Briefing Paper

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Coping with land expropriation in rural Ethiopia

Summary

Land markets in Ethiopia function poorly, so land for large investments is often acquired through expropriation of small-scale farms. Recent iiG research evaluates the impact of expropriation on a group of small farmers whose land was taken to provide space for a large factory. Data collected before and after farmers lost their land and received a lump-sum compensation payment is used to examine how households cope with losing a major asset and the extent to which the lump-sum payment can be used to replace their lost income.

Photo: Anthony Harris

Key findings

- The average household lost 70% of their land and received USD 5,200, the equivalent of 5 times the value of annual consumption and 9 times the value of livestock assets;
- Households that lost land and receive compensation increase consumption, participated in more non-farm activities, increased their livestock holdings and started more businesses relative to households that do not lose land;
- However, the financial size of these effects is small, relative to what is left in low-yield bank accounts and consumed; 60% of compensation payments are left in bank accounts, which yield at most 5% nominal interest in a setting where prices are rising by 14% each year;
- These households appear to be constrained in their ability to effectively absorb large lump-sum payments.

Policy conclusions

Evidence after one year suggests that many households are struggling to use their payments to make the transition from farming to other livelihoods. Policies which include assistance with this transition as part of the expropriation process would ensure future financial stability for affected households.

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Policy context

Rural land in Ethiopia is owned by the federal government and can be expropriated when it is deemed in the national interest (a concept which is broadly interpreted to include providing for private investment). Small farmers have use rights, which entitles them to lease out land for short periods and bequeath land to their children. However, individuals are not permitted to sell land. Expropriation is therefore commonly used to transfer land from small-scale farmers to industrial uses. Ethiopian law entitles farmers to compensation if their land is expropriated and households are either compensated with replacement land or, when no land is available, a lump-sum payment based on the market value of what is produced on the land.

Project findings in more detail

300 households from one administrative region were interviewed in a baseline survey in September 2011 and again in October 2013. 164 of these households lost their land and received compensation 8 months before the second round of data collection. Households received payments based on a fixed formula, receiving USD 0.80, USD 1.70 and USD 0.28 per square metre of non-irrigated farmland, irrigated farmland and grazing land respectively. On average, farmers that lost their land received USD 5,200, with some farmers receiving as much as USD 15,000. Comparing the asset allocations and income generating activities households that lose their land with those that do not tells us a great deal about the impact of this policy.

Households losing their land increased their annual consumption by USD 230 more than households that did not lose land. However, coping with expropriation requires alternate sources of income. Of the 164 households that lost land, only 21 started a new business after receiving their compensation. Households that lost the most land (defined as losing more than the median quantity) were 22% more likely to run a household business or participate in local labour markets and worked 9 weeks more per year than households that lost nothing.

Most strikingly, the majority of compensation is kept in a savings account at a commercial bank into which the compensation payment was made. 65% of households had no savings prior to losing their land and yet 60% of compensation payments remain as savings, with households receiving higher payments saving the most. These accounts yield negative real returns because of high price inflation and low nominal interest.

Household's limited labour market response, the low number of new business starts and the high propensity to save in bank accounts that yield a negative real rate of return, suggests that households are constrained in their ability to effectively absorb lump-sum payments.

Ongoing research

Two lines of ongoing research are underway. First, further rounds of data collection are planned in order to estimate the long term trajectories of how compensation is used, the rate of depletion and the ability of households to generate new income-generating activities. Second, using the existing data, we plan to examine the characteristics of households that benefited most and suffered most as a result of the policy. Identifying the type of households that can effectively absorb large lump-sum payments could help the Ethiopian government tailor their compensation policies and improve the way compensation is delivered.

For more information

Harris, Anthony. (2015). 'Expropriation, compensation and transitions to new livelihoods: Evidence from an expropriation in Ethiopia", CSAE Working Paper Series 2015-04, available at http://www.csae.ox.ac.uk/workingpapers/pdfs/csae-wps-2015-04.pdf

Information about the Researcher

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