

# LAND LEASE POLICY IN ADDIS ABABA

## Research Team

Dr. Bacry Yusuf, Development Economics, American World University, USA

Mr. Sileshi Tefera, Msc. Geography, University of Wisconsin, Madison, USA

Mr. Admit Zerihun, Msc. Economics, Addis Ababa University



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P. O. Box 2458, Mexico Square, Addis Ababa, Ethiopia  
Tel: +251(0) 115 504570/ 542405, Fax: +251 (0) 115 542404,  
Email: psdhub@addischamber.com

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## Acronyms and abbreviations

- ACT .....Australian Capital Territory
- CBD.....Central Business District
- CBOs.....Community-based Organizations
- CSA .....Central Statistical Agency
- CSOs.....Civil Society Organizations
- CSRP.....Civil Service Reform Program
- LIS.....Land Information Systems
- LDPs.....Local Development Plans
- NGOs.....Non-governmental Organizations
- ORAAMP.....Office of the Revision of the Addis Ababa Master Plan
- PDPs.....Participatory Development Programs
- RFPs.....Request for Proposals
- SEDZ.....Special Economic Development Zones
- SMEs.....Small-scale and Micro Enterprises
- UDAs.....Urban Development Authorities
- USD.....United States Dollar
- UNHs/Habitat.....United Nations Center for Human Settlements

# CHAPTER ONE

## INTRODUCTION

Several characteristics distinguish land and land markets. Land is a factor of production essential to the provision of urban housing services and the production of agricultural goods. It is also demanded as a financial asset since it is often a good hedge against inflation, especially in countries where financial markets are not well-developed. The acquisition of land is frequently part of the portfolio diversification strategies of economic agents even in economies with well-developed financial markets and where inflation is not a serious problem. Financial institutions frequently prefer land as collateral for credit operations in many developing countries because land is immobile, its depreciation small, and its value not eroded by inflation. Land is a heterogeneous good whose market prices usually reflect not only its value but also location and attached investment.

Insofar as land is a factor of production and a store of wealth, it is also a source of political power, especially in societies where access to other assets is limited. The evolution of property rights shows that landowners have had upper hand in shaping policies that favor their interests, a situation that is still prevalent in some industrial and many developing countries.

The demand for land stock derives first from the need for agricultural goods and housing, which is essentially a demand for land services. Secondly, it arises from the desire for infrastructure and environment-related projects, a demand often independent of land prices as it is determined by government objectives and other concerns. Thirdly, it takes the form of an asset demand in view of the financial asset characteristics of the land stock. The role of land as a hedge against inflation, as collateral for credit operations, and as a component of the diversification strategies of economic agent is subsumed in this third type of demand. The supply of land for the rural and urban sectors is determined by nature – availability, topography, soil fertility – and by the volume and quality of prior investments, including structures. Regulatory constraints affect both the demand and supply of land.

The emergence of land markets is closely related to the evolution of property rights over land. In the urban context, the appearance of permanent and more secure

walled settlements that allow dwellers to reap economies of agglomeration created the need to define property rights over tracts of land (and the structures on them). The limited space within a walled city created scarcity of land – the prerequisite for the constitution of a market for land.

Studies suggest that land and real estate assets account for 45 to 75 percent of wealth in developing countries, thus playing a unique dual role of serving as inputs into production activities in agriculture, industry, and services as well as consumption by households and commercial entities of residential and commercial real estate and infrastructural services.

Similarly, land is a key component in the real estate development sector of Ethiopia. Real estate is generally defined as “land and anything permanently affixed to the land”. In common usage the term often relates to urban real estate and excludes agricultural land. Real estate activities belong to the service sector and are distinct from construction activities. In this context, urban land administration and land markets become key factors in contributing to increased investment or efficiency of production, hence increasing incomes or discouraging investment and production efficiency.

The real estate sector and land have therefore fundamental significance to both businesses and individuals. To the former, real estate constitutes one of the basic conditions for running a business while in the case of the latter it constitutes an important social policy consideration as it relates to the provision of the basic needs of housing.

A dynamic real estate sector further boosts demand for goods and services from a range of sectors, including building materials and construction industries. As a key component of the national economy, the real estate sector exists in the form of several distinct businesses, each of which may be considered as an industry of its own right with distinct economic logic and fundamental attractiveness. Hence understanding the attractiveness of each of the range of industries and their susceptibility to change over time becomes a primary concern.

Land is under public ownership in Ethiopia. This policy and the attendant land administration practices have drawn impassioned debates over the years, to the extent of holding it responsible for all failures in the overall socio-economic development of urban centers.

Based on the above conceptual framework and the analysis of the legal, institutional and administrative arrangements, this study aims at evaluating the performance of

the urban land management system and identifying issues and problems underlying the gap between supply and demand.

It further examines alternative policy, legislative, institutional and implementation mechanisms, and makes recommendations deduced from a thorough analysis of issues and problems which may have a bearing on the encouragement and facilitation of investment through easy access to land at reasonable time and cost.

In the elaboration and analysis of the current urban land policy in Addis Ababa and the attendant issues, the conduct of work was based on an interactive approach among all concerned. In doing so, review and analysis have been made on:

- The link between land policy and development;
- The experiences of other countries and cities to see if Ethiopia's experience is consistent with conditions in developing and developed countries;
- Policy statements and major development programs of the government on land related matters with a view to analyzing and understanding their implications on land administration systems; and
- Price setting mechanism to see whether it matches with theoretical framework and country objectives.



# CHAPTER TWO

## LAND AND URBAN LAND SYSTEMS

### 2.1 Special Features of Land

Classical economists treat land as distinct from capital and identify “land, labor and capital” as the three mutually exclusive basic “factors of production”. To them they are comprehensive, including all economic agents. Each is also “limitational,” since at least a part of each is needed for all economic activity (Gaffney, 2004). Neoclassical economists, however, disregard the distinction and stress on similarities of land and capital, totally ignoring all differences. In asserting that land does have distinctive qualities for economic analysis and policy, the classical economist Mason Gaffney in his essay “Land as a Distinctive Factor of Production”, outlines a number of primary reasons that distinguish land from capital. These are summarized below.

**a) Land is neither produced; nor is it reproducible.** “Land” in economics refers to all natural resources and agents with their sites (locations and extensions in space). Land is not produced; it was created. Land is a gift of nature. It can only be acquired and man, at best, can only improve and develop capacities inherent in the land. There is no “made land” in the economic sense. It is reallocated from other uses. Hence, economic land excludes, for example, landfill or land reclamation by which cities may be extended into shallow waters. Here, the site and seabed are properly land, while the landfill is considered only an improvement.

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**b) Land is permanent and recyclable.** Land as “site”, namely its location and extension, does not normally depreciate, spoil, obsolesce or get devoured by human activities. On the contrary, land is normally expected to appreciate in real value in the long-run. This is so because while values go in cycles, they tend to go upwards as population, capital, and demand all grow whereas land remains fixed. Most attributes of land also withstand use and abuse. Both land and capital are subject to demand-obsolescence from changes in tastes and fashions, but overall the taste for land as a consumer good rises as incomes and wealth grow.

The land share of residential real estate value rises sharply with its total value, making the land part of residential real estate a “superior good” while the building part is not. It follows that the demand for land arises over time with

incomes, but faster than incomes. For example, the soaring demand for an economic activity preempts uses that increasingly dwarf mere rudimentary uses for prime lands. There is also a high and rising technical multiplier of demand for land to complement economic activities, such as the need for parking space etc. Land is reusable or recyclable. Technically, all land is second-hand, most of it previously-owned. With no new supply of land, the old is recycled periodically and in perpetuity without changing shape or site. Land, hence, is fit for another use at any time. As such, land retains a practicable, measurable and meaningful opportunity cost.

**c) Land supply is fixed.** Being permanent and not reproducible, the supply of land is fixed. While buildings that occupy a site may have been demolished, replaced or heavily remodeled, streets repaved, widened and utilities enhanced over time, the land remains the same. This nature of land manifests itself in various ways, starting from the fixed nature of the overall planet and political jurisdictions defining areas of land. The immobility and permanence of land as site and the acquisition of land of necessity from others thus makes land a pervasive basis of market power.

**d) Land is immobile in space.** A growth in demand for land in a specific location or neighborhood cannot result in the migration of land from another location to meet the higher demand. Under the circumstances, higher demand for land results not in increased supply, but in rises in ground rent. Hence, land values are marked by continuity in space, meaning that the price of land is closely related to that of adjoining land, for they are usually near substitutes. It is, therefore, possible to map land values as one would map elevations, drawing contour lines of equal unit value.

**e) Land price serves as a guide and determines the character of capital.** When rents and land prices are high investors revert to forms of capital that substitute for land, tempering land scarcity and shaping capital stock in a particular way. Such substitution is an integral part of the equilibrating function of markets. While high wages induce labor-saving capital, high rents evoke land-saving capital. In respect of urban land, high rents and high land prices induce a number of substitutive capitals.

These include:

- Land-saving capital, like high-rise buildings;
- Land-enhancing capital, in the sense of capital used to improve land for new, superior use;
- Land-linking capital, like city streets; and
- Land-capturing capital, resembling squatters' improvements.

## 2.2 Types of Urban Land Tenure Systems

A pioneering UN study in 1973 on urban land policy and land use control measures identified a wide range of formal and customary tenure systems (Payne, G., 2000). As a general working definition, land tenure relates to the mode by which land is held or owned, or the set of relationships among people concerning land or its product. Property rights are similarly defined as a recognized interest in land or property vested in an individual or group and can apply separately to land or development on it. Rights may cover access, use, development or transfer and, as such, exist in parallel with ownership. Different forms of tenure may co-exist in the same country and, at times, even within the same city. Each form of tenure has its advantages and limitations. Among the most common types of tenure in developing countries are the following:

- **Customary Tenure.** Customary tenure is found in most parts of Africa. It evolved from largely agricultural societies in which there was little competition for land, and hence land had no economic value in itself. Allocation, use, and transfer of land have been determined by leaders of the community according to needs, rather than through payment. With urban expansion, the system has become subject to commercial pressures.
- **Private Tenure.** This system permits virtually unrestricted use and exchange of land and is intended to ensure most intense and efficient use of land. The primary limitation of private tenure is the difficulty of access to land by lower income groups.
- **Public Tenure.** It seeks to enable all sections of society to obtain access to land under conditions of increasing competition. Although it has frequently achieved higher levels of equity than the private systems, it has rarely achieved the intended high level of efficiency due to bureaucratic inefficiency or systems of patronage and clientage.
- **Non-formal Tenure.** This type of tenure allows holdings in the form of squatting, unauthorized subdivisions on legally owned land and various forms of unofficial rental arrangements with varying degrees of legality or illegality. Some of these non-formal categories, such as squatting, emanate from the inability of public allocation systems or land markets that provide for the needs of the poor. Even then, access to lower income groups through such arrangements is becoming increasingly constrained. Despite this, informal tenure categories remain the most common urban tenure category in many countries and accommodate the majority of lower income households, often expanding more rapidly than any other tenure categories.

There may be more than one legally acceptable system operating in many countries. The co-existence of these different tenure systems and sub-markets within most cities creates a complex series of relationships in which policy related to any one may have major and often unintended repercussions on the others. It is, therefore, vital to assess the full range of de jure and de facto tenure systems and sub-markets that exist in any city before any attempt is made to intervene in land markets.

## 2.3 Urban Land and Physical Planning

An aspect of urban land that is associated with its economic value is its physical planning. For the purposes of this study physical planning is the designing of the optimal physical infrastructure of an administrative land unit, such as transport facilities/roads, power and facilities for towns, and other human settlements in anticipation of population increase and socio-economic development, and taking into account the outcome of land use zoning and planning. Physical planning has both rural and urban development aspects, though the latter usually predominates.

Physical planning is normally carried out by the state, or by local government organizations for the general good of the community. The purpose is to have a holistic view of the development of an area than individuals can or would. Physical planning has two main functions. Those functions are developing a rational infrastructure and restraining the excesses of individuals in the interests of the community as a whole. The latter usually leads to physical planning being associated with a system of laws and regulations.

Hence, land use planning is considered a decision-making process that facilitates the allocation of land to the uses that provide the greatest sustainable benefits based on socio-economic conditions and expected developments of the population in and around a natural land unit. This is best done through the analysis of multiple goals and assessment of the intrinsic value of the various environmental and alternative uses of the land unit for an indication of a preferred future land use or a combination of uses. A process of negotiations with all stakeholders would further help generate concrete mechanisms for the allocation of land for specific uses and/or non-uses through legal and administrative measures, which will lead eventually to implementation of the plan. In this exercise are also included peri-urban areas that directly impinge on rural areas through the expansion of building construction onto valuable agricultural land.

As already noted, land use planning requires the evaluation of options and subsequent decision-making which precedes implementation of a decision or plan. It further requires sound land resources management. Land resources management

relates to the implementation of land use planning in harmony with and the direct participation of stakeholders. This is achieved through political decisions; legal, administrative and institutional execution; demarcation on the ground; inspection and control of adherence to the decisions; and solving of land tenure issues. This hinges on three elements: the stakeholders, the quality or limitations of each component of the land unit, and the viable land use options in the area. The factors to be considered in the planning process include the amount of land available and its tenure; the quality, potential use, and suitability of the land for a designated use; and population density as well as the needs and standards of living of the people, all interacting among one other.

## 2.4 Policy Issues to be Resolved

Under conditions of rapid urbanization, competition for secure and serviced land increases. This places pressure on existing tenure systems and requires governments to formulate policies, which encourage efficient land use and improve accessibility to land, without sidelining the urban poor. The central policy issue, hence, becomes what forms of land tenure best achieve these objectives of efficiency and equity.

Among the diverse approaches toward land tenure, public land ownership, as opposed to private freehold ownership, became popular in many countries, especially in the 1970s. Some 20 of the then 40 countries in sub-Saharan Africa, for instance, had nationalized all lands at the time. Nevertheless, the increased strain that public ownership places upon the state has, in many instances, proven to be beyond the ability to develop and allocate lands according to needs. In countries where governments pursued private land ownership, high costs and inappropriate regulatory frameworks restricted access to land. The need to resolve both the issues of land tenure and, where public ownership is the preferred mode, withstand the strain that public ownership places by creating the requisite capacity to develop and allocate lands according to needs and in a manner that such a policy intends to accomplish, thus becomes of paramount importance.

Through land use planning, improved and sustainable land uses are identified which optimize the objectives of the individual land user and those of the community at large. National, provincial, and local governments may levy fees on certain land allocation mechanisms, including formal or informal land market transactions in urban or peri-urban areas. They may place limitations on the leasing, owning, buying or selling of land, if this is perceived to be detrimental to equitable land use or community interests. They may also provide incentives, such as subsidies or infrastructure works, to ensure more equitable, productive or conservational use of the land.

The evaluation of land and land use planning for different actual or potential purposes requires a series of steps including the following:

- The establishment of achievable goals and objectives with stakeholders;
- The identification and delineation of land and land use on the basis of comparable characteristics into zones;
- The assessment of identified land units for the proposed objectives, including constraints and opportunities;
- The assessment of the alternative land uses against the needs and aspirations of all population groups (to be) involved and affected, with the stakeholders; and
- The identification of policies, strategies and measures to be taken to move from the current to the recommended land use and with the active participation of all stakeholders.

Once consensus has been reached through consultation and negotiation on the contents of a land use plan, its execution involves a number of actions. These include political decisions to proceed with the identification and acquisition of the required funds for implementation; the legal, administrative and institutional execution; demarcation on the ground; and finally the inspection, monitoring and control of adherence to the decisions taken. Updating and adaptation of the plan at various stages of execution is also required.

The goal of an integrated approach to planning the use and management of land resources is to make optimal and informed choices on the future uses of the land. This can best be achieved through interactions and negotiations between planners, stakeholders and decision-makers at national, regional and local levels. This would enable all stakeholders to be involved in the decision-making process on the sustainable, equitable and economic use of the land and to follow it through to a successful implementation.

## 2.5 Socio-economic Significance of Land in Ethiopia

Land has enormous socio-economic significance as a key productive asset and source of income. In Ethiopia, as elsewhere in the world, this enormous socio-economic significance stems from the fact that land is a source of wealth, economic growth, employment and a source of basic survival of the majority of the population. In respect of urban land, this is further accentuated by the rapid urban development that leads to swift and drastic changes in the physical, economic, social, political and administrative structures of the cities.

Governments in all countries and at all times have felt bound to guide and control the important structural changes taking place in the urban land market citing the following main justifications:

- Redistributing society's scarce resources to benefit the disadvantaged groups;
- Eliminating market imperfections/failures to increase operating efficiencies; and
- Removing externalities so that the social costs for land market outcomes correspond more closely to private costs.

The justifications given are both political and economic. A wide variety of tools are available for governments to implement the objectives of regulating land use, however much limited these may be in practice. Those mechanisms include planning tools, zoning ordinances, building regulations and by-laws, permits, inspections and penalties.

The Urban Land and Extra Housing Reform of 1975 was a measure that fundamentally changed both the ownership of urban land and housing and the way these are administered by abolishing private ownership of urban land and extra houses without any compensation to previous owners, ending a feudal order and the corresponding land tenure system that had existed for years.

Following the ouster of the military government in the early 1900s, however, urban land lease holding system was introduced to the country — the system in rural parts of the nation remaining more or less the same as that of the past regime.



# CHAPTER THREE

## COUNTRY EXPERIENCE IN LAND AND LAND MANAGEMENT

### 3.1 Introduction

Urban land administration is a comprehensive system of policies, procedures, and institutional frameworks that deals with the multifaceted process of handling and regulating rights, use, and value of land. This evidently includes determining, recording, and disseminating information about the tenure, value and use of land. As another key element in the system of land administration, land management pertains to the manner in which resources from land are utilized. To be effective and efficient, land management requires reliable data about land and the resources thereof and about their legal status.

Land administration obviously presumes the availability of an information system to enable the determination of the legality of rights to claims on any land. It is understood, therefore, that without an information system, which is called land registry, no effective, leave alone efficient, land administration can be expected. Land registration is carried out with the prime objective of providing safe and reliable foundation for the acquisition, utilization and disposal of rights on land. The design, formulation and promulgation of policies, and related legal and administrative instruments fall within the jurisdiction of the central and/or local governments or municipalities.

The policies guiding the system of land administration and land use management may include master plans, zoning schemes, subdivision regulations, building codes, and the likes. Any land administration system worthy of the name has to incorporate at least a core cadastre which is “a parcel-based and up-to-date land information system containing a record of interests in land”.

The purpose of an effective and efficient land administration system as expressed in its regulations and procedures is primarily to install a reliable mechanism of security for and control over open and legal transactions in land. This in turn relates to such tasks as allocation and reallocation of land for designated uses and for the efficient extraction of taxation on land and other incomes from land. Such activities are designed in such a way that they also help maintain and upgrade property values.

The other purpose is to expedite good governance of land, which envisages the provision of continuous and updated information on land use rights and related issues. Delivery of elaborate land plans and efficient collection of taxes are considered the other tools of expediting good governance. Safeguarding natural and urban environment, buttressing the development and operation of healthy and transparent land markets, alignment of investments on infrastructure with general socio-economic development objectives, promotion of social stability through the assurance of security for all parties are some of the purposes of a land administration system.

The basics of urban areas in general and cities in particular are largely the same. However, urban land policies and the resultant land administration systems and/or land management are bound to be largely country-specific to accommodate peculiarities. Quite numerous instances may also be encountered where policies are custom-made for particular cities in a country.

## 3.2 Country Experience

The following presentation of country experiences and practices, including the world's most well developed leasehold systems, in urban land administration tries to briefly dwell on the different aspects of the issue. Land transfer modalities, administrative procedures, land leasing as a major source of municipal revenue to finance urban infrastructure, different approaches of delivering housing to the urban poor have been the peculiarities for which these countries from Africa, Asia, Australia, and Latin America have been selected.

### 3.2.1 The People's Republic of China — Assignability of Land Rights through Different forms of Transfer

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Land administration system in China had gone through different phases before assuming the feature and characteristics that it has. Before the Revolution of 1949 both rural and urban lands were either public or private properties. With the advent of the Revolution, when all forms of private property were abolished, all land came under state ownership. In such a setting land was considered neither a commodity nor an asset worthy of producing wealth. This was somewhat reflected in the provisions in the constitution which unequivocally banned any form of land transaction.

This being the case, the prevalent land tenure system was definitely unbecoming of the economic environment envisaged in the "Open Door Policy" that was put in place in 1979. The Open Door Policy, which was the political and legal platform for the establishment of what came to be known as Special Economic Development

Zones (SEDZ) in the early 1980s, was characterized by the special privileges it offered for businesses. One of the prominent features of the privileges was the institution of the land-use rights system. This was particularly intended to cater for the needs of foreign direct investment by way of granting investors access to land through lease. They simply had to pay up front land-use fees and regular rents.

A clear demarcation between ownership of land and land-use right appeared for the first time after the Revolution, and became the single most important land mark in the history of the evolution of Chinese land policy. The radical turn of events initiated by the implementation of the open door policy was initially limited to the Special Economic Development Zones. But its impact on the nature and future of the land policy in the rest of China was anything but visibly profound. No wonder, therefore, the Bureau of Land Administration was established in 1986 entrusted with such tasks as land policy reform, regulation of land allocation and acquisition, monitoring land development, drafting of comprehensive land use plans and implementation of land laws.

As stipulated in the Land Administration Law of 1986, access to state-owned land by private organizations and individuals was permissible in clear contravention of the constitution of 1982 which banned any transfer of land use rights. The contradiction could only be resolved by making the constitution adapt to the obtaining economic environment, because there was no turning back from either the letters or spirits of the Open Door Policy. Hence, the constitution was amended in 1988 and the separation of land ownership and land-use rights was granted an unshakable constitutional foundation. This measure all the more paved the way for the promulgation of subsequent by-laws and regulation to refine and/or clarify the fundamental policy guidelines and legal provisions.

Pursuant to the stipulation in the amended constitution permitting land leasing, the State Council formally adopted a resolution in 1990, upholding land leasing as a public policy, thereby launching the beginning of a new practice in urban land administration. A couple of years later Shanghai and then Beijing instituted land leasing as local policy and other major cities followed suit.

Land leasing provided land-use rights for “purchasers” for a period ranging between 40 and 70 years. The tenure was determined on the basis of the type of property development. Earlier on, approval of investment used to precede allocation of land. This was, however, changed when the state began parcelling out land to be developed by prospective investors. Starting from the mid-1990s municipalities could confer land-use rights to individuals or private organizations after private negotiations and bargaining. Inviting prospective investors or developers to bid in tenders was the other means. Such practices which obviously were prone to

corruption had to be done away with when the Central Government promulgated a decree in 2002, which made public bidding at auctions mandatory.

The most distinguishing feature of the Chinese urban land administration is the breakthrough it registered in making land rights assignable, expediting for transfers through exchange, sale, mortgage, gifts and inheritance.

In China land leasing is featured as significant aspect of fiscal decentralization. The share of the central government from land leasing revenues which was initially 60% was steadily being reduced until 1994 when all revenue was to be accrued to the municipal governments.

Land leasing has surely escalated the monetization of land, thereby rendering it an important source of financing the development of urban infrastructure. Municipalities are therefore driven to acquire more land to dispense through auctions. They try to do this by moving state owned enterprises to the outskirts of cities and buying adjoining rural lands from communes. They allocate areas of rundown houses in city centers for redevelopment. There were also instances when municipalities and buildings of their administrative off shoots were moved to new locations to vacate the area for auction.

The objectives of the reforms in land-use rights were, among others, to improve land management through land market mechanisms rather than administrative interventions, to scale up land use efficiency with the intention of rendering land an important and valued asset, to augment government revenues by way of increasing land related revenues like land-use fees, land development fees and taxes, to institute an optimal management of land supply and coordinate land development throughout the country, protect farmland and control its illegal conversion to different purposes.

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However much effort was made to improve the land administration system to enable it adapt to the fast growing urbanization and the ever increasing demand for land, there are still a number of formidable challenges that have yet to be overcome. The major challenge is the maintenance of the appropriate balance between trying to satisfy the demand for land and the preservation of farmland. This is reflected, in no lesser significance in the challenge to resolve the conflicts in the relevant policies, by-laws and/or regulations. A vivid case in point is the conflict between those concerning land-use rights on the one hand and protection and preservation of farmlands on the other. Dealing with improvements of land management and the various aspects of social injustices ensuing from land policy reform are yet other challenges waiting to be surmounted. Notwithstanding the need to be ready

to accommodate future demands, the land administration system has to be duly adjusted to at least be able to face up to the challenges already hampering more positive outcomes.

### 3.2.2 Vietnam — State Management of People's Land

Land administration in Vietnam is carried out in accordance with the basic tenets laid out in the 1992 constitution and the Land Law of 1993 as amended in 1998. In 1994 the General Department for Land Administration, in collaboration with the Ministry of Construction, started issuing land use rights and construction permits. In line with the collaboration of the two institutions at the central level local departments under their respective supervisions were merged to issue building ownership and land use certificates.

The fundamental principles governing the system of land administration are “people's ownership” and “state management”. Land, being owned by the people is said to have deprived it of any market value, officially at least. So, access to land is effected through allotment, leasing and transfer.

Allotment, carried out under the auspices of city people's committees, is the most important mechanism that grants beneficiaries the highest form of land-use rights. It accords perpetual rights to the holders to transfer, lease, and mortgage or bequeath. Allotted lands are only those that are made available to individuals, households or non-commercial entities. Since most of urban land is already occupied, allotments can only be made with the availability of opportunities to subdivided large parcels of state land. Except for the initial allocation fee that, in most cases, amounts to about four percent of the price of the land, no payment is ever made.

Organizations or households intent on using a land for commercial purposes can be granted lease for a period of up to 20 years. The maximum that a lease period can last is 50 years. The total rental may either be paid up front or in annual installment. Those with a prepaid rental are granted rights to sublease their holding or contribute it as a capital in a joint venture undertaking with foreign partners whereas those who pay the rent annually can only enjoy the right to mortgage or transfer the lease for the remaining period of the lease.

In Vietnam there is no de jure selling and buying of land. Therefore, any changing of hands as regards land and access to residential land is a mere transfer of use rights. Nevertheless, quite a lot of unregistered and even registered lands are bought and sold at market prices.

Commercial leases which have duration of between 20 and 50 years cannot be transferred without official approval. The transfer approval is only given after the establishment of concurrence with the overall state planning objectives because commercial land is considered a “special means of production”. On the other hand, residential land transfer is conducted without much difficulty. The only thing required is the payment of a transfer fee.

Companies engaged in commercial activities must strictly limit themselves to utilize the leasehold for the business they were given permission to operate. Failure to meet this obligation would definitely lead to repeal of their right.

Foreign owned enterprises can only lease land from state agencies. Under conditions where land is thought to have no value and in the absence of recognition of market forces, pricing land is obviously beset by serious problems. This has not, nonetheless, prevented the State from enacting statutory pricing formula for calculating some form of workable land prices. Still, prices in the “shadow market” could be much more in excess of the ones fixed by the State. The people’s committees are, however, authorized to raise or lower by up to 50 percent of the price fixed by the central government in order to adjust it to market conditions. During certain times, dubbed as periods of “land fever”, the market prices can reach to as much as 300-400% in excess of the statutory price. Such huge differences in price have proven to be impediments to the acquisition of farmland for urban expansion, mainly because farmers are unwilling to dispose of their land on the basis of the officially sanctioned land price.

Urban land prices are determined on the basis of the classification of the city or town in which it is found, its potential for profitable use and its location. On the other hand, companies are often heard airing their misgivings about the duration of the lease which they see as too short to make long term investment decisions. They also complain about the loss of opportunity to develop and sell the business, should a commercially attractive term materialize.

As pointed out earlier, the principles of the Land Law revolve around the contention that land belongs to the people. They also include such elements as the land being uniformly administered toward the state’s promotion of effective and economical usage. The protection of agricultural land and encouragement of investment on land are also incorporated in the list of the principles.

The central government in Hanoi is bestowed with the ultimate control over any policy issue and legislation on land. But it has devolved land management responsibilities to people’s committees at provincial, district and city levels. For instance people’s city committees are entitled to broad discretionary powers to grant

land-use rights. Other local authorities have the responsibility to issue regulations on such matters as zoning, land use details, registration and settlement of land disputes.

### 3.2.3 India : Development of Land to Finance Urban Infrastructure

In India Urban Development Authorities (UDAs) are the highest state institutions entrusted with tasks of handling urban land and infrastructural development. Municipal governments and many other agencies have responsibilities of differing magnitude. During the last two decades over 600,000 hectares of rural land had been converted to urban use. This amount of land is enough to accommodate twenty new cities with the size of Mumbai. And in Mumbai alone 3000-5000 hectares of rural land are brought to urban use every year.

To mitigate, if not to eliminate, the accompanying problems of such a massive urbanization as the vulnerability of the urban poor the government of India had issued sweeping policies designed to subdivide large holdings of urban lands. The famous Urban Land Ceiling Act of 1976 has the prime objective of making land available to poor households in affordable prices. The act determines the ceiling of holdings and the amount and modalities of payment of compensation. The policy has unfortunately failed to meet its objective. As a result of land supply for residential development having been significantly reduced, a huge real estate black market was created and the overall affordability of housing went from bad to worse. The cumulative effect of all these and related problems was evidently the explosion in the slum population and squatter settlements. It is under these circumstances that the Urban Development Authorities (UDAs) operate.

UDAs have vast tracts of urban land under their disposal. These lands are acquired for development and redevelopment projects. Once UDAs acquire land to develop for public purposes, they develop the requisite infrastructure around it to concurrently or eventually sell or rent it to developers and/or end users. After the area is so developed and made available to current or eventual users, the responsibility of maintenance and upkeep is left to municipal authorities. UDAs undertake similar activities in urban redevelopment zones too. For example the Mumbai Metropolitan Regional Development Authority (MMRDA) reclaimed 553 acres of marshland for the construction of a modern commercial center. The revenue generated from this project was in the form of development fees and annual rentals.

Most of the proceeds from the highly valued land sales and/or rentals are in fact the most reliable wherewithal of the UDAs to finance additional or further development of urban infrastructure. Since land prices in large cities is rising at a rate of 30-40% so obviously are the revenues. The revenue from land sales is all the more increasing

due to the enormous boom being continually witnessed in India's urban real estate market. In 2006 a square meter of land was sold for USD 7,730 in Mumbai. This was the highest ever recorded land transaction in India.

The current boom in urban land market has evidently helped to turn publicly held land into a valuable public infrastructure, thereby rendering it an important source of revenue. And in the absence of any better alternative, many municipalities in India opt to convert land into an infrastructure that in turn draw the requisite resource to finance infrastructural development. However, one can count on the current situation as a continuous trend. This clearly suggests the need to look for supplementary sources to finance the expansion of urban infrastructure.

### **3.2.4 Ghana—A Mix of Traditional and Modern Land Administration**

“Land belongs to a vast family of which many are dead, few are living and countless numbers are still unborn.” This is often accompanied by yet another dictum declaring that no body owns the land and the living are only custodians of the land. These maxims, expressing the attitude in West Africa, seem to provide the underlying elements of the land administration in Ghana.

Contrary to the experiences in the other countries cited above, the Ghanaian land administration system exemplifies the complex type, especially as epitomized in the process of gaining access to land. This is also reflected on the highly centralized nature of the Lands Administration Commission which has the final say on each and every land transfer.

There are two types of land tenure in Ghana—state owned and tribal (“Stool” or “Skin”) lands. Any prospective user of land within the domain of the state is supposed to submit their application to the regional secretary of the Lands Commission. The grant is effected on first come first served basis and one can only have a plot in the same city or town and even that upon presentation of a valid banker’s notification testifying that the applicant has the financial capability to start a house. The regional secretary then sends the application to the Lands Commission for approval. If and when the application is approved the secretary issues what is known as an “offer letter” which specifies terms and conditions of the grant, including that the grant is for a lease to last up to 99 years and development of the area should commence within 12 months.

Upon signature of the document the applicant is made to pay the first year’s ground rent, development charge and preparation and presentation fees. This is done at the regional level and the document is once again sent to the Lands Commission.

Then the chairman of the Commission signs the document on behalf of the government as the lessor. Thus gets the legal transfer complete.

In the case of lands within the jurisdiction of customary tenure, a person has to initially identify an area where land is available for development. Information about available plots or parcel is obtained informally through personal contacts in either the offices of the Lands Commission, Town and Country planning Department, Valuation Board or the tribal chief's liaison office. With the receipt of the application and the verification of the availability of a vacant land the chief's office issues an allocation note, similar to the "offer letter" of the regional secretary of the Lands Commission. The allocation note, which in effect is the authorization of the grant, states the terms of the lease including the obligation of the grantee to start development within 12 months and complete work within at least 24 months.

The land grant is considered to be enforceable when signed by the Asanthehene (the Ahanti King in Kumasi, Ghana) to whom the document is sent by the regional secretary of the Lands Commission. The process with its more than twenty steps may take years and is finally completed when the allocation note signed by the Asanthehene is handed to the Lands Commission Regional Secretariat.

It is worth noting here that the Lands Commission has a power on the grant of tribal lands too, whose transfer cannot be actualized without its consent. As a matter of fact the secretariat of the Lands Commission operates as the administrator of "Stool" lands and handles such tasks as managing and disbursement of "Stool" funds and the collection of all rents allocated to the "Stool". This is a clear demonstration of a fact that it is largely the land administration agency, not supply and demand that decides and controls the operation of the land market.

As mentioned above, the conflicting systems of customary and modern land registration and titling have made the land administration complex and time consuming. Not only is this frustrating for those seeking services but has resulted in the accumulation of more than 16,000 litigations over disputed holdings. The extent of the problem is so severe that new land development projects in the outskirts of Accra, the capital city, have virtually ceased.

### 3.2.5 Brazil—Urban Land and Housing Market

Brazil is the largest Latin American country 81 percent of whose population is living in urban areas. The land and housing market was never and still is not commensurate with fast urbanization that led to such concentration of population in cities and towns. Ever growing housing deficit which resulted in the escalation

of informal housing and settlement is the typical problem of major cities and metropolitan areas in Brazil.

The Brazilian housing market is found to be paradoxical by some researchers. While 93 percent of urban housing is classified as permanent (as opposed to the 86 percent average for low-middle-income countries of which Brazil is one) only 64 percent have access to tap water (as opposed to 74 percent average for low-middle-income countries). Unauthorized housing accounts for 23 percent in Brazil whereas the average for the low-middle-income countries stands at 36 percent. It is such a low rate of unauthorized housing coupled with greater proportion of permanent structures on the one hand, and a relatively lower level of access to pure water supply (indicative of low level infrastructural development) on the other, that renders the situation paradoxical. As a matter of fact, Brazil, with all its resources and level of urbanization, ranks one of the lowest in Latin America in terms of providing infrastructure to support housing development for residential use.

In spite of the lack in infrastructure and secure land tenure, housing is very expensive. The private sector is able to produce housing while the state has failed to deliver the requisite infrastructure like water supply and sanitation services, adequate circulation and spaces for communal activities. The state has also fallen far below expectation in terms of charting out plans to approve subdivisions to support housing developments.

The land and housing market, beset by various problems in one way or another reflecting the paradox mentioned above, had to push housing development to informal structures and settlements. Demand for housing that was progressively growing with the growth of population, increasing household formation, additional income and the need to replace old and dilapidated dwellings could only be satisfied through supplementary role of informality.

Between 1970 and 2000, around 940,000 additional housing units used to be built every year. Much of this was constructed informally and in areas without adequate infrastructure and official land titling. For example, close to 60 percent of the increase in the number of houses registered between 1991 and 2000 was accounted for by informally built ones. As indicated earlier on, this has been as a result of the formal sector's failure to deliver affordable land and housing. The major stumbling block in increasing land supply has been the lack of serviced land and the inability of public infrastructure to expand in order to meet the demand. Because of the deficiency of access to essential services like water, sanitation, and adequate circulation to about a million houses, most of such houses are built in the informal sector.

Informal land subdivisions can either be illegal or clandestine. Illegal subdivision of land for housing construction is carried out by an owner, giving out a piece without any official permission and in the absence of cadastral identification. Clandestine subdivision refers to settlements on land not owned by the users or developers. It wouldn't be a surprise to find such settlements on government lands. The houses on clandestine subdivisions like their illegal counterparts do not possess any form of secure or legal tenure. The houses on both holdings range from very poor temporary structures in fairly good conditions to rather strong and permanent dwellings with brick walls concrete floor and tin roofs. Individual upgrading of old dwellings is an incessant activity.

Informal settlements are so real and widespread that the government is involved in upgrading areas to regularize them. This may be one of the reasons behind the sprawling of new settlements, particularly in the peri-urban areas. As is the case in many cities in the developing countries, Brazilian cities are also fast decentralizing and spreading out by consuming the land in the surrounding rural areas. And, because of a better transportation facility and an increasing use of automobiles by individuals, low density metropolitan development is on the rise.

Population growth obviously requires additional land to accommodate varieties of services. In the case of the major Brazilian cities, each additional population of 1,000 needs 6-37 hectares of land to be developed. Since this demand is not something that can be met easily, supply of serviced land is hard to come by. With serviced land in short supply the price is definitely high, especially in comparison with the level of economic activity and income. The price of 100 square meter of residential land in three of the major cities is just about equal to the per capita GDP of the metropolitan areas. It is the households that find themselves earning below the per capita (and they happen to be quite too many) that congest the informal landing market.

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The trend in the development of Brazilian cities is expected to continue in the same direction. With the increase in population, urban lands will expand at the expense of the rural ones. It is estimated that there would be an annual average increase of 2.5 million people between 2000 and 2030. It is also estimated that for every additional increase of 1,000 people, 11.9 hectares of built up area would be required.

The housing and land market in cities and towns in Brazil is very far from being healthy. It calls a lot of improvement both in terms of curing the ills and preventing their recurrence of informality through reduction and/or regularizing. This needs a comprehensive undertaking by the central and local governments in such areas as efficient data collection and projection for the preparation of master plans,

facilitating conditions for increased investment in private infrastructure to support subdivisions for residential development. Regulations on housing land subdivisions must constantly be reviewed to evaluate their impact on costs. These and related initiatives are expected to eventually create an environment whereby affordable land and housing is available.

### **3.2.6 Australia : Australian Capital Territory (ACT)- Canberra**

#### **3.2.6.1 The Land Tenure System in the ACT**

Public leasehold of land in the Australian Capital Territory dates back to 1910 when *The Seat of Government (Administration) Act 1910* promulgated that “no Crown lands in the territory shall be sold or disposed of for any estate of freehold”.

This was further reinforced in 1989 when ACT became self-governing. *The Australian Capital Territory (Planning and Land Management) Act 1988* provides for land within the ACT to be “national” land or “territory” land and that the term of an estate in territory land granted “shall not exceed 99 years or such longer period as is prescribed, but the estate may be renewed”.

The original reasons for the adoption of a public leasehold system for the ACT included:

- Defraying the expenses of establishing the National Capital by allowing unearned increments in land value to be retained by the government;
- Avoiding speculation in undeveloped land; and
- Ensuring an orderly planned development through lease intention clauses.

In short, the debate on the acquisition of land centered on the belief that the only realistic economical method of managing land in the Territory was to set it against long-term leases, with periodical reappraisals of rent. Under this arrangement, the government would be the landlord or the proprietor of every square inch of private land so that, with a progressive settlement and land allocation, it would be possible to increase the revenue derivable from the land within the federal capital area. This would, thus, provide funds for meeting expenses that may be incurred in connection with projects to be envisaged, through a system of leases with periodical reappraisal and review as the best manner in which this can be done.

There was also concern about the possibility of land speculation that might arise. Land scandals associated with the grant of lands and speculative development were especially common in earlier days and this led to heightened concern that

it would give rise to improper land speculation. The leasing of land was, hence, considered a way of ensuring orderly development by placing conditions on the granting of leases. By leasing the land, the government could provide sites at low capital cost for housing and for public and community services as well as for specific commercial activities. Leasehold was believed to provide a means of planning the city so that it developed in a predictable fashion.

Currently, there are four categories of lease granted in the ACT under the *Land (Planning and Environment) Act (ACT) 1991* [the *Land Act (ACT)*].

- a) Residential leases:** Residential leases may be granted for up to 99 years and may be automatically renewed for a further 99 years without charge. The only exception to this right is if the ACT or the Federal Government requires the land for public use.
- b) Commercial, industrial and community leases:** Commercial, industrial and community leases may also be for up to 99 years. Renewals of these leases are governed by pertinent sections of the *Land Act (ACT)*. As with residential leases, an application for renewal may be made during the final 30 years of the lease, at which time it may be renewed provided the land is not sought by the city or Commonwealth Government for public use and there is no change to the purpose of the lease. Commercial leases granted for less than 99 years could be converted to 99 year leases on the payment of USD 200, provided that the lease purpose remained the same.
- c) Rural leases:** Rural leases are usually granted for up to 50 years. Unlike residential or non-residential leases the *Land Act (ACT)* does not provide any security of tenure by way of lease renewal for rural leases. The reason for this relates to the gradual extension of rural lands for residential development as more land was required for the building of Canberra.
- d) Special leases:** These relate to sites provided for religious organizations, institutions of higher learning and may be granted for a charge that is less than the market value of the lease, provided the ACT administration is satisfied that it is desirable and in the public interest to do so in order to facilitate economic development or the development of business in accordance with the *Land Act (ACT)*.

Among the lease categories above, land rents were charged on residential and non-residential leases but were abolished in 1970 to be replaced by increased municipal rates. And from January 1971 on a “betterment levy” has been charged when a lessee is granted a change in the lease purpose.

In respect of the difference between leasehold and freehold in the ACT, the following points are worth noting.

### **Freehold**

- Freehold usually (but not always) permits the owner to use the land for a particular purpose, in conformity with government and planning laws, for an indefinite period;
- The owner has no right to change the use to a different use, unless this is permissible under land-use planning in force and unless permission is granted after an appropriate assessment by pertinent authorities;
- The owner's lawful use of land is further restricted by diverse regulations relating to building, health, and environmental concerns;
- A land owner is also required to pay taxes on land, eg. rate and land tax.

### **Leasehold**

The ACT leasehold system shares many of the attributes of freehold in that:-

- Leases may be transferred with the agreement of the lessor, namely the ACT administration;
- Transfer may be by sale or inheritance;
- As in a freehold system, the administration continues to make rules about the use of its land, controls over building etc., and levying of rates and taxes; and
- As with the freehold system, the administration reserves the right to compulsorily acquire the lease upon payment of compensation.

One of the principal differences between private freehold and public leasehold is that the lessor is also the government and, hence, owns all of the use rights in land. By granting a lease the government permits the lessee to use the land strictly for the use or uses specified in the lease agreement. On the other hand, the government reserves the right to use the land for any other purpose. Normally, leases are

granted for a terminable period while freehold presupposes the use of land for an indefinite period.

In sum, the characteristics of the ACT leasehold system which distinguish it from freehold are:

- i) A lease is for a designated purpose which is specified in the lease purpose clause;
- ii) A lease is for a specified period of time, usually 99 years;
- iii) A lease includes covenants and conditions with which the lessee is required to comply; and
- iv) A lease is subject to the payment of land rent or a premium.

### **3.2.6.2 Reviews of the Australian Capital Territory (ACT) Leasehold System**

In the past 25 years alone, the leasehold system in the ACT has been reviewed 13 times, particularly in respect of the alternative of perpetual leasehold.

While favoring perpetual leasehold for home owners because of their concern for security of tenure, earlier reviews, namely the Land Tenures Inquiry of 1976, recommend fixed terms leases for commercial uses, rejecting leases of indefinite duration.

Most reviews rejected perpetual/indefinite leasehold as unnecessary and unjustified as it has the capacity to weaken the leasehold system and the effectiveness of the lease purpose clause as a planning tool. Leases in perpetuity is also considered laden with contractual difficulties, hence, weakening the government's control over the use of land.

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In like manner, the reviews in 1995 rejected conversion to a system of leases in perpetuity (or freehold) because this undermines the primacy of "lease purpose clauses" in controlling planning and development in the ACT, thus affecting the government's ability to extract a charge for 'betterment' or development rights on ACT land.

The arguments in favor of perpetual leasehold in the ACT run as follows.

### Australian Preference for Freehold

Proponents of perpetual leasehold argue that the Australian public has a general preference, understanding, and appreciation of freehold tenure. Anything less than perpetual leasehold, they argue, would “severely penalise Canberra residents” in the face of a freehold tenure that is predominant throughout Australia. Consequently, leasehold subject to renewal, and possibly re-appraisal, is considered “an extreme restriction on natural rights of property ownership and family inheritance” denying the aspiration to own a piece of land.

### Control of Planning and Development

The main feature of Canberra’s leasehold system is the control over the land use through purpose clauses and building requirements which facilitate planning and ensure that local as well as national interests are taken into account fully.

### Deterrent to Business

To proponents, perpetual leasehold would provide more certainty and security for investors as this would create an environment that is not unduly restrictive.

### Simplification of Administration

Proponents suggest that a limited leasehold system requires more administration than is necessary while perpetual leasehold, more readily understood by the public, simplifies land administration and workload.

Arguments against perpetual leasehold counter the views above in the following manner:

### Loss of Control over Land Use

Perpetual leasehold would restrict the government’s ability to enforce compliance with lease terms, weakening its interest in land than would be the case in a fixed term lease, hence less control; and putting in jeopardy the potential to more adequately protect community interest in the way a city develops.

### Loss of Revenue

As the supply of urban land and suitable rural land for conversion to urban uses depletes, the source for additional revenue will, of necessity, be from changes to use. And as ownership of land is a critical resource from which the government can gain revenue, giving it away would result in loss of much needed revenue. This is especially true under conditions of limited opportunities to raise revenue locally.

Managing urban land provides income stream from the administration of leases as a significant source of income by securing an appropriate return on what is considered a national asset.

### No Evidence that Leasehold is a Disincentive to Investment

A study conducted to establish whether or not fixed term leasehold was a disincentive to investment in any way found no evidence that investment in the ACT was inhibited as a sole consequence of the leasehold system, save for a small number of subjective stories which were impossible to verify despite a number of attempts.

Others consider it simplistic to suggest that the leasehold system affects investment when, in fact, such cities like Hong Kong, Stockholm, Amsterdam, and Singapore are thriving with leasehold systems.

While it may be true that investors may be willing to pay less for leasehold than for freehold land because of lesser rights that is in the nature of the former that does not result in reduced rate of return on investment.

### 3.3 Myths and Realities of Public Land Leasing : A Comparative Survey of Two Cities (Canberra and Hong Kong)

A number of scholars and analysts assert that public leasehold systems permit governments to benefit from a share of future increased land value. They further argue that public leasehold systems could, in fact, help achieve such important policy objectives as stabilizing land prices, controlling land uses, and facilitating land redevelopment. Persuasive as these may seem, there has been only limited evidence to prove that governments could indeed achieve these policy goals in practice.

Research undertaken on Canberra and Hong Kong (Hong,Yu-Hung, 1999), which have two of the world's most well-developed leasehold systems, examines some of the benefits and problems of public land leasing. These are examined in what follows under the headings of land value capture, land speculation, managing land uses and urban development.

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#### 3.3.1 Land Value Capture

Legal scholars view property in land as a bundle of rights. According to this view, the government can retain the right to own land and assign to a private party the right to use, develop, transfer, inherit, and benefit from land. The private party would be entitled to enjoy the rights so granted only for a specified period of time and as stipulated in the land lease contract. Here, because the government would also be the landowner, it could retain a portion of the land value increments by requiring a lessee to pay either one or all of the following to recoup as much a portion of development windfalls from leaseholders:

- A lump sum of money--called an initial land premium--at the beginning of the lease;
- An annual land rent;
- A premium when the lessee modifies lease conditions to acquire additional rights for land redevelopment; and
- A premium for renewing the land rights when the lease expires.

In Hong Kong, the leasehold system has helped the government recover a large portion of development windfalls from landholders. Over the period 1970-1991, the government of Hong Kong is reported to have recaptured an average of almost 40 percent of the increased land value from selected land sites through land leasing (Hong, Yu-Hung, 1999), financing an average of 55 percent of the annual infrastructure investment during the period.

This is in addition to annual rates owners of residential properties must pay to the government in the amount of five percent of the estimated rental value of rents received. Likewise, owners of commercial real estate pay a 15 percent property tax on income earned from their rental premises.

In all, the Hong Kong government recoups almost 80 percent of the annual costs of public infrastructure investment from land-related revenues, on the average.

In Canberra, by contrast, the percentage of infrastructure investment funded by lease revenues compute to only five percent. The main reasons for such a difference have been the abolition of land rent for residential leases and competition from other cities, hence weakening the government's ability to collect higher rents on public land. This issue of competition is particularly important for developing economies like Ethiopia where local governments are eager to attract investment and may be willing to compromise by collecting smaller amounts of land premiums and rent from both domestic and foreign land investors. The use of land as a source of public funds, hence, requires some level of inter- or intra-regional cooperation to prevent developers from playing one government against another.

In addition to a tight internal control over the operations of leasing land, the Hong Kong government provides public officials with generous remuneration and fringe benefits to reduce the temptation of corruption. This underscores that, in designing a public leasehold system, the government needs to consider the necessity for a system of checks and balances to prevent opportunism or political maneuvering. Here, it is important to note that no single person or department within a government should have the unrestrained power to decide on the method and timing of allocating land resources.

### 3.3.2 Land Speculation

In Hong Kong the government's reliance on land revenues as a source of public funds has been seen to conflict with its public role in stabilizing land prices. Should land prices be high, this would deter private developers from undertaking land redevelopment by acquiring lease rights and modifying contract conditions. As a result, the government would be unable to fully recoup land value.

These difficulties have encouraged the government to retain land value at the beginning of the lease. Yet, this method can work only if the government leases land slowly to private developers. The rapid disposition of land, when its value is low, is considered an impediment to the government's ability to recoup land value in the future. The downside is that restrictions on land supply have encouraged land and property speculation, leading to high land and property prices and making Hong Kong one of the world's most expensive cities.

Other countries could avoid this problem by relying more on lease renewals, contract modifications, and annual land rent than on the initial assignment of leases to capture land value.

### 3.3.3 Managing Land Uses

Public leasehold systems permit the government to manage urban growth by incorporating land use regulations into land leases. If lessees do not develop their land according to the provisions in the lease agreement, the government has the right to revoke the lease and repossess the land. This right is not available to the government when land is privately owned.

Taking full advantage of the special land right public leasehold systems afford requires that lease conditions that are not too complex and ambiguous be enforced and that the government is capable of enforcing the contractual agreements.

Hong Kong's experience in using lease conditions to control land uses has shown that although land contracting could give the government the flexibility to control land development in detail on a case-by-case basis, it has proven inflexible in adjusting to changes in the overall zoning plan over time. As the government incorporates land use regulations into land contracts as conditions only at the beginning of the lease period, these conditions will remain until the lease expires unless lessees initiate modifications on the lease. This could be as long as 50 years in Hong Kong and 99 years in Canberra.

Further, when the government needs to update the master plan or revise land regulations to accommodate new urban development conditions, the revised rules may prove inconsistent with lease conditions entered into years ago. Consequently, any regulatory changes that contravene the lessees' contractual land rights may elicit lawsuits against the government. The resultant legal liability would, hence, hamper the government's ability to modernize its land use plan for districts where outdated lease purpose clauses are still in effect.

### 3.3.4 Urban Redevelopment

Under public leasehold systems, a lessee's application for lease renewal may be denied if the government needs the land for other public purposes or to rebuild the neighborhood. The government may then compensate the lessee only for the property and repossess the land, implying that public leasehold systems reduce the public costs of land acquisition for urban renewal or other public uses.

On the other hand, assembling land for urban renewal must wait for leases to expire. The long duration of land leases could, therefore, create a problem in this exercise. It may further be the case that compensation negotiations for property on the land may not be as difficult as it may be for both land and buildings. Experience has shown that issues of holding out and disputes over compensation in Hong Kong to be as common as in countries where land is privately owned.

The difficulties that Canberra and Hong Kong face in leasing public land show that leasehold systems do not, in and of themselves, resolve land management problems. This does not mean, however, that leasing is not a viable means to manage land. In Hong Kong, the government retains a large portion of increased land value for public infrastructure investment. Canberra's public leasehold system enables the government to obtain low-cost land for building the capital.

## 3.4 Lessons

The important lesson to be learnt from the above country experiences is not to set unrealistic expectations on what public leasehold systems can achieve. Failure to deliver their promises could frustrate a well-intended reform and bring the effort to a standstill. The debate must focus not on the choice between leasehold and freehold systems, which are not mutually exclusive, but on designing specific institutions that respond to different political, economic, and social contexts to minimize problems associated with both systems, because no land tenure system is perfect.

# CHAPTER FOUR

## DIALOGUE, PARTNERSHIP AND LAND POLICY

### 4.1 Background

Business advocacy organisations are very important in promoting the interests of the business community both at the national and international levels. In the developed economies, there are two types of business advocacy organisations, namely chambers of commerce and trade/sector/business associations. The organisations play not only advocacy roles, but also engage in providing wide range of services in promotion, information, training, certification and technical assistance.

The process of effective participation and consultation can be successful depending on the competence of civil society organisations and the willingness/openness of the government. The competence of civil society organisations indicates management capabilities or may mean the availability of experts. Expertise and legitimacy do not always go hand in hand. There are common cases of non-governmental organisations led by highly qualified experts that work closely with consultancy firms, but lack linkage to the wider part of society. There are also grass roots organisations which claim legitimacy from representing broad-based membership while their leadership fall short of the relevant skills in most of the policy issues. Membership organisations may have statutes on elections of their leadership, the power of the chair or rules on proper financial accounting. However, whether they are managed democratically and transparently cannot be established easily from outside.

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The involvement of the private sector in policymaking is minimal in Ethiopia. Established processes of public private dialogue are virtually absent. This is a stark mark of a more fundamental government problem, which excludes private sector stakeholders in the process of policy formulation, to the detriment of the effectiveness of and the support for policies to be introduced, however well intentioned these might be.

### 4.2 Public-Private Consultation and Dialogue

Consultation is a form of participation, which means very different things to different people. Some may insist that consultation is a form of co-determination in

decision-making and a special way of negotiating and compromising. Those who share this argument find themselves opposed by those who insist that final decision-making is a legitimate business only for governments and parliaments. Therefore, the right to consultation is only a right to speak and to be heard and, for that reason, it does not come along with any obligations for governments to consider proposals. From another angle, it could be argued that consultation can only be a legitimate process if participation is open in the widest possible sense, while others would see no harm in limiting consultation to a narrow group. Consultation and lobbying are often used interchangeably, the argument switching from raising quality in management to building a political support base.

Intensity and form of consultation are further points of departure. Some may consider consultation as an informal one-off affair, while others point out to the need that it should be institutionalized and rights such as access to funds and independent expertise should be granted.

Putting all stakeholders in proper purview at an early stage may give additional space for preparing their debate and in accessing expertise or in consulting their constituencies. Releasing information lately or keeping “the other side” unaware up to the last moment are tempting strategies for governments, if they want to head towards low-impact consultation. For most cases, it may be correct to state that the quality of consultation correlates positively with the amount of time made available before a final decision is taken. It is not only the amount of time, but also the phasing of decision-making which matters. There is usually a path that each new round of debate follows, each trying to take off where earlier stages have stopped. Those in charge of directing the process are never keen to go in circles, meaning starting everything again just because somebody has not been around from the beginning. Decision-making moves forward throughout coalition building processes and “in-between-agreements” which cannot be set aside easily because of new actors entering the game lately.

Consultation may likely be of more significance if it kicks in at an early stage, continuity being another crucial factor. To be involved only at the initial phase and left out at later stages may forestall the chance of having one’s position adequately reflected in the final outcome. Therefore, it is believed that the impact of consultation will increase if it starts at an early stage and continues thereafter through all stages of decision-making. Consultation must always take place before a final decision has been made. Further, factors such as how early the process starts, how long it lasts, when and where it ends affect the quality of consultation.

The form of consultation is a further dimension to consider. The form of consultation signifies the degree to which the process is institutionalized. There are different institutional aspects which may be relevant. Access to consultation could be ruled by registration procedures, quota or other limiting factors. Membership in a consultative forum could include some control on handling the discussion agenda, a right to call for additional meetings or it could include some autonomy in fixing the calendar of events. Debate may be supported by secretarial assistance and by the possibility to invite independent experts. Members may be provided with funds to care for their transport and accommodation expenses and they may be provided with the means and opportunity to call for breaks in order to consult with their constituency wherever they may be. The consultation process could be handled through different channels and those may include:-

**a) Committee of Consultation**

The existence of a committee is an indicator for some control on procedures being not vested in government anymore, but handed over to the committee and, thus, under the influence of the membership of the committee. While not each member will be able to use such autonomy to his or her own end, non-State actors collectively are likely to insert more influence compared to a procedure where control is still fully owned by Central Government.

**b) Consultation in Written Form**

The strengths and weaknesses of written proposals need to be assessed in relation to advantages and disadvantages of available alternatives, namely the oral form. Written proposals allow wider consultation and can be circulated easily beyond a consultation forum. Written proposals carry more weight since more prudence is exercised in the statements and authors may be more willing to consult additional opinions from their constituencies. Moreover, written proposals may produce statements of higher expertise because more time can be devoted to prepare for consultation.

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**c) Consultation in Oral Form/ Dialogue**

An oral consultation is likely to speed up decision-making. More members will attend the meeting without a predetermined position, they will be less prepared, and more comfortable agreeing to others' points of view. The smaller audience makes winners and losers less obvious and the discussion may be less antagonistic and directed more towards a compromise.

**d) Passive Information**

Passive information may be relayed in the form of briefings. In the narrow sense, "being briefed" is not a component of consultation as it implies

“the right of information” and not “the right to be heard”. However, even a mere “briefing”, if it comes early enough, may produce an additional momentum. Groups may still be challenged to develop own ideas, go into public and finally to exert pressure on government.

### 4.3 The Significance of Public-Private Partnership

There is ample evidence which proves that states or market-based systems are not able on their own to satisfy the ever-increasing and changing social needs in ways that are economically and environmentally sustainable. An increasing awareness is emerging in countries at all levels of economic development that new ways need to be found to balance needs and resources. While this issue affects all key developmental sectors, none are more affected than land and housing. The demand for land within the rapidly expanding cities of developing countries is considerable. Inevitably, this has placed conventional methods of supply under intense pressure. Public sector agencies have sought to control urban land markets through land nationalization, programs of direct provision or regulating the activities of other suppliers, such as the private or communal sectors. Despite these attempts, hardly any city in the world can claim to have met demand on a sustainable basis.

This stalemate has reinforced awareness that neither the public nor private sectors on their own are able to address, let alone resolve, the problems of managing urban growth and housing the increasing urban population. Public-private sector partnerships are thus being promoted as the way forward.

Despite the general recognition that land is a precondition for any urban development strategy, surprisingly limited attention has been paid to partnership initiatives in the field of land development. Partnership is more than a simple link or interaction between two or more actors in the shelter process. Rather, partnerships are:

- Active and deliberate processes, even if the partners are not active in doing something (such as imposing controls on land or rents);
- Processes of working together in a mutually interdependent fashion, often with shared responsibilities. The most successful partnerships are those in which each partner derives something beneficial and gains access to something that it does not have from the other partner or partners in the relationship;
- Common agenda and goal, even if the interests, benefits and powers of the partners differ; and
- Relationships in which accountability and transparency are crucial.

Responsibilities in partnerships may vary. Partnerships based on principles of equity, economy, efficiency, flexibility and participation can lead to better land management and greater access to land and security of tenure. Effective partnerships between government and private business and land-owning sectors are best fostered through facilitating access to land and land development opportunities to these sectors.

The role of government in inspiring, enabling and facilitating formal private sector initiative through an appropriate policy framework, rather than involving directly in project implementation would help change the situation. In this exercise, involving NGOs, as they are well placed to mediate between communities, governments, and private sector actors, would be beneficial. Involving NGOs will further help in capacity building for communities, local governments and Community-based Organizations (CBOs) to ensure their participation and effectiveness in land management.

Mechanisms for formal private sector participation must also take into consideration the ensuring of access to land for the urban poor and other disadvantaged sections, and partnerships should take cognizance of impediments affecting any particular group. Effective public-private partnerships would, hence, require to involve one or more public authorities and one or more private partners, to work together and fulfill a mutually agreed objective through specific organizational framework set up by the parties involved, each party retaining its own identity. It also requires the parties concerned to put in resources and bear the risks of the project together as well as share profits.

There are abundant examples of partnerships in wide ranging countries, from India to Mexico, and from Britain to Bulgaria<sup>1</sup>. Public-private partnerships have entered into the mainstream of urban development practice and that many variations on the theme are evolving to respond to different conditions and needs. The essential quality of successful partnerships is that of complementarities, in which the relative strengths and weaknesses of each partner are offset against those of the other to

<sup>1</sup> One of the earliest examples of public-private partnerships has been land pooling and land readjustment. These two methods have been adopted in Japan, South Korea, and Taiwan and are now being applied in several Southeast Asian countries. Despite its reputation for bureaucracy, some of the most innovative partnerships in urban land development can be found in India. These range from Town Planning Schemes (TPSs) to Participatory Development Programs (PDSs), land compensation for project-affected people, Transferable Development Rights (TDRs) and Slum Redevelopment through incentives (SRD). These have been introduced by several urban development authorities in different parts of the country to capture a public benefit from commercially based developments, or to redistribute surpluses to adversely affected groups, such as dispossessed landowners. Similar schemes have been effective in sub-Saharan Africa, where obstacles to developing customary lands have been overcome. This was achieved by associating customary owners with all phases of the operation, from the choice of site to the development and sale of plots. There are also lessons from Mexico, where joint ventures between a form of state-regulated tenure known as the '*ejido*' and the private sector have been implemented for many years. There have also been other partnerships involving the provision or sale of land held under public sector control as a means of attracting private sector investment in land development and housing construction, for example, in Cape Town.

produce developments that combine the best attributes of each. In practical terms, these could be seen as developments that are economically efficient, socially responsive, and environmentally sustainable. Partnerships do not require the parties involved to subordinate self-interest. On the contrary, they provide a wider and longer-term framework within which such interests can be protected and promoted, and should be seen as offering each party benefits that cannot be achieved when operating independently.

A first step in this process is for stakeholders from each sector to understand and acknowledge the legitimate interests of others. In respect of the public sector, this involves protecting the wider public interest and particularly the needs of vulnerable groups like those unable to gain access to the legal land and housing market.

The public sector is also ultimately responsible for maintaining an effective and appropriate legal, policy, and administrative framework within which other actors can operate on equal terms by creating the much talked about “level playing field.” For the private sector, the primary interest is to maximize returns by minimizing costs and risk. For commercial developers, investment will be defined primarily in terms of finance, while for NGOs it may be seen in more social or political terms.

For partnerships to work, deep-rooted practices and traditions will require to change on all sides, in order for the private sector to become more socially responsive and for public sector agencies to become more market sensitive. Clearly, the pace of such change will not be even. While the flexibility inherent in the private sector’s response to changing market conditions makes it easier for developers to adapt their operations, civil servants are constrained by procedures and are often more insulated from pressures for change. Yet the public sector must be aware of market needs. Here, it is important that the public sector does not see partnerships as necessarily involving a withdrawal of the public sector from its responsibilities or a threat to public sector authority. If executed effectively, experience suggests that partnerships can maintain and even increase these. This would, however, require a better knowledge of how land markets operate and may take time to achieve.

Government agencies will vary from one level of government to another, with central government creating the policy, legal and administrative framework within which local authorities can create a range of partnerships to suit local conditions. Striking the right balance and adapting it to changes in market conditions will not be easy. Failure to adapt the administrative system would render partnerships more of a public relations exercise than a transformation of government roles in land development. Transparency and accountability will be of vital importance if wider public interests are to be kept and partnerships to be made more effective.

This is especially relevant in the case of land, as each parcel is unique and may vary considerably in market price and offers ample scope for abuse. The task of formulating administrative procedures that provide transparency and accountability as well as consistency and flexibility will be a challenge even to the most capable administrators.

#### **4.4 The Ethiopian Experience in Dialogue and Partnership**

The participation of non-State actors in government business is always a difficult and delicate matter. Governments usually do not see themselves seeing eye-to-eye with organizations which represent sectional and particularistic interests within a society while they claim for themselves to represent the whole society. Even where State actors are willing to call on cooperation from non-State actors, high barriers have to be overcome. There are no universal consulting models available from where a variant could be picked for national use.

As mentioned above, private sector involvement in policymaking in general, including land and land management policy, is minimal in Ethiopia. Public-private partnership is virtually absent. Established processes of public-private dialogue are virtually inclined to information sharing. This is a stark mark of a more fundamental governance problem, which excludes private sector stakeholders in the process of policy formulation, to the detriment of the effectiveness of the implementation of the existing policies and the support for the policies to be introduced, no matter how well intentioned these might be.

A great deal may be learned from the Mauritian experience, in this regard, where an effective system of governance is the hallmark of policy design and implementation. Policy making in Mauritius is participatory, based on an effective partnership between the government, business and trade unions, all contributing to the formulation of the national economic strategy. Private sector needs are fully recognized in government policy in line with the overall development objectives of the country.

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An effective partnership between the government and the business community requires, among other things, a robust business advocacy. The effectiveness of business advocacy groups depends crucially on their capacity to perform their functions to the satisfaction of their members, who, in turn, will support the groups and get involved in their activities if they perceive them as effective. The business advocacy system in Ethiopia has not been as effective as it should be, even considering the infant stage of business development in the country. The major constraints to the full development of business advocacy are found inside the private sector itself. The sector is not developed; it is weak in self-awareness and self-promotion activities; its confidence in the general system is not optimistic, mainly due to the

gap between policies and their implementation as well as a stark lack of dialogue between government and private sector advocacy groups.

Factors undermining severely the ability of these institutions to undertake effective business advocacy can be briefly summarized as follows:

- a) There is no formal mechanism for consultation and dialogue. Policy formulation consultations with representatives of the business community hardly exist or are only occasional. There is further, no provision for a public-private dialogue at which such consultations can take place.
- b) Coordination among the key actors in the business advocacy system is scarce and quite limited.
- c) There is a widespread problem of representation. Neither the chambers of commerce nor the various trade associations and interest groups are adequately structured to represent their members.
- d) There is lack of resource in the system because members are unwilling to pay fees to chambers/associations, as they do not see direct benefits. The issue is not the fee, but that members' expectations in the delivery of services are generally unmet. On the other hand, neither the chambers nor the associations can achieve results without resources to implement their activities and programs.
- e) There is lack of capacity to interpret members' requests and formulate organized position in enterprise related matters that need to be brought to the attention of policy-makers. There is considerable lack of capacity, in addition to lack of resources, in providing effective services to members.
- f) Membership to the chambers of commerce is voluntary. As a result, the problem of the free rider is emerging. Without contributing both financially and technically, businesspersons are seen taking advantage of the efforts of chambers or associations.

The effectiveness of the consultation process not only depends on the competence of advocacy institutions, but also the efficiency of public bodies. The efficiency of public bodies in service delivery and enhancing private sector development, in the Ethiopian setting, falls far short of expectation mainly as a result of lingering

attitudes inherited from the long past command economy. Despite new government policies and strategies, which consider the private sector as an “engine of growth,” the perception of a consistent part of the public administration, including at the policy level, towards the private sector is still that of rent seeking. Instituting an enabling environment alone is to no avail if the capacity of the private sector is weak to bring about the required change. When private economic agents are nonexistent or underdeveloped, it would be incumbent upon the State not only to create an enabling environment for free enterprise, but also to nurture private sector participation. Much remains to be done in this regard in the present day Ethiopia.

The major deficiencies of public institutions, in this regard, include negative attitude toward the private sector, lack of competence in several branches of the public administration, inefficient information system or the lack of it, lack of clarity of policies, regulations, guidelines, and procedures, as well as lack of appreciation/knowledge/awareness of what the private sector really is and what its role in the country’s development is.

These deficiencies in public support institutions could make the running of businesses costly and uncompetitive internationally, particularly in relation to other countries with a more conducive environment and efficient supportive institutions.

The concern of the business community with regard to urban land thus spans over a number of issues that include, among others, land use planning, valuation of land, and landed property and taxation of landed property which invariably occur within the context of a set of policy framework. It would, therefore, be natural for the business community to have keen interest in being an active player in the formulation of land related policies.

Although there have been forums organized by government institutions and in which the private sector participated, those were meant to mainly serve as vehicles for one-way flow of information from the government to the private sector. Such discussions took place against the backdrop of a sluggish performance of the urban land lease holding proclamation characterized by limited number of plots prepared for auction, few turnouts for floated bids, delays in finalizing the bid process and determining the winner, delays in handing over of plots on the part of the municipality, and delays in developing sites and start of actual construction.

Any experience in respect of consultation relates only to the operation of consultative councils (Yamakari Mikir Betoch) established under the then Provisional Administration of Addis Ababa. These councils limited their discussions

to a variety of concerns tabled by the city government. As the city had no elected council, the provisional city administration of Addis Ababa established consultative forums at City, Sub-City and Kebele levels with corresponding membership size of 400, 600, and 700 persons.

No effective structures existed to discuss land management related issues with the business community both under the Provisional and the Care Taker Administration, although ensuring transparency and private sector participation in urban land management is believed to have a number of advantages. The following are some of the advantages:

- Facilitation of transactions in land based properties;
- Developing flexible mortgage financing arrangements;
- Putting in place a just and equitable land and/or property taxation system;
- Donning building permits, whether these relate to new constructions and improvement of existing buildings; and
- Well-coordinated and proactive delivery of basic infrastructure and utilities.

# CHAPTER FIVE

## LAND ADMINISTRATION IN ADDIS ABABA : HISTORY AND ASSESSMENT

### 5.1 Policy Instruments and Legal Framework

Central governments have a key role in defining land related policies whilst most land management related operations take place at the municipal level. This has special significance in the case of Ethiopia which has a unique land management related experience and where the current Federal Constitution provides for the public ownership of both rural and urban lands and the management of urban land by municipal administrations, including Addis Ababa.

Before the nationalization of urban land in 1975, both urban and rural lands could be sold, rented, leased, inherited or transferred as a gift. Proclamation 47/1975, which introduced the monopoly of land ownership by the state, abolished private ownership of land and banned any form of transaction in land. The state took over total responsibility for land provision, development, and control. Accordingly, urban land management became a highly centralized operation under the then Ministry of Housing and Urban Development that oversaw the implementation of the policy through its regional branches and urban dwellers associations established at the city and neighborhood levels.

The socialist urban land management permitted the acquisition of land with nominal payments and annual land rent that did not reflect the market value of land. This is reckoned to have resulted in the sub-optimal use of urban land and competition for the mere grabbing of urban land by public agencies, individuals, and businessmen, especially after the introduction of the mixed economy policy in the late 1980s. In the mean time, the development of urban land had been largely neglected as municipalities were deprived of their revenue basis and the government was preoccupied with the drive for the socialization of the whole economy, heavily investing on state enterprises. In more general terms, a workable cost recovery system that could have otherwise ensured sustainability in land provision was not in place. This had invariably led to an ever-increasing gap between the supply and demand for developed land, which, in turn, gave rise to speculation in illicit transaction of land.

Proclamation No.80/1993 of the transitional government of Ethiopia introduced the urban land lease holding policy that opted for the transaction of land between the government as the sole owner of urban land and private individuals under the lease holding system in order to transfer use rights among private individuals through sub-leasing arrangements.

This policy has been under implementation since the early 1990s with the following main objectives:

- Embracing market principles in the management of publicly owned land and thereby abolishing speculation in land transactions;
- Expediting efficient and effective use of scarce urban land thereby controlling urban sprawl and preempting potential urban rural boundary conflicts;
- Creating conditions whereby adequate financial resources could be mobilized for the provision of public infrastructure and services; and
- Encouraging private investment by providing terms of tenure that are long enough and that allow the planning in advance of activities in order that capital expenditures on land are recovered.

While few are expected to disagree with these lofty ideals, the level of implementation of the proclamation, particularly during the initial period, was not as expected. Although the Addis Ababa City Administration was the first to issue regulations that provided for its implementation, most businesspersons and potential investors were ambivalent about the urban land lease holding policy. The basic reason for such a position is reckoned, among others, to be familiarity with and the continued operation of the permit system that many businesspersons perceive to be more predictable and affordable than the new system. The annual land rent payable, which was rarely revised, was very low (e.g. Birr 0.50/m<sup>2</sup> based on the first land lease holding regulation), but was later increased to Birr 3.00/m<sup>2</sup>.

The major problems identified in relation to the implementation of the lease policy include the following:

- Emphasis given by the municipal administration to generate revenue at the expense of the developmental imperatives of the policy;
- Absence of up-to-date citywide Master Plan (which was later revised) and area specific detailed plans;
- Supply side rigidities associated with capacity limitations to prepare a sufficient number of plots of the right size and shape at the appropriate location;

- Poor coordination between municipalities that are responsible for the land delivery and parasitical organizations in charge of infrastructure and service delivery;
- Lack of objective basis to determine lease prices for plots to be advertised for possible holding under lease arrangement;
- Limited awareness on the part of the business community about the advantages of the lease arrangements;
- Artificial demand as strategy to pre-empt potential takeover of already occupied plots by other investors and also speculation in land transactions;
- Rigid payment modalities that pertain to interest rates and duration of payment;
- Reliance on traditional systems of savings and credit systems by the business community; and
- Absence of well-developed mortgage (financial) markets.

Consequently, the implementation of the urban land lease policy was typified by a vicious circle: high lease prices for land coupled with shortage of basic infrastructure and services leading to low demand for urban land, hence limited investment and sluggish local economic development (Stepper, 2000). Such a state of affairs underline the need to promote private investment by ensuring expedited access to developed land that would contribute to the lowering of transaction costs which would otherwise be incurred by potential investors and, hence, ensure improved competitiveness of business establishments.

It was against this backdrop that the Addis Ababa City Administration implemented a comprehensive urban management reform program that also heeded to urban land management issues. The studies conducted under the Addis Ababa Development and Improvement Project (AADIPO: 2002-2003) and the subsequent land management related interventions carried out as part of the city reform program benefited much from the reviews of previous studies and additional discussions held, to a limited extent, with stakeholders, including the business community, on the implementation of the urban land lease policy.

The findings and recommendations of these studies precipitated in some modifications made in the urban land lease holding proclamation and in the land lease holding regulation of the Addis Ababa City Administration, the restructuring of the municipal administrative apparatus for land management, the issuance of land management manuals as well as concrete measures to harmonize the implementation of the land lease policy with other laws (e.g. those pertaining to taxation and compensation issues).

The major modifications introduced in the urban land lease regulation pertain to the following:

- The official recognition of “negotiation” as one of the land acquisition modalities;
- The definition of “public interest” (although the definition is still contentious);
- The need to set and update benchmark prices (by regional governments);
- The redefinition of payment modalities (grace period, simple interest);
- The temporary recognition of the permit system; and
- Procedures for expropriation and compensation.

On the other hand, various procedural manuals were prepared for implementation. Those included:

**Manual No.1:** Designed to provide existing possessions legal entitlements; to enforce possessions that occupy areas greater than specified by the title deed; and to control and prevent illegal settlements;

**Manual No. 2:** Provides the procedures for acquiring urban land through auction, negotiation, allocation, and lottery. The regulation also provides for complaint-handling mechanism for lease holding and the benchmark price of leasing urban land in Addis Ababa;

**Manual No. 3:** Relates to lease price rate and payment modalities; and

**Manual No. 4:** Provides the mechanism for affording investment incentives for various activities related to land allocation, land pricing etc.

There are also laws at various stages which invariably affect the effectiveness of urban land management systems. These include the federal urban planning law, the federal building code and the federal compensation proclamation.

## 5.2 The History of Urban Planning in Addis Ababa

After the founding of Addis Ababa in 1886, Empress Taitu allocated the city to different officials and nobility and the city began developing spontaneously in all directions. Some planners portray this as Empress Taitu's land use plan for Addis Ababa.

Urban planning in its modern sense began in Ethiopia during the Italian occupation. The famous French architect Le Corbusier prepared the sketches for Addis Ababa in 1936. It was derived from the concept of radiant city, consisting of monumental structures and a grand boulevard crossing the city from north to south. However, this grand design of Addis Ababa was not implemented. That same year, two Italians, namely I. Guidi and C. Valle prepared a master plan for Addis Ababa emphasizing the "prestige of the colonizer" and dividing the city into sections--"the European city" and "the native city" (Merkato), where the manifestation of this plan still prevails.

Advancement in modern urban planning was achieved when Sir Patrick Abercrombie prepared the master plan for Addis Ababa in 1956. Sir Patrick Abercrombie was a well known British planner who had also prepared a master plan for Greater London. The present city of Addis Ababa follows the path and direction of this master plan and most of the proposals have been implemented through this plan. The main proposals of the plan include neighborhood units as the basic city-organizing concept; street network of the city characterized by radial and ring roads; and a proposal for satellite settlements around the city. The master plan prepared by Abercrombie was revised and detailed work done by the British consulting firm Bolton and Hennessey partners in 1959.

The master plan prepared over the period 1984-1986 EC through the Ethio-Italian Development Cooperation also broadened the scope and content of urban planning compared to previous ones. The planning approach provided ways and means for the integration of comprehensive planning of regional, metropolitan and urban hierarchical systems. The master plan prepared was recently revised and has become a legal document and instrument in directing city development, land administration and management.

Urban planning in general and land use planning in particular involve the articulation of development vision and the proper understanding of current and anticipated land values. Urban plans provide a framework within which urban land management takes place. The objective of land use planning is, in broad terms, specifying the permissible land use functions (residential, commercial, social

service, etc.) in particular sites achieving effective/efficient land-use, optimizing the use of existing infrastructure and improving the aesthetic and overall environmental quality of particular sites.

Thus, urban planning processes must afford adequate attention to the specificities of business activities (commercial, industrial and service) that vary both in their scale of operation and land requirements as well as the positive or negative externalities they engender. This invariably determines the ease in which individual business projects could be accommodated in already developed and newly developed areas. While some can be accommodated within the context of “mixed development”, others, such as those that generate toxic wastes or noise pollution, may have to be segregated from notably residential quarters and the like.

The inter-linkage between land-use planning and land management cannot be underestimated, particularly when it is seen in the light of the process-based nature of planning and the dynamic nature of land management which presupposes adopting participatory approaches to maximize synergies.

The most recent exercise to revise the master plan of the city boasts of numerous platforms for stakeholder participation that were organized during the planning process, including discussions held with various groups of the business community. Whilst the degree of participation achieved during the preparation of the city's structural plan is understandable, the master plan also envisioned more intensive stakeholder participation in the preparation and implementation of local development plans (LDPs) such as those prepared for the Merkato area. LDPs were designed to be prepared and elaborated within the perspective of the city's structural plan and in consideration of local socio-economic conditions as well as feedback from the stakeholders via participatory approaches. Nevertheless, these planning exercises, in the main, remained expert driven and subsequent measures lacked the flexibility required in actual operation and, hence, could not enjoy the leverage the ad-hoc master plan revision office enjoyed during the elaboration of the plans.

A disparity may be observed between proposals that pertain to land use, plot size, density and height of buildings incorporated in the city's structural plan and the actual operations of the urban land management systems. The modus operandi of municipal institutions entrusted with land management related mandates seems to be geared towards a case by case transfer of business plots. An integrated approach to the provision of land for residential, business and other uses is generally lacking, although there is an increasing awareness about the importance of such an approach.

Actual site level developments in a given locality are essentially plot-based and take place following an atomistic method, with little possibility for joint action to address issues of proper road access, parking, and other complementary services, whereas the municipality of Addis Ababa could work with the private sector in terms of optimizing neighborhood level amenities by ensuring proactive and coordinated delivery of infrastructure and services.

The nature of sites to be advertised for lease holding, whose size and shape is defined a priori, tends to determine the package of investments attracted to a given site and the layout of buildings to be constructed rather than the other way round. There is, hence, an apparent need to make the supply of land demand-driven, ensuring that the supply of land at a given time is based on a careful consideration of an ideal mix of investments in a given contiguous area that should be based on good economic analysis or else backed by a well-thought out local economic development strategy.

The municipality can induce such developments, among others, by developing local development plans or an urban design concept for specific locations. This would require employing participatory urban planning approaches and processes that would ensure the active participation of the private sector not only in the preparation of a plan but also its implementation. Such an approach would also ensure flexibility in the implementation of endorsed plans which are in line with the current paradigm shift in urban development planning.

The urban planning efforts in Addis Ababa have, in the main, been expansion orientated, with limited attention given to redevelopment of old neighborhoods. In fact, policies that favor inward development that have come of late are prompted by the ever increasing challenge faced in transforming rural land to urban use and the need to adhere to the rule of law in a democratizing society. Most urban upgrading and renewal schemes are still state-driven and orchestrated by municipal planners, with little participation from the private sector, which is apprehensive about such approaches for fear of vulnerability to manipulation due to vested interests. Future urban planning efforts should, therefore, encourage the business community to be actively involved in urban renewal and upgrading processes through partnership approaches that would lead to a win-win situation.

### 5.3 Land Registry

It was Menilik II who unveiled the country's first proclamation in relation to urban lands in 1907, introducing change in the ownership of urban land. The decree provided the procedures for the sale and registration of land holding, issuance of

title deeds, taxation of property, determining transfer tax, and the like. At the same time the decree made it mandatory for any person who owns land to register the holding and receive a certificate.

As land owners did not, however, respond to the legislation positively the government issued a legal notice in 1921 calling on those who did not register their lands to comply with the law. The legal notice barred the sale, exchange and mortgage of land without title deeds. As a result, the registration and issuance of a total of 45,000 title deeds was completed by 1935.

The modern urban land and property registration, which was started by a French company following the decree issued by Menilik II, remained in place for more than 80 years. In 1995, the city administration of Addis Ababa launched a cadastral project, "Limate Ketema Project", basically intended to register all property for taxation purposes. The project fostered accurate and up-to-date information that enables and assesses the value of a property more realistically. However, the primary objective of the project aimed at establishing a multi-purpose cadastre was changed.

The absence of a well functioning cadastre system in Addis Ababa was the major contributing factor to the launching of the project. The reasons that led to the institution of land information system in Addis Ababa were poor service delivery in land management and administration, rapid increase in squatter or illegal settlements, lack of information to plan and implement development projects, and the absence of technical means to collect and assess property taxes.

The project has helped the city administration in a number of ways. It simplified the billing and collection of property taxes, and made it possible to locate and verify property. The project also proved instrumental in settling legal disputes, and above all, contributed a great deal toward providing information in the preparation of the master plan of Addis Ababa and the establishment of benchmark price. However, it has faced major problems from the start and during implementation. The problems included lack of proper feasibility studies, no clear legal basis for the project, lack of updating mechanism for information, lack of coordination between institutions and departments that generate and utilize land related information, absence of system for information exchange and trained human power.

Currently, land registration in the city of Addis Ababa is confined to the billing of urban land taxes. The information collected since the start the project has not been updated and, hence, requires special attention. It is only if the above problems are resolved that the land information system can serve the purpose it is intended

for and serve as an indispensable asset for the general public at large. This done, the business community will have reliable information which would enable it to undertake investment and to have access to land in the city.

## 5.4 Geographic Information of Parcels

Land Information Systems (LIS), also known as cadastral systems, keep detailed land-related records referring to the location, size, boundaries, ownership, and value of land-related assets. LIS have wider application in the planning and re-planning of land use as well as the assessment and collection of taxes from landed property.

A specific urban land management related constraint faced by the Addis Ababa City Administration that concerns LIS is the absence of full-fledged, well-organized, and up-to-date urban land related data bases that serve as a basis for urban land management related decisions. It is worth noting that up-to-date land use planning and urban land management systems, specifically cadastres, have a bearing on access to credit facilities provided by banks. Banks often follow stringent procedures that would help them ensure that the construction activities they finance are implemented on lands officially obtained from municipal authorities and in accordance with building permits and those buildings to be held as collateral have official building permits.

Advances in information and communication technology (ICT) provide scope for efforts aimed at modernizing land information systems. In this regard, Addis Ababa was the first city in the country to introduce and adopt ICT in its land management operations under the Information Limate-Ketema Project which was a multi-purpose cadastre. The project had managed to collect massive land-related information. But there is much to be desired in the level of its utilization, albeit this is also linked to failure to update the information system and to make the information system more demand-oriented.

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The city had managed to collate additional land related data through the Office of the Revision of the Addis Ababa Master Plan (ORAAMP), also benefiting from the data base created by the Information Limate- Ketema Project. The land and housing development offices established at the sub-city level are connected with and have access to the central data base that allow them to generate automatic estimates for land and property taxes to be paid by property owners. The data base established by the Information Limate-Ketema Project has not been updated since 1995 (1988 E.C.).

It is worth remembering that a foreign consultant firm has recently finalized an aerial photography-based digital mapping project covering the whole city. This digital map is expected to serve as a basis for a more up-to-date GIS-based land information system (cadastre) to be established by the city administration.

There are also incidences in which several files with land management related records have been lost or could not be readily accessed. Some ascribe this problem to the manner in which the files kept at the central municipal archive had been distributed to the sub-cities following the decentralization of land management related tasks mandated to Sub-Cities. The problem is also a sign of relapse of corrupt practices as evidenced by the recent reports of the Ethics and Anti-Corruption Commission that pertain to crimes allegedly committed by land management officials at the city and sub-city levels.

The use of land related information should not be confined to government offices. For, there is a great advantage in collating and disseminating land related information to the business community. Examples of such information include the stock of newly developed land, the size and price of land changing hands by location and purpose, the size of land that exhibited land use changes, and the size of commercial plots and floor areas created.

A study conducted by the city administration for setting the benchmark price for urban land in Addis Ababa reveals that there were 23,977 hectares of unutilized land in the city (see Table 1 below). This figure included green areas, gorges and road networks to be developed, and land free from use of such activities as quarry sites. On the other hand, the revised master plan of the city indicates the available land for use at the center of the city to be 1,100 hectares of in-fill and 8,950 hectares of land of expansion area. Unless proper and efficient land management is instituted in the city, the available land could be easily misused and the city might be confronted with the shortage of potential land for development.

**Table 1 Unutilized Land Available for Different Uses**

| Land Grade                       | Class of Land Grade | Unutilized Area (Hectares) | Percentage |
|----------------------------------|---------------------|----------------------------|------------|
| <b>Central business district</b> | 1                   | 47                         | 0.20       |
|                                  | 2                   | 333                        | 1.39       |
|                                  | 3                   | 564                        | 2.35       |
|                                  | 4                   | 255                        | 1.06       |
|                                  | 5                   | 128                        | 0.53       |
| <b>Zone of transition</b>        | 1                   | 132                        | 0.55       |
|                                  | 2                   | 767                        | 3.20       |
|                                  | 3                   | 2,208                      | 9.21       |
|                                  | 4                   | 509                        | 2.12       |
|                                  | 5                   | 186                        | 0.78       |
| <b>Expansion area</b>            | 1                   | 780                        | 3.25       |
|                                  | 2                   | 2,437                      | 10.16      |
|                                  | 3                   | 6,243                      | 26.04      |
|                                  | 4                   | 9,388                      | 39.15      |
| <b>Total</b>                     |                     | 23,977                     | 100        |

Source: Addis Ababa City Administration Urban Land Benchmark Price Study, 2002

Developing the unutilized land for different uses means allocating financial resources for infrastructure while with the current revenue potentials of the city administration the provision of essential infrastructure for developing land could be a potential risk. The built-up area of the city, on the other hand, is occupied by public housing where the city administration does not have a clear policy direction about the way forward. The Kebele houses are subject to urban renewal intervention. However, difficulties in implementing urban renewal remain to be among the major problems associated with the present lease holding system in Addis Ababa.

Therefore, land management in Addis Ababa is confronted with two distinct and apparently challenging choices. These are choices between urban redevelopment of the center of a city and/or developing the expansion area. The city administration's choice of redeveloping the central areas of the city is confronted with the problem of a clear mechanism for compensation, resettlement and local development planning

implementation strategy which does not currently exist. If the city administration chooses the second strategy, it will be confronted with limited land available for development and has to devote a considerable amount of financial resources for compensation to farm lands and resettlement.

The unutilized available land for different development activities was estimated at less than 2,000 hectares. Therefore, the shortage of land in Addis Ababa has been the concern of every citizen, thus requiring proper management of land resources lest public ownership of land will be put in question.

The big picture one could discern from such information as regards, for example, trends in clustering of certain business types, incoming and outgoing businesses in certain locality, and changes in the type and intensity of land use conversions are important to make well-informed business decisions and/or generate innovative ideas, whether these relate to exploitation of the scope for agglomeration, expansion and/or infusion of infrastructure, and utility services. This is in line with a possible scenario in which banks as financers of new investments could move away from a case by case evaluation of individual projects.

It is interesting to note at this juncture that, in view of increasing globalization, the Addis Ababa City Administration could come up with a modern urban land information system that is at par with those of other municipalities with which it shall compete to attract a larger share of the potential foreign direct investment flow. In this regard, the city administration may also think of building a website that would display information on the location, size, and quality of plots available as well as prices, etc.

## 5.5 Land Valuation

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The issue of land valuation and pricing is very important as a large city like Addis Ababa cannot be taken as homogeneous space and as the various localities have unique opportunities and constraints. It is also worth noting that neither the administratively set annual rents nor the prices offered in the illicit land market were found to reflect the true market price of land in implementing the land lease holding policy in Addis Ababa.

In fact, the absence of a reliable long term trend-based price data of sufficient coverage has proven to be a binding constraint in defining the price map. The “site comparison” method has been the major method employed in setting the prices in the implementation of the urban land lease holding policy in Addis Ababa.

Generally, the values and hence the lease price of those sites in the Central Business District (CBD), namely sites along major highways well provisioned in terms of basic infrastructure and utility services, were set on the higher side compared to those with peripheral locations that lie along less important roads and in areas deficient in basic infrastructure.

A study conducted in 1994 considers the cost of infrastructure provision as the basic determinant of land value, which is to be corrected for specific site characteristics that establish cut and fill costs as well as cost of foundation and the replacement cost of existing structures. The difficulties faced to make a continuous updating of the data set was an important problem to be noted, whilst the unpredictable location preferences of potential investors was another important factor. This suggests the need for developing capacity in the area of land valuation.

An important issue linked with land valuation is instituting a predictable procedure of compensation. Compensation schemes that had been implemented in different locations and that target families to be evicted from their holdings to give way for new investments depended on how well resourced the incoming projects were. This often explains the variations observed in the level and/or total amount of compensation paid, and hence the “level of satisfaction” of those to be evicted (e.g., the level of compensation paid in the case of the Bole Airport expansion and the ring road projects were not the same). The diversity in terms of ad-hoc methodologies and procedures that had been employed to determine and pay compensation has been a source of dissatisfaction to those to be evacuated as well as new investors.

In fact, capacity limitations with legal, administrative, and financial ramifications faced by the city administration that impinge upon its ability to pay adequate compensation to residents, the livelihood of whom is inextricably linked to land holdings to be relinquished to give way for new, more intensive types of land uses has been a key urban land management related challenge. The proliferation of informal settlements and unauthorized construction and increases in land values engendered by increased settlement density and construction of major roads often complicate the issue as they increase land values, hence the market value of landed property.

The intricate relationships between the value of land based property and its location as well as the difficulties to account for land values in the context of public ownership of land has remained a big challenge.

A recent study by Sisay (Sisay, 2006) on the process and determinants of the housing market in Addis Ababa found out that the total plot size of the land is a

major determinant factor of the values of housing transacted in Addis Ababa. Using a sample of housing units mortgaged in Lideta Sub-City, for example, the study also found out that the valuation made by banks that consider market values is three times higher than those determined by the land and housing development office of the sub-city office based on a replacement cost approach and from which a six percent transaction tax is collected.

**Table 2 Comparison of House Valuation by Banks vis-à-vis City Administration**

| Case No.     | Banks' Estimate (in Birr) | City Administration Estimate (in Birr) | Banks' Estimate / City (%) |
|--------------|---------------------------|--|----------------------------|
| 1            | 350,000                   | 299,909                                | 116.7                      |
| 2            | 150,000                   | 171,547.36                             | 87.4                       |
| 3            | 240,000                   | 62,720.88                              | 382.6                      |
| 4            | 4,574,602.24              | 6,242,805.96                           | 73.2                       |
| 5            | 10,000,000                | 20,902.36                              | 47841                      |
| 6            | 738,289.59                | 187,223.26                             | 394.3                      |
| 7            | 3,000,000                 | 39,036.35                              | 7685.1                     |
| 8            | 2,000,000                 | 41,321.35                              | 4840.1                     |
| 9            | 450,000                   | 82,443.65                              | 545.8                      |
| 10           | 80,000                    | 135,703.06                             | 58.9                       |
| <b>Total</b> | <b>21,232,890</b>         | <b>7,283,613</b>                       | <b>296.3</b>               |

Source: Sisay (2006) Based on Data Obtained from the Lideta Sub-City Land Administration Office, 2006

Developing predictable and systematic approaches to land valuation has remained an important issue as the pace at which compensation issues are negotiated and/or settled would also determine the duration of implementation of a given business project, thus incurring transaction costs that would be reflected in the overall project costs.

Compensation needs also to be paid for those that have use rights on lands to be converted into urban use. Making acceptable assessment of the opportunity cost of the land that is put under agricultural use and ensuring sustainable integration of families to be displaced is another challenge. It is worth mentioning at this juncture that practices which encourage efficient use of urban land favor vertical development that would contribute to eliminating potential hurdles to be faced in acquiring and transforming rural lands to urban use.

The Federal Government has issued a proclamation (Proclamation No. 455/2005) to provide for the expropriation of land holdings for public purposes and payment of compensation. This proclamation, whose scope of application includes both municipal and woreda administrations, underscores the importance of redevelopment of both urban and rural land holdings for the construction of dwelling houses, infrastructure, investment and other services. The proclamation further defines the basic principles to be adopted in the assessment and payment of compensation as well as the organs that shall have the power to determine payment and those responsible for paying compensation.

The city government has yet to develop and implement a consistent, refined assessment procedures and methodologies as well as payment modalities to be adopted in respect of the time it takes and the quality at which the regulations and directives required to ensure the proper implementation of the provisions of the proclamation. One may wish to see integrated resettlement schemes that offer employment opportunities for those to be evicted as part and parcel of compensation schemes.

## 5.6 Land Taxation

A legal notice issued by the Ministry of Interior provides the basis for empowering municipalities to collect taxes on urban land. Prior to this legal notice, urban land tax in Ethiopia was collected by the land owners. In some cases, the land owners also collected market fees and charges on the holdings. Following this legislation, the proclamation that bestows municipalities with the power to levy taxes on property and determine the tax rate was issued in 1944. The Charter of Addis Ababa, which was enacted in 1955, gives the city exclusive power to determine the tax-base and the rate of taxes. During the imperial period, urban land tax and the revenue collected from land and property was limited since there was no system of land valuation and land owners were reluctant to pay.

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The current urban land rent (tax) has as its base Proclamation No. 80 of 1976 and the subsequent Legal Notice No. 36 of 1976 that provide for the regulation for land use rent in Addis Ababa. Privately owned houses in Addis Ababa pay land use rent based on the tax schedule and the rate specified in this proclamation. The bill that is prepared by the urban land administration and collected by Kebeles is rated on the basis of this proclamation.

As per the urban land lease holding proclamation and the corresponding regulation issued by the city administration, about ninety percent of the proceeds from lease are to be used for financing basic infrastructure and social service

programs. However, the proceeds from lease and other related incomes have never been adequate to fully cover the huge financial requirements to ensure adequate provision of even the most basic urban infrastructure that pertain to roads, water supply as well as electricity. In fact the City Administration allots a good share of its capital budget to infrastructure sector.

Attempts made by the city administration to enhance the revenue potential of the city to finance development include supporting its data management system by information and communication technology, the introduction of improved service delivery, the establishment of decentralized and one-stop services, and the diversification of revenue sources which, for example, include the introduction of advertisement charges.

Municipal departments seem to be obsessed with the benefits to be created by the delivery of car parking services through the private sector in terms of creating employment and income than the notion of car parking fees as congestion charges. The increasing revenue motive of car parking services and the mode of operation of private operators is, at times, negatively impinging upon the rights of those owning commercial buildings as they may deflect potential customers to commercial premises that will not involve additional costs (i.e., parking fees).

# CHAPTER SIX

## URBAN LAND MANAGEMENT SYSTEM IN ADDIS ABABA

### 6.1 Review of Implementation Mechanisms and Procedures

As part of a strategic plan completed in the year 2004, the city administration, according to the Office of the Mayor, has finalized the preparation of 31 local development plans (LDPs) of which some had been started under the Office of the Revision of the Addis Ababa Master Plan. The LDPs cover sites located in the inner city, important commercial corridors with wider distribution, and new expansion areas. The LDPs prepared for sites targeted for upgrading are in the main meant to accommodate the construction of condominium houses being built within the context of the integrated housing development programs under implementation by the city administration. On the other hand, some of the LDPs prepared to guide urban renewal efforts have been found to entail the demolition of Kebele-owned rental housing units (with their own ramifications as regards relocation of existing occupiers) and privately owned dwelling and commercial premises to which compensation should be paid.

Apart from the sluggishness of the land clearing process, which is contingent upon the pace at which alternative residential and commercial premises are provided for those to be relocated, the land-use regulations are found to be rather rigid and, hence, unaffordable by some potential investors. In this connection, lack of clarity on who should modify LDPs has been a major reason for difficulties faced in making prompt modifications, even though there is now a consensus that such issues should be handled jointly by the Land Development and Management Authority, and Land Development Offices established at the Sub-City level.

### 6.2 Procedures and Circumstances of Urban Land Acquisition : Potential Channels for Accessing Land

The options available to acquire urban land include tendering and negotiation. Although the modality of negotiation was introduced to lubricate the rigidities of the auction system, this is surrounded by a great deal of suspicion about alleged backdoor dealings between businesspersons and public officials engaged in the negotiations. Notwithstanding the presence of implicit consideration of the employment to be

generated by potential investment projects, the negotiations focus on the location, size, and price of land, rarely considering the social responsibilities of the corporate sector.

Experience elsewhere in the area of land related negotiations suggests that potential investors come up with a package of bargains having social and economic significance, particularly in relation to local economic development. One may wish to see package of socio-economic services to be developed---the construction of bridges, access roads, the establishment and operation of clinics, day care centers, sponsoring of green areas and parks, etc.--- in exchange for concessions to be made by the city administration in future land-related negotiations that are also expected to be more transparent and participatory.

The experience of the Sheraton Hotel project is a special case in which the project promoters resorted to directly managing (and sponsoring) the relocation process on their own, which was, in a way, a strategy devised by the investor to bypass an otherwise sluggish bureaucracy. The scheme has proven to be a costly exercise that entailed huge financial and management related burdens, as it was evidenced by the reluctance of the same investor to manage similar relocation schemes for other investment projects.

Such negotiations usually take place between the government and the private sector investors in which the community rarely participates, albeit the implicit assumption that the state would represent the interests of the community. With little articulation of the interests of the community and the absence of well organized community-based organizations (CBOs) and non-governmental organizations (NGOs) engaged in lobbying efforts, the situation underlines the merit of introducing more transparent procedures as regards negotiations.

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Land related incentives given by the municipality in the drive to attract new investment are sometimes accompanied by unintended effects. Many sense preferential treatments of some sort to new and bigger businesses as against the smaller long established ones. There are, in fact, instances in which owners of businesses organize themselves in various forms of lobby groups, especially when the continued existence of their business establishments in their former locations is threatened by overt interests shown by new investors.

A typical example is the dynamics set by the interest shown some years back by Malaysian Investors (Adorna Shebele) to redevelop some parts of the Merkato area. It is interesting to note that a number of share companies were established by long established businesspersons as lobby groups with a view to coming up with viable

strategies that would enable them to preempt potential moves by new investors to acquire the land on which their commercial premises were located.

In a further drive to increase land related incentives, the municipality may further consider putting in place an incentive mechanism which would encourage the business community to assemble land that can be put for relatively large scale commercial development (similar to the Dembel Complex along Bole Road). This has a clear advantage in fulfilling the drive for improving urban quality and in achieving more efficient use of land and arranging for accessible roads, car parking and other public spaces such as squares, parks and green areas.

The relative success to be achieved in assembling land can be assumed to be relatively high in recently developed areas under a permit system, i.e., those areas developed after the nationalization of urban land as compared to older settlement areas where the proportion of nationalized houses under Kebeles and the Rental Houses Administration Agency are considerable. This is instructive of the need to developing partnership between the public and private sectors as well as the community.

The urban development package being implemented in the city gives utmost attention to the development of small-scale and micro enterprises (SMEs), for which a mix of support, including the provision of working premises are to be provided. SMEs are encouraged to make use of temporarily vacant and neglected land, although this has to be guided by proper proactive assessment of planning environmental risks and hazards. The current policy, however, focuses on the provision of new working premises for potential SMEs operators.

There is fear that emphasis on SMEs may affect the support to be given to medium and large scale enterprises with regard to land related demands.

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The city government has started implementing a policy of allocating the ground floors of condominium buildings for business establishments, with a view to giving leverage to the challenges of financing the integrated housing program. The same could be applied to private sector driven renewal projects to make meaningful contributions to the housing sector: Real estate investors constructing buildings in centrally located sites could also be co-opted to agree with an arrangement whereby they agree to rent the top floors of multi-storey buildings as residential units.

The city government could also come up with an incentive package that would encourage businesspersons to develop and strengthen secondary markets and “Gulits”, which would eventually contribute to crystallize the policy of decentralizing

Merkato. Such objectives are better served if the business community is embraced as an active player in such efforts.

### 6.3 Administrative Capacity of the Implementing Body

The administrative capacity of the implementing body is assessed from the point of view of organizational structure and responsibilities in relation to land and land related activities. Also considered are the working system and bureaucratic efficiency which include working procedures and processes as well as the respective guidelines and manuals.

The Addis Ababa Land Administration and Development Authority is the body responsible for the execution and implementation of land development and administration, both in terms of regulatory and operational activities. The duties and responsibilities of the Authority derive from Proclamation No. 2 of 2003 or the Addis Ababa City Government Executive and Municipal Organs Establishment Proclamation which assigns the following responsibilities:

- Develop land use standards and implement them upon approval;
- Administer city land in accordance with policies and laws;
- Issue certificate of land possession;
- Prepare land and property valuation index; direct studies on land for improved investment development;
- Custody and protect data concerning types of land use and possesses;
- Study and submit land rent and house tax;
- Ensure that the development of the city is in accordance with approved plans;
- Expropriate land and properties and pay due compensation in accordance with the law;
- Facilitate land development activities in collaboration with interested developers through contractual arrangement, follow up and supervise the implementation;
- Carry out studies and develop preferred lands;
- Prepare details for lands for development;
- Cause the study of local development plan taking into account the socio-economic situation of preferred lands, supervise some of their activity;
- Issue certificate of competence for land developers; supervise same; and

- Ensure that due compensation is paid in accordance with the appropriate law.

The land administration departments in the sub-cities perform basic duties and responsibilities assigned to the land administration and development at sub-city level with a commensurate degree of responsibility. The organizational structure of the land administration and development was prepared in 2003 and has since been revised. The Land Administration Development and Authority is accountable to the City Manager and has three departments and one land information services office. The same structure is applied in the sub-cities. The flow of information and the process of activities, however, are not coordinated within these departments and with other stakeholders.

The total number of workers proposed in the organizational structure of the Authority is 72. The authority, however, functions with only half the number. The turn-over of professional workers is high. Existing professionals lack experience and are not familiar with the rules and regulations of the authority. In addition, the authority is not equipped with the necessary instruments as well as hardware and software to assist in operational efficiency, hence making it ill-prepared to effectively manage the lease tenure system in Addis Ababa.

According to the revised City Charter of Addis Ababa, the internal administrative structure of the city, which used to constitute twenty-five Keftegnas and 328 Kebeles, was restructured into 10 sub-cities and 99 Kebeles [Table 3 ]. The relatively big size and population of the newly defined Sub-Cities and Kebeles and the dictum of decentralization meant that these administrative units are given wider service delivery mandates.

Accordingly, within the context of comprehensive municipal reforms implemented in the city, institutions with land management related mandates are organized both at city, sub-city and Kebele levels.

Detail surveying, pegging of cornerstones, and preparation of cadastre maps as well as putting in place basic infrastructure such as roads, utility lines for water, electricity and telephone services lines, are mainly managed by private consultants and contractors under the supervision of sub-city land development offices.

**Table 3 Names of Sub-cities (Kifle Ketema) and Number of Kebeles by Sub-city**

| No. | Sub-cities (Kifle Ketema) | Number of Kebeles |
|-----|---------------------------|-------------------|
| 1   | Arada                     | 10                |
| 2   | Addis Ketema              | 9                 |
| 3   | Lideta                    | 9                 |
| 4   | Kirkos                    | 11                |
| 5   | Yeka                      | 11                |
| 6   | Bole                      | 11                |
| 7   | Akaki-Kaliti              | 8                 |
| 8   | Nefas-Silk Lafto          | 10                |
| 9   | Kolfe-Keranio             | 10                |
| 10  | Gulele                    | 10                |
|     | <b>Total</b>              | <b>99</b>         |

Institutions responsible for infrastructure development (including the Addis Ababa Water and Sewerage Authority, the Addis Ababa City Road Authority, the Infrastructure Development and Coordination Authority) were either restructured or established under the city's reform program. In particular, the infrastructure coordination authority has been implementing working procedures that leverage a coordinated delivery of infrastructure services.

While the city level has devolved most of its urban management related responsibilities to the sub-city level, the former is yet to create adequate capacity to carry out follow-up and monitoring capacity engendered by such decentralization moves. Lack of adequate urban land management capacity and rampant corrupt practices at city and sub-city levels have become the hallmark of the reform program conducted in the city.

The existing organizational structures put in place to deal with land management issues at sub-city level and their staffing levels could be taken as broad measures for the level of capacity. Yet, a uniform arrangement is put across sub-cities, despite stark differences in the volume of land related transactions that take place and that come to the attention of these offices. According to Sisay (Sisay, 2006), the level of transactions in landed properties that take place in the peripherally located sub-cities such as Bole, Nefasilk-Lafto and Kolfe-Keranio, is higher than in those of the centrally located sub-cities such as Arada and Addis Ketema.

The city administration could have further taken proactive measures that ensure the synchronization of land development and conveyance related activities which occur in the fringe areas of the city and its immediate hinterlands in Oromiya region. Given an economic space of Addis Ababa, which is presumably wider than its administrative boundary and with an overt trend of metropolitan development observable in the Addis Ababa Administration, the need to synchronize land management practices is self-evident as it has far reaching implications on the effective utilization of scarce land resources as well as on urban efficiency and productivity.

Certain urban land management related roles are bestowed on Kebeles, the lowest administrative levels. The most important tasks carried out by law enforcement officers (Demb Askebaris) employed by Kebeles include controlling unauthorized construction, which is not less immune to inefficiency and corrupt practices.

#### **6.4 Assessment of Land Delivery System**

The City Administration has implemented the Civil Service Reform Program (CSRP) which is seen as an important tool to ensure good governance. The reform was implemented against a backdrop of civil service institutions and staff that were ill prepared, notorious for the delays in the services they were providing and their highly centralized operations and limited participation of citizens, including the business community in decision making processes.

The service delivery improvement sub-program being implemented by the City Administration as part of the comprehensive civil service program underway at the municipal level also covers urban land management related services. Developing strong client orientation on the part of service providers, identifying and making explicit the requirements to be fulfilled by customers to get specific services and attempts to organize one-stop services are the most common objectives of this sub-program.

The service delivery improvement programs, at least in the short run, achieved significant improvements in the level of services. According to a recent study by Sisay (Sisay, 2006), the number of house title deeds officially transferred through the city's Acts and Civil Status Document Services, for instance, increased from mere 446 units in the year 1999 to as high as 6,740 units in 2005, although the number of individuals coming to the office is reckoned to have increased as a result of the waiving of the capital gains tax that had rendered most of such transactions in the past to remain unreported.

**Table 4 House-related Transactions Registered by the Acts and Civil Status Documents Services of Addis Ababa, 1999-2005.**

| Year         | Number of Transaction | Change       | Rate of Growth per year |
|--------------|-----------------------|--------------|-------------------------|
| 1999         | 446                   | 0            |                         |
| 2000         | 991                   | 545          | 122.19                  |
| 2001         | 1,744                 | 753          | 75.98                   |
| 2002         | 3,059                 | 1,315        | 75.40                   |
| 2003         | 4,227                 | 1,168        | 38.18                   |
| 2004         | 5,998                 | 1,771        | 41.89                   |
| 2005         | 6,740                 | 742          | 12.37                   |
| <b>Total</b> | <b>23,205</b>         | <b>6,294</b> | <b>52.29</b>            |

Source: Sisay 2006, based on data from the Acts & Civil Status Documents Service

The other area which experienced considerable improvement is the preparation and handing over of title deeds to landed property owners. The land development and administration agency has prepared and handed over ownership certificates to 20,000 units through a special backlog works project initiated by the provisional administration of Addis Ababa. The provision of title deeds is reckoned to contribute to the monetization of otherwise dead capital as their owners can now readily sell, rent, mortgage or seize as collateral.

The city government intends to promote the formal private sector—medium and large scale businesses—by instituting, among others, an efficient and sustainable land management system that would ease the access to land. Accordingly, a one-stop service for the provision of investment certificates, business licenses, information support, consultancy services and industrial sites has been instituted by the city's Investment Authority. According to service standards set by the Investment Authority, investment certificates are to be issued within few hours, whilst industrial sites are to be handed over within a week. The city administration has in recent years developed industrial sites in two sites, Akaki-Kality and Mekanissa Lebu, that are provided with roads, water, electricity and other utilities, most of which had been distributed at base prices set by the city administration.

A total of 2,000 hectares of land has been distributed to various types of businesses, social services, and hotel establishments between January 2003 and September 2005, according to the Mayor's Office. Provision of land for non-industrial use, including a variety of trade, commercial, and service functions, was handled through negotiations and auctions, although the mix is reportedly in favor of the latter as these are announced officially and allow maximizing lease income. It is worth noting at this juncture that, the auctioning process has been decentralized and of a total of twenty-three auctions held in the city during the transitional period,

14 were conducted by sub-cities. Currently, auctions for land lease holding are being organized by sub-city administrations in their entirety.

The Civil Service Reform Program (CSRP) has been carried out by the relevant government offices with minimal feedback arrangements from stakeholders. Whatever improvements to be achieved have hence been short-lived, lacking sustainability with relapse to old ways of doing things as well as the re-emergence of corrupt practices, among other major problems.

Notwithstanding the efforts being made by the municipality to improve service delivery, there appears to be a need to introduce more transparent and accountable working procedures that pertain to land management related services. The sluggishness and widespread incidence of corrupt practices in urban land management has to be seen in light of the rule of law, which is also an important indicator for the conduciveness of the overall business climate.



# CHAPTER SEVEN

## DEMAND, SUPPLY OF LAND AND PRICING IN THE CAPITAL CITY

### 7.1 Land Markets: Introduction

The emergence of land markets is closely related to the evolution of property rights over land. In the rural context, the critical factors for the establishment of property rights and the development of enforcement mechanisms were population growth, advances in agricultural technology and increased trade. A growing population and greater trading opportunities forced the adoption of fertility-restoring technologies to permit continuous exploitation of the land, ending the reliance on shifting cultivation and long fallow periods to maintain fertility. Insofar as superseding technologies required and investment of effort and capital (tree felling, stone clearing, shrub removal, and terracing) the ability to continuously exploit a tract of land over a reasonable length of time, and reap the related productivity and pecuniary gains, became crucial for agricultural development.

In the urban context, the appearance of permanent and more secure walled settlements, allowing dwellers to reap economies of agglomeration, created a need to define property rights over tracts of land (and the structures on them). The limited space within the walled city created a scarcity of land – the prerequisite for the constitution of market.

Adam Smith observed that it was “not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own interest.” The self-interest guides each individual, by an “invisible hand”, to seek the interests of others. This system of organization works through the market place. It is in and through the market place that individuals express their wants, their likes and their dislikes. This expression of wants results in some individuals seeing it in their best interest to provide what it is that people want and to stop providing what people do not want. Consumers demand goods and services while businesses meet those demands through supplying those goods and services with the law establishing the framework within which the market operates. No individual enters the marketplace with the thought of benevolence, but success in the market place requires meeting the needs, wants and desires of others, at least those others that participate in the market. Meeting the needs and the expectations of people may appear to be

benevolent, but we know that sellers have their own interests at heart. The market for land functions in exactly the same manner as any other market. Some individuals seek to purchase a good or service, such as land, while others wish to sell them the good or service. Sellers wish to meet the wishes of buyers while the law defines the parameters in which the sale takes place.

Within most of the world, there is a dual process of land allocation. On the one hand, private owners or developers seek to allocate their land resources in a manner that will attain their objectives. These objectives may be economic or non-economic. On the other hand, public regulatory bodies regulate and direct the allocation of land resources in a manner that will attain society's objectives. Society's objectives, like those of the individual, may be economic or non-economic. This dual process - what we may call developers and planners - leads to conflict. The conflict and its resolution are the major themes here.

Economically, as with any other factor of production, the value of land is determined by the interaction of the market forces of demand and supply -- whether overtly in a relatively free market or covertly as latent value in a controlled society. All these are some of the issues to be taken into consideration in the formulation of an urban land policy.

A bundle of characteristics define property rights over land: exclusivity, inheritability, transferability and enforcement mechanisms. A system of property rights defines the legitimate exclusive uses of land and identifies those entitled to these rights.

As technology advanced and the differential endowments of management skills, labor and other non-land productive assets among individuals assumed increasing importance, the lack of transferability of property rights adversely affected productivity, even if individual use rights were secured over the long term. Because larger economic benefits could be realized by making land transferable from low to high productive individuals, transferability became possible, despite the costs associated with the growth of landless class. Transferability with effective enforcement facilitates land markets.

Land markets perform four important functions. They bring buyers and sellers together to facilitate transactions. They set prices for land. Land markets allocate land by setting prices so that the land market "clears", that is, the quantity of land offered for sale equals the quantity of land demanded. Land prices play an important role in ensuring that land is efficiently used. If a buyer has to pay a high price for a land parcel because there are few such parcels for sale, s/he will use the land intensively, perhaps building a multi-story building.

## 7.2 Significance of Demand Factors for Urban Land in the Ethiopian Context

Since all human activities that determine the existence of man are based on land, urban land policy has to be formulated using a socio-economic approach. This implies that we have to carefully examine and carry out a detailed analysis on the roles land has played in the lives of the people and more importantly on how the existing land tenure system has been affecting the people.

Of the demand factors mentioned above, housing is the significant source of demand for land in Addis Ababa. Next in importance is the demand of land for real estate, mainly associated with businesses and offices. The demand for land in Addis Ababa as a financial asset is the least considered. Each factor is examined in detail as follows.

### 7.2.1 Housing Demand

The unprecedented growth of urban population in most of the developing world is causing an exceptionally rapid increase in the demand for urban land. As already noted, the location of land is specific and the existing urban plots cannot be reproduced. The rising demand for urban land therefore tends to be met primarily by converting rural land at the periphery of the existing built-up area. The basic pressures towards higher urban land values are derived from the increasing demands of a rapidly growing urban population, which are accentuated with lengthy and costly processes of transfer of land and the establishment of title that bear particularly heavily on the supply of small plots for low-income groups. However, the prevalent forms of land tenure in any area have a profound effect on the physical urban patterns and the flexibility in adapting to the pressures of rapid growth. They exert a basic influence on population densities and the ability of the poor to find adequate shelter. Tenure systems largely determine the ease or difficulty of land acquisition and assembly. They make expansion of the urban area difficult and raise transfer cost to levels that are not attainable by poor groups. They affect the attractiveness of the landholdings offered through projects such as industrial estates or site-and service schemes. Urban land policies are generally formulated to ensure that the use to which a land is being put brings optimum productivity through the market forces in the property market and to make land readily available to all concerned with the use of land.

Housing, which is one of the necessities, should as a living environment, guarantee the availability of full-fledged dwelling unit, infrastructure networks (such as roads, water supply, sewerage disposal system, energy supply, telephone

service, etc.), and community facilities, viz., shops, schools, health centers, assembly halls, children's playing grounds and recreational places, etc. In pre-industrial rural communities, where the cultural level did not require such modern facilities, housing usually meant a simple hut. Unlike such communities, the modern urban dweller cannot fetch water from rivers and cannot use open fields as playing grounds. The urban dweller cannot also use the privacy of forests, or bushes for human waste.

For some time past, improved nutrition and health services have reduced death rate during childhood and extended the average life span in many countries, thereby resulting in a steeply progressive population growth. Day by day, a certain sector of the urban population marches towards an independent adult life requiring shelter as a pre-condition for matrimony. Moreover the rural-urban and the town-city influx are considerable. This again requires not only new houses but also more elaborate and durable ones than would have been the case if people had remained in the countryside. Public services, like water, drainage, roads, street and house lightings should be supplied thus adding greatly to cost.

Economic development and social progress (including housing) are two sides of the same coin. It is apparent that housing, like health and education, is indispensable to the proper balance of development and to the economic activities that require it.

About 16.5 percent of Ethiopia's 77.1 million people reside in urban areas--- principally in Addis Ababa and accounting for more than one-quarter---even though Ethiopia is one of the least urbanized countries of Sub-Saharan Africa where the average urban share is about 30 percent. Nonetheless, Ethiopia ranks among those urbanizing the fastest. Rapid urban growth is occurring in Ethiopia, a country least able to cope with the resultant pressure on jobs, services and the like.

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Estimates indicate that under the medium variant, the population of the country will increase from 77.1 million in 2007 to 83.5 million people in 2010, and 129.1 million in 2030. Consequently the urban population will grow from about 12.7 million in 2007 to 14.4 million in 2010, and 29.8 million in 2030. If, however, fertility decreases as assumed in the low variant, the 1994 population for all the regions will double in total in 2025 and in 2011 for the urban areas (i.e., three years and one year later than the medium series). The doubling time for all the urban population will become less than that of the total population of all the regions due to rural-urban migration. Addis Ababa will be a centerpiece for all these developments, injecting its strain on housing.

At the time of the 1994 census, there were about 1.5 million housing units in the urban areas of Ethiopia, out of which 97.6 percent resided in non-storied buildings and 1.7 percent in multi-storied buildings. Further, 54.3 percent housing units were non-storied, detached and 43.3 percent were in non-storied attached buildings. Large proportions of the housing units (95.8 percent) in urban areas were permanent and 2.93 percent improvised. In urban areas of the country, housing units made of wood and mud walls constituted 80.3 percent. Housing units made of wood and thatch walls constituted only 3.1 percent, while housing units with stones and cement, hollow-blocks, and bricks accounted for 6.6 percent. Roofs made of corrugated iron sheets accounted for 82.6 percent, wood and mud roofs accounted for only 2.4 percent. The distribution of housing units by type of materials used for the construction of floor indicated that 72.6 percent had earth/mud floor and about 14.9 percent had cement/concrete floors.

Regarding the distribution of housing units by tenure, the same census shows that 46.9 percent of all housing units were owner-occupied and 45.1 percent were rental. Out of the rented housing units, Kebeles owned 23.5 percent; the Rental Houses Administration Agency owned 1.3 percent and the remaining 20.4 percent were rented from private households or other organizations.

The average number of rooms per housing unit was 2.1 in urban areas. The number of rooms per housing unit is an adequate measure of crowding or spacing in view of the household size, which are 4.6 in urban areas. On the average, about 2.3 persons in urban areas live in a room and 42.6 percent were overcrowded.

All these combined provide a clear picture of housing conditions in urban Ethiopia, specifically in Addis Ababa. From the foregoing description, one can observe that the country's housing and related facilities are grossly inadequate or are at best minimal. One can easily presume that there have not been any significant changes in housing conditions within the last several years.

According to a study made by the international consultant PADCO at around 1995, the outcome of the interaction between housing demand and supply in 10 towns (including Addis Ababa) has been insufficient and low-quality. The same study indicated that total housing production over the period 1984-1994 met 87 percent of the increase in households. Most of the new units, however, were in unplanned housing areas characterized by overcrowding and low levels of urban services. Occupancy levels averaged 2.7 percent per room in unplanned areas. Citywide, 40 percent of the housing stock was in need of major repair or else fit for demolition, 56 percent of government-managed stock (38 percent of the total) fell into this category.

The difference between existing conditions and established standards for decent housing defines the need for housing in general. In 1994, some 80.3 percent of housing units were known to have been made of wood and mud walls. Low-income groups are believed to inhabit this category of houses. Reporting on the conditions of Kebele-managed housing units in Addis Ababa, the 1988 Housing Maintenance Study found out that thirty-two percent of the units required replacement, ten percent required major repair, eight percent required substantial repair, and thirty-four percent required minor repair.

Needless to say, housing needs for all income groups to ease overcrowding situations, replace obsolete dwellings and accommodate new family formation would require the construction of housing units in their thousands. While the unmet demand backlog exacerbated the need for housing, lack of periodic repair increased the replacement cost in the face of skyrocketing cost of building materials and cost of labor.

Several years of neglect has aggravated the housing problem in Addis Ababa. The majority of the low-income groups live in slum areas, in squatter settlements, and in areas where the provision of infrastructure and community facilities are inadequate. The unabated housing shortage prevailing in Addis Ababa emanates mainly from the generally poor economic performance, the limited construction capacity and inadequate supply of building materials.

The majority of the kebele houses were developed through ad-hoc and piecemeal land development mechanisms in which holders of land use rights to subdivide their plots and sell them to other parties. This process has produced a development pattern characterized by irregularly shaped plots with uneven access to vehicular circulation, low infrastructure and service coverage as well as urban land for housing purposes anew.

Housing need refers to the number of dwelling units of desirable standard required to house new families, to replace deteriorated units, and to relieve over-crowdedness. The housing backlog in Ethiopia is hard to quantify. There is disagreement about what proportion of the existing stock of housing to consider as acceptable and there are difficulties in projecting demand for housing by inappropriately housed households. However, the current annual requirement of new dwellings in Addis Ababa is believed to be in tens and hundreds of thousands.

According to the projections of the Central Statistical Agency (CSA), the 11,675,000 urban population of Ethiopia in 2005 will grow to 17,479,000 by 2015. The average rate of urban population growth over the ten-year period is projected

at 4.11 percent (there are other groups estimating it to be 6 percent). If the average household size of 4.6 from the 1994 CSA data is considered for urban centers in Ethiopia, then the corresponding total housing needs projection will be 4,581,957 by 2015. The total Ethiopian urban housing stock in 1994 was 1,482,589. Assuming the annual change of 4.2 percent of the housing stock registered between 1984 and 1994 to continue up until 2004, the total number of urban housing units was expected to reach 2,331,126 by 2005. The need for additional housing units due to population growth/formation of new families between 2005 and 2015 is, thus, expected to be 2,250,831 (4,581,957 minus 2,331,126). Assuming Addis Ababa would account for one-quarter to one-third of the urban population, housing units required in Addis Ababa will be within the range of 500 to 600,000. This would entail a huge strain on the demand for urban land.

All these facts underline that housing would entail a huge demand for urban land in Addis Ababa.

### **7.2.2 Demand for Real Estate Development**

Large-scale private housing construction by real estate developers and private rental of housing were prohibited in the previous regime, hence making private real state development a new phenomenon in the current Ethiopian setting. Private investment above Birr 250,000 was legally prohibited by policy guidelines during the Derg. Even the introduction of mixed economic policy later did not bring about significant changes in this category of investment, for policy guidelines and incentive frameworks favored government investment programs.

It was after 1992 that strides were made in this category of investment. Following the lifting of capital ceilings, the broadening of investment areas open to private sector participation along with equal access to credit, and establishment of the Ethiopian Investment Authority (and Investment Bureaus), a number of investment certificates on real estate have been issued.

Investors in real estate, renting and business activities have been steadily increasing since the early nineties. The number of certificates issued for real estate development was a mere 33 in 1987 EC. This steadily grew to 121 in 1993 and jumped to 1,734 in 1994 EC. The highest recorded figure for real estate development was in 1998 EC when 2,328 projects were licensed.

This is a clear manifestation of how much the demand for real estate development, renting, and business activities has been increasing over the years. Addis Ababa accounts for more than two-thirds of the increase in the demand for urban

land for real estate development. As shown in the Table below, Addis Ababa's share out of about 5,000 projects licensed in real estate development in the country over the last 15 years was some 3,390 or 67 percent.

**Table 5 Real Estate Renting & Business Activities (Hamle 1984-Sene 1998 EC)**

|                                   | Ethiopia | Addis Ababa | Share of Addis Ababa |
|-----------------------------------|----------|-------------|----------------------|
| Total licensed                    | 5,061    | 3,390       | 67%                  |
| Operational projects              | 559      | 381         | 68%                  |
| Under implementation              | 169      | 112         | 66%                  |
| Under pre-implementation          | 4,131    | 3,198       | 77%                  |
| <i>Operational/total</i>          | 11%      | 11.2%       |                      |
| <i>Under implementation/total</i> | 3.3%     | 3.3%        |                      |
| <i>Pre-implementation /total</i>  | 81.6%    | 94%         |                      |

Source: Ethiopian Investment Authority

The above Table also shows that projects which have become operational and those that are under implementation are very small in number when compared to the total number of projects approved with the period specified. In this regard, only eleven percent of projects approved became operational while only 3.3 percent were under implementation. Thus, the actual implementation of real estate projects has been sluggish, access to serviced urban land being one of the limiting factors. The situation is more severe for Addis Ababa than other towns as more than three-quarters of the real estate projects linger at the pre-implementation stage.

In Ethiopia, land is owned by the state. Long-term leases are, however, available for urban land for periods of 50 to 99 years. The lease is transferable, subject to capital gains tax and can legally be used as collateral, at least for the lease value. Land lease offices of the regional governments or city administrations issue the land lease. The Ethiopian investment code stipulates that when a regional government receives an application for the allocation of land for an approved investment, it shall deliver the required land to the investor within 60 days. In practice, however, many real estate developers have found it difficult to obtain parcels of land adequate for their purposes, especially in Addis Ababa, in the required size, location, and time.

Availability of land is made difficult because the government does not yet have a complete and detailed land registry for any region or municipality. Land becomes available only at the pace it takes the city administration to carry out the required surveys, register plots of land, ascertain or arrange for their availability to new investors, and put land ready for auction or for a negotiated bid. Even having

gone through the long process of preparing the land for lease, the identified land may not be suitable due to size or unfavorable location or both. The formal physical transfer of land to the investor takes months, even when found suitable.

The price of the land to be leased is usually determined through an auction. The lease office sets the floor price for each plot intended for lease with a view to recovering costs of infrastructure and any resettlement expenses for those with pre-existing rental agreements or usufruct rights. An alternative system to auctioning has been direct negotiations with the land lease office, once investors identify suitable parcels of land. While this could help in responding to the call for priority access to land for investors as per the investment code, it appears that the lease office encounters problems in determining prices and, when that is done, investors often find it expensive, considering the poor infrastructure and utilities/facilities. The investor is further confronted with additional costs for utilities -- power, water, sewerage, telephone, and, at times, even access roads-- once suitable land has been secured.

The transfer of land-use rights, as stated in the proclamation (federal and regional), has similarities to the internationally applied regulations. However, in facilitating the transfer, the institutions concerned are caught in bureaucratic bottlenecks that negatively influence the transfer, speedy facilitation and transparency of the market demands. Consequently, the transaction cost or the cost of transfer becomes huge, be it in terms of the amount of money involved and the time it takes.

### 7.2.3 The Demand for Land as Financial Asset

While rental market (the market for the usage of real property – land or built space) is the most fundamental type of market relevant to the real estate business, the asset market is another type of market that is of equal importance. The real estate asset market is the market for the ownership of real estate assets. Real estate assets consist in real property, namely land parcels and the buildings on them. From an economic perspective, such assets consist essentially of claims to future cash flows. As such, these real estate assets can be compared to, and indeed compete in the capital market with other forms of capital assets, such as stocks and bonds.

Economic agents favor land, unlike stocks and bonds, due to its varied qualities in view of the financial asset characteristics of the land stock. The varied roles of land as a hedge against inflation, as collateral for credit operations, and as a component of the diversification strategies of economic agents derives from its unique qualities: land is immobile, its depreciation small, and its value not eroded by inflation.

In advanced economies, the capital markets determine how the wealth and capital resources of the society are allocated, which in turn determine the future growth

rate and economic production patterns of the economy. The real estate components such as commercial buildings, single-family homes and land parcels of the capital markets are quite important, because real estate makes up a large and important part of the overall capital market. Theoretically, the demand for real estate asset depends on the opportunity cost of capital, growth expectations and risk.

The prevailing interest rates and opportunities for earning returns in other forms of investments in the capital markets are the major determinants of how much investors are willing to pay for any property. Real estate assets are in competition in the capital market, not only with other properties but against other forms of assets as well. When interest rates and yields on bonds and stocks are low, investors cannot earn as much return from these alternative investments. At such times, investors will tend to be more eager to put their money into property and they will not expect to earn as high a return from property as they otherwise would. This will raise the price they are willing to pay for the property. Second, investors must try to forecast the future of the space market in which the property is situated. The greater the expected growth in future net rent, the more investors will be willing to pay for the property today. Third, if investors regard the future potential net income from the property as less risky and more certain (mostly because they view the space market as relatively stable and easy to forecast), then they will be willing to pay more for the property. Other things being equal, investors do not like risk, and will pay more for less risky assets.

In the Ethiopian setting, this part of demand for urban land, mainly as a result of property rights dysfunction and the absence of capital markets lack currency at this stage.

Hernando De Soto made a compelling case for the importance of property rights, insisting that a weak property rights environment discourages investment and creates uncertainties, thus complicating long-range planning. In developing countries in particular, they hamper the ability of budding entrepreneurs to access the financial system using physical assets as collateral. De Soto (2000) notes that with “houses built on land whose ownership rights are not adequately recorded, unincorporated businesses with undefined liability and industries located where financiers and investors cannot see them. Because the rights to these possessions are not adequately documented, these assets cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan, and cannot be used as a share against an investment.”

In the Western world, by contrast, every parcel of land, every building, every piece of equipment, or store of inventories is represented in a property document which is the visible sign of the vast hidden process that connects all these assets to the rest of the economy. Thanks to this representational process, assets can lead an invisible and parallel life alongside their material existence. They can be used as collateral for credit. These assets can also provide a link for the owner's credit history, address for the collection of debts and taxes, the basis for the creation of reliable and universal public utilities, and a foundation for the creation of securities that can be rediscounted and sold in secondary markets. By this process, the West injects life into assets and makes them generate capital.

The poor in countries like Ethiopia have houses but not titles; crops but not deeds; and businesses but not statues of incorporation. Their assets are dead capital.

Imagine a country, said De Soto, where nobody can identify who owns what, addresses cannot be easily verified, people cannot be made to pay their debts, resources cannot conveniently be turned into money, ownership cannot be divided into shares, descriptions of assets are not standardized and cannot be easily compared, and the rules that govern property vary from neighborhood to neighborhood. You have just put yourself into the life of a developing country like Ethiopia.

On the other hand, some buyers purchase land not for developing it but to use it as a "place" to store assets and protect them from inflation. In high inflation environments, the demand for land as a hedge against inflation is substantial. Since these buyers do not develop their land, idling of land becomes widespread in high inflation situations.

In the case of Addis Ababa, the city administration owns the land. Long-term leases are, however, available for urban land for periods of 50 to 99 years. The lease is transferable and can legally be used as collateral, at least for the lease value. State ownership implies that the state (or extensions of the state, such as local authorities and municipalities) possesses the property rights. The authorities may, however, temporarily transfer some of the rights to private users or to communities (for example, through the lease and rental of state land). When the state does not assert its authority, state property may become de facto private property if individuals (squatters) establish their rights by physical possession and acquire informal communal recognition of their de facto rights. This has strongly prevailed in Addis Ababa for sometime and has become burden to local authorities that aspire to facilitate urban development.

Besides, recent efforts for titling of land through a land lease system (an improved property right system) as a springboard to mortgage their land is very unlikely to materialize substantially. The financial system is still weak and as such, loans based on mortgaged land are unlikely to be forthcoming especially for the majority who will be perceived as high risk with high administrative cost lending portfolios. In addition, there is limited funding available in domestic savings to fund long-term loans.

Yet in the Addis Ababa setting, it is utterly difficult to downsize the demand for land as an asset diversification and as a store for wealth anticipating good return later.

#### 7.2.4 Land as Source of Power

As already noted, land is a unique, valuable, and immovable resource of limited quantity. Land is not only the most basic aspect of sustenance for many people around the world, it can also contain valuable structures and natural resources on (or beneath) it. Land is therefore a key strategic socio-economic asset, particularly in poor societies where wealth and survival are measured by control of, and access to, land. Land is a central element in the varied and complex social relations of production and reproduction within which conflict between individuals and groups are bred. As a result, conflict over land often combines strong economic and emotional values. The competition over access to land is often, at its core, about power, both socio-economic and political. Therefore, as in other conflict dynamics, land is tied to a complex network of issues ranging from power relationships to economics and from symbolic attachments to systemic inequities.

In Ethiopia, the state has always been an important actor in the land tenure system and the main institutional link between the state and the farmers had been the *gult*. The *gult* constituted a system of taxation and tribute imposed on independently operating farmers. Unlike feudal estates of Medieval Europe, centralized management of production did not exist. Collections from farmers may include contributions in the form of labor or other materials. The *gult* was the main mechanism through which the state influenced the day-to-day lives of ordinary people in times of peace starting at least from as far back as the thirteenth century. The overlords controlling the *gult* were also responsible for mobilizing the populace in times of war. Even though *gult* positions were not necessarily hereditary, there were instances where they were held by the same lineage from generation to generation. In addition, the amounts of tribute passed over to the central government probably varied over time depending on the relative strengths of the *gult*-holders and the state. The *gult* has served probably as the most important institution for the concentration and

transfer of resources from independently operating farmers to the nobility and the state for many centuries.

With the incorporation of the southern regions, the *gult* system that existed for a long period in the north was extended to the south. Most land that was either common property or unused became state property to be given out for individuals loyal to the state/the emperor. This resulted in significant population movements from the north to the south as well as litigation on land between the newcomers and local settlers that cultivated land designated to be state property. An important difference between the north and the south was that in the north, due to the dominance of the *rist* system, the power of the state to grant and take away land was limited as compared to that in the south.

Soon after the overthrow of the Emperor by a military coup in September 1974, the land reform proclamation of February 1975 nationalized all rural land. Even though the active involvement of the state in the allocation of land rights is not new in Ethiopian history, the reform significantly increased direct state intervention. This was reinforced by the socialist ideology that was followed at the time. Major policy initiatives that centralize and control the activities of farm households consequently affecting their land holdings were attempted.

One major initiative in the second half of the 1980s was “villagization”. The declared objective of the program was to create nucleated settlements to facilitate the provision of infrastructure (schools, clinics, electricity, etc.) for rural areas. But the political aim of creating a settlement pattern that can facilitate the centralized control of the rural population surely has played a role. Anybody that owns land manipulates government policies and politics. In the Ethiopian setting, mainly for the same purpose mentioned above, land is state-owned. Hence, its impact on the demand for urban land is not direct, since it does not have any specific demand for urban land as a source of power, for it already owns it. However, such state ownership has its implicit impact on the demand for urban land as it affects supply of urban land.

The same thing is practiced in the biggest cities of the world. Land is bought and disposed for building on leases with the expectation of a source of income to the municipalities and to get more power to control development.

### 7.2.5 Urban Land Demand for Speculation

Private speculators buy large aggregations of land from farmers or from the state or the city. More often, private speculators buy a plot of land and build a small house

at the back of their plot and keep the land until town development reaches in their vicinity. Speculators usually buy (lease) land because they expect the price to go up in the future and keep it as vacant or underdeveloped. Considering the fact that land is a property, the efficient usage would be supporting the development of the city.

The reality in Ethiopia, particularly in Addis Ababa, is keeping land unexploited for a long time, as some lessee wait for the opportunity to get higher profit. Though not confirmed by the local government, more than 50 percent of land occupied by individuals over the past several years is estimated to be either vacant or underutilized. The occupiers advance many reasons for doing so, and among the reasons are increase in the cost of building materials, inaccessibility of bank loan due to bureaucratic procedures, and government policy. While some of those reasons may be true, speculation for the increase of land value might be the most significant. Speculation is at the very core of human action, but mitigating speculation by enforcing regulations is within the power of the city administration. Speculation, in the current Addis Ababa setting, entails a huge demand for urban land.

### 7.3 Factors Influencing the Supply of Urban land

The supply of land available for urban development is determined by topography, distribution of infrastructure, master plan and zoning policies as well as the willingness of landowners to sell parcels. Steep slopes, wetlands and hazardous areas limit the supply of land for urban development. Infrastructure networks also largely determine the supply of developable land as well. Government policies limit land supply, especially if land development policies are restrictive.

The supply of land is seen as being also influenced by natural and governmental restrictions upon the supply of land along with competition for the same land from the agricultural and commercial sectors.

Quantity demanded and price is directly related. Alternatively, at increasing prices an increasing quantity will be supplied by the seller in the marketplace. The Law of Supply is, of course, a generalization. Its primary reference is to a good or service that is the result of a combination of productive resources (land, labor, capital and entrepreneurship) such as consumer goods. But a good such as land cannot be increased in supply as such. Land is not, however, a homogenous good. There are numerous categories of land that are, in fact, separate goods. Farmland is differentiable from residential land, which in turn is differentiable from commercial or industrial land. However, while these categories of land are differentiable, they are limited substitutes.

As already noted the total number of acres of land -- the quantity of land -- is fixed. The earth has a finite quantity of land. Man can marginally affect the quantity of land through such activities as filling submerged land, but this is very marginal when the total quantity of land is considered. However, the number of acres of land that exist misses the point in discussion of the supply of land.

The supply of land for the rural and urban sectors is determined by nature – availability, topography, and, in the case of agriculture, soil fertility – and by the volume and quality of prior investments, including structures. The growth of such investments is accompanied by the expansion of services derived from a given stock of land. Regulatory constraints affect both the demand for and the supply of land.

The issue in the supply of land is not the total quantity of land available but rather the quantity of land available that can perform particular services. Land in the Dallol Depression of Afar Regional State may be available, but it cannot be used to cultivate orange. Thus, the relevant quantity in determining the value of land for orange groves is the quantity of land available that can support orange trees. This restriction greatly reduces the magnitude of land supply. The issue here is substitutability of one parcel of land for another.

So, if we were to see the price of residential land increasing, indicating that people wanted more of it, neighboring agricultural land, if available, could be substituted for residential land by rezoning and the supply of residential land would be increased. However, the supply of agricultural land would be decreased in exactly the same amount as the increase in the supply of residential land. As well, the boundaries of cities are legally bounded.

Government intervention – in the form of regulations, infrastructure investments and taxation – has a direct impact on urban land supply and on the demand for land, and therefore on the price of land and housing. There are government imposed land supply restrictions such as limitation of land use in urban and semi-urban areas and ecological zoning. Land markets in developing and industrialized countries are subject to regulatory constraints that significantly affect the operation of the market and equilibrium prices and sales.

Urban containment policies limit land supply. Urban containment policies include a variety of regulations and public investments that constrain urban sprawl and create incentives for development in the central portions of urban areas. These policies include the enactment of regulatory urban growth boundaries, limits on utility extensions to outlying areas, delineation of greenbelts and a variety of other measures. City and national governments acting on their own have enacted these policies, but increasingly state governments are mandating or encouraging them.

The rationale behind urban containment policies is that unconfined growth can result in negative economic, social and environmental effects. Unconfined growth tends to draw affluent homebuyers and business into the suburbs where land is more readily available and initially less expensive due to government subsidies. This draws jobs and tax revenue out of the central city and makes it difficult for city governments to meet the costs of providing efficient public services. Unlimited peripheral growth also tends to concentrate poor residents and minorities in the inner city as educated, affluent residents move out. The social effect of this movement is the creation of urban ghettos characterized by substandard housing, racial segregation and impoverished social environments that are outside of and, increasingly, in opposition to the mainstream culture.

Unconfined growth also has environmental consequences as development schemes eliminate green spaces that could be used for agriculture, wildlife preservation or outdoor recreation. Unconfined growth is seen as wasteful of energy due to increased travel requirements, which in turn create harmful emissions from burning fossil fuels. The pollution caused by these emissions contributes to possible health hazards and global warming. The intended result of urban containment policies is a compact form identified by high-density development. This form is intended to keep tax revenue and jobs within built-up areas of cities, promote neighborhood social and racial stability, conserve energy and preserve green space outside of cities.

As land available for development is limited by urban containment policy, one of the first effects of the policy is usually an increase in land values. This initially leads developers to use land more efficiently, building housing and other projects at higher densities than before.

Even in a free market economy, there is rarely complete freedom of contract with respect to land and real property. The law may specify the uses to which the land must be let to a sitting tenant at a specified rent. This is done in order to check the exorbitant price of land in a free market economy without government intervention. Although the market can be highly flexible, it is subject to some limitation. Existing buildings are often not easily converted in response to new market pressures because information is imperfect and decision makers are often dependent on credit, individual decisions are affected by unpredictable externalities such as public decision with respect to transportation and infrastructures and the action of adjoining landowners.

While it may be argued that it is wise for the government to intervene and control the market, it is also possible to argue that left to itself the free market would tend to allocate land to its most desirable use and that, therefore, government intervention

is at best unnecessary and at worst counter productive. This is true given both a perfect market and an equitable distribution of income. The prerequisite for these conditions, however, are extremely stringent and cover all aspects of utilities, goods, and markets. Both market failure and the mal-distribution of income are thought to be particularly prevalent with respect to urban land and services because land, being functionally specific, is inherently heterogeneous. Since the optimal conditions do not exist, there is an apparent case for intervention to modify the allocation of land that would arise from market pressures.

The market mechanism is unlikely, on its own, to produce an efficient allocation of land uses. Moreover, the ownership of land is generally unevenly distributed among members of the community and the market cannot allocate the income from land in the way the community would wish. For these reasons, most governments intervene in urban land markets, although to varying degrees. Intervention takes many forms, including a regulatory framework, taxation, subsidies to particular activities and direct ownership and participation in urban investment and the provision of services. By these means, the operation of the market is modified or superseded in pursuance of community objectives. Such intervention in a market-based economy is supported by the belief that the government can implement these policies in a way that reduces inefficiency and makes the resultant distribution of benefits more equitable. Many immediate goals may conflict with one another and governments face problems in obtaining adequate information of defining suitable techniques and of fully implementing policies.

The rationale for government intervention is based on the argument that without government intervention the free market is beset by the following problems:

- The need to provide certain land with public goods that cannot be effectively produced through the private market;
- The existence of significant location externalities, both good and bad, which private decision makers would not take into account;
- Imperfect information on which to base individual decision and the general costs of using the market;
- Unequal division of market power among economic agents, particularly in the case of monopolistic supply;
- Differences between how individuals and community value future and current benefits;
- Differences between individual and community attitudes to risk;

- Possible interdependence in utility arising from “merit goods”, the consumption of which an individual benefits other members of the city—a situation not readily reflected in individual decisions; and
- Differences between the actual and desired distribution of income.

However, it does not necessarily mean that the need for government intervention in urban land management is a call for state ownership of urban land. For state ownership of urban land might lead to inefficient and ineffective land allocation.

## **7.4 Land Availability/ Supply by Type of Landholding, End Users and Others**

### **7.4.1 Land Supply for Housing**

The city government of Addis Ababa has of late delegated the bureau of works and urban development and sub-city administrations, through its urban development department and lease offices, in the delivery of land for the construction of residential houses and others. The process of land delivery includes lottery, applicants obtaining the lottery forfeiting the plot and twenty percent of the amount paid in lieu of service charges. A total of seven lottery programs have been processed between 1995 and 2000 as indicated below.

**Table 6 Plots Made Available through Lottery**

| Lottery Program       | Prepared Plots |
|-----------------------|----------------|
| 1 <sup>st</sup> round | 370            |
| 2 <sup>nd</sup> round | 800            |
| 3 <sup>rd</sup> round | 363            |
| 4 <sup>th</sup> round | 280            |
| 5 <sup>th</sup> round | 127            |
| 6 <sup>th</sup> round | 1,520          |
| 7 <sup>th</sup> round | 1,513          |
| Total                 | 4,973          |

Source: A.A Lease office, 2000

To be eligible to the lottery program one must fulfill the following criteria set by the office:

- The person should be the resident of the city;
- Must be 18 years old and above;
- Must provide proof of owning neither a house nor land;
- Must be able to pay determined amount of a non-returnable registration fee;
- Must deposit twenty percent of the total project cost in blocked account; and
- Must obtain a lottery ticket.

The numbers of plots made available are usually less than the number of applicants. Winners are selected from a group of applicants by a lottery drawn at a place and day announced in advance. In case they do not make it the first time, applicants could try again by paying an additional fee to register for the next lottery.

Half of the money applicants deposit is released to the winners once the foundation of the house to be built is complete. The remaining half is released only after the completion of the structural work of the house. If construction does not commence within six months of receiving the necessary documents (land title, house plan etc.) the plot of land is forfeited. Should construction be not completed within three years, land entitlement is revoked and whatever construction that has been put in place, if any, would then be auctioned off and the proceeds returned to the owner after deducting ten percent. However, the latter option has never been practiced, leaving room for speculators.

The following Table summarizes the number and sizes of plots allotted for residential use between 1996 and 2006. The average number of plots distributed for residential purposes, including apartments, was about 1,100 per annum in the stated period. In terms of area, land given for residential purposes was 22.1 hectares per year; the highest recorded being 70 hectares.

**Table 7 Number and Size of Plots Allotted for Residential Use (Hectares)**

| Year                      | Apartment/<br>residential |              | Residential Allotted |              | Total residential |              |
|---------------------------|---------------------------|--------------|----------------------|--------------|-------------------|--------------|
|                           | Number<br>of Plots        | Area         | Number of<br>Plots   | Area         | No. of<br>Plots   | Area         |
| 1996                      | -                         | -            | 450                  | 6.8          | 450               | 6.8          |
| 1997                      |                           |              | 221                  | 3.3          | 221               | 3.3          |
| 1998                      | 5                         | 0.3          | 184                  | 2.8          | 189               | 3.1          |
| 1999                      | 53                        | 2.8          | 689                  | 10.3         | 742               | 13.1         |
| 2000                      | 27                        | 2.1          | 1,690                | 26.8         | 1,717             | 28.9         |
| 2001                      | 65                        | 8.3          | 2,173                | 32.6         | 2,238             | 40.9         |
| 2002                      | 61                        | 4            | 4,131                | 61.9         | 4,192             | 65.9         |
| 2003                      | 98                        | 16.2         | 1,451                | 21.8         | 1,549             | 38.0         |
| 2004                      | 186                       | 119.9        | 359                  | 4.7          | 545               | 124.6        |
| 2005                      | 177                       | 13.3         | 13                   | 2.7          | 190               | 16.0         |
| 2006                      | -                         | -            | 30                   | 68.9         | 30                | 68.9         |
| <b>Total</b>              | <b>672</b>                | <b>166.9</b> | <b>11,391</b>        | <b>242.6</b> | <b>12,063</b>     | <b>409.5</b> |
| <b>Annual<br/>Average</b> | <b>61</b>                 | <b>15.2</b>  | <b>1036</b>          | <b>22.1</b>  | <b>1,097</b>      | <b>37.2</b>  |

#### 7.4.2 Supply of Land for Real Estate

Real estate is generally defined as “land and anything permanently affixed to the land”. In common usage the term often relates to urban real estate and excludes agricultural land. Real estate activities belong to the service sector and are distinct from construction activities. The sector consists of five distinct activities, namely development, dealing, letting, brokerage, and administration. These real estate activities may further be broken down into three categories having sub-categories of their own as follows:

- Real estate activities with own property, including the development and selling of real estate as well as buying and selling of own real estate;

- Letting of own property;
- Real estate activities on a fee or on a contract basis, sub-categorized into real estate agencies and the management of real estate on a fee or on a contract basis.

The real estate sector has a fundamental significance to both businesses and individuals. To the former, real estate constitutes one of the basic conditions for running a business while in the case of the latter it constitutes an important social policy consideration as it relates to the provision of the basic need of housing.

A dynamic real estate sector boosts demand for goods and services from a range of sectors, including building materials and construction industries. As a key component in the national economy, the real estate sector comprises in several distinct businesses, each of which may be considered as an industry of its own right and each having a distinct economic logic as well as fundamental attractiveness. Understanding how attractive each of the range of industries that may be identified could be and how they are likely to change over time, hence, becomes a primary concern. A further basic question in real estate development strategy relates to positioning the real estate company to be a superior performer.

In the Ethiopian context, three distinct periods may be identified when examining the performance of the real estate sector in Ethiopia over the past several decades. The first is the “imperial” period where land and real estate were predominantly in private domain. In the second period, popularly known as the ‘Derg’ era, all rural and urban land as well as extra houses were nationalized dealing a deadly blow to whatever there was of private initiative in real estate development. The current period, while essentially maintaining state monopoly over ownership of land, renders real estate development open to private initiative.

The first period saw the emergence in the early 1960s of the first high rise real estate buildings (Gebre Wold Building, for instance) in a sub-market which otherwise was dominated by single family residential houses built by individual landlords. This was to be followed by an increasing number of mixed retail, residential and office buildings along the main thoroughfares of Addis Ababa built and owned by institutional investors, mainly banks and insurance companies. Having usurped the ownership of urban land and extra houses, the second period oversaw the emergence of state monopoly and a run down in private real estate development.

The current period, while still maintaining the administration of rental houses and buildings inherited from the previous period and the state monopoly over the ownership of both rural and urban land, permits private initiative in real estate

development through a system of lease arrangements for land. Under this system, land acquired through public auction or private treaty/negotiation belongs to the private owner for a specified period, depending on the type of activity envisaged.

Following the introduction of the market economy by the current government strides were made in this new category of investment. With the abolition of capital ceilings, broadening of investment areas allowed to the private sector participation along with equal access to credit and the establishment of Investment Authority (and Investment Bureaus) a number of investment certificates for real estate have been issued.

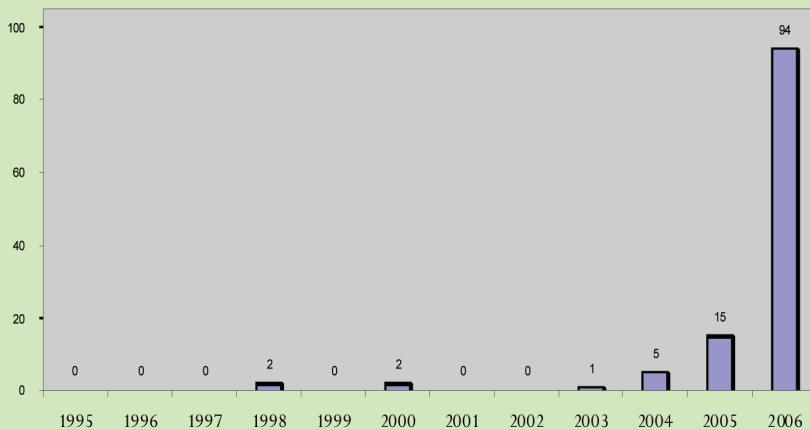
**Table 8 Number and Size of Plots Allotted for Real Estate**

| Year                  | No. of Plots | Area in Hectares |
|-----------------------|--------------|------------------|
| 1995                  | -            | -                |
| 1996                  | -            | -                |
| 1997                  | 0            | 0                |
| 1998                  | 2            | 195.1            |
| 1999                  | 0            | 0                |
| 2000                  | 2            | 35.6             |
| 2001                  | -            | -                |
| 2002                  | -            | -                |
| 2003                  | 1            | 5.8              |
| 2004                  | 5            | 67               |
| 2005                  | 15           | 66.1             |
| 2006                  | 94           | 293.4            |
| <b>Total</b>          | <b>119</b>   | <b>663.0</b>     |
| <b>Annual Average</b> | <b>14.9</b>  | <b>82.9</b>      |

Source: Addis Ababa City Administration, Land Administration Authority

**Figure 1**

Number of Plots Allotted for Real Estate from 1995-2006



The Table and Figure above indicate the number and size of the plots allotted to the real estate sector by the Addis Ababa City Administration in a decade. As depicted in the chart, progress in the real estate sector was sluggish and is only recently that a significant number of plots were allotted to real estate activities. The average number of plots provided for real estate purposes between 1995 and 2006 was only 15 per annum; the highest recorded being 94 in 2006. In terms of area, the annual average land allocated for real estate purposes has been slightly above 80 hectares, the highest recorded being some 293 hectares.

## 7.5 Unmet Gap in the Current Addis Ababa Setting

A wide range of government interventions influence the operation of land markets. These range from policies aiming at modifying the spatial distribution of economic activity (for example, industrial location) to those promoting specific sectors of activities (for example, subsidies to housing). Moreover, these interventions can affect the land market directly through zoning laws or indirectly through policies that affect capital markets. Such interventions often reduce efficiency and almost as often discriminate against poor people.

In like manner, the absence of well-defined or adequately enforced property rights in land can hamper the functioning of land markets and leads to inefficient outcomes. Several other imperfections, stemming either from particular properties of land or from distortions in other markets that spill over, may also prevent land markets from allocating resources efficiently. The main causes for inefficient land market are indicated below.

### 7.5.1 Asymmetric Information and Land Transferability

The possessor of land often has more knowledge about the extent to which the rights to the land are (or are likely to become) compared to other individuals, especially those from outside the community. This limits the tradability of land, because some individuals who might otherwise be interested in acquiring the land for a higher-value use than the current one may either be reluctant to risk purchase or may offer a lower price reflecting the perceived risk of challenging claims. Both outcomes tend to reduce the extent of land trading, with a consequent loss of efficiency, since land trading generally facilitates the allocation of land to higher-productivity users. It is precisely this loss of efficiency that motivates societies to establish systems of land records and title registration, which enable potential buyers to verify the authenticity of property rights offered for sale.

### 7.5.2 Transferability and Linkages with the Credit Market

Limitations on land trading have a negative spill-over effect on the credit market. Credit transactions, and in particular medium and long-term loans, involve a significant degree of asymmetric information. The potential borrower may know much better than the lender the probability of loan repayment. This asymmetry limits the extent of credit transactions, yielding loss of efficiency, since some high-return investments that would have been financed if information were symmetric are not undertaken. This loss of efficiency induces the introduction of the collateral arrangement whereby the borrower alleviates the lender's lack of information by offering a reasonably risk-free asset whose conditional sale could be used to repay the loan in the event of default.

Land and other real estate are ideal collateral, because their physical properties are less amenable to destruction and abuse than other property such as machinery or livestock. For land to be useful as collateral, however, it must be easily transferable and the property rights over it must be clearly defined. Thus, the same institutional arrangements that reduce information asymmetry in the land market—land registries, title documents and the like—are useful in improving the efficiency of credit markets. Similarly, the inefficiencies in land allocation arising from limitations on land transfers are exacerbated by the resultant diminished use of land as collateral. A corollary proposition is that the more developed the credit markets, the larger will be the demand for formalizing land rights.

### 7.5.3 Other Imperfections in the Land Market

The acquisition of land requires a significant outlay of cash. In many developing countries, however, capital markets are imperfect and the ability to obtain credit for land purchase requires a significant accumulation of equity before the transaction. This requirement excludes a large proportion of the population from the land market and, thus, hampers the market's ability to allocate land to the highest productivity use. Moreover, durability of land and its ability to maintain real value in an inflationary environment makes it a desirable asset for storing value in economies where inflation-proof financial instruments are not readily available. As a result, individuals who lack the skills to utilize the land for agriculture or other productive uses may acquire significant amounts of land. Insofar as land typically is not traded in international markets, its price reflects various distortions in other goods, markets and in the agricultural terms of trade.

Given these caveats, one should be aware of the land market to always be out of equilibrium, and the market may not be clear, balancing demand and supply of urban land. There will always be unmet gap in the land market, but not as wide as explained below.

#### 7.5.3.1 Housing

At the conceptual level, total housing need encompasses housing required for accommodating newly formed families, replacing dilapidated houses, easing overcrowding and housing need associated with the desire to accommodate homeless households.

According to the 1994 census, there were about 374,742 residential houses in Addis Ababa, of which 34.4 percent were privately owned and 37.9 percent by the local Kebele administrations. The Addis Ababa Rental Houses Administration owned some 2.5 percent and about 63,256 housing units (17.1 percent) were private renters. Houses owned by the Kebeles were in bad conditions because of lack of proper maintenance. It is hardly possible to maintain those houses because the monthly rental income of the houses in regard to the cost of the maintenance remains very low. About 70 percent of the total housing units are single rooms, and housing over occupied by an average of five square meters/person or on the other hand four persons/room. Most of the existing housing stock is dilapidated and only a marginal proportion of the housing stock is provided with the requested service. The level of accessibility, water drainage and sanitation are in particular very low requiring basic site development works. About 71.4 percent of the existing housing units have access to tap water facilities, out of which only 22 percent have tap water

of their own. Similarly only 67.3 percent of the houses have toilet facilities. There are also a significant number of homeless people.

The Addis Ababa Housing Census carried out in 1996 has found out that only 26.6 percent of the housing stock was in good condition, 67.7 percent require urgent maintenance while 4.9 percent need outright demolition.

Because of the unavailability of land, high rental income and capital gain taxes, lack of sufficient resources for housing on the part of government, the backlog has become very challenging indeed. According to the household survey of 1996, the projected housing demand in Addis Ababa was estimated to be over 22,000 units per year on the average. The existing shortage of houses is expected to increase in the city since the effort exerted to construct more houses is limited. The problem could even be more challenging, considering the provision of site and services.

The land delivery system also faces two main problems. First, the numbers of plots prepared by the urban development authorities are limited. Sometimes, the sites may not be to the liking of people expected to settle on them. In relation to the huge demand for housing, the supply is very much limited. As already noted earlier, annual supply was only 1,100 plots. Secondly, the cost of the standard plans provided is very high so that a significant share of families cannot afford to build these houses.

Overall, narrowing the gap between housing demand and supply is partly attributable to the impediments created by urban land lease policy. However, had the land supply been adequate and land price affordable, it would have positively responded to at least the effective demand that has been estimated to constitute one-fifth of total demand. The inability of the lease policy in adequately addressing this particular demand thus has contributed to unwarranted and skyrocketing housing prices, making the construction costs and rental rates excessively high.

#### **7.5.3.2 Real Estate**

As mentioned in the previous section, the investment certificates issued for real estate, renting, and business activities have steadily been increasing since the early nineties. The number of certificates issued for real estate development was only 33 in 1995, steadily growing to 121 in 2001, and jumping to 1,734 in 2002. The highest recorded level was in 2006 with 2,328 licensed projects. The demand for land for the purpose of real estate development between 1995 and 2006 was, on the average, 508 plots per annum. This indicates how much on the increase has been the demand of urban land for real estate, renting, and business activities in Ethiopia. Addis Ababa accounts for more than two-thirds of this increase in the demand for urban land

for real estate development. On the other hand, the average plot allotted for real estate purposes between 1995 and 2006 was fifteen per annum, the highest being in 2006 with ninety-four plots.

This indicates the seriousness of the unmet gap between the demand and supply of land for real estate development. If one includes the demand for land for the purposes of commercial activities and social services that can easily be fulfilled by real estate development, the demand for real estate will significantly surpass supply.

## 7.6 The Process of Price Fixing

Urban economics literature has developed a conceptual model of a mono-centric city. Economies of agglomeration provide cost incentives for the location of business and increasing transportation costs determine the location of activities along various rings from the center. The price of land declines with distance from the city center. At the urban-rural border, the value of land will be the same in the two sectors. Urban activities that use land more intensively will move away from either the center or substitute capital for land. The land market must be flexible to permit these adjustments to take place.

The cost of any parcel of urban land is derived from two elements. First, private investment must be made to transform raw land into something usable for urban purposes. This private investment is embodied in the form of streets, sewers, utility facilities and other privately financed improvements necessary for modern living. Second, much urban land derives a value to any user, and hence a cost to any user, from an advantageous site location and from public works. In economic literature treating the subject of land, the source of this second element of land cost is often viewed as economic rent or simply as land rent or the earnings of land per se. As such, it is conceptually distinct from the return on any private investment in land improvements, which is necessary to make raw land useful. These determinants of urban land value, namely investment necessary to transform raw or agricultural land into usable urban land, differential site value, and a capitalization or valuation process interact in complicated ways through the operation of the land market and pricing processes. The operation of urban land markets and pricing are further complicated by their interaction with critical public policy elements, namely zoning, the location of public works and facilities as well as property taxation.

A large share of what is normally called land value is not produced by private people in the same sense that buildings are, and land rent is not a reward for producing land. It may be described as a “public value”, the joint product of appropriation and tenure protection provided through the police power of government and access and utility provided by public works. The worth of land also arises from spill-over

benefits of private works on neighboring land. These spill-over benefits or values are “public” too, in the sense of not being captured by their producers, but by the neighbors of the producers.

For these reasons, one may speak of the cost of land as not serving very directly to elicit the stock of land and to treat stock as inelastic to price. This is not to say that the stock is fixed in a meaningful economic sense. Area is fixed, but the productive and want-satisfying potential of the fixed area is indefinitely expandible as spill-over benefits from social progress and public works accumulate. But this process occurs mostly without the work of the landowner as such. High land costs do motivate landowners to intensify the use of their land, where zoning allows it. This is a vital economic function of land price, without which the limited stock of valuable land would be used wastefully. The good use of a fixed stock has many effects that resemble an increase of supply, and the two are often confused. A 20-story building on a site utilizes less land per unit of building. When fill is dumped into the bay, use is made of a marginal underwater site. Higher land costs also take land from lavish users—sportspersons, nurseries and so forth--- and cause it to be used for the needs of those who are willing to pay a higher price for less land per capita. In the process, a new set of prices are established, which is a necessary condition to attain the new and more intensive use of land.

But there is only a weak and indirect stimulus from land price to motivate people to “produce” land for housing. High land prices might motivate local governments to extend public works. But it is the public equity in the land, as asserted through taxation, which is the direct motive. A higher private equity motivates public works insofar as it moves landowners to exert political pressure to promote public works.

The price of land reflects the relative scarcity of land allocated to certain use, and it serves as an indicator of economic activity.

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In theoretical literature, urban land values are typically derived from a model of a mono-centric urban area with land rent as a function of household income and location rent. It is assumed that, over time, urban population growth (and other factors) leads to conversion of additional land from agricultural to urban use and that once converted the land remains in developed use indefinitely. Hence, the agricultural land value reflects both the discounted agricultural rents up until conversion time as well as the discounted development rents.

The result of these models is that, other things being equal, within city limits urban land values increase as the distance to the city center decreases (due to location rents). Outside city limits, agricultural land values decrease with the distance from city boundary (due to decreasing development premium).

A system of parcel-level land-price functions for selected land use classes is constructed below. The dependent variable is the parcel-level real market value of land (Birr/ha).

- Urban residential (low, medium and high-density residential) land prices are modeled as a function of:
  - Proxies for urban rents (average per-capita income or household income);
  - Location rents (distance to central business district);
  - Other environmental and neighborhood characteristics (e.g., proximity of park, forest, major highway, population and development density of the neighborhood); and
  - Site characteristics (parcel size, flood potential).
- Urban commercial land prices as a function of:
  - Location rents (proximity of central business district, major highway);
  - Neighborhood characteristics (per-capita income and population density in the neighborhood); and
  - Site characteristics (parcel size, flood potential).
- Urban industrial land prices as a function of:
  - Location rents (proximity of central business district, major highway);
  - Neighborhood characteristics “industrialization” of the neighborhood); and
  - Site characteristics (parcel size, flood potential).

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Generally, there are three approaches to determining real estate prices. These are the hedonic price approach, market behavior approach, and real estate forecasting modeling approach. The hedonic price model has been widely used as it measures the importance of the value that the market places on the individual attributes of a housing unit. It views housing as a heterogeneous bundle of attributes that actually make up the services of a housing unit. The hedonic price function is estimated by regressing either rent or housing price as dependent variable or the characteristics of a housing unit as independent variables. The partial derivatives of these functions with respect to a characteristic are the hedonic prices.

The second approach is that of forecasting model. A number of attempts have been made to forecast real estate prices in recent years. They use time series analysis,

which assumes that the future variation in real estate price depends largely on the past price behavior in the market.

Finally, there are a large number of literatures on land price determinants using traditional regression analyses. These normally have two objectives in mind. One is to test some hypothesis regarding market behavior or decision making behavior of individual agents. The other objective is to identify the real estate price determinants by estimating relevant parameters and to use them for policy impact analysis and for real estate price/and demand forecasting.

In the Addis Ababa setting, the price of the land to be leased is also determined through an auction system. The lease office sets the floor price for each plot intended for lease with a view to recovering costs of infrastructure and any resettlement expenses for those with pre-existing rental agreements or usufruct rights. An alternative system to auctioning has been direct negotiations with the land lease office once investors identify suitable parcels of land. There is no clear indication on how the recovery cost of infrastructure and any resettlement expenses are estimated. Neither is it clear how investors estimate the price of land in order to negotiate with land lease office.

The Addis Ababa City Administration sets recovering costs of infrastructure for the land to be leased as follows\*:

- Collate information from infrastructure-oriented offices regarding the size of developed infrastructure (roads, sewer, electricity, telephone and related activities) and the plan of the same infrastructure to be developed for the coming twenty years;
- Calculate the total cost by summing up the cost estimate of the developed infrastructure and planned cost of infrastructure to be developed in the perspective plan;
- Calculate the average unit cost per unit area by dividing the total cost by the size of the plot for each grade for the three considered zones (central, transitional, and expansion); and
- Set the floor price by multiplying the average unit cost per square meter with the respective coefficients established earlier for each grade of plot at the different locations.

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\* It is interesting to note that land-related revenue, including land lease, hardly accounted for ten percent of the Addis Ababa City Administration budget over the period 2003/04-2007/0, land rent accounting for less than one percent.

Resettlement expenses are estimated for each area in a similar fashion. The sum of the two sets the floor price. Below is the floor price for urban land in the Addis Ababa city Administration by grade and area.

**Table 9 Floor Price of Urban Land in Addis Ababa by Area and Grades-Birr/M<sup>2</sup>**

| Grade/Area | Central Zones | Transitional Zones | Expansion Zones |
|------------|---------------|--------------------|-----------------|
| Grade 1    | 1,441         | 884                | 303             |
| Grade 2    | 1,312         | 799                | 256             |
| Grade 3    | 1,131         | 691                | 186             |
| Grade 4    | 948           | 583                | 163             |
| Grade 5    | 764           | 474                | NA              |

Source: Addis Ababa City Administration, Land Administration Authority

It is paradoxical to note, however, that the prices charged by the administration follow neither the floor price nor the grades/areas of the plots. A homogeneous plot of land does not fetch a similar price, the City Administration collecting any price that auctions offer irrespective of the nature of the use and the impact on the business. Little importance is attached to fair dealing.

Lease price of urban land in Addis Ababa does not seem to have any relation with land grades (grades 1 up to 5), and location (central zones, transitional zones, and expansion zones). Out of 1,035 cases (plots of land delivered) and examined in this study, lease price follows no pattern.

**Table 10 Relation between Lease Price and Land Grade/Area**

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| Grade | Location | Urban Land Lease Price Birr/m <sup>2</sup> |         |
|-------|----------|--|---------|
|       |          | Minimum                                    | Maximum |
| 2     | 2        | 1,301                                      | 2,050   |
| 2     | 3        | 701  | 3,110   |
| 3     | 1        | 373  | 1,711   |
| 3     | 2        | 265  | 3,150   |
| 3     | 3        | 200  | 2,811   |

Source: Addis Ababa City Administration, Land Administration Authority

Note: Area 1 = central zone; Area 2 = Transitional zone; Area 3 = Expansion zone

It is clear from Table 10 that while Grade 2/2, the highest grade in the cases examined, fetched a maximum lease price of Birr 2,050 per square meter, the maximum prices for grades 3/3 and 3/2 were Birr 3,150 and Birr 2,811 per square meter, respectively.

Moreover, as shown in Table 11 below, the relationship between the observed urban land lease price for 1,035 cases considered and the base prices or sizes of plot, as indicated by the coefficient of variation, have been found to be extremely weak.

**Table 11 Coefficient of Variation**

|            | Urban Land Lease Price Birr/m <sup>2</sup> |
|------------|--|
| Base price | 2.4%                                       |
| Plot size  | 2.4%                                       |

Source: Own computation

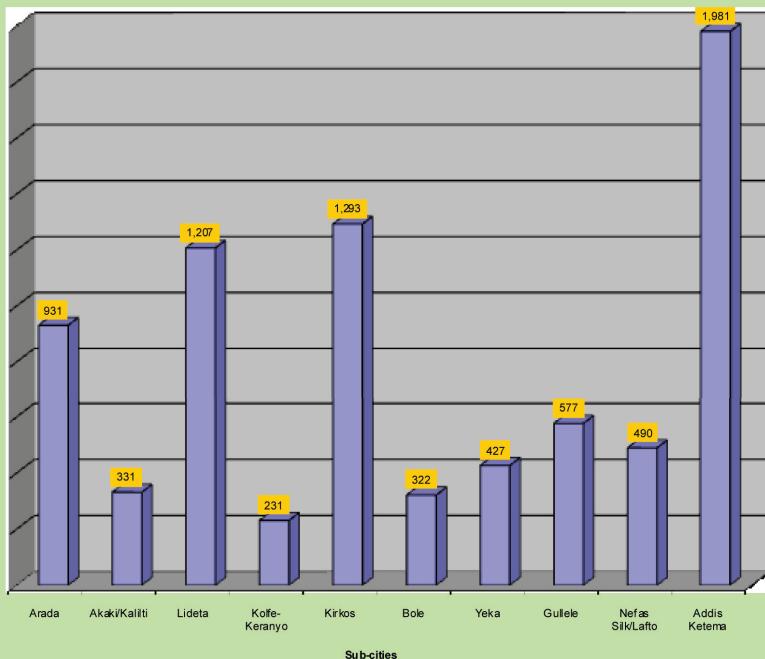
At less than three percent, the coefficient of variation (the square of the correlation coefficient) is extremely weak, although there seems to be a positive relationship between the observed urban land lease prices with base price and size of plot.

In terms of location, the pattern is beyond any theoretical rationalization. The theory asserts that prices of plots of urban land decrease as the distance from the centre increases. Strictly speaking one would, according to the theory, expect Arada Sub-City to fetch a higher price per square meter than others. But that is not the case. In practice, a plot of urban land at Addis Ketama Sub-City fetches the highest price, followed at a far distance by Kirkos and Lideta Sub-Cities. On the other hand, plots of land at Kolfe-Keranyo Sub-City fetch the least price, followed by Bole and Kaliti/Akaki sub-cities. The case with Addis Ketama Sub-City fetching the highest lease price could reasonably be explained by its being a commercial and market centre of the capital city.

Observing the price range, the minimum price observed has been at Yeka Sub-City, not at Kaliti, Kolfe-Keranio, or Bole sub-cities. Surprisingly, the least price at Gullele Sub-City is by far greater than the minimum price of a plot of land at Arada Sub-City. Moreover, the maximum price observed is at Bole Sub-City and not at Arada Sub-City.

**Figure 2**

Average Price per Square Meter by Sub-City

**Table 12 Summary Statistics of Plots of Land Delivered by Sub-City**

| Sub-City         | Cases        | Total Land Made Available [m <sup>2</sup> ] | Average Price/m <sup>2</sup> | Min/Max Price Range [Birr/M <sup>2</sup> ] |
|------------------|--------------|---|------------------------------|--|
| Arada            | 19           | 434,688                                     | 931                          | 210 - 3,984                                |
| Akaki/Kaliti     | 89           | 471,254                                     | 331                          | 126 - 2,747                                |
| Lideta           | 18           | 67,943                                      | 1,207                        | 137 - 3,601                                |
| Kolfe-Keranyo    | 157          | 535,143                                     | 231                          | 108 - 3,140                                |
| Kirkos           | 63           | 125,092                                     | 1,293                        | 118 - 4,310                                |
| Bole             | 469          | 1,783,213                                   | 322                          | 115 - 6,269                                |
| Yeka             | 72           | 855,577                                     | 427                          | 92 - 2,863                                 |
| Gullele          | 12           | 36,509                                      | 577                          | 250 - 1,375                                |
| Nefas Silk/Lafto | 126          | 680,090                                     | 490                          | 102 - 3,737                                |
| Addis Ketema     | 10           | 28,069                                      | 1,981                        | 353 - 4,100                                |
| <b>Total</b>     | <b>1,035</b> | <b>5,017,578</b>                            | <b>454</b>                   |  |

Source: Addis Ababa City Administration, Land Administration Authority

The above findings put in a nutshell that urban land prices in Addis Ababa follow neither logic nor theory, neither policy priorities nor grades, neither floor prices

nor size of plots. In most cases, a homogeneous plot of land does not fetch a similar price. This is in the nature of land valuation.

Land valuation is subjective, according to Mason Gaffney (Gaffney, M., 2004). The value of durable capital is based on expected future cash flow, and so is that of land. However, the following three major differences are discerned:

- The future of most capital is short; that of land is infinite;
- The future of most capital is limited to the specific purpose to which it was built; that of land is varied and unpredictable; and
- The future cash flow of capital is limited by potential competition from new capital with a known cost of production while that of land is limited only by future demand and is likely to rise. It is “a state of the public mind”.

The allocation of land gravitates toward not just those that are strong financially. It also inclines towards those that are psychologically susceptible, particularly those most prone to overestimate future incomes for some reason or another.

As many buyers have little understanding of valuation theory, there is little basis for them to pricing other than the behavior of other buyers and sellers. As the adage goes, “a nerd follows the herd”, indicating that land values tend to be based on frenzied mob psychology with swings of high amplitude and value being based mainly on what others are paying, that is to say the general opinion. Everyone is setting his “watch” by everyone else’s. In short, pricing is subject to herd behavior, positive feedback, and circular reasoning.

Cost of production imparts neither a lower nor an upper limit on land rents and prices. Rents and prices start at zero, and rise without limit over time as demand rises. Spatially, prices are near zero in adverse locations and rise to an unbelievably high prices at prime locations, although both locations are alike, in that they are free gifts of nature.

Problems with land pricing are varied. Under conditions where the people own the land and the State manages, it has no market value in legal theory. Instead, the state, as is the case in Addis Ababa, enacts statutory pricing formula for calculating land values. And during periods of land fever, prices have been seen to exceed statutory values/base prices by three or ten times.

Price differentials between state and market values generate incentives to corruptly allocate land or illegally convert land use. State price formulas also generate

anomalies in the calculation of compensation for compulsory acquisition of land for public purposes.

In cases where there are committees with discretionary powers, compensation paid for land frequently varies in relation to the status and connection of land occupants. The legal reference that land has no market value and that only buildings and improvements are marketable because they are capable of private ownership leads to property values being ascertained without reference to the underlying land values.

## 7.7 Trends in Land Prices

### 7.7.1 Land Acquisition

Land in Addis Ababa may be acquired by allotment, auction, or negotiation. The Table below summarizes forms of land acquisition for over one thousand cases examined over the period 1994-1998 EC.

**Table 13 Land Acquisition by Type and Prices in Birr/M<sup>2</sup>**

| Type         | Cases        | Mean Price | Median Price | Minimum   | Maximum      |
|--------------|--------------|------------|--------------|-----------|--------------|
| Allotment    | 12           | 870        | 303          | 115       | 3,738        |
| Auction      | 29           | 1285       | 1,320        | 111       | 2,736        |
| Negotiation  | 992          | 759        | 502          | 29        | 6,270        |
| <b>Total</b> | <b>1,033</b> | <b>776</b> | <b>511</b>   | <b>30</b> | <b>6,270</b> |

Source: Addis Ababa City Administration, Land Administration Authority.

The dominant means of access to urban land in Addis Ababa is negotiation, accounting for 96 percent of the over 1,000 cases considered. Allotment and auction accounted only for the remaining four percent of the cases.

The average price of land through auction during the period was 1.65 fold higher than the average of all the cases considered. Negotiated price for urban land, on the other hand, was the cheapest, perhaps due to the policy direction of the government for sectors of priority and meant to serve as an inducement to investors through lower prices compared to other means of delivery. While negotiation was found to be the cheapest way of accessing land, the highest price was also fetched through negotiation in the cases considered in this study.

### 7.7.2 Leased Urban Land by End-Use

When considering leased urban land in Addis Ababa by end-use, land allotted for apartments and residential buildings predominate, accounting for about sixty percent of the cases examined. A summary is provided in the following Table.

**Table 14 Urban Land Lease by End-Use and Prices in Birr/M<sup>2</sup>**

| Type        | Cases | Mean Price | Median Price | Minimum | Maximum |
|-------------|-------|------------|--------------|---------|---------|
| Apartment   | 206   | 702        | 611          | 103     | 2,279   |
| Business    | 112   | 1,344      | 1,032        | 63      | 6,270   |
| Industry    | 121   | 444        | 320          | 127     | 3,738   |
| Real Estate | 48    | 385        | 206          | 86      | 3,010   |
| Residential | 232   | 739        | 654          | 45      | 3,089   |
| School      | 30    | 604        | 335          | 130     | 3,781   |

Source: Addis Ababa City Administration Land Administration Authority, Own computation

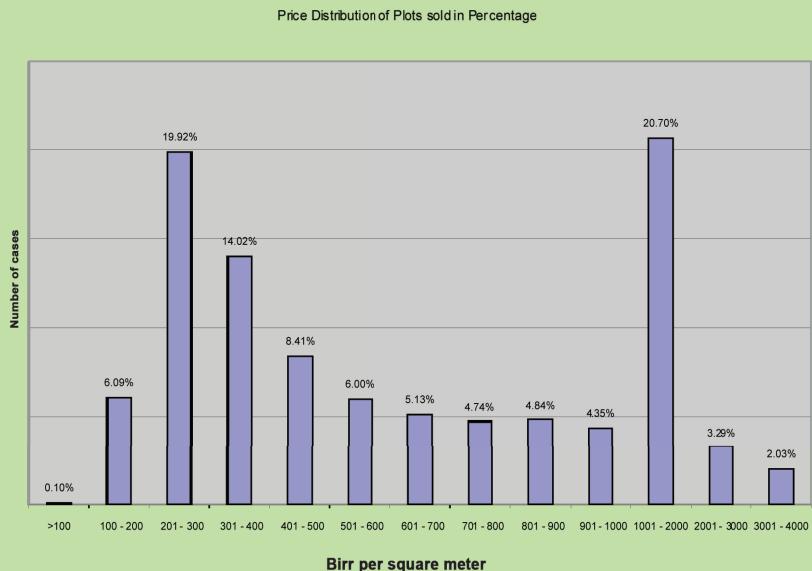
On the average, land for real estate and industry have been less costly than for business, apartment buildings, and schools. Land for business cost 3.5 fold more than that of real estate. Surprisingly, plots of land for school, at a maximum price of Birr 3,781 per meter square and mean price two-fold higher than real estate, fetched the highest price.

### 7.7.3 Urban Land Price

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Lease prices of urban land in Addis Ababa fall in the main within three modal price ranges, namely Birr 201-300, Birr 301-400 and Birr 1,001-2,000 per square meter. These three modal price-ranges account for 55 percent of the cases considered each accounting for 20, 14 and 21 percent, respectively.

**Figure 3**



**Figure 4**



When one looks into the cumulative price distribution of plots of land leased in Addis Ababa, almost 50 percent of all cases fall below Birr 500 per square meter, and 75 percent of the cases were leased for less than Birr 1,000 per square meter. Considering the greater than 1,000 plots of land examined in this study, one could conclude that in more than 95 percent of the cases, the cost of urban land in Addis Ababa over the past years was less than Birr 2,000 per square meter.

## 7.8 Land Markets in Economic Growth

Land markets contribute directly to economic growth through capital formation. In this regard, land developers have a crucial role to play, in that they develop sites generating higher values, making it possible for urban land markets to contribute significantly to capital formation directly.

Policy measures impact on land markets. Restrictive measures affect property rights, particularly when potential owners are excluded and ownership and leasehold ceilings are imposed as well as pre-emption criteria are broadly implemented. Such restrictions might exclude potentially efficient operators, thus limiting growth. Other restrictions include land use policies. Restrictions relating to land use include the strict regulation of changes from agriculture to urban land uses.

Supportive policy measures improve the role and efficiency of land markets. These include improving land administration, cadastre, land information system and land consolidation. Taxes on land support the land market in that they require a sound land registration, which potentially can be utilized for a land information system essential for an efficient land market. More efficient land markets make the use value of land higher, hence contributing to growth.

Legal security of properties and leasing contracts are essential preconditions for sound economic growth. The most important function of land markets in economic growth is moving land from the inefficient user to the more efficient one. However, urban land markets could be constrained by lack of transparency, lack of homogeneity, low solvency, and low skills, as well as domination of local and central administration.

## 7.9 Impact of Lease Price on Business Development and Economic Growth

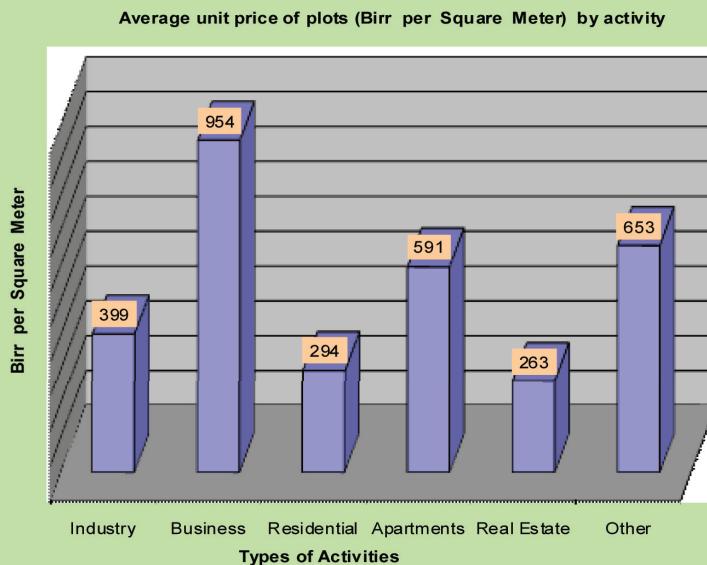
As noted already, land is a commodity that is bought, sold or leased like any other durable commodity. People desire to own land for a variety of reasons - economic or

emotional. Land can be put to a variety of uses. Some of these uses may be economic and some non-economic. At issue is the allocation of land among competing uses. The decision to allocate land among different uses is made through the market place by demanding and supplying land.

The market for land directly influences business and as a result economic development. High cost of land deters business, as high land cost could add up to high service or production cost, which in turn reduce the demand for the services or the product. High land cost, by influencing cost of services/products, reduces competitiveness both at domestic and international markets.

As discussed above, about 50 percent of the leased plots of land were below Birr 500 per meter square, 75 percent of the cases below Birr 1,000 per square meter, and more than 95 percent of the plots cost less than Birr 2,000 per square meter. By any comparison of similar setting, lease price cannot be claimed costly. According to Peterson, a lease right was sold in China at USD 9,300 per square meter in one transaction and USD 7,500 in the other, paid up front. Chengdu, capital of Sichuan province, sold a single mixed commercial/residential site outside the central zone for about USD 1,350 per square meter (equivalent to about Birr 13,000). Urban land transaction recorded in India indicates as high as USD 7,330 per square meter (Peterson, 2006). In Port Harcourt city of Nigeria a square meter of land cost USD 1,750 or some Birr 16,500 (Opueño, 2007). Industrial land cost in Kenya was USD 186 per square meter or roughly Birr 1,800 per square meter (Lukas Barasa, the Nation, June 2207), as compared to the mean price of Birr 400 per square meter in Addis Ababa or more than four times higher. The same source suggests that Uganda's lease costs are the highest in the East Africa region for industrial and prime areas of largest cities.

In the Addis Ababa context, lease price of land varies across different types of activities. Lease price is high for businesses and apartments. Lease price of plots of land is less costly for real estate and residential. Lease price for industry is moderate.

**Figure 5**

When one looks into the significance of land in the composition of investment costs, it varies by cases. Considering five cases (with an aggregate investment cost of Birr 176 million) in BACTEC studies, land cost ranges between 3.5 percent and 15.8 percent of total investment costs (see Table 15 below). This is further confirmed by an additional six major mixed-use high-rise buildings studied across town covering Merkato, Lideta, Bole, and Asmara Road. With an aggregate investment cost of Birr 245 million, the cost of land accounted for Birr 17.4 million or a weighted average of 7.4 percent of total cost. Individually, the share of land in total investment in the cases mentioned ranges between 3.2 percent and 15.7 percent. All cases considered together, the cost of land, Birr 23.2 million in a total aggregate investment of Birr 421 million, would compute to a weighted average of 5.5 percent.

**Table 15 Land as Percent of Total Investment**

| <b>Summary of Investment Costs</b>   | <b>Case I</b>     | <b>Case II</b>    | <b>Case III</b>   | <b>Case IV</b>    | <b>Case V</b>     |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>1. Land</b>                       | 3,000,000         | 10,881,000        | 3,118,550         | 900,000           | 5,300,000         |
| <b>2. Other</b>                      | 14,916,000        | 71,494,800        | 16,565,000        | 25,150,000        | 42,668,000        |
| Establishment Costs                  | 373,000           | 4,580,000         | 410,000           | 200,000           | 1,250,000         |
| Civil Engineering Works              | 11,254,600        | 56,079,800        | 13,485,000        | 12,400,000        | 9,000,000         |
| Cost of Utilities Provision          | 200,000           |                   | 120,000           |                   | 550,000           |
| Cost of Equipment.                   | 1,672,400         | 10,050,000        | 2,250,000         | 9,850,000         | 20,868,000        |
| Cost of Furniture/Fixture            | 116,000           |                   |                   |                   |                   |
| Vehicles                             | 300,000           | 485,000           | 300,000           | 800,000           | 1,000,000         |
| Permanent Working Capital            | 1,000,000         | 300,000           |                   | 1,900,000         | 10,000,000        |
| <b>Total</b>                         | <b>32,832,000</b> | <b>82,375,800</b> | <b>19,683,550</b> | <b>26,050,000</b> | <b>47,968,000</b> |
| <b>Land as % of Total Investment</b> | <b>9.14</b>       | <b>13.21</b>      | <b>15.84</b>      | <b>3.45</b>       | <b>11.05</b>      |

Source: BACTEC studies

The situation in the real estate investment, particularly investment in luxury homes, is quite different.

**Table 16 Land as Percent of Real Estate Investment : Luxury Homes**

| Plot Size (m <sup>2</sup> ) | Type                     | Cost (Birr) |           | Land as % of House | Total Cost (Birr) | Land as % of Total Cost (%) |
|-----------------------------|--------------------------|-------------|-----------|--------------------|-------------------|-----------------------------|
|                             |                          | Land        | House     |                    |                   |                             |
| <b>Kaliti</b>               |                          |             |           |                    |                   |                             |
| 500                         | 3BR [124m <sup>2</sup> ] | 216,000     | 632,620   | 34.14              | 848,620           | 25.45                       |
| 500                         | 3BR [150m <sup>2</sup> ] | 216,000     | 864,130   | 25.00              | 1,080,130         | 20.00                       |
| 800                         | 3BR [185m <sup>2</sup> ] | 554,400     | 1,515,441 | 36.58              | 2,069,841         | 26.78                       |
| 800                         | 3BR [185m <sup>2</sup> ] | 554,400     | 1,307,135 | 42.41              | 1,861,535         | 29.78                       |
| 1,000                       | 4BR [250m <sup>2</sup> ] | 564,216     | 1,587,965 | 35.53              | 2,152,181         | 26.22                       |
| 1,000                       | 4BR [289m <sup>2</sup> ] | 564,216     | 1,711,266 | 32.97              | 2,275,482         | 24.80                       |
| <b>Kotebe</b>               |                          |             |           |                    |                   |                             |
| 500                         | 3BR [124m <sup>2</sup> ] | 216,000     | 697,888   | 30.95              | 913,888           | 23.64                       |
| 500                         | 3BR [150m <sup>2</sup> ] | 216,000     | 987,776   | 21.87              | 1,203,776         | 17.94                       |
| 800                         | 3BR [185m <sup>2</sup> ] | 554,400     | 1,515,441 | 36.58              | 2,069,841         | 26.78                       |
| 800                         | 3BR [185m <sup>2</sup> ] | 554,400     | 1,515,441 | 36.58              | 2,069,841         | 26.78                       |
| 1,000                       | 4BR [250m <sup>2</sup> ] | 564,216     | 1,968,552 | 28.66              | 2,532,7678        | 22.28                       |
| 1,000                       | 4BR [289m <sup>2</sup> ] | 564,216     | 2,099,552 | 26.87              | 2,663,768         | 21.18                       |

Source: Habitat New Flower Homes website

In most situations, lease price cannot be claimed to be a deterrent to business and economic development. Land cost for real estate as well as for industry and business is not significant to be a cause for dampening business and development. More significant is access to land and delivery.

Access to land and delivery in Addis Ababa has been cited as a major constraint by most investors interviewed, with a 65 to 70 percent rating. Only a relatively negligible few rated access to land and delivery at ten percent. Reported land acquisition delays are very long in Addis Ababa, investors complaining of waiting for years and a minimum of between six to twelve months. This does not take into consideration the time it takes the city administration to prepare a particular area for lease. Once land is acquired, the biggest obstacle reported is infrastructure, particularly in outlying expansion areas. These include electricity, telecommunication and access roads. This is not surprising, given the fact that revenue from lease and land related taxes account for less than ten percent of total annual revenue of the city.

# CHAPTER EIGHT

## APPROACHES TO IMPROVED MECHANISMS OF URBAN LAND DELIVERY

Land management could be defined as a process in which land and land related resources are put into best uses. The scope of land management covers a number of issues including the following:

- Formulation and implementation of land related policies;
- Valuation and/or taxation of land-based properties;
- Regulating land and property markets;
- Conferring and protecting tenure rights;
- Managing land use related conflicts (planning of land use);
- Management of utilities and services;
- Management of land related resources (forests, soils, minerals, fauna and flora);
- Management of public lands;
- Creation and maintenance of aesthetic values of sites;
- Protecting sites from environmental deterioration; and
- Creation and management of land related data base.

The major barriers to effective urban land management in Addis Ababa are similar to those observed in most developing countries. Urban land management policies are not backed by detailed guidelines and working procedures; coordination problems impinge upon the efficiency of infrastructure provision; there is lack of systematic land management information system that would serve as a basis for decision making; and there is lack of capacity to effectively implement, monitor, and update urban land management related policies.

Land and location related costs and savings should be factored in business related decisions that pertain to what, how much, and how to produce. Insofar as a local economy is taken as a sum total of individual business units within a given locality, the efficiency at which land is provided along with requisite infrastructure and services is an important factor affecting urban productivity.

The World Bank defines a sustainable city as that which is livable, competitive, bankable well-managed and governed. The governance dimension implicit in this

definition is important as it underlines the importance of:

- Putting in place participatory approaches in land management reforms;
- Creation of effective land and property markets; and
- Creation of sustainable revenue base for the provision of public services.

Citizens, including businesspersons are no more passive recipients, without any choice, acquiring whatever services are made available to them. Planning and land management processes are becoming increasingly market-driven, which underlines the importance of taking into account and addressing the preference of the various stakeholders under a participatory framework.

While there indeed is a general recognition that land is the basis for any urban development strategy, limited attention has been paid to participatory/partnership initiatives in the field of land development. The earliest comprehensive review of partnerships in this regard was undertaken by the United Nations Center for Human Settlements (UNCHS or Habitat) in 1993. The review defined partnership as more than a simple link or interaction between two or more actors in the area of land development. More comprehensively, partnerships relate to an active and deliberate process of working together in a mutually interdependent manner, often with shared responsibilities and each partner deriving something beneficial. Partnerships further relate to a common agenda and goal, keeping in mind that the interests, benefits, and powers of the partners may differ. Most of all, partnerships are relationships in which accountability and transparency are crucial.

The Delhi Conference on Security of Tenure held in January 1996, also sponsored by UNCHS, set the guiding principles of formal private sector participation, including public-private partnerships. These include:

- Partnerships based on principles of equity, economy, efficiency, flexibility, and participation for better land management and greater access to land and security of tenure;
- Partnerships between government and private business and land-owning sectors through facilitating access to land and land development opportunities to these sectors;
- Government initiatives inspiring, enabling, and facilitating formal private sector activities through an appropriate policy framework, rather than through direct involvement in project implementation;
- Participation of NGOs in mediating between communities, governments, and private sector actors;

- Capacity building for communities, local governments and Community-Based Organizations (CBOs) to ensure their effectiveness in land management; and
- Designing mechanisms for formal private sector participation that ensure access to land for the urban poor and other disadvantaged sections, and partnerships that recognize any impediments affecting particular groups.

In addition to formal partnerships, there are also a number of ways in which informal relationships or arrangements have evolved between the public and private sectors, in which both act for perceived mutual benefits. These include less formal associations, arrangements, partnerships or relationships between public and private sectors. In this regard, local government may be open to relax regulations and official standards so that private developers can develop land at standards that people can afford. Such informal partnerships enable authorities to respond to local pressures/needs without recourse to new legislation, new policies or administrative reforms.

In all, both the formal and informal private-public partnerships in urban development are believed to be instrumental in improving mechanisms of urban land delivery and transparency. In this regard, a number of examples of both formal and informal partnerships in urban land development have been identified in a wide range of countries. Some examples of formal and informal partnerships are given below.

**Land Pooling and Land Readjustments :** One of the earliest examples of public-private partnerships is land pooling and land readjustments (Payne 1999). These are techniques for managing and financing urban land development [adopted in Japan, South Korea and Taiwan and are now being applied in several Southeast Asian countries] through which separate land parcels on the urban fringe are assembled and combined for a unified design, servicing and subdividing into urban development units, with roads, open spaces, utility networks and building plots. Under this arrangement, some of the plots are sold and used to recover costs while the remainder of the land is distributed back to the original land-owners to keep, develop, or sell.

In land-pooling projects, the land is legally consolidated by the transfer of the ownership of the separate land parcels to a designated agency, to later transfer ownership of most building plots back to the land-owners. Land readjustment projects involve a notional consolidation of land parcels, with the designated agency taking the responsibility to design, service, and subdivide the land parcels on a

unified basis, after which the landowners exchange their titles for the new building plots (Archer 1999). The advantage of this approach to urban development is that the agencies designated need not acquire land directly or subsidize the subsequent development. Experience further suggests that the approach offers major advantages in improving urban land management.

**Participatory Development Programs (PDPs):** Some of the most innovative partnerships in urban land development are found in India. These have been introduced by several urban development authorities in different parts of the country to capture public benefit from commercially based developments, or to redistribute surpluses to adversely affected groups, such as dispossessed landowners. One such example is the Participatory Development Programs (PDPs) initiative. PDPs have evolved to offer positive ways of encouraging private developers to tender for public land, or to develop private land parcels on the condition that they provide an agreed proportion of plots would be used for purposes that would benefit low-income groups. Schemes have been implemented in many Indian cities where the approach has proved relatively successful in areas where land prices have been on the increase.

**Requests for Proposals (RFPs):** Another innovative partnership approach is the use of Requests for Proposals (RFPs). These have been applied widely in the U.S.A and they were also introduced to Eastern European transitional economies in the early 1990s, including Russia and Bulgaria. RFPs are known to have made a considerable impact in introducing public-private partnerships to deliver land for housing. The objective of RFPs is to encourage open and fair competition between developers and elicit proposals with sufficient information for them to be evaluated and compared. When preparing RFPs it is critical that municipalities have a concrete understanding of local real estate markets and ensure that participating developers have the financial and technical resources to implement approved proposals. Only then are they able to prepare a detailed brief or set of objectives to which developers are able to respond, taking into account likely demand, local site conditions and access, the availability of infrastructure and clear title.

Projects implemented in Russia and Bulgaria suggest that they have helped local authorities to rapidly increase their ability to manage urban land markets, improve the transparency of decision-making, and provide a sound basis for collaboration between public and private sectors. Once the principle is established, it is believed that RFPs would be able to stimulate the supply of land for housing for low-income, middle-income and higher-income households as well as other activities.

**The Provision or Sale of Land Held under Public Sector Control:** This approach involves the provision or sale of land held under public sector control as a means of

attracting private sector investment in land development and housing construction, for example, in Cape Town (Dewar 1999). Projects under this approach involve extensive participation between residents living in existing housing in the neighborhood, collaboration between various central and municipal authorities.

**Informal Partnerships:** Informal partnerships, arrangements or relationships that have major impacts on land markets and which have proven effective in increasing access to land are identified. These involve partnerships in which local authorities associate with land-owners and developers to enable raw land on the urban periphery to be developed, even when planning policies or regulations may not officially permit it.

While public-private partnerships have entered into the mainstream of urban development practice, it is important that a clear framework for formulating, implementing, and evaluating partnerships is established. The main criteria to be applied in assessing individual partnerships must include the extent to which proposed partnerships are able to:

- Increase the supply of urban land;
- Improve the efficiency of urban land markets;
- Improve access to land for low-income groups; and
- Provide the basis for a more productive relationship between public, private, and other sectors.

The essential quality of successful partnerships underlies in its harmony. In successful partnerships, relative strengths and weaknesses of each partner counterbalance those of the other to produce results that combine the best attributes of each. Partnerships do not require the parties involved to subordinate self-interest. Instead, they provide a broader and longer-term framework within which varied interests are to be protected and promoted, thus offering each party benefits that would not be possible otherwise.

A first step in this process of mutual gain would be for each partner to understand and acknowledge the legitimate interests of the other. For the public sector, this involves protecting the wider public interest. The public sector is further responsible for maintaining a level playing field within which other actors can operate on equal terms, effective and appropriate legal, policy and administrative framework. For the private sector, the primary interest is to maximize returns by minimizing costs and risk. For commercial developers, investment will be defined primarily in terms of returns, while for others (e.g., NGOs) wider social or political terms may define expectations.

For partnerships to work, a major shift in traditional behavior on all sides needs to change. This implies that the private sector needs to become more socially responsive and for public sector agencies to become more market sensitive and more aware of market needs. It is important that public sector personnel should not see partnerships as necessarily involving a withdrawal of the public sector from its responsibilities, or a threat to their authority.

Executed effectively, partnerships can maintain and even increase these, though this would require a better knowledge of how land markets operate.

# CHAPTER NINE

## CONCLUSIONS AND RECOMMENDATIONS

### 9.1 Conclusions

Land issues are of crucial importance to economic and social development, growth, poverty reduction and governance. Access to land is the basis of economic and social life in both rural and urban areas. Land policies, as such, express, implicitly or explicitly, the political choices made concerning the distribution of power between the state, citizens and local systems of authority. The multiple dimensions to land issues require a careful and well implemented approach which places current land issues within the broader historical, political, economic, and social context. It is the responsibility of national governments, working together with the civil society, to make land policy choices and craft feasible and effective solutions.

Land tenure defines the rules and rights which govern the appropriation and use of a given space or piece of land. In the strictest sense, it is not land as such that is owned, but the rights and duties over it. Land rights are not limited to private ownership alone. It can span across a very diverse balance between individual rights and duties, private ownership being one possible case. The rights and duties that individuals or a group of individuals hold actually arise from a set of rules and norms, defined and enforced by authorities and institutions of communities and/or of the state. No system of land tenure can work without a body with the power and authority to define and enforce the rules and provide arbitration in case of conflict. Thus, a land tenure system is made up of rules, authorities, institutions, and rights. Land administration itself (maps, deeds, registers, and so on) is only one part of a land tenure system.

Land policy, land administration and governance are intertwined. Discretionary authority held by government authorities opens room for patronage and rent-seeking. This clearly calls for the institution and the design of rules, structures, and procedures that minimize such risks in respect of land tenure. This is best done by establishing checks and balances on how procedures are carried out through public scrutiny and information dissemination. All these are necessary features of a transparent process. At the least, an equitable system of land administration must always include simple procedures for citizens to appeal against local decisions.

When implementing land policies, the provision of a broad set of solutions tailored to the needs of different stakeholders and local circumstances becomes of paramount importance. And in view of socio-economic considerations and the diversity of people and interests, the role of the different stakeholders cannot be sidelined. Rather, land policies should guarantee all citizens their rights and ways of addressing the problems that might be faced.

While it is government's responsibility to provide a system of land administration which is accountable, transparent and cost-effective, and responds to the diverse needs and characteristics of the population, all stakeholders have a role to play in ensuring a fair and secure distribution of rights to land as this is at the heart of economic, social, and political life.

Indeed, it is the government's duty to specify its priorities and make a choice among them. Such decisions as the drafting and review of a national land policy will, however, benefit from broader public debate. Inputs from a wide range of interested parties and stakeholders would help government to gain a clearer idea of priorities and the nature of the choices faced.

Current processes of decentralization in Ethiopia have created new roles for local government in supporting participation in policy formulation and implementing systems for low-cost land administration. Addressing land issues at the local level constructively, however, requires appropriate responses as well as administrative and legal framework flexible enough to deal with the heterogeneity of local conditions. Appropriate administrative and legal frameworks are central to establishing and enforcing adequate controls to ensure the impartiality of local authorities and the consistency of their decisions with national policy.

The issue of whether or not a given sectoral activity, including land ownership, is best undertaken by the public, private or other sectors, or some form of partnership between them, is best determined by the nature of the activity concerned and local considerations that apply at the time rather than political dogma. This suggests that it is important that regular reviews are undertaken by all urban development agencies to stimulate a wide range of supply options and assess the costs and benefits of each, together with other stakeholders, namely developers, landowners, NGOs, CBOs, and local residents. Indeed, it is amply clear from the findings of this study that the central issue in urban land is not whether or not it is owned by public, private or some form of partnership between them. Rather, it is how it is administered and managed.

Land administration relates to the improvement of the efficiency of land administration systems through registration and titling as well as formalizing and securing land transactions and the regulation of land markets. Sound land administration involves the establishment of systems for land registration and titling of existing rights, cadastral services, land surveying, capacity building in local communities to support these activities. It further requires the institution of simple and fair procedures for land transactions and their formal registration, mechanisms for regulation of land markets, maintenance of land information systems and regular land valuation exercises.

Land management involves land redistribution and resettlement, including compensation of landowners facing expropriation, provision of infrastructure, support to services and productive support in newly settled areas. It further involves the restitution of land rights taken away from original owners or users as well as the establishment of new institutions and structures with responsibility for land acquisition, administration and conflict resolution.

As made amply clear from the above discussion, it is of critical importance that, when considering a question as important as land and any policy and changes to the land tenure system, it is best perceived as the outcome of a broad political process that has gathered views in a representative manner. Equally important is recognizing the roles of different stakeholders in the process of implementing land policies.

In the Addis Ababa context, the fundamentals in the general policy direction of urban land administration and management are sound. This is corroborated by country experience presentations made earlier in this study. Be that as it may, much remains to be made in recognizing the legitimate roles of the different stakeholders in the process of implementing urban land policies.

As made sufficiently clear earlier on, urban land policy reforms are long-term processes, going through a series of successive phases requiring an interactive approach. These policy reforms are also complex undertakings which require firm political commitment by the state and support from society at large. While it is government responsibility to provide a system of land administration which is accountable, transparent, and cost-effective, responding to the diverse needs and characteristics of all stakeholders, each stakeholder has a legitimate role to play in its implementation.

The role of each of the stakeholders in the exercise is provided below.

## The Role of Government

Clearly, the drawing up of policies, legislation, administrative structures and procedures for the protection of property rights is in the state domain. In this regard, land and property rights are pivotal in ensuring a fair and secure distribution of rights to land, which is at the heart of economic, social and political life.

Given the central nature of land rights and policy, consultation and review of policy and subsequent legislative, structural and procedural provisions become important. While it is the duty and prerogative of government to set priorities and to choose from among set priorities, the exercise will benefit from broader public debate and inputs from a wide range of interested parties and stakeholders. Such an approach would help government to muster clarity in the priorities it wishes to set and the nature of choices to be faced, such as broader public debate and inputs in the drafting and review of a land policy document would offer.

Current processes of decentralization in Addis Ababa create new roles for local government in supporting participation in policy formulation and implementing effective systems of land administration befitting local conditions. Addressing land issues constructively and minimizing possible conflict requires responses adapted to realities at the local level and a legal framework flexible enough to deal with specific local conditions. It is, however, essential that legislation establishing and enforcing adequate controls to ensure the impartiality of local authorities and the consistency of their decisions with national policy is firmly put in place.

It is further essential that coordination between the different ministries and public departments involved in land issues is ascertained to remove incoherence between sectoral policies.

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In designing and implementing land policy, it is government responsibility to provide efficient institutions for land administration and maintenance of land information.

## The Role of the Private Sector, Civil Society Groups & Local Communities

There are a wide range of groups with interest in land. These include direct users seeking access to land or those representing a professional interest. Engaging with these groups by providing a platform to discuss proposed policy changes and interventions would benefit government to identify priorities and figure out the longer term implications of a particular course of action. It is, hence, important

for the government to consider such inputs as valuable elements to proposed policy changes and interventions, even though this would likely draw criticism and generate a wider assortment of options than considered feasible.

When considering a question as important as land, it is critical that any policy and changes to the land tenure system be perceived as the outcome of a broad political process that has gathered views in a representative manner. Setting the process right and making it transparent is essential in providing the policy to be introduced with greater legitimacy and would clear the process from accusations of being compromised by a particular set of interests.

Even where participatory consultation processes are widely used in such areas as the introduction and review of new policy proposals, these exercises often are largely known to be of limited significance. This is because of lack of commitment on the part of government to respond to remarks received and fears regarding the incorporation of the diverse observations and counter-proposals that such a process generates. Under the circumstances, governments tend to find it easier to rely on experts and consultants to formulate plans and policies. Indeed, experts cannot replace public debate and the knowledge and experience of stakeholders who can greatly contribute towards identifying key issues and appropriate solutions. Hence, strengthening public debate is the best way to build ownership and to ensure that policy reforms keep the interests of all stakeholders. The private sector, civil society groups and local communities must be considered primary stakeholders in the exercise.

Effective alliances with the private sector, civil society groups and local communities are also essential for the implementation and, to a certain extent, the designing of sound land reforms. Indeed, such an alliance can engage stakeholders in facilitating the provision of support services, including infrastructure development. Decentralized approaches involving civil society participation could also serve as an effective instrument in increasing advocacy in land administration and management processes.

Private sector, civil society, groups and local communities should contribute not only to designing and implementing policy, but must also be closely involved in monitoring and reviewing the way the new rules, administrative structures and procedures are performing. Importantly, external monitoring and evaluation involving research institutions, the civil society, private sector and beneficiaries could serve as a powerful instrument for ensuring independent assessment and improving the effectiveness of policies introduced.

## 9.2 Recommendations

To take advantage of the Addis Ababa urban land policy, which is fundamentally sound, to ensure an equally sound implementation of the policy and changes thereto, a broad political process that has in view and in a representative manner the interests as well as the roles of different stakeholders in the process of implementing land policies of all stakeholders is of critical importance. The following recommendations are, hence, in order and are to be acted upon by the Addis Ababa City Administration.

### A) Urban Land Management

To create conditions for adequate urban land for residential, industrial and other uses and to improve the economic efficiency in urban land supply:

#### i) Improve the Efficiency and Transparency of Land Markets

Mechanisms that can be employed to improve the efficiency and transparency of land markets include:-

- Improved mechanisms for land transfer (cadastral mapping, land titling, and registration);
- Land information systems for the benefit of private and public interests;
- Deregulation/relaxation of avoidable land-use controls; and
- Institutional and legal reforms that would permit for urban land to be used as collateral in the full amount. Such policy and technical reforms would fast-track potential investment while, at the same time, contributing to improved property-based tax revenues.

#### ii) Rationalize Institutional Framework and Capacity Building

The framework for land administration needs to be rationalized in the context of decentralizing responsibilities currently in place for urban management. This may require merging land development public agencies that operate at the national level with local governments.

Some of the priority areas that need to be addressed in capacity building include training in management skills, especially in response to demand-led provision of services; development of expertise in performance monitoring; financing of investments; evaluation of development proposals; coordination of spatial planning and sector investments; and use of community resources.

Key elements in the task of rationalizing/strengthening institutional framework for land administration and capacity building are given below.

▪ **Define Clear Roles and Functions**

A fundamental component of improving urban land management is the institution of appropriate institutional structure for planning, financing and delivering services, and other functions of government. Responsibilities for delivery of a desired service need to be assigned clearly to one level of government, the private sector, or the community.

The principal problem in this regard is that policies for the urban sector involve many government departments with poor cross-sectoral coordination in the policy making process. The growing importance of the private sector is further placing new demands on a public sector which is already constrained by shortage of skilled personnel. It is important for the city government, therefore, to thoroughly review responsibilities for service delivery before inviting the private sector to participate.

▪ **Uphold Government as Facilitator**

As a facilitator, government needs to adopt an enabling role in support of the private sector by:

- Setting policies and making choices in sector priorities;
- Monitoring private sector operations in service delivery;

- Supporting the economic health of the city;
- Protecting the community against threats to urban life quality, including pollution, congestion, overcrowding, and damage to scarce resources; and
- Establishing a new relationship that encourages public-private partnerships in land and property development, and service delivery.

- **Foster Skills Training and other Capacity-Building Schemes**

The lack of skilled human resources is a major constraint to developing the necessary structures for urban land administration and management in Addis Ababa, both at the city and sub-city levels. The relatively low status and pay, and lack of incentives offered by most local governments are principal causes for attracting and/or retaining qualified staff to enable the city fulfills existing mandates.

- iii) **Accelerate Efficiency in the Delivery of Serviced Land and Public Services**

Accelerating efficiency in the delivery of public services and land serviced with adequate access to roads, water, drainage, and electricity through:

- Developing efficient, transparent and simplified land delivery mechanism, including cadastral systems, land registration mechanisms, land transactions, legal frameworks, land valuation and taxation as well as land consolidation and readjustment;
- Delivery and regulation of public services in partnership with private profit and non-profit organizations, including civil society organizations [CSOs], community-based organizations [CBOs], and non-governmental organizations [NGOs] to sites with or without such services;
- Promoting integrated, inter-sectoral planning and land management;
- Improving the effectiveness and efficiency of local revenue collection from taxation on land and buildings;

- Capacity-building actions bolstering local capacity;
- Treating land as an asset in an investment portfolio to secure funding and provide security for private sector partners; and
- Using land pooling mechanisms as part of public-private partnerships, using techniques such as joint ventures for commercial property development, land readjustment and guided land development.

#### iv) Improve Spatial Planning and Urban Planning Systems

Improved systems for urban planning and regulation are instrumental for strategic guidance on urban expansion and renewal policies and to address the externalities arising from land development. However, such systems need to consider the use of innovative approaches to planning and building standards that also foster affordability. Such approaches may include:-

- Use of flexible zoning techniques through which the private sector provides social/offsite infrastructure in exchange for fast-track planning/building approvals;
- Controlling the supply of land to prevent low-density urban sprawl and to limit the fragmentation of urban land with a view to reducing costs for reaching infrastructure at the periphery. This is best done through taxation, long-term strategic land use planning, and control measures, and appropriate fiscal incentives; and
- Private-public partnership in land management fostering cooperation between the public sector and the private profit and non-profit sector, including civil society organizations (CSOs), community-based organizations (CBOs) and non-governmental organizations (NGOs).

#### v) Establish Procedures for Public Participation and Civic Engagement

In respect of civic engagement and participation, the objective is to encourage the civil society to actively contribute to the common good. This requires empowering the civil society to participate effectively in the decision-making process.

In addition, effective procedures are vital for public participation in decision-making on the use of land and location of infrastructure investments. In this regard, it is important that the planning processes incorporate specific mechanisms and resources to facilitate discussions/consultations with a wide range of stakeholders, CBOs, NGOs, business groups, environmental and other pressure groups, and academia as well as other public sector agencies. There should be procedures for an interactive process of plan development and project implementation, using focus groups for example. Mechanisms to be developed and put in place to ensure public participation in the urban land management and administration processes include:-

- Encouraging participatory approaches to land policy;
- Instituting participatory decision-making in land management;
- Instituting legal authority for civil society to participate effectively through such mechanisms as development councils and neighborhood advisory councils;
- Developing local land use planning at the sub-city level based on dialogue with affected people;
- Empowering people to assert land rights through information campaigns and sensitization;
- Strengthening existing and new civil society movements to facilitate participation of communities/individuals in land issues; and
- Implementing environment planning and management methodologies based on stakeholder involvement.

## B) Promoting Good Urban Governance as Urban Sector Strategy

Four principles for achieving good governance underlie all policies for strengthening urban land management. Dealt with briefly below, these are accountability, participation, predictability, and transparency.

### i) Accountability

If officials and staff in urban administration are to be held accountable to policy makers and stakeholders alike, their work needs to be assessed using performance indicators and benchmark criteria. This holds also true to the delivery of services by the private sector.

**ii) Participation**

Greater participation by all stakeholders, standing for a growing number of interest groups that would like more say in urban land policy development and implementation, is an essential prerequisite of good governance. Participatory approaches are of particular relevance to enhance the role of the private sector. Community participation will further enhance improved service delivery.

**iii) Predictability**

In situations where cities are growing faster than the institutional capacity to manage the growth, administrative and legal procedures are often applied erratically and to the disadvantage of stakeholders, particularly in respect of streamlining administrative and legal procedures. In relation to urban land management and administration, streamlined procedures for land registration and the validity of titles ensure predictability and confidence to households and businesses. Potential private investors in the delivery of city services need confidence that the legal system is adequate in terms of contract law, dispute procedures, and clear allocation of responsibilities.

**iv) Transparency**

In dealings between the private sector and local governments, transparency is often lacking. A good example is the deprivation of freely available data on land markets, resulting in increased costs to the potential developer and corrupt practices. The institution of computer-based land information systems facilitates the storage and dissemination of data freely, hence promoting transparency and accountability.

Clearly, the accountability of local authorities to civil society is a fundamental tenet of good urban governance. Transparency and accountability are further essential to local government credibility and stakeholder understanding of local government viewpoint and who benefits from government decisions and actions. Access to information is fundamental in this exercise. Applied to urban land management, the principles of accountability, participation, predictability, and transparency require:

- Regular, organized and open consultations with civil society on all matters concerning land;

- Ensuring transparent management of an open land market by removing administrative and procedural incentives for corruption;
- Ensuring transparent, comprehensive and accessible systems in land rights transfers and security of tenure; and
- Establishing codes of conduct, enhancing ethics of service to the public, putting in place adequate remuneration to public servants, creating public feedback mechanisms, and providing access for information on urban land administration and management.

### C) Decentralization

Decentralization is a commitment to sustainable development that empowers local governments through greater authority, responsibility and resources to implement urban development projects and better deliver services. A prudent decentralization program would therefore include:-

- The simultaneous decentralization of responsibilities, resources and autonomy;
- Strengthening of local government capabilities, powers and responsibilities;
- The collection and diffusion of information on local government services; and
- Review of city government remuneration, incentives and career structures.

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There are compelling reasons for the Addis Ababa City Administration to pursue decentralization policies already underway, which, if properly conceived and implemented, could greatly improve the management of urban land and support improved delivery of urban services. Decentralization is not a goal in and by itself, but is an instrument for achieving more effective service delivery systems, opening institutions to wider civic participation and increasing public trust in government.

Effective vertical, lateral, and internal coordination is needed to support the decentralization process. In this regard, the decentralization effort must heed to the following:

**i) Vertical Coordination**

Vertical coordination is an important component of urban management as central government shall remain responsible for the legal framework of the public sector and for various critical functions. On the other hand, responsibilities for services including urban land management should devolve to the level of government whose boundaries best incorporate the beneficiaries of those services.

**ii) Horizontal Coordination**

Horizontal coordination is important among public sector stakeholders involved in city development as well as public-private sector coordination. In addition, cross-border coordination will be needed where there are large adjoining urban areas composed of numerous local governments.

**iii) Internal Coordination**

Internal coordination mechanisms are critical to overcome poor coordination of interdepartmental, sectoral, spatial, and financial planning; poor coordination of service provision; inadequate staffing; and unfamiliarity in dealing with the private sector in service delivery.

**D) Private Sector Involvement**

The introduction of market-based principles and private sector expertise into the urban sector, including land management and administration, can bring a variety of benefits, particularly in larger cities like Addis Ababa, particularly in introducing:

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**i) Market-based Approaches**

The adoption of market-based approaches and private sector expertise would enable public agencies to deliver better and self-financing services. Allowing the private sector participation through formal and informal partnerships elaborated earlier, [namely land pooling and land readjustment, participatory development programs (PDPs), request for proposals (RFPs), the provision or sale of land under public sector control, and informal partnerships] to operate a service, either on a contractual or an ownership basis would give more autonomy

and better human resources than local governments, leading to improved services, increased operational efficiency, and access to private financial resources.

### **ii) Regulatory Framework**

At the local level, regulations need to address the quality and required reliability of services to be rendered. Public agencies need to gain understanding of what the situation demands so that an environment conducive to attracting the private sector is created. Furthermore, in forging agreements with private sector, the rights of the urban poor to enjoy equitable access to land and basic urban services needs to be protected.

### **iii) Providing Accurate and Up-to-Date Information**

Private sector and civil society groups have differing potentials and capacity to influence the policy process and ensure its transparency. Through their formal and informal personal networks and organization, private sector and civil society groups could play a crucial role in initiating reforms or accelerating their pace and overcoming the resistance of those groups opposed to land policy reform by providing regular, accurate and up-to-date information for the business community in respect of the urban land market. This would involve the commissioning of regular studies that would track urban land market behavior, price trend and behavior, supply and delivery of urban land as well as infrastructure. Such studies could be made by the chamber of commerce independently or in partnership with the city administration.

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