

Distress Rentals and the Land Rental Market as a Safety Net:

Contract Choice Evidence from Tigray, Ethiopia
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Figure 1. Irrigation dam in the semi-arid Tigray region in Northern Ethiopia.

Summary

Rural households in the semi-arid Northern Ethiopian highlands are net buyers of food. Crop failure due to erratic and unpredictable rainfall occurs frequently and leads to food shortages and income shocks. The renting out of land may be one of the coping responses of households exposed to shocks. This study assessed the coping strategies of households in six locations in Tigray region where there have been investments in irrigation projects to enhance agricultural production and protect against rainfall risk. Our detailed farm plot data showed that 25% of the rain-fed plots and 31.5% of the irrigated plots were rented out. Only 2.8% of the rain-fed plots were rented out with fixed rent contracts whereas 7.6% of the irrigated plots were rented out with fixed rent contracts, demonstrating the dominance of sharecropping in this semi-arid environment. About 68% of the landlords, 16% of owner cultivators and only 3% of the tenant households are female-headed, meaning that it is primarily poor female-headed households that rent out their land.

Our analysis revealed that poor households experiencing random shocks are more likely to choose fixed rent contracts as a distress response to shocks, suggesting that fixed rent contracts may be used to meet immediate needs, but at the expense of future incomes. We also found that fixed rent contracts are preferred when ex ante production risk is low, while sharecropping is more likely where production risk is high. Rainfall variability, a clearly exogenous measure of risk in this semi-arid area, was highly significant and positively correlated with a preference for

sharecropping in our study, while fixed rent contracts were significantly more common on irrigated land where risk is lower.

The households had a number of coping strategies that they used in response to shocks such as droughts. These included selling of animals, participating in food-for-work (safety net) programs, selling of assets, selling of firewood, migration, reducing consumption and renting out land for cash. Our study revealed that the choice of a fixed rent contract as a coping response to shocks comes as a last resort after all other means of coping are exhausted.

Overall, in most cases sharecropping appears to be the best alternative contract form for poor female landlord households who lack the resources to farm the land efficiently themselves. Sharecropping contracts provide them with an important source of food and cause the land rental market to represent an important safety net. The recently introduced restriction that only 50% of the land should be rented out may thus represent a threat to the food security of poor female-headed households who typically rent out more than 50% of their land.



Figure 2. Fuelwood collection , one risk coping strategy in Tigray.