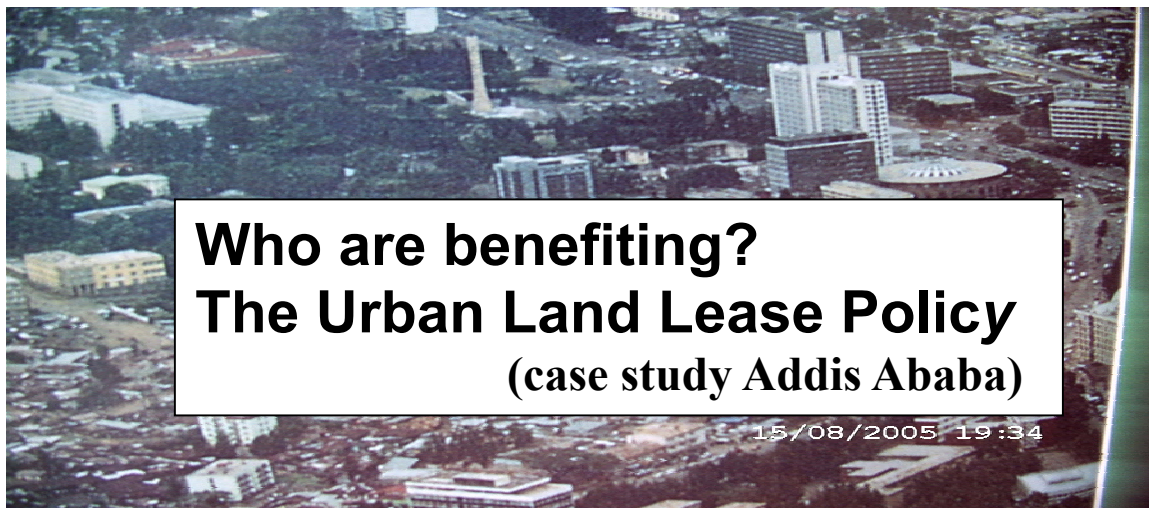


**MASTER'S PROGRAMME IN URBAN MANAGEMENT  
AND DEVELOPMENT**

**(October 2004 – September 2005)**



**Who are benefiting?  
The Urban Land Lease Policy  
(case study Addis Ababa)**

**NEGA WOLDEGEBREAL  
Ethiopia**

**Supervisor: Arch Janis Kursis**

**UMD 1 – 17  
Lund, 12 September 2005**

## **Preface**

This masters program gave me the opportunity to look at different urban development concerns, which could be applicable in Ethiopia as a whole and the city of Addis Ababa in particular. The paper attempts to identify the key problems encountered for achieving the land lease policy objectives.

The idea of the research is coming from personal observations, lease performance indicators and comments disclosed by the citizens. It tips of the idea of identifying the real beneficiaries of urban land lease policy. Moreover, the research has set an assumption, which would explain the reasons why “neither the local government nor the citizens are benefited from land lease.

The research has focused on specific issues regarding the land lease tenure application and the effect on housing development. It has reviewed the revenue collected from the lease payment with regard to the expenditure spent for the provision serviced land.

Although the effect of realizing land lease system is to control land speculation, the existing situation has indicated that land speculation will continue to be a significant problem for a long time.

Suggestions dealing with revising property taxation have forwarded in the research. The reason for discussing on land value taxation is to improve the financial capacity of the local government, which would assist infrastructure developments.

In general the city government has to think as a private business enterprise and go for customer satisfaction by providing adequate services. This would be achieved only when there is sufficient money, which would be collected from land value taxation.

## **Table of Contents**

<b>Preface.....</b>	<b>ii</b>
<b>Table of Contents .....</b>	<b>iii</b>
<b>Summary.....</b>	<b>vi</b>
<b>Acknowledgements .....</b>	<b>viii</b>
<b>Chapter 1 Introduction.....</b>	<b>1</b>
1.1 Background .....	1
1.2 Research problem statement.....	3
1.3 Description of the research area .....	4
1.4 Research object .....	5
1.5 Research question.....	5
1.5.1 Main question .....	5
1.5.2 Sub-questions.....	5
1.6 Relevance of the research.....	6
1.7 Scope of the research.....	6
1.8 Limitation of the research.....	6
1.9 Structure of the research.....	7
<b>Chapter 2 Theoretical background .....</b>	<b>8</b>
2.1 Shift from freehold to lease holding.....	8
2.2 Leasehold tenure-ship and its implication.....	10
2.3 Housing development objective .....	12
2.4 Urban land speculation.....	14
<b>Chapter 3 Research methodology.....</b>	<b>16</b>
<b>Chapter 4 Assessment of the land reform.....</b>	<b>18</b>
4.1 Lease-holding as a dominant tenure form .....	18
4.2 Establishing trust between the lessee and leaseholders.....	19
4.3 The effect on housing development .....	20

<b>Chapter 5: Utilization of financial resource .....</b>	<b>26</b>
5.1 Financial institution’s reaction to the policy.....	26
5.2 Revenue from land lease.....	27
5.3 Provision of serviced land for housing .....	28
5.5 The situation of urban land speculation .....	30
5.5 Property taxation.....	32
5.5.1 Land rent .....	33
5.5.2 Building tax.....	34
<b>Chapter 6: Conclusions and recommendations .....</b>	<b>35</b>
6.1 Conclusion .....	35
6.1.1 Criticism of leasehold tenure.....	35
6.1.2 Performance of efficient land market.....	36
6.2 Recommendations.....	37
6.2.1 Capturing added value.....	38
6.2.2 Delivery of serviced land and dwelling houses.....	39
<b>References.....</b>	<b>41</b>
<i>Annex 1</i> Definitions.....	43
<i>Annex 2</i> Questionnaire for Professionals.....	44
<i>Annex 3</i> Questionnaires for individual.....	45
<i>Annex 4</i> Check lists .....	46
<i>Annex 5</i> The necessary data, information and documents .....	47
<i>Annex 6</i> Bench Mark Price (birr) .....	49
<i>Annex 7</i> Plan and performance of revenue from 1997 to 2001.....	50

**List of Tables**

Table 1.1 Key actors interviewed and their occupation.....	16
Table 4.1 Land distributed through auction, negotiation and Lottery.....	24
Table 4.2 Households accommodated through condominium .....	25
Table 5.1: Revenue collected from lease in 2004 .....	27
Table 5.2 Rate of rent payable on urban land for dwelling houses .....	33
Table 5.3 Rate of rent payable on urban land for business .....	33
Table 5.4 Rate of urban tax payable on urban house.....	34
Table no 5.5 Revenue from land and housing for the year 2004/2005 .....	34
Table 6.1 increase in value of land (per square meter) .....	39

**List of Figures**

Figure 1.1 Identification of the focused Area .....	4
Figure 4.1 Comparison of existing dwellings with respect to needed dwelling .....	21
Figure 4.2 Indication of income distribution in the city .....	22
Figure 5.1: Comparison of market price and benchmark price .....	26
Figure 5.2 Housing development area around Meri-Luke .....	28
Figure 5.3 The Vicious cycle of public-private relation for financing infrastructure.....	29
Figure 5.4 Location of the three deprived areas of the city.....	30
Figure 5.5 Construction of building for business .....	31
Figure 5.6 Building under construction.....	32

**List of boxes**

Box 2.1 Proof of Ownership (Article 1193 - 1198) of property law.....	9
Box 2.2 Housing demand and supply.....	13
Box 5.1 Low tax on land in Manila .....	34

## Summary

Private ownership of real property has existed traditionally for centuries in Ethiopia. Following the nationalization of urban land in 1975 until 1993, urban land has been distributed by offering to use land under the circumstance of state ownership. After the proclamation of urban land lease holding, the city administration has enacted different regulations, which have reinforced the national act that retain the ownership of land right only through leasehold.

Influential problems have been observed which could discourage investments on land and housing development in Addis Ababa. The major ones would be expressed as inadequate housing supply, lack of infrastructure, high unemployment rate, and low investment for development. Different measures have been taken to tackle these problems. One of which is the land lease policy that was put into action for the last 12 years. To ameliorate the situation problems the government has taken measures to improve the provision of housing, land development and basic urban services.

The Land Administration Authority of Addis Ababa has assessed the last 8 years (from 1994 to 2002) incident to indicate the way how land lease came into effect and the situation of land market in the city. They have reached to the conclusion that the policy could not meet the objective with respect to renewal of the core area, efficient use of land and attracting investment.

The report made by Land Administration Authority (2003) indicates that almost all individuals that run activities have applied to acquire land whether they are from the micro-small scale activities or big real estate developers or the one who needs to establish a small shop, etc. The actual fact is that all activities need a place ie land, which is a scarce resource. For the reason that land and building tax is insignificant, every person wants to be landholder, and nobody knows whether the land would be in the hands of speculators or the real developers.

In the past three decades, the supply of land and housing construction did not correspond to the housing needs. Therefore, there is a mismatch between housing supply and housing need by the alarming growing population, 5.5% per annum in the city. This has brought squatting to the inner city and informal parcellation of plots. Land for dwelling house construction has often been allocated far away (approximately 10 km) from the nearest service where basic infrastructure is difficult to find Therefore either the dwellers are preferring to go to the informal land provider close to the developed area or they leave the land idle for waiting while waiting for infrastructure.

The issue of land tenure system has remained to be one of the most political concerns in the country. Urban land lease is the national policy, so that the entire urban centres of the country have been obliged to implement the policy. This research advocated that lease-holding should be a system or a form of tenure-ship, which the local government might select or not when they find it necessary for financing the developments. Therefore, there is a mix up between the proclamation 47/1975 of nationalization of urban land which is political decision and the proclamation 80/1993 that provides urban centres for the lease holding which is a form of tenure.

Leasing urban land has direct link with finance in terms of the price payable for the right of leasehold that is for payment on date of registration and for constructing the project. The local government budget gets significant inflows from lease of urban lands, which allow to effectively solving a wide range of development of infrastructure and services. It is not only the inefficient fiscal allocation and distribution that hold down the development of the city but also the ineffective collection mechanism is holding down the provision of serviced land. For instance, each year about 10,400,000 Euro should be spent on infrastructure and housing but the reality proves that the local government could not fulfil the demands of the regulation. The main reason is, the entire municipal revenue collected by the finance and economic bureau shall pass to the national treasury. Budget will be assigned by the parliament and then the city government allocates the entire budget to every sector as per their plan and program.

Finance has direct relation with development processes. Especially the role of banks is very significant in terms of facilitating and providing loans. In this respect discussion was held with representatives of private and state owned banks. They have indicated their biggest problems to collateralize lease lands. In general they felt insecure while considering the distorted price. In other words, if a borrower defaults on payment occurs, the bank will not be able to sell the property and get back the money they lent. Even though the agreed lease period is relatively long (60-99 years), the way of thinking of the traditional landholding or "rist" has influenced the public. The conditions of leasehold right in terms of termination of leasehold and payment of compensation have to be clear to give confidence to the people and make them accept the lease agreement.

There is a high demand of infrastructure from the tax payers, which the local government could not realize due to financial shortage. For the same reason the tax payers are not willing to pay their taxes, so the question of who should come first "the egg or the chicken" is waiting for an answer. Of course the city government has a responsibility to provide at least the trunk infrastructure but will the tax payers be satisfied and what should be their contribution? Therefore the research has found that both local government and the tax payers are actors for the development of the city.

The idea behind mentioning property taxation is to describe how the existing rate of land and building tax has attracted land speculation. The research has reached to the conclusion that the property taxes in the city are very low and the collecting mechanism is extremely weak. So, this situation contributes for the increase of land speculation. The research would support and recommend further study of the idea of "Henry George" the author of "Progress and Poverty", who has explained about the mechanisms to capture the added value of land and to reduce the trends of underutilized and idle land, in other word land speculation.

## **Acknowledgements**

I am grateful to my families who were supporting and encouraging me during my stay far away from them.

The research has done without conducting a fieldwork. My friends were working hard to collect data on behalf of me. I should therefore like to place on record my appreciations and gratitude to all who respond the questionnaires that i have sent. My special thanks go to Murad H., Eyob D. and Tesfaye T. who were coordinating the whole process.

In particular I have so much grateful to Ato Abay Tsehaye who has given me the opportunity to participate in this master program.

Certainly I would like to exceed my gratitude to Lecturer and my advisor Architect Janis Kursis who help me to understand the notion of writing research and moreover taking his time to make the research proper.



# Chapter 1 Introduction

## 1.1 Background

Ethiopia is one of the least urbanized countries in the world. The country has faced enormous difficulties for the last 50 years. War with neighbouring countries including civil war, famine, disease and terrible governance place the country under developed. The urban population covers about 20% of the total population<sup>1</sup>. So, the main social and economic activities have disposed on the agrarian population.

There are 926 urban areas in the country of which Addis Ababa is the largest city which embrace about 3.5 million inhabitants (30% of the urban population)<sup>2</sup>. This unbalanced growth between urban centres has appeared due to political reasons and instability in the country. Some people are arguing that ethnic pressure has pushed the people out from other cities to the capital and some have observed that the capacity and willingness to handle the people's requirements is relatively much better in the capital than the other urban centres. So no matter what the situation has appeared people have preferred to invest and live in the capital.

Addis Ababa is not only the capital city of the country; it is a regional and international capital. The city has accommodated different EU and African organizations. Alike Brussels as the political centre of Europe, Addis Ababa should play a big role as a political centre of Africa. This could be expressed as the city should be a place where one gets a suitable environment to live and a place where foreign diplomats and investors, etc would attract. In this point of view, many improvements have still expected from the city including addressing and reducing the demands of the citizens and foreigners.

Many measures have been taken to tackle urban problems in our cities. One of which is regarding the land policy that is very delicate, the most important and politically sensitive area, which the national government has directly involved in it. Addis Ababa is presently ahead of other cities to adopt land lease regulation as well as land and housing management practices. Although land is a scarce resource and due to its immense implication for development, different proclamations and policies have been exercised in the country.

When we are looking back at the past period, the land decree which was issued in 1932 has recognized private land ownership with the aim of improving the land tax system of the city of Addis Ababa (Jagemma 2001). Even in earlier time, those who could not afford to buy land from the land lords had the only choice of leasing land. Then after 1975, the proclamation no 47 of 1975 has stated that it is necessary to bring under government ownership and control urban lands and extra urban houses to bridging the wide gap of the standard of living of urban dwellers<sup>3</sup>.

The fundamental change regarding land and housing has take place in the country during 1975. At that moment the proclamation has brought land under state ownership. Then after 20 years, the Federal Government of Ethiopia has embraced an ambitious program through the proclamation

---

<sup>1</sup> The author could not find the exact urbanization rate of to date for the reason that the Cense made by the Central Statistic Authority was in 1994 and have stated that only 15% of the total population are urban dwellers. After that period of time some people say that it has reached 17% and others have explained that it has increased up to 20%.

<sup>2</sup> The study conducted by the Office of the revision of Addis Ababa Master plan (2003) has stated that the city has expected to accommodate about 3.7 million inhabitants in 2010.

<sup>3</sup> See annex no 1 for definition

number 80/1993 that provides for the lease holding of urban lands. At this point, the Federal Law indicates the general directions and the city will go through in detail. Likewise, the regulation number 03 of 1994 has provided by Addis Ababa city for the lease holding. Moreover, the city has re-issued the regulation number 29 of 2002 to replace the previous regulation with few amendments.

The aim of the regulation no 29/2002 of Addis Ababa City Government was to ensure economic and social development by adopting a system in which urban land is held and used within time limit. Although the local government has a mandate to set conditions to possess the existing private and public land, the regulation is applicable on vacant land that is not occupied by anybody and. Although the regulation has an ambition plan to ensure social development in the city, housing become worsen every time. As Cullingworth (1979), described in his book, the extents of housing problems are getting bigger and seemingly the most important questions remain unanswered. Therefore, continues responds are necessary before the problems are spread up to other social problems.

The method of land permit for business is through auction or negotiation, while for dwelling house construction is provided by lottery<sup>4</sup>. The highest price offered will be the auction price to determine the lease price and the tender shall be advertised in a public place not less than 20 days before the auction date. The negotiation also takes place after submitting an application containing a written negotiation to the concerned body describing in which the land is located, project desired, its special features, and the project proposal of the type of development intended to be undertaken. In this situation the price of land shall be permitted by negotiation and decided according to land regulation.

The regulation no 29/2002 has stated that, the person who acquire land has expected to pay 10 up to 20% advance payment of the total price depending upon the type of the development activity and the remaining payment would be finalized within 20 to 30 years before the termination of the lease period<sup>5</sup>. As far as the use of land is concerned the local government has usually generate revenue from leasing of urban land (in other words the sale of land use rights), However, this money has not efficiently used for the provision of infrastructure due to weak performance of the concerned institutions and collection of lease payments.

Regarding the fiscal decentralization, the local government has a mandate to collect, and increase the tax base. In fact, the Ministry of Finance and Economic Development has a role to assign the tax ranges considering the micro and macro economic situation of the country. Within the established ranges, local governments could allocate the tax rate of each tax base with respect to locations and development trends. In addition, the city government has entitled to collect revenue mainly from property tax which includes urban land rent and building taxes but most of these taxes are not subjected to increase for more than 40 years (Galaup et al.1994). For instance, according to the report announced by Land Administration Authority of Addis Ababa city government, the revenue that was supposed to be collected has been accounted more than one hundred thousands Euros in 2004.

---

<sup>4</sup> *Negotiation is referring to a method of permit land for projects, which are supposed to be constructed by the local government and due to the local government's financial constraints, the private sector could apply where the land left vacant.*

<sup>5</sup> *According to the National government proclamation 272 of 2002, only 5% of the price needs to be paid immediately but the Addis Ababa regulation has indicate 10 -20% for advance payment.*

In Ethiopian context property is described as the state owns the land, and the private could be the owner of buildings and will have the right to use the land. A use right of land means the right to the immovable property he/she builds and the permanent improvements he/she brings about on the land by his/her labour or capital. Considering the fact that land is a property, the efficient usage would be supporting the development of the city but the reality shows that keeping land unexploited for a long time and waiting for the opportunity for higher profit is the real phenomenon of the city.

## 1.2 Research problem statement

In broad expression, the city could be characterized by inadequate of housing, poor infrastructure, growth of unemployment, low investment, etc. The land administration authority of Addis Ababa has indicated the way how land lease came into effect and the situation of land market in the city for last 8 years (from 1994 to 2002). They have reached to a conclusion that the policy could not meet the objective with respect to renewal of the core area, efficient use of land and attracting investment.

Due to the unbalanced urban growth, unskilled man power, lack of private sector involvement and financial constraints, it would be very difficult to tackle the above urban problems especially for countries like Ethiopia. However, it is necessary to come across on each problem and conducting researches to assist the implementers to look at different options based on other countries experience.

Certain basic problems have been observed regarding the application of land lease policy, which would discourage investments on land and housing development. It could be described as follows:

- One of the tasks of the land administration agency of Addis Ababa city government is providing serviced land in efficient way for housing development. The agency could not realize the tasks due to weak coordination with sectoral authorities, high demand for cost of development and insignificant role of the private sector involvement on land development. For these reasons satisfying the demand for serviced land would be impossible. What has been observed in un-serviced land was either the homes builders have not interest to go to new the sites or even if they wish to build their houses, the houses might be vacant for long time.
- The reasons for the escalation of land price would be the growth of land speculation. The price of land has grown unexpectedly high and underutilized land has been spread all over the city. Though the local government did not confirm the figure, it is expected that more than 50% of land occupied by individuals are either vacant for the last couple of years or underutilized. The occupiers have claimed that the increase of the cost of building materials, inaccessibility of getting bank loan due to bureaucratic procedures, and the policy itself have contributed for the halt of their investment. Some of the reasons seem right but it may be possible to conclude that they may speculate or in other word they might wait for the increase of land value.

In this respect, different measures have been taken to reduce speculation but the efforts that have been made were not ended successfully<sup>6</sup>. It could not be less easy to make the enforcing

---

<sup>6</sup> *The Addis Ababa city government Urban Land Leasehold regulation 29/2002 has set the conditions of the performance of advance payment. The intention of the advance payment was to ensure the financial capacity of applicants in order to offer land holding certificate. It has stated that the price shall be 10 up to 20% of the total price depending to the types of development activities.*

regulation and control realistic due to the difficulty of tracking down unused land and those which are not build according to the land use regulation or building permit.

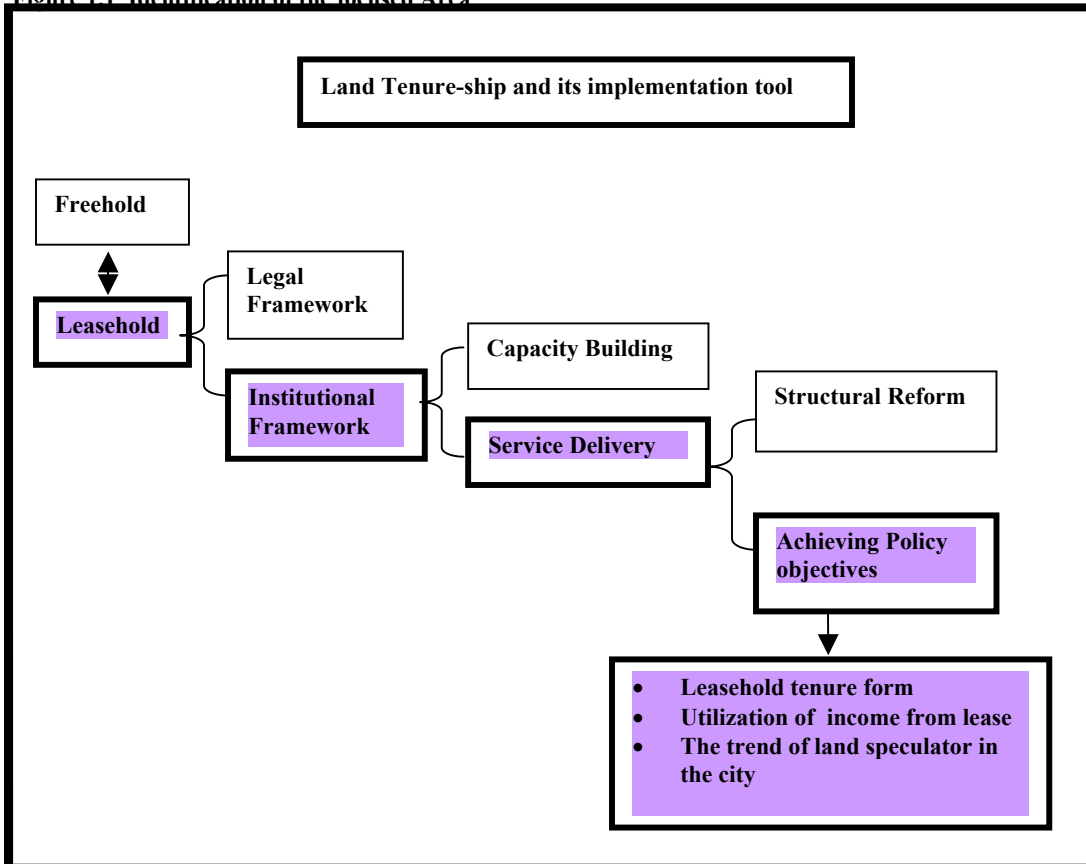
- One of the aims of urban land lease policy was to finance infrastructure and service provisions. Ideally, the revenue collected from lease payment should not mix with other revenue, so therefore it will be easy to allocate money for the desired development. However, in reality, the situation is different. All the revenue collected in the city dispose in one place, and then the city government distribute the money for different activities. There is not particular budget allocated for infrastructure related to the revenue collected from lease.

### 1.3 Description of the research area

There are many studies conducted by the city government to tackle the problems related to the institutional and legal framework, improving the land supply and create integration with financial institutions. Many of these problems have got response by the local government but some of them are not getting consideration yet. Although the issues that have peaked up are interconnected, the research could not overcome to look at all problems.

The research would emphasis the issues that are not well addressed and which have believed to be very important to meet the objective of the land lease policy.

Figure 1.1 Identification of the focused Area



Accepting the limitations, the above figure has considered the fact that issues such as freehold system, capacity building, structural reform, etc have got answers in different times for the last several years in the city.

Therefore, the research would focus first on leasehold tenure form and the major issues that help to meet the objective of the land lease policy. The second issue that the research emphasizes would be Article 12 of the proclamation. Under the title “Utilization of Income from Lease” the article has indicated that, “Every town administration shall use at least 90% of the revenue collected from land lease for building urban infrastructure and for construction and expansion of low cost houses”.

Land provision for housing construction has been carried out through leasehold, but, let alone accommodating the low income group through low cost housing scheme; it could not accommodate the middle income group, which has the capacity to build their own houses. Here the question would be, is it due to lack of serviced land that people do not prefer to construct? Or is it not clearly indicated in the policy how to deal with housing development? Why the regulation could not be practical and how does the local government could improve infrastructure development?

The third issue would try to indicate the trend of land speculation in the city. It is clear that people are speculating in whatever they are fond of buying, renting or borrowing goods. But it would be worse when it comes to the scarce resources such as of land. It would have been better if land could be protected from underutilization and misuse for the benefit of the neighbourhood and citizens as a whole. Keeping land for long time without adding value would convey unhealthy development. So the question would arise as to how it could be practical to implement different tax reforms in the city and the obstacle that occur during tax reform? What will be the reaction of the beneficiaries both the public and the private?

## **1.4 Research object**

The objective of the research is to find out why the land lease policy does not work and to elaborate a proposal that make it work.

## **1.5 Research question**

### **1.5.1 Main question**

The current policy aims to create a source of revenue for the purpose of financing the supply of dwelling of houses and infrastructure through an effective and dynamic land lease policy. So why could not the practice of land lease facilitate the housing and land development when the land stock is under the government control?

### **1.5.2 Sub-questions**

Land lease is supposed to be one of the most effective fiscal instrument in Ethiopia to generate revenue for local government and address the social and physical infrastructure but,

- What are the obstacles hindering the implementation of urban land lease policy on the development processes?
- What are the means to be considered for the land and housing development programs which exist to improve taxation?
- How would it be possible to make the people and the local government benefited from the urban land lease policy?

## **1.6 Relevance of the research**

The land lease policy should be helpful to improve housing and land supply to be more responsive to demand. The existing urban land development and management practices need to be improved to use land as a resource for social and economical development programs. The intention of the research is to link the policy with the provision of serviced land for housing and to make suggestions how to reduce the trends of speculation through property taxation. Providing different options based on other countries experience would be the aim of this research.

The finding from this research would provoke further studies in the area of land policy especially identifying the obstacles that have occurred during the implementation process. So it is essential to critically and comprehensively review the existing pitfalls of the policy and directing towards the requirements of the free market economy within the framework of the constitution of the public ownership of urban land. In general the research has intended to review where the real problem for improving the delivery of serviced urban land has encountered and set out clear recommendations on how the priority objective of the policy will be achieved. The result and findings will be helpful for the responsible bodies of the city to apply the urban land lease policy properly.

## **1.7 Scope of the research**

From this research, it would be expected a relevant proposal to enhance the desired aim of the land lease policy. In fact there are different issues that should be analyzed regarding the existing policy document, but due to the limited time and lack of sufficient information, the research will focus on the following issues.

The research would emphasis on the effect of freehold and leasehold tenureship systems on land management process of the city. The previous experiences of private land holding that provide a freehold right have made up the mind of the citizen very secured. The research will focus on the extent at which the right of freehold would be differed from leasehold and discussed the reasons why the people prefer to have the freehold right. The arguments that would be discussed later are related to serviced land development for housing, land speculation and improvement of the financial capacity of the local government to provide housing and services.

Different land allocation methods have been practiced after the leasehold system was introduced. Above all, housing has been emphasized by the government. Subsequently the people could acquire land on lottery basis for an area of less than 50 square meters. The provision of serviced land has been the issue mentioned by the beneficiaries. Hence, the research will try to focus on the utilization of income from lease from which the revenue is supposed to be disbursed for the improvement and construction of serviced land.

Though it is complicated to anticipate the ways how speculators have approached, different measures have been taken to reduce and halt the growth of land speculation in the city. The central attention of the research will be regard to the form of property taxation and the connection with speculation.

## **1.8 Limitation of the research**

Since the land lease policy has come to practice, different problems have been occurred especially during the implementation process. The city has been facing difficulties to attract private investment and along with these troubles, the city has been unable to develop and provide serviced land.

Despite the fact that the city government has shown the commitment to work with the private sector, fulfilling the demand of serviced land is limited. To analyse the shortcomings, we have found that difficult to reach on the necessary data. In this respect, data and information with regard to utilization of the revenue collected from lease have been one of the limitations to collect from the local government. The availability of this information would be helpful to conclude the circumstances that hinder the collection and allocation of the revenue.

The other limitation would be with regard to the data collection method. The research was conducted without field work. Questionnaires have sent through email. The problem has occurred mainly due to the absence of briefing mechanisms, which otherwise the actors have responded the answers that are not clear.

## **1.9 Structure of the research**

The research has discussed the specifics documents that are collected from the public institutes such as Addis Ababa city government Land Development Agency, Land Administration Authority, Finance and Industry Bureau as well as from private financial institutions and individuals. The results have shown that land lease policy is the backbone to implement the policy.

The first chapter contains the background up on which sufficient information is gathered in order to allow the reader to have the clear picture of the city's land administration performance and the land reform trend at national level. The chapter includes a description of the different tenure-ships and the tendency towards lease policy. The research poses one major question to identify the obstacles and the practice of land lease to facilitate the housing and land development.

The second chapter is supported by different theories and practices of the world, which will assist the research to produce different arguments on the selected area. The theoretical framework has focused on how urban land lease come to effect in countries where land is state owned.

The third chapter deals with the methodology that describes how to go through the issues that are raised in the objective and research question. Preparation of questionnaires and distributing for the key persons was one of the approaches, which the research has followed and also desk study compares different practices with respect to existing situation of the city.

The fourth and the fifth chapters have put the result of the collected data. The issues of the citizens' and financial institutions perception, the relation between the lessee and the lessor (leaseholder) as well as the utilization of resources are explicitly discussed.

The conclusion drawn in the final section concern the suggestions which are relevant to the issues mentioned in the previous chapters would be pointed out. It provides a general overview of the recommendations, which contains the scope for future research.

## Chapter 2 Theoretical background

### 2.1 Shift from freehold to lease holding

Freehold right was recognized before 1975. At that time extensive area of urban land and numerous houses were in the hands of an insignificant number of individual land lords, aristocrats, and high government officials (Proclamation 47/1975). A freehold is of indefinite duration and is inheritable. No land-right holder is superior to the freeholder (Farvacque and McAuslan 1992).

The major two formal tenures, which are applied in the city is freehold “permit hold” and leasehold systems<sup>7</sup>. There are few freeholds in the city due to the nationalisation of urban land, and there is no new freehold grants have been made by the city government after the nationalisation. For this reasons instead of freehold, the city government grant title or permit land for development. The other tenure-ships, such as customary and informal landholding systems are also common characteristics of Ethiopia and other developing countries as well<sup>8</sup>. What makes freehold right different from leasehold right is that the freeholder could sell the vacant land which it occupies, whereas the leaseholder could not.

There are terms that are stated in the agreement, which the leaseholder has to respect during the lease period. Once the agreement has finished there is no restriction or a need to ask permission to the local government. In Ethiopia freehold right is considered as private ownership which the land owner has a right to use the land according to the regulation issued by the local government. The regulations that are provided include building permits and other development controls.

*Essentially, the crux of the legal difference between freehold and leasehold is that the freeholder is bound by the laws of the land and nothing else. Whereas the leaseholder is bound, in addition, by the terms of the lease laid down by the landlord. The leaseholder is then less free and unrestricted in his or her use of land than is the freeholder.*

(Farvacque and McAuslan 1992)

As Barlowe has mentioned, land sited in the jurisdiction of the city is regulated by the city government. The land use regulation particularly the master plan is legally bind so that landholders and developers have to have permissions for every construction they desired including changing the tenure form and land uses.

*Even under a freehold system, such as the one in the US, private land owners' ability to develop land as they desire is always restricted by land use regulation, and government always retains the right to resume ownership of land for some public purposes.*

(Raleigh Barlowe 1958)

---

<sup>7</sup> The research has found that the freehold and permit hold are the same in terms of the period in which to use over land.

<sup>8</sup> The meaning of customary and informal landholding and the impact on the development process have been discussed thoroughly by Abraham Workneh et al (1995).



### **Box 2.1 Proof of Ownership (Article 1193 - 1198) of property law**

For a person to become an owner, the law requires certain facts to exist. It may be possession, registration, etc. For extinguishment of ownership any of those facts, which are required to exist for the transfer or acquisition of ownership must be shown not to exist. Proof of ownership, then, is proof of facts, which are required for the acquisition or transfer of ownership has occurred and those facts whose continues existence is required exist. Stated otherwise, proof ownership means proving certain facts relevant for the creation/ transfer/ acquisition of ownership have occurred and they are not extinguished. The fact that are required to be proved as the requirement for acquisition or transfer ownership differ depending on the nature of the thing. But all what the law provides for under this section is only presumption and not proof. If party proofs the existence of basic facts, the law presumes ownership. The law might be envisaging practical reasons for doing so. It is difficult to require title deed for every bits and pieces of things that individuals possess neither does it seem just to prove ownership over immovable by possession or occupation only.

Source: Kiros and Abdo (2000)

According to Ethiopian property law, every bits and pieces of property should be registered and then the government would recognize and give titles for the property. Kiros and Abdo (2000) have described the overall concept of property right that has mentioned in article 1126-1256. The individual owner has a right to use, collect fruits, even to destroy the thing and to create other right in terms of pledge, mortgage and promise of sale.

The involvement of the local government on the city development processes is inevitable especially if the land is needed for public interests. This is applicable in both freehold and leasehold rights. Therefore the local government has a decision power in whatever the tenure right exist. In general, the risks of public sector interference in development depend far more on the nature of the public sector and governmental attitudes to private land development than on whether development is based on leasehold or freehold tenure (Farvacque and McAuslan 1992).

The substantial argument for freehold tenure in the country in general is the cultural support, which the people have felt that the free holding is more secure in terms of use right for indefinite period. Whether the freeholder is the state or the private, the fact the matter should be which one would be efficient for both the public and the individual.

The shift was taking place in the country as a whole in 1975. At that time direct public intervention in land market has commenced in urban areas. Consequently Addis Ababa city has making use of the proclamation for acquisition of land but the land market remains only through one side distribution and allocation of land not through buying and selling process. It is unhappy that the conditions led to severe price distortions and profound disequilibrium in the supply of land available on the market (Farvacque and McAuslan 1992).

The national act of public land leasing has counted 11 years in the country provided that the sole relationship to acquire land would become between the local government and the user. One of the goals of the policy was to increase the revenue of the local governments and in turn the money would support the provision of infrastructure and low income housing programs.

Public leasehold as a system is that allows government (the public) and private parties to negotiate the delineation and assignment of multiple land rights through contractual arrangements, (Bourassa and Hung Hong 2003). The contractual arrangements are indicated clearly the rights of transfer and mortgage as surrender the share equivalent to the amount paid of the lease and the built up structure.

*In many transitional economies public land lease is the result of ideological and political change. In countries of transition, public officials have been experimenting with public leasehold systems to minimize the economic and political conflicts that arise from land reforms. They hope that leasing public land may lessen the tension between the communists desire to uphold public land ownership and the reformists demand for increasing private property rights.*

(Bourassa and Hung Hong 2003)

The same situation has practised also in the biggest cities in The Netherlands. They buy land and dispose it for building on long ground leases with the expectation of a source of income to the municipalities and to get more powers to control development (Needham 2000). Besides increasing the financial revenue of the municipality, the land lease has minimized the absolute state ownership or in other words the full control over land.

In the current property right situation, use rights are provided for a specific period (it could be for 35 or 99 years) obtained from the landowner who shall be the state through ground rent payment. Therefore the landownership and use rights are separated and make the state out of full control over the land. According to Ding, Chengri and Knaap (2003) argument by retaining state ownership, social and political conflict would be minimized.

The objective of the regulation 29/2002 is to support the transition in the medium term from the current dual tenure system to leasehold. The holder of freehold right to land will not voluntarily exchange those rights for lease right for the reason that the only one who can transfer land is the local government. In developed world the freeholder may grant a lease to someone for any period of years he/she thinks fit. Then again this person can grant a lease to another person or sub-lease the land before the expiration of his/her own term.

The municipality has always mentioned the problems caused by the continuation of dual tenure-ships (the old tenure freehold-permit hold and the leasehold) on land management, but in developed world the two tenure-ships are going side by side.

## **2.2 Leasehold tenure-ship and its implication**

Land tenure could be expressed as the possession and use of land by individuals or groups for limited or unlimited period of time. According to Oxford dictionary (1998), tenure is defined as the condition or form of right or title, under which real property is held. Ethiopia has endorsed different tenure systems.

In theory, public leasehold does appear to be a compromise because the system allows the state to remain as the landowner and lease the development. The use rights of land go to private individuals. However, in practice, it does not matter who the landowner could be. It could be the government or private landlords who have real control over land but what matters would be depending on how lease conditions are constructed (Bourassa and Hung Hong 2003).

Chen (1990) has pointed the comparison of the land policies of China and western countries. He has stated out that,

*What distinguishes the private ownership and public ownership over land is their differing point of departure. In the west, where land has long been privately owned, the state exerts control by regulation: in China, where the point of departure is state ownership, similar results are achieved in a more proprietary manner- through the use of leasing contracts.*

What is being reflected by Chen (1990) sounds quite right for countries in transition. What was discovered one among the most reasonable routes to the transition into a vibrant land and housing market has been the adoption of a public leasehold policy. This option could be regarded as a transitory alternative to the building of a well functioning market economy. This is what Ethiopia is trying to achieve. In particular a shift of land holding from strict public ownership to semi-private or to full private would bring social unrest. It needs to consider the steps performed in a country like China where there was a profound communist regime and a country with a highest population of the world. Moreover, China's experience in this regard is often cited as one of the best practices in stimulating the urban land and housing sector along the free market lines. Thus, Tung Pi Chen's conclusion in this case is an additional testimony to the success story.

As Knaap et.al. (2003) have described regarding the separation of use rights and land ownership.

*In the current property rights regime, use rights for specified period (eg 40 to 70years) can be obtained from the state through the up-front payment of land use fees. The fees are determined by the location, type and density of the proposed development. This separation of land ownership and use rights allows the trading of land use rights while maintaining state ownership of land.*

Knaap and his colleagues have pointed out three advantages, which the Chinese government have achieved. First, market mechanisms could help guide the allocation of land resources; second, land use fees would provide local government with a new resource of revenues, and third, by retaining state ownership, social and political conflict would be minimized.

Theoretically, leasehold would bring social, economical and environmental benefits. All would agree with the idea of the economic advantage of land.

*Economists frequently refer to land along with labour, capital, and management as one of the basic factors of production. Land as property has legal connotations and could be described as individuals or groups have been exercising rights of ownership and use they hold in land. And from the standpoint of the average investors, land must be purchased or leased like other capital goods, so land could be described as capital.*

(Raleigh Barlowe 1958)

One of the reasons for letting the local governments to impose land lease payment is for financial reasons. However, the city has encountered problems during the implementation processes. For instance, the high lease price has kept away potential investors from involving in the city's economic development. Suggestions have indicated that it has happened for the reasons of low supply but on the contrary, Land Administration Authority has found that the supply is improved lately but only 60% of the prepared land would be sold in most tenders.

The financial strength should be converted to social benefits, and it has been described in the proclamation. The proclamation 272/2002 has mentioned about the determination of a leasehold price for residential properties. In terms of section 8 the local government may make available land for residential or other purposes to persons at a reduced price if such action shall lead to the furtherance of the government's economic objectives as specified in article 89 of the constitution. In practice the term "available land" has been mis-interpreted and the local government has only provided raw land but un-serviced land makes the situation severe.

The costs and socio-economic benefits of the public leasehold have been described by Jogan and Patassiin (ed) (1996). They have put 7 evaluating criteria to determine the effectiveness of public land lease hold using a) global productivity of the lease systems; b) capacity in satisfying the

demand of land and urbanization; c) effectiveness in the managing land and physical form of urban centers; d) fairness of the system with regards to various categories of users; e) compatibility with various policies, measures of taxation and planning at local, regional and national level; f) continuity with respect to tradition and risks connected to sudden changes; g) possibility of maintaining a double regime of land renting and leasing. These criteria have to be investigated thoroughly to come across to conclusion that the process of public leasehold is in the right trunk or not in the city.

The environmental benefits would be evaluated with respect to achieving the objective of the city plan. The holder of a registered right of leasehold must utilize the land in accordance with the land use zoning of the land and must develop the land in terms of approved development plans to control and bring environmentally sustainable development. The city has anxious about renovation of the inner city slum, adequate drainage system, road and other infrastructure. With this respect there is no significant practices observed but it has release to the private sector to negotiate about the price and the project to develop the inner city.

### **2.3 Housing development objective**

Besides raising the city government's finance, improving the housing development is also one of the objectives of the lease policy. In other words, it is aiming to accommodate the shortage of dwelling houses in urban centres for various sections of the population. Bourne (1981), housing problems are both market and policy failures. When one looks at the Bourne's idea and the situation of the city of Addis Ababa, the city government intervention in the housing market is insignificant, meaning that there is no well functioning market. The direction and the mismanagement of housing development would be believed to be the policy failure.

Complaints are always revealed from the new development areas regarding the inadequacy of infrastructure provision in the city. The challenge could be perceived as the contradiction between urbanization rate and the scarcity of resource, which leads to a drastic increase in demand of serviced land. The city government is running for shortage of financial resources and become a handicap to tackle the obstacles to implementing the policy objectives.

*In recent years, China has made some progress with increasing funding for urban infrastructures from government to ease the shortage of urban infrastructure. The Hong Kong government also emphasizes the use of land leasing to raise public funds for financing public infrastructure investment.*

(Bourassa and Hung Hong 2003)

Where land is state owned, the mere advantage of the local governments is, they can reserve land for housing construction and infrastructure developments. In addition, the purpose of land lease would be reserving land for residential uses with no cost. Otherwise the high cost of land would affect the low and middle income groups. For instance in Canberra Australia, among all purposes of land leasing, reserves land for buildings, foreign embassies and other public infrastructure appears to be most achievable (Bourassa and Hung Hong 2003).

Turner (1982) believes that a proper division of tasks between public, private and community sectors is the only solution to the housing of any class of people in any place of the world. Although Turner has not been the first or the only one who emphasis division of tasks on housing development, he certainly put the issue as main exponent. Housing production could be stimulated across the range of private and social sector providers. According to Ambrose and Barlow (1987:111) cited in (ed. Golland and Blake 2004) a number of mechanism including

direct state subsidies for social housing and indirect support for production, consumption and profitability in the private sector is indispensable.

The most profound change in the housing policy has aimed at the densification of the city through condominium housing program. Although there is a subsidy on infrastructure provision, the beneficiaries would be the middle income groups for the reason that the advance payment and annual payment requires some how adequate financial capability. This form of housing development would provide ownership of apartments under an agreement to contribute to the upkeep of the building and cooperative ownership only of the common grounds (Abrams 1994). When we look at condominium housing with respect to utilization of land, it could accommodate many households in small area, which normally the city government persuaded the citizens to build their own houses with a minimum lease payment<sup>9</sup>.

It is commonly observed that there is a shortage of serviced land and housing in the city, then this shortage is reflected by the high price that it fetches in the open market (Mathema 1999). She has discussed in her report on the housing and land market in Katmandu, Nepal. The situation has similarities with Ethiopia especially with regard to demand and supply relation.

#### **Box 2.2 Housing demand and supply**

##### **Poor respond to market demand**

*Economic development in urban centers induces in-migration, causing an increase in demand for housing and urban services. If the supply is unresponsive to market demand, the price of housing increases substantially. This typically happens when,*

*i) Supply is inelastic;*

- Due to shortage of land due to speculation,
- General shortage of supply factors including land, construction materials, infrastructure provision, etc,
- Imposition of high standards and regulations such zoning, land use and subdivision regulations, building standards etc, that do not allow people to respond to changing to market demand (by subdividing, or constructing, rental units),
- Monopolistic supply of urban services

*ii) Demand is inelastic, due to,*

- imposition of high standards and regulations such as zoning, land use and subdivision regulations, building, standards etc, that do not allow people to live below preset standards.

*iii) Both demand and supply are elastic, but demand increases faster than supply due to other factors that encourage investment on land/ housing as an asset.*

##### **Effective response to market demand**

*An effective respond to market demand can be brought about by:*

*i) Making supply elastic*

- Discourage speculation
- Facilitating efficient supply of land, construction materials, infrastructure etc,
- Relaxing standards and regulations, and allowing people to respond to changing to market demand (by sub dividing, or constructing rental units),
- Promoting competition in provision of urban services,

*ii) Making demand elastic*

- Relaxing standards and regulations, giving flexibility to people to live according to their own needs and affordability,

*iii) Making supply demand- responsive, as in a competitive market situation.*

Source: Ashna S.Mathema (1999)

<sup>9</sup> For the area less than 50 square meter, there is no lease payment and for those who build more than 3 storey dwelling houses, there is 3% discount from the total land price.

In general, the box has tried to demonstrate the demand-supply relation and the effect on the land and housing price. When demand increases, there is a sharp increase in price so the low income group cannot afford therefore they prefer to go to informal land market. When the supply tends to increase to meet the demand, the land price will be lower in some extent. So there will be access to land not only to the poor but also to developers.

In general narrowing the gap between housing demand and supply is partly attributable to the impediments created in the process of implementation of the urban lease policy. However, had the land supply been adequate enough and land price affordable? It would have positively responded to at least the effective demand which has been estimated to constitute about 20% of the demand. The inability of the lease policy in adequately addressing this particular demand thus has contributed to unwarranted the sky rocketing of housing prices making the construction costs and rental rates excessively high.

It could be possible to realize from the report distributed by Land Administration authority in 2003. The report has pointed out that more than 40 round for auction were executed since lease holding system was first introduced. About 7673 plots of land for different activities were designated and 7239 persons have participate on the auction and the cumulative ratio seems virtually 1 to 1 but when we take the year 2003 auctions, the number of applicants was 5 to 10 times more than the land displayed for auction.

## **2.4 Urban land speculation**

The character of land speculation is differing according to the land ownership set-ups. As Abrams (1994) has demonstrate the example of Turkey's land speculation character, private speculators buy large aggregations of land from farmers or from the state or the city, run a line through each plot horizontally as many times as possible, then as many times vertically as possible. This situation would be proper where land is privately owned but in the case of Ethiopia, the farmers shall not allow to sell their land but especially at the expansion area. More often what the private speculators did is, they buy a plot of land and build a small house at the back of their plot. they keep the land until the development reach in their surroundings.

Different approaches have been applied to reduce speculation in the world including property tax related to land value taxation. Speculators are usually buying (lessee) land because they expect the price to go up in the future and keep it as vacant or underdeveloped (Foldvary 1998). This situation spoils the development process of the city and the neighbourhood as well. It could be expressed as the local government could not maximize the tax rate and coverage of the property and the dwellers around could not benefit from the service desired.

As said by Foldvary (1998) in the progress report, it is a cause of economic trouble and it is not really the speculation itself but the tax system in which it takes place. The tax system in the world today mainly tax labor and profits. Some of the tax money goes to build public works and these push up land values. So landowners get a government subsidy in the form of increased rent due to infrastructure that workers and business, not the landowners are paying for.

*The function of speculation by giving an example of a housewife, when she goes to grocery for shopping, she is speculating the price when it is falling she might have better off to defer her purchases or if the price is rising, she might have done well to buy twice as much.*

(Walter Block 1981)

Therefore we may say that speculation is at the very core of human action. When we are looking to our situation, speculation has different connotations from the concerned group especially with regard to land and housing market.

Many authors have distinguished that one of the factors for increase in land value is through the improvements made by the public. The public has provided and improved infrastructure, in turn the government collects revenue from the benefits generated by individuals through taxation. In other words James and Smolka (1997) has put Henry George's value capturing rationale through all land value and therefore any increase in value is the result of community rather than individual effort. In his view, the only way of seizing the individual is through taxation.

The other point they have mentioned what Henry George felt about land tax and land speculation is that "a full tax on land would increase the land available for use and decrease land speculation". As the same time the decrease of land speculation would lower the price and then it would reduce the cost of living and incidence of poverty.

*Property taxes are much more important in rich (OECD) countries than in developing or transition countries. For instance in 1995 the highest property tax to GDP ratio (4.1%) was in Canada, followed by the United States (2.9%), etc.*  
(Enid Slake 1999)

It is difficult to compare the figure stated above with developing countries but Slake (1999) has put also the lowest ratio recorded in Austria (0.01%) and South Africa (1%). By looking the ratio one can imagine that it will be very low in Ethiopia than all of the above mentioned countries. Even in a city where relatively a large number of properties exist, the property tax ratio is not more than 4% of the total revenue of the city. For the reason of unavailability of data, we cannot convert the figure to the GDP but it would be clear to imagine how the taxes on land and property are at best minor revenue source with respect to GDP.

## Chapter 3 Research methodology

Considering the facts that are discussed earlier, one can find that the approaches for implementing the urban land lease policy in the country has hindered land and housing development. Even though the approach of implementing the policy in my country is different from some other countries, the experience they had on applying land lease would help to analyze and provide important inputs for the research<sup>10</sup>.

The research approach has focused on exploring the pros and cons of the policy in terms of utilization of income from lease, provision of serviced land for housing development and the trend of land speculation in the city. Diagnoses these issues would give the opportunity to look at different mechanisms, which would assist to improve the financial capacity of the city government.

The research has begun identifying the problems encountered during the implementation process of the urban land lease policy in the city. After categorizing the problems, issues that are already on the reform are getting due consideration and have sorted out. Then bearing in mind the fact that enormous problems have been captured in the implementation process, the research has designed to focus mainly on the issues regarding the resource utilization, the provision of serviced land and land speculation.

**Table 1.1 Key actors interviewed and their occupation**

Interviewed personnel	Status	Distributed questionnaires	Answered questionnaires
<i>Professional from public authorities (Town planner, Architects, Economist, sociologist, urban managers)</i>	<ul style="list-style-type: none"> <li>• <i>Department Head, Housing and Land Development, Ministry of Federal Affairs.</i></li> <li>• <i>Division Head, Housing Development, Ministry of Federal Affairs.</i></li> <li>• <i>Architect-Planner from private firms</i></li> <li>• <i>Department Head, Research and Study, Ministry of Federal Affairs.</i></li> <li>• <i>Department Head, Land administration and Town Planning, Amhara Regional Bureau of Urban Development</i></li> <li>• <i>Deputy dean, faculty of urban developments studies, Civil Service College</i></li> </ul>	8	6
<i>Home builder</i>	<i>Individual home owners</i>	5	2
<i>Real estate developers</i>	<i>Private companies</i>	4	2
<i>Total</i>		17	10

The research has combined both quantitative and qualitative data. The main sources of the primary data are Land Administration Authority, Land Development Agency and Finance & Economic Development Bureau of Addis Ababa City Government.

<sup>10</sup> *In countries such as The Netherlands, Hong Kong and United Kingdom, the city governments buy land from the private owner, develop and leased it, but in Ethiopia land is public owned.*



- **Quantitative data collection:** It consists of raw data including figures, annual reports and different regulations would channel the research to get the clear picture of the problems encountered during the implementation process. The course of data collection was held through email to a colleague from Land Development Agency of Addis Ababa city government together with questionnaires, check lists. Briefings on the objective of the research have been sent. Supporting letters to the concerned authorities was also prepared from the Ministry of Federal Affairs,
- **Interviews:** The supplementary data has been collected using semi-structural questionnaires. The interviews were designed open ended and have distributed to concerned groups. The questionnaires have prepared in two separated forms i.e. for public authorities and individuals.

The respondents have been selected with regard to their close link to the preparation and implementation process of the policy. Department heads of the Ministry of Federal Affairs has been selected due to the fact that they are involved directly on the preparation of the policy and they can confer the expectations of the policy and the drawbacks, the implementers would help also to point out evidences that were realized during the implementation process. The private sectors are supposed to be the beneficiaries of the policy, so that identifying the user's perspective would assist to identify where the problem occurs. The situation was far too complex for sending questionnaires and excepting relevant answers especially from developers. Sometimes each question has to be explained in detail to obtain useful data.

- **Observation:** Provided that i was working in Housing and Land Development Department, i have engaged in land related study issues especially on the revision of land lease policy. In those times, i had the opportunity to observe the whole process of land policy including financial concerns especially the impediments that took place with the city government and banks. The issue of compensation, land speculation and informal land market were the key concern of my department, which i was involved in the preliminary study. I had also the opportunity to meeting with individuals, local governments, visiting development sites and also participating in workshops held in the city. These all event allow me to observe land and land related issues.
- **Desk study:** Qualitative data has been collected by selecting research documents and books including articles from web searches. The primary job was selecting the proper articles and works of different authors' and scholars that correspond to the research. Then the next step was continued by picking up key discussion areas from those of different school of thoughts. Identifying best practices was also done during the desk study. The whole process has supported the research to analysis the existing situation, to identify the findings and to reach at conclusion.

## Chapter 4 Assessment of the land reform

### 4.1 Lease-holding as a dominant tenure form

Before nationalizing urban land, the landowners have supplied land, which gives the right to use, mortgage, donate or transfer and sell. Even though the landowners have decided the value of land, the occupants were opting for the freehold or “*rist*” that gives them the absolute ownership of the land<sup>11</sup>.

Urban land has been owned by the state for more than 30 years. Since then, even though the local government has the majority share of urban land, the citizens could have their own land with specific rights. This situation has minimized the power of the city government from full control over land. In other words, it is possible to say that apart from the vacant land; the city government could not interfere in individual property especially who has a right to use.

In Ethiopia, after the military took over power from the king in 1974, some fundamental changes have taken place in urban development sector. One of which is the nationalization of land and extra houses of 1975, which have impeded completely the freehold right and required the former land holders to convert their rights to permit system<sup>12</sup>. Moreover, the local government has a controlling power of all the developments in accordance to the master/structural plan.

Two kinds of procedures were established to formalize the old tenures ie, for those who have their own delineated plots of land and for those who have confiscated their extra houses. In both case they should submit a letter to the local government or municipality to hold permit right. Otherwise they will face a problem of getting loan and other services from financial institutes and public agencies. After inspections have made, they could get a title deed with a use right on land for un-definite time.

The issue of land tenure system has remained to be one of the most politicized concerns in the country. One can observe that the issue of land has strongly arguing by opposition parties to defend the ruling party especially during election time<sup>13</sup>. Both groups are arguing in terms of socio-economic gain and benefit of the citizen and of the government as well. As Jogan and Patassini (ed.1996) have mentioned, it could be said that most Ethiopian citizens never really enjoyed the certainty of land ownership neither during the imperial regime (the private holding system) nor during the nationalization periods because, in both cases they have been only holder of the right to use land.

The research has found that land and policy are linked together in the country. In developed countries, it is possible that the public and private owned landholding systems could proceed together. For instance, in The Netherlands the municipality of Amsterdam city has employed urban land lease system for distributing land for urban activities but we cannot find lease as

---

<sup>11</sup> “*rist*” is referred to local language that would represent a type of ownership, which is characterized by the principle of knowledge access to land. It gives the rights to use and transfer with out land alienation (B. Nega et.al. 2002). The landlord would provide land for sale to individuals, which provides a freehold right for indefinite time.

<sup>12</sup> See Annex 1 for definition.

<sup>13</sup> During the emperor period (before 1974), the policy have played critical role in encouraging private ownership. At that time the opposition slogan was “land for the farmers” or “Meret Larashu” that means land for the majority (public), then after 1975 rural land distributed to the farmers and as the same time urban land has also nationalized. Keeping in mind the difficulties of administering public land, again the oppositions have raised questions with favor of private land ownership.

tenure form in other cities of the country. When we revisit the situation in my country, urban land lease is the national policy, so that the entire urban centres of the country have been obliged to implement the policy.

The argument would be lease-holding should be a system or a form of tenure-ship, which the local government might select or not when it finds essential for financing the developments of the city. Therefore, I have found that there is a mix up between the proclamation 47/1975 of nationalization of urban land which is political decision and the proclamation 80/1993 that provides urban centres for the lease holding which is supposed to be a form of tenure-ship.

The national proclamation no 80/1993 that provides for the lease holding in the country has revised and re-acted in proclamation no 292/2002. Based on the national proclamation, the city administration has also issued a regulation no 3/1994 and 29/2002, that provides the lease holding of urban land. The reasons that were mentioned as the causes for revising the document was due to the inadequacies to meet the objective that was basically the incapability of strengthening the role of urban development and promoting the socio-economic development.

#### **4.2 Establishing trust between the lessee and leaseholders**

The proclamation has been formulated to enable the development processes of urban centres. Moreover, the urban dwellers would be benefited from the speed up growth and improvements. Various private sectors representatives, elderly citizens and individuals were gathering for a public hearing on the draft of urban lease policy. They have pointed out their concern about the implementation process, and the specific regulation regarding the termination of lease period and compensation issues. These situations have developed uncertainty on their property and it has realized that it is so complicated to effectively implement the land lease policy.

Regulations are the basic instruments which may possibly adjust the relationship between the lessee and the lessor. The regulation 29/2002 has stated the method of land permit is only by lease where land tenure is decided and determination would be through auction. Others such as lease price of land, signing lease contract and leasehold title deed are also mentioned in the regulation. However, the regulation has only emphasized the implementation mechanisms rather than the rights of the leaseholders that protect them from unnecessary bureaucracy

Whenever the issue of urban land is raised, the only term that comes to peoples mind is chapter 2 (4) of proclamation 47/1975. This section has prohibited the transformation of urban land whether it is by sale, mortgage, succession, etc. Therefore, the granting of leasehold right has to mention clearly the rights, which the leaseholder has to obtain. Otherwise the word "lease" would be annoying and scaring to the people.

The regulation 29/2002 has noted the lists that confer leasehold title deed: a) the full name of the person for whom land has permitted, b) the size and address of the land, c) the total lease price of the land, d) the amount of the payment already disbursed out of the total price of the land, e) the term of finalizing remaining payment, f) the term of leasehold in effect, but it does not set up the rights and the benefits of lease holding.

Providing reasonable guarantee for the condition of leasehold right in terms of termination of leasehold has a vital importance for the people to accept lease agreement. Even though the agreed lease period is relatively long (60-99 years) and due to the way of thinking of "rist", the public prefers to hold indefinite tenure. Eventually, this preference would diminish may be after the city is working on public awareness programs hopefully there would be a change in the society.

Termination of leasehold have not appeared to the city government so far but considering these facts and putting clearly the suspicions in advance will protect both parties in the future. Payment of compensation has mentioned on which the city government has planned to expropriate land. According to the proclamation 272/2002 section 15 (1) (b) “The leasehold of urban land shall be terminated, where it is decided to use the land for a public interest” but it has not clearly explained how the process would transparent and participatory.

There is a sense of suspicion that people are raising the issue of fairness and transparent mechanism of compensation. The other concern is regarding to the financial cost of the leasehold right is too high. For the reason that two plots of land located in proximity are going to pay different amount of money for the use right on land, when one of which is freehold/permit hold pays less than the leasehold.

### **4.3 The effect on housing development**

The Ethiopian government has not yet elaborated a housing policy, which distributes the functions to different organizations and considers different social programs including poverty issues, allocation of land for housing and provision of serviced land. The national housing policy is the responsibility of the central (federal) government and the execution is the responsibility of the local government.

The execution could be the management and the development process with the partnership of the private sector, individuals and the community at large. In fact, more often the local government has applied the control power on maintaining the regulations and provision of serviced land. The local government has a mandate to determine how they shall interpret the policy and operate housing development. Finance is the key issue that holds the local government from improving the housing situation in the city. Provide appropriate services and giving assistance for house builders is also one of the responsibilities of the local government.

It is understandable that housing development encompasses various aspects including the management. However, the research seeks to highlight the housing policy directions which the city government has promoted to meet up the housing demand. Thus the issue discussed in this title would focus on housing development particularly with regard to land market including the development process after the lease proclamation has to effect.

Housing has faced different obstacles in the city. Before the nationalization of extra houses those who had the capacity to build more than one dwelling could have extra dwellings, but the proclamation no 47/75, article 3(11) has prohibited physical and legal persons to own more than one dwelling. This kind of policy discouraged the rental house construction (Anteneh 1993)<sup>14</sup>.

Looking back before 1974, houses were dominantly owned by the royal families, church and few lords all together with the land. At that time building industries were relatively small in numbers and the price of land was beyond the economic standard of the people, hence the low and middle income people were not able to purchase urban land.

Financial institutes, which were providing housing loan, were the Commercial Bank of Ethiopia and the Imperial Savings and Home Ownership Public Association (ISHOPA). The Commercial Bank of Ethiopia has charged 7% interest rate for housing construction and 8% for other loans.

---

<sup>14</sup> According to proclamation no 47 of 1975, extra houses has referred to those who has more than two dwellings in urban centres.

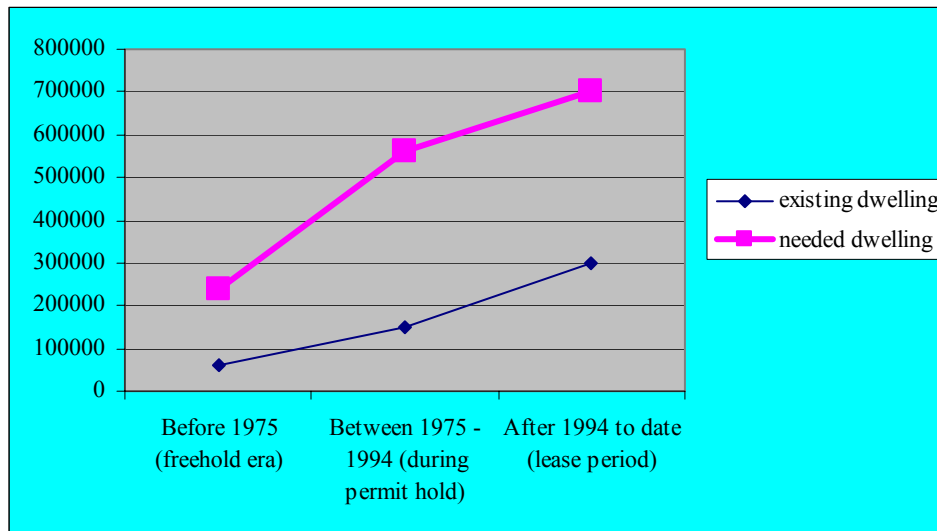
On the other hand, the ISHOPA makes mortgage loans for housing at a maximum term of 16 years with 6% interest for individual houses and 7% for duplex houses. In this situation also the policy could not accommodate all the residents of the city. As Fekade (1996) has characterised the housing market during this period, it was operating on free market principles. As the landlords were leasing land and constructing residential houses to tenants, there was no restriction with regard to the selling and buying of houses.

Before the nationalization of housing, private land owners have constructed rental dwelling houses. At that time rental dwellings have covered more than 60% of the housing stock.

The revolution 1974 has nationalised urban land and extra houses including banks and foreign industries and it became the property of the government. The confiscated houses were endowed for a rent reduction of half of the previous rent price with security of stay in the house as long as the rent is paid and fulfil. These private rental houses were turned over to Kebele administration and most of these houses have accommodated the low income groups but due to lack of maintenance these houses are now dilapidated.

In fact, residential houses are operated with different institutions in Addis Ababa such as Rental Housing Agency, Kebele Administration, the municipality, cooperatives, government offices, non-governmental organizations and individuals<sup>15</sup>. Conflicts between these actors are observed with respect to land use, building regulation and accommodating low income groups. To operate in harmony and with a least conflicts, the role and responsibilities have not yet been defined.

**Figure 4.1 Comparison of existing dwellings with respect to needed dwellings**



Source: Extracted from the report of Land Administration Authority (2004)

As stated by the Land Information Centre of Addis Ababa City Government (2004), the data collected from GIS have shown that houses built before 1975 were about 60000 and from 1975 to 1994 additional 91000 houses were built but there are also houses not possibly identified their construction year. There might be unregistered informal houses or otherwise those who are old tenure which could not provide the complete documents.

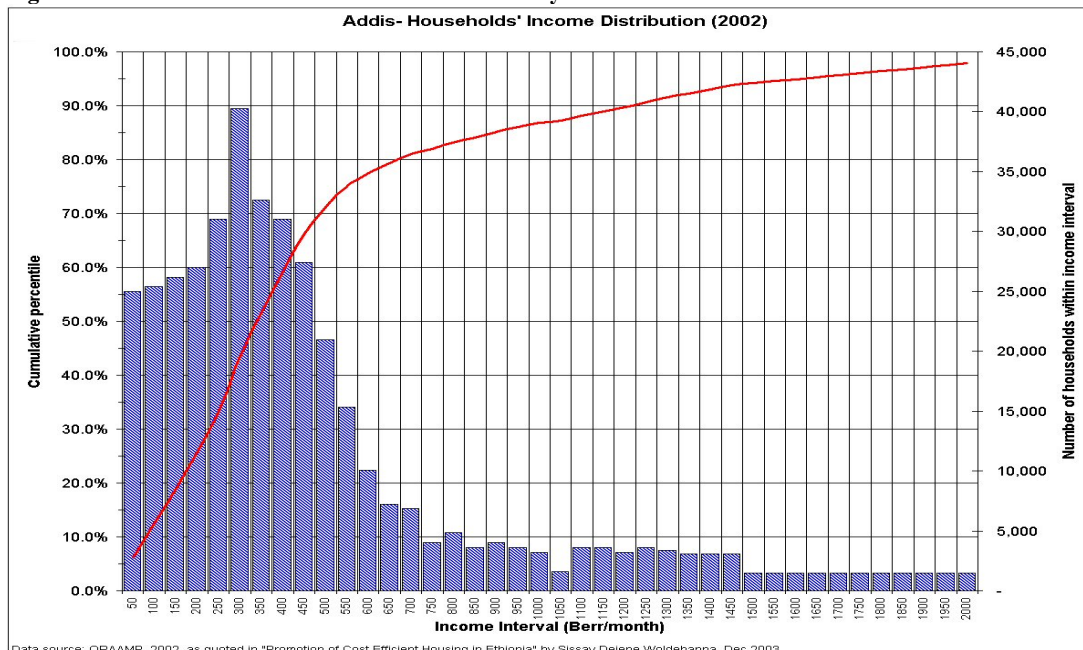
<sup>15</sup> Kebele is referring to the lowest tier of government structure. It is at small district level with a population of 5000.

In the past three decades, it has been observed that the supply of land and housing construction do not correspond to the housing needs. As a result, there is a mismatch in housing need and the alarming population growth of 5.5% per annum of the city brought about squatting at the inner city and/or facing towards acquiring plots through informal parcellation.

During the period of permit hold (between the years 1975 and 1994) also there is insignificant change on housing development in proportion to the urban population growth and demand<sup>16</sup>. The issue mentioned at this point would be where do the people live? More than 40% of the housing in the city are consists of rental houses from Kebele and Rental Housing Agency. Does it imply that the people cannot afford to build their own houses or is it due to lack of serviced land for new development areas? The answer would be yes in both issues, because more than 60% of the city's populations are low income groups so they can not afford to build their own dwellings. So therefore, they have preferred to negotiate in the informal market. According to a study conducted by PADCO (1997), about 90% of the demand for housing has been met by the informal sector.

The main objective of the proclamation no 47/75 was to provide housing for low income groups but the government at that time has utterly failed to deliver its promises. Let alone building new housing unit, the local government was unable to maintain the stock of extra houses that were nationalized from the previous owners. On the report announced by the Addis Ababa city government (2003) has revealed that around 60 percent of the population was living in absolute poverty. The main three income categories in the context of the city have presented in the report, which would be explained as high income for more than 2000birr/month, middle income between 670 to 2000 birr/month and low income for less than 670 birr/month<sup>17</sup>.

**Figure 4.2 Indication of income distribution in the city**



Data source: ORAAMP, 2002, as quoted in "Promotion of Cost Efficient Housing in Ethiopia" by Sissav Dejene Woldehanna, Dec 2003  
 Source: Figure extracted from Alain Bertaud report (2004) : cumulative percentile (2002)

<sup>16</sup> See Annex 1 in the definitions.

<sup>17</sup> 1 Euro is equivalent to about 11 birr

Due to the fact that the land price has escalating every time and has reached beyond the capacity of the large portion of the population, only 10% of the urban dwellers could be involved in building their houses. For instance, in figure 4.2, those who earn more than 1500birr/month or about 135Euro/month have insignificant number and for this reason, policies have to accommodate both low and middle income groups to meet up equity and efficiency in housing development process.

The process of constructing dwelling houses has its own difficulty and bureaucratic bottlenecks. One example could be for a household who has able to build for residential houses have to put a certain amount of money in block account, which will be realized after completing at least 1/3 of the building and getting approval from the local government. Thus, you need to have additional money to cover the first phase of the construction. Then he/she has to borrow the remaining amount and has to pay with the current interest rate for 10 years or above according to the salary they earn and their age. The difficulty at this point would be the 2/3 cost of the construction should be covered by the house builders.

It gives an impression that the pre-requisite for private housing construction is also untouchable especially for low income groups. PADCO's (1997) argument on this situation has indicated that the necessity of housing subsidy. The report has illustrated an example of a household who is willing to allocate 20% of its income to housing, then monthly income would have to be birr 2049 (about 187 Euro). The household survey of 1997 has shown that only 4 percent of the residents in Addis Ababa earn the same amount of money.

During the leasehold period, land for housing development has been provided through auction and draw lottery. The idea behind the lottery system is for the reason that the numbers of applicants are more than that of the land prepared and very importantly it is because of making the process transparent.

The lease proclamation has stated that the contractual arrangement could be varied from 5 to 99 years with respect to the type of developments and the designated of use of land. Short term agreements or temporary arrangements are taking place mostly where the land has not been allocated for a particular purpose and long term arrangements are carried out especially for housing developments. Subsequent to regulation no 80/1993, dwelling houses for letting are recognized and some changes have been observed. For example when we come across to the existing coverage of the private rental houses, it counts about 16.3%. It shows that how the private sector involvement in the housing sector could contribute for tackling housing problems.

**Table 4.1 Land distributed through auction, negotiation and Lottery**

Year	Types of Activities and Area (in hectare)					Total
	Business <sup>18</sup>	Industry <sup>19</sup>	Social service <sup>20</sup>	Apartment/condominium residence <sup>21</sup>	Real Estate <sup>22</sup>	
1994	1.4	11.4	-	-	-	12.8
1995	2.6	5.2	-	-	-	7.8
1996	16.2	23.2	9.0	-	-	48.4
1997	10.9	37.4	77.3	<b>0.3</b>	195.1	321.0
1998	4.4	14.8	4.2	<b>2.8</b>	-	26.2
1999	5.4	29.3	3.2	<b>2.1</b>	35.6	75.6
2000	7.6	8.1	29.7	<b>8.3</b>	-	53.7
2001	4.1	6.6	131.3	<b>4.0</b>	-	146.0
2002	11.1	27.7	26.0	<b>16.2</b>	18.1	99.1
2003	10.04	9.4	22.0	<b>119.9</b>	67.0	228.34
2004	36.19	30.5	-	<b>4.77<sup>23</sup></b>	-	71.46
Total	109.93	203.6	302.7	<b>158.37</b>	315.8	1090.4

Source: Land Administration Authority (2004)

Although real estate development consists of residential buildings and the intention of the developer is to make profit, it has accommodated only the highest income group. One can notice from the table 4.1 that the provision of land for residential function was not constant for the last decade although on the other hand the housing demand has increased progressively in every additional year.

The city has carried out a new approach for housing development. The condominium housing is now highly advocated at present. Although there seems to be some flaws and unclear points in the understanding of the system, the basic principles of opting for this approach were the efficient use of urban land, common or shared facilities to reduce spatial and financial cost, developing common interest and responsibilities and densification of the city.

The term condominium would be defined as one property complex of real estate, more over, some parts of this complex (for example apartments) are privately owned by citizens or legal entities, the rest of a complex (common property) is held in common shared ownership by all homeowners of a complex. Common property includes premises that serve more than one person such as entrance, staircases, corridors, roofs, adjoining land with trees, play grounds, parking and communication, etc.

The previous law did not cover communal ownership of a building coupled with individual ownership of housing units, management and responsibilities of common elements. Therefore the condominium housing needs to be introduced along with the necessary legal backing. Considering the economic status of residents, the idea of condominium has considered both vertical and horizontal growth it means that high and some middle income residents who have the

<sup>18</sup> Land for business is provided through auction

<sup>19</sup> Land for Industrial development is also provided through auction but there are terms which are allowed for tax exemption and other benefits (see report 2004, Land Administration Authority).

<sup>20</sup> In addition to tax exemption for specific period (tax holiday), land for social services is provided through negotiation.

<sup>21</sup> Land for residential buildings especially for apartments are prepared in mass according to the demand and it is offered through lottery.

<sup>22</sup> If the real estate is mainly for residential purpose, it would be settled by negotiation.

<sup>23</sup> The provision of Individual residential plots has converted to condominium housing blocks in the beginning of 2004.



capacity to build their house themselves into apartments of three or more storey are highly encouraged to do. However, the large proportion of the residents within the low-income group cannot afford to build apartments. It could be possible build row units sharing some communal facilities all together. Accommodation of such type of arrangements has also been considered within the condominium law.

**Table 4.2 Households accommodated through condominium**

no	Typology	Number of cooperatives	Number of households	Land allocated (square meter)
1	1 storey	1143	16392	1331827
2	2 storey	70	1332	51060
3	3 storey	155	2656	76360
	Total	1368	20380	1459247

Source: Land Administration Authority (2005)

For instance, 1500 cooperatives were registered of which 1368 cooperatives are acquired land from the city government in the year 2004 since June of 2005. In the previous days prior to condominium regulation land was distributed in individual bases and it may need about double size of land of the above indicated size (taking an average of 140square meter/household). Especial incentives have given particularly for those who are willing to build 3 storey dwelling houses. Therefore we can say that the land distribution policy with regard to housing is working in terms of the use of land but it is not really focused for the low income groups.

## Chapter 5: Utilization of financial resource

### 5.1 Financial institution's reaction to the policy

According to the regulation no 29/2002, there are conditions with regard to advance payment. For instance the indispensable money, which the leaseholder have to cover would be (1) depending the development activities, it has expected to pay the advance payment (between 10 to 20%), and (2) the money for the construction of the project, but more often the money would be finished after they pay the advance (upfront).

The regulation has required developers to convey registered money deposited in a bank. So, there should be tight cooperation with the financial institutions. Consequently, the bank would verify the client's capacity to lend money and will approve for the permission to go for auction. The reality has revealed that the high amount of auction price that offers to acquire the specific land has increased the advance payment. The issue raise at this point would give an idea of distorted price. Though the price has been determined by auction or negotiation, due to the mis-match of the number of plots of land supplied and the demand for those specific plots, the price forwarded are more often overstated.

Figure 5.1: Comparison of market price and benchmark price

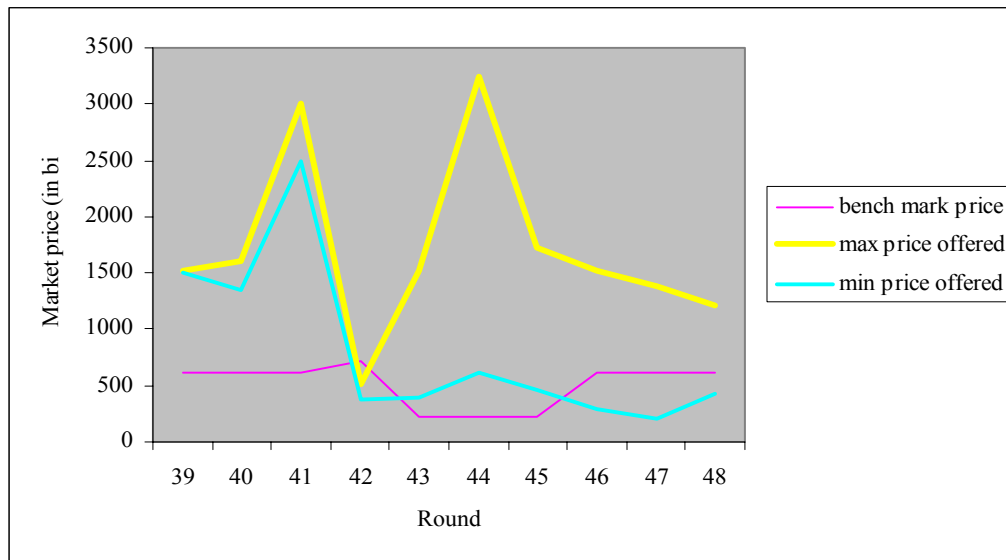


Figure 5.1 has indicated the problem mentioned by the banks seems proper due to the exaggerated price offered through auction. Leasing urban land is directly connected with finance mainly for the city government and for the developer. It could be expressed as the price payable for the right of leasehold, which would be paid on date of registration for the city government and the developers, needs finance to construct their projects.

The Ministry of Federal Affairs has held a meeting with representatives of private and state owned banks. They have indicated their main concern with regard to collateralizing leasehold rights. They have said that they felt insecure to lend money without considering the distorted price and there might occur a big lose while the value of land drops down or moderate as soon as the supply of land is improved. In other words, if a borrower defaults on payment, the bank could not be able to sell the property at the same price they lend.

The other issue that they have mentioned refers to lease period, and they have found it more difficult to collateral shorter (for example 5 years) lease period. They have preferred long term and uniform period for lease holding to minimise the administration costs.

## 5.2 Revenue from land lease

The local government budget gets significant inflows from lease of urban lands, which allows to effectively solving a wide range of development of infrastructure and service demands. The total yearly budget of the city government accounts about 3.5 billion birr (or about 300million Euro), and out of which 30% will be covered from urban land administration including from leasing urban land. However, the table 5.1 shows that only 3% of the plan has been collected.

**Table 5.1: Revenue collected from lease in 2004**

Type of revenue	Revenue collected (in birr)
Ground rent	742,880.00
Annual land rent	4,797,995.51
Registration fee	6,374,565.50
Advance payment (10-20%)	87,844,238.71
Sell of tender document	114,600.00
Other land administration payments <sup>24</sup>	27,457,974.59
Total	127,332,254.39

Source: Land Administration Authority (2004)

Land development is consists of preparation of land, expropriating and paying compensation has revealed the local government running out of budget. The revenue collected from land lease are including administration costs, which consists of yearly land rent, upfront lease payment, and from sale of tender documents.

As table 5.1 shows, the authority has collected 127,332,254.39 birr (about 11,575,660.00 Euro) in 2004 fiscal year from land lease and other administration payments. According to the Article 12 of the proclamation 80/1994, the revenue should be earmarked for financing infrastructure development and low cost housing building programs. The research has found that on top of recovering costs incurred for land development, such an arrangement has allows the prevalence of pro-active planned infrastructure development in the urban areas. Besides it will assist cities to calculate the urbanization cost well in advance of execution.

Frequently in each year about 10,400,000 Euro have to spend on infrastructure and housing but the reality proves that the local government could not meet the regulation. The main reason is, the entire municipal revenue collected by the finance and economic bureau shall pass to the national treasury. Budget will be assigned by the parliament and then the city government allocates the entire budget to every sector as per their plan and program.

A report published by Revenue agency in March, 2005 has indicated the city's revenue plan, which was 4.1 billion Birr (about 370million Euro)<sup>25</sup>. Not only the inefficient fiscal allocation and distribution but also the ineffective collection mechanism is holding down the provision of serviced land in the city.

According to the report 79% of the total revenue is allocated for development projects. Out of

<sup>24</sup> Revenue collected from land administration activities are from land supply, technical services, tax registration fee, professional licenses, justice services, etc

<sup>25</sup> See table no 4

which 36% for housing development, 6% for micro and small enterprises development, 10% for local level development, 17% for infrastructure development, and 2.5% for constructing Kebele centres. The report has also emphasizes the proportion of the collected money and the remaining one, which is only 44% of the plan is collected up to March/2005. It is expected to collect the remaining 56% by the next 3 months<sup>26</sup>.

### 5.3 Provision of serviced land for housing

The city's land development programs have executed by the Land Development Agency, which is involving on developing large hectare of land where there is a possibility to convert agricultural land to urban land. More often the selection of location is preferred on areas nearby the current built-up areas. The city has facing many challenges in its efforts to supply serviced land particularly on the issues of compensation and rehabilitation, surveying and allocating land, providing infrastructure are the major ones<sup>27</sup>.

Figure 5.2 Housing development area around Meri-Luke



The local government has provide infrastructure in this particular site but the quality of the gravel road was in poor condition with out ditch for storm water.

Serviced land is referring to infrastructures including gravel road, electrical and telecommunication installation, and water supply. For instance the local government of Addis Ababa needs to have 23,340,000 birr (around 2,121,818 Euro) to prepare 224ha serviced land but the city government could not allocate more than 40% (if possible) in one fiscal plan to provide serviced land.

---

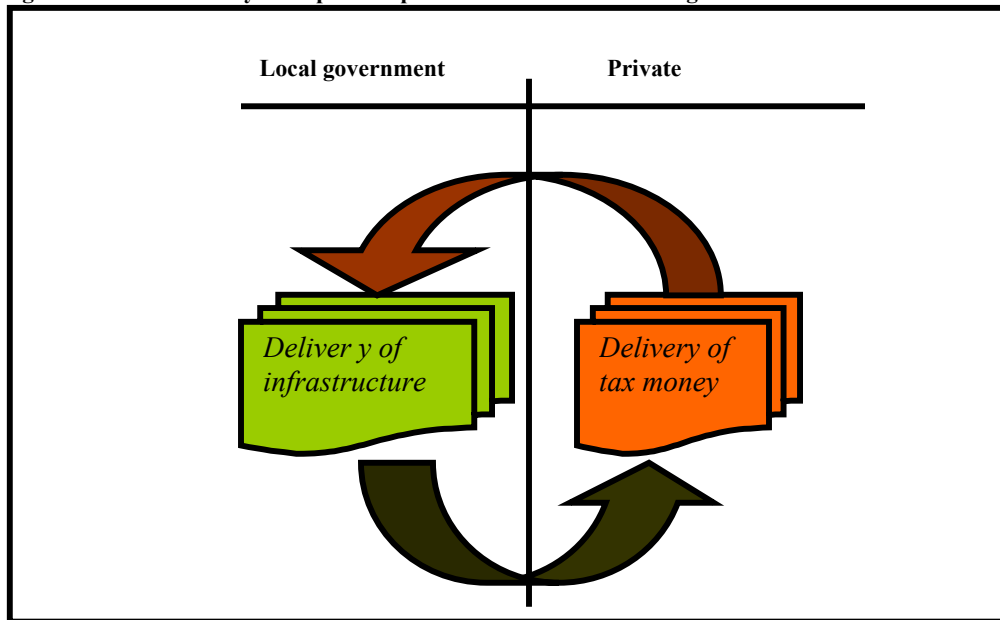
<sup>26</sup> In Ethiopian calendar one fiscal year is referring to 12 months but from July/2004 to June/2005. In this respect March is the 9<sup>th</sup> month of the fiscal year.

<sup>27</sup> In Ethiopia land is constitutional owned by the public, therefore the compensation payment of farm land and grazing land are basically calculated for the loss of the use right. Compensation for the acquired land has caused difficulties for both parties especially from farmers whose farmland has been selected for development. More often appraisals are prepared jointly with the farmer but appeals and resistance have been observed in the previous years.

The concerned authorities have made clearly their limited capacity and problems, for example the water and Sewage authority has revealed that let alone providing additional water supply, the accumulation deficit of 30% will increase to 70% if there is additional demand. Suggestions have come up from particular service providers why the city government could not provide serviced land prior to distribution of urban land. They indicate that the preparation and development of urban land in the expansion or in the inner part of the city requires national and city wide framework, which guide building the financial capacity of the local government. It includes legal, institutional and implementation strategies and modalities to involve the private sector.

The other point they have mentioned is that they have remained to be service provider but they do not collect fees as per the cost of services they rendered. The rates of these services were not revised for a long time. Infrastructure provision requires huge amount of money and long term financial mechanisms. However the financial capacity of the city government is limited. This situation might be happened because of the tax payers have demanded services that the local government could not realize. On the contrary, there is a financial shortage for the reason that the people do not pay their taxes.

**Figure 5.3 The vicious cycle of public - private relation for financing infrastructure**



A question may arise: Which one should come first? The main entry points that break the vicious circle would be the mutual understanding between the local government and the tax payer. It could be achieved by changing the working environment of public institutions.

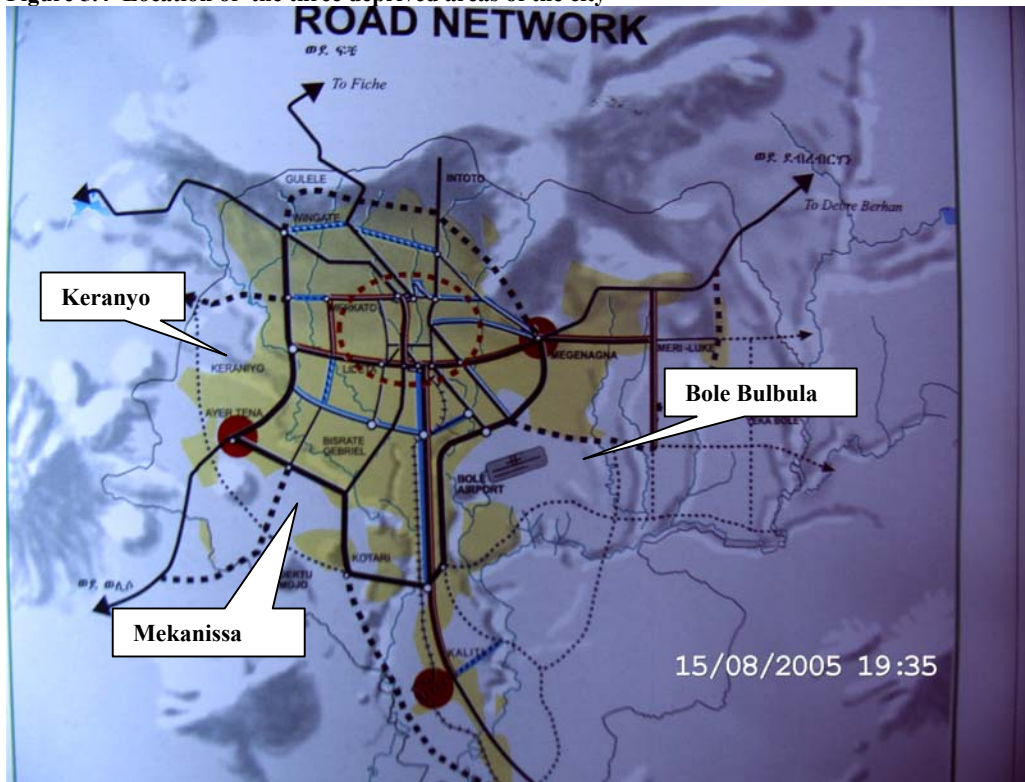
As Bourassa and Hung Hong (ed) 2003, has clearly described the vicious cycle in another events. They have mentioned the reasons how planning and financing influence on urban land lease process. In their statement, if the planning produces obvious benefits for the citizens, the public will be ready to accept which they must pay and also if the municipality is utilize the money to build and maintain infrastructure and services, which ensures better development, then again the citizens will be more ready to pay.

Infrastructure and service provision have solely undertaken by the city government. Evidence has indicated that land for housing construction has often been allocated far away (approximately 10

km) from the nearest service where basic infrastructure is found. Therefore either the dwellers prefer the informal provider with affordable price or they acquire land and wait for infrastructure until the development reaches around their neighbourhood.

For instance, figure 5.4 shows in three particular areas of the city (Keranyo, Bole Bulbula and Mekanissa) there are about 20000 housing units that have not provided with infrastructure for more than 5 years. The houses have been continuing vacant and some of them became deteriorated due to the absence of follow ups and poor construction quality. This situation has made worse the trust of the inhabitants to the local government.

Figure 5.4 Location of the three deprived areas of the city



By and large, the city government could not provide serviced land prior to distributing land due to the narrow tax basis, lack of proper legal empowerment to raise tax rate and the mis-match between the amount of revenue collected and expenditures.

### 5.5 Reducing land speculation

The reason for discussing property taxation is to describe how the existing rate of land rent and building tax has attracted land speculation. Mostly, the issue of speculation has mentioned with relation to high land and housing price but other factors such as high demand and less supply, high preference and least alternatives would also increase the price.

The local government of Addis Ababa has tried to prevent speculation through launching construction regulation in article 17 of the proclamation 29/2002 “finalizing all the ground works of the building or the structure underway”. It pushes a person to whom leasehold of urban land is permitted, must begin to use the land for the prescribed activity or service within the period of time set by the regulation.

There are people who could not begin building their projects even after they have been granted land through auction. Some of them are witnessed when they supply an idle land to market. These kinds of land speculation increase every year but could we say providing partially built houses for market by individuals illegal? The answer would be “yes” due to the regulation and “no” due to the fact that speculators are the main customers who purchase land from the local government. As a matter of fact the sale of land with or without a building over the land is a widespread practice. The owner may have title deed and building permit so it has the legal right to transfer to a third person provided a minimum of the foundation of the building.

Although, to find the exact number of underutilized plots was difficult, out of the underutilized land, it is estimated that about 10% of the newly developed land have only fenced around (sometimes there are small storage inside the plot), about 40% have finalized only the foundation of the main building and 50% suspend the construction. Subsequently, whoever buys or sells the land, the issue would be taking measures to make the land active in the development.

As discussed earlier, the urban land policy has allowed transferring property right to the third party in a condition of at least build foundation of the project according to the permit they acquire. The regulation has mentioned only the commencement of the project not the finalizing date. So some people kept the land with foundation only undeveloped and keep it for a long time.

**Figure 5.5 Construction of building for business**



This building is located along CMC road, which the building permit was for 4 stories building but ended up with one story building. Certainly, after completion the city government might not collect the building tax for the whole (4 storeys) except only for one story building.

One can imagine from figure 5.5 that the amount of money that the city government loses. The other fact is that, the area fails to use the development which ought to have. It shows that the advance payment or the approval of banks could not impede the trends of land speculation.

The city government has observed similar kinds of trends of land occupation, which they have reached to conclusion that those people are either speculating or they are still fantasizing the historical land hold system “rist”. In this situation the city government has lost the money that should supposed to collect for the reason that it has taken in to consideration only the existing

position of the building.

However, there are different mechanisms to use the value of such kinds of developments. Henry George (1890) has suggesting the need for taxes on land value. He has explained the different reasons for not looking at the building it self but the value that has incurred in the surrounding area. `` if there is a tax on buildings, you will have fewer or poorer buildings, which is the same as the building in figure 5.5; tax farm, and you will have fewer farms; and tax capital, there will be less capital; but you may tax and values, there will not be a square inch the less land''. This argument may lead to no one will want merely to own land. So the answer would be yes and the result would be, land will be in the hands of the user and it will become valueless to the speculator who wants simply to hold and not to use.

**Figure 5.6 Building under construction**



This land has given along CMC road to the developer in 2000. According to the permit, the construction should be started within 6months and a maximum of 2 years is allowed to finalize.

This particular building has started construction after 5 years on October 2005, it might be due to absence of infrastructure or the developer may run out of money or the land was kept for speculating purpose. One way or another they have not still started paying the building tax, which indicated that, the city government is losing its money.

Even though the building is finished, allocating a building tax would not be the right decision. Here also there is an argument by Henry George (1890), which described that the building is the production of individual therefore it should not be taxed. He has put some explanation ``we should leave the whole of the value produced by individual exertion to the individual. We should respect the rights of property not to any limited extent, but fully. We should leave to him who produces wealth, to him to whom the title of the producer passed all that wealth. No matter what be its form, it belongs to the individual''. He has said that for the uses of the community we should take the value of land for the same reason. The land belongs to the community because the growth of the community produces it.

## **5.5 Property taxation**

The urban population growth and the change in standard of living stipulate for more and better



services. Before nationalization of urban land, land was privately owned and would be legal and registered in municipalities. On top of transferring fee, property tax was also a source of finance for local governments. Property taxes are generally levied on all types of properties on residential, commercial and industrial. Sometimes land only is taxed.

The proclamation no 80/1976 has decreed to provide urban land rent and urban house tax. In this proclamation the definition of rent has defined as annual rent paid for urban land and tax shall mean tax paid for the house but although it is a revenue sources, due to rate and collection mechanisms of such taxes accounted for only about 4% (2001). The taxes bases of the city government have illustrated in Annex 7 and it demonstrates the plan along with the performance of the revenue from 1997 to 2001. The intention of table in Annex 7 is to indicate the proportion of the revenue collected from property tax with respect to other services taxes.

### 5.5.1 Land rent

The city has divided in three areas for the collecting land rent and building taxation purposes in accordance to their stage of development. Freehold lands occupied by private owners are expected to pay land rent. According to the proclamation no 80/1976, those who occupied freehold land up to 500square meter area shall pay 0.02centes (0.0018 cents Euro) per square meter and above 2001 square meters 0.16centes or 0.014centes per square meters.

The fundamental purpose of property valuation in the city has not established yet. The existing taxation systems is not complicated, it only taking in to consideration the classification (grade) and multiply it by the area of the plot and the building.

**Table 5.2 Rate of rent payable on urban land for dwelling houses**

Area of land (in square meters)	Rate of rent (in birr/square meters/annum)		
	1 <sup>st</sup> grade	2 <sup>nd</sup> grade	3 <sup>rd</sup> grade
Up to 500	Up to 0.06	Up to 0.04	Up to 0.02
501-1000	Up to 0.08	Up to 0.06	Up to 0.04
1001-1500	Up to 0.11	Up to 0.08	Up to 0.05
1501-2000	Up to 0.13	Up to 0.10	Up to 0.07
Above 2001	Up to 0.16	Up to 0.14	Up to 0.12

Source: Finance and Economy Bureau of Addis Ababa City Government (2003)

**Table 5.3 Rate of rent payable on urban land for business**

Area of land	Rate of rent (in birr/square meters/annum)		
	1 <sup>st</sup> grade	2 <sup>nd</sup> grade	3 <sup>rd</sup> grade
Per square meter	Up to 0.06	Up to 0.04	Up to 0.02

Source: Finance and Economy Bureau of Addis Ababa City Government (2003)

Note: Birr refers to Ethiopian currency and the exchange rate of August/2005 was estimated about 1 Euro = 11 birr.

- : Grade refers to classification of different area of the city according to their development stage and proximity to infrastructure and services. For instance 1<sup>st</sup> grade is refers more often to the central business district (CBD), then 2<sup>nd</sup> grade is for the transitional zone and 3<sup>rd</sup> grade represent suburb areas.

One could be aware of the fact that the rate is very low comparing to the lease price in the same location. The location of 1<sup>st</sup> grade covers the central business district, which has a land value of about 1000birr per square meter for 50years, therefore it would be equals to 20birr/square meters/annum (or about 2 Euro/square meters/annum) whereas the rent for freehold occupation in the same area is only 0.06birr/square meters/annum (or 0.005 Euro/square meters/annum).

A low tax on land is not the only phenomenon of Ethiopia, in many countries there is no tax in farm land and in some not even on urban land (Abrams 1964). The following box will illustrate the situation of Manila, Philippines.

**Box 5.1 Low tax on land in Manila**

*In Manila, land is assessed at 30 to 50 percent of value and sometimes even less, and the tax is about 1 percent. Thus the effective tax rate is only 1/3 of 1 percent to 1/2 of 1 percent of value. The owner of land worth \$50000 on which the annual taxes are only \$150 to \$250 need not be in a hurry to develop it. A tract of 148 acres in Angeles, Pampanga had an appraised market value of \$66000 but was assessed at only \$12700 -though it was bought by the government housing agency for \$463000. thus the tax was about \$62, less than 1/10 of 1 percent of value as appraised and 1/14 of 1 percent of the price actually paid. The rising population makes owners feel that they can safely pay the small annual taxes and recoup many times their outlays by holding on for the inevitable price rise.*  
 Source: Charles Abrams (1964)

**5.5.2 Building tax**

Assigning tax for buildings has been estimated by the annual rent value of the building considering the type, quality of the building and more often comparing the nearby private house rent. Accordingly, those their annual rent estimated less than 600birr (55 Euro) shall pay 1%. In other words if the annual rent of the building is 440 birr or 40 Euro, they shall pay 0.04 Cents Euro per year.

**Table 5.4 Rate of urban tax payable on urban house**

Annual building tax (in birr)	Tax amount
Up to 600	Up to 1 %
601-1200	Up to 1.5 %
1201-1800	Up to 2 %
1801 - 2400	Up to 2.5 %
2401 - 3600	Up to 3 %
3601 - 4800	Up to 3.5 %
4801 - 6000	Up to 4 %
Above 6001	Up to 4.5%

Source: Bureau of finance and economy of Addis Ababa city government (2003)

At this point, the amazing part would be the way how the local government appraises the buildings. It could be explained that whether the building has finished according to the building permit or not, the building is going to be appraised. Accordingly, if one has a building permit for a 12 storey building and construct only 2 storeys, the practice shows that the tax would be allocated only for the existing 2 storey building.

**Table no 5.5 Revenue from land and housing for the year 2004/2005**

Type of revenue	2003/2004		2004/2005	
	Plan	performance	Plan	performance
Lease payment	218,000,000	173,569,293	902,240,000	215,523,815
House tax	15,000,000	16,177,119	32,950,000	19,083,331
Land rent	7,762,000	10,160,876	16,648,989	8,330,961

Source: Bureau of finance and economy of Addis Ababa city government (2003)

The above table shows that the city government’s performance of revenue collection is low and varied from 50 to 80%. Only sometimes when there is announcement and pressure from the local government the people would go to pay taxes including back pays.

## Chapter 6: Conclusions and recommendations

### 6.1 Conclusion

There is no clear and universally applicable blue print as to what an appropriate land policy ought to be. This is partly depends on socio-cultural and geographical variables that significantly differ from country to country.

Addis Ababa city is moving from full control over land and housing development to a system strongly influenced by market forces. In fact during this transition it is expected that there will be challenges and opportunities, which would observed through the process. The opportunities would be revealed when potential developers, cooperatives and foreign investors are taking part on the development process but the challenge would to harmonize the market forces, provides affordable housing and land for all segments of the urban population.

The aims of the different proclamations and regulations in general were to distribute land on the basis of equality for all citizens, but due to the fact that institutional and financial shortcomings, it could not even reduce the demand for housing and infrastructure. Despite a lot of similarities in the intentions of the policy, the implementation seems to have gone off track. The aim of the policy and reality on the ground are moving in the opposite direction.

In the city, the institutional capacity is becoming a real impediment to the smooth expedition of the land lease policy. Off course, lot of weakness that the city shares with China, for instance in both countries maximization of revenue out of land rent has been pointed out as the single most important priority. In both countries, land transactions are often brokered via illegal connections with people placed in key positions in the land administration hierarchy. However, despite such similarities China has scored enviable track records in creating vibrant urban land and property markets. Thus to achieve the land lease policy goal and to capture best practices, the research has tried to investigate the real problems, which occurs throughout the implementation processes of land lease policy.

The processes of leasehold system could be evaluated with regard to achieving the objective of the policy. In light of the previous analysis, accomplishing the development of the city would not come to exist with out systemic normative and institutional changes to the general land reform process. Bearing in mind the immense problems, which have encountered in the implementation process, the research has come in to conclusion on the following matters.

#### 6.1.1 Criticism of leasehold tenure

- **Building trust:** In Ethiopian context the freeholder is the state or the city government. So it requires skilled man power to manage the leases. However, there are criticisms on leasehold tenure and inefficiencies on land market; the city government has taking some measures to build trust among the citizen and the authorities but more efforts have to be carried out to promote the notion of lease holding tenure.

The targets and objectives of the lease policy have not come out loud and clear. Its intentions have not been clearly articulated. In a few words, commitment on the part of the implementing agencies is incredibly low or non-existent. The advantages of the policy orientation have not been effectively demonstrated. Speculation has risen high, land prices have increased far beyond its costs of production. As a result, citizens in particular the poor and middle class are unable to compete for auctioned and negotiated. In other words, they are alienated to enjoy the

benefits of the land policy for they are required to a 10-20% deposit in advance to secure any size of residential plots.

There was wide resistance of the public regarding on the concept of lease. Nobody including the policy implementers is unable to clarify for the oppositions because of the concept is new and they do not even understand the rationale behind the lease policy.

The regulations have pointed out different controlling mechanisms, which the city government has to follow during the implementation process. However the conditions are not considered from the users perspective. The consumers normally prefer minimal transaction costs, which are cheaper, few bureaucratic steps to obtain land, secure property rights and title, etc but the regulations could not bring up confidence in the society. It is significant that to create confidence and transparency, the regulation has to put clearly the documents that are provided by local government. In light of the above considerations it would be very important to establish a continuous awareness programs both for the responsible public organizations and the citizen.

- **Who shall own land:** When land ownership has mentioned, we heard more often as if private ownership is the only alternative for improving land and housing market, but experiences has shown that it is not a matter who belongs or owns land. In other words whether state ownership or private ownership, the issue would be about how to handle the land management challenges.

Certainly, one can observe the monopoly character of the state over land in the city, but again whether the private or the state monopolizes land, the impact would be the same. Therefore, bringing together both actors would create competition among the providers and alternatives for the beneficiaries.

### 6.1.2 Performance of efficient land market

- **Land price:** The price formulas to determine the fees charged for land lease devised by the city government are considered the development. In other words, the pricing formula is attempting to scientifically replicate market price indicator. According to Marxist-Leninist theory, because land is owned by the people and managed by the state it has no market value but in mixed market economies land is commercial goods and its value reflects the economic mechanisms.

The lease was initially publicized to finance the local governments. The conventional way of conveying benchmark price set by the local governments is based on the construction and improvements of social and physical infrastructures made by the public. However, because of inadequate record system and valuation methods, the system did not work properly. Applying this method of valuation has pushed up the price of lease very high (sometimes less than the investment) that it has discouraged the developers from holding land by way of lease.

Even though, the methods of land permit and the price of land is determined by auction or negotiation, it practically leads to distorted prices. The high lease price has kept away potential investors from involving in the city's economic development. The city government has only considered the problem on the provision of land for auction and the demand. Land Administration Authority has indicated in the report of assessing the land market during 1995-2003 that only 60% of the land prepared is sold in most tenders. But the reality shows there is always a high demand than supply.

- **Land acquisition:** The nationalization of land certainly corresponds to government's intervention in the market. In deed in countries where land is state owned, it is designed to eliminate the market and replace it with the administrative allocation of land (Farvacque and McAuslan 1992).

Land acquisition in the city has brought uncertainty in the land management process. Land for state owned enterprises and religion institutions were provided using administration channels and in some cases free of charges. If the situation has not reconsidered, it causes price distortion and also large losses of the city government revenue.

The expropriations of farm land to urban use should be accompanied by compensation and other programs. To implement the land acquisition process efficiently, it requires a lot of money which supposed to be recovered from the sale of use right. Therefore, the revenue collected from lease and the money spent for land development process including compensation should be identified clearly to figure out where the achievement or the problem occurs.

- **Land revenue collection:** The local government is expected to collect all types of revenue in areas within the Jurisdiction but when it comes into retaining and expanding their powers are very limited. Thus the more the power is not devolved or decentralized, local authorities are bound to fail to respond ahead of demand.

Although, the revenue from land lease has to re-invest for infrastructure development, one can observe that the required money could not correspond to the allocated one. Furthermore, there should be also a distinguishable account for the revenue collected from lease and other incomes.

- **Provision of serviced land:** In principle the provision of serviced land has getting consideration and reflected in a policy framework. Providing minimum serviced with the basic trunk infrastructure at the beginning would initiate the developers and to inhabitants too. Otherwise, the dwellers have forced to stay at the inner city and the local government losses the money, which they have spent for compensation.
- **Land speculators:** Besides to the city government, land speculators have also provided land for those who have the capacity to buy. Farmers at the expansion area have break up their land in small sizes and sell it to low and middle income groups. Therefore, there is no need wasting time controlling individuals rather the city government has to improve the tax base, tax collection mechanism and tax coverage area. On top of these issues, tax assessors have lacking integrity and accountability. They can be easily corrupted to reduce taxes, which came about to erode the city's tax base.

## 6.2 Recommendations

The departure of the research was to identify the beneficiaries from land lease policy (as the topic indicates), and also it argues neither the local government nor the people have benefited from the policy. It is because the local government could not collect the revenue that is expected from lease and as the same time it could not provide the basic infrastructure and services. In turn the inhabitants would not satisfy with the services provide by the city government, so that, they become reluctant to pay taxes and prove the devotions to help the city government. To strengthen this line of argument, the research has recommended two essential issues.

### 6.2.1 Capturing added value

Many authors have distinguished that one of the factors for increase in land value is through the improvements made by the public. Marxist approaches assume there is no value without state intervention (ed) Golland and Blake (2004). The public provide and improved infrastructure, in turn the government receives revenue from the benefit that have generated through taxation.

Relying on selling lands into lease for successful development would break off one time when economical active land becomes very low or when land sale revenue have reached their peak and have started to decline. Therefore capturing the added value from land and building would be anticipated by the city government.

- **Property Taxation:** Land is a scarce resource. Available land would be dropping each year due to the demographic process and mis-use to the land. Therefore improving the property tax mechanism to capture the added value would be fundamental and it should be related to land value taxation. The city government has entitled to collect revenue mainly from property tax which includes urban land rent and building taxation. But most of these taxes are not subjected to increment for more than 40 years (Galaup et al.1994).

It is obvious that the local government lack instruments to capture the share of the increases in land value. As Ding and Chengri (2004) have described that the share would be driven up by the combined forces of urbanization, public investment in infrastructure and private efforts. Based on this proposition, the local government should capture the increased land value resulting from public investment.

Considering the lack of land value appraiser, the city government shall review the rents every 5 years. Currently, there is a need to develop a value based taxation system, but first there is a need to establish a workable real property registration and information system. Therefore, the process should involve the public at large.

To strengthen the recommendation, the research has supported G. Kitay's (1984) idea of value capturing. He has defined ``value capturing'' as the means by which governments, attempt to recapture increases in the value of land not created by the investment or labour of the landowner. In his illustration, he has indicated the process of the creation of land value.

**Table 6.1 increase in value of land (per square meter)**

\$\$\$	Urban plot	Plot Value		
↑	d <sup>5</sup>	Installation of "fifth" service facility*	Z	The "surplus" value created when service facilities are installed
	d <sup>4</sup>	Installation of "fourth" service		"Surplus" is defined as difference between increase in market value ("D" and actual cost ("N"))
	D	Increase in value from installation of public services (infrastructure)	N	The actual cost of installing service facilities
	d <sup>2</sup>	Installation of "second" service		
	d <sup>1</sup>	Installation of "first" service	Y	The "surplus" created by subdividing, primitive roads, and primitive services.
	C	Increase in value from subdividing; primitive roads; enough primitive services to make plots salable		M
	B	Increase in value from official recognition land is "urbanizable"	X	The increase in value arising from official reclassification from "Agriculture" to "Urban".
	A	Increase in value recognized by market even though land officially still "agricultural"		"The planner's gift"
§	* We assume five services in this diagram. An actual project may have many more (or fewer)			

Source: Michael G. Kitay, Land Acquisition in Developing Countries (Boston: Oelgeschlager, Gunn & Hain, 1984),

The table 6.1 shows the process of land acquisition mainly from rural farm land to urban land but it is also correct in the existing urbanised area. The plot value of an area at the periphery will increase at the time of the area get recognition as urban and then the next big jump of plot value will occur after installation of infrastructure and services. The type of infrastructure and services for instance where the road is asphalted would be higher than the plot value along gravel road or where other services such as market establish near by particular area.

### 6.2.2 Delivery of serviced land and dwelling houses

The government cannot provide land for dwellings and businesses free from payment or high price due to the policy objectives and affordability issues. Although land for business is distributing through lease, the payment is performed by instalment for 20 years. According to Siembieda (1994) cited in Jagemma report (2001), efficiency occurs when enough urban land is available so that all demand for it can be satisfied that all segments of society can obtain urban land that serves an immediate useful purpose.

It is expected that the city has to accommodate about 436000 dwelling houses for the next 10 years. Accordingly, more than 8000 hectare of land has to be prepared. For services and activities such as industry, school and health institutions, additional 12000 hectare of land is required. In order to develop this land, the city government has to look for more than 116 million Birr or 10.5million Euro for compensation and infrastructure provision. It indicates that the property development could achieve good result in the city due to a large potential demand.

- **Condominium dwellings:** As Arnaud (2003) has commented on the draft paper of housing and land policy, authorities should see the two distinctions in relation to formal and informal activities from which they have draw their incomes. Consequently, each part requires specific housing policies in accordance with the economy in which it lives. Therefore, multi-story houses and condominium are not the only solutions and cannot respond to the housing issues of the majority inhabitants.

Under the current condominium regulation, dwelling houses are built through cooperative form which consists of a minimum of 12 persons. It is understandable that high rise buildings or vertical growth is very important to use land economically and relatively inexpensive to provide infrastructure. In this respect the city government has to increase issuing land use right for air space. Bearing in mind that providing land use right for air space is a new concept for the people.

- **Establish financial scheme:** As Kjellson (1996) described the importance of money in the development of property systems (which includes mortgage systems), he found that the main reason for putting resources into property system is access to credit. It is true that a well functioning property system should have a system for secured transactions where land and housing can be used as collateral.

At present very little mortgage and construction finance is available in Ethiopia, it is less than 1 percent of GDP (Bertaud 2004). This is low figure even by the standards of low income countries. The financial institutions (banks) are providing loan for short terms, which have a maximum of 2 years but mortgage and construction finance from government owned bank offer a long term loan for construction. The financial capacity of the bank is small and it is not well designed.

Nevertheless, the financial institutions concern about foreclosure law should work well. One way to encourage financing for housing development would be establishing bonds and involving the private banks. It is clear that our financial institutions do not have funds to provide low interest rates in long term loans. Creating insurance companies, which are ready to accept the risks of the lenders and develop other security markets, would be vital.

Private developers would like to participate for infrastructure development. Partnership with the private and the community would be possible especially for operation and maintenances. However regulations, which would protect both the consumers from unfairly price and the developers from unseen risks, should be in place.

It is needed to look for further studies regarding funding for housing constructions. Countries especially in the transition have funding for housing scheme that is taken from internal and external sources. The internal sources encompasses the national and local budgets which helps to complete unfinished constructions and also housing bonds with maturity periods, housing lottery, personal savings, pension and insurance funds, etc. The external sources of financing includes credits and grants of international financial organizations, foreign investment construction companies that build dwelling houses and rent it out as long-term loans, etc.

On the other hand, as it is revealed by PADCO et.al (1997), 60% of households in the city do not have the capacity to borrow money from bank for dwelling houses at the current interest rate, while 25% of households can borrow only part of the funds needed to construct or buy their dwelling unit. For these reasons affordable housing financial schemes, which the city government should directly involved to subsidies the low income groups. Perhaps the traditional or it could be said the informal credit sources, such as “Iqub<sup>28</sup>” or other means should be linked to a regular lending housing finance system.

---

<sup>28</sup> “Iqub” is refers to a traditional money saving practice in the country.



## References

- Abrams Charles (1964), *"Housing in the modern world"*, London
- Addis Ababa City Administration 2003, *"Urban Housing Policy Framework"*, Addis Ababa.
- Alain Galaup, Tewodros Tigabu and Zewdneh Lakew 1995, *"Urban Land Management, Regularization Policy and Local Development in Africa and Arab States"*, Paper submitted for the seminar and workshop held from march 21-24 1995 in Abidjan, Cote d'ivoire.
- Andrew Golland and Ron Blake (ed.) 2004, *"Housing development", "Theory, Process and Practice"*, London.
- Barlowe Raleigh 1958, *"Land Resource Economics", "The Political Economy of Rural and Urban Land Resource Use"*, Michigan, USA.
- Barrie Needham, 2000, *"One Hundred Years of Public Land Leasing In The Netherlands"* Workshop *"the international experience in leasing public land, 1-2 June 2000"*, Cambridge Massachusetts.
- Bengt Kjellson 1997, *"Mortgage Systems"*, in *"Land Law in Action"*, seminar paper, Land Reform including Land Legislation and Land Registration 16-17 June 1996, Stockholm.
- Bertaud Alain et.al. 2004, *"Improving the Delivery of Urban Land and Housing in Ethiopia"*, the case of Addis Ababa, Addis Ababa.
- Block Walter 1981, *"the benefit of Speculation"*, vol.31, no12 Canada. Available: <http://www.libertyhaven.com/>.
- Brown, H.James and Martim Smolka 1997, *"Capturing Public Value from Public Investment"* in Land Use Taxation, Lincoln Institute, USA.
- C.Bourassa Steven and Yu-Hung Hong (ed) 2003, *"Leasing Public Land" Policy Debates and International Experiences"*, Hong Kong
- Della Thompson 1998 *"Oxford dictionary of Current English"*, Oxford university press Inc, New York.
- Ding, Chengri and Gerrit Knaap 2003, *"Urban Land Policy Reform in China"*, Land Lines Volume 15, Number 2
- Enid Slake (1999), *"Property Taxation"*, World Bank Institution Urban and City Management Program, Washington, DC.
- Farvacque Catherine and McAuslan Patrick, 1990, *"Reforming urban land policies and institutions in developing countries"*, Washington DC USA.
- Fred E.Foldvary 1998, *"Land Speculation: What is it bad for?"*, [Home page of progress report], [online], Available: <http://www.progress.org/> [2005-06-26].

- George Henry 1890, *Justice the Object – Taxation the Means* San Francisco.
- J.B.Cullingworth 1979, *Essays on Housing Policy*, George Allen & Unwin (publishers), London.
- Jan Van Der Linden 1986, *The sites and services Approach Renewed*, *Solution or stopgap to the Third World Housing Shortage?*, Gower publisher.
- Jogan Igor and Patassini Domenico (ed) 1996, *Urban Land Management*, Vinice.
- Land Administration Authority of Addis Ababa City Government 2004, *Implementation of Land Lease and Land Market Assessment: 1994-2003 report*, Addis Ababa.
- Larry S. Bourne 1981, *the geography of housing* Edward Arnold (publisher), London.
- Melaku Anteneh 1993, *Land Allocation Management in Addis Ababa*, BSc. Thesis, Ethiopia Civil Service college, Addis Ababa.
- Milkessa Jagemma 2001, *Evaluation of the effectiveness of the urban land lease policy in Oromia region*, MA, Thesis, Addis Ababa.
- M. Arnaud 2003, *comments about housing and land policy under preparation*, Addis Ababa.
- Negarit Gazeta 1975, *Proclamation number 47 of 1975, Government Ownership of Urban Lands and Extra Houses*, 34<sup>th</sup> year no41 Addis Ababa.
- Negarit Gazeta 1993, *Proclamation number 80, 1993, Urban Land Lease Holding*, the Transitional Government of Ethiopia, Addis Ababa.
- PADCO (1997), *Ethiopia Housing Sector Study*, Addis Ababa
- P. Macey John and Charles Vivian baker (ed) 1978, *housing management*, pitman press, London.
- S. Kiros and M. Abdo 2000, *Material on Property Law*, Ethiopian Civil Service College, Addis Ababa.
- S.Matgema Ashna 1999, *Housing and Land Market in Kathmandu, Nepal*, Cambridge, MA.
- Turner, J.F.C.1982, *who should do what about housing?*, in *Urbanisation in contemporary Latin America*, Chichester.
- T. Fekade 1996, *A Critical Evaluation of Housing Policies in Ethiopia*, in *urban - Regional Development Planning and Implementation*: paper prepared for the workshop held in Nazareth, Ethiopia.

## *Annex 1*

### **Definitions**

“Permit hold” means urban land which have been left in the possession of individuals or organizations in terms of section 11 of Government Ownership of Urban Lands and Extra Houses Proclamation 47 of 1975 which have a right to use over land for an definite period in a similar was freehold but with the exception of vacant land could not sold or transfer to third person.

“Extra houses” According to proclamation no 47 of 1975, the term has referred to those who have more than two dwellings in urban centres.

“Right of leasehold” means a limited real right to occupy, develop and utilize urban land for a period of 60-99 years granted to a person by a state government against payment of certain prescribed amounts;

“City government” means the Addis Ababa city government described in article 49 of the Constitution, or reference to “state government” shall include a reference to a body authorized by a state government to ful-fill duties and obligations in terms of this proclamation;

“Urban area” means the area of jurisdiction of a city government, administrative council, a municipality or other municipal authority established by a state government;

“Urban land” means land situated in an urban area;

“Birr” refers to Ethiopian currency and the exchange rate of August/2005 was 1 Euro correspond to 11 birr.

“Kebele” is referring to the lowest tier of government structure, at district level with a population of 5000.

“Grade of land” shall mean a designated of land based on density of development and availability of services.

## *Annex 2*

### **Questionnaire for Professionals**

*Name:* .....

*Post:* .....

(Personal opinion would be encouraged)

1/ One of the main objective of the proclamation no 47/75 was to provide help to those people who cannot afford to have shelter of their own.

- Do you think that the objectives have been achieved? If yes in what way? If no why?

2/ As Tung-Pi Chen (1990) pointed out, the emerging urban land system in China is not fundamentally different from what is common in the west. What distinguishes between private land ownership and state ownership is their different point of departure, in the west, where land has long been privately owned, the state exerts control by regulation. This has been seen in China where the point of departure is state ownership and similar results are achieved in amore proprietary manner - through the use of leasing contracts.

- How do you feel about lease in these contexts? What about in our country?
- Why do you think people feel that the policy does not work in the country?

3/ For instance, in some developed countries where land is privately owned, the municipalities buy land, develop it and lease it. This in my opinion shows that the freehold and leasehold could go together, so

- What would be the reasons that the dual tenure-ship difficult in our cities/towns?

4/ Article 12 of the proclamation of the lease policy has mentioned that 90% of the revenue collected from the lease payment would spend for building infrastructure, low cost housing etc?

- What is your general view in this area? It could be in terms of practicality, revenue collection mechanism or other concerns and why?

5/ The demand and supply for housing have not got narrowed also since the lease policy has been decreed?

- Do you think that it is because of the policy? If yes, how do you explain the situation? And if no, where do you observe the problems have taking place?

6/ Many countries will not provide land without services. The same issues and complaints were raise by the community?

- Why do you think the municipalities could not provide serviced land prior to distribution?

7/ Improving the financial capacity should be the major concern of the municipalities, one of which is through property taxation?

- Do you think the tariff on land rent/tax is modest? Is it possible to increase property taxation (on land and housing)? How? What would be the people reaction?

8/ every person might speculate when he/she buys or hold some valuable goods, but when it comes to land, the effect would be different and could restrain the development process.

- What kind of mechanisms do you suggest to reduce speculation?

### *Annex 3*

#### **Questionnaires for individual** (for investors/ home builders/ real estate developers)

Name: \_\_\_\_\_  
Occupation \_\_\_\_\_  
Location \_\_\_\_\_  
Project name \_\_\_\_\_  
Capital \_\_\_\_\_  
Building type \_\_\_\_\_  
Lease price \_\_\_\_\_  
Allocate taxation \_\_\_\_\_  
Paid amount \_\_\_\_\_

1. Do you think (or others think) that the lease policy works or will be practical? Why?
2. What kind of measures do you prefer to have, if possible?
3. Which one do you think is better for land development between permit hold and lease hold? Why?
4. What do you think about the lease price (much or less)? Why?
5. What is your category for taxation?
6. Is the tax to much or less? How much do you think is fair?
7. If the project is not finished in accordance to the permit, what happens? And why? When do you plan to finish? (If there are suggestions)
8. Your comment & suggestions on
  - 8.1. land lease policy
  - 8.2 land management issue
  - 8.3 land taxation
  - 8.4 housing development
  - 8.5 Service land development
  - 8.6 Revenue collected mechanism

## Annex 4

### Check lists

<b>Information needed</b>	<b>Source of data</b>	<b>Necessary data</b>	<b>Focus area</b>	<b>contacts</b>
Trends of land ownership	facts, figures and documents	<ul style="list-style-type: none"> <li>● Before 1975:(freehold sys</li> <li>● Between 1975 – 1994: (permit hold)</li> <li>● After 1994: (lease system)</li> </ul>	how land have been allocated, compensated, or acquired, etc. including the numbers	Land adm, & Land devt agencies
The trends of Housing development	facts, figures and documents	<ul style="list-style-type: none"> <li>● Before 1975: (during freehold era )</li> <li>● Between 1975 – 1994: (during permit hold)</li> <li>● After 1994: (during lease)</li> </ul>	how land for housing was provide, distributed, etc including the numbers	Land adm,& Land devt agencies
<i>Policy</i>	<i>Official documents</i>	<i>Existing policies, laws, codes, rules, etc</i>	Especially detail regulations	Land adm, & Land devt agencies
Revenue from land lease	facts, figures and documents	Collected from residential and other activities (1994 - 2005)	The process of benchmarking price	Land adm authority, info center
Users respond with respect to the policy	interviews	opinions	Their reflections about lease	3 Individual investors/ real estate
The try-out of the local government	documents	Regulations to foster	to strengthen the financial capacity, to build up awareness, to provide services, etc	Land adm, & Land devt agencies
Property taxation	Tables, maps, document	property tax assigned, collected and expected	Roof tax & land rent for an area of well serviced area (new developed area, & existing area)	Revenue/ tax or eco / financeOffice/ bureau
Requirement	Regulation, memos, etc	Procedures, process	Expected from the applicant and the time taken to provide for the applicant (municipal side)	Land adm authority
Serviced land	Documents, figures,	<ul style="list-style-type: none"> <li>● The fund obtained for provision of infrastructure,</li> <li>● types of services, average cost/sqm or mt</li> </ul>	Residential areas, other development areas	Land development agency
<b>Problem</b>				
Institutional set-up	organization chart, documents, etc	Land management bodies	-----	Land adm, & Land devt agencies
Escalation of Land price and the growth of speculation	tables, information	Sample indicators of the escalation price with relate to the benchmark price	-----	Land adm. authority
The continuation of dual tenure-ships	document	The problem encountered due to the old tenure and the new lease	-----	Land adm, authority
Financial constraints of local gov't,	Tables	To provide services	-----	Land adm,& devt agencies
Provision of land and housing	Document,	Provision per year, the backlog	-----	Land adm, & devt agencies

## ***Annex 5***

### **The necessary data, information and documents** **(from the city government)**

#### ***1. land distributed for housing before the lease policy***

##### *Data*

- Number of plots/ blocks etc granted/ provided before the lease policy (5 years data)

##### *Information and documents*

- What were the requirements from the applicant side and the process that takes place in the municipality to offer land. (for permit hold and leasehold)

#### ***2. Regarding the revenue collected from land lease,***

##### *Data*

- The amount of money collected from land lease (starting from 1994 up to 2005 - each year, in particular for residential plots, and other businesses, etc)
- If there is a problem separating the revenue collected from lease and other items, it is possible to indicate the proportion and the total amount.

##### *Any information and document regarding*

- Where does the money collected from lease have been kept or deposited? Does it have specific account?
- What are the problems encounter during collection of lease payment
- The procedures and Service delivery for previous land holders (freehold/ permit) and leaseholders - is there a different way of giving services or all are coming up to the same office/ desk. For example the one who pays 20 birr per year (the freehold) and the other may be 10000 birr (for the leasehold).

#### ***3. Serviced land provision for housing construction***

##### *Data*

- The location of the plots where infrastructure and services have been delivered (on map)
- Amount of service provided - kilometres of road (asphalt or gravel), water, electricity, etc - indicating on map
- Amount of expenditure for the provision of infrastructure and services - (from 1994-2005 indicating each year)
- organizational structure assigned for developing and distribution of land
- Future demand (the total land needed and the location where the applicant need and demand - on map)

##### *Any information and document regarding*

- Why the local government/ the city council could not provide service land according to the demand?
- Is there a problem of budget or on collecting money?
- Is it lack of integration with sectoral agencies?
- Is it the institutional set-up and capacity?

#### **4. *The trend of land speculation in the city.***

##### *Data*

- Number of plots which are still vacant (those who have a construction permit but not in a position to construct their buildings yet)
- Number of buildings which have not completed construction due to different reasons (may be the building permission was for 10 story building but they may finish 2 or 3 stories) - I need 3 to 5 pictures of these buildings - the location on map, and the date.
- How much tax would be the local government's expectation from these building and how much is already collected from these properties. (it helps me to demonstrate my argument- it is necessary if it is indicating in tax map)

##### *Documents*

- Any documents on speculation, property tax, land value assessment
- Benchmark price of land lease before auction and the winner price (it helps me to demonstrate the distortion price)
- Could you please find for me any studies conducted about property taxation (may be to increase or identifying problems, etc)

#### **4. *Provision of land for housing***

##### *Information and document*

- The different between land provision for housing construction through auction and other means such as through cooperatives or individual applicants.
- Why is that the gap between the supply and demand could not be narrowed/ reduced?

Any data and document which you think is convenient to my research is very welcomed.

Pictures/ photographs and maps would help me to make clear presentation for my tutor and audience.



## *Annex 6*

### **Bench Mark Price (birr)**

<b>Grade</b>	<b>Price/ sqm</b>		
	<b>CBD</b>	<b>TRZ</b>	<b>SUR</b>
1	1297	796	273
2	1181	719	230
3	1018	622	167
4	835	525	147
5	688	427	-

Abbreviations:

- CBD = Central Business District
- TRZ = Transitional Zone
- SUR = Sub Urban

Note:

- For locations where the road size less than 20 meters, the negotiation price will be 1.7 \* the bench mark price.
- For locations where the road size is more than 20 meters, the negotiation price will be 1.125 \* the bench mark price \* 1.7



*Annex 7*

**Plan and performance of revenue from 1997 to 2001**

code	Item	1997		1998		1999		2000		2001	
		Plan	Performance	Plan	Performance	Plan	Performance	Plan	Performance	Plan	Performance
<b>301</b>	<b>Land rent</b>	<b>6123732</b>	<b>7746894</b>	<b>5277055</b>	<b>3192959</b>	<b>8850620</b>	<b>4023933</b>	<b>11049994</b>	<b>13564250</b>	<b>12851661</b>	<b>6821314</b>
<b>302</b>	<b>Building tax</b>	<b>10853954</b>	<b>11941739</b>	<b>11956218</b>	<b>8632697</b>	<b>18377939</b>	<b>15774597</b>	<b>25598922</b>	<b>19854375</b>	<b>20083334</b>	<b>10992610</b>
305	Sale of cattle	263448	401093	638167	581482	306682	220909	221200	134259	456028	194696
306	Tax back pay	101475	106946	2932	1605	4556	3807	5667	38	-	14349
322	Trade license	22292755	15246015	16475800	16172782	19453698	14852802	14181755	9933254	129754402	10461764
323	Trade name and sign	572950	357890	804442	555589	2035177	12667925	3489776	7044729	4766362	4945111
324	Building permit	-	-	-	-	-	-	-	103	830	9551
331	Penalty from court	45600	3327	61038	177446	30960	4629	35312	1357	900	3809
150	Health tax	-	-	-	-	-	-	-	-	-	-
332	Penalty from workers	-	-	-	-	-	-	-	16	-	-
333	Other penalties	2152311	1375350	1462454	1136047	1298919	1289601	1833463	1122450	2166989	2704026
41/a	Rent of shops	681144	2796545	113217728	92693952	116677054	102036807	110419416	95488713	116560245	99306490
41/b	Rent of Kebele dwelling houses	-	-	10431171	7980791	21381838	13669513	33473427	21076023	27259646	14446556
342	Rent from gallery	344490	25941	22483	54719	162079	213403	256967	164448	283940	191631
343	Rent from space (?)	1182588	5453687	2964902	6461447	5448067	2554043	1972092	2812975	1187456	978844
360	Penalty from social court	-	-	-	-	-	-	-	-	-	-
361	Cleaning service	5604548	3355973	6179506	6301320	4217469	3137427	3883032	2349014	3504034	1866179
362	Technical services	703891	312627	423423	211320	460612	390705	514501	519431	655939	632498
363	Property registration	362118	220682	417222	1376757	1317443	2249072	1261452	1974047	2316872	1853065
364	Insurance	-	2204	-	-	58900	-	-	-	-	-
365	Vaccination and registration of dogs	-	-	-	8000	20097	10941	-	-	-	-
366	Vital statistics	-	40	-	270	-	430	-	-	-	-
368	Car rent (for funeral)	-	20	-	-	-	-	-	-	-	-
369	Cemetery	667	-	22167	7392	-	-	126204	-	-	-
371	Sale of forms	361847	19666	26645	74900	32031	124948	115844	58136	74031	93520
391	Education tax	-	-	-	-	-	-	-	-	-	-
398	miscellaneous	675585	368118	251464	946488	388045	570353	481124	306869	667924	864451
(?)	auctions	-	-	-	341	-	-	140438	45356	39682	43858
	<b>Total</b>	<b>52323103</b>	<b>49734757</b>	<b>170634817</b>	<b>146568304</b>	<b>200522186</b>	<b>173795845</b>	<b>209060586</b>	<b>176469843</b>	<b>205851275</b>	<b>156424322</b>

Source: Addis Ababa city government Finance Bureau (200