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SOUTH AFRICAN LAND REFORM: A POLICY EVALUATION

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1. Introduction

F.R. Tomlinson was ahead of his time in his approach towards social upliftment of the developing agricultural sector. Major political developments have taken place in Southern Africa since the Tomlinson Report and S.A. agriculture stands before a major crossroad, more crucial than envisaged decades ago.

The main issue at present is social/political. At stake are *specific* claims of groups evicted under the apartheid policies and secondly the *general* claim for redistribution of land. This issue is highly sensitive and politicized. The World Bank, the ANC, the Development Bank of Southern Africa, and others, have made some proposals to tackle these issues.

The involvement of the World Bank and the compromise attitude taken by the ANC in the land issue are encouraging. The reliance on markets as suggested by World Bank economists can form a solid basis for future development of agriculture. The World Bank has the confidence of the ANC and as such could be important role players in future changes.

It may serve some purpose if issues are more transparent and more openly discussed. It is also relevant that attention be given to lessons learned from the Zimbabwean resettlement experience.

In a time of drought, uncertainty about their future in a new political dispensation has a depressing effect on the farming community. Although many politicians and other parties are involved in debate, farmers often do not know how they will be affected. For this reason, this occasion will be used to present my personal assessment of possible changes.

2. World Bank proposal

According to Binswanger (1993) of the World Bank rapid and massive redistribution of commercial land is required in South Africa and rapid restitution of land in former black spots, otherwise land invasion will escalate. Invasions will be sporadic and uncoordinated at first. Farmers, however, will be vulnerable to murderers. Over time political groups will form around this issue. World Bank officials have suggested that to diffuse political pressure, a significant share of commercial agriculture needs to be resettled. Most of these issues are clearly social/political which is the dominant issue. However other economic incentive issues are also important.

Among the recommendations made by Binswanger (1993) and Christiansen (1993) of the World Bank were the following:

(i) Judicial approaches to settle specific claims of groups evicted.

(ii) General claim for restitution using market assisted land reform.

(iii) The government would not buy or expropriate land.

(iv) Beneficiaries would receive a partial grant to buy land in the form of a land purchase voucher.

(v) Beneficiaries would be free to choose between communal or private ownership.

(vi) Land vouchers would be targeted to the poor by some form of means testing (Binswanger, 1993).

Given the politicized nature of the land issue in South Africa, the expertise of World Bank economists Binswanger and Christiansen must be welcomed. Some of their conclusions are strongly supported, namely to use; judicial approaches to settle claims and not political solutions; to use market-assisted reforms and not nationalization; that the government would not buy or expropriate land etc. In Zimbabwe, areas were targeted and land was acquired through expropriation, as was also the case in South Africa. The World Bank proposal implies a voluntary arrangement between buyers and sellers. How the cost of the vouchers will be spread needs attention. Other issues arising from the Binswanger and Christiansen documents are small versus large farms and tenure forms.

According to Tessa Marcus, the World Bank's proposal would not assist the very poor, being 2/3 of the rural population. The World Bank's measure is clearly not a welfare programme but a measure to facilitate Black empowerment of commercial agricultural resources and to diffuse a political confrontational situation. Given the extreme poverty in South Africa, more cost effective welfare objectives can be found in investing in education, housing etc. It is possible that in the final proposal, attention will be given to different types of farmers including the very small.

3. Land vouchers and financial assistance

According to Christiansen the World Bank does not provide funds for buying out land under rural restructuring programmes. Funds for land resettlement must be found from local sources, while some overseas donors may be approached. The impacts of tapping local sources need to be studied.

According to the Binswanger proposal, vouchers will be issued to beneficiaries to purchase land. A voucher is an effective rationing device to sell off state land. Selling of state land through vouchers is not inflationary as far as land prices are concerned or as far as the general consumer price level is concerned.

However, bidding for private commercial farms, using vouchers, does not increase the supply of land on the market but it increases the supply of money. This process by itself is inflationary to land prices. Possible

procedures to finance state expenditure are (a) through taxes, (b) creation of inflation and (c) to borrowing from future generations. Each method imposes a cost on society.

Financing vouchers through further taxation will have an impact on investment. An unstable investment climate and high taxes have made investment in South Africa unattractive. The present low investment in South Africa will only show up in future years, in terms of further economic stagnation. A one time wealth levy may also frighten capital away, at a time when billions of rands have left the country due to the uncertainty situation.

A possible solution is to use a gradual phasing in strategy. This allows the state to learn from mistakes, minimize the inflationary impact on land prices and control expenditure in a given year.

A possible source of funding is that assistance in terms of subsidies and general financial assistance given to commercial growers be terminated and that these funds be used for rural restructuring programmes. During 1993 the government authorized the payment of about R3.4 billion as drought relief to farmers. Had the state not spent this amount on drought relief but on acquiring land, 7.3% of land in the commercial sector could have been bought out, which could have gone some way to diffusing the current confrontational situation. The value of land and fixed improvements in the South African Agriculture has recently (1991) been estimated at R48.2 billion. A farmer, however, also needs machinery and livestock and operating inputs but the latter could probably be supplied through commercial channels.

The allocating of vast sums by the state to drought relief is seriously questioned. Most of the funds have gone to high risk areas, such as maize production in the Transvaal and the O.F.S., which leads to further crop intensification and a recurrence of crop disasters. Risk is a cost, that should be considered by the manager while drought payments subsidise risk taking. Farmers may reason, why insure my crop if the state provides free insurance in the form of drought payments. Comprehensive crop insurance is currently provided by Sentra-oes and Standard Bank. A part of the reason why farmers do not insure is because insurance is too expensive. This also implies that the cost of growing the crop is higher than its value and that the crop should not be grown.

Farmers need to adjust to these economic realities. Droughts frequently occur on the African continent and maize production in the summer rainfall region is especially vulnerable, as events in the 1980's and 1990's demonstrated.

It is questioned that if farmers establish vineyards or sugar cane in flood- planes of rivers that they should receive assistance during disasters in order to restore their land to its previous use. Risk being a cost, is reflected in lower land values in the absence of state intervention. The purchaser of land in a higher risk area, is thus compensated for expected risks that the farmer would be taking, in the sense that land can be acquired at a cheaper price. Similarly, house prices near busy airports are lower, compensating buyers for the cost of noise pollution. Homeowners cannot afterwards claim compensation for this inconvenience.

In the past, farmers exerted pressure through the political process. It can be expected that farmers in future will lose this political clout and that the new government will lean towards consumers. For instance the official price of maize in Zimbabwe was recently fixed so low that the country had to import maize, even in normal years. The Zimbabwean government has now again increased maize prices substantially to stimulate production.

Assistance given to commercial farmers in the past may have contributed to statements (by Binswanger (1993) and Christiansen (1993)) that commercial larger scale farming in South Africa is inefficient. Agriculture in other countries also receives state support, for example in the USA, Canada, Europe etc. A majority of SA consumers are poor and the protection given to agriculture in Europe through a variable levy system cannot be supported in SA. The World Bank will be a major player in future restructuring in South Africa, and it is imperative that these statements be evaluated and discussed.

4. Small versus large farms

In the rural restructuring programme in South Africa more farmers can be settled on small scale than large scale farms. Once the present extension and research services become integrated for small and large scale agriculture, it is expected that small scale agriculture will be viable and efficient. Success has been achieved in the Sugar Industry where the Industry provides support to small scale farmers. Other crops are also cultivated profitably under small scale conditions, such as cotton production in Maputuland, where cotton mills provide support services.

Groenewald's contention that in the new South Africa, small and large scale farms will exist side by side is supported. The view from the DBSA economists that land markets should not be impeded by preconceived ideas of farm size is welcomed. The optimum size of a farm should be left to market forces, and policies should not give preference to small scale farms at the cost of large scale farms or vice versa. There is no optimum farm size, but rather an optimum distribution of farm sizes.

The size of a farm is not important as long as markets function reasonably well. That is as long as farmers can acquire more land through renting or purchase. Markets, however, do not often function well. In Taiwan the high cost of agricultural production has been attributed to farms being too small. Little land consolidation in Taiwan takes place as land prices are in the region of $150000 per ha. Land renting also does not occur due to high transaction costs.

A farm that is too large for a given farmer may be too small for another as the management input varies from farmer to farmer. Certain costs such as search for information may be lower if spread over a larger area. Risk is a cost while risk perceptions differ between individuals. Cost such as management, risk perceptions etc. are subjective and it is not possible to prove empirically that a smaller farm is more or less efficient than a larger farm.

It is possible that low real interest rates coupled with tax write-offs have led somewhat to land accumulation by very large farmers, as buying land was seen as a good investment and a hedge against inflation. Lower real rates have increased the demand for capital items and may have led to excessive mechanization. Other policies by the state to achieve self sufficiency, for example Atlantis engines increased the cost of tractors.

There is, however, no reason to believe that South African Agriculture is less efficient than those of the U.S.A., Australia and other competitors on the export

market. Some sectors of S.A. agriculture are at present more profitable than others such as fruit farming, while others face financial difficulties. The financial problems that South African farmers face in certain areas have little to do with inefficiency. Large scale farming in South Africa also should not be confused with estate farming practised in colonial times. Farm sizes in the South African maize belt should probably further increase as farmers switch from maize to extensive livestock ranging. Statements by World Bank economists Binswanger and Christiansen, that large scale agriculture in South Africa is inefficient are not based on scientific evidence and serve no purpose in the current debate as major investments in small agriculture is required for practical reasons.

For instance the high capital output ratio in South African agriculture has nothing to do with inefficiency as they allege. A major share of the investment in agriculture is in land. The value of agricultural land is capitalised rents (profits) and not a cost in the aggregate sense.

5. Land and markets

Given the magnitude of the envisaged resettlement, attention needs to be given to the impact of resettlement on producer incentives. Both Binswanger (1993) and Christiansen (1993) state that beneficiaries would be free to choose between communal tenure or private ownership. Christiansen (1993) states that once land is acquired by a group, members of the group are free to subdivide the land amongst members. That is unlikely to happen under customary law (Lyne and Nieuwoudt, 1991; Kille, 1993; Naledzani, 1988). Once land is settled under customary law, it will be extremely difficult to introduce a land market.

South Africa is at present faced with a situation that a significant share of commercial agriculture will be resettled. The policy situation is whether the choice of tenure should be left to new settlers or whether the state should stipulate that land markets in the sense of renting or sales markets should operate.

Where land is currently held under customary law, it may be better to work with communities and promote rental markets. In these situations one ownership model may not fit all situations according to McKenzie (1993). In new resettlements, however, it is strongly recommended that land markets should allocate the use of land to its most efficient use. Political considerations in terms of rural stability, will also be important issues.

The following incentive distortions occur under communal ownership.

(i) Free access to a grazing commons leads to overuse and overstocking.

(ii) No incentive exists to invest in the commons as other graziers cannot be excluded from also benefitting from pasture improvement (non exclusion problem). A recent (1992) USDA Outlook report indicated that 50% of the herd of Zimbabwean communal farmers were lost during the present drought, which could be attributed to lack of fodder provision.

(iii) The above problems do not arise in arable production as access to arable land is private, while others can be excluded from the use of it. However, due to absence of land markets, the cost (in an opportunity cost sense) of land is zero as land has only one use. No land renting takes place between individuals in KwaZulu as renting of land is seen as an indifferent attitude towards land. The transaction cost of renting thus exceeds possible benefits from renting. If the price of land is zero then no scarcity value is attached to land in spite of population pressure. For instance in KwaZulu, small communal growers adopt labour saving technologies as labour has a cost but not land saving technologies such as hybrid seed or fertilizers.

It is of interest to note that the Mexican government is introducing land markets and private ownership in their communal agriculture in an effort to stimulate agricultural production (Newsweek, 1991; 1990). Under the new proposals, the Mexican government would give up ownership of 28000 *ejidos* or communal farms, freeing them to borrow or sell out (Newsweek, 1991).

Many parts of South Africa have low and erratic rainfall and it is imperative that food production should not suffer as a result of redistributional programmes.

6. Resettlement in Zimbabwe

Since independence more than 3 million hectares or 25 per cent of the commercial farming area in Zimbabwe have been purchased on a willing seller/buyer basis by the State (Commercial Farmers Union, 1991). Commercial farmers feel insecure as another 6 million hectares of the 11.27 million hectares large scale commercial farm land are to be acquired on a compulsory basis if there are no willing sellers (Commercial Farmers Union, 1991). Seventy commercial farmers were given notice by the Zimbabwean government during July 1993, that the state will be acquiring their farms. The Zimbabwean parliament has accepted a constitutional amendment, stripping farmers of the right of appeal to courts if not satisfied with the price offered for their farm. This amendment permits the State to expropriate land at any price. A major difference between the Zimbabwean resettlement and the World Bank proposal for SA is that in the latter case the state is not involved in buying-/selling land. In the former case the state acquired the land while in the South African case individuals or groups will purchase land.

The following three resettlement schemes were adopted in Zimbabwe:

- Individual resettlement or Model A (1 669 233 hectares),
- Co-operative resettlement or Model B (66 775 hectares) and
- Small scale emerging commercial farmers (1 416 100 hectares) (Weiner *et. al.*, 1985).

Model A

Model A provides for individual family homesteads and arable holdings, with communal grazing and nucleated villages (Davis, 1990). The Model A has resulted in slight ecological improvement compared to communal areas (Weiner, *et. al.*, 1985). The only slight improvement can be expected as land ownership appears similar to that in communal areas. Grazing land is communally owned while land is further owned by the state and not the individual.

Weiner *et. al.* (1985) assert that a minority of Model A farmers are settled on the better lands in region 11A. Under this resettlement programme migration is not al-

lowed as it is feared that it will lead to diminished crop production. This measure may have artificially stimulated agricultural production because the more able labourers (young, male, educated) will want to seek more lucrative employment. As a constraint on the economy this measure distorts the optimum allocation of resources. Land is further owned by the state and peasants are told on some schemes what to crop.

Model A settlers have only been granted permits to use land. These permits can be revoked without notice or compensation, yet in exchange peasant farmers must renounce customary rights to land in communal areas. Davies (1990) contends that this settlement is not perceived as permanent by farmers.

According to Mudimo (1991), Model A settlement scheme has reverted back to tribal tenure where disputes are settled by chiefs. Farmers obviously have more faith in tribal chiefs to settle disputes than state employees unfamiliar with local conditions.

Weiner *et.al* (1985) conclude that communal farmers exhibit the highest percentage of cropping on potentially arable land. It would be wrong to conclude that communal farmers use land more intensively. Under communal ownership, land not cropped reverts to communal grazing, from which individual gain is negligible. It explains why communal farmers often plough steep slopes, that should be grazed. The intensity of land use should be judged by improvements and investments in land and corresponding yields. The percentage area cultivated is not an indication of economic activity. The intensity of land use, whether it is conserved, observed yields etc. is a more appropriate economic indicator.

The so called individual settlement in Zimbabwe (Model A) is little different from property ownership in the subsistence sector. Little incentive exists for the farmer to invest in properties that really belong to the State (Model A) or where the tribal chief could allocate it to someone else.

Model B, Co-operative farms

To maintain viable large-scale holdings some Co-operative Schemes (Model B) were settled in top potential cropping areas. It was hoped that the use of machinery will open up large tracts that small scale producers might otherwise have used for grazing livestock (Weiner *et. al.*, 1985). Some externalities are internalised within this tenure system, but if the group size is large then it reverts back to communal tenure. Few farmers opted for this form of tenure.

Model C, Small scale emerging commercial farmers

According to Rukuni (1992), under the small scale commercial farmer settlement the land is owned by the State and leased by farmers. The small scale commercial farmers have more land than Model A farmers, and the former go in for the more profitable crops such as tobacco and sugar cane where Model A farmers plant maize. It is expected that the small scale commercial farmers will eventually receive freehold title and this should have a positive influence on investment. Small scale commercial farmers also receive better extension support (Rukuni, 1992). It has been stated that the small scale commercial farm sector failed in the sense that profits made in agriculture were invested in towns (Weiner *et.al*, 1985). The observation that these farmers make profits should rather be seen as a sign of success. The success is attributed to the greater economic incentives under this model than the communal farming model. Economic reasons for this apparent failure may be the lack in property rights in the so-called small scale commercial sector. Since farms are leased from the state insufficient incentive exists to invest in land.
An important issue is how farmers view or perceive their rights to land. They may perceive their rights as uncertain and not that different from rights as prevailing under customary law.

7. Some concluding comments

Addressing the land issue is important in achieving stability in society. Grievances of forced removals and general claims need attention. What is affordable to the state and what is fair would be important considerations.

It is encouraging that the state according to the World Bank proposal would not buy or expropriate land. Taking it further, it is suggested that financial institutions undertake the screening of farmers and not the political process. The latter may lead to political favouritism. Financial institutions such as commercial banks have the experience to screen applications. They may consider, for instance, whether the applicant has worked on a commercial farm and in what capacity as this could provide information on management skills.

USA farmers were told in 1983, that they must not expect disaster assistance from the state and that they must insure their own crops. South African farmers were given the message in 1993, and also during the past decades, that in the advent of droughts, the state will assist you. Drought conditions are far more regular and severe in Southern Africa than in the Americas or Europe.

If agriculture is financially assisted then other sectors and individuals are more heavily taxed. The tax burden in South Africa is already excessive. The message to South African farmers should be that they should take preventive action themselves, in order to minimize exposure to risk. This may mean more diversification in maize areas, that is farmers should grow even smaller areas under maize and keep more livestock. If farmers themselves are faced with the full cost of disasters such as droughts, then it may lead to an agriculture more adapted to its environment. This may lead to a more environment friendly agriculture which can better withstand disasters.

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