



Urban challenges and opportunities for Ethiopia 2050

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ETHIOPIA 2050
**GRAND CHALLENGES &
OPPORTUNITIES**

Challenges

- High rate of urbanization
 - Urbanization in Ethiopia is proceeding at an unprecedented rate.
 - Historically, Ethiopia has been one of the least urbanized countries in Africa (20% compared to Africa's 40% in 2018).
 - However, the rate of urbanization in the last three decades has been proceeding at an accelerating rate – 4.8% compared to Africa's 4.1 percent,
 - At this rate, about 35% of the population is projected to live in urban areas by 2030. This rate will have a major impact on the economy.
 - The economy cannot keep pace with the rate of growth of the urban population.

Migration and the overcrowding of cities

- Migration to urban areas is increasing as the 'push and pull' factors in many of Ethiopia's rural areas are intensifying.
- A whole range of social, economic and political problems impacting the country.
- over-concentration of the population in a few urban areas, primarily in Addis Ababa, is creating undue pressure on the city's resources.
- Ethiopian cities have become a destiny for the desperado and the poor in our society.
- For many young people, our cities are becoming a dead-end in their search for a better life.

Urbanization and the development trap

- As a result of the unprecedented urbanization rate, Ethiopia is suffering from what is known as "Africa's development trap"
- An economic change where cities are becoming overcrowded, disconnected and costly.
- They are becoming costly for firms and households, making it difficult to do business or survive.
- The problem is both structural and institutional as the following statements illustrate.

The dilemma with the structural change of the economy

- In East Asian countries development transformed the economy from an agriculture-based to an industry-based economy focusing on the export market
- Development in Ethiopia is characterized by a change from agricultural to a service economy, which often tends to be of a lower productive sector.
- The net effect is to increase the migration rate to urban areas, which is bound to lead to overcrowding of some urban areas and scarcity of land for housing and other infrastructure services.
- Municipalities are facing major problems in responding to the rising demand for more urban services such as housing and more job opportunities.

The lack of urban services

- The overcrowding of Ethiopia's cities on one hand and the lack of infrastructure on the other has made many Ethiopian cities "the city of the poor".
- Most cities are not able to provide basic services including housing, water, transportation, power, health services, education and safety, and security.

The 'irrational' land ownership system

- The current land ownership system in Ethiopia is riddled with a whole range of problems that have become a burden on the economy and cause of social, economic and political tension in the country.
- Ethiopia is one of the few African countries that still retain the relics of the socialist ideology, specifically, the state ownership of land.
- Problems of insecurity of tenure, fragmentation, and diminution of farm sizes, corruption associated with land stocking by individuals and corporations with strong political ties, displacement of farmers and poor urban residents, and issues of expropriation and unfair compensation for land taken from landowners.
- This 'irrational' land ownership system has become a burden on the economy.

The institutional bottlenecks

- Ethiopia's cities have no clearly defined legal power that delineates the powers and responsibilities of those that govern vis-a-vis the state (kills) or federal government.
- problems among neighboring communities in terms of running one's affair and sharing and controlling resources.
- Addis Ababa and its surrounding areas.
- For instance, who should have a say on city matters; should it be residents or other bodies established based on ethnic, religious or other criteria? What is the power of a city government on surrounding areas?
- Who can annex small surrounding communities and what are the legal bases for annexation? Can a city expand unilaterally?
- How far out beyond city limits should a municipality control development?

City planning or master plan as a 'dirty' word

- Why is city planning or master plan being a 'dirty' or sensitive word in Ethiopian city politics?
- Should cities be required to have master plans?
- What are the powers, responsibilities of a local government to prepare a plan?
- How should be the process of plan preparation set in terms of guidelines?

City Financing

- Many of Ethiopia's cities are strapped with problems of finance to cover the cost of financing city services.
- The finance problem is structural as the economic base of cities is limited.
- Municipalities cannot expand their local source of financing, yet the demand for expansion of city services is increasing at an unprecedented rate.
- What can municipalities do to address this problem?

Housing

- The dominant player in the housing sector today in many Ethiopian cities is the municipal government
- For instance, the municipality of Addis Ababa is directly involved in the supply of land through the auction system and the construction of housing, including the building of condominiums
- Conversely, the role of the private sector in construction and overall real estate development is limited.
- What kind of strategic measures should municipalities take to deal with their housing crisis problem?

Strategic Measures

- **Urbanization Policy**
- The urbanization policy should focus on redirecting the urbanization trend by encouraging the growth of some of the regional towns
- Cities such as Adama, Bahir Dar, Dire Dawa, Dessie, Gondar, Hawasa, Jiggiga, Jima, Mekele and Shashamene
- The policy could identify 15-20 major towns and concentrate resources to make these towns highly competitive in attracting investment and in building a strong economic base.
- It should also encourage migrants to move to these new regional cities by providing employment, educational and other opportunities.

Urbanization and the development trap

- This problem is an outcome of both the structural and institutional challenges of the country's economy.
- Ethiopia's economy is changing from agricultural to a service-based economy, which tends to be of a lower productive sector.
- Yet, Ethiopia has great potential to develop its agricultural economy by modernizing the sector and targeting the Middle East and European markets.
- Global demand for agricultural products is increasing, and Ethiopia should try to take advantage of this development
- Focusing on agro-processing industries (added value) to produce packaged coffee and tea, canned food products, edible oil, animal products, cotton mills, textile, leather and leather products for exports.
- It should also deal with major barriers limiting the expansion of the economy making investment policies conducive for foreign investment.

The 'irrational' landholding system

- Ethiopia's landholding policy, which states that land belongs to the "Nations, Nationalities and Peoples", is a burden to the national economy, irrespective of the political rhetoric and ideology that maintains that the policy is protecting poor farmers.
- Studies have demonstrated, Ethiopian farmers do not need the government's role of playing 'big brother', trying to protect farmers from being displaced by unscrupulous individuals and pushing them to be destitute.
- State ownership of land has reduced farmers to "tenants of the state", thereby depriving farmers of their right to exercise their full right to their property.
- The policy was instituted for a political reason to give more power and control to the government.

The 'irrational' landholding system (Cont.)

- More importantly, "Nations, Nationalities and Peoples", are abstract concepts/objects (ግድብ መንፈስ) with no real entity to be held accountable for any damage caused to an individual property – they cannot be sued or required to pay for damage.
- Several studies have documented that the landholding system is riddled with a host of problems, some of which are identified above.
- Most of all, it is a policy that dampens the investment spirit of the private sector.
- The country has to push for a private property with all its responsibilities and obligations including the right to exclude others, even the government, except in the case of eminent domain (using private land for public use).

The Institutional bottlenecks

- The lack of strong legislation that clearly defines the powers and responsibilities of municipalities vis-à-vis the states (killils) and the Federal Government is one of the major bottlenecks in the development of urban areas in Ethiopia.
- There are problems among neighboring communities in terms of running one's affair and sharing and controlling resources.
- This problem can be better illustrated by looking at Addis Ababa as a case study.
- Addis Ababa is a federal capital, and as such, it belongs to all constituents of the Federal Government – the Ethiopian people.
- By extension, it is Africa's Diplomatic Capital, because of its role as the headquarter of the AU and other international organizations.

The Institutional bottlenecks (Cont.)

- Addis Ababa belongs to Addis Ababans and they should be the ones that should have a say in running the affairs of the City; they should choose their mayor, city council members, and other elected officials and participate in matters affecting their city and their life.
- Today, because of political and ideological reasons, there is all kinds of arguments for and against to confuse the issue.
- Why someone from the farthest corner of Ethiopia, say, Tulu Bolo or Moyale, who has never set foot in Addis Ababa, should decide Addis Ababa's fate is beyond me!
- Politics aside, what is the power of the city government on surrounding territories? Who has the power to annex territories in the surrounding areas? Matters of annexation and control on extraterritorial areas are always sensitive.

The Institutional bottlenecks

- If we take other countries' experience, for instance, the USA, in most states, a municipality has jurisdictional authority on territories up to 2 miles (about 5 km) beyond the city boundary.
- The rationale is that the city will expand in due course and developments beyond the city boundary should not be a stumbling block to future growth.
- This territory is called extraterritorial jurisdiction (ETJ).
- The governing body of the major municipality negotiates with the surrounding communities on development matters so that growth could be consistent with the master plan of the major city.

The Institutional bottlenecks

- Similarly, annexation (voluntary or forced, depending on circumstances) is carried out through negotiation, often involving give and take.
- The major city provides city services – water, power, road network, police protection, education, health services, etc. and other capital improvement programs and the adjacent territory agrees to be part of the larger municipality and starts paying taxes.
- As growth intensifies, there is a tipping point beyond which an adjacent municipality would find it beneficial to join the major city to avoid the cost of providing services.
- The circumstances and conditions of both types of annexation (voluntary and forced) are usually spelled out in a state or federal legislation.

City planning or master planning as a 'dirty' word

- A master plan or a comprehensive plan is an expression of the wish of a community.
- Unfortunately, the term is viewed as a 'dirty' word in the Ethiopian urban lexicon because of politics in the last few years.
- A master plan is a document that outlines, in general terms, what a city would like to be in 10 to 20 years. It is a technical document prepared by professionals and sanctioned by the elected officials of a municipality.
- It does not deal with individual property or city block; that is left to a Local Development Plan (LDP). The master plan also has the distinct advantage of providing guidelines/indicators on what a city would like to be (an administrative, industrial, historic city, resort city ...) and on how the municipality should prepare to accommodate future growth.

City planning or master planning as a 'dirty' word

- It can serve as a guide for municipalities, as a legal document for courts to reference; and as a source of information for the general public.
- For instance, if Addis Ababa's population is projected to grow to 7 million by 2025, the municipality can prepare ahead of time on how it plans to accommodate this population – how much land to provide, water capacity, housing, schools, health services, roads and other modes of transportation,
- A master plan gives valuable information on how the city plans to handle the change. A city cannot sit tight and leave change to chances. It has to manage change; otherwise, change will manage it.

City Financing

- Many municipalities cannot expand their local source of revenue yet the demand for expansion of city services is increasing at an unprecedented rate. This is a major problem that affects many cities.
- A city has to modernize its tax as well as revenue collection systems (for instance, computerizing records); it also has to look into matters of efficiency and effectiveness of its operation.
- For instance, there has to be a periodic evaluation (at least once every 5 to 10 years) on property valuation and tax assessment. The city should try to share the benefits accruing from the increase in property value or business transaction without causing an undue burden on property owners and the business community.

City Financing

- Capital Improvement Programs – CIPs (big-ticket items such as road building, bridges, water dam, municipal building...etc.), besides using land lease, establishing a trust fund, including earmarking funds to be used to certain projects may be an option.
- For instance, in the US, federal highways and many state highways are constructed and maintained through the Highway Trust fund
- Money collected from the sale of gasoline, diesel oil, tires.... and other transport-related products collected by cities. Thus, if there is a 10-birr tax tacked on to a liter of gasoline, 30% of the tax may be set aside for the Highway Trust Fund.
- The Federal Government reallocates collected funds to municipalities based on some formula - population, length of the existing road, the proportion of revenue collected from city...etc.
- This fund is earmarked for highway projects and could not be used for any other purpose

City Financing

- Similarly, the trust fund concept could be used for other CIP projects - for water projects, tack on a small tax to water bill; for power, tack on a tax on to an electric bill, etc.
- Additional sources of revenue for CIP projects would be requiring municipalities to set aside as a reserve a certain % (say 10%) of their annual budget for capital improvement programs.
- While this scheme of collecting revenue may not be adequate to cover the needed cost of CIPs, it would still serve as a major source of revenue for many municipalities.
- It would also prevent CIP projects from being neglected for years with no maintenance

Housing

- Providing housing is one of the major service responsibilities of any municipal government.
- Addis Ababa has initiated different types of housing programs in the last decade, although still far from meeting the increasing demand.
- A critical area in assessing housing shortage is determining the level of effective demand for housing.
- Effective demand refers to the ability and willingness to pay for housing, although a majority of the households in Ethiopia do not have the income to afford a 'decent' home.
- A long-term housing ownership program that involves municipalities and banks could be introduced to provide opportunities for those who may wish to be homeowners.

Housing

- For instance, take professionals such as teachers, government workers, health service providers (nurses, health officers), police ... etc., and if they are (a) willing to bear a cost burden of 30% of their income for housing, and (b) make a down payment of 20% of the cost of housing,
- A municipality can arrange a housing loan for them with a commercial bank or a housing investment bank to be paid over a long period of time.
- How the scheme works.
- Suppose a family that makes an annual income of 60,000 birr (about 5,000 birr per month) wants to buy a house at a cost of 500,000 birr. The family should first come up with the 20% down payment (100,000 birr). To come up with this down payment, it would take the family about 5.5 years by contributing 30% of their income toward down payment.
- Then the balance of 400,000 birr could be spread over the next 22 years ($400,000 / 18,000$ per year) to be paid by the homeowner.

Housing

- At this rate, by the time the family is ready to retire, the total mortgage will have been paid in full and the family can pass on the home to their children.
- Until the full amount is paid, the house serves as collateral with the bank holding the registration (carta) of the house.
- This is a rough sketch to illustrate that with the help of a local government or a municipality, many professionals who otherwise could not come up with a half-million birr to buy housing could easily be made homeowners.

Revolutionizing city services

- Residents often complain about the slow, bureaucratic and corrupt city services. For instance, if one wants to secure a registration certificate (*carta*), complete property sales transaction, get building permits, pay tax bills...etc., one has to spend hours, and in some cases days to get the service.
- The system has created the conditions for corruption and payment of bribes to get any service. This problem could be avoided if municipalities would free themselves from providing directly some of these services, and instead, sub-contract the services to authorized agencies.
- For instance, property sales transaction, securing certificates, and many property-related services (ex., checking property lien) could be delegated to an agency similar to **Wul and Mmasreja**(ውልና ማስረጃ).
- The city's responsibility would be to record any transaction completed through the agency

Revolutionizing city services

- Similarly, on services for building permits, compliance verification (all legal and technical requirements) are completed by a licensed agency.
- All that the city has to do is verify for accuracy and record the permit. If an issue arises regarding service provided by an agency, the particular agency would be held responsible. Repeated offences by the agency would result in withdrawal of license granted for operation.
- For payment of taxes, bills or any other payments, individuals should be able to transfer the fund directly from their account to the authorized tax or bill collecting office/agency.
- Under the present banking system, an individual can transfer funds from their account to another party. If this service is available for individual business transaction, there is no reason why the same service could not be arranged for payment of municipal bills.
- Banks would love to provide these kinds of services for a fee.