LAND INVESTMENT FOR TRANSFORMATION PROGRAMME

RESEARCH SUMMARY

JANUARY 2017

How can rural land administration systems pay for themselves in the long term?

A rural land administration system (RLAS) is essential for maintaining security of land tenure for smallholder farmers in Ethiopia: it allows landholders to register land rights and any changes to their holding after second level land certification (SLLC). Research carried out by the Land Investment for Transformation (LIFT) programme identified how an RLAS can generate the financial returns necessary for operating in the long term.

Background

Ethiopia aims to become a lower middle-income country by 2025, with higher incomes for the rural poor. To achieve this vision, smallholder farmers need security of land tenure: this gives them confidence to invest in their holdings and grow their farm businesses, and the ability to access farm- related finance and insurance services. Certifying landholdings – through SLLC – is an important first step but a more long-term system is required to ensure that land registers do not become out of date, inaccurate and effectively useless.

Rural land administration systems can provide the support necessary for making landholdings more legitimate and secure in the long term; but to do so, they need to become more self-supporting. To ensure the financial sustainability of every RLAS in Ethiopia, the LIFT programme looked at how the systems can generate revenue and cut costs. It analysed different strategies and assessed the feasibility of various fee levels. Based on these assessments, the research team put forward a series of short-term and longer-term recommendations.

Methodology

To inform its analysis, LIFT collected quantitative data on budgets, costs, capacity, processing times, service levels, fees, land transactions and tax revenues via questionnaires distributed in 24 woredas (districts) in four regions: Oromia Tigray, Amhara and the Southern Nations, Nationalities, and Peoples' Region (SNNPR). The programme also gathered qualitative data through interviews with national and regional government ministries, departments and agencies; financial consultants; and microfinance institutions. In addition, it discussed measures for raising revenues and cutting costs at three workshops with regional representatives and local land administration experts, and the Rural Land Administration and Use Directorate.

Key insights

- Attempts to improve service delivery in local kebeles (wards), by introducing a kebele land administration expert, will not be effective within woredas where the existing RLAS is outdated.
- Successful introduction of best practices in each RLAS will depend on improved ICT infrastructure and can be bolstered by cooperation between woredas.
- Sharing resources among regional and local government departments and agencies can reduce costs and should be further explored.

Research findings

Analysis of costs and fees for land administration transactions

Current fees

LIFT identified that revenues recovered from RLAS fees for registering land were very low: Oromia, SNNPR and Tigray did not levy a fee, while Amhara levied a fee of ETB 10–20. In addition, only 1% of landholdings certified under SLLC were registered with the region's RLAS. This is below the expected level of 3–5% and makes for a very low level of financial return for the RLAS.

Projected costs

Taking into account recurring costs such as staff salaries, fuel costs and telephone/internet bills, LIFT calculated future RLAS unit costs per landholding transaction as high as ETB 304. This is based on a transaction level of 2.7% of the total number of land parcels approved under SLLC – as estimated by land administration experts in the woredas.

However, the research team also calculated that the experts' estimates are quite low when future influences – increase in land value, demand and supply potential of micro-finance, and insurance and rental of land – are taken into account. The team identified a transactions level of 5% as a more likely future scenario; this would produce **a unit cost of ETB 167 per transaction** (see Figure 1).

Identified fee options

So, in order to cover its costs, each RLAS would have to charge ETB 167 per landholding transaction. However, a fee this high would be prohibitive for many farmers and would seriously undermine efforts to develop a sustainable rural land administration.

Based on discussions in Amhara – the only region which had so far implemented a fee for registering a landholding, or any subsequent changes to that holding, with its RLAS – LIFT identified that **ETB 40 is a viable charge per RLAS transaction**. However, the research team also recognised that this charge could only work if landholders were already aware of the benefits of registering with RLAS.

If 5% of landholdings certified under SLLC were registered to an RLAS, **a fee rate of ETB 40 would produce a cost coverage ratio of around 24%**. A further increase in the medium term to ETB 60 would increase the cost coverage ratio to 36%; however, further research is needed to find out whether or not such a cost is affordable for farmers.

Other strategies identified

The analysis carried out by LIFT shows that cost recovery based only on fees for land administration transactions is not realistic. The team therefore looked at three other options for achieving financial sustainability: 1) generating revenue from fees for land administration services; 2) reducing costs; and 3) sharing resources.

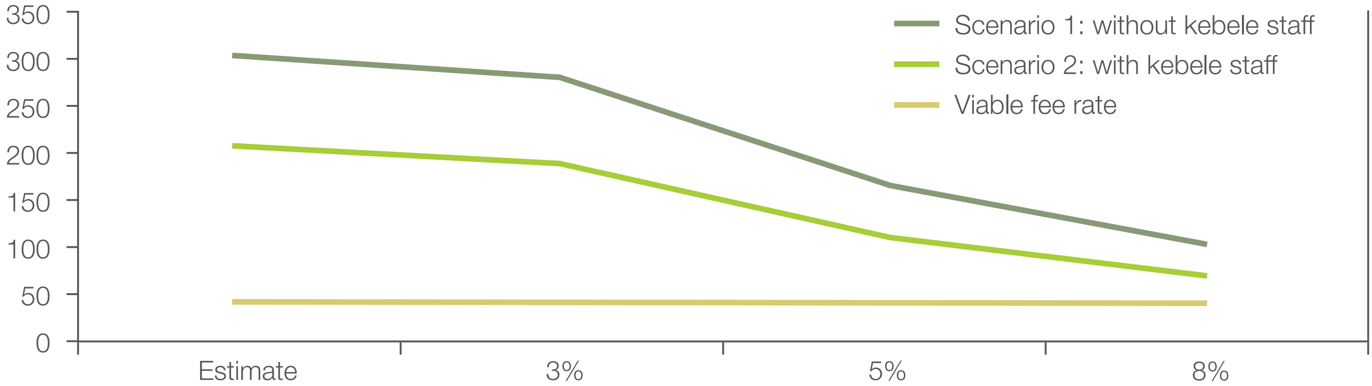

Figure 1. Unit costs at different transaction levels and recurring costs including and excluding kebele land administration experts.

Generating revenue from fees for land administration services

Rural land administration systems can do more than simply register landholdings: they can also offer wide access to land administration information for different purposes, both in the private and the public sector. Areas of policy and planning that could utilise such information include urban fringe development, agricultural development, taxation, wildlife conservation, land rental assessments and mineral exploitation.
Each RLAS can provide land information in the form of:

- **An online information service**. Assuming that landholders recognise the value of RLAS services, and that Ethiopia's objectives on economic growth and ICT usage are achieved, LIFT estimates that, at ETB 20 per inquiry, the cost coverage ratio for this service would be 36%. This level of fees and cost recovery could be reached five years after the introduction of RLAS information services, provided that users perceive them to be valuable and affordable. Potential users include insurers, microfinance institutions, building companies, agricultural suppliers and woreda offices.
- **Customised datasets**. This product is mainly for use by public bodies for purposes such as policy development, rural planning and taxation. An RLAS can aid the efficiency and effectiveness of these processes by providing the public sector with regular up-to-date compilations of administrative and spatial data. This could have the effect of increasing tax revenues, providing the added benefit of increased public finances available to potentially subsidise the RLAS in the future.

Reducing costs

The LIFT research team identified two strategies for reducing costs:

- **Optimising operations at the kebele level.** This requires the introduction of kebele land administration experts; this only makes sense when an up-to-date land administration system is in place at the woreda level, and when there is a strong political and financial commitment to maintain up-to-date records.
- **Introducing best practice at the woreda level**. This would depend on a national improvement in ICT infrastructure, as anticipated in Ethiopia's Growth and Transformation Plan II.

Sharing resources

Sharing resources reduces the recurring cost base of each RLAS. Sharing arrangements could involve urban land administration services or revenue authorities.

Recommendations

As identified above, in order to fully recover the recurring costs of the woreda and kebele land administration offices, a fee amounting to ETB 151 would need to be levied (assuming a transaction level of 5% of certified landholdings). However, a fee set this high would deter smallholders from registering their land at all. Full cost recovery based on fees for land administration transactions alone is therefore not achievable, and additional strategies for attaining financial sustainability are required.

With this in mind, each RLAS should adopt the strategies identified in the previous section alongside the introduction of affordable fees for land transactions (**ETB 40 per transaction** initially). More specifically, LIFT, together with the regional land administrations, and the Government of Ethiopia should collaborate to enact the following recommendations:

In the short term (within five years)

Increase levels of land administration transactions

- Assess and improve the effectiveness of the RLAS land register and how its functions are promoted to smallholder farmers.
- Develop and test new 'value propositions' that can help communicate to farmers the benefits of registering their land with an RLAS.
- Improve communications via kebele networks in order to reach local communities.

Introduce land transaction fees

- Formulate a fee structure, introduction plan and working guidelines.
- Develop a legal framework to govern the registration of land transactions, service levels and fees.
- Develop a policy framework on the allocation of revenues to land administration budgets.
- Implement any necessary changes in regulations and directives.
- Produce a communication strategy for introducing transaction fees.

Develop a business case for land information services

- Develop and test value propositions in relation to potential customer groups.
- Calculate costs: development and annual recurring.
- Calculate contribution margins and pay-back times.
- Carry out a risk assessment and identify mitigation measures.
- Develop a legal framework to govern intellectual property rights, pricing, privacy and licensing.

Acquire budget funding from woreda, regional and national government

- Establish an inter-regional task group.
- Develop a business case promoting each RLAS to parliament members and regional and local councillors; a five-year and yearly budget proposal; and an awareness-raising campaign.

In the long term (five to ten years and beyond)

- Develop online land information services, and a service introduction plan and support systems.
- Develop land administration datasets, and a service introduction plan and support systems.
- Identify changes to regulations and directives required for the development of land information services.
- Execute a communication campaign for land information services.
- Introduce fees for land information services.

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About the Research Summary series
This series summarises key research by the UK Department for International Development (DFID)-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.

This summary is based on the following report: Magis, M. 2017. *Strategies Towards the Financial Sustainability of RLAS.* Research was commissioned by LIFT but has been conducted by an independent consultant and does not necessarily reflect the views of LIFT or DFID.