

LAND REFORM IN SOUTH AFRICA

Getting back on track



May 2008

This is an executive summary of CDE Research no 16, *Land Reform in South Africa: Getting back on track* (May 2008). We hope it will stimulate interest in the full-length report, in which the issues and recommendations briefly described here are discussed in depth.

‘SOUTH AFRICA BELONGS
TO ALL WHO LIVE IN IT’

ANY MEANINGFUL DISCUSSION of land reform in South Africa must start by recognising that those who were dispossessed under apartheid have a right to justice. Equally important, it must be recognised that the democratic government has already done a great deal through its land reform programme to rectify the injustices of the past. Government will always be central to land reform. Most of this report is about what markets and the private sector contribute to land reform, but all of this takes place in the context of the current government’s policy framework and programmes.



Land reform needs to make its beneficiaries and the country better off. Little is gained in the long run if justice turns out to be purely symbolic, leaves people poorer, or even aggravates grievances. It is therefore of considerable concern that, as the director-general of the Department of Land Affairs (DLA) recently stated, at least 50 per cent of government land reform projects have failed to make their beneficiaries permanently better off.

THE PRIVATE SECTOR, MARKETS, AND LAND REFORM

There is great deal of empirical evidence to show that the private sector and markets contribute significantly to South Africa's development in general and to land reform in particular. We therefore believe that the positive role of the private sector in land reform can and should be expanded, and that it is vital to understand private sector perspectives on this issue.

The land market and land reform

CDE conducted an extensive overview of research on the operation of the land market throughout the country. Our findings include the following:

- The land market transfers millions of hectares between buyers and sellers each year, and an increasing proportion of buyers are black. We estimate that the true extent of land transferred from white to black owners is now close to 6,8 per cent of commercial agricultural land. Some 4,7 per cent of agricultural land has been transferred through state programmes. This means that market transactions have already transferred a quantity of land equivalent to 40 per cent of the land transferred through government's land reform programmes. This may be an underestimate. In some areas, black people own far more than 7 per cent of commercial agricultural land. For instance, CDE's own research shows that black farmers own 32 per cent of commercial farmland in the KwaDukuza district, and almost 30 per cent of commercial farmland in the eastern Cape regions of Elliot and Ugie. Moreover, according to media reports, black farmers now own between 12 and 20 per cent of commercial agricultural land in some districts in the Free State.
- The quality of land transferred through market processes is higher than the average for all land transferred.
- The average price of average quality South African farm land increased at much the same rate as the consumer price index (CPI) in the period 1994 to 2003. There is no evidence that prices are rising faster than average in areas where a great deal of land reform is taking place, and there is no consistent upward movement in the prices that the government has been paying to settle restitution claims.
- Perceptions that 'the market' or 'white farmers' have been manipulating prices upwards across the country are inaccurate, and could well lead to poor policy choices with extremely negative consequences.
- Land markets differ in important ways by area. The balance between supply and demand; the type of farming and other activities possible on the land; the sequencing of government and private land acquisition; and the unintended consequences of state action in particular areas all have highly specific local effects.



The private sector and land reform

Those who suspect that the operations of the market are an obstacle to land reform are often also suspicious of the private sector generally. Like the belief that markets are holding up land reform, this suspicion of the private sector is not supported by the evidence:

- Commercial banks are now central to the financing of the land and agricultural sectors, and are a leading source of information and knowledge about farming and agri-processing. In 2004, for example, the private sector funded more than twice as many land transactions than the state. The banks have developed innovative financial models that assist new black farmers to acquire valuable land, and to farm it profitably.
- Land-based companies are concluding more and more BEE deals. These have the effect of extending black ownership not only over land, but also into more profitable parts of the agri-processing value chain.
- In three major agri-business sectors (sugar, timber and fruit) the private sector has been actively engaged in promoting and supporting land reform for at least a decade.
- There is overwhelming evidence that the outcomes of private sector-led land reform compare very favourably with the results of purely state programmes in terms of productivity and sustainability. This is because of the private sector's emphasis on effective BEE rather than just on hectares transferred; its tighter focus on productivity; and its better ability to allocate land for purpose to specific claimants, and provide technical support to new farmers.

Importantly, however, there are major clashes between the dynamics of globally competitive agriculture and the outcomes of government's current land reform policies. Specifically:

- Government land reform as currently implemented tends to result in a lot of people living or working on small pieces of land. To be competitive, agri-businesses usually need to operate on a much larger scale. Being a small farmer usually means being at the least profitable end of the value chain.
- Moving into the more profitable middle section of the value chain requires agricultural and business skill, training, and ongoing institutional support. Government has had very little success in providing the necessary training to land reform beneficiaries
- Internationally competitive agriculture requires investor confidence in the sector. Confidence is declining, largely as a result of the serious problems now being encountered in the restitution process
- Additional pressure on these sectors as a result of poorly implemented land reform could result in a withdrawal of investment and a decline in exports. This would have knock-on effects across the South African economy.

KEY RESEARCH CONCLUSIONS

Based on a comprehensive programme of research over two years covering the entire country, and including in-depth case studies in four regions and three agricultural sectors, CDE has reached the following conclusions:

1. South Africa, like all developing countries, is urbanising. Therefore, land reform programmes must include the identification and release of urban and peri-urban land for settlement, housing and job creation, as well as reform of ownership and use of land suitable for farming.



2. There is no place in a land reform strategy for a 'one size fits all' approach. There are large regional and sectoral differences among appropriate land uses. Effective land reform thus requires specialisation, experience, and local knowledge. Far more of these strengths can be found in the private sector than in the public sector.
3. A high degree of decentralisation of both policy development and implementation is required for successful land reform. Here again the role of the private sector and their capacity to implement decentralised programmes are vital. Without enabling state attitudes, structures and incentives, viable and sustainable options will be missed.
4. Just providing land will not allow new farmers to succeed. More attention should be paid to equity-based BEE programmes and to ensuring the participation of black farmers at more profitable points in the value chain than farming itself.
5. Much greater and better quality post-settlement support is needed if new black farmers are to succeed, as is more complete integration of new farmers into the established farming community. Both will require greater involvement of private sector players in effective partnerships with state institutions.
6. Land reform policy must be compatible with the economic dynamics of the land and agricultural sectors. In most parts of South Africa, the climatic and soil conditions mean that larger farms are more competitive. Special attention should therefore be given to preserving the scale economies of high-quality large farms. Attempts to settle many new small scale farmers on little parts of these farms would set up the new farmers to fail.
7. The restitution process has successfully settled almost all urban claims. The slow pace of processing and settling the remaining large and complex rural claims appears to be largely attributable to inexperienced and inappropriate staff and understaffing in the DLA and the Land Claims Commission, both nationally and provincially. Unless these claims are resolved much more quickly, major sectors of agri-business and tens of thousands of jobs could be under threat, and race relations could deteriorate.
8. Government has had only mixed success in acquiring land at reasonable prices, and at an acceptable pace. The government must make more funds available, and it must be spent – but, crucially, in a more market-sensitive way than in the past. Allowing inexperienced officials to venture into the complexity of the land market with billions of rands without support from skilled private sector professionals will result in continued poor value for money.

HEADING INTO TROUBLE

Land redistribution is taking place far too slowly to meet the expectations raised by the government's target that 30 per cent of commercial agricultural land should be owned by blacks by 2014. The restitution process is now seriously bogged down. The last phase of restitution – dealing with the largest and most difficult rural claims – has resulted in large swathes of productive commercial land being placed under claim, and therefore effectively frozen. There is no prospect of meeting the 2008 deadline set by the president for completion of the restitution process, and thus significant parts of the rural economy are set for decline. Many land reform projects involving large numbers of people have failed. Attempts to improve tenure for black people in rural areas have made little if any progress.

Promising land initiatives in the private sector have been aborted or put on hold because of the scale of claims on private land, and delays in resolving them; and also because of a lack of capacity within provincial and national state structures to engage constructively with private



interests. Some black emerging farmers who had benefited from redistribution are now finding their new property under claim as the restitution process proceeds in isolation from other policies. The amount of money required to deal with land issues will be far larger than originally assumed. And the complexities involved in all these issues are far greater than anticipated.

No one should underestimate the importance of the rising accumulation of difficulties with respect to land issues or the dangers of current trends in the policy conversation. Examples include the DLA's suggestions to parliament that government should have the right of first refusal on all land outside developed urban areas, and that rural land should not be sold without a certificate indicating the government's lack of interest.

South Africa cannot afford to stay on the current path. Progress is stalled; outcomes have often been poor, and policy trends are negative. Dissatisfaction is rising on all sides.

On the basis of our extensive and detailed research, CDE has developed two possible trajectories for South Africa's future with respect to land issues. Neither is an appealing prospect. The first, entitled, 'Nobody Wins,' assumes that the situation continues to fester without any decisive intervention. This is a dangerous approach in a country with a troubled, divisive history on land, and which hopes to use agriculture as a growth sector. Our second, labelled 'Everybody Loses,' is an even more negative one, which suggests that South Africa could embark on a version of the Zimbabwean 'fast-track' land reform policy. If this happens, land issues will develop such powerful and harmful momentum that they could spin out of everybody's control, with extremely negative consequences.

Neither of the two likely directions is desirable for the majority of South Africans. Yet, without a decisive shift in direction, one or the other seems inevitable. We need to find another way forward.

GETTING BACK ON TRACK: CDE'S RECOMMENDATIONS

There is a clear need for urgent action to get land reform back on track. We need to find our way to a more optimistic future for land and agriculture than those that seem likely at present. It is clear that this better future will need to be based on a bold plan: leadership, courage, and vision are required to turn around the very worrying current situation.

CDE has one core recommendation

The country should immediately establish a talented, action-oriented partnership that will report every six months to parliament on progress with respect to land issues. This partnership should consist of senior leaders in government, the ruling party, and the private sector. Its work would focus on five tasks.

Task One: Completing restitution speedily - 'ending well'

South Africa needs a dedicated task team and organisation that will resolve the restitution impasse urgently. Resources should be devoted to outsourcing some of the Land Claims Commission's functions. We should immediately establish a public-private task team to resolve remaining restitution claims. This should include buying land efficiently and quickly and providing a range of other options, including cash settlements, bursaries for agricultural colleges,



or other opportunities. The resolution of the restitution impasse is a major priority for successful land reform, because it lies at the root of so many other problems in virtually all regions of the country.

Large agri-companies are offering their assistance. They have creative plans for how to make speedy progress in generous settlements. These plans would bring together restitution claimants with farm workers and others who would be interested in farming as a means of livelihood to pool skills and ensure that no one loses out unfairly when claims are settled.

Task Two: Getting redistribution on the right track, and then going to the significant scale the country needs

There is significant land asset hunger in South Africa. Land will be needed for black settlement and ownership in rural and urban areas. It is essential that redistribution meet these needs effectively and in ways that leave land reform beneficiaries and the country as a whole permanently better off.

Two preconditions have to be met to get redistribution on the right track before the programme aims to transfer the necessary quantities of land. First, we need an accurate understanding of patterns of land demand and land supply. This will require, among other steps, an immediate and authoritative audit of existing state land.

Second, steps must be taken to ensure that redistributed land does not fall into communal tenure, but remains in private ownership. Communal land tenure cannot be used as collateral, prevents people from accessing the resources and skills offered by the financial sector, stops people on communal land from accessing many of the other benefits of ownership, reduces both their incentive and their capacity to invest and, therefore, significantly increases the likelihood that they will remain poor.

Once these essential preconditions are met, a partnership approach is needed to acquire land in a market-supporting way that meets the real and diverse needs of land hungry, poorly housed, and unemployed people cost-effectively and in the right parts of the country; spreads private ownership of land; and reinforces market processes which are self-sustaining and in themselves redistributive.

Using a combination of enhanced LRAD grants and (in certain instances) loan finance, a public-private partnership should acquire – through competitive purchase on the open market – large tracts of land for black settlement and ownership in urban and rural South Africa over the next ten years. Allocation procedures will need to be ruthlessly transparent.

This public-private partnership should be staffed with people with real expertise in the cost-effective acquisition of urban and rural land.

Task Three: Deracialise commercial agriculture and South Africa's countryside

Urgent steps need to be taken to further deracialise commercial agriculture. We need many more commercially viable private sector land reform initiatives throughout the country along the lines of the sugar industry's Inkezo Land Company. Inkezo has had a great deal of success in redistributing sugar land and supporting emerging farmers, but is now severely constrained by land claims. CDE calls on other farming sectors to establish similar organisations in their



sectors, provided government can guarantee environments in which they can realistically operate.

We need to make maximum use of farm worker equity schemes and BEE deals. These enable black South Africans to tap into the land and agricultural value chain at the stages where profits are maximised and not simply at the hard (and often unprofitable) end of land ownership. Several large companies are ready and willing to play an active part in making this happen.

Affordable housing opportunities with secure tenure need to be created in towns and villages where, if they wish, farm workers and their families could choose to relocate. Workers would be able to lead independent lives and access education, health care and job opportunities cost-effectively.

There are important roles for both public and private sector actors in this area. Local public-private partnerships are required throughout the countryside. This will not just happen on its own.

Task four: Tackle rural poverty directly

There are some well-watered places around the former homelands where settling people on small farms could have a useful impact on poverty. But this approach cannot make a large-scale or cost-effective contribution to reducing poverty in most of rural South Africa. Instead of using land as the sole – and often an expensive – means of addressing rural poverty, we need to look at rural development more comprehensively. A key part of this is to acknowledge that urbanisation is a key component of an effective rural development strategy. For many poor people in the rural areas, development needs to be focused on portable assets that can be used in a variety of modern urban contexts.

We have two practical and immediate suggestions.

The first is to call on the private sector, particularly agribusiness, and the international development community to put resources into the development of ideas for rural development and ‘roads out of poverty’. We need an investigation resulting in a report to the country about the role of rural areas in 21st century South Africa, and about how to expand opportunity for people who live in the countryside. A private sector, market-based approach could be a significant contribution from business leaders and international organisations to revised government strategies.

Second, the government should allocate R1 billion a year for five to 10 years to a Rural Education Fund. The fund should be managed as a partnership between the public and private sectors, and should be leveraged to have the maximum impact on providing quality education opportunities for young rural people.

Task five: Spend more on land reform, and spend it better

The land reform budget will need to be increased significantly. This is a precondition for CDE’s suggestions to work. It is also a precondition for achieving the government’s stated goals. But an increase in the budget should only occur if new public-private partnerships are established to provide the capacity and leverage to ensure the money is well spent.



An increased budget must be used to leverage market forces and to fund professional outsourcing of land valuation, acquisition, allocation, transfer, and post-settlement support. It is clear that better quantities and qualities of both land and human capital need to be devoted to land reform and rural development. However, the valid concerns of the National Treasury about a greatly increased allocation of national resources to land issues need to be allayed.

We therefore recommend that the overarching public-private partnership overseeing these five tasks receive its own budget - with specified allocations to each task - and that it report to parliament every six months on its progress and expenditure.

CONCLUDING REMARKS

Land reform in South Africa is at a crossroads. The future of South African commercial agriculture is now on the table. This in turn means that the economic viability of many rural regions of the country is under threat, and that there could be serious negative spillovers into the broader economy and society.

We can avoid this.

South Africa has the resources to negotiate and sustain a successful programme of land reform. There is no doubt that a country which negotiated its entire political structure only 14 years ago can negotiate a new deal on land reform. Success will boost international confidence, and increase foreign direct investment. Conversely, the price of failure will be very high. The country should act now in an effective and systematic way.

A national consensus on land reform is still there for the taking. Great achievements are still possible. The only question is whether leadership in the public and private sectors has the will to get land reform back on track.

Bold leadership is required now.



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