

# Assessment of Addis Ababa's Urban Land Lease Implementation: A Backing to Make Informed Decision

Abaynew Wudu Belete

Researcher, Federal Democratic Republic of Ethiopia Policy Study and Research Center

## Abstract

Allocation and distribution of urban land have an impact in promoting or deterring overall urban development, directing the general political, economic environments to developmental or rent seeking environments, especially for countries in low economic development, where the capital market is not developed enough to create wealth for the mass. It hinders or facilitates urban dwellers to access the scarce resource that has a potential for sustained growth and development. This paper is, therefore, intended to assess the performance of lease policy in supplying serviced land for development purposes with especial emphasis to Addis Ababa city and help to make an informed decision on the lease implementation. To meet these objectives, both quantitative and qualitative research approach was applied and primary and secondary data had been collected and analysed descriptively. The findings indicate that urban land supply was not demand responded. Numbers of plots per auction have not been exceeding 145 plots on average; auction price is more than 10 times that of government supported housing program. The trend is not promising in terms of land allocation and price. Therefore, the city administration needs to analyse the problem thoroughly and take policy intervention which helps to enhance land supply stemmed from the present performance.

**Keywords:** auction price; benchmark price; lease policy; land transfer modalities; land market

## 1. Introduction

Cities make important contributions to economic and social transformation. In developing countries, cities contributed approximately about 60% of the gross national product (GDP). Urban areas are considered as hubs of socioeconomic growth and development so that they transmit their energies for economic growth to neighbouring areas and their rural hinterlands thereby contributing to the development of the rural areas and for the national economic growth. Some researchers expressed cities as “theatres of economic productivity and land serve as the stage”, if the stage is cramped, too expensive, or lacking adequate infrastructure, economic activity will be stifled (Ching & Fu, 2001). Access to the shelter and working space are usually considered as an effective means of building wealth for most households and can give the signals how healthy is the local economy. Secure rights to land encourage people to invest in the real property and create opportunities to access public services and sources of credit (UN-HABITAT, 2008, 2011 & UN-HABITAT and Urban LandMark, 2010).

Addis Ababa, which is the largest as well as the dominant political, and economic centre of the country, is home to about 3,352,000 inhabitants (18% of urban residents in the country) in 2016 (CSA, 2013). The city accounted for 30% of the national GDP; 20% of the country's urban labour force, 68% of the country's urban jobs in real estate, 40% in information and communication, and 36% in financial services (Egis International in association with IAU-IdF&Urba Lyon, 2016). The roles and contributions of the city in the nation economic growth are expected to grow significantly in the country's strive for middle-income status. Therefore, the city ought to allocate and supply adequate serviced land for development objectives (housing which might be residential or/and non-residential buildings, land for infrastructure development, social development, investment projects both foreign direct investments and domestic investment).

The city is constrained with an array of urban development challenges. Urban land development and management challenges are amongst the critical areas that need government's multitude efforts in regulating and allocating among development needs. In most circumstances, this intervention might bring significant improvements and in some situations, it brings unintended results which have a direct impact on allocation and distribution efficiencies. Here a land policy assessment plays a vital role as it provides an accurate and up-to-date information about the operation of the land market in terms of prices, the supply of serviced land, and present and intended projects provide a concrete foundation for defining appropriate strategies for improving land market performance (Farvacque & McAuslan, 1992).

Preliminary survey on lease performance indicates that the city administration is not delivered land for development according to the strategies outlined in the land policy. Reports by Addis Ababa city administration master plan revision projects office on housing component revealed that housing is in short supply for the urban dwellers. As a result, urban dwellers are forced to access land through squatting and informal settlements. A World Bank report on the Ethiopian urbanization review reveals that the numbers of bidders are 12-24 times higher than the number of plots for residential plot and 3-7 times higher than available plots for commercial land and hence supply doesn't satisfy even the wealthiest community who are able to pay for land and participated at auction market (World Bank, 2015). A study on the impact of the current land lease law on business and

investment expansion also backs the above results (AACCSA, 2016).

Some bid results were alarming and it signals what is happening in the land market. However, knowingly or unknowingly, the problem in the lease policy is not well acknowledged and failed to take corrective actions among policy makers in the city administration. Thus, this study tried to evaluate and analysed the problems in a comprehensive way and support to make an evidence-based decision on the performance of lease policy. Specifically, the paper tried to evaluate the performance of the lease system in supplying land for development, its accessibility to all income groups and how it is going with intended objectives stated explicitly to be achieved and drew some conclusions which support the policy revision.

## **2. Materials and Methods**

### **2.1 Research Method**

The research approach applied in any study might vary depending upon the types of data used for the analyses (qualitative and quantitative nature), research objectives and types. To meet the research objective, the approach applied in this study is a mixed approach, which enabled to minimize the shortcomings of using a specific approach and the shortcomings of accessing quantitative data.

### **2.2 Data Collection and Analyses**

Both primary and secondary data have been collected and analysed. Primary data have been collected from the 5<sup>th</sup> to 26<sup>th</sup> round auction results that could be accessed in Addis Ababa city administration integrated land information centre website (<http://www.ilic.gov.et/index.php/en/>) and analysed using descriptive statistics such as mean, minimum and maximum and the likes. Variables considered for the analysis are; a location (expressed by land grade), plot size in square meters, unit price both for the base price and bid results, lease income and land use functions (residential, business, mixed, social service and apartment use). The comparison is made to assess the performance of land supply among allotment and auction methods. Besides primary data have been collected and analysed using key informant interviews with experts from city administration land development and management as well as from ministry of urban development, and housing land development and management bureaus. Secondary data have been collected analyzed by reviewing different policy documents (urban land development and management policy document, lease proclamation, lease regulation, and directives), annual reports of the city administration among others. The collected data have been summarized and presented using graphs and text analysis using appropriate application (SPSS and MS excel).

## **3. Review of Literature**

### **3.1 Land Markets and the Need for Government Intervention**

In an open and free market economy, the land is considered as capital goods that can be bought and sold hence the land market is governed by the forces of supply and demand. These forces determine the dynamics of land market operations and thus affect adjustments to land prices. Unlike other markets, however, the land markets have unique features, resulting from the unique features of the land. Each parcel is unique, with a particular set of locational and physical attributes, and actors in the land market are diverse and often have conflicting agendas. Demand for land is derived demand for benefits accrued from land uses, quantity and price are highly affected by the spatial quality (infrastructure), the topography, land speculation, and government's land use and zoning regulations (Ching & Fu, 2001).

Government plays numbers of key roles in the land market—as policy- and law- maker, administrator, land use manager, a major landholder and as a direct provider and a financier of land (and housing) stock. The policy and regulatory environments in the land market not only defined location choices for different functions (residential, commercial, open space and transport) but also the mix among labour and product markets (Tigabu, 2014). However, a land market assessment in many countries revealed that the land markets are not operating efficiently and land is in short supply, and hence policy makers developed urban land policies which guide land markets. Usually, essentials for urban land policies are justified from three broader perspectives, i.e., regulating market imperfections and efficiencies, removing externalities so that the social costs of land market outcomes correspond more closely to private costs, and redistribute society's scarce resources so that underprivileged groups can share in society's output (Dowall & Clark, 1996).

Others supposed government intervention from tenure security and promoting investment opportunities. Land use rights that provide tenure security for a sufficient period of time gives investors incentives to bring permanent improvements in their land and landed properties. For local governments, land-based financing enables to stretch possible sources of revenue to finance infrastructure development and an alternative mechanism of value capture instrument for capital improvement. As compared to betterment tax or real property taxation, the urban land value can be easily captured by lease system and revenue generated from long-term rents (lease) might help the city administration in financing urban infrastructure for a long period of time (Woldgbrial, 2009).

Yet, some of the distortions are a result of government intervention in the land market which includes poor land development and management policies including poor planning, slow provision of infrastructure and services, poor land information systems, cumbersome and slow land transaction procedures, as well as under regulation of private land development, leading to unplanned or ribbon/corridor development of land in the urban periphery. Distortions in the land market often lead to land speculation. In fact, as it became evident in the South-East and East Asian economies, if land and property markets are not properly regulated, they can contribute considerably to the collapse of capital markets, and cause unemployment in the labour markets (Dunkerley, Harold B, 1983).

The needs for government intervention are summarized by (Dowall & Clark, 1996) as:

- An appropriate supply of urbanized land for dwellings, for community and recreational activities, and for productive activities, including the provision of basic urban services
- Harmonious urban spatial patterns that minimize the use of resources relative to economic and social benefits
- Greater equity in wealth and income, including access by low-income families with adequate shelter and;
- A spatial distribution of population and activities at regional and national levels consistent with general national priorities.

### **3.2 Urban Land Lease Policy and the Land Tenure System in Ethiopia**

Land tenure defines the mode by which land is held or owned, or the set of relationships among people concerning land or its product (sets of rights and obligations with regard to the acquisition, exploitation, preservation, and transfer of land and related resources). A significant proportion of African countries acknowledges dual legal systems of land ownership, i.e. Common law or civil code law which inherited from the colonialists. Within the framework of the common law, tenure existed includes both freehold and leasehold tenure systems. Under the lease holding system, the lessee have the right to occupy any building on the premises by means of a mortgage, and the right to erect, alter, or demolish buildings or improvements; the right to encumber the leasehold (the land and building); the right to dispose of the leasehold to any other person, which includes the right to sublet or bequeath the leasehold; and the right to be compensated (for the land and for the building). On the contrary, the free holding right differs from lease holding in that the freeholder has no right to use the land as collateral; cannot dispose, transfer, and bequeath the land, and has no right to be compensated for the land. This has serious implications for the mobility of urban landowners, asset buildings, business and investment activities and livelihood diversification of urban landowners (Tigabu, 2014).

In Ethiopia, the law which governs and directs ownership and use rights in both rural and urban land is the Federal Democratic Republic of Ethiopia (FDRE) Constitution. Land, rural as well as urban and other natural resources are declared to be owned by the state for the common well-being of nations and nationalities of Ethiopia. Farmers might access agricultural land for free and urban residents have to go through the land lease process to secure urban land for residential services. All land is owned by the government, and entities have only use rights in the land and shall not be subject to sale or to other means of exchange. Citizens have the full right to the real property he builds and to the permanent improvements on the land by his efforts (labor or capital). These rights are found in a bundle which includes the right to alienate, to bequeath, and, where the right of use expires, to remove his property, transfer his title, or claim compensation for it (Proclamation No.1/1995, 1995).

The urban land lease policy is one of the major policy interventions made by the government to allocate urban land for residential and non-residential developments. In Ethiopia, the history of the lease system dates back to 1993(Proclamation No.80/1993) when the first time a lease system was introduced as a model of urban land holdings. The proclamations have been amended twice in 2002 and 2011 with a view to tackling issues that constrained its effective implementation. Land transfer modalities vary among Proclamation No. 80/1993, 272/ 2002, and 721/2011. Under Proclamation No. 80/1993 transfer modalities were the tender system. Under Proclamation No.272/2002 the modalities intended to transfer land were changed to allotment, negotiation, and auction. However, the lack of transparency about the supply of land as well as the lease price negotiations was exposed to governance problem and forced by the government to change land allocation mechanism to auction and allotment system as an exclusive modality and re-enact the current land proclamation (Proclamation No.80/1983, 1983, No.272/2002, 2002 & No. 721/2011, 2011).

Proclamation No.721/2011 has two objectives: responding adequately to the growing urban land demand as a result of the fast economic growth of the country and ensure good governance for the development of the efficient land market and a transparent and accountable land administration system. According to proclamation No.721/2011, entities are allowed to access land either auction or direct allocation (allotment) mechanism. Individuals that allowed to access urban land without auction are land transferred to the third person in terms of inheritance or lawful tenants of kebele house or tenants of the agency for government house in terms of urban renewals. The new proclamation restricts the free transfer of lease right. In the case of sale of unfinished

properties, it is the government who shall take the profit (Proclamation No. 721/2011, 2011).

The urban land lease policy is also intended to create a sustained source of revenue for municipalities that can be used for financing basic urban facilities. However, demand for land in urban areas has been greater in huge amount than the supply of land allocated by the city administration. Aside from efficiency problems, key constraints for effective implementation of the urban land lease holding were limited capacity in preparing serviced plots for auction, malpractice in the land administration (corruption and injustice), and lack of long-term finance for the purchase of land lease holding rights (Yirga, 2014).

The proclamation intended to make land tenure uniform across urban centres of Ethiopia. Old possessions expected to be converted into the leasehold right bylaws (Proclamation No. 721/2011). Which means that the transfer is required by law to enter into a lease agreement with land bank and transfer agency and enforced individuals to pay the value of real property for an individual and a lease payment for city administration? However, it was not converted yet to lease holdings and creates its own impediments on the land market and creates its own contribution for the mal-administration in the land administration. Thus the government has intended to revise the current lease proclamation (Mohamed M. El-Barmelgy, 2014).

#### 4. Results and Discussions

##### 4.1 Urban Land Allocation Modalities and Supply Performance

Alternative methods of land supply modalities are applied in allocating land for different functions. In Chinese cities to regulate and control the land and housing markets, and consequently the level of economic development, the central government sets an annual quota for the amount of land allowed to be leased or appropriated. As a result, from 1997 to 2009, it allocated about (about 12.36 million acres) for land construction and collected about 7 trillion Yuan in concession fees from land use rights, which have played a key role in local economic development (Lincoln Institute of Land Policy, 2016).

The previous/earlier land transfer modalities applied to Ethiopian urban centres had been tender, negotiation and allotment mechanisms. Prior to proclamation No.721/2011, the foremost land transfer modalities were for business use negotiation and allotment (lottery) system for residential function. In this period a total of 4,973 residential plots were transferred to beneficiaries with seven rounds of the lottery system. However, negotiation systems were subjected to mal-administration by the land management authorities and government is forced to abandon it in the land transfer modalities by the new lease Proclamation No.721/2011 (Proclamation No. 721/2011, 2011).

Within the current lease law, urban land is transferred by two principal modalities. The first is through allotment mechanism for projects and programs that have welfare implications and national significance. The second modality is reserved for market allocation through an auction system. Entities that have privileged to get access through allotment are a substitute plot of land for displaced households for urban renewal, government entities for office premises, social service institutions run by the government or charitable organizations, government support housing development program, religious institutions for place of worship and cemetery, working premises for micro and small enterprises, manufacturing industries, a lawful tenants of kebele or government house, diplomatic mission and international organization, and projects having special significance for a country development (Proclamation No. 721/2011, 2011). Throughout this time, about 1,735.45 hectares of serviced land has been allotted, of which 1,479.22 hectares were for government-sponsored housing programs such as low-cost housing (condominium) and enterprise housing, 59.23 hectares for manufacturing and 197 hectares for social services (Figure 5).

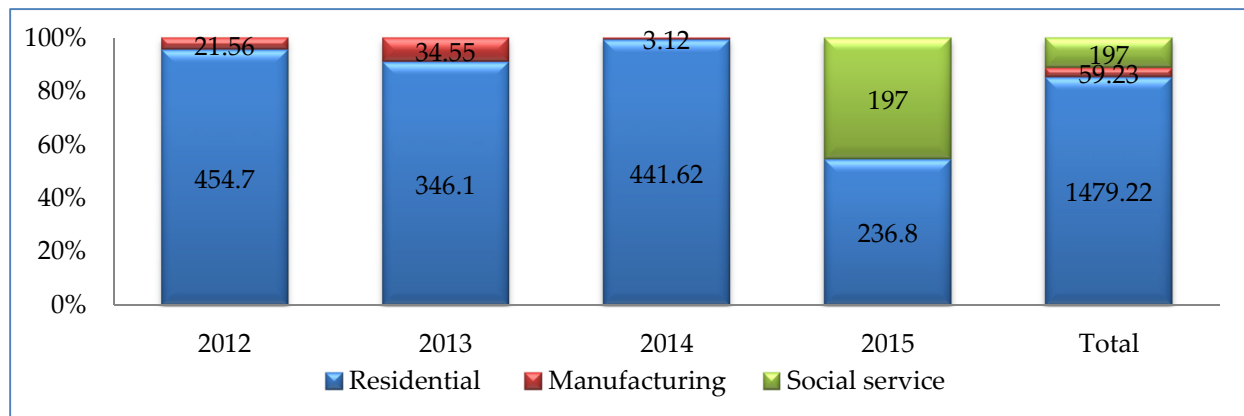


Figure 5: Hectares of Land Allotted for Residential, Manufacturing and Social Service  
 Source: Own Calculation from Bid Results (2017)

Conversely, urban land supplied through an auction is insignificant as compared to allotment system. For the last 20 round auctions, from 5<sup>th</sup> to 26<sup>th</sup> round auctions, numbers of plots allocated were about 2,900 plots (112.2 hectares) which is about 145 plots on average. Out of total land supplied through auction, 30.82 hectares (1,290 plots) are pure residential, 63.12 hectares (1,324 plots) mixed use development, 16.2 hectares (247 plots) were social service and the rest were allocated for social and apartment uses. Land auctioned for pure residential function plots account 44.5%, mixed use development 46.3%, business 8.5% and 0.7% for social service and apartment uses (**Table 1**). What makes the supply surprising enough is that for the city which is home to more than 3.5 million residents, and has a housing backlog of 947,376 units waiting for government-sponsored housing program to get access to shelter (MUDHCo, 2015).

Government with its urban land management policy and strategy intended to ensure that land supply could not be an impediment for urban development, quite land should be supplied in a stable price both for investment and residential service and support to sustain rapid urbanization. Cities in developing nation are not able to compete enough with capital and technology; what is expected to be at their discretion is cheap labour force and supply of developed urban land. However, Addis Ababa is not leveraging this opportunity, especially in the land supply. Urban land supply is not promising and this has a negative impact on the sustainability of urban development which impedes the current boom in the construction sector.

**Table 1** Number of Plots Auctioned, Plot Size and Percentage Share for Different Land Use

Auction Round	Number Of Plots Allocated For Different Land Use					Plot Size(M <sup>2</sup> )			
	Residential	Business	Mixed	Social Services	Apartment	Total number of plot auctioned	Minimum plot size(M <sup>2</sup> )	Maximum plot size(M <sup>2</sup> )	Total land area(M <sup>2</sup> )
5	57	17	23	0	4	101	150	1555	39063
6	96	4	22	0	0	122	142	1114	44653
7	82	0	94	0	0	176	149	1637	63546
8	176	13	61	0	0	250	144	1577	70826
11	43	4	98	1	0	146	125	5340	84024
12	77	4	96	0	0	177	137	2120	80368
13	170	30	18	0	14	232	149	1717	81053
14	156	0	22	0	0	178	150	1220	45622
15	106	2	48	0	0	156	145	2058	48443
16	59	0	31	0	0	90	153	746	31556
17	0	12	90	0	0	102	165	2127	47458
18	56	3	34	0	0	93	150	1204	29583
19	51	6	81	0	0	138	165	2717	59040
20	2	21	170	0	0	193	198	1664	88988
21	36	11	73	0	0	120	104	2717	63939
22	0	12	111	1	0	124	185	7803	63581
23	10	77	14	0	0	101	104	1483	41605
24	29	27	57	0	0	113	131	1380	34973
25	70	3	53	0	0	126	108	1228	31379
26	14	1	147	0	0	162	105	1583	72256
Total	1290	247	1343	2	18	2900	104	7803	1121956
Percentage	44.5%	8.5%	46.3%	0.1%	0.6%	100			

Source: Own Calculation of Bid Results (2017)

On simple observation, one can easily realize how far the gap between the allotment and auction in allocating land for residential as well as non-residential uses. This situation reveals a city administration is not in a position to supply serviced land for private housing developers and individual house builders. A number of factors are justifiable to these problems. Some are inherent to institutional inefficiency within the city administration (Land Bank and Transfer Agency) which is responsible for the land development, management as well as lease administration. Others are related to external factors which are out of the control of the Land Bank and Transfer Agency. Those factors which impede the land transaction and create distortion in the land market are rise in the cost of urban land development (cost for compensation for displaced landholders, compensation modalities, infrastructure development and administrative costs) amongst the critical problems which creates a financial burden and hence limited their capacity to develop and deliver sufficient plots.

A cash management problem is also supposed to the low provision of land for an auction. Principally, income from lease revenue is expected to finance not only land development but also help to finance other urban infrastructure development. However, lease income is collected through long term down payment instalment schemes and in the short run municipalities are in short of cash supply for financing land development. Unavailability of land development finance mechanism aggravates scarcity of cash for land development within the city administration.

Regional cities and towns have some privilege towards land expropriation and acquisition as far as they have the capacity to pay for compensation and supply infrastructure development. However, Addis has limited opportunities in this situation. As a result, the city administration had been failed to allocate land for housing cooperatives which have a meaningful impact on housing supply, though this is not the exclusive cause for null land supply for housing cooperative. Besides, some clause within the lease law has impeded land transaction and supply, especially to old possession tenure. Furthermore, some views among decision makers in the city administration towards housing supply modalities are contributed for the slow supply of serviced land. For

whom, housing seems supplied entirely only through the government-sponsored housing development program and little attention given to apportioned sufficient land for auction.

#### 4.2 Trend in Lease Price

Value (price) of land is derived from the value of its use (residential, industrial, commercial, public and the likes). Market value for land intern derives from its location in relation to accessibility and availability of infrastructure (neighbourhood quality). In developing countries, the dominant factor which determines urban land values is a rapid increase in the demand for urban land which derived from the unprecedented growth of urban population, bureaucratic bottlenecks in the process of transfer of land and the establishment of title that bear particularly heavily on the supply of small plots for low-income groups creates exception pressure in land value (Lincoln Institute of Land Policy, 2016).

Under the urban and land development management policy document, the importance of stable land price of the urban developments is highly appreciated and urban centres are insisted on supplying adequate plots of serviced land and ensured land supply will not be an obstacle for residential and non-residential development (MUDHCo, 2014). Entities that need access to urban land should at least cover the benchmark price which serves as the reserve price for the land transfer. Below the benchmark price land could not transfer for auctioneers. Benchmark price is determined and proposed by cost recovery approach and neighbourhood qualities. The cost incurred for physical and economic infrastructure development, compensation and rehabilitation, and administrative expenses and neighbourhood qualities such as topographic and accessibilities (access to basic social services like health, education, market, recreation and proximity to administrative functions) are basic parameters for land grading and hence for benchmark pricing. The unit price of urban land varies as one move from the city centre to expansion zones which is expressed by land grades.

Mean auction land price vary significantly from city centre (Grade-I/2) 196,928.00 ETB/Meter square to 510 ETB/Meter square for (Grade-III/4). For residential plot, the minimum and maximum price offered is 510 and 50,250.00 ETB/Meter square. For a mixed use development land, the minimum price offered is 521 and maximum 101,500.00 ETB/Meter square and for business development, the minimum is 950 and the maximum 355,000 ETB/Meter square (**Table 2**). These result confirmed that land value (price) is strongly positively correlated with land use functions and plot quality which is expressed by land grade.

Table 2: Auction Price with Different Land Use and Land Grade

Land Grade	Land Use														
	Residential			Business			Mixed			Social Services			Apartment		
	Bid Price/Meter Square			Bid Price/Square Meter			Bid Price/Meter Square			Bid Price/Meter Square			Bid Price/Square Meter		
Min	Mean	Max	Min	Mean	Max	Min	Mean	Max	Min	Mean	Max	Min	Mean	Max	
I/2	.	.	.	65000	196928	355500	.	.	.	.	.	.	.	.	
I/3	.	.	.	14500	111333	305000	.	.	.	.	.	.	.	.	
II/2	.	.	.	51050	65001	86000	30332	45724	61115	.	.	.	.	.	
II/3	.	.	.	.	.	.	18000	43954	101500	.	.	.	.	.	
II/4	.	.	.	.	.	.	7119	12635	22881	.	.	.	.	.	
III/1	19512	20979	25100	.	.	.	7387	9802	13250	.	.	.	.	.	
III/2	7500	17909	48925	7850	17289	30001	3600	17952	62000	3600	7750	11900	.	.	
III/3	2300	12551	41666	950	10776	34568	545	14048	65552	.	.	.	.	.	
III/4	510	11920	50250	1011	12371	33700	521	11672	55244	.	.	.	5576	9487	15215

Source: Own Calculation from Bid Results (2017)

The per meter square price offered for raw land at auction is more than 10 times that of a transfer price of three-bed room government sponsored housing units. The highest transferred price exhibited in the city administration over the last 10 round lottery transfer period is 4,776 ETB/Meter square for three bedrooms, 4,394 ETB/Meter square for a two-bed room, 3,438 ETB/Meter square for a single bedroom and 2,483 ETB/Meter square for studios (**Figure 6**).

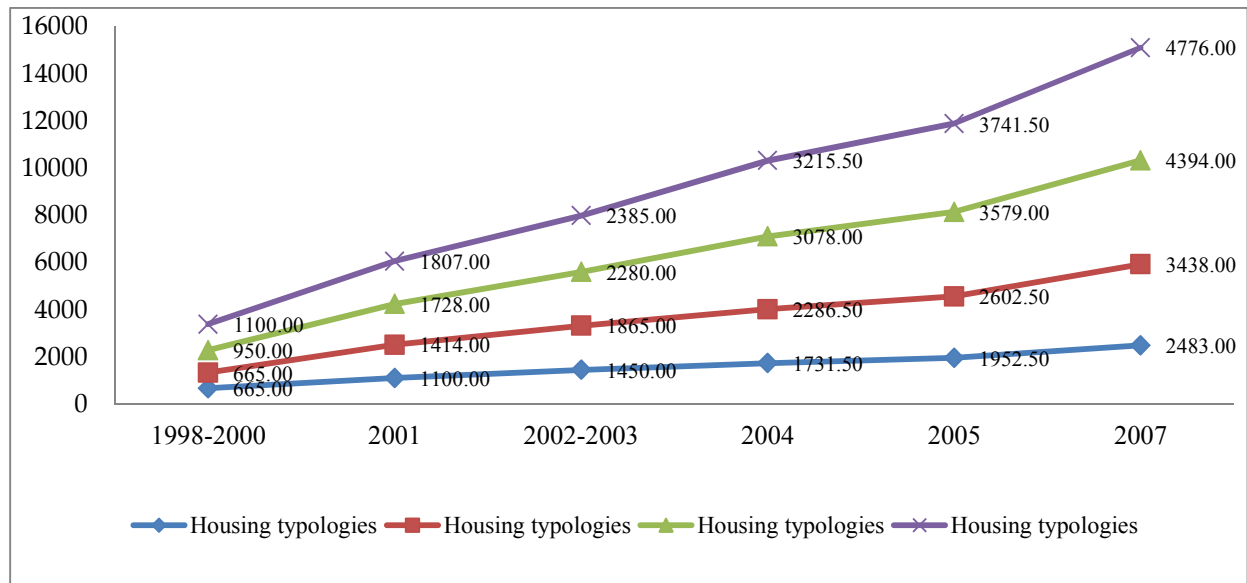


Figure 6: Trends on Housing Transfer Price with Housing Typologies (ETB/Square Meter)

Source: Compilation of Reports in the Lottery Transfer System (2017)

The trend of lease price requests decision maker to look into the problems critically. Price is inflated and a steady growth is experienced from one round to other rounds of the auction market and some exceptions are recorded in round 11th and 24th for business use plots (Figure 7).

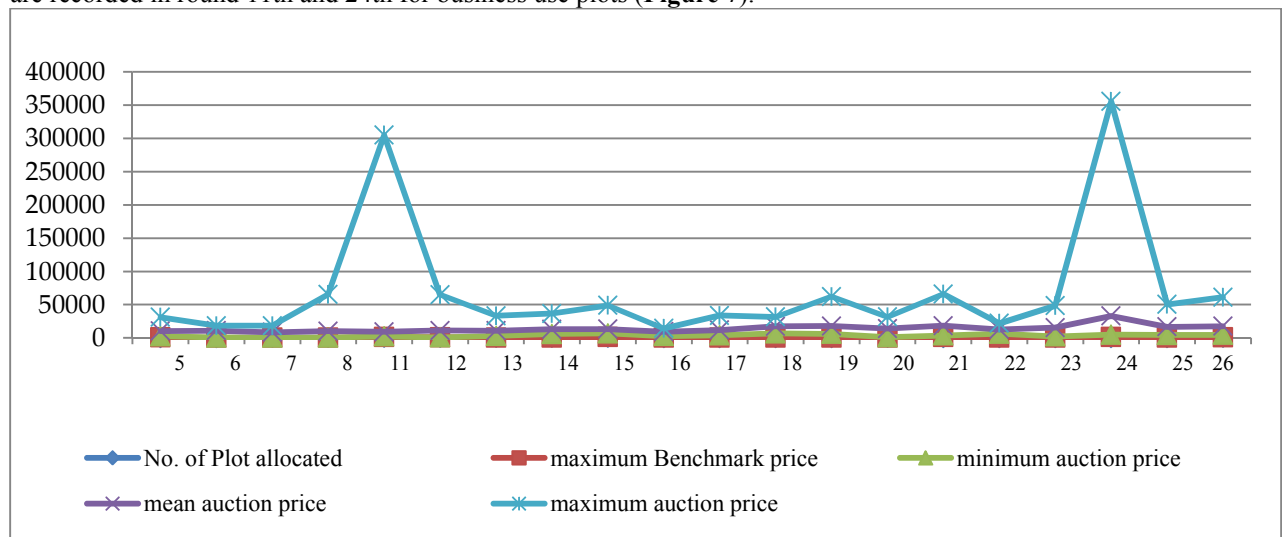


Figure 7: Trend on Land Supply and Price (5th -26th round auction)

Source: Own Calculation from Bid Results (2017)

The trend on land price poses a serious concern for developers and individual house builders where an auction is a primary market to access land. Further, it should not make cities competitive enough to attract foreign and domestic investment and might limit future development prospects. Proclamation No.721/2011 art (6) subs art (1), amongst the tricky areas of the lease law which demands government's policy decision. This article restricts the formal land transaction and in most circumstances led to price intensification for developers who purchased a property from individuals and make improvements on the land. This part of the proclamation holds critical issues in the land market and needs an immediate intervention to stimulate land transaction and make tenure type uniform (lease holding).

### 4.3 Urban Land Lease as an Opportunity to Widening Municipal Revenue

In a country where ownership of land is the public sector, the land is the most valuable resource in financing municipal services. In Chinese cities, land leasing is considered as an instrument for financing infrastructure investments. Revenue from some cities revealed that land leasing contributed significantly for municipality's revenue and financing local infrastructure services. Land finance, in many cases, represents a positive opportunity for local governments. Approximately from 60-80% of local capital spending in Beijing and Chengdu 1995-2002 and 45% and 80% of total local government revenues in Guangdong province and

Shenzhen cities in the 1990s were contributed from land leasing (Ahmed, 2013 & George Washington University, 2014). A recent study on the percentage share of land lease contribution to total revenue holds (45.3%, 42.3%, 21.5% and 24.2%) for Bahir Dar, Gander, Adigrat, and Mekelle and the share of capital spending is 140%, 105%, 77% and 81% respectively (Peterson, 2006).

The lease law permitted City administrations to use at least 90% of lease income for infrastructure development. Thus, the city administrations are strained to lease out urban land frequently (AACCSA, 2011). The contribution of land lease income to total revenue is much lower than above mentioned Chinese cities as well as Ethiopian regional urban centres, even though the city has been secured some 6.15 billion Birr in leasing out urban land (2008-2015) which is approximately 10% of the city's 2014 GDP (at market price). When we compare with other cities the contribution of lease income to city revenue seems insignificant, however, the contribution of lease income with non-taxable income is in huge amount. It accounted for 39% to 85% of non-taxable income contributions (**Table 3**). Yet, the success in revenue is at the expense of the overall land market stability and development in the city. Experts in the land administration are worried about the healthiness of the macro economy as a whole because this is a signal which other sectors are not well functioning especially manufacturing sectors (AACCSA, 2016).

The size and trends lease revenue give a clue as there were consistent in land supply and price within the land market and to some extent as there was adequacy of land supply. However, the case does not support our imagination, where there is a limited institutional and financial capacity to avail plots for leases which apparently triggered the creation of an enormous demand. Currently, the supply of urban land for residential as well as investment projects have been investigated as a constraint that deemed to consider a negotiation as an alternative modality for land transfer especially for investment needs in the city administration.

Table 3: Trends in Lease Income and Contribution to Revenue (ETB in Million)

Year	Source of Revenue							Total	% Lease to Total Revenue	% Lease to Non-Tax Revenue
	Tax	Non-Tax	Lease	Capital Revenue	Municipality	Road Fund	Loan Assistance			
2008	1651.72	598.49	237.00	409.42	374.71	43.13	66.42	3380.89	7.01	39.60
2009	2234.35	497.98	330.00	932.08	600.29	27.03	21.32	4643.05	7.11	66.27
2010	3448.13	952.92	758.00	.00	660.14	39.25	85.00	5943.44	12.75	79.54
2011	4935.28	1025.44	659.00	1.74	932.14	41.63	.00	7595.23	8.68	64.27
2012	7229.14	1142.31	710.00	.00	1242.90	38.04	.00	10362.39	6.85	62.15
2013	10906.43	1096.19	695.00	.00	1245.78	46.99	49.33	14039.72	4.95	63.40
2014	14214.34	1542.00	1038.00	.00	1502.73	50.53	1785.72	20133.32	5.16	67.32
2015	17236.00	2010.53	1724.00	.00	1829.57	43.70	559.70	23403.50	7.37	85.75

Source: Computed from, BoFED six years' consecutive financial report (2017)

\*ETB Stands for Ethiopian Birr, it is the currency of the country; 1USD=23 Ethiopian Birr

\*BoFED is Bureau of Finance and Economic Development

#### 4.4 Curbing Land Speculation

Under proclamation No.721/2011, land speculation is strictly prohibited for leasehold right as the agreement is made between the lessee and the lessor on construction commencement and project completion periods. Here posed a question does the lease law help to curb land speculation in the city administration? The answer is definitely not yet. Let alone the old possession, the leasehold rights are not enforced by the land administration authorities. This might cause by different factors which have impacted both on demand and supply sides. As national level real property information is not strong, and hence individuals have not paid income tax earned from the real property transactions, land and landed market become a lucrative business for speculators. Under proclamation No. 721/2011, land speculation is prohibited for leasehold right, especially for those who get land access by allotment or auction by the lease agreements. However, the lease agreement lacks enforcement measures by city administration and a significant proportion of land have existed without proper development for a long period of time. Though there is a difficulty in approving land speculation and informal settlement with concrete data, citizen's dissatisfaction in land regularization process and confrontation between city administration and dwellers approves how the problem is acute.

#### 5. Conclusion

The conventional method to access urban land within the formal land market are limited either to government support housing program or the non-demand responded land supply allocated with the auction. Land supply is not sufficient not only for low-income groups, even for those who have the capacity to pay for. With intent or unintentionally city administration are neglecting the role of private sector and individuals in solving the housing need and hence resulted in short supply for land auction.

Factors which impede the land supply in the city administration are a rise in the cost of urban land development (cost for compensation for displaced land owner, compensation modalities, infrastructure



development and administrative costs) and a cash management problem which hearted short run land development finance. Besides some clause with the lease law impedes the formal land transaction and hence led to price appreciation in the auction market. Average price for raw land is much higher than that of completed housing units transferred by government support housing program. Price appreciation is not only a result of market determination between demand and supply but also it were due to government inefficiencies in planning and allocating according to the urban and land development management policies.

The literature on urban financing uncovered that land leasing as the main instrument for financing infrastructure investments. However, lease income cannot contribute more than 7.5% city administration's revenue and Ethiopian cities are highly indebted to urban local government development support program allocated by the federal government under the good governance support program. Foremost, the lease policy alone could not finance basic urban infrastructure (water, solid and liquid waste disposal service, and access roads, etc.). Therefore, cities should identify new sources of revenue by developing revenue enhancement strategies and plans which have long-term impacts on for city developments such as real property tax, and other municipal financing mechanisms rather than stacked on lease income which impedes the housing market.

In sum, city administration needs to analyse the problem thoroughly and take policy intervention which helps to enhance land supply stemmed from the present performance.

## References

- Addis Ababa Chamber of Commerce and Sectoral Associations (AACCSA). (2011). *Land Lease Policy in Addis Ababa*. Addis Ababa.
- Addis Ababa Chamber of Commerce and Sectoral Associations(AACCSA). (2016). *A Study on the Impact of the Current Land Lease Law on Business and Investment Expansion*. Addis Ababa.
- Proclamation No.80/1983. (1983). *A Proclamation to Provide for the Lease Holding of Urban Lands*. Addis Ababa, Ethiopia: Federal Negarit Gazeta.
- Proclamation No.1/1995. (1995). *Constitution of the Federal Democratic Republic of Ethiopia*. Addis Ababa, Ethiopia: Federal Negarit Gazeta.
- Proclamation No.272/2002. (2002). *A Proclamation to Provide for the Re-Enactment for the Lease Holding of Urban Lands*. Addis Ababa, Ethiopia: Federal Negarit Gazeta.
- Proclamation No. 721/2011. (2011). *Urban Lands Lease Holding Proclamation*. Addis Ababa, Ethiopia: Federal Negarit Gazeta.
- Ahmed, I. (2013). *Financing Infrastructure in Bangladesh-Some Options*. Retrieved 4 17, 2017, from [www.isas.nus.edu.sg](http://www.isas.nus.edu.sg): <https://www.isas.nus.edu.sg/Pages/home.aspx>
- Bekele, A. B. (2007). Investors' Willingness to Pay for Urban Land: The Case of Addis Ababa City. *The Fourth International Conference on Ethiopian Development Studies (4th ICEDS)*. Kalamazoo.
- Bello, S. B. (1993). *Urban Land Management Problems and Low Income Housing: Case Study of the Kano Metropolitan Area*. Zaria.
- Ching, S., & Fu, Y. (2001). *Examining Competition in Land Market: An Application of Event Study to Land Auctions in Hong Kong*. Retrieved 4 26, 2017, from <http://dx.doi.org/10.2139/ssrn.259927>
- CSA. (2013). *Population Projection of Ethiopia for All Regions at Woreda Level from 2014–2017*. Addis Ababa.
- Deininger, K. (2004). *Land Policies For Growth And Poverty Reduction: Key Issues And Challenges Ahead*. Washington, DC.
- Dowall, D. E., & Clark, G. (1996). *A Framework For Reforming Urban Land Policies In Developing Countries*. Washington DC.: The International Bank for Reconstruction and Development/THE WORLD BANK.
- Dunkerley, Harold B. (1983). *Urban land policy :Issues and Opportunities*. A World Bank Publication, Washington, D.C.
- Egis International in association with IAU-IdF&Urba Lyon . (2016). *National Urban Development Spatial Plan*. National Urban System Study Report, LYON.
- Elliott School of International Affairs, George Washington University. (2014). *Addis Ababa Spatial Determinants of Growth*. World Bank.
- Farvacque, C., & McAuslan, P. (1992). *Reforming Urban Land Policies and Institutions in Developing Countries : Urban Management Program*. Washington DC.: World Bank Publications.
- Lincoln Institute of Land Policy. (2016). *Land and the City; Land Policy Series*. Massachusetts.
- Mohamed M. El-Barmelgy, A. M. (2014). Economic Land Use Theory and Land Value in Value Model. *International Journal of Economics and Statistics*, 2, 91-98.
- MUDHCo. (2014). *Urban Land Development and Managment Policy and Strategy Document*. Addis Ababa, Ethiopia.
- MUDHCo. (2015). *State of Ethiopian Cities Report*. Addis Ababa.
- Peterson, G. E. (2006, November 12). *Land Leasing and Land Sale as an Infrastructure-Financing Option*. Retrieved 24 26, 2017, from <http://hdl.handle.net/10986/9020>

- Selod, A. D.-L.-L. (2013, 4 26). *A Systemic Analysis of Land Markets and Land Institutions in West African Cities: Rules and Practices: The Case of Bamako, Mali*.
- Tigabu, L. (2014). The Ethiopian Urban Land Lease Holding Law: Tenure Security and. *Jimma University Journal of Law-Vol. 6* , 101-121.
- UN-HABITA and Urban LandMark. (2010). *Urban Land Markets: Economic Concepts and Tools for Engaging in Africa*. Nairobi.
- UN-HABITAT. (2008). *Secure Land Rights for All*. Nairobi.
- UN-HABITAT. (2011). *Land and Property : A Policy Guide*. Nairobi: UNON Publishing Service Section.
- Wang, F. Y. (2014). Determinants of Land Finance in China:.. *Australian Journal of Public Administration*, 72(3), 293-303.
- Woldgbrial, H. (2009). *An Assessment of Urban Lease Policy implementation In Ethiopia: Case Study of Bahir Dar, Ethiopia*. Thesis, Enshede, the Netherlands.
- World Bank. (2015). *Ethiopia Urbanization Review:Urban Institutions for a Middle-Income Ethiopia*. Addis Ababa.
- Yirga, Z. (2014). Critical Analysis of Ethiopian Urban Land Lease Policy Reform Since Early 1990s. *FIG Congress 2014*. Kuala Lumpur.
- Yirsaw, B. (2010). Urban Land Lease Policy of Ethiopie: Case Study on Addis Ababa and Lease Towns of Amhara National Regional State. *FIG Congress 2010* . Sydney.