



Land Redistribution in South Africa: Past Performance and Future Policy

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BASIS CRSP

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Contents

	<u>Page</u>
1. INTRODUCTION	1
2. LAND REFORM INSTRUMENTS IN SOUTH AFRICA	2
2.1 Land Restitution	2
2.2 Land Tenure Reform	3
2.3 Land Redistribution	3
3. PUBLIC AND PRIVATE LAND REDISTRIBUTION IN KWAZULU-NATAL	8
4. CONCLUSIONS AND POLICY RECOMMENDATIONS	17
REFERENCES	19

1. INTRODUCTION

South Africa's legacy of racially biased land ownership was formalised in 1913 by the Natives Land Act. This legislation restricted African land ownership to native reserves where the principal mode of tenure was "customary" and administered by traditional leaders. By 1991, these former homelands covered 17 million hectares, or roughly 13.9 per cent of the national area (National Department of Agriculture (NDA), 2000:5). In addition to these laws that prevented Africans from owning land in white farming areas, other legislation prevented white farmers from leasing their land to black tenants and sharecroppers. In some cases African farmers resorted to exchanging their labour for the use of land owned by white farmers - the infamous labour tenancy arrangements that have persisted in parts of KwaZulu-Natal and Mpumalanga Province.

This discouragement or prohibition of black farmers was one of the major forces that drove Africans out of the commercial farming areas into the former homelands. Between 1960 and 1980 the population of the former homelands increased from 4.5 to 11 million people (Turner and Ibsen, 2000:2). Evictions from white farms accelerated in the early 1990's, partly in response to commercial farmers' concerns about legislation intended to improve the security and working conditions of their labour. Some moved to the overcrowded homelands, while many erected shacks in urban shanty settlements. It is now estimated that almost 13 million of South Africa's 40 million residents live in the former homelands, and that over 80 per cent of rural people in South Africa in 1993 were living in poverty (Turner and Ibsen, 2000:2; South African Data Profile, 2002).

This was the situation facing South Africa's first democratic government as it took power in 1994 and began to deal with land and agrarian reform. Faced with the need to balance strong demands from the dispossessed with the need to preserve the commercial farming sector and a fragile political compromise, the African National Congress (ANC)-led government opted for a three-pronged land reform policy:

- Land restitution - a legal process whereby people who can prove that they were dispossessed of their land after 1913 can regain their land or receive due financial compensation for it.
- Land tenure reform - which aims to address insecure tenure in the former homelands, and
- Land redistribution - which aims to redress the racial imbalances in rural land ownership.

As the current political and economic crisis in Zimbabwe clearly illustrates, land redistribution is not a sufficient condition for political stability and economic growth. To achieve these goals, the commercial farming sector must be restructured to try and narrow wealth and income gaps between farmers of different race, and to promote the efficient use of land and other agricultural resources in the long-term.

The South African government's land restitution, tenure reform and redistribution strategies, first publicised in the 1994 Reconstruction and Development Programme, and the principles underlying them, were entrenched in South Africa's new Constitution approved by Parliament in 1996. The most significant principle is contained in the "property clause" which insists on the payment of fair, market-related compensation for land taken in the public interest, including via land restitution and land redistribution. Land redistribution through voluntary

market transactions was to be the leading edge of land reform, transferring 30 per cent of white-owned farmland to over 800,000 previously disadvantaged households over five years. The ANC expected that this would result in a highly efficient small-scale farm sector that would generate economic growth. Note that the terms “previously disadvantaged” or “historically disadvantaged” used in this chapter refer to people in South Africa who were previously excluded from land markets on the basis of racial segregation.

This chapter analyses the past performance of land redistribution policies, in particular comparing how government programmes have performed relative to private transactions in redistributing farmland. Unfortunately, such comparative data exist only for the province of KwaZulu-Natal where census surveys of farmland transactions have been conducted during 1997-2001 as part of a Broadening Access and Strengthening Input Market Systems Collaborative Research Support Program (BASIS CRSP) commissioned by the United States Agency for International Development (USAID). Nevertheless, these data provide the detail necessary to examine the performance of key land redistribution instruments, and to comment on recent policy initiatives intended to achieve the government’s new and somewhat less ambitious goal of transferring 30 per cent of white-owned farmland to emerging farmers over a period of 15 years (Ministry of Agriculture and Land Affairs, 2001:5). This new timeframe and target group reflects, in part, poor performance of the government grant programme first used to redistribute land (see section 2.3.1).

The chapter first gives a brief overview of the three main strategies in South Africa’s land reform programme – land restitution, tenure reform and land redistribution - with special emphasis on the instruments used to achieve (or impede) land redistribution. Section 3 then compares the relative effectiveness of public and private efforts to redistribute farmland in KwaZulu-Natal, in terms of the total area redistributed, the number of transactions, and the quality and total value of farmland redistributed. Section 4 concludes the chapter with some policy suggestions to help the government meet its goal of redistributing commercial farmland in order to promote rural stability and economic empowerment through improved access to land markets and productive use of farmland (Department of Agriculture, 2001:8-9).

2. LAND REFORM INSTRUMENTS IN SOUTH AFRICA

2.1 Land Restitution

Restitution was never meant to be an open-ended process. Following the promulgation of the Restitution of Land Rights Act, Act 22 of 1994, members of the public were invited to submit land claims before a deadline that was extended to 31 December 1998. A total of 68,878 restitution claims were registered with the Land Claims Commission, which investigates the validity of each claim, and recommends a resolution to the Land Claims Court for approval or adjudication in the event that a claim is contested.

This legal process started very slowly. By September 2000, 12,623 households had received a total of 268,306 hectares (Turner and Ibsen, 2000:26) - or less than one per cent of the land available for redistribution. However, following an instruction to the Commission by President Thabo Mbeki to finalise all land claims by the end of 2005, the pace accelerated remarkably. By October 2002, more than half of the claims (35,173) involving 84,928 households had been settled (The Natal Witness, 2002). Most (70%) of these settled claims

related to urban rather than rural land, and only one-third of the R1.8 billion awarded to beneficiaries was used to purchase land (437,021 hectares). Turner and Ibsen (2000) raise a concern that these land transfers could create new rural “dumping grounds” as they are not linked to a development process that offers livelihoods to beneficiaries.

2.2 Land Tenure Reform

Officially, land in the former homelands belongs to the State. In the past, traditional leaders, magistrates and the Department of Agriculture each played a role in administering this land in a predictable way. In recent years these governance systems have become less predictable and tenure has become increasingly insecure in the former homelands. In 1996 an interim law (Interim Protection of Informal Land Rights Act, Act 31 of 1996) was passed to protect homeland residents against abuses such as the sale of their land by corrupt traditional leaders, while a new Land Rights Bill was being developed with the aim of transferring ownership from the State to people living on the land.

The logistics of assigning exclusive rights to individuals accustomed to more flexible and overlapping customary rights were, however, far too complex, and the drafters of the Bill opted for a system of “protected rights” that would be determined through a local process of negotiation facilitated by Land Rights Boards. These rights could be assigned to individuals or to groups constituted as legal entities with democratically elected management committees. The Bill was ready to go to Parliament before the second round of democratic elections in May 1999, but was withdrawn for political reasons as it challenged the power base of traditional leaders.

On taking office in June 1999, the new Minister of Agriculture and Land Affairs, the Honourable Thoko Didiza, shelved the Bill, stating that new legislation would be drafted to enable the transfer of communal land to “tribes” as well to individuals and communities. August 2002 saw the release of draft 8 of the Communal Land Rights Bill. While earlier versions of this Bill were criticised (Cousins, 2002) for sanctioning the transfer of title to tribal authorities and entrenching the arbitrary and sometimes corrupt administration of land by traditional leaders, draft 8 comes closer to the original Land Rights Bill and, predictably, has been denounced by the Inkhata Freedom Party as an attempt to dis-empower traditional leaders.

In the meantime, the Department of Land Affairs has focused its attention on enforcing the provisions of the Land Reform (Labour Tenants) Act, Act 3 of 1996 (which aims to secure the land rights of labour tenants on commercial farms), and ESTA, the Extension of Security of Tenure Act, Act 62 of 1997 (which aims to protect the farm workers against unlawful eviction). Anecdotal evidence suggests that these Acts have damaged labour relations on many farms and, despite their good intentions, have encouraged commercial farmers to substitute machinery for labour, thereby accelerating lawful evictions of redundant farm workers and their dependants.

2.3 Land Redistribution

Acceptance of the property clause in the South African constitution indicates that land reformers in South Africa had generally accepted the notion of market-based land redistribution prior to 1994. In the months leading up to the first democratic election, debates

on this issue focused on what the future government should do to help disadvantaged people access the land market. Should they offer cash grants to prospective buyers, or should public funds be used in a way that would give disadvantaged people better access to mortgage loans from commercial banks?

2.3.1 Cash grants

In their proposals for land reform in South Africa, the World Bank recommended the use of cash grants to help historically disadvantaged farmers to finance land purchases (World Bank, 1993:iii). This advice reflects the view that poor people are unable to finance land with mortgage loans because the market value of land exceeds what proponents of this view call its “productive value” (Binswanger *et al.*, 1993). According to Deininger and Binswanger (1992:9-12), the market value of farmland in South Africa exceeded its productive value owing to a long history of input and product subsidies granted to white commercial farmers. Between 1994 and 1999, the South African government vigorously pursued a policy of market liberalisation in commercial agriculture and - at the same time - implemented the settlement/land acquisition grant (SLAG) of R16,000 (initially R15,000) per beneficiary household.

In terms of the SLAG programme, historically disadvantaged South Africans who were landless and poor could apply for a cash grant to purchase and develop farmland. In practice, beneficiary households had to pool their meagre grants in order to buy a (whole) farm from a willing seller. The group established a legal entity (usually a community land trust or communal property association) that was formally registered as the owner of the property. In most cases, farms financed with land grants and settled by groups (of up to 500 households) were much too small to support all of the beneficiaries as full-time farmers. The Department of Land Affairs (DLA) anticipated that emerging farmers would use the grant to leverage loan finance for additional land. However, most creditworthy farmers did not qualify for a land grant as the means test applied to potential beneficiaries precluded individuals with a monthly household income greater than R1,500 from receiving the grant.

By the end of 2000, the Ministry of Agriculture and Land Affairs had approved 484 projects under the SLAG programme, transferring a total of 780,407 hectares to 55,383 households of which some 14 per cent were headed by women (Turner and Ibsen, 2000:12). Taken together, land restitution and land redistribution had transferred roughly one million hectares, or less than 1.2 per cent of the 86 million hectares of white-owned farmland, to disadvantaged South Africans over a period of six years. Unimpressed with the performance of the SLAG programme, Minister Didiza imposed a moratorium on further SLAG projects in July 1999 while the Departments of Agriculture and Land Affairs redesigned the grant programme.

The Minister released her proposals for a new programme, Land Redistribution for Agricultural Development (LRAD), late in 2000. The LRAD programme was implemented in August 2001 after several revisions. It differs from SLAG in one major respect: Beneficiaries do not have to be poor to qualify for a minimum grant of R20,000 - and those who have more savings and who can raise bigger loans to finance their farms qualify for successively larger grants. A beneficiary must inject equity and debt capital totalling at least R400,000 to qualify for a maximum grant of R100,000 (Ministry of Agriculture and Land Affairs, 2001:8). This marks a distinct shift in the South African government’s land redistribution policy away from poverty alleviation and group settlement, in favour of settling prospective farmers on their

own farms. In its first year, LRAD redistributed approximately one million hectares of farmland in South Africa (Shabane, 2002).

2.3.2 Diminishing, finite interest subsidies

Binswanger's explanation of why poor people are unable to buy land with mortgage loans was disputed by Nieuwoudt and Vink (1995), who countered that the removal of subsidies would not make it any easier for prospective buyers to finance land in South Africa because the underlying problem was relatively high inflation. Inflation raises immediate costs (higher nominal interest charges) while deferring returns (future earnings increased by inflation). The result is inadequate cash flow to service debt repayments during the critical early years after land purchase.

An investment in land is similar to an investment in the stock market in that current returns (dividends) are usually low relative to capital growth. Empirical evidence from South Africa shows that the average annual current return to agricultural land seldom exceeds five per cent of its market value. During periods of inflation when nominal interest rates are high (say 17 per cent per annum) relative to the current return on agricultural land, conventional mortgage loans with constant repayment schedules create a formidable but temporary liquidity problem for borrowers who are unable to make a substantial down-payment on the purchase price of a farm. This liquidity problem diminishes over time if expected continued inflation raises future earnings relative to the constant flow of required loan repayments. One method of addressing the liquidity problem is to graduate the loan repayments by subsidising interest charges at a decreasing rate over a finite period of time.

Nieuwoudt and Vink (1995:509-517) showed that cash grants and diminishing interest rate subsidies impact differently on a beneficiary's future expected cash flow. In particular, an interest rate subsidy that diminishes at the expected rate of inflation can completely eliminate cash flow problems in the first few critical years after entry, whereas a cash grant (drawing the same level of public funding) does not. In their case study they show that the interest rate subsidy will phase out after 11 years if the annual inflation rate is 12 per cent and the beneficiary pays (an affordable) five per cent interest rate on the full purchase price in the first year. A variant of this graduated repayment concept has been used by private-sector sugar millers to sell farmland to emerging commercial farmers in KwaZulu-Natal since 1995.

When Illovo Sugar Limited invited applications for 20 medium-scale sugarcane farms (ranging from 55 to 105 hectares in area) in 1995, none of the more than 100 previously disadvantaged applicants could afford an equity contribution large enough to reduce the size of a conventional mortgage loan down to a level that could be serviced from farm income. To mitigate this problem, Illovo agreed to sell the farms to successful applicants at market-related prices and to invest 18 per cent of the purchase price with Ithala Bank. This capital amount, plus accrued interest, would then fund a finite interest rate subsidy for mortgage loans that Ithala granted to each farmer. In effect, Illovo discounted the price of its land by 18 per cent, and Ithala used these funds to reduce annual interest payments by a diminishing amount over time. The current mortgage loan rate was reduced from 16.5 per cent to ten per cent in the first year. The subsidy declines to zero at the end of year six, in line with expected increases in nominal income associated with an annual expected inflation rate of about ten per cent. The buyer then pays the full annual interest rate of 16.5 per cent for the remaining 14 years of the 20-year mortgage loan.

To put the size of these transactions into perspective, the average market price of a medium-scale sugarcane farm is about R900,000 of which 18 per cent or R162,000 is invested by Ithala Bank to finance a finite, diminishing interest rate subsidy on its mortgage loan. The buyer pays the full purchase price and is expected to make a down-payment of at least 10 per cent (R90,000). Ithala provides a mortgage loan for the balance (R810,000) and the seller receives a net amount of R738,000 (R900,000 less R162,000) for the land. Clearly, the programme is elitist as it benefits emerging farmers who are relatively wealthy and creditworthy. Nevertheless, it attracted support from other sugarcane estate owners and by March 2001 had financed 107 medium-scale farms with a total market value of almost R100 million - mainly during 1997 and 1998. Early indications are favourable in the sense that the medium-scale farmers are meeting their loan obligations (Simms, 1997). Growing concern about levels of reinvestment on these farms has, however, prompted a detailed study of their performance and ways to improve the scheme (Mashatola, 2001).

One criticism of the above graduated repayment scheme focus on medium-scale farms is that it did not include smaller, more affordable farms that were creditworthy. The scheme emphasised medium-scale farms because (a) private companies providing the interest subsidy insisted that land should be sold to full-time farmers, and (b) subdivision and transaction costs are largely fixed costs that raise the unit price of land as farm size diminishes. Had part-time farmers (i.e. applicants capable of financing family drawings and debt repayments partly from non-farm income) been considered, a larger number of smaller, creditworthy farms could have been sold, exposing buyers to lower levels of leverage and less financial risk. Smaller farms would also be more feasible if transaction, subdivision and survey costs were lower, or if the borrower could augment his or her down-payment with a public cash grant. Medium-scale sugarcane farmers were effectively precluded from SLAG by its means test, but now qualify for LRAD grants. Eleven of the initial 54 LRAD grants made in KwaZulu-Natal during 2002 were awarded to medium-scale sugarcane farmers that will participate in the next round of the graduated repayment scheme.

In summary, a finite and diminishing interest rate subsidy on mortgage loans used to finance the purchase of agricultural land improves the risk exposure of both the borrower and the lender when inflation and nominal interest rates are relatively high. Finite interest rate subsidies create fewer distortions in capital markets because they do not become entrenched. Moreover, the present value of a phased interest rate subsidy is significantly lower than that of a comparable cash grant. In other words, the State would have fewer liquidity problems of its own if it sponsored a diminishing interest rate subsidy rather than a cash grant of equivalent value to a beneficiary.

2.3.3 Subdivision of farmland

In South Africa, the cash flow problem associated with land purchase has been compounded by another impediment to **private** land transactions - the Subdivision of Agricultural Land Act, 70 of 1970. In terms of this Act, farm owners must get permission from the government to subdivide their land. This introduces uncertainty and delays that add to the costs of registering, surveying and transferring affordable parcels of land to aspiring farmers. Although Act 70 has been rescinded, President Mbeki has not yet signed the repeal into law. The delay has been attributed to the absence of national zoning legislation regulating the conversion of agricultural land into residential or industrial uses (Graham, 2000:19). Repeal

of Act 70 will make it easier for the many poor and part-time farmers who will be rationed out of the proposed LRAD programme to finance smaller, more affordable farms.

2.3.4 Equity-sharing projects

Costs, delays and uncertainty associated with the formal transfer of small subdivisions of land in South Africa have contributed to the growing popularity of farm-worker equity-sharing (FWES) projects as a means of redistributing wealth and incomes while maintaining or improving agricultural performance (Eckert *et al.*, 1996:693-712.). In 1998 it was estimated that about 50 FWES projects had been initiated in South Africa, mostly in the Western Cape (Department of Land Affairs, 1998:2) and it is clear that this number has increased substantially in recent years. For example, in December 2001, the Land Reform Credit Facility (LCRF) – discussed in section 2.3.5 - approved loans for a further 11 projects (LCRF, 2001a:3). Today, FWES projects are spread across all nine of South Africa's provinces and involve wine, fruit, vegetables, olives, poultry, cut flowers, dairy and eco-tourism enterprises (Knight *et al.*, 2002).

In general, these projects are company operations in which financial equity is owned by workers, former owners, managers and other investors (Ngqangweni and van Rooyen, 1995:211-214) in the form of tradable shares that define their individual rights to vote for directors and to benefit from the profits and capital gains generated by the company. This is quite distinct from a cooperative or collective farming enterprise where voting and benefit rights are egalitarian and non-marketable, resulting in free- and forced-rider problems that undermine incentives to invest time and money in the enterprise (Sykuta and Cook, 2001). In addition, FWES projects benefit from experienced management (frequently the former white owner) and have been able to attract finance from commercial banks and venture capitalists (Knight and Lyne, 2002). These private financiers have a strong incentive to help their clients build sound business organisations and to train worker-shareholders for their active participation in a successful company.

While workers do recognise the future potential for dividends and capital gains, field interviews show that workers' immediate interest in joining equity-sharing projects centres more on the opportunity to influence managerial decisions affecting wages, working conditions, housing and tenure security for their families (Department of Land Affairs, 1998:5). Concerns about the lack of worker empowerment in early FWES projects (Surplus Peoples Project, 1999) appear to have been addressed in more recent projects (Knight and Lyne, 2002). Case studies analysed by Knight *et al.* (2002) show that both skills transfer and gender representation are positively related to the workers' share of equity in the enterprise. In essence, empowerment requires that workers buy a significant shareholding. Initially, farm workers had to finance their equity in the company with loans, creating the usual cash flow problems. This situation changed in 1996 when the DLA allowed farm workers to finance equity with SLAG grants, and more recently (in May 1999) when it piloted the LRCF. The LRAD programme explicitly supports equity-sharing projects (Ministry of Agriculture and Land Affairs, 2001:5), as does the strategic plan for South African agriculture (Department of Agriculture, 2001:9)

2.3.5 The Land Reform Credit Facility (LRCF)

The LRCF was established with the intention of drawing private sector finance and human capital into commercially viable land reform projects. As an alternative, but partial, solution to the liquidity problem associated with conventional mortgage loans, the LRCF offers unsubsidised loans with deferred or graduated repayment schedules to commercial banks who finance, on similar terms, equity-sharing projects and land purchased by aspiring farmers (Department of Land Affairs, 1998:21-26). In essence, the LRCF inherits the project's (temporary) cash flow problem. Private lenders and investors who apply for loans from the Facility are expected to conduct their financial evaluation and screening of projects thoroughly, adhering to sound business criteria, as they are putting their own resources at risk. The LRCF is administered by just one full-time manager, as there is no need to conduct or review these financial analyses. Rather, the manager's principal task is to approve loan applications submitted by accredited financial intermediaries according to criteria for eligibility, outreach, empowerment and land reform, established by the DLA. In the case of equity-sharing projects, the land reform criterion requires that at least ten per cent of the LRCF loan must finance the purchase of land or a long-term lease to secure worker-shareholders' rights to residential property.

The LRCF was initially capitalised at a level of R63 million via a R32 million grant made by the Department of Land Affairs that was matched by grants from the European Union (R29.4m) and The Danish Agency for Development Assistance (DANIDA) (R1.7m) (LRCF, 2000:i). Simulation exercises based on anticipated loans with deferment periods ranging from one to three years (longer deferment periods render most projects unprofitable) indicated that approximately R15 million could be disbursed annually without reducing the real value of the LRCF fund to a level where it would not recover in the longer term. Although the DLA's moratorium on land grants prevented commercial banks from financing all but highly elitist projects (whose beneficiaries did not require grants), the Facility approved loans worth R32 million between May 1999 and April 2001, with applications for another R34 million pending its re-capitalisation.

Of this R32 million approved by the LRCF during its pilot phase, R4.8 million financed mortgage loans made to individual farmers and R27.2 million financed long-term loans made to equity-sharing projects. In May 2001, the DLA and the European Union accepted proposals to re-capitalise the LRCF. The DLA approved a grant of R60 million during the 2001/02 financial year, and the European Union is likely to provide a further grant of R10 million (LRCF, 2001b). ABSA Bank, the Facility's largest client, intends to make much greater use of the LRCF in future, especially if the DLA accepts a recommendation to allocate a portion of the proposed LRAD grants to the LRCF and to fast-track these grants to the beneficiaries of projects financed by the Facility (LRCF, 2001c:53).

3. PUBLIC AND PRIVATE LAND REDISTRIBUTION IN KWAZULU-NATAL

While it is possible to get information about the value and area of farmland redistributed through the LRCF and Ithala Bank, very little is known about other private land transactions. In 1997, USAID commissioned researchers from the School of Agricultural Sciences and Agribusiness at the University of Natal to monitor all farmland transactions in KwaZulu-Natal

as part of its BASIS CRSP programme. This section reports the results of annual census surveys of the Deeds of Transfer recorded in KwaZulu-Natal over the period 1997-2001, paying particular attention to the rate of land redistribution and the relative effectiveness of private market transactions and those financed with settlement/land acquisition (SLAG) grants from government. The data are drawn from Lyne and Darroch (2001) and the most recent annual census survey of farmland transfers.

KwaZulu-Natal is one of nine provinces in South Africa. It is the province with the largest population (about nine million people) but it is relatively small in area (about nine million hectares). At the time of South Africa's political democratisation in 1994, 50.04 per cent of the farmland (including provincial parks) area of 8.19 million hectares in KwaZulu-Natal was controlled by a small minority of white owners. It is estimated that 6,755 large-scale commercial farms accounted for 4.13 million hectares (Lyne and Ortmann, 1996:70). Of the remaining 4.06 million hectares, 2.84 million hectares was occupied by about three million black South Africans under communal tenure, 0.04 million hectares was privately owned by "non-whites", 0.42 million hectares was farmed by the State itself (including forests) and the remaining 0.76 million hectares was used for provincial parks.

The census surveys required that all land transactions recorded each year in KwaZulu-Natal had to first be stratified into urban and rural transactions. Within the rural group, transactions listed separately for each parcel, or subdivision of land acquired by one owner (plus the spouse in the case of married co-owners), were consolidated. All transfers of "farms" smaller than one hectare or with a per hectare market price greater than that commanded by the best quality farmland in KZN were removed. The transfers remaining were then classified as either to "white" or to "previously disadvantaged entrants", with the latter being stratified into unique strata according to their method of financing/acquisition, namely government-assisted (grant financed), mortgage loan financed, cash purchase, or by private non-market transfers - mainly bequests and some donations and court orders (see Graham and Lyne (1999) for a full description of the stratification process).

Transfers to "previously disadvantaged entrants" refer to transactions that transfer farmland from white owners to new owners who were previously excluded from land markets on the basis of racial segregation. However, this subset excludes a small number of transactions that shifted land from one disadvantaged owner to another - unless ownership transferred from males to females. The Deeds of Transfer do not explicitly record the race or gender of new landowners, and so the race and gender of individual entrants was established primarily on the basis of their names. While every effort was made to identify disadvantaged landowners, the authors accept that some of these new entrants may have been misclassified - the true rate of land redistribution in KwaZulu-Natal is, therefore, slightly understated. Note also that the Subdivision of Agricultural Land Act, 70 of 1970, prevents groups of individuals from owning undivided shares in farmland B except when property is jointly owned by a husband and wife married under national law. Where land had been acquired by corporate entities (e.g. companies and trusts) information obtained directly from the entity or indirectly from the Registrar of Companies, Master of the Supreme Court, financiers, and the Provincial Department of Land Affairs was used to establish whether or not the land had transferred predominantly to disadvantaged people.

Table 1 reports the area of farmland acquired each year by disadvantaged owners in KwaZulu-Natal during the calendar years 1997-2001. This census estimate was used to

compute the rate of land redistribution for each study year by expressing the area acquired by disadvantaged entrants as a percentage of the total area of farmland potentially available for redistribution in the province (5.31 million hectares = 4.13 million hectares owned by whites plus 1.18 million hectares of State farms, and game parks) at the time of political democratisation in 1994. The area of commercial farmland that transferred to white and disadvantaged owners rose markedly from 372,995 hectares in 1997 to 603,522 hectares in 1998, fell to about 300,000 hectares in 1999 and 2000, and dropped further to 267,233 hectares in 2001. Annual farmland transfers to the disadvantaged group ranged from 17,345 to 36,109 hectares per annum, representing between 5.8 and 11.8 per cent of the farmland transferred annually, or between 0.33 and 0.68 per cent of *the original area available for redistribution*.

Table 1: Estimated annual rates of farmland redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001

Study year	1997	1998	1999	2000	2001
1 Area of farmland originally available for redistribution (Ha)	5,308,559	5,308,559	5,308,559	5,308,559	5,308,559
2 Area of land transacted (Ha)	372,995	603,522	306,433	300,799	267,233
3 Area of farmland acquired by, or for, disadvantaged people (Ha)	22,934	17,772	36,109	17,345	27,324
4 Rate of land redistribution (%) ([3] / 1) x 100	0.43	0.34	0.68	0.33	0.52

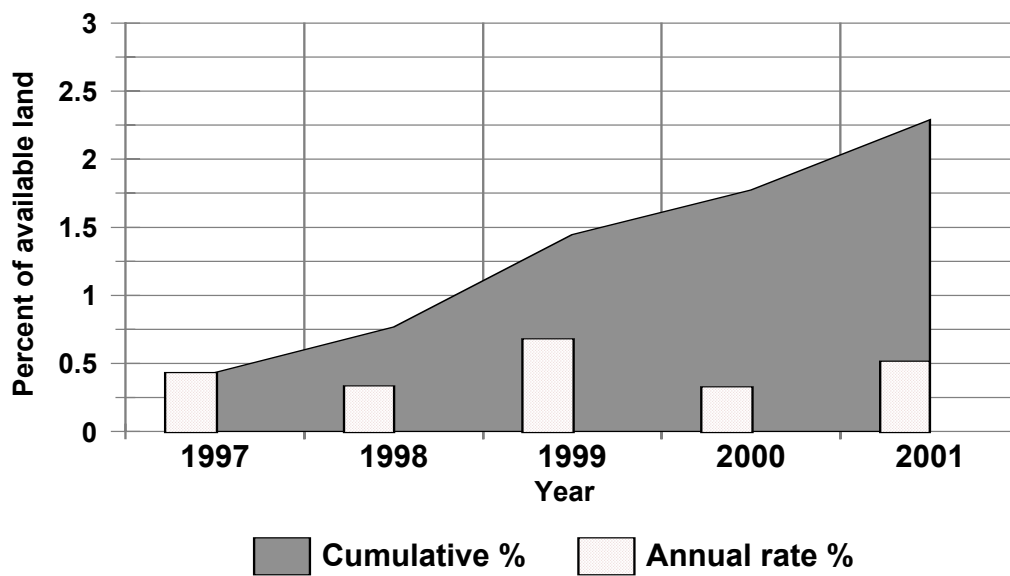
Although these rates are low, they are considerably higher than estimates made in previous years. In 1995, it was estimated that only 0.05 per cent of the farmland available for redistribution transferred to previously disadvantaged people in the Northern Province of South Africa (Kirsten *et al.*, 1996:218-223). In KwaZulu-Natal, the estimate for 1995 was 0.09 per cent (Lyne and Darroch, 1997:561-568.). Since 1997, about 121,484 hectares, or 2.3 per cent, of the available farmland has been redistributed to disadvantaged owners in KwaZulu-Natal. Figure 1 graphs the annual rates of farmland redistribution reported in Table 1, and shows the cumulative rise in the total area of land that was redistributed. Of course, the area transferred says nothing about the *quality* of the redistributed land.

Table 2 presents the mean area of all farms acquired by white and disadvantaged entrants in KwaZulu-Natal, and - for those farms purchased - the mean price of farms and the weighted price of land, during 1997-2001. All prices are expressed in real terms using the calendar year 2000 as the base year. The t-values reported in Table 2 test for differences in the mean characteristics of farms acquired by white and disadvantaged groups of entrants. The mean area (and hence price) of farms transacted is consistently smaller for the disadvantaged group than for the white group, but there is no consistent difference in the weighted average land

price (total value of hectares traded in market transactions, divided by the total hectares of market transactions).

For farms of equal quality land, a lower per hectare price would be anticipated for larger farms as the fixed transaction costs and the value of fixed improvements are spread over a larger land area. This situation prevailed in 1997 and 1998 when private sugar millers working with Ithala Bank – as described in section 2.3.2 - provided interest rate subsidies to 51 emerging farmers to buy medium-scale sugarcane farms on high quality land. The dip in 1999 values shows that farms purchased by disadvantaged buyers were not only much smaller, but also of poorer quality than those purchased by whites – partly because no farmers were settled under the graduated repayment scheme in that year. The quality gap, however, closed in 2000 and 2001, as the last group of 18 farmers under the graduated repayment scheme were settled, and because there were few new purchases of lower quality land by communities due to the moratorium on SLAG government grants (see Figure 4).

Figure 1: Estimated annual and cumulative rates of farmland redistribution to previously disadvantaged owners in KwaZulu-Natal, 1997-2001



The transactions involving disadvantaged entrants were further analysed according to the method of financing/acquisition - grant financed (government-assisted), private market transfers (mortgage loan financed or cash purchases), and private, non-market transfers. Table 3 disaggregates the land redistributed in KwaZulu-Natal each year during 1997-2001 into these four mutually exclusive strata. Figures 2 to 6 visually summarize this information, highlighting important differences in the quantity, market value and quality of land transferred by each mode of land redistribution. Figure 2 shows that there were far more private than government-assisted transactions redistributing land to disadvantaged people in KwaZulu-Natal during 1997-2001. In all, there were 905 private transactions, 471 of which were market

transfers financed with mortgage loans (184) or cash (287). By contrast, only 89 transactions were financed with government (SLAG) grants. While the number of private purchases has been consistent over the study period (ranging from 79 to 120 annually), the number of government-assisted transactions declined from 32 in 1999 to nine in 2000 and rose to 22 in 2001, reflecting the imposition of the moratorium on further SLAG grants after July 1999, and its subsequent lifting in 2001.

Table 2: Characteristics of farmland acquired by white and disadvantaged owners in KwaZulu-Natal, 1997-2001 (2000=100)

Farm characteristic	Year	White group	Disadvantaged group	t-value
Mean farm area (Ha) – for all farms transacted (including non-market transfers such as bequests and donations).	1997	365	125	3.6***
	1998	1,007	100	2.4**
	1999	287	114	6.7***
	2000	268	109	5.7***
	2001	294	179	3.8***
Mean real farm price (R) – for all farms purchased.	1997	1,193,882 ^a	532,775	1.4
	1998	754,373	318,086	4.4**
	1999	879,400	312,339	3.4***
	2000	638,808	355,668	3.6***
	2001	652,318	382,006	3.3***
Weighted real land price (R/Ha) – for all farms purchased.	1997	2,554	2,796	
	1998	1,442	1,791	
	1999	2,761	1,678	
	2000	2,337	2,326	
	2001	1,993	1,660	

Notes: *** and ** denote statistical significance at the 1 and 5 per cent level of probability, respectively.

^a Approximately R8 = US\$1 at the end of calendar year 2001.

Figure 2: Total number of farmland transactions by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001

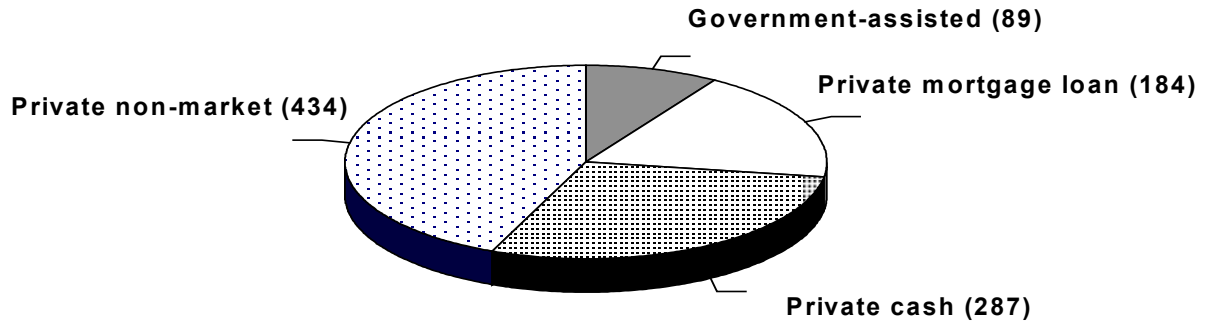


Table 3 and Figure 3 clearly indicate that private, non-market transactions (mainly bequests) transfer relatively small areas to new entrants (a mean of 37 hectares per transaction, and a total of 16,097 hectares). Farms purchased privately with cash averaged 85 hectares in area, and those financed with mortgage loans 196 hectares. Although groups of grant beneficiaries purchased the largest areas (mean of 513 hectares per transaction), the total area of farmland redistributed by private market purchases (60,266 hectares, being 36,148 hectares via private mortgage loans and 24,118 hectares via cash purchase) comfortably exceeded that redistributed by the government-assisted transactions (45,121 hectares), and consisted of higher quality land (greater weighted farmland price per hectare).

Table 3: Modes of land redistribution to, and characteristics of farmland acquired by, disadvantaged owners in KwaZulu-Natal, 1997-2001 (2000=100)

Farm characteristic	Government – assisted	Private mortgage loan	Private cash	Private non-market	Total
Number of transactions	89	184	287	434	994
Total area of land (Ha)	45,121	36,148	24,118	16,097	121,484
Total market value of land (R million)	36,92	134,55	39,75		211,22
Mean area of farms (Ha)	513	196	85	37	
Weighted farmland price (R/Ha)	833	3,722	1,615		

Figure 3: Total area of farmland by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001

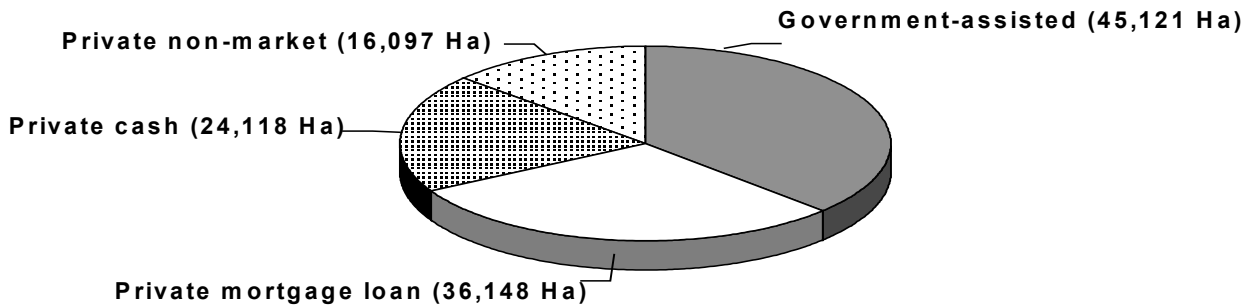


Figure 4 confirms that the area purchased with government grants peaked in 1999 (at 14,727 hectares) and then fell sharply (to 2,133 hectares), after the moratorium on new SLAG projects, in 2000. Conversely, the area purchased privately (cash plus mortgage loans) increased steadily during 1997-1999, stayed at the 1999 level in 2000, and then fell in 2001 when there were no sales of medium-scale sugarcane farms financed by private sector interest subsidies.

Figure 4: Annual area by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001

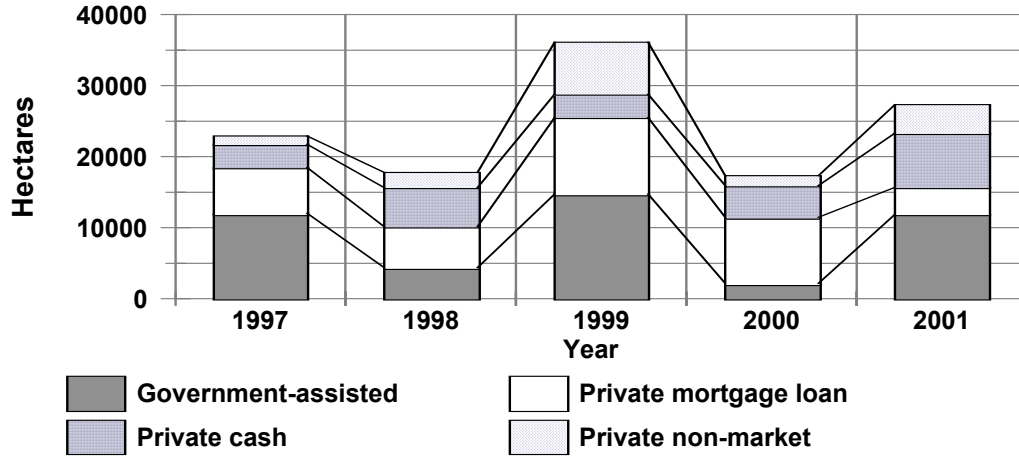
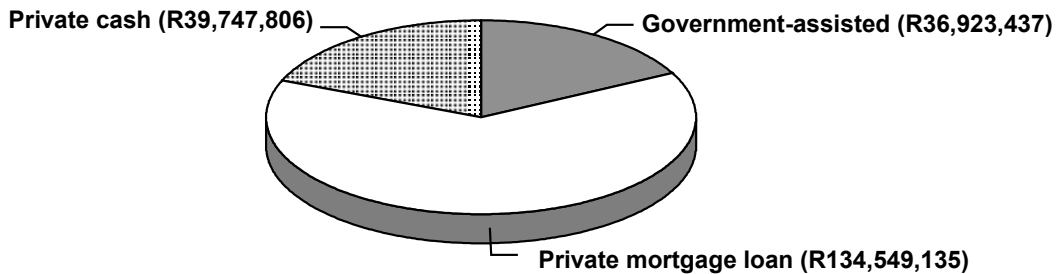


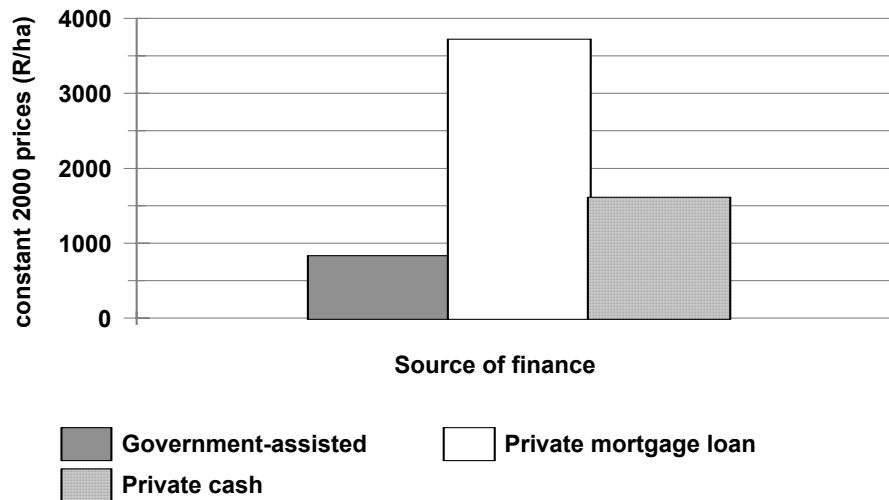
Figure 5 shows the impact of government-assisted and private land purchases on wealth redistribution in the commercial farming sector of KwaZulu-Natal during 1997-2001. Private cash and mortgage loan purchases redistributed nearly *five* times more land wealth (R174.3 million) than did government-assisted transactions (R36.9 million). This contrast in wealth is much greater than the difference in total area transferred by these modes of land redistribution. The implication is that agricultural land financed with government grants is of poor quality relative to that purchased privately (see Figure 6).

Figure 5: Total market value of farmland by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001 (2000=100)



The census data presented in this section show that within the set of private purchases in KwaZulu-Natal during 1997-2001, the number of cash purchases (287) is high relative to the number financed with mortgage loans (184). This gap in numbers widened as the number of medium-scale sugarcane growers that used interest rate subsidies under the graduated repayment scheme declined. These observations are consistent with Nieuwoudt and Vink's (1995:509-517) argument that buyers with limited equity cannot finance large, quality farms using a conventional mortgage loan owing to inflation-enhanced cash flow problems. Instead they pay cash for relatively cheaper farms. From Table 3 and Figure 6, it is evident that farms financed with cash are about 43 per cent of the area and of the quality of farms financed with mortgage loans. Moreover, it has recently been observed that within the group of medium-scale sugarcane growers, part-timers with off-farm income are more likely to repay debt and to reinvest capital into their farms.

Figure 6: Weighted farmland price (R/Ha) by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2001 (2000=100)



The relatively poorer performance of government programmes in redistributing farmland, especially high quality land, has been compounded by other problems. Under the SLAG programme, diverse groups of beneficiaries struggled to assign exclusive property rights to individual beneficiaries, or to design and enforce sound constitutions to manage communal resources. This institutional vacuum has already generated highly visible adverse outcomes on government land reform projects: Commercial farmland has been needlessly lost to residential uses, private ranches have been converted into open access grazing resources (no restrictions enforced on livestock numbers), and insecure tenure has undermined investment in crop production (Lyne and Graham, 2001). This situation is expected to change now that the LRAD programme that aims to help settle farmers has replaced the SLAG programme.

4. CONCLUSIONS AND POLICY RECOMMENDATIONS

The annual census surveys of transfer deeds reported in this chapter show that a total of 121,484 hectares of farmland were acquired during 1997-2001 by historically disadvantaged people in KwaZulu-Natal. Private, non-market transfers (mainly bequests) accounted for 16,097 hectares of this land, government-assisted purchases for 45,121 hectares and private purchases (cash and mortgage loans) for 60,266 hectares. All told, this area of 121,484 hectares means that 2.3 per cent of the farmland available for redistribution in KwaZulu-Natal transferred to disadvantaged owners during these five years. Clearly, the SLAG programme did not generate a rate of farmland transfer in KwaZulu-Natal consistent with the South African government's goal of redistributing 30 per cent of white-owned farmland to disadvantaged people over 15 years.

The SLAG programme not only redistributed less land than did private purchases, but also transferred land of much lower quality, and about *five* times less total wealth, to beneficiaries whose tenure is relatively insecure. The weighted average farmland price for SLAG transfers during 1997-2001 was R833 per hectare, about *one-half* that for cash purchases (R1615 per hectare) and *one-quarter* that for mortgage bond transactions (R3722 per hectare). Over the same period, the SLAG programme redistributed farmland worth R36.9 million, compared to farmland worth R174.3 million transferred by the private purchases. There is also further survey evidence that insecure tenure on SLAG projects in KwaZulu-Natal has impacted adversely on the beneficiaries' ability and incentive to finance seasonal inputs and improvements to cropland. Again, this outcome is not consistent with the expectation that land redistribution would result in a highly efficient small-scale farm sector.

The number of private transfers (905 – of which 184 were mortgage loans and 287 were cash purchases) also exceeded government-assisted transactions (89) redistributing land to disadvantaged people in KwaZulu-Natal during 1997-2001. A moratorium on new SLAG projects after July 1999 reduced annual transfers by this instrument in KwaZulu-Natal from a peak of 14,727 hectares in 1999 to just 2,133 hectares in 2000. Although the replacement LRAD programme is designed to extend larger grants to creditworthy farmers, there are some valid problems with the design and delivery of LRAD that must be addressed. For example, there is an implicit cap on LRAD grants imposed by commercial banks that usually require a debt/equity ratio of less than one when financing investments. Under optimal conditions when the lender is assured that the borrower will receive a grant, a prospective owner-operator would have to provide R100,000 in own equity in order to qualify for an LRAD grant of R90,000 and a commercial bank loan of R190,000. Under conditions that are less certain, and for previously disadvantaged farmers that lack savings, the implicit cap on LRAD grants would be much less generous.

Secondly, barriers to the subdivision of farmland imposed by the Subdivision of Agricultural Land Act, 70 of 1970 will prevent many emerging farmers from making private purchases. LRAD discounts the impact of Act 70, stating that "permission to subdivide for sale under LRAD will be effective immediately upon the launch of LRAD" (Ministry for Agriculture and Land Affairs, 2001, p 6.). While this commitment is welcomed, it does not address other significant costs associated with the formal subdivision, registration and transfer of agricultural land. Moreover, it applies only to government-assisted transactions and, therefore, does nothing to improve market access for private buyers. Third, LRAD relies heavily on

private “design agents” who will help prospective buyers to identify willing sellers, prepare their land-use plans and cash flow projections, negotiate sale agreements, arrange finance, and facilitate applications for LRAD. These agents are expected to recover most of their costs from a planning grant that is awarded once the project has been approved. However, this arrangement is fraught with uncertainty as there is no guarantee that government will approve a project. Consequently, existing landowners, property developers, estate agents and non-government organisations may be unwilling to act as design agents.

Although private purchases redistributed more land, and much more land wealth, to previously disadvantaged owners than did government-assisted purchases in KwaZulu-Natal during 1997-2001, these purchases together (105,387 hectares) accounted for less than six per cent of the total area transacted (1,850,982 hectares). Clearly, the market has much larger potential to redistribute farmland than what has been realised to date. While some might argue that few disadvantaged people aspire to become farmers, the overwhelming response to innovative financial products administered by Ithala Bank (see section 2.3.2) and the Land Reform Credit Facility, LRCF (see section 2.3.5), to finance medium-scale farmers and equity share-holders suggests that access to the land market is constrained by inflation-induced cash flow problems associated with conventional mortgage loans, and by the costs, delays and uncertainty associated with the registration and transfer of affordable land subdivisions.

Obstacles preventing the repeal of the Subdivision of Agricultural Land Act, 70 of 1970, must be addressed without further delay. Scrapping this Act will make it easier for those poor and part-time farmers who are rationed out of the LRAD programme to obtain finance for smaller, more affordable farms. Likewise, the government should contain or reduce the inflation rate, and lower the statutory costs of subdividing and transacting farmland, to enable commercial banks to reach further down the income scale when financing prospective farmers and equity shareholders. Access to larger land reform grants for farm workers and aspiring farmers would also improve the outreach of private financiers because the poor cannot make significant contributions of their own to the purchase of equity and land. Ideally, the LRCF should be allocated a share of these grants and authorised to award them contingent upon the disbursement of a loan. Under these conditions, the LRCF will have to be capitalised at scale if it is to keep pace with growing demands for its loans from commercial banks.

Recent invasions of commercial farms in Zimbabwe highlight the urgent need for bold interventions to de-racialize the structure of commercial agriculture in South Africa. An effective alternative to the destructive “fast track” policy adopted in Zimbabwe is to subsidise interest rates for a finite period on loans made to creditworthy land reform projects. The problems associated with cheap credit programmes are well documented and have encouraged the South African government to resist interest rate subsidies. Many of these problems, however, could be avoided by channelling *finite* interest rate subsidies *that decline over time* through commercial banks. This has the added advantage of drawing private sector finance and expertise into the land reform process. For example, the LRCF could either discount the wholesale interest rate that it charges commercial banks for its existing financial product, or it could allocate public and donor funds directly to commercial banks to support finite, diminishing interest rate subsidies on loans made to previously disadvantaged buyers of land and equity. These awards could be apportioned according to the value of transactions in land and equity that each lender expects to support during the forthcoming fiscal year. This process

will give potential borrowers an opportunity to “shop around” for favourable terms from a variety of decentralised and expert lending institutions.

A key area for future research would be to assess the extent to which land redistribution efforts countrywide may be constrained by the different approaches that the Provincial Departments of Land Affairs (PDLA’s) use to apply the government’s land reform strategies. For example, the KwaZulu-Natal PDLA has not supported any equity-sharing projects despite the relative success of these projects in other provinces. These discrepancies point to persistent differences in the willingness or capacity of staff in the PDLA’s to implement relatively sophisticated projects. A national exchange programme involving mentors (drawn from government, NGOs and Commercial Banks) with experience in successful land reform projects is recommended to broaden views and transfer skills.

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