B A S I S

Broadening Access and Strengthening Input Market Systems

Land Redistribution in KwaZulu-Natal, South Africa: Four Census Surveys of Farmland Transactions, 1997-2000

by

Michael Lyne and Mark Darroch

Southern African Regional Program

Broadening Access and Strengthening Input Market Systems

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University of Wisconsin-Madison
Tel: (608) 262-3657
Fax: (608) 262-2141
Email: basis-me@facstaff.wisc.edu
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Michael Lyne, and Mark Darroch work in the School of Agricultural Sciences and Agribusiness, University of Natal, South Africa. The authors would like to thank research assistants Andrew Graham, Louise Fenwick, Dr Stuart Ferrer and Sharon Knight at the University of Natal, for their help in obtaining, screening and analyzing records of land transactions.

Contact: Michael Lyne, School of Agricultural Sciences and Agribusiness, Private Bag X01, University of Natal, Scottsville, Pietermaritzburg, 3209, South Africa. Telephone: 27 (33) 260-5410; facsimile: 27 (33) 260-5970; e_mail: lyne@nu.ac.za

or

Contact: Mark Darroch, School of Agricultural Sciences and Agribusiness, Private Bag X01, University of Natal, Scottsville, Pietermaritzburg, 3209, South Africa. Telephone: 27 (33) 260-5409; facsimile: 27 (33) 260-5970; e_mail: darroch@nu.ac.za

ABSTRACT

After political democratization in 1994, the South African government initiated land redistribution by offering settlement/land acquisition grants to historically disadvantaged households who wished to purchase commercial farms from white owners on a willing buyer, willing seller basis. By the end of 2000, the grant program had transferred 780,407 hectares to 55,383 households of which some 14 per cent were headed by women. Together, land restitution and redistribution transferred only one million hectares, or less than 1.2 per cent of the available area, to disadvantaged South Africans during 1995-2000. Most of these transfers were directed to resettlement schemes on low quality land with communal tenure arrangements in order to reach many beneficiaries quickly and at modest cost.

Since little was known about private land transfers to historically disadvantaged people, this study investigated all modes of land transfers to disadvantaged people in KwaZulu-Natal. This report presents the results of four annual census surveys of farmland transactions recorded in the province from 1997 to 2000. During this time 94,160 hectares of farmland were acquired by historically disadvantaged people in KwaZulu-Natal. Government-assisted purchases accounted for 33,263 hectares, private land purchases (cash and mortgage loans) for 48,784 hectares, and private non-market transfers (mainly bequests) for 12,112 hectares. This area of 94,160 hectares means that only 1.8 per cent of the 5.31 million hectares available for redistribution in the province transferred to disadvantaged owners during 1997-2000. Private purchases not only redistributed more land than did government-assisted purchases, they also redistributed farmland of much better quality (weighted price of between R1,661 and R3,559 per hectare versus R902 per hectare).

Women are well represented in the transactions that transferred land to individual owners and married co-owners, largely because bequests favor women. For the same reason, the total area of land acquired directly by women as owners and married co-owners (20,815 hectares) closely matched the total area acquired directly by men (22,901 hectares). However, women gained less land wealth through market transactions than did men, and there is concern that women are under-represented in transactions that transferred land to corporate buyers. This certainly applies to the community land trusts and communal property associations established by government to represent the interests of its land reform beneficiaries.

Although private purchases redistributed relatively more land, and much more wealth, transfers to disadvantaged owners accounted for less than six per cent of the total area transacted. Clearly, the market has much greater potential to redistribute farmland than what has been realized to date. Strong response to innovative financial products administered by Ithala Bank and the Land Reform Credit Facility (LRCF) to finance medium-scale farmers and equity-shareholders suggests that access to the land market is constrained primarily by cash flow problems associated with conventional mortgage loans during inflationary periods, and the costs, delays and uncertainty associated with the registration and transfer of affordable subdivisions.

Repeal of the Subdivision of Agricultural Land Act, 70 of 1970, would make it easier for poor and part-time farmers to finance smaller, more affordable farms. Likewise, reducing the inflation rate and lowering the statutory costs of subdividing and transacting farmland would allow commercial banks to finance lower income farmers and equity shareholders. Access to

larger land reform grants for farm workers and aspiring farmers, as proposed under the new Land Redistribution for Agricultural Development (LRAD) program will also improve the outreach of private financiers because the poor cannot make significant contributions of their own when financing equity and land. Government should implement LRAD without further delay, and also reconsider its opposition to interest rate subsidies on loans made by commercial banks to creditworthy land reform projects. The LRCF could either discount its wholesale interest rate on loans with deferred repayments made to commercial banks, or it could allocate public and donor funds directly to commercial banks to support finite, diminishing interest rate subsidies on loans made to disadvantaged buyers of land and equity.

While there is some evidence that women's access to mortgage finance improved relative to that of men during 1997-2000, this does not account for the advantage that men have as members of corporate owners. Efforts to improve the outreach of private financiers - as outlined above - and to pay more than lip service to gender policy when awarding land reform grants would obviously help to improve women's access to the land market. Wealth redistribution through equity-sharing schemes could also help to correct gender imbalances as women are well represented amongst farm-workers in KwaZulu-Natal. A national exchange program involving mentors (from all sectors) experienced in successful equity-sharing projects may help to transfer skills and to broaden views on approaches to land reform.

1. INTRODUCTION

The primary goal of this BASIS research activity is to inform policy recommendations aimed at broadening access to land markets and encouraging sustainable use of farmland acquired by disadvantaged people in Zimbabwe, Namibia and South Africa. For the purpose of this study, the term “disadvantaged” refers to people who were historically precluded from markets by formal or informal racial institutions, and to people from within this group who may still be the victims of gender segregation.

South Africa’s legacy of racially biased land ownership was formalized in 1913 by the Natives Land Act. This legislation restricted African land ownership to native reserves where the principal mode of tenure was “customary” and administered by tribal chiefs. By 1991, these homelands covered 17 million hectares or roughly 13.9 per cent of the national area (NDA, 2000: 5). In addition to laws that prevented Africans from owning land in white farming areas, other legislation prevented white farmers from leasing their land to black tenants and sharecroppers. In some cases African farmers resorted to exchanging their labor for the use of land owned by white farmers - the infamous labor tenancy arrangements that have persisted in parts of KwaZulu-Natal and Mpumalanga Province.

This discouragement or prohibition of black farming was one of the major forces that drove Africans out of the commercial farming areas into the homelands. Between 1960 and 1980 the population of the homelands rose from 4.5 to 11 million (Wilson, 1991 cited by Turner and Ibsen, 2000:2). Evictions from white farms accelerated in the early 1990s partly in response to commercial farmers' concerns about legislation intended to improve the security and working conditions of their labor. Some moved to the overcrowded homelands, while many erected shacks in urban shanty settlements. It is now estimated that almost 13 million of South Africa’s 40 million residents live in the homelands (Adams *et al*, cited by Turner and Ibsen, 2000:2).

Recent studies (May, 2000) have shown that poverty is concentrated amongst rural blacks living on white farms, and more especially amongst those living in the former homelands. This was the situation facing South Africa’s first democratic government as it took power in 1994 and began to deal with land and agrarian reform. As the Zimbabwean crisis has clearly illustrated, land redistribution is a necessary prerequisite for political stability and economic growth. At the same time, it is important to ensure that the efficient use of land and other agricultural resources is not compromised in the long-term.

Faced with the need to balance strong demands from the dispossessed with the need to preserve the commercial farming sector and a fragile political compromise, the African National Congress (ANC)-led government opted for a three-pronged land reform policy (Turner and Ibsen, 2000:4)

- Land restitution—a legal process whereby people who can prove that they were dispossessed of their land after 1913 can regain their land or receive due financial compensation for it.
- Land tenure reform, which aims to address insecure tenure in the former homelands.
- Land redistribution, which aims to redress the racial imbalances in rural land ownership.

These strategies, first publicized in the 1994 Reconstruction and Development Programme, and the principles underlying, them were entrenched in South Africa's new Constitution approved by Parliament in 1996. The most significant principle is contained in the "property clause" which insists on the payment of fair, market-related compensation for land taken in the public interest, including via land restitution and land redistribution. Land redistribution was to be the leading edge of land reform, transferring 30 per cent of white-owned farmland to over 800,000 previously disadvantage households in a period of five years (this implied a target of roughly five million hectares of land annually). The expected result was a highly efficient, small-scale family farm sector that would generate economic growth.

This report describes research conducted in the fiscal years from 1997/98 to 2000/2001 for the South African component of the Southern African Regional Program of the BASIS CRSP. This program is designed (a) to monitor the rate at which commercial farmland is transferring to disadvantaged people—both as a result of private market transactions and government land reform programs, and (b) to establish causal relationships between the mode of land acquisition (*e.g.* land financed privately by individuals versus land purchased by the government for resettlement purposes) and its subsequent use. This report deals with part (a): It presents and analyzes four census surveys of land transactions observed in the South African province of KwaZulu-Natal during the calendar years 1997 to 2000. In particular, it examines the rate of land redistribution, comparing the quantity and quality of redistributed land - and the gender composition of these transactions - associated with different modes of land redistribution.

The report begins with a brief description of the principal modes of land redistribution in South Africa and KwaZulu-Natal during the analysis period. Section 3 describes the data sources and the process used to identify land transactions that transferred ownership from advantaged to disadvantaged people in KwaZulu-Natal. The remaining sections analyze the rate of land redistribution, highlight some important characteristics of both the farms and transactions associated with different modes of redistribution, and discuss the effects of policy and other factors influencing access to the market for farmland in South Africa.

2. PRINCIPAL MODES OF LAND REDISTRIBUTION IN SOUTH AFRICA AND IN KWAZULU-NATAL

KwaZulu-Natal is one of nine provinces in South Africa. It is the largest province in terms of population (about nine million people) but is relatively small in area (about nine million hectares). At the time of South Africa's political democratization in 1994, 50 per cent of the farmland (including provincial parks) in KwaZulu-Natal was controlled by a small minority of white owners. It is estimated that 6,755 large-scale commercial farms accounted for 4.13 million hectares (Lyne and Ortmann, 1996). Of the remaining 4.06 million hectares, 2.84 million hectares was occupied by some 3 million black South Africans under communal tenure, 0.04 million hectares was privately owned by "non-whites", 0.42 million hectares was farmed by the state itself, and 0.76 million hectares was used for provincial parks (KFC, 1995:49). Three principal modes of land redistribution have emerged in South Africa since political democratization in 1994; the government grant program, private land purchases, and equity-sharing arrangements.

Between 1994 and 1999, the Government vigorously pursued a policy of market liberalization in agriculture and — at the same time — implemented the settlement/land acquisition grant (SLAG) of R15,000 per beneficiary household. In terms of the SLAG program, historically disadvantaged South Africans who were landless and poor could apply for a cash grant to purchase and develop farmland. In practice, beneficiary households had to pool their meager grants in order to buy a farm from a willing seller. The group established a legal entity (usually a community land trust or communal property association) that was formally registered as the owner of the property. In most cases, farms financed with land grants and settled by groups (of up to 500 households) were much too small to support all of the beneficiaries as full-time farmers. The Department of Land Affairs (DLA) anticipated that emerging farmers would use the grant to leverage loan finance for additional land. However, most creditworthy farmers did not qualify for a land grant as the means test applied to potential beneficiaries precluded individuals with a monthly household income greater than R1,500.

By the end of 2000, the Ministry of Agriculture and Land Affairs had approved 484 projects under the SLAG program, transferring a total of 780,407 hectares to 55,383 households of which some 14 per cent were headed by women (Turner and Ibsen, 2000:12). Taken together, land restitution and land redistribution transferred roughly one million hectares, or less than 1.2 per cent of the 86 million hectares of white-owned farmland, to disadvantaged South Africans over a period of six years. In July 1999, Minister Hanekom's successor, Thoko Didiza, imposed a moratorium on new SLAG projects while the Departments of Agriculture and Land Affairs redesigned the grants. After 18 months the Minister released her proposals for the new program, Land Redistribution for Agricultural Development (LRAD), which has yet to be implemented. The proposed LRAD program differs from SLAG in one major respect: Beneficiaries do not have to be poor to qualify for a minimum grant of R20,000 — and those who have more savings and who can raise bigger loans to finance their farms will qualify for larger grants, the maximum (cumulative) grant being R100,000 (Ministry for Agriculture and Land Affairs, 2000:4). This marks a distinct shift in the government’s land redistribution policy away from poverty alleviation and group settlement in favor of settling prospective farmers on farms of their own.

As in Zimbabwe and Namibia, much less is known about private land transactions between white owners and disadvantaged entrants. Nieuwoudt and Vink (1995) argue that private transactions are constrained by inflation, because high nominal interest rates aggravate the cash flow problem experienced by new entrants who finance land with a mortgage loan. Inflation increases immediate costs (higher interest charges) while deferring returns (future earnings increased by inflation). The result is inadequate cash flow to service debt during the critical early years after purchase.

An investment in land is similar to an investment in the stock market in that current returns (dividends) are low relative to capital growth. Empirical evidence from South Africa shows that the average annual current return to agricultural land seldom exceeds five per cent of its market value. During periods of inflation when nominal interest rates are high (say 17 per cent per annum) relative to the current return on agricultural land, conventional mortgage loans with constant repayment schedules create formidable but temporary liquidity problems for borrowers who are unable to make a substantial down-payment on the purchase price of a farm. The liquidity problem diminishes over time because continued inflation raises earnings relative to the constant flow of loan repayments. One method of addressing the problem is to graduate the loan repayments by subsidizing interest charges at a decreasing rate over a finite period of time. This approach was adopted by the private sector—sugar millers that owned large sugar estates—in KwaZulu-Natal during 1996.

When the Illovo Sugar Company invited applications for 20 medium-scale sugarcane farms (ranging from 55 to 105 hectares in area), none of the more than 100 disadvantaged applicants could afford an equity contribution large enough to reduce the size of a conventional mortgage loan down to a level that could be serviced from farm income. To mitigate this problem the company agreed to sell the farms to successful applicants at market-related prices and to invest 18 per cent of the purchase price with Ithala Bank. This capital amount, plus accrued interest, then funds a finite interest rate subsidy for the borrower. In effect, Illovo Sugar Company discounted the price of its land by 18 per cent, and the bank used this private subsidy to reduce the current mortgage loan rate from 16.5 per cent to ten per cent in the first year. The subsidy then declines to zero at the end of year six, in line with expected increases in nominal income associated with an annual inflation rate of roughly ten per cent. The buyer then pays the full annual interest rate of 16.5 per cent for the remaining 14 years of the 20-year loan period (Simms, 1997).

To bring perspective to the magnitude of these transactions, the average market price of a medium-scale sugarcane farm is roughly R900,000 of which 18 per cent or R162,000 is invested by Ithala Bank to finance a finite and diminishing interest rate subsidy on its mortgage loan. The buyer pays the full purchase price and is expected to make a down-payment of at least ten per cent (R90,000). Ithala provides a mortgage loan for the balance (R810,000) and the seller receives a net amount of R738,000 (R900,000 less R162,000) for the land. Clearly, the program is elitist because it benefits emerging farmers who are relatively wealthy and creditworthy. Nevertheless, it has attracted support from other estate owners and has financed 107 medium-scale farms with a combined market value of almost R100 million - mainly during 1997 and 1998. Early indications are favorable in the sense that these medium-scale farmers are meeting their loan obligations (Simms, 1997). Growing concern about the levels of reinvestment on these farms has, however, prompted a detailed study of their performance, and of ways to improve the functioning of the scheme (Mashatola, 2001).

One criticism of the experiment with medium-scale farms is that it did not include smaller and more affordable farms. The experiment emphasized medium-scale farms because (a) private companies providing the subsidy insisted that land should be sold to full-time farmers, and (b) subdivision and transaction costs are largely fixed costs which raise the unit price of land as farm size diminishes. Had part-time farmers (*i.e.* applicants capable of financing family drawings and debt partly from non-farm income) been considered, a larger number of smaller farms could have been sold, exposing buyers to lower levels of leverage and less financial risk. Smaller farms would also be more feasible if transaction, subdivision and survey costs were lower, or if the borrower could augment his or her down-payment with a government grant.

In South Africa, the cash flow problem has been compounded by another impediment to private land transactions, namely the Subdivision of Agricultural Land Act, 70 of 1970. In terms of this Act, farm owners must get permission from the government to subdivide their land. This introduces uncertainty and delays that add to the costs of registering, surveying and transferring affordable parcels of land to aspiring farmers. Although Act 70 has been rescinded, President Mbeki has not yet signed the repeal into law. The delay has been attributed to the absence of national zoning legislation regulating the conversion of agricultural land into residential or industrial uses (Graham, 2000:19). Repeal of Act 70 will make it easier for poor and part-time farmers to finance smaller, more affordable farms.

Costs, delays and uncertainty associated with the formal transfer of small subdivisions have contributed to the growing popularity of equity-sharing projects as an effective means of redistributing wealth and improving agricultural performance (Eckert *et al*, 1996). Equity-sharing projects are company operations in which financial equity is shared between the previous owner and his farm workers (Ngqangweni and van Rooyen, 1995). Agricultural performance is expected to improve because benefits and voting rights are directly related to the level of investment made by individual shareholders. Enterprises are managed by an experienced farmer, frequently the former white owner who is usually the majority shareholder. As a result, these companies have been able to attract additional finance from commercial banks and venture capitalists. These private financiers have a strong incentive to help their clients build sound business organizations and to train worker-shareholders for their participation in a successful company.

While recognizing the future potential for dividends and capital gains, field interviews have shown that workers' immediate interest in joining equity-sharing projects centers more on the opportunity to influence managerial decisions affecting wages, working conditions, housing and tenure security for their families (DLA, 1998:5). However, the extent to which these projects do empower workers has been questioned (SPP, 1999). This weakness stems largely from the problem that workers are seldom able to buy a significant shareholding. Initially, farm workers had to finance their equity in the company with loans, creating the usual cash flow problems. This situation changed in 1996 when the DLA allowed farm workers to finance equity with a SLAG grant, and more recently (in May 1999) when it piloted the Land Reform Credit Facility (LRCF). This Facility was established with the intention of drawing private sector finance and human capital into commercially viable land reform projects (LRCF, 1999).

As an alternative but partial solution to the liquidity problem associated with conventional mortgage loans, the LRCF offers loans with deferred or graduated repayment schedules to commercial banks who finance, on similar terms, equity-sharing projects and land purchased by aspiring farmers. In essence, the LRCF inherits the project's (temporary) cash flow problem. Private lenders and investors who apply for loans from the Facility are expected to conduct their financial evaluation and screening of projects thoroughly, adhering to sound business criteria, as they are putting their own resources at risk. The LRCF is administered by just one full-time manager, as there is no need to conduct or review these financial analyses. Rather, the manager's principal task is to approve loan applications submitted by accredited financial intermediaries according to land reform criteria established by the DLA. According to the Ministry of Agriculture and Land Affairs (2000:2), the step-up grants proposed under LRAD will be made available to farm workers who wish to purchase equity in established commercial farms. This will make it easier for farm workers to increase their shareholding over time, leading to greater empowerment in equity-sharing projects.

The LRCF was capitalized with an initial sum of R63 million, of which the DLA granted R32 million, and the European Union (EU) R29 million (LRCF Evaluation Report, 2000:i). Simulation exercises based on anticipated loans with deferment periods ranging from one to three years (longer deferment periods render most projects unprofitable) indicated that approximately R15 million could be disbursed annually without reducing the real value of the fund to a level where it would not recover in the longer term. Although the DLA's moratorium on land grants prevented commercial banks from financing all but highly elitist projects (whose beneficiaries did not require grants), the Facility has already approved loans worth R32 million, with applications for another R34 million pending its re-capitalization. In May 2001, the DLA and EU accepted proposals (LRCF, 2001a) to re-capitalize the LRCF. ABSA Bank, the Facility's largest client, intends to make much greater use of the LRCF in the future, especially if the DLA accepts a recommendation to allocate a portion of the proposed LRAD grants to the LRCF and to fast-track these grants to the beneficiaries of projects financed by the LRCF (LRCF, 2001b).

At present there are over 50 farm-worker equity-sharing projects operating in South Africa (DLA, 1998:2), the vast majority of which involve capital-intensive fruit and wine operations in the Western Cape province. While the incidence of equity-sharing is expected to grow, such schemes had not taken hold in KwaZulu-Natal at the time this study was conducted and only one project was detected in the four census surveys of farmland transactions. Data sources for these surveys, and the methodology used to define and stratify farmland transactions in KwaZulu-Natal by mode of land redistribution, are described in the next section.

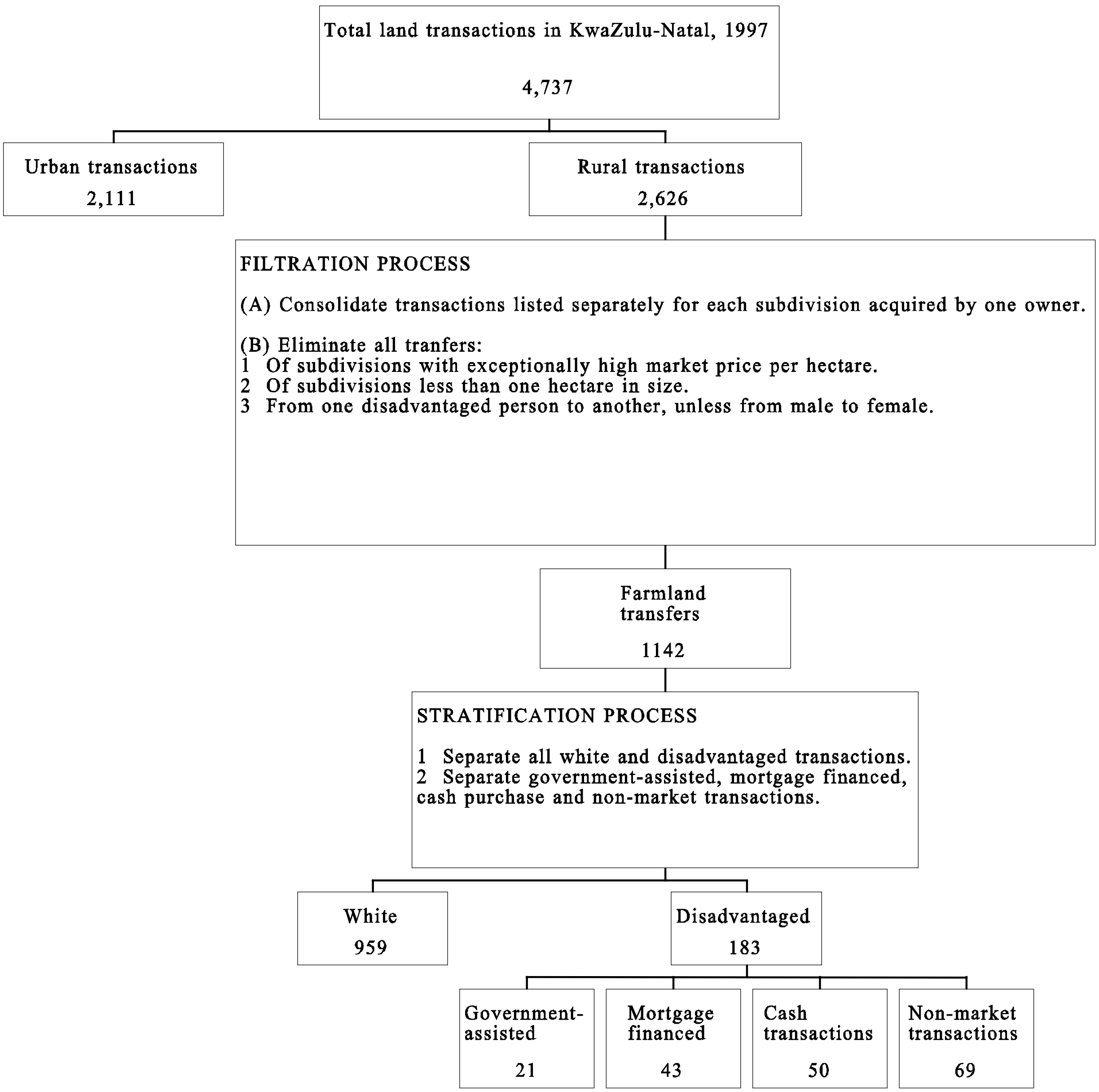
3. DATA SOURCES AND RESEARCH METHODOLOGY

Data for the four census surveys of land transactions were drawn primarily from records maintained by the Deeds Registry in KwaZulu-Natal, which keeps an electronic record of all land transactions involving transfers of title. These deeds of transfer report the names of the new and previous owner, the name of the farm and subdivisions transacted, the area of each sub-division transacted, the market price paid (unless the transfer was the result of bequest, donation or legal claim) and, where relevant, the size of any mortgage loan and the name of the lender. In South Africa, the Subdivision of Agricultural Land Act, 70 of 1970 prevents groups of individuals from owning undivided shares in farmland, except when property is jointly owned by a husband and wife married under national law.

A computerized list of all the land transactions concluded in KwaZulu-Natal during the calendar years 1997 to 2000 was purchased from the Deeds Registry and converted into database files for each year. Figure 1 illustrates the process by which land transactions were filtered and grouped into four strata representing different modes of farmland redistribution. First, all urban transactions were removed; for example, 2,626 of the 4,737 land transactions recorded in 1997 were classified as rural (*i.e.* outside of proclaimed townships). Within the rural group, transactions listed separately for each subdivision but acquired by one owner (and spouse in the case of married co-owners) were then consolidated. This process more than halved the total number of cases listed in 1997.

Second, transactions involving a small number of farms that had been sold for residential or industrial development were excluded from the subset of rural transactions by eliminating cases less than one hectare in area, or with exceptionally high market prices per hectare. Third, a small number of transactions that transferred land from one disadvantaged owner to another were eliminated unless they shifted ownership from males to females. For the transactions recorded in 1997, this process yielded a total of 1,142 “farmland transfers” comprising a subset of 183 cases representing net transfers to disadvantaged owners and 959 cases representing white owners. Clearly, the term “disadvantaged” refers to all owners who were previously excluded from land markets on the basis of racial or gender segregation.

Figure 1. Defining and stratifying farmland transactions recorded in KwaZulu-Natal during 1997



(Source: Graham and Lyne, 1999)

It must be noted that the Deeds Registry does not explicitly record the race or gender of new landowners. In the absence of this information, the race and gender of individual entrants was established primarily on the basis of their names and, where relevant, the source of mortgage loans (for example, Ithala Bank financed only disadvantaged buyers). While every effort was made to identify disadvantaged landowners, the authors accept that some of these new entrants may have been mis-classified, understating the true rate of land redistribution in KwaZulu-Natal. Where land had been acquired by corporate entities (close corporations, companies and trusts) information obtained directly from the entity or indirectly from the Registrar of Companies, Master of the Supreme Court, financiers, and the Provincial Department of Land Affairs was used to establish whether or not the land had transferred predominantly to disadvantaged people.

Transactions involving disadvantaged entrants were then categorized into unique strata according to their method of financing, namely grant financed (*i.e.* **government-assisted**), **mortgage** loan financed, and **cash** purchases. The remaining transactions were the result of private, **non-market** transfers - mainly bequests and some donations and court orders. This census of farmland transactions was repeated for each of the four calendar years from 1997 to 2000, yielding estimates of the annual rate of land redistribution in KwaZulu-Natal (section 4), the quality of redistributed land (section 5), and a breakdown of redistributed land by mode of land transfer (section 6) and category of owner (male, female or corporate) (section 7).

4. THE RATE OF LAND REDISTRIBUTION

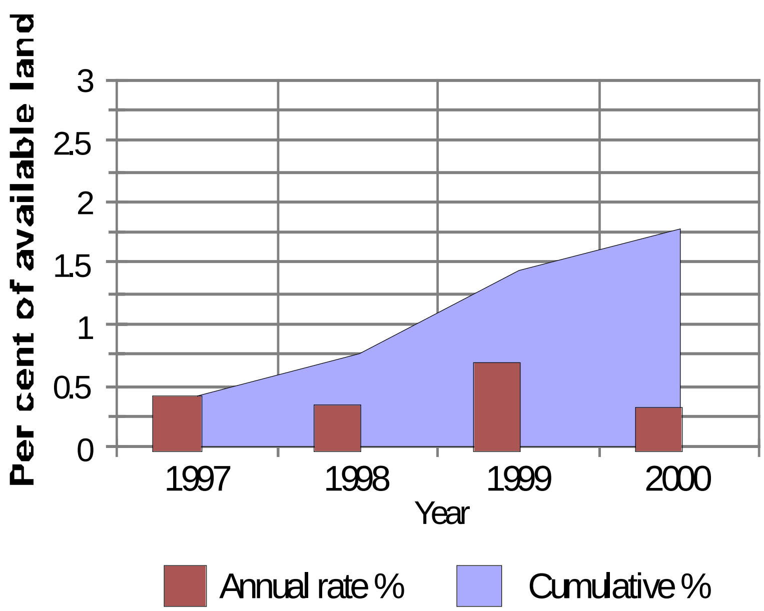
Table 1 reports the area of farmland acquired by disadvantaged owners in KwaZulu-Natal during the calendar years 1997 to 2000. This census estimate was used to compute the rate of land redistribution for each census year by expressing the area acquired by disadvantaged owners as a percentage of the total area of farmland potentially available for redistribution in the province (about 5.31 million hectares = 4.13 million hectares owned by whites plus 1.18 million hectares of state farms, forests and game parks) at the time of political democratization in 1994.

Table 1. Estimated annual rates of land redistribution to disadvantaged people in KwaZulu-Natal, 1997-2000

Study year	1997	1998	1999	2000
1. Area of farmland originally available for redistribution (Ha)	5,308,559	5,308,559	5,308,559	5,308,559
2. Area of land transacted (Ha)	372,995	603,522	306,433	300,799
3. Area of farmland acquired by, or for, disadvantaged people (Ha)	22,934	17,772	36,109	17,345
4. Rate of land redistribution (%) ([3 ÷ 1] x 100%)	0.43	0.34	0.68	0.33

The area of commercial farmland that transferred to white and disadvantaged owners rose markedly from 372,995 hectares in 1997 to 603,522 hectares in 1998, and then fell to around 300,000 hectares in 1999 and 2000. The census estimates for the latter two years are similar to Lyne and Darroch's (1997) sample estimate of 302,243 hectares for KwaZulu-Natal in 1995, and predictably higher than the Standard Bank of South Africa's (1998:1) estimate of 268,000 hectares that relates only to non-afforested farmland in the province. Annual farmland transfers to the disadvantaged group ranged from 17,345 to 36,109 hectares per annum, representing between 5.7 and 11.8 per cent of the farmland transferred, or between 0.33 and 0.68 per cent of the original area available for redistribution. Although these rates are low, they are considerably higher than estimates made in previous years. Kirsten *et al* (1996) estimated that 0.05 per cent of the farmland available for redistribution in the Northern Province transferred to previously disadvantaged people in 1995. In KwaZulu-Natal, the estimate for 1995 was 0.09 per cent (Lyne and Darroch, 1997). Since 1997, approximately 94,160 hectares, or 1.8 per cent, of the available farmland has been redistributed to disadvantaged owners in KwaZulu-Natal. Figure 2 graphs the annual rates of farmland redistribution reported in Table 1, and shows the cumulative rise in the total area redistributed. Of course, the area transferred says nothing about the *quality* of redistributed land. This issue is examined in section 5.

Figure 2. Estimated annual and cumulative rates of farmland redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000



5. THE QUALITY OF REDISTRIBUTED LAND

Table 2 presents the mean area of all farms acquired by white and disadvantaged entrants in KwaZulu-Natal, and - for those farms purchased - the mean price of farms and weighted price of land, during 1997-2000. All prices are expressed in real terms using the calendar year 2000 as the base year.

Table 2. Characteristics of farmland acquired by white and disadvantaged owners in KwaZulu-Natal, 1997-2000 (2000=100)

Farm characteristic	Year	White group	Disadvantaged group	t-value
Mean farm area (Ha)	1997	365 n=959	125 n=183	3.6***
	1998	1,007 n=599	100 n=177	2.4**
	1999	287 n=942	114 n=317	6.7***
	2000	268 n=1,057	109 n=159	5.7***
Mean farm price (R)[1]	1997	1,193,882 n=650	532,775 n=114	1.4
	1998	754,373 n=452	318,086 n=88	4.4**
	1999	879,400 n=607	312,339 n=149	3.4***
	2000	638,808 n=805	355,668 n=104	3.6***
Weighted land price (R/Ha)	1997	2,554 n=650	2,796 n=114	
	1998	1,442 n=452	1,791 n=92	
	1999	2,761 n=607	1,678 n=149	
	2000	2,337 n=805	2,326 n=101	

Notes: *** and ** denote statistical significance at the 1% and 5% level of probability, respectively.
n= number of farmland transfers.
[1] 1 US$ = approximately R8 at the end of calendar year 2000.

The t-values reported in Table 2 test for differences in the mean characteristics of farms acquired by white and disadvantaged groups of entrants. The mean area (and hence price) of farms transacted is consistently smaller for the disadvantaged group than for the white group, but there is no consistent difference in the weighted average land price. For farms of equal quality land, a lower per hectare price would be anticipated for larger farms due to the spreading of the value of fixed improvements and fixed transaction costs over a relatively larger land area. This situation prevailed in 1997 when private sector sugar millers provided the first round of subsidies to reduce the cost of financing medium-scale sugarcane farms on high quality land. As these initial programs instituted by the sugar millers ended in 1999 (a new round is planned for 2001/2), the weighted average price of land purchased by disadvantaged buyers fell sharply, indicating a general decline in the quality of land bought. Since 1999, farms purchased by disadvantaged buyers have not only been much smaller, but also of poorer quality than those purchased by whites. However, the quality gap closed in 2000, most probably because very few farms were purchased with government grants (see Section 6, Table 3 and Figure 5).

6. MODES OF LAND REDISTRIBUTION

Table 3 disaggregates the land redistributed in KwaZulu-Natal each year during1997-2000 into four mutually exclusive strata, each stratum representing a distinct mode of land redistribution (government-assisted versus private mortgage, cash and non-market transactions). Figures 3-7 present a visual summary of this information, highlighting important differences in the quantity, market value and quality of land transferred by each mode of land redistribution.

Table 3. Modes of land redistribution to, and characteristics of farmland acquired by, disadvantaged owners in KwaZulu-Natal, 1997-2000 (2000=100)

Farm characteristic	Year	Government - assisted	Private mortgage	Private cash	Private non-market	Total
Number of transactions	1997	21	43	50	69	183
	1998	4	25	59	89	177
	1999	32	52	68	165	317
	2000	9	38	57	58	162
	Total	66	158	234	381	839
Total area of land (Ha)	1997	12,022	6,459	3,243	1,210	22,934
	1998	4,381	5,746	5,504	2,141	17,772
	1999	14,727	10,794	3,265	7,322	36,109
	2000	2,133	9,330	4,442	1,440	17,345
	Total	33,263	32,329	16,455	12,112	94,160
Total market value of land (R million)[1]	1997	16.01	38.93	5.8		60.74
	1998	2.49	18.48	7.02		27.99
	1999	8.36	30.75	7.42		46.54
	2000	2.2	26.91	7.88		36.99
	Total	29.06	115.07	28.13		172.26
Mean area of farms (Ha)		504	205	71	32	
Weighted farmland price 1997-2000 (R/Ha)		902	3,559	1,661		

Note: [1] 1 US$ = approximately R8 at the end of calendar year 2000.

Figure 3 shows that there were far more private than government-assisted transactions redistributing land to disadvantaged people in KwaZulu-Natal during 1997-2000. In all, there were 773 private transactions of which 392 were market transfers financed with cash (234) or mortgage loans (158). By contrast, only 66 transactions were financed with government grants. Table 3 shows that the number of private purchases has been consistent over the study period (ranging from 93 to 120 annually), while the number of government-assisted transactions varies considerably from year to year. The decline in the number of government-assisted transactions from a peak of 32 in 1999 to nine in 2000 highlights the effects of the moratorium imposed on new SLAG projects after July1999.

Figure 3. Total number of farmland transactions by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000

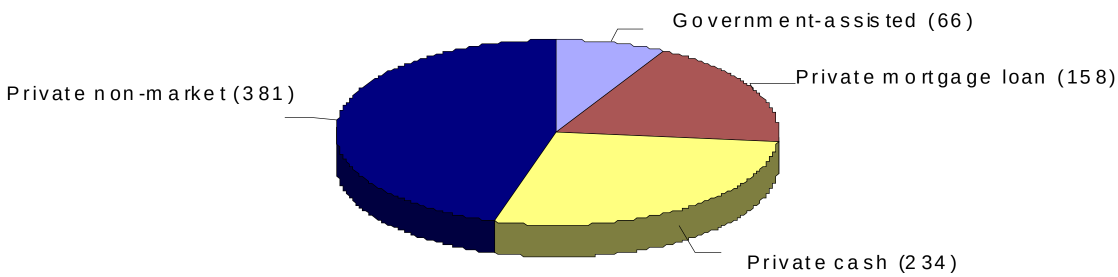


Table 3 and Figure 4 clearly indicate that private, non-market transactions (mainly bequests) transfer relatively small areas to new entrants (32 hectares per transaction, and a total of 12,112 hectares). Farms purchased privately with cash averaged 71 hectares in area, and those financed with mortgage loans 205 hectares. Although groups of grant beneficiaries purchased the largest areas (504 hectares per transaction), the total area of farmland redistributed by private purchases (48,784 hectares) comfortably exceeded that redistributed by the government-assisted transactions (33,263 hectares).

Figure 4. Total area of farmland by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000

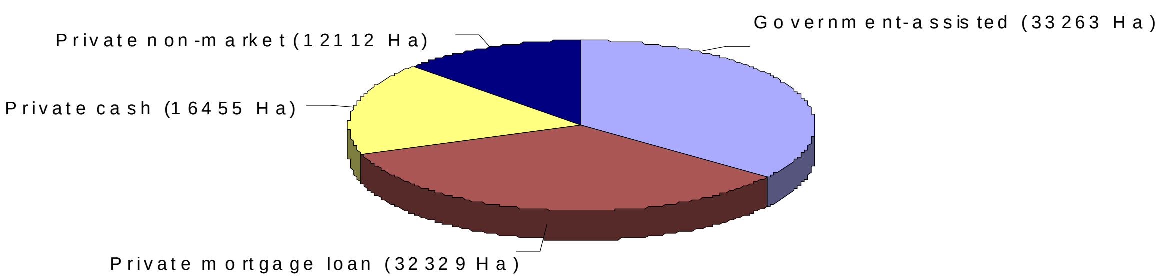


Figure 5 confirms that the area purchased with government grants peaked in 1999 and then fell sharply after the moratorium on new SLAG projects. Conversely, the area purchased privately (cash plus mortgage loans) increased steadily over the period 1997-2000, even though sales of medium-scale sugarcane farms dipped after the first round (1997) of this private sector program involving subsidized mortgage loans.

Figure 5. Annual area of land by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000

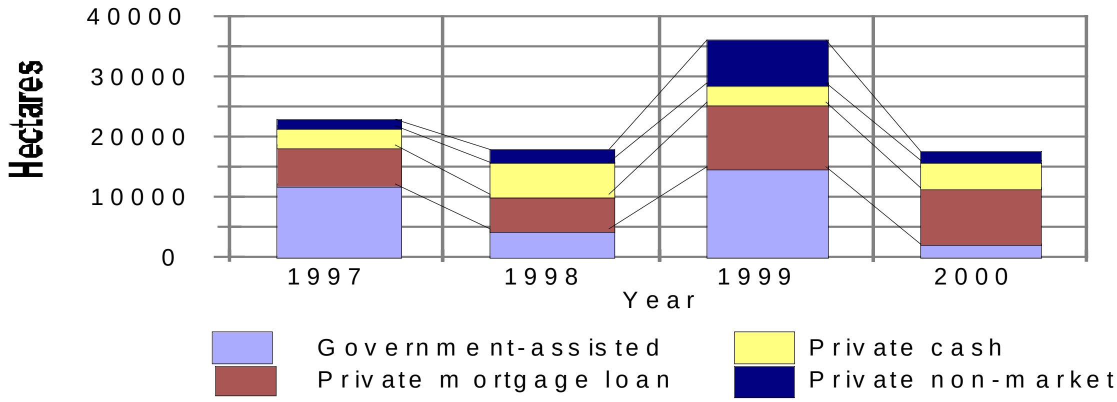
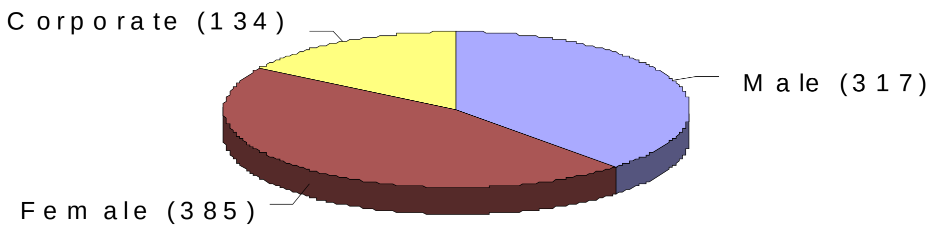


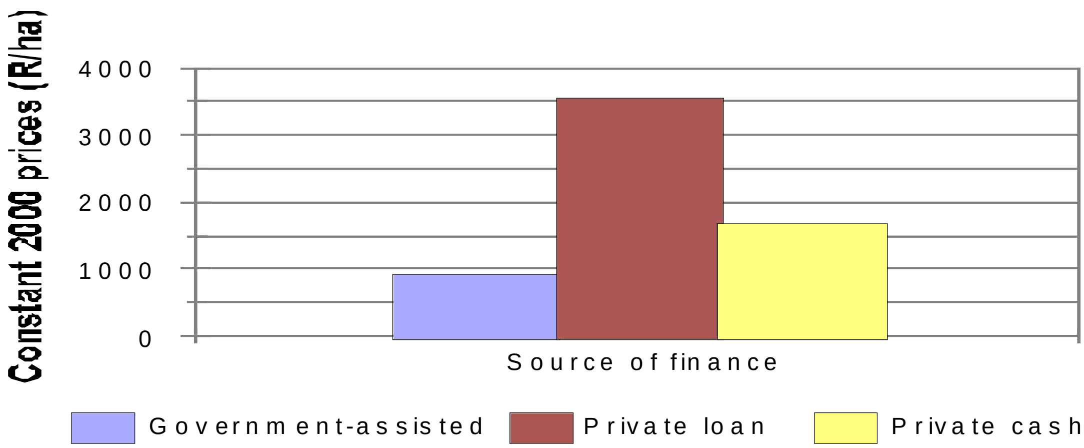
Figure 6 shows the impact of government-assisted and private land purchases on wealth redistribution in the commercial farming sector of KwaZulu-Natal during 1997-2000. Private purchases (cash plus mortgage loan) redistributed *five times* more land wealth (R143.2 million) than did government-assisted transactions (R29.06 million). This contrast in wealth is much greater than the difference in total area transferred by these modes of land redistribution (48,784 hectares for private purchases versus 33,263 hectares for government-assisted transactions). The implication is that agricultural land financed with government grants is of poor quality relative to that purchased privately (see Figure 7 on page 21). Annual data presented in Table 3 indicate the extent to which the private sector's medium-scale cane grower program in KwaZulu-Natal boosted the total market value (and quality) of farmland redistributed in 1997.

Figure 6. Total market value of farmland by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000



The census data presented in this section show that within the set of private purchases, the number of cash purchases (234) is high relative to the number financed with mortgage loans (138). This gap in numbers widened after 1997 when the first round of privately subsidized mortgage loans for medium-scale sugarcane growers ended. These observations are consistent with Nieuwoudt and Vink's (1995) argument that buyers with limited equity cannot finance large, quality farms using a conventional mortgage loan owing to inflation-enhanced cash flow problems. Instead they pay cash for cheaper farms. From Table 3 and Figure 7 it is evident that farms financed with cash are roughly one-third the area (71 hectares versus 205 hectares), and half the quality (weighted farmland price of R1,661 per hectare versus R3,559 per hectare), of farms financed with mortgage loans. Moreover, it has recently been observed that within the group of medium-scale sugarcane growers, part-timers with off-farm income are performing best in terms of debt repayment and reinvestment in their farms (Simms, 2001). This has occurred during a period characterized by record low world sugar prices.

Figure 7. Weighted farmland price by mode of land redistribution to disadvantaged owners in KwaZulu-Natal, 1997-2000



The next section describes the distribution of disadvantaged owners by category of buyer (male, female and corporate owners) and mode of land redistribution in KwaZulu-Natal during 1997-2000. The focus is on how much, and what quality of, farmland transferred to disadvantaged women over the study period, compared with male and corporate owners.

7. GENDER ANALYSIS

Particular attention was given to identifying the gender of disadvantaged entrants when the deeds of transfer were analyzed. Table 4 shows the distribution of disadvantaged owners by gender category for each mode of land redistribution during 1997-2000. The gender composition is not given for transactions involving farmland acquired by corporate entities (*e.g.* companies, trusts and communal property associations) including those representing beneficiary groups.

Table 4. Distribution of disadvantaged owners by gender category and mode of land redistribution in KwaZulu-Natal, 1997-2000

Characteristic	Government-assisted	Private mortgage	Private cash	Private non-market	Total
Number of transactions	n=66	N=158	n=234	N=381	n=839
Male owners (%)	-	46	52	34	38
Female owners or married co-owners (%)	-	41	30	66	46
Corporate owners (%)	100	13	18	0	16

Women are well represented in the total number of transactions involving disadvantaged entrants since 1997, with the largest share of 46 per cent. This can be attributed largely to bequests that favor women, and to purchases financed with private mortgage loans where a relatively large number of transactions were registered with both husband and wife as co-owners. The latter situation was different in 1997 when women were under-represented in transactions financed with mortgage loans. This may indicate a positive change in lenders perceptions of the legal status of women, and the ability of women clients to service loans. Figure 8 shows that women (as owners or married co-owners) accounted for 385 out of a total of 839 transactions involving disadvantaged owners (46 per cent) compared to 317 (38 per cent) for men as sole owners and 134 (16 per cent) for corporate entities.

Figure 8. Distribution of farmland transactions by category of disadvantaged owners in KwaZulu-Natal, 1997-2000

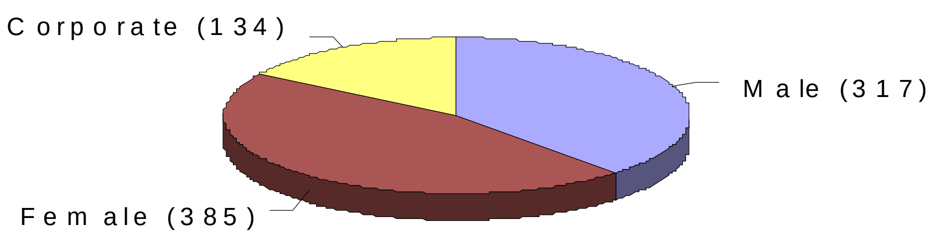


Figure 9 traces changes in the gender composition of transactions that redistributed farmland over the census period. Transfers to women (as owners or married co-owners) accounted for more transactions than did transfers to men as sole owners in every year except for 1998.

Figure 9. Farmland transactions by category of disadvantaged owners in KwaZulu-Natal, 1997-2000

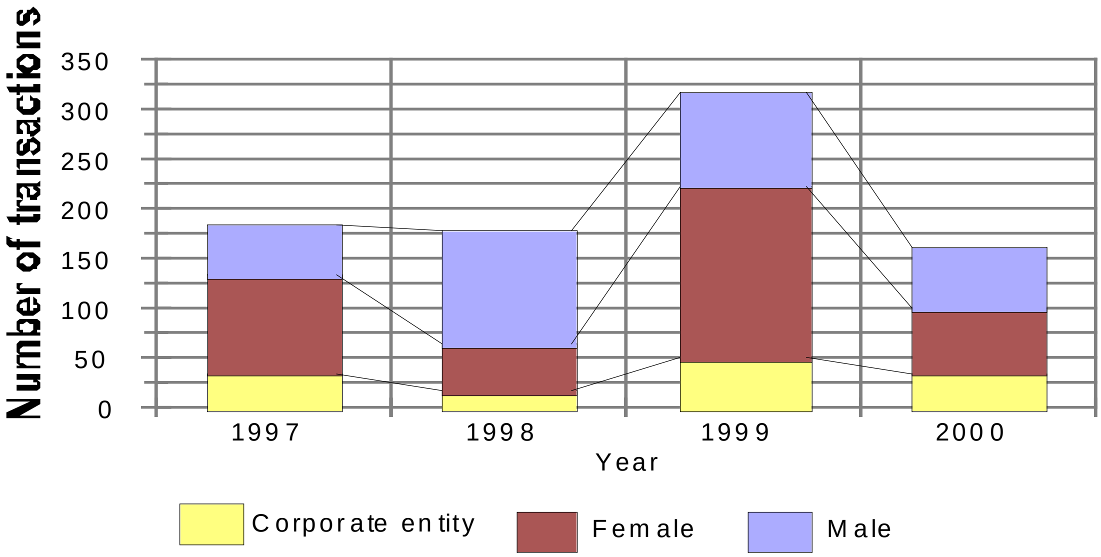


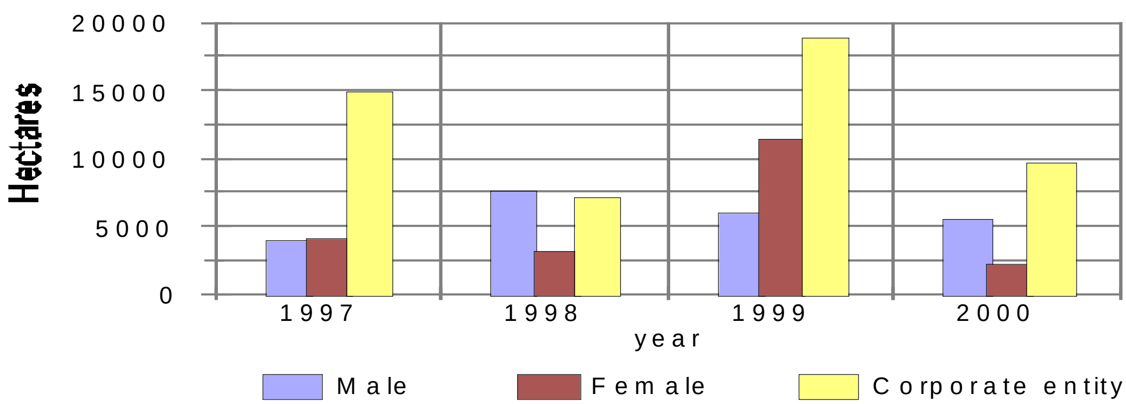
Table 5 and Figure 10 show that the total area of land gained by disadvantaged men and women is similar even though the mean area of farms acquired by women as owners or married co-owners were smaller in area (54 hectares) than those acquired by men (72 hectares). This outcome reflects the relatively small areas bequeathed to women. However, the picture changes in the likely event that women are under-represented in corporate entities; corporate entrants acquired more land than male and female entrants combined (50,444 hectares versus 43,716 hectares). A sample survey of four community land trusts established in KwaZulu-Natal during 1997 showed that female-headed households accounted for only 24 per cent of their listed beneficiaries (Graham, 2000:46).

Table 5. Characteristics of farms by category of disadvantaged owners in KwaZulu-Natal, 1997-2000

Category	Farm characteristic			
	Total area (Ha)	Mean area (Ha)	Total market value (R million)[1]	Weighted land price (R/Ha)
Male owners	22,901 n=317	72 n=317	57.53 n=190	2,963 n=188
Female owners or married co-owners	20,815 n=385	54 n=385	45.44 n=143	3,262 n=142
Corporate owners	50,444 n=134	376 n=134	69.28 n=122	1,446 n=122

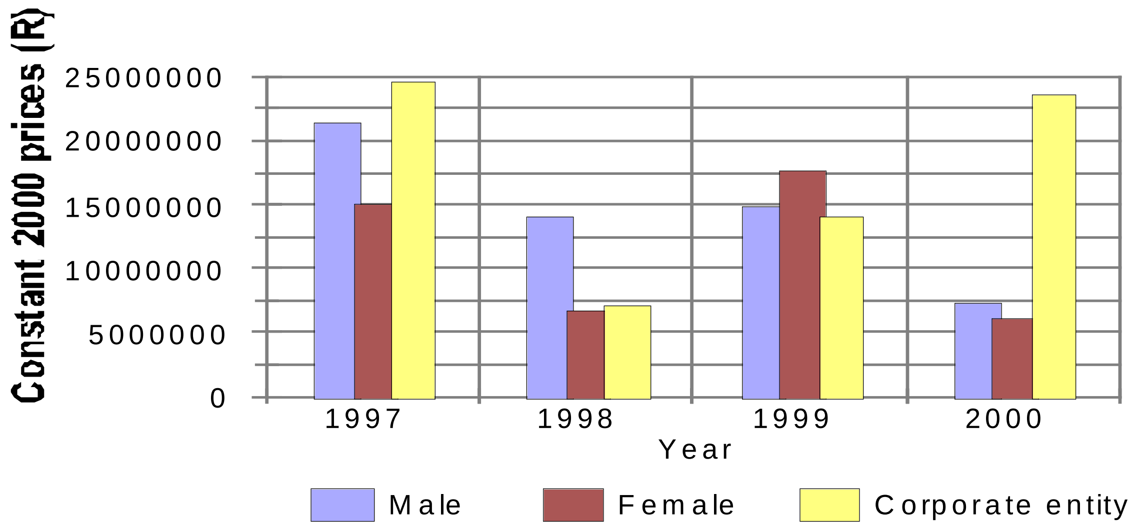
Note: [1] 1 US$ = approximately R8 at the end of calendar year 2000.

Figure 10. Total area of farmland transacted by category of disadvantaged owners in KwaZulu-Natal, 1997-2000



When bequests are omitted, the total market value of land gained by women (mainly as married co-owners) is less than that gained by men (R45.44 million versus R57.53 million). There is no evidence of significant differences in the quality of farms purchased by men (R2,963 per hectare) and women (R3,262 per hectare), implying that relatively fewer women participated in market transactions or that they purchased smaller farms than men. Although Figure 11 shows a declining trend in the land wealth accruing to men during 1997-2000, the advantage that men enjoy in purchasing land may be disguised by their participation as corporate buyers.

Figure 11. Total market value of farmland transacted by category of disadvantaged owners in KwaZulu-Natal, 1997-2000



The weighted average price of land purchased by corporate entities was relatively low (R1,446 per hectare) - a finding that was not unexpected as corporate owners include the community land trusts and communal property associations established by beneficiaries of government land reform grants. Even if men do enjoy an advantage as corporate buyers, it would be wrong to conclude that, overall, they acquired farmland of lower quality than did women because the analysis of quality is based on market prices and, therefore, excludes non-market transfers. As bequests favor women, the quality of inherited land (which is unknown) could have a marked effect on the mean quality of all farmland acquired by women.

8. CONCLUSIONS

KwaZulu-Natal has a legacy of a white agricultural sector for a relatively small number of large commercial producers, and an African communal farming society for a large majority of the population. At the time of political democratization in 1994, there were about 6,755 large-scale white commercial farmers in KwaZulu-Natal, representing some 50 per cent of total farmland (including provincial parks). These farms are generally of good quality land, with much higher and more regular rainfall in the coastal area and midlands. Intensive farming enterprises built on medium-sized sugarcane, timber and dairy farms, among others, are possible.

After independence in 1994, the South African government initiated land redistribution by offering settlement-land acquisition grants to historically disadvantaged households who wished to purchase commercial farms from white owners on a willing buyer, willing seller basis. By the end of 2000, the grant program had transferred a total of 780,407 hectares to 55,383 households of which some 14 per cent were headed by women. Taken together, land restitution and land redistribution transferred only one million hectares, or less than 1.2 per cent of the farmland available for redistribution, to disadvantaged South Africans over the six year period 1995-2000. Most of these transfers were directed to resettlement schemes characterized by low quality land and communal tenure arrangements in order to reach a large number of beneficiaries quickly and at modest cost. The redistribution component of 780,407 hectares represented only three per cent of the 25 million hectares that the government had initially hoped to redistribute during this period.

Since little was known about private land transfers to the historically disadvantaged population, this study aimed to capture a more complete understanding of land transfers to disadvantaged people in KwaZulu-Natal by investigating *all* modes of land transfer, not only government-assisted transfers, but also private cash purchases, mortgage loans and private non-market transfers. The four annual census surveys of farmland transfer deeds described in this report show that a total of 94,160 hectares were acquired during the period 1997-2000 by historically disadvantaged people in KwaZulu-Natal. Private, non-market transfers (mainly bequests) accounted for 12,112 hectares of this land, government-assisted purchases for 33,263 hectares and private land purchases (cash and mortgage loans) for 48,784 hectares. All told, this area of 94,160 hectares means that less than two per cent (actually 1.8 per cent) of the farmland available for redistribution in KwaZulu-Natal transferred to disadvantaged owners during the four-year study period.

Private purchases not only redistributed more land than did government-assisted purchases they also redistributed farmland of much better quality (weighted farmland price of between R1,661 and R3,559 per hectare versus R902 per hectare). The government's SLAG program targeted poor communities (rather than aspirant farmers) and obliged members to act collectively in order to reduce transaction and subdivision costs. Under these conditions, beneficiaries bought large areas of low quality land for group resettlement and communal grazing rather than small areas of high quality land for crop production by individual owner-operators. A moratorium on new SLAG projects after July 1999 reduced annual transfers by this mode of land redistribution in KwaZulu-Natal from a peak of 14,727 hectares in 1999 to just 2,133 hectares in 2000. Although a replacement program (LRAD) has been designed by the government to extend additional and larger grants to creditworthy farmers, this new program has yet to be implemented. In the meantime, disadvantaged people have lost access to the land market and government-assisted land redistribution has come to a virtual standstill in KwaZulu-Natal. LRAD should be implemented without further delay. Problems anticipated with application procedures and the administration of LRAD grants can be addressed if and when they emerge.

Although private purchases redistributed more land, and much more land wealth, than did government-assisted purchases in KwaZulu-Natal, transfers to disadvantaged owners accounted for less than six per cent of the total area transacted. Clearly, the market has much greater potential to redistribute farmland than what has been realized to date. While some might argue that few disadvantaged people aspire to become farmers, the overwhelming response to innovative financial products administered by Ithala Bank and the Land Reform Credit Facility (LRCF) to finance medium-scale farmers and equity-shareholders suggests that access to the land market is constrained by cash flow problems associated with conventional mortgage loans during inflationary periods, and the costs, delays and uncertainty associated with the registration and transfer of affordable subdivisions.

Repeal of the Subdivision of Agricultural Land Act, 70 of 1970, would make it easier for poor and part-time farmers to finance smaller, more affordable farms. Likewise, reducing the inflation rate and lowering the statutory costs of subdividing and transacting farmland would allow commercial banks to reach further down the income scale when financing prospective farmers and equity shareholders. Access to larger land reform grants for farm workers and aspiring farmers would also improve the outreach of private financiers because the poor cannot make significant contributions of their own when financing equity and land. Ideally, the Land Reform Credit Facility (LRCF) should be allocated a share of these grants and authorised to award them contingent upon the disbursement of a loan. Under these conditions, the LRCF will have to be capitalized at scale if it is to keep pace with growing demands for its loans from commercial banks.

In the wake of recent land invasions, the government might also reconsider its opposition to interest rate subsidies on loans made by commercial banks to creditworthy land reform projects. The LRCF could either discount its wholesale interest rate on loans with deferred repayments made to commercial banks, or it could allocate public and donor funds directly to commercial banks to support finite, diminishing interest rate subsidies on loans made to disadvantaged buyers of land and equity. These awards could be apportioned according to the value of transactions in land and equity that each lender expects to support during the forthcoming fiscal year. This process will give prospective borrowers an opportunity to “shop around” for favorable terms from a variety of decentralized and expert lending institutions.

With regard to gender issues, the census data showed that women are well represented in the set of transactions that transferred land to individual owners and married co-owners during 1997-2000 — accounting for the largest share of 46 per cent of all transactions - largely because bequests favor women. For the same reason, the total area of land acquired directly by women as owners and married co-owners (20,815 hectares) closely matched the total area acquired directly by men (22,901 hectares). However, women gained less land wealth through market transactions than did men, and there is concern that women are under-represented in transactions that transferred land to corporate buyers. This is certainly true of the community land trusts and communal property associations established by government to represent the interests of its land reform beneficiaries.

While there is some evidence that women’s access to mortgage finance improved relative to that of men over the census period, this does not account for the advantage that men may have as members of corporate owners. Efforts to improve the outreach of private financiers (e.g. by reducing inflation and transaction costs, implementing LRAD and expanding the LRCF) and to pay more than lip service to gender policy when awarding land reform grants would obviously help to improve women's access to the land market. Wealth redistribution through equity-sharing schemes could also help to correct gender imbalances as women are well represented amongst farm-workers in KwaZulu-Natal. In this regard, it is disappointing that only one equity-sharing project was identified in the census surveys and that this project had not been co-financed with land reform grants. The Department of Land Affairs has been active in supporting these initiatives in other provinces, but this has not been the case in KwaZulu-Natal. This points to persistent differences in the willingness or capacity of the provincial Department’s of Land Affairs to implement such sophisticated projects. A national exchange program involving mentors (from all sectors) with experience in successful equity-sharing projects may help to transfer skills and to broaden views on approaches to land reform.

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