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VIEWPOINT: PROPOSALS ON LAND REFORM, PRIVATISATION AND FARMING MODELS - SOME LESSONS FROM EXPERIENCE IN SOUTH AFRICAN AGRICULTURE

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Abstract

Privatisation of farming and land use should be viewed as potentially an important strategy in the process of agricultural restructuring and land reform in view of its "empower" attributes as well as providing incentives to productively invest in farming. Privatisation, however, is but one instrument towards rural restructuring and land reform. Farming is essentially a private sector action. Ownership of assets and the right to decision-making are vital elements for successful farming. The choice of farming model will therefore be important. Present land tenure arrangements must be expected to be an additional major factor in the selection of appropriate farming models.

1. Introduction

The concept of privatisation provides potentially a viable strategy to restructure economic activity while accommodating both growth and equity considerations. Privatisation as an approach to open up farming land and to accommodate new farmers can indeed not be divorced from the present debate on land reform and agricultural restructuring in South Africa.

The need for and inevitability of agricultural restructuring in South Africa has been established *inter alia* through the White Paper on Land Reform and various recent professional and political statements from various groupings and parties. Access to farmland by all South Africans must be viewed as an important element of agricultural restructuring, (Brand, *et al*; 1991; Van Rooyen *et al*, 1992). It has been argued that a movement towards empowering black smallholders will achieve important gains from an efficiency and equity viewpoint. In this paper certain viewpoints on access to land for farmers through privatisation strategies will be discussed. These viewpoints are largely based on "lessons from experience" from DBSA funded agricultural programmes and projects over the past ten years where privatization of certain elements and land reform are viewed as some of the vital components for success.

2. Privatization, farming and land reform

i) Privatization

Various definitions of privatisation can be quoted. Essentially it argues that privatisation can be defined as: The transfer of the right to assets from the public sector to the private sector. The private sector includes companies, groups and individuals operating for their own account. This definition also implies that: The right of decision making on the utilisation of such assets will be transferred from the public sector to the private sector.

The right of decision making is seldom absolute as it is directed and supported by certain rules, rights and regulations. Such guidelines relate to aspects of economics, ecological/conservation principles, regulatory and legal stipulations etc. Often as formulated by government and/or the judicial system. Cultural and religious values and ethics impact on the right of decision making. It should thus be stated that privatisation should occur within the broad, cultural, social, political, ethical and economic milieu prevailing in a country.

The discussion of privatisation in agriculture can be directed at two levels viz. The macro-dimension and the micro or operational dimension. For a comprehensive discussion of some macro features of privatisation in agriculture refer *inter alia* to (Brand, 1988; Swart, 1991).

This paper will focus on privatisation as it is defined above and as it applies to some micro-level aspects of farmer development policy. Farmer settlement, small farmer support programmes, settlement through the outright purchase of land and related mechanisms between willing buyer and seller and some equity share options will be discussed. The purpose will be to provide a broad framework of reference for further study and application.

ii) Farming and Farmers

Farming is defined in this paper as those activities related to the primary production of basic foodstuff and fibre. Farmers will therefore be those whom utilize resources in the production of basic foodstuff and fibre. This definition accommodates full-time and part-time farmers, as well as, commercial, emerging and subsistence producers and does not discriminate against gender, race or economic status.

iii) Privatization and Land reform

Privatization can be a powerful tool for land reform as it involves the transfer of rights of land security and land

exchange via the market mechanism. Privatisation, however is but a mechanism towards land reform, and is not an objective on its own. Privatization however, also has severe potential limitations where "willing buyer willing seller" approaches are left to market arrangements in societies where access to income and assets are skewed by various policies. Hans Binswanger (1992) of the World Bank Mission to South Africa also argues convincingly that more than often "the market value of farm land exceeds the farm production value". Reasons for this phenomena, commonly observed in South Africa, can be found in policies of subsidization, taxation, marketing etc. These causes are well documented and debated by various authors and academic studies. The situation still applies in South Africa although agro-ecological regional variances are observed. For example, farm land prices in the summer rainfall areas have declined (almost by 50 percent in real terms since 1981) inter alia due to agricultural policy reform and reduced subsidization (Brand *et al*, 1991).

The general concept of market value above production value however, still has relevance and should be taken into consideration. Privatization through market based transactions will only be a viable land reform alternative if market value approximate farm production value. To use this strategy for land reform, other policies impacting on the market value of land will have to be reformed concomitantly.

Privatization also has various further limitations as a land reform strategy. Some of these will be discussed in this paper. It must however, be emphasised that the notion of privatization as the "only" or "major" land reform strategy, following on the scrapping of the land acts, will be totally unrealistic in the present political economy of South Africa. The extremely skew distribution of land and land rights as well as financial constraints compared against "land hunger" arguments render obvious limitations to this strategy. Legitimate land claims can also not be solved via privatization arrangements. Alternative and complementary strategies must therefore be developed to attend to the complexity of the land issue in South Africa ie. mechanisms such as land courts, and the provision of an extended bundle of rights to accommodate various forms of land use security, compensation, etc. (Van Rooyen, *et al*, 1992). Privatization must therefore only be viewed as one option for land reform and distribution in South Africa. Two features will have an important impact on land reform options viz. the choice of farming system and model and existing land tenure arrangements.

3. Farming models and privatization strategies

This part of the discussion is largely based on "lessons from experience" with agricultural programmes funded by DBSA between 1982 and 1992. No specific case studies however, are stated. Table 1 gives an indication of DBSA's investment in agricultural and rural development programmes.

3.1 Farmer settlement projects as a privatisation strategy

State and parastatal managed farmer settlement projects constituted the mainstay of agricultural development strategies in the homeland areas during the seventies and eighties. DBSA was approached and funded various of these projects on condition that "real" farmer development occur. Bank funded farmer settlement strategies imply (at least a meaningful degree of) transfer of rights to assets and decision making to private farmers. Prospecting farmers can settle by buying or leasing land and

other farm resources, or having resources transferred to them through other means. The "project approach"¹ was generally followed to structure the process of settlement according to a programme. Farmer settlement through the project approach can be approached within two basic models:

i) Settlement Projects (SP):

These schemes often have as their ultimate objective the establishment of productive commercial farmers through a system of co-ordinated support services. The income earning potential of farming should therefore be sufficient to compensate for commercial risk and entrepreneurial effort and the substantial costs required for farming. In some situations, farmers can be established as independent entrepreneurs right from the start of a project or scheme. Alternatively farmers gradually become more independent in terms of a predetermined programme emphasising counselling, training and "learning by doing" approaches.

On these types of schemes farmers are often supported by a service unit or co-operative responsible for the management of and delivery of support services such as input supply, credit and marketing. Training, extension, counselling and regulatory and administrative arrangements are centrally co-ordinated by this service unit in co-operation with the government service and private sector. Some examples of this model is the Mid-Letaba project in Gazankulu, and the Kwandebele Consolidation Land projects.

ii) Central (or core) unit/farmer settlement projects (CUP)

This is a variant of the settlement project. On these projects estate farming² constitutes an important production activity. Farmer settlement, still occurs within the scheme. Support services are provided to farmers on the project but these services are linked to the central estate farm. Two types of CUP's can be described:

- An estate farm utilising agro-industrial services which are also available to project farmers and outgrowers (processing, packing, marketing, mechanisation etc.); and
- a central unit attending to estate farming while also performing non-commercial type of functions such as extension, research and training in addition to agro-industrial services and other commercially orientated support services (input supply, mechanisation, financial and management services and marketing etc.) for the benefit of project farmers and out-growers.

Examples of CUP's can be found in the sugar industry or where agricultural products are processed into high value commodities, such as tomatoes, asparagus, coffee, tea etc. The NCORA project in Transkei and Tyefu in Ciskei are examples.

3.1.1 Some features of settlement projects: Lessons from experience

Agricultural investment by DBSA is indicated in Table 1. From this table it can be observed that various approaches were followed ranging from small farmer support programmes to community projects and rural infrastructure (see Van Rooyen, 1993). Large-scale irrigation settlement projects presently accommodate near to 4 400 farmers at a fixed cost of near to R200 000 per farmer and an annual variable cost of R4 500.

Table 1: The loan portfolio of DBSA for Rural and Agricultural investment (1982 - 1992)

Year	Community Support (%)	Developm. Planning (%)	Farmer Support (%)	State Farming (%)	Settlement Projects (%)	Other (%)	Total (R)
1982	-	-	-	-	88	12	28 907 240
1983	-	-	-	2	76	22	23 121 280
1984	-	-	13	3	78	6	25 754 730
1985	-	-	55	23	22	-	11 725 000
1986	55	7	7	14	17	-	16 953 050
1987	1	-	46	53	-	-	53 788 865
1988	7	2	-	34	57	-	50 273 815
1989	-	-	61	-	35	4	24 480 420
1990	15	-	24	-	53	11	40 438 820
1991	-	5	73	-	22	-	14 940 780
1992	13	0,4	41	-	5	38	96 789 000
Total (R)	22 313 280	3 415 760	144 404 120	23 606 080	132 849 920	64 275 840	391 865 000

From an assessment of literature, research reports, project design and evaluation and experience during implementation the following can be highlighted:

i) **Farmer selection:**

Formal farmer selection processes are a most apparent feature of farmer settlement schemes. It is however, virtually impossible to select potentially successful farmers from the outset with a high degree of accuracy. In practice it is experienced that the "market mechanism" remains one of the most effective selection mechanisms for viable farmers, as this process will eventually ensure that those who are unsuccessful are "moved" out of farming while the successful entrepreneurs will strengthen their position. Up-front selection can therefore at best be viewed as a "screening exercise". It is however, important to ensure that an initial selection process takes place. This process should (a) be as objective and non-discriminatory as possible; (b) should attend to the technical inclination of a person; and (c) should place emphasis on managerial attributes as well as business know-how and experience. This must be followed with a "learning by doing" process whereby the "winners" will be afforded the opportunity to continue and "losers" to opt-out.

In practice one of the major problems with selection/screening processes is that of interference whereby certain individuals are favoured above others. In some cases blatant political interference and nepotism was observed. In other cases more fundamental issues such as historical land rights came into play. The transparent, impartial and objective application of agreed upon selection criteria must be viewed as an essential part of a successful settlement project.

It furthermore proves difficult for non-performing farmers to exit schemes. Procedures to provide for the measurement of successful farming as well as arrangements for "opt-out" and "out-placement" of unsuccessful settlers should therefore be an essential part of the agreed upon contractual arrangements. Farmers should know right from the outset what is expected of them and how they will be measured in this regard. Equity considerations are also strained by the selection of certain members of a community to be favoured.

ii) **Planning of farms:**

As a settlement project represents a structured intervention into the rural and farming environment, project planning is required before and during implementation.

A danger however, is that farm units are "over planned" and "over capitalized" or planned from the head office so that settlers are not allowed freedom to deploy farm resources within their own capacities of objective functions.³ Under such conditions settlers tend to become "pseudo-farmers" who are operating within a system over which they have little control and objectives with which they do not necessarily associate. This situation can be viewed as the one single factor which contributed most to the failure of agricultural settlement projects. Under such circumstance settlers are inclined not to accept accountability and therefore also not the responsibility for any failure which may result. The unwillingness to pay back farm debt due to this "ownership" problem is widespread. This was for example noted on the Taung irrigation project in Bophuthatswana. Recent changes however, have had a positive impact. In effect such an approach easily lead to a "labourer" attitude, favouring the earning of a fixed wage, rather than that of an independent entrepreneurial farmer.

It is therefore recommended that farm planning be directed to provide for a flexible implementation of farming systems. Settlers should also not be captured by technical parameters over which they have little or no control. They should rather be empowered to develop an appropriate technical environment on their farming units. The concept of an "organic evolving" farming system is therefore promoted.

iii) **The Project Cycle, Project Management, planning and control:**

A structured approach is required for the design and implementation of settlement projects. The major reason for this is the requirement to ensure settlement within a co-ordinated and integrated system: consultation and participation of locals are a very important ingredient; training must take place; various operations co-ordinated; farmers screened; etc.

It has been found that where centralized management and control were directed towards (a) the management of the agreed upon "rules"⁴ applicable on the project; (b) the management of support services; and (c) where an approach of consultative management between the implementing agent and settler farmers was followed, positive development resulted. The transformation of the unsuccessful Phokwane maize project in Lebowa to a broad farmer support programme can be quoted. On the other hand where central management was directed towards controlling the production and marketing activities of

settler farmers, projects often failed in terms of their developmental objectives and long term community sustainability. The original NCORA irrigation project in Transkei is an example. A balanced approach is thus required with emphasis on individual responsibilities and accountability of settler farmers for those activities over which farmers normally have control i.e. all on farm utilization of resources (planning, co-ordination, control, supervision, evaluation and accepting the outcome of efforts).

iv) Rights to Farm Land:

The issue of land tenure is interwoven with the question of efficient agricultural production. Land, especially agricultural land can no longer be viewed as a free good. It is important that land be allocated to the productive and sustainable uses. The market remains one of the most effective mechanisms for allocating scarce resources, including land, efficiently for production purposes. It is therefore important to allow market processes to work on settlement projects in order to promote efficient land use.

For the market to function effectively land tenure arrangements should ensure security for land use as well as the tradeability of land rights. Private ownership could be viewed as one method to ensure that both these conditions are met. However, settlement projects often are implemented on land with some form of communal land rights or well established traditional rights. In such cases a market can be introduced through arrangements such as land leasing and share cropping. A title to land should thus include the rights of sale, rental, use as collateral and testamentary transfer, to mention the most important rights. Provisions to retain community ownership by only allowing community members to bid for land rights can be considered if so wished. A first refusal by the state/ or community can also be introduced. These measures will decrease the flexibility of land transfer but might ensure community support. To ensure effective land use patterns, security of land rights is also essential as this will provide the necessary incentives to farmers to risk the investment of time and money in their farms and farming infrastructure to improve pastures and to apply sound conservation practices.

Apart from the security of tenure aspects, the rights of land owners should be linked to responsibilities w.r.t. the management of ecological and conservational matters. This particular issue has been pursued in most DBSA funded settlement projects. Effective land markets however are still constrained by inappropriate institutional and legal arrangements to accommodate various methods of land right acquisitions.

v) Optimal Farm sizes and Net Farm Income:

An analysis of the relationship between farm size and efficiency seems to leave little room for doubt that the most important conclusion to be drawn is that there is no single optimal farm size. First, the natural resource base available to farmers differ even within specific districts and on farms. Farmers also grow different crops which require different technologies. Optimal farm sizes must therefore be related to agro-ecological conditions and technical parameters. Second, the concept of an optimal farm size must include managerial ability as an input in production. Linked to managerial ability is also the objective function and risk aversion attitude of farmers. These two attributes vary considerably between farmers. As risk is part of production costs, no two farmers will have the same cost of production. Even if all other variables are held constant optimal farm size will vary

between individual farmers. A third argument refers to the opportunity cost² of farming for different farmers. The opportunity cost is a subjective evaluation by each individual, so again optimal farm size will differ between individuals. The "status" of a farmer i.e. whether full time or part time, male or female, young or old and access to additional income earning opportunities also needs to be considered. In addition to the above arguments, a host of other factors will also influence farm size. As a result policy and arrangements regarding farm sizes will have to be very flexible. It can consequently be argued that the target net farm income criterion as a planning tool must be viewed as of relative little relevance to fix farm size on a project. The initial size of a settlement unit should rather be determined by a combination of criteria such as required family income, alternative income opportunities, manageable size and utilization of family labour force.

The issue should therefore not be to fix a net farm income and plan a farm size in accordance to such a standard, but rather to provide farmers the necessary security of land use, the right to exchange land use rights and access to effective support services. Farm size would then reach optimal levels as a result of market forces and farmers' objectives. It must also be expected that a wide range of consistently changing farm sizes will be observed. Such patterns can already be observed in the Phokwane area.

vi) Land Demarcation

The establishment of a system whereby land use security and tradeable land rights are promoted require the demarcation of land parcels and the establishment of farm boundaries. The cost of land measurement and demarcation could however, prove to be too high. Innovative and cost saving approaches to this matter needs to be explored.

vii) Farmer Support Services:

Farmers settled on projects require access to a wide range of support services. One of the major responsibilities of the implementing agent will be to ensure that farmer support services are delivered in an integrated and co-ordinated manner. Such services however, need not be supplied by one organization. Various businesses can be contracted, with opportunities for emerging entrepreneurs. The implementing agent however should ensure effective access to services. Support services are provided by both the public sector and the private sector. Where the private sector is involved in the provision of a service and where the level of provision and quality of service is of the required standard, private sector should be preferred. Various organizational business forms i.e. private company, co-operative, etc can be considered.

The following elements have to be delivered as part of a support programme on settlement projects:

- ▶ the adequate provision of appropriate inputs and the funding thereof (credit) to the farmer;
- ▶ an appropriate mechanisation service, which caters for all aspects of transportation, land preparation, planting and cultivation (harvesting and transport to storage may also be required), as well as the maintenance of machinery, implements and infrastructure;
- ▶ marketing channels and services to cater for all aspects of marketing (i.e. grading, storage, packaging and transport);

- ▶ extension and demonstration services, information and specific project related research to ensure that maximum opportunity can be made of existing and new technology;
- ▶ training to facilitate the development of managerial skills needed both on the farm and at an institutional level;
- ▶ *de facto* rights to production which would include land security, contracts and quotas. A major requirement of this element is access to finance for the acquisition of land;
- ▶ off-farm agricultural infrastructure necessary to support established farmers; and
- ▶ a sound policy framework to provide a milieu conducive for productive, equitable and sustainable agricultural development.

viii) **Ownership, Subsidization, Cost Recovery and User Charges:**

The concept of ownership of on-farm physical structures and movable and short term assets is an essential part of privatization. Settlers should as far as possible pay market related fees or prices for private goods and services. Farmers, if they are not satisfied with the service provided should be in the position to choose to take their business elsewhere. This greater commercial orientation acts as an incentive to support institutions and suppliers to provide the best possible service and price. The selling of cotton in the projects on the Makathini flats are an example of such freedom.

Under certain circumstances related to the development context (e.g. distance from the market, fledgling farmers etc.) the private sector is not in the position to supply goods and services at a sufficient profit margin. The public sector can be expected to provide services that benefit the public as a whole but which are too expensive for individual entrepreneurs to provide or where the fees collected for such services do not capture the full cost of their provision. Cost recovery is through user charges. The application of user charges capitalizes on the advantage of the market mechanism as a regulator of economic activity and as basis for the allocation of resources. For example, if irrigation water is made available at a lower than economic cost, farmers will use more than what is economically justifiable. In the long run this will distort input/output ratios, optimal production mechanisms, farm-sizes, income, debt ratios, etc. It remains therefore important to fix user charges as near as possible to their true economic value.

The subsidisation of interest rates to settlers and emerging farmers are often argued as an important mechanism to assist such farmers during their establishment period. The main reasons conventionally given for a subsidized interest rate are that (a) emerging farmers are inefficient; (b) such farmers needs to be induced to invest; and (c) such farmers cannot afford market rates. However, it is now recognised that access to credit facilities and the necessary support service are more critical than the level of interest rates charged. The transaction cost of obtaining loans are also of more importance than the interest rate. Approaches should therefore rather concentrate on opening up access to credit facilities to farmers inter alia through increased competition by suppliers, support to community banking initiatives, etc. and reducing the transaction costs of obtaining such financial support. Where soft rates are currently charged, levels should

gradually be lifted to market levels according to a predetermined plan.

ix) **Collective action and Co-operative arrangements:**

The concept of collective action whereby group effort can be mobilised to improve the bargaining position of individual group members is a well tried institution in agriculture. Co-operative arrangements do provide for such collective actions in farming. Various models can be considered ranging from the collective ownership and control of certain resources to collective buying and marketing. Substantial successes were recorded with this latter form of co-operation.

In general it must be concluded that "collectivistic farming" models were not very efficient when they were tested in Ciskei and Bophuthatswana. The "ownership" issue agitated against individual responsibility. This model also promoted a paternalistic approach often found in central managed projects. A further "lesson from experience" indicates that successful collective/co-operative action supported individual action and not vice-versa. The Phokwane and Mid-Letaba projects can again be quoted in this context.

Co-operation arrangements between livestock holders (especially on communal tenure situations) have proved to be supportive for the efficient utilization of grazing resources and the application of sound management principles on such schemes (Vink, 1986). Individual livestock holders however, retained their right to decision making and private ownership of livestock. This approach is presently applied successfully on various projects in Bophuthatswana.

The co-operative ownership of processing and marketing facilities, mechanization equipment have been observed to successfully provide economics of scale advantages.

x) **Mechanisms to gain access to and to exit the project.**

Traditional farmer settlement schemes were plagued by the inability of farmers to exit the scheme. Motivations to leave the scheme may both be because of unsuccessful farmers and to profit by selling of membership to such a scheme. An effective mechanism will be closely linked to the land tenure arrangements on a scheme or project.

3.2 **Farmer support programmes (FSP)**

A Farmer Support Programme is essentially different from a settlement programme as it is primarily directed at those already involved in farming. The programme is an integrated strategy attempting to alleviate constraints under which farmers are operating. In developing areas and especially on lands under communal tenure arrangements, farmers⁶ operate under severe constraints ranging from a lack of appropriate infrastructure and support services, to security of production rights. In South Africa the dualistic agricultural structure furthermore created a multiple set of constraints, inhibiting black (small) farmers to participate in the agricultural economy.

This approach aimed towards to structure a "new" strategy for the funding of agricultural development by DBSA. It is interesting to observe two opinions in this regard⁷.

An important component of this reform for the agriculture sector has been the acceptance of Farmer Support

Programmes (FSP's) as the current vogue in development thinking. The DBSA presently asserts to have committed over R60 million in loans to 23 FSP's throughout South Africa which presently amounts to a total cost of some R140 million (Table 1, Van Rooyen, 1993). The crux of the FSP is seen by the Bank to be "... promoting structural change away from subsistence agricultural production to commercial production, by providing comprehensive agricultural support services and incentives to small farmers, thus facilitating increased efficiency of agricultural resource utilisation, food security, and entrepreneurial ability over a broad front" (Brand *et al*, 1991; May, 1992); and "Farmer Support Programmes are a critical area of recent operational activity and have been incorporated into agricultural policy in many of the bantustans. On the ground, however, it seems as if previous projects may have simply been refashioned into FSP's. As such, many FSP's are managed by parastatal staff on a project basis. Leading to a inconsistencies in the implementation of the approach" (May, 1992).

The FSP approach should thus not only be viewed as the privatisation of certain elements, but as a comprehensive package of institutional arrangements in support of farming as essentially a private sector activity and not centrally managed by a parastatal or government department as observed above. The elements required for a FSP corresponds to those listed under Point 3 (vii). The basic difference is that these services are directed at those who are already involved in farming and therefore demand driven and not prescriptive to the degree required in settlement projects. The realities of farming, especially in communal areas, furthermore requires that the level nature and sequencing of FSP elements be adopted to the needs, problems and available resources and the capabilities of participating farmers. Currently FSPs serve near to 50 000 farmers at an average fixed investment cost of R5 000 per irrigation and R350 per dryland farmers. Annual variable costs are R2 000 and R780 respectively per farmer (Van Rooyen, 1993).

3.3. Settlement through private land acquisition (PLA)

DBSA was recently (since the scrapping of the Land Acts) approached by various interested parties for support of the next two models.

The direct transfer of land (and other assets) through the market between farmers is one of the most cost effective processes of transfer. On the other hand land purchased by the state for land reform purposes has proved to be highly ineffective and inefficient. The recent South African Land Consolidation Programme provides many case studies substantiating this viewpoint and the Zimbabwean land reform confirms this view. It is thus strongly argued that opportunities be created for the settlement of "new" farmers through a system which will promote and facilitate normal land transfers through the market. SA Land Bank or Agricultural Credit Board type of funding arrangements should be considered. Even where the state is in possession of land, direct transfer to individuals to farm, should be considered as an important and potentially a very successful strategy. As to specific features of this strategy those referred to in section 4 points (ii), (iv), (vi) and (vii) apply equally.

In addition the following seems of particular relevance:

- (i) Adherence to sound ecological and resource conservation guidelines;
- (ii) land purchase does not always represent the only or most effective manner of farm land

acquisition. Various alternative options therefore need to be considered. The direct transfer of state land to individual against a "hire purchase" type of arrangement provides a sound mechanism without immediate cash flow implications, and

- iii) the issue of historical land claims of State/Trust land should be attended to as a first priority.

3.4 Broadening the asset-base (BAB): An approach to accommodate farm workers

Privatization can be extended to accommodate various asset sharing and transfer opportunities. (McKenzie *et al*, 1993). Farm workers can, for example, be included in profit sharing arrangements, equity acquisition schemes, etc. Such arrangements will broaden the ownership base and will provide for opportunities to extend access to farming opportunities to farm workers. This will address a major problem experienced by these workers i.e. that of wealth accumulation and security. BAB arrangements can equally be considered in communal tribal systems to enhance security and exchange of land use rights.

Various formulae needs to be developed for the practical application of this strategy. It might be interesting to be informed of such efforts presently in progress. The Bank is presently considering "pilot studies" with the participation of commercial farmers and farm workers in various parts of the country.

4. Advantages (benefits) and disadvantages (costs) of privatisation in farming

The economic benefit of farmer settlement and support programmes should exceed the economic cost. This is a broad statement encompassing the total net economic impact of the programme. This statement also implies that the design of a privatization programme and the targeting and implementation should be of such a nature that all multiplier effects of investment be maximised. This also implies that investment must be prioritised between models, those investments with the highest net economic impact should have the highest priority.

Farmer settlement and support programmes also compete with other investment opportunities and development needs in, rural support programmes, industrial development and urban programmes for scarce capital, institutional and human resources. The reconstruction of a fair and productive farming sector would require policy measures and financial support arrangements which would have to address equity, efficiency and sustainability considerations. Appropriate "rules" and arrangements would have to be formulated and the effect constantly evaluated. All the above strategies require the adherence to various "rules", regulations and arrangements. Appropriate institutional arrangements therefore need to be considered. The role and function of government departments, parastatals and private sector organizations as well as the necessary budgetary arrangements for public sector support are pertinent in this regard. See Van Rooyen and Van Zyl (1990) for a discussion on these matters. This issue will also be expanded upon in a future Viewpoint. Some of the advantages and disadvantages of privatisation will now briefly be discussed.

i) Individual Decision Making:

The benefit of individual decision making is an essential part of entrepreneurship, i.e. decision making, risk taking and the acceptance of responsibility. Farmers are

rewarded for good decisions and planning but are penalized for wrong or bad ones. This contributes to the establishment of viable and efficient farmers and the withdrawal of inefficient ones.

The disadvantages of a system which promotes individual decision making is that wrong decisions can be made which could harm the community at large and for which the public sector would have to accept eventual responsibility. However, it appears as if the right to make mistakes must be viewed as an essential element in the development process.

If the "rules of the game" with respect of individual decision making is spelt out clearly as well as the penalties, it can be argued that failures in this regard should not easily be transferred to the public sector to accept final responsibility, but to the person that failed. The same argument applies where individual decisions can harm the community and environment. Adherence to and enforcement of rules will minimize such behaviour. Individual decision making can be viewed as an important strategy to ensure that "winners" will be awarded while "losers" will be penalized.

ii) Cost Recovery:

Privatisation provides a system whereby costs for services can be recovered from individual users as they are responsible for decisions to utilize such services. The disadvantage of an approach where individuals are expected to adhere to cost recovery arrangements is that individuals can also choose to ignore such rules (boycotts). Opportunities not to adhere to such rules can however, be minimized if proper consultation and penalty systems are in place.

iii) Individual Ownership:

Ownership is an essential part of privatisation. The advantage of such a system is that individuals will view the utilisation of assets as a long term matter and also as an opportunity to optimize welfare and benefits.

A disadvantage to the system of private ownership could be, that instead of exchanging assets to ensure the most productive utilisation of such assets, owners can retain assets and not utilize it productively. Land is a good case in point (the land baron and absentee owner, for example). If a proper penalty and reward system is in place, individuals will not see any benefit in the non-utilisation of assets. Land taxation can, for example, be considered as a mechanism against the non-use of farm land, while restrictions on certain land uses should be introduced to promote sound ecological use patterns.

iv) Security Value of Assets:

The transfer of assets to individuals will provide security to such individuals for the mobilization of further resources such as finances. A disadvantage could result when individuals over-commit their resources and as a result create unrealistic high debt levels which could result in bankruptcy or severe cash flow problems. Provided that a sound and realistic system of norms and standards are in place to guide the utilisation of assets as security for mobilizing funds, no serious debt problems need to result.

v) Land mobility and exchange and landless people:

Privatisation i.e. the transfer of rights to access of land provides for a system whereby land resources can be transferred from one individual to another ensuring eco-

omic efficiency of land use. The problem of "getting in" and "getting out" of farming is also largely solved through such measures. A disadvantage of the system is where land resources are purchased by capital strong individual (land barons) or big companies for other than agricultural settlement purposes. During the early stages of the establishment of a land market, certain advantages can be attached to the placement of land size ceiling on purchases. This may prevent land to gravitate towards large land owners but needs to be assessed further. An alternative measure could be that the state reserve a "first refusal right" in all land exchange transactions. Where land privatization does have the advantage to mobilise land resources for use by productive farmers those who do not have equitable access to land might be forced in to a "landless" status. Programmes attending to the provision of equitable access to land, just compensation and alternative economic opportunities for potential "losers" therefore need to be promoted as part of a privatization programme.

vi) Market Value and Production Value:

The market value of land is often higher than the production value. The reason for this phenomena are complex but is a manifestation of the value attached to land which often supersedes the value of agricultural production. The disadvantage of this system is that entrance into farming cannot occur easily and where this happens a substantial amount of capital is required in the land acquisition transaction. This will have a negative impact on cash flow and therefore the mobilization of production factors in the farm production process. A system of price ceilings and target audiences attached to agricultural land, might be considered during the initial phases of land privatisation to ensure access to land resources to those who are interested in farming.

Taxation can also be considered where the taxable amount can be deducted as production expense for the net farming income. In cases where land is not used for income earning purposes land tax will become a net loss and therefore a penalty against the non-use of agricultural land, while the value will approximate agricultural values.

viii) Fiscal Impact:

The transfer of land from the public sector to the private sector can provide an income to the state through the selling of land resources. A system whereby land right holders pay on an instalment basis (from their farm income) is preferable to a situation where new funds are provided by an institution so that farmers can buy land directly from the public sector. A Land Bank type of agency can be considered to administer this function.

ix) Labour Employment Relations:

Privatisation of decisions with respect to the mobilisation of labour has the advantage that it occurs outside the public sector. Normal supply and demand forces will therefore dictate labour wages and related matters. The disadvantage to such a system is based on observations of exploitation of farm labour. To capture the advantages of a private system in this regard, policy guidelines and well as legal stipulations to control unfair labour practices would have to be considered. The question of a minimum wage determination also needs to be considered. Seasonality, spatial arrangements of farm labour i.e. dwelling, schooling commodity requirements etc. would have to be taken into account in such stipulations. Only with such aspects properly attended to wage

stipulations could be considered within a farm labour programme.

x) Flexibility and innovation:

Where farmers are allowed to adhere to price signals from the market, the optimal allocation of resources will be promoted. A major problem in farming is the relative inflexibility and inelasticity of factor use in the agricultural production process. Agricultural policy and programmes need to consider this aspect through incentive structures.

5. Present land tenure and land reform

The optimal strategy for agricultural restructuring and land reform to be followed will depend on many circumstances. The selected farming model was discussed above. Present land tenure arrangements must be viewed as one of the additional major factors in this respect.

The following are proposed for consideration:

i) Communal Tenure and Tribal Lands:

Various considerations dictate that support programmes to small holders be considered as optimally a practical and a potentially highly productive strategy on land under communal tenure arrangements, especially as no reallocation of land is required where many people are involved in some form of farming. The provision of the appropriate farmer support services will activate market forces to generate an economic value for land and farm assets. Such forces will encourage market related land transactions. A bundle of rights promoting land use security and tradeability and ranging from share cropping to long term leases and private ownership should be offered to facilitate optimal land use practices. The problem and potential of landless persons also needs to be addressed within an integrated rural development approach.

On the other hand the reallocation of land necessary for land consolidation and farmer settlement must be viewed as a strategy with great conflict potential in communal areas. Farmer settlement project strategies are thus not recommended unless fully supported by a community and with proper compensation.

ii) State Owned Land:

Settlement projects and the selling of land to individuals and groups can be considered. Privatisation strategies should be directed to the provision of opportunities to fully fledged commercial farmers as well as emerging farmers. Urban "squatters" occupying open state land settlement should be viewed with circumspect. Under such conditions FSPs might provide an opportunity to upgrade the land use productively. Landless persons could also be accommodated on such land through farmer and non-agricultural support programmes i.e. small business programming and training etc.

iii) Private Land:

With private land acquisition, farmer settlement and farmer support strategies can be considered. Where government decided to acquire private land for the purpose of farmer settlement the principle of just compensation should apply. The state should however preferably not act as go-between in actual land purchases. Transactions should, as far as possible, be facilitated (by government if necessary) to occur directly between

existing and future land holders inter alia through measures enabling access to funds and support services.

iv) Other Options on Private Land:

The accommodation of farm workers on schemes ranging from share cropping bonus schemes and equity share schemes provide opportunities to broaden ownership and decision making in commercial farming.

v) Land disputes, legal claims and safety nets

Land disputes, legal claims and safety nets will have to be given priority in a land reform programme where land is in dispute a moratorium should be placed on privatization. A proper structured and operational judicial process should attend to such disputes and claims. Landless people should be supported through labour intensive programmes etc.

6. Conclusion

Privatisation of farming and land use should be viewed as potentially an important strategy in the process of agricultural restructuring and land reform in view of its "empower" attributes as well as providing incentives to productively invest in farming. Farming is essentially a private sector action. Ownership of assets and the right to decision-making are vital elements for successful farming. The choice of farming model will therefore be important. Present land tenure arrangements must be expected to be an additional major factor in the selection of appropriate farming models.

Notes

1. The project approach requires the setting of objectives and the application of the project cycle. The project cycle entails identification, preparation, appraisal, implementation and evaluation.
2. Farming on large scale through a process of centralized project management.
3. Profit maximization is very seldom a major objective of even fully fledged commercial farmers. A stable disposable income, the right to be your "own boss", etc. are generally scored high if objectives of farming is family rated.
4. The "rules" should fundamentally be directed to the "empowerment" of farmers and should have the consent of the community. Where this process has been ignored or short circuited, the implementation of the project was usually seriously jeopardized.
5. The income value of the most likely alternative to farming for and individual.
6. All those who exploit resources for agricultural production purposes.
7. DBSA is presently funding a major evaluation exercise of FSPs by independent consultants.

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