

# Formalising land rental improves productivity and benefits vulnerable farmers

*Pioneering pilot schemes by Land Investment for Transformation (LIFT) show how formalising Ethiopia's land rental market increases the productive use of land, leading to increased incomes for poor landholders and tenants.*

Land is still the most important asset for the rural poor in Ethiopia, so unlocking its potential is essential for reducing poverty and increasing food security. The informality of the rural land rental system in Ethiopia, however, has often resulted in inefficient land allocation, distorted pricing and increased conflict, to the detriment of more vulnerable landholders.

## Adopting a market systems approach for a land tenure programme

The LIFT programme, funded by UK Aid, pioneers a unique, innovative strategy that applies the market systems approach to a land certification programme. LIFT's Economic Empowerment Unit (EEU) aims to accelerate and magnify the investment, productivity and income benefits of land certification for rural landholders in selected markets, including the land rental market.

The EEU designs innovations in market systems to address the underlying causes of market dysfunction and to bring about large-scale and lasting benefits for the rural poor. Based on in-depth market assessments of rural land markets across Ethiopia, LIFT identified key market constraints, including: low tenure security in informal rental agreements; a high risk of disputes, to the disadvantage of landholders, who are typically more vulnerable; and a lack of market information for both landholder and tenants on prices and available land. To address these constraints, two key innovations were designed and introduced to Ethiopia's rural land rental market:

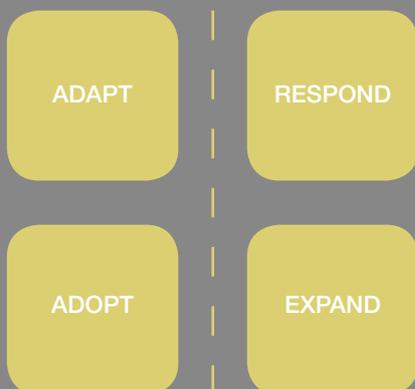
1. **The standard land rental contract (SLRC).** This is a formal land rental contract developed by LIFT in collaboration with the Government of Ethiopia, and officially rolled out across Amhara, Tigray, Oromia and the Southern Nations, Nationalities, and Peoples' Region (SNNPR). The SLRC replaces informal agreements and offers more secure and enforceable land rental agreements.
2. **Land rental service providers (LRSPs).** LRSPs raise awareness of the SLRC, reach out to more vulnerable households and facilitate rental transactions by providing market information on prices and available land as well as contract completion and registration. LRSPs provide services that support tenants in identifying available land and help more vulnerable tenants to agree fair rental contracts.

*"I become an LRSP because I saw that vulnerable groups such as the elderly were suffer standard contract format has built the confidence of vulnerable groups to rent out their lands and generate more income."*

**Theory of change:** These interventions will give farmers more security of tenure and better access to market information. This will foster a more dynamic rental market, with more land being made available for rental use under fairer conditions. Landholders will benefit through increased rental prices and secure agreements, while tenants will benefit through increased access to (more) land and greater security of their investment, which will incentivise them to invest further. These changes will increase the productivity of land in Ethiopia and generate increased incomes for both landholders and tenants.

The box below outlines the systemic changes expected to occur as a result of the EEU's rental market innovations, according to the Adopt-Adapt-Expand-Respond framework.

- **Adopt:** LRSPs provide land rental services to tenants and/or landholders. The SLRC is adopted by all LIFT regions.
- **Adapt:** LRSPs provide commercially sustainable land rental services to farmers. The SLRC is cascaded to all LIFT woredas (districts) and kebeles (wards), and is actively used to register all land rental contracts.
- **Expand:** LRSPs provide commercially sustainable land rental services in non-LIFT areas. The SLRC is used to register land rental contracts in non-LIFT areas.
- **Respond:** LRSPs develop a wider range of land services (besides rental). Regions develop processes and procedures for LRSPs to offer these additional services (e.g. inheritance, gift).



The deployment of LIFT's land rental interventions has been widespread. The SLRC was approved by four regional governments and deployed in three languages: Afan-Oromo, Amharic and Tigrinya. As of August 2019, LRSPs have facilitated 17,426 rental transactions, with an estimated reach of 30,321 rural households across 32 woredas in the Amhara, Oromia, SNNPR and Tigray regions.

## Findings, achievements and impact

### Evaluating the impact of land rental

**formalisation:** In order to assess the impacts of the EEU's land rental market interventions, LIFT undertook a before-and-after survey of 1,382 landholders who had accessed EEU innovations, across all four LIFT regions. A random sample of non-beneficiaries was included, to compare beneficiaries with the 'average landholder'. The survey asked detailed, parcel-level questions on increased investment, productivity and income in the seasons before and after the rental agreement was formalised. Parcel-level analysis then allowed an estimate to be made of the impact of rental formalisation for both landholder and tenants.

*"I finally have relief. Atalay, the LRSP, is supporting me in managing the rental contract. I can say that Atalay is serving me like a son."*

**Landholders are generally more vulnerable and resource-constrained, and need to supplement household income, while tenants are more productive and wish to expand production**

On average, landholders are significantly older than tenants, are more likely to be female-headed households, and are more likely to have vulnerable household members. They are also less likely to be able to meet basic needs and therefore rent out land to generate additional income for household consumption. Tenants, on the other hand, have more access to resources, and are looking to expand their production. It was found that tenants are on average 44% more productive than landholders.

Average tenant	Average landholder
<p style="text-align: center;">Age</p> <div style="text-align: center;">  </div> <p style="text-align: center;">40</p>	<p style="text-align: center;">Age</p> <div style="text-align: center;">  </div> <p style="text-align: center;">49      46</p>
<p style="text-align: center;">Cash: 0.32 ha Sharecrop: 0.13 ha</p>	<p style="text-align: center;">Cash: 0.31 ha Sharecrop: 0.23 ha</p>
Inability to meet basic needs	
<p style="text-align: center;">11%</p>	<div style="text-align: center;">  17%       42%         </div>
Motivation	
<p style="text-align: center;">Lack of land to expand production</p>	<p style="text-align: center;">Lack of money, labour and inputs; desire to supplement household income</p>
Vulnerability	
<p style="text-align: center;">13% of tenant households have vulnerable household members</p>	<p style="text-align: center;">38% of male-headed households 47% of female-headed households have vulnerable members</p>

**Introduction of the SLRC has increased security of tenure and crowded-in new rental contracts, expanding the rural rental market**

- 33% of male and 28% of female landholders, and 37% of tenants, were first-time participants in the rural land rental market.
- The amount of land put to more productive use has increased by approximately 2,400 ha, due to the transfer of land from less productive landholders to more productive farmers (tenants).
- Land rental disputes have fallen by 30%.
- The risk of land disputes through broken agreements such as sub-letting or late return of land has been reduced for 80% of market participants.

**LIFT’s LRSPs play a key role in formalising land rental transactions**

- 92% of farmers reported that LRSPs helped them understand the SLRC and its benefits.
- 86% of participants stated that LRSPs supported them in understanding the registration process and its benefits.
- 60% of farmers reported that LRSPs provided them with valuable information about prevailing rental market prices and conditions.
- As a result of the benefits experienced, 70% of landholders and 80% of tenants planned to continue using services from LRSPs in the future.

*“The standard land rental contract gives me full confidence regarding my legal land use rights.”*

### Landholders benefit from an increase in rental prices and a decrease in disputes as a result of LRSP facilitation

LRSPs aim to prevent exploitation of marginalised landholders by empowering them with the right information and security of tenure, allowing them to achieve fairer rental prices. Landholders who formalised an existing rental agreement with the same tenant were found to have experienced an 11% price increase. Landholders who formalised a new rental agreement with a new tenant experienced a much higher price increase of 68%. Further, 80% of landholders and tenants reported that the SLRC reduced the risk of disputes.

### Tenants make profitable investments in land, leading to more productive use of land overall

Tenants achieve increased incomes by successfully expanding production and investing in rented land, with an **average return on investment of 71 %**. **Tenants are 44% more productive than landholders**. On average, land cultivated by tenants (approximately 2,400 ha) shows a 36% increase in yield. This is an average attained by formalising existing rental agreements and formalising new rental agreements. If the land was not previously rented out and the tenant starts farming the land for the first time, the increase in productivity is estimated at 94%. This suggests that large productivity gains are possible from expanding the rural rental market through formal agreements.

**Synopsis:** Overall, the research finds that formalisation of the land rental market, with LRSPs playing an integral role, offers clear advantages over informal practices. Tenants both access more land and invest more in the land that they rent, leading overall to more productive use of land. Landholders are able to improve the terms of their rental agreements, increasing their incomes and reducing the risk of disputes. This increases the resilience of more vulnerable households, providing more funds to support the basic needs of their household members.

### Next steps to ensuring a sustainable land rental model: the LRSP payment pilot

LRSPs supported by LIFT started providing services in their communities for free. This initial way of operating was important for differentiating them from existing land brokers, and to demonstrate to the Government of Ethiopia the importance of the services being offered. After two years' worth of data, however, it became clear that there was a high attrition rate, as LRSPs lacked financial incentives to continue providing their services.

To better understand the incentive structure for LRSPs, and to identify constraints to the sustainability of the LRSP intervention, LIFT has conducted several assessments, consultative sessions and workshops. A main constraint identified were the costs incurred by LRSPs in facilitating land rental formalisation, including hiring daily labour, copying contracts, and paying for telecommunication and transport. To address this constraint, the EEU has designed a pilot scheme allowing LRSPs to collect appropriate fees from both landholders and tenants; this recoups costs incurred and sets incentives for further facilitation efforts. This payment scheme has been provisionally recognised by the woreda land administration and use office, allowing the LRSPs to be certified. Additionally, clear guidelines and protocols have been created to ensure sound oversight of LRSP activities by both the kebele- and woreda-level offices. In the final year of the programme, LIFT will roll out licensing of LRSPs to formally charge for their services. This will establish LRSPs as formally recognised business entities, allowing for the sustainable provision of land-related services.



#### About the Research Summary series

This series summarises key research by the UK Department for International Development-funded Land Investment for Transformation (LIFT) programme. LIFT aims to improve the incomes of the rural poor in Ethiopia by securing the land rights of households through Second Level Land Certification (SLLC); improving Rural Land Administration Systems (RLAS); and increasing productivity by leveraging SLLC through a 'making markets work for the poor' (M4P) approach, in Oromia, Amhara, the Southern Nations, Nationalities, and Peoples' Region (SNNPR) and Tigray regions.

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