

Participation in Rural Land Rental Markets in Malawi: Who benefits and by how much?

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Role of land markets?

- Rental and sales markets could enable net transfers of land
 - From land-rich to land-poor → Equality gains
 - From less-able to more-able farmers → Efficiency gains
- Enable productive livelihoods → Welfare gains
 - Especially for households with insufficient land...
- Such gains are **conditional** on efficient land prices, transactions costs of participation, etc.

Mixed evidence in the empirical literature (e.g. Holden et al. 2009)

Where does land renting fit in as a poverty reduction strategy in rural SSA?

Pathways out of poverty (Harris and Orr 2014):

- 1) Increase staple crop production and productivity
- 2) Increase commercialization, through better prices and higher value production
- 3) Increase off-farm income

Reducing poverty through staple crop productivity

- A) Yield increases through increased input use and adoption of improved varieties.
- It can help, but may be difficult to achieve on small farms, with growing population .
- B) Increases in farm size, leading to increased output.
- Kenya: Households moving out of poverty cultivated 70% more land in 2007 than in 1997 (Muyunga et al. 2010).
 - Mozambique: household moving out of poverty increased land by 10% between 2002 and 2005 (Cunguara 2008).
 - Zambia: households moving out of poverty increased land holding at inheritance from 5 ha to 23 ha (Banda et al. 2011).

Increasing farm size may also happens along side increased commercialization and crop diversification.

Possibilities for increasing farm size

- It may be possible to bring unused land into cultivation in some areas
 - Evidence suggests that many parts of Africa have little to no available land (Chamberlin et al. 2014)
 - Limited access to capital makes it difficult to clear and cultivate new land even if available
- In many areas, particularly those with high population density, **land rental markets** may be the most **feasible way** for smallholders to expand area cultivated
 - Landlords must be compensated fairly (not-coerced into renting out)
 - There must be non-farm opportunities for landlords to participate in that offer them higher returns than farming

Structural transformation process

1) Agriculture as declining share of GDP

- movement of labor: rural → urban, farm → non-farm
- off-farm income increases

2) Fewer farmers

- The most efficient producers stay in the system and expand

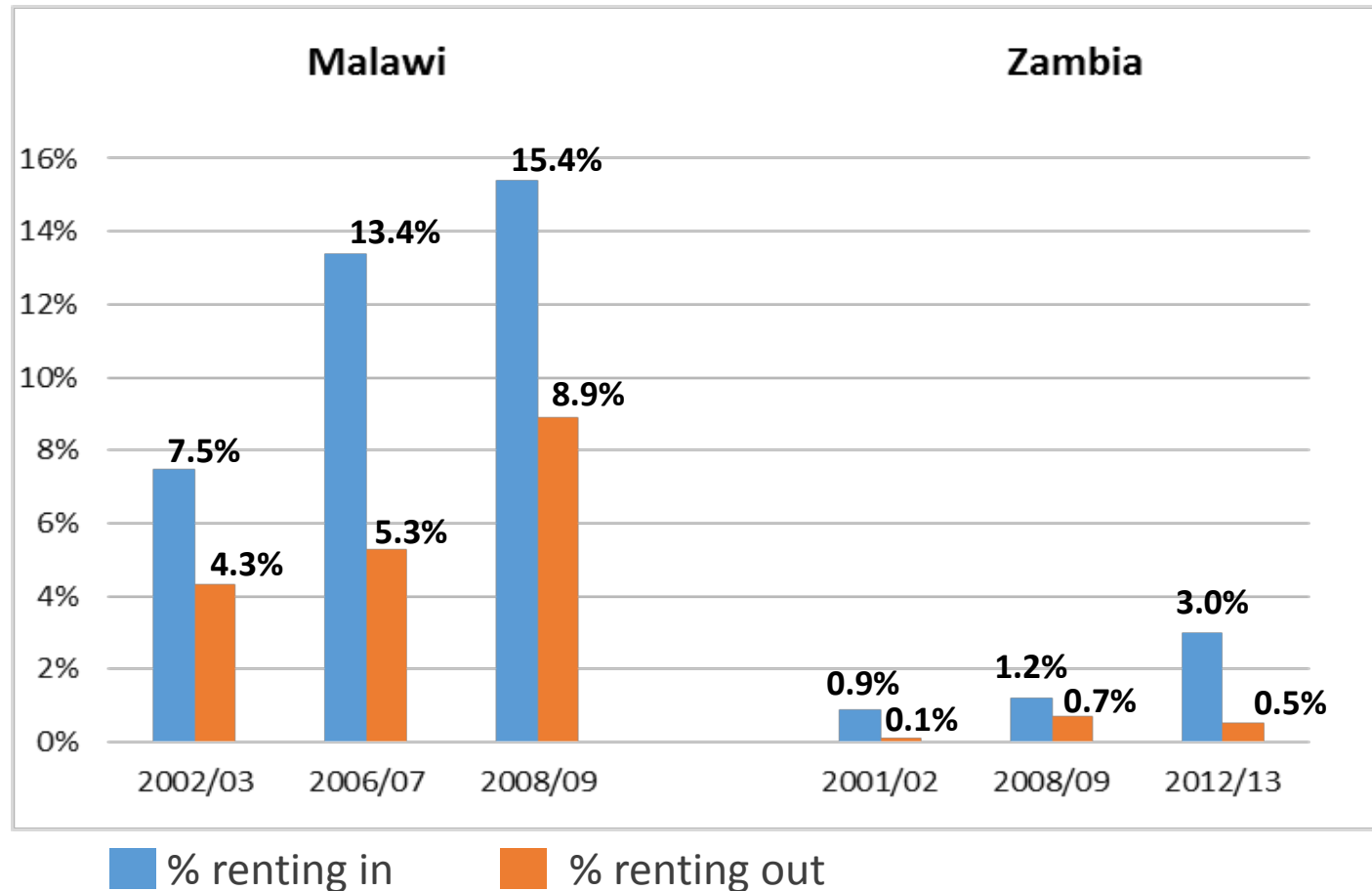
3) Larger landholdings

- as agriculture transforms to a capital intensive sector from labor intensive sector

• Land rental markets may facilitate this process

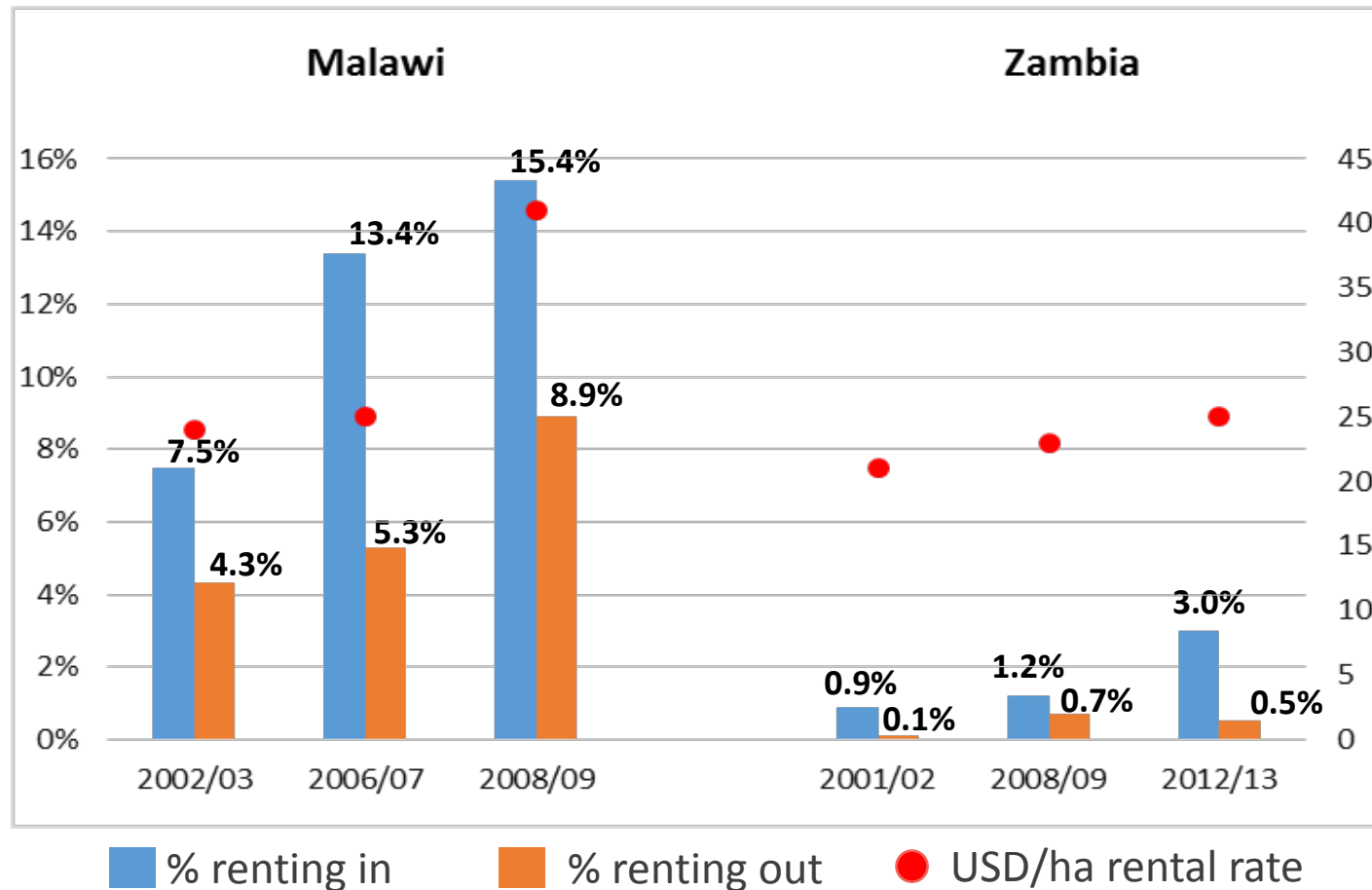
- Especially 2) and 3)

What we know: Rental status of the samples in Malawi and Zambia



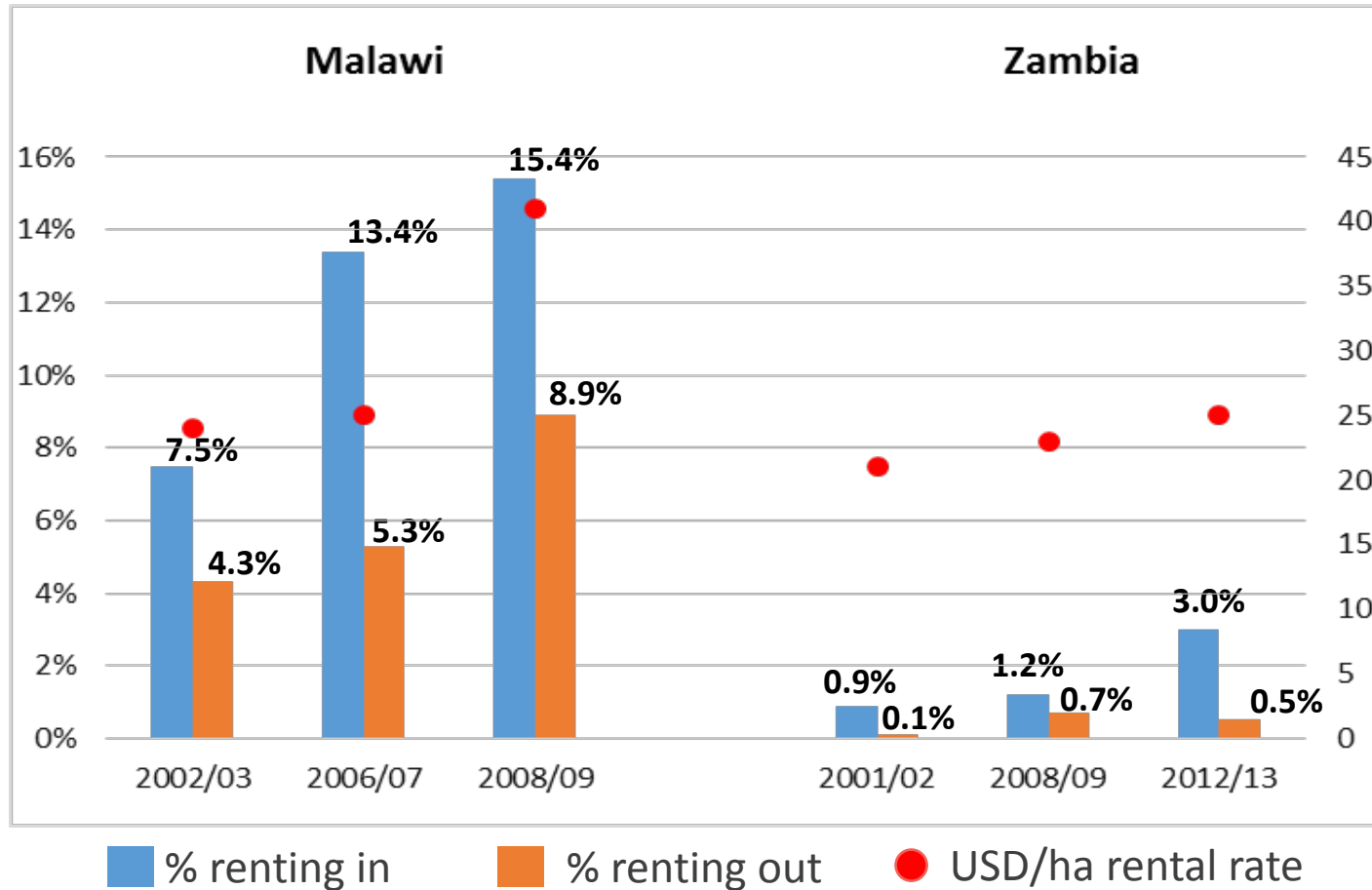
Most arrangements are up front cash rentals.

Rental status of the sample



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HH characteristics by rental status

Tenants

Landlords

Education:

Durable assets:

Off-farm income:

Labor:

Land:

Immigrants:

HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
Education:	More	>	Less
Durable assets:			
Off-farm income:			
Labor:			
Land:			
Immigrants:			

HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
Education:	More	>	Less
Durable assets:			
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HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
Education:	More	>	Less
Durable assets:	More	>	Fewer
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Labor:			
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HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
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HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
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Off-farm income:	More	>	Less
Labor:	More	<	Less
Land:			
Immigrants:			

HH characteristics by rental status

	<u>Tenants</u>		<u>Landlords</u>
Education:	More	>	Less
Durable assets:	More	>	Fewer
Off-farm income:	More	>	Less
Labor:	More	<	Less
Land:	Less	<	More
Immigrants:	Immigrants	≠	Local households

Impacts: fairly consistent across countries

Impact	Kenya [¥]	Malawi [†]	Zambia [†]
Efficiency	Yes	Yes	Yes
Equality in land distribution	Yes	Yes	Yes
Welfare: Farm income	Yes (renting in)	Yes (renting in) No (renting out)	No
Welfare: Poverty status	No	Yes (renting in) No (renting out)	No

One reason for the poverty difference may be due to population density

- Malawi population density = 139 people/km²
- Zambia population density = 19.2 people/km²
- Kenya population density = 66.4 people/km²

[†] From Chamberlin and Ricker-Gilbert (2015).

[¥] From Jin and Jayne (2013).

But the costs of renting in are high relative to gross margins...

Rental rate as a proportion of value of crop production per hectare (Malawi)

	percentile				
	10th	25th	50th	75th	90th
tenants only	0.06	0.12	0.23	0.47	0.95
full sample	0.10	0.17	0.31	0.59	1.19

And Land **rental costs** also a **large share of total input costs**

MALAWI	Land rental costs Total input costs (fert, seed, hired labor, land rental)					
Percentiles:	10 th	25 th	50 th	75 th	90 th	Mean
Tenants only	0.06	0.13	0.27	0.52	0.91	0.37

Distributional effects

In Malawi, an extra ha of land increases net crop income by

	10 th	25 th	50 th	75 th	90 th	Mean
Land area rented in (ha)	-\$34	-\$2	\$38***	188***	196***	172***
Land area rented out (ha)	\$1	-\$7	-\$15	-\$18	-\$144***	-\$156***

*** means effect is statistically different from zero

Knowledge gaps

- What explains more observations on tenants than on landlords? •
- Why do landlords participate if no apparent benefits? (stress rental?)
- Renting as stepping stone to expansion?
- What is the optimal operational size for farming in smallholder systems? Do rental markets help achieve this?
- What governs the formation of rental prices? How efficient are they?

Conclusions

- 1) Conventional measures of land rental market performance (efficiency and equality) suggest positive gains for renters.
 - How are well landlords being compensated?
- 2) Land rental markets may have potential to reduce poverty in Malawi.
 - Particularly in high population density areas
 - Potential may not be fully reached yet.
- 3) Questions remain about who is able to these markets and their distributional impacts.
- 4) Land rental markets are growing so should be on policy makers' radars.

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Are we fully observing participation?

	Total area rented in	Total area rented out	Difference	% of total area that is rented out
Ethiopia	1,516,979	206,339	1,310,640	14%
Malawi	130,155	5,092	125,063	4%
Niger	262,079	80,486	181,593	31%
Nigeria	1,069,316	15,404	1,053,912	1%
Tanzania	400,091	197,619	202,472	49%
Uganda	492,903	27,824	465,079	6%

Deininger et al. (2015) constructed from World Bank LSMS datasets

HH characteristics by rental status

Tenants

More education

>

More durable assets

>

More off-farm inc.

>

More labor

<

Less land

<

Immigrants

≠

Landlords

Less education

Fewer durable assets

Less off-farm inc.

Less labor

More land

Local households