FINANCING, VIABILITY AND COSTS ASSOCIATED WITH TRANSFERRING SUGARCANE LAND TO PREVIOUSLY DISADVANTAGED INDIVIDUALS

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Abstract

Natal Trust Farms (Pty) Ltd, a parastatal company, was contracted by the State to farm 2000 hectares of land under sugarcane, delivering the cane to Amatikulu mill. In 2001, the National Minister of Agriculture decided that all such parastatal companies would be dissolved so that the land could be sold to previously disadvantaged individuals, as part of the Land Reform programme.

Tongaat-Hulett Sugar Ltd (T-HS) was requested to assist with the transition and transformation involved in this process. T-HS proposed a contract farming service for one year, while at the same time providing a Design Agent function to transform the land into viable economic units. The Design Agent function involved creating the new farms and transforming the individual farms into cycle. This entailed compiling comprehensive business plans, the planning of shared mechanisation systems for economies of scale, the provision of property administration and conveyancing services and assisting with the selection, mentorship and training of the new farmers after occupation.

This paper focuses on the viability studies used to determine the optimal number of farms and the process of equalisation of risk and profit across all the farms. The problem of financing the purchase of the farms with limited owner capital and high debt levels was also investigated. This approach resulted in a 'capital sacrifice' by the seller to obtain an affordable value for the buyers. The costs involved in transforming and transferring the farms to new freehold cane growers were also quantified.

It is concluded that farm values, operating costs and the lack of own contributions to capital will continue to hinder successful Land Reform that is aimed at creating successful commercial farmers.

Keywords: Black Economic Empowerment, Land Reform, sugar industry

Introduction

Black Economic Empowerment within South Africa is currently receiving considerable attention from government and business. Charters stipulating the extent of Black ownership and management of the various business sectors are currently being published. Within agriculture the main thrust of government is to promote Land Reform. Skewed access to and ownership of land, as well as the provision of quality services, has made land ownership a highly emotive subject. White commercial farmers currently own and farm 86% of South African arable land, and government has published its intention to ensure that 30% of this land is transferred to Black and previously disadvantaged farmers by 2015.

As part of the process to achieve this objective, a Power of Attorney was granted to the KwaZulu-Natal Minister of Agriculture and Environmental Affairs (DAEA) to dispose of State land within the province. The disposals would form part of the Land Redistribution for Agricultural Development (LRAD) programme under the control of the Department of Land Affairs (DLA) and would be co-ordinated by the DAEA Agricultural Development and Support Services (ADSS).

Natal Trust Farms (Pty) Ltd (NTF), a parastatal company, administered a number of State-owned farms on the KwaZulu-Natal South Coast, and approximately 2000 hectares under sugarcane near Eshowe on the North Coast. The NTF operations near Eshowe were identified for immediate settlement by emergent farmers. NTF was given notice that all the land it was currently farming would be made available to previously disadvantaged individuals. It was decided that transfer of the Eshowe farms would become effective in April 2002 and that the farms on the South Coast would be transferred the following year in April 2003.

The process employed to achieve settlement by Black farmers on the NTF Eshowe farms is described, including the specific model used, the establishment of viable farming units and the identification of candidates for settlement. This review of the transformation and transfer of the NTF land to emergent farmers has served to emphasise the factors which will hinder the successful development of sustainable commercial production of sugarcane by previously disadvantaged Black cane growers.

The Tongaat-Hulett Sugar land redistribution model

Tongaat-Hulett Sugar Ltd (T-HS) was requested by the Department of Agriculture and Environmental Affairs (DAEA) to become involved in making the NTF Eshowe Farms available for redistribution to previously disadvantaged individuals.

The DAEA requested that T-HS involvement should consist of three distinct processes:

- Provision of a Contract Services operation during the transitional period, to ensure continuity of production from the farms for the 2002/2003 season, following the closure of NTF and prior to occupation by the new farmers. The Contract Services operation involved all the normal farming operations (planting, ratoon management, harvesting and transport) as well as bringing the individual farms into balanced cutting cycles.
- Appointment of T-HS as the Design Agent, in terms of the DLA Land Redistribution Programme, to provide recommendations with regard to sub-division of the land, recommendations with regard to farm prices, compilation and implementation of business plans for the individual farms, assistance with the selection of candidates, conversion of the land into transferable units, preparation of plans catering for the sharing of existing equipment among farms and mentoring and training of the new farmers after occupation.
- Appointment of T-HS as the Administration and Agreements Agent to provide individual farm maps, to arrange for farm valuations, manage the survey and subdivision of the land, preparation of sale agreements and allocation of utility services and housing to each farm.

The terms of reference of the invitation stipulated that the intention of the settlement plan was the creation of viable commercial farming units for the LRAD applicants. It was understood that T-HS would implement the principles of the T-HS Land Reform programme.

T-HS agreed to become involved in the NTF Eshowe project for two reasons:

- to preserve cane supplies for the Amatikulu sugar mill
- as part of the larger T-HS Land Reform programme, within which T-HS aimed to settle 100 farmers on land owned by the company.

The T-HS and Illovo Sugar Land Reform programmes were noted by Linscott (2002) as an increasingly important agri-business activity in KwaZulu-Natal. The non-governmental National Land Committee noted that the success of land reform was limited to one or two cases, and that the development of medium-scale freehold cane growers in the sugar industry was regarded as 'the only show in town' (Qoza, 2002).

Objectives of the T-HS model

The T-HS Land Reform programme has been in existence since the mid-1990s.

The programme has settled 100 farmers on company-owned land and has the following objectives (Boyce, 2002):

- The creation of a critical mass of black growers who will be in a position to contribute positively to the sugar industry.
- The redistribution of 30% of company land holdings as a contribution towards the government objective to transfer 30% of arable agricultural land to black farmers by 2015.
- The maintenance of long term sustainable commercial production of cane supplies for the company's sugar mills.
- The avoidance, if at all possible, of the situation experienced in Zimbabwe, where a lack of proactive Land Reform resulted in politically motivated destructive farming capacity.

Philosophy of the T-HS model

The underlying basic premise of the T-HS Land Reform programme is the creation of individual, viable, owner/operator businesses, where ownership, decision making and risk lie in the hands of one individual only. The concept of group schemes where the ownership of the business/land is held in a legal entity for the benefit of an entire community, is avoided. The dynamics of group schemes, with the associated difficulties involved in management and finances, are considered not to be appropriate if the intention is to create viable entrepreneurs who will enter the mainstream of the sugar industry.

Financing

The main problem in the implementation of Black Economic Empowerment projects is the availability of, and access to, investment capital (Theobald, S., 2002). The selection of candidates for the T-HS Land Reform programme stipulates a minimum own contribution of R120 000 per candidate. This criterion for own contribution results in many candidates having the necessary farming skills and experience, but failing to meet the own contribution, and then being excluded from the programme.

The sustainability of all farmers is improved by equalising cash flows across the farms. This is achieved by integration of the cane production revenue and costs for each farm and then adjusting farm areas under cane until profit across all farms is equalised. The basic premise of viability is that the T-HS model caters for R40 000 before tax 'operator' earnings (drawings) and R30 000 after tax 'owners' profit. This modest and average income for emergent farmers is designed to permit sustainable commercial production by medium-scale farmers.

Financing involves the candidate's own contribution as well as R200 000 from the LRAD programme. The involvement of a financier, in this case Ithala Development Finance

Corporation, from the inception of a Land Reform programme is also imperative. Financing of at least 80% of the purchase price is required and the risk that the financier is exposed to is significant. Experience gained from the T-HS Land Reform programme is that financiers are unwilling to lend in excess of 70% of the market value of the land. In the T-HS Medium Scale Farmer programme, the interest payments of the new farmers are subsidised over the first five years of the bond period. The total cost to T-HS of the interest subsidy is equivalent to about 10% of the capital value of the farm. The first five years are seen as crucial in terms of managing cash flow with a very high debt level.

The process of determining the number and locations of the individual farms is governed to a large extent by the physical features of the land. Natural breaks and roads are used as far as possible as farm boundaries. The location of zones and houses also plays a part in siting farm boundaries. The process of equalising risk and profit across all farms is an iterative process that must integrate the profitability of a particular farm with the characteristics of the farm.

The value of the land to be sold is determined by internal and external valuations. It is evident that, when the farm size becomes too small, the earnings after tax to the operator become too small and place pressure on the land price to reduce. When the farm size is increased, because the own contribution is a fixed value, normally R320 000 in the T-HS programme, the Debt to Equity ratio increases above the level required by financial institutions (Table 1).

Table 1. Financing requirements.

Farm size (ha under cane)	70	80	90	100	110
Model parameters					
Market value of land (R/ha uc)	16 300	16 300	16 300	16 300	16 300
Fixed Own Contribution	320 000	320 000	320 000	320 000	320 000
Drawings	40 000	40 000	40 000	40 000	40 000
Results					
Earnings after tax	6 000	22 700	39 000	55 600	72 000
Internal rate of return	11.8%	13.9%	15.0%	16.7%	17.7%
Debt to equity ratio	77:1	79:1	81:1	84:1	85:1
Required land price (R/ha uc)	12 800	15 000	16 300	16 300	16 300

Candidates

The identification of appropriate candidates is a major factor in any Land Reform programme that will dictate the success or failure of the programme. Age, education, farming experience, capital assets, health and non-farming skills are the criteria that emerge as most favourable in relation to successful land transfer performance (van Rooyen and Njobe-Mbuli, 1996). These authors stress that, “Land transfers without a clear conceptualisation of the target group and an appropriately designed support programme cannot be expected to be effective.”

The T-HS selection guidelines for candidates include the following:

- Must be from a previously disadvantaged group.
- Must be over 21 years of age, but not over 55.
- Must have sufficient agricultural experience and/or entrepreneurial experience.
- Minimum Standard 8 education level.
- Must have required own contribution available for deposit, currently R120 000.
- Must have a clean credit worthiness record.
- Must pass the relevant insurer’s medical examination.

Sources of data

Eshowe farm maps
The local service provider was used to re-map the Eshowe farms. The resulting orthophoto was used to identify natural breaks and roads that could be used as farm boundaries. Fire insurance regulations stipulated that boundaries between farms must be at least 10 metres wide. Natural breaks in bush cover were used to minimise the loss of crops to be removed along farm boundaries.

Ultimately, the mapping service provider would provide each individual farmer with a map of his/her farm. The mapping process would also confirm the size of the farms and the areas under cane to be sold to each individual.

Production yield data
Historical cane and sucrose yield data for each field was obtained from NTF records. Complete dispositions of the Eshowe farms were also obtained from NTF to ascertain cane varieties and age of crops.

To fulfil the obligations of the Contract Services agreement, T-HS employed the majority of the retrenched NTF staff. Included in this complement were three managers with over 25 years of combined experience on the NTF Eshowe farms. This experience proved invaluable for identifying factors specific to each field that would impact on the yield and the risk profile of each farm. Issues such as cattle grazing, arson fires and the impacts of droughts, floods and yields were all considered in the process of identifying the individual farms.

For budgeting and business plan purposes, a long-term average yield was required for each farm. Normative yields were also established for each field and thus each farm. The normative yield for each farm was based on the average of two droughted crops and eight normal crops, extracted from the long-term yields.

Production cost data
Cost data were obtained in the form of income statements and cash flow projections from NTF (Pty) Ltd for the NTF Eshowe farms. Cost data from T-HS miller-cum-planter operations at various mills were also available. This information was used extensively to budget for the Contract Services operations during 2002. The experience gained by T-HS in farming the NTF Eshowe farms was invaluable for the formulation of budgets for the individual farms, which was part of the business plan requirements for the Design Agent function.

Methodology

Financing
Experience gained from the T-HS Medium Scale Farmer Programme, and confirmed during the interviews for candidates for the NTF Eshowe farms, is that candidates have very little capital available to contribute towards the purchase of the farms.

Unfortunately, due to time pressure and the unwillingness of government to stipulate who the financier of the NTF Eshowe project should be, no financier was available at the beginning of the NTF Eshowe project. Both Ithala and the Land Bank were reluctant to participate, due to the high risk rate. Commercial financiers were concerned about political risks associated with financing State land. Although T-HS obtained confirmation from the Land Claims Commission that there were no valid land claims on the NTF Eshowe farms, financiers also

perceived the issue of land claims as an unacceptable risk.

The LRAD programme was expected to contribute at least R100 000 per farm. It was also expected that the financier would access the Land Reform Credit Facility loan of at least R100 000 per farm. The initial expectation was that each candidate would be in a position to contribute R100 000 to the purchase of the farm. In the case of the NTF Eshowe farms, the interest subsidy was not available. Government, however, was willing to entertain a reduction in the purchase price to ensure the success of the new farmers. A purchase price for each farm was derived, within the parameters of the model and within the constraints of the finance available, to produce an affordable productive value. The purchase prices derived were considerably below the market values for land in the area.

Political and social considerations

The aim of the DAEA (ADSS) is to redistribute State-owned land to previously disadvantaged individuals through the LRAD programme. The LRAD programme caters for the creation of not only commercial agricultural activities but also equity schemes, food safety-net projects aimed at household food security, and agriculture in communal areas (Anon, undated). The intention where commercial farms are redistributed is to retain their commercial viability. The previous Minister for Agriculture and Environmental Affairs in KwaZulu-Natal publicly stated, "Agricultural land will not be used for habitation, formal or informal." (Singh, 2002). However, the pressure that exists within government and within the communities surrounding the State-owned land is to resettle as many people as possible, in direct conflict with the intention of creating viable commercial farms.

Three tribal communities were located around the NTF Eshowe farms. DAEA (ADSS) interacted extensively with the Amakhosis to establish who would be acceptable candidates to purchase the farms. It was agreed that candidates from all three tribal areas would be selected in proportion to the sizes of these communities and their historical influences.

Candidates

The DAEA placed advertisements in local newspapers calling for applicants from previously disadvantaged groups interested in purchasing the Eshowe farms. An interview panel comprising DAEA (ADSS) and local community representatives was established to conduct formal interviews with the applicants. The first task of the panel was to establish the selection criteria to be implemented and the existing T-HS selection guidelines for candidates were used extensively.

The T-HS stipulations regarding age and health were excluded from the panel's criteria, as these were considered discriminatory in terms of existing government policy. Gender was included in the selection criteria as government wished to see more females as beneficiaries of the Land Reform process. A further consideration taken into account by the panel was tribal affiliation, to accommodate local socio-political potentials for dispute and violence.

Centralised services

The existing fixed and moveable assets on the NTF Eshowe farms were to be made available for sale to the new farmers. The optimal allocation of this equipment among the farms was required, bearing in mind two issues: (i) not enough equipment was available to provide each farm with all requirements, and (ii) over-capitalisation of the farms should be avoided.

In the initial planning stage, a plan was drawn up for each farm indicating the total resource requirements, including identification of loading zones to be used, housing and buildings and power and water supplies. In some cases, where zone or water supply were not available on a farm, suitable sharing arrangements would have to be made with the neighbouring farm.

The second planning stage was a field operations plan for each farm, which was completed on the basis that each farm would make use of contractors for harvesting, haulage, herbicide spraying, planting and road maintenance.

The third planning stage, as a continuation of the second stage, was the grouping of farms into cell units and the identification of possible contractors to service the farms in each cell. The available equipment was then allocated to potential contractors. A total of nine potential contractors were identified and the available equipment was efficiently distributed between them. This process produced the optimum allocation and usage of available equipment. It was envisaged that external contractors, or the new farmers themselves, would tender for the contracts. Each cell would allocate to the harvesting contractor a tractor and fire tanker that would be available for cane burning and for uncontrolled fires. The farms in the cell, with the services of the contractor, would operate as a unified fire cell.

Results

Optimal number of farms

The process of equalising profit and risk across farms through manipulation of farm size, within the mandate of creating viable farmers, resulted in three alternative scenarios: a 9-farm model (Table 2), a 13-farm model (Table 3) and a 15-farm model (Table 4). In each case the Earnings Before Interest and Tax (EBIT) and Earnings After Interest and Tax (EAIT) were calculated.

The earnings per farmer in the 9-farm model were considered to be excessive, when compared with a standard 'owner's income' of R25 000 pa. The objective was to settle as many commercial farmers as possible.

Table 2. Nine-farm model – profitability (R'000) and yield data.

Parameter	Farm No.								
	1	2	3	4	5	6	7	8	9
Profitability									
Gross revenue	1 789	1 943	1 637	1 469	1 322	1 331	1 525	1 469	1 369
Expenditure	-1 407	-1 636	-1 423	-1 236	-997	-1 059	-1 233	-1 128	-1 070
EBIT	382	307	214	233	325	272	292	341	299
Bond and tax	-297	-223	-132	-151	-242	-191	-212	-259	-218
EAIT	85	84	82	82	83	81	80	82	81
Yield data									
Hectares cane	229	287	252	213	170	190	230	208	198
Tons cane	10 757	11 874	10 437	9 206	8 430	7 998	9 323	8 977	8 371
Yield tc/ha uc	46.89	41.4	41.4	43.2	49.5	42.03	40.5	43.2	42.3

Table 3. Thirteen-farm model – profitability (R'000) and yield data.

Parameter	Farm No.												
	1	2	3	4	5	6	7	8	9	10	11	12	13
Profitability													
Gross revenue	942	1 004	1 093	1 180	995	1 315	1 169	908	1 232	1 152	891	919	1 049
Expenditure	-776	-849	-959	-1 031	-850	-1 108	-971	-693	-1 063	-927	-701	-737	-884
EBIT	166	155	134	149	145	207	198	215	169	225	190	182	165
Bond and tax	-139	-127	-107	-117	-118	-171	-166	-179	-138	-187	-159	-152	-133
EAIT	27	28	27	32	27	36	32	36	31	38	31	30	32
Yield data													
Hectares cane	121	136	161	179	142	199	169	112	190	159	121	127	162
Tons cane	5 663	6 138	6 793	7 398	6 134	8 039	7 149	5 554	7 862	7 164	5 450	5 618	6 411
Yield tc/ha uc	46.8	45.13	42.19	41.33	43.2	40.4	42.3	49.59	41.38	45.1	45	44.2	39.6

Table 4. Fifteen-farm model – profitability (R'000) and yield data.

Parameter	Farm No.														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Profitability															
Gross revenue	942	1 118	1 129	1 244	1 376	1 140	887	998	707	725	764	669	637	885	830
Expenditure	-778	-948	-989	-1 100	-1 222	-980	-730	-843	-564	-584	-620	-528	-508	-574	-709
EBIT	164	170	140	144	154	160	157	155	143	141	144	141	129	311	121
Bond and tax	-139	-144	-115	-118	-129	-135	-132	-130	-118	-115	-119	-115	-104	-286	-96
EAIT	25	26	25	26	25	25	25	25	25	26	25	26	25	25	25
Yield data															
Hectares cane	121	154	170	192	221	169	125	146	90	95	103	84	82	98	128
Tons cane	5 663	6 948	7 017	7 936	8 549	7 149	5 607	6 102	4 149	4 356	4 746	4 092	3 828	4 154	5 073
Yield tc/ha uc	46.8	45	41.4	41.4	38.7	42.3	45	41.85	45.9	45.9	45.9	48.6	46.8	42.3	39.6

The sensitivity of EAIT to a decrease in yield of 2 tons cane per hectare was assessed for the 13 and 15-farm models. When yield declined by 2 tons cane per hectare, 10 farms in the 15-farm model resulted in the EAIT reducing by more than 80%, whereas only four farms reduced by 80% in the 13-farm model. To cater for the risk of reduction in yield, notwithstanding the fact that a normative yield had already been used in the models, the 13-farm model was considered the most acceptable. The State was also willing to entertain a capital sacrifice, and farm values were reduced for the 13-farm model. The required reduction in farm value for the 15-farm model was considered excessive. A practical issue supporting the adoption of the 13-farm model was the fact that only 13 houses were available for distribution among the farms.

The alternatives were presented to the Provincial Minister of Agriculture in August 2002. The 13-farm model was approved as appropriate for settlement of the NTF Eshowe farms (Table 5).

Table 5. Proposed alternative models for NTF Eshowe farms.

Parameter	9-Farm model	13-Farm model	15-Farm model
Average gross revenue (R)	1 539 479	1 065 831	923 557
Average expenditure (R)	1 243 148	888 971	792 299
Average EBIT (R)	296 331	176 860	144 592
Average EAIT (R)	82 195	29 804	25 349
Average farm price (R)	1 200 000	866 000	715 000
Average tons cane	9 486	6 567	5 693
Average cane area (ha)	219.77	152.15	131.86
Average tons cane/ha uc	43.16	43.16	43.16

Candidates

The applicants were shortlisted, based on the selection criteria, and each candidate on the shortlist was interviewed and scored using a pro-forma list of questions designed to cover all the selection criteria. The panel interviewed 57 candidates. The shortlist was then broken down in terms of tribal affiliation and then again ranked according to the scores awarded.

The DAEA interacted extensively with the neighbouring Amakhosis and, after taking into account the location of the individual farms in relation to the local tribal communities controlled by each of the Amakhosis, reached agreement on the allocation of the farms on tribal grounds. It was agreed that six farms would be allocated to candidates from the Inkosi Nzuza tribal area, five farms to candidates from the Inkosi Khoza tribal area and two farms to candidates from the Inkosi Mpongose tribal area.

The selected candidates were given a tour of the farms and asked to identify their preferred farm. The candidates with the highest interview score were allocated their preferred farm first.

Mentoring

T-HS employed the services of the previous estate Manager on NTF Eshowe farms to provide a one-year mentoring service to the new farmers. The aim of the mentor was to provide technical input and advice with regard to cane growing, and more importantly, to provide an orientation service by introducing the farmers to the various support services available in the industry. Access to these services would provide essential support for the sustainability of the new cane growers. The support services are extensive and include the South African Cane Growers' Association bookkeeping service and economic advisory service, the South African Sugar Association Experiment Station extension service as well as the Junior and Senior Certificate Courses in Sugarcane Agriculture which provide technical training for growing cane. There are also other role players such as input suppliers and mill and industry structures.

Costs of administration design agent functions

The administration functions requested and fulfilled by T-HS on the NTF Eshowe farm project would have included the following:

- Mapping
- Farm valuations
- Survey and subdivisions
- Legal costs for lease and purchase agreements
- General administration and secretarial services.

Due to economies of scale achieved on a large project such as NTF Eshowe, the total cost for administration functions would have been R462 000, or R35 538 per farm. Costs for the same functions on a smaller farm of 300 ha with three subdivisions could increase to nearly R73 000 per farm.

The Design Agent functions of selecting candidates, completing business plans and transforming the NTF Eshowe farms into 13 individual farms would have cost T-HS R625 575, or R48 121 per farm. This cost could increase to R60 000 per farm on a smaller project with three subdivisions.

The costs associated with implementing the NTF Eshowe farms project were significant and similar to costs experienced by T-HS in the implementation of the T-HS Medium Scale Farmer programme. While the costs of such a programme are significant on the one hand, the other alternative is to incur the opportunity cost of not implementing Land Reform in the sugar industry and South Africa.

Discussion

The issues encountered in ensuring successful settlement of the NTF Eshowe farms were very similar to those encountered with the T-HS Medium Scale Farmer Programme.

The key success factors included the following:

- The philosophy of the model to be implemented.
- Importance of the candidate selection process.
- Financing and availability of own contributions by candidates.
- Pre-planning of resource allocations for individual farms.
- Costs involved in developing plans, conveyancing and subdivisions.
- Mentoring, support and training services after occupation by lessees.

The model that is selected for any specific land reform project will ultimately determine the success or failure of that project and, in particular, the issue of group schemes/group ownership versus individual ownership. The experience and observations made by T-HS have resulted in support of the individual ownership model. This is supported by the beneficiaries of the T-HS Land Reform programme who, at the interview stage as well as after occupation of their farms, contended that they would not like to be part of a group ownership structure.

The leasing of farms is an alternative model that will allow the lessee a certain amount of time to build up the capital required for the purchase of the land. Unfortunately, in the majority of willing seller/willing buyer transactions, the seller wishes to access his/her capital from the sale as quickly as possible. Experience from the T-HS Land Reform programme has already produced periods of up to two years before transfer is achieved, primarily due to the process involved in achieving subdivision of the land and accessing LRAD funds.

In terms of candidates, everyone involved in Land Reform would like to see existing small-scale farmers on tribal land or employees from commercial farms benefiting from the land reform programme. Small Scale farmers, unfortunately, very rarely have the minimum levels of capital that is required to fulfil own contribution commitments. Employees from commercial farms have the necessary practical farming experience but often lack the business skills or entrepreneurial ability that is a hallmark of all successful commercial farming. They also often fail to meet own contribution requirements. The conflict between experience and capital in terms of selection will continue to be a major problem in any Land Reform programme.

Financing of candidates who have no capital and debt to equity levels of above 80% remains the main obstacle to viable commercial farms in the Land Reform process. In the case of State land, the government adopted a 'capital sacrifice' on the value of the land to ensure success. In the case of the T-HS sale of company land, the company is willing to incur an interest subsidy as well as all the planning, legal and subdivision costs. The transfer of commercial land to black farmers at the current market values will require innovative financing and substantial subsidies. Commercial lending institutions are increasingly constrained by risk criteria and corporate governance requirements that limit their level of lending.

The costs involved in ensuring the successful transfer of land are substantial. The availability of responsible and competent people to be tasked with 'driving' a particular Land Reform project is imperative.

Conclusions

Late in December 2002, T-HS was informed that the adjacent Amakhosis had lodged a land claim against the NTF Eshowe properties. The land then became the responsibility of the Land Claims Commission (LCC), which viewed the NTF farms as a Restitution case, whereby the actual land being claimed would be restored to the claimants. This course of action is usually employed when a claim is lodged against State land. T-HS had by this stage completed all the Design Agent functions but, due to the land claim, could not be appointed by DLA as the Design Agent, within the framework of the LRAD programme. The proposed services were then aborted when it became clear that the costs of the services were unsecured. The project was consequently deprived of the benefits of these services.

The LCC proceeded to partially implement the plans for the resettlement of the NTF Eshowe farms. The 13-farm model was retained and the selected candidates were granted five-year leases of their allocated farm. The candidates took occupation of their farms on 1 April 2003. The LCC is in the process of confirming the claimants and establishing the legal entities, which will take ownership of the farms. The subdivision of land and 13 farms between the Amakhosi may remain as agreed between the DAEA and the Amakhosi.

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