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Land Valuation and Perceptions of Land Sales Prohibition in Ethiopia

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Abstract¹

This study investigates attitudes towards legalizing land sales and Willingness to Accept (WTA) sales and compensation prices for land among smallholder households in four different areas in the Oromia and SNNP Regions in the southern highlands of Ethiopia. Household panel data from 2007 and 2012 are used. The large majority of farmers in the sample prefer land sales to remain illegal, and the resistance to legalizing land sales increased from 2007 to 2012. In the same period, perceived land values increased sharply but also exhibit substantial local variation. Land loss aversion is associated with higher land values and less willingness to sell land if land sales were to become legal. The substantial increase in perceived land values, high economic growth and outmigration of youth have yet to persuade the rural population in southern Ethiopia to be open for the land sales market.

Key words: land sale, land values, compensation values, household perceptions, Southern Ethiopia.

JEL codes: P26; Q15; Q24.

Introduction

With the sharp increase in demand for land, following the global food, energy and financial crisis that developed in 2007-2008, land sales markets in Africa rapidly captured global attention. Should Africa make its abundant land resources available for international investors or should African countries continue to restrict such access and reserve the land for the local poor to grow their own food? There is a fear that large land deals are a threat to the food security of the poor and vulnerable, while such deals may also be an opportunity for Africa to develop its agricultural sector and produce food and energy crops for export. Ethiopia is one of the countries that have received attention as sources of land for international investors, while land access is increasingly difficult for rural households in the densely populated highlands of Ethiopia, where land sales are strictly prohibited and smallholders

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Resource Allocation: Towards Empowerment or Marginalization?”

only are allowed to rent out part of their land for brief periods. What are the local smallholders' perceptions of land sales and how do they value their land? Land sales have been prohibited in Ethiopia since the radical land reform in 1975, and the restricted land use rights resemble those of agricultural households in China and Vietnam.

We examine factors associated with smallholder households' willingness to sell their land (if land sale is legalized), and for those willing to sell, the factors that influence their stated Willingness to Accept (WTA) prices in Ethiopia. The country has undertaken new land reforms since the late 1990s that include strengthening individual land rights and allowing land renting, while land sales and mortgaging land remain illegal. One might believe that the next natural step after strengthening individual land rights through land registration and certification would be to allow land sales given the continued population growth and declining farm sizes on one side and strong economic growth with new employment opportunities outside agriculture on the other. Allowing land sales could enable farmers to exit agriculture and use the capital from the sale of their farms to begin a new livelihood somewhere else. We use household panel data from 2007 and 2012 in Southern Ethiopia, where outmigration has expanded and most households had received land certificates by 2007.

Land issues are politically sensitive in Ethiopia and have been at the heart of political conflicts and reforms. The recent successful land registration and certification reform (Deininger et al. 2008; 2011; Holden et al. 2009; 2011), however, appears to have made land a less sensitive topic and subject to more open discussions. This is, to our knowledge, the first study that asks direct questions concerning attitudes towards land sales and willingness to accept prices if land sales were to be made legal

in Ethiopia. We anticipated that asking about land sales would trigger protest responses or reluctance to answer because land sales are illegal. We, therefore, also investigated the land valuation question from another perspective to determine whether this would generate fewer protest responses among the responding households. We asked households what they perceived as a minimum acceptable compensation payment in the event that their farms were to be expropriated for public purposes. Such expropriations are occurring and may be less controversial than asking for a selling price for land. By assessing the difference in responses to these two approaches, our aim is to obtain a better understanding of the resistance to land sales and how individuals actually value the land to which they have perpetual user rights. We assess these by: a) comparing mean WTA selling and compensation prices, b) assessing factors associated with willingness to state such prices, and c) comparing the distributions of land sales and compensation prices and how these have changed from 2007 to 2012.

Hypotheses and Findings

Our first hypothesis stated: "*Economic development with strengthened individual land rights makes individuals more interested in allowing land sales*". Our findings revealed that the resistance to legalizing land sales increased during the period from 2007 to 2012 after most households had received land certificates and the country experienced strong economic growth. Therefore, it appears that we must reject this hypothesis; at a minimum, additional time is necessary before such attitudes will change in Ethiopia. The country remains highly dependent on agriculture and land as a safety net, and the constitutional right to land appears to continue to play an important cultural role in the country.

Table 2. Share of respondents who think that land sales should be illegal, by gender, district and year

District		2007		2012	
		Wives	Husbands	Wives	Husbands
Sashemene	Share	.70	.61	.88	.90
	N	152	152	136	136
Arsi Negelle	Share	.86	.77	.93	.96
	N	153	153	143	143
Wondo Genet	Share	.75	.79	.83	.88
	N	114	114	141	141
Wollaita	Share	.78	.80	.95	.90
	N	205	205	205	205
Total	Share	.77	.74	.90	.91

Source: Own survey data.

The second hypothesis stated: “*Land loss aversion is strong and causes resistance to permitting land sales*”. Our study revealed strong resistance to allowing land sales. We employed a hypothetical experiment to get a measure of land loss aversion for households. This approach revealed substantial variations across communities, with the greatest land loss aversion detected in Wondo Genet (a cash-cropping area) and the lowest land loss aversion observed in Wollaita (a traditional subsistence area). These findings were somewhat surprising but could be related to the fact that Wollaita has surpassed a threshold level of land pressure followed by youth outmigration, as they no longer perceive a future in agriculture there (Bezu and Holden 2014a). This may also have affected their parents and the latter’s attitudes. We also observed indications that land loss aversion was associated with less willingness to sell land if land sales were legalized. We also found that land loss aversion was associated with higher minimum WTA sales values for land. Overall, we therefore cannot reject this hypothesis.

The third hypothesis stated: “*Land certification has contributed to increasing land values*”. The

land certificate variable was not significant in any of the models, but households where only the husband’s name appeared on the certificate valued their land more highly. This could also be a reverse causality effect: Husbands who valued their land to a greater extent, ensured that only their own names appeared on their land certificate. Therefore, this may not be evidence that land certification has led to increasing land values. The variable indicating the share of households in the community with a land certificate was significant (at the 5% level) and positive in one of the land sale models. The strong time trend in land values could also partly be an effect of strengthened individual land rights and land certification, but again, it is difficult to distinguish this from other factors. We conclude that we have some but weak supportive evidence in favor of the third hypothesis.

The fourth hypothesis stated: “*Men are more willing to allow land sales than women*”. The share of men opposed to legalizing land sales was as large as the share of women opposed to it in 2012. However, there was a significantly smaller share of female-headed households that would be willing to sell land if doing so were legal. Based

on these two results, we cannot reject the hypothesis.

The final hypothesis stated: “*Cash cropping is associated with greater interest in allowing land sales*”. Wondo Genet is a cash-cropping area. A larger share of the households there was willing to provide a compensation value for land, and a larger share was willing to sell their land if it were legal. Among the respondents in this area, 83% of the wives and 88% of the husbands preferred land sales to remain illegal in 2012, which is only slightly below the figures for the other areas. Wondo Genet also exhibited the highest average level of land loss aversion. We may conclude that there are slightly more households willing to sell land in this cash-cropping area, but there is still a large majority that fears the land sales market. The evidence in favor of the hypothesis is therefore weak.

Conclusion

While Ethiopia has undertaken land reform to strengthen individual land use rights, land sales remain illegal in the dominant smallholder agricultural sector. The country has attempted to commercialize agriculture by allowing long-term leases of land to commercial actors that have been allocated large tracts of land, in contrast to the maximum farm size of 2.5 hectares in the most recent rural land proclamations. Our study reveals, however, that the state is not the only party against land sales in the smallholder sector. The large majority of such households continue to prefer to maintain the status quo, although the constitutional right to own land to produce food sufficient for one’s own subsistence can no longer be satisfied in many parts of the densely populated highlands.

Ethiopia has a similar land tenure system to those in China and Vietnam and also recently achieved

promising economic growth, indicating that Ethiopia may be able to follow the economic development path of these Asian countries. However, Ethiopia remains far behind. Vietnam and China are also gradually allowing greater market activity in the land sector such as mortgaging of land and, in Vietnam, even land sales. The use of more long-term lease contracts is a natural step in this direction. The land rental restrictions in Ethiopia that only allow smallholders to rent out a maximum of 50% of their land are designed to avoid outmigration and the development of a class of absentee landlords. The egalitarian principles and emphasis on land as a safety net remain politically important. One example is the rule that only landless persons can inherit land. Another regulation implemented in certain regions stipulates that individuals with government jobs cannot own rural land. There is a risk, however, that these strict restrictions also exacerbate rural poverty traps. They may reduce migration in the short run but lead to greater destitute migration in the future. Longer-term leases could facilitate smallholder commercialization and provide landowners with the capital and enable more flexibility to migrate and begin a different business elsewhere.

Full paper link:

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