

Budgeting for land reform

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The primary purpose of land reform in South Africa is to redistribute agricultural and other land in order to address the racially skewed pattern of landholding and promote development. Slow progress in land reform over the past decade underscores the urgency of finding ways to accelerate the process. The state has adopted a market-assisted approach to redistribution. This means that land is usually bought at full market price. In addition, substantial funding is needed for the implementation of the programme and for post-settlement support to beneficiaries. The budget allocated to land reform is therefore of central importance to the programme. This publication surveys trends in the land reform budget over the past decade, with particular emphasis on the redistribution programme.

Introduction

South Africa's land reform programme involves three key elements: the redistribution of agricultural land to new farmers; the restoration of land, or cash compensation, to restitution claimants who were dispossessed after 1913; and the securing of tenure rights for residents of commercial farms and communal areas. While progress has been made in each of these areas during the first decade of democracy, land reform is proceeding at a slow pace overall due to a number of factors, including complex bureaucratic processes and, more recently, inadequate budgets.

By March 2004 the land reform programme as a whole had transferred 2.9% of agricultural land in the country, excluding former homelands (DLA 2004). This was achieved at a total cost of R4.6 billion, including the cost of the land, cash compensation and institutional operating costs (National Treasury 2004).

Budget trends

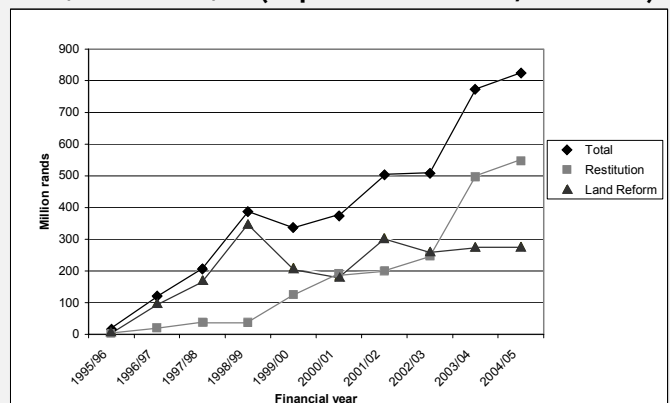
The principal budget for land reform comes from funds allocated to the national Department of Land Affairs (DLA). This covers the operating costs of DLA and the Commission on Restitution of Land Rights (CRLR), as well as capital budgets for the acquisition of land. Also included are areas of activity that do not relate directly to land reform, such as Surveys & Mapping and Spatial Planning & Information.

The budget lines most relevant to land reform are the allocations to 'Land Reform', which includes the redistribution and tenure reform programmes, and 'Restitution', which covers all aspects of the restitution programme. Support for land reform also comes from other government departments, notably the national and provincial departments of agriculture, from municipalities, and from state agencies such as the Land Bank and the National Development Agency. While there has been a significant increase in total funding allocated to the DLA in recent years, this has never amounted to more than 0.5% of the total national budget.

Within the Land Affairs budget, considerable shifts have occurred over time in the allocations to Restitution and Land Reform. In the early years of the programme, Land Reform was the better-resourced category. More recently, however, the Restitution budget has risen dramatically while the Land Reform budget has declined, and is now set to remain considerably below the Restitution budget. Since 2003/04,

Restitution has constituted more than 50% of the total DLA budget. The Land Reform component is projected to fall as low as 23% of the total in 2005/06. Figure 1 shows the budget trends to date, adjusted for inflation using the Consumer Price Index (CPI).

FIGURE 1: BUDGET FOR THE LAND REFORM PROGRAMME 1995/96 TO 2004/05 (Adjusted for inflation, 1995=1.00)



Source: National Treasury 2004

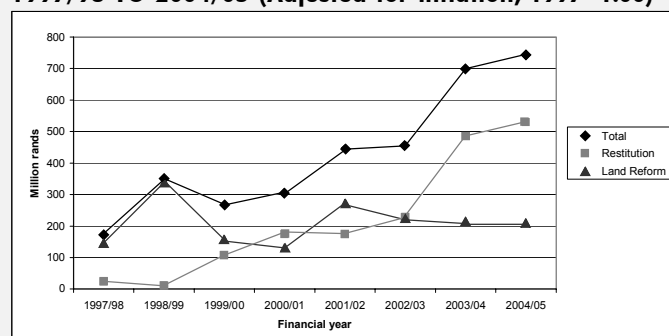
Transfers and subsidies

Within these budget allocations, certain amounts are earmarked for *transfers and subsidies* that are used to buy land, pay compensation and otherwise transfer resources from the state to beneficiaries. The remainder is allocated to *current payments*, which pays salaries, overheads and other DLA operating and staff expenses, and for the purchase of fixed capital assets. An examination of the transfers and subsidies budgets for Restitution and Land Reform reveals major differences between the two, even more pronounced than suggested by the overall difference in budgets indicated in Figure 1 (see Figure 2).

While the *Land Reform* budget has gradually risen, in nominal terms, and is due to continue to increase, there has, since 2001/02, been a decline in the transfers and subsidies component – that is, in the funds available for the acquisition of land and related costs. The real (inflation-adjusted) value of this budget item has declined by approximately 23% between 2001/02 and 2004/05.

By contrast, the steady increase in the *Restitution* budget has largely been accounted for by an increase in the transfers and subsidies component. Restitution now has a capital budget

FIGURE 2: TRANSFERS AND SUBSIDIES BUDGET TRENDS 1997/98 TO 2004/05 (Adjusted for inflation, 1997=1.00)



Source: National Treasury 2004

nearly three times that of Land Reform, while their current budgets are virtually the same. Over the Medium-Term Expenditure Framework (MTEF), the transfers and subsidies budget constitutes in the region of 83–87% of the Restitution budget as compared to 65–76% for Land Reform.

The recent acceleration in the settlement of land claims has been made possible by a substantial increase in the capital funds available for restitution. However, two-thirds of the total amount spent on restitution awards to date has been spent on cash compensation rather than on purchasing land.

From under-spending to over-spending

Despite its relatively small allocation, DLA regularly under-spent its budget until 2002/03, when the trend was reversed and DLA over-committed its funds for the first time.

The recurring inability of DLA to spend its allocation has been one reason for significant fluctuations in its budget. More recently, however, the achievement of the department in accelerating land transfers has resulted in some provinces exhausting their budgets. This has led to cases of DLA approving projects for which funds are not available, and being unable to process new projects. In both the Western Cape and Eastern Cape, for example, provincial offices of DLA discouraged new grant applications during 2003 because of the backlog of existing commitments.

By February 2004, the total backlog of redistribution and tenure projects that had been approved, but for which no funding was yet available, amounted to R587 million – more than double the funds available for land purchase during that financial year (Thomas 2004).

This over-commitment means that, in some situations, landowners, land reform applicants and project officers are ready to implement projects but are unable to proceed due to lack of funds. Some consultants involved in setting up projects and drawing up business plans have gone unpaid and have expressed unwillingness to continue working in this sector. Landowners waiting to conclude sales to land reform beneficiaries have also expressed frustration at the long delays in approving grants and releasing funds for land purchase. There is evidence of opportunities for sales being missed where willing sellers and willing buyers are unable to proceed because of institutional and budgetary blockages (Jacobs et al. 2003). This means that, for the first time since 1994, budgetary constraints have become a real limitation on the land reform programme.

What's new in the 2004/05 budget?

The 2004/05 budget shows modest increases for both Land Reform and Restitution. Combined, these categories now amount to R1.4 billion – an increase of 9.5% on the allocation

of the previous year, marginally ahead of inflation. This allocation does not deviate significantly from the levels anticipated in last year's MTEF.

The allocation for Land Reform funds the purchase of land for redistribution and the securing of tenure rights for farm dwellers and people in communal areas, as well as the operating costs of the DLA's provincial and district land reform offices. Within this general allocation, no specific allocations are made to redistribution or tenure reform, making it impossible to report on the individual budgetary aspects of these programmes.

The 2004/05 allocation to Land Reform is R474 million, a below-inflation increase of 1.9% on the previous financial year, and is entirely due to the growth of the current budget. The transfers and subsidies budget (for acquisition of land and related purposes) was the only significant area within the DLA budget to be *reduced* in this budget, falling by 0.6% on the preceding year.

The 2004/05 budget allocates R933 million to restitution, an increase of 11%, in nominal terms, on the previous financial year. The Restitution budget funds the purchase of land for restoration to claimants, cash compensation and 'developmental restitution' projects, as well as the operations of the CRLR and its regional offices. In contrast to the shifts in the Land Reform budget, the transfers and subsidies budget for Restitution increased in Rand terms by 10.4% (from a higher base) with an increase of 18.2% in the current budget.

The main shifts in the land reform budget are summarised in Table 1.

Post-settlement support

While the primary responsibility for land reform rests with DLA (a national government department) responsibility for a range of support functions and financial assistance rests with the national and provincial departments of agriculture. Unlike land, agriculture is a concurrent competency, with the National Department of Agriculture (NDA) being responsible for matters of national policy while provincial departments provide a range of services to farmers, notably agricultural extension and veterinary services.

While the allocations to Agriculture in the national budget have generally kept pace with inflation over the past decades, researchers have found it virtually impossible to determine the precise amounts dedicated to small farmer support and land reform due to the wide variety of budgetary categories used within the various provincial budgets (Mayson 2001).

Research by Jacobs (2003) indicates that programmes of both national and provincial departments of agriculture are poorly aligned with DLA's land reform programme, and that the resources allocated have been insufficient to provide even basic levels of support to the majority of land reform beneficiaries.

The 2004/05 budget, though, provides for a new Comprehensive Agricultural Support Programme (CASP) to support newly-established farmers. NDA aims to use the CASP 'to provide post-settlement support services... to the targeted beneficiaries of land reform, and to other producers who have acquired land through private means' (National Treasury 2004:695).

The allocation for 2004/05 is R200 million, with somewhat larger sums to be made available in 2005/06 (R250 million) and 2006/07 (R300 million) – a total of R750 million over three years.

How much money is needed?

The growth of the budget for land reform has been steady but slow, despite clear indications that a dramatic increase is needed to meet government's official target of redistributing 30% of agricultural land by 2015. The funds currently allocated to land reform impose real limitations and make it highly unlikely that this target – itself quite an arbitrary figure – will be met in the near future.

Debate around the budget for land reform has been hampered by the lack of any convincing estimates of the potential scale of the problem to be addressed, or the likely cost. Given the government's commitment to a market-based approach, the market price of land will be a key determinant of the overall cost of the programme. The land reform programme is commonly described not only as 'market-based', but also as 'demand-led'. Yet, no detailed estimates of demand have informed the budgeting process. As shown above, demand for redistribution grants now exceeds the available funding in a number of provinces, and there are good reasons to believe that large numbers of landless and land-hungry people have yet to be reached by the land reform programme.

In addition, few costings have been done to estimate what funds would be needed to reach the government's target for land transfer. One indication of the potential cost of redistribution can be gained from the total value of land and fixed assets on South African farms, which was estimated at R57 billion in 2002 (NDA 2004:84). To purchase 30% of this by 2015 would cost R17 billion which, if spread over the remaining 11 years at constant prices, would require about R1.5 billion per year. This is in line with current trends in the capital budgets for redistribution and restitution combined, but much of this budget currently goes to cash compensation for restitution claimants rather than land purchase.

Much higher estimates come from some provincial offices of DLA. In the Eastern Cape, DLA has estimated that R250 million will be needed every year to enable that province to reach its share of the national target, roughly five times the current annual allocation for land purchase in the province (DLA 2003b). In the Western Cape, DLA's estimate, based on costs to date (though this may be skewed towards the higher value agricultural areas), is far higher – in the region of R1.5 billion per year until 2015, or R16.5 billion in total

(at current prices) (DLA 2003a:9). This is roughly 30 times the present allocation for the province. These widely differing estimates suggest that much work remains to be done on a realistic costing of the land reform programme.

Looking at the specific sub-programmes, it is only possible to provide some rough estimates of the additional resources required to implement a market-based programme on the scale envisaged by government. The principal categories would be as follows:

- ▶ **Land reform:** To address the current bottlenecks in approving and disbursing redistribution grants, and to speed up the redistribution programme towards the level required to meet targets, a capital budget of at least R1 billion is required per annum, as against the R445 million envisaged for 2005/06 in the MTEF.
- ▶ **Restitution:** The Commission on the Restitution of Land Rights estimates that it will require approximately R13.5 billion to settle all outstanding restitution claims. This is over ten times the projected restitution budget for 2005/06, suggesting that at current budgetary levels, the commission will require at least another ten years to complete its work.

In addition, there are areas of land reform for which no specific budgets currently exist, as follows:

- ▶ **Farm tenure:** To give effect to farm dwellers' and labour tenants' statutory rights and to fund support systems including legal representation and alternative dispute resolution; also, to settle the estimated 20 000 labour tenant claims, most of which are still outstanding.
- ▶ **Communal tenure:** To provide support services in the areas of land administration, land management, rights enquiries, and the provision of alternative land or comparable redress. The implementation of the Communal Land Rights Act has implications for millions of people across the former homelands. Recent estimates by DLA suggest that this will cost at least R1 billion a year over five years, equivalent to over 70% of its current budget for all aspects of land reform.

It is important to bear in mind that the market-based approach is a policy choice made by government, and that the Constitution makes ample provision for non-market approaches. While the market-based approach may have the

TABLE 1: DLA BUDGET 2003/04 TO 2006/07 IN EXPENDITURE ESTIMATES OF 2004 (Nominal, not adjusted for inflation)

Budget line	2003/4 (actual) R million	2004/05 (actual) R million	Annual increase %	2005/06 (projected) R million	2006/07 (projected) R million
LAND REFORM	465	474	1.9	619	801
Transfers & subsidies portion	311	309	-0.6	445	616
Current payments portion	152	164	7.9	174	184
RESTITUTION	839	933	11.2	1 157	1 370
Transfers & subsidies portion	702	775	10.4	994	1 198
Current payments portion	132	156	18.2	160	171
TOTAL	1 285	1 407	9.5	1 776	2 171
TOTAL LAND AFFAIRS	1 639	1 788	9.1	2 180	2 598

Source: National Treasury 2004

advantage of appeasing landowners and foreign investors, it does not necessarily lead to rapid delivery of land or the most effective use of limited resources. Nor does it address the widespread belief that landowners who benefited under apartheid should not be allowed to benefit again by now being paid the improved market prices for their properties

Both the Constitution of South Africa and recent judicial findings make provision for below-market levels of payment to owners. The Constitution, for example, requires that compensation is 'just and equitable', while the so-called 'Gildenhuis formula' drawn up by the Land Claims Court allows the state to discount the level of compensation in line with past state subsidies received by the owner (Hall et al. 2003). The decision to pay full market prices is clearly a policy choice, rather than a legal necessity, and any departure from this policy – for instance a more interventionist strategy involving a degree of expropriation – would certainly have major political implications. Nonetheless, payment of full market price for land acquired through numerous uncoordinated transactions between buyers and sellers clearly makes the current approach to land reform both expensive and extremely slow.

Conclusions

The land reform target set by the government – to transfer 30% of agricultural land by 2015 – now requires an average yearly transfer of 2.1 million hectares across all aspects of land reform, almost exactly the total amount transferred through the entire eight years of the programme up to 2003. To meet the target, or even to make reasonable progress in that direction, requires either that budgets be scaled up substantially, or that non-market options for acquiring land be considered – or both.

Current trends in the land reform budget suggest that official targets will not be met. The glaring gap between targets set by government, and the resources provided to meet them, is likely to continue to be a source of frustration for the landless, for land owners and for officials alike. The failure to provide for any increase in the budget for purchase of land under the redistribution programme this year is deeply disappointing, at a time of unprecedented public interest in land reform. The absence of specific allocations to various areas of tenure reform suggests that delivery in this key area will also continue to be hampered by lack of resources. Restitution is the clear exception to this trend, but the continued insistence of officials and politicians that this far-reaching programme can be brought to a conclusion by the end of 2005 is both unrealistic and unhelpful when it comes to planning and resource allocation.

The introduction of the Comprehensive Agricultural Support Programme by the NDA, and the promised reintroduction of the Agricultural Credit Scheme, are important steps towards addressing the pressing need for post-transfer support to land reform beneficiaries, and are to be welcomed. Major challenges remain, however, in ensuring that appropriate types of support are delivered to the intended beneficiaries in an effective manner.

The Department of Land Affairs is now faced with two key challenges in the area of budgeting. One is to conduct realistic costings of all key areas of land reform, and to motivate for adequate budgetary provision for these. The other is to assess the merits of the current market-based approach, which has proved to be both expensive and slow. If the popular demand for land reform is to be met, ways

will have to be found of acquiring land and securing rights in a cost-efficient and timely manner. This in turn will require a renewed political debate around the aims of land reform, and the most effective means of achieving them.

Endnote

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PLAAS engages in research, policy support, post-graduate teaching, training and advisory and evaluation services in relation to land and agrarian reform, community-based natural resource management and rural development.