

Sustainable land acquisition in Ethiopia



Are you looking to acquire land in Ethiopia? Do you want to renew your land lease? Or are you thinking about expanding your land-access? This document provides general insights and tips for acquiring investment land sustainably.

1. The Ethiopian context

Foreign investors in Ethiopia can lease land for investment purposes. Investors cannot however buy land for an indefinite period as land is owned by the State and the people. The procedure to acquire land depends on the project location, the investment activities, and the administrative status of the land. The procedure of receiving land is not straightforward and usually involves many Government bodies at the Federal, Regional, Zonal, Woreda, and Kebele levels.

The allocation of land usually occurs in a top-down fashion: foreign investors submit their business plan to a higher-level government body, after which officials decide whether to offer land. Generally, a high-level official writes a letter to instruct lower-level officials to provide the land and engage in the

associated legal procedures (e.g. community consultation, clearing, and compensation). Afterward, the land is delivered to the investor, often by the woreda administration.

Even when investors follow official procedures, a hands-off and top-down acquisition approach often leads to community grievances and operational challenges. There are moreover ample examples of actors misusing the (compensation) procedures which leads to company problems. These practices threaten the local investment climate and will increase (long-term) costs. In Ethiopia, focus and bottom-up communication is, therefore, crucial for a stable, long-term investment.

In general, acquiring land in Ethiopia is not straightforward, does not have clear procedures, and differs across regions and sectors. The acquisition procedure can take anywhere from three months up to two years. The process can however go faster if the right approach is taken. Especially when your investment would be in Ethiopia's national interests then land can be readily available and the process gets shortned.

2. Brief information on accessing land in Ethiopia

2.1 TYPES OF LAND

The procedures to acquire land vary depending on whether land is rural, urban, or is part of an industrial park. The types of to-be-accessed land will determine the procedures, lease prices, and lease durations.

Rural land Rural land is generally administered by the Zonal and Woreda administration. Before accessing land, rural land could be used by individuals, companies, communally shared, reserved in a Government land bank, or administered by a Government body. Opting for rural land is significantly cheaper than urban land or spaces in an Industrial Park (IP). Access to infrastructure and services can however be challenging.

Urban land* Urban land is generally administered mainly by the city or town administration. Land is classified as 'urban land' when it is located in bigger cities or expanding towns (e.g., Addis Ababa, Adama, Bahirdar, Debre Birhan, Ziway, Butajira, Lalibela, and Holeta).

Industrial park Industrial Parks (IPs) contain pre-developed facilities in pre-defined locations where investors can easily access infrastructures, supplies, employees, and markets. The procedure to access a spot in an industrial park is often faster than the regular process of acquiring investment land.

* **IMPORTANT:** Rapid urban expansion has led to many instances where companies – previously registered on rural land – find themselves becoming part of urban expansion. This affects lease levels, restrictions on years of land lease, and overall leasing costs. This can harm the viability and profitability of a business. In certain cases, we have observed that leasing land in Ethiopia becomes more expensive than buying land in the Netherlands.

Since each of these land types has advantages as well as shortcomings, investors trying to acquire land should diligently investigate these differences, as they will affect profitability. TRAIDE can help you to access more information on administrative boundaries, or with identifying the most suitable investment location.

2.2 LAND ACQUISITION: LEASING AND COMPENSATION

Choosing 'the right' investment location also depends on the historic land use. The investor can proceed with a leasing agreement if land is not in use or part of an industrial park. If land is used by individuals, the investor will have to follow a compensation procedure.

Leasing land

Holding rights and leasing conditions are regulated in the Federal rural land administration and use proclamation No. 456/2006. Leasing rates differ per region, Zone, and also cities and towns. The difference is based on factors such as land productivity, water availability, remoteness, land use, and the presence of infrastructure etc. Regions, cities and towns generally use classifications to determine price levels of land. Prices per square meter are determined on a case-by-case basis once the plot has been identified.

Table 1.* AVERAGE LEASING RATES FOR VARIOUS SECTORS AND DIFFERENT LEVELS OF INVESTMENT LANDS IN 2021

Regions	Urban price in ETB per m ² /year	Rural price in ETB per m ² /year
Amhara	0.2–3	0.02–0.1
Oromia	2.5–14.5	0.01–0.34
SNNPR	75–4,241	0.003–0.01

* Prices are not fixed and change frequently. Ethiopian law stipulates lease prices to be revised every two years. Investors should check the updated price ranges during their due diligence.



Compensation

Compensation will apply when people hold historic land claims or they would become (economically) displaced. The level of compensation will be determined by e.g., the historic land use, administrative location, economic activities, and physical assets. Determining the compensation level is mostly done by external consultants, hired by the Woreda administration. These consultants generally use productivity and financial data from the agriculture and finance office.

Although law prescribes that community consent is vital for land appropriation, most communities concede if the investment is in line with Government development priorities. An investor should keep a close eye on this procedure to understand community perceptions and ensure that expectations are managed.

Determining the correct level of compensation can be tough as these procedures are often obscure, lengthy, and bureaucratic. Investors should meticulously follow compensation procedures as incorrect estimations occur frequently. In case of any complaints or inconsistencies, investors should collect evidence and present their complaints to the grievance management offices. If this does not work, they can escalate to higher administrative levels. TRAIDE Ethiopia can support should such issues arise.

Table 2.* COMPENSATION FORMULAS

Compensation for people without replacement land Annual income from land × 15 years
Compensation for people with replacement land given Size of built house in m ² × current rent × 24 months
Crop Compensation # of hectares × current crop market value (crop price per quintal × # of quintals per hectare) + cost of permanent improvements made on land
Building Compensation Current building cost + permanent improvement cost
Fence Compensation unit price of a fence in m ² /m ³ × total size of the fence in m ² /m ³

* Provided formulas are taken from Ethiopian land regulation 472/2020. Regulations can change and could be overpowered by Regional stipulations. The rule of thumb is that the most stringent regulation will apply.

3. Legal procedures to acquire land¹

A foreign investor must approach the federal Ethiopian Investment Commission (EIC) to set-up a business. The EIC provides investment licenses and additional guidance on how to acquire land. Legislative changes have however mandated Regional Administrations to provide investment land. The regional representative body is supposed to manage a database of available investment land (in their bureau known as the land bank) and will work closely with the regional investment bureau.

The actual procedures to lease land will vary across regions and will also depend on land availability and economic priorities. To illustrate, the Oromia, Amahara, and SNNP regions' land requests are managed by the Regional investment commissions and the investment and industry development bureaus. In Afar and Somali, investment land is managed by the regional land administration bureau. Addis Ababa's land allotment for foreign investment is managed at federal level.

Investors are generally encouraged to identify plots suitable for their investment and subsequently contact the regional authorities to understand the exact land acquisition procedures.

IMPORTANT NOTE: Foreign investors are often confused by the different Government entities when requesting investment land. Often, the mandate is divided among a range of administrative parties. To illustrate, if land is close to a town, the town administration might want to be involved, whereas the rural woreda might consider that this solely falls under their management. Therefore it is crucial that investors involve all parties, clarify roles and responsibilities from the start, and include Regional bureaus.

3.1 STEPS TO ACCESS LAND

The (local) Government often rigorously evaluates land requests as the country needs efficient and responsible investments that can contribute to job creation, forex generation, knowledge / technology transfer, community development, and that can substitute imports. Investors that are starting their business are moreover encouraged to estimate the required land and request the exact amount of land when starting their business. This will help to avoid lengthy procedures related to acquiring additional land to expand the investment.

Please note that the procedures described below are only indicative. Investors should always diligently verify with all administrative levels.

¹ Federal and Regional EIC, 2021 GC

For investors acquiring new land

Step 1 <i>Investment license</i>	Foreign investors need to arrange an investment license from the Federal EIC before requesting land.
Step 2 <i>Identify the project area</i>	Investors need to discuss with the Woreda or Zone to identify the availability and suitability of investment land.
Step 3 <i>Request for land</i>	A formal land request must be offered to the regional EIC bureau. Relevant documents include: a land request form (filled out), Investment license, TIN certificate, Federal EIC support letter, project proposal, copy of ID (resident ID for foreigners), bank account, passport, and passport photos.
Step 4 <i>Evaluation of the investment project</i>	The respective investment bureau will evaluate land requests during a board/committee meeting. The investor will be asked to pitch his/her project in some regions.
Step 5 <i>Land request approval</i>	The land bureau must confirm the availability of the land locally. If available, the application will be shared with the Regional President and s/he will (dis)approve. Sometimes, s/he will delegate this decision to the committee/board. Depending on the number of applications, this conclusive meeting happens on average twice a month, but can also occur only quarterly.
Step 6 <i>Land preparation process</i>	In parallel to the approval procedure, the land bureau can work with the investor to assess the availability of land. If the land bank does not have (suitable) land, the procedure will divert to compensation-based land acquisition. This procedure takes about six months.
Step 7 <i>Contract signing</i>	The land lease contract will be signed between the investor and the responsible authority.
Step 8 <i>Payment for the land</i>	Investors will pay the amount as specified in the lease contract. In case of compensation, the Regional administration is responsible for paying the compensation. They can however request the investor to pay the compensation if they do not have the resources available. The Woreda administration must transfer these funds to a bank account of the resettled people. This amount should be deducted from the lease payment.
Step 9 <i>Land bank reservation and site mapping</i>	Once compensation is paid, compensatees will leave the plots and the land will be transferred to the land bank. Professionals will visit the site to take GPS coordinates and measure the exact boundaries of the property.
Step 10 <i>Confirmation and handover</i>	The authorised administration will send all necessary documentation to the Regional administration bureau to confirm and conclude the land acquisition procedure. The investor will officially receive the land from the relevant officials (differs per region).

For investors that renew their land lease

Step 1 <i>Check the expiry of land lease</i>	The period of lease may be renewed upon its expiry. A new lease price will have to be determined.
Step 2 <i>Application for renewal</i>	The lease period can only be renewed if the lessee applies to the appropriate body before the lease expires. This should be done as <i>early as possible</i> as to secure rights.
Step 3 <i>The appropriate body notifies the applicant</i>	The responsible body notifies (in writing) their decision within <i>one year</i> from the date of submission. When the body fails to communicate their decision within this period, it will be interpreted as an automatic approval.
Step 4 <i>Lease renewal</i>	The terms of the agreement, such as years, price, and payment conditions will have to be renegotiated. Under chapter 2 of this document lease prices and terms are discussed. Please note that these prices are negotiable and change frequently. Ethiopian law intends to protect leaseholders, prevent the loss of investment after lease expiry, and encourage continued investments on the land. They do this to stimulate continued development and preserve investment confidence.

For investors that want to expand their land

Step 1 <i>Request for land</i>	Investors can request for additional land through a land request application form, plus other relevant documents.
Step 2 <i>Evaluation of the investment expansion project</i>	The investment bureau and land board will evaluate the request, and will critically assess the historic investment activities of the applicant.
Step 3 <i>Land request approval and land acquisition</i>	This process is similar as described in the sections 'for investors acquiring land, step 5–12'. Please note that the time to receive expansion land could occur faster if the adjacent land is not used (effectively).

3.2 TOP-DOWN AND BOTTOM-UP APPROACHES

Given frequent procedural and legal changes, any investor should take a top-down and bottom-up approaches in parallel. This will help to avoid missing necessary steps, overlooking relevant stakeholders, and avoiding unforeseen costs. Early-stage and continuous community engagement is also key for understanding local attitudes and how these might affect your investment plan.

Stakeholders to engage:



FEDERAL

- Ethiopian Investment Commission (EIC)
- Ministry relevant for your business e.g., Ministry of Agriculture (MOA)



REGIONAL

- Regional Investment / Investment and Industry Development Commission
- Regional land bureau
- Regional administration body relevant for your business
- Other relevant offices



LOCAL

- Government administration offices on Zonal, Woreda, and Kebele level
- Agriculture bureau (for rural land)
- Communities that could be affected by your investment



4. Tips and tricks for sustainable land acquisition

Communicate at all levels

- In Ethiopia, local social acceptance is key for a stable, long-term investment. Investors should therefore engage with the community, discuss the business plan, and receive free, prior, and informed community consent (FPIC).
- Approach and establish good relations with Government bodies at all different levels. Professional, culture-sensitive, and respectful communication with all level stakeholders is expected from foreign investors.

Due diligence

- Learn about the history of the land you are about to acquire. Critically keep track of the land compensation procedure and know what local government officials are promising. This will help to manage expectations and plan for future (CSR) engagements with important stakeholders.
- There are many Ethiopian consultants who assist companies in preparing feasibility studies and Environment, and Social Impact Assessments (ESIAs). It is important to hire a competent consultant. You can reach out to TRAIDE to access this consultancy list.
- Hire a legal expert while conducting your due diligence to avoid any procedural mistakes. TRAIDE can link you with legal experts of companies.

Engage

- Identify and understand the relevant stakeholders of your investment. What influence do they have on your project? How do they feel about your project and why?
- Participate in community events, including activities that appear unrelated to your business. Showing respect by attending ceremonies is a positive gesture that most communities appreciate.
- Plan for continued engagement. Listen carefully, accept feedback, and respond to grievances. Continuous feedback loops are important for the sustainability and success of your business.

Identify

- Use the ESIA to identify your negative impacts and mitigate these through an action plan.
- Identify concerns, needs and aspirations of the communities in the area based on their severity and urgency. However, you need to be careful not to raise unrealistic expectations.

Design

- Sustainable investments can contribute to a stable business climate. Budget accordingly.
- Plan for mitigating impacts. Be transparent about your environmental and social impacts (positive & negative). Share with communities how your company addresses these impacts.
- Develop an action plan that address your impacts and community needs. Set clear KPIs and ensure that you budget for sufficient (human) resources.

Perform

- Investors are expected to immediately start their business after acquiring the land. Ethiopian investment law demands responsible land usage. Acquiring land but not following-through will not be tolerated by the Government.
- Source and hire locally and ensure that your investment will transfer knowledge and technology. This will help to build a good reputation and establish good relations
- Cutting corners will not help in the long-run. Investing responsibly means addressing impacts and investing locally. This will lead to a stable local business climate and will improve your long-term profitability.

5. Annexes

ANNEX 1: PRIORITY SECTORS AND CROPS ACROSS REGIONS

The Ethiopian government prioritizes certain investment activities and crop types. This affects land value, land access, lease rates, and compensation rates. Please therefore always refer to the Woreda agriculture productivity bureau, finance bureau, and any other related offices for detailed and up-to-date information.

Table 3. AVAILABLE LAND FOR LARGE SCALE AGRICULTURE INVESTMENT AND RECOMMENDED CROP TYPES (MOA, 2021)

Regional responsible body	Area (ha)	Priority
Somali regional agriculture bureau	650,000	Fruits (pomegranate and watermelon), industrial crops (sesame, cotton, castor), animal feed (Alfalfa and Rhodesian grass), livestock (feedlot and ranching for camels and goats)
Afar regional land administration bureau	399,204	Irrigation crop and fruits
Southwest regional investment commission	98,757	Cereals, pulses, oil crops, cotton
Oromia regional investment commission	65,853	Different crops
SNNP regional investment commission	32,238	Food crops (maize sorghums), pulse crops, oil crops, cotton
TOTAL	1,246,052	

Table 4. AGRICULTURE INVESTMENT POTENTIAL OF ETHIOPIA (MOA, 2009)

Farming type	Regions
Rice	Amhara, Benshangul-Gumuz, Oromia, SNNP, Somali
Maize	Amhara, Benshangul-Gumuz, Gambella, Oromia, SNNP, Somali
Horticulture	Amhara, Dire dawa, Oromia, SNNP
Coffee	Amhara, Gambella, Oromia, SNNP
Tea	Amhara, Gambella, Oromia, SNNP
Cotton	Afar, Amhara, Benshangul-Gumuz, Gambella, Oromia, SNNP, Somali, Tigray
Oil crops	Afar, Amhara, Benshangul-Gumuz, Gambella, Oromia, SNNP, Somali, Tigray
Pulse	Amhara, Benshangul-Gumuz, Oromia, SNNP, Tigray
Rubber	Gambella, SNNP
Palm oil	Gambella, Oromia, SNNP

ANNEX 2: REQUIRED DOCUMENTS TO ACQUIRE INVESTMENT LAND IN THE AGRICULTURE SECTOR

Table 5. PROCESS AND REQUIREMENTS TO ACQUIRE AGRICULTURE INVESTMENT LAND (JAMES KEELEY, 2014)

No	Conditions and formalities to be fulfilled by the investors
1	Support letter from the company
2	ID card/passport of the investor
3	Power of attorney (if from a foreign country, has to be authenticated by the ministry of foreign affairs)
4	Memorandum of association and memorandum of articles of the company (share company or PLC)
5	Investment license
6	Company profile (track record)
7	Support letter from respective Ethiopian embassy for foreigners and diaspora
8	Letter of intent for payment of one land lease
9	Bank statement for at least a year showing a balance of 30% of the overall investment
10	Land audit report prepared by the external land auditor
11	Letter of intent to conduct and submit environment and social impact assessment study
12	TIN (Tax Payers Identification Number)
13	Clearance for paying the current year income tax
14	Resident and work permit (for foreigners)
15	Confirmation letter for the sustainability of the proposed land
16	Business plan as per the issued standard format
17	Incorporate feedback and submit the final version of the business plan
18	Comment on the draft lease agreement
19	Provide final confirmation letter about the sustainability of the land upon visiting the area as per the coordinates given on the provisional site plan
20	Signed lease agreement
21	Receipt of down payment (within 20 days of signing the agreement)
22	Signing minutes of the land handing over
23	Paying the agreed land lease

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