes of land reform programmes learnt elsewhere. The lessons were clear:

- Land reform needs to be fast-paced, otherwise, acombination of excessive bureaucracy, centralisation of the process and legal challenges are likely to render the programme ineffective.
- The role of the public sector should be clearly defined. Programmes that have relied entirely on the public sector in the belief that only the state is capable of maintaining integrity, delivering services, determining needs and managing the process have generally failed.
- Land refor m is only one part of a comprehensive programme of economic reconstruction.

The redistribution of land is necessary, but not sufficient to bring about real economic empowerment and poverty alleviation. Additional services, including infrastructure, markets, social services, amongst others, have to be provided as part of a comprehensive reconstruction and development programme.

The conclusion from these lessons was that market-assisted land redistribution programmes tend to perform better than those administered by the public sector. In other words, the state might be good at acquiring land, either through purchase or expropriation, but that does not necessarily translate to effective redistribution of land to the beneficiaries.

Programmes led by the State typically vest too much control in public sector bureaucracies, which tend to develop their own set of interests that are often in conflict with the rapid redistribution of land. This is true in South Africa as beneficiaries are hampered by bureaucratic inefficiencies to acquire land.

It is therefore mistakenly argued that the market-assisted approach (which was followed between 1996 and 2006) was responsible for the slow progress of land reform. With an average of 13 000 farms available on the market every month, there have always been enough willing sellers.

However, in the wake of years of disempowerment and impoverishment, a well-functioning land market is not a sufficient condition for a successful land reform programme since the history of dispossession has made it difficult for beneficiaries to access finance to acquire these farms.

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Furthermore, the large, mechanised and well-established farms are expensive and can be a challenge to the newcomer. Allowing easy and painless subdivision of these larger farms would have been a great opportunity for land reform but this, unfortunately, was never made possible unless acquired by the state. Also required is the provision of (sizeable) land acquisition grants and post-settlement support to assist beneficiaries to acquire land and start the farming enterprise. Executing land reform through grants to beneficiaries resolve challenges around beneficiary selection.

This was the main philosophy of the market-assisted approach for land reform recommended to the government in the mid-1990s. The idea was simple:

- A beneficiary expresses interest in land purchase for farming.
- He/she identifies a farm for sale and agrees with the owner on price.
- An application for land reform grant and a mortgage (at preferential rates) is lodged and own cash contribution provided.
- A grant and bond is registered (all funded from one source – such as the state owned agricultural bank); transaction completed; title deed registered and post-settlement support also made available immediately.
- Mentorship and support by neighbouring farmers and agribusiness firms kick in.
- It is unfortunate that this intended approach was constrained by land acquisition grants being too small (leading to group farming) and was delayed by over bureaucratised approaches in order to comply with public finance rules. At the same time, post-settlement support arrived too late due to poor coordination between provincial land reform and agricultural departments. The end result was many failed projects.

The land reform beneficiaries were in a way set-up to fail which necessitated the introduction of the Recapitalisation and Development Programme (RADP) to recapitalise poorly performing land reform projects.

The critique against the market-assisted approach as well as the concern about the slow progress towards the land reform targets prompted a shift away from the system of grant-based purchase by individuals or groups altogether and towards state purchase of land through the Proactive Land Acquisition Strategy. In this programme, introduced in 2006, the South African Government takes ownership and then government officials decide on the beneficiaries who would become tenants. Farmers wanting to buy the land from the state were never given the opportunity to do so and now farm with short-term rental contracts, making access to finance and other business contracts very difficult, if not impossible. Farmers on these rental farms were not given the option of full title deed frustrating the real empowerment of black commercial farmers.

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Policy design is largely to blame for the perception that progress has been slow.

How slow was the progress with land reform since 1994? The statistics on land reform and especially on how much farmland the State already owns has been problematic, to say the least. With recent numbers acquired from DRLDR, we can report our best guess of the achievements of the land reform programme to date. First, it is important to understand the total land size in South Africa and as Table 1 shows there was 82,5 million hectares of farmland under freehold tenure in 1993. Since 1994, a total of 4,1 million hectares of farmland was lost to urban development, mining and other non-agricultural uses reducing the area of freehold farmland to 78,4 million hectares.

Table 1 South Africa land size

Land item	Hectares
South Africa total	**122 518 143**
State-owned land	**10 566 215**
Nature conservation, national parks, etc.	7 448 764
State forests	1 812 478
Department of Water Affairs	575 723
Department of Defence	688 127
Correctional Services	41 123
Urban areas, towns and villages	**11 357 935**
Farm land under traditional tenure	**18 036 773**
Farmland under freehold tenure (1993 census)	**82 557 220**
Land use change due to urban sprawl, mining, expansion of parks and forests since 1994	**4 143 993**
Total area of farmland under freehold (2015)	**78 413 227**

Source: Bornman (2017) (survey of deed transactions) and GEOTERRAIMAGE (2015) – spatial land data in 2015

continued

Of this 78 million hectares, a total of 8 356 124 hectares (or 10,7%) was allocated to beneficiaries via the redistribution or restitution programmes since 1994.

We estimate through our own research and analysis of deed transfers, that black farmers acquired an additional 1,2 million hectares (1,5%) privately without the support of the government programmes. Due to the suspension of the LRAD and SLAG programmes in 2006 very little redistribution to individual owners happened while the State has acquired and still owns a total of 2,2 million hectares (or 2,8%) of farmland instead. Many communities elected to receive financial compensation as part of the restitution process.

Up to date, this accounts for a total of 2 920 385 hectares (3,7%).

Table 2 Summary of land redistribution statistics

Agricultural land acquired by the State since 1994 and still held by the State for land reform purposes (Source: DRLDR as at 28 April 2018)	2 243 041 ha
Redistribution (Source DRDLR, May 2018)	4 860 969 ha
Restitution (Source DRDLR, May 2018)	3 495 155 ha
Private transactions (black willing-buyers buying from white willing-sellers without assistance or involvement from DRDLR)	1 220 934 ha
Land owned by white farmers (May 2018)	**66 593 128 ha (80,6% of 1993 total)**

If we compare the redistribution and restitution numbers released by Minister Nkwinti in February 2017 and the numbers provided by DRDLR in May 2018, the slow progress is clearly evident. Only 10 800 hectares were redistributed to beneficiaries for the full 2017/18 year while only 105 000 hectares were returned to communities and beneficiaries under the restitution programme. This signals a very slow land reform progress, in actual fact the redistribution of farmland has come to a complete halt with the only action happening being land purchases by the State through the PLAS programme. This again confirms the argument that when the State acquires land it is unlikely to redistribute the title deed to beneficiaries. Moreover, one aspect completely missing from our land reform programme is the issue of tenure reform in the former homeland areas. This is an important omission and something the Constitution demands of the State.

Overall, the State's failure to effectively redistribute the land acquired has partially been one of the key factors contributing to the view that land reform has been slow. This is leading to growing frustration and which has led to calls for 'expropriation without compensation' as an instrument to speed up the process. Whether this will in any way solve the plight of individuals needing access to land remains to be seen. But so far, it appears that the process is not appropriately taking into account some key lessons from the past, which should serve as guiding principles for a more robust land reform process.

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Essay #3

Land reform policy itself a stumbling block to successful redistribution

One key observation from the political discourse over land reform is that beyond the broad objective of what it seeks to achieve, the more specific problems around how to execute its implementation are misrepresented, poorly framed and therefore misunderstood. In the previous essay we argued that land reform has not been as slow as portrayed in many political messages and that the problems that have since emerged out of land reform implementation are largely to do with a lack of focus on agrarian support. This is a conclusion we reached after having carefully analysed the implementation of land reform policy in post-democratic South Africa.

To further this argument, we want to illustrate that some of the limitations in ensuring the success in establishing commercial black farmers are due to unintended consequences in the implementation of the land reform policy itself. A case in point is the Pro-active Land Acquisition Strategy (PLAS), which was introduced in 2006 for the State to acquire farm land for land reform purposes. To date, it is estimated that a total of between 2.1-million ha and 4.3-million ha, depending on the data source within the Department of Rural Development and Land Reform (DRDLR), has been acquired by the state. It seems, however, that these farms are not being transferred to beneficiaries.

According to the State Land Lease and Disposal Policy, the acquired land would be leased to a beneficiary for a period of between 5 and 30 years, followed by the option to transfer ownership. In reality, however, the beneficiaries only received short-term leases ranging from a year to 5-years. This was clearly reflected in a **research** paper released early 2017 by Ruth Hall and Thembela Kepe, albeit having focused on a couple of municipalities in the Eastern Cape province.

This makes sustainable farming almost impossible, as articulated by Bongani (not his real name), a potential beneficiary we met at the end of May 2018 in the Eastern Cape province. Bongani aimed to start commercially farming in mid-2005, but that dream was deferred when he discovered after a 3-year waiting period that his application forms to access land were never processed. They were misplaced by the DRDLR during the processing stages. He was told, after numerous follow-ups, that this happened during the demarcation of municipalities, which is strange considering that land reform is not a competence of local government.

Bongani then reapplied in 2009 but still to no avail. He is currently farming on communal land around Maclear town. Nonetheless, we asked him to narrate the application process that he followed in late 2009 and he described the stages as follows:

- Identify a farm in your area of interest;
- Submit an application through the DRDLR district office;
- The application then goes to the beneficiary screening committee;
- It is then transferred to the provincial land committee; and then
- If successful, it goes to the national land committee which is chaired by Deputy Minister of DRDLR

We have skipped some of the details, but just to give you an idea, the process entails a roughly 3 to 4-year waiting period. The obvious risk with this process is that applicants can concurrently express interest in a specific piece of land or farm. This complicates the application process.

Post-application, beneficiaries also need to have a fundable business plan to be eligible for government's post-transfer support. The business plan also has to follow a tedious screening process akin to the aforementioned one, and to further compound the process, the opinion of farmers such as Bongani is that the some of the officials at the DRDLR offices tend to lack agricultural proficiency to expedite applications. This, of course, is a risk because it could lead to some errors and delays in dispensing agricultural support services.

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After this convoluted process, if one gets to successfully access the farm, they are then placed on probation for about 5-years to assess if they can farm successfully. This is largely where the problem arises because at this juncture beneficiaries have no title deeds to use as collateral. Therefore, the running of the business, which includes all input costs largely depend on one source – the post-settlement support system – so its effectiveness has a huge bearing on the programmes' success. At the same time, this reality creates a permanent dependency on the state resources without real economic empowerment taking place. The highlighted challenges of bureaucracy and human capital have not helped the situation.

Post-settlement support was initially vested in different Government Departments. The Department of Rural Development and Land Reform was initially responsible to deliver the land in question, after which beneficiaries could approach the Department of Water and Sanitation to obtain water rights, the Department of Agriculture, Forestry and Fisheries to obtain agricultural inputs and the Department of Trade and industry to obtain implements.

This fragmented approach resulted in a misalignment between the land and associated services, which often set the beneficiaries up for failure. Instead of improving alignment between the different government departments responsible for the various support services, the Department of Rural Development and Land Reform ventured into the sphere of post-settlement support (typically the mandate of DAFF and the provincial departments of agriculture) through the creation of the Recapitalisation and Development Programme (RADP) in 2009, which recapitalises poorly performing land reform projects. However, this is more like merely papering over the cracks rather than identifying the root causes of failing projects and spreading the budget responsible for land acquisition very thin.

Bongani's story is not very unique, it partially illuminates the grassroots frustrations of many aspiring black commercial farmers. Similar case studies, albeit having use rights to the land, were highlighted in the aforementioned research paper by Ruth Hall and Thembela Kepe.

continued

The bureaucratic approaches that deferred Bongani's dream of being a successful black commercial farmer could have somewhat been avoided had the market-assisted land reform programme prior to 2006 been expedited with the proficiency that the matter deserves. The market-assisted approach entailed the transfer of title deeds to beneficiaries which would have solved the problem of access to finance. We have previously explained how we this process would be carried out, but it is worth restating, briefly, to add a bit of context.

- A beneficiary expresses interest in land purchase for farming.
- He/she identifies a farm for sale and agrees with the owner on a price.
- An application for land reform grant and a mortgage (at preferential interest rates) is lodged and own cash contribution is provided.
- A grant and bond are registered (all funded from one source – such as the state-owned agricultural bank); the transaction is completed; the title deed is registered and post-settlement support is also made available immediately.
- Mentorship and support by neighbouring farmers and agribusiness firms kick in.

With such a programme implemented at a faster pace, it is hard to imagine that aspiring black commercial farmers like Bongani would be experiencing the current challenges as they do today.

Having listened to Bongani's story and reflecting on the statistics of available and arable land for agricultural purposes in some parts of the country, and also the one he had identified in mid-2005, it becomes clear that the failure of Bongani's access to a farm is not so much a matter of the scarcity of land, but rather, a duplication of duties between DRDLR and DAFF, accompanied by bureaucratic inefficiencies and human capital challenges of the State system itself.

Overall, this story can be interpreted in various ways. Some may read this as a reluctance of the government to transfer land and efficiently provide post-settlement support to ensure the success of black commercial farmers, while others can describe this as a failure of the government to re-invent its state mechanism to deliver on a promise whose effort and resource requirements they clearly seem to have under-estimated.

We've decided to narrate Bongani's story, with the hope of re-directing the land reform debate to some of the more immediate issues that remain unaddressed at the grassroots level, which have led to the failure of the policy. New land reform policy proposals should seek to address the prevailing challenges of some aspiring black commercial farmers first before more radical measures can be initiated. If the systemic issues are not resolved, it is difficult to imagine how the policy suggestions of land expropriation without compensation will yield a different outcome from the failures we have observed from past policy propositions. In fact, we anticipate that expropriation without compensation will worsen the aforementioned challenges or exacerbate the problem. Of course, only time will tell.

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Clear criteria needed for beneficiary selection in agricultural land redistribution

Essay #4

Some of the successful land reform programmes in the world took place in countries where the beneficiaries were those who occupied the land at the time of the reform. This may be true for the provision of secure tenure to occupiers living under legally insecure tenure arrangements in communal areas, however, the context is quite different for the redistribution and restitution programmes in South Africa. Because of the long history of dispossession, the land redistribution and restitution programmes will naturally involve the displacement of current land owners in favour of the resettlement and relocation of beneficiaries. Such processes require that clear criteria and principles be established at the outset, in order to guide participation as well as to achieve the objectives of the programme. In the case of the restitution programme, the criteria have always been clear since it was linked to those families, communities or their successors that have previously occupied the specific piece of land as verified by oral or documentary history and via the land claims process.

This is in contrast to the redistribution of agricultural land, currently owned under free hold arrangements, where clear criteria for selecting beneficiaries are needed. Section 25 of the Constitution places an obligation on the state to take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis. The Constitution does not prescribe which citizens need to be prioritised as this detail was left to the policymakers, however, it is generally accepted that equitable access should enable previously disadvantaged citizens to access land on an equal footing. During the design phase of the land reform programme back in the mid-1990s, Johan van Rooyen and Bongiwe Njobe documented the criteria formulated for beneficiary selection but was never fully applied nor captured in legislation. Hence, we have decided to revisit their original work in our attempt to start a conversation about the selection of beneficiaries for land redistribution.

The main aim of the land redistribution programme is to redress the impact of past wrongs. For this reason, the programme would generally support aspirant black farmers. However, a programme of this nature will not make an agricultural producer out of every participant although it should go a long way in creating an inclusive and viable rural economy within which agriculture and the related linkages can develop.

There exists a rather obvious trade-off between having bureaucratically administered criteria that could be exclusionary or a broader-based programme that could allow for self-selection among the potential beneficiaries themselves. International experience highlights the limitations of officially administrated programmes where bureaucrats select the beneficiaries, while the pure reliance on the market mechanisms alone also has its disadvantages. Therefore, there is a need to have a balance between criteria setting and self-selecting processes. In a market-driven land reform process (which was anticipated in 1996) the market will do the selecting, generally favouring those already empowered, albeit on a limited basis and leaving out the poorest and landless of the poor. It is, therefore, logical to assume that the market alone is not enough to do justice. At the same time, there are imminent dangers in relying solely on bureaucratic institutions to effectively distribute land. Experiences in Mexico, Zimbabwe and now also in South Africa, as highlighted in our previous essay, demonstrate that in addition to the opportunity for corruption, it also takes a long time to carry out effective administrative functions related to land reform.
As a consequence of the history of South Africa, four sets of principles for the selection of beneficiaries are relevant. These are:

i. Victimisation and disentitlement: It is obvious that one needs to consider those South Africans who were historically disadvantaged and victimised through disentitlement and denial of access to land and support services, to be beneficiaries.
ii. Poverty and need: a land reform programme should provide the rural poor with access to opportunities for income generation, employment and self-employment. It becomes critical therefore to incorporate criteria which give preference to the poor and the landless amongst the previously disadvantaged as beneficiaries.
iii. Productivity and sustainability: It is recognised that productivity in agriculture is a determining principle for participation in the land reform programme, particularly in relation to designing the level of support services needed to enhance the productive capacity of the beneficiaries.

continued

(iv) Participative processes: International experience shows that problems almost inevitably arise when groups are moved on a top-down basis into land-based schemes with unrealistic expectations as to what is involved in resettlement, with unclarity in what they are expected to do for themselves and what will be done for them. The expectations therefore of the beneficiaries, once identified, need to be anticipated and fully integrated into the planning process and subsequently dealt with in the implementation stage.

One of the key objectives of the programme to redistribute agricultural land has become the need to ensure the productive use of the land to promote agricultural growth, food security and exports – as was recently echoed in the ANC's December 2017 resolution on land reform. In this context and in light of the principle of "productivity and sustainability" we need specific criteria to select the best beneficiaries to transform the commercial agricultural sector and at the same time ensure productive use of the land.

There are the obvious elements such as good health; age between 30 and 45; education (not always formal but also years of experience); and gender (ensuring that women are included as beneficiaries). Moreover, Njobe and Van Rooyen highlighted specific criteria that have been shown through international experience to improve 'agricultural success':

1. **Net financial worth.** This is a useful criterion to target the poor but also helps to identify those beneficiaries that exhibit strong repayment ability as well as willingness to increase the size of the holding and other assets. Obviously imbedded in net financial worth are the principles of financial leverage and secure rights to land.
2. **Previous farming experience.** Many studies have found that successful farming experience and acquired skills are strongly predictive of good performance. The main argument here is that previous farming experience and the understanding of the farming environment could ensure a productive and sustainable use of land. These aspects include: formal or informal training in farming practices; the previous existence of a viable black agricultural community; the existence of (indigenous) knowledge of viable farming; those who have lived and or worked on white-owned farms have through practice acquired knowledge of farming; and women involved in food production activities.

continued

3. **Entrepreneurial skills.** Modern farming is a business like any other business but with far greater (external) risks. Entrepreneurial and business skills are therefore critical for the financial success of the commercial farming enterprise (i.e. to make money and a living from agriculture). These skills include: the cultivation of cash crops and marketing of the crops/livestock; the inclination to grow more cash crops; a desire to increase landholding; a more positive orientation towards training; employment of other people; exposure to agriculture and other information through the media; openness to the advice of fellow farmers, co-operatives and extension officers; the desire to contribute to the decision making process; awareness of the need for insurance; forward planning; a good knowledge of and a willingness to apply modern crop and cattle farming practices; some form of previous management training.
4. **Managerial aptitude.** This has always been a major factor influencing the success of commercial farming ventures. Many white commercial farmers faced bankruptcy in the past due to their inability to manage risk, finances and marketing. It is for that reason that our Professors spend a lot of time talking to farmers (during the 1970s and 1980s) about the importance of management (financial, human resources, water, risks, markets). Farm management became a core of the agricultural curriculum at most universities and agricultural colleges as it became clear that the managerial skills of the farmer are critical for the success of any commercial farmer.

Overall, the criteria for selection of beneficiaries is critical when one thinks about the ideal scenario to fast-track sustainable land reform. A parallel process can be followed that combines the streamlined benefits of a market-led approach for aspiring farmers to purchase commercial land through blended finance products and a decentralised process led by local institutions, such as District Land Committees to ensure that the landless and resource-poor are not marginalised. These committees would have to make use of the aforementioned criteria for beneficiary selection to ensure the allocation redistributed land is equitable and just, but at the same time ensure that there is a productive use of land and food security. This is a juggling act, but which can be mastered through the application of a well-designed set of criteria.

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Essay #5

Farming 101 teaches the importance of land ownership to leverage returns

Since the passing of the parliamentary motion to review Section 25 of the Constitution, we have seen an explosion of views on land reform, land tenure regimes and the State ownership of all land in South Africa. In these debates there clearly exist diverse views on the value of land and its role as an instrument of financial security and financial leverage. Some positions, such as those of the Economic Freedom Fighters (EFF), underwrite the principle of an end to private property in land and proposes instead common property in land. For this to be workable the State will have to implement a leasehold system over all land, with the state running an effective land administration system and a strong legal system to protect the security and tradability of the leasehold. As shown in many parts of Africa, Asia and Latin America, this is not necessarily guaranteed. There are clearly divergent ideological positions on land as an asset and its role in a market-based economy such as South Africa that is an integral part of the global economy.

So, a number of questions arise: what are the financial implications for the South African financial and agricultural sectors if different tenure options are followed? What happens to the financial sustainability of the companies or family businesses that own land? What are the implications for farmers?

Most market-based economies that permit land ownership and attached a value to land consider land as a financial asset – something that can be traded for a profit and the proceeds used to acquire assets of a different nature or something which can be used as collateral to loan against and obtain finance for the farming enterprise. This principle informs the behaviour of any financial institution and any entrepreneur and plays an important role in the assessment of the financial performance of farms, to evaluate investment decisions, to calculate the repayment ability of a specific enterprises as well as to assess affordable debt levels, and overall sustainability. We will highlight a few basic concepts extracted from the first-year agricultural economics text book: "Finance and Farm Management" published by Standard Bank, to counter some of the irresponsible statements on land values and land ownership that have emerged over the past couple of months.

- Most farm business in South Africa are typically family farms and are run as sole proprietorships. The sole proprietor will typically use own and borrowed capital in the business (As sole proprietor, the farmer accepts full responsibility for making all decisions and is personally liable for any farming losses or claims against the business). However, there is a large incentive for the farmer to work hard since the farmer (and the family) are the only ones to share in the success of the farming business, and in the case of failure will be the ultimate loser of wealth. In addition to sole proprietorships, farm businesses can also be structured as partnerships, companies, trusts and cooperatives.
- In sole proprietorships – typical of most family and small-scale farms – the owner is responsible for all aspects of financial management. In the case of larger farm business, there is sufficient turnover and financial responsibilities to warrant the appointment of a financial manager. Financial record keeping is a fundamental part of sound financial management. The correct valuation of the balance sheet is a first priority.
- Typical farm assets in the balance sheet include land, fixed improvements (orchards, irrigation systems, buildings, kraals, dams, fences, shed, etc); breeding stock, other livestock, machinery and equipment. This implies that land can in actual fact be only a small part of the total asset value of a farm business. Individuals will repay the borrowed funds.

Let's now return to the value of the land as one of the assets of the farming business. A first step is to classify all land available to the farm business in terms of ownership. There can be own land (title deed, private property), rented or leased land (land owned by someone else or the state) and land used for share-cropping. Land is only an asset if it has value and is tradable. Thus, even "owned land" is only considered an asset under the correct circumstances, i.e. the guarantee of private property rights. Without this, individuals do not have a secure bundle of rights to land, which includes, naturally, the right to transfer land or rent it out. However, a long term (99 year) tradable leasehold could be entered in the balance sheet as an asset.

When valuing land, one should draw a distinction between dry-land crop cultivation (crops, pasture, orchards and plantations), irrigated land (orchards, crops, pastures), natural grazing, farm yard and waste land. This distinction, together with a further distinction for arable land between high, medium and low potential also indicates that one hectare of land is not the same anywhere in the country.

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The land potential, and thus the income earning potential, not only impacts on the farm size necessary for a full-time livelihood but also the value of the land. That is why regions with high potential, irrigated farm land has smaller farm sizes that support full time large businesses. Naturally the land values are much higher than those in the dry western parts of South Africa where animals on low potential natural grazing is the dominant farming enterprise.

The value of farm land under free hold tenure can be established using the (1) agricultural value (income capitalisation) method or (2) the market value (based on transactions of comparable pieces of land in the region). The return in investment in land does not only include the annual income from the land but its value also appreciates over time and therefore the market value is almost always higher than the agricultural value of farm land. There will, however, be no market value for land if land cannot be sold.

Throughout the recent discourse in South Africa there seems to be an averseness to the principle of using land as collateral to access finance. There seems to be some misunderstanding of the risks facing any lender in lending money to individuals to acquire assets or inputs. There is no guarantee – given the inherent risk of agriculture – that individuals will repay the borrowed funds. So what guarantee does the financial institution have? What happens if the asset is not used to produce an income stream for which the monthly or annual payment are made? In essence the land as collateral is a ‘measure’ to force the owner to work hard and effectively to ensure that the annual commitments are made as the lender will be able to sell the asset to recover the loan if the lender does not pay.

The collateralised asset therefore facilitates access to finance as it reduces the risk default and losses for the lender – which otherwise will be difficult. At the same time borrowing money can make financial sense since it provides an opportunity for leverage and growth of the enterprise.

continued

The use of farmland as collateral to access finance has distinct and crucially important benefits, but here we will name just one – to increase returns. A basic principle taught to students of accounting, economics and finance is that of positive financial gearing, a principle simply stating *"the income generated from the loan's application should be more than the cost of the loan"*, i.e. if the loan has an interest of 10% one should endeavour to apply the loan to an activity of which the potential benefit is more than 10%.

For the sake of a quick illustration assume a farmer plants soybeans and that he makes a return after overheads and before tax of R2000/ha (Value of total crop minus production costs and labour, etc). If this farmer has 100ha it implies an EBIT (earnings before interest and tax) of R200 000 (R2000/ha X 100ha). Now let's assume he paid R10 000/ha to acquire the land and he paid in full with own funds. This implies an investment of R1 000 000 (R10 000/ha X 100ha). He thus made a 20% annual return on his R1 000 000 initial investment, (R200 000/ R1000 000).

Now let's complicate this situation by assuming the farmer only contributed 50% own capital and took a 50% loan. Thus, the farmer's own contribution is R500 000 and bank loan of R500 000 which makes the whole R1 000 000 payment for the 100ha of land.

The farmer now still produces the same crop and makes his EBIT of R200 000, however he now has to pay R50 000 interest (simple straight line once compounded 10% for R500 000 loan). This gives the farmer an EBT (Earnings before tax but after interest) of R150 000. Now at face value it seems like the farmer is worse off by R50 000 and he only makes a profit of R150 000 vs R200 000. He now makes a 30% return on his capital, (R150 000 (EBT) / R500 000 (own capital) = 30%. This is more complicated, more difficult to manage, higher risk for the farmer but also a better return for the farmer.

Overall, in the event of nationalisation of land, the potential beneficiaries will in anyway not be able to build wealth without assets, as illustrated above. Therefore, the proposed system will not enrich anyone, but will rather be a nightmare for the State to administer, as we have already witnessed some difficulties in managing the current land programmes.

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Essay #6

EFF's strategy will destroy the asset value of a large portion of SA's land

At its **54th National Conference report and resolution**, the African National Congress (ANC) highlighted that the interventions regarding expropriation of land without compensation would largely focus on 'government-owned land, prioritised the re-distribution of vacant, unused and under-utilised state land, as well as land held for speculation and hopelessly indebted land'. It remains to be seen if commercial land or farms will be part of the expropriation process. Tempering with such areas would potentially have a negative impact on food security and agricultural growth – an outcome that the ANC is trying to avoid.

Meanwhile, the argument from the Economic Freedom Fighters seems to suggest that all land should be nationalised or apply a 'wholesale expropriation without compensation'. In such a scenario, the impact would not only be limited to land for food and agricultural production, but would also – according to their proposal – include land for housing and for industrial and retail use. We argue in this article that this strategy will by default destroy the asset value of large portion of South Africa's land and could by definition also have a large negative impact on financial institutions and the property market.

A bit of background on this – as at March 2018, outstanding bank credit to the private sector (businesses and households) totalled R3.5 trillion, according to South African Reserve Bank June 2018 **Quarterly Bulletin**. Of this, mortgages accounted for 39% (R1.4 trillion), with households accounting for 68% (R929 billion). Put into context, the amount of mortgage exposure (households and corporates) that the banks have is equivalent of 29% of South African annual GDP (as at March 2018).

This includes, predominantly, credit extended to buy houses and vacant land for building a residential structure. In South Africa, the general practice is that banks fund up to 40% of the acquisition of vacant land (which happens to be in line with the areas identified for expropriation within the ANC documents). In the case of free-standing houses, the value of land is built into the selling price, while flat or apartment owners have an undivided share in the land on which the structure is built, which is owned jointly through a body corporate.

Furthermore, it is estimated that about 70% of all residential property transactions in South Africa involve freehold property. This implies that a large majority of housing transactions include, directly or otherwise, private land acquisition. State assuming ownership of all land without compensation, therefore means, from a consumer perspective, a loss of the land component of the acquisition, while retaining the ownership of the building structure. As the law currently reads, the land portion cannot be disconnected from the immobile asset such as a building or a house in South Africa's current application of property law. For an average household in South Africa, the property represents their largest investment from which they derive wealth.

At an aggregate level, however, data from South African Reserve Bank shows that net wealth (value of residential buildings fewer mortgage advances) derived from residential buildings as at December 2017 was around 16% of households' net wealth. This, however, conceals the true contribution of residential property into households' balance sheet. This is because, pension funds – which is households' biggest component of financial assets, also invest in property, via the equity market. This excludes households' themselves investing directly into the equity market and also indirectly via other investment vehicles such as unit trusts. An aggregation of all this shows that the destruction of all property value would have serious implications for South Africa's national asset base and the foundation of the economy.

Hence, we have continued to argue that the wholesale or blanket expropriation of land without compensation policy or approach could be viewed as a destruction of land value, some of which is financed by debt.

The often cited figure is that of agricultural debt which was estimated at R158 billion in 2017, according to data from the Department of Agriculture, Forestry and Fisheries. But, if we consider the aforementioned components of the economy the impact could be much wider. The exact value of this component remains unclear, but as demonstrated by the numbers above, it is likely to be significant.

continued

In terms of the agricultural debt, the impact would not only be felt by the commercial banks, the government also has the 'skin in the game' through the Land and Agricultural Development Bank of South Africa (Land Bank), which accounts for nearly a third of the agricultural debt. The balance is accounted for by commercial banks, agricultural cooperatives, private persons and other institutions.

The Land Bank presents an interesting picture in terms of its current exposure in the agricultural land and long-term credit market. At the end of 2017 the long term loans and loans secured by mortgages owed to the Land Bank was **worth R16.2 billion** (of which R8.5 billion is for individual mortgages). The Bank has also provided cash advances to agribusiness and cooperatives equal to R25.5 billion. With some other advances and loans the total assets are equal to R46.56 billion which is then financed via the bank's liabilities (mainly promissory notes and Land Bank Bills). Many of the cash advances to agribusiness are also on-lend to farmers to acquire farm land which thus imply that the famers' land exposure of the land bank and the agribusiness could easily be at least 50% of the Land Bank's total asset base. A land policy scenario described above will thus also risk the Land Bank's financial stability and one could foresee roughly R20 – 30 billion of the State budget that will have to be used to save the bank.

In terms of section 8 of the current Expropriation Act, an expropriation will extinguish a mortgage bond, but not the debt. Simply put, if the land is expropriated, the owner still owes the bank, but it becomes an unsecured loan (which would typically be associated with higher interest rate). Considering these components, the question then becomes, should a property owner continue servicing their loan when they no longer have ownership rights to that property or a component thereof, and the bank has no security to fall back on? Furthermore, should financial institutions (and Real Estate corporations) simply write off their assets on their balance sheet?

Wholesale expropriation of land without compensation could therefore likely trigger a major devaluation of financial institutions' assets, and ultimately their balance sheets (the blanket expropriation approach is somewhat different from the ANC's official views, as outlined in their documents, but more in line with the Economic Freedom Fighters position). Corporations are valued based on the strength of their balance sheet, which impacts on their ability to raise capital and fund expansionary projects. Ultimately, this could trigger a disruptive stock market repricing. At the same time the nationalisation scenario could trigger a liquidity risk in the Land Bank and other commercial banks. Given the size of the outstanding debt illustrated above it is unlikely that the State will be in a position to financially rescue these institutions.

In our previous article published on 09 July 2018, we demonstrated the value of property rights, using land as an asset, and its role in a market-based economy such as South Africa that is an integral part of the global economy. The cases presented show that in the event of nationalisation of land, the potential beneficiaries will in anyway not be able to build wealth without assets. We further argued that nationalisation will not enrich anyone, but will rather be a nightmare for the State and its citizens. The aforementioned implications of the linkages on land on the overall economy, suggests that the negative consequences could rather be far-reaching and potential beneficiaries of the process will in anyway not yield any value.

These arguments do not imply that we should not urgently deal with the current inequality in land ownership. It is necessary that we implement decentralised and effective land reform programme to restore land rights to the majority of our people. There is, however, a much more responsible solution that will not destroy our financial sectors, our pension funds and our economy. We will share views and ideas regarding a possible workable concept in our next essay.

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with the original title: "How private sector can supply land in a way that makes reform work".

Leveraging the intent and commitment of the private sector to implement land reform

Essay #7

Throughout all our essays contained here we have endeavoured to constructively contribute to the land reform debate. While we flagged some unintended consequences of the proposed expropriation without compensation policy, we always argued for an efficient land reform process, with minimal State involvement to quickly restore land rights to the majority of South Africans.

Our view is aligned to the view of lawyers such as Advocates Tembeka Ngcukaitobi and Thuli Madonsela, as well as the African National Congress's own position accepted at their recent land summit. This position holds that the current provisions of the Constitution providing for powers related to expropriation should be implemented immediately to test the bounds of the compensation clause before considering an amendment. It also makes provision for a comprehensive land reform programme provided for in the constitution with clear principles. The Constitution also sets out a clear and defined task to the State that it should implement land reform inclusive of tenure reform in the former homeland areas. The Constitution is therefore not the impediment in returning land to the majority but the key enabler.

It will be irresponsible from ourselves to end this series without tabling, what we think could be a workable plan, to ensure a responsible but effective redistribution of **agricultural** land. Our views build on the principles highlighted in Chapter six of the National Development Plan but at the same time provides an opportunity for commercial farmers, agribusinesses and the private sector at large to take charge of the process.

At a recent panel discussion at the University of the Free State, **Professor Lungisile Ntsebeza** of the University of Cape Town, challenged the commercial farming unions to offer land for the land reform programme in a pro-active manner. What we propose below can be considered a plan to affect just that, but which will also provide a guideline for farmers, agribusinesses and financiers to actively contribute to land reform and settling of commercial black farmers in a responsible and sustainable way. We need a comprehensive process implemented at national level and by applying criteria for beneficiary selection as we **highlighted** in essay #4.

The private sector should assemble a process whereby well-located farm land is identified and committed for land reform, beneficiaries selected, and finance, mentorship and support put in place. The district land reform committees (DLRCs), which were envisaged in Chapter Six of the National Development Plan, were to be established through a combination of farmers, agribusiness, financiers, donors and beneficiary community members and would require minimal government participation. Although DLRCs were established in 2015, there is considerable confusion about their roles, functions and responsibility whilst more than half of the participants are government officials. As a result, the DLRCs are not functioning optimally and many are regressing due to inaction. Contrary to this, our proposed plan in fact sees the private sector, in collaboration with beneficiaries, take charge of the process. The private sector should be able to find innovative ways to finance the acquisition of land and thereby commit a share of their own funds to transform the agricultural landscape to ensure a more equitable distribution of agricultural land.

A fast-paced, sustainable land reform programme related to agricultural land driven by the private sector, as described above, needs four big 'tickets' to activate redistribution of land without the need for legislative change or a large State machinery:

1. Incentivise the private sector (including farmers, agribusiness, etc.) to implement land reform privately by some recognition mechanism via the perpetuity AGRIBEE Scorecard or other measures.

2. An additional incentive to reward farmers for their private effort to redistribute land would be the allocation of new water rights to the existing and new enterprise (owned by the beneficiary). This will again allow the existing farmer to dispose of land and at the same time ensure the successful establishment of smaller farms on irrigated land.

3. Establishment of a land reform fund at the State-owned bank (such as the Land and Agricultural Development Bank of South Africa (Land Bank)) and roll it out through one stop shops where acquisition grants, subsidised loans and subsidies for on-farm improvements can be accessed.

4. Utilise the principle of leverage through access to the land reform fund to allow farmers to dispose of land for land reform purposes but at the same time expand their existing business and employ more workers.

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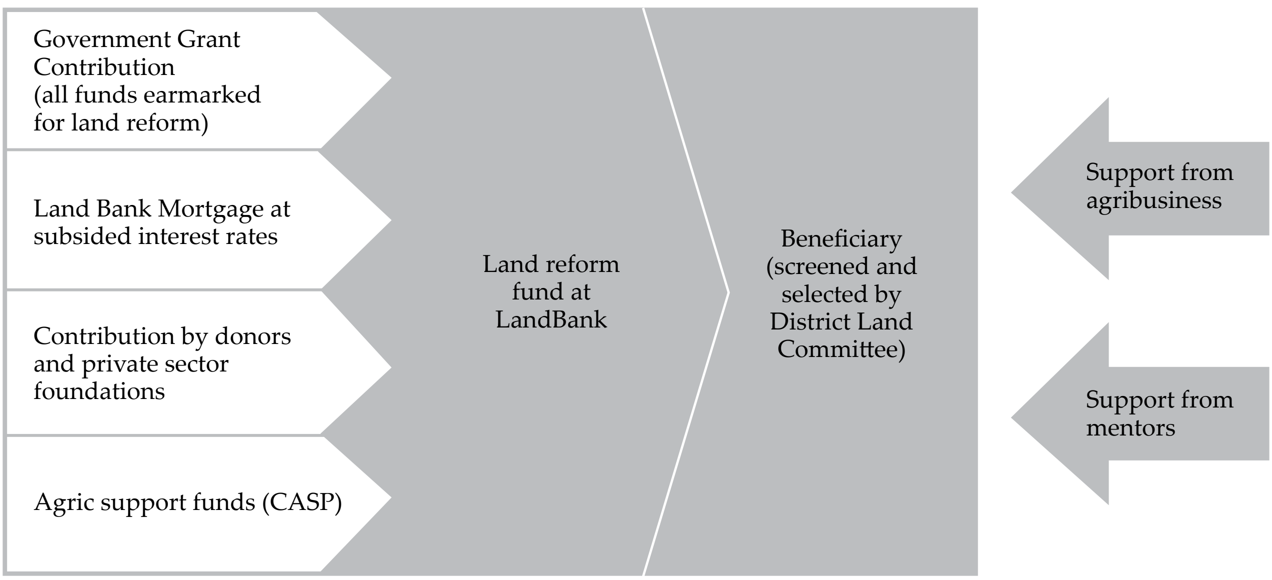
The creation of the "land reform fund" at the Land Bank could help to facilitate the process of rapid redistribution of agricultural land. We have continuously argued for a very simple process whereby state contributions, farmer contributions and loans could be merged into a one-stop shop. For example the funds currently sitting with the Department of Agriculture, Forestry and Fisheries (DAFF) for the comprehensive agricultural support programme (CASP) (R5.6 billion over the MTEF period 2018-2021), Ilima/Letsema conditional grant (R1.6 billion) and funds earmarked for land acquisition (R4.2 billion), land reform (R8.7 billion) and post settlement support (R1.5 billion) at the Department of Rural Development and Land Reform (DRDLR). Together there is R20 billion already available over the next 3 years that could all be deposited in this fund. This is government funds which is not interest bearing and will assist in subsidising loans to the beneficiaries for land acquisition, subsidies for on farm improvement and subsidised seasonal credit identified in the process highlighted above.

This fund could also be the place where donor fund contributions to the land reform process can be deposited. In essence the 'land reform fund' will be the main element of a blended financing model for land reform whereby state funds, donor funds and the private sector contribution through loans at lower or preferential rates will facilitate the funding of land reform in a much quicker way without any additional fiscal burden. See the figure below for a brief illustration of the model:



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It will now also make sense that the land reform divisions of Department of Rural Development and Land Reform are integrated with DAFF so that all funds, actions and state support towards the successful settlement of beneficiaries are achieved. This would therefore require an expansion of the mandate of the Department of Human Settlements to include urban and peri-urban land reform.

This implies the land reform programme will again – as in the period between 1999 and 2009 - have to operate under the auspices of DAFF in close collaboration with the Land Bank, but effectively decentralised to District Land Committees and implemented by the private sector. The regional Land Bank offices could, with the assistance of local expertise (the private District Land Committee), be in a much better position to screen and select beneficiaries and thereby bring about a rapid and successful redistribution of land.

There would certainly be people being averse to the idea of trusting the private sector to deliver on the land reform imperative. It is however so that the financing models, the management capacity, the support networks, the markets, the input supplies, the expertise are all located within the ambits of the private sector. There is no need to reinvent the wheel, and to design new systems and build new Agri-parks. We need to utilise the existing systems and existing networks to empower the majority of our people. If it takes a few nudges, a few incentives and a little bit of recognition and trust we will do our country a lot of good and create social stability.

Farmers, together with the commodity organisations and the agribusiness, could take up the task of redistributing the land, with minimal involvement form the State. More specifically, the agribusinesses and commodity organisations would provide post-transfer support and mentorship to beneficiaries and thereby ensure an inclusivity process of participating in the commercial agricultural economy.

In that spirit, we need more public-private partnerships (PPPs), such as the Agricultural Business Chamber and the Banking Association South Africa's land reform model, the so-called Agbiz/BASA model and the Land Bank and Afgri land reform model, etc. These should be tested in order to create joint collaboration between government and private sector, and in turn, build trust.

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Essay #8

Historical lessons for the establishment of commercial Black farmers in SA

Historical lessons for the establishment of commercial Black farmers in SA

Agriculture through a well-executed land reform programme can, as Ben Cousins **recently argued in *Business Day***, be an important contributor to the creation of jobs in South Africa. But then we need to do it right and learn from South Africa's history which has a lot to offer. However, our plans and ideas are sometimes confused by the concepts of 'scale' and 'commercial'. There is the unintended notion that commercial farming can only be large capital-intensive agriculture. The truth is smallholder farmers can be commercial but just at a small 'scale'. This reality is confirmed by STATS SA data that shows that 45% of white commercial farmers have a Gross Farm Income of less than R500 000. The current land reform discussion has raised a **need for the establishment of black commercial farmers (at any scale)**, as a way to transform the commercial food production chain. Programmes to establish and settle farmers is not a new phenomenon in South Africa, although it was not targeted to black farmers in the past, there were farmer support and settlement programmes in the early part of the 20th century which focused on establishing commercial farming.

Since the formation of the Union of South Africa, various initiatives were introduced, such as the establishment of the Land Bank in 1912 and the establishment of the Farmers Assistance Board in 1925, and the introduction of co-sponsored training programs for labour in 1929 coupled with state assistance in creating employment. This was followed by the establishment of irrigation schemes, tenant farmer support programmes and the development of the local agricultural market infrastructure and organised agricultural marketing arrangements.

Throughout most of the post-unification period, specifically from 1913, the sustained and substantial government support to agriculture was biased towards white, (mainly small-scale and impoverished) farmers with the aim to commercialise them. Lacking a commensurate amount of public support, black farmers suffered as a consequence.

The Land Act of 1913 and the Co-operatives Act of 1920 are two key examples of the discriminatory public policies in those years. The Land Act confined land ownership by blacks to dedicated native reserves, while the Co-operatives Act excluded black farmers from participating in farmer cooperatives.

In 1925 the Farmer Assistance Board (predecessor of the Agricultural Credit Board) was established to assist farmers with soft loans in the aftermath of the recession of the early 1920s. Black farmers were once again excluded from accessing these government-backed credit programmes, and they were also excluded from participating in the farmer settlement programs introduced in the late 1930s.

In this article, we draw on the PhD work of the late Frikkie Liebenberg in which he studied the details of the support given to farmers under the farmer settlement programmes. This took the form of amongst others subsidised and state guaranteed loan schemes to farmers.

The Department of Lands came into existence when the Union of South Africa was established in May 1910. Its functions included the administration of all matters relating to Crown lands, irrigation, land settlement, land boards and surveying. On 16 October 1912, the Land Settlement Act, 1912, came into force. The amended Land Settlement Act of 1956 introduced three important schemes in terms of which Crown land was granted to suitable applicants, were. These three schemes provide valuable lessons as we consider implementation plans to successfully settle black farmers on redistributed land or commercialise farming in the former homeland areas:

Scheme 1: Section 20 of the Land Settlement Act of 1956.

In this case, the applicant chose the land for which he intends to apply and obtained an option to purchase from the owner at a reasonable price. If the applicant satisfied the prescribed requirements and the acquisition was approved, he had to pay at least one-tenth of the approved price.

During the first two years, the settler made no payments, but there was marginal interest on the loan. The annual payment was calculated over a 63-year period. If the settler satisfied all the prescribed conditions after five years, he was entitled to the title deed, after which he could make use of the land at his own discretion.

continued

Scheme 2: Granting of land in terms of Section 23 of the Land Settlement Act of 1956.

Vacant Crown land was divided into economic farming units, was offered for allotment in the Government Gazette and press in terms of this scheme. The land was hired to the successful applicant for five years. This period could be extended to a maximum of 10 years, but it was a condition that the option of purchase is exercised within the second period. When the option to purchase was exercised, the price with interest was redeemed over a period of 65 years.

The successful settler paid no interest for the first two years, but as with Scheme 1, the interest for the first two years was capitalised in the purchase price. The settler paid 2%rent calculated on the sale price of the holding during the third year. In the case of grants made in terms of Section 23, settlers were entitled to conveyance 10 years after the commencement of the lease on condition that they satisfied all the conditions laid down by the Act.

Scheme 3: The allotment of land in terms of section 29 of the Land Settlement Act of 1956.

Under this scheme, which was limited mainly to irrigation areas, the size of the incorporated irrigable land varies from 15 to 30 morgen per holding. Initially, a temporary occupation right of a maximum of five years was approved and the probationer lessee regarded as a trainee. The lessee usually had little expense in the cultivation of his holding at the beginning, except for labour costs which he had to pay himself. Probationary lessees were under the supervision of trained agriculturists during the probationary period. The time taken to complete the training course ranged from 18 months to two years. At the expiry of the probation lease, the holding was granted at a total purchase lessee on the same provisions as described in Scheme 2.

The provision was also made for the payment of subsistence allowances and the provision of medical services to probationer lessees. These costs were recovered from crops and any other income which may have accrued to the probationary lessee from time-to-time. During the probationary period, the State took a quarter of all crops sold to cover the cost of feed, fertiliser, etc. with which the probationer lessee was provided. A third of the balance was kept in a trust for the probationary lessee and the balance was paid to him after any recoverable debts, such as the medical services mentioned above, have been deducted.

Overall, there are three very important features of these earlier schemes that contrast with the present-day initiatives:

1. At the time, probationary farmers had access to a comprehensive package of support measures ranging from access to credit and technical support through to social support initiatives such as medical services and education;
2. The cost of which was expected to be repaid to some extent – forcing a degree of accountability; and
3. Aimed at creating owner operated farming enterprises.

Therefore, a number of things need to be in place to ensure success and sustainability of new farmers. However, before these, the State support elements are listed as it is important that one understands that these support programmes will only have the necessary impact if there are some form accountability, agricultural skills and commitment from the beneficiaries.

continued

The elements of a support programme could include:

- Dedicated access to a well-qualified extension officer (in today's terms it can be provided by the agribusinesses)
- No payments on the land mortgage for the first two years, but the interest for this period – at subsidised rates – as well as transfer costs, are capitalised in the price of the land.
- The annual payment for the land acquisition is calculated over a long period – perhaps 50 years (and not the standard 25 or 30 years).
- If the settler satisfied all the prescribed conditions after five years, he/she is entitled to the title deed, after which he could make use of the land at his own discretion (implying that prior to this point he had to heed the advice of extension officers).
- Subsidies for on-farm improvements and infrastructure could be provided via the CASP programme but the payment process should be changed. It should work on co-funding model and State reimbursement according to government-approved tariffs. Farmer will through access to State guaranteed credit pay for the expense or improvement and then claim the refund from the relevant government office based on proof of expenditure and on-site inspection to verify actual expense by the government official. The refund can be offset against the outstanding credit amount.
- Some form of social support initiatives such as medical services and small start-up salary grant could also be considered to facilitate a smooth settlement process.
- Commitment from agribusiness firms and financiers to provide some of the elements of this support package on behalf of the government.

These historical lessons could ensure that black farmers will now benefit from a similar State support system which empowered white farmers in the previous century. Most importantly, this could assist in the development of commercial black farmers (at any scale) and the transformation of the food production chain in South Africa.