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**ESSP II Working Paper 15**

## **Implications of Land Policies for Rural-urban Linkages and Rural Transformation in Ethiopia**

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## **Introduction**

Rural-urban linkages (RUL) and rural-urban migration are key components in rural transformation – an important step toward industrial growth. Post-Keynesian development theory has recognized the central role of intersectoral linkage between agricultural and nonagricultural activities to bring about agricultural growth and agrarian transformation. Thus, there exists an economic, social and environmental interdependence between urban and rural areas. The solutions to the problems of subsistence agriculture, rural poverty and rural transformation do not lie in policies that promote self-sufficiency of rural communities.

In this discussion paper, we explore the policy environment related to rural-urban linkages and migration in Ethiopia, and analyze how the policies are impacting rural transformation. Section 2 describes conceptual issues and the theoretical framework that establishes the connection between RULs, rural-urban migration, and rural transformation. Section 3 outlines the policy landscape pertaining specifically to land and labor in Ethiopia, and analyzes the impact these policies have on migration behavior and rural transformation. Section 4 presents an analytic description of the macro development policy scene in Ethiopia, and critiques its role in fostering rural transformation. It also presents some key recommendations that address the shortcomings of current policies, and stimulate discussion of future policy reforms. Section 5 concludes the discussion.

## Conceptual Issues

Defining rural and urban areas is difficult as the two are increasingly blurring borders and previously differentiated functions. This problem has called for a systematic approach that enables a proper conceptualization of the rural-urban relationships. As a result, the United Nations Centre for Human Settlements and the European Union Committee of Spatial Development adopted the concept of RULs to emphasize the visible and invisible interdependence between the two (Davoudi and Stead 2002).

RULs refer to economic, social and political links that are manifested in different forms. In the following section, some of the major components of RUL are examined further (Sheng n.d.; Tacoli 2004).

**i) Flow of goods:** Rural areas are the major source of food for urban populations, labor for nonagricultural activities, and raw materials for manufacturing and processing industries, which are located largely in urban centers. In situations of rapid urbanization and industrialization, these dependencies imply that industrialization efforts are in fact agriculture constrained. Similarly, urban areas are the source of goods manufactured and imported to rural areas. These goods include industrial goods otherwise known as incentive goods. Urban centers offer markets for rural products and rural areas serve as markets for goods and services produced in urban areas, thereby establishing the flow linkage. Commercialization and diversification occur as sectoral linkages are established between resource areas and market centers in agriculture and manufacturing industries. Linkages occur in the production function relationship as the two spatial units interact in forward and backward production relationship – backward linkages occur when urban centers distribute inputs to agriculture, while forward linkages occur when the agricultural sector provides input to the manufacturing sector. The flow of goods from both directions implies the need for the rural and urban policy (agriculture and industry policy) that focuses on the intersectoral demand linkage.

**ii) Flow of capital:** The flow of capital includes remittances from migrants to relatives and communities, urban-based investments in rural areas, and credit from urban-based institutions to rural areas. The main problem in this linkage is that much of the capital generated from urban-based investment in rural areas concentrates in a few prosperous metropolitan areas nationally and internationally.

**iii) Flow of people:** Flow of people refers to movement of people between rural and urban areas, either commuting on a regular basis, or migrating temporarily or permanently. The flow or migration is largely one-sided, dominated by people migrating from rural to urban areas. This form of migration is a central characteristic of urbanization in developing countries. In developing countries, migration is one of the adaptive strategies that allow poor rural households to increase their incomes in order to cope with conditions of poverty.

**iv) Flow of information:** The information flows between rural and urban areas can involve information about resources or raw materials from rural to urban areas, about markets and prices for agricultural and rural commodities from urban to rural areas, and about employment opportunities for potential migrants.

From the discussion, two forms of RULs emerge: 1) migration of people, along with the resultant flow of information, ideas, employment, and money/remittance, and 2) economic interaction, which is the flow of goods and investment.

In this context, it is important to identify the forces that drive the rural-urban linkages discussed above, namely the mobility of people and economic interactions. An important facilitating factor for these linkages is nonfarm economic activity (Hazell et al. 2007). Some of the driving forces of RULs can be categorized as follows (Tacoli 2004):

- **Declining income** from farming due to lack of land and other inputs pushes people to engage in nonfarm activities, which are often located in urban centers;
- Successful and commercial farmers **need direct access** to markets and these markets are usually located in urban centers;
- **Better access** to markets can increase farming incomes and encourage shifts to nonfarm engagement and may also create markets in the rural areas for incentive goods;
- Population growth and distribution patterns affect the **availability of good agricultural land** and can contribute to rural residents moving out of farming; and
- **Urbanization** leads to changes in land use. For instance, the change of agricultural land into residential quarters and industrial zones leads to transformations in the livelihoods of the rural settlers. Their livelihood converts from agricultural to nonagricultural activities.

These driving forces are common in most situations and obvious in rural transformation. Understanding the various forms of linkage is, however, crucial for promoting economic interdependency between rural and urban areas, and the facilitating factors for rural transformation.

Rural-urban linkages are the stepping stones toward rural transformation, leading to industrial growth. As the discussion above indicates, RULs are facilitated by the growth in nonfarm activities.

Nonfarm income activities allow resources like labor and capital to transit functionally and spatially from agricultural to nonagricultural activities, facilitating RULs, which in turn lead to rural transformation. Enhanced farm productivity releases labor from farm households for nonfarm activities, increases per capita food production, creates markets for nonfarm products/services, and supplies capital for investment in nonfarm activities.

Rural transformation is a process by which smallholder farms and other rural activities shift from subsistence-oriented production systems toward rapid growth with enhanced productivity that transforms rural communities' income sources from primarily agricultural to nonagricultural occupations.

Successful agrarian transformation from agricultural to nonagricultural activities or from a rural-based economy to an urban-based economy requires that the share of agriculture in output and labor force/employment decline. Hazell et al. (2007) assert, "Widespread agreement exists that the share of agriculture will fall during this transformation and that transfers of capital and labor from agriculture will facilitate growth in the expanding industrial and service sectors of developing economies."

The evidence is compelling that as countries develop over time, the share of farm households' income that comes from nonfarm activities grows (see Table 2.1).

**Table 2.1: Trends in share of rural nonfarm income in total farm household income**

Country	Year and share				
	1978-80	1985	1990	1995	1997
China	17%	25%	26%	37%	39%
India	1968	1980	2000		
	26%	36%	46%		
Japan	1950	1960	1970	1981	1987
	22%	42%	63%	80%	84%
South Korea	1971	1981	1991		
	18%	33%	46%		
Thailand	1976	1986			
	35%	46%			

Source: Hazell et al. 2007, Table 4.1.

Investment in agriculture is not a sufficient condition for developing RULs. Investment in the urban/nonagricultural sector is also necessary. RULs depend on factors such as infrastructure, policies, and institutions. From a policy standpoint, removing structural and institutional constraints in the rural/farm economy requires massive investments in health, education, family planning, nutrition, rapid technical change appropriate to smallholder farm households, and irrigation; and dynamic land reform that establishes tenure security. The urban/nonagricultural economy should provide various inputs to the rural economy as well as a market for rural products. Physical infrastructure such as affordable transport services connecting rural producers with markets in urban centers contributes to increasing incomes of rural farm households.

Investment in urban centers (industrial investment) will certainly push the demand for food. In order to keep the overall development process on track, it is important that both rural and urban development happen concurrently. This implies that the expected RUL, rural transformation, and the overall development process will be constrained by agriculture.

The progression from RUL to rural transformation also depends on the mobility of people not just spatially, but across occupations. Developed and emerging economies that have eradicated and substantially reduced poverty have promoted opportunities for people's mobility through an effective RUL in the context of rural transformation. At the heart of such transformation towards what Lucas (2004) called "a society of sustained growth in opportunities" lies rural-urban migration. Hayami and Ruttan (1985, as quoted by Gabre-Madhin and Johnson 1999) argued that in a predominantly agrarian economy where subsistent smallholder farm households account for the overwhelming share of production, increasing the agricultural labor force always compromises the growth in agricultural output. Rural-urban migration can help reallocate labor from less productive sectors, usually agriculture, to vibrant sectors such as manufacturing industry.



Getnet (2009) argued that the process of structural transformation in agriculture-dominated economies implies that the rate at which nonagricultural employment grows must exceed the rate of growth of agricultural/total labor force. Getnet (2009) continued to argue that the growth of total labor force, which in this case is mostly agricultural labor force, should be regarded as a policy instrument in the sense that structural transformation should be accompanied by concerted efforts in focused education, effective family planning, and job creation in urban centers. Thus, the key point is promoting employment opportunities in urban centers that encourage rural-urban migration, as this has a significant impact in reducing the rate at which the population and the agricultural/total labor force ratio grows. Migration decision is “determined by rural-urban income differentials, net of cost of migration, and probability of finding jobs at destinations” (Harris and Todaro 1970, as quoted by Seid 2009), implying that structural issues and policies which create opportunities in urban centers influence migration decision.

In summary, rural transformation in Ethiopia depends on rural-urban linkages, and these linkages can be fostered through the transition to greater nonfarm activity, through occupational shift and migration to urban areas, and through investment in rural and urban infrastructure and human capital in order to support the aforementioned processes.

## Land Policies

### 3.1 Rural Land Policies

#### 3.1.2 Legal Framework

One of the institutional factors that influence agricultural growth and rural transformation in a country is the property rights structure. The legal framework for rural land acquisition, transfer, redistribution, depriving of the holding right, administration and security in Ethiopia is provided by the 1995 Constitution and Proclamation No. 456/2005. Both the Constitution and the Proclamation promise that every citizen who wants to be engaged in agriculture for a living, whose age is 18 or greater, be given land free of cost. The subsequent regional proclamations, regulations, and directives are part of the legal framework that provides operational details. All the legal frameworks clearly state that the right to ownership of land is vested in the state and the public. Hence, it is impossible to sell or exchange land holding in Ethiopia. Peasant farmers, pastoralists, and semi-pastoralists who are engaged in agriculture or wish to engage in agriculture only have use rights. Finally, land administration is the responsibility of regional governments.

Thus, there is no independent body to oversee land matters at the federal level.

There are various economic impacts of secure property rights: research shows that farmers will be willing and motivated to use land sustainably by investing and properly managing the land so as to reduce long-term land degradation costs, and they will be encouraged to diversify their livelihood from farming to nonfarming activities only when they have exclusive security that ensures rights on a continuous basis. Researchers have shown that establishing secure property rights enhances investment incentives and hence promotes productivity, agricultural growth, and rural-urban migration. Ownership rights enable farmers to access formal credit by making land available as collateral and this enhances farmers' ability to invest in improvements to the land, engage in nonfarming activities, or both.

Some of the major features of Ethiopia's land laws that have relevance to rural-urban migration and rural transformation are summarized in Table 3.1. The key topics included are: 1) acquisition of rural land, 2) transfer of rural land holding and use rights, 3) redistribution and consolidation of farmland, and 4) the conditions for deprivation of rights of land holding.

**Table 3.1: Overview of current land tenure regime in Ethiopia**

Aspect of Land Tenure Policy	Federal	What the Law Says	State
<b>Acquisition of Land</b>			
Ways to Acquire Land	-distribution, redistribution, donation, inheritance for farmers; <b>investors</b> can lease/rent		-not regulated by state
Time Limit	-only investors have a time limit		-not regulated by state
Size Limit	-farm plots must be at least a certain size		-states and regions decide the minimum size (distinguished by <b>irrigation</b> status)
Residency Requirements	-no residency requirement: government proclamation applies to ANY rural land		-must be a <b>rural</b> resident of the region to receive rural land for free ( <b>contradicts</b> federal law)
Regional Differences			-“rural” residency requirement somewhat relaxed in Amhara
<b>Transfers</b>			
Permissible Transfers	-inheritance, donation to family, rent/lease to other farmers		-not regulated by state
Rent/Lease Restrictions	-only to other farmers/investors (rural or urban) willing to engage in agriculture,		-states decide on the time limit for rent/lease, and size of plot (varies by

and for fixed period

region); some states stipulate permissible use of rented land

Table 3.1: Continuation

Aspect of Land Tenure Policy	What the Law Says	
	Federal	State
<b>Acquisition of Land</b>		
Inheritance Restrictions	-inheritor must be <b>regional</b> resident, willing to engage in agriculture, and minimum size requirement must be enforced; in case of divorce, the land holder cannot transfer land if she or he earns more than the minimum salary of government employee; other than divorce, inheritance only applies upon death of land holder	-minimum plot size is dictated by irrigation status; <b>rural residency</b> requirement varies at state level for inheritance
Donation Restrictions	-recipient must be regional resident and <b>family member</b> , willing to engage in agriculture	- <b>rural residency</b> requirement varies at state level for donation
<b>Redistribution and Consolidation</b>		
Criteria	-only upon community agreement, except for <b>irrigable</b> land	-not regulated by state
Size Requirement	-redistributed land must meet minimum size requirement	-states determine minimum size
Consolidation	-land consolidation is "encouraged"	
<b>Loss of Land Holding Rights: Results from failure to use and protect the land</b>		
Criteria	-federal provision exists for loss of land rights due to non-use or lack of protection; states decide the conditions	-states determine the specific conditions -leaving land <b>unused</b> 1-3 years (varies) -non-farming activity/ income

### 3.1.2 Effects of Rural Land Tenure on Migration and Rural Transformation

Successful rural transformation is closely related to rural-urban migration, increased agricultural growth and productivity, and peasants' engagement in nonfarm activities. The existing land tenure regime influences progression to greater nonfarm activities in rural areas, as well as people's ability to migrate spatially and across occupations. Some of the specific implications of the land tenure system are discussed below:

**i) Time limit on use rights:** The use right of land of farm households has no time limitation and since the law prohibits transferring land to others, it is complicated to assess the collateral value of farmland. What is surprising is that an investor, who is not required to be a rural resident and can acquire rural land through rent/lease from a farm household, is allowed to use his use land right as collateral for the effective rent/lease period. While the land policy provides right to mortgage for the lessee, it denies the same right to the lessor. This likely reduces the capacity of farm households to access formal credit in order to diversify their source of income, with the resultant effect of poor agricultural performance and limited diversification of livelihood.

**ii) Residency requirements:** Transfer of the land use right in the form of inheritance and donation is allowed only to the right holder's family members who are residing in the rural kebele and are engaged in or wish to engage in agriculture. This means those who are residing in other rural kebele, nonrural residents, and those who do not want to engage in agriculture do not have the right to get rural land through donation or inheritance. This law may impede rural-urban migration and diversification of livelihood even by moving into other rural areas. The law

forces peasants to permanently stay in a specific rural area and not to be engaged in nonfarm activities.

**iii) Plot size restriction:** Farmers can rent/lease only part of their land holdings (in Oromia, only half; and in the Southern Nations, Nationalities, and People's Region (SNNP), the remaining holding should be enough to produce annual food consumption for farmer's family). The law thus requires farm households to be permanent residents in rural areas with farming activity. There are other restrictions, even on the part of the land that is going to be leased. The lease period both in Oromia and SNNP regional states is very short, making it difficult for the lessor to make enough money to engage in other income generating activity.

**iv) Land fragmentation:** Given the small size of holding and the traditional farming system that characterizes Ethiopian agriculture, farm size is one of the critical determinant factors of agricultural output. However, fragmentation is unabated because of regular in-house redistribution. Parents redistribute their land to their children when the children establish their own family. Although this is partly explained by fear of further government redistribution, the major explanation is the failure of the economy to offer jobs in the nonagricultural sector. Farm households are also discouraged by law from migrating to take advantage of better opportunities. Farming on fragmented farm plots means the number of working hours spent per unit area significantly increases and overall cost tends to rise with the resultant decrease in production. This adversely affects the flow of goods between rural and urban areas and the income of farm households. The land policy, however, does not restrain land consolidation, which is left to the will of right holders voluntary exchanging of farmlands.

**v) Deprivation of land use rights:** Farm households are liable to lose their use right if they are engaged in nonfarm and off-farm activity, they remain for some time outside their locality, they fallow the land, or they fail to conserve the land. The law prevents poor farmers from engaging in nonfarm activities to supplement their income and discourages farm households from transforming themselves from subsistence to commercial farmers, as the economic opportunity to use the extra money generated is very limited.

The development agenda in Ethiopia would benefit from a land tenure system that provides tenure security in the form of provision of rights to use the land with the right to exclude others and the ability to recoup benefits of investment; and a legal environment and institutional structure to settle disputes and easily transfer and market the rights to inherit, donate, rent, sale, exchange, mortgage, and sharecrop land. It would also help to bring about more effective rural-urban interaction and rural transformation if the land tenure regime facilitated migration of farm households to urban areas and other rural areas for livelihood diversification.

The recent work by Gete et al. (2008b, 27) on seasonal migration from Amhara region is additional evidence. Seasonal out-migration of labor from Amhara region is predominantly carried out by young single men (55.4 percent of respondents) who are dependent family members and have not yet established their own family. Young dependent family members have no land use right and hence their movement is not constrained by the land policy. Considering the lack of sufficient means of subsistence (81 percent), shortage of farm land (79.5 percent), availability of employment opportunities (61.5 percent), and indebtedness (55 percent) cited by respondents as underlying reasons of seasonal migration (Gete et al 2008b, 30), there is an urgent need for policymakers to understand that migration and mobility are livelihood strategies and not threats to social order. Significant numbers of peasants are desperate and have already showed their need to diversify their livelihood by seasonal/temporary migration.

### **3.2 Urban Land Policy and Rural Transformation**

Urban land policy influences urban development, rural-urban migration, rural transformation, and hence RULs by constraining or facilitating key drivers of migration and rural transformation. It is, therefore, important to see how urban land policy affects RUL and particularly rural-urban migrants. In Ethiopia, urban land ownership is administered the same way as rural land: the state and the people of Ethiopia own all urban land, and the law forbids sales or exchanges of urban land.

The main types of urban land tenure are lease holding and the freeholding/permit system. Lease holding rights includes the right to occupy any building on the premises by means of a mortgage, and the right to erect, alter, or demolish buildings or improvements; the right to encumber the leasehold (the land and building); the right to dispose of the leasehold to any other person, which includes the right to sublet or bequeath the leasehold; and the right to be compensated (for the land and for the building). Freeholding right differs from lease holding in that the freeholder has no right to use the land as collateral; cannot dispose, transfer, and bequeath the land; and has no right to be compensated for the land. This has serious implications for the mobility of urban landowners, asset buildings, and livelihood diversification of urban landowners.

Urban land provision is carried out according to the following priorities: low cost housing preferred, followed by condominium houses, social services, industry and small and micro enterprises, other residential houses, other business activities, and recreational purposes (MoWUD, 2006: 27-28). The interest and policy direction of the government is to make lease holdings the exclusive urban land tenure to generate revenue for city administrations and maintain market values of land. To this end, the government has enacted several laws and proclamations such as the Urban Lands Lease Holding Proclamation 272/2002 in 2002 (FDRE 2002) and the Condominium Proclamation 370/2003 (FDRE 2003).

Given its prevalence in most urban centers, informal tenure may be included as the third type of urban tenure, which is not recognized legally. There are, however, circumstances where informal tenures are recognized as legal freeholding/lease holding tenure if the land use requirements for such properties are in compliance with the local master plans. Migrants may also access urban land through the parallel cash market segment for existing freeholdings and lease holdings. This is, again, beyond the capacity of rural migrants given their economic status at the time of leaving rural areas for the cities. The price in the parallel market is much more expensive than the lease price. For instance, the small lease holding residential plots are being sold in the cash market at prices 30 times and 65 times higher than the lease price of the same areas in Hawassa and Adama town respectively.

As the discussion shows, there exist opportunities to improve urban land policy to facilitate access to land for rural-urban migrants, both for residential and investment purposes, and thus new policy may aid RULs and rural transformation.

## Rural-urban Linkage and Migration in Ethiopia: An Overview

### 4.1 Economic Linkages

The RUL via economic linkages in Ethiopia has much room for growth. Agriculture provides limited surplus to the market. Amha and Gebre-Madhin (2003) reported that only 17 percent of the agricultural production is marketed. On the other hand, the manufacturing structure in Ethiopia is dominated by food, beverage, textile, leather, and tobacco producing factories, which have strong potential linkages with the agricultural sector. Despite the huge potential for linkages, these manufacturing industries are dependent on imports of raw materials. Moges and Gebeyehu (2006) found that of the gross value of output of agriculture about 10 percent is used as inputs for manufacturing industry and mining, about 10 percent is used for export, and the remaining 80 percent is used largely for consumption. On the other hand, they found that agriculture acquires 30 percent of its inputs from imports while manufacturing imports 45 percent of its inputs.

The main reason for this poor linkage is the subsistence nature of agriculture. About 55.7 percent of the farming households in the country cultivate less than 0.5 hectares and about 80 percent of the farmers cultivate less than 1 hectare. Only 4.1 percent of the farmers own more than 2 hectares of land. The average size of holding is 0.81 hectare. In addition, the sector is characterized by fragmented farm plots. Plots are at some distance from one another with others' holdings in between. The average number of parcels of land per holder of the 0.81 hectare average holding is 3.3 plots (See CSA, 2003, Part I, Page 91-93).

The subsistence nature of agriculture in Ethiopia not only limits the flow of goods from rural areas to urban areas but also has evolved into a constraint of the flow of goods from urban areas to rural areas. Subsistence agriculture creates poor markets for urban products and services. Purchase of manufacturing outputs and use of urban services are very limited in rural areas because people have very little to sell to generate money to pay for urban products and services. Because of the limited marketed surplus, utilization of modern inputs such as improved seeds, chemical fertilizers, pesticides, or irrigation systems is also low.

The use of manufactured farm implements and inputs by the agricultural sector is another form of linkage that can exist between industry and agriculture. In Ethiopia, however, this type of linkage is low. A study conducted in Tigray found that the backward and forward linkage at the household level of the agricultural sector with the nonfarm sector is small (Woldehanna 2000 as cited by Gebre-Egziabiher 2007). This is due to the subsistence nature of agriculture, rural poverty, and the lack of industries that manufacture farm implements.

In addition to the snowballing impact of the subsistence nature of production, the fragile nature of the market, lack of efficient domestic transport, and absence of competitive wholesale and retail agricultural inputs also impact the flows of goods and services. In a similar vein, Gebre-Egziabiher (2007) argued that "... grain marketing is constrained by a number of factors such as subsistence production, poor infrastructure, lack of information, limited storage capacity of traders, etc."

Physical infrastructure is another constraint for smooth flows of goods between rural and urban areas. Despite growing efforts by the federal government and regional states, the poor road network in the country is an indication of limited RULs (See Table 4.1). This limits the amount of marketed surplus and adversely affects the flow of goods from rural to urban areas.

**Table 4.1 Road conditions in 2009 (percentage)**

Proportion of asphalt roads in good condition	70
Proportion of gravel roads in good condition	54
Proportion of rural roads in good condition	50
Proportion of total road network in good condition	54
Road density /1000 km <sup>2</sup>	42.6 km
Proportion of area more than 5 km from all weather road	65.3
Average distance to all weather road	11.8 km

Source: Ethiopian Road Authority (2009).

By the year 2009, the proportion of total road network in good condition was only 54 percent. The fact that the road length in the country is very limited and nearly half of it is not in good condition means that large part of the country has no access to road facilities. This means a significant proportion of rural products have no way to move to urban areas and vice versa. Most importantly, there is no incentive for agriculture to produce a marketable surplus if there is not an adequate and functioning road network. FDRE (2002, as quoted by Gebre-Egziabiher 2007) estimated that nearly 70 percent of the country's land area is not served by modern transport system. Ethiopian Road Authority (2002, as quoted by Gebre-Egziabiher 2007) reported that "nearly 80 percent of the population depends on the use of traditional modes of transport; that is, head and back loading, walking, and animal transport, which are slow, burdensome and time consuming." The road density in the country is only 42.6 kms per 1000 km<sup>2</sup>.

Globally, rapid advances in transport and communication increasingly bind together geographically distant communities and open new opportunities for exchange. The statistics on infrastructure in Ethiopia, however, reveal that the country's current capacity for creating a reasonable basis for rural-urban economic linkage is limited. This has an adverse impact on the nonfarm economy. Poor labor and land productivity cannot release labor and transfer capital for nonfarm activities.

#### **4.2 Rural-urban Migration**

Migration can benefit both the migrant and the source household. It can alleviate poverty by reducing the burden on the source household, as well as through the remittances the migrant worker sends back to the household (De Brauw et al. 2010).

The limited economic linkage between rural and urban areas and the lack of growth in nonfarm activities discourage rural-urban migration. If there is no improvement in agriculture, increasing landlessness and small and fragmented land holdings push farm labor into seasonal out-migration by default. According to the limited literature available, it seems that seasonal out-migration from rural to rural and rural to urban areas is common among farmers attempting to find additional income.

Although the scale of migration differs, people migrate from rural to rural areas, rural to urban areas, urban to urban areas, and urban to rural areas. Rural to rural migration is the single most important category of migration, followed by rural to urban (see Table 4.2 and Figure 4.1).

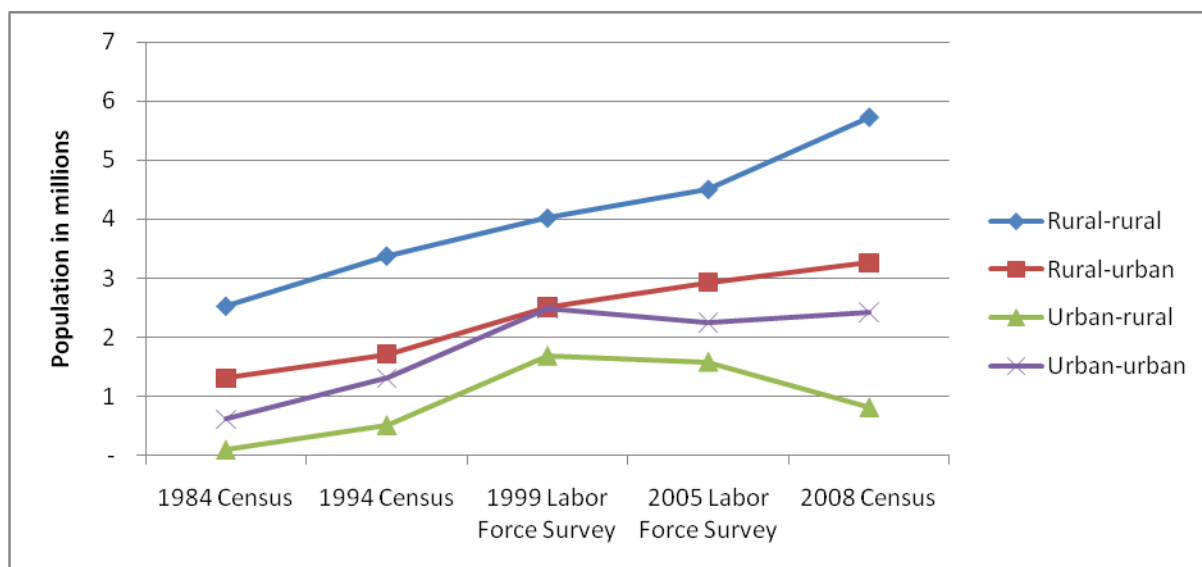
**Table 4.2: Forms of migration in Ethiopia over time (percentage and absolute figures in thousands)**

Forms of migration	1984 Census	1994 Census	1999 Labor Force Survey	2005 Labor Force Survey	2008 Census
Rural-rural	56%	49%	38%	40%	47%
	2,536	3,382	4,023	4,507	5,727
Rural-urban	29%	25%	24%	26%	27%
	1,304	1,715	2,514	2,930	3,261
Urban-rural	2%	7%	16%	14%	7%
	91	505	1,680	1,578	806
Urban-urban	14%	19%	23%	20%	20%
	614	1,307	2,482	2,254	2,418
Total	100%	100%	100%	100%	100%
	4,545	6,917	10,698	11,268	12,212
Total Population	39,869	53,477	60,031*	68,965*	73,919

Source: CSA 1999.

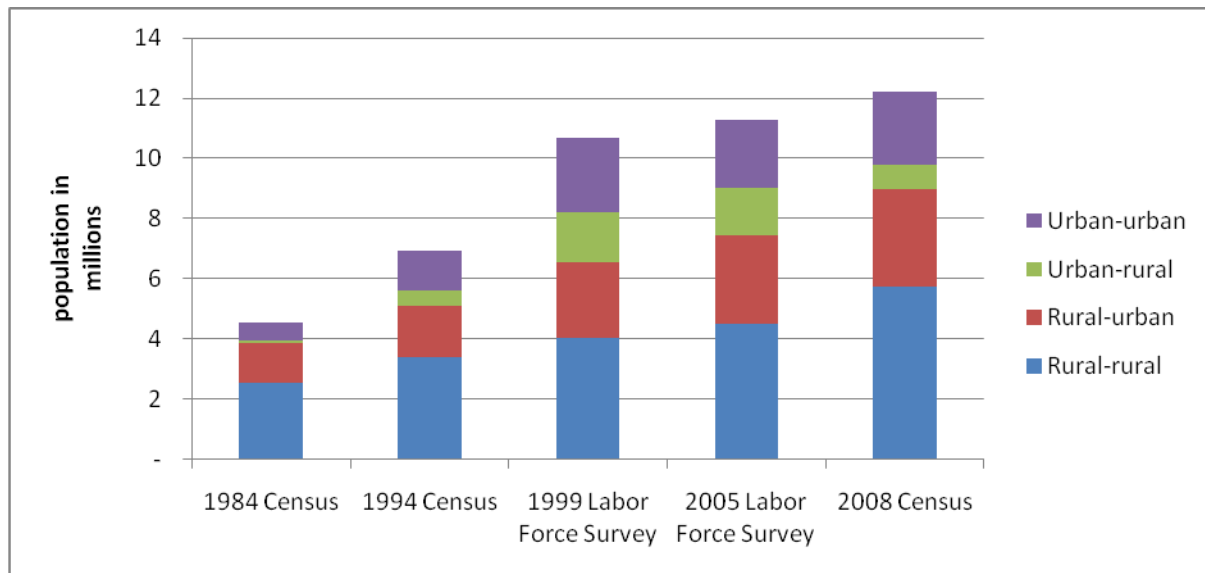
\* Total population numbers were extrapolated using census data, and not sourced from the Labor Force Surveys.

**Figure 4.1: Migration in Ethiopia over time**





**Figure 4.2: Share of internal migrants in Ethiopia over time**



While the total number of internal migrants in Ethiopia is growing, interesting changes are taking place in their composition. Two important features of the above table are the change in the proportion of rural out-migrants, and a considerable shift in the forms of migration. Rural out-migration is on the rise, with rural-rural migration dominating the overall migration numbers. Urban out-migration is declining, with urban-rural migration decreasing the most.

Only 16.2 percent (14.2 percent using agglomeration index) of the 73.92 million people of the country lived in urban centers in the year 2007 according to the census, indicating that there is limited and low-level rural-urban migration. The level of urbanization in the three most populous regional states, which account for 80.4 percent of the total population of the country, is only 11.8 percent, which further reveals low rural-urban migration.

The limited growth of industry might narrow the earning differential between the urban and rural areas, which is one of the major driving forces of rural-urban migration. As rural-urban migration is a characteristic of structural transformation and sustainable development, the current declining share of rural-urban migration in all forms of migrations should be a source of concern.

Research shows that the main reason for rural-urban migration is to look for better opportunities, and that migration is facilitated by improved agricultural productivity and growing nonfarm/nonagricultural economies. Growing landlessness, small and fragmented land holdings, lack of nonfarm activity, and lower agricultural productivity are the main reasons that push rural people to migrate from the area in which they live (Gete et al. 2008b; Girma et al. 2008; De Haan et al. 2000). These factors may also be responsible for the predominance of rural-to-rural migration among the forms of migration.

The other interesting aspect of the rural-urban migration experience is the economic status of migrants and its role in influencing migration. Abdurehman et al. (2009) in their study on pastoral areas found that the number of livestock a farmer has is positively correlated with rural-urban migration. They argued that the higher income associated with ownership of large numbers of livestock facilitates trading in urban areas.

Thus, rural urban migration is facilitated by income generated from agriculture to be used for diversifying income sources. The story is different in farm households. De Haan et al. (2000) found that poor rural people in Ethiopia tend to migrate more often than relatively rich rural people, in contrast to the experience of other countries where relatively rich rural people often tend to migrate more often than poor ones. The Ethiopia findings are not surprising, however, since farm agricultural productivity is low, farm sizes are shrinking, and landlessness and farm fragmentation are increasing.

## Development Strategy

This section reviews macroeconomic and sectoral policies that have impact on RUL, rural-urban migration, and rural transformation. In relation to this, the recently adopted poverty reduction strategies, rural and agricultural development policy, and urban development policy are examined in this section.

### 5.1 Overview of Macroeconomic Policy Frameworks

During the two past regimes in Ethiopia, development strategy was based on Import Substitution Industrialization (ISI) that accords primacy to industry, neglecting agriculture and particularly peasant agriculture. Ironically, primacy was given to industry in a context where the economy depended on agriculture for its capital accumulation, food supply, raw material, foreign exchange generation, and market. The ISI strategy led to agrarian failure to supply industrial crops, wage goods, foreign exchange, and savings. The growth process of the economy was thus constrained by the limited attention given to agriculture.

The current administration has made a radical shift from a policy of “industry first” to a policy of “agriculture first” with a particular focus on peasant agriculture known as Agricultural Development Led Industrialization (ADLI). Supporters of ADLI believe the agricultural sector to be the leading economic sector and believe that the development of the other economic sectors hinges upon achievements in the agricultural sector. These beliefs have been the guiding framework for two successive macro policy frameworks for growth and development: the Sustainable Development and Poverty Reduction Program (SDPRP), which covered the years 2002/03-2004/05, and the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) for 2005/06-2009/10.

ADLI is one of the four pillars of SDPRP. Despite alignment with SDPRP’s focus on agriculture, the strategy did not give adequate attention to the nonagricultural sector and urban areas (the urban development policy was issued in 2005), was not definite in terms of timeline (the need to shift to nonagriculture), and did not give enough attention to markets and to the demand side of production. In short, the strategy’s potential to fully form a basis for RULs, rural-urban migration, and rural transformation was rather limited.

PASDEP has continued the focus on the ADLI strategy. The PASDEP document reiterates the need to strengthen RULs with the purpose of reducing the negative impact of rural-urban migration, maximizing growth and its impact on poverty reduction, and taking full advantage of the synergies through market integration, facilitating mobility of labor, and access to income-earning opportunities between towns and surrounding rural areas. The document further recognizes the role of improving rural access roads, improving telecommunication access, expansion of general education and technical-vocational training, development of small-scale credit markets, and rural electrification as a key instrument to facilitate RUL. RUL is also considered one of the pillars of the urban development strategy where development of small towns was taken as a major entry point.

With regard to rural transformation, the SDPRP document recognized that agricultural and rural development will not be rapid and sustainable unless complementing and simultaneous development initiatives are taken in nonagriculture sectors such as education, health, water supply, road and transport services, and development of small and medium industries. The PASDEP document addresses rural transformation in relation to power generation, observing that electricity serves as an essential ingredient of rural transformation by providing the basis for

businesses and production in small- to medium-sized towns, and as an input into agriculture by driving irrigation pumping, commercial agricultural production, and processing.

Addressing RUL, rural-urban migration, and rural transformation as distinct development agenda in the macro policy framework continues to be work in progress. While the SDPRP addresses many policy concerns in Ethiopia, rural-urban linkage and rural transformation as concepts did not receive much attention. PASDEP, the second generation PRSP in Ethiopia, improves on this situation and begins to recognize rural-urban linkages and migration as important concepts. So, the policy space for RUL may be small but it is emerging. Possible explanations for the past situation could be:

i) Traditional development debate and policies sometimes distinguish between agriculture and industry, with agriculture representing rural and industry denoting urban. Rural issues, however, are not solely confined to agriculture, just as urban issues are not confined to industry. ii) Secondly, development debate often is about the role of agriculture versus industry (industry first or agriculture first). The importance of intersectoral demand linkage is sometime left aside or treated with less attention. This is one of the criticisms of ADLI.

As mentioned in SDPRP and PASDEP, the policy interest in rural-urban migration is affected by issues of natural resource degradation, ethnic conflicts, economic instability (MoFED 2002, 56), urban population growth and associated problems (MoFED 2002, 125; and MoFED 2006, 40,161,167), and the spread of HIV/AIDS (MoFED 2006, 120). Policymakers might note that at the initial stage of development in an economy like Ethiopia, rural-urban migration could be an integral component of the agricultural transformation (and for that matter the structural transformation) inherent in the development process. In this context, a shift from perceiving rural-urban migration as a threat to the country and economy to taking migration as a means of livelihood diversification and opportunity for economic growth could aid the development process.

## **5.2 Overview of Rural/Agricultural Development Policies**

Several policies and programs have been put in place to improve the productivity and earning potentials of farmers in the rural areas. Such policies include the Rural Development Policies and Strategies (RDPS), Food Security Strategy, Food Security Program, Productive Safety Net Program, Participatory Demonstration and Training Extension System (PADETES), Sasakawa Global 2000, and National Extension Intervention Program (NEIP).

The main focus of the RDPS is smallholders. It envisages that productivity of smallholder agriculture will be improved through distribution of improved seeds, fertilizers, farm implements, and pesticide to farmers; provision of improved extension services; construction of small-scale irrigation schemes; minimization of post-harvest losses; and development of livestock resources through improved feed base and veterinary services, and increased use of improved breed and livestock products. Further, RDPS intends to address the issues of proper use of land, expanding rural infrastructure (health, education, access to safe water, and rural roads), improving smallholders' access to the rural financial system, and developing and strengthening rural institutions.

The food security program and the extension program known as PADETES was introduced in order to increase food production via modern inputs, such as investment in rural infrastructure and technology transfer. Critics have pointed out that while RDPS tries to address the supply side problems, it has paid little attention to the demand side, institutional issues, and the interaction of the rural and urban sectors (Gete et al. 2008b; Seid 2009). In other words, RDPS

and other policies are criticized for treating rural and agricultural development independent of other sectors.

Despite various efforts, Ethiopian farming remains largely subsistence-based and not modernized, and hence cannot play its expected role in enhancing nonfarm activities and RULs.

### **5.3 Overview of Urban Development Policies**

Rural development should not occur at the expense of the industry or the urban sector. The critique directed against ADLI was that it did not give adequate attention to the urban sector, which also was acknowledged by the government in its National Urban Development Policy. The urban development outlined in the SDPRP and what has been done in practice reflects this neglect. The main strategic actions to enhance urban development and management during the SDPRP period were in urban governance, infrastructures, housing, land management, employment opportunities, and urban environment. There was no major investment program in urban areas except in Addis Ababa. (See MoFED 2002, 125-127.) In 2005, three years after SDPRP was introduced, the government issued its National Urban Development Policy (NUDP). This policy document stated that ADLI is the basis of the NUDP in the sense that rural development is not only the basis of the policy but also determines the direction and rate of urban development.

The core principles of the NUDP are the following (MoWUD 2006, 11-12):

- Strengthen urban-rural and urban-urban linkages for sustainable development,
- Expand the growth opportunities of all urban centers through balanced development of urban centers,
- Reduce urban poverty and unemployment,
- Increase participation of the community in different aspects of urban development,
- Create strong partnership with the private sector, and
- Decentralize urban governance.

The NUDP highlights the need for rapid development in urban centers through expansion of small and micro enterprises; construction of low cost houses; facilitating access to land; supplying related infrastructure for private sector investments and urban residents including the poor; and expansion of social services (MoWUD 2006, 16-35). The NUDP clearly states that the role of urban centers as market, service, and industry centers is critical for rapid and sustainable rural development (MoWUD 2006, 13-14). The most important aspect of the policy in relation to this study is its provisions on the irreplaceable role of urban centers for rural development, and economic interdependence between rural and urban areas.

To facilitate the implementation of NUDP, the Urban Development Package (UDP) and the Urban Good Governance Package (UGGP) were developed by the newly formed MoWUD. While the UDP outlines the investments that the government intends to make in urban areas during the PASDEP period, UGGP outlines the institutional development, systems reforms and capacity building measures to promote good urban governance and facilitate rapid and sustained urban development.

Unlike the SDPRP, PASDEP explicitly embraced a comprehensive urban development agenda with the objective of achieving the goals of the NUDP. At the same time, it recognized that the scale of the needs means that subsidies are not feasible, and that urban development needs to take place on a financially sustainable basis.

The urban development strategy under PASDEP has four pillars:

- **Support for SMEs and job creation**—Reducing urban unemployment down to less than 20 percent through developing vocational and technical training programs, community-based and labor-intensive urban works program, expansion of micro-finance institutions, providing market support, and ensuring the availability of serviced land for all sizes of enterprises
- **Integrated housing development**—Reducing slums in Ethiopia’s main cities by 50 percent by developing a national Integrated Housing Development Program, creating a new instrument for revolving finance, facilitating access to land for the private sector, and developing low-cost housing technologies
- **Improved access to land infrastructure and services**—Ensuring access to serviced land and urban infrastructure and services by designing an urban infrastructure program and development of five-year municipal infrastructure investment plans (to be funded through a combination of the Capacity Building for Decentralized Service Delivery project, local investment grants, and the Urban Development Fund).
- **Promoting urban-rural and urban-urban linkages**

Cutting across the four pillars is an ongoing program of strengthening urban governance. The three parts of the urban governance agenda under PASDEP include strengthening the policy, legal, regulatory, and institutional framework; capacity building for urban, regional, and federal authorities; and a system for performance monitoring, evaluation, and reporting.

The thesis that considers urbanization and industrial development as a by-product of agricultural development needs further reflection. As it is currently configured and implemented, agriculture will not be able to generate the desperately needed rural transformation, let alone achieve rapid urbanization and industrialization. There are also serious concerns about the possibility of reducing poverty significantly through this strategy. The significance of expanding urbanization and the industrial sector lies in its capacity to help transform agriculture. The transformation of agricultural output requires the expansion of the manufacturing sector (EEA 2004, 236-237).

The success of ADLI should thus not be measured in terms of smallholder agricultural output growth. Its success instead should be measured in terms of significant reduction in the share of agriculture in total output and employment, reducing the labor-cultivated land ratio, increasing volume of marketed surplus, and engaging a significant volume of rural labor migration in urban economic activities. Hence, the rapid agricultural growth must go with the decline in its share and simultaneous increase in manufacturing share.

To recap, it can be argued that the macro policy environment has potential for improvement in promoting RUL, rural-urban migration, and rural transformation. Given the interconnected nature of RUL, rural-urban migration, and rural transformation, positive effects of these may be difficult to achieve by good rural policies alone or by good urban policies alone. A concerted approach to RUL and rural-urban migration as a framework for development policy formulation may aid Ethiopia’s growth potential.

## **Policy Recommendations and Conclusion: The Way Forward**

This study explored the impact of macro policy, urban and agricultural policies, and land policy on RULs, rural transformation, and rural-urban migration in Ethiopia. The analysis concludes that opportunities remain to adjust and improve economic growth policies in Ethiopia. The time is right for both federal and regional governments to proactively engage in a wide variety of measures that can lay a solid foundation for forging strong RUL and rural transformation.

Experiences of other countries have shown that strong RULs and rural transformation cannot be achieved by good rural development policy alone. It also needs a comprehensive urban development policy, industrial policy, and urban land policy. Such policies should aim to cater incentive goods for rural population, critical inputs for rural-based economy, effective demand for goods and services of rural-based economy, employment for rural migrants, and access to urban land for rural migrants. In addition, rural land policy that responds to new economic and market developments and promotes rural urban migration and land consolidation is also a necessary condition for rural transformation and to create strong RUL.

Rural-urban migration is inherent in the process of rural transformation and strong RUL. Rural transformation can be facilitated by rural-urban migration if migration is promoted by rural land policy and a vibrant urban economy that creates opportunities in urban centers.

Therefore, a concerted policy approach may have strong benefits for Ethiopia's growth, compared to fragmented efforts and policies that focus on an individual sector alone. Such a concerted approach would call for introducing feasible policy reforms accompanied by practical measures. In line with these, it is proposed that federal and regional governments collectively consider the following policy issues as alternative possibilities for achieving strong RUL and rural transformation.

**Macro policy:** Despite the recognition of the role of RUL and the nonagricultural sector in the process of rural transformation, policymakers do not factor RUL as an entity in its own right into formation of macro policies and as a result do not have any strategy and programs for RUL. As discussed earlier, the role of agriculture and industry in the growth of Ethiopia are complementary; thus, treating RUL as a virtuous circle in the context of intersectoral demand linkages and as the basis for a macro policy framework and development strategy can be beneficial.

The recognition of the role and importance of rural-urban migration and rural transformation in the development process is not still embedded in a macro policy framework. Rural-urban migration is a major strand of RUL that facilitates rural transformation through reallocating labor from less productive sectors to vibrant sectors such as manufacturing industry, so macro policies should aid rather than impede migration. Current macro policy associates migration with natural resource degradation, ethnic conflicts, economic instability, spread of HIV/AIDS, and urban population growth. A shift from perceiving rural-urban migration as a threat to the country and economy to recognizing migration as a means of livelihood diversification, opportunity for economic growth, and an inherent process in the structural transformation of the economy may have strong benefits for Ethiopia's development agenda.

**Rural development policy and rural land policy:** Appropriate land policy can facilitate rural-urban migration, and contribute to livelihood diversification in rural areas. Strong RUL in Ethiopia has been, and will be for some time to come, agriculture constrained.

One of the driving forces for agricultural growth and rural transformation is land policy. What makes land more important in the Ethiopian context is the number of people it supports and its role in the overall economy. The livelihood of more than 80 percent of the country's population is directly dependent on farming, which is characterized by rain-fed production, small parceled land holding, fragmented farm plots, and so on. Thus, what happens to land is tantamount to what happens to the economy. Land policy that is dynamic, and responsive to the characteristics of smallholder subsistence farming and population pressure on land, is fundamental to achieving rural transformation and strong RUL.

New land policy/land reform can change the existing small and fragmented unviable farm plots to viable farms, encourage off-farm and nonfarm engagements of farm households, and stop regular in-house redistribution which aggravates fragmentation. The following issues are significant in order for new policies to play a significant role in forging strong RUL (flow of goods and rural urban migration) and promote rural transformation.

- Allowing farmers to rent all of their holdings if they want to do so will likely create incentives for allocating resources to their best use,
- Encouraging rural-urban migration either on a permanent or temporary basis by respecting the land use right of farm households, irrespective of their area of residence, may promote livelihood diversification.
- Instead of leaving land consolidation to the voluntary exchange of farmlands between right holders of farm households, the land policy may encourage land consolidation through policy instruments in order to avert the pitfalls of land fragmentation.
- Instead of penalizing farm households successful in livelihood diversification, new land policy may reward them and respect their land use right.
- Land policy could allow farm households to transfer their land use right to others by sale or in exchange for another property, with some restrictions that could be eased over time.
- Policy could be used to discourage right holders from in-house redistribution of land (sharing with their offspring).
- Policy may clear the path for farm households to use their land use right as collateral to access credit.

Modifying the existing rural land use right from unlimited time use right to time limited use right (lease hold) could facilitate the successful implementation of the above changes. This could have a number of advantages. Farm households will have certainty that they really own the land for that specific period, so they might refrain from in-house redistribution, consolidate fragmented farm plots, and increase size of holdings. Further, the policy could encourage mobility of farm households, involvement in nonfarm activities, and could mitigate the existing pressure on land. Furthermore, this policy will allow banks to value the land for that specific period and provide credit to farm households by taking the land as collateral as they do for those who take agricultural land on the basis of lease for specific periods.

**Urban policy and urban land policy:** Because urban areas are recipients of migrants, policies that govern the development of urban areas have the potential of contributing substantially to the process of rural transformation. A move from freehold to leasehold in urban land holdings can be one policy step, since leasehold has many more rights than freehold.

As discussed earlier, rural development is not only the basis for urban development but also determines the direction and rate of urban development. Manufacturing is like an internal engine



to move the economy forward by providing a nonagricultural source of livelihoods, and enhancing productivity and income in agriculture by processing agricultural products. It provides markets for agricultural products and incentive goods and other agricultural inputs that boost agricultural production. The poor performance of agriculture, very low rural-urban migration, and lack of rural transformation is partly due to lack of a vibrant urban economy. Thus, the focus must be on both rural and urban areas.

Simply waiting for the agriculture sector to grow and dictate the rate and pattern of urban development will not automatically result in strong RUL and rural transformation: a concerted policy approach that recognizes the interdependence between the two areas and the intersectoral linkage between agriculture and manufacturing is warranted.

## **Concluding Remarks**

This discussion paper addresses the policy environment in Ethiopia that pertains to land and labor, and its implications for rural-urban transformation. The paper explores key conceptual issues and establishes the link between rural-urban linkages, migration, and rural transformation. The paper presents an analysis of land and labor policies that influence RULs and migration, and contrasts their strengths and weaknesses. The macro development policies in Ethiopia are also examined, showing how they may aid or impede rural transformation.

The analysis shows that there are opportunities to better address concepts of rural-urban linkage and rural-urban migration in the future development policy formulations in Ethiopia. The main theme of the recommendations for any future policy development in Ethiopia is the recognition and treatment of rural-urban migration as a cornerstone of rural transformation and subsequent industrial growth. Policies that recognize the interdependent nature of rural and urban development, and the central role that rural-urban migration plays in the development in both regions have the potential of contributing substantially to the development agenda.

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