



## **Land Reform Policy Committee**

**Department of Land Affairs**

**Departement van Grondsake**

**Kgoro ya tsa Naga**

**Umntyango wezoMhlaba**

**FLEXIBLE APPLICATION OF THE BALANCE OF THE  
SETTLEMENT/LAND ACQUISITION GRANT TO ACCOMMODATE  
PURCHASE OF A BROADER RANGE OF AGRICULTURAL  
INPUTS.**

**(Submitted by Directorate: Redistribution Policy and  
Systems)**

**P.C.DOC.35/1998**

**1 BACKGROUND**

1.1 A past policy submission to the Policy Committee (held on 26 September 1996) on this matter provided a comprehensive detailing of the arguments for the use of a portion of the Settlement/Land Acquisition Grant for purchasing agricultural inputs. Agricultural inputs were enumerated to include : tractors and farm implements, livestock, irrigation construction and rehabilitation, electricity and water connections, seeds and chemicals. The policy document made the following recommendations :

1.1.1 It is recommended that the Policy Committee approve a more flexible application of the Settlement/Land Acquisition Grant whereby a portion of the Grant may be used to buy agricultural inputs on the following conditions :

- That such use of a portion of the Grant is based on the well-informed decisions of the beneficiaries who both acknowledge and accept the implications of their decision with regard to the supply by government of internal infrastructure;

When the previous policy position was developed, beneficiaries had limited access to other funds to finance internal infrastructure investment and therefore it was argued if beneficiaries had decided to purchase agricultural inputs they would have had to accept the trade-off of having less funds available for internal infrastructure investment.

- That a Project Business Plan clearly demonstrates the desirability and feasibility of such application of the grant, and the implications thereof;

The rationale behind this condition is obvious as its intention was to ensure that the balance of the Grant is used effectively and efficiently. The condition's applicability is still relevant and is consistent with the transfer of funds to legal entities requirements (the relationship between these procedures and this policy proposal is discussed later in the document).

- That use of a portion of the Grant for these purposes is tied to the acquisition of land by the bona fide beneficiaries of the land reform programme and, that the assets thus purchased are owned in the name/s of the beneficiaries of that particular land reform project;

Since the previous policy document was formulated when there were only a few redistribution projects it was necessary to state explicitly that the Settlement / Land Acquisition Grant could only be accessed by eligible land reform beneficiaries and that it had to be used for land purchase.

- That the cost of agricultural inputs be specified as separate cost items in the Department's allocation of the Settlement/Land Acquisition Grants to the beneficiaries;

The reasoning for the above recommendation is self-explanatory and remains valid. However, rather than itemising these as cost items allocated out of the Settlement / Land Acquisition Grant the items would be presented in the business plan or as otherwise directed in the transfer of funds to legal entities procedures.

- That the Grant funds only be disbursed for the purchase of agricultural inputs through the DLA Provincial office, upon receipt of signed purchase orders from the land reform beneficiaries.

This condition was made (1) to ensure accountability and (2) to expedite payments to suppliers. With regard to its applicability to the present policy position, the condition can be considered to be one of three options that are recommended (see recommendation 6.2.1) for the disbursement of the balance of the Settlement /Land Acquisition Grant.

*1.1.2 It is further recommended that the above-mentioned measures be adopted by the Department of Land Affairs only as a short-term policy for application until such time as appropriate support services to the beneficiaries of land reform become available through the Department of Agriculture.*

During the development of the previous policy position the role of the Department of Agriculture in the provision of financial products to land reform beneficiaries was being clarified. There was the possibility that the Department would continue to offer credit to farmers through the Agricultural Credit Board. This however is no longer the case and credit facilities from the Department of Agriculture to beneficiaries will not be forthcoming. Thus, it is debatable whether it can be stated that the policy can be considered a short term solution. In effect, this policy proposal can be seen as one of a range of policy developments (from DLA and other Departments and institutions) that aim to provide emerging farmers with access to production finance. The duration of access to the remainder of the Grant can be considered to be based on the length of time that the R15,000 is available as a Grant from the Department.

The condition is therefore not relevant to the present policy position.

*1.1.3 It is therefore also recommended that the Director General submit an urgent request to his colleague, the Director General of Agriculture, and to the Minister for Agriculture and Land Affairs, appealing that the Department of Agriculture design and implement an appropriate package of grants and loans that will be made available to those beneficiaries of land reform whose intended productive activity is farming.*

The motivation for this condition is clearly expressed in the paragraph. However, as has been argued under 1.1.2, no such financial products have been made available from the Department of Agriculture. However, what can be requested is that links between the Department of Land Affairs and other institutions that offer financial and credit facilities be strengthened so that beneficiaries can have access to additional support (financial or institutional) for production purposes.

1.1.4 Concern was raised by the Minister of Land Affairs about some of the recommendations of the last submission. In essence, it was decided by the Minister that a portion of the Settlement/Land Acquisition Grant should not be used to buy anything else other than implements and livestock. The other items that were enumerated were rejected as they did not constitute an investment in land.

## **1.2 Is there a need to revise the policy?**

1.2.1 Yes, it is argued that there is a real need to revise the policy as

documented below :

- Consultations with PDLAs reveal that although designations, where a portion of the Grant has been set aside for the purchase of moveable assets (as defined in the Grants and Services Document) have been submitted and approved, a clear policy position on whether other agricultural inputs that are not stipulated in the Grants and Services Document can be purchased with the balance of the Settlement/Land Acquisition Grant is required.
- In addition, the existence of policy and procedures to enable the transfer of the balance of the Settlement / Land Acquisition Grant to beneficiaries= legal entities means that there is now another framework under which inputs required for productive purposes can be purchased using the Grant funds. It can be safely assumed that beneficiaries will have a variety of demands on how to spend the balance held by the legal entities. It therefore brings to question whether the Grants and Services document as it currently stands will restrict the flexible application of the Grant for the purchase of a range of agricultural inputs. Presently, the transferred funds can only be used for purposes as specified in the Grants and Services document. To allow for the purchase of agricultural inputs will entail a revision of the Grant and Services document. The arguments for and against the Grant and Services document stipulations are discussed in point 1.2.2 and 1.2.3 below.

1.2.2 The Department's Grants and Services document, which defines how the Grant may be spent, allows for the purchase of Acapital items for the development of land acquired with the Grant. The criteria does not cover the purchase of non-capital items. There were a number of reasons why this decision was made at the time :

- Firstly, it was argued that the Settlement / Land Acquisition Grant was to be compatible with the Housing Subsidy whereby it was thought that a beneficiary may only receive one of or the other - not both. By acquiring the Grant through the Department of Land Affairs, (s)he would be afforded greater choice in how it was to be applied in the purchase of land and infrastructure, thus allowing a substantial investment of the Grant in land acquisition. There was a concern that its use for other purposes would effectively reduce amount available for land purchase.

- Secondly, it was argued that government should not make grants available for agricultural inputs as they are moveable assets that do not constitute an investment in property.

- Thirdly, it was emphasised that assistance in productive enterprise should be provided by those Departments of government which are responsible for supporting and promoting income-generating activities, namely the Department of Agriculture and the Department of Trade and Industry.

- Fourthly, it was believed that the Strauss Commission of Inquiry into the Provision of Rural Financial Services would stimulate the establishment of suitable mechanisms for the provision of credit and related services to the beneficiaries of land reform. In fact, the Land Bank=s new mandate makes provision for its services to be directed towards land reform beneficiaries as well as its existing client base.

1.2.3 While some of these arguments remain valid, there are, however, a number of reasons to review the policy in the current circumstances.

- Firstly, the beneficiaries of land reform may want to be allowed to make their own choices about how to spend the limited Grant available to them. It has been shown that some people prefer not to prioritise internal infrastructure now, but rather to invest in production so that they can afford to invest in infrastructure

development from their own resources at a later stage. The emergence of a variety of land redistribution projects means that there will be beneficiaries who require the balance of the Grant to purchase items for agricultural production purposes.

- Secondly, there are a growing number of circumstances where an inability by land reform beneficiaries to invest in agricultural inputs immediately upon land transfer will render them unsustainable ventures. This will have serious implications for the longer-term investment by government in land reform.
  
- Thirdly, the Department of Agriculture does not offer a package of appropriate support to the beneficiaries of land reform. Even if the Department of Agriculture should agree to provide a defined package of appropriate support to the beneficiaries of land reform, this will still take some time to be designed and implemented.
  
- Fourthly, although measures are under way at the Land Bank to provide credit facilities to land reform beneficiaries, only certain of the new products will be available from 1998. Others will be offered at a later stage. In addition, the new services will be implemented through a small group of pilot offices and will be transferred to other branches on a request basis in the future. Thus the products will not be immediately available to all beneficiaries.
  
- A fifth argument is that it does not make sense for the Settlement / Land Acquisition Grant to be used for certain kinds of agricultural inputs and not others as which agricultural inputs the Grant should be spent on should be determined by the specific project as long as it is land based and not a theoretical distinction.

### **1.3 How can agricultural inputs be classified?**



1.3.1 The need to categorise agricultural inputs centres around whether there should be a broad or narrow classification. Choosing between the two possible definitions will depend on whether land reform (which is focused on production as opposed to settlement and tenure security) is seen by the Department as being (a) mainly about assisting beneficiaries to enter into subsistence or commercial agricultural production or (b) facilitating beneficiaries= entrance not only to agriculture but to non-agricultural production as well. The emergence of a variety of land redistribution projects in effect compels the DLA to develop policy that has a more flexible approach towards what the balance of the Settlement/Land Acquisition Grant can be used to purchase. The most common argument has been that the balance of the Grant should be used to purchase any items required for agricultural and non-agricultural production. This argument is based on the view that many beneficiaries do not want to buy land for farming purposes only but are interested in other enterprises which also need start-up capital as in the balance of the Grant. However this raises the question of whether such a flexible policy will lead to the Department providing support to beneficiaries for activities in areas where other institutions are best placed to do so. It is proposed that the flexible application of the balance of the Settlement / Land Acquisition Grant within the context of this policy document will need to be based on an agricultural activity. While recognising the limitations of this, it does make it possible for the DLA not to over-extend its functional domain.

1.3.2 The revised policy document submitted to the 11 June 1998 Policy Committee defined agricultural inputs as Aitems (final or intermediate) that are needed in the agricultural production cycle of production oriented subsistence or commercial land reform ventures.

However, the consensus view at the Policy Committee was that this definition

is too broad and needed to be clearly itemised and categorised indicating the items that : (1) can be bought with the remainder of the Grant; and (2) cannot be purchased with the balance.

It would be useful before delving into the classification proposed below, to draw certain parallels between the use of the Settlement / Land Acquisition Grant for production versus securing basic on-site infrastructure in settlement type projects. The point is that the application of the balance of the Grant in agricultural projects should be flexibly treated in the same vein as when it is used to secure on-site basic infrastructure. When funds are transferred to a developer who uses the money to make payment for amongst other things, labour, transport, etc. these items are not necessarily directly linked to on-site basic infrastructure investment but the Department has approved their payment as they are required for its (infrastructure development) successful implementation. It can therefore be argued that the same rationale and flexibility is needed when the remainder of the Grant is used in agriculturally-based projects, i.e. a flexible approach will assist beneficiaries in starting their projects. In addition, the amended Act 126 when enacted will provide a legislative framework for a more flexible approach. Section 10; clause 10(1) b of the amended Act 126 will allow beneficiaries to use the funds to start agribased small businesses, as well as for acquiring land.

1.3.3 Given the discussion above a case can be made for the use of the Grant to pay for items categorised under the following headings : (1) equipment that increases productive value of the land; (2) permanent improvements to the land and; (3) agricultural inputs. The exact items under these three headings are detailed below :

••• **Equipment that increases the productive value of the land  
(including inter alia):**

- tractors;

- implements (for pruning; tillage; sowing; and harvesting);

- water pumps and irrigation equipment and materials;

- generators;

- livestock equipment;

- electricity and water connections;

- beehives.

- Permanent improvements to the land (including inter alia):

- terraces;

- internal roads;

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- fences;

- sheds (including pack sheds; storage sheds; milking sheds etc.);

- boreholes; irrigation channels and dams;

- labour costs related to the provision of the above items.

- **Agricultural inputs (including inter alia):**

- livestock (including, poultry; ostriches; cattle; goats; sheep; pigs; game; bees etc.);

- livestock feed;

- chemicals (including, fertilisers; pesticides; acaricides; herbicides);

- seeds;

- veterinary medicines and vaccines;

- compost and other forms of manure;

- fuel for items under the heading : Aequipment that increases the productive value of the land (not for taxis etc.);

- electricity and water accounts that are directly related to the agricultural

production cycle (electricity and water accounts related to the running costs of legal entities are not included here).

- Purchases or payments that are unacceptable (including inter alia):

- running costs of a legal entity;

- payment for advisory services (these payments in any case can be made from other Departmental funds);

- payment of security guards hired to protect land that has been transferred but not occupied.

1.3.4 Where beneficiaries want to make payment for other inputs (such as motor spares; sewing machines; etc.) that are part of a going concern, there would need to be a special motivation made to the Department requesting for discretionary approval to use the balance of the Grant in this manner. These are exceptional cases that will need to be dealt with on their own merit.

#### **1.4 Further arguments motivating for the DLA to make provision for the**

## **purchase of agricultural inputs by beneficiaries**

1.4.1 The central reason motivating this submission is that it makes little sense for DLA to provide for land acquisition for farming purposes if the beneficiaries cannot obtain access to the means of securing agricultural investment in their land. In other words, use of the balance of the Settlement/Grant to purchase agricultural inputs can be seen as a short-term or once-off catalytic measure aimed at providing a project with inputs necessary for the successful inception of the project or the continuation of a going concern. The purchase of the agricultural inputs will not in itself be an investment in property but utilisation of the inputs will contribute to the generation of income which can then be used by the beneficiaries to purchase their own agricultural inputs and/or finance internal infrastructure investment. Given the emergence of a variety of land redistribution projects there are and will continue to be redistribution projects that have a solely agricultural production focus. These projects will require the balance of the Grant not for the investment in top structures but rather for the purchase of inputs for agricultural production purposes.

1.4.2 As policy currently stands, the Grant can be used to purchase agricultural inputs such as implements and also livestock. However, this does not address the needs of the crop farmer whose input purchases will probably consist of implements, seeds, fertilisers and other chemicals. It is debatable whether the current policy position is equitable with regard to the different types of farmers. Therefore allowing for a more flexible application of the Settlement/Land Acquisition Grant would narrow this policy gap.

1.4.3 With regard to equity schemes, the R16,000 Grant can be invested in both the land holding company and the operating company (to pay for

electricity, rent, etc.). This raises the question why policy does not allow other redistribution projects to do the same.

1.4.4 It is often the case that input purchases are a negligible proportion of the total land purchase and would therefore not use a large portion of the grant yet their purchase is critical to the success and continuity of such a project. Therefore purchase of agricultural inputs would not divert funds from other necessary acquisitions.

1.4.5 Furthermore, in a number of land reform projects, there is a high probability of an unsustainable outcome to the land reform initiative if agricultural production initiative is not appropriately supported in the early phase of land ownership. In other words, if financial support is not provided at an early stage this will lead to a cash flow problem and increases the likelihood of projects failing.

## **2 SUMMARY OF RECOMMENDATIONS AND/OR OPTIONS FOR DECISION**

The following recommendations are submitted to the Policy Committee for approval:

2.1 It is recommended that the balance of the Settlement / Land Acquisition Grant be used to purchase the items categorised below :

### 2.1.1 Equipment that increases the productive value of the land (including inter alia):

- tractors;

- implements (for pruning; tillage; sowing; and harvesting);

- water pumps and irrigation equipment and materials;

- generators;

- livestock equipment;

- electricity and water connections;

- beehives.

### 2.1.2 Permanent improvements to the land (including inter alia):

- terraces;



- ... internal roads;

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- ... fences;

- ... sheds (including pack sheds; storage sheds; milking sheds etc.);

- ... boreholes irrigation channels and dams;

- ... labour costs related to the provision of the above items.

### 2.1.3 Agricultural inputs (including inter alia):

- ... livestock (including, poultry; ostriches; cattle; goats; sheep; pigs; game; bees etc.);

- ... livestock feed;

- ... chemicals (including, fertilisers; pesticides; acaricides; herbicides);

- ... seeds;

- ... veterinary medicines and vaccines;

- compost and other forms of manure;
  
- fuel for items under the heading : Aequipment that increases the productive value of the land (not for taxis etc.);
  
- electricity and water accounts that are directly related to the agricultural production cycle (electricity and water accounts related to legal entities are not included here).

#### 2.1.4 Purchases or payments that are unacceptable (including inter alia):

- running costs of a legal entity;
  
- payment for advisory services (these payments in any case can be made from other Departmental funds);
  
- payment of security guards hired to protect land that has been transferred but not occupied.

2.1.5 Where beneficiaries want to make payment for other inputs (such as motor spares; sewing machines; etc.) that are part of a going concern, a special motivation to the Department shall be made requesting for discretionary approval to use the balance of the Grant in this manner.

2.2 It is recommended that there should be options available for the disbursement of the Grant funds as this will allow Provincial Department of Land Affairs offices to choose procedures that are best suited to their and the projects= particular circumstances. These options are identified and recommended under 2.2.2; 2.2.3; and 2.2.4.

2.2.1 It is recommended that with any of the three mechanisms identified under points 2.2.2; 2.2.3; and 2.2.4 it should be stipulated clearly to the beneficiaries that the funds need to be used within a year of project approval by the Minister and that the business plan should clearly state the desirability and feasibility of such application of the balance on the project.

2.2.2 The funds should be disbursed through approved transfer of funds procedures to legal entities. The terms and conditions of the transfer of funds to legal entities are detailed in another submission to the policy committee and must include expenditure of the funds within one year of the signing of the agreement. The flexible application of the balance of the grant by legal entities should meet the criteria stipulated in that document.

2.2.3 The Grant funds are disbursed directly to suppliers through the DLA Provincial office, upon receipt of signed agricultural inputs purchase orders from the land reform beneficiaries as long as this occurs within one year of project approval by the Minister. Under this option each project should present a business plan which clearly demonstrates the desirability and feasibility of such application of the balance of the Grant. The business plan should specify :

••• the items the balance of the Grant will be used to purchase;

- the usefulness of the inputs to the project;
- an agricultural extension officer or expert should provide written verification of (1) the value of the inputs to the project and (2) that reasonable prices on the items have been given by the supplier.

2.2.4 It is recommended that in certain cases where beneficiaries wish to purchase land and where that land has an incidental but valuable non-agricultural enterprise(s), the Department may make available the balance of the Settlement/Land Acquisition Grant to purchase the agricultural inputs in the business based on the following criteria:

- the purchase of these inputs are part of the land purchase negotiations and price deal;
- that these inputs are itemised in the valuation report, and inventorised and identified on transfer;
- the business plan should specify the desirability and feasibility of the inputs to the project.

2.3 It is recommended that the Grant and Services document should be revised to include use of the balance of the Settlement / Land Acquisition Grant to pay for agricultural inputs as categorised in recommendation 2.1 as well as capital items and livestock.

2.4 In order to keep policy as focused as possible (within the more flexible approach), it is recommended that DLA ensures that links with other State Departments and financial institutions are strengthened.

### **3. PROCESS OF INTERNAL CONSULTATION TO DATE**

The Chief Director : Redistribution, Land Rights and Land Development has been consulted and given input. The Sub-directorate: Systems and Procedures has been consulted and given input. Musa Mdluli : Directorate : Monitoring and Evaluation undertook statistical research and analysis. Widespread PDLAs visits and consultations have occurred. The following PDLA offices were consulted : Gauteng office (17/04/98); Northern Cape office (4/05/98); Eastern Cape office (15/05/98); North West Province office (18-19/05/98); Western Cape office (22/05/98); Northern Province office (25/05/98); KwaZulu Natal office (26/05/98); and Mpumalanga office (2/06/98). Martin Adams : Consultant : Directorate : Tenure Reform was consulted and gave input.

### **4. PROCESS OF EXTERNAL CONSULTATION**

None.

### **5. INPUT FROM THE RESPONSIBLE POLICY DIRECTOR**

The Director: Redistribution Policy and Systems has been consulted and given input.

## **6. LEGAL IMPLICATIONS**

The section of the Grants and Services document which specifies what the Settlement/Land Acquisition funds can be used for will need to be revised.

## **7. ORGANISATIONAL AND PERSONNEL IMPLICATIONS**

There will be an additional administrative burden in the Provincial offices with regard to (1) facilitating the transfer of funds to legal entities and monitoring the use of the balance of the funds and (2) disbursing the payment of beneficiaries for agricultural inputs purchases, directly to suppliers.

## **8. FINANCIAL IMPLICATIONS**

No additional cost implications are foreseen. However, with regard to transfer of the funds to legal entities, the attorney will have to be remunerated, where applicable, from grant funds identified in the transfer of funds to legal entities document.

## 9 COMMUNICATION IMPLICATIONS

If approved, the policy will have to be communicated to Provincial offices and officers in the National office. The amended standard contract once approved will also have to be communicated to relevant people in the DLA.

## 10. NATURE OF DEPARTMENTAL DELEGATIONS ARISING

None.

## 11. NATURE OF FURTHER APPROVALS REQUIRED BEFORE IMPLEMENTATION CAN PROCEED

Signed Ministerial approval for adjusted policy is required.

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**LAND REFORM POLICY 34/1998: FLEXIBLE APPLICATION OF THE BALANCE OF THE SETTLEMENT/LAND ACQUISITION GRANT TO ACCOMMODATE PURCHASE OF A BROADER RANGE OF AGRICULTURAL INPUTS.**

**APPROVED BY MINISTER ON 10 SEPTEMBER 1998**

