

**LAND MANAGEMENT REFORM IN ADDIS ABABA, ETHIOPIA:
IMPLEMENTING A PUBLIC LEASEHOLD SYSTEM**

by

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**Submitted to the Department of Urban Studies and Planning in
Partial Fulfillment of the Requirements for the Degree of**

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ABSTRACT

The post-socialist government in Ethiopia has been taking steps to institute market mechanisms in its system of land management and allocation. In 1993, the government established the legal basis for a public leasehold system in order to create conditions under which "land use rights" can have value. Prior to this land policy change, a system of public freehold predominated in which land could not be transferred in any way. Implementation of the new policy, however, did not begin until 1995 and thus far, has only occurred in the capital city of Addis Ababa.

This thesis investigates the process of how a formal land market can be developed in Addis Ababa. The literature on emerging land markets tells us that institutions to sanction a system of verifiable, transferable, and enforceable property rights are often missing or poorly developed in post-socialist countries. However, policy prescriptions for developing such a system have tended to be based on observations of "institutionally mature land markets" which have evolved over a long time. The conceptual framework for this thesis is that in emerging market economies more effort should be devoted to issues of sequencing and devising short-term measures.

Ethiopia's past urban land tenure history is characterized by two distinct institutions, private freehold and public freehold. The period of private land-holding, which was rooted in Ethiopia's early quasi-feudal tradition, conferred wealth, political power, and social status only to a minority who eventually came to dominate the urban property markets. Following the 1974 socialist revolution, the socialist military regime proceeded to set up an elaborate institutional framework that centralized all land management functions. Despite being distinctly different from each other, the centralization of decision-making about land ownership and use in both tenure regimes prevented a viable and efficient land management system from emerging.

A third tenure regime has recently been implemented with the objective of restoring urban land markets throughout Ethiopia. As in past history, this institution confers significant responsibility and power to the government. At the same time, market mechanisms are being put in place to create an efficient land market. This thesis makes several recommendations for how such a system can be developed. With implementation of the lease scheme only one year old and with little knowledge about the current and past institutional structures, the question of how such a system will be developed deserves further investigation.

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1. INTRODUCTION

Formerly socialist economies face enormous challenges in their efforts to restructure their political and economic systems. Ethiopia is one such country. In 1991, the Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition of nationally based opposition movements, forced out the socialist military dictatorship which had ruled the country for 17 years. Shortly thereafter the liberation forces formed an interim government, the Transitional Government of Ethiopia (TGE), with the intention of liberalizing a centrally planned economy and democratizing a country with a long history of centralized political administration. Government efforts to introduce market mechanisms in its land management system has been at the heart of these transformations. The TGE inherited a system characterized by state ownership of urban and rural lands. Following the 1974 socialist revolution, the now defunct military government nationalized all rural and urban lands with the objective of promoting development along a socialist ideology in which "the state was the chief actor, thinker, planner, and the main provider of all benefits" (Rahmato, 1994, p. 1) Seventeen years later, the newly installed government established the legal basis to restore urban land markets in a country where a private land-holding system had predominated the urban environment for about seven decades prior to the revolution.

Analysts writing about urban land reform see land markets as critical to the functioning of the urban system as a whole. They observe that land markets characterized by rights to land that are well-delineated, that are verifiable, that are fully transferable, and that are legally protected, facilitate entry into the market for all groups, enhance opportunities to access credit, increase security of tenure, and provide local governments the opportunity to increase their land-based revenues (Doebele, 1983; Dowall, 1992; Farvacque and McAuslan, 1992; Hong, 1995; Razzaz, 1995). Analysts identify three policy instruments that governments use to intervene in land markets: property rights, land use planning and

regulations, and land information systems. In this thesis, I focus on how government has used the first policy instrument to intervene in the urban land market in the context of Addis Ababa, Ethiopia.

Property rights are described in the literature as powerful instruments for altering "the rules of operation" with regard to how land ownership, management, and use rights are delineated and assigned. Property rights analysts tell us that the process by which these rights are identified, altered, and re-assigned is a long-term process that requires balancing often competing objectives. These analysts argue that the institutional framework within which such a process takes place influences the way these objectives are balanced and attained, determines the capacity of the State to delineate and assign property rights, and ultimately affects the characteristics of the institutions that emerge (Polenske, 1995; Razzaz, 1993, 1995). Polenske (1995, p. 13) identifies four kinds of institutions that affect property rights. These include: (1) constitutional order, which defines the scope and limits of regulations and the terms and conditions of governance, (2) legal institutions, which include laws and regulations concerning property, (3) administrative and enforcement institutions, which determine how rules and regulations are implemented and, (4) social and behavioral norms, which define perceptions of fairness, justice, and equity.

On the whole, the recommendation of analysts with regard to how the "rules of operation" should be re-defined are based on observing institutionally 'mature' land markets (Razzaz, 1995) that are predominantly characterized by a system of private property rights. At the same time, these analysts recognize that the institutions--a collective term that refers to formal and informal rules, codes of behavior and social norms--to sanction and enforce a system of private property rights are missing in countries undergoing land reform, and that often these institutions have to be recreated or fully developed for the first time.

Surprisingly, there has been little attention paid to the following two questions that naturally emerge from this observation: one, how are land markets developed within the existing institutional environment and two, how do the institutions peculiar to a country

affect current attempts at reform? These questions are at the center of any strategy to "bring land back into the market" because they account for the need to devise alternative, short-term measures, and address the question of sequencing. As a result, policy analysis has focused more on what the land market should eventually look like and less on how to develop such a land market within the existing framework.

Objective

My thesis investigates the process of how the Ethiopian government has attempted to restore a land market in the capital city of Addis Ababa. My main research question is how can such a system be developed given that the state currently owns land? Ethiopia joins the ranks of cities like Canberra (Australia), Hong Kong, and Stockholm (Sweden) in choosing public lease-holding as the predominant mode of urban tenure. The experience of these cities shows that a leasehold tenure system is not incompatible with an efficient, "market-friendly" urban land system, provided that the appropriate institutional mechanisms are put in place. In a country like Ethiopia where the constitutional, legal and administrative orders are being transformed, and where urban land tenure has traditionally been an instrument that has created large disparities between those who had access to land and those who did not, the question of how a land market is introduced and developed is paramount.

The two issues I raise earlier provide a conceptual framework for approaching my research question. The events in Ethiopia illustrate an example in which the land policy change did not naturally lead to a system of private property rights. In 1993, the TGE issued a proclamation that established the legal framework for the management of urban lands under a public leasehold system. Under this system of land-holding, the government retains ownership rights and grants "land use rights" to others through a process of competitive tendering. One underlying objective of the lease law is to initiate a "market-oriented" land allocation system. To answer my question, I use the conceptual framework pointed out earlier to examine the following two points. First, I trace urban land tenure

evolution in the city of Addis Ababa in order to gauge its impact on the land market.

Second, I focus on the policy instrument used by the present government to intervene in the land market and evaluate its characteristics by drawing on the literature on formal leasehold systems.

Urban land tenure institutions have historically played an important role not only for determining land policy and regulating the land market, but also for distributing wealth, for buying political loyalty, for granting favors, and for conferring privilege and social status. For the first seven decades following the establishment of the capital, a system of private property rights characterized by an active real estate market evolved. Apart from market forces, however, the quasi-feudal tradition of the state which set in motion a highly concentrated system of land ownership and the absence of comprehensive urban plans also determined the way in which land was distributed. Following state nationalization of lands in 1975, the socialist government undertook numerous legislative measures to manage, and allocate this resource. Three institutional reforms are especially relevant here: property rights transformation, a new framework for urban administration, and the restructuring of credit institutions. However, the lack of administrative and financial capacity opened the system to discretionary behavior on the part of the bureaucracy--the new class of landlords. In effect, both tenure systems lacked a wholly transparent and effective means to manage and convey land that has implications on the kinds of transactions that have taken place and the institutions that emerged to support such transactions.

Following the third change in government, current reforms have focused on re-instituting mechanisms that would permit land use rights to be exchanged on the market. However, the government continues to exert control over an asset that has in the past determined the power structures that controlled wealth-producing assets.

This thesis is divided into five chapters. Chapter one presents my analytical framework, poses my research question, outlines my objectives and introduces my case study. Chapter two presents a review of three kinds of literature to identify key elements of

land reform strategies and public leasehold systems. These elements helped me to develop my conceptual framework. Chapter three traces the institutional development of land tenure prior to the change in government. Chapter four looks at the recent efforts by the TGE to institute "market mechanisms" in the urban land management system and evaluates the strategies. Finally, chapter five presents several specific recommendations that would possibly facilitate the development of a land market in Addis and poses future research questions.

The Case Study and Methodology

I draw my conceptual and analytical framework from two sets of literature: the literature on urban land reform and on emerging markets in transitional socialist economies; and the literature on public leasehold systems. Published secondary documents provide the historical review of early urban land tenure institutions in Addis Ababa. Very little material, either published or unpublished material exists on the evolution of urban land tenure during the post-Haile Selassie government.¹ Those that do exist are mostly unpublished Bachelor and Master's theses at the Addis Ababa University and the College of Urban Planning. Moreover, the majority deal with related issues such as shelter upgrading projects, housing finance, and the role of non-governmental organizations (NGOs) in urban development in Addis Ababa. To analyze the current institutional framework and the public leasehold system, I rely on a combination of primary and secondary documents including the urban lease-holding laws, newspaper articles, and staff reports from international organizations which I had assembled during a one-month visit to Ethiopia in January 1996. I also draw from my conversations with public officials, planners, and academics during my January visit.

¹ Two major pieces of research have recently emerged which deal with this period. (1) Mulugeta, Solomon. (1995). Housing for Low and Moderate Income Workers in Addis Ababa, Ethiopia. Ph.D. Dissertation, Rutgers University, Dept. of Urban Planning and Policy and (2) PADCO, WAAS International PLC, and the National Urban Planning Institute. (April 1996). Housing Sector Study, Addis Ababa, Ethiopia.

My thesis focuses on the case of Addis Ababa, the first city to have issued a land lease regulation following national guidelines. Addis Ababa Administration began implementation in early 1995, after having repealed its first land lease regulation. The city administration has conducted eight auctions through January 1996, in which it sold 36 plots out of a total of 118 offered for auction². All of the plots have been for commercial and industrial uses.

With a population of approximately 2.5-2.8 million (Hicks, 1992, p. 2), Addis Ababa hosts the largest share of urban population within Ethiopia.³ Two important features pointed out here have implications for the issue of urban land management. First Addis has experienced substantial growth over the last decade. Although information on urbanization trends in the decade following 1984 is scanty. I identify two possible explanations that would have contributed to increasing the absolute numbers of persons in Addis Ababa. First, in 1988, the city administration expanded Addis Ababa to include five neighboring towns. The move increased the total land area of the city from 212 square kilometers (km²) to 5187.55 km². Second, a massive in-migration into the capital by war-displaced civilians and demobilized soldiers who fought in the numerous civil wars accompanied the collapse of the previous government and the liberation of the northernmost province of Eritrea.

Nonetheless, modern urbanization is a recent phenomenon in Ethiopia, that first began with the development of Addis Ababa into a permanent capital in the late 1880s. The Italian occupation of Ethiopia, is the second significant event attributed to having triggered large-scale urbanization. Historically, Ethiopia has been among the least urbanized countries in the world, even by African standards. According to Tadesse G. Giorgis (1995, p. 369), Ethiopia's share of urban population of 14.7% is one of the lowest compared to the overall African share which is an average of 30%. The structure of Ethiopia's urban hierarchy has also produced a primate city (Addis Ababa) with over 1/3 of the urban population, few

² From a conversation with Ato Tsegaye Kiros, Department Head, Lease Office, Region 14, January 19, 1996.

³ This figure represents 1984 projections (the last published census data) by the Central Statistical Authority. Results for the 1994 census have not yet been published.

intermediate centers and numerous small urban centers (Giorgis, p. 374). But unlike other cities in the developing world, the rate of urbanization in Ethiopia has been higher. For example, Ethiopian cities have grown at an annual average rate of 5.6% during the decade 1973-1984, compared with 4.6% for all low-income countries (Wubneh, p. 138). A recent study of 12 major cities⁴ in Ethiopia indicates that the 6.3% annual growth rate in urban population between 1984-1994 shows Ethiopia to be one of the fastest urbanizing countries in sub-Saharan Africa (PADCO, Land and Housing Market Assessment, 1996, p. 10). Rural-urban migration has continued to account for a large share of urban growth. In 1984, for example, despite socialist policies that discouraged mobility, researchers indicate that 48% of all urban growth resulted from rural-urban migration (Ghirmatsion, 1995, p. 8). Given this pace of urban growth, the development of a viable, working land-management system for the city of Addis Ababa is all the more pressing.

⁴ PADCO, WAAS International PLC, and the National Urban Planning Institute. (April 1996). Housing Sector Study, Addis Ababa, Ethiopia.

2. Strategies for Urban Land Management Reform

In many parts of the world, governments are reforming some or all components of their urban land management systems. L.W.C. Lai (1995) identifies three categories of countries that are in the process of redefining the "rules of the game" with respect to land ownership, management and use. The first category includes post-colonial states, like those in sub-Saharan Africa, where the issue of the day is how to tackle the complexities posed by customary forms of land tenure in a rapidly urbanizing environment. The second category includes the most recently decolonized countries of the South Pacific and in Australia, where the focus has been how to revive customary land tenure systems where freehold or leasehold systems had been the norm. The third category includes the socialist and formerly socialist economies that have been attempting either to revive or to fully develop land markets after a period in which land had been kept out the market. In the third case, political reasons figured overwhelmingly in the reform process as new nations were formed, new boundaries were drawn, and existing economic and social institutions were transformed. Ethiopia fits in this category. At the same time, lessons are emerging from China concerning the introduction of mechanisms into its system of land administration.

Policy Instruments for Land Reform

Current thinking about land reform efforts has been influenced by a growing concern about the overall functioning of cities. The World Bank's adoption of the "New Urban Management Program" in 1986 reflects the changing attitude of the times. This paradigm shift, in an organization that has played a leading role in setting the agenda for land and housing market research, (Jones and Ward, 1991) resulted from a recognition that "a strong nexus [exists] between urban land, urban financial resource mobilization, and effective urban management" (Mabogunje, 1991, p. 2). As cities grow, they will require land

for a wide range of economic and social activities. However, policy-makers at the national and international levels raise questions about the capacity of the existing legal and institutional frameworks to meet these demands. Many note that the inability of the formal sector to meet these demands has marginalized the State from the booming "informal land and housing market" found in the major cities of the developing world. Although analysts have not studied the issue of sequencing, they indicate that the goals of land tenure reform should be to give clarity and uniformity to the rules of operation, to improve the efficiency of land management institutions, and to reduce the public sector's role as primary producer, manager, and developer of land. An efficient system maximizes land value/productivity by assigning land to the "highest and best user" at all places at all times (Doebele, 1983). They maintain that greater clarity and efficiency reduce the time and costs in acquiring land and in complying with the approval process, increase the mobility of consumers, and simplify the procedures for land-related conflict resolution.

Very few studies exist that take a comprehensive look at urban land management reform. Most studies choose to focus on only one aspect of land markets. Even fewer studies exist that document the recent urban land reform experiences of formerly socialist countries. The majority of analysts have developed a similar approach--they identify key components of the land market that should be targeted for reform (Bertaud and Renaud, 1993; Dowall, 1993; Farvacque and McAuslan, 1992; Mabogunje, 1992). In this section, I take a similar approach and review the key elements that emerge from the literature. I organize my discussion around three policy instruments, identified by Farvacque and McAuslan (1992), which governments use to intervene in land markets: (a) property rights, (b) land use planning and regulations, and (c) land information systems.

I. Property Rights

The division of interests in land differs from one tenure regime to another. A land-tenure regime is a manifestation of institutions--a collective term that refers to formal and

informal rules, codes of behavior and social norms--that have evolved to sanction and enforce the ownership, use, and benefits that derive from property rights in land. Farvacque and McAuslan (1992) identify three broad categories that illustrate these divisions: (1) statutory systems (common law and civil law), (2) informal systems, and (3) customary systems. Within these broad categories, Doebele (1983, pp. 117-120) identifies the following eight basic proprietary categories of tenure: non-formalized de facto tenure, private freehold, private leasehold, public freehold, public leasehold, communal ownership (tribal), and communal ownership (neighborhood).

The approach that views land in its purely economic sense--as a commodity--or in its purely legal sense--as an exclusive and unlimited right--overlooks the very important role that institutions play in developing countries. C.B. Macpherson (1978) argues that such an approach arises from the Western notion of private property rights, which in itself developed only recently (Doebele, 1983). In contrast, the property-rights approach accounts for the unique physical attributes of land that makes it at once a private and public good, the legal attributes referred to as the "bundle of rights," and the actual manifestation of those rights. Property rights analysts argue that a society's political, economic, and social experience and its power structures influence the nature and capacity of institutions and therefore the characteristics of different tenure regimes. Among the principal rights are (1) the right to use and possess land, (2) the right to change its attributes (develop, maintain, and abandon), and (3) the right to transfer the use or development rights (Farvacque and McAuslan, 1992; B.J. Pearce, 1980). Property rights analysts note the complexity involved in carving out, assigning, and enforcing "bundles of rights" to different persons from the aggregate set of rights that exist over a land parcel. According to Pearce (1980), all rights are rarely held by one person or organization--the estate of freehold is probably the closest that approximates this situation. Additionally, certain rights may not be assigned at all.

In socialist countries, governments set policies and enact legislation that assign ownership of rights to them to implement land policy. Pearce (1980) writes that this confers

on government the ability to guide long-term land development because of its influence over the decisions of current and subsequent land holders. The example of Ethiopia illustrates this case. Following the 1974 socialist revolution, the ruling military junta or *Derg* nationalized all rural and urban lands. The law conferred land ownership rights to the government and the power to allocate "land use rights" to individuals and others. In effect, the assignment of land depended no longer on market forces which reflected social and economic opportunity cost but on bureaucratic decisions. Land policy analysts evaluating socialist tenure systems identify two factors that delay "entry" into the formal land market and that are the primary cause for the lengthy and costly procedures for land acquisition. These are (1) state monopoly of land, and (2) the lack of clearly defined rules about the land acquisition and land development procedures (Farvacque and McAuslan, 1992). The net effect has been that policy implementation relied on directives and personal orders from bureaucrats rather than formally established, recognizable, and enforceable rules. Bureaucratic delays in responding to the land demands of growing cities has enormous implications for the ability of cities to attract private capital, of municipalities to finance infrastructure and other public services, of firms to expand and remain competitive, and of individuals to acquire affordable land for housing.

Two major manifestations of this tenure system have been (1) the failure to recycle land and (2) the failure to economize on land space. Tenure systems that inhibit incentives to redevelop built-up areas and to economize on space have major effects on the internal organization of cities because land allocation is not driven by its current opportunity cost. In the former case, they force new users to relocate to the periphery of cities, thereby increasing commuting and infrastructure costs, while inefficient, less dense uses continue to occupy well-serviced, prime land. In the latter case, they impose plot size standards regardless of an individual's preference or needs.

Property rights reform: public leasehold as a policy option

The institutional setting plays a critical role in determining the nature of land contracts. The choice of a land tenure system, therefore, must be based on an appreciation of the dynamic and alternative forms of land contracts that have evolved in response to the lengthy and costly procedure of obtaining land from the formal sector. It must consider other policy objectives, besides efficiency--objectives such as equity (can all persons acquire land affordably?), compatibility (does the system of property rights conflict with other urban land management policy instruments?), continuity (does the tenure system fit in with existing cultural and political traditions?), flexibility (is the system flexible enough to accommodate change and growth?), and participation (does the system facilitate interaction and involvement of individuals, communities, and organizations to ensure accountability and transparency on the part of the administration?) (Doebele, 1983; Farvacque and McAuslan, 1992).

Thus far, studies on the recent property rights reforms reveal that, as a matter of policy, governments in socialist countries have chosen to opt either for a freehold or leasehold form of tenure. However, none of these studies elaborate on what drives these considerations. Their approach has generally been to identify what has been wrong and to recommend reform measures, all of which are fundamentally based on developing inalienable, clear and verifiable property rights--the hallmarks of a privatized system of ownership. At the same time, however, these very studies acknowledge that the institutions to support such a system of property rights have either to be recreated or fully developed in these countries. Yet, they offer little insight into how these institutions can be developed, and what considerations drive these decisions. This ambiguity may explain the lack of focus on the process of reform itself and the greater concern of what the end product will look like. Analysts do point out one consideration that underlies the reform efforts--the need to create conditions that would enable a formal land market to emerge. At the most basic level, reform of socialist tenure systems involves the adoption of a tenure form that recognizes "the

division of interests or rights into *rights of management* and *rights of enjoyment* [which is at the root] of a market economy" (Farvacque and McAuslan, 1992, p. 38). While the freehold option is the norm in most cities, the leasehold option, which recognizes the above division has emerged as an alternative form. Ethiopia is one such country which adopted a public leasehold system in which the State retains ownership rights and grants use-rights in the form of a lease, for a fixed period.

Public leasehold systems: terms and conditions

The freehold form of tenure assigns exclusive control, i.e., the ability to make and implement long-term decisions to the landholder who is subject only to statutory planning controls and subdivision regulations (Archer, 1973). Public leaseholds differ from freeholds in the assignment of property rights: the former assign ownership and management rights to the government (the lessor or ground landlord) who, in turn, grants "land use rights" to any natural or juridical entity (lessee or tenant) for a fixed period.

The form a leasehold system takes depends on the terms and conditions set out in the lease contract. A formal leasehold strategy covers six major features. First, a system in which public lands are disposed of at well-publicized auctions and whose results are on public record is the most preferred form of leasehold because doing so promotes competition and enhances transparency. Second, the lease period must be long enough for developers to achieve profit, but they must also be short enough to accommodate changes should redevelopment or conversion of uses be required. Third, the lease contract should provide for the unrestricted transferability of rights. Fourth, the terms for end-of-lease arrangements should minimize "shortsighted user behavior" in order to avoid disinvestment in property and land (World Bank, 1993, p. 66). Fifth, the conditions under which variations in leases can occur must be clearly delineated to avoid arbitrary behavior on the part of the lessor. Sixth, penalties for breach of contract should be subject to due process of law and should

avoid complete termination of property rights.⁵ In the event of compulsory acquisition, the conditions under which leases are resumed, the purposes for which they are required and the terms of compensation must be clearly delineated (Razzaz, 1995).

Analysts point out that a leasehold system is not inherently inefficient nor is it contradictory to a market-based land management system (Archer, 1973; Doebele, 1983; Farvacque and McAuslan, 1992; Razzaz, 1995; Hong, 1995; World Bank, 1993; Yeh, 1995). The long experience of, among others, Canberra (Australia), Hong Kong, Singapore, Amsterdam (Netherlands), Stockholm (Sweden), the inner city of London (UK), and Honolulu (Hawaii), where the government owns the land and leases the use-rights illustrates that such a model can be productive and efficient. A review of the experience of Canberra and Hong Kong, two of the most successful cases, reveals that three objectives motivated the choice of this form of tenure.

(1). Leasehold arrangements is one way for governments to generate substantial revenue for financing public services (infrastructure, public housing, environmental protection works). This appears to have been the main objective for Hong Kong and Canberra. In the example of Hong Kong, Yeh (1995, p. 8) asserts that "income generation is the main advantage of land leasing in urban development." Similarly, Bourassa, Neutze and Strong (1995, p. 12) state that "recovery of [revenue] that arises as a result of development of the city [Canberra] was one of the most important objectives of the leasehold system" Governments have four ways in which they can generate income: (1) during the initial sale of the lease, (2) during lease renewal, (3) during the lease modification process, and (3) during ground rent reviews (Archer, 1973; Bourassa, Neutze and Strong, 1995; Hong, 1995; Neutze, 1988; Yeh, 1995).

(2). Leasehold arrangements permit governments (a) to facilitate the coordination of development with service provision and (b) to guide the pace and direction of development over the long-term. The lessor exercises this control by "holding land from the market" and

⁵ Personal conversation with Prof. Omar Razzaz, May 15, 1996.

by exercising its power to resume a lease or not to accept an offer from a developer. In contrast, in freehold regimes, individual decisions about land development result in speculation and incompatible and inappropriate land uses that have deleterious consequences on the environment in the long run.

(3). Leasehold arrangements permit governments to exact developer-provided public facilities. For example, the lessor can require the developer to provide community facilities by imposing certain planning criteria on the lessee during the lease granting or lease modification process. Planning conditions include but are not restricted to use, plot ratio, building type and height, design and layout, and in some cases the type of community facilities to be provided. Public lease-holding therefore allows for developers to provide in-kind capital contributions at minimal to no cost for the government.

Key features: efficiency and surplus land value capture

A public lease-holding system has two overarching features. The first is a concern with the "sound and efficient" long-term use of urban land. Archer (1973) argues that the urban land cycle consists of three land markets: (1) the development cycle depicted by the conversion of land from rural to urban use--which is the source of much unplanned and haphazard development and a legal property rights nightmare, (2) the useful building cycle, depicted by ownership and the use of real property, and (3) the redevelopment cycle, depicted by urban-to-urban conversion. Public lease-holding, which accords ownership, planning and management rights to government is the perfect tool to guide the use, development and conservation of particularly, the development and redevelopment phases of urban land use for two reasons. First, they commit land to long-term uses, thereby affecting the character of the urban land use pattern, and, second, they are the means by which the stock of property and serviced land expand (Archer, 1973). Furthermore, public lease-holding permits government to install infrastructure and render public services without

having to purchase and/or reassemble small plots of privately owned land, a costly and difficult process.

The second feature of the public lease-holding system is that it offers the government a way to capture the increased value in land during the lease modification process. In a freehold system, Neutze (1988, p. 9) writes " . . . owners of sites have very strong incentives to make capital gains by evading restraints on the use to which their land can be put, or having them relaxed." In contrast, in the leasehold system a modification in use from a lower- to a higher-income producing use usually involves payment of a premium that reflects that difference--a difference which Doebele (1983) attributes to the differentiation between "use rights" and "development rights."

The debate over who should benefit from an increase in land value is a difficult one because of the implications it has with regard to how property rights are initially distributed. In his study of the land-value capture experience of Hong Kong, Yu Hung Hong (1995) found that the government captured a large part of the surplus land value during the initial lease-granting stage because negotiating land value capture at other stages of the lease-cycle incurs high transaction costs. Governments justify land value capture on grounds that most of this value has been "socially" created through urban development and public sector investment (Doebele, 1983). Other factors that determine land value change include (1) changes in locational advantages as towns and cities expand and (2) private investment in land (Hong, 1995, p. 15). Beyond charging a premium, the lease modification process also permits the lessor to add development restrictions and to require the developer to provide on- or off-site amenities (Yeh, 1995). Because planning conditions granted at the time of the lease cannot anticipate the future requirements and needs of a community, their incorporation into a long-term lease suggests that the lease-holding system can be rigid and inflexible. Negotiating a change in lease conditions that both lessee and lessor agree to, Yeh (1995, p. 17) maintains, is difficult " . . . unlike planning which can be modified from time to time to meet the changing needs of the community"

Those arguing for freehold believe that the restrictions imposed by the government makes the leasehold system much less free, much less certain, and much less efficient. They argue that leases impose additional restrictions outside of land-use controls. The limitations imposed by a time-bound use right, restrictions on transfers of leases and the high collateralization requirements for a "use-right" vs. for "real property" are some of the main criticisms against the leasehold system. Moreover, state monopolization of land in leasehold reduces the availability of serviced land and increases land prices. However, leases cannot be granted capriciously; releasing large amounts of land through leasing can undermine the government's ability to accomplish its objectives. For instance, granting long-term leases without due consideration to the mechanisms of how the government intends to capture future land value increases will undermine the lessor's ability to capture surplus land value. Furthermore, leasehold tenure requires a competent administration able of anticipating demand and of managing the land conveyance process in accordance with long-term urban development plans rather than in accordance with short-term revenue gains (Archer, 1973; Neutze, 1988; World Bank, 1993). Where freehold systems co-exist with leasehold systems, the administration must also be able to ward off political and economic pressures from powerful landholders for land use changes inconsistent with the long-term plan.

II. Land Use Planning and Regulations

In many developing countries, how a city's land resources are used depends solely on the dictates of master plans. However, the long preparation time, the irrelevance of the planning laws on which they are based--laws that are often outdated or based on foreign models has profound implications for the spatial development of cities, the supply of affordable land, and the ability of municipalities to raise financial capital for infrastructural services (Dowall, 1992). Furthermore, the lack of public participation in the planning process and the lack of coordination between the relevant public agencies places additional burden on the system. According to Dowall, government regulations have placed a burden

on effective and efficient delivery of land. For example, those needing residential land have been forced to find solutions in the informal sector, by settling on illegally subdivided lands. Restriction of rural-urban land conversions, greenbelt requirements, height and density restrictions in center city locations, detailed requirements for plot layouts, and the lengthy approval process for land development limit the opportunity for re-development, impose costs on existing enterprises, discourage potential enterprises from investing, increase the cost of primary infrastructure, and discriminate against cultural traditions that dictate different notions of plot and building layout.

Rigid planning requirements have had a major effect on the internal organization of socialist cities. The absence of incentives to recycle land, once land was allocated created a disorderly and irrational land-use system. One effect has been that formerly socialist cities contain large, obsolete areas in prime locations devoted to land-intensive, unproductive and environmentally detrimental industries, i.e., within 4-8 kilometers (kms) of the city center (Bertaud and Renaud, 1993; Dowall, 1989). For example, factories and warehouse facilities occupy vast areas of accessible and well-serviced lands that have never been redeveloped. Where there were no incentives to capitalize from land differentials, the authors note that it was much simpler for the state to allocate and develop land on the urban periphery than to re-develop land at the core, thereby contributing to urban sprawl.

Reform efforts in land use planning and regulations have focused on residential and industrial redevelopment. The lack of funds and incentives to maintain properties and to deploy infrastructure has led to the deterioration, particularly of the inner core of the urban environment in formerly socialist cities. A land market in which land allocation is driven by its current opportunity cost would provide incentives for existing users to trade valuable sites and relocate (Bertaud and Renaud, 1993; Dowall, 1993). However, the conditions under which redevelopment takes place will be conditioned by the political and social realities of the regions. Relocating residents who have enjoyed secure tenancies to unserviced peripheral sites may not be a politically viable strategy for young governments attempting to

gain legitimacy. In this case, alternative upgrading/redevelopment measures would have to be considered that would minimize major population dislocations and political and socio-economic instability.

III. Land Information Systems

A modification of the property rights in land that permits such rights to be sold, mortgaged, and transferred through other means requires a modification in the existing underdeveloped system of land and property registration. Nationalization of land in sub-Saharan Africa stalled the process of demarcation and registration of rights to land initiated by the European colonialists (Mabogunje, 1992). As a result, most cities have inaccurate and out-of-date cadastres, making it difficult to determine the status of property rights. Recreating a land information base is a long-term, continual process of which updating the physical cadastre represents one of the most important steps (Bertaud and Renaud, 1993; Dowall, 1992, 1993; Farvacque and McAuslan, 1992; Mabogunje, 1992). Those in favor of instituting the more expensive titling registration system argue that as a document, a title is superior to a deed because the latter only stipulates the transactions that have taken place. Deeds also pose logistical problems in storing and they open up the system to corruption because "bribes are paid to have false deeds placed on file" (The World Bank, 1993, p. 4; Mabogunje, 1992). However, improving the deed system would be much less costly than moving on to a titling registration, the latter which would involve a series of steps including (1) adjudication: documenting existing property rights, conditions and contracts related to a parcel, (2) demarcation: defining the boundaries of the parcel, (3) surveying: preparing a visual representation of the parcel, and (4) registration: recording and conveying title.

Analysts argue that a land information system serves both a public and a private function and is important, according to analysts, for the reasons outlined below:

- it minimizes the transaction costs associated with acquiring, developing and conveying land;

- it enhances land's usefulness as collateral and therefore, increases the willingness of lenders to accept land as a security interest;
- it provides security of tenure and encourages investment and also widens the investment horizon;
- it reduces land-related disputes;
- it enhances the State's enforcement capabilities and ensures transparency in land transactions, thereby providing a form of protection against challenges and uncompensated expropriation.

A land information system also provides a base for creating a fiscal cadastre, and thereby increases the potential of municipalities to be self-financing. The complete lack of, poorly maintained, or inappropriately located infrastructure is a problem that is common to most major developing cities--one which has long-term effects on their economic, environmental, and social productivity. The inadequate capacity of the service provider, which in the majority of cases is the government, forces residents to seek services from the private sector at exorbitant costs. Where firms have taken on the role of providing on-site infrastructure for their projects, the costs involved have reduced their ability to expand their operations and to remain viable and competitive (Dowall, 1992). Dowall argues that requirements for developers to provide off-site infrastructure constitutes a disincentive for investment and reduces the ability of cities to maintain a competitive international environment. Most analysts choose to focus on factors such as limited resources and government monopoly to explain the inadequacy of infrastructural services--both in quality and quantity. Others point out institutional factors, such as poor inter-agency coordination, conflicting objectives that mis-direct the placement of infrastructural projects, and the lack of linkages between urban land policies and fiscal policies. While land presents an important asset in this regard, analysts caution about the political viability of using land policy as a fiscal instrument. A well-functioning property-taxation system presumes a capable land taxation administrative system, a cadre of well-trained specialists on land valuation, a well-

functioning record-keeping system, a well-maintained and accurate cadastral system, and the capacity and will to enforce the rules and regulations.

Urban land is increasingly becoming a scarce asset in developing countries. The literature tells us that effective land management administration is necessary if cities are to meet the requirements of a rapidly urbanizing environment. It also tells us that effective land management strategies have consequences that affect how cities operate in general.

Governments have used several policy instruments to intervene in the operations of land markets to affect a broad range of social, economic and environmental objectives. First, while a range of alternative property rights systems exists, the system that is chosen must facilitate easy entry into the land market, it must be flexible to accommodate a variety of needs that may not be fulfilled by the "market," and must recognize and work within rather than outside of the existing institutional environment. Second, land use decisions should be guided by a combination of public sector, market and planning decisions. Finally, it seems clear that more efforts should be made by the public sector to clarify its own policies with regard to land acquisition and development and to inventory land and property rights.

Still the problem remains that for the most part, the majority of authors recommend reform measures that are based on observing institutionally "mature" land markets (Razzaz, 1995). As the body of knowledge in the field matures, more examples of how reforms might be balanced with institutional realities will be revealed. In the meantime, the question remains as how to sequence reforms in less "mature" land markets--where historical development of land markets is in less accord with the demands of a formal market.

3. Institutional Development of Land Tenure: Addis Ababa in a Historical Context

In this chapter, I trace the evolution and development of urban land tenure institutions in Addis Ababa until 1974. I divide my discussion into two sections to reflect the two distinct periods of political administration and land tenure systems. Although two very distinct forms of tenure emerged during this period, I argue that both tenure regimes lacked a wholly transparent and effective means of managing and conveying land that has implications on the kinds of transactions that took place and the institutions that emerged to support such transactions.

I. The Evolution of Urban Land Tenure Institutions

Ethiopia is an agrarian country with a complex array of land tenure institutions rooted in its ancient rural heritage.⁶ As is the case in most agrarian societies, ownership of large amounts of land in Ethiopia differentiated the powerful from the powerless, the wealthy from the poor, and the favored from the disfavored. However, two distinct features set Ethiopia apart. First, the evolution of urban land tenure institutions derive from the quasi-feudal rural traditions which upheld the "theoretical paramountcy" of the monarch over all aspects of land allocation. The source of all land ownership rested with the sovereign who traced his origins to Emperor Menelik I, founding father of the 3,000 year old royal lineage that ended with the overthrow of Emperor Haile Selassie I in 1974. Legend has it that Emperor Menelik I was the son of the Queen of Sheba and the Biblical King Solomon. Professor Richard Pankhurst (1966, p. 19) writes that the idea of the divine right of kings pervaded all aspects of Ethiopia's political, social, and economic relations, including certain aspects of land tenure. Ethiopian kings cultivated loyalty and maintained their legitimacy by

⁶See Allan Hoben (1973) for a discussion of land tenure in N. Shoa and Richard Pankhurst (1966) for an overview of land tenure history.

apportioning lands to their military chiefs, to important personalities of the state, to churches, monasteries and religious persons, and to foreigners.

Second, the founding of modern Ethiopia resulted from a unique case of "African Imperialism" by which an indigenous elite forcibly incorporated the southern part of the country during the late 1880s.⁷ Historians attribute Ethiopia's present day boundaries to the efforts of Emperor Menelik II, a descendant of the Abyssinian Christian core from the central highlands. In a few cases, the Emperor preserved the role of the traditional chiefs and did not completely abolish prevailing modes of tenure (Pankhurst, 1966). For the most part, however, the Crown imposed a feudal land-holding system which eventually resulted in creating a highly stratified society headed by a small percentage of wealthy landlords and a large class of dispossessed tenants (60% of peasants) with a different cultural and tenure traditions. This situation which was to be repeated in the cities of Ethiopia, ". . . laid the foundation for the development of latent forms of class orientations that would be activated as the revolution unfolded in the early 1970s" (Keller, 1988, p. 64).

Evolution of Private Property Rights in Addis Ababa

The establishment of Addis Ababa as the permanent capital, the subsequent introduction of private property rights in land, and the emergence of a landed class represented a major break from past tradition in which the Ethiopian monarchy frequently moved its capitals. Prior to the consolidation of Ethiopia in the late 1880s, Ethiopian rulers did not establish permanent centers of government and administration (Pankhurst, 1966, p. 52); but they spent most of their time marching from place to place and making only "temporary halts." The literature does not elaborate on how the kings acquired the site on which they set up their "transient capitals." However, the methodical distribution of

⁷ These include the provinces of South Shoa, Illubabor, Keffa, Sidamo, Arssi, Bale, Gamo Geffa, and Harrar. The province of Wellega in the south-west portion of Ethiopia, which contains the largest ethnic group (Orommos) in the country--remained autonomous, being absorbed into Ethiopia by a treaty. Prior to this event, Ethiopia or Abyssinia as it was known then, consisted of the ancient Christian kingdoms of Tigray, Gondar, Gojjam, North Shoa and Wello.

temporary "land use rights" once the site was acquired reflected the hierarchical nature of the State and became the precursor for the distribution of the first land charters by the Emperor to his entourage and others following the establishment of the capital, Addis Ababa. Once the temporary capital was abandoned, use rights were also surrendered permanently. Pankhurst (1966, p. 53) argues that the tradition of awarding temporary use rights to the nobility indicated that the latter were a ". . . potential class of urban landowners who . . . were destined to emerge as great owners of land as soon as the royal camp evolved into a permanent capital." The phenomenon of "moving capitals" prevented the emergence of a continuous urban tradition and discouraged individuals from making capital investments in land (Pankhurst, 1966, p. 35). This incident has had a pervasive effect on the land use pattern of Addis Ababa, which for a long time resembled the traditional, transient royal camp (B. Zewde, 1987, p. 45).

B. Zewde (1987) describes the early development of Addis Ababa as one characterized by the emergence of *safars* or camps on which the military personnel, churches and the Emperor's retinue settled. Following the Emperor's initial land grants, and the Emperor's announcement of Addis Ababa as the capital, the city began to grow spontaneously, mushrooming ". . . from a camp into a metropolis" (Zewde, 1987, p. 45). The author divides the pre-1974 period into three: the pre-Italian, Italian, and post-Italian periods. Three distinct features appeared in the pre-Italian period. First, it laid the groundwork for the urban development process--which scholars attribute to have been initiated by Emperor Menelik II. Second, it set the stage for the development of a highly concentrated system of land ownership. In 1966 for example, 5% of the city's population owned 95% of the city's privately owned land (qtd. in M. Wolde Mariam, 1966, p. 28). Following feudal traditions, the Emperor Menelik II granted large estates and set in motion a land-holding pattern which continued until 1974. Third, the period witnessed the emergence (a) of legislation that recognized inalienable ownership of land and (b) of modern land management instruments including a cadastre and a land taxation system.

Scholars attribute the Italian period (1936-1941) as having resulted in large-scale urbanization. During this period, the Italians constructed major communication and transportation networks within Ethiopia, set up regional administrations, and attempted to introduce long-term planning with the objective to alter fundamentally the traditional form of Addis Ababa. However, their vision for a planned colonial city based on racial and economic segregation ended with the liberation of Ethiopia and the restoration of Emperor Haile Selassie I to the throne in 1941.

The crowning of Emperor Haile Selassie I in the early 1930s had signaled a reorientation of Ethiopia's development, which was cut briefly by the Italian occupation. From the start, the Emperor was committed to building a modern industrialized state. His reign during the post-Italian period was characterized by attempts to reconstruct, modernize and centralize the Ethiopian state while simultaneously upholding the principles of royal absolutism and feudal traditions. The Emperor undertook country-wide reforms in the social, economic and political sectors. Relevant political and economic reforms undertaken include the reconstitution of the political administrative profile of Addis Ababa and an attempt to institute long-term plans to guide urban and regional development. On the political front, the government instituted significant changes that shaped the development of Addis Ababa as a city. First, *weredas* replaced "safars" as the local administrative unit. *Weredas* were larger territorial entities incorporating more than one *safar* and were the precursors to the *kefitegnas* or Higher Associations formed during the revolutionary period. Moreover, *weredas* also constitute the basic administrative level in present-day Addis Ababa. Second, the 1954 Charter granted Addis Ababa legal status as a municipality, a status which gave Addis Ababa a measure of self-rule and autonomy not available to other municipalities. Mabogunje (1992) argues that granting municipal status, when accompanied by real measures to enhance autonomy, is a key step for increasing accountability and enhancing the capacity of governments to manage not only their land resources, but also the urban environment as a whole.

On the economic front, among other things, the government commissioned several European teams to prepare master plans for the city. Nonetheless, none ever acquired legal status. The reasons cited by the authors echoes Mabogunje's (1992) assessment of the "planning process" in other sub-Saharan African cities. Aside from the lack of financial resources and administrative capacity, the plans prepared by the European teams lacked adequate consideration of the socio-economic realities and the attributes, such as the rural-urban linkages, that are and continue to be an important part of the Ethiopian urbanization process. Additionally, the plans were prepared without due consideration of public perception, and for that matter, of those responsible for implementing the plans. However, Gabre (1979) notes two positive results of the process: the construction of the city's first sewage system and the establishment of the Planning Department in the Municipality which is the operational unit in the Municipality for all matters related to land management, including registering, approving, issuing building permits, and collecting service fees. Although the Civil Code of 1960 laid down the legal basis for urban development until 1975, a comprehensive approach to planning that encompassed growth management, environmental protection, health and land-use codes did not emerge until the establishment of the National Urban Planning Institute (NUPI) in 1987, thirteen years after the revolution.

The cumulative effects of reform contributed in undermining and eventually leading to the demise of the *ancien regime*. In addition, the neglect of other areas, including the questions of national political integration and land redistribution added to class contradictions and heightened national divisions. In the former case, the government's dissolution of Ethiopia's federation with Eritrea set off a bitter 30-year war that ended only recently, with Eritrea's independence. In the latter case, the government's attempts at structural economic reforms were met with opposition by a class with vested interests in maintaining the status quo. Furthermore, Asmarom Legesse (1978) argues that structural features of Ethiopian society had historically inhibited the growth of a market economy and further weakened the system. The introduction of a capitalist system required a substantial alteration of existing

institutions. For example, commercial life had always been dominated by ethnic and religious minorities. Wealth accumulation in Ethiopian society was used only to buy loyalties, a factor which ". . .helps to explain the genesis of the anti-capitalist, anti-market mentality that has, throughout history, dominated the Abyssinian state (Legesse, 1978, p. 35). As a result, the Ethiopian elite were forced to enter into a wide range of entrepreneurial activities covertly. It was important that it remained covert because it violated ". . . the old feudal morality that dissociated its virtuous self-image from the world of greed, profit, and usury" (Legesse, 1978, p. 48). The inability of the State to institute mechanisms that would sanction and support an alternative mode of economic activity was a source of vulnerability that the *Derg* effectively used to dismantle the empire.

II. The Beginning of a New Era in Public Freehold

A combination of protests by students, laborers, and the armed forces triggered the 1974 revolution. The movement which had centered around more specific issues, gradually escalated into calls for broad-based reforms, including constitutional reform and economic redistribution. In September of 1974, a Coordinating Committee of the Armed Forces calling itself the *Derg* took advantage of the unrest and staged a coup. Under the disguise of its first proclamation, *Ethiopia Tikdem* or *Ethiopia First*, the *Derg* declared the principle of *Hibretessebawinet*, a form of Ethiopian socialism premised on the improvement of the standard of living for all Ethiopians regardless of ethnicity, gender and age. The *Derg* also promised to create a decentralized form of government and to establish a people's republic.

The disproportionate distribution of land was at the heart of the revolution and became the target of the *Derg's* most radical policy measures. Within the following year, the provisional military government issued two sets of proclamation to eliminate landlordism and to reduce the power and income gap between the landed and the landless. Both the urban and rural reforms replaced private with public land ownership. The urban legislation⁸

⁸ Provisional Military Administrative Council. (1975, July 26). Proclamation No. 47,1975 Government Ownership of Urban Land and Extra Urban Houses. *Negarit Gazeta*. 34th year, #41.

contained three policy provisions that significantly impacted land tenure institutions and had long-term consequences on the operation of urban land markets and the management of the city. The *Derg* affected institutional change by (A) transforming property rights in land, (B) by reorganizing the urban administration and (C) by restructuring credit institutions (World Bank, 1982).

A. Property rights transformation

The socialist revolution fundamentally transformed property rights institutions that had developed and solidified during the period of modern state building. Establishing public freehold as the only formal tenure regime constituted the single-most direct intervention by the public sector in urban development. The *Derg* hoped to achieve the objective of social and economic equity and to improve the lives of all urban residents by redefining the "rules of the game" with respect to how the benefits derived from land were to be re-assigned and to whom they were to be distributed,

Prior to nationalization, land and property markets were dominated by a few wealthy landlords who participated actively in leasing land, in speculating in land and in investing in residential and non-residential real estate. First, land lords generated a significant amount of revenue from leasing land for a period of 20-30 years to residents and migrants unable to afford the alternative--purchasing land. Second, speculation comprised another source of wealth as the skyrocketing of land prices⁹ from ET Birr \$0.25 (1955) to between ET Birr \$200 and \$300 (1975) per square metre indicates (Kebbede and Jacob, 1985, p. 237). Finally, in the absence of a tradition of self-building in Ethiopia, unlike in other African towns, the private sector became the sole supplier of rental housing. It wasn't until after 1974, that self-building was actively promoted by the government as a viable option for beginning to resolve the housing crisis--which had been a "visible and pressing problem since the establishment of the capital" (Kebbede and Jacob, p. 236). Rental housing

⁹Although it is unclear from the article, I assume that the authors are referring to land prices in the formal land market.

constituted the majority of the housing stock not only in Addis Ababa, but in all major cities of Ethiopia (Kebbede and Jacob, 1985; Scaramella, 1985). In 1975 for example, 60% of the city's population were renters (Gabre, 1979, p. 36). In addition, many local individuals participated actively in commercial and to a lesser extent, industrial real estate (Kebbede, 1991).

The urban proclamation contained three provisions which effectively shifted the locus of political, social, and economic power away from the landed class to the government. First, the law assigned ownership rights over land to government and "possessory rights" or "use rights" to individuals; it also prohibited any person from mortgaging and transferring urban land. Second, the government nationalized approximately 2/3rds of all properties in Addis Ababa (World Bank, 1982). In the case of residential property, the law nationalized all houses not occupied by the owner, restricted ownership of houses to only one, and stipulated that individuals wishing to construct houses could receive up to a maximum of 500 square meters (m²). Furthermore, the government abolished all relationships between landlords and tenants freeing tenants of all rents, debts, and other related obligations. Tenants received possessory rights over the land which they occupied. The reform targeted the renter population, particularly those at the lower-end of the scale. Houses renting below ET Birr \$300 (US\$144) were reduced on a scale ranging between 15-50%, with the highest reduction given for the lowest rents. Those at the lower rental scale benefited the most--"an example, of discriminating in favor of the poor" (Baker, 1991, p. 3). The government's actions in the housing sector garnered wide support among the segment of the population who had never enjoyed secure tenancies and raised its legitimacy during a politically tumultuous period. The government also nationalized the financial, commercial, industrial and construction sectors (Kebbede, 1991). Third, the law contained provisions for the establishment of local government units called urban dweller's associations (UDAs). Thus far, I am aware of only two major pieces of accessible research that assess the performance of the "land market" under the system of public freehold

instituted by the *Derg*.¹⁰ The redistributive consequences had a major impact on the prevailing mode of relationships and transactions. It granted secure tenancies in land and housing for the renter population and prevented and prohibited capital investment in real estate.

B. A new framework for urban administration

The urban proclamation established a three-tiered hierarchy of cooperative societies known as *kebeles* or urban dweller's associations (UDAs) to accomplish the following three objectives: (a) to encourage community participation in urban economic development through a decentralized local city government, (b) to tackle urban problems by diversifying services provision and the responsibility of management of the majority of the nationalized housing stock, and (c) to raise the political consciousness of urban residents. The *Derg* created 291 *kebeles* each comprised of 500 households (not less than 2000 persons) to represent the lowest administrative unit--with each *kebele* leadership to be elected every two years. The next tier up consisted of 25 Higher Associations or *kefitagnas*, which were comprised of 10-12 *kebeles*. The Higher Associations coordinated the activities of the *kebeles* and enforced policy directives handed down by City Council. The City Council or Central Association replaced the Municipality and was responsible for issuing regulations to be carried out by the *kebeles* and for carrying out some aspects of public services provision, such as waste removal and fire protection. The City Council worked directly under the Ministry of Urban Development and Housing (MUDH), which overtook the responsibilities from the former Ministry of Public Works. The MUDH was the sole body responsible for all aspects of urban planning and land production, management and allocation until 1986, when these functions were handed over to the City Council.

Jonathan Baker (1991, p. 4) who evaluates the role of two UDAs in Addis Ababa, states that initially, the government was committed to the principle that UDAs ". . . run their

¹⁰ Solomon Mulugeta (1995) and PADCO/WAAS PLC/NUPI (ongoing). The references are cited in Chapter 1.

own affairs, solve their own problems, and directly participate in political, economic and social activities." To this end, Proclamation 47/1975 and 104/1976 empowered them (1) to manage and maintain houses renting below monthly ET Birr \$100 (US\$20.90), (2) to collect property taxes and urban land rents (3) to finance and execute a variety of social and welfare programs with those monies and (4) through monthly payments, to compensate the former owners of nationalized houses whose sole income had been derived from real estate.

The UDAs, however, lacked effective implementation capacity because of the mismatch between their financial base and their expenditure requirements. The UDAs were at a disadvantage because they inherited not only the lower-scale housing stock, but stock which had deteriorated and was in need of maintenance. In addition, the *Derg's* actions in politicizing UDAs for the purpose of purging its ideological opponents prevented UDAs from becoming effective agents of community planning. Between 1976-1978, the government and the intelligentsia engaged in an urban guerrilla warfare characterized by gross human rights violations including innumerable torture and deaths. The involvement of UDAs during the Red and White Terror, as this period is commonly known, and the resulting violence has had a profoundly negative impact on their image as legitimate grass-roots organizations--both at the neighborhood level and at the global level. One consequence is that international donors chose to channel urban assistance to Ethiopia through non-governmental organizations, like the UDAs (UN EPPG, 1993). These events have also had a pervasive effect on all aspects of urban life in Addis Ababa that persisted until the 1991 change in government. Neighborhood organizations, however, are a critical component of any successful urban land management strategy. Mabogunje (1992) maintains that they act as intermediaries between the State and city residents and that they have enormous potential for becoming an integral part of titling, registering, conveying and managing land. For example, in the Addis Ababa context, all UDAs were responsible for registering and maintaining records of all the housing units in their jurisdictions. UDAs have been kept

intact for the most part during the most recent changes in the political profile of the city--but it is not clear what their future roles will be

C. The restructuring of credit institutions

The lack of affordable finance in developing countries is hardly new. The urban land reform provided an opportunity for the government to promote home ownership by redirecting credit which had been out of the reach of 90% of the urban population (Gebre, 1991). The government chose to do this by aggressively implementing a housing cooperative movement. The 1975 legislation mandated the newly created Housing and Savings Bank (HSB) to provide mortgage and credit for the construction of residential and non-residential buildings. The strict policy requirement that the HSB's mortgage services favor housing cooperatives and low-income groups was one of the policies that the *Derg* was commended for as having promoted affordable housing¹¹. Additionally, housing cooperatives received technical assistance from MUDH and construction materials at subsidized prices. From 1986 until the deregulation of interest rates in 1991, the HSB's lending rates for housing construction was 4.5% for cooperatives and 7% for individuals (Tigabu, 1991, p. 80). Despite bottlenecks in acquiring plots, organizational difficulties, inappropriate building standards, and the curtailment of the private sector in shelter delivery, the housing cooperative policy is credited for expanding housing opportunities for many middle-to-low-income families and individuals. In practice, although policy favored housing construction, the majority of HSB loans in terms of volume went to state-owned enterprises for non-residential buildings (Tigabu, 1991, p. 79).

Information about the operation of the land management system in Addis Ababa is limited. In conclusion, available documentation tells us that both tenure systems lacked a

¹¹ The fixed interest rates permitted many people to become home-owners for the first time. However, the recent deregulation of the banking sector, and its effect on interest rates which have been raised three times, has slowed down housing construction. Over the past four years for example, interest rates have risen to 12%, 15% and currently, 16%. Conversation with Ato Fanos Habte Wolde, Team Leader, Housing and Urban Development, Ministry of Economic Development and Cooperation, January 15, 1996.

wholly transparent and effective institutional means of managing land. At one extreme, a private land-holding system emerged between 1907-1974. This property rights structure resulted from the unique politico-military tradition of the empire in which the sovereign distributed land to his military chiefs and other personalities of the State. It is clear however, that market forces alone did not guide the allocation of land. Rather, land management was personalistic, and in the absence of a strong tradition of planning, it was heavily influenced by the socio-economic and political panorama. In 1974, the socialist regime radically altered the property rights structures overnight, imposing a system of public freehold to govern land and urban management institutions. First, the regime made serious attempts to address the housing conditions. Second, the establishment of UDAs as local neighborhood units, the establishment of NUPI, and the subsequent completion and legalization of the Master Plan represented a major break from the past. However, the non-transparent mode of allocation resulted in creating a new kind of "land lord"--the well-placed bureaucrat who reaped tremendous benefits from selling land in the black market and distributing plots more than once (Gebre, 1991; Tigabu, 1991).¹²

¹² From my conversations with Ato Abebe Kebede, Advisor on Economic Affairs, Region 14 Administration, Chairman's Office, January 10 and 12 1995.

4. Urban Land Tenure After the *Derg*

A third major land policy change occurred following the 1991 change in government. As with the previous regime, property rights have been the policy instrument used by the present government to intervene directly in the operation of the land market. Here, I focus on two issues: the current institutional environment within which urban land reform has been taking place, and the specific institution, public leasehold, that has been created to facilitate the emergence of land markets. The current process of property rights transformation has been taking place in tandem with a broad range of economic and political reforms, most of which are being tried out in Ethiopia for the first time. These changes have larger influences on the nature and development of land markets, and on the perceptions of individuals and firms about the implications of the newly established tenure regime for facilitating private sector participation. I divide this chapter into three. The first section reviews government's efforts in political decentralization to create self-governing regions or states with extensive autonomous powers and responsibilities. One major responsibility given to these regions has been the implementation of urban land leasing in their respective cities. The second and third sections discuss and evaluate the key features of the leasehold system based on the national and regional legislation. While great efforts have been made to introduce "market mechanisms" in managing urban land, I argue that there needs to be a more concerted effort to devise a land code that is simple, and that would institutionalize the development of a market-based land management system that is accessible to existing and potential land users.

I. Political Change in Ethiopia: Instituting Decentralization

In 1991, a coalition of liberation forces marched into Addis Ababa and took over political office with the intention of restructuring an economically, socially, and, politically devastated country.¹³ The new government, an amalgam of various liberation fronts, came to power on the heels of an oppressive military dictatorship which itself had destroyed one set of hierarchical relations based on divine mandate and replaced it with another set of relations based on scientific socialism. The military dictatorship led by Mengistu Hailemariam had been fiercely determined to ignore the demands for power sharing by Ethiopia's diverse ethnic nationalities who had historically been excluded from participating in the governance of the country. It maintained the largest standing army in sub-Saharan Africa and diverted large sums of capital into the war effort which absorbed 60% of the national budget, (Courier, 1994, p. 17). The dissident ethnic and regional groups, except Eritrea,¹⁴ gradually abandoned their policy of secession in favor of a policy to force the government from power and to rebuild a nation based on the principles of ethnic plurality, self-determination, and democracy.

The struggle for self-determination and ethnic pluralism is not unique to Ethiopia. What is unique is that the TGE has embarked on an experiment to establish a system of autonomous regions (states) whose boundaries are drawn along ethnic and linguistic lines--a system referred to as "ethnic federalism" (John Cohen, 1995). Accordingly, the TGE created nine regions by redrawing the former boundaries under the military dictatorship.¹⁵ Additionally, the cities of Harar (Region 13), and Addis Ababa (Region 14)¹⁶ the two largest and ethnically diverse cities--were granted regional status (Cohen, 1994). The

¹³John Cohen (1994, 1995) reviews the post-Derg literature on political decentralization in both of his publications. Other publications include a volume on land tenure edited by Dessalegn Rahmato (1991) and a volume on fiscal decentralization edited by Eshetu Chole (1991). All are listed in the works cited section.

¹⁴Eritrea gained its independence in 1993 after warring against two successive political administrations.

¹⁵These include: (1) Tigray, (2) Afar, (3) Amhara, (4) Oromia, (5) Somali, (6) Benshangul/Gumuz, (7) Southern Nations, Nationalities and Peoples, (8) Gambela Peoples and (9) Harari People (The FDRE Constitution, 1994). Please refer to maps in Appendix.

¹⁶Addis Ababa and Harar Regions have still retained their earlier designation, before the TGE reduced the number of regions from 14 to 9.

Constitution of the Federal Democratic Republic of Ethiopia (FDRE), ratified in December of 1994 gives Addis Ababa a full measure of self-government and stipulates that the city administration be responsible to the Federal Government (Article 49, 1994, p. 25). The TGE's policy of making ethnicity a central issue has been received with mixed feelings because it has raised concerns that such a move would magnify existing differences and lead to further ethnic fragmentation. Jon Abink, whom Cohen (1994) writes has published "the only . . . study of post 1992 ethnic conflict" states that

Ethiopia is the first country in the African continent where, in the post-colonial era, a part of the state has been allowed to break away (Eritrea, following the independence referendum held in April 1993), and where the political fabric is being radically rearranged in an authorized fashion 'from above' . . . a controversial nation-wide experiment in government and administration is in progress, with power being diverted to ethno-regional units that have strict boundaries" (qtd. in Cohen, p. 10).

To achieve its political objectives, the TGE decentralized substantial power to sub-national governments in the newly created regions (Cohen, 1994, p. 3). Administrative decentralization was an important first step for the TGE. It reorganized the roles of different levels of government and it established the framework for designating which levels of government will promulgate and implement subsequent legislation. This move presented a radical departure from a tradition of authoritarianism in which the structure of the ruling elite excluded many nationalities and regions from participating in the political process. Initial steps took the form of a Transitional National Charter adopted in June of 1991. The Charter established the legal basis of the TGE (Cohen, 1994) and affirmed a commitment to the preservation of the principle of self-determination.

In 1992, the TGE issued a major proclamation to operationalize its agenda of administrative decentralization.¹⁷ The proclamation established three tiers of government: central, national/regional¹⁸ and *wereda* in which functional responsibilities at all three levels

¹⁷ Council of Representatives. Proclamation No. 7,1992. (1992, January 14). Proclamation to Provide for the Establishment of National/Regional Self-Government. *Negarit Gazeta*, 51st year, #2.

¹⁸ As per Proclamation No. 7,1992, a national self-government refers to a government established by any nation, nationality or people for the purpose of administering its own affairs within its geographical area; Regional Self-Government refers to a joint establishment of two more adjacent nations, nationalities or peoples and which is considered as a National Self-Government.

are divided between the executive, legislative, and judicial branches. At the central level, these divisions are represented by the Council of Ministers, the Council of Representatives and the Council of Judiciary respectively. The national/regional levels of government have also been accorded legislative, executive, and judicial powers in respect to all matters within their geographical areas, including the right to acquire and transfer property. In Addis Ababa, for example, all land management, production and allocation functions are undertaken by the Bureau of Works and Urban Development. Each region has set up a system of government based on the following structure and has ratified its constitution.¹⁹ The structure of these self-governments are as follows: (1) a legislative organ represented by the national/regional council, (2) an executive organ represented by the national/regional executive committee, (3) a judicial organ, (4) a public prosecution office, (5) an audit and control office, (6) a police and security office, and (7) a services and development committee. The regions have set up 17 bureaus and 3 commissions, duplicating the 20 ministries and 4 commissions created at the central level (Befekadu Degefe, 1994, p. 64). The law also establishes the *wereda* as the basic unit of hierarchy and provides that the leadership be directly elected by members of that unit. The *wereda's* replaced the Higher UDA Councils or *kefitegnas* (comprised of 10-12 UDAs or *kebeles*) established prior to the recent changes. Despite the extensive powers given to the *weredas* to prepare, determine, and implement socio-economic development plans within their jurisdiction, the law provides that *weredas* shall in every aspect, be subordinated to the national/regional self-governments (Art. 40(2); Befekadu Degefe, 1994, p.63).

II. The National Legislation: Setting the Foundation

The government issued the national land legislation²⁰ approximately a year and half after the political reforms discussed in the first section. The land lease law formed an

¹⁹ In 1993, Region 14 (Addis Ababa) ratified its constitution and established a four-tiered structure of government: regional, zone, *wereda*, and *kebele* (Befekadu Degefe, 1994, p. 64).

²⁰ Council of Representatives. Proclamation No. 80,1993. (1993, December 23). Proclamation to Provide for the Lease Holding of Urban Lands. *Negarit Gazeta*, 53rd year, #40.

integral part of the government's agenda to liberalize the Ethiopian economy. One way the TGE hoped to achieve this was by improving the system of land allocation particularly along three objectives: (1) to commoditize land by creating conditions under which "land use rights" can have value, (2) to provide an alternative means for cities to generate revenue, and (3) to eliminate the unjustified appropriation of gains that resulted from the existing non-transparent and discriminatory system of land allocation. Underlying the law's 13 goals is the principle that a free market in land would enable individuals to participate according to their means and preferences and that it would encourage efficient use of land. The law also covers three more objectives: (4) to provide for the controlled and planned development of the urban landscape, (5) to build and expand low-cost housing, using revenues generated from leasing land (from gains realized at the initial auction and during future increases of land value), and (6) to encourage private sector participation in all major areas of the urban economy.

Proclamation No. 80(1993) established the ground rules for urban public land leasing. The public leasehold system, as set up by the national law, stipulates the following: (1) that leases be awarded on the basis of competitive tendering, (2) that the lease duration be long enough to permit land developers to recoup their investment, (3) that the rights associated with a lease are fully or partially transferable, (4) that leases are renewable provided the land is not required for public purposes, (5) that variations in leases are permitted provided that they comply with the zoning regulations, and (6) that the government reserves the right to resume a contract (a) if development conditions are not met, (b) if lessees fail to meet their financial obligations, and if (c) the land is required for public purposes.

The proclamation places several restrictions on transactions that would adversely influence the perceptions and incentives of potential land developers to invest in real estate. The law does not permit individuals to collect income that exceeds the value paid for the lease at the time of transfer. Moreover, where this does occur, individuals are directed to

pay the difference to government. Apart from being difficult to enforce, this restriction sends conflicting policy signals about government objectives, reduces incentives to invest, opens up avenues for discretionary behavior and for the under-reporting of prices, and eventually reduces the ability of government to capture surplus land value, the main advantage of public leasing. If the motivation for the restrictions is to capture this value, fiscal measures such as taxation and regular rent reviews would be more appropriate.

Additionally, the provisions for lease variation and the conditions under which the government resumes the lease are vague. In the former case, the provisions refer only to a change in "use." Moreover, they do not detail the mechanisms by which lessees can apply for such variation indicating only that a purpose for which a lease has been granted ". . . may be varied upon the prior written permission of the town administration" (80/1993, 9(2), p. 96). One possible explanation for this vagueness may be that at least for the time period, not much attention has been given to how government will capture future increases in land value--rather, attention has been focused on gains at the initial leasing period. Nonetheless, as I stated earlier, since the major advantage of public leasing is the opportunity it provides governments to capture gains and redistribute them, more attention needs to be paid to developing mechanisms that would facilitate this. The land value capture experience of Hong Kong, however, tells us the difficulties encountered by government in establishing means for future gains has resulted in the fact that the majority of revenue derived from land has been from the initial auctions (Hong, 1995). With regard to lease renewal, the law is silent on the conditions and terms under which the government resumes the lease, and how compensation will be determined--it states only that leases will not be renewed should the land be required for public purposes. Uncertainty about end-of-lease arrangements further discourage investment, and may adversely affect the quality of the urban environment because it promotes under-investment in property and land as the lease approaches its duration.

Special Provisions

- Article 13 of the proclamation empowers self-governments to grant land free of charge for public investments.

- The law requires that the town administration use at least 90% of the revenue collected from land leasing for building urban infrastructure and for constructing and expanding the supply of low cost houses.

Furthermore, the law empowers regional self-governments to implement the provisions of the lease law and assigns them the following responsibilities:

- to draw up the terms and conditions of the lease application,
- to designate the bodies to prepare, execute and grant leases,
- to determine the minimum bid price (to be based on the level of the urban center (population size), zoning and grade of land), and
- to grant land without tender, or at a subsidized price for uses that the regional government deems as public purpose.

III. Region 14 Legislation: Implementing a Public Leasehold System

In April 1994, the administration of Addis Ababa followed national guidelines and issued an urban lands lease holding regulation.²¹ As per its mandate, the regulation established a minimum bid price for each zone and grade of land (per square meter) and included the restrictions on lease transfer discussed above. The regulation, however, was not been well-received for a number of reasons. At the most general level, both academicians and those in the private press characterize the period prior to the government's decision to commit to a public leasehold system as one filled with "conflicting policy signals" about the direction of land policy change. In its first draft of its Economic Policy Document, the interim government had indicated that the land tenure issue would be resolved after the establishment of a democratically elected government. A second draft of the

²¹ Council of Representatives. Region 14 Administration Regulations No. 2, 1994 (1994, April 27). Urban Lands Lease Holding Regulations. *Addis Negari Gazeta*, 2nd year, #9.

Economic Policy Document, however, revealed a different policy stance altogether--one that stated that land tenure will be determined by a national referendum at a later date (Rahmato, 1994, p. 8). Until this event, the TGE maintained that "there will be no changes in the policy of public ownership of land" (qtd in Addis Tribune, Dec. 20, 1995, p. 7). The national land lease law which set the guidelines for public ownership of lands was issued without reference to a national referendum and before a permanent form of government was established.

Public opinion has revolved around three kinds of issues: those that question public land leasing as an appropriate institution for managing lands in urban Ethiopia, those that have raised concerns about the issue of prior claims/compensation with regard to lands expropriated by the previous regime, and those that question specific provisions in the law, such as the administratively set minimum bid values and the restrictions on transactions mentioned earlier. At the heart of these questions is the contention that state-ownership of lands is fundamentally incompatible with a "market economy." The Constitution of the FDRE, ratified one year after the land law was issued upholds the continuation of government ownership of land. Article 40, sub-article 3, states

[t]he right to ownership of rural and urban land, as well as of all natural resources, is exclusively vested in the State and in the peoples of Ethiopia. Land is common property of the nations, nationalities and people of Ethiopia and shall not be subject to sale or to other means of transfer (p. 19).

The constitution, however, authorizes government to enact laws that would permit the sale or transfer of land use rights. Sub-article six states, "[w]ithout prejudice to the right of nations, nationalities, and people to own land, government may grant use of land to private investors on the basis of payment arrangements established by law." One feature of the policy choice as it appears in the constitution is worth noting here. The constitution identifies a land-allocation mechanism based on a division between the "rights of management" (to remain with government) and the "rights of enjoyment/benefits (to be granted to private investors)" and prescribes that land-use rights can have value. According

to the urban land reform literature indicates that such a division is a fundamental principle of a market economy.

The second version of the urban lease law issued by Region 14 Administration included two major modifications of the national law: first, the regulation abolished the idea of administratively set rents--instead the value of the tender is to be determined by the market and second, the regulation differentiated between current and future land uses. The regulation stipulates the following major provisions. First, all future supply of lands for all uses are to be managed under the lease system, with one exception which I discuss under special provisions below. Second, all existing uses are to be governed by a separate regulation which elaborates a land use fee structure for commercial, industrial and, and residential uses.²² Third, leases are to be granted through auctions. Fourth, the lease period, as set up by national guidelines, ranges from 50 years for a use designated only as "other" in the law, and which I presume refers to commercial use, to 60 years for industrial leases, and 99 years for residential uses. The lease duration is based on five broadly defined use categories, as well as the city's population size. Fifth, lessees can transfer their use rights by selling, pledging, or contributing them in the form of a share. The regulation, removes the restriction on transactions, replacing it with the requirement that (1) the lessee pay a 30% capital gains tax and (2) an additional 10% tax on income gained from the transfer.

Region 14 Administration appointed a separate entity, the Lease Board to operationalize its lease law and to ratify the bids. The Lease Board works closely with the Bureau of Works and Development under which the Town Planning Department²³ is located. This department is responsible for all land production and allocation in Addis Ababa (Bachmann, 1995). Three separate bodies operate in conjunction with the Lease Board: these include the Lease Office which is responsible for forwarding monthly requests

²²Council of Representatives. Region 14 Administration Regulations No. 4, 1994 (1994, Nov. 5). The Rent Holding and the Fixing of Rent of Urban Land.. Addis Negari Gazeta, 3rd year, #2.

²³From a conversation with Ato Michael Tesfatsion (Deputy Head, Bureau of Works and Urban Development, Region 14 Administration), (1996, January 25).

for land to the BWUD and in coordination with the Task Force, for preparing and executing the tender; the office of the Lease Board which I deal with separately below and the Task Force which presents the bid offers to the Lease Board for ratification.²⁴

Special Provisions.

- The Regional Regulation delineates the mechanism by which individuals can acquire plots for residential construction. Plots between 73m² and 175m² (targeted to middle- and low-income families and individuals who wish to construct their homes) are distributed through a lottery system and are subject to an annual payment of ET Birr \$0.5/m² (US\$0.08) Thus far, Region 14 has awarded 333 plots by lottery out of a total offer of 370 plots²⁵.
- A separate office, has been set up under the Lease Board to handle the responsibility for allocating land free of charge. In July of 1995 for example, Region 14 granted 1300 m² of land and property worth ET Birr 4 million (US\$640,000) to the Ethiopian Heritage Trust, an organization recently established and dedicated to cultural and environmental preservation (Addis Lissan, July 27, 1995; vol. 3:84).

Implementing a leasehold system has not been a smooth process in Addis Ababa. Many questions still remain unanswered, including the issues that the public have raised. In the following section, I give specific recommendations based on the literature and my observations that can be integrated into more broad-based efforts.

²⁴ From a conversation with Ato Abebe Kebede and Ato Tsegaye Kiros, Department Head, Lease Office, January 19, 1996..

²⁵ From a conversation with Ato Gobegnehu (Member, Task Force, Lease Office), (1996, January 25).

5. Recommendations and Conclusion

The Ethiopian government is making great efforts to introduce market mechanisms in its system of urban land management. The most important of these efforts is the goal to restore land markets by creating conditions under which land can have value. In 1993, the government laid down the ground rules for managing land under a public leasehold system which is new to Ethiopia's urban land tenure history. Ethiopia is one of a few post-socialist countries which has opted for a leasehold system as a matter of policy. This thesis investigates how markets can be developed given that the state owns land.

The literature on emerging land markets tells us what an efficient land markets looks like, but it does not answer how these markets are developed in countries with very different institutional capacity. The present government in Ethiopia inherited a system of public freehold characterized by weak institutional mechanisms for efficient delivery and management of land. This research project is the first contribution that looks at the issue of emerging land markets in the Addis Ababa context and that attempts to assess how the institutional environment over the past two distinct phases of land tenure impacted the nature of the land market. Since the current reform efforts began at the level of property rights, I limited my research to issues that emerge from this policy change. In the absence of empirical evidence to the kinds of issues I raise in Chapter 1, I prepared a methodology based on conducting open-ended interviews of three major actors in the Addis Ababa land market: public agencies at national and local levels, banks, and end-users.

Research Constraints

Several features of the research process led me to question my assumption about the nature of information available in the field. These features have implications on the kinds of policy recommendations I make here. Moreover, my discovery of these features revealed to

me that the gap in policy analysis which I identify as being the basis for my conceptual framework may reflect the institutional reality in which many policy analysts find themselves, and therefore may explain the ambiguity that exists in the literature.

Lack of Policy-Relevant Research

First, policy-relevant research on the operation of land markets and the major actors in Addis Ababa is negligible. A 1992 publication that contains an extensive literature review on land markets in sub-Saharan Africa revealed Ethiopia to be a publication-rich country only the topic of rural land tenure²⁶. There are several apparent reasons for this focus. First, Ethiopia is a largely agrarian society with 85% of its work force employed in agriculture, with a complex system of land tenure issues, and a long history of widespread famines and droughts. As a result, the focus of government development policy and donor assistance has been on raising agricultural productivity. Second, the strict control over urban Ethiopia during the *Derg* period discouraged attempts to do urban-related research. Third, existing research, undertaken by non-governmental organizations is largely project-related, and does not deal with broader institutional issues surrounding urban land management. As a result, there is very little knowledge about the pre-1974 period, and about the enormous changes that followed the nationalization of urban lands after 1974.

Lack of openness

Second, I discovered once in the field, that conducting interviews with policy-makers and end users would be inappropriate and the intentions misunderstood and/or misconstrued. While the reasons are not clear, I speculate that my timing was an important factor. First, I arrived in Addis Ababa during a time of intense restructuring of almost all public institutions that had in the past been involved with managing land. For example, as a result of government efforts in political decentralization in Addis Ababa, land management

²⁶Wiebe, K. and Roth, M. (1992) Land Markets in sub-Saharan Africa: Literature Review Summary. Madison: Land Tenure Center.

activities were being undertaken by a newly formed Bureau of Works and Urban Development. In another instance, the Urban Dwellers Associations (UDAs) which are involved in many aspects of urban administration, were in the process of being evaluated at highly publicized and well-attended public meetings. During this time, numerous UDAs across the city were shut down, or "sealed" as the press reported. Lastly, with the implementation of the lease system only one year old, many roles, procedures, and institutional linkages were still being defined and had not yet solidified.

Leasing activity over the past year shows a growing confidence in the system. At the same time however, public sentiment which led Region 14 to repeal the first regulation and issue a second one still lingers. The private press continues to report on public opinion but much of the discussion remains focused on the repealed law, with no mention made of the revised version. The newspapers raise three critical issues. First, many view the lease policy as a continuation of socialist land policy. This misunderstanding appears to be over the lack of recognition that use rights have value. The concept of "land use rights" that are fully transferable at a price set by the market is new in Ethiopian urban land tenure history. Second, many raise concerns that the lease policy does not solve the issue of prior claims to land, which had not been resolved since the *Derg* nationalized all lands following the revolution. Third, many believe that the lease policy does not "go" with the land tenure tradition of urban Ethiopia which had been private freehold prior to state nationalization of lands.

Recommendations

In the following section, I outline several possible policy measures that could facilitate the process of "commoditizing" land in Addis Ababa.

1. Strengthen and develop the legal framework for delineating, assigning and enforcing property rights that explicitly recognize the value of land.

(a) The law must explicitly differentiate between areas covered by the lease and those that are not. The inclusion of non-market methods of land allocation in the lease law itself sends conflicting policy signals about the objective for establishing the lease system. As it currently stands, the lease law covers three kinds of land use rights, all with different property rights attached to them: lands provided through public auctions at market value, lands provided by lottery at subsidized prices, and lands allocated for free. Two ways to reduce conflicting signals would be to develop clear criteria for selection of lands that are to be granted for free, and to dispose of lands solely through well-subsidized auctions, whose results are on public record.

(b) The mismatch between the national law and the regulations passed by Region 14 on the scope of the lease, the determination of lease value, and the restriction on transactions should be eliminated. Since the national law lays out the major terms and conditions of the lease, it should craft these conditions to reflect its own objectives to "commoditize" land, by recognizing the value of land, by providing that the value be determined by the market, and by permitting developers to recoup their investment.

2. Undertake efforts to develop a land registration and titling system which is critical for facilitating market transactions.

The cadastral system is underdeveloped, and many existing users have not approached the government for documents to "use rights."²⁷ One cited reason was the perception of tenure security. While it would be costly to invest time and resources in revamping the entire system, active efforts should be undertaken to demarcate the city's land parcels. In addition, all new transactions should be recorded.

²⁷ From a conversation with Ato Abebe Kebede, January 12, 1996.

3. To eliminate uncertainty about how a market based on leasehold rights functions, clarify lease terms that are vague.

Procedures for lease renewal and change of use applications should be examined in detail and designed so as to promote an efficient and transparent system, to maximize tenure security, and to encourage investment. The law should include provisions that encourage investment in land and property as the lease approaches its duration. As it currently stands, lessees are to apply only six months in advance of the lease expiration date, which neither promotes tenure security nor encourages investment. Lease revocation for public purpose should clearly specify under what conditions government can resume leases, and should occur under circumstances in which the lessee receives full measure of compensation under the law.

4. Develop a coherent, simplified urban land code that would institutionalize the development of a market-based land management system that is accessible to existing and potential land users.

Since the lease law went into effect, the national and regional governments have passed various pieces of legislation in other sectors that have implications on the development of land markets. For example, in February of 1995, Region 14 declared a policy to privatize state-owned commercial properties. Thus far, however, Region 14 has not issued further directives with regard to how such lands and properties will be managed. In another instance, legislation on how buildings are managed, as well as regulations for subdivision have not been issued. Thus, more efforts should be made to eliminate sources of confusion caused by the disparate pieces of legislation and policy measures and to account for relevant areas that have not yet been dealt with.

A public leasehold system presupposes a competent administration and a well-developed legal framework that facilitates a market-based land allocation system. In Ethiopia, where property rights are not clearly defined and verifiable, where cadastral and

land registration were stalled due to land nationalization, where property and land valuation instruments are yet to be developed and implemented, and where land use regulations are being redefined, one cannot expect such a system to develop overnight. Successful cases such as Hong Kong and Canberra have taken close to a century to evolve and were not faced with the kind of institutional building required in Ethiopia as a result of the distinctive features present in her land tenure history.

Conclusion

This research project is a beginning in many ways. With implementation of the lease system only one year old, with the lack of openness, and with research on the topic of urban land reform limited at best, and absent at worst, many questions remain unanswered.

Future research should focus not only on the land acquisition, but also on the land disposition stage. With regard to the former, the questions I tried to explore in my research should be expanded. For example, what national, regional, and local agencies are involved in land management? Are there any private-public agencies involved in this process? What is the impact of the segmented market on different groups of land users? What are the delays in acquiring, registering, and titling land? How long do these procedures take? How effective is the current lottery system for allocating residential land? Who participates, and how do they finance residential construction? What complications arise during the land transfer stage (i.e., between existing users)? How are leases financed? How have banks responded?

The problems I have raised in conducting research will not be entirely eliminated in the foreseeable future. However, as Ethiopia's legal and institutional framework becomes more capable of meeting the demands of a market-oriented economy, and efforts are made to restore the confidence of all land users, I speculate that the information deadlock will gradually be lifted so that additional policy-relevant research on this important topic can be conducted in the future.

Appendix 1.

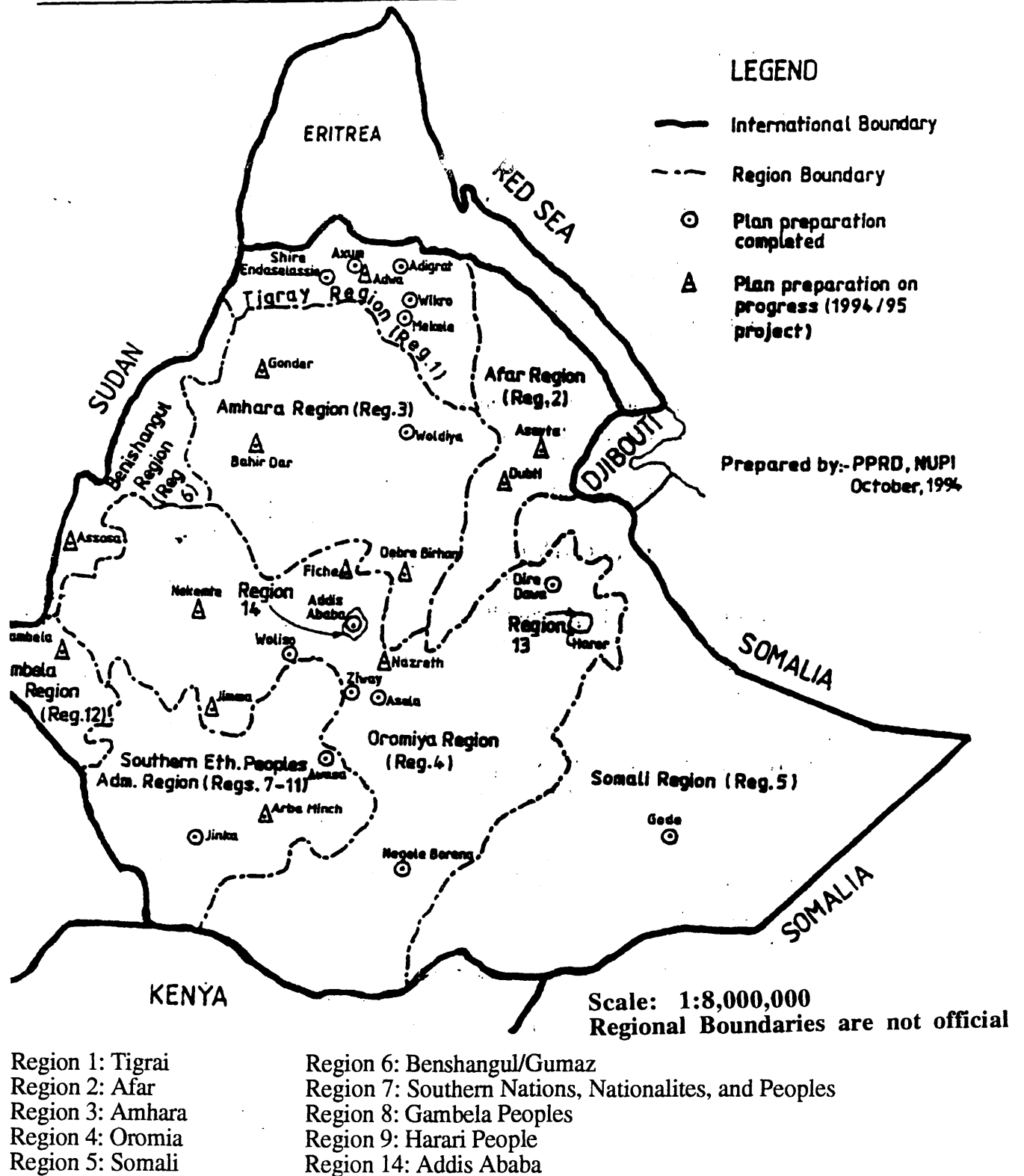
1991.



Source: Kebede, G. (1992). *The State and Development in Ethiopia*. New Jersey: Humanities Press.

Appendix 2.

States (Regional Self-Governments) of Ethiopia, 1994.



Source: Giorgis, Tadesse G. (1995, p. 393). Features of Urban Centers in Ethiopia and Policy Options for Upgrading the Urban Setting.

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