

Policy Impacts on Housing Sector

The Case of Addis Ababa

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Facts about Ethiopia

Location	East Africa
Population	62 million
Area	1.2 million sq. km.
Urban population	15 per cent
Capital city	Addis Ababa
Population	3 Million
Currency	1USD equals to 8.5 birr
Previous status	never colonised



Map of Ethiopia

Introduction

An attempt is made to provide an assessment of the impact of policy measures implemented so far on the housing sector. The available materials reviewed suggests that the housing sector has been subject to a variety of interventions over the last 30 years which provide important lessons to any effort that aims at drafting appropriate and coherent housing policy.

In Ethiopia nowadays it is estimated that around 7.5 million people or 14.7 % of the total population live in urban centers. Even though it looks very low, with the annual growth rate of 5.4 % it will reach 19.5 million or 22 % after a decade.

Even though the growth seems relatively faster, the distribution in development was not managed properly. Addis Ababa, the capital city of Ethiopia, has a share of 40% of the total urban population, which is a little over 3 million.

On the other hand, this population growth was not supported with appropriate economical and social circumstances which resulting complicated urban problems. Of all these problems, housing sector is one of the main problems, which has not been yet addressed.

The paper put the situation in three different eras and analyse them accordingly. The first era was the pre 1975 situation that deals with controlling the land on a more feudalistic way of thinking. The second era from 1975 to 1991 was that housing was totally controlled by the central government. The current situation is more likely considered to be a bureaucratically free market policy towards urban development.

Problem Definition

Since the mid 1970s, the role of institutionalised forms of private housing provision was totally neglected and it was assumed to be handled by the government. Following the nationalization of urban land and extra houses in 1975, the government was working towards a complete control of the housing sector by pursuing centralized economic policy.

Production of housing is a very expensive process. Governments often give less priority to the housing sector due to their shortage of investible resources. In a country like Ethiopia which strives to get quick return from investment it can be expected that the housing sector would be given a marginal position owing to the fact that a significant investment in the housing sector would also result in resolving social problems which the city is now facing.

Apart from this, concerning operational problem on investment in housing, Ethiopia becomes one of the developing countries to allocate a very low percentage on housing sector, which is estimated to be 2.5% of its national income. This figure is below the minimum standard set by the United Nations for developing countries, which is 6% of GDP.

In fact one of the key problems to provide adequate housing facilities is associated with the difficulty to make adequate investment on housing. At the conceptual level the total housing need encompasses:

- 1 Housing required to accommodate newly formed families
- 2 Housing required to replace dilapidated houses
- 3 Housing required to ease over-crowding
- 4 Housing need associated with the desire to accommodate homeless households.

The existing housing situation in Addis Ababa is very bad. There are ample signs for shortage of housing. This condition was created due to several facts. After 1991 the transitional government of Ethiopia has introduced a market oriented economic system which residential housing development was part of it. That was a transition from centralised to free market economy and the government adopted a land lease policy (proclamation 80/1993), which regulates the right to residential land through lease bases for a maximum of 99 years.

It is pretty early to evaluate the policy at this stage but the existing difficulty in housing production in Addis Ababa is increasing at an alarming rate since there is a very limited new house construction taking place on the one hand and the existing physical housing condition is deteriorating on the other.

Residential land delivery is also assumed to be conducted through two different offices, which are Urban Development Department UDD and Lease Bureau. The UDD surveys and prepare plots, coordinates the infrastructure delivery and passes to the lease office for the allocation. The lease office registers the applicants who can afford to build the standard houses prepared by the UDD. This creates so many bureaucratically oriented steps to pass through and it is unthinkable to get land title before waiting for years.

The cost of the smallest standardized house is about 6000USD which quite much for the majority of the low and medium income people in Addis Ababa. This means that the slow rate and complicated process of plot production and allocations as well as the unaffordable standard of building design are the major constraints for new house construction.

The central government is also set a policy not to subsidise the housing sector, any more which characterized by aborting the subsidy for construction material and impose high rental income and capital gain taxes. The price of land comparing to the previous free of charge for land value is also high so that people are not comfortable in paying high amount, which could result in decreasing the production housing.

Poor maintenance of the existing deteriorating physical condition of houses and infrastructure attributes to the poor quality of housing. Most sewerage systems are leaking and the majority of septic tanks are over flown, which could result in contributing the water born diseases.

Private investors, who can contribute much in the production of housing seem be neglected by the policy and the city administration. Because of high tax and land price as well as monopolising power in planning, design and management of infrastructure and services, the city administration seems to be increasingly inefficient.

The effect of these problems result in construction of enormous amount of illegal housing units what we call it 'Chereka bet' house of the moon along the peripheral side of the city.

Objective and Motivation of the Study

The main objective of this paper is to

- Provide brief analysis of different strategies adopted by previous and current governments on the implementation process of housing policies.
- Identify problem areas and
- Draw general recommendations that may be useful to improve the living environment of the inhabitants of the city on sustainable development bases.

The process of reviewing such a housing policies a very difficult issue for so many reasons that it will have links to different stakeholders including the government and it should be done on a comprehensive way. However the paper will try to indicate some way out in the alleviation of the problem. This critical assessment of the impact of policy measures put in place so far on the performance of the housing sector, will serve as a feed back in formulating a workable set of housing policies. As a town planner in the ministry of works and urban development I am supposed, in a group bases, to assess problems regarding urban centers and find proper solutions consulting regional states. Due to 'decentralization' process in the country ministries in the national level play a very limited role in the implementation processes of every policy.

Research Questions

The following will serve as guiding questions in undertaking the proposed study:

- What are the specific characteristics of the housing sector, which should be understood to formulate a workable housing policy?
- What is the basic structural feature of the housing sector and what are the explaining policies related factors?
- What are the objectives, justifications, instruments used, the groups that have benefited, institutions involved and the feasibility of policies implemented?
- What is the impact of the recent policy measures on the housing sector?

Strategies in Implementing Housing Policies

The housing sector has been subject to a variety of interventions over the last 30 years, which provide important lessons to any effort that aims at drafting an appropriate and coherent housing policy.

The Pre 1975 Situation

Housing provision in pre 1975 was predominantly handled by the private sector and it can be said that the government didn't attempt to exert any effort in the provision of housing for low-income people. The housing market during this period can be characterized as operating some how on a free market principles as land lords were

leasing urban land and construct residential houses to tenants, and there was no restriction as regards to the selling and buying of houses. No formal housing policy was adopted during that period and most of the poor people in the city were lived in extremely overcrowded areas. Nevertheless there was a need in some form of intervention particularly in the low income housing sphere as it has been evident for several years that the then workings of private enterprises in housing have not tackle the problems which existed in Addis Ababa and in Ethiopia at large.

More over this laissez faire condition was one of the factors blamed for the unplanned development of most of the urban centers in Ethiopia particularly in Addis Ababa. Poor qualities of housing and unplanned sites are also attributes to the deterioration of physical condition of houses, which made the provision of infrastructure difficult.

Housing Development between 1975 and 1993

Policy

Proclamation no. 47/1975 nationalized all urban land and extra houses, high-rise apartments and office buildings with out any compensation. The main target of the proclamation was to get rid of the right of landlords. The most important immediate effects of the proclamation were a regressive reduction on the amount of rent by 50 per cent for tenants who were paying a monthly rent less than 144 birr. /The then price 1USD = 2.07Birr/ Then the government has a direct involvement in the sphere of housing provision.

Production of Housing

As far as the production of new dwelling houses is concerned different programs undertook the provision of housing and at the beginning the government allocated budget to construct newly rental dwelling houses, which are administered by the Agency for the Administration of Rental Houses AARH.

On the other hand self-help and assisted self-help housing as well as housing cooperatives flourished to assist the low -income group. Low -income people, whether they are worked in formal or informal sector, offered a house plan free of charge and technical assistance from the government. The applicants were also be able to get loan from governmental bank (Housing and Construction Bank HCB) with reduced interest rate of 6 and 4.5 per cent for self help housing and housing co-operatives respectively.

Most importantly anybody could get land free of charge whatever the project might be.

This was however subject to the following conditions:

- The person should testify that he/she does not have another house, which is to be ascertained by local authorities 'Kebele.'
- The person must afford to build the type of house, which he/she wants to construct, and the builder must either have the cash, which must be deposited, in a bank in blocked account or the housing and savings bank must prove his/her credit ability considering their level of income.
- The builder must complete the house within 6 months time after receiving proper documents from the municipality.

Although the government took over the responsibilities of building rental houses to those who can not afford to build their own houses, it has done a little in this regard because of its financial constraints.

The Current Situation

Policy

Following the change of government in the country, the transitional government of Ethiopia come up with a land lease policy no. 80/1993 which enables people to possess land so as to build houses for residential as well as for rental purposes. According to the policy any Ethiopian citizen could buy land on a bid bases. Urban land possession differs according to the type of services and the maximum would be 99 years of lease for residential plots.

It was only after 1993 that the government gave signals about its possible tolerance of private sector participation in the provision of housing. Buying land on

a bid tender, individuals can build residential houses, services and facilities with the right to sell or rent.

According to the newly adopted policy the government starts to liberalise the housing sector by taking measures which include the selling of houses administered by the public sector, abolition of the assistance of subsidised building material delivery and ceasing the subsidy of interest rate loans from the financial sector.

Housing Stock and Tenure States

When we see the tenure status the population and housing census, conducted in 1984 and 1994, divides them into five and seven categories respectively. According to the census, in Addis Ababa, there are about 374742 residential houses of which 128977 /34.4 per cent/ are privately owned and 139947 /37.9 per cent/ are owned by the local administrations 'Kebeles'. Addis Ababa is divided into 285 'Kebele' administratives. The following table indicates the situation in Addis Ababa.

Table 1 Housing tenure status in Addis Ababa

Tenure status	Census year and percentage			
	No. houses 1984	Percentage	No houses 1994	Percentage
Privately owned	85,765	33	128,997	34.4
'Kebele' owned	140,250	54	139,947	37.9
AARH	16,027	6.2	9,277	2.5
Private renters	–	–	63,256	17.1
Others	–	–	1,272	0.3
Free from rent	13,860	5.4	30,421	8.1
Unstated	3,365	1.4	1,424	0.4
TOTAL	159,555	100	374,742	100

Source: Population and Housing Census Authority.

On the above table it was indicated that houses owned by the 'kebele' association 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 per cent of the total housing units are single rooms and housing is over occupied in which it was estimated that an average of 5 square meters/person or on the other hand 4 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. In particular the level of accessibility, storm water drainage and sanitation is very low which would require basic site development works. About 71.4 per cent of the existing housing units have access to tap water facilities of which only 22 percent have tap water of their own. Similarly only 67.3 per cent of houses have toilet facilities. There are also significant number of homeless people that sleep in bus stations, verandas, churches and mosque compounds etc.

To date there is no comprehensive assessment have been made on the conditions of housing with the exception of the results of the Addis Ababa housing census carried out in 1996. This survey found out that only 26.6 per cent of the housing stock was in good condition, 67.7 per cent require urgent maintenance while 4.9 per cent would require outright demolition.

Housing Demand and Supply

Demand

Even though the standards which are meant to be used to determine the components on the housing demand and supply has certain difficulties and due to lack of information it was tried to state it on four categories.

Table 2 Forecasted housing demand 2000

Category	no. of houses
a) New families	104,623
b) Replacement	28,436
c) Relieving over-crowding	57,771
d) Houses for homeless	8,283
TOTAL	199,113

Source: Housing survey /1996/

The existing housing situation in the city is not conducive. There are signs for the shortage of housing. The current estimates which are available indicates that the total housing unit needed to meet accumulated demand, like for the new families to be formed, to replace dilapidated units and to give fresh breath for over-crowding amounted nearly to two hundred thousand housing units.

Supply

The city government of Addis Ababa delegates the bureau of works and urban development through this its urban development department and lease office in the delivery of land for the construction of residential houses and others. Accordingly after receiving residential plots and housing plans for G+1 and G+0 from urban development department the lease office registers applicants who want to construct their houses. The process of land delivery is on a lottery basis and the applicant supposed to pay a non-returnable 26 USD for registration and should deposit approximately 1650, 1400 USD for different types of G+1 houses and 960, 500 USD for different types of G+0 houses respectively. If the applicant, after getting the plot, never constructed the house with in 6 months, the money will given to him after deducting 20 % for service charge and he will loose the plot.

From 1995 to 2000 seven lottery programs have been processed and the amount is indicated below.

Table 3 Lottery and houses

Lottery program	prepared plots	Number of applicants	delivered plots
1 round	370	846	327
2 round	800	319	310
3 round	363	253	253
4 round	280	217	155
5 round	127	70	70
6 round	1520	857	699
7 round	1513	502	475
TOTAL	4973	3064	2289

Source: A.A Lease office /2000/

To be eligible to participate on the lottery program one must fulfil the following criteria set by the office:

- The person should be the resident of the city
- Age 18 years old and above
- Proof of owning neither a house nor land
- Capacity of paying a non-returnable registration fee of 25 USD
- Deposit 20 per cent of the total project cost in blocked account
- Finally obtain a lottery ticket.

The numbers of plots available are usually less than the number of people who want to build their houses. Therefore, households are selected from a group of applicants by a lottery drawn in a place and day announced in advance. The losers could try again once and they are supposed to pay additional 25 USD if they want to register for the next lottery.

The winners will get half of their deposited money after finishing the foundation of the house and the remaining half will be released only after completing the structural work of the house. If they do not start the construction after six months of

receiving the necessary document /land title, house plan etc./ they will lose the land. If the construction is not also completed within three years period, the person will lose his land title and the construction, if there is any, will be sold on tender and after deducting 10 percent the money will be given to the owner.

Analysis

Before 1975 the housing situation was characterised by speculation of land prices, and low income and high rent, which was always, protects the maximum advantage of landlords. The majority of the low-income people get rental housing and the owner indefinitely decided the amount of the rent. Protection for the tenants was totally neglected. The government was unable to improve the living condition as well as the housing provision for low-income people.

The second era, after the proclamation 47/1975 which nationalises urban land and extra houses, the central government took the responsibility of production of dwelling houses. The aim was, as a socialist government, to equalise the living condition of the people. Allocation of budget and subsidy to the housing sector were the main phenomena of the time. But resources are scarce and the government was allocating it without building the capacity to regenerate it on sustainable bases. Site and service projects were too expensive for the government so that it ceased the subsidised housing provision. Finally those who benefited to get additional income were high-income people who own a house and the people who rented houses from public institution by sub-renting it.

The Current Situation

The aim of land lease policy was to generate income for the municipality and to invite and encourage the private sector to involve in the provision and production of housing. The private sector, as it was mentioned in the pre 1975 era, focuses on maximising its profits so that it covers the high construction and maintenance cost etc. It was also stated on the policy that about 90 per cent of the income generated from selling of urban land would be allocated to the low cost housing and infrastructure provisions.

Because of lack of availability of land, high rental income and capital gain taxes, lack of enough resources from the government towards housing and ceasing of subsidies for housing, the backlog became very challenging.

According to the household survey in 1996 the forecasted housing demand in Addis Ababa is on the average a little above 22000 per year. The existing shortage of houses will increase in the city since there is a very limited effort exerted to produce more houses. In the near future the problem that has to be faced might get even worsen and challenging to overcome together with the provision of site and services.

The land delivery system has also two main problems. First, the numbers of plots prepared by the urban development department are very few. Sometimes people do not want the site and they refuse to accept the land. In relation to the huge demand for housing the supply is very much limited. Secondly the standard plans and their cost are very high so that about 95 per cent of the families cannot afford to build their houses. Suppose a person choose to build the least house, which is estimated to be 6000 USD. He should put about 1000 USD in blocked account and in addition must get a loan from a certain bank for the rest 5000 USD. With the interest rate of 10.5 per cent he has to pay 54 USD per month for the coming 20 years. The payment should not exceed $\frac{1}{4}$ of his salary according to the law. In this case the borrower salary should be at least 200 USD: According to the census only 4 per cent of the families get that amount. So unless the policy and the implementation process has been revised the problem on housing will get much worsen.

Actors

The main actors in the issuing and implementation of the policy are the city government, bureau of works and urban development, Agency for the Administration of Rental Houses AARH and Urban dwelling associations 'kebeles', private investors and banks etc.

Addis Ababa City Council

Following the change in government in may 1991; the transitional government of Ethiopia (TGE) came up with an official policy of decentralisation of power to the different regions. Ethiopia has been divided into nine regions on the basis of ethnicity and with a special decree Addis Ababa has acquire a regional status. The regional state with its 19 executive members functions as a city government and those members are 'elected' by the inhabitants of the city. The state retaining ownership of urban land has duties and responsibilities of which issues and enforce regulations, create favourable conditions to promote integrated urban development and housing and encourage the public to take advantage of the policy are the ones related to housing development. Now with new government and policy, we are finishing the tenth year but there doesn't seem to be any appreciable improvement on housing sector as compared to the previous situations. The 'elected members' are strictly confined themselves on political matters rather than taking responsibilities on urban development perspective.

On the other hand incentives and tax reduction have been introduced in some specific sectors, but there appear to be some disincentives steps towards the private sector involvement in housing provision. With the lifting of the ban to get rental income from housing, new regulations have been adopted to govern the collection of taxes from rental incomes and capital gain. They are high and discouraging.

Addis Ababa City Bureau of Works and Urban Development

The bureau has a full responsibility on the detailed implementation of the housing policy. The bureau's major tasks are to ensure proper implementation of urban development and housing policies, prepare housing standards, delimiting boundaries, construct residential houses, preparation of plots and land delivery etc.

Apart from other duties and responsibilities, production of housing is the major task for the construction and supervision department under the bureau. Recently the department completed a 1000 residential housing project in the southeastern part of the city called CMC. The project construction process was conducted by different private contractors on a package bases and it was completed five years ago. Until now not a single house was rented by a family because the site was too far so that nobody wants to live their without site and services.

I think the bureau, instead of constructing several houses on one specific site; it should give particular attention on selecting different sites in different parts of the city with full participation of the inhabitants. The system of land delivery should also be guided on an efficient way so that people can have access to get land with out any bureaucratic bottleneck. It is also advisable to promote development works on abandoned sloping sites in central parts of the town instead of creating unusable residential areas on sites far from basic services.

Private Investors

A lot of private investors on different sectors are now being developing in the country. But housing is given less attention because of several reasons of which high lease value for land, high capital gain tax and rental income tax.

Table 4 Land value/square meter according to the grades of the land

Grade	Sub-grade and land value in USD/sq.m.		
	1	2	3
1	600	300	120
2	396	192	76.8
3	260	133	53.2
4	79.2	39	15.8
5	16.6	8.3	3.33

Source: proclamation 3/1995

It is not believed that the housing problem in Addis Ababa, without the full participation of private investors, can be solved in a proper manner. Government should encourage private housing sector by giving them tax relief. A land for housing should be given free of lease charges and should be obtain easily, particularly for the low-income houses.

On the principles of the free market oriented economy the private sector can play a vital role on the production of housing. But the high rental income tax prevents it

not to involve fully. As it was indicated on the following table the amount of the tax reaches as much as 40 per cent of the income.

Table 5 Rental Income Tax

Annual rental income in USD	percentage
Up to 120	free
121-600	10
601-1560	15
1561-3000	20
3001-5000	30
Above 5000	40

Source: proclamation No. 107/1995

Another preventive obstacle for the development of housing in the city is high capital gain tax. According to the A.A. city council proclamation No. 108/1995 any person should pay 10 per cent of his income gaining from selling his house. One of the balancing factors for housing demand and supply is the selling and buying processes of houses. But it is revealed that the high capital gain tax has a negative impact on the sector. The amount of the tax was 8 per cent before the proclamation.

Agency for the Administration of Rental Houses AARH and Urban Dwellers Association 'kebeles'

Agency for the administration of rental houses and 'kebeles' have been established as specialised institutions and are in charge of administrating nationalised houses rented above and below 11 USD per month respectively. Both were also expected to construct houses for rent. The urban dwellers associations 'kebeles' and AARH played an important role in administrating nationalised houses.

The agency for the administration of rental houses is a governmental organisation. Its main responsibility is to administer the nationalised houses whose monthly rents are above 11 USD. In addition to this it constructs high-rise building apartments and villas. Governmental and private contractors are engaged in the constructions work. To take an example the agency constructs building apartments on Bole Road and their rental prices are high compare to the paying capacity of the families. The minimum fixed price of those houses is 3 USD /square meter/month.

Urban dwellers associations 'kebeles' have been in charge of managing houses with monthly rent of less than 11 USD and they were responsible to manage houses in their jurisdiction to collect rent, to undertake maintenance works, to construct low-cost housing and to pay allowances to previous owners. A maximum allowance of 26 USD per month may be given to those who had no means of livelihood other than rental income, for which extra houses were nationalised without any direct compensation.

Those fixed rental prices stated by the proclamation 47/1975 are now still applicable even after 26 years. Because of this 'kebeles' do not have sufficient budget to maintain houses, let alone construct new residential houses.

One of the constraints of the formulation and implementation of a workable housing policy is the lack of up to date data on housing. In this regard most of the kebeles do not know the total housing stock in their jurisdiction.

Financial Institutions

The former Housing and Savings Bank now Construction and Business Bank CBB was the sole bank that gives loans for the house construction. After the government ceased the subsidy for the housing sector CBB and other financial institutions started to give loan at a higher (market) interest rate of 10.5 per cent.

Suggestions and Recommendation

Based on the preceding discussion, the following are suggested as possible areas of possible revision.

As to the production and distribution of construction material, the government has to give incentives to private investors interested in the production of construction materials. Attempts should also be made to minimise the cost of construction,

among other things, by reducing the cost of building materials and rationalising the management of housing programs. Moreover, it will be important to encourage research related matters to low cost production of houses on locally resources based construction materials.

The credit system is also another area to be attended by policy, as the present banking policies favour only those with high incomes. There should be discretion on the level of interest rates to be charged on bank loans, depending on the size and purpose of the loan.

Housing standards should not be rigid and they should allow a certain level of flexibility so that individuals can construct their own houses given their financial constraints. On the other hand recent policy on housing seem to be silent on those houses, which are administered particularly by Kebeles. Unless they are properly maintained, most of the houses would no longer part of the stock of housing. As to the houses presently being administered by Kebeles and AARH, in the short run the possibility to revise the amount of rent must be revised. In the medium and long run, however, the government should dispose these houses to avoid unnecessary administrative costs.

Urban planning is another area, which can contribute to effective development and use of available urban space. Feasible attempts must be made to improve the financial position of the municipality, which is expected, among other things, to develop urban land. This may take the form of revising tax rates, tariffs, land prices which are connected with urban build up areas or other sources of income collected by the city council, or to look for additional revenue by expanding tax bases.

Something must also be done in regard to urban management. This refers to the need to coordinate the activities of various offices under the council. If such activities properly coordinated, it would undoubtedly contribute to lowering the cost of provision of services. In this regard, the implementation of site and services can facilitate the construction of additional housing stock.

The government has given some hints to individuals that they are free to construct any number of houses to get rental income. Given the unsatisfied demand for housing, there is no question for the attractiveness of the liberalisation of the housing market from the point of profitability. But the government should attend the task of making low cost housing for the poor whether it subsidises directly or indirectly. On the other hand, financial institutions such as banks and insurance companies have to be invited in real estate development by giving them tax incentives.

Finally, in the medium to long run the council has to consider the creation of employment opportunities so as to increase the income of households and is important to alleviate the housing problem.

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