



# **Urban infrastructure in Sub-Saharan Africa – harnessing land values, housing and transport**

**Report on Ethiopia Case Study**

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## Table of contents

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<b>1</b>	<b>Executive summary .....</b>	<b>i</b>
<b>2</b>	<b>Introduction and structure of report .....</b>	<b>1</b>
1.1	Method.....	1
1.2	Limitations of research .....	1
<b>3</b>	<b>Introduction to cities in National Context.....</b>	<b>1</b>
1.3	Country information.....	2
1.4	Addis Ababa .....	3
<b>4</b>	<b>Legislation relating to urban land .....</b>	<b>5</b>
<b>5</b>	<b>Institutional context .....</b>	<b>9</b>
1.5	Intergovernmental framework .....	9
1.6	Powers and functions of local government .....	9
1.7	Urban development and land management .....	10
1.8	The arrangement of infrastructure intensive services .....	11
<b>6</b>	<b>Capacity of City and State .....</b>	<b>13</b>
<b>7</b>	<b>Overview of planning process in city.....</b>	<b>14</b>
1.9	Urban Planning Principles and Hierarchies.....	14
1.10	Institutional Setup .....	15
1.11	Planning Capacity .....	15
<b>8</b>	<b>Infrastructure profile for Ethiopian cities.....</b>	<b>16</b>
1.12	Overview of infrastructure development .....	16
1.13	Infrastructure challenges .....	20
<b>9</b>	<b>Infrastructure finance.....</b>	<b>20</b>
1.14	Ethiopian fiscal framework .....	20

1.15	Addis Ababa – overview of City finances .....	22
1.16	Capital finance – all urban infrastructure.....	25
1.17	Summary .....	28
<b>10</b>	<b>Property development framework .....</b>	<b>28</b>
1.18	Tenure arrangements of urban land .....	28
1.19	Valuing urban land .....	29
1.20	Real value of urban land .....	31
1.21	Property developers .....	31
1.22	Financing property.....	32
1.23	Land administration processes in practice.....	32
1.24	Land-based finance .....	33
<b>11</b>	<b>Property development practice .....</b>	<b>33</b>
1.25	Property development examples .....	34
<b>12</b>	<b>Conclusion .....</b>	<b>38</b>
1.26	Are conditions in place for successful land-based finance? .....	38
1.27	How much is this resulting in actual land-based finance? .....	40
<b>13</b>	<b>Reference list .....</b>	<b>41</b>
<b>14</b>	<b>Appendix A – Hawassa and Mekelle.....</b>	<b>44</b>
	Background to cities .....	44
	Institutional context of secondary cities.....	45
	Institutional arrangement of services in Hawassa and Mekelle .....	46
	Capacity of city and state .....	47
	Infrastructure profile: .....	47
	Industrial development in Hawassa – example of private developers .....	48
<b>15</b>	<b>Appendix B – List of interviews .....</b>	<b>49</b>
<b>16</b>	<b>Appendix C – Addis Ababa planning and property development organisational detail .....</b>	<b>51</b>

<b>17</b>	<b>Appendix D – Urban planning process .....</b>	<b>54</b>
<b>18</b>	<b>Appendix E – Revenue lists defining the way revenue is shared between State and local/regional government.....</b>	<b>55</b>

## Table of Figures

Figure 1: Map of Ethiopia and its regions (Source: Ezilon.com) .....	2
Figure 2: City comparison sheet: Cape Town, Harare, Nairobi, Addis Ababa and the Average of 31 Sub-Saharan African Cities .....	5
Figure 3: Institutional map of Addis Ababa.....	11
Figure 4: Intersection of a main arterial road in Addis Ababa and LRT system.....	17
Figure 5: Addis Ababa ring road (unconstructed part in red).....	17
Figure 6: Modal split in Addis Ababa (Fenta, 2014) .....	18
Figure 7: LRT system in Addis Ababa .....	18
Figure 8: LRT route network (Source: Ethiopian Railway Corporation) .....	19
Figure 9: Reppi solid waste disposal site (Source: Tessema, 2010).....	19
Figure 10: Indicative capital finance profile for urban infrastructure serving Addis Ababa .....	26
Figure 11: Land grade classification ("price map") in Hawassa used to determine the base price .....	30
Figure 12: Bid documents being sorted in Hawassa.....	31
Figure 13: Examples of condominium developments.....	34
Figure 14: Housing association developments in Addis Ababa .....	35
Figure 15: An example of a private development carried out by a contractor (in this case a 3 star hotel in Mekelle).....	35
Figure 16: Tsehay Real Estate PLC (Private Limited Company) development in Addis Ababa .....	36
Figure 17: The future vision of Senga Tera during construction phase.....	37
Figure 18: Informal dwellings in an area which has been cleared for redevelopment ..	37
Figure 19: Previous farmland, subdivided by the farmer and then regularised by City Administration.....	38
Figure 20: Cobbled streets in Hawassa .....	48
Figure 21: Organisational structure of MUDHCO.....	53

## Table of Tables

Table 1: Powers and functions of spheres of government.....	9
Table 2: Revenue Lists .....	21
Table 3: Addis Ababa revenue summary – 2014 financial year .....	23

Table 4: Summary of operating expenditure for the City of Addis Ababa .....	24
Table 5: Addis Ababa capital expenditure .....	25
Table 6: Assessment of individual finance mechanisms .....	27
Table 7: List of interviewees .....	49
Table 8: Revenue Lists .....	55

## 1 Executive summary

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This report has been prepared as part of the 'Urban infrastructure in Sub-Saharan Africa – Harnessing land values' project for the UK Government – Department for International Development. It represents an overview of planning, property development and urban infrastructure finance in the City of Addis Ababa in Ethiopia, with some reference to two secondary cities in the country, Hawassa and Mekelle. It is intended as a case study to demonstrate the extent to which land-based financing is taking place and understand the factors which influence successes and failures.

### *Introduction and contextualisation*

Ethiopia has a very low level of urbanisation, approximately 17.4%, and a very high population, approximately 86.6 million people. Urbanisation is occurring at a rapid rate: it is projected that by 2030, 30% of Ethiopians will live in urban areas. The largest of these urban areas is Addis Ababa, currently home to approximately 3.5 million people, with the current rate of population growth of approximately 3.8%, making it one of the fastest urbanising cities in the world.

Addis Ababa is a City-State, within the system of federal government in the country. As such it is given significant powers by the State matched with access to national sources of revenue. This has allowed the City to rapidly increase the social and physical infrastructure of the City. However, the rate at which infrastructure has been provided has not kept pace with demand and the majority of people live in slums: 80% in 2008, according to UN-Habitat.

### *Legislation concerning the land development process*

The military regime (Derg) which took over in 1974, placed all land under the ownership of the State. The land remains under the ownership of the State, but is leased to property owners who then own the assets created on their properties. The Lease Proclamation provides for access to leasehold rights in Ethiopian cities to be obtained in two ways.

**Auction** is the process whereby the land is put to the market, and the highest bidder wins the lease on that parcel of land. **Allocation** is used as a procedure to transfer urban land for the construction of government office buildings, social services, government or self-help housing projects, places of worship, embassies and international organizations with diplomatic agreement with the Ethiopian government as well as manufacturing industries and other projects that have national or regional significance.

### *Institutional context*

There are 5 levels of government in Ethiopia: Federal, the 9 regions, zones, districts (*woredas*) and *Kebeles*. In addition two Chartered Cities are established at the second tier: Addis Ababa and Dire Dawa. Within the regions, cities are established as urban local governments at the third tier. According to the Constitution, the regional authorities and Chartered Cities have the right to self-governance and the Constitution incorporates the devolution of powers to them. For secondary cities their powers are enacted by the regional constitutions, and not the national constitution.

In the case of Addis Ababa the key institutional arrangements are summarised below:

- The City owns the local roads, water and sanitation assets. The operation of these assets is in the hands of separate entities owned by the City: Addis Ababa Roads Authority and the Addis Ababa Water and Sewerage Authority.
- Infrastructure associated with solid waste (landfill sites, for example) and social and public facilities (schools, clinics, sports fields etc.) is owned and operated by the City.
- Electricity is provided by a State-owned entity which has separate assets and operational entities (see below).
- In the case of the new light rail system being completed in the city this is under the responsibility of a national parastatal, the Ethiopian Railways Corporation.

### **Capacity**

A common view expressed by Ethiopian urban development experts is that “there is no shortage of money, there is just a shortage of implementation capacity.” This lack of implementation capacity leads to a constrained supply of land, which in turn pushes up the price of land. However, there is a major drive to improve tertiary education of urban development professionals with, for example, 300 graduates qualified by the Ethiopian Civil Service University annually.

### **Planning process**

There are two main planning processes which occur within the city, the creation of the city wide master plan, and the creation of the local development plans at the sub-city level. Both are informed by the national urban development scheme. The local development plans are the implementation plans of the master plan with considerable effort placed into developing them and using them to guide local development initiatives.

### **Infrastructure profile**

As stated, the access to infrastructure in Ethiopia is improving, but there are still significant areas of concern. As indicated in the table below there is a fairly high degree of access to water supply and electricity access but neither of these services is fully functional, with insufficient bulk water and electricity available.

Service	% households with access to infrastructure	Availability of bulk service	% of time service is available, on average
<b>Water supply</b>	“Almost 100%”	67%	Water access is rotated, depends on location in city
<b>Sanitation</b>	90% (see note)		
<b>Sewered</b>	3% - 4%		
<b>Electricity</b>	94%	No data available	There are electricity outages common in various parts of the city but no data found to quantify this

Note: The basis for this high level access, mainly to non-sewered sanitation, is not clear.

The infrastructure backlogs are most serious in the case of sanitation with a low level of access to sewered sanitation and the 'on site' sanitation, upon which most people rely, being in a poor state. In the case of roads and public transport large projects have been completed or are in progress to build a ring road, major radial distribution roads and the light rail system. The condition of lower level roads is variable, poor in some cases.

### ***City finances***

Addis Ababa has a progressive tax sharing arrangement with the State, which has allowed it to increase its revenues from US\$50 million in 2003 to above US\$900 million in 2014 with 68% of this revenue coming from VAT, income tax and tax on enterprises. Revenue from land-based financing in the form of sale of leases only contributed 6% to Addis Ababa's revenue in the 2014 financial year, but contributes approximately 20% when based on an accrual accounting system. Property tax revenue is small as the City does not have a functional system for valuing property and taxing it, although this is being addressed.

With regard to expenditure, 61% of revenue was spent on capital works in 2014 which is unusually high in relation to other Sub-Saharan African cities (Nairobi is at 10% and Harare at about 1%). That said, it is not high enough to keep pace with what is required to provide adequate services to all in the city.

### ***Infrastructure finance more broadly***

In addition to the expenditure of the City's budget as indicated above, water, sanitation and roads infrastructure is funded through borrowing by the City's parastatal entities. The scale of borrowing and the extent to which this has been guaranteed by the State has not been ascertained but there are concerns about the potential risk to City if it is unable to service its share of the debt servicing in the future. In the case of electricity infrastructure this is financed by Ethiopian Electric Power, the national parastatal, with no information located on how this finance is raised. The light rail system is financed by a Chinese loan, guaranteed by the State.

### ***Property development framework***

In the case of property development in Addis Ababa, for commercial and high income households this is undertaken by private developers or property owners who acquire land through auction (although it is likely that some high income households also gain access to land through the lease allocation process). Industrial property developments benefit from subsidised land in that they get it through the allocation process.

The majority of property developments in the City are for middle to high income households, although there is an estimated waiting list of 900 000 low income households. Land is made available by the City through the allocation process. Housing delivery is dominated by the City's public housing programme, providing 90% of housing units with a rate of delivery in the 2014 year of 50,000 units. Housing cooperatives (7%) and private sector developers/contractors (3%) are other contributors.

In making land available for property development the City has a land re-development scheme for inner city areas which require the relocation of people who have lived in these area historically. Managing this relocation process, with associated compensation for the value of buildings only, has been a long and



complex process and has been the bottleneck of the land redevelopment process. In the 'expansion' areas on the periphery of the city rural land is being given urban rights by the City but this process has also been slow with compensation for farmers being an issue.

With a high level of pent-up demand for property and the limitations of making it available under the land lease process the net effect is that auction prices are very high, on the one hand, and too little housing is made available for the poor, on the other, hence the high incidence of slum dwelling mentioned above.

### ***Land-based financing***

The land lease system in Ethiopia is the primary land-based financing mechanism. A high degree of emphasis has been placed on it by City and State and it has received considerable publicity. As 90% of the revenue raised through this process is allocated to infrastructure investment it remains an important contributor in making resources available for investment, representing 6% of total revenue and 9% of infrastructure finance off the City's budget. However, there have been concerns that the land lease system is not releasing land fast enough and that more revenue could be raised if the process was better administered. One area of concern is over the setting of the price for land which is 'allocated', rather than auctioned, and the extent to which allocated land is targeted at the poor and at civil society organisations.

There is also a small number of incidences of 'in kind' contributions of infrastructure by property developers.

### ***Conclusion***

The land lease system in Ethiopia remains an important example of land-based financing. It benefits from having a fairly effective City, backed by the State, and from a tightly controlled property development process. However, it does have its shortcomings, as noted above. Further, this type of land-based financing has limited application in other counties in Sub-Saharan Africa as it requires that the land is owned by the State and that State and City have a high degree of control over the way the land is allocated for lease. In addition, the land lease system has not been able to cope with the demand for property and provide significant enough finance for providing infrastructure for the poor. Fortunately Addis Ababa has access to other sources of finance, notably from the tax sharing system and borrowing which are enabling the rapid provision of infrastructure, albeit at a rate which is not rapid enough.

## **2 Introduction and structure of report**

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This report is submitted to the Department for International Development (DfID) by the African Centre for Cities as a draft report as part of the Implementation Phase of the 'Harnessing land values' project for the UK Government – Department for International Development. The project includes three country case studies aimed at getting an understanding of the experience in particular contexts of the issues associated with land-based finance which will serve to inform the overall findings and recommendations from this study. The other two case study countries are Kenya and Zimbabwe.

### **1.1 Method**

This report is based on research conducted between January 2015 and July 2015. The research team included a local consultant based in Ethiopia and two members of the Cape Town based research team attached to the African Centre for Cities.

The research was undertaken on three cities: Addis Ababa, the primary city in the country and Hawassa and Mekelle, both secondary cities. However, the majority of the effort was focussed on Addis Ababa and hence the main body of the report deals with Addis Ababa, with information pertaining to the two secondary cities is contained in Appendix A. The research process entailed a review of the existing literature on infrastructure finance and planning, including a review of existing policies, consultancy documents, government reports, and statistics. This was complemented with interviews undertaken by the research team over a period of 6 days in Addis Ababa, and two days each in Hawassa and Mekelle. Over twenty semi-structured interviews were held with officials, developers, funders and academics (a full list can be found in Appendix B).

### **1.2 Limitations of research**

There are a number of limitations which arise in research of this nature. First, the limitations of the data should be highlighted. Data on African cities, when collected, tends not to capture the complexity of urban reality. Any data used in this document likely has these, and other, limitations. Second, interview material is generally subjective. Where possible, the researchers sought to 'double check' the claims made by interviewees. However, it was not always possible. Third, because of the limited timeframes and broad topic, this research document should be seen as a cursory, though well informed, exploration of the issues associated with land-based finance in Ethiopia. Furthermore, it is notable that the emphasis has been placed on what is happening in specific cities. It is possible to use this research to gain an understanding of the Ethiopian urban context more generally but this was not the primary intention of the research.

## **3 Introduction to cities in National Context**

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Addis Ababa is the capital city, by far the largest urban centre and the economic hub of the country; Mekelle (also spelt Makale), is the political, economic and cultural hub of the north; and Hawassa (also spelt Awassa) is the capital of the Southern Nations, Nationalities, and Peoples' Region.



**Figure 1: Map of Ethiopia and its regions (Source: Ezilon.com)**

### 1.3 Country information

With an official population figure of 86.6 million people, Ethiopia ranks the 14<sup>th</sup> most populated country in the world. Only 15.1 million people, or 17.4%, of the country's total population live in urban areas. The rate of urbanisation is increasing: Ethiopia's urban population has doubled over the past 35 years, from 8.5 per cent in 1967 to 17.4 % in 2012. It is projected that by 2030 approximately 30% Ethiopians will live in urban areas.

The political history of Ethiopia is dominated by highly centralized rule until the transition into decentralised governance in 1991. While the Ethiopian constitution and its federalist orientation gave the 11 Regions of the country the right to self-administration, it does not mention cities except for the Charter City status it grants to Addis Ababa and Dire Dawa. Nevertheless the city proclamations enacted by the Regional states made the establishment of local urban governments possible with increased financial and administrative autonomy. As per these regional city proclamations, urban local governments are primarily accountable to their city councils. Regional governments however exert considerable influence and control in local affairs of cities.

Ethiopian cities, having a relatively short history of existence and very little experience of self-government, are confronted with enormous governance and service delivery challenges that accompany their rapid population growth. Undeveloped local governance systems, lack of resources to finance social and infrastructure-intensive services and shortage of skilled urban workforce are among the numerous challenges. Despite these challenges the country saw huge social, economic and political growth potential in urbanisation and thus developed and launched a comprehensive urban development strategy championed by the Ministry of Urban Development Housing and Construction (MUDHCo), Regional Governments and Cities. A number of policy and legal frameworks were instituted to support

urbanisation accompanied with considerable amounts of resource invested in strengthening local urban governance and service delivery. Capacity Building for Decentralised Service Delivery (CBDSD), the Public Sector Capacity Building Programme (PSCAP), and the Urban Local Government Development Programme (ULGDP) are some of the large scale interventions in urban development in Ethiopia. These interventions resulted in remarkable improvements in the main urban centres of the country.

Cities are given a pivotal role in reaching the ambitious development goal of the government to achieve middle-income country status by 2023, primarily through transformation from an agricultural led economy to an industrial society. Currently, Ethiopian urban centres contribute an estimated 55 – 60% of GDP (van Dijk & Fransen, 2008).

Urbanisation in Sub-Saharan African cities is often associated with an increasing level of informality, but Ethiopia has also been able to develop its formal economy, with 39% of GDP, registered as 'formal', close to the Sub-Saharan African average (IMF, 2013). Informality remains a characteristic of housing provision, with informal housing in Addis Ababa, for example, accounting for 34.1% of the total housing supply between 1996 and 2003 (UN-Habitat, 2011).

#### **1.4 Addis Ababa**

Addis Ababa, the capital of Ethiopia, is home to 3.5 million people representing nearly a quarter of the entire urban population of the country. The 2007 population and housing census estimated the annual growth rate of Addis Ababa at 3.8% per annum, making it one of the fastest urbanising cities of the world. The city has a diverse population, accommodating people from all of the 80 nationalities of the country. Further, through hosting international agencies, such as the African Union and the Economic Commission for Africa, as well as offices of a long list of bilateral, multilateral and international organisations, the city is often referred as the diplomatic capital of Africa.

Addis Ababa is granted the right to self-rule by the constitution of the Federal Democratic Republic of Ethiopia. The city charter elaborates the power and duties of the City Government as well as its governance and administrative structures. The elected city council is the highest legislative body of the City Government. The council appoints a mayor who is the Chief Executive Officer. The city also has a city manager responsible for municipal services and accountable to the mayor. The executive branch of the city is organised in 14 sector bureaus and six other executive organs. All sector offices have branch offices in all the 10 administrative divisions of the city that are known as sub-cities. The sub-cities are responsible for a wide range of service delivery functions implemented with annual budget transfer from the city.

The last two decades saw significant improvements in the social and physical infrastructure development of Addis Ababa, however the city is confronted with severe challenges in meeting the needs and demands of its citizens. The urban profile study of Addis Ababa conducted by the UN-Habitat in 2008, reported that 80% of Addis Ababa's settlements are considered slums. Inner city areas are predominantly unplanned settlements characterised by dilapidated houses, worn-out roads and inadequate access to potable water and adequate sanitation. Lack of legal access to land is a major factor for housing a rapidly growing population.

The city does not have a single dominant Central Business District and is characterised by several commercial hubs accommodating formal and informal business. These hubs are the focus of redevelopment programmes. The Addis Ababa City Government has embarked on 14 inner city redevelopment programmes to transform informal and unplanned settlements into high density mixed use hubs. Most of these programmes involve the relocation of residents who currently reside on the redevelopment land. At the same time a number of new city centres have flourished in different parts of the city following the provision of road infrastructure.

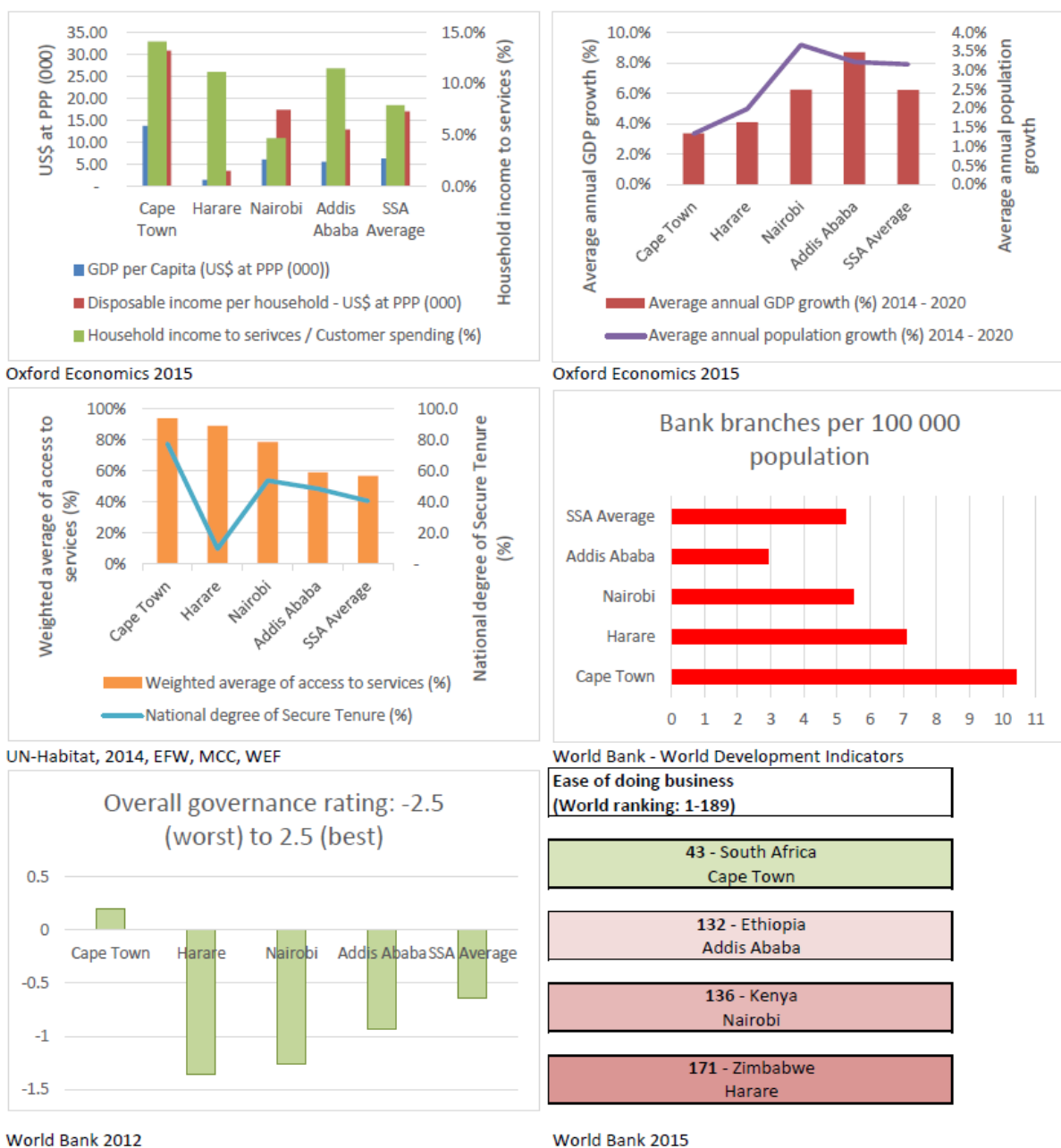
The provision of housing, particularly for low and middle income people, is dominated by the City's housing programme which is geared towards various forms of condominium housing targeting middle and low income families. But, despite the nearly 100 000 housing units having been built and transferred under this programme, and another 50 000 under construction currently, the housing backlog of the city is estimated at 900 000 households. The programme includes the facilitation of long-term mortgage made available by the national bank. Even at a highly subsidised interest rate these housing schemes are largely unaffordable to the poorest members of the society, who represent more than 36% of the city's population. The situation is exacerbated by the scarce supply of land resulting in escalated house prices (UN-Habitat, 2007).

In the past two decades Addis Ababa exhibited rapid economic growth. Trade, manufacturing, transport and the hospitality industry are the main economic activities of the city. The last twenty years also marked a boom in the construction industry, making this sector one of the main employers today. In addition to construction projects undertaken by the private sector, the government led integrated housing development programme and other bulk infrastructure development programmes created a large number of construction.

Strong economic growth, backed by innovative tax sharing arrangements applied by the State, and other new sources of revenue, have seen the City's annual revenue increase from US\$50 million in 2005 to US\$900 million in 2014. Land lease income represents approximately 6% of the total revenue. The tax sharing arrangement represents a transfer of national revenue which differs from other urban local governments. Addis Ababa does not receive an annual block grant from the Federal government. However it has a relatively strong revenue power whereby the city collects business and income taxes from sole proprietorship businesses located in its jurisdiction as well as a portion of direct taxes (turnover tax and VAT) collected in the city.

Addis Ababa is a city in transition. The phrase 'skyscrapers rising out of the mud houses' is representative of this transition. Booming economic growth and construction of massive infrastructure expansion projects are the new features of the city. The city however, still has to deal with a significant housing and infrastructure backlog.

In order to put Addis Ababa into a Sub-Saharan Africa context, the following page includes a series of statistics for four cities, Addis Ababa, Nairobi, Harare and Cape Town, and the average for the 31 largest Sub-Saharan African cities.



**Figure 2: City comparison sheet: Cape Town, Harare, Nairobi, Addis Ababa and the Average of 31 Sub-Saharan African Cities**

## 4 Legislation relating to urban land

### Background

Until the advent of the military (Derg) regime in 1974, all land in Ethiopia was privately owned. The military regime transferred all ownership of land to government through Government Ownership of Urban Lands and Extra Urban Houses Proclamation no. 47 of 1975. In addition to enforcing the popular "land to

the tiller” slogan the proclamation also nationalized extra urban houses. People who did not have a house and wished to construct one were allowed to get a plot of land up to 500m<sup>2</sup>, free of charge. The government also launched construction of rental housing program to provide housing to the lower income group of the community at an affordable price.

The military regime was overthrown by the Ethiopian People’s Revolutionary Democratic Front (EPRDF) in 1991. This led to a review of the land tenure system with an emphasis on leasehold rights, although all land remained public/government property. The new government introduced an urban land tenure system exclusively based on leasehold<sup>1</sup>, which was introduced by the urban land Lease Proclamation enacted in 1993. The Lease Proclamation was revised 2002 and once again in 2011.

### ***The constitution of the Federal Democratic Republic of Ethiopia***

Article 40/3 of the Ethiopia constitution states that “The right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the people of Ethiopia. Land is a common property of the nations, nationalities and people of Ethiopia and shall not be subject to sale or to other means of transfer”. The constitution makes provision for acquiring land for development or investment on payment basis and the right to own, develop or transact property built on land by own capital. There is thus a distinction in Ethiopia between land, which is state-owned, and ‘property’, which includes buildings and which can be privately held. The constitution gives power to the government to expropriate private property in the public interest by paying compensation commensurate to the value of the expropriated property. The constitution also gives a broad mandate to the regional states to administer land and the use of other natural resources within their boundaries, in accordance with the governing federal laws.

### ***The devolution of responsibility to local government***

Ethiopia has had a difficult political history, and the principles of decentralised governance have only been evident since 1991 (Ayele, 2008). The current constitution provides for a decentralised governance system, in the interests of aiding democratic governance and ensuring better public participation. The constitution states that local government should be democratically elected, functionally competent and self-administered. They should be empowered to collect their own revenue.

There are 5 administrative levels in Ethiopia: Federal, the 9 regions, zones, districts (*woredas*) and *Kebeles*. According to the Constitution, the regional authorities have the right to self-governance. It grants the regions the power to establish institutions of government within its territory, and they are mandated to transfer ‘adequate’ power to this lower level of government. Due to this, each region has devolved different responsibilities to their respective local authorities. Major devolutions occurred in 2001 from the Amhara, Tigray, Oromia and Southern

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<sup>1</sup> However, there is a small proportion of properties which retain freehold rights, a relic associated with older laws.



Nations Nationalities and People (SNNP) regions. These regions (which contain the secondary case study cities of Hawassa and Mekelle) have established *woreda* and *Kebele* administrations. The *woredas* are the more important of the local government authorities, while the *Kebeles* are the implementing agents (Ayele, 2008).

### **The Lease Proclamation**

As noted above, leasehold is the fundamental urban land-holding system in Ethiopia. The urban land Lease Proclamation No. 721/2011 stipulated that all land in urban areas was henceforth transferred in to a lease system. This included plots acquired previous to the implementation of the leasehold system in 1993 (which are commonly referred as “old possessions” or “freehold”).

Urban land in Ethiopia can be transferred through auction or allocation. In both cases the land to be transferred should be free from claim and should have access to basic infrastructure. The auction and allocation procedures are described in the Lease Proclamation. When land is put out **for auction** the bidders are required to provide a payment guarantee which shall not be less than 5% of the total benchmark price of the plot. The price offered per square metre of land and the amount of the advance payment are the basic criteria to identify who wins the auction. Some cities include additional criteria such as payment completion period in order to increase their capital budget. **Allocation** is used as a procedure to transfer urban land for the construction of government office buildings, social services, government or self-help housing projects, places of worship, embassies and international organizations with diplomatic agreements with the Ethiopian government as well as manufacturing industries and other projects that have national or regional significance. Such projects should be referred to the regional cabinet by the regional president or the mayor of the city.

In the case of allocations, the benchmark price of lease is determined by a ‘price map’ prepared by the city and revised at least every two years (see Figure 11 for an example of the Hawassa ‘price map’). The benchmark price shall not be below the development cost of the land. The proclamation states the maximum lease period for different kind of uses. The lease period varies from 99 years for residence and social services to 5 years for short term social and commercial enterprises in areas that are not designated for immediate development. The lease period may be renewed before its expiry on the basis of the prevailing benchmark price and other requirements. However the lessee is not entitled for compensation in cases where the lease period could not be renewed. A lease agreement can be terminated if;

1. The lessee does not use the land according to the lease agreement,
2. If it is decided that the land should be used for another purpose in the public interest
3. If the lease period is not renewed in a timely manner according to procedures specified in the law.

The Lease Proclamation requires that 90% of revenue obtained from urban land lease must be invested in infrastructure development or low cost housing delivery. However this is not happening in practice in many cities of the country as lease revenue is often used to finance social services and other city expenditures.



### ***The Urban Planning Proclamation No. 574/2008***

The Urban Planning Proclamation is one of the main legal frameworks applicable to land use and spatial planning. This proclamation establishes the key planning principles applicable in urban planning and the hierarchy of urban plans. Four levels of urban plans are identified by the planning law. These are national urban development schemes, regional urban development plans, city wide structural plans and local development plans (LDP). The level of detail increases as the plan descends down the planning hierarchy. The MUDHCo prepared and launched the first national urban development scheme in 2014. Regional urban development plans are non-existent in most regions or they are integrated as part of the development plan of the region.

Urban local governments are given the mandate to prepare, approve, implement and revise the city wide structural plan and local development plans. The proclamation gives regional and federal authorities the power to interfere in the planning process of the city when deemed necessary, but also gives the plans the protection of the regional government should there be any developments which occur outside of the city's development plan. The planning law makes provision for urban local governments to expropriate urban land for development purposes on condition that compensation is paid.

### ***Expropriation of Landholdings***

Expropriation is covered under the Expropriation for Public Purposes and Payment of Compensation Proclamation No. 455/2005. This proclamation grants local urban government the power to expropriate privately occupied urban or rural land to pursue development works of the city carried out by public entities, private investors, cooperative societies as well as regional or federal government bodies. In addition to freehold properties, this proclamation provides for expropriation of lease holdings. This has been a point of debate when it comes to tenure security of citizens even when the tenure is acquired legally in line with the Lease Proclamation. Similarly the conditions of expropriation are often referred to as harsh due to the short period of notice (30 – 90 days), the compensation calculation, which does not take into consideration the value increment of property in relation to its location, losses of income due to change of business location as well as the appeals procedure that requires the affected party to give up the land to the City Administration while the appeal process is followed.

An expropriated landholder is entitled to compensation for the assets situated on the land (building, crops, perennial plants etc.) as well as permanent improvements made on the land. In the case of households occupying expropriated urban land the dispossessed household is entitled to a substitute plot of land on which to build a new residence and a displacement compensation equivalent to one year of rent for a comparable house. The same applies to business buildings. The proclamation states that the compensation for dwelling houses shall not in any way be less than the current cost of constructing a single room low cost house in accordance with the standards set by the regional government.

A rural landholder whose landholding has been permanently expropriated must be paid displacement compensation which is equivalent to ten times the average annual income he or she secured during the five years preceding the expropriation. This regulation is currently under revision to address some of the ambiguous issues and inconsistencies experienced during implementation.

## 5 Institutional context

### 1.5 Intergovernmental framework

Due to its status as a charter city, Addis Ababa's institutional setup and line of accountability is slightly different to other cities. The Addis Ababa City Government is directly accountable to the Ministry of Federal Affairs, which represents the federal government, while other cities are accountable to their respective regional governments. Addis Ababa on the other hand is not under any regional authority. As noted above, it does not receive financial support in a form of annual block grant but benefits from the revenue sharing arrangement with the federal government and though support for financing large scale infrastructure development such as the ring-road and the light rail project.

The relationship between the Federal Government and Addis Ababa is defined in the Addis Ababa City Charter which states that the City Government is a component of the Federal Government and thus shall be accountable to the Federal Government concerning security, diplomatic relations, policies, laws and standards. Further the Federal Government, acting through the Ministry of Federal Affairs, has the obligation to monitor the performance of the City Government and to support the capacity-building undertakings of the City.

Since Addis Ababa is geographically located within the boundary of Oromia Region, the Charter also determines that the interest of the Oromia Region shall be respected in all matters concerning the relationship of the City with Oromia Region<sup>2</sup>. This is particularly important concerning land and land related issues since Addis Ababa is surrounded by the so called "Oromia special *woredas*". The latest Addis Ababa Master Plan called for an integrated planning between Addis Ababa and these special Woredas. The Master Plan has particular provisions relating to nature of the relationship between the City and the Oromia Region but this is a sensitive matter due to the diverse interests of different political groups. This tense situation resulted in conflict when the draft Master Plan was made public in 2012.

### 1.6 Powers and functions of local government

The sharing of functions between Federal Government, regions and cities are structured as follows:

**Table 1: Powers and functions of spheres of government**

	Federal government	Regions	Urban local governments	
	-	-	State function	Municipal function
Currency and banking policy	X			
Defence and foreign policy	X			

<sup>2</sup> The charter left out the details of the agreements between the City and the Oromia region, which has led to numerous disagreements

	<b>Federal government</b>	<b>Regions</b>	<b>Urban local governments</b>	
	<b>-</b>	<b>-</b>	<b>State function</b>	<b>Municipal function</b>
<b>Immigration</b>	<b>X</b>			
<b>Electricity</b>	<b>X</b>			
<b>Justice</b>	<b>X</b>			
<b>Universities</b>	<b>X</b>	<b>X</b>		
<b>General public transportation</b>	<b>X</b>	<b>X</b>		
<b>Health care</b>			<b>X</b>	
<b>Primary &amp; secondary education</b>			<b>X</b>	
<b>Police</b>		<b>X</b>	<b>X</b>	
<b>Waste management</b>				<b>X</b>
<b>Local roads</b>				<b>X</b>
<b>Water and sanitation</b>				
<b>* Capital expenditures</b>		<b>X</b>		
<b>* Current expenditures</b>				<b>X</b>

The above table illustrates that there are state functions which fall under the authority of local governments. These functions are paid for directly by the state, but the planning and provision of these services or functions is the mandate of the local authority.

Regions and Charter Cities are mandated to develop their own constitutions and regulations regarding lower levels of government and also design the powers and functions which are given to these lower levels: *Woredas* and *Kebeles*.

## 1.7 Urban development and land management

The institutional arrangement for the development, provision and management of land is very similar in all cities including Addis Ababa. The City has 14 sector offices accountable to the Mayor. The City Manager's office is one of these entities responsible for the planning and execution of municipal services. The Land Management and Development Bureau is located within this entity and is organised into seven offices. These offices are described fully in Appendix C<sup>3</sup>.

In addition to the seven main branches detailed in Appendix C, the Land Management and Development Bureau is also mandated to coordinate and collaborate with the Bureau of Construction and Housing Development, the Bureau of Micro and Small Scale Enterprises Development the Bureau of Road and

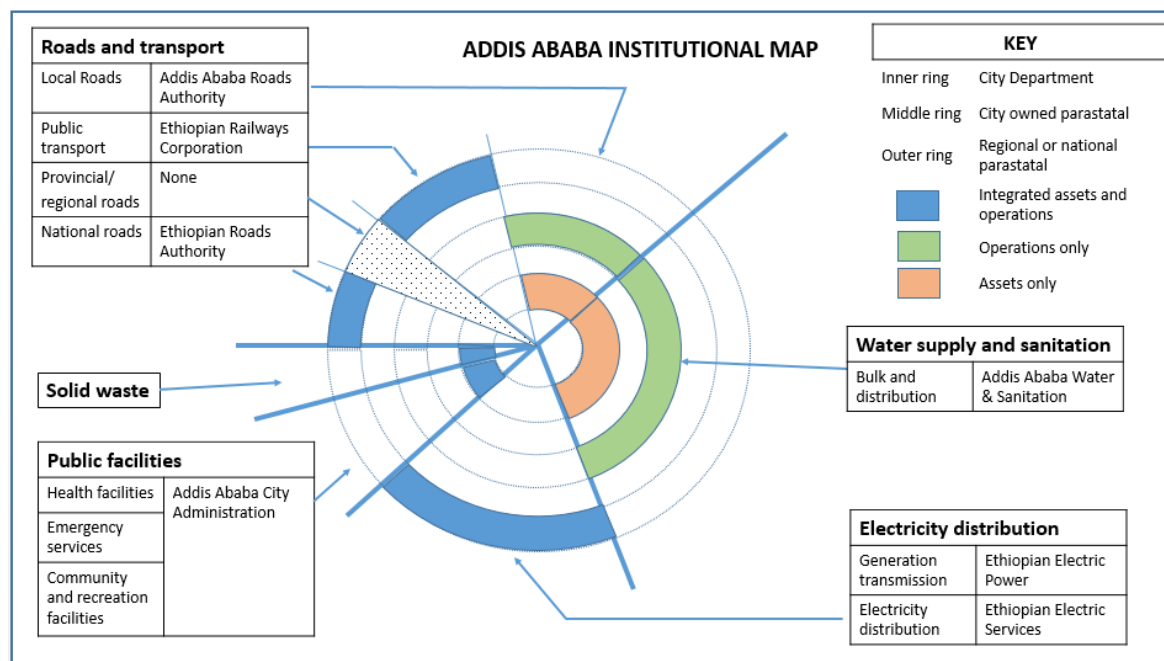
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<sup>3</sup> This information was largely sourced from interviewee 3, the head of the Land Management and Development Bureau.

Transport and Municipal Service Organs in order to ensure efficient and synchronous functioning of the different entities.

### 1.8 The arrangement of infrastructure intensive services<sup>4</sup>

The diagram below shows the structure of services which are infrastructure intensive:



**Figure 3: Institutional map of Addis Ababa**

Note: Inner circle indicates services run internally by the City; middle circle for services run by external entities owned by the City; outer circle is for services run by national or sub-national entities (not under City control)

Key features of the institutional form of Addis Ababa are summarised below:

- The City owns the roads, water and sanitation assets. But the operation of these assets is in the hands of separate entities owned by the City: Addis Ababa Roads Authority, Addis Ababa Water and Sewerage Authority.
- Infrastructure associated with solid waste (landfill sites, for example) and social and public facilities (schools, clinics, sports fields etc.) is owned and operated by the city.
- Electricity is provided by a State-owned entity which has separate assets and operational entities (see below).

<sup>4</sup> Interviews were conducted with various employees of the different institutions. This information is primarily derived from literature and interviewees 2, 4, 7, 8 and 9.

- With regard to public transport assets, the new light rail system will fall under the national Ethiopian Railways Corporation.

### **Water supply and sanitation**

Water supply and sewerage provision in Addis Ababa is the responsibility of the Addis Ababa Water and Sewerage Authority (AAWSA) which is responsible for the operation and management of service delivery in the city. They are a separate entity owned by the City, and are organised into a Board, Head Office and Branch Offices throughout the city. The Board of AAWSA is appointed by, and is accountable to, the Executive Organ-Cabinet of the Addis Ababa City Government, and is the highest executive body, chaired by the Executive Mayor. The board is made up of the City Managers and representatives of various bureaus of the cities. The central administration coordinates various 'core process' teams, with the actual delivery of water being decentralised to the branch offices. These branch offices are responsible for line connection, line relocation, line maintenance, water meter testing, leakage detection and billing.

There is significant activity from private actors. International and local private sector organisations participate in the construction of capital works as well as operational work such as maintenance and water meter reading. In some cases, civil society participates in the development and delivery of water services, by voluntarily contributing finance and labour.

### **Electricity**

Electricity supply is a national function. Generation, transmission and distribution were initially all the responsibility of the integrated Ethiopian Electric Power Corporation (EEPCO). In December 2013 EEPCO was split into two independent entities, the Ethiopian Electrical Power entity (EEP) and the Ethiopian Electrical Services entity (EES). EEP has the responsibility of overseeing the supply of electrical power, including the construction of large scale power plants and national bulk transmission lines. EES is responsible for the operations, transmission, distribution and sale of electricity. It is under the management of an Indian company, Power Grid Corporation of India.

Electricity supply in cities is the responsibility of EES. During urban expansion, the developers or private property owners are responsible for paying for the extension of the infrastructure, firstly from the main transmission line to the extended area (connector infrastructure) and secondly to the property (internal infrastructure). Payments are generally made to the EES representative branch for this service.

### **Roads**

The national, intra-city road network of Ethiopia is controlled by the national roads authority. This includes the newly completed toll road between Adama and Addis Ababa, which is being managed by a newly created, state owned parastatal, the Ethiopian Toll Roads Enterprise (ETRE).

Within Addis Ababa, the Addis Ababa City Roads Authority (AACRA) is a separate legal entity responsible for road construction and maintenance. Its organisational structure consists of a board, head office, and project offices. The Board, reporting to the City Council, provides policy direction and supervision to AACRA. However, the City retains ownership of the roads assets and has the associated responsibility of financing capital works.

### Public transport

There are two concurrent bus services running in Addis Ababa. The one is the commuter bus service, which is owned and run by Anbessa, a state owned public transport authority<sup>5</sup>, and the other is a transport system run by the City Administration, but is reserved for civil servants only. There are numerous informal mini-bus taxis and three wheeled 'tuk-tuks' that serve as transport for the majority of the capital's population.

In addition, a Light Rail Transit (LRT) is being constructed in Addis Ababa, which is under the ownership of the newly established Ethiopian Railways Corporation (ERC). The operations, maintenance and management of the LRT system has been outsourced to China Railway Group Limited (CREC) and Shenzhen Metro Group Company Limited due to limited internal capacity. There are capacity building plans in place to transfer skills and knowledge.

### Solid waste

The solid waste function is a municipal function. The Addis Ababa City Solid Waste Management Agency allows its sub-city departments to collect or give a private company the authority to collect solid waste. Often this is further devolved to the *Kebele* authorities.

### Public facilities

The cities are responsible for community facilities such as parks, community halls and recreational (sports) areas. But there is a lack of clear division in the federal constitution between the responsibilities of regional and local government when it comes to economic and social infrastructure. Each of the regions have their own constitution which states the powers and functions of local government in that region. Most often, the primary education function remains the responsibility of local government, with healthcare being provided by national or regional government (Ayele, 2011).

## 6 Capacity of City and State

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A common view expressed by Ethiopian urban development experts is that 'there is no shortage of money, there is just a shortage of implementation capacity'. This lack of implementation capacity leads to a constrained supply of land, which in turn pushes up the price of land (interviewee 2).

The valuation and surveying industries are still in their formative stages, which is a hindrance for the public sector. However, there are substantial new developments in the tertiary education field, with the Ethiopian Civil Service University (ECSU) being a key institution. It has instituted 8 Masters Programmes which broadly deal with urban development, urban planning, urban management, urban infrastructure provision, housing provision and urban climate change management studies. There are approximately 600 students split between these courses and the two years of

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<sup>5</sup> Note that the ownership of Anbessa Bus Services is currently under negotiation, with the City Administration indicating that they would like to own, manage and operate the bus service.

study, which means 300 post graduate students are entering the marketplace every year. This should address some of the shortage of skills, although it is recognised that improving the experience of practitioners is “not the whole solution” (interviewee 8).

In fact a difficulty facing the public sector in Ethiopia is the retention of experienced engineers and other practitioners. After 3 or 4 years, employees, typically engineers, will move to the private sector. The most commonly cited reason for this is the lack of competitiveness of public sector salaries<sup>6</sup>. This is being addressed to an extent as the City of Addis Ababa has a written proclamation signed by the City Administration and the Ministry of Finance and Economic Development (MoFED) stating that it may pay higher rates than other urban areas, although even this is only a partial solution to the skills shortage.

One of the main critiques of the Ethiopian land leasing system is the slow rate at which land is put onto the auction market. It is widely accepted that the lack of capacity to prepare the land is part of the reason for this. The preparation of the land, as stated previously, often involves a participatory processes to remove the inhabitants of the land and servicing of the land, a difficult and time-consuming process.

## **7 Overview of planning process in city**

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### **1.9 Urban Planning Principles and Hierarchies**

Planning in Ethiopian cities is governed by the planning hierarchies and principles established by the federal urban planning proclamation. The proclamation requires coherence between urban plans and the national vision and standards, as well as conformity with hierarchy of plans established by law. In addition urban plans are intended to respond to the needs of society and allow participation during preparation and implementation. Promotion of balanced mixed population distribution, preservation and restoration of historical and cultural heritages, balancing public and private interest and safeguarding the community and the environment are other principles stated in the urban planning law.

The urban planning proclamation establishes three planning hierarchies: the national urban development scheme, regional urban development plan and urban plans. While the meaning and scope of the first two hierarchies is not explained in the proclamation, two types of urban plan are specified:

- the city wide structure plan; and
- the local development plan (LDP).

The national urban development scheme gives overall long term policy direction, strategies, vision and goals. The regional urban development plans (where they exist) are expected to reflect regional urban development priorities directions and growth poles.

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<sup>6</sup> The average monthly income for a graduate engineer is approximately 8,000 Birr (equivalent to USD 390) per month in the public sector, but it can be up to 25,000 Birr (equivalent to USD 1,215) per month in the private sector.



The city wide structure plan is a legally binding plan; so are its explanatory texts formulated and drawn at the level of an entire city within the urban boundary. The structure plan sets out the basic requirements regarding physical development, the fulfilment of which should produce a coherent urban development process in social, economic and spatial spheres. A structure plan is valid for 10 years starting from its period of approval. It should specify the magnitude and direction of growth in the urban centre, principal land use classifications, layout of major social and physical infrastructure, as well as an analysis of environmental aspects. The plan should include an implementation scheme, institutional setup for implementation as well as resources.

The second type of urban plan, the LDP, is regarded as the implementation instrument for the city wide structure plan. The LDP depicts medium term, phased and integrated urban upgrading, renewal and expansion activities of an urban area with the view to facilitating the implementation of the structure plan by focusing on strategic areas. LDPs should prescribe the functions, development objectives, implementation strategies, role of implementing bodies, required institutions, local economic dynamism, urban design principles, concrete standards, spatial framework, budget and time frame of the implementation of a structure plan.

The full urban planning process is described in Appendix D.

### **1.10 Institutional Setup**

In Addis Ababa the city wide structure plan is prepared by a special project office established for this purpose. The structure plan in effect expired in 2014 and the City has just finalized revising/preparing a structure plan for the next ten years. Considering the geographical location of Addis Ababa and its linkage with the surrounding Oromia region the structure plan preparation is carried out in coordination with the surrounding Oromia cities that are represented in the joint technical team preparing the plan. The task of preparing the LDPs for specific areas within the boundary of the structure plan is the mandate of the urban planning institute, part of the City's Land Management and Development Bureau.

When it comes to regional cities structure/master plans are prepared by the Regional Urban Planning Institute (RUPI) on behalf the city. While this is understood mainly to bridge the gap of planning skills and capacities in secondary cities, it should be noted that the national urban planning proclamation gives the power to initiate urban plans to the City Administration, regional bodies or the federal authorities. Region and federal authorities are also given the power to alter city plans when deemed necessary. It is also common practice that the regional urban planning institutes prepare LDPs for cities. Both in Addis Ababa and other cities the preparation of LDPs is sometimes outsourced to private firms.

Sectoral plans of cities have to conform to approved structural plans or local development plans.

### **1.11 Planning Capacity**

Though planning capacities are perceived to be relatively better in Addis Ababa (compared, for example, to Mekelle and Hawassa) interviews with city officials confirmed that the shortage of qualified urban planners is a critical problem in all cities. There are very few private firms that provide urban planning services. For regional cities the RUPIs try to fill the skill gap by supporting the preparation of their structural and local development plans. RUPIs and MUDHCo prepare and distribute various planning manuals for cities with the objective of enhancing their planning capacities. In addition, periodic training is provided for city planners.



Another notable challenge in planning, particularly in Addis Ababa, is the absence of a long term spatial and socio-economic development plan that looks beyond the 10-year horizon of the structure plan. Limited planning capacity, coupled with a shortage of funds to develop infrastructure has a direct impact on the land supply capacity of cities.

## **8 Infrastructure profile for Ethiopian cities<sup>7</sup>**

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Infrastructure in Ethiopia is generally under stress, but significant progress has been made in the past decade. The country has launched an ambitious infrastructure plan, and access to services is rapidly expanding. The low level of urbanisation is contributing to difficulties in the provision of services to all Ethiopians with low levels of infrastructure and associated services in rural areas being a factor influencing migration to cities (Foster & Morella, 2010).

### **1.12 Overview of infrastructure development**

#### **Water supply & sanitation**

According to the AAWSA, the physical water reticulation system covers almost 100% of the city's area, but only about 67% of the water demand can be satisfied due to bulk water supply constraints. This is a substantial reduction from the figure of 90% of demand which could be covered in 2007. The supply has not been able to keep pace with the rapid increase in demand caused by the increase in urban population and growing city economy. Bulk water is currently sourced from two dams, 160 wells and 4 well fields, with a current capacity of 464,000 cubic metres daily while peak demand is 670,000 cubic metres per day. The area which experiences the lowest service is in the north of the city which is at a substantially higher elevation requiring high pumping heads.

The reticulation also suffers as there are frequent pipe breakages associated with the extensive construction work in the city. Partly for this reason and partly through lack of capacity to manage and maintain the system effectively, non-revenue water amounts to between 37 and 40%.

Sanitation in Addis Ababa is in the worst state of all of the services discussed in this paper. Access to the formal sewerage network is in the region of 3% of the households in Addis Ababa. Most households (about 75%) have pit latrines which, when full, discharge to open drains. About 15% have flush toilets and septic tanks; these are likewise often overflowing and discharging to open drains. A significant minority (about 5%) resort to open defecation. Public toilets are not common, but pit latrines are often shared between several households<sup>8</sup> (van Rooijen, 2011).

#### **Electricity**

The level of access in Addis Ababa is approximately 97% (UN-Habitat 2014; UN-Habitat, 2009), although this does not take into account the intermittent supply.

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<sup>7</sup> Interviews were conducted with various employees of the different institutions, this information is primarily derived from literature and interviewees 2, 4, 7, 8 and 9.

<sup>8</sup> See Worku & Adam (1999)

The electricity infrastructure is not sufficient to meet the ever growing demand. For the country as a whole electricity generation capacity in 2010 was almost 4,000 GW (Energypedia, 2015), with energy consumption at a very low 51 KWh per capita (World Bank database, 2011). Distribution losses are estimated at 23%, mainly due to poor network design and maintenance.

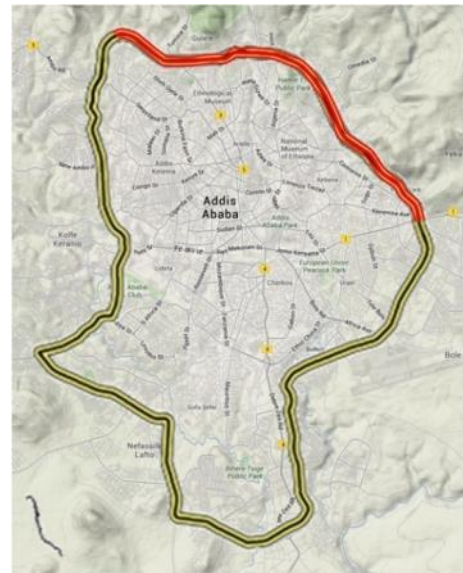
## Roads

The main distributor roads in the city and the ring road (parts of which are still under construction (red in Figure 5)) as well as some of the larger collector roads in the city are in a good condition. The lower level roads in the city vary in condition, with the majority in need of maintenance or upgrading.

A feature of Ethiopian streets is the use of hand-cut cobbles as a road surface. There is a successful and large scale employment programme associated with the



**Figure 4: Intersection of a main arterial road in Addis Ababa and LRT system**

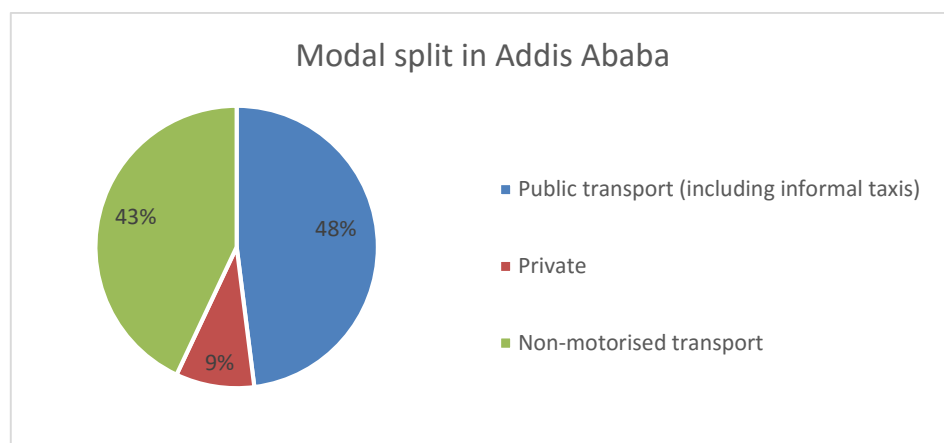


**Figure 5: Addis Ababa ring road (unconstructed part in red)**

making of cobbles and laying of cobble streets.

## Public transport

The modal split in public transport is shown in Figure 6. Approximately 54,000 route-km are travelled daily, serving 1.5 million people (Fenta, 2014).



**Figure 6: Modal split in Addis Ababa (Fenta, 2014)**

Public transport in Ethiopia is largely dominated by the informal minibuss taxis, affectionately known as the 'blue donkeys'. But the public transport system in Addis Ababa as a whole is currently inadequate to serve the growing demands of the population and a mass transit system has been under consideration for some years. This is coming to fruition with the Light Rail Transit (LRT) system nearing completion, with test runs currently underway. The railway has a length of 34.2 km, and has a north-south and east-west line, with a common track of 2.7km. The estimated capacity at peak time is 80 000 passengers per hour.



**Figure 7: LRT system in Addis Ababa**

Figure 8 shows the extent of the route network, with planned extensions in phase 2.



**Figure 8: LRT route network (Source: Ethiopian Railway Corporation)**

### Solid waste

The city generates approximately 200,000 tons of solid waste per year, of which approximately 80% is collected. Small and micro enterprises are used to collect the majority of the solid waste. The municipality does not recycle any waste, as the majority of this is done at source by the household or people who go through the waste to find valuable and reusable items (Tessema, 2010).

Solid waste is devolved to the lowest administrative level in Addis Ababa, the *Kebeles*, which generally collect a significant proportion of the rubbish. Solid waste is generally separated at source, and recyclable material is taken away by private users to sell. Reppi solid waste disposal site is currently the only landfill site. It is 47 years old and located in the south west of the city. It is 25 hectares, and is uncovered. The site is filling rapidly, and is a health hazard. New sites are in the process of being identified.



**Figure 9: Reppi solid waste disposal site (Source: Tessema, 2010)**

## **Public facilities**

There are parks and open spaces located sporadically through Addis Ababa, but they are generally in a poor state and are often used as soccer fields or as grazing pastures for the inhabitants' livestock.

Access to health and education has increased dramatically over the past 10 years, with walking distances to facilities greatly reduced. Education enrolment in Ethiopia outperforms most of the other countries in Sub-Saharan Africa (UN-Habitat, 2008). This is bound to have an impact on the need for new social infrastructure but research on this topic was not found.

### **1.13 Infrastructure challenges**

The rapidly urbanising and modernising population has placed heavy demand for services on the respective City Administrations which have not been able to deal with the rapidly increasing demand for services. Therefore there is an inadequate supply of water and electricity and there are major concerns over poor sanitation access, particularly for the poor. Further, infrastructure maintenance is often neglected - as the focus is on creating new infrastructure to provide services - further adding to the backlog. However, the availability of finance to build new infrastructure has meant that the capacity of the systems are expanding rapidly and, in the case of roads and transport specifically, there are major new infrastructure initiatives in Addis Ababa.

## **9 Infrastructure finance**

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In this section, the overall fiscal framework for Ethiopia is discussed, followed by details of the financial circumstances for Addis Ababa<sup>9</sup>.

### **1.14 Ethiopian fiscal framework**

Local government expenditure currently accounts for approximately 30% of total expenditure of all tiers of government in Ethiopia (Gutman J, Sy A & Chattopadhyay S, 2015). The system of intergovernmental finance is based on a clear distinction between the federal and regional (state) functions and sources of revenue. The Regional authorities have been assigned certain taxes, which are levied and collected by them, they also share in the revenue of certain federal taxes. Proclamation number 33 of 1992 (articles 96, 97, 98, 99 and 100) states the functions of regions and the financial resources which they have access to and the taxation power of the regional authorities. There are three revenue lists in the Proclamation, a Central List, Regional List and Joint List. These lists define the revenue sharing between the central and regional authorities and are summarised below in Table 2.

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<sup>9</sup> Interviews were conducted with finance departments in the three City Administrations (interviewees 6, 11 and 17). Interviewee 21 also provided a good overview of Ethiopian public finance.

**Table 2: Revenue Lists**

Central Government List	Regional Government List	Joint List <sup>10</sup>
Duties, tax and other charges levied on the importation and exportation of goods	Personal income tax collected from the employees of the Regional Government and employees other than those covered under the sources of central government	Profit tax, personal income tax and sales tax collected from enterprises jointly owned by the central Government and Regional Governments
Personal income tax collected from the employees of the central Government and the International Organisations	Rural land use fee	Profit tax, dividend tax and sales tax collected from Organisations
Profit tax, personal income tax and sales tax collected from enterprises owned by the Central Government. (Now sales tax is replaced with VAT and Turnover taxes)	Taxes collected from rent of houses and properties owned by the Regional Governments	Profit tax, royalty and rent of land collected from large scale mining, any petroleum and gas operations
Taxes collected from rent of houses and properties owned by the central Government		

A full list of the revenue sources can be found in Appendix E.

As can be seen above, there is a strong emphasis on sharing of the national tax base between the central government and Regions (including Addis Ababa as a chartered city).

Regions (Addis Ababa excluded) also receive a block grant from the federal authority. This block grant is divided up among regions by a formula proposed by MoFED and approved by the House of Federation (WaterAid, 2009). However, it is evident that, while this grant benefits rural areas, the urban local governments do not benefit from this grant and need to meet their financial needs from own source revenue<sup>11</sup>.

<sup>10</sup> A joint revenue source is shared between the Central and Regional governments. Most often direct taxes (business and income tax etc.) are shared 50/50 by the federal and regional government, and indirect taxes (VAT, turnover tax etc.) are shared 70/30 between the federal and regional government respectively.

<sup>11</sup> World Bank, personal communication.



In the case of Addis Ababa the City relies primarily on the revenue generated through the tax sharing arrangement described above. There is a further level of fiscal devolution as the City Administration divides up part of their own revenue and reallocates this to *woredas* based on an approved formula, which is based on development indicators including population, mean revenue, school age population, etc.

With regard to other sources of local revenue there are many different fiscal arrangements in place in the different regions, as each region has the power to create different laws which govern their local finances, as long as it is line with national policies. In the case of Addis Ababa a summary of revenue raised is described in Section 0.

### ***Land-based finance mechanism***

Land-based finance is a well-known feature of Ethiopian local government finance achieved primarily through the land lease system which is described in Section 0. Property taxation is also applied in Addis Ababa and other cities with a very rudimentary methodology and poor collection rate (Woldegebreal 2005). A modernised system is in development for Addis Ababa (Interviewee 2).

## **1.15 Addis Ababa – overview of City finances**

### **Trends**

Addis Ababa has increased its own revenue from less than US\$50 million in 2003 to above US\$900 million in 2014. This dramatic increase is largely due to the progressive inter-governmental revenue sharing arrangement and to the land lease system which have both been applied over the intervening period.

### **Revenue**

The table below shows the overall revenue (operating and capital) budgeted for and actually raised for the 2014 budget year.

**Table 3: Addis Ababa revenue summary – 2014 financial year**

	<b>Adjusted Budget</b>	<b>Actual revenue</b>	<b>Split actual</b>
	<b>US\$ '000s</b>	<b>US\$ '000s</b>	<b>%</b>
VAT Revenue	138,229	229,063	25%
Income Tax	230,256	228,163	25%
Profit to individuals tax	119,343	168,910	18%
Other tax	199,564	65,745	7%
Water	30,754	26,537	3%
Sanitation	10,557	7,698	1%
Sewerage	1,123	581	0%
Land (rural)	199	2	0%
Land (urban)	126,507	51,426	6%
Road fund (road maintenance grant)	9,219	2,460	0%
Other non-tax revenue	38,852	23,646	3%
Other municipal revenue	59,975	35,885	4%
Multilateral institutions + loans	89,448	86,939	9%
Other	9,212	2,611	0%
<b>Total</b>	<b>1,063,239</b>	<b>929,665</b>	<b>100%</b>
	<b>% of budget</b>	<b>87%</b>	

The high reliance on the arrangements for sharing what would normally be considered national revenue, in the form of value added tax (VAT), income tax and other taxes, is evident, with a total of 75% if City revenue raised from these sources. The State collects this revenue on behalf of the City and passes it back to the City (assumedly after taking an administrative fee off). It should be noted that the Addis Ababa accounting system is a cash based system, which means that in that year only 6% of the urban infrastructure is financed through the land lease system, but according to a municipal official, the land lease system funds approximately 20% of urban infrastructure on an accrual basis.

With regard to debt finance approximately US\$87 million is reflected on the City's accounts (9% of all revenue). However, there are also large loans taken out by the State to fund major infrastructure within the city, with the light rail system and certain distributor roads being examples. City-owned parastatals also take out loans with the extent to which these are guaranteed by the State not ascertained as part of this research (more on this below).

### **Operating expenditure**

A summary of operating expenditure is given in the table below.



**Table 4: Summary of operating expenditure for the City of Addis Ababa**

Description	Adjusted Budget	Actual Expenditure	Split actual
	US\$ '000s	US\$ '000s	%
Organ of State	17,494	15,960	5.1%
Justice and legal affairs	34,361	32,660	10.4%
Finance, revenue & economic development	42,533	40,532	12.9%
Communication and media	4,467	3,918	1.2%
Agriculture, trade and industry	15,544	13,655	4.4%
Water & Sewerage Authority	34,034	25,897	8.3%
Transport and Communication	3,228	2,713	0.9%
Roads Authority	4,831	4,789	1.5%
Other construction	5,048	4,325	1.4%
Education	73,095	68,093	21.7%
Culture, sport, social & emergency services	18,140	15,331	4.9%
Health	37,902	34,544	11.0%
Others (95% of which City Bus)	19,520	19,259	6.1%
Property and land development	21,611	18,536	5.9%
Sanitation, solid waste & parking	18,809	13,311	4.2%
<b>Total</b>	<b>350,616</b>	<b>313,523</b>	<b>100%</b>
	% of budget	89%	

Broadly, expenditure can be divided between:

- Governance and administration 30%
- Economic facilitation 4%
- Social services, including education and health 38%
- Infrastructure and property development 28%

The proportion spent on governance and administration is high by international standards possibly because of the inclusion of some State related activity and the large amount spent on justice and legal affairs which is unusual for a local authority.

Expenditure in infrastructure includes that by the two local parastatals, Addis Ababa Water and Sewerage Authority and Addis Ababa Roads Authority. While separate accounts for these entities have not been examined, it is evident from these summary figures that the Water and Sewerage Authority functions with a large deficit (revenue equals 32% of expenditure).

### Capital expenditure

Expenditure for the 2014 financial year is shown below:

**Table 5: Addis Ababa capital expenditure**

Description	Adjusted Budget	Actual Expenditure	Split actual
	US\$ '000s	US\$ '000s	%
Administration and General Service	68,562	50,260	8.9%
Water & sewerage system	152,135	107,470	19.1%
Trade, industry & agriculture	25,922	18,925	3.4%
Roads, stormwater etc	306,003	274,814	48.8%
Housing Construction	71,645	52,331	9.3%
Education	25,475	17,300	3.1%
Culture, sport, social & emergency services	21,511	12,333	2.2%
Health	20,096	14,493	2.6%
Sanitation, waste, parks & cemeteries	21,274	15,541	2.8%
<b>Total</b>	<b>712,622</b>	<b>563,467</b>	<b>100.0%</b>
	% of budget	79%	

Capital expenditure is 80% higher than operating expenditure which is unusually high but consistent with a rapidly growing city which has relatively good access to revenue. That said, it is not high enough to keep pace with what is required to provide adequate services to all in the city.

The capital expenditure shown in the table is what is reflected on the City accounts. However, as mentioned above there are some large scale developments which are funded from loans which are not on the local government accounts. For example the head of the Roads Authority (interviewee 7) claimed that they were spending close to US\$500 million a year (compared with the US\$280 million capital and operating expenditure shown in these tables). It has not been possible to track down all these other capital expenditure items which, it is presumed, will sit on the national government account or on that of parastatals. But the indication from interviews is that the both the roads and water and sewerage parastatals take out loans, with the extent to which these are guaranteed by the State being uncertain<sup>12</sup>.

### 1.16 Capital finance – all urban infrastructure

From the point of view of this study understanding the means through which capital works for all urban infrastructure<sup>13</sup> is financed is important, with the City being only one participant. However, given the complexity of the infrastructure arrangements and the limited time and budget available for this study it has not been possible to present an accurate picture of capital expenditure requirements and the methods

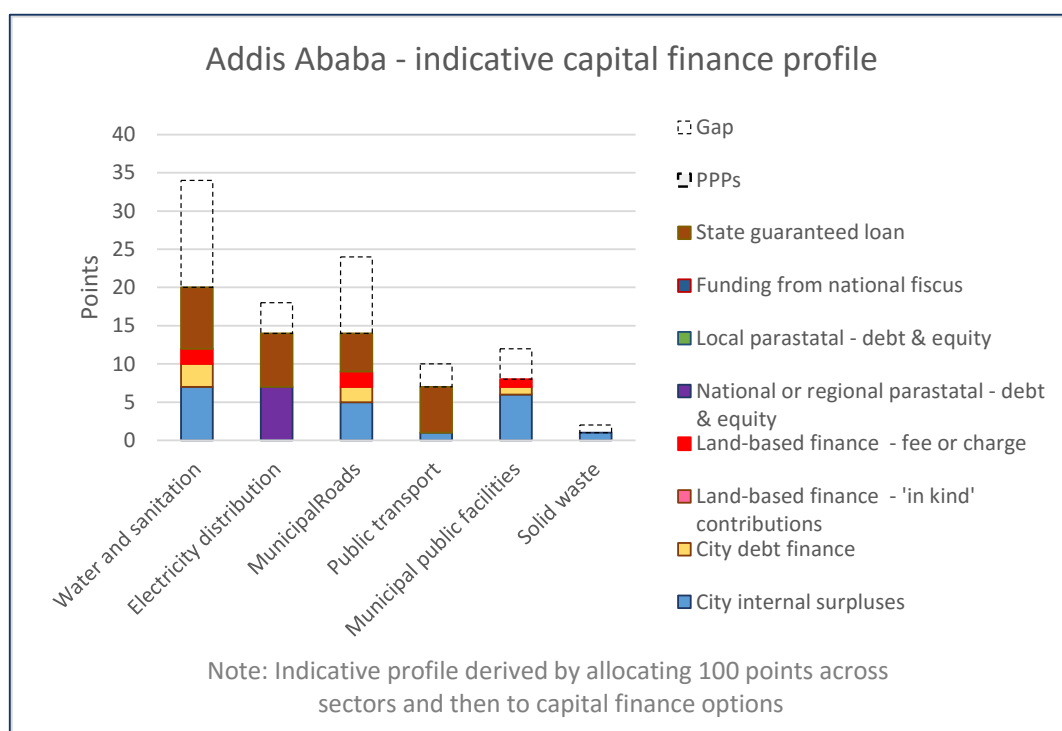
<sup>12</sup> While the interview with the Addis Ababa Water and Sewerage Authority indicated that these loans were State guaranteed, personal communication with the World Bank indicates that there are loans which are not so guaranteed which creates a contingent liability for the City.

<sup>13</sup> Urban infrastructure can be taken as all infrastructure in the municipal realm. It excludes national and regional infrastructure such as major roads (some of which may pass through cities), development of water resources, power generation and power transmission through a national grid up to the boundary of a city.

for financing this expenditure. Therefore reliance has been placed on an 'indicative' picture which is developed as follows:

1. 100 points are allocated to all urban infrastructure expenditure associated with the City.
2. The 100 points are first distributed between sectors based on an idealised infrastructure investment profile which is taken from infrastructure investment modelling undertaken for Cape Town.
3. A rough assumption is made of the gap between capital requirement and capital finance available, based on interviews and a judgement of infrastructure shortfalls. This leads to points allocated to reflect this gap
4. Capital finance for each sector is split based on a judgement, taking the limited information available to the researchers from interviews and reports. This leads to points being allocated to each source of finance for each sector.

The results are shown in the figure below.



**Figure 10: Indicative capital finance profile for urban infrastructure serving Addis Ababa**

An assessment of the individual finance mechanisms is included in the table below.

**Table 6: Assessment of individual finance mechanisms**

<b>Financing mechanism</b>	<b>Application in Addis Ababa</b>
City internal surpluses	75% of the capital expenditure on the City account is funded from operating surpluses. This is an extraordinarily high figure by international standards, indicating the extent to which general revenue is being committed to capital works.
City debt finance	For this purpose of this analysis debt finance is divided between that which is on the City's books and that which isn't, the latter being primarily finance for large scale infrastructure in the city. US\$87 million is raised through debt finance covering 15% of capital expenditure. The likelihood is that most of this is guaranteed by the State.
Land-based finance – 'in kind' contributions by developers	There is one large scale property development undertaken by a Chinese developer, with a high proportion of the bulk and connector infrastructure constructed by the developer. However, this is small in relation to the infrastructure for the city as a whole.
Land-based finance - fee or charge	Funding is raised through the land lease system described in some detail in this report. This is dedicated to the provision of infrastructure. For the 2014 financial year this amounted to 6% of total revenue and financed 9% of capital expenditure, but funds a significant 20% of urban infrastructure on an accrual basis.
National or regional parastatal - debt & equity	Electricity infrastructure is provided by Ethiopian Electric Power (EEP), a national parastatal. The research for this project did not cover the methods this entity uses to raise capital. In order to complete the 'indicative' picture it is assumed that their capital expenditure on the electricity distribution system in Addis Ababa is financed through equity (accumulated surpluses on EEP's account and debt finance which is likely to be guaranteed by the State).
Local parastatal - debt & equity	The two local parastatals, Addis Ababa Water and Sewerage Authority and Addis Ababa Roads Authority raise capital on their own account. In the case of borrowing this takes place but with some uncertainty as to how much is State guaranteed and how much is the City liability.
Funding from national fiscus	No capital is transferred to the City for funding infrastructure.
State guaranteed loan	As noted above some of the major infrastructure for roads, public transport and water supply is funded by loans guaranteed by the State. No detail was found on these loans for this study.
PPPs	No PPPs were identified for urban infrastructure serving Addis Ababa. However, there is a new toll road between the City and Adama but this falls outside what is defined as urban infrastructure for the purpose of this study.

### **Example of the financing of the light rail system in Addis Ababa**

As mentioned previously, there is national government involvement in public transport in Addis Ababa in the form of the light railway. The light rail, once

completed is going to be 34km in length, and is estimated to cost US\$ 500 million. 80% of this investment is financed by the Chinese Government in the form of a loan which is to be repaid by the national authority, most likely in some form of arrangement with the operators of the railway, which is the recently formed Ethiopian Railway Corporation.

### 1.17 Summary

Addis Ababa is benefitting from a rapid increase in revenue associated mainly with the tax sharing arrangements with national government, with income from the sale of land leases also being a factor. The surplus of funds on the operating account has allowed the City to contribute substantially to financing capital works. There is also a strong stream of debt finance available, much of it guaranteed by the State.

## 10 Property development framework

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Ethiopia's authoritarian rule over land has meant that access to land has become a challenge for businesses, as well as Ethiopian people. Property developments in Ethiopia are gaining momentum as the government realises the importance of the public and the private sector involvement in both the residential and commercial sectors. This section will discuss different methods in which land can be acquired, property can be financed, and finally how the city is using land-based finance techniques<sup>14</sup>.

### 1.18 Tenure arrangements of urban land

Formally occupied urban land in Ethiopia is under one of two land tenure arrangements, it is either leased from the State or, for a small portion, is under a freehold tenure. Land which is not urban (primarily peri-urban land or rural land on the urban periphery) is expropriated from farmers or land users who have freehold lease arrangements. This is relevant in Ethiopian cities as they are expanding rapidly.

The focus below is on the land lease process.

#### Land lease process

There are a few processes which must be undertaken before land is leased by the end user of the land. They are identification, preparation, servicing and land allocation or auction.

**Identification:** Addis Ababa is divided into 10 sub-cities, which in turn are made up of 116 *woredas*. Parcels of land for development are identified in the Local Development Plan (LDP).

**Preparation:** Once the land has been identified as an area for development, the land must be prepared. The preparation of the land entails clearing the land and getting it ready for servicing. If the land is undeveloped and clear, this is an easy

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<sup>14</sup> Many interviewees contributed to this discussion, but particularly interviewees 1, 2, 3, 8 and 9 in Addis Ababa, interviewees 12 and 13 in Hawassa and interviewees 18, 19, 20 and 21 in Mekelle.

process, but where the land is developed (formally or informally) other processes are necessary to clear the area.

**Servicing:** The Lease Proclamation states that no land may be allocated unless it is fully serviced. This leads to a very slow rate of urban land provision, as it is the City or nationally owned authorities which need to then come in provide the infrastructure to the periphery of the site (the internal infrastructure is provided by the developer of the land, which can be public or private sector).

**Land allocation:** The land leasing system has two methods of land supply to consumers. The first is through an allocation, whereby land is leased at no cost given (or at base price) to a developer which can be a private or public developer. This particular development is determined to be strategic to the development of the city. These developments can be residential, industrial or a public facility. The determination of strategic importance is done through an un-transparent process and accounts for approximately 94% of land transfer in Addis Ababa, and 96% - 97% in secondary cities (Kaganova & Zeneba, 2014).

**Land auction:** Land which is not allocated directly gets put on auction. Each offer is sealed in an envelope, along with bank statements proving that 20% of the proposed lease price is available upfront. The administration collects the bids and the highest offer will be awarded the land. The prices which the city gets for this land can be up to US\$3,200 per square metre in Addis Ababa. This land is given over with a specific use and private developers must comply to this when developing the land. There were previously incidents of developers not complying with these regulations or not fully developing the land which has caused some tension between the City Administration and developers.

### 1.19 Valuing urban land

As mentioned, land is acquired two ways, and each has their own valuation method.

#### *Value for allocations*

The allocation of land in Ethiopia can be done at either the base prices of the land (the cost to prepare and service the land) or be given for free, depending on the particular project. Currently, the government's priorities are to address the housing backlog and to stimulate the economy, and therefore projects which are aligned with these objectives are likely to have land allocated to them. In the regions, the regional governments has an Investment Committee, which evaluates submitted business plans and will then instruct the city to allocate land to these projects if the projects are suitable. An example of this is in Mekelle, where a Bangladeshi man has been allocated 200 hectares just outside the city for a large scale development which, it is argued, will stimulate the local economy.



**Figure 11: Land grade classification ("price map") in Hawassa used to determine the base price**

The base price is determined by the City Administration, and, according to the Lease Proclamation, is intended to cover the costs of preparing and servicing the land for transfer. These prices are significantly lower than the prices received at auction, for example in Mekelle, the base price varies from US\$27 to US\$23 per square metre.

### **Value by auction**

Auctions for land are competitive processes, as stated above. The details about the parcel of land are released publically via television and newspaper before the land goes up for auction. This is a mandated process. The land size and zoning type are released, and people are allowed to view the land before the auction. When auctioning for land, there are three items which need to be submitted with the bid document. They are weighted, and the individual with the highest weighted score will win the auction (note that weighting may vary from city to city). The three items are (with weightings in brackets):

- The price which is being offered per square metre (75%)
- The down payment (15%)
- The payment period (10%)

The auction is only valid if there are three or more bidders on a particular parcel of land, otherwise the parcel will get reissued at the next auction.





**Figure 12: Bid documents being sorted in Hawassa**

### **Valuation for property tax purposes**

Addis Ababa is currently the pilot city for the implementation of a modernised property tax system, which is often seen as a complimentary system to land-based finance. As stated previously, the valuation profession in Ethiopia is not very well advanced, and thus a proxy is being used as a property value. This proxy is the rental value of the property, which is being calculated as a portion of capital value of the property. There are numerous problems with this proxy, as often rental values are understated and informal. Only a very small portion of the population are paying property tax.

#### **1.20 Real value of urban land**

Urban land is under stress in Ethiopia, primarily due to the largely artificial market which has been created by the City Administrations under the stringent requirements of the Lease Proclamation. The excessively high prices being paid at auction show the high demand for land. Land in the urban periphery is being dealt with in two ways. Either it passes through a formal process where the City buys it at with compensation paid to farmers for the value of the improvements in the land. Or it is sold off informally by the farm owners, who provide road infrastructure and sub divide the plot (see Figure 19). They will end up making more money this way than being expropriated and having the value of their buildings and crops reimbursed.

#### **1.21 Property developers**

As mentioned previously, there are two ways in which land is accessed, through allocation or through the auction process. The property developer will be different in these two cases.

#### **Developers receiving allocations**

There are also three housing typologies which will get land allocated to them, condominium housing, private real estate developers, housing cooperatives. Each



are listed below, with the approximate proportion of the housing market which they supply, which is sourced from a MUDHCO presentation (2013).

### ***Condominium housing***

The provision of condominium housing is the government's own housing provision programme. Land is identified, prepared and serviced before being handed over to the city's construction bureau who oversees a contractor who will build the houses.

The condominiums provide 90% of the new formal housing in Addis Ababa.

### ***Housing cooperatives***

Housing cooperatives/associations are formed when a group of people (the size of the groups varies) decides to provide housing for themselves or others. If these cooperatives are aligned with any objectives set out by the City, then they can receive land at the base price.

The housing associations provide 7% of the new formal housing in Addis Ababa.

### ***Private real estate developers/contractors***

There are not many private real estate developers in Ethiopia, however, there are many contractors who will build based on upfront payments by future building owners or tenants. If a project meets requirements set out by the City (such as mixed use, or that it includes low cost housing) the land may be allocated to that project at base price, or if it does not meet the requirements, it will be purchased at auction.

The private real estate developers and contractors provide 3% of the new formal housing in Addis Ababa.

### ***Developers with land acquired by auction***

The developer of auctioned land may be a private house owner, a commercial building owner or a private developer acting as an intermediary and selling individual properties to others.

## **1.22 Financing property**

Property finance in Ethiopia is difficult to acquire, as the commercial banking sector sees property investments as high risk investments. However, condominium house owners receive a loan with their acquisition of a condominium house, which is backed by the National Bank. Large scale developments are often funded by the future owners of the property on the land, or by large, overseas entities, particularly Chinese banks.

## **1.23 Land administration processes in practice**

There are significant problems with the administration of land, as has been alluded to previously. The stringent requirements of the Lease Proclamation state that unserviced land may not be provided for auction or allocation, which slows up the process. The process to expropriate people is also very time intensive, thus the supply of land is constrained. This slow process is largely due to a lack of implementing capacity.

## 1.24 Land-based finance

Ethiopia's land lease system is one of the foremost examples of land-based finance in Sub-Saharan Africa. It has received a lot of publicity and represents an innovative land-based financing method but there arrangements for implementing it have also been faced with difficulties. It is being used not only to raise money for infrastructure in Ethiopian cities but also to control development according to City plans. In doing this land, which is all under the control of the State, is 'released' in parcels either at the 'base price' or through auction. In the case of inner city developments this has required the displacement of households formerly living in the redevelopment areas, albeit with compensation for the buildings (improvements) on the properties.

In Addis Ababa, City officials are proud of the achievements of the land lease system and the way it is being used to transform the city. The system has also received acclaim as a way of raising revenue through the land-based finance process. 20% of urban infrastructure is financed through this system on an accrual basis, with approximately 6% of the infrastructure in the year of analysis being funded through urban land lease. Most of the rapidly increasing revenue on the City's account relates to the tax sharing mechanisms which are an important feature of the Ethiopian fiscal system.

One of the critiques of the land lease policy and associated housing system in Ethiopia is that it does not adequately provide for the poorest Addis Ababa citizens. Partly this is because those that lived in inner city locations have been displaced from locations where there are better livelihoods and partly this is because the new condominium developments are not affordable to them<sup>15</sup> as even the cheapest rooms, the studios, require a down-payment and loan to be taken out to finance the flatlet<sup>16</sup>.

Another critique relates to the way land is being released in the 'expansion areas' of cities through the formal process. This requires negotiation with farmers, compensation to them and slow servicing of the land. The net effect is that land is becoming available too slowly.

## 11 Property development practice

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This section will describe each of the different property developers, and their role in the provision, or funding, of urban infrastructure.

Land based financing in Ethiopia is an automatic consequence of the ownership of land by the state. Article 12 of the Lease Proclamation states 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."

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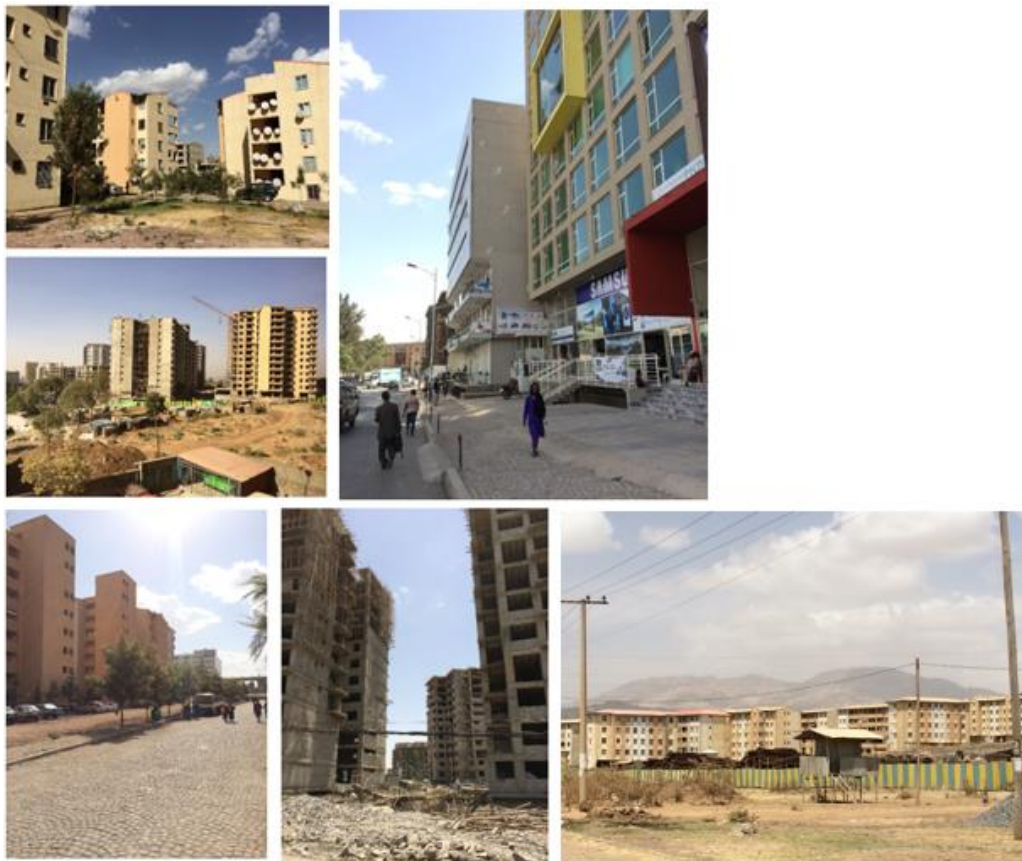
<sup>15</sup> Note that, while this view is based on interviews and a limited documented findings, this position has not been properly assessed and research on this topic of housing for the poorest households in Ethiopian cities is lacking.

<sup>16</sup> For more information see Teferi (2009) & Woldegebreal (2005)

## 1.25 Property development examples

### Public sector built condominium housing

Addis Ababa has a housing backlog of 900 000 housing units. Increasing urbanisation is increasing this backlog, and the government is addressing it by rolling out a condominium housing program. This program is largely blocks of flats which are constructed throughout the city, in the inner city urban regeneration zone, as well on the urban edge (see Figure 13).



**Figure 13: Examples of condominium developments**

### Housing associations

Housing associations are able to access land at this below market price. Access to land is given at either benchmark price, or a price above benchmark, but lower than that which would have been paid at auction, depending on the investment committed by housing associations. The exact criteria for this decision is not known.

Figure 14 shows the type of properties which are developed by housing associations. The City will provide access to the land with a dirt or gravel road, and then the association must pay the City to connect it with water, sanitation (if close to bulk network) and pay the relevant authority for electricity.



**Figure 14: Housing association developments in Addis Ababa**

#### **Private developer with low risk**

There are many companies involved in construction in Ethiopia, although few of these branch out beyond the typical 'contractor' model. One such 'contractor' companies is Sunshine Construction. Sunshine acts as a construction agent to a body which is represented by the future owners or tenants of a building. A company or group of people will pay Sunshine in stages to construct a building or development. Figure 15 below shows a hotel being constructed by a contractor for a single future owner.

In an attempt to stimulate the real estate developer market in Ethiopia, Sunshine was given a plot of land to develop at the base price of that land, with preferential pay back terms, such that the lease can be paid back over an extended period of time, with the first payment only at some, unspecified, point in the future. Sunshine has since struggled to develop this land, as they are unable to finance the development and are not sure of the level of demand for this property.



**Figure 15: An example of a private development carried out by a contractor (in this case a 3 star hotel in Mekelle)**

#### **Large scale private developer**

There is very limited activity in the high risk real estate market. The only full example of this is Tsehay Real Estate. This development is located on the far east



of the city, approximately 10 km east from Meskel square, and on the LRT network. This development is primarily residential buildings, but has a four star hotel, office buildings, a cinema, buildings for commercial use, fitness amenities and children's amusement park. There are 635 apartments. It is aimed at higher income residential consumers, with flat prices generally upwards of US\$1,000 per square metre, and flat sizes upwards of 140 m<sup>2</sup>.

The land was acquired before the Lease Proclamation, and therefore it is not known whether the land was paid for or not. There is little availability of bulk infrastructure in the area, so the waterborne sewerage system is based on a large conservancy tank to store sewage removal by AAWSA, there are large diesel backup generators (even though there is electricity access on site) and it has access to the city's water system.

According to the representative interviewed, the reason for there being few real estate developers in Ethiopia is because of the lack of trust between the City Administration and the real estate developers, as well as a lack of financing available from domestic commercial banks.



**Figure 16: Tsehay Real Estate PLC (Private Limited Company) development in Addis Ababa**

### Commercial/mixed use developments

There are numerous commercial developments occurring throughout Addis Ababa, as the government is promoting these developments. In Addis Ababa these developments are often developed by the City Administration after being identified in the city master plan. An example of such a development is Senga Tera, where 8 hectares are set aside for middle income condominium housing, 4 hectares for commercial developments, 5 hectares for multiuse facilities, 3 hectares for onsite resettlement of initial inhabitants and the remaining 6 hectares for infrastructure.



**Figure 17: The future vision of Senga Tera during construction phase**

The commercial developments on the sites are intended to cross subsidise the middle income condominium developments and the infrastructure provision to the site.

### Informal developments

There are many informal settlements in Ethiopian cities, with a group of informal settlements being considered an informal development. Often these informal developments occur on land which has been cleared and is awaiting servicing or developments, or on the urban edge. Figure 18 shows an informal development which has occurred on land which has been cleared for the expansion of the Sheraton Hotel, but development has yet to start on this land.



**Figure 18: Informal dwellings in an area which has been cleared for redevelopment**

The other method of informal development is in the urban edge, where farmers play the role of the developer. The farmer will illegally subdivide his/her farmland and provide gravel or dirt roads, and then sell off the land to prospective home owners, who will provide the top structure. This land is serviced only by roads, with no other services provided. Figure 19 shows such an area in Hawassa, but the City Administration has serviced this area with electricity and provided several community taps next to the main entrance to the development. This settlement is in the process of being regularised, with the home owners receiving 99 years leases on their property.



**Figure 19: Previous farmland, subdivided by the farmer and then regularised by City Administration**

## 12 Conclusion

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These conclusions are drawn in two parts: firstly the extent to which Ethiopia, and Addis Ababa specifically, has the conditions in place to achieve successful land-based finance and, secondly, the actual level of land-based finance being achieved.

### 1.26 Are conditions in place for successful land-based finance?

#### *Demand for property*

The demand for property in Ethiopian cities is very high, driven by rapid economic growth. This is evidenced by the high rates at which property values are appreciating, taking the prices paid for auctioned land leases as an indicator and the fact that there are 900,000 households on the housing waiting list.

#### *Effective state?*

For land-based finance to be successful the State needs to provide for the devolution of responsibility to local governments, have a sound system of supporting local government and ensure that local authorities have adequate finance to run their administrations. In the case of Ethiopia devolution has been taken seriously in terms of institutional, financial and administrative systems at least. In the case of Addis Ababa it effectively has the status of a region, is



responsible for all infrastructure intensive services, and benefits from a progressive local government financing system. Further federal government officials are directly involved in the supporting the City's development efforts. However, these institutional, financial and administrative commitments have not been aligned with a commitment to devolve political power as evidenced by the crisis in local government of Addis Ababa after the previous elections gave control of the City to a party in opposition to that governing the federal government.

### *Effective city?*

The analysis undertaken for this report indicates that Addis Ababa is relatively effective, particularly when compared to Nairobi and Harare. There are a number of factors which contribute to this:

- Institutional integration, with the city controlling all major infrastructure intensive services, other than electricity and public transport, as noted above.
- Sound administration **structure** with limited political interference in administrative arrangements although, as mentioned above, the democratic process through which City representatives are appointed is a concern.
- Ample revenue to run the city properly primarily due to the tax sharing arrangement but with the land leasing mechanism also contributing. This financial strength allows the city to finance capital works from its own funds.

But the City does also face difficulties with underdeveloped administration **systems** and insufficient qualified staff, both of which mean the City cannot keep pace with the demand for property and associated infrastructure.

### *Access to land*

On the one hand it can be argued that Ethiopian cities have unlimited access to land as the State owns most of it and can release rural land for development or redevelop urban land for development as needed. However, on the other hand, the release of land is constrained by the administrative process for awarding leases and there are substantial constraints in this regard associated with administrative procedures and, in the case of redevelopment, with relocations.

### *Active developers*

Property development in Ethiopian cities is also constrained by the lack of private sector property developers, with, in the case of Addis Ababa, the City being by far the largest developer, responsible for 90% of condominium housing developments which are the dominant form of housing for all but the very wealthiest. The constraint with regard to availability of property developers is recognised by City officials and there is evidence of a commitment to facilitate a market for private developers. In order for Ethiopian cities to cope with the pent-up demand for housing and commercial property this is a key factor for property development success and hence for the opportunities for land-based finance.

### ***Access to property related finance***

Very limited information in the finance sector in Ethiopia was undertaken for this case study. However, the indication is that mortgage finance for individuals is difficult to obtain. The mortgage finance for households purchasing condominium housing units is facilitated by the State and has been able to deliver at the rate of 50,000 loans a year (the rate of delivery of condominium housing units). The extent to which buyers are able to service loans over the long term remains to be seen but the financiers are protected through State guarantees to some extent (as far as could be ascertained). In the case of developer finance this is not a factor at the moment as this sector is largely inactive (aside from one Chinese developer with loan from Chinese sources).

#### **1.27 How much is this resulting in actual land-based finance?**

Overall the position reflected in the 'potential' section above is that there is a demand for property, there is a relatively effective State and City and access to finance does not currently appear to be a problem. The development of property is being limited as private developers are largely absent and the land lease system is proving to be too complex which results in insufficient land availability. In this context how successful has land-based finance been? Based on the research undertaken for this case study, limited as it is, an answer is proposed in three parts. Firstly the land lease programme represents a level of commitment to a formalised and soundly administered value capture, backed by a track record, which is unique in Sub-Saharan Africa. Secondly, the impact of the land lease system as a value capture mechanism is not as great as it should and could be. Thirdly the Ethiopian State and cities, Addis Ababa in particular, have proven able to be innovative and implement new policies – or adaptations of existing policies – quickly. This has positive implications for a greater degree of land-based finance in the near future.

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All figures and tables are the author's own unless otherwise stated.

## 14 Appendix A – Hawassa and Mekelle

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### Background to cities

#### Hawassa

Located 273km south of Addis Ababa in the Great Rift Valley, Hawassa is the capital city of the Southern Nations, Nationalities and People's Regional States (SNNPRS). Hawassa was established 55 years ago and it is one of the very few Ethiopian cities founded based on a master plan.

Hawassa has 228,000 residents at present. With its annual population growth rate of 6.4% this number is expected to reach 1.2 million in 2040<sup>17</sup>. As part of its long term development strategy, Hawassa's administrative boundary was increased from 14,600 hectares to 30,700 hectares last year. This expansion is intended to accommodate future growth and to make land accessible and affordable to the public.

Hawassa is an autonomous local urban government with an elected city council and a mayor. The city council has 176 members and is the highest legislative organ and decision making body of the city. The council has a five years term and appoints the mayor. The city has three tiers of administration known as the city, sub-city and Kebele administrations.

Hawassa is one of the national government's targeted industrial cities and is in a growth corridor identified by the growth and transformation plan of the country. As a result the number of large and medium scale industrial establishments is showing a steady increase. Food processing, garment manufacture and textile manufacture are the main economic fields in the city together with a fast growing commerce and service sector. Due to its lakeshore Hawassa is one of the tourist destinations in the country promoting the hospitality industry. The city's revenue comes from three main streams; the municipal revenue, regional block grant and federal specific purpose grants. The total revenue of the city increased from US\$4 million in 2009 to US\$12 million in 2014<sup>18</sup>. The city's own revenue base is steadily increasing, and has reached US\$4.4 million in the 2014 financial year after steadily increasing for the past five years. Municipal revenue is far from financing all services and thus subsidized by transfers from City Administration budget.

In a similar situation to Addis Ababa, land and housing supply is a critical problem in Hawassa, forcing people to settle informally at the outskirts of the city mainly in Tula and Tabor sub cities. According to the municipality speculators anticipating high increase in land prices represent a good percentage of the squatters. Recent studies estimate out of the 21,200 houses, 3,700 (18%) are estimated to be without formal plan (Cities Alliance, 2014).

The city is implementing a number of service delivery improvement and large scale infrastructure development projects including major roads and an airport.

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<sup>17</sup> This is a population and area projection of Hawassa Urban Expansion Project being undertaken by Hawassa City Administration.

<sup>18</sup> Hawassa city's financial administration profile presentation (2014)

## Mekelle

The northern Ethiopian city of Mekelle is the capital of the Tigray National Regional State. The city is home to 308,000 people. The population size is projected to reach 1.5 million in 25 years<sup>19</sup>. The annual population growth is estimated at 6.1% per annum. The city covers a total of 45,800 hectares out of which 26 000 hectares was recently added in 2014 by the urban expansion plan of the city to accommodate the city's growth until 2040.

Mekelle has a similar political and administrative system as Hawassa and other City Administrations in the country. The city has a mayor appointed by and accountable to the elected city council. The city is divided in to seven sub cities with decentralised service delivery function. *Kebeles* are the lowest formal administrative structures.

According to the mid-term report of the growth and transformation plan 78.4% of the total working population of the city is employed. Construction, manufacturing, urban agriculture, and the service sector are the major employers in the city. The city's total budget increased from US\$ 7.5 million in 2010 to US\$34 million in 2014. City officials, however, claim that this increment is negligible compared to the backlog of socio-economic and physical infrastructure services.

A survey conducted in 2008 states out of 69,900 housing units of the city 59,600 are privately owned. The City Administration implemented housing development programmes, however, these were interrupted five years ago. There is a plan to launch a condominium housing scheme similar to the one being undertaken in Addis Ababa. Housing shortage is still a critical problem aggravated by inadequate land supply encouraging illegal settlement and construction in the city. The city is implementing redevelopment programmes to change the image of congested inner city areas characterised by deteriorated houses and poor sanitation. By comparison housing condition in the new expansion areas is reported to be of reasonable quality.

The water and sewerage enterprise of the city is undertaking large scale water resource expansion programmes that are funded by the city and the regional government. Such programmes have enabled the city to increase its potable water supply to 80%. However, given the fast population growth of the city, booming construction and increasing number of manufacturing industries the coverage is most likely to decrease unless new water resource development and distribution projects are carried out.

## Institutional context of secondary cities

Cities are created by the Regional governments, and are not enacted in national legislation.

In the case of Hawassa, Mekelle and other secondary cities, the regional bureaus of Urban Development (Industry and Urban Development) exert a certain level of control and influence even though the city proclamations enacted by the regional

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<sup>19</sup> Population and area projection of Mekelle Urban Expansion Project being undertaken by Hawassa City Administration.



governments declare that a City Administration is a self-governing entity. These cities also receive annual block grant from the region and are required to report to the relevant regional authority.

The institutional setup of the major secondary cities, including Hawassa and Mekelle, is similar to Addis Ababa to a large extent. The tasks outlined above are implemented by the so called “core processes” and case teams organised by the Business Process Engineering (BPR)<sup>20</sup> studies of the cities. Currently all secondary cities have established or are establishing a Land Development and Management Agency responsible for the development, management and transfer of land. Their organisational setup is more or less similar to Addis Ababa as it is based on the proposal of the National Land Management and Development programme. The Land Management Agency is an autonomous entity accountable to the mayor.

## **Institutional arrangement of services in Hawassa and Mekelle**

### ***Water supply and sanitation in Hawassa and Mekelle***

Hawassa has established a separate agency for water and sanitation, the Hawassa City Water Service Enterprise (HWSE). As is the case with AAWSA, it is a separate entity and has a Board and its own administration with branch offices. The Board of HWSE is appointed by and remains accountable to the City Council, and is the highest decision making body. However, in contrast to AAWSA, HWSE is, in effect, operated as a separate department within the City Administration, whereas AAWSA is not located within the City Administration at all. Significantly, billing is undertaken by the City administration, not by HWSE.

Mekelle has the same arrangement as in Hawassa, with a separate agency for the provision of water and sanitation services, with a Board chaired by the Mayor of Mekelle and operating as a separate department within the City Administration.

### **Roads**

In Hawassa, the road sector activities are organized under a core process known as the City Land and Related Services Administration Supply, which is in charge of many other municipal activities apart from roads. Such arrangement has adversely affected the emphasis and efforts to roads service delivery, even though the extent and quality of the road network has increased significantly.

In Mekelle the roads are managed by the Mekelle City Office of Construction, Roads and Transport. This department is responsible for all construction carried out by the city (including assisting with the provision of construction expertise to water provision), building and maintaining roads, constructing condominium housing and municipal buildings, as well as the licensing of vehicles and drivers licensing. The office is severely understaffed, and there are in excess of 200 capital construction projects which are underway in the city currently (interview with the Head of Mekelle City Office of Construction, Roads and Transport, 2015).

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<sup>20</sup> The BPR process was undertaken in order to streamline the functioning and institutional arrangements of the cities.

### **Public transport**

Hawassa and Mekelle do not have very well established public transport systems, and they rely heavily on informal mini-bus taxis or 'tuk-tuks'.

### **Capacity of city and state**

Both the Hawassa City Administration and Mekelle City Administration have very competent staff, although neither have full organograms. An official in the Mekelle City Administration stated that "our capacity is not enough to supply the land". Upon further questioning, he described that the implementation of the land clearing and servicing phases takes too long, thus creating an artificial market and pushing the land lease prices up.

### **Infrastructure profile:**

#### **Water supply and sanitation**

##### **Hawassa**

Hawassa is located on Lake Hawassa, which is a perennial lake, thus there is access to ample raw water throughout the year. Water in this lake is not safe to drink, and can cause disease, although it is safe for agricultural use (Worako, 2015). People will walk up to half an hour to access this water if they live away from the lake. Water treatment facilities are also improving in the area, ensuring access to clean water (USAID, 2014).

Hawassa does not have a sewerage sanitation system. Some formal properties have their own septic tanks, soakaways or storage tanks, and the sewage is removed by vacuum trucks and taken to drying beds 7-10km outside the cities, where other formal and informal properties rely on pit latrines or open defecation. The relative proportions of these are not known.

##### **Mekelle**

Mekelle is located far from suitable surface water sources and hence relies on groundwater. Wells service the city, but are very expensive to drill as the water table is approximately 350m below the surface. High cost has been a contributor to the fact that the bulk supply cannot keep pace with demand, and access to water in the city is very low at approximately 67%. Frequent outages occur as water is distributed through the city on a scheduled basis to ensure a more equitable supply (Abebe, 2011). Large industries in the area, such as the Messebo Cement Factory, have their own water sources to ensure continuous supply.

##### **Roads**

The road networks in Hawassa and Mekelle are generally in good condition. There is extensive use of cobbled streets in these cities, as it is relatively cheap (compared to asphalt), creates employment and requires little maintenance.



***Figure 20: Cobbled streets in Hawassa***

### **Industrial development in Hawassa – example of private developers**

The government is promoting industrial developments all over the country, and Hawassa has been chosen to become a light industrial hub. An area of land has been allocated towards industrial projects outside the city. The region pays the city to clear and service the land for these industrial developments. The industries which choose to allocate to these designated areas pay very low land lease fees. In Mekelle, the rate for industrial use of land is 3.6 US cents per square metre per year for 80 years of which 15% must be put down as an upfront payment. They do not pay any form of property tax.

## 15 Appendix B – List of interviews

The project team is indebted to the following people who spent their valuable time contributing to this study. Below is a list of interviewees:

**Table 7: List of interviewees**

Interviewee number	Date/Time	Program/Interviewee
<b>Tuesday 17 March 2015</b>		
1	09:00 – 11:00	Ato Hassen, Director of Addis Ababa City Administration Land Banking and Transfer Bureau
2	14:00 – 15:30	Abebe Zeluel, Head of Property Tax Administration Project, MUDHCO
<b>Wednesday 18 March 2015</b>		
3	09:00 – 10:30	Israel Tesfaye, Head of Land Development and Management Bureau, MUDHCO
4	11:00 – 12:30	Fekadue Zelekke, deputy head of Addis Ababa City Water and Sewerage Authority
<b>Thursday 19 March 2015</b>		
5	09:00 – 10:30	Haregot Alemayehu, Head of Addis General Manager, Land Development and Urban Renewal Agency
6	14:00 – 15:00	Wegayehu Mebratu, Addis Ababa Finance and Economic Development Bureau
7	15:30 – 16:30	Eng. Fekadu Haile, General Manager of Addis Ababa Roads Authority
<b>Friday 20 March 2015</b>		
8	11:00 – 12:30	Dr. Frew Mengistu, Ethiopia Civil Service University (ECSU)
9	14:00 – 15:30	Yonas Ayalew, Deputy head of Addis Ababa City Administration Housing Development and Construction Bureau
10	16:00 – 17:00	Sisay, Head of engineering division, Sunshine Construction and Real Estate
<b>Monday 23 March 2015</b>		
11	09:00 – 11:00	Tairu Tafe, Head of Finance Unit of Hawassa City Administration
12	16:00 – 18:00	Biru Wolde, City manager of Hawassa city

Interviewee number	Date/Time	Program/Interviewee
		administration
		Shewarega Shelemo, Head of Land Development and Management Office Hawassa city Administration
		Mebrate Melese, Head of Infrastructure Provision and Management Core Process
Tuesday 24 March 2015		
13	09:00 – 10:00	Gezahegne Arschiha, Land Marketing and Lease Administration Department
Wednesday 25 March 2015		
14	10:00 – 12:00	Senay Ebesa, ULGDP Coordinator of Mekelle City Administration
15	13:00 – 14:30	Mehari G/Hiwot, Director of Construction Road and Transport Office of Mekelle City Administration
16	15:00 – 16:00	Gidena Abebe, Head of Mekelle Water and Sewerage Office
17	16:00 – 17:00	Girmay G/Tsadik, Deputy Head of Mekelle Finance Office
Thursday 26 March 2015		
18	09:00 – 10:00	Girmay G/Tsadik and Abraham Nega, Urban Plan Preparation and Monitoring Department of Mekelle City Administration
19	10:30 – 11:30	Alem, Land Management and Development Department of Mekelle City Administration
20	12:30 – 13:30	Abebe Kebede, Senior Advisor, Policy Development Institute
Friday 27 March 2015		
21	10:00 – 11:30	Fekadu Berhe, Former Bureau Head of Tigray Bureau of Finance

## **16 Appendix C – Addis Ababa planning and property development organisational detail**

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### ***Land Development and City Renewal Agency:***

The agency is responsible for developing and implementing land development and city renewal strategies based on the structural and plan and local development plans of the city. The agency prepares land for different development activities within the city including renewal of dilapidated and deteriorated areas. This task involves clearing land and by relocating occupants, preparation of substitute plot of land for displaced people, fix compensation payments for demolished property during renewal works and issue certificate qualifying displace people to receive substitute land, house or compensation accordance with the relevant law. Once the land is cleared the agency undertakes the building of the necessary infrastructure for renewal and land preparation as dictated in the local development plan of the specific area. The agency then transfers the developed land to the land bank and transfer office.

### ***Land Bank and Transfer Office:***

This office is responsible for keeping proper information of developed and undeveloped land within the city boundary. The office conducts land grading study to prepare a price map that determined the base lease price of different grades of land within the city. The price map is to be revised two years as required by the Lease Proclamation. The other main responsibility of the office is transferring land through auction or allocation for various purposes. Ensuring that the transferred land is utilized according to the lease contract between the city and the lessee and the timely start and completion of constructions is also the responsibility of this office. The land bank and transfer office also protects developed and undeveloped land from illegal occupation. In general the office is entrusted with ensuring a balanced demand and supply of land favourable for the development of the city.

### ***Title Administration Transitional Period Service Project Office:***

This office is a temporary arrangement put in place to deal with registration, administration and transfer of properties. The office will be replaced by the Immovable Property Registration and Information Agency which is currently under establishment. The project office provides registration and protection service of immovable property. It also issues ownership certificates for improvable properties and title deed for old possessions in accordance with the law. Maintaining organized records of land use as well as information of lessees and authorising change of land use are other mandates of the project office. The office also sets the necessary foundation for legal and physical cadastre.

### ***Urban Plan Institute:***

The institute prepares structural and local development plans as well as planning standards of the city. It is also responsible for revising and altering the plans when deemed necessary. The institute monitors the implementation of plans and their conformity with the binding standards. The institute also prepares proclamations, regulations, standards and directives pertinent for urban planning and follow up their implementation.

### ***Integrated Land Information System Installation Project Office:***

The project office is another temporary arrangement put in place in order to gather and organise land and land related information. Establishing a functional street naming and addressing systems is another task the project office is mandated with. The project office paves the ground for the smooth operation of the land information agency that will be established in the future by collecting and organizing land and land related information and establishing a modern land information management system.

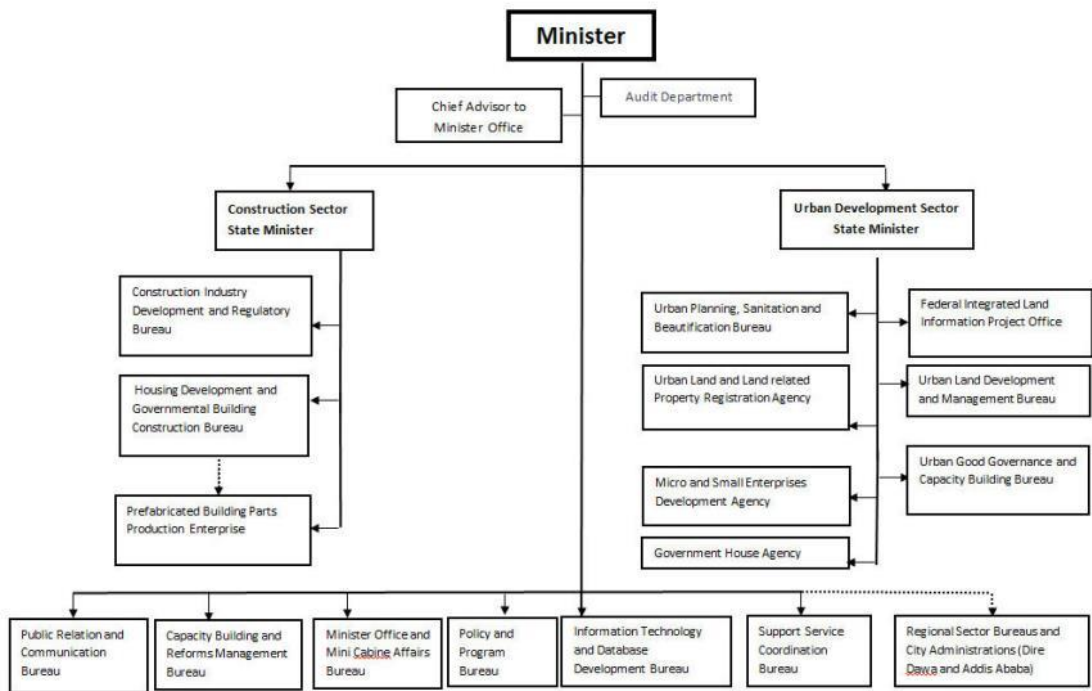
### ***Land Information and Technology Centre:***

The centre is envisaged to be the technological infrastructure platform for the collection, organization and dissemination of land and land related information and thus ensure the efficiency and smooth operation of the land information management system. The centre will establish and maintain a land information database, conduct studies, drafts proclamations, regulations, standards and directives relevant for the collection, organization and dissemination of land. The centre will collect and analyses base-maps as well as other geophysical land related information and make them accessible to the public. This centre is under establishment and not operational yet.

### ***Building Permit and Control Authority:***

This institution of the City Administration is responsible for approving construction designs of builders (individuals, public entities contractors etc.) by ensuring their conformity with the planning standards of the city. The authority also monitors that builders implement the approved designs and inspects the quality of construction inputs used. Detailed infrastructure network plans of the city are prepared by this office with the aim of harmonizing infrastructure building and supply within the city. It also approves the design of infrastructure networks prepared by the relevant bodies, issues permit for construction and monitors conformity with the approved designs. Requests for design improvement or extension of construction period are handled by the authority.





**Figure 21: Organisational structure of MUDHCO**

## 17 Appendix D – Urban planning process

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The urban plan preparation process in cities follows the following major steps prescribed by the planning law.

**Plan initiation:** this includes needs identification and prioritisation, engagement with affected communities and stakeholders (including developers) and confirming the nature of the need for the new urban plan.

**Situation assessment:** this step, together with community and stakeholder engagement, draws together the background information needed to identify planning issues and set the plan's vision, goals, and objectives.

**Issue identification and prioritization:** a prioritized list of key planning issues responding to the critical problems and their detailed analysis.

**Setting vision, goals and objective:** after further citizen engagement the city's vision, goals and objectives are confirmed in a consolidated report or concept paper.

**Data collection, analysis and interpretation:** the planning team collects analyses and interprets historical, physical, socio-economic, environmental, spatial etc. data in order to understand better the priority issues and the planning area, which are then reflected primarily through a set of maps.

**Preparation of concept plan:** a concise plan determining future expansion directions, major land use categories/ zones and other structuring elements.

**Preparation of a framework plan:** the final product of the planning process that provides details of existing and future requirements of social, economic, infrastructure and municipal services, with the level of detail varying depending on the type of plan being prepared (structure plan or LDP).

**Plan approval:** by the city council after a final round of public hearings and, in regional cities after the approval of the plan by the Regional Urban Planning Institute (RUPI), while in Addis Ababa a memorandum of understanding between the sub-City Administration and community and other stakeholder representatives on the content and implementation schemes of local development plans including relocation, compensation and other provisions for people displaced and affected during implementation.

## 18 Appendix E – Revenue lists defining the way revenue is shared between State and local/regional government

**Table 8: Revenue Lists**

Central Government List	Regional Government List	Joint List <sup>21</sup>
Duties, tax and other charges levied on the importation and exportation of goods	Personal income tax collected from the employees of the Regional Government and employees other than those covered under the sources of central government	Profit tax, personal income tax and sales tax collected from enterprises jointly owned by the central Government and Regional Governments
Personal income tax collected from the employees of the central Government and the International Organizations	Rural land use fee	Profit tax, dividend tax and sales tax collected from Organizations
Profit tax, Personal income tax and sales tax collected from enterprises owned by the Central Government. (Now sales tax is replaced with VAT and Turnover taxes)	Agricultural income tax collected from farmers not incorporated in an organization	Profit tax, royalty and rent of land collected from large scale mining, any petroleum and gas operations
Taxes collected from National Lotteries and other chance winning prizes	Profit and sales tax collected individual traders	Forest royalty
Taxes collected on income from air, train and marine transport activities	Tax on income from inland water transportation	
Taxes collected from rent of houses and properties owned by the central Government	Taxes collected from rent of houses and properties owned by the Regional Governments	
Charges and fees on licenses and services issued or rented by the central Government	Profit tax, personal income tax and sales tax collected from enterprises owned by the Regional Government	
	With prejudice to joint revenue sources, income tax, royalty and rent of land collected from mining activities	

<sup>21</sup> A joint revenue source is shared between the Central and Regional governments. Most often direct taxes (business and income tax etc.) are shared 50/50 by the federal and regional government, and indirect taxes (VAT, turnover tax etc.) are shared 70/30 between the federal and regional government respectively.

Central Government List	Regional Government List	Joint List <sup>21</sup>
	Charges and fees on licenses and services issued or rented by the Regional Government	