

# **An Analysis of Land Redistribution and the Land Market in the Boland region of the Western Cape**

by

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### **Declaration**

I, the undersigned, hereby declare that the work contained in this thesis is my own original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

Date.....

## ABSTRACT

South Africa is experiencing major political, economic and social changes and in its policy orientation towards the event of globalisation. These changes are intended for the empowerment of those previously disadvantaged and for the levelling of the playing field for future equality of opportunities. In empowering these individuals it is recognised that agriculture is one of the important sectors that would serve as a vehicle for the development of the country. It is the main source of economic growth and the bedrock of economic development.

Agriculture depends strongly on land, which is also an asset that can be used to generate income. For this reason land reform in the form of grants is one of the important tools employed in South Africa to redistribute land to the disadvantaged in order to enable them to improve their income and also to develop rural areas. As this programme is based on a market-assisted approach, its success depends on land markets that function well and are stable enough to carry it.

The objective of this study was to determine the state of land redistribution and to analyse the land market in the Boland region of the Western Cape province. The effectiveness of land redistribution was analysed with regard to the number of transactions that took place in the years 1998, 1999 and 2000 in terms of citizenship, race, mode of land acquisition amongst the disadvantaged (government grants, private acquisitions and inheritances), quantity and quality factors. The findings were discussed in terms of their implications for the success of the programme and their influence of the land market. Finally recommendations were made for potential improvements as well as for further research.

It was found that land redistribution by means of government grants was rather slow and most of the transactions took place through private purchases, mostly through mortgage loans provided by the Land Bank of South Africa. Although private transactions redistributed more wealth measured in terms of size of land, the accompanying land was less superior using price per hectare as a proxy for quality compared to land purchased with the assistance of the government. Transactions for the latter were mainly through joint ventures with current owners. The study also revealed that the land market in the Boland is one of the major obstacles to the speedy transfer of land not because of the foreign investment, but due

to the nature of the sectors. The two main agricultural sectors are viticulture and deciduous fruit which have experience high growth in income and export. The analysis conducted established that there was no significant difference between properties bought by foreigners, white and Black South Africans. Future trends in land prices could not be predicted but it is expected that agricultural land prices will be well above the capitalisation value of future profits arising from the level of foreign investment as well as economic gain.

Based on the finding the areas to be emphasised by the land reform programme in this region are joint venturing and the promotion of subsidies on mortgage loans as well as extending the government's role in the land market. Increased government spending and involvement of the private sector, including financial institutions and established commercial farmers, are some of the things to be encouraged to facilitate the process and ultimately to overcome poverty. The sole reliance on the current regional land market seems incapable of effectively and speedily redistributing land to beneficiaries, whereby equality can be achieved in the long run. However, if all the shortcomings of the land market are recognised and a new policy is adopted, land reform in the Boland and in South Africa will in the future be more likely to promote increased access to land, resulting in higher productivity, growth and a globally competitive agriculture.

## OPSOMMING

Suid-Afrika ondervind tans grootskaalse politieke, ekonomiese en sosiale veranderinge en so ook in beleidsoriëntering na aanleiding van globalisasie. Hierdie veranderinge het ten doel om voorheen benadeeldes te bemagtig en om die speelveld gelyk te maak met betrekking tot toekomstige geleenthede. Tydens die bemagtiging van hierdie individue word landbou erken as een van die belangrikste sektore wat kan dien as 'n voertuig vir die ontwikkeling van die land. Landbou is die hoofbron van ekonomiese groei en die hoeksteen van ekonomiese ontwikkeling. Alhoewel landbou grootliks afhanklik is van grond, is grond 'n bate wat gebruik kan word om inkomste te genereer. Om hierdie rede is grondhervorming in die vorm van 'n toekenning of subsidie een van die belangrikste meganismes wat in Suid Afrika gebruik word om grond aan die voorheen benadeeldes te herverdeel. Die doel van grondhervorming is om die voorheen benadeeldes in staat te stel om hul inkomste te verbeter en ook om landelike gebiede te ontwikkel. Hierdie program is gebaseer op 'n mark-ondersteunde benadering en daarom hang die sukses af van die grondmark wat goed funksioneer en stabiel is.

Die doelwit van hierdie studie was om die stand van grondhervorming te bepaal en om die grondmark in die Boland-streek van Wes-Kaapse provinsie te ontleed. Die effektiwiteit van grondherverdeling is ontleed met betrekking tot die getal transaksies wat plaasgevind het in die jare 1998, 1999 en 2000 in terme van burgerskap, ras, metode van grond aanskaffing tussen die minder bevoorregte (staatstoekennings, private aanskaffing en erflatings), hoeveelheid en kwaliteit. Die bevindings is bespreek in terme van hul implikasies vir die sukses van die program en hul invloed op die grondmark. Finale aanbevelings is gemaak vir potensiële verbeterings sowel as vir verdere navorsing.

Daar is bevind dat grondherverdeling by wyse van staatstoekennings baie stadig was en meeste van die transaksies was deur private aankope, meestal deur verbandlenings verskaf deur die Landbank. Alhoewel privaat grondverkope grootliks rykdom herverdeel, is die waarde in terme van prys per hektaar minder in vergelyking met die waarde van grond aangekoop met die hulp van die staat. Wingerbou- en tuinbouprodukte het die hoogste groei in inkomste en uitvoer ondervind. Dit word egter verwag dat grondpryse ver bo die

kapitalisasiewaarde van toekomstige winste sal styg voortspruitend uit onder andere die vlak van buitelandse investerings.

Die areas wat beklemtoon moet word deur die grondhervormingsprogram in die streek, is gesamentlike ondernemings en die bevordering van subsidies op verbandlenings. Verhoogde staatsbesteding en betrokkenheid van die private sektor, insluitende finansiële instellings en gevestigde kommersiële boere, moet aangemoedig word om die proses te fasiliteer en om uiteindelik armoede te oorkom. Die huidige streeks-grondmark blyk onbevoeg te wees om herverdeling van grond aan begunstigdes effektief en spoedig op die lange duur te laat geskied. Indien die tekortkominge van die grondmark erken word en 'n nuwe beleid aanvaar word, sal grondhervorming in die Boland en in Suid-Afrika in die toekoms meer geneig wees om toegang tot grond te bevorder. Dit sal aanleiding gee tot hoër produktiwiteit, groei en 'n globaal mededingende landbou.

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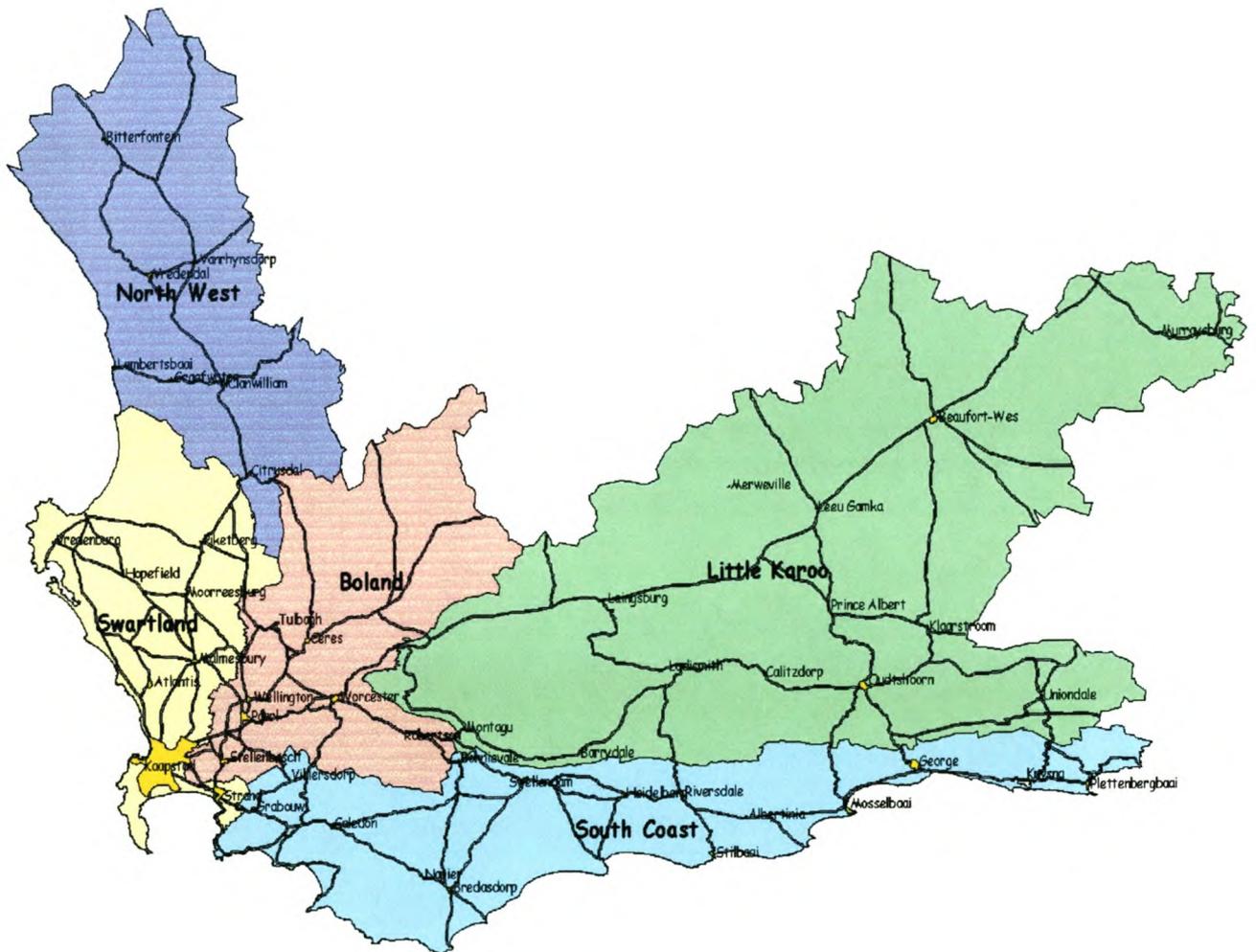
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## APPENDIX I

### Map of the regions of the Western Cape



## **Chapter One**

### **INTRODUCTION**

#### **1.1 Background**

Politically, economically and socially South Africa has undergone vast transformation during recent years. These changes have been brought about by democratisation, the need to address the injustices and inequalities of the past and globalisation. In this regard, the state is committed to policies that encourage future equality of opportunity by the equal distribution of rights, privileges, wealth and power (Van Zyl, 1994: 156). With regard to access to resources, this in a way deals with past policies of discrimination.

The government of South Africa has identified land reform policy for the speedy transfer of land. The transfer of land is vital for political stability and therefore economic growth in the long run (Lyne & Darroch, 1997: 561). It is the intention of the government to assist groups of landless rural people who wish to purchase land and settle on it by financing them. Other objectives of land reform include dealing with the problems of high urban unemployment, the large proportion of rural workers with little education, and extreme inequality facing the country. The large proportion of unskilled labourers in this view would be absorbed into the agricultural sector through the creation of jobs if they were given the rights to a parcel of land to use as an asset to increase their income, consumption and/or wealth (Binswanger & Elgin, 1990).

The land reform programme is an essential means of meeting basic needs by providing a resource that will enable the poor, the landless and aspirant farmers to improve their quality of life. It will help to build the economy by providing a resource and asset base that can generate employment and income, particularly in rural areas, and is important for social and political stability. Van Schalkwyk and Van Zyl (1994:266) point out that land ownership has important income, capital appreciation

and risk reduction dimensions at micro level for the farm operator, as well as social and family dimensions in that it provides a permanent home and residence for the family.

In South Africa land reform is an integral part of the Reconstruction and Development Programme. The government has implemented a national programme across the provinces, which in practice have different farming environments and agricultural potential. The national Department of Land Affairs is responsible for policy making and the provincial branches of the Department as well as the provincial Departments of agriculture for the implementation of programmes and the transfer of knowledge to farmers.

The Western Cape, as a province, has a unique agricultural sector compared with other provinces South Africa. It has also stood out in recent years as a region remarkable for its relatively stable and diversified agriculture despite the fact that South African agriculture has gone through a major change in policy orientation (Kirsten et al, 1998:106). Those changes occur mainly in the commercial sector where privileges enjoyed by large-scale agriculture, such as taxation benefits, subsidised credit and price supports, have been withdrawn, putting agricultural profits and prices under severe pressure (Kirsten et al, 1998:106). Nonetheless, commercial farming in the province has performed strongly as a producer of deciduous fruit, wine and vegetables, all of which have been consistent and strong generators of income, employment and, for fruit and wine, of foreign exchange.

However, past policies have resulted in a hugely unequal distribution of land and complementary resources. In a study of small-scale farming in the Western Cape, undertaken before the commencement of the land reform pilot projects of the Department of Land Affairs, it was found that historical discrimination against black people had resulted in the virtual absence of small-scale peasant farming (LAPC, 1997:2). According to the study, “historically disadvantaged” farmers, previously classified as coloured, numbered fewer than 20 000 by the 1990s. Most were based on church-owned land. Few of these farmers sent a significant proportion of their output

to the market. By 1996 there were fewer than 100 coloured commercial farmers (Catling & Saaiman, 1996:163).

In the Cape Metropole area it is estimated that more than 150 000 small, backyard gardens and community gardens on schools, clinics and municipal land are in operation (Land Development Unit, 1996). The gardeners, mostly Xhosa women, plant vegetables in winter and summer and maize in summer (Land Development Unit, 1995). Unemployment and underemployment in this category of people are rife. Most of the men involved in agriculture keep cattle which they came with from rural areas of the Eastern Cape province. This shows that agriculture is a source of income not only for established farmers, but also for other emerging farmers and it could as well contribute towards providing food security to poor households.

Globally there have been a number of studies on land values and quality. The USA received much attention because of the sudden farmland price boom of the 1970s and the rapid depreciation of the 1980s, which came after 50 years of price stability (Just & Miranowski, 1993: 156). Most of the studies focused on the effect of patterns of returns, capital gains, credit market constraints and imperfections, explosive expectations, changes in risk, non-farmland returns, investment opportunities, macroeconomic considerations and the impact of changes in non-farmland investment opportunities on land values. A comprehensive framework approach was provided in a paper by Just and Miranowski (1993), which stated that the main factor explaining the rapid appreciation in the 1970s was increase in inflation, while the bust in the 1980s was largely explained by other factors mainly being the lower inflation rate. In South Africa, similar studies were done on land prices and yielded the same results in terms of factors that have an effect on land prices (Van Schalkwyk & Van Zyl, 1994). Economic gain it is a common factor in increase in land values.

Foreign investment is a package that comes with capital, skills and job creation. It is important for economic development and the provision of employment in developing countries like South Africa. However, with South Africa undergoing transformation it could hamper the development of the first being that land, especially land of higher

productive value, would otherwise be available for redistribution. In developing countries like South Africa, foreign investment in agriculture, where there is transformation taking place, could hamper the reformation. This needs to be investigated to determine the true state of the affairs.

## **1.2 Research question**

The research question underlying this study centres on the status of land reform and the land market in the Western Cape. The focus is on the transfer of commercial farmland to commercial farmers and also the transfer of farmland to previously disadvantaged communities from 1998 to 2000. The analysis of the nature, rate and degree of land transferred in the Western Cape during this period of land rights changes provided information on land redistribution.

## **1.3 Research problem**

The problem that underlies this study can be summarised as follows:

Little is known about land transactions and the land market since a market-assisted land reform programme was adopted in South Africa in 1994. It is necessary to determine how the land transactions are taking place amongst the previously disadvantaged and how the present land market impacts on land transfers. The aim of this study was, therefore, to ascertain the current status of land reform in this region with regard to certain aspects of the land being supplied.

The problem statement for this study thus reads:

*‘The land redistribution process in the Boland region of the Western Cape does not conform sufficiently to the current land market dispensation. The land market is not stable and not sufficient for the task of broadening access to land for the previously disadvantaged through government procedures’.*

#### **1.4. Objectives of the study**

Based on the above problem statement, the specific objectives of this study were therefore to:

- Examine the quantity, quality and market value of farmland transacted in the Boland region of the Western Cape from 1998 to 2000. These were analysed in terms of race, nationality, and mode of land acquisition;
- Identify the most frequent and superior mode of land acquisition among the previously disadvantaged groups that occurred in the Boland region of the Western Cape province during the period 1998 to 2000;
- Examine the quality of land acquired by previously disadvantaged groups and the rest of the buyers by means of land acquisition.

The study will provide an input into the policy decision-making process which is aimed at broadening access to land markets and encouraging the sustainable use of farmland acquired by disadvantaged people. It will provide information on the progress of land reform (excluding restitution cases) in the Boland region of the Western Cape by analysing the implications of the findings. Based on the findings, some recommendations with regard to improvements and the adoption of other mechanisms and further fields of study have been set forth.

#### **1.5 Chapter sequence**

Chapter 1 provides the skeleton of the study and focuses on an introduction to land reform and the objectives of the study. Chapter 2 is a broad review of the theory of land reform. Emphasis is placed on development of land reform and the lessons that can be learned. Chapter 3 contains an overview of South African land reform. The first section of that chapter will describe how the agrarian structure in South Africa has developed up to the present. Chapter 4 focuses on the methodology used for obtaining and stratifying the primary data. It presents a framework on which the data for this study is based.

In Chapter 5 the Deeds Office data are analysed and presented to make meaningful interpretations. Conclusions and recommendations are drawn in Chapter 6.

## Chapter Two

### A THEORETICAL PERSPECTIVE ON LAND REFORM

#### 2.1 Introduction

In the 20<sup>th</sup> century three global factors, namely, economic growth, population growth and the deterioration of the environment have impacted all countries. These factors have been induced by the growth of capitalism (Terreblanche, 2000). Increased economic growth, massive population growth and the accelerated deterioration of the environment are all-important factors induced by the rapid growth of 20<sup>th</sup> century capitalism (Terreblanche, 2000). Distortion marks income per capita and population concentration in the world. The biggest part of the world's population is concentrated in the "southern" poorer countries, whereas the "northern" rich countries have smaller populations and a higher per capita income. Poverty, high unemployment and a lack of infrastructure are endemic to the poor, developing countries. Increases in the population of the poor countries outstrip increases in per capita incomes, and if these poverty levels continue, other catastrophes will be rife and one of the repercussions will be political unrest (Terreblanche, 2000).

Four basic types of reforms that focus mainly on rural areas have been employed in many developing countries to alleviate these problems by creating employment and increasing farm output. Factors like land reform, agricultural research, rural infrastructure and investment in education and market reform are all complementary vectors of economic development (Lipton, 1996:1). Land reform in particular is used in many pre-colonial countries as a tool for the achievement of economic, political or social objectives. For example, between 1965 and 1975 the aim in Chile under President Frei was to integrate rural workers and the peasantry by using land reform as a tool (Lehmann, 1992:113). In explaining or solving problems of the various agricultural systems, the principles of and approaches to land reform differ.

This chapter reviews the theoretical perspectives on land reform. The concept is defined through an interdisciplinary approach. This will provide insight into the overall objectives of and motives for land reform.

## 2.2 LAND REFORM: EXPOSITION

Various definitions of land reform are found in the literature. Von Blackenburg (1994:5) defines it in a broad sense as the redistribution of land ownership titles or a change in land use rights. According to King (1977:5) the state plays a major role as it controls changes in the ownership of land for the purpose of distributing wealth, income or productive capacity (King, 1977:5). Despite all these definitions, defining and designing land reform will depend on the cultural heritage and economic and political conditions of the nation or region. In Latin America, it was defined as “redistribution of the rights to land away from large-scale owners to those who work on it” (World Bank, 1978: i). In addition to its regional dimension, various disciplines assign various meanings to it. In law it is property, whereas in political science it is regarded as a source of power and strategy. The political motive is often the most decisive as it is the balance of power in the country that ultimately determines the extent of wealth transfer. A classic example is Zimbabwe where the political power strongly determined the grabbing of land from white farmers in the year 2000. Analysing politics in land reform, Galbraith (1951, 695-96) says:

*“Unfortunately some of our current discussion of land reform in the undeveloped countries proceeds as though this reform were something that a government proclaims on any fine morning—that it gives land to the tenants as it might give pensions to old soldiers or as it might reform the administration of justice. In fact, a land reform is a revolutionary step; it passes power, property, and status from one group in the community to another. If the government of the country is dominated or strongly influenced by the landholding group—the one that is losing its prerogatives—no one should expect effective land legislation as an act of grace.....The world is composed of many different kinds of people, but those who own land are not so different—whether they live in China, Persia, Mississippi, or Quebec—that they will meet and happily vote themselves out of its possession.”*

Ellis (1992:204) finds that there are three main groups of land reform instruments. The first is land redistribution from some or all of the big landowners to landless or

semi-landless peasants. The resultant ownership could take the form of individual ownership title or communal ownership (King, 1977:14; World Bank, 1978). Four components are identified within land redistribution: *expropriation*, *compensation*, *exemption* and *distribution*. *Expropriation* of land could be total, as in the case of the Bolivian reform, where peasants occupied the land without compensation being paid to former landlords. It is the most difficult type of redistribution because it is more of a political process with many trade-offs and compromises. The most common expropriation practice is to set a ceiling for the area of land that the landowners can retain for their own use and to redistribute all remaining land. *Compensation* is another difficult and highly charged matter as the land reforming states usually find it difficult to pay the full market price for land confiscated due to lack of funds. The most common method employed is to base the valuation of land on its value as registered for land tax purpose, which is generally an undervaluation according to market price criteria. The landowners could be compensated by means of immediate cash payments or the allocation of government bonds redeemable at some future date. *Exemptions* in many cases of land reform take the form of exemptions according to expropriation criteria that are established in law. In Latin America one practice was to exempt land that was shown to be already highly productive and efficient (Ellis, 1992:206). This in itself will trigger a debate on the meaning of efficient agricultural use and put the beneficiaries at a disadvantage, as they will receive the least fertile land. Legislation on land reform must lay down the criteria for post-reform land allocation, that is *distribution*. It involves decisions such as whether to distribute or collectivise and whether to retain land under state ownership or permit freehold registration.

The second kind of land reform is tenancy reform in cases where the tenant works the land. Christodoulou (1990:17) defines land tenancy as “permission by its owner to another party to use the land against payment”. In fact, tenancy reform is not redistribution but the changing of rules concerning legal and illegal types of contracts between landowners and tenants. It typically means the prohibition of certain feudalistic types of tenancy. Here the issue of tenure security in particular relative to other types of reforms, which increases the demand for land improvements and inputs by creating incentives for lenders, is important because it involves designing and implementing laws that protect the rights of land ownership (Blarel, 1994:83: 290;

Feder *et al*, 1998:49; Graham & Lyne, 2000:8; Kille and Lyne, 1993; Pasour, 1990: 202-204; and Place *et al*, 1994:16-18). In fact tenure security is a strong incentives to invest when there are well-functioning land markets. Firstly, the benefits are realised when there are flexible land markets and rentals which induce owners to sell or lease their land. Secondly, land has collateral value when it can be sold and repossessed by the lender. And thirdly, in the case of a rental market land, opportunity cost is attached and if there is flexible ownership, effective farmers could use land more profitably.

The third land reform instrument, which is land settlement, does not involve enforced redistribution. It is simply the release of state land and unutilised land for resettlement. For this to occur, there should be a set of criteria and rules for identifying eligible people who may apply for a farm, the area involved, the amount of capital in the form of loans required for starting cultivation, whether to lease or sell the land to its new occupiers, and price and method of recoupment in the case of transfer of freehold title.

Defining land reform is not sufficient to prove the need for land reform; motivation is the other factor that governs land reform. The basic motives or objectives, which are interrelated and mutually complementary, are political, social and economic motives (King, 1977: 6; Von Blanckenburg, 1994:6). Although they are often interrelated, the fulfilment of one could cause conflict because another might be retarded .

The social justice objective aims at equalising land distribution and income generation as a precondition for sustainable agricultural development, as well as decreasing dependency relations and exploitation, which is regarded as unethical in modern society (Von Blackenburg, 1994:7). It is one method of cohesion among the society and the working together and sharing o f inputs and knowledge.

From an economic perspective land reform is supposed to increase agricultural production and improve labour and land productivity. Rural poverty will be reduced, as people who used to own little or no land before will secure land that will provide a livelihood. There are a number of countries where land reform has had positive results

(Berry and Cline, 1979:133; Binswanger and Elgin, 1990:342; Von Blackenburg, 1994:200). Countries which have achieved partially or generally positive results are India (Eastern), Japan, Taiwan, South Korea and, with some reservations, Chile, Egypt and Iran (Binswanger and Elgin, 1990:342; Von Blackenburg, 1994:8). Other successful examples of land reform are China, which created family farms from collectives under the household responsibility system in 1978, and the Philippines' tenancy reform in 1972 (Binswanger and Elgin, 1990:342).

The political motive should not be negated as it is also important in the discussion of land reform and often, in the last resort, influences the structure or the form of land reform (King, 1977:12). Many governments or political movements use land reform to retain power or for political victory. Von Blackenburg (1994:6) states that land reform is important as it changes the balance of power in a society. Economic grounds should not be the sole justification for land reform. The first consideration must be to remove social and political tensions, which will create conditions conducive to economic development and a shift in resources to capacity building. In the long run, political stability will contribute to the elimination of poverty through the linkage effect of agricultural production and economic growth.

As mentioned in the definition, the state is the major role player in the monitoring of property rights to land. The role of the state can be divided into three categories: (a) the police power, where the state has the right to regulate the use of land, (b) the police power to tax, and (c) the power to expropriate with fair compensation (Vink, 1991:182). Although the state is important as a regulator, ownership based on personal interest and historical background will determine property holding.

The most common criterion used to classify individuals' interest in property is the number of owners that own the resource, in this case land. This criterion is divided into the following categories: (a) common property, where all members of society or communities are involved, (b) property held severally by single owners, and (c) undivided property held by two or more co-owners (Barlowe, 1958:348). Common property is found in some societies and refers to the common land resource of the village (Barlowe, 1972:386). This kind of property right is found in most rural communities of Africa, where societies enjoy the right of use of the resource but have

no individual right of ownership to lease, mortgage, sell or subdivide. Resources owned by the public are usually overexploited, as individuals do not carry the full cost of utilising the resource (Hardin, 1968). In general, this system of ownership has been broken down to include severalty, that is separate, individually controlled ownership. In general the critics of common property assert that communal tenure is inefficient since “land is assigned zero opportunity cost even in conditions of land scarcity, resulting in inefficient resource allocation” (Nieuwoudt, 1990:288).

Development agencies favours the agrarian reform to land reform when redistributing land because the latter resulted in failures in most cases including most Asian countries where there was a fall in production (King, 1977:6; Moyo, 1995:73). Support services like education, agricultural credit, extension, capital investment in infrastructure, research and improved methods of processing and marketing were perceived as essential to the success of any land reform and seem to benefit beneficiaries in land reform projects where they were included (King, 1977:6; Kirsten & Van Zyl, 1999:328; Werner, 1999:319). These support services are important for increased agricultural production. Still, political stability must be assured before concentrating on measures to increase agricultural production.

The branch of literature on agrarian reform that has received most attention and that best serves as guide in policy design of farm models that are economically viable is concepts of farm size efficiency and labour productivity (Corina, 1985; Prosterman & Reidenger, 1987) and more recently Van Zyl (1994) and Townsend et al (1998). Many students of land reform argue that the replacement of large farms by small farms is more efficient, as the latter experience higher productivity than the former in the absence of policy distortions and market failures (Berry and Cline, 1979:343; Binswanger and Rosenzweig, 1986:343-344; Binswanger et al, 1993:157; Kinsey and Binswanger, 1993: 157). It is argued that, in the long run, total-factor productivity (TFP) and the level of efficiency will be increased (Kirsten et al, 1998:95). The argument goes that the smaller family labour unit has certain advantages. Family members receive a share of the profit and therefore have more incentive to work, therefore there are no hiring and search costs for labour and the risk is shared amongst family members. Small farms that rely primarily on family labour are thus deemed more productive than larger farms that rely on hired labour. In essence small farms

generate more employment. A study by Van Zyl (1996: 95) of grain-producing areas of South Africa, testing the relationship between farm size and efficiency by comparing TFP across different farm sizes, found an inverse relationship and concluded that the quality of management is an important determinant of efficiency. The author concluded that there could be greater efficiency, and therefore greater gains, if the large commercial farms were to become smaller. By contrast Townsend et al (1998) found no scale economies in the wine grape sector in South Africa suggesting alternative production systems than reducing of farm sizes.

In general, the most common failure of reform worldwide, as summarised by Lipton *et al* (1996:xiii), lies with the design side and not usually with the beneficiaries themselves. Identified common failures of land redistribution include the following:

- (a) A tenure system design not consistent with people's security needs (Migot-Adholla *et al*, 1991);
- (b) A lack of entrepreneurial and management skills amongst communities, which are needed to solve disputes;
- (c) The overdesign of complex, ambitious support systems that discourage the process of privatisation, especially of credit and inputs, and overstretch the state's fiscal and administrative resources;
- (d) Heavy and unsustainable subsidies that attract rich people as well as intended reform beneficiaries;
- (e) At the opposite extreme, a lack of essential support services like research, water and other infrastructure, or start-up support, on terms properly understood by participants;
- (f) Well-intentioned but ill-informed prior ideas about the goals and needs of farmers.

Based on these failures, the following can be regarded as guidelines for successful land reform as articulated by Christiansen (1996:327):

- *Simple and viable systems.* In designing land reform, care must be taken to design simple and not complex systems that discourage the process to individual ownership and the privatisation of land. Transaction costs in

respect of settling on and acquiring land should be kept as low as possible. Also to be considered is the size and quality of the land, and appropriate infrastructure to generate the required income.

- *The programme must achieve its goals.* Rapid implementation of the programme is a step towards avoiding excessive bureaucracy and the development of self-interest among officials. This in itself is an important factor, as maintaining stability will be determined by the programme's implementation within the targeted time frame. Success must also be measured in terms of the number of applications being processed, the size of the land that is being redistributed and the number of people benefiting in line with the specified time frame.
- *General understanding and acceptance across the entire spectrum.* Politically the programme must be accepted as being viable and suitable for achieving the required goals. Policy makers, politicians and developers should have a thorough knowledge of the situation and the broader achievable aspects.
- *The policy environment must be conducive to the implementation of programmes.* Policy can impede the progress of land reform. One example is the favouring of large farms over small farms in the case of market-assisted land reform. The problem here is that smaller parcels of land invariably sell for more per hectare than small parcels of land. This contributes to the high land-market prices relative to the capitalised value of future farm profits that will increase the cost of a reform programme. It serves as an incentive for beneficiaries to sell their land and gain profits. Therefore any factor that has a strong impact on market prices should be monitored.

From the above it becomes clear that for any successful reform there should be a general understanding of policy distortions and that such distortions should be removed should they impede the programme. Large farms should not be favoured as they serve as incentives for beneficiaries to sell them to groups other than

beneficiaries, usually those seeking a tax shelter (Kirsten & Van Zyl, 1998:329). In developing countries such as South Africa, smaller commercial farms should be favoured as a way of employing the large unemployed and unskilled labour force. Productivity will be increased as smaller commercial farms have a high productivity level due to the incentive of sharing profits, the low cost of hiring labour and shared risk among the family members (Binswanger & Elgin, 1990: 344). In the case of capital-intensive or highly mechanised areas where normally there is increasing returns with the operational scale, rental markets will permit small farmers to circumvent the economies of scale associated with machines (Van Zyl, 1996:262). Therefore relatively large farms should not necessarily be subdivided into small family-type farms on the basis of well-functioning markets, especially where economic and institutional distortions favour large farms over small farms (Kirsten & Van Zyl, 1998: 328). Having land reform that is market driven is vital to avoid too much control vesting in the state or public sector. The carrying out of market-assisted land reform through government grants reduces the chances of public sector bureaucracies.

### **2.3 The relationship between land market and land reform programme**

Land markets are important when designing a land reform programme. Once implemented, land reform has an effect on the land market, including prices, therefore it is necessary to understand factors influencing land values. This section briefly looks at factors that determine land prices.

Such factors include inflation, the nature of the prevailing tax system, changes in the risk level, the non-agricultural returns from land, macro-economic considerations, and the reason for the observed tendency of land prices to overreact to changes in farming returns (Just and Miranowski, 1993; Moss, 1997; Falk and Lee, 1998). Inflation reduces the rate of capitalisation of future returns and land serves as a hedge against inflation. A rapid increase in the USA land prices in the 1970s is partially explained by the rate of inflation (Just and Miranowski, 1970: 157).

Any changes in variables such as domestic commodity prices, the cost of inputs, interest rates, technological change, and climatic factors will affect the value of land (Alston, 1986). Any change in such variables will have an effect on the value of the

land, whether as a result of the interaction of market forces or partly or wholly as a result of a government policy initiatives. Because government initiatives raise the net revenues per hectare, it follows that there will be higher prices for agricultural factors of production (land in particular) over time (Goodwin and Ortalo-Magne, 1992). In many countries the main advantage of having land has been price appreciation over time because, unlike “most resources used in farming, land does not depreciate or deteriorate if managed properly” (Van Schalkwyk and Van Zyl, 1994). Appreciation in land prices means that farmers do not receive benefits in hard cash, but entails an increase in net worth which can be used as security against expanding the farm operation or a reserve against short-term financial losses that may require refinancing.

The location of a region in relation to markets and transport infrastructure affects land prices through its effect on producers’ relative product and input prices (Barlowe, 1972:160; Hall, 1966). The cost savings on transport for land in the vicinity of cities makes land in these areas more expensive than similar land further afield. Land in areas which are closer to cities and towns brings in higher returns and could be used for other alternatives. Therefore agricultural land in such areas should be managed and preserved, as factors such as population growth could result in the loss of land of high quality. This seems to be imminent in the Cape Metropole of South Africa, where high-potential wheat land is under pressure from the expansion of the population (Troskie *et al*, 2000: 16).

Peterson (1986) identifies three categories of factors that determine land prices in a free and effective land market, where demand for and supply of land play a role:

(i) *Farm factors* (FF)

Farm factors are those concerned with farm production and they affect yields. These include the productive capacity and the expected prices of farm products and inputs and of land itself. Soil fertility, topography and climate are the natural factors influencing the productive capacity of land.

(ii) *Non-farm factors* (NFF)

This represents the opportunity cost of using land for other non-farm purposes. They represent the value to present and prospective landowners of

current and expected non-farm uses of land, including housing, recreational and living space, commercial development, and transportation corridors. Proximity of farmland to cities and regional differences in farmers' access to credit and farm subsidies.

(iii) *Interest rates (i)*

The level of interest rates in any given country determines the land values.

Therefore the land price equation at any time may be represented symbolically by the following functional equation (Van Schalkwyk & Groenewald, 1993: 402)

$$P_t = (FF_c, FF_p, NFF, i)$$

Where

$P_t$  = the price of land at any time

$FF_c$  = farm factors in the form of capacity of the land to produce those products for which it is comparatively suitable

$FF_p$  = farm factors in the form of expected prices, the future of farm products, farm inputs and expected selling price of the land itself

$NFF$  = non-farm factors

$i$  = interest rates

The price of a resource is fixed on the basis of supply and demand, which in turn depends on the contribution of the resource to the production of a particular item or items. Therefore payment for that resource will represent the combination of economic rents and transfer earnings. Economic rent is a payment in excess of the price necessary to keep the resource from transferring to other uses. Transfer earnings is the amount necessary to keep the resource from being transferred to other uses or from its present employment. This explains why a resource will flow to the uses that pay the highest return and will be valued at the highest-paying income that it could earn.

Enterprises that experience high returns will also experience a strong demand for the use of that land. The land will become more desirable and the use value associated with it will also increase. This represents a windfall gain or an economic rent for the

land. The price for that land will remain higher even if the prices of the enterprises were to decline. An example is the land in the states of Arkansas, Louisiana, Mississippi and Alabama in the USA where large acreages of land were all put under pasture following the increase in the prices of beef and relatively lower crop prices (Goodwin, 1997:352).

## 2.4 Conclusions

The theoretical perspective presented here provides an introduction to the concept of land reform and its economic implications. The theory proposes that one of the major responsibilities of the implementing parties of land reform is to ensure that farmer support services are delivered in an integrated and co-ordinated manner. Extension and demonstration services, development of managerial skills by training, credit and marketing channels and services are pre-conditions for successful land reform. Beneficiaries should be those who best understand their local environment.

Individual ownership of property is essential as opposed to communal ownership, as individuals will view the utilisation of such property as continuous and an opportunity to derive welfare and benefits from it (Van Rooyen *et al*, 1993:135). The experience shows that large farms do not guarantee increased productivity but should not be maintained if necessary depending on the region and the sector. Market and policy distortions favouring large farms over small family-type farms create economies of scale that are false in that they are not applicable to small family-type farms (Van Zyl, 1994:157).

It is important to note that the state should only serve as the regulator of a land reform programme and should not have too big a centralised role. As Shumba (2000:2) puts it, land reform in Zimbabwe failed because “the officials became jealous of the poor people whose lives were changed by Zimbabwean land reform. It failed because the officials changed policy to benefit themselves”. Participation and registration of women as owners of land is important and should not be ignored in policy design. Women should be made stakeholders in rural society, as many households in Africa are head by women. Knowledge of resource quality as determined by land price is vital in planning. Land price is an indication of the quality of the land and is

determined by farm and non-farm factors that are capitalised into the land value. Income and inflation remains the most important contributor to the price of land. Lastly, it is important to note that, whatever the reason for land reform, the political situation of the country will determine the course of the land reform process.

The chapter that follows provides a review of the land reform policy in South Africa. It will focus on the way in which the programme was designed and on its progress since inception. The chapter will also look briefly at land values in South Africa and how this factor will affect the process of land redistribution. The last part gives an overview of agriculture and the land reform programme in the Western Cape as a province.

## **Chapter Three**

### **OVERVIEW OF LAND REFORM IN SOUTH AFRICA**

#### **3.1 Introduction**

In recent years South Africa has gone through many changes in the political arena. The 1994 elections marked the birth of the new democratic government and the end of the old apartheid regime. This political reform not only pointed the way to change, but also impacted on the social and economic lives of people. The new government is vested with powers to redress past inequalities, especially the inequality of opportunities. However, future equality of opportunities for the various race groups requires present policies to address the distribution of rights, powers and privileges inherited from the past (Van Zyl, 1994:156). The past policies resulted in the minority group owning more than 80 per cent of agricultural land in South Africa (Mbongwa *et al*, 1996:326; Kirsten & Van Zyl, 1999:326). Measured by the Gini coefficient, South Africa has one of the world's most unequal distributions of income due to these discriminations in policy orientation (Deininger and Squire, 1996).

Although South Africa is a middle-income country, its agricultural sector generates less than five per cent of Gross Domestic Product (GDP) per year, employing 14% of the labour force although it varies for different years (Lipton *et al*, 1996:v). This is small compared with other middle-income countries, where agriculture typically contributes about 15% of GDP and employs 25% of the labour force. Agriculture is expected to play a major role in the South African economy because it can help to alleviate the high unemployment rate among the large proportion of people in rural areas, and the high level of unskilled labour with little education. For example, in the Northern Province, which is one of the poorest provinces in South Africa, it was estimated that 70% of the population lives under the poverty line of R740/month or R8 880 per annum (Kirsten 1996:306). Agriculture can also play an important role in the economy of South Africa as wage rates in other labour-intensive sectors, like manufacturing, are far above those in agriculture because of the alliance between the Congress of South African Trade Unions (Cosatu) and the African National Congress (ANC), which unionises workers to maintain higher wages which were already high (Lipton *et al*, 1996: vii). However, agriculture has experienced higher wage increase

mainly in the export-orientated sectors compared to other sectors due to the growth in the export market. The other factor that impedes accelerated economic growth is the high level of low-skilled labour due to the legacy of apartheid education. Therefore, efficient land reform in South Africa is inevitable, not only as a means of undoing the legacy of the past but also of increasing efficiency, equity and growth and alleviating poverty. However, this requires much effort on the part of designers and beneficiaries to avoid the mistakes that are to be learned from other countries.

This part of the chapter firstly gives a historical overview of the agricultural policy environment in South Africa in the past which contributed to the present agrarian structure. It also explores the different land policies that have been formulated since the new dispensation, and their flaws. The chapter will focus on the progress of the land reform programme in South Africa and to what extent it has benefited the targeted beneficiaries. Land reform cannot be separated from the land market, as efficient land markets will determine its success. The last section will deal briefly with land values in South Africa.

### **3.2 Background to the development of land policy and agrarian structure in South Africa**

The 1913 Land Act was the foundation for the racial division of land in South Africa. It provided for land discrimination against Africans, who received only seven per cent of the land. The 1936 Native Trust and Land Act was later to consolidate the division by increasing the allocation to 13,6 per cent (Nattrass, 1981: 240). The holding of land and access to resources in South Africa are racially based and are the result of these policies. Data from 1989 show that the white minority owned 86 million hectares, coloureds and Indians, who were legally prevented from owning farmland, occupied 515 000 hectares and Africans about 17 million hectares Abstract (2002).

Between 1918 and 1928, these policies created an increase in the number of white-owned farms of 23 per cent. Similarly, the development of agriculture made land a highly valuable commodity. The 1920s was the most difficult time for South African farmers. The worldwide depression from 1920 to 1924 caused prices to plummet, with a slight recovery between 1925 and 1928. The Great Depression that started in 1929 followed this. In the Apartheid era (from 1948), policy makers were faced with an

agricultural environment of large-scale production but of overall inefficiency and marked by variability as far as the issue of equality of ownership was concerned (Schirmer, 2000:12). Although there was an increase in field crop production, it was due to an increase in land area under cultivation. The gains only accrued to the white minority. Although the government was biased towards large-scale farms, all white farmers were given assistance by the government in the form of prices set by the marketing system (Schirmer, 2000). The government even went further, establishing a commission to halt the 'depopulation' of the countryside. The activities of the commission culminated in the passing of the 1970 Sub-division of Agricultural Land Act, which reflected the government's strong bias against small farms. The Sub-division of Agricultural Land Act, 1970, prevented the subdivision of farms into small portions.

These agricultural policies in South Africa created subsistence farming in the former Bantustan areas. In these areas almost all land holding was communal and chiefs or headmen were responsible for the allocation of the land (Cooper, 1991:240). In communal tenure, usually "land is assigned zero opportunity cost even in conditions of land scarcity, resulting in inefficient resource allocation" (Nieuwoudt, 1990:288). The result was that most of the people in these rural areas opted for labour migration for their livelihood. In 1990 the number of people living in these areas was nine million, and produced only seven per cent of South Africa's annual agricultural production (Cooper, 1991:240).

In conclusion, it can be said that the past government policies belittled the importance of small-scale farming in South Africa. A policy environment and combination of other factors like population pressure, climate and other natural factors all contributed to the decline of small-holder farming (Kirsten and Van Zyl, 1998:560). Even now, South African agriculture still comprises two sectors, namely (a) small-scale farms, mainly managed by subsistence farmers in the former homelands, and (b) large commercial farms, mainly managed by white farmers.

### **3.3 Formulating a new Land Reform Programme for South Africa in post-apartheid era**

The ANC, as part of its new policies, adopted the Reconstruction and Development Programme (RDP), which received support from the public and the private sector (Fitzgerald et al, 1997:42). In short, the RDP aimed to consolidate democracy by reconstruction, development, and the establishment of peace and security for all South Africans for nation building. The general goals were, amongst others, job creation, housing, land reform, rural development, and primary health care. However, the RDP did not live up to its promises. It was designed to be “people-driven and people-centred”; however, the weak organisation at local level, aggravated by inadequate capacity, resulted in the imposition upon communities of top-down, unsustainable development plans. The lack of capacity at local level, where implementation takes place, turned well-designed programmes into failures (Fitzgerald, 1997:47). The other factors that contributed to failure were insufficient resources, which aborted sustainability in the short term, and bureaucracies which were created (they still exist) and crippled the process instead of leading the way to transformation. Soon the RDP was replaced by the GEAR macroeconomic policy, which aims for growth and a global competitive economy. The policy in itself aims to relieve the government of its expenditure or, put differently, to effect cost savings, by privatising the delivery of services. It is mainly in undeveloped and underdeveloped rural areas where high unemployment and low standards of living continue to grow worse that the effects of this policy are felt.

In formulating all these economic policies, land transfers to those previously disadvantaged in South Africa were accorded high priority for political stability and hence economic growth. The government adopted three methods of redistributing land to previously disadvantaged people.

The three methods are separated but interconnected and they are part of national Land Reform Programme of South Africa (DLA, 1997:9):

- (i) *Land redistribution.* The purpose of land distribution is to provide land to the urban and rural landless and at the same time to improve their livelihood. The

initial programme provided for transactions to be on the basis of willing buyers and willing sellers. The programme incorporated women by according them access to land and participation in decision-making. A maximum of R 15 000 was allocated to each household, either for some form of settlement or for land acquisition. Farm workers could also access the grant to form partnerships with employers to own the land and the farm business (share equity schemes). This kind of co-operation provided incentives for improved farm production. Benefits were expected to accrue to both parties and land holdings were extended to the previously disadvantaged. In trying to maintain public confidence, the DLA (1995:25) explained that “expropriation will be used only as an instrument of last resort where urgent land needs cannot be met through voluntary market transaction”. Projects that were given priority were those that were economically and socially viable, fiscally sustainable for the local authority, created employment, had basic infrastructure and water at their disposal, had access to markets, and were environmentally sustainable.

- (ii) *Land tenure reform.* In South Africa, registered ownership is the most secure method of holding land. Because of apartheid laws, black people found themselves without registered ownership rights, or any rights to land. Tenure reform aims to bring all people under one system of land ownership, whether private ownership or communal tenure. It aims to alleviate the problems of insecurity, inequality and development impediments, balance systems of group rights and individual rights, and accord rights to communal ownership systems. The targeted group is farm workers, labour tenants and people living in informal settlements.
  
- (iii) *Land restitution.* In the South African context this term means to restore ownership of the land itself or provide alternative land or monetary compensation or other relief. According to the Restitution of Land Rights Act, Act 22 of 1994, individuals or communities who had lost land rights because of racially discriminatory laws since 19 June 1913 would have such rights restored or will be compensated.

Later the government realised that this programme, which was centralised and supply driven rather than demand driven, was in reality not improving the welfare of the beneficiaries, and was slow and costly (DLA, 2000a:1), it was redesigned and modified. The document on the new revised Integrated Programme of Land Redistribution and Agricultural Development was released in the year 2000. The objectives of the new programme in terms of the policy is the same as the old however the operation and implementation has been widened to speed up the process and improve efficiency (DLA, 2000a:3). The aim is to transfer 15 million hectares of agricultural land to black people (Africans, coloureds and Indians) within five years and also 30% of commercial agricultural land. However, unlike the old programme beneficiaries have to define their own project.

In this sub-programme of the redistribution programme, the minimum contribution by beneficiaries in kind, labour and/or cash is at least R5 000 and grants vary from R20 000 to the maximum of R100 000, depending on the own contribution. Table 3.1 shows the relationship between the scale of grants and own contributions. From the diagram it can be seen that, starting from R5000, there is a 0.37 per cent grant increase for every percentage increase in own contribution. The last column of Table 3.1 illustrates in terms of percentages how the project participant(s) will contribute to the total cost of the project. For a project costing more, the own contributions are bigger (from a low of 20% to a high of 80%).

**Table 3.1: Relationship between own contribution, matching grant and project cost**

Own contribution (R)	Matching grant (R)	Total project cost per household (R)	Proportion of total cost (%)	
			Own contribution	Grant
5 000	20 000	25 000	20	80
35 000	40 871	75 871	46	54
145 000	68 888	213 888	68	32
400 000	100 000	500 000	80	20

Source: DLA, 2000a

The most remarkable thing about this revised programme is that it is demand driven, beneficiaries have to contribute, it is decentralised, which will encourage capacity building at local level, beneficiaries have a choice of defining their own project, and it is biased towards individual holding, which will encourage efficiency of land use and security of tenure. However, like the previous programme, the Subdivision of Agricultural Land Act, Act 70 of 1970, still has to be repealed and for the time being the minister is responsible for the approval of any subdivision (DLA, 2000a:12).

### **3.4 Alternative forms of land redistribution in South Africa**

For land reform to be boosted, all other means should be utilised. Methods such as private land acquisition and equity schemes together with improved services are essential.

#### **3.4.1 Private acquisition of land**

A new policy in South Africa after the repeal of the Land Acts now makes it possible for a person of any race or background to purchase land directly. Black farmers in South Africa from white farmers only after 1991 after the abolishment of racially based land measures. The advantage of private acquisition is that security of rights is not lacking as in the case of communal arrangements. For a sound private market in land the law must be clearly defined to protect individuals' rights to a parcel of land. Other than acquiring land through a government grant, some people from disadvantaged communities are acquiring land without the help of the grant.

Separate studies by Kirsten *et al* (1996) in the Northern Province, and Graham & Lyne, (2000) show that black farmers are entering the land market without the help of the government. Statistics show that, of the 2744,8 hectares traded in the Northern Province in 1994, 0,14% went to blacks, with the number decreasing to 0,05% in 1995 (Kirsten *et al*, 1996:221). It is estimated that 0,095% of commercial land had been transferred to black farmers in that province by 1995. Estimates for KwaZulu-Natal by Graham & Lyne (2000) show a similar but more pronounced pattern than that observed in the Northern Province. The recorded figures were 0,43 per cent of the total area available for redistribution in 1997 and a figure of 0,35 per cent in 1998.

In accessing land privately, individuals could either use their own cash or seek funding through mortgage loans. However, the problem for this group is access to capital. Mortgages are difficult to access as a proven record of cash flow is needed in order to qualify for loans through commercial institutions. However, other state-funded empowerment development finance institutions like Ithala Bank are providing subsidies to mitigate the problem of cash flow. Ithala Bank is a good example of empowerment which. Together with private companies, Ithala bank facilitates the purchase of farmland in KwaZulu-Natal by providing subsidies on interest rates with a low initial instalments (Lyne & Darroch, 1997; Graham & Lyne, 1999:3).

### **3.4.2 Equity sharing schemes**

Large-scale farms will remain eminent in most southern Africa countries and therefore it is inevitable that ways will be sought to improve rural livelihoods and to gain access to large farms through alternative new ownership arrangements. The *Green Paper on Land Reform* recognises models for equity sharing strategies. The advantage of these models is that higher profits are realised because of the increase in productivity. However, trust between the farm workers and the owner is important for their successful implementation. These schemes serve as good alternatives, especially in the case of higher land values.

### **3.5 Policy outcomes in the Western Cape**

The purpose of this section is to describe the physical characteristics and the economy of the Western Cape. The provincial statistics show that the Western Cape has one of the highest Human Development Indexes (HDI) in South Africa. It ranks with that of countries like Brazil and the United Arab Emirates although there are severe inequalities between various race groups (DBSA, 1994:47). The white population group's HDI is among the highest and could be compared with that of the top developed countries. However, like any other province of South Africa, poverty, income inequality, the inequality of wealth distribution and access to opportunities are still severe and are visible factors that need to be addressed. There have been some improvements amongst the previously disadvantaged groups though, for example in

the period 1985 to 1990 the income of coloured groups increased by 14% compared with white groups, whereas in the case of black groups income increased by a mere two per cent.

The unemployment rate of 13,3% in the Western Cape is the lowest compared with other provinces in South Africa. The province also has highest adult literacy and school attendance rate, the lowest mortality rate and, as for economic activity, it rates first or second only to Gauteng (Eckert *et al*, 1996: 101). The 1993 population profiles show that it has 58% coloureds, 24% whites, 17% blacks, and less than 1% Asians. This is in contrast to the national population profile in South Africa, where blacks account for 76,4%, whites 12,6%, coloureds 8.5% and Asians 2.5%. The Northern Cape is the only other province that has a coloured majority.

The uniqueness of physical resources also makes the Western Cape agricultural sector substantially different from the rest of South Africa. The Mediterranean climate in the mostly the high potential areas of the Boland is characterised by winter rainfall, which results in a different crop mix and potential. The Western Cape Agricultural Union (1993:1) states that there are about 20 different major agricultural industries in the Western Cape, with fresh fruit, grapes and wine at the forefront because worldwide demand remains strong and prices favourable. About 20% of the gross value of agriculture in South Africa is contributed by Western Cape agriculture because of a significantly higher-valued product mix than the national average. Agriculture accounts only 10% of the provincial GDP compared to less than 5% of the country as whole (Lipton *et al*, 1996:77).

The commercial sector of about 9000 well-organised white farmers growing high-value crops for domestic and international markets dominates the agricultural sector in the Western Cape. Most of the land (which covers about 11% of land area of South Africa) is of medium potential, but high value fruit producing areas due to returns and the intensive irrigation. About 250 000 permanent and seasonal farm workers are employed in this sector with 1,5 million dependants. The other agricultural sector in the province is small-scale agriculture which is being practised by fewer than 20 000 rural households of coloureds and Africans in townships in small home gardens. All of these population groups have been excluded from land markets or agriculture as a

whole, not having been provided with infrastructure and access to land, agricultural inputs, water and financial services. The estimated amount of land available for redistribution to, and the settling of, new small farmers in the Western Cape is 150 000 hectares as a 30% of commercial land is 4 million hectares. It is anticipated that 70% of applications will be for commercial ventures (of which 60% will be equity sharing scheme projects) and the remaining 30% for food safety net projects.

Apart from the redistribution of land, the other major challenges for the province are closing the gap between commercial agriculture and smallholder farming, inclusion into productive agriculture, and access to markets (Lipton *et al*, 1996: 159). Smallholder farming in the Western Cape has been divided into four categories .

(i) *Small farmers in the coloured rural areas and on church lands*

This category of small farmers is by far the largest in the Western Cape and the area where they live are usually called the coloured rural areas (CRAs). Most of the small farmers originate started off farming at church mission stations. The 12 CRAs, which are 630 km<sup>2</sup> in extent and have a population of 42 100, are Askraal or Slangrivier, Ebenezer, Freimersheim, Genadendal, Haarlem, Krantzhoek, Mamre, Pniel, Rietpoort, Saron, Suurbraak and Zoar. Other church lands are held in trust. This brings the total population to 51 000. CRAs have a communal tenure system and the title deed is registered in the name of the board of management, with the Minister of Land Affairs as the trustee. The rest of the land in these areas serves as commonage and is used for grazing or is steep mountainous areas.

The areas experience declining productivity, high levels of unemployment, overcrowding and deepening poverty (Gilfellan and Primo, 1995). Few farmers in these areas have had any agricultural training or tertiary education. The main product is vegetables, most commonly green beans, onions, European potatoes, sweet potatoes, beetroot and pumpkins.

(ii) *Small farmers on other lands in rural areas*

A smaller number of coloured rural households (about 50 000) live in approximately a hundred small settlements in coloured rural areas managed or owned by trusts, or even owned by a private individual (Gilfellan and Primo 1995). A settlement could be private land bought from the church (for example, Jamestown and other places around Stellenbosch) or sold to white farmers, as at Elandskloof near Citrusdal; an inherited private ownership of land over several generations, as at Buisplaas near Herbertsdale; and private land sold to a Trust for the settlement of coloured farmers, as at Fyrth, near Ladismith. Some municipalities also rent out land for farming, as in Pacaltsdorp near George.

(iii) *Emerging commercial farmers*

Eicher and Staatz (1990) define emerging commercial farmers as progressive farmers on medium-sized farms who carry the risk of innovation, provide labour opportunities to poor farmers with scant resources and generate a marketable surplus. There are fewer than a hundred coloured commercial farms on privately owned land scattered over the province (Catling and Saaiman, 1996:159). In the Bredasdorp/Caledon area they mainly grow grain crops and rear sheep, or they are small dairy farmers with fruit and flowers as an additional source of income, as in the Ceres district and in the Langkloof. Other farm workers prefer equity sharing arrangements to farm their own small farms, with commercial farm owners offering services to them.

(iv) *Urban and peri-urban growers*

Surveys indicate that there are more than 150 000 people in small home gardens or household vegetable plots in the extensive Cape Flats townships and around larger towns like Paarl, Stellenbosch and George. The annual production is put at 8 000 tons of vegetables from a total area of 300 ha. The crop mix is carrots, cabbage, beans and spinach in winter, and in summer, cabbage, pumpkins, maize and trees planted for windbreak, shade and fruit (Land Development Unit, 1995). People in this category are in general very poor and the category is characterised by high unemployment and

underemployment. Included in this category are the livestock farmers who keep their livestock in the township because of lack of grazing land. This livestock pose danger to motorist as well as the environment in their surrounding areas.

### **3.6 Conclusion**

Political stability is important for South Africa and one way of achieving that is through the policy that will ensure that Land Reform Programme in South Africa is successful. The issue that is yet to be considered seriously and be driven by policy is the formation of small parcel of farmland such that not only commercial Blacks are formed but to cater for food safety net projects. This will also ensure that there is a speedy transfer of land to Black farmers

It must be recognised that the Western Cape especially the Boland and the coastal areas is unique. Different climates, product mix and highly urbanised population make it even more distinct. For the Western Cape commercial agriculture is very important and thus the Land Reform process is biased towards the creation of Black commercial farmers. This is shown by the fact that most projects expected are of commercial nature and included is equity-sharing schemes whereby farm workers form a joint venture with the farmers. It is from this background that this study aims to investigate the level of redistribution in this particular province. The next chapter describes the methodology of soliciting the baseline data for the study

## **Chapter four**

### **METHODOLOGY USED IN RESPECT OF LAND TRANSACTIONS THAT TOOK PLACE IN THE BOLAND IN 1998, 1999 AND 2000**

#### **4.1 Introduction**

In this chapter the methodology used for obtaining the primary data from the Deeds Registry is presented. The chapter is important as the validity of the data that are to be used for this study is based on the correctness of the methodology. Data are very important in research, as they determine the validity of the study and the way the results should be presented. Therefore, firstly the objectives of this chapter are to describe the study area, secondly to present raw data obtained from the Deeds Registry and finally, the methodology or criteria used for the stratification of that data.

#### **4.2 Short description of the Boland region**

The Boland region of the Western Cape is predominantly a winter rainfall area with a Mediterranean type of climate. It is the only region in South Africa with this type of climate. The region, where this study is being conducted, is the predominant fruit and wine producing area of the winter rainfall region with land of medium quality. Appendix 1 is a map that shows where the Boland lies. The only sub-region with summer rainfall is the Ceres-Karoo area. Franschhoek, Jonkershoek and Slanghoek have an average rainfall of between 1000 and 2000 mm. The western zone of the sub-region has rainfall patterns of 600-800 mm, the eastern zone 250-500 mm and the Ceres-Karoo region 75 mm. Winter temperatures in this region vary but are normally low and characterised by snow. Other climatic variations are found, from the frost-free coastal zone and valleys to the Koue Bokkeveld where frost and snow are common. Gale-force south-easterly winds in spring and summer, and north-westerly winds in winter necessitate protection measures for fruit, wine and vegetable farming (Lipton et al, 1996:122).

The Boland region was chosen because it is a farming area which utilises advanced agricultural technologies with a mix of agricultural activities. Three major agricultural research institutes based within the region advance these technologies. The Agricultural Research Council and its Institutes, the Chief Directorate of Agriculture, and the Faculty of Agricultural and Forestry Sciences at the University of Stellenbosch contribute greatly to the knowledge pool in this area and are mainly responsible for the expanding economies of scale comparable to standards of developed countries. This is but one of the reasons why the foreign community views the region as a good area for investment.

### **4.3 Data source**

In South Africa the Deeds Office is responsible for recording all land transactions and title deeds to land. All the private, state, provincial, municipal, municipal, and parastatal landholdings, which are potentially available for commercial use and for development have their own application procedures (Deeds Registry, 2001). The municipality per se plays an important role in ensuring that all the procedures are adhered to in the buying and selling of land. In the case of the registration of bonds, a rate of R0,20 per R100,00 or part thereof of the capital amount being secured by the mortgage is payable as stamp duty (Deeds Registry, 2001). Rates of transfer duty, on the other hand, depend on the nature of a purchase: for companies, close corporations or trusts a flat rate of ten per cent of the purchase price is payable, whereas individuals pay transfer duty on a sliding scale from one to eight per cent of the purchase price, depending on the value of the property transferred (Deeds Registry, 2001). Land reform beneficiaries are exempted from duty.

The primary data for this study were obtained by purchasing lists of all deeds of land transactions that took place in Stellenbosch, Paarl and Franschhoek (sometimes referred to as Winelands areas) and partly Worcester for the period 1998 to 2000 from the Deeds Registry and converting them to a computerised database file. Generally, the Deeds Office records the farm (site) number, farm name and title deed, date of purchase, purchase price of the farm, portion and number (if the transaction involves only a portion of the farm area) in hectares or square metres, and the name and identity number of the owner. Other information is on clearance (the municipality

under which the farm is registered), province, shareholders in the farm and the value of the various shares.

Table 4.1 is a classification of all land transactions that have the potential of being utilised for farming (farm land transactions) to show the nature of purchase of land. Entities such as government, church and municipalities are included because they have the ability to not only lease the land to people but also to dispose land for farming purposes. From the table the majority of transactions are private purchases including individuals, companies and close corporations then followed by trusts transactions. Trusts transactions were separated from private because an individual or any entity can hold it for someone. Government and municipality usually purchase land with an intention to tender it for development such that they do not possess land for a short period.

**Table 4.1: Survey of the total number of land transactions in Boland areas from 1998 to 2000**

NATURE OF PURCHASE	NUMBER OF TRANSACTIONS			AMOUNT OF LAND TRANSACTED (HA)			FARM LAND PRICE (R 000/HA)		
	1998	1999	2000	1998	1999	2000	1998	1999	2000
Private	441	332	242	9003.11	5008.57	3953.32	175670.98	1491038.96	277908.7
Trusts	133	91	44	1 474.47	1 901.55	1 575.92	107283.97	45 660	26 044
Municipality & Development	5	8	1	53.52	11.03	0.32	64 181.61	2173751	875 000
Church lands	3	1	3	11.21	5.5	1.92		7000	218 229
Government land	2	2	0	5.69	14.2	0	32 678.57	28 521	0
<b>Total</b>	<b>584</b>	<b>434</b>	<b>293</b>	<b>10 548</b>	<b>6940.85</b>	<b>5531.48</b>			

Source: Own calculations

#### 4.4 Filtration of land transactions

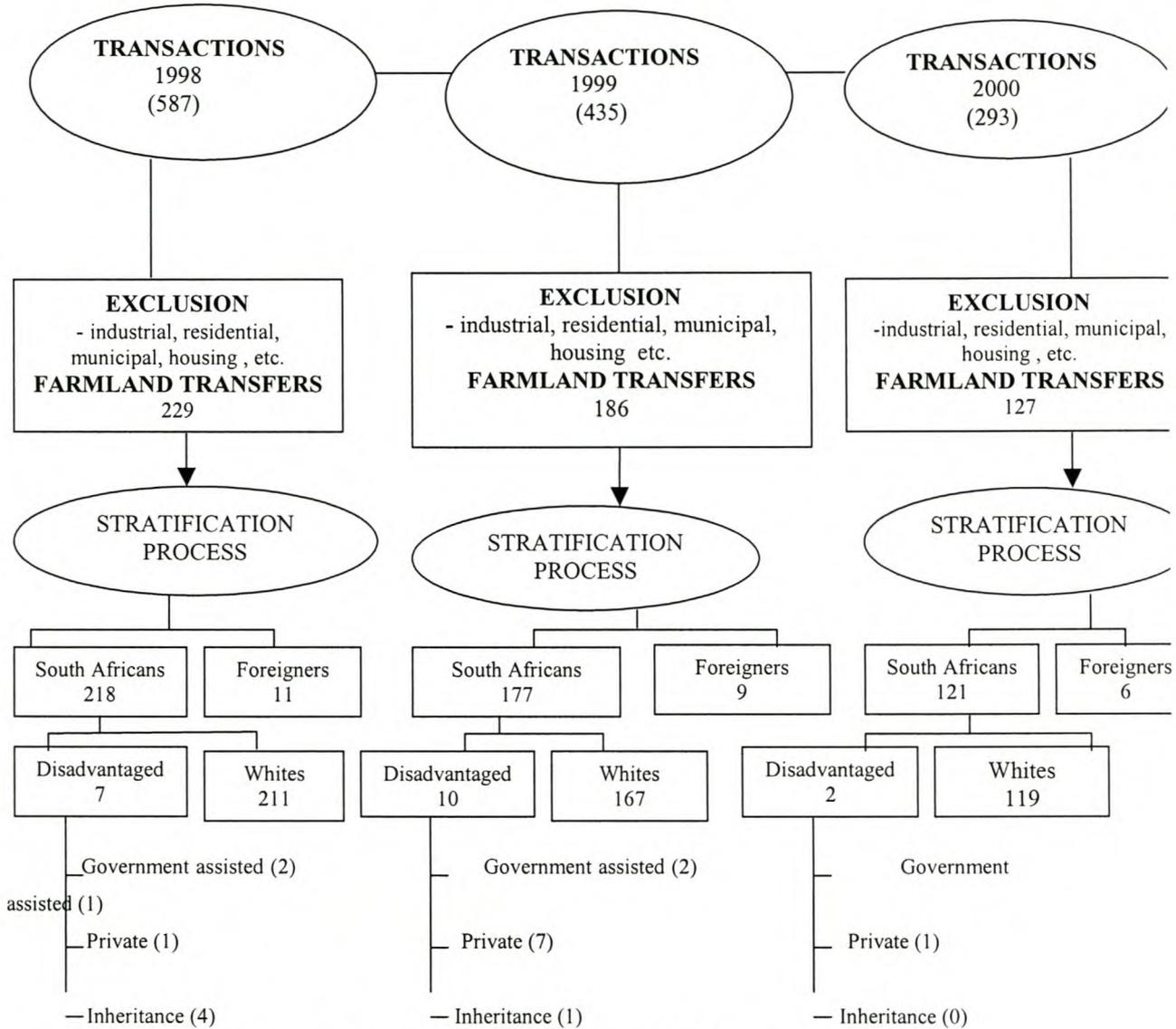
It is not the objective of this study to analyse all land that was transacted in the given period. The data presented above merely illustrates of how land in the Western Cape is being transacted and the various units that are responsible for land ownership and values. The main objective is to look at agricultural land, and in particular farmland,

that has been redistributed and the farmland that is foreign owned. Thus a methodology based on the character and nature of the data was followed, as the methodology of a research project is inherent to and characteristically depends on the procedure and the character of the data (Leedy, 1997: 18).

A filtration process was undertaken to exclude all land that is not used for agricultural- related activities. The first step in the filtration process was the exclusion of all industrial, housing, etc transactions that were observed from the data. The second step was the exclusion of all land transactions by which land was transferred from one disadvantaged group to another. Only those transactions by means of which land was transferred from males to females were kept. This step was necessary to ensure a set of redistribution land transactions. The underlying objective of this study is to analyse redistributed land. Therefore land transfers within the disadvantaged strata (that is from one previously disadvantaged entity to another) do not form part of redistribution *per se*. However, such transactions were minimal.

The final step was the exclusion of transactions based on the size of the land. This proved to be a most intricate process, the reason being that land in this area is farmed intensively and is thus expensive, and most of the transactions therefore involved portions of less than one hectare. The assumption is that land transactions of less than 0,5 hectares were for residential or industrial purposes and not necessarily for farming. A study of the data showed that most transactions of less than the given area of 0,5 hectares were owned by individuals who in most cases might have acquired land of such size for residential purposes. Those companies found to be involved in non-farming development activities as reflected by the identification name were also not included in this study.

The whole process of filtration reduced the transactions in each category almost by half. In a relatively urbanised and industrialised province like the Western Cape, there is a large demand for land which is to be used for socio-economic activities. The total number of units of farmland transferred after exclusion was recorded as 229 farm sites for 1998, 186 farm sites for 1999, and 127 farm sites for the year 2000, a reduction by nearly half of the total land transactions for each year. Figure 4.1 acts as a summary of the process.



**Figure 4.1: Stratification of the transaction data, 1998, 1999 and 2000**

#### 4.5 Stratification of farmland

From Figure 4.1, a stratified random sampling was done whereby the cases were separated into two groups. The first group constitutes the new “South African owners” and the second one the new “foreign owners”. For the purpose of this study, a South African will be referred to as an individual who was born in South Africa and/or who can be identified as a South African in terms of culture, tradition and roots. Foreigners will be those individuals who were not born in South Africa and who consider

themselves non-South African; however, they may be living in South Africa and own a property or have a majority share in an enterprise. That enterprise will be considered foreign-owned. Also included are South African-based foreign firms, the origin of which can be identified as non-South African (trans-national firms).

The South African group yielded a total number of 218, 177, and 121 transactions for 1998, 1999 and 2000 respectively. The “foreign” group yielded a total of 11 farmland transfers in 1998, 9 farmland transfers in 1999, and lastly, a total of 6 farmland transfers for the year 2000. There is no notable difference in terms of the nature of purchases in the “foreign” group, that is there was an almost even distribution of land acquired either through trusts, companies, close corporations or private entities.

The South African group was further stratified into two groups based on the racial identity of the new owners of land. “Disadvantaged” is the term used for the first group, which is constituted of disadvantaged entrant owners. This is a group of people who, before democracy in South Africa (pre-1994), could not participate in the land market because of racial discrimination, and those within this group who may still be discriminated against on the basis of gender. “Whites” are defined in terms of their race and have always participated in the land market, that is before and after 1994. A total number of 7 farmland transfers in 1998, 10 in 1999, and 2 in 2000 were identified as having been transferred to Black farmers. Commercial farmers in the same period purchased 211 of total farmland transfers in 1998, 167 in 1999, and 119 in 2000 .

The main methods by which the “previously disadvantaged” groups can finance farmland or enter into farming ventures are identified in this study as (land grant method), private, inheritance (that is donations, bequests and court orders). Therefore, transactions involving disadvantaged group entrants were categorised into three main strata representing these methods. By definition *private purchases* are those transactions that involve the purchase of land without the help of government grants either through own cash or mortgage. All transactions recorded in this category were through mortgages of the Land Bank.

*Inheritance transactions* are those acquired through donations, either from national or international organisations. This category also encompasses transactions relating to land that was acquired through court orders and those leased from the municipality for crops or as commonage. Only five transactions took place during the designated study period .

The last method, the *government-assisted* method, represents transactions or land purchases with the help of the government land grant of R15 000. Government-assisted transactions were identified with the help of an official from the Department of Land Affairs. During the three-year period that the study was conducted, there were only five such transactions, which were mainly redistribution projects consisting of individuals farming in groups.

Owing to the unavailability of some information, the author, in stratifying the groups, accepts the factor of bias on the basis of race, gender and nationality (citizenship), which are not explicitly recorded in the Deeds Office. Surnames were primarily used to establish the required information and interaction with various institutions involved in agriculture and land transactions. For this reason a list of names for each residential area (that is suburb, township) were classified by using a telephone directory to determine the names of people dwelling in the zoned area. In practice, blacks (coloureds and Africans) would dominate in a township and whites in a suburb. When analysing the data, identified names were then used to categorise transactions according to race. Foreigners were usually those that are not common on the to the South African list of surnames. Furthermore the municipalities were contacted on the verification of the trends in land ownership in the region. The Land Bank of South Africa as well was helpful in providing for the data.

Finally to confirm some of the conclusions based on the data a survey was conducted whereby farms were visited and some were posted questionnaires. During the survey those that were incorrectly classified were reclassified and the status of those that could not be found was maintained. In dealing with companies, trusts and close corporations, the Registrar of Companies and the Master of the Supreme Court were contacted to acquire more information concerning those transactions. The author went to great pains to stratify the groups; he nevertheless accepts the possibility of errors and of understatements as to redistribution and foreign ownership of land, especially

in the light of the similarity between names common to different groups in the Western Cape.

#### **4.6 Conclusion**

This chapter has provided a picture of how land transactions took place and lays down a structure based on the analysis of data used for this research. It shows that diverse groups of people are purchasing and using farmland regardless of race or nationality, though the spread of transactions is not equal. However, there is still strong competition for the use of land, either for farming or, for example, for residential or development purposes. The next chapter presents the results of this stratification process. Using elementary statistical analytical tools, the author sets out to determine the difference between the area and value of land acquired by South Africans and non-South Africans and also, within the disadvantaged groups the difference amongst the mode of redistribution.

## **Chapter Five**

### **THE RATE OF FOREIGN INVESTMENT IN FARMLAND AND LAND REDISTRIBUTION IN THE BOLAND REGION DURING 1998, 1999 AND 2000**

#### **5.1 Introduction**

Land transactions are a reflection of the functioning of the land market. An ultimate evaluation of the robustness of a land market is the number of transactions that take place and the way in which they take place. This is important, especially for countries like South Africa, which are in the process of restructuring and reforming access to land and ownership. From 1964 to 1991, between 7 561 and 14 889 deeds involving 3,1 million to 5,5 million hectares of immovable rural property were transferred annually in South Africa.

This chapter is a presentation of the data gained from the stratification of transactions by means of the methodology explained in the previous chapter. Understanding the data requires an analysis of that data depending on the objective of the study. Throughout the chapter analytical tools are used to organise the data so as to help draw inferences from it. Elementary statistics is employed as an aid in translating the raw numerical facts and data meaningfully. The deeper meaning of, and insights into, the analyses of the data will not be discussed in detail in this chapter, as this will receive thorough attention in the final chapter. Shallow explanations that appear in this chapter are for an understanding of the data and the relevancy of the tools, an understanding of the use of other external information, and also an understanding of the linkages between the analyses and the study as a whole.

#### **5.2 The rate of foreign acquisition of land in the Boland region**

Table 6.1 represents the area of farmland acquired by foreigners in the Boland region. These statistics indicate the extent of land acquisition by foreigners. South Africans, as expected, were the major buyers of farmland. About 31 foreign buyers (mainly through farming companies) were active in the land market in the selected region in

1998 (13,54% of the total number of buyers). In 1999 it was 15,05% and in 2000, 12,6% of the total number of buyers. Together they accounted for 17,92% in the three years (see table 6.1).

**Table 5.1: An analysis of land purchased by foreigners in the Boland region during 1998, 1999 and 2000**

	BOLAND REGION			
	1998	1999	2000	Total
Number of transactions	31	28	16	75
% of total sales transactions	13,54 %	15,05 %	12,60 %	13,83 %
Area of farmland purchased by foreigners	1 297,41 ha	514,26ha	532,6ha	2 343,67 ha
Total farmland transacted	4 876,54 ha	4 618,06 ha	3 580,97 ha	13 075,57 ha
% of farmland traded	26,61%	11,56%	14,86%	17,92 %

Source: Deeds Office, 2000

The average share of 17,5% of farmland in the region over a period of three years is not negligible and is an indication of the trends in foreign land ownership. These statistics will in future have implications for land, agricultural and foreign policy in South Africa. The trends in foreign ownership of land have been of concern to the National Department of Agriculture and politicians though no formal statistics are available to validate the sentiment that productive land, especially in the Western Cape, is passing into foreign hands (Sunday Times, 2001).

### 5.3 The rate of land redistribution in the Boland region

The information from the deeds records shows that the overall area of farmland registered in the name of new owners in 1998, 1999 and 2000 was 4 876,54; 4 609,06 and 3 580,97 hectares respectively (see table 6.2). The total is 13 075 hectares for the three years, which is approximately twice or more than twice other land traded within this period. The area of farmland transacted decreased over the three-year period. The 1998 figures are converted to 3,25 per cent of the estimated 150 000 hectares available for the settlement of new small farmers in the province. The 150 000 hectares is an estimate based on projects by the Land and Agriculture Policy Centre (LAPC) in 1994 to identify new land for land reform, land with tenure

problems, and suitable state land near areas of need (Centre for Rural Legal Studies 1995; Versveld *et al*, 1995). The figures decreased slightly to 3,07 per cent in the 1999 calendar year, and further decreased to 2,38 per cent of the land available for redistribution in 2000.

Cognisance should be taken of the area of land acquired by disadvantaged groups during this period. The farmland area for disadvantaged groups increased considerably in this study period (1998 to 2000). In 1998 it was 202,23 hectares, which is 4,14 per cent of farmland transferred in the Boland region and 0,13 per cent of estimated total area available for redistribution (see table 6.2). For 1999 the area, as a proportion of total land transferred and land for redistribution, was bigger. Table 6.2 shows that it accounted for 452,96 hectares, which is 9,8 per cent of the transferred farmland within the region and 0,51 per cent of land available for redistribution in the province. In 2000, the area of land transferred to disadvantaged groups was only about half that of the previous year, namely 284,24 hectares (see table 6.2). However, the percentage of total hectares of farmland traded does not differ much from the 1999 figure, as it was 8 per cent. As a percentage of redistribution land it was 0,18 per cent in 2000. In the three years it is estimated that 0,62% of land for redistribution was transferred to disadvantaged groups, therefore an average of 0,21% for the three-year period.

**Table 5.2: Analysis of land purchases by the disadvantaged in the Boland region**

	BOLAND REGION			
	1998	1999	2000	Total
Number of transactions	19	13	5	37
% of total sales transactions	8,3 %	7 %	6,3 %	6,82 %
Area of farmland purchased	202,23 ha	452,96 ha	284,24 ha	939,43 ha
Total farmland transacted	4 876,54 ha	4 618,06 ha	3 580,97 ha	13 075,57 ha
% of farmland traded	4,14 %	9,80 %	8,0 %	7,18 %
% of farmland available for redistribution/new land for settling small farmers	0,13 %	0,51 %	0,18 %	0,62 %

Source: Deeds Office, 2000

It will be interesting to compare these results with other provinces for trends at regional and provincial levels. The Western Cape estimates are higher than those of the Northern Province, where Kirsten *et al* (1996: 221) estimated that 0,14 per cent of

commercial land was sold to disadvantaged groups during 1994 as against 0,05 per cent in 1995, which is an estimated average of 0,095% annual transfer. This is roughly three times less than the estimated percentage, based on the sampling, in the Western Cape. In contrast, this is less than the estimated 0,39% in KwaZulu-Natal recorded during the 1997 and 1998 calendar years (Graham & Lyne, 2000: 26). Because there was not a consistent increase in the area of redistributed land, the conclusion is that there was an increase of 55,35 per cent from 1998 to 1999 and a decrease of 37,24 per cent from 1999 to 2000. The areas purchased by these individuals varied from 0,6 hectares to 286 hectares.

By itself, the area of land acquired does not tell enough about land traded and redistributed. The quality and value of land acquired says more. The next sections contain analyses of the quality and value of land transacted to foreigners and redistributed to previously disadvantaged groups.

## **5.4 Analyses of difference in farm land purchased**

### **5.4.1 Comparison of farmland purchased in Boland by town**

This brief section intends to compare if there is a difference in farmland purchased across the year and the three towns. It is important to do this analysis because there is some difference in crop mix and sectoral endowment for the three towns. For example wine grapes dominate Stellenbosch and Franschhoek whereas deciduous, wine and table grapes are strong industries in Paarl. The results were that there is no significance difference of price of farmland for the three towns (see table 6.3). The sectors concerned have consistently been profitable and are export orientated and also have higher investment in fixed improvements. Other common factor is that the three towns gain from tourism due to their beauty and scenery. The Least Significance Difference (LSD), which is the observed difference between the samples, confers it necessary to declare the corresponding population means different.

**Table 5.3: Analysis of difference of price per hectare across the towns in the Boland region**

Town	N	Mean	T values
Franschhoek	131	91625.02 ( $\pm 9048.78$ )	A
Paarl	174	93226.59 ( $\pm 9272.27$ )	A
Stellenbosch	198	105723.15 ( $\pm 9797.36$ )	A
LSD	27073		

Source: Deeds office, 2000

**5.4.2 Comparison of farmland purchased in Boland by year**

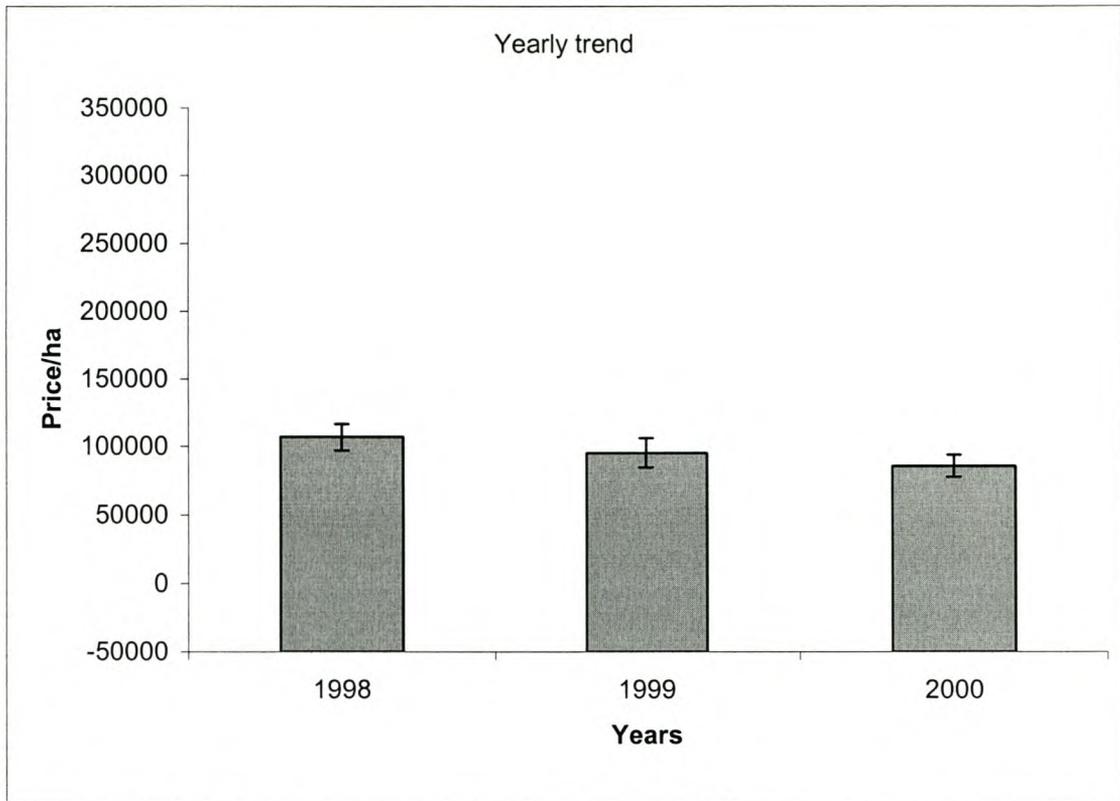
Prices of land were analysed for the three years to determine if there was a significant trend in the three years. Determining the trend will assist in projecting what can be expected in the land market in terms of rate of price increase and what implication it will have on the important issue of land reform. The t-test and the graphical illustration confirm that the land price increase was steady for the three years (table 6.4 and figure 6.1). During this period in South Africa there was slow economic growth and drought, which in general led to sluggish growth in property value. Therefore in the Boland as well there was no significant increase in the value of farmland properties.

**Table 5.4: Analysis of difference of price per hectare across the years in the Boland region**

YEAR	N	MEAN	T values
1998	209	106862 ( $\pm 9847.73$ )	A
1999	127	95217 ( $\pm 1074127$ )	A
2000	121	85542 ( $\pm 8194.54$ )	A
LSD	27337		

Source: Deeds office, 2000

A sudden change in economic growth and drastic changes in exchange and interest rates and inflation could have altered the trend in farmland price for the three years. Interest rates and inflation remained steadily high during this period. Depending on how the changes take place an expectation is that the trend will be of unstable nature.



Source: Deeds office, 2000

**Chart 5.1: Depiction of the trends of farmland price in the Boland region during the year 1998, 1999 and 2000**

### 5.4.3 Comparison of farmland purchased by Foreigners and South Africans in the Boland region

Transactions defined as “foreign” in Chapter 5 are compared with the “South African” group for quality of land, and later, within the South African group, the “white” and “disadvantaged” groups are compared. The notable variable used for the comparison of is price per hectare as a proxy for the quality of the land. Table 6.3 presents the analysis of all farms acquired by South Africans and foreign owners. The t-values test for significant differences between the two groups assuming unequal variances.

**Table 5.5: Analysis of the quality of agricultural land transacted in the Boland, 1998, 1999 and 2000 by nationality**

Nationality	N	Mean price	T values
Foreign	19	247155.39 (±73989.55)	A**
SA	484	91863 (±4843.02)	B**
LSD	68367		

\*\* denotes highly significance

Source: Deeds Office, 2000

Farmland prices purchased by foreigners are superior to those purchased by South African group (see Table 6.5). The test shows that there is a high significance difference in terms of land price paid by the two groups. Most of the land that is being purchased is wine and deciduous fruit farmland which are highly profitable sectors in South Africa as well as being export orientated. The export linkages of these sectors plays is crucial as a one of the determining factor for purchasing of land investing in them in addition to that the farms being part of the tourism package. In comparison to other sectors, these sectors are highly profitable and thus land being used is experiencing an economic gain. From the data most of the foreign buyers are from European countries and thus they are motivated by the weaker exchange which makes land cheaper in relation to their stronger currencies.

Investing in property like land, which does not decline in value if managed properly, is a viable investment option as in the long run the value would increase. In addition, most invest in viticulture and fruit enterprises, the produce of which can be exported to big European markets at lower labour costs and also in seasons when the supply from big producers Northern Hemisphere countries is low. Trade agreements between South Africa and the EU are economic in an economic sense contributing towards more investments. Other factors such as political stability and the government policies in South Africa play a role in encouraging foreign investment compared to most African countries.

#### 5.4.4 Comparison of farmland purchased by previously disadvantaged groups to overall groups

A tabular presentation of the difference of farmland price per hectare for the Foreign, White and Black groups during 1998, 1999 and 2000 appears in Table 6.6. This was done specifically with the aim of assessing the difference in price per hectare of purchased by the groups. There is a discrepancy in that land purchased by white is significantly larger than land purchased by the Black South African but on the other hand there is no difference between land purchased by white South Africans and foreigners. This discrepancy can be explained by the fact that the majority of the few transactions that took place under economic depression and white commercial farmers were bankrupt. Bankrupt farmers who sold their properties had their farms sold through Landbank for which they had a bond which explain why there were many private transactions purchased by Blacks through Landbank, below productive value of farm. The Landbank is a government parastatals and it has some obligations to support Land Redistribution.

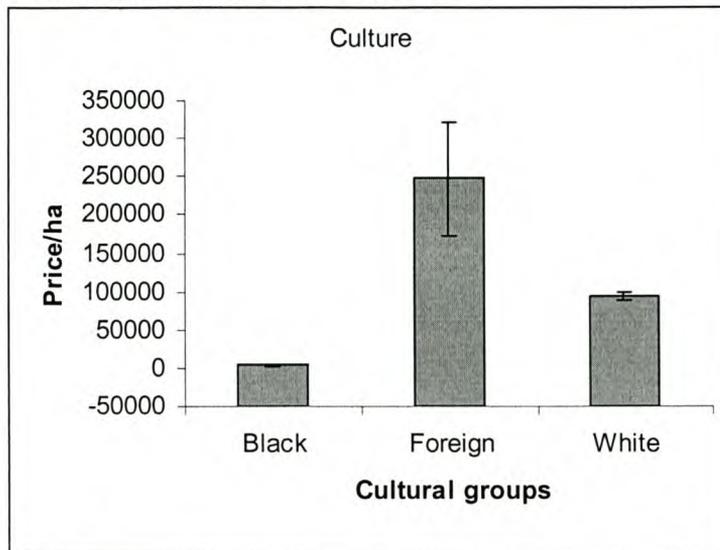
**Table 5.6: Analysis of the quality of agricultural land transacted in the Boland in 1998, 1999 and 2000 by cultural groups**

Culture	N	Mean	t-values
Black	14	4531.96 (±1393.96)	B**
Foreign	19	247155.39 (±73989.55)	A**
White	470	94464.02 (±4914.62)	A**
LSD	68367		

\*\* denotes highly significance difference  
 Source: Adapted from Deeds Office data

The graph presented below is to illustrated and validate the discussion above that Black farmers purchase land of lower value compared to other groups.

**Chart 5.2: Graphic illustration of the difference in farmland price by cultural groups in the Boland region during 1998, 199 and 2000**



Source: Deeds Office, 2000

#### **5.4.5 The relative performance of two modes of land redistribution**

Transactions carried out by the previously disadvantaged groups are shown in Table 6.7, with two strata representing the identified mode of land acquisition. A comparison in terms of the different modes of land redistribution is necessary to evaluate the degree of land redistribution, also over the three-year period. The different farm redistribution characteristics analysed here are the degree of redistribution, the most frequent mode of redistribution, quality of land for each mode of land redistribution, and which type of transaction distributed most wealth. All these are shown on tables 6.7 and 6.8.

The average size bought through private is significantly larger than that bought through the government for all the three years. In all the strata the average did not increase consistently as there was a significant decrease in the year 2000. Total hectares of farmland redistributed in 1998 were lower than the other years although the total value spent on farms was higher than the year 1999. This discrepancy is reflected in the higher price per hectare paid for in 1998. In terms of percentage the total number of hectares redistributed through private arrangements was 41 per cent larger than it was with the government assisted transactions.

**Table 5.7: Analysis of farmland redistributed in the Boland during 1998, 1999 and 2000 by mode of land acquisition**

Characteristic	Private purchase			Government assisted purchase		
	1998	1999	2000	1998	1999	2000
Number of transactions	1	7	1	2	2	1
Mean area of farms (ha)	200.82	746.08	300.64	23.95	153.5	1.42
Total market value (R'000)	1459748.25	8429812.07	120 000	606699	688045.05	9578
Total area redistributed (ha)	200.82	5222.54	300.64	47.9	307	1.42
Price per hectare (R/ha)	7269.02	594.15	399.14	12665.94	2241.19	6745.07

Source: Deeds Office, 2000

Contrary to studies in other provinces and other areas the price per hectare of government-assisted farmland in the Boland region is higher than land purchased through private mode (table 6.8). The study by argues that land that is being purchased through the government grant is of low quality as reflected by the value of land (Graham & Lyne, 2000). The superiority of the government assisted farmland Boland can be attributed to the fact that most government-assisted transactions were through buying of shares into existing profitable businesses. Equity schemes, *ceteris paribus*, are also one of the best ways to redistribute wealth because beneficiaries buys shares into profitable agri-businesses that are well managed and are well established in the market.

**Table 5.8: Analysis of farmland purchased by previously disadvantaged farmers in the Boland during 1998, 1999 and 2000 by mode of land acquisition**

MODE OF ACQUISITION BLACKS	N	MEAN	T values
Private	9	2138.73 (±656.21)	B*
Government	5	8839.79 (±2985.90)	A*
LSD	5075.6		

Source: Deeds office, 2000

**5.4.6 The relative performance of the corporations and individual modes of land purchase of farmland in the Boland by foreigners**

In addition of being more than farmland purchased through individuals, price per hectare of farmland bought through corporations were high (table 6.9). In a sense multinational can afford to buy big farmland and also larger area of land and have a central processing facilities to have large market share and at the same time focus on value adding and quality. They buy out existing profitable businesses by bidding for above average price. This explains the higher price of farmland bought by corporations. The benefits they can bring to South Africa is through Black Economic Empowerment by bringing Black farmers on board.

**Table 5.9: Analysis of farmland purchased in the Boland in 1998, 1999 and 2000 by individual and corporation modes of land acquisition**

Mode of land acquisition	N	MEAN	T VALUES
Individuals	8	47528 (±21581.04)	B**
Corporations	11	81242 (±120381.2)	A**
LSD	255324		

Source: Deeds office, 2000

**5.5 Presentation of the results using the ANOVA analytical tool**

Table 6.7 is an expansion of the discussions on the difference between the means. From the table the most important variation, which is culture and nationality, shows that the Mean Square (MS) is twice the variation of the error. It confirms therefore that culture and nationality accounts for most of the variation in land price. The mode of land acquisition shows variation that is too little. The difference between the transactions in the strata exhibits a low significant difference. Contrarily, transactions across the years and towns exhibited no difference. The reason being that the area of study is one district with the same kind of sectors.

**Table 5.10: ANOVA table on land redistribution and purchase by the three cultural groups**

Source of variation	Degrees of Freedom (df)	Mean Square (MS)	P-value
Culture	2	275423265210	<0.0001
Error	500	14393550522	
Corrected Total	502		
Source of variation	Degrees of freedom (df)	Mean square (MS)	P-value
Nationality	1	440892899135	<0.0001
Error	501	14584289206	
Corrected Total	502		
Source of variation	Degrees of freedom (df)	Mean Square (MS)	P-value
Year	2	18247894140	0.3071
Error	500	15422252006	
Corrected Total	502		
Source of variation	Degrees of freedom (df)	Mean Square (MS)	P-value
Town	2	10530805947	0.5063
Error	500	15453120359	
Corrected Total	502		
Source of variation	Degrees of freedom (df)	Mean Square (MS)	P-value
Mode of land acquisition by blacks	1	144335308.8	0.0139
Error	12	17443067.6	
Corrected Total	13		
Source of variation	Degrees of freedom	Mean Square (MS)	P-value
Mode of land acquisition by Foreign	1	719148914224	0.0047
Error	17	67830246502	
Corrected Total	18		

Source: Deeds office, 2000

## 5.6 Conclusions

The notion that foreign investment in the Wineland area of the Western Cape is unfounded. From the analysis the farmland bought by foreigners in terms of price per hectare is superior to farmland bought by South Africans. However, comparing white South Africans and Foreign buyers revealed no difference. Black South Africans bought mainly farmland from white commercial farmers which were bankrupt and sold under market price by the Land Bank who has bond on those farms and thus the value are below market values.

Within the Black group strata farmland with the higher price per hectare were the government-assisted transactions. This is attributed largely to the fact that most transactions were equity schemes whereby farm workers buy shares into the existing Agri-business valued at the market value of the business. Keeping other things constant equity schemes should be viewed as a strategy to redistribute much wealth and needed skills to the previously disadvantaged workers.

This chapter has proven that foreign investment in farms is not a obstacle to land redistribution. Although land price are higher they cannot in isolation be attributed to foreign buying of land but to other factors such sector gains. The concern is the fact that about 18% of the farmland traded to foreigners compared about 7% by Black South Africans. The chapter that follows gives the summary and conclusion for this study.

## Chapter Six

### CONCLUSIONS AND SUMMARY

#### 6.1 Introduction

Chapter 6 provided an analysis of land redistribution and the effect of foreign investment on land prices in the Boland region. This chapter draws from the results which were presented in this chapter for discussion based on theory, and proceeds to general conclusions and a summary of the study. The last part of the chapter sets out recommendations for policy and further research in this field of study. The crucial elements contained in this chapter are centred on what was found, what was not expected and, depending on that, what kind of policy mechanisms are necessary to counteract the effects.

#### 6.2 Discussion

Land reform has become a major issue in South Africa following the post-1994 dispensation. It is recognised that, if stability and economic growth are to be sustained, all members of society should be actively involved in the economic transformation of the country. There is evidence that land reform in the Western Cape is still lagging behind policy goals. One key objective of the land reform programme in South Africa is the restitution of land rights to those whose rights were taken away after 1913 as a result of racist laws. Transactions in respect of those claims as well as security of tenure, the legal validation of the land rights of those previously denied, were not evident between 1998 and 2000 in the three magisterial districts surveyed in this study.

According to the findings, the major redistribution of land in the Boland region took place in the 1999 calendar year. From 1998 to 1999 the area of land redistributed as a percentage of farmland traded increased from 4,14 per cent to 9,80 per cent, and then dropped to 8 per cent. As a percentage of the total area of farmland in the Boland it was 0,13; 0,51 and 0,318 respectively for 1998, 1999 and 2000. However, by

comparison the trend in land bought by foreigners was different from Black buyers. This discrepancy is reflected in the higher percentage of 26,61 per cent of land bought by foreigners in 1998, declining to 11,56 per cent in the year 1999 and further increasing to 14,86 per cent in 2000.

Though there was a slowdown in economic growth during the period of this study land in this region became a viable investment. Theoretically land property even in times of low economic growth still appreciates in value with proper management. The other factor that contributed to vibrant land market is the linkage of the sectors found in the region to the export market and which have experienced a boom. The wine and deciduous fruit industries are by far the most profitable sectors in South Africa. They are also complimented by tourism thereby. Furthermore, higher interest rates attracted major short-term capital inflows as investors adjusted their share of wealth held in assets in the country. These factors combined with the weaker exchange rates contributed to a substantial figure of 18 per cent of farmland being bought by non South Africans in the three-year period. The role of exchange rates is evident because most of the foreign buyers are from European countries that have advantage because the Euro currency is stronger than the Rand. The elementary statistical deployed to compare difference in price per hectare revealed interesting results. On average the price of farmland bought by foreigners was higher than the average price of farms bought by South Africans. However, comparing the former with white South Africans only shows that there is no significant difference between the two groups and that their price per hectare was higher than those bought by the previously disadvantaged individuals. This dismisses the unfounded notion that foreign investment in farmland distort the land market by pushing up land prices. However, it confirms the fact that it is difficult for new Black entrance to buy land in the region because the land market is distorted. This is evident as many of the transactions that took place through government assisted grant were joint ventures between owners and mainly farm workers.

Government assisted transactions were outnumbered by private transactions through mainly the Landbank mortgage transactions in the redistribution of wealth. The reason is that during this period of economic depression and free economy system most farmers went bankrupt and their farms were redistributed through Landbank. The

bankruptcy explains the lower price per hectare of the private transactions compared to government assisted transactions as farmers sold their farms at lower market price because they are unable for example to replace old vineyards.

These results are consistent with the results found in KwaZulu-Natal that much land and wealth is redistributed by means of mortgages. Private transactions help to redistribute wealth by redistributing a large area of land than that acquired through land reform programme procedures. Achieving the targeted 150 000 hectares will require joint efforts from the government and private sector.

### **6.3 Conclusions and Summary**

The empowerment of the previously disadvantaged people in South Africa began with the new dispensation and it is still in progress. As local needs arise, this process will evolve, undoing the past and bridging the gap between skewed incomes across different population groups. Agriculture, one of the main sectors of the economy, is not exempted as sustainable agriculture is important for economic development. It must be realised, and it is a fact, that the current dualism in the agrarian structure in South Africa and elsewhere in southern Africa cannot be entirely integrated in a short period of time. However, it remains a challenge for policy makers to balance the speed-up land redistribution and development of the underdeveloped sectors whilst maintaining the developed sector, which serves as the main employer and also contributes to the earning of foreign currency. One of the ways to level the field of ownership of farmland is through expropriation of farmland by the government because it is constitutional as well as increasing the grant. The constitution spells out that the state can expropriate land with compensation.

The objective of this study was to investigate the rate of land redistribution and also the nature of land transactions among the disadvantaged, and furthermore the degree to which foreigners are purchasing farmland and the effect of that on land prices in the Boland region of the Western Cape. The investigation revealed some of the important issues in agriculture in South Africa that have not yet received attention. In personal communication with the individuals investigated and other stakeholders, they expressed their opinions on the theme of land reform programmes and land

markets as well as the other problems that they face in agriculture. Low productivity, lack of water, volatile exchange rates, adapting to international standards of quality in export-orientated fruit enterprises, and region-based high land prices were identified as issues that directly or indirectly affect the land market and therefore land and land reform in the Boland region.

This study further reported on the nature and progress of land redistribution and land reform and also analysed agricultural land prices in the Boland region, and especially foreign investment as a source of change. From 1998 to 2000 only five land redistribution projects in the Boland were approved and functional. This points to the reasons, that is delays in approving projects and the higher costs of accessing land in the region, for instance only one project was approved in 2000. Ascribing this to the size of the Boland in terms of land area and the number of groups of disadvantaged people does not hold water, as the number of land reform projects proposed is considerable. The results indicate that 939,43 hectares of farmland were transferred to disadvantaged owners in the Boland region during the period 1998 to 2000. On average this represents a redistribution rate of 0,62 per cent in terms of the targeted overall redistribution during the period of study. In future this trend could increase marginally in terms of number of applications under the new revised land redistribution programme, the procedures and incentives of which are intended to improve efficiency.

Based on the evidence observed, private transactions (cash and mortgage loans) redistributed more land and land of similar quality to land redistributed through government programmes. The number of hectares redistributed for the former was 41 per cent more than the latter. Buying land privately and measures like the potential bolstering of land transfer reform will play an important role in regions like the Boland, paving the way for better land markets and improved security of tenure for individuals. However, it should remain an alternative and not necessarily a priority in the redistribution of land because redistribution without government intervention will lead to failure. Although it was not within the scope of this study, increasing women and youth participation in agriculture should be given a priority because they are the most vulnerable to poverty in South Africa. Women for example are still underrepresented in most community based programmes and decision although they

are increasingly becoming major breadwinners and household heads in Southern Africa and elsewhere in the world.

The theme of foreign investment is universal and the majority of economists and politicians support the notion that developing countries should open their borders and modify their policies to allow foreign investment as an injection into their economies. This wave of globalisation is engineered by financial and development institutions like the IMF and World Bank. After a long exclusion from the global village, the new South Africa identified foreign investment as a source of economic growth. Foreign investment in the developing world takes place in potentially profitable sectors and is also propelled by comparatively low costs of labour in Developing countries.

The results presented here are based on simple elementary statistics to show the state of foreign ownership and redistribution in the Boland region of the western Cape. They are inconclusive but they have laid a foundation for further research of modelling the impact of foreign investment on land redistribution and ways of accelerating land transfer to previously disadvantaged individuals.

#### **6.4 Recommendations**

Many problems were encountered in this study, and providing solutions to them was not a simple exercise, given the limited information that was available and the various perceptions and expectations prevailing. The issue of land reform is crucial and needs substantial monitoring and constant policy reviewing, especially on issues such as its functionality and stability as a mechanism for redistribution. All stakeholders in agriculture, including researchers, academics, policy makers, administrators, development economists, farmers, the government sector and the private sector should be actively involved in investigating the problem areas and searching for solutions.

This study provides guidelines on which policy makers can base the search for land reform solutions and factors impacting on the operation of land markets, which will eventually enable a breakthrough to be made in finding solutions to the problems of high unemployment and poverty that continue to haunt post-apartheid South Africa. The following recommendations are made, based on the findings of the study.

- One of the solutions for the acceleration of land transfer is the extension of the involvement of other Departments. Departments such as Water Affairs, Local government and Social Services. This will enhance the current capacity, which is lacking in some areas such human resources. Proposals for projects should meet requirements before they reach the higher authority channels for approval should have been to various Departments and organisations before it gets final approval at higher level. In other words officials should together with the beneficiaries plan for the projects and less reliance on the service providers. In addition the grant should be reviewed and be increased.
- The current market based land reform programme is rather slow and thus there must be greater intervention from the government. Expropriation and not confiscation should be considered. Expropriation is constitutional and it gives the Minister of Agriculture to expropriate land with compensation in case the land reform is slow. This however can happen if the Property rights clause in the constitution is scrapped.
- Noting that private transfer works better than state assisted transfer of land efforts should be made to support it as a complimentary alternative for redistribution. Strategies like subsidised interest on mortgage loans which are encouraged in the parts of the country should alleviate cash flow problems and enable the disadvantaged individuals to acquire privately or expand their farms. Schemes of this nature would help to open up access to land for the disadvantaged, as the majority would not be able to qualify for conventional types of loan finance. The government, as it is doing through the Land Bank, should expand its involvement by co-operating with private lending institutions to provide subsidies so as to give the underprivileged leverage to cope with the high costs of financial and human resources services. Government involvement is also vital for the facilitation of institutional arrangements whereby a system can be created that will encourage land transfers through market instruments.

- Joint ventures, especially equity sharing, should be encouraged as an important mechanism for the extension of the asset base sectors of deciduous fruit and grape farming so as to solve the problems of cash flow and high capital costs associated with the long maturing periods of these enterprises. Again the government should play an important role in establishing institutional arrangements if this mechanism is to be successful and sustained. Incentives should include positive relations with good and successful farmers with a proven record of assisting in this regard. Beneficiaries should be trained to understand their roles as shareholders as well as having substantial amount of shares in the businesses.
- Other measures especially when dealing with foreign ownership that should be used is penalising of ownership absenteeism. The policy should give rights to people who can prove to use idle land productively to occupy it. This will deal away with land that is not being used productively whose owners are not even staying in South Africa.

Clearly there should be major changes in the land market of the Boland region and reorientation in land reform to ensure its success. Results presented in this study should be viewed as a starting point and as a presentation of challenges arising from the detailed research that was required in this study area. Further research will provide a full understanding of exactly what policy direction should be pursued for a sustainable land market and successful land reform. The following are some of the areas of research that are recommended in the near future:

- Ⓔ Factors leading to the collapsing of the projects that has already being implemented and ways of addressing the failures.
- Ⓔ How each mode of land redistribution determines security of tenure in the Boland.

- ☒ The development of training programmes for emerging farmers through which they can acquire skills in high-tech sectors.
- ☒ Determining a multiple equation model that will analyse foreign investment and other variables periodically to monitor land price over time.

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