

# Affordable Housing Institute

38 Chauncy Street, Suite 600

Boston, MA 02111

Tel: +1 (617) 502-5980 Fax: +1 (617) 338-9422

[www.affordablehousinginstitute.org](http://www.affordablehousinginstitute.org)



## **Stocktaking of the Housing Sector in Sub-Saharan Africa**

### **Part 3: Ethiopia**

**Graham Tipple and Elias Yitbarek Alemayehu**

**October 3, 2014**

## Contents

List of figures.....	4
List of tables .....	4
List of appendices .....	5
1. Executive Summary.....	6
2. Methodology.....	7
3. Overview of Housing Market .....	9
A. Housing Demand and Affordability.....	9
I. Housing needs and demand.....	9
II. Housing costs and affordability.....	12
B. Current Housing Stock .....	15
I. Overview .....	15
II. Housing typologies.....	16
III. Housing supply .....	23
C. Current Land Stock.....	23
I. Legal frameworks for land .....	23
II. Land supply .....	25
D. Key Players .....	26
I. Public Sector Actors .....	26
II. Private Sector Actors.....	32
4. Supply-Side Value Chain .....	36
A. Land.....	36
I. Formal land allocation .....	36
II. Informal land allocation .....	37
B. Trunk Infrastructure.....	41
C. Site Layout.....	42
I. Soil conditions .....	42
II. Foundation .....	42
III. Drainage.....	42
IV. Climate challenges .....	42
D. Design.....	42
I. Formal building regulations .....	42
II. Informal design process .....	44

E.	Risk Assumption .....	45
I.	Construction finance .....	45
II.	Housing microfinance .....	46
III.	Informal finance .....	47
IV.	Risk assumption in informal home-building .....	48
F.	Construction.....	49
I.	Cost of construction.....	49
II.	Private real estate development.....	50
G.	Offtake .....	51
H.	Management.....	51
I.	Gaps and Opportunities .....	52
I.	Gaps and challenges in the supply side value chain .....	52
5.	Demand-Side Value Chain.....	54
A.	Eligibility .....	54
B.	Application .....	55
I.	IHDP Application Process .....	55
II.	Cooperatives Application Process.....	55
C.	Subsidy & Finance .....	55
I.	Government subsidies .....	55
II.	Remittances .....	56
III.	Mortgages .....	57
D.	Credit Underwriting .....	58
E.	Loan Closing .....	59
F.	Funding .....	59
G.	Loan Servicing .....	59
H.	Enforcement .....	59
I.	Gaps and Opportunities .....	60
I.	Gaps and challenges in the demand side value chain .....	60
6.	Conclusion: Recommendations and Policy Implications .....	61
A.	The ecosystem as a whole .....	61
B.	The supply-side value chain .....	62
C.	The demand-side value chain .....	64
7.	Bibliography .....	67

## List of figures

Figure 1. Key public actors on supply side value chain in Ethiopia.....	27
Figure 2. Key public actors on the demand side value chain in Ethiopia.....	27

## List of tables

Table 1. Urban population by gender and region.....	9
Table 2. Housing Units of Towns by Type of Housing Unit (2007) .....	11
Table 3. Estimates of housing shortfall in Ethiopia .....	12
Table 4. Household expenditure on food and housing in 2010/11, by expenditure quintile (urban, ETB per annum).....	13
Table 5. Household expenditure on food and housing in 2010/11, by district (mean percentages)...	13
Table 6. Estimated Household Monthly Income Distribution for Addis Ababa and affordability of a formal dwelling, inflated from 2006 data .....	14
Table 7. Comparative cost of IHDP dwellings, 2004 - 2014.....	15
Table 8. Selected Consumer Price Index numbers 2011 to 2014.....	15
Table 9. Tenure of dwellings in Addis Ababa in 2007.....	18
Table 10. Standards for social mix in Addis Ababa (2002).....	20
Table 11. Area per household standards for Addis Ababa (2002).....	21
Table 12. Minimum habitable area standards, Addis Ababa.....	22
Table 13. Guidelines for land subdivisions for upgrading and renewal projects by level of town (2006 plan) .....	22
Table 14. Housing supply (by supplier) and numbers built in Addis Ababa, 1996-2003.....	23
Table 15. Key Land Legislation and Provisions in Ethiopia .....	24
Table 16. Quantity of land parcels in the Ethiopian urban cadaster, by type .....	25
Table 17. Prices for 140m <sup>2</sup> of residential land, Mainly 2013 (US\$) .....	26
Table 18. Sample Data on Origins of Informal Land .....	39
Table 19. Land Pricing in Expropriation and on Informal Market.....	40
Table 20. Access to shelter-related infrastructure in Addis Ababa, 1996 .....	41
Table 21. Standards for different levels of towns .....	43
Table 22. Housing typologies to be planned for in Addis Ababa areas .....	44
Table 23. Microfinance Institutions Performance as of June 2011 and 2012 (US\$ 000s).....	47
Table 24. Cost of construction (\$).....	50
Table 25. Dwelling type and original beneficiary income level (2005 rate for US\$) .....	54
Table 26. Initial financial structure for beneficiaries according to dwelling type .....	56
Table 27. Dwelling type and cost for next phase of IHDP, 2014 onwards.....	57
Table 28. Distribution and Share of the Banking Business in Ethiopia, June 2012.....	58

## List of appendices

- Appendix 1. The Integrated Housing Development Programme (IDHP)
- Appendix 2. Access to Services in Urban Ethiopia
- Appendix 3. Calculating the Housing Shortage
- Appendix 4. Housing Microfinance Case Study: Addis Credit and Saving Institution
- Appendix 5. Housing Design in Ethiopia
- Appendix 6. Legal Frameworks for Land Use in Ethiopia

## 1. Executive Summary

Ethiopia's history and current landscape of housing delivery is rather unique among Sub-Saharan countries. The former Marxist-government's nationalization of housing in 1975 has led to the condition in Ethiopia that the poorest-constructed neighborhoods in cities are largely under local authority control. The current "developmental state" has inherited what is probably the only stock of public rental housing in the region that was informally<sup>1</sup> built by individual owners— named *kebele* housing – and now in generally very poor condition. This public informal housing stock has been the major feature of all urban housing in Ethiopia for the last fifty years. Mainly built of wood and earth, and roofed in corrugated iron sheets, it has deteriorated over time.

The large stock of kebele housing contrasts with the government's view of Addis Ababa as the diplomatic capital of Africa. In order to advance a clean, modern city paradigm in the capital, the Ethiopian government has been keen to replace the ramshackle kebele dwellings with new buildings.

As the keystone intervention in this effort, the government started the Integrated Housing Development Programme (IHDP) in 2004. It has quickly become the country's dominant housing program. This program turns the Ethiopian government from an enabler to a direct provider, despite the current international view that eschews the idea of governments as providers because of their relative inefficiency. However, according to government officials, this program has been successful in increasing housing supply: in 2011, the IHDP generated dwellings at a rate of 2,850 per month, created 176,000 new jobs, and contributed to a GDP growth rate of 11.5%. 240,000 units have been completed in Addis Ababa under the first phase, and the second phase aims to build 50,000 apartments a year in the city over the next ten years.

Targeted mainly towards the low and middle income population, the IHDP's model involves building large developments of condominium apartments in walk-up blocks. The government-owned Commercial Bank of Ethiopia (CBE), the largest of its kind in Ethiopia, provides front-end and end-user finance with risks underwritten by a Federal Bank guarantee. The CBE's loans are utilized in a financing scheme where a household saves up a specified deposit in order to qualify for a loan to cover the remaining amount (i.e. 20% deposit, 80% CBE loan).

Despite its scale and intentions, the IHDP has thus far failed to significantly improve access to affordable housing for low and middle income households. The cost to consumers of the first phase condominiums has been estimated at ETB 3,142 (US \$162) per m<sup>2</sup>, which is between one-fourth and one-sixth of the cost of private real estate, but this significantly subsidized end-user price still lies beyond the reach of the average Ethiopian household. A large proportion of these excluded households have instead opted to rent out their allotted condominiums on the market, capitalize on the price differential to make money, and own the unit once the full cost is paid off.

Outside of the IHDP, the current urban housing stock is dominated by three forms of provision: individual self-build in the informal sector, individual self-build in the formal sector, and co-operative housing. Real estate development is a relatively small provider. The two most common tenures are private rentals and owner-occupation, the latter often in the informal sector.

Ethiopia is still a predominantly rural country, with only about one fifth of its people living in urban areas in 2014. The urban population is concentrated quite heavily in the centrally located regions around

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<sup>1</sup> Informality, in this context, refers to the planning and standard of the built environment rather than the legal aspect.

Addis Ababa. Most urban households occupy one or two rooms, often in single story multi-occupied housing, in which rooms are built around a courtyard. Plots are smaller in urban Ethiopia than is common in Sub-Saharan Africa, and densities within plots are quite high as several households may share a plot within the compound housing form. Thus, although cities seem to be expanding quickly, small plot standards mean that there is the potential to limit sprawl within the current plot regulations, unlike elsewhere in the region. Furthermore, the housing shortfall is mainly one of quality rather than quantity: shortfall estimates of around one million are usually cited, but they are not based on detailed analysis of the current housing stock.

Housing finance, on both the supply and demand side, is underdeveloped. Consequently, the private sector is minimally involved in either value chain. Past attempts at partnering with the private sector have generally failed and led to distrust between both parties. Housing policies and programs are thus state-dominated, which continues to disincentivize private sector participation.

For more information on the key public and private actors in the Ethiopian housing ecosystem, please refer to **Section D. Key Players**.

## 2. Methodology

The Ethiopia Country Case Study is one report of a 4-part series on a Stocktaking of the Housing Sector in Sub-Saharan Africa, in which companion case studies for Nigeria and Cameroon were produced along with an overall regional report. Each of these reports were developed using the Affordable Housing Institute's (AHI) *Housing Ecosystem* methodology, which captures a holistic but granular understanding of a country or city's housing environment and the ways in which that environment is enabling or disabling the production of affordable housing. This tool enables the mapping of the overall housing development processes, including both formal and informal elements, identification of systemic gaps or blockages, and easy comparisons across countries and housing environments.

The crux of the *Housing Ecosystem* methodology involves organizing information on the housing sector along supply- and demand-side value chains. Each value chain consists of eight discrete steps. Housing is the output of a supply-side value chain that begins with land identification and ends with ongoing post-off take operations and maintenance. In the same way, new housing finance is the output of a corresponding demand-side value chain that begins with eligibility/suitability and ends with loan servicing, collection, and enforcement.

## SUPPLY

1. **Land**  
To identify, acquire and prepare land for physical development.
2. **Trunk Infrastructure**  
To connect site to trunk infrastructure.
3. **Site Layout**  
To plan location and program of site components.
4. **Design**  
To configure and design project: units, buildings, landscape.
5. **Risk Assumption**  
To absorb potential risks and commit funds to project.
6. **Construction**  
To construct project.
7. **Offtake**  
To occupy, sell, or allocate housing units.
8. **Management**  
To run facilities management and operations, and maintain occupancy.

## DEMAND

1. **Eligibility**  
To identify target market and determine who is eligible to receive housing product.
2. **Application**  
To market to potential applicants and solicit applications.
3. **Subsidy**  
To secure commitment for subsidy.
4. **Credit Underwriting**  
To perform due diligence and select applicants.
5. **Loan Closing**  
To execute all legal documents.
6. **Funding**  
To source additional loan funds.
7. **Loan Servicing**  
To collect payment of principal and interest from borrowers.
8. **Enforcement**  
To mitigate risk of default, to mitigate loss if default occurs, and to recover losses if default occurs.

While these steps may seem to only convey a formal approach, they can be used to analyze how informal housing value chains operate alongside the formal value chains. A parallel analysis of the formal and informal is absolutely necessary given the pervasiveness of informality in the SSA housing sector (see **Part I: Regional Report**).

### Informality and formality in housing

As related to housing, ‘formality’ typically means a home has valid legal title, is structurally sound and comports with local building codes, and can be pledged as collateral for a long-term mortgage loan; ‘informality’, therefore, is everything that has a defect from this standard. That definition serves well in developed nations with mature housing ecosystems, but quite poorly in the emerging world.

What is typically considered ‘formal housing’ is in fact a product, manufactured (usually in situ) across an eight-step value chain by qualified professionals, then sold as a finished package. Formality is thus predicated on the existence and effective functioning of value chain links and components that include entitlement systems, laws governing land use, building codes, contractor standards, title transfer and recordation, and so on. Formal housing requires the *entire* value chain sequence to work; if any link is broken, the formal financing system considers the home ‘informal.’

The ecosystem that actualizes the supply-side value chain is a complex construct of entities, ideas, capital flows, and government institutions which has taken more than a century to evolve and build in developed nations. Emerging countries are trying to replicate locally-adapted ecosystems in decades or less – and not surprisingly, in many emerging countries one or more links is weak, unreliable, incomplete, or in some cases broken. As a result, whereas formality dominates in developed nations, within emerging countries informality predominates and formality is rare.

While there is limited data on the formal, data on the informal is even scarcer. In light of this, the report intends to take stock of available data sources and supplement it with insight gained by liaising with key



local stakeholders, including the Ministry of Works and Urban Development, the Addis Ababa Housing Construction Project Office, the Commercial Bank of Ethiopia, the Amhara State Construction and Housing Development Agency, and the Addis Saving and Credit Share Company, among others. By mapping this data along the supply-side and demand-side value chains, this report provides the following:

- A detailed overview of the housing market that describes the current housing stock, land and housing supply, housing needs and demand, housing costs and affordability, and the key players.
- An analysis of the current regulatory and financial environment affecting the availability of housing, land and housing policies, the fiscal side of the housing market, and the housing finance supply.
- An overview of the housing delivery process and the construction industry, including the informal sector.

### 3. Overview of Housing Market

#### A. Housing Demand and Affordability

##### I. Housing needs and demand

###### *Population growth and distribution*

The medium variant population forecast estimates that there are 88 million people in Ethiopia in 2014, with 16.7 million people in urban areas (about 20%). This represents a growth in urban population between 2007 and 2014 of almost 5 million – about 45% of the 2007 total.

Ethiopia is still a predominantly rural country. The urban population is concentrated quite heavily in Oromia and Amhara Regions and the Addis Ababa City Administration area, all of which are centrally located. These areas contain more than 8 million of the 11.9 million urban population (Table 1). The gender split is almost 50:50 in the national urban population, but some regions include more males (SNNP, Somali, Affar, Gambella) and others more females (Addis Ababa, Tigray).

Table 1. Urban population by gender and region

Geographical Area	Male	Female	Total
Country total	7,517,588	7,582,497	15,100,075
Oromia	2,157,729	2,105,241	4,262,970
Addis Ababa City Administration	1,478,890	1,624,783	3,103,673
Amhara	1,311,200	1,392,388	2,703,588
S.N.N.P	1,109,167	1,038,777	2,147,944
Tigray	529,397	591,059	1,120,456
Somali	412,937	342,702	755,639
Dire Dawa City Administration	134,129	135,005	269,134
Affar	149,310	130,791	280,101
Benishangul Gumuz	90,683	87,306	177,989
Harari	56,439	56,342	112,781
Gambella	67,658	61,142	128,800
Especial Enumeration Area	40,078	33,922	74,000

Source: CSA 2013

### *Household characteristics*

According to the 2007 Ethiopian Census, there were 3.43 million households in urban areas in Ethiopia, about half a million more than the number of dwellings. In 2007, the urban mean for household size was 3.9 persons per dwelling.<sup>2</sup> The figures for Addis Ababa (4.2) and Dire Dawa (4.1) are slightly higher than the urban norm. Moreover, there is a relatively even distribution of households among sizes one to four persons; together, they constitute about 60% of all households in urban Ethiopia.

Nearly half (>45%) of urban Ethiopians live in single rooms. The mean number of rooms in urban dwellings is 2.1. Urban households have slightly more rooms than rural households, but this does not mean that they have more living space as there are no data for room sizes. In addition, 43% of urban households occupy their dwellings at more than three persons per room.<sup>3</sup>

While only 4% of households share a dwelling, many live in multi-occupied housing. As a dwelling is usually regarded as the space occupied by a single household, sharing a dwelling is a sure sign of overcrowding. Multi-occupied housing, on the other hand, tends to be designed to be occupied by several households and so are not necessarily overcrowded. They do, however, represent the sharing of services between households.

### *Dwellings in Addis Ababa and other urban areas*

Of the 2.9 million dwellings (Table 2) in urban Ethiopia in 2007, 629,000 of them were in Addis Ababa (18% of national stock). Other regions with large urban housing stocks are Oromia (some of it as a continuation of the capital) and Amhara.

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<sup>2</sup> As only about 4% of Ethiopia's urban households share a dwelling, the number of persons per dwelling can be used as a proxy for household size.

<sup>3</sup> Three persons per room is chosen by G. Abelti, M. Brazzoduro, and B. Gebremedhin, "Housing Conditions and Demand for Housing in Urban Ethiopia," (Addis Ababa: Central Statistical Authority, 2001). as a reasonable overcrowding threshold, but from a capacity-to-provide standpoint rather than social or health considerations.

Table 2. Housing Units of Towns by Type of Housing Unit (2007)

Area	All	Conventional	Improvise d	Mobile	Others
Country Total	2,897,018	2,811,191	74,591	10,616	620
Tigray	231,827	225,683	6,006	128	10
Affar	43,762	39,535	1,286	2,931	10
Amhara	591,428	580,122	10,973	260	73
Oromia	836,074	819,536	15,736	685	117
Somali	91,241	75,393	10,374	5,314	160
Benishangul Gumuz	27,347	26,721	621	-	5
S.N.N.P	342,224	332,582	9,335	250	57
Gambella	19,080	18,072	977	31	-
Harari	27,415	26,366	762	256	31
Addis Ababa City Administration	628,986	612,071	16,416	382	117
Dire Dawa City Administration	51,596	49,509	1,904	143	40
Especial Enumeration Area	6,041	5,603	202	236	-

Source: 2007 Census: table 8.1

#### *Measuring the shortfall in urban housing*

Housing shortfalls can be calculated based on three different qualities: i) the numerical shortfall in dwellings (deficit), ii) the qualitative shortfall in physical conditions (obsolescence), and iii) the space shortfall within dwellings (overcrowding).

As Table 3 demonstrates, estimates of the housing shortfall are so varied that it is difficult to pinpoint the most accurate one. For more information on what these calculations entail, please see **Appendix 3. Calculating the Housing Shortage.**

Table 3. Estimates of housing shortfall in Ethiopia

Source	Year	Shortfall Estimate	Rationale
Research (Abelti et al. 2000)	2000	630,000	Overcrowding
Organisation for the Review of Addis Ababa Master Plan (ORAAMP)	2002	50,000 (overcrowding); 210,000 (deficit)	Overcrowding and deficit
Urban Sector MDG Needs Assessment	2005	225,000	New dwellings per year needed to reach MDGs by 2015
2007 Census	2007	340,000	Overcrowding (fit household sizes to crowding threshold)
Research (Fraser 2013)	2013	900,000	Deficit
Policy discussions – IHDP	2014	1,200,000	Number of applicants to IHDP programme plus a guess of 300,000 likely applicants

## II. Housing costs and affordability

### *Household income levels*

Households in urban Ethiopia generally have far too little income to afford formal housing. Current income data are not available so we can only estimate from earlier data and small pieces of current information. For example, in 2014, a building laborer earns ETB50 (US\$2.60) per day (ETB1,250; US\$65 per month) while a skilled building artisan earns upwards of ETB70 (US\$3.60) per day (ETB1,750; US\$90 per month). Expenditures can be inferred from the 2010/11 Ethiopian Households Consumption - Expenditure (HCE)<sup>4</sup> (Table 4).

### *Expenditure on housing*

The World Bank assumes that housing payments of 30% of income are reasonable. In Table 4, the 2010/11 figures for household expenditure using the COICOP classification shows that, overall, households in Ethiopia appear to be spending a mean of 28% of their expenditure on 'housing, water, electricity, gas and other fuels'. This figure is seriously affected downwards by the low percentage expenditure of the highest quintile. Those in the lower quintiles spend much more than those in the higher, as a percentage of their total expenditure. The median household appears to spend about 36%, which counts as very high expenditure for such poor quality housing. The acknowledgement of such high spending is one thing, but planning that this should be so is quite another. Furthermore, some of the 30% would be on the non-housing component of that.

<sup>4</sup> Federal Democratic Republic of Ethiopia, "The 2010/11 Ethiopian Households Consumption - Expenditure (Hce) Survey: Results for Country Level, Statistical Report,"(Addis Ababa: Central Statistical Agency, 2012).

Table 4. Household expenditure on food and housing in 2010/11, by expenditure quintile (urban, ETB per annum)

COICOP Classification		Expenditure quintiles (ETB)					Total
		1 (1,471 to 11,370)	2 (11,370 to 15,765)	3 (15,765 to 20,657)	4 (20,657 to 28,347)	5 (28,347 to 53,573)	
Food and Non-Alcoholic Beverages	ETB	4,150	5,877	7,501	9,909	17,648	11,540
	%	46.8	42.8	41.2	40.9	38.3	39.6
Housing, Water, Electricity, Gas and other fuels	ETB	3,336	5,278	6,546	7,886	10,704	8,062
	%	37.6	38.5	35.9	32.5	23.2	27.7
Affordable capital cost at the mid-point (ETB)		34,507	54,600	67,711	81,572	110,727	83,400
Mean Affordable area at the expenditure quintile mid-point (m <sup>2</sup> ) *		11.5	18.2	22.6	27.2	36.9	27.8

Source: Federal Democratic Republic of Ethiopia<sup>5</sup>

Note \* This assumes hollow block construction at ETB3,000 per m<sup>2</sup>, and 7.5% per annum interest rate used by CBE

In Table 4, it is evident that the lowest quintile of households by income spend almost 40% of their expenditure on housing, water, electricity, gas and other fuels. This is a very high percentage, much higher than should be encouraged by policy. Even so, they can only afford 11.5m<sup>2</sup> of the cheapest form of formal construction (hollow block construction at ETB3,000 per m<sup>2</sup>). Table 4 shows that if the households spend all their 2010/2011 expenditure on housing, water, electricity, gas and other fuels on paying for housing through a loan at 7.5% per annum (CBE rates) the median household (the midpoint of the third quintile) could afford 22.6 m<sup>2</sup> of housing at ETB3,000 per m<sup>2</sup>. This is very slightly cheaper than the IHDP 2014 cost of ETB3,142 (US\$162) per m<sup>2</sup>. The lowest estimated payment for apartments in the new phase of the IHDP is likely to be ETB 12,700 (US \$650) per annum, almost twice the median household's 2010/2011 spending (ETB6,546) on housing, water, electricity, gas and other fuels.

Table 5. Household expenditure on food and housing in 2010/11, by district (mean percentages)

Mean percentage per capita household spending on:	Tigray	Afar	Amhara	Oromia	Somali	Bensh.	SNNP	Gambella	Harari	Addis Ababa	Dire Dawa	Total
Food and Non-Alcoholic Beverages	43	53	47	47	50	46	48	53	41	39	44	46
Housing, Water, Electricity, Gas and other fuels	19	21	21	21	21	19	25	22	23	29	27	22

Source: Federal Democratic Republic of Ethiopia,<sup>6</sup> Table 27

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

Table 5 shows that housing and utilities range from 19% to 29% of regional per capita expenditure, next to food and non-alcoholic beverages. This would argue a reduction from 30% as a reasonable affordability. The CPI has also been used to inflate 2006 income data to 2014 in Table 6 to use for affordability calculation. It is clear from Table 6 that both the laborer and the artisan (above) fit into the low/middle income group and would only be able to afford 15-19 m<sup>2</sup> in hollow block using only their income. Middle and high income groups, who can afford more than 23 or 28m<sup>2</sup>, constitute a maximum of 25% of Ethiopia's urban population.

Table 6. Estimated Household Monthly Income Distribution for Addis Ababa and affordability of a formal dwelling, inflated from 2006 data

A Income Group	B Income bracket (in 2014 ETB)	C Estimate of Income distribution in 2006 (%)	D Midpoint of income group (ETB)	E Monthly payment affordable at 25% (ETB)	F Monthly payment affordable at 30% (ETB)	G Size of affordable home at 25% of income (m <sup>2</sup> )	H Size of affordable home at 30% of income (m <sup>2</sup> )
Extremely low income	0-332	14%	166	42	50	2	2
Very low income	333-664	26%	498	125	149	5	6
Low income	665-1,162	20%	913	228	274	9	11
Low/middle income	1,163-1,826	15%	1,494	374	448	15	19
Middle income	1,827-2,656	10%	2,241	560	672	23	28
High Income	2,657-3,984	10%	4,980	1,245	1494	52	62
Very high income	3,985+	5%	20,000	5,000	6000	207	248

Source: Curran<sup>7</sup> updated using CPI numbers for 2014.

Notes: Columns G & H assume hollow block construction at ETB3,000 per m<sup>2</sup>, and 7.5% per annum interest rate used by CBE.

Using the figures from column C of Table 6 and data provided by the World Bank office in Addis Ababa, Table 7 shows that the affordability of a 28m<sup>2</sup> condominium in IHDP has reduced from 40% to less than 25% of the urban population.

<sup>7</sup> R.T. Curran, "Supplying Central City Housing for All Income Groups in Addis Ababa: Choosing Public Policies That Facilitate Mixed-Use, Mixed-Income Redevelopment Using Land Regulation and Cost-Sharing Approaches" (Addis Ababa University, 2007). Table 4; Cited by Meheret Ayenew and Richard Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia," (Pretoria: Centre for Affordable Housing, FinMark, 2009). Table 15.

Table 7. Comparative cost of IHDP dwellings, 2004 - 2014

	Cost per m <sup>2</sup> in ETB (US\$)	Cost of 28m <sup>2</sup> in ETB (US\$)	Percentage of households who cannot afford
2004 Gerji Pilot Project	940 (118)	26,300 (3,304)	60
2014 AA estimates (see Appendix 1)	3,142 (162)	88,000 (4,536)	>75

Source: Gerji project from the World Bank's Addis Ababa office; 2014 from stakeholder interview at Addis Ababa Housing Construction Project Office.

### *Has there been an inflation in housing costs?*

Table 8. Selected Consumer Price Index numbers 2011 to 2014

	General Index	Index Food and Non-Alcoholic Beverages	Non-Food Index	Housing, Water, Electricity, Gas and Other Fuels	Furnishings, Household Equipment and Routine Maintenance of the House
National: December 2011	100.0	100.0	100.0	100.0	100.0
National: January 2014	124.3	121.7	127.2	130.1	129.0
Addis Ababa: January 2014	123.3	122.0	124.1	129.9	123.7

Source: Central Statistical Agency.<sup>8</sup> (Central Statistical Agency, 2014: table 1a) (Central Statistical Agency, 2014: table 1a)

It is evident from Table 8 that housing related costs have increased in line with other inflation and perhaps a little faster. It is difficult to tell how far servicing costs influence this.

## B. Current Housing Stock

### I. Overview

The current housing stock in urban Ethiopia is on the cusp of a transition from a predominantly single-story, informally-built stock of multi-occupied dwellings with many renters to one dominated by multi-story blocks of condominiums built by private contractors for owner-occupation at the behest, and with the financial backing, of the government through regional authorities.

Before 1974, the housing stock was built mainly by household activity for owner occupation and small-time renting out. During the period of the Dergue government (1974-87), only the state was permitted to build housing for anything other than single owner-occupation. This, of course, meant that housing supply dried up almost completely, except in the informal sector. After 1991, the market opened up once more. Therefore, a great deal of the existing stock is more than 40 years old, and the newer stock is less than 15 years old.

Current supply-side policies are shifting towards statist provision of condominiums, via the Integrated Housing Development Programme (IHDP), in collaboration with formal private enterprise for

<sup>8</sup> Central Statistical Agency, "Country and Regional Level Consumer Price Indices, No 11," (Addis Ababa: Central Statistical Agency, 2014).

construction and informal private enterprise for components supplies. For more information on the IHDP, please see **Appendix 1. Integrated Housing Development Programme.**

## **II. Housing typologies**

Within Ethiopia's Urban Development Plan (2004/5), there are eight housing supply modalities that are set out in the Urban Housing Supply Strategic Framework. These outline the projected housing strategies for all income groups. The eight modalities are as follows:

### **1. IHDP: Apartments (10/90)**

IHDP condominiums financed via a 10% down payment and 90% CBE mortgage, targeted at households with an income of less than ETB 1,200 a month.

### **2. IHDP: Condominiums (20/80)**

IHDP condominiums financed via a 20% down payment and 80% CBE mortgage, targeted at households with an income of more than ETB 1,200 a month.

### **3. IHDP: Condominiums (40/60)**

IHDP condominiums financed via a 40% down payment and 60% CBE mortgage, targeted at households with an income of more than ETB 1,200 a month.

### **4. Construction for special purposes**

This includes housing in industrial villages, for university staff and for mega-projects.

### **5. Co-operatives**

Building on housing co-operatives' past success, applicants for co-operative housing will be expected to pay half of the dwelling cost on joining the co-operative and half when the co-op is allocated land for construction. They will receive subsidy through land, infrastructure to the site, and a free design. If the government builds the dwellings, they will receive tax-free construction materials. There is no such tax advantage if they use their own contractors.<sup>9</sup>

### **6. Real estate development**

For the high income group, real estate developers would not receive free land but would be encouraged through rapid land allocation and registration to reduce transaction costs. A Proclamation on Real Estate Development will be issued soon and set the parameters for this policy.

### **7. Individuals' building for themselves or to rent out**

Land is auctioned for these prospective builders. There will be no limit on their land holding.

### **8. Public Private Partnerships (PPP)**

There is currently a draft strategy for PPP development of housing which may require some low-income housing to be added to high and middle income.

While all of the above may have potential to provide urban housing, there is nothing in the programmes to encourage anyone to help the majority of the population who cannot currently afford the cheapest

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<sup>9</sup> This seemingly contrary rule is because there is more government control if its builders construct the dwellings.



IHDP apartment. Ethiopia is not unusual in this. It is joined by many other countries in Sub-Saharan Africa (including Malawi, Ghana, Zambia, Liberia and Lesotho),<sup>10</sup> where government housing supply policies are not targeted appropriately at the majority,

### **9. Informal housing suppliers**

Most of the supply over the last few decades has come from the informal sector. As is the case in many Sub-Saharan countries, prospective owners find a small contractor who builds for them in *chika* (a wood and mud mixture), bricks, stone or cement blocks, or corrugated iron sheeting on a pole framework. Many of the new dwellings are built on existing compounds or in the interstices of current development. There are a few single-class or income-group areas.

One of the ways in which housing in urban Ethiopia is different from elsewhere is that almost all the informal housing built before 1975 is in government ownership and known as *kebele*<sup>11</sup> housing. In this section, *kebele* housing is considered a part of the informal sector, although it is owned by the lowest level of local government, as it was previously provided through the informal sector. As Ejigu (2011) argues, *kebele* housing demonstrates how the formal-informal difference is a continuum rather than a dichotomy, as it was built and extended informally before and while under government ownership. Its general condition is poor, as much of it is built in *chika* with corrugated iron roofs often held on with stones. It is poorly serviced but much of it is well located within the interstices of formal residential, administrative and commercial development. Thus, it provides comparatively high density, low quality, but very cheap housing at the heart of Ethiopian cities. The rents for a newly-built *chika* room are likely to be around ETB300 (US\$15) per month, whereas many *kebele* rooms may be only ETB5 or 10 per month (US\$0.25 to 0.5).

All informal housing in existence at the time of a Nortech aerial reconnaissance in 1996 in Addis Ababa has been regularized. Much of the recent additions to informal supply has taken place within the compounds of *kebele* housing and at the outskirts of the city.

The most informal development is probably the squatting that occurs during times of political uncertainty, for example, following the 2005 political unrest in Addis Ababa. The development of these so-called "moon houses" tends to take place overnight<sup>12</sup> after preparation of the *chika* mix and eucalyptus poles over a few days. The lack of new land released at the periphery of cities by the local authorities increases the attraction of settling illegally on government land.

Such illegal settlements still manage to project an image of legitimacy and permanence in many ways. The fact that service providers are prepared to provide squatters with the necessary infrastructure gives them an argument against eviction: they can produce their service bills as a proof of legitimacy. Moreover, building high fences of corrugated iron sheets and a large, elaborate steel gate further cement their claim on the land.

UN-HABITAT<sup>13</sup> estimates that the informal sector has provided 30,000 dwellings between 1996 and 2003, about 4,300 per annum just in Addis Ababa. It is certainly the largest supplier during that period, with one third of all dwellings. Overall, the scale of the informal stock is unclear. The figure of 30,000 for

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<sup>10</sup> UN-HABITAT, "Malawi Urban Housing Sector Profile,"(Nairobi: UN-HABITAT, 2010); "Ghana Urban Housing Sector Profile,"(Nairobi: UN-HABITAT, 2012); "Zambia Urban Housing Sector Profile,"(Nairobi: UN-HABITAT, 2012).

<sup>11</sup> A *kebele* is the lowest level of local government in Ethiopia.

<sup>12</sup> Like the *gecekond* (mushroom) houses in Turkey.

<sup>13</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme,"(Nairobi: United Nations Human Settlements Programme, 2010).

the informal supply between 1996 and 2003 is obviously a rough estimate, as is the 60,000 informal dwellings (20% of the stock) thought to exist in Addis Ababa in 2000. Fransen and van Dijk<sup>14</sup> estimate that more than 65% of housing in urban Ethiopia and 70% in Addis Ababa is informal. In Addis Ababa, 29% of land is estimated to be occupied illegally.

A further important role the informal sector plays is in extending the housing supply via extensions to current dwellings. Many privately-built dwellings begin with a single structure on a fenced plot. This is then often added to with a kiosk or room to rent, near the front fence. Next, additional rooms would be added along the rear or sides until an entire courtyard house is completed. Later, all this may be replaced by a two to four story house.<sup>15</sup> In this incremental housing process, extending over many years, an artisan or teams of artisans would provide most of the work.

The current Addis Ababa Development Standards<sup>16</sup> adopt an ambiguous stance towards informal housing. In one paragraph (in Section 1.2.5), the document discusses the regularization of informal settlements, the provision of title deeds, and the provision of roads and other services in a people-sensitive way. Two paragraphs later, however, the same standards talk of strict control of informal development of housing and following up through demolition.

### Housing Tenure

In terms of housing tenures, renting is dominant in Addis Ababa – constituting 67% of the housing stock in Addis Ababa in 2007 (Table 9). In contrast, current policy is dominated by owner-occupied housing solutions such as the IHDP condominiums.

Table 9. Tenure of dwellings in Addis Ababa in 2007

Tenure	Dwellings in 2007	Percentage of Total
Rented from private households	222,409	35%
Owner occupied	205,175	33%
Rented from <i>Kebeles</i>	148,629	24%
Rented from Rental Housing Agency (RHA)	11,385	2%
Rented from other organizations, including rent free	41,387	7%
<b>Total</b>	<b>628,985</b>	<b>100%</b>

Source: CSA 2010 cited by EiABC.<sup>17</sup>

Figure 1. Tenure of dwellings (percentages)<sup>18</sup>

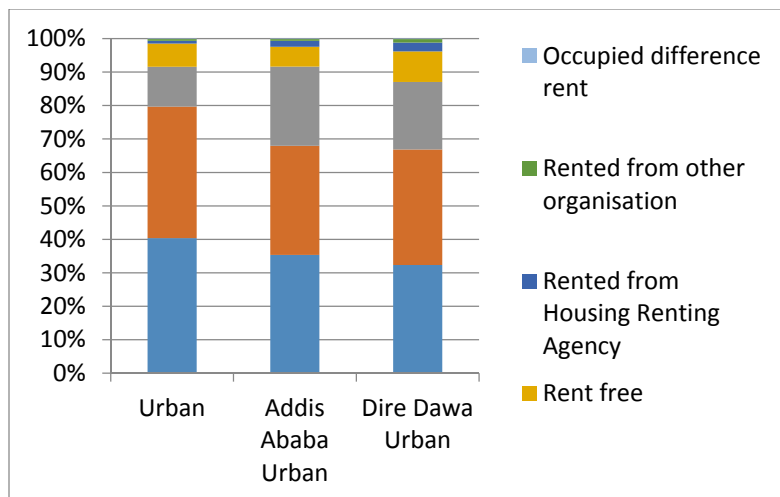
<sup>14</sup> Jan Fransen and Meine Pieter van Dijk, "Informality in Addis Ababa, Ethiopia,"(Rotterdam: Unpublished paper, HIS/Erasmus University, 2008).

<sup>15</sup> Two stories are described in Ethiopia as 'Ground plus' one or 'G+1'. Higher developments are G+2 or G+3.

<sup>16</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components,"(Addis Ababa: City Government of Addis Ababa, Office for the Revision of the Addis Ababa Master Plan (ORAAMP), 2002).

<sup>17</sup> EiABC, "Performance Evaluation: Development Plan of Addis Ababa 2003-2010; Housing Component, Addis Ababa,"(Addis Ababa: Ethiopian Institute of Architecture, Building Construction and City Development, Addis Ababa University., 2011).

<sup>18</sup> Most rent free housing is company and agency housing for workers (including the forces). "Occupied difference rent" represents a situation where two individual dwelling owners swap their dwellings. If the rent of one is less than the other, one pays the difference and the tenure is registered as "occupied difference rent."



Source: Census 2007, Table 8.10.<sup>19</sup>

In 2007, between 33 and 40 percent of urban dwellings were owner-occupied and 60 percent rented (Figure 1). Though housing rented from the *kebele* constituted a large proportion of housing when it was nationalized by the Dergue, it declined to less than a quarter of Addis Ababa's stock in 2007, as other housing has been built over the years. IHDP is likely to have further increased owner-occupation as a proportion of the stock.

### Building Materials

Over many years, the main local construction method in Ethiopian cities has been mixing *chika* (or "wood and mud"), which is made on site by combining wet earth with chopped straw from the *teff* grain crop. The mixture is allowed to ferment for a few days before use. It is plastered inside and out on an armature made from vertical rough poles or planks with some diagonal bracings. At the time of 2007 Census, an astonishing 80% of dwellings in urban Ethiopia had walls made of *chika*. Even in Addis Ababa, *chika* constituted the wall material for 75% of dwellings.

While *chika* dominates the urban milieu in Ethiopia, cement is the main building material in the small formal sector everywhere, except in the few areas where stone is common. There are four cement plants in Ethiopia, with more on the way, relying on the large deposits of limestone available.

The introduction of the IHDP in 2005 may have reduced the number and proportion of *chika* housing, but likely not by very much, as new informal housing tends to be built in *chika*. The proportion in hollow cement blocks is likely to have risen.

In terms of roofing, urban housing is overwhelmingly roofed in corrugated iron sheets. The same material is frequently used in delineating boundaries of properties (as 2 meter high fences supported by eucalyptus poles).

In 1994, Abelti et al<sup>20</sup> estimated that 1.3 million existing dwellings required renovation, as their walls were constructed of traditional materials. However, equating traditional materials with poor durability is not necessarily fair, especially in areas where stone is used. *Chika* may be one of the poorer mud-based materials in use in urban Sub-Saharan Africa, but if it is well maintained, it can stand for many decades.

<sup>19</sup> Central Statistical Agency, "2007 Population and Housing Census," (Addis Ababa: Central Statistical Agency, no date).

<sup>20</sup> Abelti, Brazzoduro, and Gebremedhin, "Housing Conditions and Demand for Housing in Urban Ethiopia."

Solomon et al<sup>21</sup> estimate that 40% of the housing stock in Addis Ababa and 20% in other urban areas required replacement between 2005 and 2015 due to their physical condition. A further 10% in Addis Ababa need replacement to ease overcrowding, which placed the overall need for replacement at half of Addis Ababa's stock.

While the use of traditional, mud-based materials minimizes capital cost, it also tends to increase the need for regular maintenance. An appropriate overhang on the roof is needed to protect the walls from rain, and a foundation is needed to protect walls from splash-back.

### Plot sizes

Table 10. Standards for social mix in Addis Ababa (2002)

Income group	Percentage	Proposed plot areas (m <sup>2</sup> )	Percentage share within income group
High	4-5	500 (average)	50
		300 (average)	50
Middle	16-21	175	50
		150	50
Low	74-80	120	25
		105	25
		95	25
		75	25

Source: ORAAMP.<sup>22</sup>

Note: The shaded area shows a proposed overlap between middle- and low-income plot sizes

Table 10 shows that recommended plot sizes are much smaller in Ethiopia than in much of urban Sub-Saharan Africa as plots of less than 200 m<sup>2</sup> are quite rare in standards elsewhere in the region. They are also accompanied by relatively high plot ratios, with a general expectation that about half of each can be covered. Formal development, using the smaller plot sizes allowed, renders potentially high population density in the area, as shown in the area occupied per household at net, gross and city densities (Table 11). Although reality and intended norms do not necessarily match, Ethiopian cities are, therefore, potentially denser than most other cities in Sub-Saharan Africa. The commonly-seen pictures of *kebele* housing also gives credence to the idea that cities in Ethiopia are densely populated. Indeed, the standards are probably undercut as often as they are exceeded but there are no known data on this.

<sup>21</sup> Solomon Mulugeta, Mathewos Asfaw, and Tesfaye Yalew, "Urban Sector Millennium Development Goals Needs Assessment: Improving the Lives of Slum Dwellers," (Addis Ababa: Federal Government of Ethiopia 2004).

<sup>22</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components." (2002) table 2.1



Figure 2. High density evident in kebele housing such as this next to a government building in Bahir Dar

When areas per household are taken into account, given the tendency for house owners to rent out some rooms, they are even less typical of Sub-Saharan Africa with a lower limit of only 40 m<sup>2</sup> per household (Table 11).

Table 11. Area per household standards for Addis Ababa (2002)

Areas	Average land area per household (m <sup>2</sup> )		
	For pure residential use (Net density)	Plus services and infrastructure (gross density)	Plus city level uses (city density)
City core area	40-80	80-100	100-120
Intermediate area	80-130	130-140	140-150
Expansion area	130	185	215

Source: ORAAMP.<sup>23</sup>

A combination of some of the smallest minimum plot size standards in Sub-Saharan Africa,<sup>24</sup> the ownership of all land by the state, and the lack of any (or extremely low) monetary value attached to small plots of land, should render land easily obtainable for low-income Ethiopians. Unfortunately, the reverse is true and most cannot obtain land at a price they can afford. In theory, the standards are more

<sup>23</sup> Ibid. table 1.1.2

<sup>24</sup> Other minima, for comparison, include 350m<sup>2</sup> in Ghana, 400 m<sup>2</sup> in Lesotho, 288m<sup>2</sup> in Zambia.

realistic for low-income occupants than elsewhere in Sub-Saharan Africa, but incomes are very low indeed in Ethiopia.

Table 12. Minimum habitable area standards, Addis Ababa.

Income group	Min. habitable* area (m <sup>2</sup> )	Remarks
Low	20	13m <sup>2</sup> multi-purpose room + 3 m <sup>2</sup> toilet + 4m <sup>2</sup> kitchen as first phase with second phase of a further bedroom of 10m <sup>2</sup>
Middle	30	As above, plus allowance for further expansion of the main house and a service quarter.
High	-	-

Note: \*This is not the international use of habitable, as it excludes toilet, kitchen, bathroom and corridor spaces.

Source: ORAAMP

Along with plot sizes, minimum habitable areas are very small in Addis Ababa, when compared with urban Sub-Saharan Africa. When the areas in Column 2 of Table 12 are converted to international terminology for habitable area, the minimum for low-income households is only 13 m<sup>2</sup>, closer to that of India than the rest of Sub-Saharan Africa.

Density and plot size standards also differ among the different size categories of towns and cities. Table 13 shows this differentiation.

Table 13. Guidelines for land subdivisions for upgrading and renewal projects by level of town (2006 plan)

Variables	Cities and Metropolitans	Large Towns	Small and Medium Towns
Residential density (max persons per Ha)	500	300	200
Plot size (m <sup>2</sup> )	200	250	250
Plot share for condominium (m <sup>2</sup> )	75	100	125

Source: Methewos.<sup>25</sup>

Though the plan shown in Table 13 is for condominiums to have a guideline 75m<sup>2</sup> of land per household, the mean between 2005 and 2013 has been 110m<sup>2</sup> of land per household, growing from 52 m<sup>2</sup> originally to a high of 170 m<sup>2</sup> in 2008-10.

### *Access to services*

As with most urban areas in Sub-Saharan Africa, in Ethiopia, there are two contrasting urban environments: one in which most infrastructure is present and one in which little infrastructure exists. Even in the former, however, many services are liable to shortages and shut-downs.

The suppliers of infrastructure country-wide tend to be local authorities, Ethiopian Electric Power Corporation, and Ethio Telecom, all of which have a virtual monopoly on supply. These are regulated by the relevant government Ministry.

Keeping servicing on pace with development is a challenge in Ethiopian cities, as it is in many other areas of Sub-Saharan Africa. In urban areas generally, the provision of trunk infrastructure comprising roads, water supply, sanitation, and electricity lags behind the housing developments. The capacity of the agencies in charge of providing infrastructure up to the current need is not well developed. In addition,

<sup>25</sup> Mathewos Consult, "Urban Upgrading and Renewal Manual," (Addis Ababa: Federal Urban Planning Institute, Ministry of Works and Urban Development, 2006).

when the infrastructure is provided, there is lack of coordination among the various agencies, resulting in delays and errors. The lack of provision of basic infrastructure and services has impeded development in some neighborhoods and held back the plans of developers with leases on the land. Overall, the lack of advanced planning and coordination between the city/sub-city administration and infrastructure providers generates unnecessary costs and delays in development.<sup>26</sup>

For those residing in IHDP condominiums, the process of obtaining services begins within the allocation process. An owner can go to the water and electricity supply offices, carrying a letter given by the Housing Transfer Office, stating that they were offered a new condominium and the infrastructure connection should be supplied to the user. The owner should be provided with the service in two weeks in areas where the trunk infrastructure already exists. The owner will be asked to pay ETB 280 (US\$14.3) for the water connection and ETB 70 (US\$3.6) for the electricity connection.

For more information on access to services in Ethiopia, please refer to **Appendix 2. Access to Services in Urban Ethiopia.**

### III. Housing supply

Table 14. Housing supply (by supplier) and numbers built in Addis Ababa, 1996-2003.

Housing supplier	No. of houses	Percentage share
Public	7,409	8.4%
Co-operatives	24,820	28.2%
Individuals (formal)	22,225	25.3%
Real estate developers	3,520	4.0%
Informal sector	30,000	34.1%
Total	87,976	100%

Source: UN-HABITAT, 2010

Table 14 describes the housing supply in Addis Ababa between 1996 and 2003. It shows that about 12,000 dwellings were provided each year with three large suppliers: the informal sector (for which the 30,000 is likely to be no more than an educated guess) provided about one third, the co-operatives provided 28%, and the individual formal self-build provided one fourth. Real estate developers are not a large supplier, at only 4%. The government sector, before IHDP, was providing about a thousand dwellings per year (8%).

## C. Current Land Stock

### I. Legal frameworks for land

Before 1974, land in Ethiopia was controlled by a feudal system, with a mixture of government, church and communal holdings. Written laws tended to favor influential individuals. This kind of land-holding system – in which the majority of the middle and low-income groups were excluded from owning urban land – is seen as the root of the poor housing evident in Ethiopian cities.<sup>27</sup>

<sup>26</sup> Access Capital, "Investing in Ethiopia," (Addis Ababa: Access Capital Services SC, 2010).

<sup>27</sup> Solomon Mulugeta, Mathewos Asfaw, and Tesfaye Yalew, "Urban Sector Millennium Development Goals Needs Assessment: Improving the Lives of Slum Dwellers."

However, events following 1974 simply made things worse so that between 70% and 90% of people were thought to live in slum conditions in 2004.<sup>28</sup> After the Dergue takeover, by Proclamation 31/1975, all rural land became state property without any compensation to individual and community holders. The holders were only given use rights. Similarly, by Proclamation 47/1975, all urban land and extra houses were nationalized without compensation. Tenants could stay without obligations of rent-arrears or debt to the landlord. Rents were halved for many households. Owners who had built a dwelling had the right to sell or transfer it, but they could not transfer the land. The right to transfer land is held by the government to protect social equity and tenure security, in particular to protect subsistence farmers from market forces.<sup>29</sup> Under the post-1991 government, land has continued to be publicly owned. The idea of the land not being for sale, but only the improvements thereon, is similar to the customary idea of land remaining as communal property in some West African countries. The main difference is that the state that owns the land in Ethiopia, and not the local community.

Apart from the decrees laid out in the Constitution, there is no national land policy document. As Samuel Gebreselassie<sup>30</sup> noted, “by inserting the land policy in the constitution, the current government has effectively eliminated the possibility of flexible application of policy.”

The following table highlights the main legislation and provisions related to land administration in Ethiopia. For more information on these frameworks, please refer to **Appendix 6. Legal Frameworks for Land Use in Ethiopia.**

Table 15. Key Land Legislation and Provisions in Ethiopia

Topic	Relevant legislation	Key provisions
Land administration	Ethiopian Constitution (Article 40); Land Administration and Use Proclamation (456/2005)	State owns land in Ethiopia. Subsistence farmers protected from eviction. Private investors can obtain land on the basis of payment.
Acquisition and allocation	Urban Land Lease Proclamation (721/2011)	Tender (auction) and allotment (land lease transfer without auction) are the only two means of lease transfer from government to citizens.
Sales/transfers	Urban Land Lease Proclamation (721/2011)	Land sales are prohibited. The mortgage value of the leasehold right is limited to the extent of the lease amount already paid.
Titling and registration	Urban Land Lease Proclamation (721/2011)	Title registration is compulsory and carried out at the <i>kebele</i> (or neighborhood) level.
Zoning	Federal and municipal zoning standards	Recommended plot sizes are much smaller in Ethiopia than in much of urban Sub-Saharan Africa.
Construction	Urban Land Lease Proclamation (721/2011)	Time to construction start is limited to 24, 36 and 48 months for small, medium and large scale construction, respectively. Penalties include a fee to the developer and the reclamation of the land by the city administration.
Expropriation	Expropriation Proclamation (455/2005)	Land holders must be compensated fairly in the event of expropriation by the government. In the case of

<sup>28</sup> Ibid.

<sup>29</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights," (Rome, Italy: Working Paper TS02D - Customary and Group Land Rights, 5521 1/27, FIG Working Week 2012 "Knowing to manage the territory, protect the environment, evaluate the cultural heritage", 6-10, May, 2012).

<sup>30</sup> Samuel Gebreselassie, "Land, Land Policy and Smallholder Agriculture in Ethiopia: Options and Scenarios," in *Future Agricultures Consortium meeting* (London: The Institute of Development Studies, 2006).



		IHDP, evictees have 3 choices: buy an existing condominium, be allocated any available <i>kebele</i> housing, or be allocated land to build on with compensation.
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## II. Land supply

There is a very long history of indigenous land surveying and documentation in Ethiopia. The *Irst* system, related with the beginning of sedentary agriculture, is believed to be the first property system in the region. The first recorded land registration and cadastral survey in Ethiopia was initiated in Addis Ababa in 1909. Under Haile Selassie's reign, the Ministry of Land Reform and Administration measured and registered rural land with the aim of creating freehold tenures, individual titles, and a land market. The cadastral plans were based on isolated surveys by the municipalities that also kept the urban land registers. There was no organized land register for rural land, but a rural cadaster is now in development.

Currently, cadastral mapping is limited to urban areas, so the urban cadastral plans are not connected to any grid. Most are still paper-based, and there are about 200 land surveyors in Ethiopia involved in cadastral surveying.<sup>31</sup> According to Cadastral Template,<sup>32</sup> quantities of land parcels involved in the urban cadaster are as follows:

Table 16. Quantity of land parcels in the Ethiopian urban cadaster, by type

Land parcel type	Quantity
Legally registered and surveyed	4 million
Legally occupied, but not registered or surveyed	5 million
Informally occupied without legal title	5 million
Total	14 million

Source: Cadastral Template

The government controls all land supply on the edge of, and around, urban areas. It advertises and sells a minority of such land at auctions and allocates the remainder at negotiated prices that are much lower than would be gained by auction. Kaganova and Sisay Zenebe<sup>33</sup> note that 96% of the 1,000 or so land allocations between 2001 and 2005 were allocated at negotiated prices 1.7 times lower than the auction prices. Between 2011 and 2013, only 6.2% of land allocated in Addis Ababa was auctioned; only 2.9% in Bahir Dar in 2013. While land cost is officially the cost of bringing it into development rather than any value bestowed by location, the auctions endow the land with its locational value.

When government releases land for development, it auctions the rights of surface user on the land with starting prices at varying amounts according to the plot size. The prices are not a total up-front cost; 10% of the total price is paid on allocation and the remaining 90% is to be paid over the following 30 years. As there is an acute shortage of new land available, the auctions fetch very high prices, especially as the only immediate cost is the 10% deposit. The remainder can either be avoided by quickly developing and selling or by using the land commercially and adding the land payments to annual costs

<sup>31</sup> Cadastral Template, "Ethiopia Cadastral Template (Based on the Pcgiap-Cadastral Template 2003)," <http://www.cadastraltemplate.org/countryreport/ethiopia-19apr2011.pdf>

<sup>32</sup> Cadastral Template, "Ethiopia Cadastral Template (Based on the Pcgiap-Cadastral Template 2003)".

<sup>33</sup> Olga Kaganova and Sisay Zenebe, "Ethiopia Urbanization Review: Land Management as a Factor in Urbanization," (Unpublished report: The World Bank, 2014)..

passed on to the customers. The lack of other investment opportunities further drives up the price of land. Benchmark prices asked, and auction prices gained. in several towns can be seen in Table 17, converted from prices per square metre to a plot of 140 m<sup>2</sup>. Such auction prices should be paid with a 10% deposit followed by periodic payments over time (Article 19)<sup>34</sup> If an owner sells a house, the buyer must pay for the house to the seller, and pay the government for the land.

While some of these prices are quite high in the context of Sub-Saharan Africa, they are not necessarily very much when compared with the cost of the formal dwelling to be built thereon. For example, a plot of 140m<sup>2</sup> at the edge of Addis Ababa, sold by auction for US\$50,000 (about the mean according to Table 17), could well contain a dwelling costing more than US\$200,000 so that land cost is only 20% of dwelling cost.

Table 17. Prices for 140m<sup>2</sup> of residential land, Mainly 2013 (US\$)

	Benchmark price		Auction price	
	minimum	maximum	minimum	maximum
Addis Ababa	6,587	12,423	8,923	96,526
Sheshemene	6,576	7,453	-	-
Hawassa	4,517	9,461	7,442	52,316
Mekelle	1,289	4,974	14,111	44,211
Kombolcha	229	458	-	-
Bahir dar	126	589	9,653	58,955
Dessei	126	589	5,379	10,507

Source: Worked from data in Kaganova and Sisay Zenebe,<sup>35</sup> table 10a.

In the informal sector, land for building can be obtained either within an existing compound or on empty land. The former involves someone known to the owner of the compound being given permission to erect a room. The latter involves taking over empty land, all of which is owned by the state, and building a so-called “moon house” overnight. In both cases, the land on which the dwelling stands remains the property of government at local authority level. When payment is required for informal land acquisition, *lqqub* funds<sup>36</sup> are often called upon.

## D. Key Players

### I. Public Sector Actors

Figure 1 and Figure 2 map out the key public actors in the Ethiopian housing ecosystem, according to the steps of the value chain in which they are directly involved.

<sup>34</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights."

<sup>35</sup> Kaganova and Sisay Zenebe

<sup>36</sup> *lqqub* is a form of ROSCA similar to *Susu* in West Africa and *stokvels* in Southern Africa.

Figure 1. Key public actors on supply side value chain in Ethiopia

Land	Trunk Infrastructure	Site Layout	Design and Home Configuration
Agency for the Administration of Rental Houses			
City administrations			
Bureau of Urban Development and Construction*	Ministry of Water and Energy	Sub-city Housing Construction Project Offices	
	Ministry of Transport and Communication		
Risk Assumption	Construction	Off-take	Management
Agency for the Administration of Rental Houses			
City administrations			
Sub-city Housing Construction Project Offices		Sub-city Housing Transfer and Administration Offices	
Construction & Business Bank			Kebeles
Ministry of Urban Development, Housing and Construction			
Commercial Bank of Ethiopia			

Legend
National
Regional
City
Sub-City
Local

Figure 2. Key public actors on the demand side value chain in Ethiopia

Eligibility	Application and Qualification	Subsidy	Credit Underwriting
Commercial Bank of Ethiopia			
Kebeles		City administration	
Sub-city Housing Transfer and Administration Offices			
Loan Closing	Funding	Loan Servicing	Collection and Enforcement
Commercial Bank of Ethiopia			
	City administrations		Kebeles
			Sub-city Housing Transfer and Administration Offices

### *Ministry of Urban Development, Housing, and Construction (National)*

The Ministry of Urban Development, Housing and Construction (formerly, the Ministry of Works and Urban Development, or MWUD) is responsible for providing support and direction at national level to a Bureau of Works and Urban Development in each region, which coordinates the specific needs of their area. Under the Housing Development Bureau in the MWUD, there are four Directors who manage housing finance, the implementation mechanisms, capacity building, and research and design.<sup>37</sup>

In 2008, it was reported that MWUD planned to construct 400,000 houses in 30 towns, with a budget of ETB 24 billion (US \$1.2 billion), ETB 60,000 (US \$3,100) each, for medium and low income earners. In addition to supporting the regional bureaus, MWUD performs the following roles:

- Issues housing policies and strategies
- Provides capacity building and direction for regional-level Bureau of Works and Development.
- Conducts research on various housing sector topics, such as: building materials, self-build, integration between urban-rural, urbanization, poverty and development.
- Supervises supply-side finance activities and housing stock of the federal government.
- Issues certification for housing professionals.
- Sets and enforce construction standards.
- Promotes expansion of SMEs.

### *Ministry of Water and Energy and Ministry of Transport and Communication (National)*

Currently, there is no Ministry of Infrastructure. At the national level, the ministries and their affiliate offices responsible for infrastructure are: Ministry of Water and Energy and its affiliates Water Works and Construction Enterprise (for water) and Electric Power Corporation (for electricity). Ethio-Telecom is responsible for telephone services. Each of these has branch offices at the Regional and City level for the supply and administration of the services. The Addis Ababa Road Authority is responsible for road works in the capital; in regional cities the Infrastructure Work Process, under each municipality, is responsible for roads.

### *Agency for the Administration of Rental Houses (National)*

This Agency for the Administration of Rental Houses (AARH) was formed to maintain the higher value stock of the rental housing that was nationalized in 1975 under the Dergue government. It is also mandated to provide some housing, especially for government workers. Between 1975 and 1991 (the Dergue period) AARH constructed 8,805 dwellings at a cost of ETB 227 million (a mean cost of ETB 25,800).<sup>38</sup> For example, it was involved in financing the construction of small dwellings in the MUDH Gorf Asogage Resettlement Project.<sup>39</sup> It currently builds housing for government officials to rent.

### *Construction and Business Bank (National)*

Until the early years of the twenty-first century, the Construction and Business Bank (CBB), a wholly government-owned public enterprise, was the main lender for housing. In 1994, it took over from the Housing and Savings Bank (HSB), which was formed in 1975 through merging two financial institutions:

<sup>37</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>38</sup> Solomon Mulugeta, Mathewos Asfaw, and Tesfaye Yalew, "Urban Sector Millennium Development Goals Needs Assessment: Improving the Lives of Slum Dwellers."

<sup>39</sup> Essayas Ababu Tarekegn, "Kitiya - Transformation of Low Income Housing in Addis Ababa" (The Norwegian University of Science and Technology., 2000).

the Imperial Savings and Home Ownership Association and the Savings and Mortgage Corporation of Ethiopia. It has been offering mortgages since the early 1970s. Over the years, it has provided finance for thousands of residences. In September 2000, CBB was converted to a commercial company in accordance with the Ethiopian Commercial Code, with a capital of ETB79.0 million.<sup>40</sup>

CBB offers banking services and loans for construction, repair, modification, and acquisition of residential and non-residential buildings. It also provides business loans and foreign banking services.<sup>41</sup>

As a state-owned housing bank, the CBB receives funds from the Central Bank at preferential rates and can pass on the subsidy to home borrowers. According to Meheret Ayenew and Martin,<sup>42</sup> the structure and operation of the Construction and Business Bank may lack sustainability. While it continues to provide mortgage credit, it is not very dynamic in IHDP lending. Up to 1995, the CBB gave mortgages for the construction of 26,912 dwellings for a total of US \$52 million (with a mean of US \$1,900). It has now been almost entirely eclipsed in the housing sector by the Commercial Bank of Ethiopia (CBE), the preferred IHDP lender.

Moving forward, the CCB faces the challenge of limited capital. If it is to reach more potential house builders, it will need the Government to invest more capital.

#### *Commercial Bank of Ethiopia (National)*

The Commercial Bank of Ethiopia (CBE) is the largest bank in Ethiopia, controlling most of the banking sector, and sees its role as promoting a savings culture and alleviating the shortage of housing. Before the introduction of the IHDP, the bank had minimal experience in housing lending. Now, however, the CBE is the only bank which lends for construction and end-user financing in the IHDP.

The CBE has also been contracted to provide all the mortgage funding for 90%, 80% or 60% of the cost of the dwellings. It has accumulated 37,000 new customers in Addis Ababa alone, and has issued a total ETB 1.7 billion (USD \$130 million) in loans at an 8.5% annual interest rate.<sup>43</sup>

Borrowers can pay back their loans at any of the 806 branches, but only in cash. There is no facility to set up regular bank payments or to create a lien on salaries paid into a bank. To reduce transaction costs, savers have a pass book recording their balances and the transfer of title from the builder to the beneficiary is done at sub-city offices across Addis Ababa. There is a very low default rate, and CBE has offices to handle the default process. Repossession is a last resort after all other options have failed.

The myriad of tiny mortgages inherent in the IHDP process (all less than US\$10,000) make little commercial sense. The minimum lending rate in April 2014 is 9.5 percent. The savings rate is 5 percent. CBE also lends money to MFIs and co-operatives, but not in the housing sector. CBE currently uses depositors' money for the loans.<sup>44</sup> CBE has seven million depositors, most of whom are saving towards the 10, 20 or 40 percent they need to qualify for the new loans. This might be one way of easing the perennial problem of borrowing short and lending long which besets mortgage lenders.

The next phase of IHDP, which will be in Addis Ababa only, will be based on the newly developed 10/90, 20/80 and 40/60 financing packages offered through CBE. The paired numbers refer to the percentages

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<sup>40</sup> <http://www.cbb.com.et/About%20Us.html>.

<sup>41</sup> <http://www.cbb.com.et/About%20Us.html>.

<sup>42</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

<sup>43</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>44</sup> Stakeholder interview, CBE, April, 2014.

of deposit payable (first) and loan available (second). It is hoped that the new 10/90, 20/80 and 40/60 loans will encourage longer-term savings and create a steadier lending platform for the CBE.

#### *Bureau of Urban Development and Construction (Regional)*

The Bureau of Urban Development and Construction works in Addis Ababa in the following ways:

- Provides technical support and capacity building for house-building
- Oversees the implementation of policies and strategies at regional level
- Issues codes, standards, and programs based on the legal framework prepared at the Federal level for housing development
- Supervises and coordinate the implementation of policies and strategies by the cities

This type of entity is also present in the other regions of Ethiopia, but is alternatively named the Bureaus of Industry and Urban Development.

#### *City Administration (City)*

City administrations manage the implementation of IHDP. These offices are responsible for new site selection, government resource allocation, bond acquisition from the Commercial Bank of Ethiopia (CBE), and displacement compensation.<sup>45</sup> It also licenses private investment in buildings.<sup>46</sup> In Addis Ababa, the Housing Construction Project Office and the ten sub-city administrations, through their Housing and Construction Agencies, are responsible for the IHDP condominiums in their areas.

City administrations are also responsible for slum upgrading efforts. There are, however, three different departments in the municipality dealing with slum upgrading: the Environmental Development Office (EDO), the Eco City Project, and the Housing Development Office. They each have their own objectives and do not act collaboratively.<sup>47</sup> Their actions regarding slum upgrading have not been consistently predictable. Elias Yitbarek Alemayehu<sup>48</sup> points out that, despite agreements over their security following upgrading, residents of Redd Barna's<sup>49</sup> upgrading in Kirkos were continually in fear of displacement to fulfill AACAs' plans for the wider area.

Overall, city administrations are tasked with implementing development plans. For example, the Addis Ababa City Administration (AACAA) was responsible for carrying out the Addis Ababa Development Plan of 2002, which proposed intervention methods such as: condominium housing, land readjustment, self-help housing, single story compound housing, the privatization of public housing, designing pro-poor realistic housing standards, laws and implementation procedures, co-operatives, the construction of affordable rental housing, and planned informal settlements. The AACAA needed to make the necessary institutional, regulatory, and financial adjustments to encourage private sector involvement in this effort. Unfortunately, most of the above intervention methods were not implemented; the most recent intervention mechanism has instead focused on the upgrading of roads and drainage lines.

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<sup>45</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>46</sup> Zerayehu Sime Eshete and Kagne Wolde, "Performance, Challenges and Prospects of Real Estate Financing in Addis Ababa," (Addis Ababa: Bank of Ethiopia, not dated 2008?).

<sup>47</sup> A. Fraser, "A Critical Examination of the Role and Impact of Ngos in the Provision of Housing for the Poor of Addis Ababa: Application of a Rights Based Lens" (Massey University, 2013).

<sup>48</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia" (Norwegian University of Science and Technology, 2008).

<sup>49</sup> Norwegian Save the Children.

### *Housing Construction Project Office and Housing Transfer and Administration Offices (Sub-City)*

The Housing Construction Project Offices operate within each city administration to deliver the design, construction, and administration of the IHDP in Addis Ababa. This is a huge job. In Addis Ababa, ten sub-city branches have been set up around the city.<sup>50</sup> These perform the following functions:

- Study housing data.
- Implement housing development programs for the benefit of target people
- Facilitate housing projects by ensuring the availability of land, housing design, building materials and building contractors.
- Follow up, supervise and ensure that housing programs are implemented according plan.
- Identify challenges encountered during project implementation and report them to concerned bodies

The Housing Transfer and Administration Offices are responsible for transferring the completed houses to eligible applicants.

### *Saving Houses Development Enterprise*

This is a city level structure established to implement the 40/60 housing scheme, focusing on high-rise housing. Its main functions and duties include:

- Implementing the housing development programmes that are based on savings;
- Preparing land, infrastructure, designs and related inputs for the housing developments;
- Causing or undertaking construction by employing consultants and building contractors;
- Supervising and coordinating project site works;
- Taking loans from banks and administering them for the implementation of the housing schemes;
- Transferring to the lending banks the completed dwellings and replenishing the debt to that extent.<sup>51</sup>

### *Kebeles (Local)*

The *kebele* (now called a *woreda*) is the lowest level of local government to which the city functions are decentralized. They are headed by a salaried official.

The *kebeles* are responsible for managing 90% of the rental housing nationalized by the Dergue government. Much of it was in poor condition in 1979, having been built informally with *chika* walls at high densities and with poorly planned layouts. It now tends to be in extremely poor condition and interwoven into the fabric of the city.

Within the nationalized housing, the *kebele* is responsible for allocating accommodation, collecting rent, and carrying out infrastructure maintenance. Although they have been involved in upgrading since the 1990s, under the Environmental Development Office (EDO) in Addis Ababa, the *kebeles* do not have the resources to significantly improve housing and living conditions. Moreover, their management of the housing is very light-handed, often permitting the non-payment of rent, the passing of occupancy rights to heirs, the renting-out of dwellings, and the addition of extensions.

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<sup>50</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>51</sup> *Addis Negari Gazeta* of the City Government of Addis Ababa, 4<sup>th</sup> year, No. 45, 2012)

At the time of nationalization, *kebele* housing constituted 60% of the stock in Addis Ababa. The number of *kebele* dwellings in Addis Ababa was estimated by the then Addis Ababa City Administration Housing Agency as 136,330 in 2003<sup>52</sup> although it has not been added to since then.<sup>53</sup> Most *kebele* housing is slated for demolition in the near future, and will be replaced with condominiums in the IHDP. Indeed, the local use of the term slum upgrading is for the demolition of *kebele* housing and redevelopment of neighborhoods as condominiums. This process is tantamount to a privatization of the *kebele* housing by demolishing it and encouraging the occupants to buy a condominium.<sup>54</sup>

## II. Private Sector Actors

### *Developers*

It is very complicated and time consuming to set up a development company in Ethiopia and there is little incentive for developers to build for low-income households. Despite this, according to the Ethiopian Institute of Architecture, Building Construction and City Development (EiABC),<sup>55</sup> real estate developers were seen as a major provider in the Addis Ababa Development Plan of 2002, to provide 8% of the housing supply, or more than 24,900 housing units on 550 hectares. To this end, the city administration started to supply land for them at very low lease price (at ETB 150 (US \$7.7) per square meter) or even at zero cost. This caused a surge in numbers of real estate developers in the city, but many have failed to follow through on their commitment. The Addis Ababa City Administration found that 14 developers quickly sold the land titles to third parties. The Impact Estate in Bahir Dar, for example, has been in development for at least five years but no dwellings are occupied as yet. The failure of this policy to encourage real estate developers contributed to the quick acceptance of the government-based IHDP Condominiums Programme.

The following are some of the problems EiABC suggests that the city administration has faced so far with respect to development by private developers:<sup>56</sup>

- Lack of commitment to execute what is planned. Many real estate developers have received land in exchange for the commitment to construct houses accommodating the needs of different income groups. However, the social mix expected from these developments has not been achieved.
- Rent-seeking behavior of some developers. Some developers who received the plots purely for speculation and land transaction purposes.
- Slow commencement of construction.
- Escalation of housing prices due to higher profit margin requirements and the rise in price of construction materials.
- Taking large bank loans on leased lands for real estate purposes, with no development started.
- Illegal and sub-standard construction.
- Commencing construction without any construction permits.

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<sup>52</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia."

<sup>53</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>54</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia."

<sup>55</sup> EiABC, "Performance Evaluation: Development Plan of Addis Ababa 2003-2010; Housing Component, Addis Ababa."

<sup>56</sup> Ibid. p.24.



- Not respecting land use.
- Poor registration and filing.
- Illegal ownership transfers.
- Illegal land sub-division.
- Lack of strict follow-up and enforcement mechanisms.

This opportunistic behavior and low performance of the real estate sector has led to mistrust between the investors and the government. As a result, support from the government has been withdrawn and the city administration has frozen the supply of land to many developers.

Access Capital<sup>57</sup> reports that the high end of the market is largely served by private developers and/or homeowners themselves. They report that, in many of Addis Ababa's neighborhoods, homes may cost between one and six million Birr (US \$52,000 to US \$310,000) and rent for ETB 30,000-40,000 (US \$1,550-2,060) per month. These are comparable with prices in other African countries with higher GDPs than Ethiopia.

Estate developers usually sell their dwellings off plan. They advertise in newspapers, on television and in local public places like shopping centers. Potential buyers usually pay a deposit of 50% down and the remaining 50% before the building work starts.

#### *Brokers*

Brokers work in rental housing in Ethiopia. Brokers will find a renter for a landlord for a charge which is negotiable starting at one month's rent from each party. It is usual in urban Ethiopia to pay a year's rent at the beginning of a tenancy. In Addis Ababa, brokers are notorious for phoning the landlord towards the end of the year to offer a new tenant who will pay a higher rent. This creates substantial uncertainty for tenants and reduces their term of security in renting to one year. This is likely to push households into owner-occupation if they can manage it. Elsewhere, rent brokers' fees are negotiable and they are not as aggressive on new tenants every year.

There is no rental law mediating relationships between landlords and tenants, particularly the conditions under which tenants can be evicted. Only the individual tenancy agreement sets out the conditions of the tenancy.

#### *Contractors*

Elsewhere in Sub-Saharan Africa, private building contractors often limit themselves to providing housing for the richer households in the cities. It is not that way in Ethiopia, as there are formal contractors capable of tackling all levels of work.

#### *Housing cooperatives*

Housing co-operatives are formed by individuals on a voluntary basis and with the aim of building houses. They are often organized by groups of households that share a common employer or membership. Many co-operative members tend to be middle-income and rooted in employer associations, such as Ethiopian Airlines or other state-owned companies. Many co-operatives have finished building but many more are still waiting for land allocations. They are likely to continue as a significant supplier in the years ahead.<sup>58</sup>

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<sup>57</sup> Access Capital, "Investing in Ethiopia."

<sup>58</sup> Ibid.

Co-ops are autonomous self-help organizations controlled by their members. They use aided self-help, self-help and self-financed, or bank financed projects. The main advantage of having a housing co-operative is to facilitate the construction of dwellings through mutual assistance by pooling resources, knowledge, and labor.

Co-operatives entered the housing arena following the confiscation of privately-owned 'extra houses' during the 1974 revolution, to fill the gap created by the abolition of the private rental housing sector. The then Marxist government issued Proclamation No. 138, 1978, under which citizens have been encouraged to form themselves into groups of 10 to 20 households and form co-operatives. Once formed, co-operatives can prepare plans for land allocation, develop savings, prepare settlement plans, receive land allocation with a lease, and develop their own dwellings.

Before the IHDP was developed, co-operatives were intended to serve a wide range of incomes. Intended members of co-ops had to save 50% of the cost of their dwelling (about ETB 12,500 at the minimum) but they could reduce the overall cost of their dwelling by performing labor themselves (sweat equity).

Recent co-operative housing in Addis Ababa has typically consisted of three-story blocks, covering most of their plots with only a light well to one side at the rear. In some cities, the local authorities provide free or cheap land. In Bahir Dar, for example, 80 hectares of free land has been allocated between 197 co-ops at a per plot cost of ETB 2,000 (US \$100) for 150 m<sup>2</sup>, including electricity, roads and water supply to the edge of the site.

The government has supported co-ops with varying levels of subsidy, including a 60 percent reduction in building materials between 1986 and 1992. During that period, they also received free land and low-interest mortgages. Co-operatives are reported to have built 40,500 dwellings between 1975 and 1992 and 24,820 dwellings in Addis Ababa between 1996 and 2003.<sup>59</sup> Furthermore, during 2004 and 2005, 2,929 co-operatives consisting of 38,376 members were established to construct 2-3 story dwellings.<sup>60</sup> From July 2005, for a few years, the city shifted its focus towards condominium housing and the organization of co-operatives was stopped. It has now restarted. In 2010, Addis Ababa City Administration had more than 500 housing co-operatives on its register.

Despite this, the co-operative sector is comparatively small. Because the land is free, much of it is of poor quality and not well located. In addition, the process is not accessible to the poor, as they do not have the capacity to save as required.<sup>61</sup>

### NGOs

Ethiopia is highly dependent on funding and assistance from NGOs inside and outside the country. In 2008, there were 1,120 NGOs working in Ethiopia, of which about 419 (128 international and 291 domestic) were development-oriented, although only a handful were participating in residential upgrading programmes in Addis Ababa and elsewhere. NGOs had by then implemented projects worth ETB 5.96 billion (or US \$681 million), reaching 15% of the country's population between 1996 and

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<sup>59</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>60</sup> Addis Ababa City Administration, "Study in Search of Alternative Financial Sources for the Construction of Condominium Houses (in Amharic)," (Addis Ababa: Bureau of Works and Urban Development 2010).

<sup>61</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

2000.<sup>62</sup> In January 2007, Christian Relief and Development Association (CRDA), an umbrella NGO, had 283 members and accounted for more than two-thirds of the NGOs operating in the country.

The most active NGO in housing was IHA-UDP, now called Community-based Integrated Sustainable Development Organization (CBISDO). CBISDO's most recent housing intervention was the construction of two condominium-style blocks consisting entirely of one and two room units for the poorest of the poor households. CBISDO handed them over to the local *kebele* for renting on condition that the rents were the same as the occupants used to pay in *kebele* housing.

UN-HABITAT<sup>63</sup> lists as the most prominent NGOs active in slum upgrading or environmental sanitation in Addis Ababa: Integrated Holistic Approach - Urban Development Project (IHA-UDP), CARE, CONCERN, Plan International, Medical Missionaries of Mary (MMM), Ethiopian Aid, SIM, Oxfam, and the Rotary Club.

In 2009, a new NGO policy was launched, which required all NGOs to re-register under new rules. Fraser (2013)<sup>64</sup> reports interviews with NGO stakeholders which, despite a general reluctance to sound critical of government, complained that the government insisted that they build condominiums or build nothing at all. They were also not allowed to use *chika*. At the same time, clearances to make room for the condominiums has created greater need for cheap housing solutions for which *chika* is ideal.

Generally, the main challenge with NGO-driven housing is scaling it up. Projects tend to be limited to one time interventions, rather than benefitting the housing supply system nationwide. The Redd Barna-funded Tekle Haimanot upgrading project in 1981-86 was world-renowned, but efforts to scale-up proved unworkable. In this project, about 5,000 of the poorest households in Addis Ababa received improved dwellings, either by renovation or replacement, as well as improved infrastructure.<sup>65</sup>

German International Co-operation (GIZ) has also been active in Ethiopia, providing technical support and building capacity in construction, including investigating the technology of prefabricated building materials needed to implement a low-cost housing program. GIZ was very active in the early days of the IHDP in Addis Ababa. In collaboration with MH Engineering, a large local engineering company, GIZ introduced a system of cost-efficient use of precast concrete components which led to later IHDP prefabrication.<sup>66</sup> Solomon Mulugeta et al<sup>67</sup> report that GIZ was involved in the first 10,500 dwellings in the IHDP in Addis Ababa. The development of the philosophy of housing provision in Ethiopia is reflected in GIZ's approach progressing from 'low-cost housing' through 'cost efficiency' to the IHDP.

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<sup>62</sup> "Situation Analysis of Informal Settlements in Addis Ababa," (Nairobi: UN-HABITAT Cities without Slums sub-regional programme for Eastern and Southern Africa 2007).

<sup>63</sup> Ibid.

<sup>64</sup> Fraser, "A Critical Examination of the Role and Impact of Ngos in the Provision of Housing for the Poor of Addis Ababa: Application of a Rights Based Lens."

<sup>65</sup> Elias Yitbarek Alemayehu, "Between Renting and Owning: Saving and Credit Co-Operative Based Tenure Transformation in the Inner City "Slums" of Addis Ababa," in *Proceedings of the 16th International Conference of Ethiopian Studies*, ed. Ege. S., et al. (Trondheim: 2009).

<sup>66</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>67</sup> Solomon Mulugeta, Mathewos Asfaw, and Tesfaye Yalew, "Urban Sector Millennium Development Goals Needs Assessment: Improving the Lives of Slum Dwellers."

## 4. Supply-Side Value Chain

### A. Land

#### I. Formal land allocation

The availability of land is a *sine qua non* of housing development and construction, but generally, there is limited availability of land and limited capacity of the city administrations to develop land for housing.

The formal stakeholders in land allocations are the local authorities, a small number of developers, co-operatives, and individual households. The local authorities administer land held by government, which constitutes all land not privately held. As almost inevitably happens, city growth threatens farmers' livelihoods. As Ethiopia has been zealous in defending farmers' needs, this may become a problem as more cities expand more rapidly.

The process required to identify, acquire and prepare land for physical urban development is relatively simple in Ethiopia. Since Proclamation 721/2011, there are only two methods of formal land-rights acquisition by the public for residential development:

- Auction: Government, through the local authorities, identifies land for private development. In theory, it is divided into plots, surveyed and fully serviced before allocation, but this does not always happen. The plots are then auctioned in public starting at a cost that reflects the cost of servicing and survey; the land itself is theoretically free. Once the winning bids have been accepted, the buyer then has to develop within one to four years depending on the size of the building.
- Allotment: Co-operatives and condominium developers can request land 'allotments' from local authorities. Other institutions able to request allotments include government offices, social service institutions, charitable organizations, public residential housing, government self-help housing, places of worship, manufacturing industries, and embassies and international organizations. Once it is delineated, it is usually awarded on a 90-year lease. The co-op then must prepare plans for internal land allocation, develop savings, prepare settlement plans, and develop their own dwellings.

If a developer starts a development but is unable to complete the dwellings, he may have problems recouping the capital invested. As a measure to limit land speculation, land that is already bought for development cannot legally be resold at a profit unless at least half of the building thereon is complete. Otherwise it must be sold for only what the land cost, plus inflation. Thus, only those completed to roof level can be sold for more than the current 'value' of the land.

The separation between the outright ownership of the building and the lease of the land, for an annual price, puts off some potential buyers of new housing. Furthermore, the provision of large areas of land to developers, who subsequently failed to start or deliver their promised projects on time, has reduced the trust between government (which owns the land) and developers (which want to develop it). Developers often encounter delay in the actual release of already assigned land and in the provision of promised infrastructure.<sup>68</sup>

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<sup>68</sup> Access Capital, "Investing in Ethiopia."

Formally subdivided and auctioned land is out of reach of poor majority, who must either build on already occupied land or squat. This may become even more of an issue as the cheap *kebele* housing disappears under IHDP.

While Ethiopia has less generous plot sizes than most of Sub-Saharan Africa, inefficient land use still exists, in terms of final density, building height, etc. Single story construction is the norm, as high density takes more careful design than is possible with current institutional capacity. The solution proposed – to move straight from one to five plus stories – will increase densities but may lose the benefits of being close to the ground, such as being able to slaughter goats or make bread. Indeed, in the condominiums as currently designed, no one lives on the ground floors as these units are set aside for commercial uses.

There is little reliable information on the extent of land transactions across urban Ethiopia. Kaganova and Sisay Zenebe<sup>69</sup> found that market activity in Addis Ababa in 2013 consisted of 14,300 property transfers, 14,400 title deed authentications, 1,300 subdivisions of property, 176 property consolidations, 7,700 collateral registrations, 4,800 collateral cancellations, 2,100 boundary dispute resolutions and 18,000 property valuations. The fees paid for property transfers are an important revenue source for cities in Ethiopia but they are highly volatile and only bring revenue at the beginning of a lease.

## II. Informal land allocation

In the informal sector, land for building can be obtained either within an existing compound or by squatting on empty land, often in the periphery of existing cities. The former involves the owner of the compound giving someone permission to erect a room, or an owner erecting a room to rent out. This also quickly becomes a routine way of building neighborhoods on empty land, as a settler household is likely to surround its dwelling with a high corrugated iron fence so that future additions are unseen from the outside. The process of peripheral squatting involves taking over empty land, all of which is owned by the state, and building a so-called “moon house” overnight.<sup>70</sup> The security of the squatters arises from a lack of vigilance the state keeps on its land. In both cases, the land on which the dwelling stands remains the property of government at local authority level. Security from eviction can often be ‘bought’ by erecting a church or mosque as part of the development. Kurtz (2009) reports that the settlement of Kotebe Hanna Mariam, close to the main water supply of Addis Ababa city, is ‘protected’ by the impressive church at its entrance.

Kurtz (2009) also found that some land parcels are laid out in rows, similar to formal morphologies, with a dwelling on each, while others are large compounds with clusters of dwellings on them. The former may be intended to accommodate expected infrastructure to come later while the latter do not assist in infrastructure provision at all. The clusters betray earlier large plots, probably predating the urbanization of the area, in which owners have expanded when new dwellings have been needed, without a preliminary plan.

According to Frew Mangistu,<sup>71</sup> the major processes in the sale of part of a plot by an owner possessing a land certificate is as follows:

- 1) The potential buyer approaches a *dallala* (local broker or middleman), who may or may not live in the settlement. One that does live locally would tend to know the applicant.

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<sup>69</sup> Kaganova and Sisay Zenebe, "Ethiopia Urbanization Review: Land Management as a Factor in Urbanization.".

<sup>70</sup> The name “moon houses” refers to building by moonlight.

<sup>71</sup> Frew Mengistu, "Analyzing Informal Settlements from the Institutional Perspective: Historical and Comparative Case Study of Worku Sefer and Sefere-Genet Informal Settlements in Addis Ababa," in *Paper presented at the ECSC- IHS Conference*(2009).

- 2) The two parties draft an agreement.
- 3) The agreement is registered in the Acts and Documentation Office.
- 4) Employing a surveyor or technician, the seller prepares a subdivision scheme (300 m<sup>2</sup> is the minimum plot area to be subdivided into a minimum plot size of 150m<sup>2</sup> each).
- 5) Complete with the subdivision scheme, the application must be lodged at the Land and Housing Administration Department of the *Kifle Ketema* (Sub-City Administration).
- 6) Department technicians check the site.
- 7) Planning consent is sought.
- 8) Planning remarks (conformance to land use, right of ways etc.) are sent.
- 9) If accepted, the land holding certificates are issued to both parties, i.e., to the seller for the remaining portion of the plot and to the buyer for the portion of the plot (s)he bought.

If an owner does not have a land holding certificate, the sale of part of a plot is made through *ye mender wul* (a traditional agreement), with some elderly people as witnesses.<sup>72</sup>

A recent survey has found many and varied sources of land in the informal sector (Table 18). Most seem to have bought land from farmers, informal sub-dividers or previous informal settlers. Few have used force.

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<sup>72</sup> Ibid.

Table 18. Sample Data on Origins of Informal Land

Forms of land acquisition	Kolfe Keranyo Subcity, Addis Ababa, 2004 / 05	Adama, 2008	Yeka subcity, 2008	Jimma, 2008	Bahir Dar, 2008
Bought from farmers	52%	45%	26%		29%
Bought from informal sub dividers, speculators	28%	28%	45%	28%	16%
Bought from former informal settlers	13%				
Bought from rural kebele administration	5%		2%		
Inherited from parents			24%		11%
Occupation by force		8%	2%	48%	44%
Gift from / / granted by relatives		13%		23%	
Granted by peasant association, vendors, speculators	7%				
Total parcels in a sample	150	75	110	60	186

Source: Kaganova and Sisay Zenebe<sup>73</sup> table 11 extracted from Tendayi Gondo. 2009. Urban land and Informality: An evaluation of institutional response options to land Informalization in Ethiopian cities.- <http://www.earthssystemgovernance.org/ac2009/papers/AC2009-0306.pdf>

<sup>73</sup>Kaganova and Sisay Zenebe, "Ethiopia Urbanization Review: Land Management as a Factor in Urbanization.".

Table 19. Land Pricing in Expropriation and on Informal Market

<i>City</i>	<i>Typical compensation prices paid by local governments to farmers for expropriated land, ETB / m<sup>2</sup></i>	<i>Anecdotal data on a price range farmers can get if they sell land on the informal market, ETB / m<sup>2</sup></i>
Addis Ababa	190	550 - 800
Mekelle	77	No informal settlement - demolished
Dire Dawa	56	No data found
Assosa	30 -50	300 - 600
Hawassa	31	550 -750
Gambelle	26	No rural population or agricultural
Jimma	20	350 - 550
Dessie	17	450 - 600
Kombolcha	16	150 - 300
Bahir Dar	13	250 – 300
Sheshemenne	12-18	At least 3 times higher than the compensation

Source: Kaganova and Sisay Zenebe<sup>74</sup>

It is evident from Kaganova and Sisay Zenebe<sup>75</sup> data (Table 19) that it is much more economically rational to sell land rights before government comes offering compensation for expropriation ahead of formal development; the difference is between three and 30-fold.

Occupants of informal plots who seek to have land holding certificates issued use the fact of their annual payment of the land tax as a qualification for legal titling. They may also use receipts of payments for services (e.g., water and electric power consumption bills) to demonstrate their long occupation and acceptance by the authorities. (Frew Mengistu, 2009)

In a study of the perception of officials to informal land development, Tendayi Gondo<sup>76</sup> shows that the most common official reaction to informal development in Ethiopian cities is to adopt a laissez-faire approach and do nothing. It has also been quite common, however, for institutions to adopt a coercive approach using either bulldozers or the courts to remove squatters.

<sup>74</sup> Ibid.

<sup>75</sup> Ibid.

<sup>76</sup> Tendayi Gondo, "Urban Land and Informality: Assessing Institutional Response Options to Land Informalization in Ethiopian Cities,"(Addis Ababa: Ethiopian Civil Service College., no date).



There is little experience in Ethiopian institutions of the collaborative approach to land allocation when informal development occurs. It is, however, more likely to succeed in achieving at least some orderly settlement than either the disengagement of laissez-faire or the aggressive approach of bulldozing or court proceedings.<sup>77</sup>

The current land for housing supply is likely to continue to serve the better-off households in urban Ethiopia and lower income groups would be able to access such land only through the informal sector. While speculators and gatekeepers continue to encourage direct settlement, cities lose any control over strategic growth decisions. Strategic decisions of where development happens must be integrated into the formal planning process. The idea of allowing informal development on formally allocated land might provide this.

In the past, using current compound space for additional housing was an extremely productive way of finding land and increasing the housing supply. Recently, however, crowding has reached such a scale that there seems to be little further potential for infill. The process is known locally as *kitiya*.<sup>78</sup>

## B. Trunk Infrastructure

Table 20. Access to shelter-related infrastructure in Addis Ababa, 1996

Percent units with	Part of the city		
	Planned ( percent)	Unplanned ( percent)	Total ( percent)
Water to unit or compound	51.7	64.3	55.7
Solid waste collection	45.7	58.7	49.8
Drainage facilities	33.8	30.6	32.8
Road access	60.7	74.1	64.9

Source: UN-Habitat.<sup>79</sup>

It is surprising that Table 20 shows unplanned areas in Addis Ababa in 1996 having better shelter-related infrastructure access than planned areas, apart from drainage. This is testament to the activities of the NGOs and local authorities in upgrading informal neighborhoods.

Infrastructure is provided in informal areas either through informal provision or the attraction of formal lines into informal areas. Informally-provided roads are likely to be compressed earth with small stones rather than asphalt,<sup>80</sup> but many informal urban neighborhoods are provided with stone paving, using roughly shaped flat rocks set in cement, either by the Environmental Development Office in Addis Ababa,<sup>81</sup> or through the *kebeles* (which are sometimes assisted by international NGOs such as CARE). In some places, roads and paths have been upgraded to brick paving to smooth them out further. Also, in upgraded areas, rainwater drains have been provided.

While informal housing in the interstices of the city is likely to be close to water mains, peripheral informal settlements tend to be outside the range of the main system. International NGOs have been active in some areas to install standpipes. The Rotary Club International installed standpipes in Kotebe

<sup>77</sup> Ibid.

<sup>78</sup> Tarekegn, 2000

<sup>79</sup> UN-HABITAT, "Situation Analysis of Informal Settlements in Addis Ababa."

<sup>80</sup> Tobias Kurtz, "Kotebe Hanna Mariam: Documentation of the Status Quo," (Berlin: Technical University Berlin, Chair for Urban Design and Architecture, 2009).

<sup>81</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia."

Hana Mariam, one of the largest peripheral squatter settlements in Addis Ababa,<sup>82</sup> while Redd Barna Ethiopia was responsible for water standpipes in Tekle Haimanot. Water is collected by households in 40 liter plastic jerry cans.

The supply of electricity, in particular, is seen as a key status maker. If a neighborhood has electricity connected to the dwellings, it is regarded as formal. In many squatter neighborhoods, therefore, each dwelling may have a connection through a pre-paid meter.<sup>83</sup> A by-product of the nearly universal access to electricity is the ubiquity of television, received via satellite dishes which can be seen on even rudimentary shacks. Power within the house is often rigged up by untrained personnel which, given the use of wood in construction, poses high fire risks.

## C. Site Layout

### I. Soil conditions

Most soils in urban Ethiopia are compatible with construction. There are urban areas, however, where expansive soil is predominant, such as in Eastern and Southern parts of Addis Ababa. Building on such soil would result in cracks in the building, as the ground would expand when wetting and contract when dry. In these areas, prior to starting construction, the soil is usually replaced by other materials, incurring costs.

### II. Foundation

Most informal housing units do not have foundations. Instead, the material goes directly into and onto the soil. The most common type of foundation for a formal single story building is a stone masonry strip foundation with a reinforced concrete grade beam. For multi-story buildings, the foundation is reinforced-concrete footings of a depth varying according to the type of soil.

### III. Drainage

Road drainage is usually achieved through open masonry ditches, closed masonry ditches, or concrete pipes.

### IV. Climate challenges

The main challenge in relation to climate in urban Ethiopia is flooding. In Addis Ababa, significant numbers of squatters are located in flood-prone zones and on river banks. Lack of planning, compounded by the use of mud and eucalyptus poles, make the dwellings in these neighborhoods highly vulnerable.

## D. Design

### I. Formal building regulations

Current building regulations are materials-based rather than performance-based. Thus, each material requires individual testing and approval, which takes a lot of time. If building regulations were performance-based, new materials could be introduced without difficulty as long as they were sufficiently strong, resilient, weather-proof, and fire-proof. In recent years, there has been an increasing inclination to try new materials based on performance. Some discussions are taking place on biomass-

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<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

based materials (known as agro-stone), micro-fiber tiles, lightweight concrete, soil-based materials, magnesia-cement board, and others.

Different standards for physical conditions and servicing between different town and city categories (Table 21) exist, which helps reduce the gap between provision and affordability by setting more affordable standards in the smaller towns and in the expansion areas around cities. The small and medium towns are expected to be much less dense and less closely serviced than cities and metropolitan areas. There is also an acceptance of mud as the walling material in towns but not in cities.

Table 21. Standards for different levels of towns

<b>Indicators</b>	<b>UN standards</b>	<b>Metropolitan</b>	<b>Cities</b>	<b>Large Towns</b>	<b>Small and Medium Towns</b>
<b>Access to improved water</b>					
Consumption per person per day	20 litres/per./day	NA			
Max. distance to the nearest point.	NA	100 m	150 m	200 m	250m
<b>Access to improved sanitation</b>					
Access to toilet: max. number of households sharing	2 hh/toilet	3 hh/toilet		5 hh/toilet	
Max. distance to the nearest solid waste collection points	NA	200 m	250 m	300m	
<b>Density level</b>					
Population per hectare	NA	700	500	300	200
Open spaces per person		0.5 m <sup>2</sup>	1 m <sup>2</sup>	2 m <sup>2</sup>	
<b>Durability of buildings / structure quality building materials</b>					
floor	Cement screed				
wall	Hollow cement block or stone			Mud	
roof	CIS				
<b>Security of tenure</b>	Acquire title deed	Any formal recognition			
<b>Availability of access roads</b>	NA	Truck access to the plot		Pedestrian access to plot but with min. right of way for trucks	
<b>Conformity with the land use of the city plan</b>	NA	Should conform			

Source: Methewos.<sup>84</sup>

<sup>84</sup> Consult, "Urban Upgrading and Renewal Manual."

Table 22. Housing typologies to be planned for in Addis Ababa areas

	Housing typology	Remarks
City core area	2 to 6 storeys (row house, duplex, clusters, flats in rental and condominium walk-up apartments)	Existing low-income households should be integrated in high-density residential developments of the core area through renewal projects
Intermediate area	1 to 5 storey (flats in rental and condominium walk-up apartments)	Medium density area
Expansion areas	1 storey (formal/informal, incremental clusters and /or row housing) and 2 to 4 storeys (flats in walk-up apartments)	Low density area

Source: ORAAMP<sup>85</sup>

These standards (Table 22) make it clear that single story low-income housing in the core area has no future. Thus, low-income households who currently occupy *kebele* housing or similar poor quality but cheap and well-located housing cannot expect in-situ upgrading, but instead will be moved to make way for condominiums, which they can occupy if they can afford to, or be relocated to peripheral sites.

In the smaller cities, the Local Development Plans (LDPs) will include zonal indications of building heights; G+0 or G+1, etc.; or height ranges; G+1 to G+4 (Table 21). Often, these regulations are not well-enforced, and few LDPs exist for peripheral areas, as the core areas are seen as the greater priority for planning. Even when LDPs exist, the height restrictions are too general to guide their designs effectively.

## II. Informal design process

The informal sector design process is a matter handled between the prospective owner and small-scale builders. Much of the new housing in recent years has been in the form of extension and alteration (transformation)<sup>86</sup> of existing buildings, especially in the informally developed plots and within the *kebele* housing compounds. Rooms tend to be extended along the boundaries, leaving courtyard space for cooking, washing, and conversation. In some neighborhoods, almost all space is filled. Elias Yitbarek Alemayehu<sup>87</sup> cites cases where households use their *kebele* dwelling to such intensive economic effect that the owners may sleep on a lower bunk bed and rent out the bunk above to another couple.

The dwellings tend to be built of wood and corrugated iron sheets at first, and may be subsequently improved to *chika* or cement blocks. The first dwellings are often designed according to the covering capacity of the ubiquitous corrugated iron sheets. Two rows of five sheets cover an area of 16m<sup>2</sup>. Allowing for the roof overhang and thickness of the walls, the resulting room area is 12m<sup>2</sup> (Kurtz, 2009). The dwelling is then extended, room by room, both as attached bedrooms and a detached kitchen.

<sup>85</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components." table 1.1.1.

<sup>86</sup> See A. G. Tipple, *Extending Themselves: User-Initiated Transformations of Government-Built Housing in Developing Countries* (Liverpool: Liverpool University Press, 2000).

<sup>87</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia."

For photos and further statistics on housing design in Ethiopia, please refer to **Appendix 5. Housing Design in Ethiopia**.

## E. Risk Assumption

### I. Construction finance

Before the introduction of the IHDP, there were four methods of financing house-building in Ethiopia:

1. **CBB loans for those in housing cooperatives.** Formally registered housing co-operatives could obtain loans from the Construction and Business Bank (CBB), the government-owned successor of the Housing and Savings Bank. Co-operatives used to be the most common form of subsidized home-ownership, particularly during the Dergue regime. Although utilization of CBB loans has diminished, they still remain popular among the lower middle-income households.
2. **Personal savings.** Many higher income families financed housing out of their personal savings, as a means of avoiding debt and the complexities of the mortgage system. They may also have built incrementally, financing construction from savings and income. This was and is the normal method of financing construction in the informal sector.
3. **Community savings.** Financing for housing could be leveraged through micro-credit associations and community savings schemes. According to GIZ officials, there was close to ETB400 million (US\$50 million) saved in credit unions which could be mobilized for housing and infrastructure improvements.
4. **Mortgage loans.** Mortgage loans were used by a limited number of households as there was only one mortgage bank, the CBB.

Lack of finance, especially long-term finance, is a constraint facing all business sectors in Ethiopia, real estate included. Inadequate finance hits the real estate sector through its effects on both developers, who find it difficult to start and complete developments, and their prospective buyers, who need to secure affordable loans. Except for government-initiated development, which receives funding through its banks, both project finance and end-user long-term mortgages remain scarce. Thus, real estate developers may have to self-finance a majority of their new developments, while most home buyers must be well-off enough to pay in full for their dwellings, usually before their construction starts or, at least, by the close of construction. Co-operative members have to pay 100% of the cost by the time the site is allocated. It follows, therefore, that affordability is reduced to levels below what would be possible with a well-developed housing finance system.<sup>88</sup>

The most significant current financing mechanism in the system is CBE's financing of the IHDP. The original financing mechanism for the construction and management of the IHDP was a revolving fund, called the Housing Development Fund, to which Addis Ababa city government allocated close to 1.5 billion for the year 2004/2005.<sup>89</sup> Now, in the IHDP, the CBE takes all the risk within a Federal Government guarantee.

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<sup>88</sup> Access Capital, "Investing in Ethiopia."

<sup>89</sup> Yenoineshet Meazah Haregewoin, "Integrated Housing Development Programs for Urban Poverty Alleviation and Sustainable Urbanization (the Case of Addis Ababa)," in *ENHR Sustainable Urban Areas Conference*(Rotterdam2007).

CBE funds the construction through bonds issued by the Local Authority that is constructing the condominiums. On completion of the construction, local authorities pay off 20% of the cost, which in turn has been paid to them by the households to whom the units have been allocated. This completes the local authorities' debt to CBE. The remaining 80% of the cost is paid to CBE over 10-25 years through the mortgages it offers to occupants. There is a very low default rate, but CBE has offices to handle the default process. Repossession is a last resort after all other options have failed.

In addition to the unaffordability of the resulting IHDP product, the major challenge for the future of the current supply system in Ethiopia is government's ability to fund i) the local authorities, so they can construct the condominiums and ii) the CBE, so that it can carry both the loans and the transaction costs of a myriad of comparatively tiny mortgages.

There seems to be a black hole somewhere in the financing of the IHDP. The scale is just so huge, and the unit price is so much less than likely construction costs, that it is unlikely that all the money can be provided by deposits into CBE. Indeed, the Addis Ababa City Administration provides ETB 1.2 billion (US \$61 million) per annum in free infrastructure. The IHDP risks are quite high in smaller cities as shown by the difficulty of selling the dwellings in some regions.

The high subsidy element in most formal housing supply creates a problem for government as every additional dwelling increases the burden on government budgets. As it is also very difficult to target supply-side subsidy to poorer households, there seems to be an urgent need to seek out additional or alternative finance sources for housing and infrastructure development.

Private commercial banks, while presently uninvolved, could become a source of lending for real estate development. They already assist developers by accepting foreign deposits, acting as a "proxy" for these depositors, and providing site inspections of construction progress. They also release funds as construction milestones are met, usually within a day or two of their inspections. Finally, they make a limited amount of short-term construction advances within phases so that the construction process is not interrupted by cash flow issues.<sup>90</sup>

## II. Housing microfinance

Ethiopia has some of the largest micro-finance institutions in Africa. According to the NBE Annual Report for 2011/12,<sup>91</sup> the microfinance sector is dominated by the four largest of the 33 institutions (Amhara, Dedebit, Oromia and Omo Credit and Savings). They accounted for 75.4% of the total capital, 88% of the savings, 83% of the credit and 83% of the total assets of MFIs in June 2012. Furthermore, the amount of capital in Ethiopian microfinance institutions (US \$688 million) exceeds that of the banks (US \$460 million) (Table 23).

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<sup>90</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

<sup>91</sup> National Bank of Ethiopia, "Annual Report, 2011/12," (Addis Ababa: National Bank of Ethiopia, 2012).

Table 23. Microfinance Institutions Performance as of June 2011 and 2012 (US\$ 000s)

Micro-Financing Institutions	2011	2012	Percentage increase 2011 to 2012
Total Capital	152,483	194,383	27.5
Saving	195,605	282,122	44.2
Credit	361,904	480,830	32.9
Total Assets	525,693	688,830	31

Source: National Bank of Ethiopia Annual Report, 2011/12.<sup>92</sup>

Internationally, HMF loans were first available in the 1980s and, over the years, they have become important among organizations addressing the shelter needs of the un-banked and under-banked people in society. Increasingly, but still on a small scale, HMF is being offered by established MFIs mainly as loans to low-income people for home improvements and renovations or expansion of exist (UN-HABITAT, 2005).<sup>93</sup>

According to information obtained by Meheret Ayenew and Martin<sup>94</sup> from the Association of Micro-finance Institutions in Ethiopia (AMFIE), some relatively large micro-finance institutions have started extending small loans for housing, mostly within the IHDP to cover down-payments. The interest rate for such loans ranges between 12% and 15%, compared with the central bank lending rate of 4.5-5.0%.<sup>95</sup> For an example of an MFI that lends in housing, please refer to **Appendix 4. Housing Microfinance Case Study: Addis Credit and Saving Institution.**

Several problems face HMF activities in Ethiopia, including:

- All housing finance entities, including MFIs or HMFs, face the challenge of maintaining liquidity by matching the anticipated maturity of their liabilities (i.e. deposits or bonds/ securities sold in the marketplace) with the maturity of their assets (i.e. the HMF loans themselves). The funders of MFIs work to five-year loan periods so it is risky for the HMF to lend for tenors longer than that, which will tend to keep HMFs out of mortgage finance or other up-market products.
- Collateral is an issue when lending to the poor. Much of their housing is likely to be non-bankable, as their land tenure is only informal. Many are also unwilling to take on long loans as their incomes are not predictable or secure.
- Both HMFs and the poor have been badly affected by inflation. The institutions have seen the value of their assets depreciate and the borrowers have been unable to build as much housing for their money as they planned.

### III. Informal finance

Ethiopia has its share of informal and semi-formal financing systems. In Addis Ababa, local savings and credit groups such as the *iqqub*, *iddir* and *mahiber* lend relatively small amounts of money to their members at very low interest rates with no restrictive conditions. The average loan size per client in 2005 was ETB 269 (US\$14) (Gumbo, 2010).

- *iqqub* is a fairly standard ROSCA, taking small payments throughout the month and then allocating all the savings to one member, in turn or out of turn for a discount.

<sup>92</sup> Ibid. table 4.7.

<sup>93</sup> UN-HABITAT, *Financing Urban Shelter: Global Report on Human Settlements 2005*(London: Earthscan, 2005).

<sup>94</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

<sup>95</sup> Ibid.

- *Iddir* is an organization, similar to a western friendly society, which helps people save for family funerals and the recovery from them. Ethiopian funerals are not lavish affairs.
- *Mahiber* is a group which enjoys meals together at particular saint's days. It binds the members together so that members are more likely to help each other out but it has little formal financial activity.

*Iddirs* have been encouraged by ACORD to set up Savings and Credit Co-operatives (SACCOs) to become involved in development activities, including installing water and surfacing roads.<sup>96</sup> In Addis Ababa, there were just over 4,000 *iddirs* in 2003, nearly 1,000 of which were involved in some development activity.

Informal sources of finance for homebuilding also include savings,<sup>97</sup> informal loans from money lenders, remittances from friends and relatives working abroad and the sale of assets such as jewelry and furniture. Informal lenders have relatively flexible loan terms, but their interest rates are very high.<sup>98</sup>

#### IV. Risk assumption in informal home-building

In the informal construction sector, all the development risk in the supply chain is taken by the owner of the planned housing. He/she has no support from outside, perhaps with the exception of funds from family and friends or a loan from an employer. Contractors typically reduce their risk by asking for payment in stages as the work proceeds.

To avert the risk of eviction from informally settled land, owners often build overnight so that there is a *fait accompli* by the time authorities find out what is happening. Major investment will only be entered into once formal status has been achieved or permanent residence assured. Informal settlements with churches or mosques close by are more likely to resist eviction than those without, as religious institutions attract great respect in Ethiopia. *Iddirs* are also helpful in mobilising social networks to resist eviction.<sup>99</sup>

Incremental building also reduces financial risk: the owner can build just as much as he/she can afford for the time being and save up for the next stage. In the meantime, the household can occupy the dwelling. Kurtz<sup>100</sup> shows the process of development in Kotebe Hanna Mariam, a peripheral informal neighborhood of Addis Ababa. There, earlier settlers delineated large plots for themselves, to allow for later subdivision. The sale of part of their land could pay for some of the construction work, reducing risk still further. The small early investment in housing and the erection of a high corrugated iron fence are both risk-reducing strategies; to risk little at first while appearing to be well established very quickly.

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<sup>96</sup> Elias Yitbarek Alemayehu, "Revisiting "Slums", Revealing Responses: Urban Upgrading in Tenant-Dominated Inner-City Settlements, in Addis Ababa, Ethiopia."

<sup>97</sup> Savings constitute 20 percent of GDP.

<sup>98</sup> T. Gumbo, "Microfinance Institutions and Urban Housing in Addis Ababa: Challenges and Prospects for Sustainable Poverty Alleviation," *Journal of Business and Administrative Studies* 2, no. 1 (2010).

<sup>99</sup> Yirgalem Mahiteme, "Manipulating Ambiguous Rules: Informal Actors in Urban Land Management, a Case Study of Kofle-Keranio Sub-City, Addis Ababa," in *Proceedings of the 16th International Conference of Ethiopian Studies*, ed. Ege. S., et al.(Trondheim: 2009).

<sup>100</sup> Kurtz, "Kotebe Hanna Mariam: Documentation of the Status Quo."



## F. Construction

The construction industry in Ethiopia is quite well supplied with contractors at all levels. It does not have the 'missing middle' evident in many Sub-Saharan African countries. According to Access Capital,<sup>101</sup> the Real Estate and Construction sectors together represented 15% of the country's GDP in 2008/09 (9.1% and 5.8% respectively). They were growing by 14 and 10% annually to 2008/09. Without them, real GDP growth would not have been above 10%.

Drivers for growth in formal real estate provision include: overall economic growth, extensive infrastructure projects (particularly the Addis Ababa Ring Road and the improvement of neighborhood roads), extensions to water and power networks, and tax and investment benefits to developers.<sup>102</sup>

The IHDP has avowed to increase the capacity of small and medium enterprises in construction by encouraging the growth of new small and medium enterprises (SME) to provide components such as pre-cast beams, hollow concrete block infill for floor slabs, doors and windows, plumbing, and electrical fittings for the condominiums.

### I. Cost of construction

A relatively small palette of materials is used for most residential construction in urban Ethiopia. At the bottom end of the market, eucalyptus poles, *chika*, and corrugated iron are the main materials for walls and fences. Roofs are generally eucalyptus trusses covered with corrugated iron. In the IHDP blocks, metal roof trusses support corrugated metal sheeting. Prefabricated material, such as concrete blocks of different type, beams, agro-stone panels, door and window frames are used.

In squatter settlements, eucalyptus poles are the chief material used in walling. They may be used alone, or may be covered in the mix of clay and *teff* straw which constitutes *chika*. Many are only frames of eucalyptus covered with corrugated iron sheets. Roofs are generally eucalyptus trusses covered with corrugated iron. Plots are surrounded by two meter high fences of corrugated iron on eucalyptus supports.

Most construction materials and components, such as reinforcement iron bars, plastic materials, sanitary and electrical fittings, are imported. Cement is usually produced domestically. Sand, gravel, stone and other selected soil materials are also locally available in some areas.

The availability and cost of cement and other materials has been a problem which, though reasonably resolved at this point, is likely to recur if a successful increase in supply can be attained. The cost of building construction rose by 125% between the mid-2000s and 2010, according to CSA price data on House Rent, Construction Materials, Water, Fuel & Power, and by 300% for cement.<sup>103</sup>

For informal construction, the *kitiya* (incremental expansion) process ensures a continual supply of extra housing on currently developed plots.<sup>104</sup> Extra rooms are constructed along the walls of the plot either in hollow cement blocks (where money allows) or in *chika* where expense is an issue. Since these are projects are small-scale, they are almost bound to be carried out by small firms, or single artisans with

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<sup>101</sup> Access Capital, "Investing in Ethiopia."

<sup>102</sup> Ibid.

<sup>103</sup> Ibid.

<sup>104</sup> Essayas Ababu Tarekegn, "Kitiya - Transformation of Low Income Housing in Addis Ababa."

the various skills needed who group together to do small jobs. They use labor-intensive methods, work locally and buy materials locally, all of which makes the process very good for economic development.<sup>105</sup>

*Chika* rooms can be built for ETB 1,400 (US\$72) per m<sup>2</sup> so a 12m<sup>2</sup> room may cost about US \$850. Hollow cement block construction costs ETB 3,000 to 3,500 (US \$155-180) per m<sup>2</sup> so a room may cost about US\$1,900-2,200. When compared with the cost of medium-standard formal housing at ETB 7,000 (US\$360) per m<sup>2</sup> and high standard formal housing at ETB 12,000 (US \$620) per m<sup>2</sup>, *chika* housing generates five times as many square meters per unit of investment as medium-standard formal construction and almost nine times as much as high-standard formal construction (Table 24).

Table 24. Cost of construction (\$)

	Cost per m <sup>2</sup>	Cost per room (12 m <sup>2</sup> )
Chika	72	850
Hollow cement blocks low	155	1,900
Hollow cement blocks high	180	2,200
Medium standard formal	360	4,320
High standard formal	620	7,440

## II. Private real estate development

In real estate development, there is generally a division between the development company and the building contractor. According to Access Capital,<sup>106</sup> the dominant real estate developers for residential villas include Ayat Real Estate, Sunshine Real Estate, Habitat New Flower Homes, Ropack International, Ambassador Real Estate, Trancon Real Estate, Gift Real Estate, Enyi Real Estate, Country Club Developers, Akakas Real Estate, Boran Real Estate, Flintstones Homes, and Zenebe Frew Real Estate. For apartment developments, the most active developers include Ayat, Sunshine, Access Real Estate, and Flintstones Homes. The very luxurious, high-end communities that sell for many million Birr are built by developers like Country Club Developers and Akakas Real Estate, while more moderately priced villas are developed by Enyi, Sunshine, and Access.

Access Capital<sup>107</sup> suggests that there is considerable unmet demand for dwellings for professionals and middle-income households who could afford ETB 400,000 to 1,000,000 (US \$20,500 - US \$51,500) in 2010, particularly if suitable financing is also available. Indeed, some well-located IHDP estates in Addis Ababa have been taken over by professionals.

In 2004-2005, the government tried to entrust real estate developers with a major share of housing provision by making large amounts of land available. Most leases granted required development within 24 months, which was too short a period for many developers due to delays in infrastructure provision.<sup>108</sup> Their performance was so poor that government switched to championing the IHDP.

EiABC<sup>109</sup> argue that some of the problems caused in the developments by the real estate developers are as follows:

<sup>105</sup> A.G. Tipple, "Housing Extensions as Sustainable Development," *Habitat International* 20, no. 3 (1996).

<sup>106</sup> Access Capital, "Investing in Ethiopia."

<sup>107</sup> Ibid.

<sup>108</sup> Ibid.

<sup>109</sup> EiABC, "Performance Evaluation: Development Plan of Addis Ababa 2003-2010; Housing Component, Addis Ababa." p.24..

- Lack of commitment to implement what was planned. While many developers received land promising that they would build dwellings for different income groups, they have not produced the social mix expected. Some, instead of building, have sold the plots on for speculation.
- Construction has been slow, due to lag in infrastructure provision.
- Prices have been increased, partly to earn large profit margins and partly to offset the rise in price of materials. The Impact Estate in Bahir Dar, for example, has been developing for at least five years but no dwellings are occupied as yet.

The main challenge in construction is the lack of required capacity of consultants, building contractors, micro and small enterprises and other professionals in handling mega projects. This has resulted in lack of coordination, efficiency, speed and quality of construction.

## G. Offtake

The occupation of residential buildings in most of Sub-Saharan Africa is mostly decided before the building process begins, so there is virtually no offtake process. Whether in the informal sector or high-end development, it is the prospective owner who obtains the land, collects materials, contractors and infrastructure together, and then has the dwelling constructed to his or her requirements.

In real estate development, the developers demand at least 50% deposit up-front and the remaining 50% when the construction starts. Even the co-operatives follow this practice. Subsequent extensions (*kitiya*) may take place for a known occupant (so, no offtake) or may be built speculatively to rent out through word of mouth or through rental brokers.

In the IHDP condominiums, the end user allocation is decided by public lottery. The process of passing the completed apartments to their prospective occupants is simply one of transferring ownership and starting up the mortgage offered by CBE. It is even called a transfer, rather than a sale.

Only in rental housing is there a potential market in which prospective buyers, found via brokers, can bid for a unit after it is completed. Many IHDP condominium owners illegally rent out their units for market rents and make substantial profit over their subsidized monthly payments. This is common in poorer households, which often enter the lottery for dwellings which they know they cannot afford. If their name is drawn in the lottery, they pay the 20% deposit and then rent the apartment to a household who can afford to pay market rent. They then pay their subsidized monthly payments from this income and keep the difference, after which they may return to individually owned rental housing or *kebele* housing with its poor conditions and very low rents. After ten years, the condominium apartment will be theirs. This practice, to some extent, mediates the current subsidy mismatch wherein the low and middle income target group is unable to afford the IHDP apartments.

## H. Management

Co-operatives and condominiums are managed by committees of their owners. In neither, however, does the committee manage tenant selection; anyone can buy a co-operative home if it comes on the market. As more apartments become privately rented out, fewer residents can have a say in their management. There are currently plans to establish a protocol for housing management, including major renovation or repair tasks for common buildings and green areas. The housing management protocol will include details on organizational structure, the development of legal framework, and a financial system. As most housing management committees are still relatively new, few major structural issues have arisen, but this might change in the next decade.

*Kebele* housing presents the greatest housing management challenge. Over decades, the *kebele* authorities have neglected their management tasks, leaving repairs and maintenance to the occupants,

who have sometimes been helped by NGOs – for example, the world famous Tekle Haimanot upgrading project, carried out by Redd Barna in the 1980s, repaired and rebuilt some *kebele* housing.<sup>110</sup> Owing partly to official neglect, occupants have been able to extend their dwellings to house other renters, who pay directly to themselves and not to the *kebele*, which is the overall landlord. Now that the IHDP condominiums are being regarded as the future homes for occupants of *kebele* housing, continued maintenance and management of *kebele* housing is even less likely.

## I. Gaps and Opportunities

### I. Gaps and challenges in the supply side value chain

A detailed examination of the formal and informal supply side value chain reveals a number of key gaps and challenges:

- ***IHDP condominiums and cooperative housing do not effectively target the low and middle income population.*** The Ethiopian government’s major current housing policies do not achieve affordability for the low and middle income households it is intended to assist, as the monthly payments are now much higher than their ability to pay. Poorer households already spend a much higher, and unsustainable, percentage of their total expenditure on housing. Furthermore, these households are allocated the cheapest (and smallest) units, even though their average household size tends to be much larger.
- ***IHDP condominiums are being built to the neglect and removal of kebele housing.*** *Kebele* housing, while in poor condition, is the major safety net for the low income population, having long provided well-located rooms for low rent. These neighborhoods are now being bulldozed to make room for the IHDP and commercial uses, and any maintenance of the remaining units is neglected as a result.
- ***State-dominated housing policy discourages private sector involvement.*** The disengagement of private sector actors, including NGOs, from housing-related activity following the new statist policies has reduced supply and servicing activity, especially to the poorest. The worldwide acclaim aimed at the project in Tekle Haimanot shows that NGOs and community organizations has a great part to play in improving housing conditions for the poor.
- ***Private sector developers are not incentivized to build low and middle class housing.*** The Ethiopian government currently shoulders most of the burden of housing delivery for the middle and lower class, while Ethiopian developers mainly work on high-end projects. These developers have very little incentive to do otherwise, and failed attempts at collaboration between them and the government has engendered a fraught relationship, with neither side fully trusting the other’s capabilities. Hence, no fruitful PPP activity is present in the country.
- ***Land policy wobbles between laissez faire and bulldozers – no sensible middle ground.*** Nationalization of land should give opportunities for low-income households to obtain land but, instead, it seems to have denied them. Because of the control given by nationalization, the government through local authorities could control land use for the purpose of directing development in some directions and stopping it in others, or allowing informal settlement in

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<sup>110</sup> The project won an international award in the International Year of Shelter for the Homeless, 1987. The rebuilt housing is discernible by a yellow plaque above the door.

some places while controlling strategic land use decisions. Some local officials currently take an unofficial role in informal land allocations, being complicit in its occurrence. Conversely, in some areas, bulldozers are used to remove squatter housing, without any assistance for their inhabitants.

- ***Certain building standards hamper affordability.*** When building materials standards are materials-based, rather than performance-based, approval for each new material takes much longer. Furthermore, the zoning regulations set in the Local Development Plans are not very specific and often poorly enforced. Lower standards in the smaller cities, towns, and peripheral areas has proven to offer greater affordability, and a general reduction in minimum standards could amplify this effect.
- ***Lack of infrastructure provision and planning.*** Infrastructure provision often lags significantly behind the pace of housing development, particularly in informal areas. Infrastructure providers, of which there are only a few, do not coordinate their services. Continuing to fit infrastructure in informal settlements is important and can promise real improvements in living conditions.
- ***Resistance to change from horizontal to vertical housing typologies.*** The major change in syntax between housing at one story and five may be too much for most Ethiopians to handle. While it might be popular with young, middle-class aspiring couples, it is likely to be less popular or practical for low-income, older households who want to entertain their wider families, slaughter goats at festivals, or make *enjera* bread on a regular basis.

## 5. Demand-Side Value Chain

### A. Eligibility

The Ethiopian government actively promotes condominium and co-operative housing by providing three levels of eligibility for loans.

Table 25. Dwelling type and original beneficiary income level (2005 rate for US\$)

Dwelling type	Mean monthly income in ETB (and USD)	Average price (m <sup>2</sup> ) in ETB (and USD)	Selling price in ETB (and USD)	House cost to Income ratio (HC:Y)
Studio	300 (23)	800 (62)	16,000 (1,230)	4.4
1 Bedroom	600 (46)	900 (69)	18-27,000 (1,380 2,070)	2.5-3.75
2 Bedroom	1,200 (92)	1,100 (85)	33-50,000 (2,530 3,850)	2.3-3.5
3 Bedroom	1,800 (138)	1,200 (92)	>50,000 (3,850)	>2.3

Source: After UN-HABITAT (2010a): table 5<sup>111</sup>

While the program targets the cheapest dwellings to the poorest households (Table 25), with mean incomes of ETB 300 (US\$23) per month, it does so without considering their large household sizes. Households at the mean moving into the studio dwellings would have a house cost to annual income ratio (HC:Y) of 4.4, which is quite high for Sub-Saharan Africa. The higher income groups would have lower and probably more realistic HC:Y ratios of between 2.3 and 3.75. As mentioned, the issue of affordability to the target group is ameliorated by the practice of low and middle income households renting out their condominiums at market rate until they can fully own the property.

There is a wide variety of people in various income groups who use the informal sector as a housing solution provider. Loans for informal sector housing come from friends, relatives, *iddirs*, and employers. They are based on personal networks.

The eligibility of households for co-operatives is also based on personal networks, at work or elsewhere. Although these cooperatives may seem like a good avenue for relatively poor households to increase their leverage on housing, members must actually pay the full cost of the dwelling before it is even started – indeed, when the land is allocated. This involves many co-op members raising mortgages which have relatively high qualification thresholds, or collecting together the full house price in cash, which is likely to create gaps in eligibility for lower income households.

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<sup>111</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme." Table 5.

## B. Application

### I. IHDP Application Process

According to UN-Habitat,<sup>112</sup> when construction work on IHDP projects is 80% complete, registration opens and the lottery is conducted. Results are published on the internet, in newspapers and on *kebele* information boards.

Beneficiaries must go to a branch Housing Transfer and Administration Office to sign a 'Form 03' as a contract for the first stage of the transfer. Those applying for a CBE mortgage must take this form to the CBE to make their claim. Form 03 shows the bank that a contract has been made and calls for the household to pay its 20 percent down payment. The CBE then issues the household with a receipt which they must deliver to the HDPO along with Form 03 and sign the title deed.

The HDPO and the household sign the General Agreement which is then sent to the land administration and to the Bank. Beneficiaries must also pay ETB 200 (US \$15) for land administration charges and a 1.03% of the total amount of their loan for stamp tax.

CBE signs the loan agreement between itself and its customer and it is sent to the sub-city office, where the house keys can be issued. In many cases, residents move into their apartment before construction finishing work is completed to prevent the theft of fittings.

### II. Cooperatives Application Process

To qualify for co-operative housing status, a group of 10 to 20 households must form themselves into a co-operative and apply for land to the local authority. If successful, they will be allowed to buy land with electricity, roads, and water supply provided to the edge of the site. On-site sanitation is intended to be fitted by the occupant. They can then prepare plans for land allocation, develop savings, prepare settlement plans, receive land allocation with a lease, and develop their own dwellings. They can reduce the overall cost of their dwelling by completing labor themselves (sweat equity). There are standard plans and elevations, but they are honored more in the breach. The process is not available to the poor, as they do not have the capacity to save as required.<sup>113</sup>

## C. Subsidy & Finance

### I. Government subsidies

The Ethiopian government has a long history of subsidizing housing loans, only in the 1990s were they removed briefly.

The IHDP condominiums, in particular, carry a high element of subsidy. Initially, there was very little or no interest taken from the loans on the smallest two types, although this has been changed so that all units attract an interest rate of 8.5% per annum. The Housing Development Project Office's (HDPO's) overheads are not included in the costs, the infrastructure is fitted free, mortgage interest rates are reduced, and no maintenance costs or insurance charges are made (see below). Construction materials and equipment imports for the project do not attract the usual 15% VAT. Land lease payments are forgiven by government; no charge is recovered for transportation, handling and storage of materials; and no fees are taken for the designs. There is also a substantial subsidy element in their pricing and some cross-subsidy from the larger dwellings to the smaller units. The dwellings were originally

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<sup>112</sup> Ibid..

<sup>113</sup> UN-HABITAT, 2010

supposed to cost about ETB 1,000 (US \$77) per square meter, which is 40% of the market cost. According to government officials, the actual cost is calculated simply based on the cost of labor and building materials used in constructing the units.

Of the total subsidy cost, the loss of revenue on the land must be one of the highest. Kaganova and Sisay Zenebe<sup>114</sup> estimate that this foregone income translates into 147% of the total municipal budget revenues of Addis Ababa in 2013. The difference between the benchmark price of ETB900 (US\$70) per m<sup>2</sup> and the auction land price of probably ETB 6,000 (US\$462) per m<sup>2</sup> means that each condominium unit obtains an indirect land-related subsidy of ETB561,000 (US\$43,000). Buyers of condominiums will later capture this value by reselling at prices that reflect the market value of the land or by charging market-based rent to tenants.

Fortunately, the government has been beginning to recognize that the IHDP may not be sustainable. In some regional cities, there has been virtually no demand for apartments. The majority of the regional states, with the exception of the Amhara state, have not been able to pay back their bank loans. As a result, the IHDP was halted in regional cities in 2010.

Table 26. Initial financial structure for beneficiaries according to dwelling type

Dwelling type	Down payment (percent)	Interest rate (percent)	Grace period	Repayment period (years)	Subsidy on construction cost (percent)
Studio	10	0	6 months	20	30
1-Bed	10	2	3 months	10	10
2-Bed	30	7.5	-	15	-5
3-Bed	30	7.5	-	10	-10

Source: Columns 1-5, UN-Habitat: table 3;<sup>115</sup> column 6 from stakeholder interview at Addis Ababa Housing Construction Project Office

The built-in cross-subsidy element has been revised since the information in Table 26. For example, in Amhara region, the studio and one bedroom units are sold at par while the two bedroom have a two or three percent premium and the three bedrooms have a five percent mark-up. If the sale of the commercial units is successful enough, the cross-subsidies might be reduced.

A large demand-side subsidy contribution occurs when the government tolerates the practice of renting out the subsidized apartments for market rents.

## II. Remittances

The World Bank ranked Ethiopia as the eighth largest remittance receiver in Sub-Saharan Africa in 2010, when its inflow of remittances reached US \$1.5 million.<sup>116</sup> According to Andersson,<sup>117</sup> 30% of households in Ethiopia have a family member abroad and 19% receive remittances, but there is little evidence for the use of this money for housing investments.

<sup>114</sup> Kaganova and Sisay Zenebe, "Ethiopia Urbanization Review: Land Management as a Factor in Urbanization."

<sup>115</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme."

<sup>116</sup> <http://abbaymedia.com/2012/11/28/ethiopia-diaspora-remittance-reach-1-5-billion-dollars-a-year/>

<sup>117</sup> Lisa Andersson, "Migration, Remittances and Household Welfare in Ethiopia," Department of Economics, University of Gothenburg, [http://www.gu.se/digitalAssets/1373/1373597\\_andersson.pdf](http://www.gu.se/digitalAssets/1373/1373597_andersson.pdf),



### III. Mortgages

As in other countries in Sub-Saharan Africa, comparatively few Ethiopians take out mortgages when they want to build a home.<sup>118</sup> About 80% of CBB's loans (totaling approximately ETB 710 million – US \$37 million) are mortgages on existing real estate, about half of which is to individual homeowners and appear to be performing well. In 2009, there were about 12,000 individual loans outstanding with a mean balance of ETB 50,000 (US \$2,600).<sup>119</sup> These mortgages were subsidized at below market interest rates and 55% of them were to borrowers whose monthly income was below US \$52 (middle-income at the time). Mortgage approvals take about six weeks from first site inspection. Most home-owners who build for themselves or buy from estate developers, however, rely on savings and borrowing from friends, family, or work-place.

In contrast, buyers of condominiums generally use the CBE mortgage facility developed specially for the IHDP. The CBE's mortgages are offered on a 20% deposit and an interest rate of 7.5% for 10 years. This is being modified by the 10/90, 20/80 and 40/60 programmes. Eligibility is gained from saving the deposit in CBE before the loan is granted.

Table 27. Dwelling type and cost for next phase of IHDP, 2014 onwards

Dwelling type	Selling price in ETB (and USD)	Average price (m <sup>2</sup> ) in ETB (and USD)*	Mean monthly payment in ETB (and USD)	Number of payments to pay off capital (excl. interest)
1 Bedroom	162,000 (8,346)	6,480 (334)	1,056 (54.40)	153
2 Bedroom	250,000 (12,880)	6,757 (348)	1,575 (81.14)	159
3 Bedroom	384,000 (19,800)	7,680 (396)	1,666 (85.83)	230

\*Assuming the mid-point of the range of each size.

Source: After Wiyiyit<sup>120</sup>

The emerging private bank sector has limited involvement in residential mortgages because of perceived high risk and shortage of experience.<sup>121</sup> Many banks have started "savings for housing" schemes to encourage saving and credit behavior. A potential borrower who agrees to deposit a specified amount for a period of, say, five years, is simultaneously building up a cash down-payment and demonstrating his/her creditworthiness.<sup>122</sup>

Meheret Ayenew and Martin<sup>123</sup> report an escalating cost of construction with an estimated cost in 2009 for a house with three rooms of \$15,000-20,000. This is very cheap internationally but it is unaffordable for most households in Ethiopia. For a maximum 25-year mortgage period, the monthly payment for such a house would be between ETB 500 and ETB 666 (\$50-70).

It is obvious that mortgages are only granted to the most formal developments and to people who can afford to pay the required deposit on the cost of the dwelling. Similarly, loans to the construction sector are only available to formally registered firms with the resources to raise the 30% deposit.

<sup>118</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

<sup>119</sup> Ibid.

<sup>120</sup> Wiyiyit, "40/60 Housing Construction Launched with 1.5 Billion Bir ", *Wiyiyit* May 7th(2014), <http://www.wiyiyit.com/4060-housing-construction-launched-with-1-5-billion-bir/>.

<sup>121</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

<sup>122</sup> Ibid.

<sup>123</sup> Ibid.

### Private-sector mortgages

Over the last two decades, the private banking and insurance sectors in Ethiopia have made considerable progress to control nearly 50% of the banking and insurance industry. However, mortgage financing is limited, because the private finance institutions favor short-term lending due to a lack of experience in mortgaging among staff and the reduced profitability plus increased risks associated with long-term financing. Further, risk-bearing financing, provided in other countries by venture capital institutions, is missing in Ethiopia. Meheret Ayenew and Martin<sup>124</sup> conclude that, in the short to medium term, it is unlikely that such institutions will be developed in Ethiopia. In order to encourage private banks to participate in the mortgage market, the government must mitigate risk in two ways: i) providing a guarantee on their loans and ii) ensuring the careful valuation of land before it is sold for housing development.<sup>125</sup>

Encouraging the participation of private banks in mortgage issuance offers the opportunity of scale, as they have almost as many branches in the country as the government banks, and together they have almost as much capital as government banks (Table 28). This is a marked change from 2007/8, when they only had half as much capital as the government banks.<sup>126</sup>

Table 28. Distribution and Share of the Banking Business in Ethiopia, June 2012

	Branches	Percent of branches	Capital 2007/08 (US\$ millions)
<b>Government Banks</b>			
Commercial Bank of Ethiopia (CBE)	559	43.4	322.52
Development Bank of Ethiopia (DBE)	84	6.5	18.79
Construction and Business Bank (CBB)	32	2.5	131.47
Total commercial banks	675	52.4	472.77
All 14 Private Banks	614	47.6	459.42
Total			

Source: National Bank of Ethiopia Annual Report.<sup>127</sup>

### Maintenance costs and insurance

No provision seems to have been made to collect from the residents the money to cover maintenance costs, which include insurance of the building; maintenance of public spaces; routine repairs and maintenance such as unblocking drains, repairing leaks in water pipes, painting the steel staircases; and the cost of future repairs to common elements such as roofs.<sup>128</sup>

## D. Credit Underwriting

The Federal Government guarantees all CBE housing loans as a programmatic matter, without doing individual or even portfolio-level underwriting of their creditworthiness, instead relying on CBE's presumed underwriting. In turn, CBE uses its requirement that buyers should save their deposit in one

<sup>124</sup> Ibid.; *ibid.*

<sup>125</sup> *Ibid.*

<sup>126</sup> National Bank of Ethiopia, Quarterly Bulletin, 2007/08, cited in *ibid.*: table 9.

<sup>127</sup> National Bank of Ethiopia, "Annual Report, 2011/12." Table 4.5.

<sup>128</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia."

of its accounts as the principal form of mortgage credit underwriting. It has the more than half the deposits in all banks in Ethiopia, including seven million customers saving for an IHDP apartment.

Informal credit is usually based on personal relationships, status, reputation and the honor/shame implications of paying for or defaulting on credit.

### E. Loan Closing

In the IHDP condominiums, beneficiaries with a signed 'Form 03' contract must take it to the CBE to make their claim. Form 03 shows the bank that a contract has been made and pays its 20% down-payment (which may be in a CBE savings account). The CBE then issues the household with a receipt which they must deliver to the HDPO along with Form 03 and sign the title deed. The HDPO and the household can then sign the General Agreement which is sent to the land administration and to the Bank. Beneficiaries must also pay ETB 200 (USD 15) for land administration charges and a 1.03 percent of the total amount of their loan for stamp tax.

In co-operatives, there is no loan, as either the last of two 50% payments or the whole of the cost must be paid when the building starts.

### F. Funding

A CBE spokesperson cited deposits as the source of liquidity, but this may not be the case, as they account for only 20% of the borrowed sum in most cases. Even with 7 million depositors saving for their 20% deposit with CBE, it is unlikely that it will generate sufficient liquidity; further, it puts the entire CBE system at risk should depositors lose confidence in the CBE and stage a deposit run on the bank.

Ethiopia is highly indebted. It is one of the largest receivers of official development assistance (ODA), to the tune of US\$3.6 billion in 2011, about one third of the national budget.<sup>129</sup> When the country is so reliant on foreign-aid sources not only for social programs but also for ongoing capital-markets liquidity, one must question whether it is prudent to subsidize housing for the aspiring middle class, who have alternatives and resources, rather than to target the urban poor.

### G. Loan Servicing

CBE collects its mortgage payments in cash in any of its many branches. It is possible also to pay through the bank but not yet directly from salaries.

For community savings groups such as SACCOs, payments are made to the savings group on a monthly basis. Members of the Menen SACCO paid off the cost of their dwelling at the rate of ETB1 per square meter per month (so varying between ETB 10 and 28 per household per month) over 20 years. These payments were a little higher than they had paid as rent to the *Kebele*.<sup>130</sup> The scheme was, however, subsidized by Redd Barna and may need to be modified if it is tried elsewhere without a subsidizing institution.

### H. Enforcement

There is quite a low default rate on CBE's mortgages, and it has set up Consumer Loan Centre to help those in default continue to pay. Under Article 3 of the Proclamation No. 97/1998, banks are allowed to

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<sup>129</sup> [http://www.dagethiopia.org/index.php?option=com\\_content&view=article&id=21&Itemid=36](http://www.dagethiopia.org/index.php?option=com_content&view=article&id=21&Itemid=36)

<sup>130</sup> Elias Yitbarek Alemayehu, "Between Renting and Owning: Saving and Credit Co-Operative Based Tenure Transformation in the Inner City "Slums" of Addis Ababa."

include a clause in the loan agreement allowing them to foreclose in the event of default and to sell the property by auction and to transfer the ownership of the property to the buyer.<sup>131</sup>

Banks face difficulties in foreclosing efficiently and recovering their loan amount. These include:

- Third parties with interests can issue blocking orders [liens] on foreclosure proceedings and delay or eventually stop foreclosures.
- Courts usually only value property at its building cost, without reference to the banks' valuation. This reduces the price at auction.<sup>132</sup>

In addition, the foreclosure law, allowing non-judicial foreclosures, works well as long as the property is registered. Proclamation No. 97/98 and Amendment Proclamation No 216/2000 allow foreclosure, but the time taken to gain title and registration remains a problem.<sup>133</sup>

## I. Gaps and Opportunities

### I. Gaps and challenges in the demand side value chain

A detailed examination of the formal and informal demand-side value chain reveals a number of key gaps and challenges:

- **The IDHP is overburdened with subsidies and therefore financially unsustainable.** The Ethiopian government's concentration on a relatively expensive form of housing, albeit with impressive reductions in cost through economies of scale and out-sourcing components, disqualifies so many households from sustainable participation that subsidy is probably inevitable while the IHDP continues. If IHDP is to satisfy any demand from lower income households, its financial arrangements must be made more appropriate for households at or below a median income. Following the sub-prime mortgage problems internationally, this may be more difficult even than it was before the financial crash.
- **Demand for housing finance is low.** Meheret Ayenew and Martin argue that the demand for housing finance has been reduced due to "poor and weak supply of plots of land for housing construction; an increase in the cost of construction materials, partly caused by the high inflation rate in recent years; increase in the minimum own contribution required by the CBB from borrowers who desire to construct houses (from 5 percent to 20 percent); and the limited capital base of the CBB."<sup>134</sup>
- **Ethiopian household incomes are very low.** Although housing in Ethiopia is built very cheaply, it still remains unaffordable to many because most household incomes are very low. Middle and high income groups constitute a maximum of 25% of Ethiopia's urban population. While mortgages are

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<sup>131</sup> Tihitina Ayalew, "Legal Problems in Realising Non-Performing Loans of Banks in Ethiopia 2014." (Addis Ababa University, 2009).

<sup>132</sup> Ibid.

<sup>133</sup> Meheret Ayenew and Martin, "Access to Housing Finance in Africa: Exploring the Issues, No. 9, Ethiopia".

<sup>134</sup> Ibid. p.32.

very small indeed in the IHDP, and quite small in the open market, they are much too large and have too high qualifying thresholds for even the median household.

- ***Mortgage market is underdeveloped.*** Mortgages tend to be disbursed only to the formal sector. Instead of using mortgages, the norm is for households to rely on savings or informal networks for borrowing. The IHDP financing programme is the only major source of loans to low and middle income borrowers, and it can also be cost-prohibitive due to the required deposit. Furthermore, there is no secondary mortgage facility in the country.
- ***Private banks are not involved in mortgage finance.*** Private banks tend to favor short-term lending, because of a lack of experience in mortgaging, reduced profitability, and increased risk of long-term lending. Risk-bearing financing via venture capital institutions is missing in Ethiopia. The aversion to risk plus profit motive makes it even more difficult for low and middle income households to borrow from the private sector.

## 6. Conclusion: Recommendations and Policy Implications

As it currently operates, Ethiopia's formal housing delivery and housing finance ecosystem is (1) effectively disabling the private market, (2) unintentionally reinforcing that disablement, and (3) so interconnected that the last decade's worth of interventions, chiefly the IHDP, are on the verge of making Ethiopia's housing problems worse by demolishing the *kebele* housing (see 2.D.1 above), and the *chika* form of construction that is the mainstay of existing housing affordable by the majority in Ethiopia, and replacing it with the unfulfillable promise of formal housing that most Ethiopians do not want, cannot afford, and will never live in (because the system will be unable to produce enough).

Thus it is difficult to know where to start in reforming the system.

### A. The ecosystem as a whole

Despite having restored a democratic form of government almost two decades ago, Ethiopia is still coping with the consequences of its dictatorial period, with a central-planning, non-market approach to:

- *Housing supply*, in the form of government-led initiatives, chiefly the IHDP, that both crowd out the private sector in development and exclude all but the upper quintile from access to formal housing.
- *Housing demand*, through an underdeveloped lending sector that overemphasizes a form of finance that is solely useful as a source of offtake for IHDP direct-government-produced housing, and funds that finance off a national savings scheme which we believe is headed eventually for a liquidity crisis.

Moreover, because the government sector was so overdeveloped, the 2004 Urban Development Plan's apparently diverse set of production modalities has in fact ended up reinforcing the vertically-integrated statist approach to formal housing.

Little of this may be apparent to Ethiopia's leaders, focused as we believe they must be on formal production, so as a core recommendation, Ethiopia must reverse its approach of eliminating current

housing informality in favor of potential future housing formality, and instead allow those who have *kebele* houses or *chika* houses some paths to stronger security of tenure and incremental replacement of their self-built *chika* houses with stronger housing.

## B. The supply-side value chain

In the supply-side value chain, disruptions and blockages in formal development have the effect of making further informal development the more practical alternative for most Ethiopians, even as government policy seeks to remove informal development in favor of more formality. This can be seen through a summary of the key blockages found by the evidence:

### *Finding from the evidence*

1. Because the state owns all land, normal markets of formal and availability (including peri-urban expansion) are non-existent. See 2.C above.
2. Ethiopia's current land-release policies – that is, open auction at market price, or below-market allocation subject to future development that seldom happens (see 3.A.1) – actually disable affordable housing because any land released will be developed only for the high income quintile.
3. Informal land allocation is faster, cheaper, and more reliable than formal (see 3.A.2).

### *Policy recommendations suggested by the findings*

As Ethiopia's current urbanization (20%) is among the lowest in Sub-Saharan Africa, allow some form of as-of-right homestead or subdivision of peri-urban land, or devolve authority from the central government to cities and towns so that they can lay out peri-urban growth planning to get in front of future urban growth.

Connect land release to an effective means of putting in into development; see recommendations that follow immediately below.

Some method must be developed to enable occupants (squatters) of self-built 'moon houses' to formalize a tenure that prevents them from being evicted in favor of new IHDP condominiums. Perhaps this could be achieved through land rationalization; land pooling along the lines successfully used by the ACHR and CODI in Thailand. See 3.A.2.

Create a homestead entitlement subject-to Collaborative land allocation. CODI or otherwise. See 3.A.2.

Finding from the evidence

4. Until recently, housing was a government-policy afterthought, residing unmentioned within the Ministry of Works and Urban Development (MWUD).
5. The 'weak link' connection between land allocation and delivery of trunk infrastructure hinders private developers' building housing and hence reinforces the IHDP de facto monopoly on production. See 3.A.1.
6. Peri-urban growth planning is non-existent because land release is handled on a project basis and not a metropolitan basis.
7. Peri-urban growth for Addis Ababa is actually taking place mainly in other jurisdictions.
8. Emphasis on formal construction is destroying the low-cost *chika* housing solution which would otherwise be a path to incremental formalization.
9. The building code, being materials-based, is antiquated and dysfunctional.
10. Demolition of existing *kebele* housing in favor of promised (but unaffordable, probably unfinanceable, and likely undelivered) new mid-rise IHDP condominiums will be an urban disaster.

Policy recommendations suggested by the findings

- Now that MWUD has been renamed the Ministry of Urban Development, Housing, and Construction (MUDHC), the housing value chains should be centralized within a Housing division with an emphasis on alternatives to IHDP, either PPP (aimed at rapid-delivery low-cost housing) or household-and-small-contractor upgrading/formalizing, supplanting the current four directors whose responsibilities are scattered in isolated pockets of the value chains.
- MUDHC's Housing division should have either coordinated or devolved authority (from MWE for electricity and water, and AARA for road works in metro Addis Ababa) so that trunk infrastructure can be coordinated with land release and land allocated for housing will go rapidly into housing development. See 3.D.1.
- Have peri-urban land owned by the state be allocated into the control of the MUDHC so that it can be developed via incremental settlement with a 'path to formalization' model of small-contractor or small-scale development.
- Develop some form of cross-provincial planning or collaboration applicable to peri-urban Addis Ababa.
- Grant retroactive tenure status or otherwise protect from demolition/ displacement existing *chika* neighborhoods that meet, or can be improved to meet, certain standards of physical durability and tenure longevity of the type described in 2.B.9.
- Replace it with a performance-based building code, and a streamlined building code for (say) 1- or 2-story dwellings. See 3.D.1.
- See previous recommendation to allow land pooling and a path-to-formalization of *kebele* housing; or conversely, enact a law, akin to India's Slum Relocation Act, requiring replacement housing to be built and occupiable by *kebele* residents *before* any *kebele* housing can be demolished.

### Finding from the evidence

11. Private developers, contractors, and small-scale builders are all financially weak and appear to be politically under-represented so that these forms of upgrading/improvement/ construction are under-nourished by existing policy.

12. Despite its embedded cost-reduction subsidies (e.g. VAT waiver, free or minimal-cost land, free infrastructure) the resulting IHDP prices, though well below market, are in fact not affordable by most Ethiopians and regional cities beyond Addis Ababa either have found no takeup for the flats or have been unable to repay their bank loans, leading to program halt in 2010.

### Policy recommendations suggested by the findings

Break the vicious-circle of mistrust/ non-fulfillment between government and the private sector regarding property development through (for example) sales of plots on a deferred-payment basis with a greater interval allowed for the commencement of construction, or construction commencement before delivery of formal infrastructure

As referenced in Section 5.A, the vertically-integrated formal-based supply-side delivery model has reached an economic cul-de-sac where it is unable to respond to the market's burgeoning needs. This suggests the need for a complete reinvention, oriented around formalizing informal housing and using indigenous materials (i.e. *chika* as an interim building measure).

## C. The demand-side value chain

In the demand-side value chain, the under-development of formal mortgage finance is exacerbated by (1) the weak banking sector (MFI capitalization greater than mortgage bank capitalization), and (2) the total vertical integration of government finance as the offtake mechanism for government IHDP housing production. The results are that:

1. Formal private developers rely on the consumer-risky off-plan sale model (50% at reservation, the remaining 50% *before construction starts*).
2. Available demand-side subsidies (chiefly below-market lending) are effectively regressive, because the very poor will never reach income levels to afford the houses being produced to be financed by the IHDP schemes.
3. The CBE-managed funding scheme, through which many Ethiopians are savings for IHDP down payments and the proceeds are (apparently) being used to fund current IHDP offtake loans, is unsustainable and runs the risk of turning onto a Nigerian-style FMBN 'regressive' subsidy where the poor actually provide liquidity to the middle and upper middle classes.

This can be seen through a summary of the key blockages found by the evidence:



### Finding from the evidence

1. The housing finance sector is grossly underdeveloped. This may in part be due to the recent history of volatile inflation (averaging 19% between 2006 and 2014<sup>135</sup>) which has made long-term lending impractical; coupled with the virtual monopoly on housing finance possessed by the CBE, and the CBE's close connection to the government's IHDP development policies, which crowd out other development possibilities. See 2.D.1.
2. Even after the supply-side cost reductions, the IHDP program cannot achieve affordability, and on the demand side instead of using cash grants or other mechanisms, it uses progressively higher leverage (gearing) for lower-income households, up to 90% (versus 60% for higher-income households). While understandable as social policy, this is contrary to normal credit underwriting and places lower-income IHDP buyers at macro risk (i.e. the whole set of them could be in default at the same time, with little embedded equity in their homes and no apparent home-resale option. See 4.A. and 2.B.2.
3. Overconcentration of housing finance in a single entity (CBE) puts the demand side ecosystem at overall systemic risk, especially if there is a liquidity crunch (see next point).

### Policy recommendations suggested by the findings

The Bank should invite a proposal from the Government of Ethiopia for and IDA financing that is connected to the creation and expansion of a housing finance industry, in structure similar to that funded a year ago in Nigeria<sup>136</sup>.

Separate embedded subsidy (leverage higher than commercial standards) by converting (say) the 90% loan into a 70% loan and 20% forgivable loan (forgiveness tied to ongoing occupancy and perhaps capital reinvestment) so as to cushion the risk of portfolio-level default by aspiring households who have stretched to become IHDP homeowners.

Bank policy and IDA funding should encourage the development of multiple financing options, including non-bank housing finance companies as primary mortgage institutions (PMIs).

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<sup>135</sup> <http://www.tradingeconomics.com/ethiopia/inflation-cpi>, accessed September 1, 2014.

<sup>136</sup> <http://www.worldbank.org/en/news/press-release/2013/09/26/world-bank-support-nigeria-expansion-housing-finance-market>.

Finding from the evidence

Policy recommendations suggested by the findings

4. Because CBE is funding both the development and the offtake, there is a substantial risk of creating an entire asset class without proper underwriting. That is, CBE funds development for the local authority, is repaid (say) 20% at completion, then finances the IHDP buyers with long-term mortgages. While so far there have been minimal defaults, CBE's offtake scheme entails virtually no household-level underwriting, and if defaults arose systemically (e.g. through a recession), CBE could be insolvent in short order. See 3.E.

5. The IHDP program's long-term funding source remains short-term depositors, which is predicated on multiple factors: (a) a continuing inflow of depositors substantially in excess of borrowers (roughly 4:1 ratio required), (b) continuing depositor confidence in the CBE, and (c) continuing availability of low-cost deposits (currently 5%) which in turn depends on low inflation. A liquidity crunch or bank rate is a significant 'black swan' risk. See 3.E.1.

6. Lack of land-acquisition or construction finance means that developers must tap end users for financing, via the 50% at signup, 50% before construction model. (See 3.E.1 and 3.G.) The result is unacceptable levels of consumer risk as households must commit their savings with no guarantee that the property will ever be completed and sold to them.

7. The program whereby an IHDP buyer then 'flips' the housing to a higher-income tenant, and keeps the difference between the market rent and the IHDP-stipulated payment, results in concentration of housing in the upper-middle income coupled with monetization of the discount element by the 'lottery winner' lower income family. See 3.G.

The CBE should be precluded from being on both sides – supply side and demand side – of any given development financing; for this recommendation to be useful, there need to be alternatives to the CBE in the marketplace, which at present there are not.

Consistent with recommendation 1 above, an IDA financing to establish a national liquidity facility would significantly reduce demand-side systemic risk.

Enact consumer-protection legislation requiring off-plan sale deposits to be held in escrow by a reputable financial institution (e.g. CBE). As this will crimp private development, balance it with supply-side incentives (and the creation of development finance or intermediate offtake commitments by the CBE, so that risk is borne by a well-capitalized bank rather than by individual householders).

Either require (and successfully enforce) owner occupancy, or deliver some IHDP housing as rental, operated by social landlords, so that the wealth transfer to targeted households is in kind (lower occupancy cost) rather than in cash.

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## Appendix 1. The Integrated Housing Development Programme

Initially called the “Grand Housing Programme,” the Integrated Housing Development Programme (IHDP) is an important recent development in Ethiopia’s housing sector. Following the failure of the market-based approach of incentivizing real estate developers with free land, the IHDP was adopted as the main government housing program in urban Ethiopia.

The IHDP exclusively uses the condominium housing concept as its main approach. Condominium housing is a form of tenure by which households can own their dwelling in a larger building and hold responsibility for managing the larger building and its grounds, usually through an association. All the households have the use-right of all the land belonging to the condominium. Typical rules of the association include monthly maintenance fees, pet and livestock restrictions, and color/design choices for anything visible from the common areas of the buildings. Within the dwelling, the upkeep of all the features is the responsibility of the household. In IHDP, 396,000 units were planned in 129 towns in seven regions, with about half in Addis Ababa. Ten percent of these were slated for ground-floor commercial use.

The actual completion statistics given by UN-HABITAT are 244,436 (170,000 in Addis Ababa) with 160,325 having been transferred to the beneficiaries. As of mid-2010, the programme built nearly 70,000 units outside Addis Ababa, of which 22,700 have been transferred to occupants. A further 95,000 are under construction in Addis Ababa. While it is still continuing in Addis Ababa, the programme has been suspended in the smaller cities and the towns, pending the settlement of outstanding accounts.

The second phase of IHDP, due to start, is aiming to build 50,000 apartments per annum in Addis Ababa over the next 10 years. The Federal Government is confident that there is sufficient demand to continue with IHDP as there were 947,000 applicants when the new condominium programmes were launched. By assuming some demand in the regions, a total demand of 1.2 million was estimated.

### *Construction of IHDP condominiums*

The condominium blocks are constructed in reinforced concrete frame and slab (in-situ and precast) with hollow concrete block infill plastered inside and out. The concrete floors are skim-finished. Doors and windows are metal (or plastic) with single glazing. Economies of scale have reduced the price of fittings. The design also takes account of materials unit sizes to reduce cutting time and waste. Some precast units (beams, slabs, staircases) are used to save construction time.

Each dwelling has a bathroom (with washbasin, shower and flush toilet) and a kitchen. All include a water supply, sewerage and electricity. At the beginning, the target cost was about ETB 1000 (US \$50) per m<sup>2</sup>. By 2007, when Amhara region started its IHDP involvement, the cost was ETB 1700 (US \$90) per m<sup>2</sup>. By 2009, the cost was ETB 2000 (US \$100) per m<sup>2</sup>. Currently, in the final stages of construction in Amhara region, the cost is ETB 3,445 (US \$180) per m<sup>2</sup>, which could be slightly lower if local materials can be used and consultants are not used for supervision (Construction and Housing Development Agency, Amhara Region). According to the Addis Ababa Housing Construction Project Office, the cost of the first phase, up to 2014, has been estimated at about ETB 3,142 (US \$162) per m<sup>2</sup> – between one fourth and one sixth of the cost of private real estate.

The IHDP is imposing huge demands on construction materials, for which national production levels are inadequate. Large amounts of roofing sheets, sanitary fittings and electrical materials are being imported. Four new cement factories have been opened and large numbers of trucks and machines

have been imported. There are inadequate numbers of registered contractors and inadequate training facilities<sup>1</sup> which have led to quite poor standards of finishing.

Table 1. Dwelling type and proportion in the blocks

Dwelling type	Floor area (m <sup>2</sup> )	Percentage in each block	Total number planned	Percentage planned
Studio	<20	20	75,600	21
1 Bedroom	20-30	40	147,600	41
2 Bedroom	30-45	20	108,000	30
3 bedroom	>45	20	28,800	8
Total dwellings planned			360,000	

Source: After UN-Habitat.<sup>2</sup>

Each block contains a mixture of dwelling types (Table 1). The design in four differently-sized dwellings assumes that poorer applicants will be suited to the smaller dwellings, as they are the cheapest. This assumes that affordability and household size are positively correlated, but it is well-known that this is not the case.

A further ten percent of each site is set aside for commercial activity, including units on the ground floors of the blocks and separate sites. These are auctioned currently with a starting price at twice the residential unit cost. If there is a significantly greater income from this than was predicted, the cross-subsidy elements to studio and one-bedroom units may be raised, or the additional subsidy cost put on two and three bedroom types is reduced. In good locations, these units sell easily and are occupied, as planned, by shops. In the peripheral locations now being developed with condominiums, it may be more difficult to sell all the commercial units.

### *IHDP financing strategies*

There are three different financing strategies available for low-income beneficiaries: the 10/90, 20/80, and 40/60 schemes, where the former number represents the percent of down-payment required while the latter represents the amount to be provided by a CBE mortgage.

1. **10/90.** Targeted at households with less than ETB 1,200 (US\$62) per month (in 2005), this programme focuses on providing apartments in two-story blocks with 50% government subsidy including 8% cross-subsidy from better off households. All infrastructure will be paid for within the subsidized price. The applicants will only be expected to save 10% of the cost before allocation by lottery. The other 90% will be met by a CBE mortgage. The studios in condominium blocks are also open to 10/90 clients.
2. **20/80.** The IHDP condominiums will be directed largely at the group of households who earn more than ETB 1,200 (US \$62) per month (in 2005) who are within the low to middle income groups. The blocks are intended to be from five to 12 stories high, depending on whether they are in the core of Addis Ababa (7-12 stories) or not. They will have infrastructure connections up to the dwelling paid for within the price. The applicants will be expected to save 20% of the cost before allocation by lottery. The other 80% will be met by a CBE mortgage.

<sup>1</sup> Zerayehu Sime Eshete and Kagnew Wolde, "Performance, Challenges and Prospects of Real Estate Financing in Addis Ababa," (Addis Ababa: Bank of Ethiopia, not dated 2008?).

<sup>2</sup> UN-HABITAT, "The Ethiopia Case of Condominium Housing: The Integrated Housing Development Programme," (Nairobi: United Nations Human Settlements Programme, 2010). Tables 2 and 4.

3. **40/60.** The larger apartments in the condominiums will be intended for this payment method. They will pay the full cost of infrastructure from the edge of the site. The applicants will be expected to save 40% of the cost before allocation by lottery. The other 60% will be met by a CBE mortgage.

Table 2. Eligibility of IHDP dwelling types to new financial packages

Type	10/90	20/80	40/60
Studio	Yes	Yes	Yes
1-Bed	No	Yes	Yes
2-Bed	No	Yes	Yes
3-Bed	No	No	Yes

### Legal frameworks of IHDP

The IHDP is regulated by the following key legal frameworks:

At first, the condominiums were funded out of local authority budgets, but this quickly became unsustainable, so the Commercial Bank of Ethiopia (CBE) was given the responsibility for front-end finance and end-user finance with its risks under-written by a Federal Bank Guarantee. According to the Housing Development Bureau, CBE has granted loans of \$243 million or \$9,230 per household. The subsidy element in the cost of building is about 50%.

Allocation is made by lottery with applicants selecting a preferred location and dwelling type. They must have lived locally for at least six months and own no other dwelling. Allocation takes place in an open public meeting and all beneficiaries' names are published afterwards. No onward sales are allowed for five years.

Condominium allocation procedures ensure that women have more chance to become owners than in any other housing. The lottery is gender-sensitive, in that the first 30% of allocations are taken only from women-headed households. Unfortunately, women-headed households are over-represented in the households that cannot afford the units. While there is some NGO activity to help the women raise the deposit in the Lideta project, there is otherwise no financial help geared specifically for women-headed households within the programme.

Proclamation No. 455/2005 sets the compensation for displacement and land expropriation, Under it, 90 days' notice must be given, compensation must be paid at market value, relocation costs must be met, and rental and ownership options must be provided at fair prices in the same or nearby area. Households who have been evicted to make way for the developments have a right to first choice. They have to be able to pay the deposit, however, and pay for the dwelling in the usual way. This seems to favor only the better off among the evictees, leaving the poor to fend for themselves.<sup>3</sup> In Lideta, where 2,000 households were relocated to make way for condominiums, evictees were given the following alternatives: buy an existing condominium, wait three to five years for the Lideta condominiums to be available and move back, move into available *kebele* housing, or receive land to build on with some compensation. Most chose to buy a previously completed condominium apartment.

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<sup>3</sup> There are no data on the income characteristics of the households that have benefited from the compensation.

Undoubtedly, there has been an impressive increase in the housing stock as a result of the huge investments arising out of IHDP. UN-HABITAT<sup>4</sup>, however, points out that there has been little regard paid to the housing rights of people displaced by the IHDP, who cannot afford to benefit from them.

### *Expected and unexpected outcomes*

The government's condominiums provision has been very large, turning it from an enabler to a direct provider in an era when international practice eschewed the idea of governments as providers because of their inefficiency. By 2011, the project had generated dwellings at a rate of 2,850 per month, or 12 per working hour, and this is a considerable achievement. Government officials calculated that the project had contributed to a GDP growth rate of 11.5% and created 176,000 new jobs. Its contribution to the construction sector, particularly in the micro- and small-enterprise sub-sector, and for youths, has included capacity-building and technical improvement. The large scale of the building work has allowed trainees to benefit from the work stream and for those enterprises which have invested in machinery and trucks (using 70% loans available) to amortize their costs during the programme.

It was expected that rents might reduce nationally as a considerable stock of new owner-occupied and privately-rented stock has been created. There is no evidence of this; instead, rents are rising in Addis Ababa. It may be that, although the number of condominiums is large, the proportion of the housing stock that they constitute is relatively small and many of the apartments replace lower rental *kebele* stock rather than generating completely new supply. The new environment has achieved significant physical improvements for the occupants – all have basic infrastructure and security of tenure – but the programme has halted improvements in the housing that it is intended to replace.<sup>5</sup>

In each site, there is at least one community building which, initially, was meant to be the joint property of the condominium members. Instead, the community buildings remained in the hands of the government and many were unused. Recently, many owners have clubbed together to buy them and they are put to good and profitable use, sometimes as community spaces which can be rented out for events.

Condominium housing has had several unexpected outcomes; some positive, others negative. The positive unexpected outcomes include:

4. ***High demand and support for the condominium dwellings.*** Around 450,000 people applied in 2004, even though some of them could not have raised the down-payment if they had been selected.
5. ***The creation of a group of low-income landlords.*** Because no owner can sell for five years, many of the poorer households no longer occupy their units but use them as a means of income generation, especially if they were only marginally able to afford them, and move into cheaper housing, extracting a rent much higher than their repayment. The rental income more than covers the mortgage payments, so this is an effective survival strategy. Government estimates suggest that about 70% of recipients rent out their dwelling either whole or in part. Thus, condominium housing is contributing greatly to the private rental market rather than increasing owner-occupation as much as was expected.

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<sup>4</sup> UN-HABITAT, "Situation Analysis of Informal Settlements in Addis Ababa," (Nairobi: UN-HABITAT Cities without Slums sub-regional programme for Eastern and Southern Africa 2007).

<sup>5</sup> When the water runs, it is accessible within the dwelling. When it does not, there is a climb of several flights of stairs for many, carrying buckets of water. Tenure is secure as long as mortgage payments are kept up.



6. **The growth of a rental market.** The rental market has been dramatically augmented, leading to a reduction in market rents and in illegal development. A number of informal sector estate agents have started in business to connect prospective renters with apartments to rent in the condominiums estates.

The negative unexpected outcomes include:

1. **Units unaffordable to the target population.** Despite their very low prices, the dwellings are not affordable to the target population. The poorest households are excluded because of the requirement to pay a deposit. Others manage to scrape together the deposit but cannot make the monthly payments plus service charges. The IHDP condominiums impose significantly higher monthly housing payments than the very cheap *kebele* housing. In addition, the poorer households do not apply for the smallest dwellings as they have large households.<sup>6</sup>
2. **Potentially unsustainable program financing scheme.** The up-front costs borne by city governments are very high, considering their general lack of resources. There are probably also sustainability issues in the cash inflows from mortgage payments, if occupants become hard-pressed and cannot afford to keep up their monthly payments. The new financing strategies (10/90, 20/80, 40/60, Co-operatives), are being tried. Their sustainability, including the financial capacity of CBE, is yet to be seen.
3. **Lack of proper management of the displaced.** Displacement compensation for original occupiers of the land have been insufficient and not transparently applied. Transitional temporary housing was poor quality and insufficient funds were available for the relocation of personal goods. Many of those who had to move to make room for the developments were only given half the legally-imposed 90 days' notice of eviction.
4. **Project specific issues, such as location, built environment quality, design, and construction quality).**
  - a. The locations on the edge of Addis Ababa led to problems of livelihoods for beneficiaries and infrastructure costs for the city authorities. Inner city projects have increased proposed building heights to ground plus seven stories.
  - b. Multi-story blocks do not accommodate the slaughtering of animals or the preparation of traditional *enjera* bread, both crucial to Ethiopian culture.<sup>7</sup> The kitchens provided are too small for preparation of communal meals. Poor electrical wiring and water supply also cause complaints. Moreover, the large demand imposed by thousands of people in multi-story blocks has been strained the trunk infrastructure.
  - c. Construction quality demonstrates the common problem that low-cost means low quality, often due to a lack of site supervision that is endemic in Sub-Saharan Africa. The sudden increase in demand for construction trades has exposed experience issues.

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<sup>6</sup> In the smaller cities and towns, some unsold units have been bought by the Housing Development Enterprise (the new name for the Agency for the Administration of Rental Houses). Others have been taken by universities as staff accommodation. The condominium blocks have been described as 'an eye-sore' in the smaller low-rise provincial towns where they may be the only multi-story buildings in the neighborhood. Demand in the smaller cities has been low owing to considerably lower purchasing power in the regions than in Addis Ababa.

<sup>7</sup> These need, in turn, open space and large ovens.

5. ***The lack of post-occupancy management, monitoring, and evaluation.*** Insufficient attention has been paid to managing communal areas. In the absence of caretakers, who were originally meant to be employed for maintenance, the condominium owners have elected committees to look after the security, cleaning, and routine maintenance of the blocks. Each owner contributes a sum of money each month towards these costs. Renters do not seem to be involved. The government is intending to set up a mechanism for handling management and large maintenance issues, but the work would be at the owners' cost. Finishing work carried out by occupants has led to issues of disposal of waste building materials, such as plaster, in drains and public spaces. In Amhara, there have been many complaints about the inadequate management of the on-site sewers and septic tanks. The municipalities' vacuum trucks do not cope with the demand for emptying.

Condominiums are popular with many of their occupants. A particularly satisfied group are young singles and couples in the aspiring middle class, who find the freedom and privacy very attractive in comparison to renting a room in a compound. The commercial uses on the ground floor allow the rapid growth of enterprises nearby that provide services that young people like (for example, takeaway food). The availability of apartments in condominiums through private rental arrangements has allowed the middle class to take over some condominium estates in Addis Ababa.

There is also a nascent sales market for those units built more than five years ago. In June, 2014, Ezega Estates<sup>8</sup> was advertising a 39 m<sup>2</sup> (two-bedroom) condominium apartment in Addis Ababa Bole (close to the Imperial Hotel) at ETB 480,000 – 7.6 times its original maximum purchase price.<sup>9</sup>

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<sup>8</sup> <http://www.ezega.com/RealEstate/PropertyDetails.aspx?page=index&PID=11177> accessed 10 June, 2014.

<sup>9</sup> At a time when general prices have probably tripled since its building.

## Appendix 2. Access to Services in Urban Ethiopia

### Access to Water

The dominant form of water supply in urban Ethiopia is the public tap, used by almost two-thirds of households. This is likely to be a clean, piped supply at the point of delivery but can easily be contaminated on its journey into the dwelling and in storage there before use, although the use of plastic jerry cans gives the water at least some protection. Only about a quarter of households own a tap.

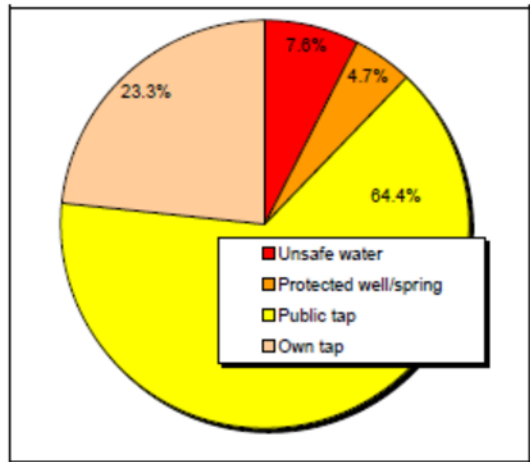


Figure 1. PASDEP data on access to water in urban Ethiopia

Source: Tolon<sup>1</sup>

According to AACG,<sup>2</sup> the daily water consumption per person in Addis Ababa is 51 liters, about half the expected 100 liters for cities of Sub-Saharan Africa.<sup>3</sup> According to SuDCA Development Consultants,<sup>4</sup> the mean level of access to potable water from an in-house service connections in Ethiopian cities is 59%.

### Access to Sanitation

Poor water supply is only one of the many infrastructure problems of Ethiopian cities. Out of 100,000 m<sup>3</sup> of liquid wastes produced in Addis Ababa, only 5.2% is appropriately discharged while nearly 60% is transported by suction tankers.<sup>5</sup> The remainder is disposed of in drainage ditches, open spaces and the

<sup>1</sup> PASDEP is Ethiopia's Plan for Accelerated and Sustainable Development to End Poverty (Uli Wessling Tolon, "Comparison of Urban Upgrading Projects on Development Cooperation in Ethiopia" (Universitat Politècnica de Catalunya, 2009). Figure 3).

<sup>2</sup> AACG, "Addis Ababa City Government Five Year Strategic Plan Draft (2006-2011)," (Addis Ababa: Addis Ababa City Government, 2006).

<sup>3</sup> Yenoineshet Meazah Haregewoin, "Integrated Housing Development Programs for Urban Poverty Alleviation and Sustainable Urbanization (the Case of Addis Ababa)," in *ENHR Sustainable Urban Areas Conference* (Rotterdam 2007).

<sup>4</sup> SuDCA Development Consultants, "Evaluation of Municipal Service Delivery of Cities Participating in Ulgdp for Efy 2004 (2012/13 Ad)," (Addis Ababa: Ministry of Urban Development and Construction, no date, 2013?).

<sup>5</sup> AACG, "Addis Ababa City Government Five Year Strategic Plan Draft (2006-2011)."

open-air with a negative impact on health.<sup>6</sup> Even in Addis Ababa, in 2005, most households (74%) used pit latrines.<sup>7</sup>

SuDCA Development Consultants' estimates<sup>8</sup> of the mean level of access to sanitation facilities in all Ethiopian cities is 57%, but only a small proportion of the estimated liquid waste generated in the cities is collected and disposed of in a sanitary manner.<sup>9</sup> This implies that most of the liquid waste generated is collected by suction tanker, or disposed of on the streets, or the waste water is left to percolate through the porous septic tanks to contaminate underground water.

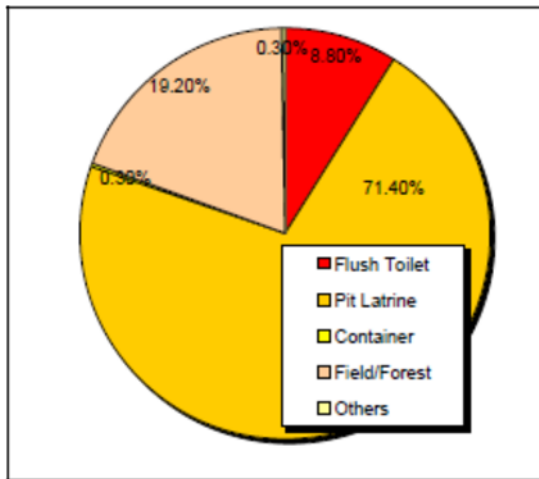
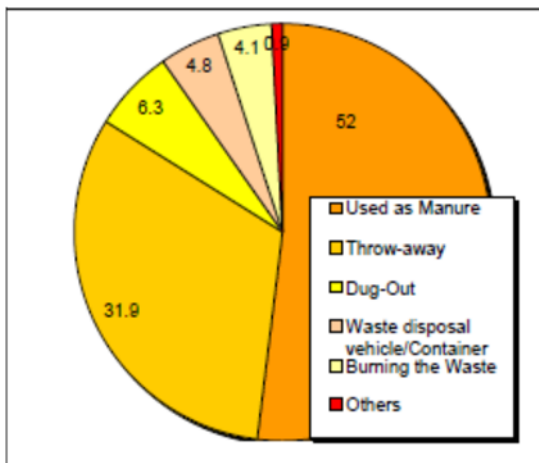


Figure 2. PASDEP data on access to sanitation in urban Ethiopia  
Source: Tolon<sup>10</sup>



<sup>6</sup> Yenoineshet Meazah Haregewoin, "Integrated Housing Development Programs for Urban Poverty Alleviation and Sustainable Urbanization (the Case of Addis Ababa)."

<sup>7</sup> Tolon, "Comparison of Urban Upgrading Projects on Development Cooperation in Ethiopia."

<sup>8</sup> SuDCA Development Consultants, "Evaluation of Municipal Service Delivery of Cities Participating in Ulgdp for Efy 2004 (2012/13 Ad)."

<sup>9</sup> The 1.5% quoted by SuDCA is an underestimation of the actuality as some cities have outsourced their services and thus do not have data on the service provided.

<sup>10</sup> Tolon, "Comparison of Urban Upgrading Projects on Development Cooperation in Ethiopia." Figure 4.

Figure 3. PASDEP data on disposal of solid waste in urban Ethiopia  
Source: Tolon<sup>11</sup>

In terms of waste disposal, just over half of households in Ethiopia dispose of solid waste by composting it. About one third throw it away into the environment. Only a few deposit it in a container for taking away by vehicle.

In SuDCA Development Consultants' 19 surveyed cities,<sup>12</sup> there is wide variation in solid waste generation and disposal. Using aggregated points for indicators of collection and disposal, Gondar scores only 34 while Dire Dawa scores 93. At the mean, the cities collected and disposed of close to 52 of the estimated waste generated.

In Addis Ababa, of the likely domestic solid waste production of 500gm per person per day, only 65-68% is collected while the remainder is dumped on roads, open spaces, riverbanks, etc.<sup>13</sup>

#### *Access to Electricity*

The majority of households in urban Ethiopia have electricity for lighting, but the supply is often not strong enough for cooking. In many squatter settlements, the sharing of a single electric meter by several households is widespread. In addition, they are often without any streetlights, even where there are tarred roads.<sup>14</sup>



*Picture 1 Informal power distribution*

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<sup>11</sup> Ibid. Figure 5.

<sup>12</sup> SuDCA Development Consultants, "Evaluation of Municipal Service Delivery of Cities Participating in Ulgdp for Efy 2004 (2012/13 Ad)."

<sup>13</sup> AACG, "Addis Ababa City Government Five Year Strategic Plan Draft (2006-2011)." cited in Yenoineshet Meazah Haregewoin, "Integrated Housing Development Programs for Urban Poverty Alleviation and Sustainable Urbanization (the Case of Addis Ababa)."

<sup>14</sup> Tolon, "Comparision of Urban Upgrading Projects on Development Cooperation in Ethiopia."

### Appendix 3. Calculating the Housing Shortfall in Ethiopia

Housing shortfalls can be calculated based on three different qualities: i) the numerical shortfall in dwellings (deficit), ii) the qualitative shortfall in physical conditions (obsolescence), and iii) the space shortfall within dwellings (overcrowding).

Estimating the shortfall arising from overcrowding can be done by fitting census data on household sizes to the number of rooms they would require at a crowding threshold, which is decided by policy (Figure 1). In this case, it is two persons per room.

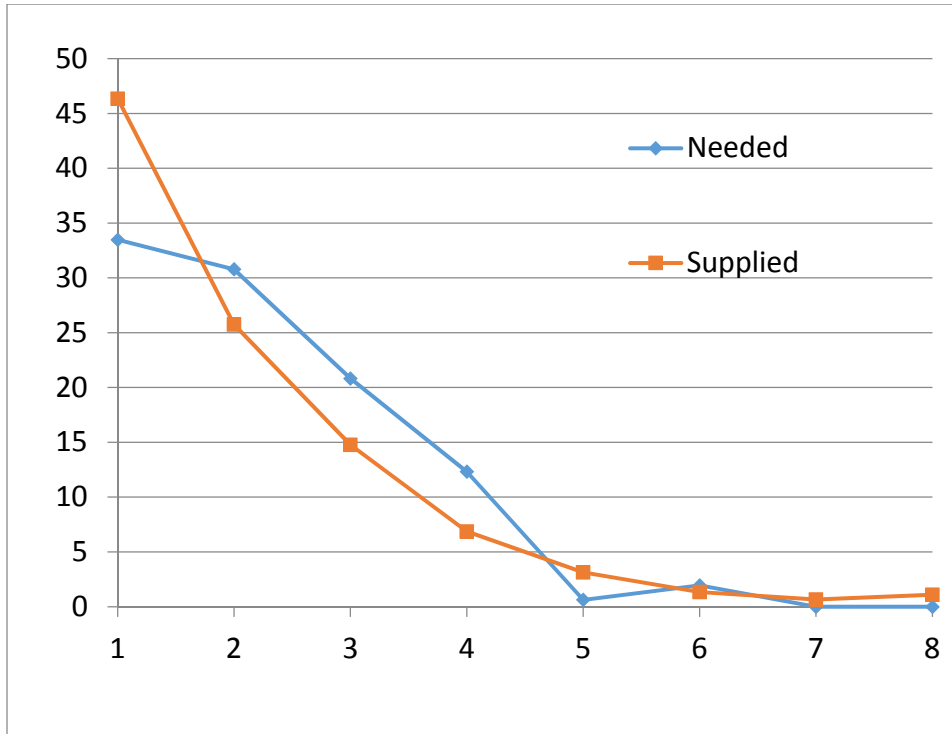


Figure 1. Percentage distribution of rooms used and rooms needed, urban Ethiopia

Urban Ethiopian households occupied a mean of 2.1 rooms in 2007 and the need generates a mean of 2.22 rooms per household. Thus, by this measure, there were only 340,000 too few urban rooms out of six million. The rooms were, however, distributed differently from need, with too many households occupying one room and too few occupying two, three and four rooms (Figure 1).

In numerical terms, there have been several recent efforts to calculate the shortfall of housing in Addis Ababa. Abelti et al<sup>1</sup> calculated that the overcrowding shortfall in 2000, was 630,000 dwellings, with 290,000 dwellings needed to abolish sharing.

In estimating the housing need in Addis Ababa for the 2002 Development Plan, the Office for the Revision of the Addis Ababa Master Plan, or ORAAMP<sup>2</sup>, took account of the poor quality of urban

<sup>1</sup> Abelti, Brazzoduro, and Gebremedhin, "Housing Conditions and Demand for Housing in Urban Ethiopia."

<sup>2</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components." Cited in EiABC, "Performance Evaluation: Development Plan of Addis Ababa 2003-2010; Housing Component, Addis Ababa." Table 2.1.

housing. It calculated that replacing poor quality housing would require about 50,000 dwellings, which seems like an underestimate when the scale and condition of *kebele* housing is taken into account. It also estimated that relieving overcrowding would require 50,000 dwellings and new household formation would require 210,000. Since then, only 70,000 dwellings had been supplied, leaving about 240,000 still outstanding.

Within policy discussions recently, the number of applicants for the IHDP programme, plus those showing willing to pay all the cost up-front, is taken to be the housing need in Addis Ababa. To this is added a guess of 300,000 wishing to register for the programmes elsewhere in the country, giving a national urban total need of about 1.2 million.<sup>3</sup> Fraser's<sup>4</sup> use of 900,000 dwellings, as the housing shortfall in Addis Ababa, is probably from this number. He also estimates that only 30% of current housing supply is in fair to good condition.

The Urban Sector MDGs Needs Assessment estimated that Addis Ababa would need 225,000 new dwellings per year to meet the MDGs by 2015, an unreachable target.<sup>5</sup>

All in all, shortfall estimates are so varied that none can be relied on. Table 1, from ORAAMP's Addis Ababa Development Plan, takes no account of a shortfall in 1995 but uses a systematic way of calculating the need for housing arising from population growth in the future. The 70,000 new dwellings needed in 2000 is shown to rise to between 315,000 for the medium growth scenario and 435,000 for the high scenario by 2015 (Table 1). If this is added to its own shortfall figure, the ORAAMP calculation would suggest a shortfall of about half a million, less whatever has been built since 2000.<sup>6</sup>

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<sup>3</sup> This seems to suffer from all the problems associated with using housing waiting lists as the basis for housing need and cannot be adopted in serious need studies. It also only takes in Addis Ababa.

<sup>4</sup> A. Fraser, "A Critical Examination of the Role and Impact of Ngos in the Provision of Housing for the Poor of Addis Ababa: Application of a Rights Based Lens" (Massey University, 2013).

<sup>5</sup> Ministry of Finance and Economic Development (MoFED), "Ethiopia: The Mdgs Needs Assessment and Synthesis Report," (Addis Ababa Development Planning and Research Department, Ministry of Finance and Economic Development, 2005).

<sup>6</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components." Cited in EiABC, "Performance Evaluation: Development Plan of Addis Ababa 2003-2010; Housing Component, Addis Ababa." Table 2.2.

Table 1. Population estimates by the Addis Ababa Development Plan in 2001/2002

	1995	2000	2005	2010	2015
Predicted household sizes	-	4.80	5.20	5.20	5.15
Medium variant					
Population (millions)	2.16	2.59	3.13	3.75	4.41
Additional Population (millions)	-	0.43	0.54	0.62	0.66
New dwellings required	-	70,392*	103,846	119,231	90,980
New dwellings required since 2000		70,392*	103,846	223,077	314,057
High variant					
Population (millions)	2.16	2.59	3.18	3.86	4.62
Additional Population (millions)	-	0.43	0.58	0.68	0.76
New dwellings required	-	70,392	111,539	130,769	122,745
New dwellings required since 2000		70,392	181,931	312,700	435,445



#### Appendix 4. Housing Microfinance Case Study: Addis Credit and Saving Institution

Gumbo<sup>1</sup> conducted a study of the Addis Credit and Saving Institution (AdCSI), an MFI that operates within the boundaries of Addis Ababa. Established and registered with the National Bank of Ethiopia in January 2000, it is owned by six shareholders; Addis Ababa City Administration, Addis Ababa Women, Youth and Teachers Associations, Karaalo Akababi Hulegeb Peasants Co-operative and an unknown individual. The AdCSI receives funds from the city administration, loans from commercial banks, its own equity and members' savings. It has 128 outlets which are capable of both receiving deposits and awarding loans of up to ETB50,000 (US\$2,600). They are arranged in ten groups under intermediate level offices which can grant loans of up to ETB300,000 (US\$15,500). Loans above that must be dealt with at Head Office.

In 2006, it started offering housing loans suitable for significant housing improvements, the addition of new rooms and or new house constructions. A dwelling must be at least 50 percent finished before AdCSI will offer a loan. That is because it is illegal to sell land with less than a half-completed house on it.<sup>2</sup> Thus, the risk of losing the loan value if default occurred is greater if the structure is not saleable. Alternatively, another house (belonging to the borrower or anyone else) can be used as collateral. Borrowers must be over 18, have an official proof of residence from the *kebele*, have a building permit with respect to the dwelling involved, and need to show proof of salary, business income or pension. Repayments can be made in cash at AdCSI offices or through the bank but the latter is not popular.

AdCSI is separating the housing loans business off from the business loans to improve efficiency. There is some tolerance of default and AdCSI will try to keep at least something being paid each month before it goes to litigation. AdCSI will lend to fund up to 70 percent of the down-payment necessary in the 10/90, 20/80 and 40/60 financing schemes now being introduced.

Table 1 shows the conditions and features of the housing loans from AdCSI. Although it shows checks on construction, these are rarely done now.

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<sup>1</sup> T. Gumbo, "Microfinance Institutions and Urban Housing in Addis Ababa: Challenges and Prospects for Sustainable Poverty Alleviation," *Journal of Business and Administrative Studies* 2, no. 1 (2010).

<sup>2</sup> To curb land speculation and rent seeking activities, Proclamation 721/2011 fixes the price that can be extracted for the undeveloped land as only its initial price (plus 5 percent per annum) and the cost of any foundation, so removing the profit motive (article 23.3). If more than half the building is completed it can be sold for anything the market will bear.

Table 1. Key features of ADSCI HMF loan products

Loan sizes/ Limits	A minimum of 70 percent of the cost of the process for which the sum is required; Minimum loan of ETB700 and a maximum of ETB50,000 (US\$37 - 2,600)
Loan Duration/Term	5 Years
Interest Rates per annum	10 percent plus 2 percent service charge and 2 percent insurance
Collateral	Title of the house under construction or maintenance
Target Clientele	Residents of Addis Ababa, with land or houses to be maintained and secure tenure; those with secure income from business or other sources.
Delivery Method	Always provide to individuals rather than to groups
Other Services	Follow up by officials to check on construction progress

Source: Gumbo<sup>3</sup> and AdCSI's policy leaflet.

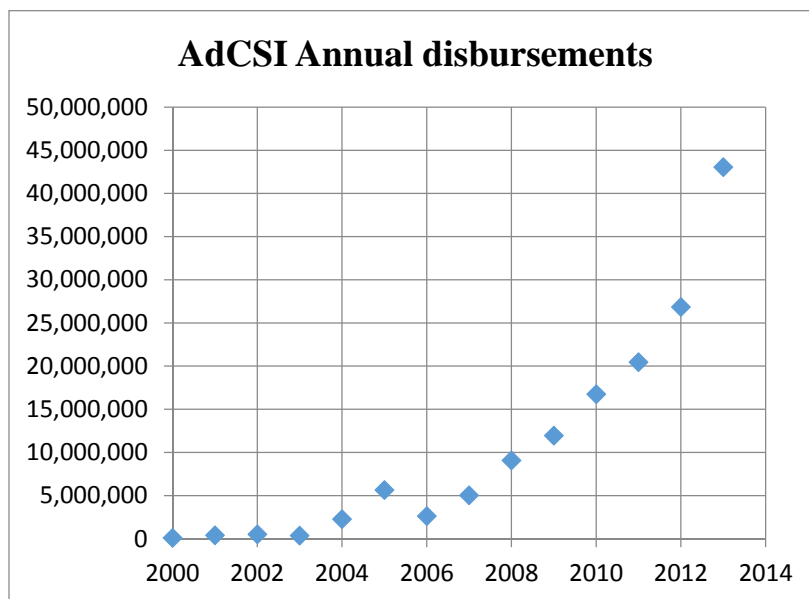


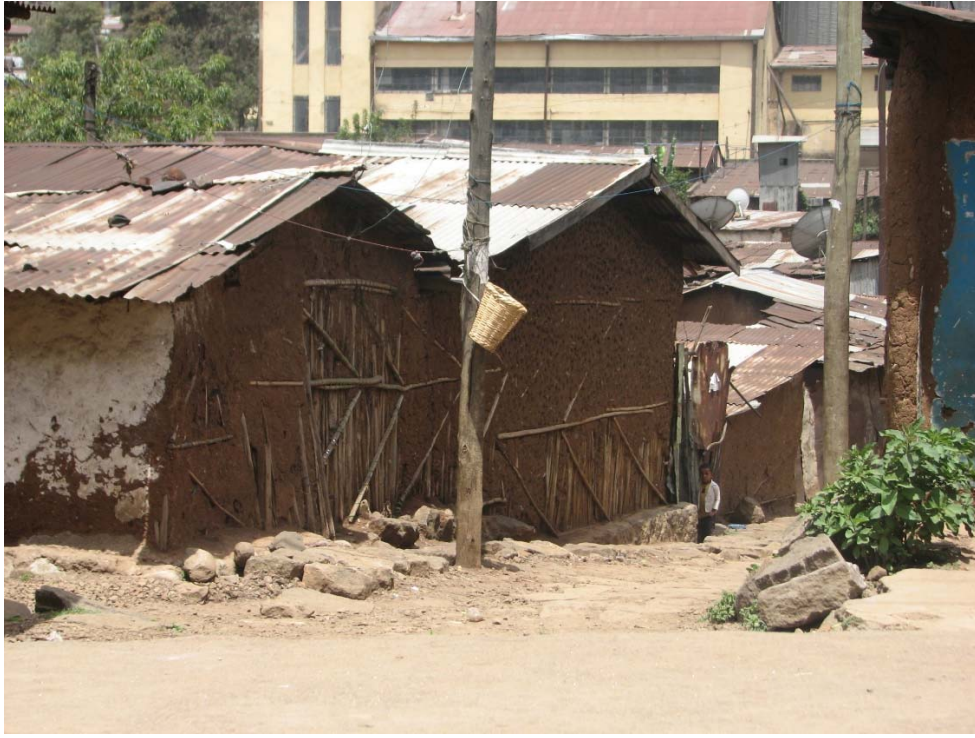
Figure 1. Loans disbursed by AdCSI (2000-2013) in 2014 US\$

According to a stakeholder interview at AdCSI, it has lent US\$145 million (at 2014 US\$ exchange rate) between 2000 and 2013 to 290,000 borrowers, a mean of US\$500. There was a sudden surge in housing loans awarded by AdCSI in 2013 when 139 clients were awarded a total of US\$255,000 at a mean of US\$1,835. Although AdCSI's maximum HMF loan is only one half of the maximum loan for business, its housing loans have mean values of more than three times those of the business loans at US\$1,651.

<sup>3</sup> Gumbo, "Microfinance Institutions and Urban Housing in Addis Ababa: Challenges and Prospects for Sustainable Poverty Alleviation." Table 2.

## Appendix 5. Housing Design in Ethiopia

### Building Materials



*Picture 1 Eroded chika walls in an informal settlement*



*Picture 2 Eucalyptus poles for scaffolding, walls, and roof trusses*



*Picture 3 Squatter housing built with eucalyptus poles*



*Picture 4 Squatter housing built with corrugated iron sheeting and poles*



Picture 5 Small building materials enterprise



Picture 6 IHDP condominium construction

Table 1. Dwellings by Construction Material of Wall (Percentage distribution, 2007)

	All Urban	Addis Ababa Urban	Dire Dawa Urban
Wood and mud ( <i>Chika</i> )	80.00%	76.89%	21.17%
Plastered hollow cement blocks	5.48%	13.03%	21.83%
Stone and mud	4.29%	0.82%	12.63%
Stone and cement	3.81%	2.48%	22.46%
Wood and thatch/wood only	2.16%	0.26%	0.91%
Corrugated iron	1.32%	2.99%	4.87%
Mud bricks	1.02%	0.02%	13.09%
Un-plastered hollow cement blocks	0.65%	1.34%	1.97%
Bricks	0.57%	1.55%	0.19%
Other	0.40%	0.54%	0.86%
Reed/ bamboo	0.30%	0.07%	0.02%

Source: Census 2007: Table 8.2.<sup>1</sup>

Table 2. Dwellings by Construction Material of Roof (Percentage distribution, 2007)

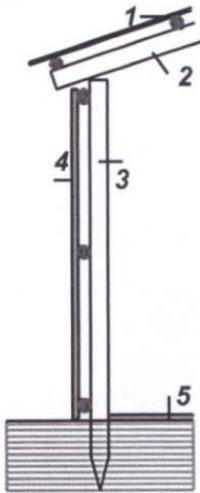
	All Urban	Addis Ababa Urban	Dire Dawa Urban
Corrugated iron sheet	90.84	98.02	95.99
Thatch	5.98	0.26	0.29
Wood and mud	1.37	0.06	1.45
Plastic/ canvas	0.63	0.26	0.74
Concrete/ cement	0.55	1.01	1.04
Bamboo/ reeds	0.28	0.01	0.03
Others	0.27	0.17	0.34
Asbestos	0.09	0.21	0.12

Source: Census 2007: Table 8.3.<sup>2</sup>

<sup>1</sup> Central Statistical Agency, "2007 Population and Housing Census."

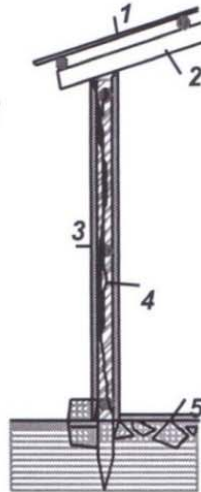
<sup>2</sup> Ibid.

**TEMPORARY STRUCTURE**



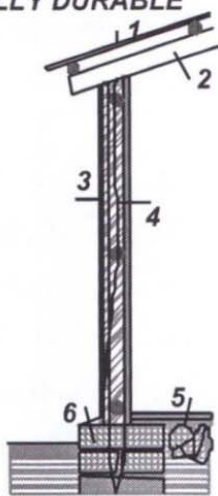
- 1) Corrugated Iron Sheet Roofing
- 2) Wooden Rafter
- 3) Wooden Post
- 4) Wall (CIS, Wooven Mat, etc.)
- 5) Earth Floor

**PROVISIONAL TYPE**

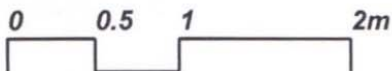


- 1) Corrugated Iron Sheet Roofing
- 2) Wooden Rafter
- 3) Chika Wall
- 4) Wooden Frame
- 5) Earth Floor

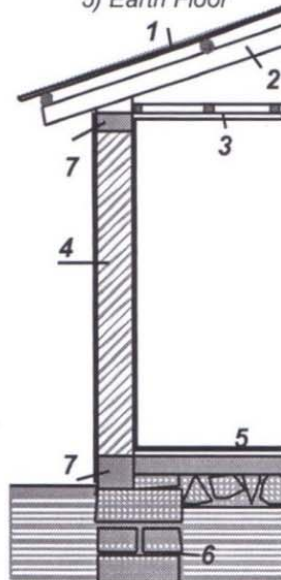
**PARTIALLY DURABLE**



- 1) Corrugated Iron Sheet Roofing
- 2) Wooden Rafter
- 3) Chika Wall
- 4) Wooden Frame
- 5) Cement Screed Flooring
- 6) Masonry Foundation Wall



**DURABLE**



- 1) Corrugated Iron Sheet Roofing
- 2) Wooden Truss
- 3) Soft Board Ceiling
- 4) HCB Wall
- 5) Tile Flooring
- 6) Masonry Foundation Wall
- 7) Reinforced Concrete Beam

Figure 1. Material and construction type in urban Ethiopia

Source: Essayas Ababu Tarekegn<sup>3</sup>

In Figure 1, *Chika* walling is used in the 'provisions' and 'partially durable' types.

### Housing typologies



*Picture 7 High quality squatter housing*

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<sup>3</sup> Essayas Ababu Tarekegn, "Kitiya - Transformation of Low Income Housing in Addis Ababa" (The Norwegian University of Science and Technology., 2000). Figure 6.9.





*Picture 8 Aerial view of kebele housing*



*Picture 9 Street in Tekle Haimanot*



Picture 10 Cooperative housing



Picture 11 Site layout of Yeka 2 IHDP condominiums



Picture 12 Yeka 2 IHDP condominiums



*Picture 13 Yeka 2 IHDP condominiums*



*Picture 14 Scale of construction in Addis Ababa*

## Appendix 6. Legal Frameworks for Land Use

### *The Constitution*

Article 40 of the Ethiopian Constitution outlines provisions for the government ownership of land and restrictions on exchange:

“The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange.”

Sub-article 4 states that Ethiopian subsistence farmers have the right to obtain land without payment and will be protected against eviction from their possession. This guarantees:

“[F]ull right to the immovable property he builds and to the permanent improvements he brings about on the land by his labour or capital. This right includes the right to alienate, to bequeath, and, where the right of use expires, to remove his property, transfer his title, or claim compensation for it” (Art.40(7)).

Sub-article 6 allows private investors to obtain land on the basis of payment. This is used by some to allow transfer among urban dwellers.<sup>1</sup>

Sub-article 8 states:

“... the government may expropriate private property for public purposes subject to payment in advance of compensation commensurate to the value of the property” (Art. 40(8)).

Apart from the decrees laid out in the Constitution, there is no national land policy document. As Samuel Gebreselassie<sup>2</sup> noted, “by inserting the land policy in the constitution, the current government has effectively eliminated the possibility of flexible application of policy.”

### *Land administration*

In 2005, the federal government enacted a Land Administration and Use Proclamation (456/2005) which delegates to regional states the power to “enact rural land administration and land use law” in order to implement the land administration law at the regional level (Art.17). The Urban Land Lease Proclamation (721/2011) and the Expropriation Proclamation (455/2005) are the main land laws. Most of the regional states (Tigray, Amhara, Afar, Oromia, Benishangul Gumz and SNNPRS) have their own Rural Land Administration and Use Proclamations and urban lands holding lease regulations.<sup>3</sup>

### *Acquisition and allocation*

The current law on land acquisition came about by Proclamation 721 in 2011, whose preamble states its aims as:

- Satisfying the growing urban land demand resulting from rapid national economic growth;
- Ensuring good governance for the development of an efficient land market and a transparent and accountable land administration system.<sup>4</sup>

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<sup>1</sup> Ibid.

<sup>2</sup> Samuel Gebreselassie, "Land, Land Policy and Smallholder Agriculture in Ethiopia: Options and Scenarios," in *Future Agriculture Consortium meeting* (London: The Institute of Development Studies, 2006).

<sup>3</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights."

<sup>4</sup> Ibid.

Before Proclamation 721/2011, there were five ways to acquire urban land: auction, negotiation, assignment, award, and lottery. Auction and negotiation were the most important methods through which cities raised income from land leases. In larger cities, auctioning is still the most common method used to transfer land from municipalities to investors.<sup>5</sup>

City authorities often assign land to civic associations, charities, embassies, international organizations, and others, as a sign of good will. Land awards are the least common method of land transfer, but have occurred under special circumstances (for example, land was given to the Ethiopian Olympic long distance athletes in return for their service to the country). Lotteries have been used to provide land to the majority of urban dwellers to construct single residential houses. The grant is then free of charge.<sup>6</sup>

Through Proclamation 721/2011, however, most of these methods have been seen as allowing bad practices and opening the door for corruption. Thus, the government has argued that the law recognizes only tender (auction) and allotment (land lease transfer without auction) as the two means of lease transfer from government to citizens (Article 6 of Proclamation 721/2011).<sup>7</sup>

Today, most land needed for residential and other uses will be transferred by auction. Bidders use the minimum lease price as a basis for their offer. In exceptional circumstances, however, city authorities may grant land by allotment to important stakeholders such as government offices, religious institutions, public housing programmes, and diplomatic missions, among others (Article 11). Also, anyone displaced as a result of urban renewal shall be allotted land in replacement at a lease price set by the city authorities.<sup>8</sup> Lease rights are freely transferable with no limit or restriction except for the transfer of bare land or foundations to discourage land speculation.

In sales of already occupied residential property, the lease on the land must be bought from the local authority as an additional transaction to the price paid for the dwelling itself.

#### *Sales and other transfers*

Ethiopia does not allow land sales:<sup>9</sup>

“The law restricted the right to use the land by prohibiting the lease/rent, donation, sale, exchange, mortgage, and inheritance (except to minor children) of the land.”<sup>10</sup>

Under Article 23, Proclamation 721/2011 limits the mortgage value of the leasehold right to the extent of the lease amount already paid. It fixes the price that can be extracted for the undeveloped land as only its initial price (plus 5% per annum) and the cost of any foundation. This removes the profit motive (article 23.3) and the locational value of land from a mortgage calculation.<sup>11</sup> If there is a construction thereon, banks may also consider its value in their mortgage which can be anything the market will bear. This is to encourage speculators to at least finish the shell of buildings (by adding a roof).<sup>12</sup> Proclamation 721/2011 also disbars people who repeatedly transfer undeveloped leasehold right from participation in future land transactions (article 23.7).

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<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Zemen Haddis Gebeyehu, "Towards Improved Transactions of Land Use Rights in Ethiopia," in *Paper prepared for presentation at the Annual World Bank Conference on Land and Poverty*(Washington DC: The World Bank, 2013).

<sup>10</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights."

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

Even with this restriction, bare land is increasing in value without any development, as speculators purchase and transfer land without adding value to it. Daniel Weldegebriel Ambaye<sup>13</sup> claims that real estate companies have been transferring bare land without developing it. In response, in 2010, the city of Addis Ababa reclaimed more than one million square meters of land from non-performing real estate companies. While land speculation is undoubtedly an issue in many cities in Sub-Saharan Africa, this seems to be a rather blunt instrument for preventing speculators making profits on land without making any improvements. If there were other avenues for investment, for example, if the land was sold at its real market value and if it were taxed heavily if left empty, no curb on reselling would be required.

#### *Commencement and completion of construction*

Proclamation 721/2011 (Article 21) limits the time taken by a lessee to start construction to 24, 36 and 48 months for small, medium and large scale construction activities respectively, but the period may be extended by 6 to 12 months. This is not new but it introduces harsher measures – the reclamation of the land by the city administration and a penalty fee – against those who do not develop. The lessee is also obliged to remove any construction activity at his own cost (Article 22).

#### *Conversion of old possessions to leasehold*

Article 5 of Proclamation 721/2011 declares that pre-1975 land ownerships held informally must be registered as leased land. Thus, all land in urban areas should be transferred into leasehold and registered. This had been in the Urban Lands Lease Holding Proclamation (80/1993) but the 2011 Proclamation 721/2011 attaches mandatory lease payments. The lease sets out the name of the lessee, the plot size, its location, the land use, the lease period and the lease price.<sup>14</sup>

Buyers and lessees should pay lease price per square meter, as set by every urban authority, multiplied by the area of the land. This is meant to take into account the cost of infrastructure and any demolition cost, plus any compensation to be paid to displaced households” (Article 2(11)).

#### *Titling and registration*

Title registration is compulsory in Ethiopia. It is carried out at the *kebele* (or neighborhood) level.<sup>15</sup> Land registration and certification processes are being conducted in Tigray, Amhara, Oromiya, and the Southern regions, which provide farmers with land certificates for their holdings.<sup>16</sup>

#### *Zoning*

Zoning standards for residential areas are set at the federal level. Regional and municipal governments tend to adopt them as a matter of course and some are mandatory.

In 2002, the latest revision of the Norms, Standards and Guidelines of the Addis Ababa Structure Plan and its Components was published by the city government. It sets out the constituents, scale, and characteristics of housing areas for the capital.

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<sup>13</sup> Ibid.

<sup>14</sup> Ibid.

<sup>15</sup> Cadastral Template, "Ethiopia Cadastral Template (Based on the Pcgiap-Cadastral Template 2003)," <http://www.cadastraltemplate.org/countryreport/ethiopia-19apr2011.pdf>

<sup>16</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights."

Table 1. Standards for social mix in Addis Ababa

Income group	Percentage	Proposed plot areas (m <sup>2</sup> )	Percentage share within income group
High	4-5	500 (average)	50
		300 (average)	50
Middle	16-21	175	50
		150	50
Low	74-80	120	25
		105	25
		95	25
		75	25

Source: ORAAMP.<sup>17</sup>

Note: The shaded area shows a proposed overlap between middle- and low-income plot sizes

Table 1 shows that recommended plot sizes are much smaller in Ethiopia than in much of urban Sub-Saharan Africa. When areas per household are taken into account, given the tendency for house owners to rent out some rooms, they are even less typical of Sub-Saharan Africa with a lower limit of only 40 m<sup>2</sup> per household (Table 2).

<sup>17</sup> ORAAMP, "Norms, Standards and Guidelines of the Addis Ababa Structure Plan and Its Components." table 1.1.1



Table 2. Plot ratio standards

Plot size (m <sup>2</sup> )	Number of storeys	Conditions	Maximum plot ratio (%)
Up to 150	1		75
	2		65
	2-3	Rental or Condominium	60
150-174	1	Detached middle income	65
		Semi-detached	60
		Row	55
	2 & 3	Detached	60
		Semi-detached	55
		Row	50
175-249	1		70
	2-3		60
The following are minimum coverages			
250-399	1		65
	2		50
400-599	1		65
	2		50
	3		45
600+	1-3		40

Source: After ORAAMP.<sup>18</sup>

### Expropriation

The Constitution (Article 40.8) contains the principle that, in the event of expropriation of land for public purpose activities, land holders shall be compensated fairly. In urban areas, as location has no value, owners are only being compensated for the replacement cost of buildings so that the government retains the location value.<sup>19</sup> When occupants of housing are displaced to make land available for condominium developments under the IHDP, they are compensated through one of three choices: evictees can buy an existing condominium, be allocated any available *kebele* housing, or be allocated land to build on with some compensation.

<sup>18</sup> Ibid. table 1.1.9.

<sup>19</sup> Daniel Weldegebriel Ambaye, "Land Rights in Ethiopia: Ownership, Equity, and Liberty in Land Use Rights."