



Preferences for land sales legalization and land values in Ethiopia



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ABSTRACT

This study investigates attitudes towards legalizing land sales and Willingness to Accept (WTA) sales prices and compensation prices for land among smallholder households in the southern highlands of Ethiopia. Household panel data from 2007 and 2012 are used. The large majority of the sample prefers land sales to remain illegal, and the resistance to legalizing land sales increased from 2007 to 2012. While resistance against land sales was strongest among the most land poor in 2007, the relatively more land rich had become more negative towards legalizing land sales in 2012. Younger age and more education were not associated with a more positive attitude towards legalizing land sales. In the same period, perceived median real land values increased sharply but also exhibit substantial local variation with higher land values in areas with better market access. Stated minimum land sales prices increased with farm size in 2012. 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 open the land sales market.

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1. 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 (Deininger and Byerlee, 2012; Cotula, 2009). 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 (Cotula, 2009). 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 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 the preferences for land sales legalization among male and female household members in a rural sample of households in the southern highlands of Ethiopia. We also assess whether smallholder households potentially were willing to sell their land if land sales were legalized and the factors that affect or are correlated with this willingness and their stated Willingness to Accept (WTA) selling prices. As a check for reliability of the stated WTA prices households were also asked about what they considered a fair minimum compensation price in case their land was expropriated for public purpose. Ethiopia has laws that regulate such compensations. While one may question the reliability of such hypothetical valuations, an argument in favor of its reliability is that households in this case are asked to assess a resource they know very well and is their main source of livelihood. A comparison of the distribution of the WTA selling and WTA compensation prices also give a basis for judging the reliability of the stated minimum WTA selling prices.

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

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data from 2007 and 2012 in Southern Ethiopia, where outmigration has expanded and most households had received land certificates by 2007 (Bezu and Holden, 2014a,b).

Ethiopia is a country in which land has represented the safety net and access to land has been a constitutional right for all since the radical land reform in 1975. Recent development has made it impossible to continue to provide this constitutional right, and land's function as a safety net is fast eroding due to rapid population growth and land fragmentation. Youth are increasingly landless, and non-farm employment opportunities are increasingly necessary (Bezu and Holden, 2014a). A high level of economic growth contributes to facilitating this transformation, and an important policy question concerns whether the prohibition of land sales is beneficial for development and the poor or ties them to the land and makes their transition more difficult. Possible reasons for continued prohibition include: (a) land is formally owned by the state; (b) there is a fear that permitting land sales will lead to distressed land sales and the migration of desperate individuals to the towns and cities where slums will develop and social problems will be exacerbated; and (c) the removal of the prohibition will lead to a return of a more in-egalitarian land distribution and the poor will suffer. While this is a large and complex question, we explore the changes in rural household attitudes and perceptions from 2007 to 2012 regarding the continuation of the prohibition of land sales.

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.

2. Conceptual framework and hypotheses

De Soto (2000) has argued that the formalization of land rights is essential to achieve economic development and is the basis for establishing land markets that are linked to financial markets that can make the "dead capital of the poor alive". The credit and land sales link is also one of the three pillars in the neoclassical theory of land rights for the promotion of investment, economic growth and development. However, the recent financial crisis has also demonstrated that the link between property rights and financial markets can also represent the Achilles' heel of the economy, creating larger fluctuations and less economic stability unless careful regulation of financial markets is ensured.

There are several reasons for resisting the legalization of land sales. A common fear has been that the land sales market leads

to a more skewed land distribution due to distress sales by the poor, who lose their land at times when they occupy a weak bargaining position and therefore obtain a poor price (Holden et al., 2008). This could be related to covariate shocks in agriculture or economic crises or recessions when indebted landowners may be forced to sell their properties. The land sales market is not a level playing field but is often subject to political control by the elite, and land sales may not transfer land to more efficient land users (Binswanger et al., 1995). In-egalitarian land distributions may also be associated with inefficiencies in rural economies and weak economic growth (Binswanger and Deininger, 1997). This also implies that land values are separated from agricultural land productivity where land sales markets are legal. This separation is obvious in areas experiencing urban expansion, where land values tend to increase sharply and are substantially above the agricultural value. However, land values are also often higher in rural areas because of policies that may favor the elite such as land investment representing a tax shelter or the provision of credit subsidies to large landowners. Expectations of a future increase in land values can also cause short-term land values to increase. All of these factors may imply that land sales do not necessarily lead to the transfer of land to more productive users, and small farmers may be rationed out of the land sales market despite that they may be more efficient than large landowners.

There are few good empirical studies of the effect of land sales on land distribution. Studies in Kenya and Uganda did not find that land sales resulted in more skewed land distributions in the 1990s (Holden et al., 2008).

Historically exploitative tenancy systems may be another reason for radical reforms and the prohibition of land sales in certain countries, such as in China, Vietnam and Ethiopia, where radical land reforms were implemented and created highly egalitarian land distributions intended to protect individuals from such exploitation (Holden et al., 2013). However, this radical approach prevented the users of the land from owning it themselves, and tenure insecurity emerged from land redistributions that were imposed to provide land to new households and maintain the egalitarian land distribution (Deininger and Jin, 2006; Holden and Yohannes, 2002).

High dependence on agricultural land for livelihood can be another reason for resistance to land sales. If the household perceives no or highly uncertain alternative livelihood options, risk aversion contributes to explaining such resistance. Economic development and the diversification of the economy should reduce the dependence on agriculture for livelihood and reduce resistance to land sales. Households and persons who perceive investment opportunities outside agriculture may also believe that the land could be a source of capital for such investments in new livelihood opportunities outside agriculture. Households that are more cash crop oriented may therefore also be more willing to accept land sales as they are better integrated into the market economy. It is also possible that husbands are more cash crop oriented than their wives who have more responsibility for providing and preparing the food for the family and this may result in a gender difference in attitudes towards allowing land sales and in stated willingness to sell land and in valuation of the land.

We use a Willingness-to-Accept (WTA) approach in this study and this may by itself imply that the land prices are on the high side as WTA prices typically are found to be higher than Willingness-to-Pay (WTP) prices for the same good (Horowitz and McConnell, 2003).

Repeated redistributions of land to ensure equitable access to land for all households and prohibiting the sale and mortgaging of land since 1975 contributed to individual households' land rights remaining weak and insecure (Rahmato, 1984; Holden and Yohannes, 2002; Deininger and Jin, 2006). The more recent land registration and certification reform with simultaneous provision

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