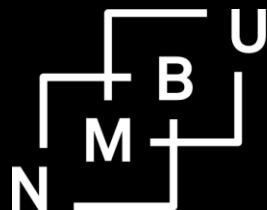


How Pro-poor are Land Rental Markets in Ethiopia?

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Executive summary

Land rental markets can potentially improve the access to land for land-poor households that possess complementary resources that can enable them to utilize land efficiently. Land rental markets can also enable landowners who are poor in non-land resources to rent out their land such that their land is utilized more efficiently and they themselves can get a better income and improved welfare from their land resource. This report assesses the land rental market that is dominated by a reverse tenancy system with relatively poorer landlords and less poor tenants. This market has largely developed informally in Ethiopia but has also been shaped by the changing land policies. We assess how pro-poor it is and whether interventions potentially can make it even more pro-poor and welfare enhancing or whether a “hands off” policy is preferable. If we can detect a significant market failure, there is room for intervention. However, there are also a number of current interventions in the market. We assess whether these achieve the intended outcomes or rather should be lifted or modified.

Population growth, economic growth, and structural transformation in agriculture may change the role of land from being the most important safety net and livelihood opportunity to become an important resource for agricultural transformation and development. The non-farm sector in Ethiopia has grown rapidly in recent years and provides new employment opportunities and this reduces the pressure on land as the only and main source of livelihood.

Our study of land rental markets in Ethiopia covers communities in Tigray, Oromia and SNNP regions focuses particularly on the period 2006 to 2012, but draws on data and research that goes back to 1998 in Tigray and utilizes information from landlords and tenants and other rural households with male and female representatives, local Land Administrative Committee (LAC) members and local conflict mediators with long experience in handling local land disputes.

In this report, we review the relevant literature and fill important gaps in this literature. These gaps include a) the stated reasons of landlords and tenants for partner choice and contract choice in the land rental market and their attitudes and preferences regarding regulation and formalization of land rental contracts; b) we investigate land access of youth in the land rental market; c) we assesses how joint certification of husbands and wives has affected participation in the land rental market; and d) how increasing population pressure and land scarcity affects land access and the land rental market over time.

The main findings are the following. The **reverse tenancy** pattern with poor landlords and wealthier tenants dominates in all three regions covered in the study. There is **rationing on the tenant side in the land rental market** due to the **dominance of sharecropping** and the lack of or limited functioning of a market clearing price mechanism. This **rationing is strongest in the oxen-based system** where the capital requirement for tenants is larger as a pair of oxen is needed for land cultivation. Complementary skills, good reputation and trust are very important factors determining access to land for tenants. One implication of limited trust is that many prefer to rent out their land to relatives that they trust more. The immobility of land and therefore **the spatial nature of the market limits the spatial integration and competition in the market**. The rationing also limits the extent to which the land rental market can be an important step in the ladder out of poverty. There may, however, be ways of reducing the information and transaction

costs and enhance the performance of the market.

Access to land for youth (young farmers with interest in farming) is constrained to their access from parents and relatives who may trust them more and who may give priority to their kin. However, it may also depend on the **ability of such young (potential) farmers to mobilize the necessary complementary inputs, especially oxen for land preparation, labor, skills and purchased inputs** that make them as productive as older tenants that they have to compete with in the market.

Restrictions have been imposed on the land rental market in form of **confiscation of land without compensation from those who have rented out their land for two years and migrated elsewhere**. This may, on the one hand have reduced such migration and the availability of land to households more interested in farming, or on the other hand, made such confiscated land available to young households through redistribution of this confiscated land.

The other restriction that households should be **allowed to rent out only 50% of their land** has **not been enforced** but such a restriction if imposed will make poor (often female-headed) households more tenure insecure. It would also further restrict land access in the land rental market and result in less efficient land use on such land because such landlords would have problems farming this land efficiency themselves. **This restriction has limited local support** and this may be one reason it has not been enforced and the way to circumvent it has been to assume that the restriction applies only to fixed rent contracts and not to sharecropping contracts.

The **law restrictions on duration of contracts that vary across regions are also not strictly enforced** and there is a **strong preference particularly among tenants for longer-term contracts**. This is particularly **understandable also given the law restriction that the tenants are responsible for the conservation of rented plots**. Such conservation investments are only profitable if land can be used for a number of years. Longer-term contracts may therefore enhance sustainable land management and land productivity.

There is a tendency towards **stronger preference for fixed-rent contracts in Oromia** but otherwise the strong preference for sharecropping contracts continues to dominate in Tigray and SNNP and is related to the risk-sharing advantage of such contracts.

Trust-based land rental contracts have typically been oral contracts among the contract partners only and this has been the dominant contract type. The recent law **restriction that all land rental contracts should be written and reported to the community has not been enforces** and also has limited public support. In Tigray we see an increase in the demand for such written and reported contracts but the majority still prefer oral contracts without or with witnesses. In Oromia and SNNP about one third prefer written and reported contracts and the support for such contracts has gone down from 2007 to 2012. There is therefore **limited motivation for reporting such contracts** to the local land administrations especially if the contract is a sharecropping contract with trusted persons. **The implication may be to have a system for voluntary reporting of contracts and/or the formalization of rental contracts must offer some benefits that provide sufficient incentives for contract partners to be willing to report the contracts. A more competitive market involving less well-known**

partners and longer-duration contracts is where formalization may have a potential and facilitate commercialization in agriculture.

While it has been found that land certification in Tigray has stimulated the extent of land renting, we found evidence pointing in opposite direction in Oromia and SNNP. One reason for this could be the joint certification of husbands and wives and women's empowerment and the **requirement that land renting requires the consent of the family before land can be rented out.** It is possible that wives give higher priority to food security of the family and therefore are less willing to rent out land than their husbands. We also found that **children in female-headed landlord households had better nutrition standards than children in autarky households** and this **may imply that the land rental market helps them to improve the food provision for their children.** **Having a land certificate was also positively associated with the weight-for-height z-score for landlords' children in our sample from Oromia and SNNP and this is consistent with the findings in Tigray.** There are also indications that the nutrition status of female children in particular has improved after the joint land certification was introduced in this sample. It is **possible that the empowerment of wives through joint land certification has contributed to land renting playing a stronger role in improving household food security.**

Rural population growth has contributed to shrinking farm sizes and land fragmentation with the smallest farms being unable to provide a secure and sustainable livelihood for rural households. Household food security is therefore threatened and chronic poverty a consequence unless the population pressure can be reduced through migration and provision of alternative non-farm sources of income or more productive technologies such as irrigation. We are likely to see an accelerated outmigration from the most densely populated areas as a larger share of the households pass a threshold level of land available per capita. Creation of employment opportunities for the rapidly increasing number of migrated youth is one of the biggest future challenges.