B A S I S

Broadening Access and Strengthening Input Market Systems

LAND REDISTRIBUTION IN KWAZULU-NATAL: AN ANALYSIS OF FARMLAND TRANSACTIONS IN 1997

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This article presents the results of a census survey of all farmland transactions in the province of KwaZulu-Natal during the calender year 1997. Data recorded by the Deeds Registry were stratified and analysed by race, gender and mode of land acquisition. It was estimated that 372995 hectares, or seven per cent of the area available for redistribution, transferred to new owners. Of this, 22934 hectares, representing just 0,43 per cent of the available area, redistributed to disadvantaged people. Although low, the rate of redistribution appears to have increased dramatically since 1995. The quality of land varied markedly across different modes of land redistribution. Land purchased with government grants was of much lower agricultural quality than land purchased privately. Relative to government-assisted transactions, private market transactions accounted for a slightly smaller share of the area transferred to disadvantaged people (9701 hectares versus 12022 hectares) but for a much larger share of the value of land redistributed (R36,6 million versus R13,5 million). Inheritance and land donations accounted for the remaining 1210 hectares of redistributed land. Women were well represented in land transactions involving inheritance but were under-represented in transactions financed with mortgage loans. In general, they acquired farms of much smaller size, and land of lower quality, than men.

INTRODUCTION

It is widely recognised that land redistribution could promote the political stability needed for economic growth in South Africa. 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 (Lyne and Darroch, 1997; van Zyl , 1994). This study marks the first stage of a five year project designed to (a) measure the rate at which commercial farmland is transferring to previously disadvantaged people, and (b) to establish causal relationships between the mode of land acquisition (*eg* land financed privately by individuals versus land purchased by groups using government grants) and its

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subsequent use. In particular, this paper focuses on the rate of land redistribution in KwaZulu-Natal.

Land transactions recorded by the Deeds Registry in 1997 are analysed with the aim of providing accurate baseline information about the quantity, quality and value of land acquired by previously disadvantaged people, modes of land acquisition and their gender specific characteristics. The paper begins with a brief description of the primary modes of land redistribution in South Africa. Section 2 explains the process used to identify land transactions that transferred ownership from previously advantaged to previously disadvantaged people. The remaining sections analyse the rate of land redistribution, comparing the quantity and quality of land - and gender composition of transactions - associated with different modes of redistribution.

1 MODES OF LAND REDISTRIBUTION IN SOUTH AFRICA

Three principal modes of land redistribution have emerged in South Africa since political democratization in 1994; the government grant programme, private land purchases, and equity sharing arrangements.

1.1 Government-assisted land transfers

Since 1995, the main tool employed by government to redistribute land has been the settlement/land acquisition grant. In terms of this programme, landless people may apply for a cash grant of R15000 to purchase and develop farmland. In practice, beneficiary households usually have to pool their meagre grants in order to buy land from a willing seller. In most cases, farms financed with land grants and settled by groups of households are 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 (Department of Land Affairs, 1994:10). However, it was always unlikely that creditworthy farmers would qualify for a land grant as the means test applied to potential beneficiaries precludes individuals with a monthly household income greater than R1500 (LIMA, 1998:4).

By 1996 the grant programme boasted a total of 5118 beneficiary households on 47202 hectares of redistributed land in KwaZulu-Natal (AFRA, 1998:16). However, these encouraging statistics

say nothing about the quality of the land, its infrastructure or the services available to beneficiaries. Recent research (Hornby, 1996) has revealed fundamental problems associated with the collective management of land purchased by groups of beneficiaries. The underlying issues of land tenure and management institutions will be addressed in the next phase of this research project.

1.2 Private land purchases

International experience suggests that private land transactions tend to redistribute much more land than do government programmes (World Bank, 1993:24) despite severe cash flow problems encountered when loans are used to finance land (Nieuwoudt and Vink, 1995). Returns to land are made up of two parts; rent (the cash dividend or current return) and capital growth. An investment in land is similar to an investment in the stock market in that current returns are low relative to capital growth. Empirical evidence from the USA, UK, and South Africa shows that the average annual current return to agricultural land seldom exceeds five per cent of its market value (Nieuwoudt, 1987). During periods of inflation when nominal interest rates are high (say 17% per annum) relative to the current return on agricultural land (approximately 5% per annum), mortgage bonds with constant repayment schedules create formidable 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 inflation raises earnings relative to the fixed loan repayments. One method of alleviating the cash flow problem is to graduate the loan repayments by subsidizing the interest charges at a decreasing rate over a finite period of time.

In KwaZulu-Natal, land transactions have been facilitated by the KwaZulu Finance and Investment Corporation (KFC) since 1996. Earlier, when the Illovo Sugar Company invited applications for 20 medium-scale sugar-cane 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 (Lyne and Darroch, 1997). To mitigate this problem the Company agreed to sell the farms at market-related prices and to invest 18 per cent of the purchase price with Ithala Bank (owned by the KFC). This capital, plus interest accrued, funds a finite interest rate subsidy for the borrower (Simms, 1996).

In effect, Illovo Sugar Company discounted the price of its land by 18 per cent, and the KFC 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 pays the full annual interest rate of 16,5 per cent for the remaining 14 years of the 20 year loan period.

To bring perspective to the magnitude of these transactions, the average market price of a medium-scale sugar-cane farm is roughly R900000, of which 18 per cent or R162000 is invested by the KFC to finance a diminishing interest rate subsidy on its mortgage loan. The buyer pays the full purchase price and is expected to make a downpayment of at least ten per cent (R90000). The KFC provides a mortgage bond for the balance (R810000) and the seller receives a net amount of R738000 (R900000-R162000) for the land. Clearly, these transactions are still confined to relatively wealthy buyers. Nevertheless, the scheme - now supported by a second company - has already financed some 90 disadvantaged sugar-cane farmers with total land sales reaching roughly R80 million. Prospects for future growth look promising as other large agribusiness companies are willing to liquidate their land holdings in order to invest in more profitable milling and processing activities (Department of Land Affairs, 1998:15-18).

In South Africa the cash flow problem has been compounded by another major impediment to private land transactions - the Subdivision of Agricultural Land Act, 70 of 1970. This Act imposes an ‘economic’ farm size that is beyond the means of most emerging farmers (Lyne and Darroch, 1997). It is anticipated that Act 70 will soon be scrapped or amended.

1.3 Equity share schemes

Land is also transferring to farming companies in which equity is shared between a commercial farmer and his disadvantaged employees (Ngqangweni and van Rooyen, 1995). At present there are some 50 equity share schemes (Department of Land Affairs, 1998:2) in South Africa, the vast majority of which involve capital intensive fruit and wine operations in the Western Cape. Initially farm workers had to finance their equity in the company with loans, creating the usual cash flow

problems. This situation changed in 1997 when the DLA allowed farm workers to finance equity with a land grant. Despite a proliferation of equity share schemes in the Western Cape, these projects have yet to take hold in KwaZulu-Natal.

2 DATA SOURCE

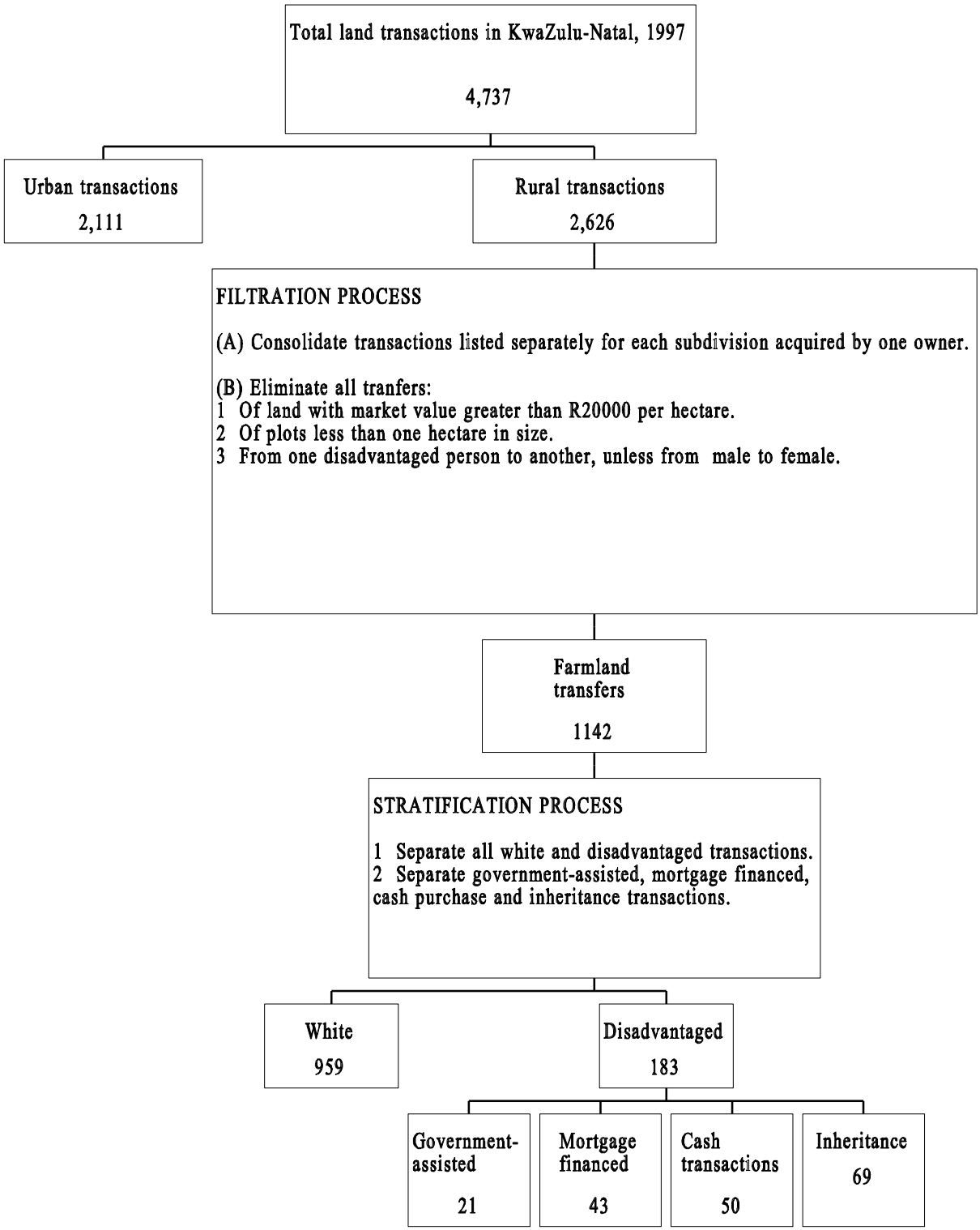
A list of all land transactions concluded in KwaZulu-Natal during the calender year 1997 was extracted from the deeds register and converted to a database file by Land Project Consultants (Pty) Ltd. Figure 1 illustrates that of the 4737 transactions recorded in 1997, 2111 were classified as urban (within a local council) while the remaining 2626 were classified as rural. Within the rural group, transactions listed separately for each parcel (subdivision) of land acquired by one owner (plus spouse in the case of married co-owners) were consolidated. This process more than halved the total number of rural cases. It also revealed a small number of farms that had been sold for residential or industrial development, and some transactions that shifted land from one previously disadvantaged owner to another. The former were removed from the rural group by filtering out all cases involving 'farms' smaller than one hectare or with a market price greater than R20000 per hectare (a price in excess of that commanded by the best quality agricultural land in KwaZulu-Natal). The latter transactions were eliminated unless they shifted ownership from males to females, yielding a total of 1142 'farmland transfers' which contained a subset representing net transfers to disadvantaged owners. Where land had been acquired by corporate entities (close corporations, companies and Trusts) other records obtained from the Registrar of Companies and Master of the Supreme Court were used to determine whether or not the land had transferred to disadvantaged people.

The farmland transactions were then separated into two groups, 'disadvantaged' (183 new owners belonging to races previously prohibited from owning farmland) and 'white' (959 new owners). It must be noted that the deeds register does not explicitly record the race or gender of land owners. 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, the KFC finances only disadvantaged buyers). While every effort was made to identify disadvantaged land owners, the authors accept that some of these new entrants may have been mis-classified, understating the rate of land redistribution.

Land Project Consultants (Pty) Ltd. were able to cross reference the deeds records with land survey data and to identify the magisterial district within which each farmland transaction was located. This information was used to produce the map of transactions (Figure 2) introduced in

section 6.

Figure 1: Stratification of the transactions data



3 THE RATE OF LAND REDISTRIBUTION

Information extracted from the deeds records was used to compute the total area of all farmland registered to new owners in KwaZulu-Natal during 1997. The area amounted to 372995 hectares, or seven per cent of the 5,3 million hectares estimated to be available for redistribution in the province (Lyne and Darroch, 1997). This is higher than Lyne and Darroch's (1997) sample estimate of 302243 hectares (5,7 per cent) for KwaZulu-Natal in 1995 and predictably higher than the Standard Bank's (1998:1) estimate of 268000 hectares for non-afforested farmland in the province.

Transfers to the disadvantaged group accounted for 22934 hectares, representing 6,2 per cent of the farmland transferred or 0,43 per cent of the total area available for redistribution. Although these rates are low they are considerably higher than those estimated for KwaZulu-Natal in 1995 (1,6 per cent and 0,09 per cent respectively) by Lyne and Darroch (1997). According to these estimates, land redistribution grew at an annual rate of 117 per cent from 1995 until the end of 1997, transferring approximately 38400 hectares of farmland to disadvantaged owners over this three year period. However, the area transferred says nothing about the quality of redistributed land. This issue is examined in the following section.

4 THE QUALITY OF REDISTRIBUTED LAND

Table 1 presents the mean area of all farms acquired by white and disadvantaged owners, and - for those farms purchased - the mean price of farms and weighted price of land. As expected, the mean size of farms acquired (and hence price paid) is much lower for disadvantaged owners. The quality of land (measured by its market price per hectare) bought by disadvantaged entrants appears to be slightly higher than that purchased by whites. However, the price gap (R2302 versus R2103) is narrow and may only reflect a tendency for per hectare prices to decline with increases in farm size (due to fixed improvements and fixed transaction costs). The distribution of per hectare farm prices paid by disadvantaged buyers was bimodal, with relatively large proportions of buyers concentrated in the ranges below R2500 per hectare and between R10000 and R13000 per hectare. Such large price gaps suggest clear differences in the quality of land associated with different modes of land redistribution.

Table 1: Characteristics of farmland acquired by white and disadvantaged owners in KwaZulu-Natal, 1997

Characteristic	White	Disadvantaged	t-value
Mean farm area (Ha)	365 n=959	125 n=183	3,6***
Mean farm price (R)	983061 n=650	438695 n=114	1,4*
Weighted land price (R/Ha)	2103 n=650	2302 n=114	

Notes: *** denotes statistical significance at the 1 per cent level of probability.
* denotes statistical significance at the 15 per cent level of probability.

5 MODES OF LAND REDISTRIBUTION

All transactions defined as 'disadvantaged' were grouped into four unique strata representing different modes of land redistribution. Market transactions were categorized by their method of financing; grant financed (*ie* government-assisted transactions), mortgage loan financed, and cash purchases. The remaining transactions, classified as 'inheritance', were the result of bequests and some donations.

5.1 Government-assisted transactions

A total of 21 transactions involved farms purchased by 11 Community Land Trusts representing the beneficiaries of government land grants. Some Trusts purchased several farms at different times during the year. These transactions redistributed12022 hectares of farmland with a market value of R13,5 million (Table 2). This implies a weighted price of just of R1119 per hectare, indicating land of relatively poor agricultural quality.

Table 2: Modes of land redistribution and characteristics of farmland acquired by disadvantaged owners in KwaZulu-Natal, 1997

Mode of redistribution	Mean sale price of farms (R)	Mean area of farms (Ha)	Total market value of land (R)	Total area of land (Ha)	Weighted land price (R/Ha)
Government-assisted (n=21)	640662	572	13453900	12022	1119
Mortgage loan financed (n=43)	736790	150	31681989	6459	4905
Cash purchases (n=50)	97508	65	4875444	3242	1504
Inheritance and donations (n=69)		18		1210	
F-value	25,98	21,85			

5.2 Transactions financed with mortgage loans

This stratum includes 43 transactions financed with mortgage loans provided by commercial Banks, the KFC, non-governmental organizations (NGO's) and individual lenders. These transactions redistributed 6459 hectares of land with a market value of R31,7 million. At a weighted price in excess of R4900 per hectare, the quality of this land is far superior to that financed with government grants. On average, the mortgage loans accounted for 87 per cent of the purchase price paid for farms in this stratum. However, for farms financed by commercial Banks (n=10), the loan proportion was just 48 percent, rising to 93 per cent in the case of farms financed by the KFC (n=28). This marked difference highlights the extent to which the privately sponsored interest rate subsidy administered by the KFC alleviated anticipated loan repayment problems.

5.3 Cash transactions

Fifty farms were purchased without the benefit of government grants or mortgage loans. As might be expected, the mean size of these farms is small relative to those financed with grants or mortgage loans (Table 2). Although the number of cash transactions exceeded the number financed with mortgage loans, they redistributed less land (3242 hectares) and much less wealth (R4,9 million) than the latter. Even so, the quality of this farmland appears to be better than that financed with government grants (R1504 versus R1119 per hectare). Overall, private market transactions (*ie* those financed without government grants) redistributed more land wealth than government-assisted transactions (R36,6 million versus R15,6 million). However, this preliminary analysis does not shed light on the number of disadvantaged people benefiting from each mode of land redistribution.

5.4 Inheritance transactions

In general, these transactions (n=69) involved small areas of farmland (18 hectares on average) and transferred a total of just 1210 hectares to disadvantaged people. It is conceivable that some of this land has converted to non-agricultural uses. An important feature of these transactions is the gender composition of ownership (section 7).

6 SPATIAL DISTRIBUTION OF FARMLAND TRANSACTIONS

Figure 2 shows the physical distribution of farmland acquired by disadvantaged people in KwaZulu-Natal. The map is divided into three unique bio-climatic zones, the Coastal Belt, the Midlands, and the Lowveld. Land in the Coastal Belt is generally of higher agricultural quality than land in the Midlands, and of much higher agricultural quality than land in Lowveld. The vast majority transactions financed with mortgage loans, and all of the KFC's medium-scale sugar farming clients, are located in Coastal Belt. Most cash purchases, and all of the government-assisted transactions, occurred in the regions of lower quality farmland. In addition, the government-assisted transactions were concentrated in areas characterized by racial conflict over land ownership. This visual evidence supports earlier inferences about the quality of farmland transferred by each mode of redistribution.

Figure 2 Spatial distribution of farmland transactions in KwaZulu-Natal, 1997

7 GENDER CHARACTERISTICS

Particular attention was given to the gender of disadvantaged entrants when the deeds records were analysed. The gender breakdown presented in Table 3 excludes all transactions involving land acquired by corporate entities representing disadvantaged people, including Community Land Trusts. Questions relating to the size of these groups and their gender composition will be addressed in the second phase of this research project.

Table 3: Distribution of land transactions and farmland characteristics by gender in KwaZulu-Natal, 1997

Mode of redistribution	unit	Male owners	Female owners	Co-owned by husband and wife	Government and corporate owners
Government-assisted (n=21)	Transactions (%)	0	0	0	100
Mortgage loan financed (n=43)	Transactions (%)	53	5	26	16
Cash purchases (n=50)	Transactions (%)	26	10	50	14
Inheritance and donations (n=69)	Transactions (%)	19[1]	45	36	0
Farm and land characteristics	unit	Male owners	Female owners and married co-owners		Government and corporate owners
Mean area of farms	(Ha)	78 n=50	42 n=99		438 n=34
Total area of land	(Ha)	3905 n=50	4129 n=99		14900 n=34
Total market value of land	(Rm)	16,9 n=37	12,6 n=43		20,6 n=34
Weighted land price	(R/Ha)	4588 n=37	3984 n=43		1383 n=34

Notes: [1] indicates land donated to previously disadvantaged men.

Table 3 shows that women are well represented in the inheritance stratum. They are also well represented in the cash purchase stratum owing to a relatively large number of transactions where land was registered to both husband and wife. However, women appear to be severely under-represented in transactions financed with mortgage loans, raising questions about lenders' perceptions of their legal status and ability to service loans. Farms acquired by women (as owners or married co-owners) averaged 42 hectares in area, whereas those acquired by men averaged 78 hectares. Although the total area of land acquired by previously disadvantaged men and women (including married co-owners) was similar, men bought land of better quality (R4588 per hectare versus R3984 per hectare). Future analysis of the corporate entities will provide a clearer picture of gender trends in land redistribution.

CONCLUSIONS

The results of this study indicate that 372995 hectares, or seven per cent of the farmland available for redistribution in KwaZulu-Natal transferred to new owners in 1997. Of this land, 22934 hectares transferred to disadvantaged owners implying that the overall rate of land redistribution in 1997 was 0,43 per cent. Although low, this represents dramatic growth in the rate of land redistribution since 1995.

On average, the quality of agricultural land purchased by whites and previously disadvantaged people was similar. However, marked differences were detected within different modes of land redistribution. Farmland purchased with government grants was of lower quality than farmland purchased privately. Relative to government-assisted transactions, private purchases accounted for a slightly smaller share of the area transferred to disadvantaged people (9701 hectares versus 12022 hectares) but for a much larger share of the value of land redistributed (R36,6 million versus 13,5 million). Inheritance and donations accounted for the remaining 1210 hectares of redistributed land.

Women were well represented in land transactions involving inheritance but generally acquired farms of smaller size, and land of lower quality, than men. This can be attributed largely to the fact that women were severely under-represented in land transactions financed with mortgage loans.

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