

**Ethiopian Economics Association
(EEA)**



**Urban Land Policy, Housing, and Real Estate
Markets in Urban Ethiopia**

Mekuria Haile

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Abstract

The main purpose of this study is to assess the demand and supply of land and housing market in urban Ethiopia and propose how to bridge the demand gap. The methodology that has been used for this explanatory study is based on extensive review of various government documents and strategy papers as well as the review of secondary sources from government institutions. The significant variables identified for efficient and effective management of urban land in this study which would be expected to bridge the gap between demand and supply include the land production and transfer should be at least on cost recovery bases; the location, size and ownership of land should well identified; the role of real-estate for land production and transfer should not be undermined; and creating efficient market for urban land. Furthermore, this study identified the important independent variables that influence the urban housing demand and supply imbalances' which include the need to restructuring of the housing governance method (enabling the market and targeting appropriately the subsidies in need); stakeholders' engagement; facilitating for self-built and cooperatives housing; and addressing the financing strategies.

Acknowledgements

Urban Land Policy, Housing, and Real Estate Markets in Ethiopia study has been conducted with a financial support and technical advisory from the Ethiopian Economics Association (EEA). The report touches different aspects of the urban land policy, Housing and Real Estate Market in the country and could be used by the Government of Ethiopia (GoE) for improving policies related to the study.

The policy recommendations proposed in this study originated from consultation with the senior experts on the subject matter, leadership from the Ministry of Urban development and Infrastructure, and existing report evaluations and the author's practical experience in the past fifteen years in the sector. I am grateful to EEA for giving me this opportunity to contribute for the sector development and propose policy concept note on the issue.

This study was prepared under the overall guidance of Demirew Getachew (Research Projects Coordinator at EEA) as one of the key pillars of preparing the Terms of Reference (TOR) for the research agenda; I want to express my gratitude to Ato Demirew. I am also grateful for the team who conducted the study on "unlocking the Ethiopia's urban land and housing markets" under my leadership while I was Minister for the Ministry of Urban Development and Construction. I made deep reading on it and advanced the concept further.

This study has immensely benefited from comments and inputs from consultation with expertise as well as similar previous studies in the area. The views expressed in this study are of the author and does not reflect official position of the EEA.

Preface

The Study on Urban Land Policy, Housing, and Real Estate Markets in Ethiopia was conducted to provide evidence for designing efficient and sustainable land management, housing and real-estate that could enhance proper functioning of housing market in urban Ethiopia.

The urban land policy that has been taken by the Government of Ethiopia is urban land lease holding system, which is one form of land tenure that enables the government to transfer land use rights and benefits from the state to private individuals. Despite this policy measure, the public could not have secured land access for housing and investment purposes. It is necessary to review and assess the relevance and implementation of urban land policy of the country in relation to solving housing problems. Thus, it necessary to assess the urban policy that is, urban land lease policy with respect to efficiency and equitable distribution of land in particular for housing and real estate development.

Demand for residential houses in Ethiopia, especially in Addis Ababa, had risen over the past few years. It became uncertain for the public sector to solve an escalating urban housing demand along with doubling of the current population in Ethiopia. High demand for residential housing on the one hand and low supply of real estate houses on the other hand have pushed prices beyond the reach of the majority of residents in the country.

EEA designed the Terms of Reference (ToR) based on the above practical observations and literature review about these inefficiently managed issues. The ToR sets objectives to deliver evidence-based policy briefs for policy makers on the growing demand for urban-land, housing, and real-estate in Ethiopia's fast urbanization situation. It identifies three interconnected strategic urban subject matters: Urban Land, Housing, and real-estate.

The inception report and preliminary findings were presented to the EEA review committee on the 27th of December 2021. Further, a high-level national consultation workshop was held in Best Western Pearl Hotel, Addis Ababa, with key stakeholders, higher officials, the private sector, the academics, members of the EEA, and development partners for the final draft reports to seek further feedback on the validation of key findings and recommendations which was held on the 29th of December 2021.

Executive Summary

The Ethiopian urbanization pace and level of development is unparalleled with the practical land management system which created the supply and demand imbalance for urban land and housing. Now, the issue is how can Ethiopian urban local administrations deliver land demand for investment and their citizens' residents adequately and compatibly so as to achieve the Ethiopian vision of becoming African beacon of prosperity in 2030. This study sets the objective of analyzing the context critically and forwarding the policy recommendations for the subject matters accordingly.

1. Urban land: Imbalance supply and demand market

Since the early 1990s, when the first urban land proclamations number 80/1993 had been declared, a lot of initiatives had been made to improve **land service delivery**. As per the constitution of Ethiopia article 40 sub article 3, land is a common property of the Nations, Nationalities and Peoples of Ethiopia and shall not be subject to sale or to other means of exchange. However, the government was expected to ensure the right of private investors to the use of land on the basis of payment arrangements established by law, which is clearly indicated in the same article sub article 6. In urban areas of Ethiopia, use rights can be transferred to third parties as long as the use right owner fulfills its responsibilities as per the lease contract, whereas in rural Ethiopia, it is impossible to transfer use rights unless on a contract basis for a limited period of time except for the family members. Hence, the land market is mainly between municipalities and citizens who are demanding the land for residence, investment, and/or real-estate development.

Sustainability of the land supply for multi developmental stakeholders including the private sector has not been performed successfully due to financial constraints. This is because the major portion of the land has been supplied with priority by municipalities to government projects such as housing, roads, telecom, water, health, education, etc. without any payment, even for the compensation and infrastructure development. From budget perspective, land supply is not financially sustainable for city administrations since they are not compensated by the government for the expenditures they incur. From the total area of land

supplied per year, only a small proportion of it is allocated to the market for transfer through auction to individual and business users. Such a strategy without a clear association of cost to the beneficiaries (public infrastructure and condominium houses) has created an imbalance between demand and supply of urban land. Though the argument from the government side is social welfare development, which is acknowledged in this study, the consequential effect of this strategy has been significant and caused cities incapable of satisfying the serviced land demand and supply for the market.

Despite a lot of initiatives to manage the land market by developing different levels of legislation, the market is still mismanaged and inefficient due to absence of modern management. Local governments are the main suppliers of urban developed land, and they rarely satisfy the demands of residents, investors and real-estate developers. Most of the time, land with relevant infrastructure supply is very low and a large portion is delivered without the supply of main utilities. Besides this, the compensation of land when reclaimed from the farmers is low relative to what they can “sell illegally” which becomes the main source of resistance around the hinterland of cities in Ethiopia.

It is imperatively clear that individuals and businesses that have no legal access to formal land supply from the original holders, they do it illegally because all the land is primarily claimed by municipalities for market purpose and they usually prioritize public projects such as public infrastructure projects, housing or social development projects, but they are under constraint to use the land for the private sector appropriately. The formal market's limited supply in relation to individual and business demand has fueled the growth of informal markets and squatters, which have distorted urban planning. These markets serviced by farmers are significantly big in semi-urban settlements. In practice, they are becoming sources of land supply for residences and small and medium level businesses.

The unprofessional real estate market has not much contributed to filling the demand and supply gaps in the housing market. The real estate industry is underdeveloped and has had substandard practices in Ethiopia, especially in Addis Ababa. There is no system that delivers reliable information about the price, size, quality and availability of utilities, which could have been the basis for decision making by consumers, banks, cities, etc.

The quality of urban land administration legislation aggravated the unmet demand and supply of the urban market due to a lack of an efficient land market. The continuously updated land market law (lease law) has also not enabled urban demand and supply to be appropriate as expected. The precondition requirements for using the leasehold rights have further complicated the transferability and limited the use of leasehold title as collateral to secure funds for investment. The compound interest rate on unpaid balances has also reduced the property market and transferred wealth.

2. Housing: Insufficient housing supply and unaffordable real-estate market

The condominium house supply initiative that has been launched by the government is not sustainable and has not been able to cope with the demand. Even though the rationale for the government's intervention in housing supply was justified, and the size is significant, mismanagement exposed it to challenges in its sustainability, in addition to unsatisfied demand.

In addition to the ineffectiveness of the objectives of the government on housing supply, it has further caused distortion in the land and housing markets. The housing market in Ethiopia is inefficient. There is a large unmet demand with respect to quantity and quality, which also has a direct influence on the prices. As per the MUDDCo GTP II plan (2011), the annual urban new house demand projection, excluding the replacement of the old, is 381,000, which has far exceeded the speed of annual supply. This makes the urban population to live in informal settlements. For instance, according to the World Bank Group 2015 report, Ethiopian cities are entertaining the highest levels of urban population living in informal settlements, which is higher even compared to Sub-Saharan African countries because of the housing supply constraint.

The affordability of the housing market is still a critical challenge in Ethiopian cities. In cities, most residents are in low-income groups and it is a challenge for them to afford houses from in the market, even if they are in a position to afford government subsidized housing packages. Housing packages provided by the government or the private sector are primarily geared toward middle- and upper-income households. Therefore, they don't have any options

except using informal housing². Residents who can afford it may bridge their housing demand gap by using the rental.

Housing finance is not linked to the mortgage market due to the weak clarity of the land markets and hence, the housing finance system is underdeveloped. Except the government led housing project, most housing finance is from the informal sources. Despite the fact that banks grant a large number of loans, the proportion of loans allotted to housing is very small. This might be due to a lack of clarity on the lease rights of the owners.

3. Strategies for addressing urban land and housing challenges: Making market work

There is no appropriate **market that works for land and housing**. The Ethiopian government has the responsibility to develop a market that is responsive to land and housing demand.

The Federal Government of Ethiopia bears a significant amount of responsibility for developing a strategic and phased approach to developing urban land markets. Efficient land and housing markets cannot be built overnight, and such reforms require strong leadership, a clear strategic vision with transparent strategy, as well as appropriate prioritization and phased-approach actions (well-articulated milestones). Thus taking into account the political economy the country and available resource and capacity, it requires to implement tailored policy reforms that will have the most impact in moving the land and housing market to the right direction. The important milestones may include: (1) Developing a strategy that enables cities to generate resources through land value capturing and recovering their investment in land development, whether the land transfer is either for the government for purposes of public utilities and infrastructure development or for the private sector for business and residential development purposes; (2) titling and registering who owns what size, which identifies the type of right attached to the ownership; (3) create a market that can enable exchanging use rights with efficiency and adequately secure the property rights; and (4) developing and implementing a strategy that facilitates the

² Informal housing is defined in Ethiopia as informally constructed units without building permits as per the cities' master plan; the features may include their irregular plot distribution and street patterns.

development and supply of serviced land, which could **enable appropriate market functioning** and address the land demand gap for businesses and residences.

Even though Ethiopia has exercised the lease system for urban land administration, the conceptual implementation has not been well designed and it is suffering from mismanagement. Hence, it is plausible to recommend that the payment system should be simplified as soon as possible, lease rights transferability should be moderated, and mortgage-ability should be eased-up. The Ethiopian government is not appropriately addressing the cost of land compensation and development while acquiring land for utilities, infrastructure, and housing.

It should have been critical that the government capture and analyze full and accurate information on land development costs and develop a strategy on how to capture revenues through cost recovery. This could have enabled the government to know how much resources are subsidized for homes to make housing affordable and to strategically plan on addressing the issue of sustainability. Hence, it is really essential to have the data points that help to manage land supply efficiently, effectively and sustainably.

The big initiative taken by the government to supply residence houses in Addis Ababa seems to have not adequately addressed the problem even though it has contributed to the solution. Hence, it becomes paramount to have a proper housing market that the government should take a big responsibility to make happen. The first initiative should be to create a proper land market. This may include developing a conducive environment for the supply of land and making the transaction easy and transparent, which are very important steps. The other initiative may include enacting legislation and make the real-estate market transparent and accountable to contract. For the housing demand and supply markets, it is critical to consider how to target the various segments of the society's housing problem based on their level of income, especially if a systematic strategy of subsidies is implemented as has been done in other countries such as the Netherlands³.

³ “The implicit subsidy of 14 billion euro thus amounts to approximately 20 percent of the implicit price of owner-occupied housing. Put differently, the net subsidy reduces the user cost for the home owner from 5.7 percent of the housing value to 4.5 percent” explained by De Economist (2007).

The financing strategy for the housing market should also be well addressed and the role of land titles in how they can be used as collateral should also be clarified. Ethiopia's potential demand for the housing finance system can motivate the supply of finance for housing to mature into a dynamic marketplace, attracting both local, foreign investment and increasing private sector housing supply dramatically. The Federal Government, through main stakeholders such as the Ministry of Finance and the National Bank of Ethiopia, should spearhead the development of the housing finance system. Building the housing finance system is essential not only for the housing market and broader economic growth because it encourages supply through development and housing loans. Commercial banks, regional banks, microfinance, development banks, pension agencies and others should take the housing sector as a major portfolio of loans. This would support demand by enabling households to purchase their own homes with mortgage products, encouraging saving and national wealth creation. Hence, it needs to be taken as one of the major intervention indicators for economic growth.

To carry out such complex responsibilities, housing governance and institutional restructuring are critical. Government entities at all levels need to be evaluated and made certain about their capacity and effectiveness at enabling the housing market to work and unlocking blockages across the housing value chains. As an example, the power of all stakeholders, as in private sectors, local and regional governments, should be involved in the program so as to solve the housing shortages. Therefore, targeted restructuring and capacity building are required to achieve the ten-year perspective plan at federal, regional and local levels. Technical skills for estimating the cost of infrastructure provision and mechanisms for infrastructure financing; balancing urban planning requirements, easing the land and housing markets; and the ability to coordinate market stakeholders to ensure that policies and programs benefit all segments of the society are examples of such institutional set up and capabilities. Availability of reliable data to develop relevant and evidence-based policies and strategies for urban land and housing supply and demand market management is a critical challenge. It is critically needed to design and implement evidence-based policy for evaluation and appropriate remedial actions. Market information is necessary for the market players and policy makers. With more reliable data, the private sector will be more likely to introduce new efficiencies, which will help lower

costs for housing. The government needs to invest in management information systems that can enable leaders to make informed decisions. Therefore, it is very important for the prioritization of the collection and dissemination of relevant and reliable market information, which will also help to lessen risk in the sector and encourage private sector investment.

It is strongly recommended that less government intervention strategy for the Ethiopian Integrated Housing Development Program to be adopted. Legitimate office should be established with the consultation of the financiers, owners of the house, city administrations, regions, federal government ministries, and contractors that help to lessen the government's intervention strategy on housing, etc. It seems that the program is getting to a dead-end and a gradual exit across cities and regions is very critically important to close the program properly, except for Addis Ababa. Addis Ababa should be considered as an exception since it is a national growth pole and due to its excessive urban primacy (11 times bigger than the next largest city) unless we address the housing challenges, the disproportionate number of migrants to the capital is going to contribute to congestion externalities. Therefore, there is a need for the Federal Government's intervention that could be addressed based on cash flow analysis, taking into consideration government obligations, the financial stability of builders, and financial implications for the financing banks, regional administration's issuance of bonds as collateral programs, citizens' saving obligations levels, time schedules for completing the projects under progress, and those that could be transferred to the state of under construction, etc. focusing project by project. The government may also enable the private sector to access land by increasing land auctions to meet the level of demand equilibrium. The urban local governments should use the auction proceeds to fund infrastructure and service delivery, as well as to support targeted subsidy schemes for low-income households.

If the above recommendations are implemented well, Ethiopian urban land and housing markets will regenerate and achieve the ten-year perspective plan of supplying urban land and housing in an efficient, equitable, and sustainable manner, which will result in reaping the benefits of rapid and resilient urbanization ahead.

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I. Introduction

1. Background of the Study

The Ethiopian urban land policy, housing, and real estate markets assessment study has taken into consideration the previous studies such as the Ethiopia urban land supply and affordable housing study (2019) and the Ethiopia urbanization review (2015). The study aims to bring about a comprehensive outcome and recommendations on urban land and housing in Ethiopia to supplement the urban policy making process in the country. In general, the assessment study briefs the findings and recommendations on two main issues that include urban land supply and the housing market.

In view of meeting urban housing demand, some scholars and political elites appreciate informal settlement, while others argue against such informal squatting processes. Supporters of informal settlement have taken a positive outlook on how informal settlements are successful solutions to housing problems in urban areas, mostly in the developing world. This perspective appreciates the squatter settlements, calling for concerted and committed efforts of the government towards solving housing problems. On the other hand, it is argued that the problems of the informal settlements are the outcome of failed policies, inappropriate regulatory frameworks and administrative procedures, corruption, and a lack of political commitment to manage the problems sustainably.

Demand for residential houses in urban Ethiopia, especially in Addis Ababa, has risen over the past few years. Furthermore, according to the Ethiopia urbanization review 2015 report, an estimated 70 to 80 percent of the urban population lives in what might be classified as slums, under a commonly accepted international definition, such as lack of durability, adequate space, access to safe water and sanitation, or security of tenure. Moreover, there are spontaneous relocations to cities and towns, putting pressure on the government to satisfy housing demands. It has become uncertain for the public sector to meet an escalating urban housing demand along with a doubling of the current population in Ethiopia. To overcome the housing problems, Ethiopia has introduced various housing development schemes where condominium housing is the dominant strategy, with the main intention of minimizing disparities, ensuring access to decent and affordable housing for the poor urban dwellers. However, the price of condominiums is still shooting up and becoming increasingly difficult to afford.

High demand for residential housing on the one hand, and low supply of real estate houses on the other hand, have pushed prices beyond the reach of the majority of urban residents in the country. With this escalating urban housing demand, the private sector has also engaged in developing real estate housing in urban Ethiopia, but its contribution is very small in filling the gap. Nevertheless, evidence shows that many urban Ethiopians still live in houses that are not conducive to a healthy life.

Further, it is necessary to review and assess the relevance of revising the urban land policy of the country. The urban land policy that has been adopted by the government of Ethiopia is the urban land lease holding system, which is one form of land tenure that enables the government to transfer land use rights and benefits from the state to the private (Urban Land Lease Holding First Proclamation No, 80/1993, Art, 5-7). Despite this policy measure, the public did not have reliable and predictable land access for housing and investment purposes. Thus, it is necessary to assess the quality of urban land legislation that is, urban land lease policy, with respect to efficiency and equitable distribution of land, in particular for housing and real estate development.

Thus, the Ethiopian Economics Association (EEA) has prepared a TOR which guided and framed this study and also helped to structure the presentation document that is expected to contribute to addressing the challenges mentioned above.

2. Objectives of the Study

The main purpose of this study is to assess demand and supply for land and housing markets in urban Ethiopia and to come up with recommendations on how to bridge the demand gap. In addition, the study assessed the trend of informal settlements, the major causes of the extended informal settlements, and the impact of informal settlements on the real estate market. The study tried to solicit strategic recommendations that should be used to minimize urban informal settlements within the country.

Furthermore, the study tries to identify lessons learned during the implementation of GTP II that may help to scale up such best practices and sustain the previous achievements in the Ten-Year Perspective Plan under implementation. The issues hindering the achievement of the targeted goals of the subject matters and areas requiring further focus are also identified and discussed in this study.

The beneficiaries of the study include members of the Ethiopian Economics Association and major potential stakeholders, including policymakers, researchers, academia, and the private sector, could also be the direct beneficiaries.

II. Methodology of the Study

The analysis and synthesis of this explanatory study was based on the extensive review of various government documents and strategy papers as well as the review of secondary data sources including the Central Statistics Authority (CSA), and Ministry of Urban Development and Construction (MUDCo) especially their annual reports. As in many developing countries, the availability and quality of the data set is a major challenge for undertaking evidence-based studies as well as conducting situation analysis.

However, it is vividly clear that here in Ethiopia there are quite well-documented policies and strategies on land and housing subject matters with relatively easy access and can be critiqued for their betterment. This study mostly adopted a desk-review based research approach to synthesize policies and strategies. The review followed a sequential order and focused on GTP I and GTP II as well as key government strategy documents, such as the integrated housing development projects of Addis Ababa.

The policy assessment part includes discussion on the objectives of the policies, strategic pillars, targets and the level of emphasis given to land development and supply and housing demand and supply. In addition to the policies and strategies, this study reviewed research reports and publications in relation to land management and housing markets in the urban context. Discussion on the interlinked roles and functions between urban land and housing markets raises the issues that require attention in providing integrated support or maximizing the gains in each of the sectors. Secondary data from the CSA survey on housing has also been used to analyze the demand and supply trends of urban housing in Ethiopia.

The analysis comprised the external threats and internal institutional weaknesses that challenge land and housing markets. This explanatory study is designed to approach how to lessen the constraints while promoting the exploitation of existing opportunities, which create a conducive environment for housing development and improves the land supply mechanisms.

III. Urban land production and transfer in Ethiopia

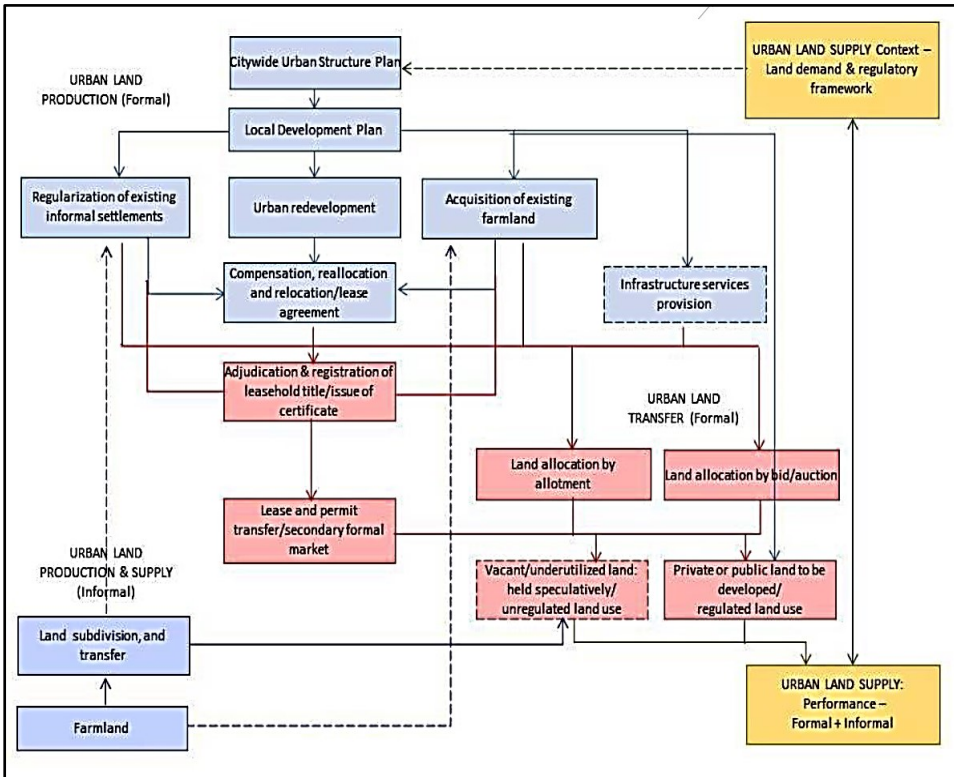
1. The land market context assessment

Before the Constitution (Proclamation No. 1/1995, which entered into force on the 21st of August 1995) was promulgated by the Federal Democratic Republic of Ethiopia, the land lease was proclaimed in 1993 with proclamation number 80/1993 for the first time in Ethiopia. It implies that the land issue was one of the first initiatives taken as the starting milestones of the country's transition to a market economy, though the constitution separated the ownership and use rights of urban land. The local governments, which have been the nine regional states and the two chartered cities, claimed to own the land while creating a tradable claim on urban land use right. This context has initiated the operation of the land market and other major activities that include the preparation of legislation for urban planning, expropriation and compensation of urban land, urban leasehold property rights, as well as registration of urban property and property transactions. In the mid-2000s, the country came across fast economic growth and rapid urbanization, which had a consequential effect on creating high demand for urban land and housing. Whereas the cities in Ethiopia could not entertain these demands, the issue has been kept more complicated. Hence, it is required to make significant changes to make the land management system efficient and effective so as to achieve the targets set out in the Ten-Year Perspective Plan (TYPP) vision of Ethiopia to be an African beacon of prosperity.

The concept of Ethiopian urban land supply options and the system may include: firstly, the cities' development and spatial planning is the starting steps for the formal land acquisition and supply. In this step, there are three sources of land acquisitions which are urban expansion, the redevelopment of the inner cities, and the conversion of informal settlements to formal ones through tailored decisions. Secondly, after the identification of the plots of the land, there are two main activities undertaken in this step, which are acquiring the land through expropriation and handling the previous entitled citizens by compensation and resettlement, and availing infrastructure for the land. Thirdly, having the

“developed land”⁴, the last step is transferring the land from the local government to the developers. Here there are two methods, which are direct allotment (allocation), especially for public utilities, and through bid (auction) for private sectors except manufacturing industries. However, the presence of the informal market, which illegally supplies land for developers, especially in the cities' outskirts, could not be ignored. The land demand and supply are imbalanced due to mismanagement in tandem with the incapability of the cities to manage land appropriately. In response to this, the informal land market gets aggravated.

Figure 1: The flowchart of land preparation and development to supply for developers



Source: Unlocking Ethiopia's Urban Land and Housing Markets (World Bank Group, 2019)

⁴ Practically cities are transferring land to developers without proper infrastructure due to financial constraints and if they do, they are not capably capture the value created due to infrastructure investment on the land. This is because they don't have the skill and knowledge managing the land value capturing.

As it is clearly observed in Figure 1 above, the urban land market has a tandem phenomenon of formal versus informal (the informal land market transaction is not supported by regulations) markets. These tandem land markets are active but inefficient for creating urban land markets. Moreover, there are urban centers versus urban peripheral land; government versus private; transfer based on direct allocation versus bid. There is urban land market imbalance between demand and supply. Supply is much less than the demand, and hence there is excessive pricing. The shortage of formal urban land supply has become the main reason for the expansion of the informal land markets and squatter settlements in most urban areas of Ethiopia. The speedy conversion of rural agricultural land to urban land because of the informal land market and mismanagement without urban planning is becoming a major political issue and creating tensions against the need for rural-urban integrated development. Our land management policy is facing a serious challenge due to a mismatch in urban land supply and demand. . In addition to this, the government itself and the public at large do not have trust in the whole value chain of the land production processes. This implies that the government needs to revisit the land administration and land policy issues, which may require passing through different phases of intervention such as consolidation, registration, ownership (public and private), clarifying rights, the smallest land holding threshold size, land market development, etc.

2. Review of the urban land administration context

It is a well noted fact that Ethiopia formulated various proclamations related to urban land administration and policies that included proclamation no. 80/1993, which was the first proclamation related to the urban land lease system within the country. Following this, the country enacted the second proclamation no. 271/2002; and the third one, no. 721/2011. These proclamations have had social and economic goals that were expected to be achieved after their effective implementation. In these proclamations, it was pointed out that appropriate land administration systems were needed needs for rapid and sustainable economic growth. In this respect, efficiency and responsiveness to the growing demand for land were taken as key issues in the land market, besides equity as a prime motive in the land administration. Accordingly, the lease policy states that the right to

use urban land (through lease) is permitted to realize the common interest and development of the people. According to the World Bank, the fundamental causes for development problems in urban Ethiopia are land management, governance and municipal finance (World Bank, 2016). In this study, bottlenecks that should be addressed are identified to be property rights related to transfer, ways of acquiring new development land, grace period, lease fee payment modalities, and duration of lease period.

As noted by Alebel and Berihu (2017), a critical examination of the policy and the institutional arrangement of the land acquisition system for investment (Proclamation No. 721/2011; Regulation No. 14/2014) reveals that at least three main modes are practiced to access land for business purposes in urban Ethiopia: rent from private sources, leaseholds and public allotments. Each of these modes has respective advantages and shortcomings. For instance, while the land rental market is characterized by a very high rental prices and uncertain contracts, the main problem with land leasehold arrangements is that the land supplied for bidding is very limited, and hence, it is quite competitive and expensive for investors, in addition to the implementation problems in transferring land to lessees. Though public allotment has the advantage of being quite cheap, cities have a limited amount of land that they can allot and the decision often takes a long time (usually up to 2 years) along with its uncertainty. As observed by Alebel and Berihu, the urban land lease regulation stipulates that acquisition of urban land is only possible through the land lease market system or allotment. However, in practice, these are not the only land acquisition mechanisms in urban Ethiopia, land is also acquired through the secondary market, in which individuals who obtain/lease land through auction can transfer the land to a third person through a bilateral agreement illegally. The land acquired through the secondary market is extremely expensive and unregulated, and is a concern in many ways. There appears to be no efficient and legal contractual arrangement that binds both the supplier and customer.

This study also reveals that the size of the land that is available for each tender is very small in comparison to the demand. The limited land supply coupled with the discretionary power of government officials to restrict, tighten, or widen access to land creates a hike in the rental price, which attracts more speculators into the bidding process. There are no mechanisms, which differentiate real developers from speculators in leasing land. The bid process is

largely dominated by speculators. These speculators tend to increase the bid price, which crowds out the genuine investors. The speculators retain the land for some time and resell it illegally at even higher prices. According to the World Bank (2015), land allocation is the second most corrupt area in Ethiopia, following customs services.

From the above discussion, it could be understood that the intention of the urban land administration policy and legislation of the government of Ethiopia as an engine of socio-economic development and the practice on the grounds are unaligned. Looking into the practical situation in Ethiopia, one can observe the depth of the problem that needs to be addressed and boldly underlined as one of the challenges of private sector development. Despite the fact that the existing policy and institutional arrangements have contributed to socio-economic improvement, there are significant and critical gaps in the existing policy and institutional arrangements that need to be revisited. Otherwise, the country may not be able to capitalize on the opportunities of rapid urbanization and address the housing deficit.

The land tenures, which are mainly operating in the Ethiopian urban land market, include lease holding, permit holding that is perceived as free hold, informal holding, customary rights, farm land rights, and informal holdings, which are the rights transferred from farmers to the holders in the urban peripheries. As previously discussed, tandem markets (formal and informal) based on different tenure types with different rights complicate market competition and become sources of excessive pricing. Mismanagement and informality are exacerbating the inefficiency and ineffectiveness of formal land supply and land related services and reducing the capacity of cities to harness their revenue potential. The gap between land supply and demand is very big and becoming bottleneck for housing, socio-economic and social activities and development practices. The urban land supply in Ethiopia requires lengthy, bureaucratic and challenging processes that include major activities such as land preparation (compensation, expropriation and rehabilitation of farmers), land development (availing infrastructure), land banking, allotting or bidding for transferring, lease management, etc.

According to the Ministry of Urban Development and Construction (MUDCo) report (2020), because of the separate urban and rural land rights, the formal land supply commonly fails to fulfill the demand; lower enforcement

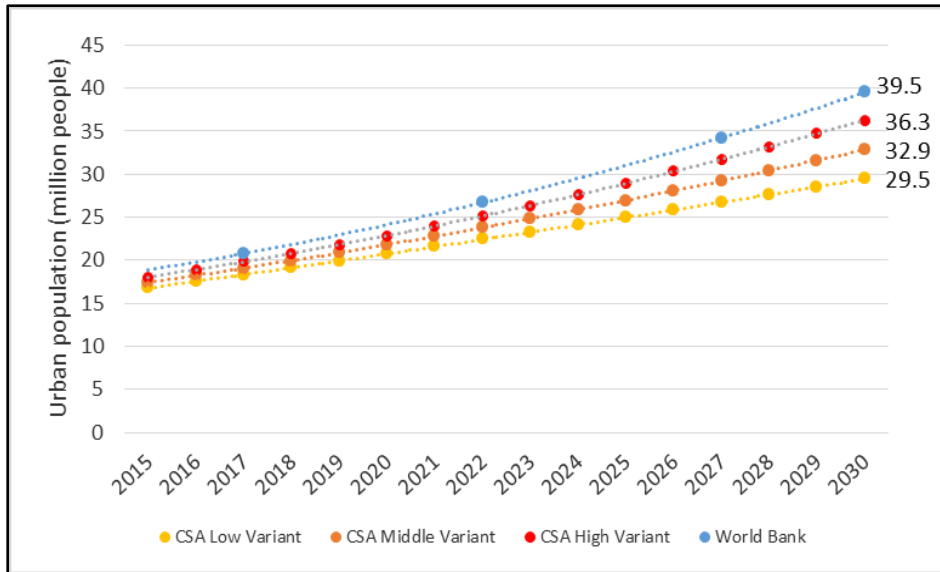
capability and a higher prevalence of rent-seeking practices are contributing to mushrooming of informal development in and around cities. Proper land management and harmonized land tenure systems are required for the property market in urban areas to function properly. . According to the World Bank Group and Cities Alliance (2016), appropriate land management practices such as proper compensation and adequate land supply with a modern land management system could have enhanced the efficiency and effectiveness of the urban land market by transferring serviced land for individuals, firms and public institutions. Furthermore, the World Bank Group study (2018) identified that, Ethiopian cities have no proper functioning land management system and the land marketing system is dichotomized into informal and formal, urban and rural, which are incompatible tenure types with lease holding, permit holding, informal holding, customary right and farm land operating in the market. In general, the current land management and administration system of Ethiopia has three main and visible problems, which include insufficient and ineffective land supply; illegal settlement and high slum coverage; and poor quality of ownership right registration and exercise mechanisms due to the quality of the legislation and incapability of implementation.

3. Urban land market analysis: supply and demand in Ethiopia

3.1. *The urban population and land demand forecast*

On the other hand, urban-population forecast-scenarios carried-out by the CSA (ICPS, 2012), produced low-, medium- and high-variant scenarios of the urban population of Ethiopia. The low-variant scenario projects that by 2029/2030, the urban population in Ethiopia would be 29.5 million people, assuming an average growth rate of 3.8 percent per year. The medium -variant scenario forecasts that the urban population would reach 32.9 million by 2029/2030, assuming an average growth rate of 4.3 percent per year. Finally, the high-variant scenario forecasts an urban population of 36.3 million in the 2029/2030 fiscal year, with an average growth rate of 4.8 percent per year. The forecasts presented in this report are based on CSA's medium-variant scenario, which is officially used in Ethiopia's public sectors for different planning purposes.

**Figure 2: Forecasted urban population in Ethiopia from 2015 to 2030
(Million people)**



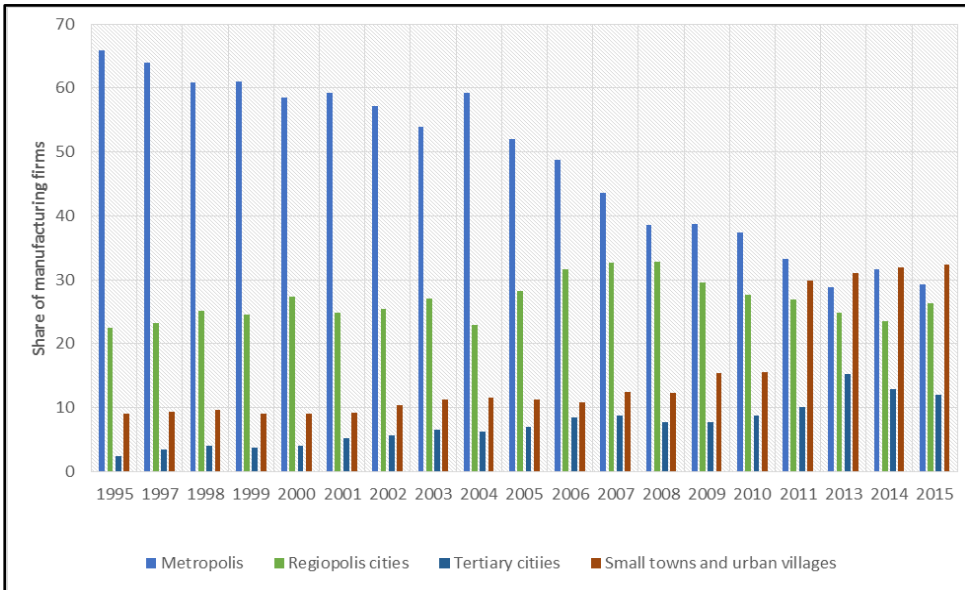
Source: Based on forecasts by the Ethiopian Central Statistical Agency (CSA) and the World Bank

The recent rapid growth, which has been exhibited in the Ethiopian economy, has implications for the rapid expansion of urban areas. In turn, urbanization would result in an increase in the land area occupied by Ethiopian cities. According to World Bank data, Ethiopia's urban land area was 5.2 thousand square kilometers in 2010, but it is expected to grow significantly in the future due to the increased demand for land to provide housing and all other necessary services to the growing urban population. By 2030, 26.9 percent of Ethiopia's population is expected to live in urban centers, equivalent to 32.9 million people living in approximately 8.4 million households.

The increase of the urban-land area per 1,000 inhabitants from 0.29 in 2015 to 0.45 in 2030, will entail that the total land area occupied by cities in Ethiopia will increase from 5.2 thousand square kilometers in 2015 to 16.3 thousand square kilometers in 2030, in the high-growth scenario and the low-growth scenario. In both cases, additional urban land requirements, due to increased urbanization and higher per capita income levels, are quite sizable, and will entail a very active process of enabling additional land areas for urbanization,

which will require, among other things, the very fast development of a dynamic urban land market in Ethiopia.

Figure 3: Spatial concentration of firms⁷ Source: CSA annual manufacturing census (2016)



Note. The bars indicate the share of manufacturing firms by city type.

Notwithstanding the importance of spatial concentration of firms for city expansion and urbanization as depicted in Figure 3, one would have to look at more than the number of manufacturing firms to get a better sense of their importance in this process. The concentration of firms has significant impact on the rate of expansion and urbanization in the given localities. They accelerate economies of scale, higher employee pay levels, quality and decent job creation, allowing them to adopt better technologies while also fostering and benefiting from healthy urbanization. . For example, the opening of large production plants in areas that hitherto did not receive investment often stimulates infrastructure investments, such as in road building, electricity and telecom that are essential ingredients of the urbanization processes. Hence, there is a critical lesson which could be observed from Figure 3, that is, the concentration of firms has been

shifting from metropolis to regiopolis to tertiary and then to small towns, contrary to expectations.

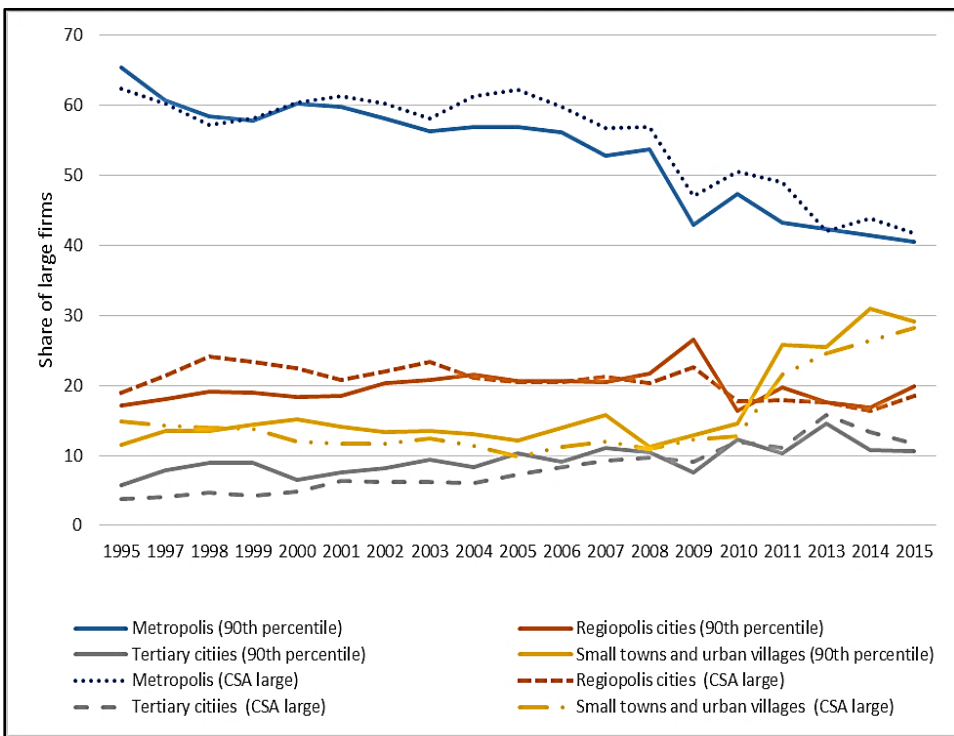
Using the CSA manufacturing census data, the largest employers could be defined with the following two criteria: Firms that employ more than 50 workers, or; firms that employ more than the number of workers at the 90th percentile of the employment distribution in the manufacturing sector between 1995 and 2015. For this study, the 90th percentile employment is 191 workers, and all firms that employ more than 191 workers are defined as ‘large’ in this context. The second criterion offers for this study a look at the spatial concentration of the largest manufacturing employers in Ethiopia⁵. Figure 4 presents the number of large firms by city type. The figure shows that the largest firms, measured by their contribution to manufacturing employment, are concentrated in Addis Ababa using both the CSA and the 90th percentile definition. In 1995, 62 percent of the largest employers (firms) were located in Addis Ababa, whereas the share had substantially declined to 42 percent by 2015. As a metropolis, Addis Ababa continued to attract large firms. Yet, consistent with the earlier observation, its relative share seems to be declining over time and the gap between Addis Ababa and the other city categories has been bridging in more recent years.

During the period between 1995 and 2015, secondary cities had the second largest concentration of larger firms until 2010, when it reached a peak of 23 percent. The five years after 2010 showed that small towns had more large firms than secondary cities. In 2000, the shares of large manufacturing firms in small towns were 14.8 percent. That was less than the share in secondary cities, which was 19 percent. By 2011, the gap was completely wiped out, it was quickly reversed in favor of the latter. By 2015, the gap had substantially expanded to 10 percentage points, where 28 percent of large and medium manufacturing enterprises were located in small towns, while the secondary cities were home to only 18.5 percent of large enterprises. Tertiary cities continued to have the lowest number of larger firms from 1995 to 2015, accounting for 15% of the largest employers in 2013. The share of large firms in secondary cities has been remarkably stable at 18 percent, with the share hovering between 17 percent and 26 percent during the 1995 to 2015 period. With the opening of industrial parks

⁵ The two measures are highly correlated with each other. The simple correlation coefficients across the data set are 0.54.

since 2015, there is a reason to believe that the relative concentration of large firms in Addis Ababa might have changed in favor of secondary cities, such as Hawassa, Mekelle, Kombolcha and Dire Dawa in more recent years. The interpretation does not change if it is restricting the definition of “large enterprises” to those above the 90th percentile of employment distributions. Ethiopia's government should have appropriate policies and legislation in place to capitalize on this opportunity, which has the greatest impact on the equitable distribution of development and wealth across the country. There is a need to have appropriate housing and urban land administration policies tailored to this context.

Figure 4: The share of largest manufacturing firms by cities ‘category.
Source: CSA annual manufacturing census.



Note. The broken lines indicate the share of large firms by cities ‘category using CSA’s definition of large firms. The solid lines indicate the share of the largest mfg. firms above the 90th percentile of the employment distribution by cities ‘category.

3.2. Urban Land supply and demand

According to MUDCo's (2020) report, in the previous five years period, the land supply performance of the ministry against the national level target was 59.61 percent of the plan, that is, around 40 percent demand gap. According to the World Bank Group (2018), formal land supply has failed to fulfill the demand and informal land supply is filling the gap, as evidenced by mushrooming squatters around the peripheries of cities. Even though the urban local governments have significantly increased land production, from a very low base, they are far short of targets and identified demands. Referring to the World Bank Report, the annual average performance against the plan of Addis Ababa, Mekele, and Adama was 35 percent, 88 percent, and 14 percent, respectively, in 2013 to 2017. The report also showed that most of the land supply (more than 70 percent of the developed land) was allocated directly without bidding for projects such as integrated housing development programs, micro and small enterprise cluster development, office building, health, schools, and infrastructure development, *etc.* Such administrative direct allotments of land for subsidized projects without at least the cost of recovery principles are exacerbating the land management problems. This is making the cities incapable of addressing the land supply shortage and providing sustainable solutions to the problem. Cities have been recovering their land costs from less than 15% of the developed land transferred through the bid process.

According to MUDCo's current Ten-Year Perspective Plan, the land demand projection to achieve the development initiatives includes 15 thousand hectares to address one million backlog housing as estimated by MUDCo (2019), 60 thousand hectares for responding forecasted 400 thousand housing demand, 50 thousand hectares for private sector business development, and 187.5 thousand hectare for urban greenery and road infrastructure. Hence, the total hectares of land demanded for the ten-year perspective plan is 312.5 thousand hectares which is an annual average of 31.25 thousand hectares. As indicated by the ministry's report, based on the existing and traditional supply trend experiences of cities, only 30 percent of the demand will be satisfied, which means there is going to be a 70 percent demand gap for land to address the economic development targets.

3.3. *Informality*

As stated in the preceding paragraph, the demand gap for this 70% of land would normally lead to informal land production sources. Informal land supply for the informal market continues to outpace acquisition of farmland (70 percent) versus the 30 percent of the formal allocation. The challenge is not only the demand gap; it is also the large price differentials that exist between informal land market prices and government compensation levels. The compensation⁶ paid is ranges from 5 to 35 percent of value that could have been collected from informal markets, particularly in rapidly growing cities. As an example, the compensation paid by Addis Ababa City Administration is Ethiopian Birr 190 per square meter, while the anecdotal information⁷ from the informal market tells us that the farmer can get Ethiopian Birr 550 to 800 per square meter. Such a price difference has created strong incentives for farmers on the locations planned for urban expansion to partition and transfer their landholdings prior to government action. These transactions are sometimes facilitated by informal private sector brokers and real estate developers working with corrupted municipality engineers. Thus, adapting the urban land management system for the required circumstances is of paramount importance and needs major change.

Even though attempts have been made in recent years to prevent further growth of informal settlements through developing urban plans and building codes at the lowest administrative level of neighborhoods, the challenge of informality in cities is becoming critical. Because of the formal market's appropriate land supply failure, informality is mushrooming. According to the UN-Habitat report (2008), approximately 74% of Ethiopian urban settlements are slums; that is, many houses are substandard, meaning they lack access to basic services such as waste management, road outlets, power, telecommunications, and so on, and are built informally with no permit or planning consent. Basically, the existence of inadequate and unaffordable housing leads to the formation of informal settlements, or slums, which is known to be an obstacle to economic growth in cities. A growing body of evidence shows that slums can constitute a

⁶ The compensation value has a number of limitations relative to global best lessons learned, as an example no land value is captured; livelihoods and socio-economic impacts are not taken into account; and there is limited ways to independent judicial oversight.

⁷ Land Management as a Factor of Urbanization, World Bank, Ethiopia Urbanization Review Background Paper (Kaganova and Zenebe, 2014).

poverty trap, as explained by Marx et al. (2013); for instance, substandard housing conditions can prevent women from entering the labor force (Franklin, 2015). Improving the quality of housing for those living in informal settlements is thought to have an impact on health and general well-being (Catteneo et al., 2009), access to urban services (Gollin, Kirchberger, and Lagakos, 2021), safety (Galiani et al, 2014), tenure security and housing investments (Field, 2005), and dignity and pride (Sen, 1999), among many others. The current housing situation in urban Ethiopia is generally characterized by inadequate, substandard, unaffordable and unsecured housing. This calls for the need to design policy and program interventions that aim to address this current situation and thereby improve access to adequate, standard, affordable and secured houses for the growing urban population in Ethiopia.

3.4. *Land file management and modernization*

The study conducted by the World Bank Group and Cities Alliance (2016) jointly and clearly indicated that urban local governments' ability to deliver land and efficient service delivery is undermined by the poor quality of services delivered in connection to landholding evidence and source documents. A single landholding file is expected to have documents such as: mode of acquisition, ownership certificate, obligation related to payment, building and plan consent, collateral, and related matters. If a given landholding file has no such legal evidence or documentation, then it is impossible to proceed with the process of adjudication, registration, transactions, or other required services. In most circumstances, cities do not have a complete and well-organized archiving system for their land records. In some instances, even the basic documents are missing from the files. For example, the urban revenue reform project office (2017) conducted a study and discovered that in Mekelle, Bahir Dar, and Dire Dawa, only 50% of total landholding files met legal cadaster adjudication requirements and the other 50% were unable to be forwarded to the next stages of the land ownership right registration process, known as adjudication.

Those file incomplete landholders were either illegally possessed or legal but the parcels' documentation was incomplete. According to this report, less than half of the landholdings have complete files, which could enable the owners to proceed to adjudication processes, (Mekele, 50 percent; Bahir Dar, 39 percent;

and Dire Dawa, 23.4 percent). This implies that such records need to be appropriately organized, either manually or based on a modern system, to enhance the transaction, systematic adjudication, easy tracking, and related service delivery.

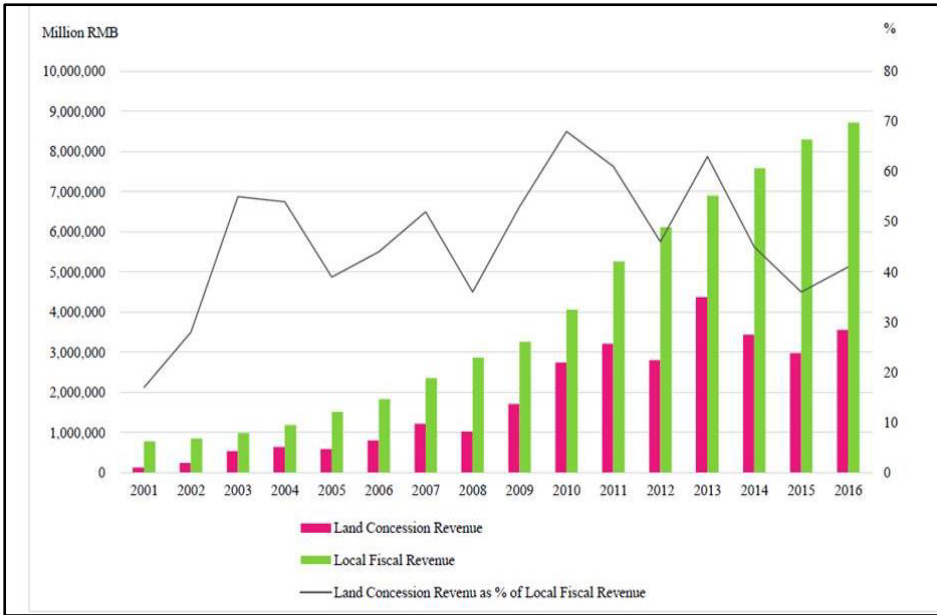
4. Policy recommendations for urban land management improvement

Urban land management has been significantly improved compared to what it was before a decade; now there is comprehensive legislation, though scarce, and there are some professionals, institutional setups, offices and working tools. However, there is a big gap in land supply relative to land demand required by the rate of urbanization and economic growth. Hence, the government of Ethiopia needs to take concurrent and phased approach interventions as per the following recommendations to achieve the Ten-Year Perspective prosperity plan.

4.1. Land production financing strategy

The first intervention strategic issue is the financing strategy for sustainable and assured land supply. While tackling the challenges, there are lost opportunities of revenue collection from leases that could have financed adequate land supply and infrastructure development. As an example, it is estimated that the average annual lost revenues due to direct allotment, either at no cost or benchmark prices, amounted to 206 billion Birr in Addis Ababa between 2013 and 2017. This is about three times the city's annual budget (the council approved a budget of 70.6 billion Birr in July 2021). This forgone revenue is the equivalent of the cost of constructing more than 300,000 housing units by integrated housing development projects. Municipal revenue data from Addis Ababa has shown that land revenues account for less than 10 percent of total city revenues whereas in China land revenues provide between 20 and 70 of local revenues and the state projects are the major sources of revenues which they pay securing urban land bids (see Figure 6 and Figure 7 below). Furthermore, these state corporations serve as real estate and land supply, and they are part of the solutions to the land and housing demand gap.

Figure 5: Land concession revenues to local government’s total annual revenues percent between 2001 and 2016.



Source: National Bureau of Statistics of China and China Land and Resources Almanac (2001–2016)

Chinese state firms have been major players of demand and supply in real-estate and land in the cities as private developers stuck to the sidelines, even though it is uncertain whether this would be enough to safeguard local government revenues. The value of winning bids by state firms has been triple that of private developers from June to October auctions so far, marking a departure from past trends. As of Sept. 30, their overall bids were 45 percent, which is 277.2 billion yuan. In the southwestern megacity of Chengdu, state-controlled China Railway Construction Corporation placed bids for 15 plots of land and put down a huge deposit of 4.28 billion yuan (\$662 million).

Figure 6: Bides of the top 10 developers at Chinese land auctions (in billions of Yuan)



Source: China Index Academy (2017–2020)

4.2. Land administration modernization

The second major issue is the institutional implementation and modern land management capacity level and the availability of change mindset. Ethiopian cities' institutional implementation capabilities are, generally speaking, adequately improving, despite the disparities across the different levels of government. Evidence indicates that urban local government organizational capability is weak in regional secondary cities and stronger in Addis Ababa. Building cities' implementation capability has been a substantial goal for the government of Ethiopia for more than a decade. As a result, inter-organizational operational communications across different levels of government offices are well noted in some projects, such as urban safety-net and urban local governments' infrastructure projects, which are constantly improving. Whereas, the land management cases are much weaker for different reasons, such as the result of organizational structure and capacity, lack of full empowerment to manage land issues of production, transfer and modernize the management and absence of performance related incentive systems. Addis Ababa and Dire-Dawa

have relatively better technical capabilities which may be due to the empowerment through charter legislation, the ability to attract greater financial and human resources, but there is a low level of service-oriented mindset in both cities and a high perception of corruption from the government side and the public at large. The Ministry of Urban Development and Construction's has a serious gap in technology selection, adaption, adoption and follow-up capability that needs urgent intervention since many of the activities are becoming automated. Even though there are comprehensive legislation and standards for the land management system, their implementation has been crawling for years without showing any significant progress. Such activities that could have been progressed include the cadaster project implementation, the property tax system initiation, the lease proclamation simplification and updating of the lease payment system and enabling the dynamic land market system. An example could be management contracting out to practitioner management through designing expedited hands-on training and learning strategies that could accumulate from the global market and best practice benchmarking.

4.3. *Enabling private sector involvement on land production*

The third major issue is enabling the real-estate market and creating a real-estate development industry. There are shortcomings at the level of real estate professional standards or practices in Ethiopia. It needs reliable, comprehensive and up-to-date information about real estate transactions that is constraining rational decision making about property market transactions by the government, financial industry, the beneficiaries and the players in our country. This intervention may require a medium level range of time that is required to have comprehensive preparedness to create a well-functioning real-estate market/industry. To create conducive and enabling market, the government should develop comprehensive legislation and create a real estate institutional setup that controls and supports the industry, increases confidence and assures transparency in the market. Such an assignment for a given institution would not only establish legislation, oversee down payments, act as an arbitrator for dispute resolution, and ensure professional standards are applied, but it could also operate as an information center by providing market data to the public, the stakeholders and the players in the industry. Such an institutional setup and corresponding

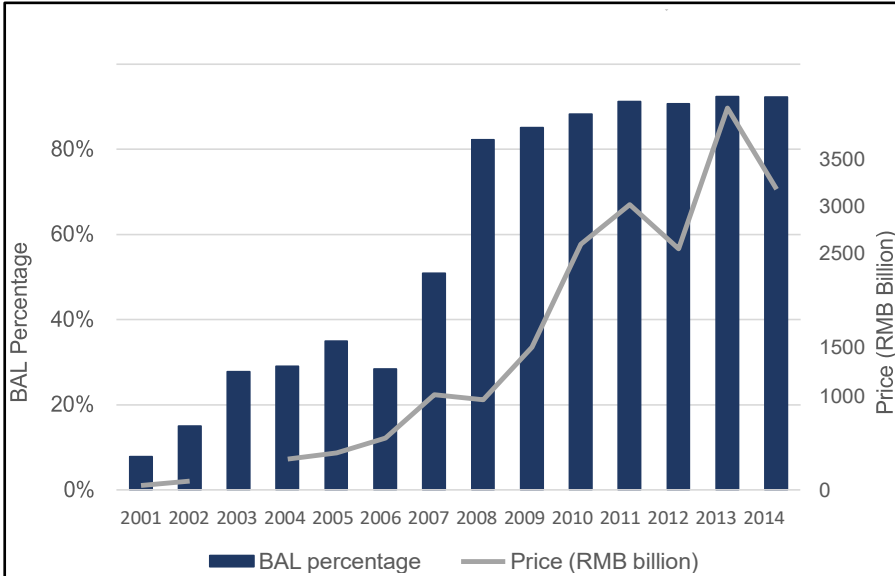
legal frameworks would help to transform informal operators in the real estate market into more transparent, accountable and reputable private service providers.

4.4. *Creating efficient land market*

The fourth issue that cities can intervene on is improving urban land production and transfer which is creating an efficient urban land market. Cities can undertake an inventory of land in urban areas held by all levels of government and develop a strategy for better utilization by identifying excess land that could be reclassified and used for development. The government of Ethiopia should develop an incentive system for the cities that release land for development and bridge the demand gap. The government is expected to review and update lease legislation, building codes and infrastructure standards with the objective of making access to land and housing more affordable and efficient for its people. The government should also develop a strategy that enables the private sector to access land by increasing land auctions and using the auction proceeds to fund infrastructure and service delivery, as well as support a targeted and valued subsidy scheme for low-income households and the manufacturing industry.

The government should gradually move away from direct or administrative allocation to competitive allocation. In this process, land values usually increase very significantly because land moves from rural to urban land use and expenditures are incurred on expropriation, compensation, resettlement and provision of infrastructure. Value capture can best be achieved by the disposal of urban land for development at market prices by public auction, with a minimum disposal price based on a per square meter cost recovery threshold while transferring the land to developers. The experience of China as depicted in the Figure 84 below had a similar predominance of administrative allocation in its early years (1980s-2000s) but moved decisively and successfully towards auctions in the 2000s.

Figure 7: China: Moving from administrative allocation to auction, 2001-2014



Source: National Bureau of Statistics of China and China Land and Resources Almanac (2001–2014)

Thus, it is imperative to conclude the need to make change happen in the sector as it has been framed in the above paragraphs. There is a need to initiate a detailed study about urban land administration and management policy revision, tenure harmonization, legal framework adjustment, urban land supply flourishing strategy, land development financing strategy, identification of the role of the private sector in urban land development and supply, land records management modernization, etc.

IV. Housing and Real-estate Markets in Ethiopia

1. The Ethiopian urban housing context assessment concept

Housing demands are becoming more prevalent in the urban areas of Ethiopia. Information about future housing demands is essential for planning by governments at all levels and the concerned stakeholders. Although there is no universal definition of housing "need," Hablemitoglu, Ozkan, and Punitcuoglu (2010) defined housing "need" as a prioritized set of physiological and psychological needs in addition to sheltering needs. The physiological needs may include physical, social and economic (affordability) needs, while the psychological needs include safety/security, belonging, esteem and self-actualization (Maslow, 1943). Housing 'demand' is a market driven concept and relates to the type and number of houses that households will choose to occupy based on preference and ability to pay. While, housing 'need' is an indicator of an existing deficit: the number of households that do not have access to accommodation that meets certain normative standards. This measure mainly refers to the level of need for more or improved social housing. The term 'housing requirement' is sometimes used to combine these two measures to generate an overall picture of the housing market⁸.

The households in Ethiopia are projected to grow, and more housing will need to be constructed in order to accommodate not only the demands but also the basic needs. As a result of this, the government uses medium to long term projections of population and household growth to produce estimates of the number of new homes that will be needed for living in cities. In Ethiopia, the housing sector is a very major employer and requires substantial amounts of capital, it also drives and vital to other socio-economic sector development. As a result, a concerted effort of stakeholders is required to satisfy the underlying housing needs beyond the government. Such an example of stakeholders includes financial institutions, land developers, the construction industry, as well as infrastructure and service providing bodies who require information about future housing needs for planning purposes (King 2000).

⁸ For this study purpose, these words are interchangeably utilized without much emphasis on their implications or definitions.

As a result, housing is a critical component of the Ethiopian economy (for more information see Figure 9). Identifying the level of demand and housing needs is an essential factor for private and public engagement.

Figure 8: The role of housing in Ethiopian economy



Sources: Alebel, et al (2018)

2. The urban housing supply and demand description in Ethiopia

2.1. Housing supply and stock

The annual rate of urbanization in Ethiopia is very high (more than 5 percent) as indicated on the study of Ethiopia's urbanization review (World Bank, 2015), whereas the level of urbanization in Ethiopia is very low compared to countries at the same level of development. Hence, it is found that Ethiopia is going to urbanize faster than predicted by CSA (3.77 percent) and the ratio of urban to total population will at least reach 26.9 percent by 2029/2030 as predicted by the urbanization review study. Business as usual urban development will lead to an urban system dominated by a metropolis city (i.e., Addis Ababa)

and dispersed urban centers across the country with a large number of small urban settlements. Policies aimed at promoting the emergence of a viable poly-cluster urban model (in which a network of secondary cities balances development while also assisting cities to complement one another, i.e., through clustering) will maximize economic, social, and environmental benefit while reducing the strain on government budget and capacity. It will be important to monitor not only the level of urbanization but also the percentage of urban residents by city/urban center classes to include what they are going to demand, especially on the housing issue, which is a critical pillar for the strategy implementation.

The researcher's practical experience and the report reviews show that development planning in Ethiopia has been ambitious, with substantial disparities between planned targets and actual achievements. As a result, it should be noted and emphasized that planning must take into account not only potential but also constraints and challenges such as bureaucratic implementation capacity, target level monitoring and evaluation system development, and incentive alignment between plans and performance.

Table 1: Housing supply in Ethiopian cities: trends and status

Year	Number of Housing Units	Percentage change (compared to 1984)	Annual Growth rate
1984	976,180		
1994	1,482,589	0.34	0.34
2007	2,897,017	0.66	0.49
2011*	3,291,602	0.70	0.12
2016**	4,485,847	0.78	0.27

The housing census is the ideal data for analyzing housing stock and related housing profiles, besides understanding the existing situation of housing demand and supply conditions in Ethiopia. In relation to this matter, the most recent housing census in Ethiopia was conducted in 2007, which is quite far to analyze the current context of the housing stock and demand condition. Since 2007, there have been a lot of changes in Ethiopian cities, such as the high rate of urbanization, housing stock increment due to government intervention; the

introduction of an urban land lease-based administration system; economic development; etc. Therefore, the researcher referred a more reliable data that would better reflect the current reality of the housing sector, which is the Ethiopia Welfare Monitoring Survey (WMS) conducted in 2011 and 2016 and took into consideration in the 2007 census.

According to the last census (in 2007), the number of housing units was 2,897,017, which has increased to 3,291,602 housing units and 4,485,847 housing units in 2011 and 2016, respectively, according to the data obtained from the WMS.

Table 2: Housing tenure in Ethiopian Cities: trends and status

Tenure type	1984	1994	2007	2011	2016
Owned	48.8	47.56	50.39	84.3	81.22
Rented	46.59	45.53	41.72	12.2	15.07
Rent-free	1.66	5.8	6.94	2.8	3.36
Others	2.95	1.11	0.95	0.7	0.35

The housing tenure analysis shows that rental housing was the most common tenure in the early two censuses (up to 1994). This has been changed in and after 2007, when the private homeownership became more dominant. For example, private home ownership constituted 50.39 percent, 84.3 percent and 81.22 percent in 2007, 2011, and 2016 respectively. It could be asserted that the current housing program of low-cost housing, especially in Addis Ababa, follows a private home ownership model.

One of the important features of housing units is the number of bedrooms. Table 3 below shows two key messages: first, most housing units are one bedroom type (50 percent) and two bedrooms (31.6 percent) in 2016, and second, although one bedroom units remain dominant, the number of one bedroom units has decreased sharply in 2016 while two bedrooms have increased between 1984 and 2016.

Table 3: Housing type and number of bed rooms in Ethiopian Cities: trends and status

Number of rooms	1984	1994	2007	2011	2016
One	72.19	61.9	53.14	50.9	50.1
Two	18.97	27.1	29.24	30.8	31.61
Three	4.3	6.8	11.45	12.7	13.47
Four	1.14	1.91	3.94	3.6	3.47
5+	0.023	0.010	0.022	1.9	1.34
unidentified	0.011	0.012			0.02

2.2. Demand is outpacing supply

In Ethiopia, there are no consistent good statistical records on new residential building permits issued and houses built each year, but there are estimates for demand for new urban housing as a function of new urban household formation (as presented in Table 1 above) and the need to upgrade the existing housing stock, which far exceeds the current supply of housing.

Therefore, the population growth scenarios predicted by CSA need to be stated in terms of the number of households/number of housing units to predict the level of new urban household formation that needs housing in the future. To this end, a growth scenario, for the number of households, could be estimated based on the assumptions that include CSA's medium-variant population forecast scenario, and average household size estimates, which are taken from the 2007 NCPH (National Census for Population and Housing, 2007) as presented in Table 4.

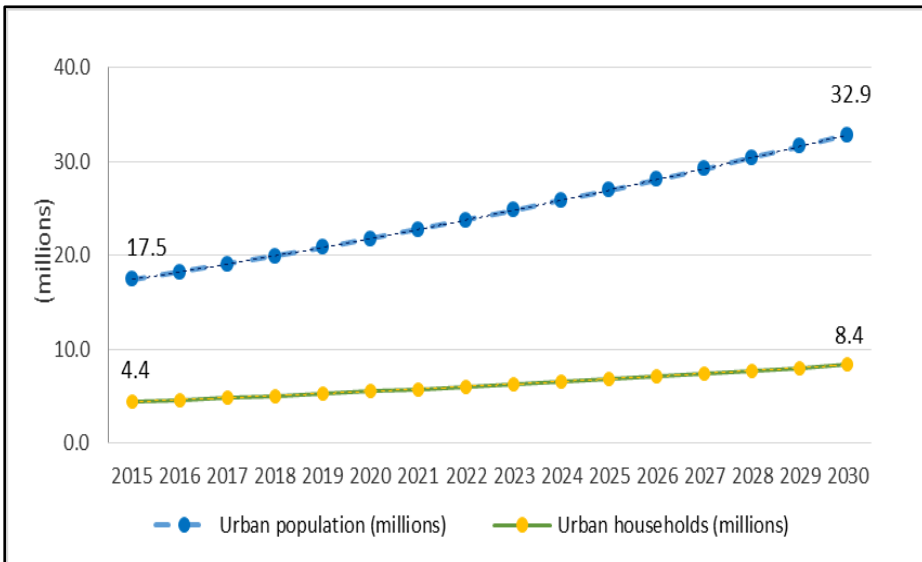
Table 4: Population, households and members size

	Population (millions)	Households (millions)	Members per HH
Total	73.8	15.5	4.8
Urban	11.9	3.0	3.9
Rural	62.0	12.5	4.9

Source: CSA, 2007 National Census of Population and Housing (NCPH)

The Demographic and Health Survey (CSA and ICF, 2017) predicted from 2015 to 2030 the average household size in Ethiopia by taking the 2007 (NCPH0 as a base and 4.6 members per household, which is present in Figure 9 below. According to these estimates, the number of urban households in Ethiopia will increase from 4.4 million in 2015 to 8.4 million in 2030. According to these figures, the urbanization rate in Ethiopia will increase from 19.4 percent in 2015 to 26.9 percent in 2030 when measured in terms of people.

Figure 9: Urban population and number of households (millions)



Source: Based on data from the NCPH and on CSA forecasts

Ethiopia's urban population has grown considerably over the last decade despite its low levels of urbanization. Between 2007 and 2012, the annual growth rate was 5.8 percent, and the growth rate between 2012 and 2037 will be approximately 5.1 percent (Ethiopian Urbanization Review Report, 2015). This growth rate implies that the country's urbanization rate will increase from approximately 20.4 percent to 22 percent⁹ in 2017 to a 38 percent by 2037¹⁰.

⁹ See CSA ICPS Population Projection 2007-2037, 2013; MUDHCo, Cities Alliance and the Ethiopian Civil Service University, State of Ethiopian Cities Report, 2015; World Bank, Ethiopia Urbanization Review, 2016.

¹⁰ Differences between CSA projections numbers and those of the World Bank can largely be put down to methodological differences in capturing population projections including (i) rural-urban migration patterns, (ii) upgrading of rural villages to towns, and (iii) expansion of urban areas. See World Bank Group. Ethiopia Urbanization Review: Urban Institutions for a Middle-Income Ethiopia, World Bank, Washington, DC, 2015.

Translating urban population growth into urban household formation, the number of urban households⁷ is estimated to be 4.0 million and 9.7 million by 2027 and 2037 respectively, based on 2015 urban household estimates¹¹.

Assuming a one-to-one relationship, the growth in the number of newly demanded residential houses, as per the estimates, will average 381,000 per year between 2007 and 2037¹². In addition to new urban household formation, there is also a need to replace and redevelop the existing housing stock, which compounds the demand. The National Urban Development Spatial Plan study (2015) estimates 900,000 units by 2025 and 2.1 million by 2035, using the 2015 housing stock as a basis for analysis¹³. The combined demand due to new household formation and replacement of existing housing stock is, therefore, around 471,000 units/year between 2015 to 2025 and 486,000 units/year from 2025 to 2035. Besides these analyses, the strength of demand for formal housing could be substantiated by practical evidence of the high subscription rates for Integrated Housing Development Program (IHDP) and other government housing, and the vibrant rental and secondary markets within IHDP blocks in which many IHDP beneficiaries rent out their units. The World Bank Housing Survey indicates that there are a significantly higher proportion of private tenant households (53 percent) versus owners (41.6 percent) in IHDP compared to any other type of housing. As observed by the same study, the high demand for formal housing is also demonstrated by the premium households' willingness to pay for an IHDP unit on the secondary market (households will pay over five times as much as the original lottery winner when buying an IHDP unit).

3. Urban housing demand and supply in Ethiopia

3.1. *The current urban housing demand and supply*

Data on the urban housing supply on a year-on-year basis is scarce, and little data is available regarding the different types of housing units constructed

¹¹ MUDHCo, State of Ethiopian Cities, 2015. The numbers of urban households are estimated with a decreasing household size; World Bank 2037 estimates are based on the average household size equaling 5.3 members. 11.4 million New households will live in urban areas in 2037, based on 2007 estimates.

¹² See *Ethiopia Urbanization 2015 Review* for a more detailed analysis of housing demand as well as the methodology.

¹³ MUDHCo, State of Ethiopian Cities, 2015.

annually (though there is the presentation in Table 1 earlier that accommodates data before five years and is not complete). The estimated rate of annual urban housing supply (flow) is about 165,000 units nation-wide between 2007 and 2014¹⁴. As per the Welfare Monitoring Survey (WMS) data presented in Table 1: 3,291,602 urban housing units (in 2011) and 4,485,847 housing units (in 2016) had been supplied in cumulative, which indicates that the annual housing supply of 238,849. Despite data inconsistency, the supply exceeds the estimated demand of 471,000 urban houses/year from 2015 to 2025, and 486,000 houses/year from 2025 to 2035.

The current Integrated Housing Development Program (IHDP) of Ethiopia has already faced serious challenges of leadership and financing, as threats of solvency and operating with limited capacity to build sufficient urban houses to meet the demand of enrollees in the program. Even though the situation is under a lot of challenges such as capability, financing, land supply, infrastructure development, etc., the government has very big plans. As an example, Addis Ababa City Administration has been planning to build 2 million houses, which accommodate 400 thousand with 20/80 and 40/60 programs and 1.6 million through other programs such as cooperatives, real-estate developers, public private partnerships, and private sector housing development programs in the coming Ten-Year Perspective Plan (City Administration Ten-Year Perspective Plan of housing, July 2021).

The proposed financing strategy in those plans includes an aggressive and heightened saving approach. This approach requires more saving from registrants and distributes the cost of housing more equitably between registrants and the government, concurrently with efficient and effective housing construction capability. Unfortunately, this could have ensured the sustainability of the new program and limited the burden on the government; since, there was no trust on the beneficiary's part.

A collaborative approach to housing and economic development should be developed that would enable the opportunity for housing to stimulate the economy, create employment, and improve the capacity of the construction and financial sectors. The adoption of cost-effective construction techniques and systems, notably pre-fabricated construction inputs such as pre-cast concrete elements, doors, and windows, could have helped mismanagement of resources

¹⁴ Methodology can be found in the Housing Deep Dive report.

compared with government self-production of the housing construction inputs on sites, improved the speed of construction, and facilitated the development of small and medium enterprises to produce construction elements. These constraints of private sector involvement in the housing development sector have brought implementation capability and financial challenges that must be addressed as immediately as possible.

3.2. *The local private sector involvement*

The private sector has primarily served as a contractor and a niche housing market for high-end demand. We, as Ethiopians, must learn that urban housing programs in which the government has had a primary role and the private sector has had a limited role which led to inadequate effectiveness in the allocation of resources and a lack of efficiency in how these resources are deployed. Furthermore, this modality led to an under-utilization of private sector resources and expertise and an over-utilization of expensive public resources, especially urban-land. Though underdeveloped, increased participation of the private sector, which was better attuned to market forces such as demand, supply, and price, could have improved the quality, speed and sustainability with which housing development units are constructed. Utilizing the financial resources of private sector developers in conjunction with public resources, rather than relying on just government funds, could have had a multiplier effect that led to more housing units being built in a shorter amount of time.

Furthermore, private sector developers possess a heightened understanding of the varying factors driving the demands of low and middle income consumers, ensuring that they are in a better position to design mixed-income housing developments that target both income groups in a commercially viable way (e.g., private developers can secure higher margins from middle income consumers, which can be used to subsidize lower margins from low income consumers) instead of focusing on only the niche-market of the high-end. To make such a policy effective, the government might have provided the necessary incentives and regulatory advantages to private sector developers to ensure their full participation without unduly burdening public sector resources or over-distorting the market, which could have avoided the mismanagement of resources. Ethiopia's government still lacks comprehensive legislation and an

institutional framework for the private sector to participate in real estate development. There are also no clear regulations that govern house rent between the tenant and landlord. These issues need the housing market to happen appropriately.

3.3. The urban administration involvement

Besides the private sector constraints, urban centers are expected to finance the housing development. However, most urban centers have limited sources of municipal finance. To alleviate their financial problems, urban centers could have obtained loans from various sources. However, there are still gaps in the mechanism to extend loans and subsidies to urban centers so as to finance housing development and finance their infrastructure development, including land supply for their residents and the private sector.

3.4. The foreign firms involvement

Another critical short coming of the Ethiopian housing program is the lack of engagement of foreign real estate developers as private sector investment or through various mechanisms such as working collaboratively with state or local investors through joint venture cooperation to build technical and financial capabilities; however, little effort has been made to implement these modalities.

3.5. The influence of land lease legislation on urban housing

In the previous section, we briefly presented the review of the urban land lease regulations in Ethiopia. When compared to the land auction market between 1999 and 2003 (only 15% of the supplied land was transacted on the auction market), the performance of the land market in Ethiopia has been steadily improving, particularly in Addis Abeba, since at least 2013/14 (Alebel and Genanew, 2017). However, its features of inefficacy are there due to the inappropriate timing of the shortage of land supply as demanded by the market and unnecessary delay in transferring the land to the lessee (developers), which will not only lead to delays in construction but also increase construction costs. This has implications on inflation for house price inflation and makes the developers uncompetitive.

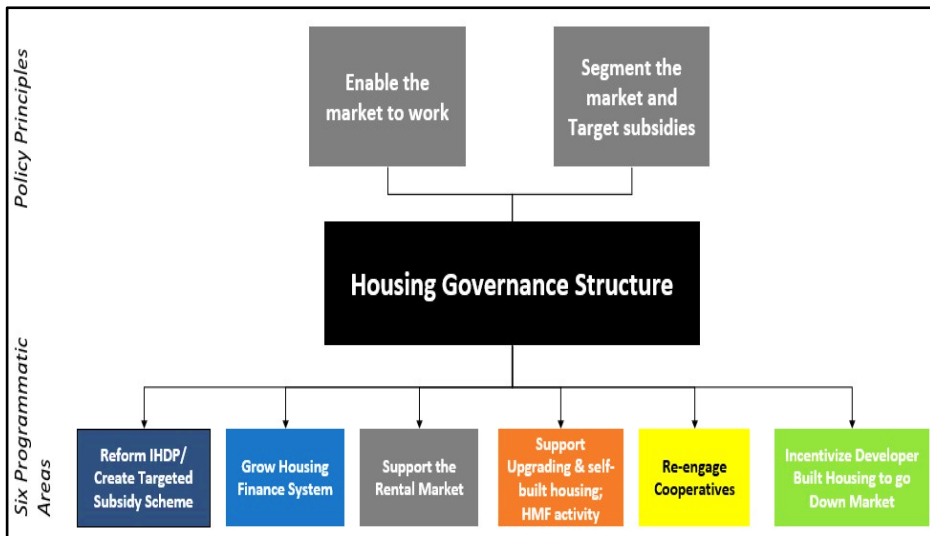
4. Policy recommendations for urban housing development

4.1. Housing governance restructuring

The study’s main findings indicate that there are two principles that should be considered to make the housing strategy function properly in Ethiopia: (i) creating a conducive environment for the housing market and (ii) policies and programs must be targeted to develop a tailored strategy for addressing a segmented market of housing.

These two principles are essential for the market’s long-term growth and sustainability and should inform all policy and programmatic measures. Hence, it is highly recommended for the government to define and institutionalize an appropriate housing governance structure that supports the implementation of these core policy principles. A market-enabling approach that considers market segmentation has several operational tools available on both the supply and demand sides. Such an example can be identified for Ethiopia (see Figure 10) and should be considered while new housing governance structures are taken practiced in tandem with public agencies and financial institutions that are involved in other areas of the housing value chain (e.g. land, infrastructure, finance, construction and building materials sector, etc.)

Figure 10: Recommended policy principles and six programmatic areas.



Sources: Urban land supply and affordable study, 2019.

Furthermore, the government needs to define and institutionalize an appropriate housing governance structure that clearly enables the implementation of the two core policy principles (enabling the market to work and developing a strategy for targetted subsidies in need). Systems and institutions need to be developed, integrated or strengthened for improved coordination and effective execution of the proposed housing policy.

4.1.1. Enabling the market to work and engaging the private sector

Ethiopia needs to develop a housing policy that enables and facilitates the private sector to have a significant role in the housing market. There is no country in the world where the public sector alone can meet diverse and increasing housing demands without the private sector's involvement. IHDP may have increased the housing stock, but it did not narrow the imbalance between demand and supply in urban housing market. The government's policy and programs to date (principally IHDP) which has been comprehensive and costly and but at the same time the lessons that should be taken is minimizing its level of interventions while its critical and purposeful contribution to proceed ahead as one of the balancing player in the housing market. The goal should always be to leverage limited public resources to the greatest extent possible without distorting the market (crowding out the private sector).

An enabling approach requires the government to balance direct provision of urban housing and its role in policy instruments that facilitate the private sector to have a significant impact on the housing market. An effective enabling strategy mainly addresses market failures directly and deals with the causes rather than the symptoms of housing problems. Providing supporting regulatory and investment activities could foster a level playing field for all actors to supply housing. Removing binding constraints along both sides of the housing value chain is a key part of creating conducive environment for the housing market. Factors that affect access to urban housing on the supply side of the value chain include the cost of land, infrastructure and housing development capability. On the demand side, housing affordability is a function of disposable income and the terms of financial intermediation. Hence, an understanding of the appropriate roles of the public and private sectors is a critical strategy while creating an enabling environment for the housing market. The significant role of the

government has to be providing infrastructure and serviced land tailored to the market demand and expected to intervene in areas where there is not a strong incentive for the private sector to enter, such as providing subsidized housing.

Under the current government-led IHDP, the limited role of the private sector in housing development has to be reversed. Increasing the involvement of the private sector, which is better attuned to market forces such as demand, supply and price, can improve the quality and speed with which housing development units are constructed. Utilizing the technical and financial resources of private sector developers in conjunction with government resources, rather than relying on just government funds, can have a multiplier effect that leads to more housing units being built within a shorter period. Furthermore, the rental market constitutes an important aspect of the housing market. Despite the fact that a vast number of households live in rented houses, there are also no clear regulations that govern house rent between tenants and landlords. The rental market suffers from the absence of a clear and consolidated regulation that governs the housing rental market.

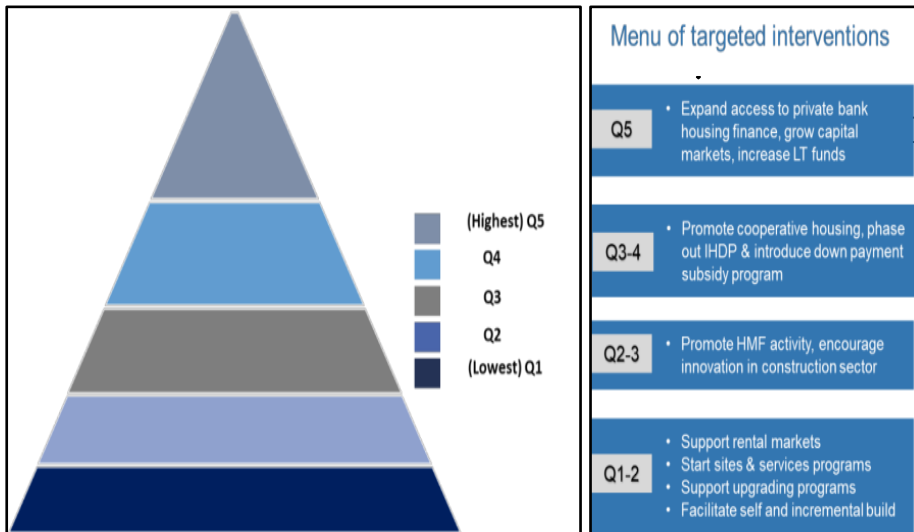
Hence, there is a need for a regulation that governs the participation of real estate developers and private sectors that provide housing through renting. The institutional framework that can enable the participation of private real estate and rental houses should be in place as fast as possible.

4.1.2. Targeting the most acute housing need segments for tailored subsidies

Even though the housing sector is a single market, government should take into consideration the purposeful targeting of the market segments. Every housing market is naturally comprised of different actors, each of whom has different financial capacities, demands and needs. Segmenting according to income levels clarifies these different submarkets and allows for targeted, more effective programs. Despite the design of IHDP attempting to offer comprehensive housing needs, it is becoming very difficult and now under different challenges to achieve the prior set targets. Nevertheless, interventions aimed at specific submarkets could almost inevitably affect the performance of other submarkets. Effective housing policies must therefore consider the entire market ecosystem and be expected to target the housing market segment that requires special intervention (may be subsidy).

There is a need for an appropriate strategy which targets the population who needs housing subsidies with a range of intervention mechanisms. The IHDP's conventional assumption that all households can afford to pay 30% of their income for housing is either an evidence-based assumption or a political decision. According to household surveys, the poorer a household becomes, the greater the share of other priority expenditures becomes, with food, transportation, and commuting to work accounting for more than 30% of the household income. This means that most households spend less than 30% of their income on housing. It is, therefore, important for the market to provide a range of housing options, so that as household incomes increase, poorer households may improve their living conditions by upgrading to a preferential living arrangement. Targeted support should be designed to help households climb up the housing ladder, while allowing households to choose housing and the bundle of services the market provides based on their preferences.

Figure 11: Targeted and tailored support relative to the need with different Points of the Housing-Pyramid.



4.2. *The need for stakeholders' engagement*

Representatives of all stakeholders across the housing value chain (e.g. land, infrastructure, construction and building materials sector, finance, etc.) should be consulted in the design and execution of the proposed new housing policy and governance structure implementation. It is important to engage all stakeholders, which include the private sector and all levels of the public sector that are relevant so as to make the policy successfully implemented without delay.

4.3. *Encouraging self-built and cooperative housing*

In line with a market-enabling and segmenting approach, governments should re-engage with self-built and cooperative housing initiatives of citizens by supporting their efforts. There are several existing bottlenecks in the housing development value chain of self-built and cooperative initiatives which the government should focus on removing them. In addition, new policy instruments can be employed to increase their productivity to solve the housing challenges.

4.4. *Financing schemes*

The IHDP has practically faced serious risks and challenges of financial sustainability. There is a threat of solvency and limited capacity to build sufficient housing to meet the demand of enrollees as scheduled in the program. The causes may include the following: the distribution of costs between registrants in the IHDP and the government places an undue burden on the government, which is not sustainable; the amount of saving required of registrants is too low while the amount of finance required for construction is too high; this financial and logistical strain on the government must be quickly rectified before the IHDP's project goes to bankrupt. Urban centers such as Addis Ababa and other major cities in the country are expected to be involved in the supply of the housing needs of their residents. However, resources are a key constraint. Currently, there is lack of a clear strategy to extend loans for urban centers/municipalities on how to finance housing development.

The financial problem that the study identified while analyzing the reports and deep into the studies requires the need for broad-based, tailored to each participant and innovative financing mechanisms for those who are going to be involved across the value chains of housing production.

V. Conclusion

Rapid structural changes that Ethiopia has recently experienced and is expected to experience in the future, will pose significant challenges to the country's economic and social structures. The continuous economic growth brings about increased per capita income levels and thus higher demand for infrastructure services without undermining victims of natural and manmade calamities, which need physical rehabilitation. It is expected that Ethiopia's per capita GDP will go up from US\$790 in 2016 to US\$ 2,555 in 2030 as it was stipulated in a high-growth scenario but most probably to US\$ 1,945 in a low-growth scenario because of the damage to investment, trade and productivity as a result of the war.

To deal with these significant and rapid structural changes, the Ethiopian government has formulated a Ten-Year Perspective Plan, spanning the period 2020 to 2030. The preparation of the 10 years perspective development plan has been informed by Ethiopia's pathway to prosperity vision to become the beacon of Africa's prosperity. This plan includes, as one of its key strategic pillars, Urbanization and Urban Development Pillar 7 of the Plan. Urbanization is an area comprising several key aspects that are referred to as urban development, but the major milestones definitely are urban housing and land management.

The forecast by 2030 indicates the urban population reaching 26.9 percent of the Ethiopian population would be 32.9 million, with an urban household size of 8.8 million. The combined demand for these household formations and replacement of existing housing stock has been forecasted to be around 471,000 units/year between (2015 and 2025) and 486,000 units/year (from 2025 to 2035). The land demand projection to achieve these housing development initiatives of the country and other projects require 15 thousand hectares to address one million backlog housing as estimated by MUDCo is, 60 thousand hectares for responding forecasted 400 thousand housing demand, 50 thousand hectares for private sector business development, 187.5 thousand hectares for

urban greenery and road infrastructure. Hence, the total hectares of land demanded for the ten-year perspective plan has been identified to be 312.5 thousand hectare which is annual average of 31.25 thousand hectare. Those forecasted goals' achievement needs to be supported by informed decisions on these subject matters for the successful deliberation of the targets.

This study is explanatory research that employed secondary data from different sources, consulted appropriate stakeholders and evaluated which policies were more effective than others along the implementation of urban land and housing strategies. The critical points identified for efficient and effective management of urban land in this study include: land production and transfer should be at least on a cost recovery basis; location, size and ownership identification are important for efficient and effective land management, the role of real-estate for land production and transfer should not be undermined; and creating an efficient market for urban land are basic milestones. The urban housing demand and supply imbalance managing strategies identified in the study include the restructuring of the housing governance method (enabling the market and targeting appropriately the subsidies in need), stakeholders' engagement, facilitating for self-built and cooperative housing, and addressing the financing strategies are identified to be very significant variables.

The author's rich experience allowed him to perform critical analyses in the study, identify the basic problems and forward plausible policy ideas to manage the problems. It is revealed that cities and regions can tackle the problems as per their context, taking the proposal derived from this study in phased approach. Such a critical analysis with experienced industry practitioner for addressing the subject matter has been new experience and it is believed that the research outcomes of the study have the potential to help policymakers in the different layers of FDRE and it is suitable for our country.

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