



## LAND TRANSACTIONS

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### KEY MESSAGES

Land rental markets in rural Ethiopia are evolving due to changes in land policies and increasing population pressures.

Factors which influence the agricultural land rental market and hinder efficient allocation and utilization of land resources are incomplete information, high transaction costs, and the lack of adequate legal frameworks pertaining to land use and rental agreements, tenure insecurity, limited access to credit, and the influence of Kinship and other social relationships.

Key land governance constraints on the land market include land policies not adequately addressing the realities on the ground, unclear and insecure land tenure rights, inefficient land administration systems, weak land use planning and management, and limited access to land for marginalized groups especially women.

A particular policy issue is the discrepancies between the legal framework governing the sale of rural houses and the actual practices. The central problem identified is the significant gap between the intended protections and rights stipulated in the law concerning the sale of rural houses and the actual experiences of rural dwellers. The Ethiopian legal system including the Constitution provides specific rights and regulations regarding the sale of rural houses, aiming to protect property rights and promote economic development.

Despite the existing laws, many rural inhabitants face significant challenges when trying to sell their houses and improvements they made on their land. These include bureaucratic hurdles, lack of awareness of legal rights, and social customs that often override formal legal provisions.



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This divergence creates barriers to property transactions, restricts economic mobility and other economic opportunities, and perpetuates rural poverty.

Informal land transactions are a common phenomenon in the peri-urban areas of cities such as Addis Ababa, Bahir Dar and Hawassa, driven by a complex interplay of actors, processes, and socioeconomic factors.

The drivers of informal land transactions are inadequate supply of land, inefficient land administration, affordability and accessibility, and socio-cultural norms rooted in traditional land tenure practices and social networks.

#### It is recommended to:



Put a sound land governance, management and administration system. This includes the adoption of a national property and land code with coherent legal system for land transactions, creating capable institutions including the private sector that can help carry out land transactions and their roles and responsibilities.



Establish affordable land and housing policies that are consistent with the cultures and capacities of the people and enhancing formal administration of these properties thereby narrowing down the chances of informal property use and ownership.



Recognize customary practices of land use and transaction on the one hand, and, establish a mechanism for a smooth and efficient continuum and transitioning of informal practices to the formal market system.

## BACKGROUND AND CONTEXT

The property market refers to economic systems where land can be bought, sold, and traded, resulting in the commodification of landed property.

This process transforms land from a communal or traditional resource into a marketable asset, leading to various implications for local communities, economies, and ecosystems. The main land contract options observed are sharecropping, fixed-rent, and own-cultivation.

A well-functioning landed property market can increase land productivity and agricultural output, promote more efficient use of land and other resources, facilitate the transfer of land to more productive farmers, and encourage investment in land improvements and long-term land management. However, land markets are so constrained in Ethiopia.

Ethiopia has had a history of restrictions on land rental markets, with periods of both liberalization and re-imposition of restrictions. During the Derg regime (1974-1991), land rental was heavily restricted, with only limited rental arrangements allowed. After the transition to the current government in 1991, some liberalization of the land rental market was introduced, but certain restrictions remained.

The legal restrictions on land rental markets can vary across different regions of Ethiopia, as land administration is decentralized. The restrictions are expected to be streamlined following the provisions of the new federal land administration and the proclamation.



Transfer of land by sale and other similar means is prohibited. There is an ongoing debate about the potential legalization of land sales and the liberalization of the land tenure system. Legalizing land sales needs to carefully balance the potential benefits of increased tenure security and market efficiency with the risks of land concentration and the exclusion of vulnerable groups. A nuanced understanding of the country's social, economic, and political dynamics is needed.

The legal restrictions on the land rental market in Northern Ethiopia have been motivated by various policy objectives, such as ensuring equitable access to land, preventing land concentration, and promoting food security. However, these restrictions have also had unintended consequences, such as disguised sale, limiting the efficient allocation of land resources and inhibiting investment in land improvement. Balancing the objectives of equity and efficiency in the land rental market is an ongoing challenge for policymakers Ethiopia.

Significant disparities in land access hinder the ability of many tenants to achieve economic security and improve their agricultural practices. Tenants face significant barriers in accessing land, including high rental prices, limited supply of available land, and discrimination based on social and economic factors; wealthier and more socially connected individuals are more likely to secure favorable rental agreements, creating disparities in land access among different socio-economic groups; and informal norms and local institutions play a crucial role in shaping rental agreements. Addressing these gaps helps to enhance agricultural sustainability and promote equitable rural development in Ethiopia.

## Methodology

Literature review was the main method of this study. The review was made systematically. The key words that can represent the study subject were identified.

The databases that are globally recognized were searched. All studies made on Ethiopian land administration were downloaded and summary tables for all relevant study reports were organized. Assessment report was prepared and was used as the base for developing draft policy briefs. The draft policy briefs were further refined and finalized considering feedback and comments gathered from stakeholders and the client.

## Findings

To begin with urban land, the determinants of land lease prices and factors influencing participation in the formal urban land lease market and residential house rents in Ethiopia are location, infrastructure access, physical characteristics such as plot size, speculation and land scarcity, type of intended use, and household characteristics like education, wealth, and access to information.

The key institutions involved in the real estate market in urban areas include the government (at various levels), private developers, community-based organizations, and international development agencies.

The challenges and issues that hinder real estate market include unclear or overlapping land tenure and property rights, informal land and housing markets, lack of transparency and accountability in land administration, displacement and inadequate resettlement of communities, unequal power dynamics between stakeholders, and capacity gaps within institutions.



A well-functioning land rental market can provide an important avenue for land-poor youth to access land and generate income. By renting land, youth can engage in agricultural production and other land-based economic activities without the need for land ownership.

Land certification has a positive impact on the likelihood of renting land, suggesting that the program has enhanced the ability of households, including youth, to participate in rental markets. But female-headed households are less likely to benefit from the land rental market, both as landlords and as tenants which can be attributed to various socio-economic and cultural factors that limit women's access to and control over land resources.

Many factors influence the formalization of rural land transactions in Ethiopia. These are perceptions about the benefits and drawbacks of formalizing land transactions, beliefs about the fairness and legitimacy of the formal land administration system, the influence of social and community expectations, the individual's belief in their ability to navigate the formal land registration process, the broader socio-economic, political, and institutional environment.

Participation in the land rental market has a positive and significant effect on smallholder commercialization. Renting additional land allows smallholders to increase crop production, productivity, and marketed surplus. Factors like access to credit, extension services, and infrastructure also facilitate smallholder commercialization.

Participation in the informal land rental market is influenced by factors such as household characteristics, resource endowments such as

landholding size and labor, access to credit, and institutional and socio-economic conditions. Inefficient contracts significantly hinder productivity and economic advancement for marginalized farmers, highlighting the need for structural changes in land tenure systems. Sometimes other factors like distress rentals, driven by shocks and constraints influence rental decisions.

A comprehensive and integrated approach to rural development was found to be important in Ethiopia to foster the land market, focusing on the complementary investments in agricultural water, education, and markets.

With respect to market, investments in strengthening rural-urban market linkages and access to input and output markets can help smallholder farmers and rural enterprises participate in more lucrative value chains. Potential interventions include improving transportation and infrastructure to reduce the cost of market access, facilitating the establishment of farmer cooperatives and aggregation centers, and promoting the development of value-addition and processing activities in rural areas. Improving access to quality information and education, particularly in rural areas, can enhance human capital and enable rural communities to engage in more productive and remunerative economic activities. By addressing these key drivers of rural poverty, policymakers and development practitioners can work towards breaking the poverty trap and fostering inclusive and sustainable economic growth in the country.

Farmer cooperatives or share companies have role in linking smallholder farmers to markets in Ethiopia. Cooperatives have been successful in providing various services to their members, such as input supply, storage, and collective marketing.



However, cooperatives also face challenges, including weak management and governance, limited access to finance, inadequate infrastructure and transportation, and lack of market information and bargaining power.

Farmers' livestock production decisions are directly related to land market and are influenced by a complex interplay of factors, including access to markets, weather risks, and household characteristics. Proximity to markets and the ability to access input and output markets play a crucial role in shaping livestock production decisions. Improved market access can encourage farmers to invest in livestock and adopt more intensive production practices.

Off-farm income has a positive and statistically significant effect on smallholder commercialization. Diversification of income sources through off-farm activities can help smallholder farmers overcome constraints and increase their level of commercialization.

Contract farming can be a more inclusive and responsible approach to agricultural investment compared to large-scale land acquisitions, with the potential to benefit smallholder farmers and promote sustainable development in rural Ethiopia.

With respect to pastoralists, territorialization, sedentarization and indigenous commodification processes interact in complex ways. As land becomes increasingly commodified, pastoralists face pressures to change their practices, negotiate new land rights, and adapt to an evolving market economy. This transformation is influenced by factors such as climate variability, government policies aiming at agricultural expansion, and external investments in land. These processes can lead to both opportunities and challenges for pastoral communities, as

shifting land use practices impact their livelihoods, land rights, and cultural identity.

Access to and use of water resources is a critical factor in agricultural productivity, but it may not be fully guaranteed or regulated within the land lease arrangement. Even though the land is leased, the water resources associated with that land (e.g., irrigation water, groundwater, surface water) may not be fully controlled or accessible by the tenant/lessee. The tension arises because the lessee may have the right to use the leased land but may face constraints or uncertainty in utilizing the water resources needed for productive and efficient agricultural activities on that land. This highlights the importance of considering not just the land tenure contract, but also the associated rights and access to complementary resources, such as water, when examining the factors that influence agricultural efficiency and productivity. Policymakers and stakeholders need to consider the land-water nexus when designing and implementing policies and programs related to land tenure and agricultural development.

Reciprocal grazing arrangements within the framework of customary land tenure practices are significant in managing shared grazing resources among pastoralist communities, ensuring sustainable livelihoods, and reducing potential conflicts over land usage. As such, customary tenure systems provide a vital foundation for effective resource management, facilitating equitable access to grazing lands. However, these arrangements face challenges from modern agricultural practices, government interventions, and environmental degradation. As a result, there is a pressing need to safeguard these customary systems to maintain their efficacy in resource management and community cohesion.



With respect to rural lands, land market restrictions are very common in Ethiopia. Some of the consequences of these restrictions are:-



The limited ability to freely transfer land rights can constrain the mobility of rural residents, as their access to land is tied to their place of residence. Farmers may be reluctant to migrate or move to other areas if it means losing their land use rights, which are essential for their agricultural livelihoods.



The restrictions on land rights transferability can reduce the incentives for rural residents, especially young people, to migrate to urban areas or other regions in search of better economic opportunities. The fear of losing their land rights and the associated agricultural activities can discourage rural-to-urban or inter-regional migration.



The limitations on land rights transferability can also affect inter-generational transmission of land, as the inheritance of land use rights is often complex and subject to government approval. This can contribute to the persistence of rural youth in their place of origin, as they may have limited options to acquire land use rights in other locations.



The reduced mobility due to land rights restrictions can hinder the process of structural transformation and urbanization in Ethiopia, as the movement of labor from rural to urban areas is often essential for economic development.



The limited ability of rural residents to relocate can also contribute to the concentration of poverty and limited access to economic opportunities in rural areas.

## Recommendations

### 5.1 Rural Land Market

To address the impact of land rights transferability on mobility, policymakers in Ethiopia may consider reforms to the land tenure system that allow for more flexible and transferable land use rights. This could help to facilitate the movement of labor and promote more inclusive economic development across the country.

Improving market infrastructure and access can motivate smallholder farmers to invest in livestock production and adopt more productive practices.

There is the need for addressing equity concerns and strengthening the governance of customary land tenure systems for ensuring that the benefits of land rental markets are more equitably distributed.

Indigenous practices of pastoralists such as reciprocal sharecropping should be respected while also recognizing the evolving market realities faced by them. This involves incorporating customary practices into formal policies, enhancing local conflict resolution mechanisms, and investing in education and resources.

Understanding the heterogeneity in land contract choices provide insights into how policies and programs aimed at improving land access and tenure security can be tailored to the diverse preferences and time horizons of farmers.

The complex interplay between tenure insecurity, gender, and land certification programs in shaping the participation of different groups, particularly land-poor youth and women, in the land rental market can inform the design and implementation of policies and interventions aimed at promoting more inclusive and equitable access to land-based economic opportunities.



The interplay between the threats of eviction and the role of kinship in the land market such as sharecropping arrangements highlights the importance of addressing land tenure insecurity and social dynamics in improving the efficiency and equity of land governance in Ethiopia. The ability to record and govern share cropping contracts must be vitalized.

Policies and interventions should focus on strengthening the functioning of the land rental market, such as improving contract enforcement, reducing transaction costs, and addressing land tenure security.

There are many constraints and challenges of the land rental market. Severe restrictions hamper the land market system including prohibition of land sale. These include regulations on the rental fees, restrictions on the selection of tenants, periodic land redistributions. There is the need for a comprehensive policy framework to address the challenges and restrictions in land rights transfer, including strengthening land rights, improving land governance, addressing gender-based inequalities and promoting the rights of women, youth, and marginalized groups in land ownership and use, fostering sustainable land use, strengthening land dispute resolution.

Further, it suggested the need for awareness creation, strengthening governance, community engagement, and monitoring mechanisms to evaluate the enforcement of property laws to ensure that they meet the needs of rural households effectively. Reforms should align legal provisions with rural realities, ensuring that laws are accessible and understandable to local communities, and existing misunderstandings about sale of immovable property on one's land holding (private property) must be avoided.

Complementary investments in rural infrastructure, agricultural extension, and financial services can further enhance the benefits of the land rental market for smallholder commercialization.

Policies and programs that promote off-farm income-generating opportunities for smallholder farmers and integrating them with on-farm production can enhance the efficiency and profitability of smallholder farming systems.

Improving access to education, skills training, and rural infrastructure can facilitate the diversification of income sources for smallholder households.

The potential of farmer cooperatives to connect smallholder producers to markets should be strengthened, while also identifying the key institutional and organizational challenges that need to be addressed to strengthen their effectiveness.

## 5.2 Urban Land Market

Understanding the factors that determine land lease and tenancy can inform the development of comprehensive housing policies and strategies to improve housing affordability and accessibility for the urban population. The possibility of sub leasing and renting from individual land holders need to be considered.

Improving access to information, strengthening land administration, and addressing barriers to participation in the formal land lease market can promote more inclusive and efficient urban development.

The analysis of the institutional interfaces and actors' behavior can provide valuable insights into the dynamics of the transitional real estate market in urban areas.



This understanding can inform the development of more effective land governance strategies and policies to address the challenges and promote sustainable urban development. There is a complex interplay between informal settlements, bogus land transaction documents, and the challenges of urban land governance in the Ethiopian context.

Integrating informal land users into the formal system and addressing equity concerns are important policy considerations. This requires a nuanced approach that recognizes the realities of urban and rural land tenure and works to bridge the gap between informal practices and formal legal frameworks.

## CONCLUSIONS AND WAY FORWARD

Emerging land rental markets hold potential for improving land utilization in rural Ethiopia. However, land access in Ethiopia is shaped by a complex interplay of formal and informal mechanisms, social identities, and power relations, rather than a straightforward land market. This tensions between de jure/formal and de facto/informal land rights hinder effective land governance in Ethiopia leading to insecurity and inequity in land access.

Land transactions involve informal contracts between individuals or households where they often lack clear documentation and are based on verbal agreements and customary understandings where the role of community leaders and institutions in facilitating and legitimizing these transactions is crucial.

There are various types of disputes that arise from land contracts, including conflicts over land boundaries, inheritance, and the validity of contracts. These disputes often end up in the formal court system, leading to lengthy and costly litigation processes. The land market is constrained by land policies which restrict land ownership and transfer and inefficient land administration systems.

The way forward is to enhance land governance capacity and citizen awareness and adopt a comprehensive and sound legislative framework that curtails these restrictions and challenges, consistent with the cultures and capacities of the people to limit the chances of informal property use and ownership.