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INSTITUTIONAL CHANGE TO PROMOTE LAND RENTAL MARKETS IN THE DEVELOPING REGIONS OF SOUTHERN AFRICA

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Rental markets for agricultural land in communal areas of Southern Africa are often constrained, despite potential benefits for many households. High transaction costs and insecure tenure have precluded active rental markets in the region. The notion that conditions necessary for land rental will emerge in response to increasing population pressure and better prospects in farming is questioned. Attention is focused on interest groups opposed to changes in customary tenure, and policies designed to 'supply' the institutional changes needed to support an active rental market. The main conclusion is that farmer support programmes are unlikely to realise their full potential unless they are accompanied by adaptive strategies that make endogenous changes in customary tenure more predictable.

INSTITUSIONELE VERANDERING OM GRONDHUURMARKTE IN DIE ONTWIKKELENDE STREKE VAN SUIDELIKE AFRIKA TE BEVORDER

Die huurmark vir landbougrond in kommunale gebiede van Suidelike-Afrika word dikwels verhinder ondanks die potensiële voordele wat dit vir baie huishoudings inhou. Hoë transaksiekoste en onseker eiendomsregte verhinder dat 'n aktiewe huurmark in die streek gevestig kan word. Die siening dat die behoefte van grondhuurtransaksies self sal ontstaan as gevolg van bevolkingstal en beter landbou vooruitsigte, kan egter bevraagteken word. Aandag word gevestig op belangegroepe wat die veranderings in die eiendomsreg teenstaan en tweedens word aandag geskenk aan beleid wat die nodige institusionele veranderings vir 'n aktiewe huurmark sal meebring. Die hoof gevoltrekking is dat boerdery ondersteuningsprogramme nie hul volle potensiaal sal realiseernie behalwe as dit nie gepaardgaan met aanpasbare strategieë wat endogene verandering in tradisionele grondbesitstelsel meer voorspelbaar maak.

1. INTRODUCTION

This paper investigates advantages of rental markets for agricultural land in developing regions of Southern Africa where customary institutions influence security of tenure and transaction costs. It is argued that, under conditions relevant in much of Southern Africa, land rental markets are a better indicator of allocative efficiency than land sale markets. It is also contended that rental markets offer a more equitable solution to unequal resource endowments and land under-utilisation in regions where the consequences of distress sales are unacceptable.

Research conducted by Thomson and Lyne (1993) in the homelands of South Africa suggests that the land rental market is thin because it is uncertain whether rented land will be returned to lessors. Such tenure insecurity deprives the lessor of rental income, and the lessee of access to productive lands. It is relevant to ask why these markets are constrained if renting has positive welfare implications for a significant number of rural households. The question does not challenge claims that customary tenures have responded to demands generated by population growth and better prospects in farming (Ault and Rutman, 1979), but it does recognise that there is a 'supply' side to institutional change. This process involves collective action and introduces problems associated with free-riding, power and ideology (Bardhan, 1989; Kanel, 1974). Concerted opposition to rental markets could come from several quarters within a community, and will influence both the direction and extent of institutional change. Clearly, policy questions relating to intervention cannot be answered without knowledge of the forces that shape local institutions.

2. RENTING AS A MEASURE OF EFFICIENT LAND USE

It is widely recognised that customary land tenures provide households with social security. Although fears of (additional) distress sales when customary tenure is replaced by free simple title may be exaggerated, they are not entirely unfounded and are likely to be compounded by the disruption of local institutions responsible for maintaining social stability (Barrows, 1974). The consequences of distress sales would be particularly severe for households where social security is weak and expected off-farm earnings are low.

According to the survival principle, in the absence of high transaction costs and uncertainty about future income streams, incentives exist for a less productive farmer to sell land to a more productive farmer (Johnson, 1972). If society views land as a scarce resource, an efficient land market is necessary for efficient land use otherwise rents would not be maximised. However, World Bank analyses of survey data gathered in Kenya, Ghana and Rwanda (Migot-Adholla *et al.*, 1991) did not reveal any positive relationship between farm productivity and 'complete' transfer rights - defined as the respondent's perceived right to sell land.

Where farms are very small and households value land for the social security it provides, there is no guarantee that the offer price of productive farmers will exceed the reservation price of owners that have few alternative forms of insurance. Consequently, land saleability, perceived or otherwise, may have little bearing on how efficiently land is farmed as it could reflect incentives other than those which tend to equalise the marginal product (less transaction costs) of the

last unit of land across farmers. Of course, use rights would still transfer to farmers commanding more skills, capital or family labour if the rental market for agricultural land were efficient as there would be an opportunity cost to penalise under-utilisers. Although levels of investment in fixed improvements are expected to be lower on rented than on owner-operated land due to moral hazard and transaction costs (Kille and Lyne, 1993), there remain strong incentives to conserve and invest when both tenure and contracts are secure. As these conditions are also necessary for an efficient rental market (section 5), the link between productivity and transferability would more likely be found in the rental market for farmland. However, rental markets carry their own risks and transaction costs which may constrain their operation even where land can be sold (see, for example, Migot-Adholla *et al.*., 1991).

3. EVIDENCE OF CONSTRAINED RENTAL MARKETS

In this section attention is focused on evidence that rental markets are inactive despite the presence of potential tenants and lessors. Clearly it is not sufficient just to demonstrate that the incidence of renting is low as this may only reflect a relative abundance of land or that households have very similar resource endowments and economic opportunities. For this reason the evidence is largely descriptive and hints at the causes of market inefficiency discussed later.

In the homelands of South Africa land is not abundant and, although farm sizes tend to be uniformally small, households face very different economic opportunities owing to the existence of a highly differentiated wage labour market (Thomson and Lyne, 1991). While the vast majority of rural households derive only a small fraction of their total earnings from farming, a significant number are very dependent upon agriculture. In a recent (1993) survey conducted in parts of rural KwaZulu it was found that half of the households sampled wanted to rent land left idle by neighbours but that only four per cent did so. Of those respondents who indicated that they would like to participate in a land rental market, almost 60 per cent claimed that transactions were 'too risky' - a finding consistent with Thomson and Lyne's argument. Risk and high transaction costs raise the reservation price of potential lessors and tend to confine the population of tenants to farmers who can cover the risk premiums charged by lessors. Empirical studies conducted in KwaZulu have shown that renting is virtually synonymous with more intensive cropping and surplus production even though lessors attempt to reduce their chances of losing land by renting to close friends and relatives (Nieuwoudt and Vink, 1989). There is little information regarding the extent of private rental transactions in the other homelands of South Africa, but a survey of emerging farmers (surplus producers) conducted in the Transkei during 1992 revealed that 21 per cent of the respondents rented land in. However, within the subset that operated land under customary tenure only, the proportion was lower (13 per cent) and the majority claimed that renting was not allowed. Even amongst these emerging farmers, land was farmed more intensively by those who rented in.

A similar situation prevails in Lesotho. The principal source of income is remitted wages, and long-term opportunities in urban occupations are sufficiently insecure as to discourage (non-farm) households from surrendering their land rights (Lawry, 1993). Although rental transactions in the form of sharecropping are common, Lawry presents evidence that the rental market is constrained. Arable land is under-utilised despite intense population pressure and the existence of potential tenant farmers. Case studies revealed that emerging farmers were looking for greater control over operations and profits than sharecropping would permit but that cash rentals required the chief's cooperation and involved unnecessary transaction costs due to a weak legal environment. The de facto situation is that land is often under-utilised even though it is not abundant and is sought by farmers.

4. RENTAL MARKET ACTIVITY, EFFICIENCY OF LAND USE AND EQUITY

This section attempts to demonstrate the relationship between a rental market for farmland, efficiency of land use and equity using a combination of sample survey data and secondary data sources.

4.1 Rental market activity and land use efficiency

It was argued in section 2 that, where farms are small and households hold land as social security, the link between productivity and transferability of land is most reliably studied in rental markets. In section 3 it was established that land rental markets are often constrained in developing regions. It was also hypothesised that the group of observed tenants is likely to be characterised by farmers confident of their ability to cover premiums charged by lessors who risk losing their land rights. Following this logic, an inverse

Table 1: Rental market activity, land-use efficiency and household characteristics in regions of Transkei (1992) and KwaZulu (1991)

Region	Transkei (emerging farmers)		KwaZulu	
	Rent	Other[1]	Rent	Other[1]
Households	11	42	7	125
% Hlds renting in	21		5	
Farm size (ha)	8.54	9.02	0.83	1.36
Area operated	11.81	9.02	1.39	1.36
Income/ha operated ®	1670	1112	439	193
Gross margin/ha operated			251	80
Farm income	19745	10023	610	262
Non-farm income	11708	10072	7284	4833
Hhld income	31453	20095	7894	5098
Family size	11.18	7.86	7.29	7.38

[1] Other = households that do not rent land in.

relationship may be anticipated between rental market activity and the productivity gap (income per hectare operated) between farmers who rent land in and households that do not (Lyne and Roth, 1994). Variables illustrating productivity differences observed in samples from KwaZulu and Transkei are presented in Table 1. The data suggest that renting does transfer land to farmers who gross more income per hectare. A comparison of net incomes would provide a more accurate test of the market's efficiency advantages but cost data were not recorded in the Transkei survey. Deducting expenditure on improved seed, fertiliser and chemicals yields a per hectare gross margin significantly higher on land operated by renters in KwaZulu where the market is particularly weak.

The data also suggest that renting transfers land to households that have more capital and labour per unit area. Less developed rural areas are often characterised by imperfect markets for capital, skills and contractor services. Moreover, even though labour markets are generally active, some family labour is often less than perfectly marketable. Under these circumstances, land rental is expected to make a significant contribution to efficient resource allocation.

In an evaluation of the farmer support programme (FSP) initiated by the Develoment Bank of Southern Africa (DBSA), Lyne and Ortmann (1991) estimated the relative contributions of credit and extension (the main components of FSP in KwaZulu) to differences between 'subsistence' and 'emerging' farmers. Households were defined as emerging farmers if they produced and sold a surplus. Given similar farm sizes, it was postulated that emerging farmers would rent in more land, use more institutional credit, and purchase more fertiliser, chemicals, and contractor services than subsistence farmers. It was also anticipated that more surplus producers would own farm equipment and know the local extension officer (advisor) by name. The results are presented in Table 2.

The variable measuring contact with extension officers was excluded from the analysis because its estimated coefficient had a t-value smaller than one. As expected, the signs of the estimated coefficients are all positive. Area of land rented in has the largest standardised coefficient and was therefore judged to be the single most important variable distinguishing between subsistence and emerging farmers.

4.2 Rental market activity and equity

A land rental market resulting from secure tenure and contracts avoids the problem of landlessness associated with land sale. Potential lessors need only rent out land that they do not require in the short-term, and do not have to relocate. Provided that rental arrangements are voluntary, removing constraints to renting will create positive opportunities for many households - particularly the poorest. Landholders who are either unwilling or unable to use all of their land would gain opportunities to earn rental income, and households short of land for subsistence or commercial farming would gain opportunities to extend their farming operation.

Although fixed transaction costs and imperfections in related markets (eg discriminatory access to cheap credit) will tend to skew the distribution of benefits generated by these openings, such distortions will be less apparent in regions where farm size patterns are egalitarian. The data presented in Table 3 support the view that land rental would improve equity in KwaZulu.

Just six of the 158 household heads surveyed rented land in and none admitted to leasing land out. While 78 indicated that they would like to hire additional land (willing lessees), only 9 conceded that they would like to lease land out (willing lessors). The remaining 65 (others) claimed that they did not want to rent land in or out, but the group averages suggest that some of these respondents would

Table 2: Estimated discriminant function for 'subsistence' and 'emerging' farmers in KwaZulu, 1990 (n - 234)

Explanatory variable		Standardised coefficient	t-value[1]	Group means	
				Sibsistence	Emerging
Area rented	(ha)	0.611	6.1**	0.00	0.31
Fertilizer	(kg)	0.465	3.8**	151.00	756.80
Chemicals	(R)	0.407	3.8**	1.94	29.89
Equipment	(%)	0.271	2.0*	4.30	19.20
Contractor	(R)	0.234	2.1**	75.50	318.39
Credit	(R)	0.194	1.6#	42.89	228.70
Advisor	(%)			56.70	76.90
Number of cases				26	208

[1] ** $p < 0.01$, * $p < 0.05$, # $p < 0.10$.
Source: Lyne & Ortmann (1991:32)

Table 3: Potential equity advantages of land rental in KwaZulu, 1993 (n = 158)

Households		Lessees 6	Willing lessees 78	Willing lessors 9	Others 65
Farm size	(ha)	0.80	0.85	1.28	0.86
Area operated	(ha)	2.05	0.85	1.28	0.86
Area left fallow	(ha)	0.04	0.14	1.07	0.17
Own tractors	(%)	33	4	0	6
Non-farm income	(R)	7775	6455	3792	4033
Age of head	(years)	47	48	63	53
Widows	(%)	0	21	33	31

become lessors if renting out was less risky. In this sample, renting transfers land from larger to smaller farmers, and income from wealthier to poorer households, especially widows and retired people who are unable to farm their land owing to liquidity and labour constraints.

Studies by Lawry (1993) in Lesotho and by Riddell (undated) in Madagascar concluded that rental transactions sustain many households that would otherwise be destitute. These findings also demonstrate that rental markets add to the social security provided by customary land rights. In the absence of a rental market, land rights are a less efficient source of liquidity, and governments may be obliged to shoulder more responsibility for the rural poor. In summary, the evidence does not contradict Bell's (1990) view that tenancy, as a voluntary market response, is neither inherently nor inevitably damaging to the interests of the poor. However, the emergence of conditions necessary for a rental market could harm certain rural households (section 5).

The equity implications of a rental market for farmland are not confined to rural households. Consumers and work-seekers stand to benefit from 'static' increases in production resulting from more efficient allocation of agricultural resources. In the dynamic world, renting has enabled many farmers, who had a will to learn but little else, to climb the 'agricultural ladder' as it does not divert scarce working capital into land purchase (Binswanger *et al.*, 1992; Foster, 1989). Perhaps more relevant in Southern Africa where farm sizes are diminishing due to sub-division, renting helps to retain human and financial capital in agriculture as it permits adjustments in the scale of farming operations. Lastly, experience and information generated by rental contracts could be valuable to households and bureaucrats alike in areas where land sales are emerging and use rights are not documented.

5. CAUSES OF INEFFICIENT LAND RENTAL MARKETS

An 'efficient' land rental market is defined here as one which accomplishes the productivity and equity gains referred to in the previous section. Viewed from this perspective, 'efficiency' involves the usual neoclassical conditions, viz. security of tenure and low transaction costs (Nieuwoudt, 1990). Whilst it is often claimed that tenure is secure under the indigenous systems operating in Africa, Feder and Noronha (1987) add the qualification that customary tenure is secure only when it refers to the ability to use land for a certain period and for a defined purpose without disturbance. However, the situation may change when the holder attempts a land transaction that would best suit his or her own interests. In Place *et al.*'s. (1994:20) terminology, security of tenure has breadth, duration and assurance components. If assurance is lacking, use rights and their duration are rendered uncertain even if they are well defined in customary (and national) law. For example, a user whose rights to a particular parcel of land are recognised and are broad enough to permit transfer of use to another party, could lose his or her rights by entering into a rental contract that is not enforceable. Tenure is also insecure if the quantity (breadth) of rights allocated to a user is inadequate. Thus a user who does not have the right to transfer exclusive use of land to a tenant does not have secure tenure. In either case, the rental market for land would be constrained by insecure tenure.

Following this approach, certain transaction costs are expected to vary inversely with security of tenure. According to Johnson (1972), transaction costs increase when property rights are not clearly defined and allocated owing to the high cost of discovering the owner and establishing one's own rights. A potential tenant seeking exclusive rights to a parcel may find transaction costs prohibitive if there are many legitimate claimants, each possessing inclusive rights to the same parcel. Here, high transaction costs faced by the tenant are matched by tenure insecurity (inadequate breadth of rights) on the part of the users. Risks that reduce tenure security could also be viewed as raising transaction costs. In the first example where tenure insecurity was attributed to an unenforceable contract, the underlying problem might have been inadequate policing. Uncertainty about institutions and laws that would be applied to disputes, unpredictable judgements, and fuzzy procedures to establish or defend contracts would likewise serve to undermine assurance and tenure security. Alternatively, the risk premiums attracted by these circumstances could be interpreted as transaction costs.

Other things being equal, exclusive rights to land enhance tenure security or reduce transaction costs and are therefore central to an efficient land rental market (Kille and Lyne, 1993). Table 4 is extracted from Lyne and Roth (1994) and lists six 'institutional' variables that convey information about tenure security and transaction costs in parts of KwaZulu, Mozambique, Somalia and Uganda where representative household samples were drawn. The last three variables listed in Table 4 indicate the presence (1) or absence (0) of attributes in the study areas.

The vast majority of agricultural land in KwaZulu is State owned, with land rights administered by local (often tribal) authorities. Under national law, households may not sell or mortgage their holdings. Evidence from Africa shows that national laws prohibiting land sales seldom eliminate the sale market (Feder and Noronha, 1987). There is certainly scope for a gap between reality and national land law in KwaZulu because land disputes are ultimately settled by tribal, not judicial, courts (Thomson and Lyne, 1993). This is not to suggest that land markets are active in KwaZulu. From a market perspective, it does not matter how the law is established - all that is required is certainty of the law (Johnson, 1972). The evidence presented in section 3 suggests that tribal courts in KwaZulu have not set firm precedents for cases involving disputes over land rental arrangements. Further, it would appear that procedures for establishing rental contracts are not clear. In the sugar belt and Umzumbe district of KwaZulu where rental arrangements have been observed, outside agents had to bring the contractual parties together (Lyne and Nieuwoudt, 1991; Thomson and Lyne, 1993).

In Mozambique, land was nationalised after Independence in 1975. Individuals and collectives can register a title, which is a lease of use rights granted by the State, but the land law of 1979 prohibited all private land transfers

Despite economic liberalisation since 1985, property sales are still not recognised. Nevertheless, some land sales have been observed and, contrary to the sample estimate reported in Table 4, district officials claimed that renting had become more common since 1986 despite recent attempts by Government to clamp down on private transactions (Roth *et al.*, 1992). Even so, case studies reported by Boucher *et al.*

Table 4: Rental market activity and institutional variables in regions of Uganda, Somalia, KwaZulu and Mozambique

Region	Uganda				Somalia		Mozambique
	Busaana	Kabulasoke	Bukuya	Kibinge	Shebelle	KwaZulu	Maputo
Households observed	123	107	124	126	113	132	121
% Hhlds renting in	41	33	27	22	7	5	0
% Households that:							
- perceive customary restraints or under risk in land rental[1]	2`	33	25	34	81	69	68
- purchased land	31	29	19	28	25	0	9
- have title to some land	11	20	21	14	32	0	58
Rental procedures transparent	1	1	1	1	0	0	0
Precedents affirm tenure security	1	1	1	1	0	0	0
Land sale upheld by national laws	1	1	1	1	0	0	0

[1] Respondents that perceived customary restraints or undue risk in renting were those who claimed that land could be rented only to kin (Uganda), that they would be dispossessed if a tenant farmed their land (KwaZulu), or that tenants might claim rented land as their own (Somalia and Mozambique)

Source: Lyne & Roth (1994)

(1993) suggest that rental transactions are characterised by gross confusion and that State enforcement of land rights is both weak and inconsistent. This view is supported by Roth *et al.* (1992) observation that renting is nearly always between family members or close friends to avoid having the land claimed by tenants.

Likewise, in Somalia, the Agricultural Land Law of 1975 asserted State ownership over all agricultural land, and provided for leasehold titles (concessions) granting use rights. Initially, concessions could not be purchased or rented, but these restrictions were relaxed before the household survey (Roth, 1993) reported in Table 4 was completed. Exactly what effect the statutes had on land markets is not clear but rental transactions described by respondents were informal agreements and there was little evidence of transparent procedures for establishing contracts. Land disputes frequently involved tenants who refused to vacate parcels at the end of their contractual term. Whereas other land disputes had been taken to judicial courts, this avenue was closed to rental disputes and there were few indications of firm local precedents - most respondents considered dispossession to be a very real threat and perceived renting to be risky. The official view that land should be reallocated to those who farm it may have aggravated local uncertainty.

The situation is quite different in Uganda. Here, land rental predated the colonial era - a period which saw exclusive rights to surveyed farms entrenched in law, and subsequent growth in the land sale market. In 1975, the Land Reform Decree declared all land in Uganda to be public land, and converted existing freehold titles into long-term leasehold titles. The law permitted market transactions in titles provided that written consent was obtained from the Uganda Lands Commission. In reality, there was very little change in the way transactions were conducted or registered (Roth *et al.*, 1994:174). Troutt (1993) observed that local authorities in her study areas (Table 4) often acted as brokers, matching willing buyers and sellers, and applied well established procedures to witness land sales. Unfortunately, methods used to validate rental contracts were not observed as these transactions usually involve neighbours and are not so conspicuous. Outsiders are not excluded from the rental market, but their entry is constrained by asymmetric information. Disputes over rental contracts are taken either to the village chief or elected village authority (Resistance Council). Although this duality does create space for confusion, verdicts seldom differ and parties have recourse to local judicial courts. In Troutt's view, decisions are predictable regardless of which institution hears the case, and local precedents reinforce security of tenure.

Table 4 demonstrates a strong inverse relationship between the incidence of renting and the proportion of respondents who perceived transactions to be risky or subject to customary restrictions ($r=-0.94^{**}$ across regions). Whilst it might be anticipated that tenure would be most secure in regions where the incidence of land purchase or land titles is highest, neither of these variables was significantly correlated with rental market activity. There is some evidence of a positive correlation between renting and the incidence of purchased land ($r=0.75$) despite legal prohibitions on land markets in Somalia and Mozambique. The reverse holds for land titles ($r=-0.46$). This result most likely reflects legal restrictions on land transfers that accompanied land registration in Somalia and Mozambique but it is also consistent with the view that titling is neither a sufficient nor a necessary condition for a land rental market, and that it may aggravate tenure insecurity by creating conflicting claims to land.

The remaining variables are positively correlated ($r=0.92^{*}$) with the incidence of renting. Rental markets are more active where (a) procedures for establishing contracts are transparent, (b) local precedents set in land disputes confirm security of tenure, and (c) national law sanctions local precedents. With the exception of land titles, the 'institutional' variables are highly inter-correlated but the data are too flimsy to isolate their relative contributions to the rental market. More importantly, the statistics do not explain why some regions are characterised by local institutions that constrain renting.

Feder and Noronha (1987) summarise the popular view that secure tenure and low transaction costs emerge in response to population growth, the adoption of high value crops, and improvements in communications and extension services. The generic explanation starts with land becoming relatively

scarce owing to population pressure and better prospects for commercial farming. According to Ault and Rutman (1979), this should induce a system that assigns exclusive rights to land because farmers have an incentive to invest but are unable to internalise the benefits of their effort unless they can exclude other users (free-riders). Curiously, the 'transaction cost' approach ignores problems of collective action, like high transaction costs in large groups (Olson, 1971), that may prevent farmers from lobbying for more exclusive rights to land.

Some authors argue that rural communities are not homogenous, and that population growth could favour groups opposed to local precedents that reinforce security of tenure. Lawry (1993) distinguishes between smallholders who rely mainly on wage employment and those who rely primarily on farming. He contends that increasing population pressure on land in Lesotho has strengthened the former group, overwhelming farmer demands for more marketable land rights. Like Parsons (1971), he attributes opposition from non-farmers to fears that a land market will jeopardise their social security. However this argument ignores the mutual benefits afforded by land rental. Of course, where households rely on secondary use rights to land, a shift towards exclusive rights could threaten social security.

Opposition to exclusive land rights has also been attributed to livestock owners and tribal authorities. Lyne and Nieuwoudt (1990) noted that stockowners in KwaZulu resisted attempts by farmers to rent idle land because their supply of communal grazing diminished when fallow land was cultivated. In the same region, Thomson and Lyne (1993) found that some chiefs disallowed rental contracts between prospective lessors and sugar-cane farmers. The authors conclude that tribal authorities may oppose land markets where they rely on their control over land allocation to prevent political rivals from settling in their domain. Alternatively, tribal authorities may empathise with households who rely on secondary use rights to land, or they may be predisposed to special interest groups, like influential stockowners who keep cattle as store of wealth.

The Marxist view that institutions are transformed by class struggle has obvious appeal but there are equally obvious questions about how the classes should be defined. Further, Marxists, like their 'transaction cost' counterparts, tend to ignore the problems of collective action that may preclude a struggle or resistance. Nevertheless, by stressing the relevance of political organisation, ideology and the distribution of wealth as elements of institutional change, they do focus attention on the need for compensation.

6. POLICY IMPLICATIONS

As yet there appears to be no firm theoretical basis for assessing policies intended to encourage the evolution of land rental markets. The 'transaction cost' model lends support to a policy of 'induced innovation' involving programmes that make exclusive land rights more attractive to farmers. For example, the Development Bank of Southern Africa presumes that public investment in cheap credit, information and rural infrastructure will improve market access to land (DBSA, 1986). Assuming that the problems of collective action and resistance are trivial, this strategy could produce undesirable outcomes like distress sales and redistribution without compensation. If, on the other hand, concerted resistance stalls the shift toward exclusive land rights, the productivity and equity advantages of a rental market will be lost and farmer support programmes will be wasteful.

Substituting freehold for customary tenure and prohibiting land sales while households gain experience in rental markets has theoretical appeal. However, replacement policies could collapse rental markets by creating conflicting claims to land. The underlying problem is that customary rights to land are seldom documented and tribal authorities are often the only respected source of information. Since titling is neither a sufficient nor a necessary condition for land rental, an adaptive policy designed to produce incremental changes in customary tenure may be more successful.

To alter the evolution of land tenure from an unpredictable process to a more pragmatic one, losers have to be compensated. Identifying potential losers and finding ways to compensate them are important elements of the adaptive approach. If tenure is secured at the expense of households who rely on secondary use rights, acceptable compensation may involve alternative forms of social security, like adequate pension and unemployment benefits, or options to exchange use rights for serviced residential sites, shareholdings in ranching incorporations, etc. It may also be necessary to offer incentives to tribal authorities. Apart from possessing vital information, tribal authorities might best fit the powerful roles to be performed (Kanel, 1974) and even the most dictatorial chiefs "may be serving a necessary function of creating indispensable order" (Parsons, 1974:746). In KwaZulu, Thomson and Lyne (1993) found that chiefs who endorsed written contracts between lessors and tenants (confirming their exclusive rights to specific lands) were those who received financial compensation. Some benefitted by entering the rental market (usually as lessors) and others raised tax revenue from the transactions.

Recording transactions, disputes and precedents is another important element of the adaptive approach. Keeton (1966) claims that it was the search for customary rules of tenancy and their generalisation and enforcement by courts that transformed privileges (granted by dictators) into rights, and established the Common Law in England. Whether adaptive strategies will be cheaper than replacement strategies is not clear as their success will hinge on (costly) negotiations with numerous tribal authorities. Clearly, adaptive strategies will require a substantial commitment from government - to support research, compensation, and negotiations with local authorities; to document transactions, disputes and precedents; to disseminate information; and to ensure that national laws sanction local precedents.

7. CONCLUSIONS

In Southern Africa, where farms are very small and households attach a high value to land as a form of social security, allocative efficiency is more likely to be reflected in the rental market for farmland than in the sale market. The rental market also has equity advantages as it avoids problems associated with distress sales. Certainly, the data presented in this paper show that renting closes productivity gaps by transferring land to farmers who can use it more effectively, and that, far from damaging the interests of the poor, it sustains many households that would otherwise be destitute.

Unfortunately, land rental markets are often constrained in Southern Africa because customary tenure is not secure and transaction costs are high. These problems stem largely

from two sources; either the user does not have exclusive land rights (ie the breadth of rights is inadequate) or the risk of losing land as a result of a transaction is too high. The sample data indicate that rental markets are more active where local precedents and national laws reinforce a household's security of tenure. In theory, titling could resolve these problems but, even if its consequences were acceptable, it faces mammoth information and logistical obstacles that tend to undermine its worth as a means of improving tenure security. Instead, recent proposals recommend policies encouraging an endogenous shift toward exclusive land rights.

On the one hand, policies based on the Coasian 'transaction cost' model stress the importance of support programmes (eg subsidised credit, information, rural infrastructure and new technology) that will encourage farmers to pressure for exclusive land rights. But these (induced innovation) strategies ignore the problems of collective action and conceal the existence of groups opposed to precedents that reinforce tenure security. Resistance is likely where households are very dependent upon secondary rights to land that primary users wish to enclose. As a result, the outcome of 'induced innovation' is unpredictable, and could be highly undesirable. If the policy 'succeeds' it could produce distress sales and land grabbing. Conversely, failure implies a constrained land rental market (ie losses in productivity, equity, experience and information) and limited response to the support programmes.

On the other hand, adaptive policies emphasise strategies intended to make changes in customary tenure more predictable. In particular, they recognise the need to compensate people whose welfare is threatened by tenure security, including tribal authorities who often control the information and functions that set precedents and revise customary tenure. Apart from identifying and providing suitable forms of compensation, adaptive policies require that government should help to transform privileges into rights by sharing transaction costs.

Clearly, adaptive programmes would be appropriate and more effective when there are worthwhile opportunities in farming. Likewise, farmer support programmes are unlikely to realise expected changes in customary tenure or production if they are not accompanied by adaptive programmes. In practice, it may be useful to include the latter as an essential component of any farmer support programme.

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