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State, Market Or The Worst Of Both? Experimenting With Market-based Land Reform In South Africa

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**PLAAS**

PROGRAMME FOR LAND AND AGRARIAN STUDIES

School of Government

University of Western Cape



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## Preface

The concept of 'market-based land reform' has been central to policy debates in southern Africa for the past twenty-five years. During that time meanings and values ascribed to the concept have evolved considerably, with significant differences between, for example, how it has been applied in Zimbabwe in the 1980s and in South Africa from the mid-1990s.

In the transition to democracy, South Africa has adopted a strongly pro-market approach to land reform, based in part on the supposed successes of this approach in Zimbabwe but also influenced by emerging international support for market-based land reforms. The 'willing seller, willing buyer' approach has come to signify not only a lack of compulsion on landowners and the payment of market-related prices for land, but also a minimal role for the state in strategic planning and implementation. This has led to a slow rate of land transfer and inappropriately designed, under-financed and isolated settlements poorly integrated to the agricultural economy and state support services. Wider, structural reforms that would support the emergence of new smallholders have not been forthcoming, as government has vigorously pursued deregulation of the agricultural sector and integration into world markets.

The emerging evidence from southern Africa suggests that market-based land reforms have emerged in the context of regimes that are constrained from undertaking fundamental restructuring of the agrarian economy by a combination of internal and external forces. A market-based approach offers no threat to vested interests in land ownership, agri-business and the wider economy, while providing very limited benefits to selected beneficiaries. The experience of South Africa, in particular, suggests that market-based approaches are incapable of effecting a large-scale redistribution of land or restructuring of the agrarian economy, and are likely to be met with growing popular opposition as the crisis of rural livelihoods grows and the limitations of 'willing seller, willing buyer' become apparent.

This paper reviews the South African experience with land reform, and land redistribution in particular, up to the end of 2005. It does not, therefore, cover proposals for a proactive land acquisition strategy (PLAS) announced by the Minister of Agriculture and Land Affairs during 2006, nor the issuing of a small number of expropriation orders for land under restitution. While the National Land Summit of July 2005 signalled a broad political and popular support for a shift away from market-based approaches, it remains to be seen whether recent policy proposals will in fact lead in that direction.

## 1. Introduction

**T**he concept of ‘market-based land reform’ (MBLR, also market-assisted land reform, or market-led agrarian reform) has been central to the ‘new wave’ of land reform that has been in evidence internationally since the early 1990s. This so-called new wave followed a lull in land reform in most regions of the world during the 1980s, which marked the end of a long run of (capitalist and socialist) reforms in the decades since the end of the Second World War. This history, and the theoretical positions developed around it, have been debated extensively elsewhere, and will not be repeated here.<sup>2</sup> Rather, this introductory section will focus on the relatively recent emergence of MBLR internationally and how the concept has been interpreted and applied in the southern African context. The subsequent section will look in detail at the case of South Africa, while the conclusion draws out key lessons for the region and their implications for land reform policies more generally.

Moyo and Yeros (2005) make a useful distinction between three broad models of land reform, which they term ‘state’, ‘market’ and ‘popular’. While current MBLR programmes would appear on the

surface to belong to the 'market' model, the analysis of Moyo and Yeros suggests that many of these may fit more closely to a modified ('reformist') state model, whereby the state engages in voluntary transactions in the market:

*The state may also acquire the land through market means, the reformist 'willing-seller, willing-buyer' scenario; here, the market (i.e. the landlords) selects the land (if and when the landlords wish), the state purchases the land and compensates the landlords (often with external aid), the state selects the beneficiaries (unless again they have acted pre-emptively), and the state transfers title to them (Moyo & Yeros 2005:53).*

There is widespread agreement among scholars that MBLR has emerged as a reaction to the perceived weaknesses of state-led approaches (of both the capitalist and socialist varieties) to land and agrarian reform. Among the more commonly cited arguments are the inefficiencies of state and collective farms in China, the Soviet bloc, and their satellites in Africa, Asia and Latin America; the failure (and partial reversal) of redistribution schemes in parts of Latin America and Asia; and the distortion of various markets through trade protection, price regulation and producer subsidies.

The economic structural adjustment programmes (ESAPs), largely promoted by the World Bank and the International Monetary Fund (IMF), which dominated economic policy in the developing world in the 1980s, can be seen as both the gravedigger of 'old order' state-led land reform, and the midwife of new market-friendly approaches. In response to widespread debt and fiscal crises, state expenditure in many countries was dramatically reduced and/or redirected, markets were liberalised and state agencies responsible for both agricultural production and distribution were either closed down or privatised. In other words, the key pillars of state-led development and regulation ('developmentalism' in Bernstein's term) were systematically removed, not just in market-oriented economies (for example Brazil and Malawi) but also in nominally socialist-oriented ones (for example Tanzania and Zimbabwe). Adding to this shift in economic policies was the ideological crisis created by the fall of communism in the Soviet Union and its satellites, which undercut traditional left-wing opposition to market-oriented reforms.

Against this shifting economic and ideological backdrop land reform once again found its way onto the political stage, but in forms dramatically different to those that dominated the previous era. Debates now focused around a relatively narrow spectrum of reforms rather than the wholesale restructuring of agrarian relations.





Nationalisation and collectivisation virtually disappeared from the agenda (with the possible exception of Zimbabwe); ‘land to the tiller’, widely seen as the most successful form of land reform throughout the nineteenth and twentieth centuries was no longer an option due to the virtual disappearance of landlord estates from most countries in the world (with notable exceptions such as parts of south Asia and north Africa); the break-up of haciendas in favour of workers and peasants was generally out of favour due to the perceived difficulties in shifting from large- to small-scale production and from waged to family labour. This left only reform of communal (or traditional) tenure and modest redistribution of large-scale commercial farm land to selected beneficiaries – generally those deemed capable of ‘commercial’ production, either individually or as part of a group. It is this form of redistribution that has been most associated with MBLR. However, as will be demonstrated below, the concept has been used in a variety of ways.

MBLR is based on the claim that markets can bring about both efficiency and equity benefits by transferring land from less to more productive users (typically large to small) (Deininger and Binswanger 1999). This has been central to the thinking of the World Bank and others since at least the 1970s (and therefore predates what became known as MBLR). What has changed, however, is a greater acknowledgement by neo-liberal economists that markets alone are unlikely to bring about the desired restructuring of property relations, due to a range of imperfections or distortions, including limited access to credit and information on the part of poorer buyers as well as the tendency of land prices to exceed productive (or agronomic) values. Thus, the use of grants is advocated in order to allow small or would-be farmers with limited capital or access to credit to enter the land market, but in ways that do not further ‘distort’ the market (Van Zyl and Binswanger 1996:419), giving rise to what can best be described as assisted purchase schemes.

While the acquisition of land via voluntary market transactions has been the hallmark of MBLR, a range of additional attributes have also become associated with this approach. Notably these include:

- the self-selection of beneficiaries
- co-funding (‘own contribution’) by beneficiaries
- an emphasis on farm planning prior to approval of grants (and thus prior to acquisition of land)
- reliance on the private sector and non-governmental organisations (NGOs) rather than on state agencies to provide technical and financial support to beneficiaries (Deininger and Binswanger 1999; Borras 2003).

For its proponents, MBLR thus refers not just to the redistribution of land via the market but to a wider set of reforms that seek to:

- redistribute land
- liberalise land and other markets (for example credit, agricultural inputs, agriculture produce)<sup>3</sup>
- draw smallholders or 'emergent' farmers into more 'commercial' forms of production
- and minimise the role of the state in the allocation of land, regulation of the agricultural economy and rural development (including support to new or small farmers).

Many of the above reforms of the agricultural sector are, of course, under way in countries in which land reform (particularly redistributive land reform) has not emerged as a priority. In those cases where market-based land reform is being pursued, it is possible to identify five key characteristics that define the approach:

1. A landowner veto on participation in land reform – *the market selects the land*.
2. Payment of 'market price' for land (usually upfront, in cash) – *the market sets the price*.
3. Self-selection of beneficiaries (also referred to as 'demand led') – *the market selects the beneficiaries*.
4. A focus on 'commercial' forms of production – *the market determines what is produced*.
5. A prominent role for the private sector in provision of credit, extension and other services to beneficiaries – *the market provides support*.

The relative importance of these elements of MBLR may vary from country to country and over time. Under the Lancaster House constitution in Zimbabwe in the 1980s, for example, the first two were prominent, with less emphasis on the latter three. In Brazil, there has been less emphasis on production for the market; and in South Africa, since the mid-1990s, all five elements have been prominent.

MBLR has attracted widespread criticism and popular opposition, both for the specific claims it makes and for what it fails to address. Among the issues raised by analysts have been:

- the reluctance of landowners to respond favourably to market inducements
- a tendency to push land prices up
- exclusion of poorer beneficiaries
- inappropriate farm planning (leading to project failures)
- and the failure of private sector agencies to effectively replace state agricultural services (Riedinger et al 2000; El-Ghonemy 2001; Borras 2003).



The most telling critique, however, has been the slow pace of land transfer in all countries undergoing MBLR. This raises far-reaching questions about the approach itself, and about the ability of states to implement such market-dependent programmes. For example, are the objectives of MBLR so modest that they depart fundamentally from traditional understandings of land and agrarian reform? Can modest reform programmes that do not fundamentally challenge the power of the current landowning classes, and that accept the inherited (albeit now liberalising) structure of agricultural economies, provide sufficient land and appropriate opportunities for the rural (and urban) poor to 'accumulate from below', and thereby address problems of chronic poverty and inequality? Answers to these and related questions clearly require in-depth analysis of specific country cases.

Substantial debate has already ensued around MBLR in Brazil and the Philippines, but much less is known about MBLR in other countries. In southern Africa, what can be seen as a precursor of later policies began in Zimbabwe following independence in 1980. Here, market-based mechanisms were adopted as part of wider political and economic concessions made to white settlers during the transition, in particular the protection of white property interests. To retroactively apply the language of the 1990s, this could be seen as ensuring landowner 'cooperation' and avoiding 'distorting' the land market, but it is debatable whether such thinking had any currency at the time. Rather, the concept of 'willing seller, willing buyer' was seen (by all sides in the debate) as constraining the new state through granting landowners a veto on the reform process and ensuring that compensation had to be paid on the spot and at market rates (the first two of the five characteristics listed above) (Moyo 1995). Expropriation was permitted in cases of under-utilised land, but this too required payment upfront, and in hard currency. In other words, MBLR in the Zimbabwean case addressed the process of land acquisition but had little or nothing to say about issues such as beneficiary selection, forms of production on resettled land or the provision of support services, all of which tended to follow an older, state-led ('developmentalist') approach; what Moyo (1995) has termed a 'state-centred market-based approach'. Zimbabwe can, therefore, be considered as a transitional case between the state-led reforms of the post-war and post-colonial era and the fully-fledged MBLRs of the 1990s.

South Africa presents quite a different case. In contrast to countries such as Brazil and the Philippines, where MBLR evolved from (and has not entirely replaced) longer-running processes of non-market land reform, South Africa's land reform programme has fallen entirely within the era and the parameters of MBLR, and has

been seen as somewhat of a textbook case. Factors that made South Africa a candidate for MBLR, apart from the timing of its liberation, were the extreme inequalities in landholding (particularly along racial lines), the highly commercialised nature of South African agriculture, the presence of a well-developed land market, and the commitment of the incoming African National Congress (ANC) government to neo-liberal economic policies and national reconciliation. Moreover, the historical path of agricultural development in South Africa – specifically, the destruction or extreme marginalisation of smallholders and tenant farmers and the consolidation of production in the hands of relatively few large-scale producers – meant that a ‘land to the tiller’ approach was not a realistic option (Bernstein 1996). Land reform, to be meaningful, would have to be fundamentally redistributive, benefiting not only those currently involved in agriculture but also those who had long been excluded from the sector. While there was considerable popular support for redistribution at the moment of liberation (albeit little clarity around how this could or should be achieved), the economic policies and wider political considerations of the incoming government precluded the use of virtually all traditional forms of redistribution – for example expropriation, nationalisation or collectivisation. MBLR therefore provided a timely, if at the time untested, approach that held out the promise of a rapid transfer of assets at little risk to political stability or economic output.

## 2. MBLR in South Africa

**I**n South Africa, debate around land reform since 1994 has focused on the specific concept of ‘willing seller, willing buyer’ (WSWB), rather than the wider category of MBLR (Lahiff 2005). WSWB has some history of usage in South Africa, particularly around the (continuing) operation of the Expropriation Act 63 of 1975, under which the price paid for expropriated property (required, for example, for public works and so on) is determined by reference to the price that would be paid for the property were it to be exchanged between a willing seller and a willing buyer. In this context of expropriation, WSWB refers to an imaginary ideal rather than an actual practice. The phrase gained additional currency in the country with the extensive media coverage of land reform in Zimbabwe during the 1980s and early 1990s. There can be little doubt that this contributed much to its prominence within land reform discourse south of the Limpopo (Lahiff & Cousins 2001). This terminological borrowing – actively promoted by government, but not, interestingly, by the World Bank – has served to obscure the major differences between land reform policy in Zimbabwe (even in its most



‘moderate’ Lancaster House phase) and in South Africa. In particular, it has glossed over the much greater role of the state in Zimbabwe, including its right of first refusal on land sales, its ability to initiate transactions, and the effective nationalisation of purchased land – in short, expropriation and negotiated purchase with compensation paid at the equivalent of market prices. This contrasts starkly with the reactive (‘demand-led’) approach taken in South Africa, the reliance on the ‘open market’ and the freedom of landowners to sell to the buyer of their choice.

WSWB entered the discourse around land reform in South Africa gradually during the period 1993–1996, reflecting the shift in economic thinking of the ANC from left-nationalist to neo-liberal. It was entirely absent from the ANC’s *Ready to Govern* policy statement of 1992, which instead advocated expropriation and other non-market mechanisms. It was similarly absent from the *Reconstruction and Development Programme (RDP)*, the manifesto on which the party came to power in 1994. By the time of the White Paper on South African Land Policy 1997, however, a market-based approach, and particularly the concept of WSWB, had become the cornerstone of land reform policy.<sup>4</sup> Such an approach was not dictated by the South African Constitution, which makes explicit provision for expropriation for purposes of land reform and for compensation at below market prices. It was rather a policy choice, in line with the wider neo-liberal (and investor-friendly) macro-economic strategy adopted by the ANC in 1996 (World Bank 1994; Hall, Jacobs & Lahiff 2003).

Land reform in South Africa has consistently fallen far behind the targets set by the state and behind popular expectations. At the end of apartheid, virtually all commercial farmland in the country (approximately 86% of all farmland and 68% of the total surface area) was in the hands of the white minority and concentrated in the hands of approximately 60 000 owners (Bernstein 1996). In 1994, the incoming ANC government, heavily influenced by World Bank advisors, set a target for the entire land reform programme (redistribution, tenure reform and restitution) of redistributing 30% of white-owned agricultural land within a five-year period (Williams 1996). The target date was subsequently extended to twenty years (to 2014). At current rates of land transfer even this target is most unlikely to be met. The Land Redistribution for Agricultural Development programme (LRAD), the main instrument of market-based redistribution launched after a major policy review in 2001, has to date only achieved 40% of its specific target, reportedly due to high land prices.<sup>5</sup>

By July 2006 a total of 3.4 million hectares had been transferred through the various branches of the land reform programme,

benefiting an estimated 1.2 million people (see Table 1). The greatest amount of land (43.8%) was transferred under the redistribution programme, with lesser amounts being transferred through restitution, state land disposal and tenure reform.<sup>6</sup> The total transferred is *equivalent to* 4.1% of the agricultural land in white ownership in 1994. Since much of the land transferred under restitution and tenure reform, some of the land transferred under redistribution, and all the land transferred under state land disposal, was formerly state-owned, the actual impact on white-owned land is considerably less (Hall 2004a).<sup>7</sup>

Table 1: Total land transfers under South Africa land reform programmes, 1994–2006 (DLA 2006)

Programme	Hectares redistributed	Contribution to total (%)
Redistribution	1 477 956	43.8
Restitution	1 007 247	29.9
State land disposal	761 524	22.6
Tenure Reform	126 519	3.7
Total	3 373 246	100.0

Missing from these statistics are the amount of ‘pure’ market redistribution (that is, land sales unconnected with the official land reform programme) and, more significantly, the vast number of farm dwellers (workers, tenants and their dependents) who have lost access to land on white-owned commercial farms since 1994. A recent study by Wegerif, Russell and Grundling (2005) found that over two million farm dwellers – many of them tenant farmers engaged in independent production – had been displaced between 1994 and 2004, more than had been displaced in the last decade of apartheid (1984–94) and far more than the total number of people who had benefited under all aspects of the official land reform programme since it began.<sup>8</sup> It must be stressed that the precise achievements of the land reform programme are a matter of intense debate, largely due to poor reporting by the state agencies involved. The following sections examine the South African land reform programme under the five characteristics outlined above.

## 2.1 Landowner veto on participation in land reform

In South Africa absolute landowner discretion over participation has become a defining feature of the state’s land reform programme. This discretion applies most directly in the areas of land redistribution and farm workers’ tenure reform, but also heavily influences the rights-based restitution process which, in theory and in law, falls



outside the 'willing seller, willing buyer' paradigm.<sup>9</sup> Not satisfied with granting this power of veto to landowners, the state has assiduously avoided, for a period of eleven years, any measures that could be construed as influencing landowners to sell, such as collective negotiation with land owners' organisations, and has violently removed landless people illegally occupying land. Ironically, it has been a recurring complaint of landowners wishing to sell their land to the state for reform purposes that their offers are ignored, as official procedures are only geared to respond to potential buyers, not sellers. The Director-General of DLA recently told a parliamentary committee that his department turns down unsolicited offers from landowners, due to lack of capacity within the DLA and because the intended beneficiaries have not been identified in advance:

*In many cases they [the landowners] will not say who the people are who will benefit ... It's not a supply driven system ... The department is unwilling to acquire land without an immediate beneficiary in sight, because of capacity problems within its own ranks (Farmer's Weekly, 4 November 2005).*

While there is certainly an active land market in South Africa, there is reason to believe that much of the land being transacted is not available to land reform beneficiaries.<sup>10</sup> There have been widespread accusations of collusion among racist landowners opposed to land reform, but evidence on the extent of such action is limited (Aliber & Mokoena 2002; Tilley 2004). Good quality land that comes onto the open market tends to be sold by public auction or private contract, and transfer of ownership typically takes place within about three months of the initial offer to sell. Funding applications from would-be land reform beneficiaries generally take significantly longer than this to process and must be linked to a specific property.

The approval process requires, amongst other things, a written agreement to sell from the landowner, an agreed price that is confirmed as 'market-related' by an independent valuer and a detailed farm plan, all of which can take anywhere between three months and two years to assemble. Thus, would-be beneficiaries cannot participate in auctions, nor 'shop around', nor confirm a purchase within the usual time frame and so are excluded from the great majority of sales in what continues to be a highly competitive land market.<sup>11</sup> The 'willing sellers' are in practice required to wait for an extended period for confirmation of sale and face the risk that the application will be turned down on technical grounds or because of an absence of available funds.<sup>12</sup> While little firm evidence has been produced on this point to date, it seems reasonable to assume that only a landowner who is exceptionally committed to the cause of land reform, or who cannot dispose of land by other means (due to

poor location or quality of land, for example), will be likely to enter into a land reform transaction (Aliber & Mokoena 2002). The obvious ('market-based') alternative, that the state itself purchases the land on behalf of approved beneficiaries, has been rejected by the DLA on the questionable grounds that this would constitute a 'supply-led' approach and risk the state being left with land which it could not maintain or dispose of.

In a number of important respects, the policies implemented by the South African government diverge from the MBLR model, in ways that tend to inhibit the availability of land. Firstly, the need for a land tax has long been argued as a means of encouraging the sale of underused land and limiting speculation. To date, the South African government has avoided it as part of its general policy of reducing taxation and encouraging private sector investment, and due to opposition from landowners. Secondly, subdivision of large holdings is widely seen as a key element in promoting access to land, especially in countries with highly concentrated landholdings. Subdivision of agricultural holdings was legally prohibited under apartheid and, although the law has now been repealed by parliament, it has been waiting over four years for the presidential signature necessary to make it effective and does not appear to enjoy political support. Moreover, subdivision of land is seen as an expensive and administratively cumbersome process and is unlikely to be undertaken by landowners even once legally permitted (Aliber & Mokoena 2002). The result is that land continues to come onto the market in relatively large lots and groups of would-be beneficiaries are obliged to pool their grants in order to acquire them.<sup>13</sup> No assistance is provided to beneficiaries wishing to subdivide properties after acquisition, a process actively discouraged by land reform officials.

Thus, limited grant sizes, limited budgets, lengthy and restrictive approval processes and landowner bias combine to ensure that would-be land reform beneficiaries are restricted to a small proportion of the land coming onto the market every year. Consequently, beneficiaries often end up with land that is of relatively poor quality and more extensive than they would wish for. Relatively poor, inexperienced and ill-informed land reform applicants find it virtually impossible to compete in an 'open market' with more experienced and better resourced buyers. A considerable proportion of land 'redistribution' actually involves state-owned land, which does not involve a market transaction and, more importantly politically, leaves white-owned property largely untouched.<sup>14</sup>

## 2.2 Payment of 'market prices' for land

The payment of market (or market equivalent) prices has been central to MBLR in South Africa and is intimately connected with





the landowner veto. Unlike the case in Zimbabwe in the 1980s and 1990s, landowners not only have the choice of whether or not to sell their land, but may also chose to whom they sell and at what price. Payment of market prices has been strenuously opposed by organisations representing landless people, as demonstrated at the National Land Summit of July 2005, but landowners have declared it 'non-negotiable'. Indeed, recent pronouncements by landowners' representatives suggest there may be some acceptance of non-market measures, even expropriation, to acquire land, but not of compensation at below market rates.<sup>15</sup>

Prices paid for land for reform purposes are, in practice, set by professional land valuers<sup>16</sup> retained by the DLA, who generate their own estimate of 'market price' based on factors such as recent sales of comparable properties in the area. Where such an estimate falls below the asking price of the landowner, some limited negotiation is entered into between the DLA and the landowner (usually by mail). Landowners are free to accept or reject the offer made by DLA. The intended beneficiaries have no direct role in this process and therefore have no power to influence the price paid or the final outcome of the negotiations. Cases have been reported of deals falling through due to minuscule differences between the asking price and the amount offered by DLA, suggesting that negotiating skills may not be adequate amongst DLA officials (Tilley 2004).

There are widespread accusations that land reform transactions pay more than the market rate for land, due to high prices demanded by landowners and possible collusion between owners, valuers and officials, although little firm evidence is available to support this. In March 2005 Parliament heard of a case in Mpumalanga province involving collusion between a senior DLA official, valuers and landowners, where farms were bought for ten times the price at which they had traded just a few years before:

*Under the scam, farmers inflated the value of their farms and valuers confirmed these falsified valuations, which were then presented to corrupt government officials who then issued payment. The farmers then gave kickbacks to the official and valuator (Business Day, 11 May 2005).*

Aliber and Mokoena (2002:27) argue that MBLR in South Africa places landowners in a strong negotiating position for the following reasons:

- the limited number of properties being offered for land reform purposes
- applicants often have a strong preference for a particular property (due to its proximity to their current residence or because of ancestral connections)

- the additional cost that would be incurred (for government and applicants) if negotiations were to collapse and the lengthy planning process had to begin again for another property.

In a study from the Northern Cape province, Tilley (2004) identified a perception among landowners that both land reform applicants and the DLA were 'unreliable' negotiating partners: applicants because they do not have autonomy to engage in negotiations on their own behalf and remain dependent on officials to determine the ultimate grant amount and to finalise the transaction; DLA because of 'its protracted procedures, negotiating style and phased project cycle' (Tilley 2004:38). An estate agent with experience of the land reform process characterised the view of landowners in the following terms:

*The DLA process is too slow. The Department does not seem able to keep up with the pace of land transactions and sellers get frustrated. Sellers have now reached the point where they prefer to avoid negotiating with the DLA or making their land available for land reform simply because of the bureaucratic process and the long waiting period in between each phase of the transaction (Quoted in Tilley 2004:39).*

Price setting, therefore, occurs through highly bureaucratic processes that bear only a distant relationship to the workings of the 'real' land market. 'Willing sellers' and the 'willing buyers' often find themselves caught up in protracted and uncertain processes dominated by officials attempting to apply market 'principles', a far cry from 'the independent encounter of willing buyers and sellers in the market' envisaged by its proponents (Deininger 1999:12).

A specific claim of MBLR is that it will make itself attractive to landowners and keep prices down by paying the landowners in full at the time of sale. The opposite appears to be the case in South Africa. Landowners and their representatives complain not only of the lengthy and cumbersome bureaucratic procedures around sale agreements, but also delays in payment once agreement has been reached.

*In some instances, [according to the vice-chairperson of AgriLimpopo] farmers sold their farms four years ago and are still waiting for the money from government and the transaction to be completed. They are still on the farms hoping that someday they can move on (Mail & Guardian, 22 April 2005).*

We can conclude that while market prices serve as a guide to prices paid in land reform transactions, the process is open to manipulation and both the negotiation process and the time involved bear little



resemblance to conventional market transactions. Intended land reform beneficiaries are incapable of competing in the open land market and are compelled to fall back on 'closed' sales negotiation between landowners and officials. The bureaucratic complexity of the process does not make it attractive to landowners and it is likely that at least some landowners enter into land reform transactions in order to dispose of property that they would not be able to sell otherwise, or because they believe they can obtain a price more favourable than they might on the open market.

### 2.3 Self-selection of beneficiaries

MBLR is premised on the principle that the beneficiaries will 'self select', rather than be selected by government officials. In practice, self-selection may ensure that people who have no interest in land reform are excluded, but it does not guarantee that those in most need of land manage to access the programme or that those who apply to the programme acquire the land they want. This is due to a combination of market factors (as described above) and non-market factors, specifically the process of application, approval and funding administered by state officials.

Little is known about the type of people benefiting from land reform, those who apply and are rejected, and those not being reached by the programme at all. Since its inception, the South African Land Reform Programme has been beset by a lack of basic information arising from inadequate (and often non-existent) monitoring and evaluation processes.<sup>17</sup> This results in a dearth of reliable data on the socio-economic characteristics of beneficiaries entering the programme (for example educational level, employment status, asset ownership, income, agricultural experience) as well as the impact of land reform on livelihoods and the agricultural economy. It should be stressed that while some of this can be attributed to poor data management systems within the DLA and on infrequent reporting, much of the problem – especially regarding socio-economic profile of beneficiaries – is due to the fact that relevant data is simply not collected in the first instance. Hence there has been considerable speculation around who exactly is benefiting from the programme and how this might be changing over time.

The few studies available suggest that only a small proportion of the landless and land-hungry are gaining access to the programme; that they are predominantly literate males over forty years of age; and, increasingly, that they are those with access to wage income (including pensions), rather than the unemployed, and have relatively good access to information (Lahiff 2000; Wegerif 2004; Jacobs, Lahiff & Hall 2003; Hall 2004b). A study by the Human Sciences Research Council (HSRC) found that the LRAD programme

was reaching a range of applicants, but could not confirm the inclusion of the very poor:

*Although LRAD clearly caters more to well-off applicants ... it is still widely accessed by poor households. Whether or not the 'poorest of the poor' are accessing LRAD in significant numbers is unclear. (HSRC 2003).*

This reflects both the differential ability of individuals to access the state programme and deliberate choices made by policy makers and implementers.

While land reform policy officially aims to reach a range of beneficiaries – including women, young people, the unemployed, farm workers and aspirant commercial farmers – there has been a discernable shift in policy in favour of the latter group in recent years (Jacobs, Lahiff & Hall 2003). This is manifested in two main ways – the size of individual grants and loans awarded and the criteria used to evaluate 'business plans' (that is, land use plans and financial projections).

Since 2001 the size of grants awarded to successful land reform applicants has been determined by the size of the 'own contribution' made by the applicant. 'Own contribution' can be in cash or in kind (for example, agricultural equipment or livestock).<sup>18</sup> Grants can also be used to leverage loans from the state-owned Land Bank and visa versa – loans can be used as 'own contribution' to leverage grants, further favouring those with demonstrable assets. 'Own contributions' do not necessarily contribute to the purchase of land, especially when the contribution is in kind rather than in cash, meaning that the land is in most cases purchased entirely from the land reform grant or, less commonly, by a combination of grant and loan (Hall 2004b). Far from being a 'contribution' to the farming enterprise and thereby ensuring commitment (or 'buy-in'), as the advocates of MBLR would suggest, 'own contribution' in the South African case simply qualifies the applicant to a greater or lesser degree of financial support, as estimates of asset worth are used to 'reward' applicants with varying levels of grants and loans. This appears to be a crude exercise in 'backing the winner' (or at least the better off) – which may well lead to more 'viable' or 'successful' projects for the lucky few, but not for the reasons generally given.

While the scale of 'own contribution' determines the size of grant, the approval of funding depends on the production of an acceptable business plan that demonstrates 'economic viability'. This is discussed below.

Early in the South African land reform programme, Zimmerman (2000) identified a range of barriers created by the concept of 'demand led rationing', or self-selection that are likely to exclude



poorer groups. Zimmerman highlights the lack of clarity within policy on the intended beneficiaries of land reform and argues that without a clear emphasis on poverty reduction, a demand-led programme is likely to be driven largely by considerations of racial equity that assume a homogenous black population:

*A clear danger under the demand-led rationing scheme is that the wealthier segments of the rural population will prove more apt to participate, and therefore be the major beneficiaries, while the poorer segments will be left largely without programme benefits (Zimmerman 2000:1441).*

Ongoing failure to define clearly the intended beneficiaries of land reform, the lack of a specific poverty alleviation strategy, an emphasis on economic viability and a chronic failure to monitor the programme suggest that the exclusion of poor and marginalised groups is likely to continue.

## 2.4 Focus on 'commercial' forms of production

As argued above, current land reform policy in South Africa makes extensive use of the language of commercial and economic 'viability'. This emphasis has increased considerably since the beginning of the programme, particularly since the introduction of the LRAD programme in 2001. LRAD was intended to address a perceived gap in the previous Settlement/Land Acquisition Grant (SLAG) programme, which provided relatively small grants to low-income households but did not meet the needs of 'emerging' (that is, better off and more commercially oriented) farmers. Within months of being launched as a 'sub-programme' of redistribution, LRAD had almost entirely replaced SLAG, which is now used only for small, non-agricultural projects (for example housing and small business development). Thus, the 'commercial' logic of LRAD is applied to all land reform applicants, regardless of their resources, abilities or stated objectives (Lahiff 2001; Lahiff & Cousins 2005).

This 'commercial' logic is imposed by the ubiquitous business plans, produced by agricultural officials or private consultants appointed by the DLA who may make only cursory contact with the intended beneficiaries (HSRC 2003; Hall 2004b; Wegerif 2004). Such plans typically provide ultra-optimistic projections for production and profit, based on textbook models drawn from the large-scale commercial farming sector, and further influenced by past use of the land in question (Jacobs, Lahiff & Hall 2003). Business plans commonly assume large amounts of working capital, which typically is not available from the land reform grant and cannot be provided by the beneficiaries themselves. Failure to obtain loans, as is often the case, renders the business plan unworkable, yet officials usually

insist that beneficiaries comply with such plans and make this a condition for the release of discretionary grants that beneficiaries may be entitled to. In cases where credit has been accessed in order to implement the business plan there have been widespread reports (but no official data) of defaults on loans, leading to some threatened repossession of properties by the banks. The state has intervened in a number of cases in an effort to prevent repossession by providing additional funding.

A central weakness of most business plans is that they assume that the farm will be operated as a single entity (that is, as used by the previous owner), regardless of the size of the beneficiary group (HSRC 2003). As argued above, due to the lack of support for subdivision, beneficiaries are often obliged to purchase properties much larger than they need and to expand the size of groups to aggregate sufficient grants to meet the purchase price. This results in many projects taking on enterprises larger than they would wish for and widespread problems of group dynamics as former single-owner farms are turned into agricultural collectives. The strong emphasis on collective production stems directly from the need to form groups in order to acquire large land holdings and the refusal of officials to contemplate subdivision or other deviations from established agricultural practice. Official policy documents are remarkably silent on the preferred forms of land use, and nowhere in the official discourse are the words 'collective' or 'group farming' used. Yet attempts at collective farming have become a hallmark of land reform projects in South Africa, and undoubtedly one of the main reasons for the high rate of project failure.<sup>19</sup>

Bradstock (2005:16) describes the situation in the Northern Cape province thus:

*... DLA is responsible for developing [business] plans but they are usually done in isolation and are written primarily to satisfy administrative rather than developmental objectives. With no plans to guide the groups, many of them manage their farms in an ad hoc manner. This often leads to a shortage of money at key times in the agricultural calendar, such as paying for the planting or harvesting of a crop. Moreover, due to the difficulties of gaining access to credit the group often faces 'cash crises' that are resolved by selling the farm's more liquid assets such as cattle ... which may endanger the future financial sustainability of the project.*

In their single-minded attempts to emulate large-scale commercial farmers, within a policy discourse that privileges the market above all, state officials have succeeded in creating a parody of private enterprise – groups of largely poor black farmers, struggling,



and often failing, in what is probably the only state-sponsored agricultural collectivisation in the world today.

The strong focus on 'commercial agriculture' has also led to a large number of joint ventures with established commercial farmers, notably 'share equity schemes' whereby farm workers use their land reform grants to buy shares in existing enterprises. High land prices, high start-up costs and highly competitive markets in sectors such as horticulture and viticulture mean that share equity schemes have been the principal form of 'redistribution' in areas such as the Western Cape province. In a study of a range of joint ventures, Mayson (2003) found that few had resulted in a significant transfer of power or benefits to workers, particularly where workers only obtained a minority share in the enterprise. The study concludes that many are motivated by the owner's need for additional capital.

The requirement that business plans show 'commercial viability' and the effective prohibition on subdivision mean that most land reform projects are created in the (distorted) image of existing large-scale commercial farms. The widespread demand for small plots of land for household food supply and part-time employment voiced in numerous studies (Marcus, Eales & Wildschut 1996; Levin & Weiner 1997; Lahiff 2000) and by organisations of the rural poor such as the Landless Peoples Movement, finds little space within the official land reform programme.

## **2.5 Prominent role for the private sector in provision of credit, extension and other services**

As with many other aspects of market-based land reform in South Africa, the anticipated role of the private sector has not materialised to the extent assumed by its proponents. The past two decades have seen a major reduction in the overall state services available to farmers. Large commercial farmers have managed to overcome this through access to a range of commercial and cooperative services, but land reform beneficiaries and other small-scale farmers are largely left to fend for themselves (Vink & Kirsten 2003). Recent studies show that land reform beneficiaries experience numerous problems accessing services such as credit, training, extension advice, transport and ploughing services, veterinary services, and access to input and produce markets (HSRC 2003; Hall 2004b; Wegerif 2004; Bradstock 2005).

Services that are available to land reform beneficiaries tend to be supplied by provincial departments of agriculture and a small number of NGOs, but the available evidence would suggest that these only serve a minority of projects. In a study of LRAD projects in three provinces the HSRC found that '...in many cases there is still no institutionalised alternative to laying the whole burden of training, mentoring and general capacitation on the provincial

agricultural departments' (HSRC 2003: 72). In a study of nine LRAD projects in the Eastern Cape province Hall (2004b) found not one had obtained any support from the private sector, and most had not had any contact with either the DLA or the Department of Agriculture since obtaining their land.

In November 2005 the Minister for Agriculture and Land Affairs told parliament that 70% of land reform projects in Limpopo province were dysfunctional, which she attributed to poor design, negative dynamics within groups, and lack of post-settlement support (*Farmer's Weekly*, 18 November 2005).

For Jacobs (2003), the general failure of post-settlement or post-transfer support stems from a failure to conceptualise land reform beyond the land transfer stage, and poor communication between the national DLA (responsible for land reform) and the nine provincial Departments of Agriculture (responsible for state services to farmers):

*The rigid distinction in South Africa's land policy between land delivery and agricultural development has resulted in post-transfer support being largely neglected. There is no comprehensive policy on support for agricultural development after land transfer and the agencies entrusted with this function have made little progress in this regard. Agricultural assistance for individual land reform projects is ad hoc ... (Jacobs 2003:7).*

This lack of coordination between the key departments of agriculture and land affairs is compounded by poor communication with other key institutions such as the Department of Housing and the Department of Water Affairs and Forestry, as well as local government structures (Hall et al. 2004). The need for additional support for land reform beneficiaries has of late been acknowledged by the Ministry of Agriculture and Land Affairs and has led to the introduction, in the national budget for 2004/05, of a new Comprehensive Agricultural Support Programme (CASP) with a total of R750 million allocated over five years. In addition to this grant facility, plans are underway to reintroduce the previously discontinued Agricultural Credit Scheme, also aimed at small and 'emerging' farmers (but not exclusively land reform beneficiaries) (Hall & Lahiff 2004).

The well-developed (private) agri-business sector that services large scale commercial agriculture has shown no more than a token interest in extending its operations to new farmers, who in most cases would be incapable of paying for such services anyway. The assumption that the private sector would somehow 'respond' to demand from land reform beneficiaries with very different needs to the established commercial farmers has not been demonstrated by recent experience. The principal explanation for this, of course, is





that land reform beneficiaries are, on the whole, so cash-strapped that they are not in a position to exert any effective demand for the services on offer, even if these services were geared to their specific needs.

### 3. Conclusion

**M**arket-based land reform makes claims for both equity and efficiency, but serious concerns have been raised around both dimensions in the case of South Africa, echoing the experience of Zimbabwe in the 1980s and 1990s. The extremely slow pace of reform (far below official targets) is the most obvious limitation to equity gains, but this is compounded by an emphasis on disposal of state land and tenure upgrading, which leaves the vast majority of white-owned land untouched. The disposal of land already allocated for use by black people, together with the mass removal of farm dwellers, merely serves to complete processes begun under apartheid, and results in little net redistribution of assets. In addition, a range of barriers imposed by the functioning of the market and by bureaucratic processes, together with the lack of a credible strategy for poverty alleviation, make it likely that the principal equity gains will be along lines of race, but with limited benefits flowing to the very poor. More definitive conclusions will require much better data than is currently available. Indeed, it is symptomatic of the unstrategic nature of the programme that it attempts to operate without an effective feedback of quality data into the planning and implementation process.

On efficiency, the limited information emerging from the programme suggests that the picture is largely negative, at least in the short term. Projects are taking exceedingly long to become operational – delays of two or three years from date of transfer of title are not unusual – due to a combination of over-ambitious and inappropriate business plans, shortages of working capital and slow release of supplementary grants from the relevant government departments. Those projects that do achieve production generally do so at a very low level, making use of only a minority of the land acquired and at low levels of intensity, in both arable and livestock farming.<sup>20</sup> While this might represent some improvement in agricultural output for the individuals concerned (generally from a very low base) and even for the particular farm (anecdotal evidence suggests that some farms were inoperative in the years immediately preceding redistribution), it represents a poor return on the public resources invested and undermines the political argument for reform.<sup>21</sup>

MBLR in South Africa has managed to transfer relatively small amounts of land, an average of around 0.36% of the targeted

agricultural land per annum, and only about 6% of the total land transacted through the deeds registry every year. Land reform transactions depart considerably from 'normal' market transactions and appear to be concentrated on less sought-after land that is purchased at prices higher than it might fetch on the open market. The bureaucratic complexity of the application and approval process ensures that intended beneficiaries are not able to compete in the 'real' market, but rather operate in a parallel market controlled by bureaucrats where they have little influence over the final purchase negotiations or the price paid. Business planning models, based on questionable assumptions around 'economic viability', together with the absence of any anti-poverty strategy, serve to discriminate against the very poor, and do not necessarily make for more 'successful' projects. A strong official bias towards continuity of production systems, and against subdivision of land, contributes to the under-performance of many projects and effectively excludes the majority of land seekers who require small areas of land mainly for household consumption purposes. The anticipated private-sector support services for new and emerging farmers have not materialised, largely due to the low productivity and limited availability of working capital among intended beneficiaries. This has meant continued reliance on state support services, but these remain poorly coordinated and poorly targeted.

A central question that arises is whether the poor performance of MBLR in South Africa can be attributed to the model itself, or to the partial manner in which the model has been applied. There can be little doubt that an active land market presents opportunities for redistribution, but these opportunities are largely being missed due to the inability of state institutions or the intended beneficiaries to engage *effectively* in that market.<sup>22</sup> Failures to introduce a land tax or to encourage subdivision further militate against redistribution via the market, creating new demand without directly addressing the question of supply. The one positive contribution that the state could possibly make within the confines of a 'market-based' approach, drawing on the experience of Zimbabwe, would be to proactively acquire land (for pre-identified beneficiaries) as it comes on to the market, on the basis of clearly identified needs. This could be achieved through conventional purchases or on the basis of a right of first refusal without having to inflict cumbersome project planning and beneficiary selection processes on would-be sellers and buyers alike. Yet this has been repeatedly rejected by the state on the questionable basis that it would constitute a 'supply-led' approach and would undermine the concept of 'self selection'. Thus, on one hand, it can be argued that the poor performance of the South African land reform programme can be attributed, at least in part, to the inefficient manner in which the market-based model is being



applied. On the other hand, however, the available evidence suggests that a more robust application of MBLR would still encounter major structural and administrative problems with regard to both equity and efficiency objectives.

Without appropriate support from an effective state apparatus, relatively poor people are unlikely to obtain land on the open market or to make use it in ways that have a significant positive impact on their own livelihoods or on the wider economy. Given a choice, landowners will continue to favour conventional channels (of both the 'open' and 'closed' variety) for the disposal of land and avoid 'unreliable' land reform transactions. Even if the market could supply the necessary land to those who need it, the available evidence suggests that most beneficiaries would continue to rely on the state for support for the foreseeable future and are unlikely to conform to the dominant 'commercial' model of agricultural production currently being promoted.

There is clearly little enthusiasm within the dominant social and political forces in South Africa for a radical redistribution of land, and MBLR strategies have provided the justification for the avoidance of traditional state-led and popular approaches to land reform. Populist rhetoric about the need to look 'beyond the market' continues to be used by senior politicians to placate the rural social movements on occasions such as the National Land Summit, but this contrasts starkly with the repeated assurances given to large-scale commercial farmers in forums such as the Presidential Working Group on Agriculture, and to black business interests eyeing opportunities under the new Agricultural Black Economic Empowerment (AgriBEE) programme. On the side of landowners – many of them openly hostile to the new democratic order and the land reform process – MBLR has created opportunities to sell land that they might not otherwise be able to dispose of, and at prices higher than what the market might offer. It has provided cash injections with little change in power or flow of benefits in the case of share equity schemes, and allowed landowners as a whole to claim to be 'doing something' about land reform.

MBLR in South Africa has focussed attention on land reform in the narrowest sense (transfer of land) and has left the structures of land ownership and the agricultural economy not only intact but largely unchallenged. By refusing to intervene *decisively* on the part of the landless (either via the market or otherwise) or to challenge the interests of established landowners and agricultural capital in any way, policy based on MBLR has shown itself to be incapable of fundamentally changing the conditions which recreate poverty, landlessness and inequality. The emerging evidence from South Africa (and recent experience in Zimbabwe) suggests that MBLR does not offer a politically or economically sustainable solution to land reform in post-colonial settler societies. It remains to be seen

whether opposition to current policies from the landless and land hungry in South Africa will lead to a more interventionist approach on the part of the state or the emergence of more popular forms of redistribution 'from below'.

## Endnotes

- <sup>1</sup> An earlier version of this paper was presented to a conference on Land, Poverty, Social Justice and Development, Institute of Social Studies, The Hague. 12-14 January 2006.
- <sup>2</sup> See Bernstein (2002); Borras (2003); and Deininger and Binswanger (1999).
- <sup>3</sup> Introduction of a tax on land (particularly on unused or under-used land) has been promoted as part of MBLR, as a means of curbing land speculation and hoarding and thereby increasing the supply (and reducing the cost) of land coming onto the market (World Bank 2003). In practice, such 'supply side' measures have rarely been implemented, and MBLR strategies have thus focused mainly on the demand side.
- <sup>4</sup> 'Redistributive land reform will be largely based on willing-buyer willing-seller arrangements. Government will assist in the purchase of land, but will in general not be the buyer or owner. Rather it will make land acquisition grants available and will support and finance the required planning process. In many cases, communities are expected to pool their resources to negotiate, buy and jointly hold land under a formal title deed.' (Department of Land Affairs 1997:4.3)
- <sup>5</sup> Report by Director General of DLA to parliamentary portfolio committee on agriculture and land affairs, quoted in *Farmer's Weekly*, 4 November 2005.
- <sup>6</sup> Much of the land transferred (or 'delivered', to use the official term) under the restitution programme has been transferred in nominal ownership only, as the land remains incorporated into nature reserves and state forests and, in terms of the restitution agreements, is not accessible for direct use by the restored owners (Hall 2003:27).
- <sup>7</sup> The redistribution programme is the most discretionary of the land reform programmes in South Africa (as opposed to restitution and tenure reform which are strongly rights-based), and is therefore the main focus of MBLR. The explicit aim of this programme is to address the racial imbalance in land holding. In a study of Limpopo province, however, Wegerif (2004) found that of the first twenty farms allocated under LRAD, only one involved white-owned land (the rest being state land or, in one case, land owned by a church).
- <sup>8</sup> Of an estimated 2 351 086 people displaced from farms since 1994, 942 303 (40%) were found to have been evicted; others



left for a variety of social and economic reasons (Wegerif et al. 2005:7).

- <sup>9</sup> Under the constitutionally mandated restitution process, people who lost their land rights under racially discriminatory policies between 1913 and 1994 are entitled to claim restitution. Of the 78 000 individual and community claims lodged, the vast majority have been settled by means of cash compensation, thereby avoiding land restoration. In the minority of cases where claimants have held out for restoration of their land, only those involving a 'willing seller' have been settled to date (Ministry of Agriculture and Land Affairs 2004). The state has recently threatened to use its legal powers of expropriation against the remaining 'uncooperative' landowners, but has yet to do so in practice.
- <sup>10</sup> Aliber and Mokoena (2002: 9) report that an average of 6.3% of rural land was transacted per year in the period 1995–2000, but this included a high proportion of inter-family transfers (inheritance) and what Lebert (2004:10) refers to as 'closed sales' between neighbours or acquaintances.
- <sup>11</sup> Each offer to purchase requires separate approval and a separate farm plan. Proposals that would-be beneficiaries are 'pre-approved' for funding on the basis of personal attributes and outline business plans, thereby allowing them to enter the market as effective buyers, have been rejected by the DLA.
- <sup>12</sup> Insufficient budgets to fund approved projects have been a recurring problem since about 2003, leading to additional (post-approval) delays in transactions (Hall & Lahiff 2004: 2).
- <sup>13</sup> In the early years of the land reform programme, groups in excess of 100 households were common. Today, following increases in grant sizes and more restrictive qualification criteria, groups within the redistribution programme are typically in the range five to twenty households. Large group sizes and collective production continue to characterise the 'community based' restitution claims (Hall 2004: 52).
- <sup>14</sup> Wegerif's (2004) study of Limpopo suggests that many transactions do not involve redistribution of any sort, as beneficiaries used grants to buy land that they had been occupying (rent free and without contestation) for decades. The point is not that disposal of state land or transfer of title to the previously disadvantaged is undesirable, but that state funds earmarked for market purchase of private, white-owned land are being used to purchase land from the state and is reported as 'redistribution'.
- <sup>15</sup> Speech by Annelize Crosby, legal affairs director of AgriSA, as reported in *Farmers' Weekly*, 4 November 2005.
- <sup>16</sup> Land valuers (or valuers) constitute a statutorily regulated profession in South Africa.

- <sup>17</sup> See Department of Land Affairs (1998), Naidoo (1999), May & Roberts (2000) and Ahmed et al. (2003) for examples of monitoring and evaluation and for discussions of their limitations.
- <sup>18</sup> For applicants without material assets, a nominal amount of R5 000 is deemed to be contributed in the form of labour ('sweat equity'), which entitles the applicant to a grant of R20 000.
- <sup>19</sup> While official policy (as distinct from official practice) is silent on issues such as land use, form of production and individual versus group production, it is remarkably clear on land tenure: all land reform projects are transferred in freehold title from the beginning, meaning that they can, in theory, be mortgaged and repossessed for loan default. Considerable uncertainty remains, however, around the tenure rights of individuals within group projects, where the single title deed rests with a legal entity such as a trust or a communal property association (CSIR 2005).
- <sup>20</sup> Bradstock (2005:19) provides telling examples from case studies in the Northern Cape province: 'The research findings showed that few households engaged in agricultural activities in spite of the fact that they now have access to land. Those that did have access produced small amounts primarily for home consumption ...'
- <sup>21</sup> See Du Toit (2004) for an extremely negative assessment of land reform projects from a conservative perspective.
- <sup>22</sup> Indeed, there are suggestions that more land is being transferred from white to black owners through the open market than under the land reform programme (Lyne & Darroch 2001). But, as Borras (2005) has argued, such transfers merely represent the exchange of one asset class (cash) for another (land) amongst the relatively well-resourced, and therefore cannot be considered land reform (or redistribution) in the conventional sense.

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