

An aerial photograph of Addis Ababa, Ethiopia, showing a dense urban landscape with a mix of modern high-rise buildings and traditional low-rise structures. A vibrant rainbow arches across the sky above the city, set against a backdrop of blue and grey clouds. The foreground is dominated by a thick canopy of green trees interspersed among the buildings.

# THE STATE OF ADDIS ABABA

2017

THE ADDIS ABABA WE WANT

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THE STATE OF  
ADDIS ABABA  
2017

THE ADDIS ABABA WE WANT

# FOREWORD BY UN-HABITAT



**I**t gives me great pleasure to introduce the State of Addis Ababa 2017 Report – the first of its kind to provide a comprehensive assessment of existing socio-economic and environmental conditions in the city and to provide evidence-based policy recommendations for achieving more sustainable pathways of development.

The report is very timely, given Ethiopia's ongoing rapid urbanization and the growing economic, social and spatial transformations of the last two decades. Both the federal government and Addis Ababa's city administration have made significant progress in improving economic and social conditions for residents of Addis Ababa. At the same time, challenges remain for Addis Ababa to become a more inclusive, safe, resilient and sustainable city in line with the Sustainable Development Goal 11. Notably, urbanization has caused increasing pressure on the city's capacity for affordable and adequate housing, employment, and access to basic services, particularly for the most poor and vulnerable. Addis Ababa will also face additional challenges in facilitating access to housing and land, while ensuring that social networks are not lost, and addressing the growing desire of the citizens of Addis Ababa to participate in decision-making processes.

These issues are explored in-depth in the report, which are presented in the context of the New Urban Agenda, the outcome document of Habitat III, and its avenues of implementation by local authorities. It thereby provides tangible and practical

recommendations for building an Addis Ababa that can serve as an engine of prosperity, as well as a centre of cultural and social well-being, while protecting the environment.

UN-Habitat, the leading UN programme on sustainable urbanization with more than forty years of expertise and as a focal point for sustainable urbanization and human settlements in collaboration with other United Nations entities, is committed to support Ethiopia's sustainable urban development process.

A handwritten signature in black ink, appearing to read 'Joan Clos', written in a cursive style.

**Dr. Joan Clos**  
**Under-Secretary General of the United Nations**  
**Executive Director UN-Habitat**

# FOREWORD BY THE ADDIS ABABA CITY ADMINISTRATION



The African Union Agenda 2063 spells out the aspirations to be a prosperous continent, with the means and resources to drive its own development, with sustainable and long-term stewardship of its resources. Structural transformation is a necessary condition to translate the region's recent impressive economic growth rates into inclusive and sustainable development. The agenda's realization is strongly linked to the way urbanization is managed, as cities are hubs of cultural and economic activities, and Africa is urbanizing rapidly, projected to becoming predominantly urban within the next 20 years.

In Ethiopia, the recognition of the “urban” potential for economic transformation translated into the National Urban Development Policy of 2005, and further into the Second Growth and Transformation plan (GTP II). GTP II aims to transform Ethiopia into an industrialised middle-income country by 2025 and mainstreams the sustainable development goals (SDGs), while pursuing the strategy of fostering the governance and management of rapid urbanization to accelerate economic growth.

Urban development strategies such as increased investment to improve urban infrastructure, housing development and job creation through the engaging the youth demonstrate the commitment of the city government to transform Addis Ababa as a hub of innovation, economic production, and as a culturally diverse and environmentally sustainable capital city.

I am therefore pleased to introduce the State of Addis Ababa 2017 report, which has been prepared under a Memorandum

of Understanding between the City of Addis Ababa and UN-Habitat who have agreed to collaborate in initiatives that make the city prosperous and liveable –socially inclusive, economically vibrant, environmentally sustainable and well managed.

The report is a result of a commendable effort of UN-Habitat to undertake in-depth data collection and analysis that give an overview of the current state of the city pertaining to spatial, socio-economic and environmental issues.

The city administration is determined to guide the growth of Addis Ababa towards a more sustainable path. I trust that this report will provide both the information and inspiration needed to continue transforming Addis Ababa into a role model for managing the rapid urbanization to unlock its potential for structural transformation in Africa.

A handwritten signature in black ink, appearing to be 'Diriba Kuma', written over a light blue circular background.

**Diriba Kuma**  
Mayor of Addis Ababa



# ACKNOWLEDGEMENTS

This report was prepared under the leadership of Dr. Mathias Spaliviero, Senior Human Settlement Officer at UN-Habitat. He was assisted by Prof. Fantu Cheru, Senior Researcher, African Studies Centre, Leiden University, and Senior Advisor to the UN-Habitat Ethiopia country office. The research team was composed of experts from social, economics, and urban environment backgrounds. The core team that undertook the research and drafted the report comprised Dr. Meseret Kassahun, Assistant Professor, School of Social Work, College of Social Science, Addis Ababa University; Dr. Belay File, Assistant Professor of Development Economics and Urban Development Expert, Department of Development Economics, Ethiopian Civil Service University; Marjan Kloosterboer, M.Sc, PhD Student at the University of Glasgow in Urban Studies; and Dr. Linda Zardo, Department of Civil, Environmental and Mechanical Engineering, University of Trento, Italy. Aklilu Fikreselassie, Habitat Programme Manager Ethiopia at UN-Habitat, played a crucial role in coordinating the research process and providing relevant contextual feedback.

UN-Habitat is grateful for the generous financial support provided by the Sweden Embassy in Ethiopia towards the field research as well as in the final production of the State of Addis Ababa 2017 report. Similarly, UN-Habitat also acknowledges the tremendous political and technical support received from the Addis Ababa City Administration throughout the process.

The report was reviewed and edited by Prof. Fantu Cheru and Dr. Joseph Maseland, Human Settlements Officer at UN-Habitat, in close coordination with Katharina Rochell, International Consultant, Regional Office for Africa, UN-Habitat, who was also responsible for proofreading and the overall coordination of the production of the report with the assistance of Jessica Mundia, Intern in the Programme Division at UN-Habitat. Marcia Guambe, Urban Planning and Mapping Analyst at UN-Habitat in Mozambique, was responsible for providing GIS support and producing maps for this report.

This study could not have been completed without the dedication and contribution of Ato Demissie Damite and Abebaw Getachew who provided statistical support. The research team is further grateful for the research assistants Milki Getachew, Serawit Umar, Bethelhem Aschalew and Saada Ali. UN-Habitat would like to thank Mr. Geo Kalev for the courtesy of providing his photographs to illustrate this report.

The report also benefitted from the contribution of experts from the City Government of Addis Ababa Renewal Agency, the Addis Ababa Bureau of Finance and Economic Development, as well as from the Ethiopian Institute of Architecture, Building Construction and City Development, the Consortium of Christian Relief & Development Associations, Cordaid, as well as the Ethiopian Cities Association.

Finally and importantly, the contribution of renewal induced relocatees and condominium housing unit owners was absolutely crucial to this report.

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# Executive summary

The *State of Addis Ababa 2017* report presents a critical assessment of the city's historical, demographic and urbanization processes *vis-à-vis* its current socio-economic and environmental conditions within the city's dynamic urban governance structure, system and practices. Specifically, the report sheds light on the impacts of Addis Ababa's ongoing urbanization on its economic development, social services delivery, access to affordable housing for the poor and the urban environment. It provides recommendations to enhance the city's liveability, productivity, competitiveness and sustainability.

This report is based on extensive research, including:

- a. A survey involving 1,315 individuals out of which 323 former inner city residents relocated as part of a massive urban renewal strategy and 992 condominium winners;
- b. Interviews with key officials from the Addis Ababa city administration; and
- c. Secondary data from city government departments and the Central Statistical Agency (CSA).

The quantitative and qualitative data has been integrated with critically reviewed literature and is presented as a set of coherent and evidence-based findings. In the overall drafting process, cross-comparison and triangulation by data source has been applied to ensure consistency, credibility and reliability of the findings.

Indeed, the economic, social and spatial transformation of Addis Ababa over the past fifteen years has been more than dramatic. The economy is booming; new manufacturing firms are mushrooming; fiscal infrastructure has improved dramatically, aided by federally funded mega projects; the provision of basic services such as water and electricity is improving though not at a scale needed; an attempt to engage citizens more in decision-making is seriously being debated though progress is far from being fully realized. These positive developments should, however, not be interpreted at face value that all is well in Addis Ababa. The report highlights social, economic, and spatial challenges brought about as a result of the rapid and unplanned urbanization.

This report is the first of its kind that tries to capture the challenges and opportunities in managing the rapid pace of urbanization in Addis Ababa and to offer plausible recommendations and solutions for improvement. It covers five thematic areas: urban economy and jobs; urban renewal and housing the poor; accessibility and affordability of basic urban services; the urban environment and quality of life; and urban governance and the role of citizens in influencing public policy decisions. These are mega challenges that cannot be solved overnight, considering the weak state of urban planning and poor implementation capacity in the current governance structure of Addis Ababa.

At the national level, the rapid urbanization process experienced by Addis Ababa needs to be tackled from a regional planning perspective. A more polycentric urban system of the country is

recommended, hence avoiding the over-concentration of capital investment, businesses and population in Addis Ababa, by establishing a system of cities composed of different important urban centres and poles of attraction well-distributed across the country and inter-linked through development/transportation corridors. Both federal and regional governments are urged to develop and implement national and regional spatial plans and support their implementation through well-coordinated investments, and to establish a system of cities able to sustain the national territory, with the required services and factors of attractiveness, providing valid alternatives to Addis Ababa's current primacy.

Over the past twenty years in particular, Addis Ababa has experienced rapid economic development. Despite the efforts of the federal government and the city administration to diversify the economic base of the capital, the service sector remains dominant while the pace of manufacturing growth has remained slow though improving in the past five years. Although the city government has taken significant effort to enhance local economic development through micro and small enterprise (MSE) development, it has yet to demonstrate the potential of MSEs in producing broad-based inclusive sustainable economic growth. Consequently, the urban economy does not offer a sufficiently broad spread of job opportunities for different skill levels. Addis Ababa, therefore, registers persistently higher unemployment rates than the national average. It is imperative that Addis Ababa's economy needs to transform significantly and become more competitive in order to attract investment, manufacturing in particular, that would generate employment opportunities.

Addis Ababa's revenue raising capacity needs to better match the urban economic activity. Evidence shows that the city faces critical challenges in raising the municipal (own) revenue to finance its public expenditures. The city's current public expenditure relies far too heavily on state revenues and grants, with the share of municipal revenue declining further overtime. With growing demand for better services and modern infrastructure, the city *must* enhance its revenue generation capacity, not only by improving tax collection, but also by exploring other forms of resource mobilization, including attracting more domestic and foreign investments by improving the business environment.

The city has also made huge investments in subsidised and affordable housing for its low- and middle-income residents. The production of condominium housing has been successful in increasing the city's housing stock and improving the physical urban environment through slum reduction. These efforts, however, have been rendered less effective than anticipated as the housing offered is not affordable to the 20% of the city's residents with incomes below the poverty line. Survey results show that out of 1,315 study participants living in condominium



housing, 41% are spending more than 30% of their household income on housing costs, illustrating the lack of affordability of this (re)housing strategy to the poor. In addition, compensation mechanisms and regulations are found to be unfair by inner city landholders as the implementation fails to take into consideration market values while determining compensation. Likewise, replacement cost calculations insufficiently reflect true construction costs. It is noted here that urban upgrading and densification need to be explored before deciding on wholesale demolition, renewal and relocation as a final option.

Likewise the existing housing strategy should be reviewed for incorporating a wider range of options beyond ownership of condominium housing units (i.e. rental housing, housing upgrading, housing cooperatives, etc.) and to expand affordable housing finance.

In case of *expanding basic services* to the population, the picture is mixed. Although access to health and education services has increasingly improved since these two sectors have involved the private sector, improving quality remains a huge challenge, particularly in new settlements where former inner-city residents have been relocated. Likewise with mobility: despite continuous efforts by the city government to promote better transportation services including introduction of Ethiopia's first Light Rail Train, access to efficient and affordable transportation and mobility remains problematic with high transaction cost and inconvenience to the majority of the city's residents, particularly for those relocated to peri-urban zones under the urban renewal programme.

The one victim of rapid and unplanned urban growth has been the *urban environment* which has a huge impact on public health as well. Air and water pollution are exceeding acceptable standards with negative consequences for the health of the city residents. The major sources of air and water pollution include the use of old cars, the use of charcoal for cooking and heating purposes as well as the lack of proper sewage and dry waste management. While the challenge of air pollution is huge, the city needs to better regulate pollution by enforcing existing legislation rather than the introduction of new regulations.

With respect to solid waste, the city administration will need to introduce best practices such as waste separation, compost production, recycling and re-use. Moreover, water pollution needs to be tackled by regulating and controlling discharges from both houses and factories. Communities themselves could be mobilised for monitoring activities to preserve the river and river banks.

Addis Ababa's green areas and the urban ecosystem in particular remain far below desirable standards. Trends show that the built up areas are increasing at a speed of 4-5 km<sup>2</sup> per year. The scarce green areas and poor ecosystem in the city negatively affect

pollution mitigation, run-off regulation and the provisioning of clean water. This in turn triggers costs while impacting negatively on the wellbeing of the Addis Ababa residents. Neighbourhoods accommodating the more vulnerable communities have the least access to green areas and the benefits of an adequate ecosystem.

Although the city administration has adopted environmental policies and regulations, translating these into practical action has proven a challenge due to financial and technical capacity constraints. There is dire need to create institutional awareness on existing policies and regulations for better implementing strategies to tackle pollution, waste management, and climate change mitigation and adaptation.

Finally, as the seat of the African Union and other international organizations, Addis Ababa's economic future is limitless. However, in order for the capital city to become a premiere global city, the governance deficit must be overcome. At present, urban governance heavily suffers from inappropriate and sometimes even corrupt practices as well as weak institutional capacity for planning. This is especially the case in such critical areas as urban land, basic urban services and housing. Any frontal attack on corruption, rent-seeking and nepotism will require determined political leadership, the tightening of flawed procurement practices, computerization of revenue collection, besides enforcement of the rule of law and prosecution of individuals involved in those bad practices. Corruption is one of the main deterrents to a conducive business environment and, by extension, to attracting domestic and foreign direct investment flows.

The city's commitment towards improving urban governance is genuine. Over the past decade, the city administration has introduced various structural and institutional reforms as well as capacity building initiatives to enhance the competence and responsiveness of municipal institutions in services delivery and to reduce bureaucratic red tape that frustrates business operators and citizens alike. To measure progress on the same as well as citizens' satisfaction levels, Addis Ababa should establish a system for annual feedback on services delivery for each sub-city of Addis Ababa. The current effort by the federal government in 'deep reform and renewal' is very much welcome, and the city administration must build on these current efforts to strengthen institutional and planning capacity, to enhance transparency and accountability, and to improve the responsiveness of government institutions to the demands of the citizenry. These undertakings can be successful if the city administration broadens the space for citizens participation in decision-making.

# Introduction



▲ The physical transformation of Addis Ababa. © Geo Kalev

Ethiopia, the second-most populous country in Africa, has an estimated population of 90 million (Central Statistics Agency (CSA), 2014). According to the CSA's 2014 annual statistical abstract, the majority of Ethiopians reside in rural areas. However, Ethiopia's urban population more than doubled from 4.87 to 11.86 million between 1984 and 2007 and, growing at a rate of 3.8% annually, is expected to triple by 2037 (World Bank, 2015). The level of urbanization in Ethiopia currently stands at 19%, low even by sub-Saharan African standards. However, the rate of urbanization is expected to accelerate at about 5% annually (World Bank, 2015)<sup>1</sup>.

Until recently and given its very low level of urbanisation, Ethiopia's development policy was heavily biased towards agriculture and rural development under the umbrella of the Agricultural Development-led Industrialization (ADLI) programme. This historic rural predisposition towards agriculture has been a critical factor in the country's current low urbanization level. However, since the early 2000s, attention has shifted towards

industrialization as Ethiopia strives to achieving 'middle-income country' status by 2025. The government adopted a first national urban development policy in 2005 which puts urbanization and industrialisation at the centre of national development efforts (Ministry of Finance and Economic Cooperation (MOFEC) 2015).

This major policy shift towards urbanization and industrialization has significantly contributed to rapid transformation of the Ethiopian economy, resulting in a noticeable shift in economic sectors' contribution to the GDP – away from agriculture towards services and, to a lesser extent, manufacturing (World Bank, 2015). High public investments in infrastructure projects have significantly contributed to subsequent economic growth. Expansion of urban infrastructure investments in particular demonstrate the government's commitment to transforming Ethiopian cities' economies towards providing better business environments and becoming nodes of innovation and economic exchange. This with a view to enabling Ethiopian cities to better

access and exploit opportunities of the global economy (Ministry of Urban Development, Housing and Construction (MOUDCo) 2014)<sup>2</sup>.

As part of the government's ambitious plan to achieve 'middle-income country' status by 2025, Addis Ababa has benefited from huge investments over the past decade. Massive urban renewal and redevelopment projects are underway across the city to improve its competitiveness as a business location, to tackle the huge backlog in affordable housing and basic service delivery through accelerated investment in infrastructure and public housing programs. As a result of these state interventions, Addis Ababa has experienced tremendous economic dynamism, attracting both domestic and foreign investments that generate job creation and other economic opportunities.

Despite the actual and symbolic significance of the ongoing urbanization that is significantly changing both the spatial and economic landscapes of Addis Ababa, reliable empirical data is lacking. Consequently, it is not always possible to understand and quantify the drivers of recent growth and transformation of the city and their socio-economic, environmental and social impacts. Hence, the current *State of Addis Ababa 2017* report is aimed at providing a more comprehensive assessment of existing socio-economic and environmental conditions in the city and what the city could do to better tap into the economic opportunities and potentials at the national, regional and global levels.

This *State of Addis Ababa 2017* report consists of five sections. The first presents the historic development of the city in the late 19th century to the present as well as its current demographic and governance characteristics.

The second section is devoted to analyses of Addis Ababa's economic characteristics by critically reviewing the city's productivity and competitiveness. The second section further highlights the challenges and opportunities of land value capture to enhance municipal revenues, and other promising measures that could be pursued to improve the city's fiscal condition, including attracting both more and better domestic and foreign direct investment.

Section three discusses the challenges and the progress made by the city administration in providing affordable housing. One key aspect of the present housing strategy is inner city urban renewal and relocation of residents to newly-built condominium housing. While these renewal programs are supported by the inner city residents, the process has been fraught with challenges, including the compensation offered, whether through replacement land or condominium units, that has been contested by many relocatees and land owners alike.

The fourth section discusses Addis Ababa's alarming rate of environmental degradation. While the city administration has adopted environmental guidelines and regulations, translating these into practical and strategic action has shown to be problematic due to lack of institutional and human capacity. This section also highlights the connectedness of the environment with basic urban service provision as well as mitigation and adaptation mechanisms to reduce the negative impacts of climate change on the wellbeing of the inhabitants.

Section five concludes the report and presents actionable recommendations for each of the thematic areas covered.



2013: Streets of Addis Ababa. © Shutterstock





# 1

## ADDIS ABABA'S EVOLUTION AND GOVERNANCE STRUCTURE

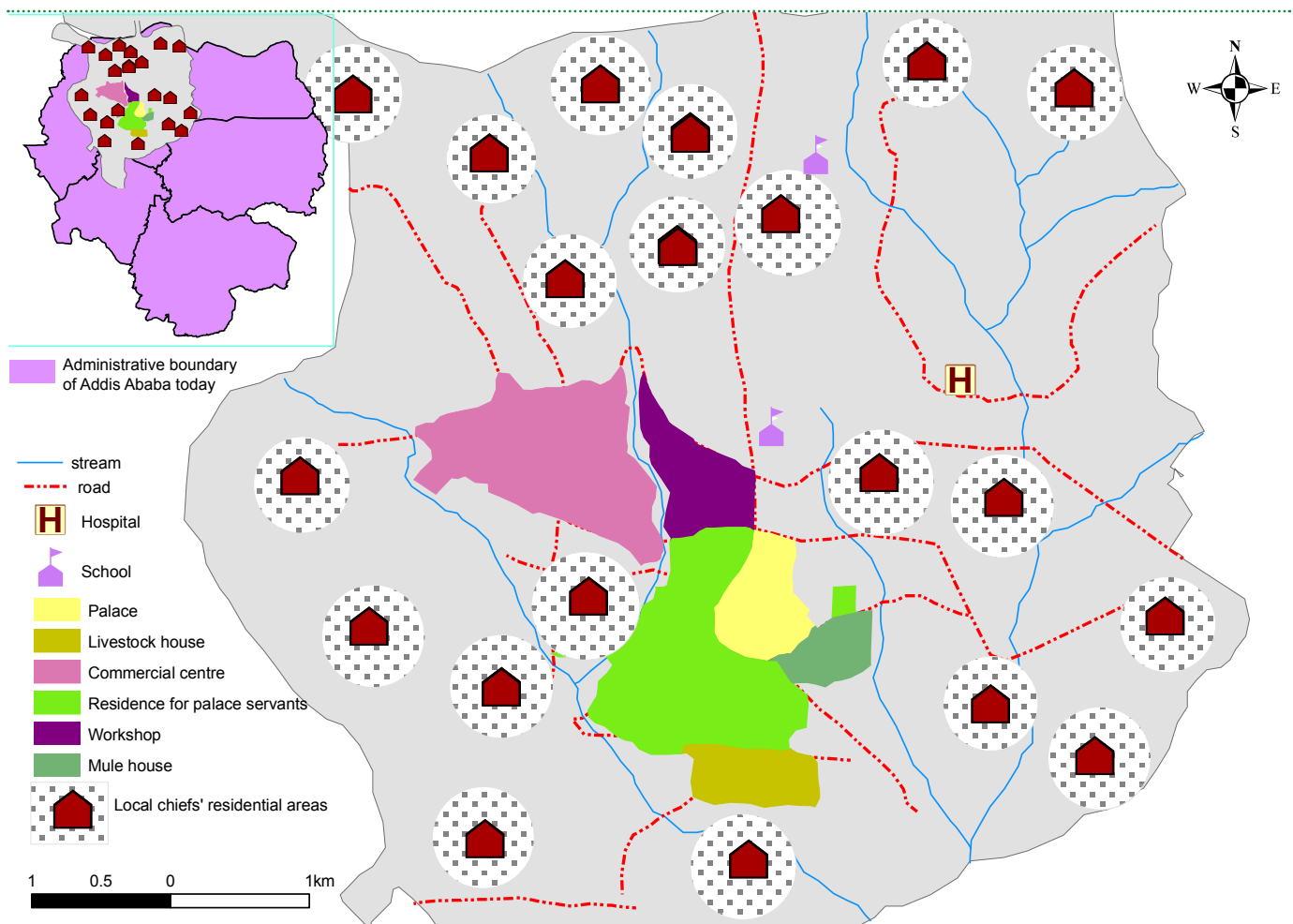
**A**ddis Ababa was established in the late 19<sup>th</sup> century and in comparison to other capital cities it is relatively young. Addis Ababa has evolved from a small rural settlement up to the 1950s into a vibrant modern metropolis today. Much of this urban transformation began during the period of Imperial Rule but accelerated in the post-1991 era. This section discusses and reviews the planning approaches over time and under successive regimes, and how these have collectively shaped today's socio-economic and spatial characteristics of the city.

# 1.1 The evolution of Addis Ababa until 1935

In late 19<sup>th</sup> century, Emperor Menelik II and his wife Empress Taitu founded the City of Addis Ababa (Addis Ababa means 'New Flower' in English). The emperor selected the Finfinne area for its fertile land, mild climate, geographically strategic and defensive position, and ancestral history. It is alleged that the royal couple was attracted to the Filowa hot springs which were believed to possess curative powers (Pankhurst, 1961; Tufa, 2008)<sup>3</sup>. Addis Ababa evolved organically without formal planning practices. However, historians believe that there existed an informal master plan led by Empress Taitu, often referred as 'Taitu's era master plan', that guided city development until

the Italian occupation of Ethiopia in 1935 (Mahiteme, 2007)<sup>4</sup>. A multicentred settlement spawled around three main political, economic and cultural nodes: the imperial palace (the Gebbi), the market (Arada) and the church (St. Georgis). The socio-spatial organization of the city initially reflected the traditional layout of a military camp surrounded by rural villages clustered in close proximity to each other, rather than a strong central core and capital city (Mahiteme, 2007; Tufa, 2008)<sup>5</sup>.

In 1909, a modern urban administration was established, responsible for the day-to-day management of the affairs of the city (Giorghis & Gérard, 2007)<sup>6</sup>. However, the city's limited financial capacity and restricted political mandate could not effectively address the emerging urban challenges (Mahiteme, 2007). It was, therefore, not surprising that few physical improvements were realised in urban infrastructure and service delivery during the reign of Emperor Menelik. Addis Ababa's rural characteristics lasted well into the 1960s.



Sketch of Taitu's era master plan (Mahiteme, 2007).

# 1.2 Urban planning in Addis Ababa

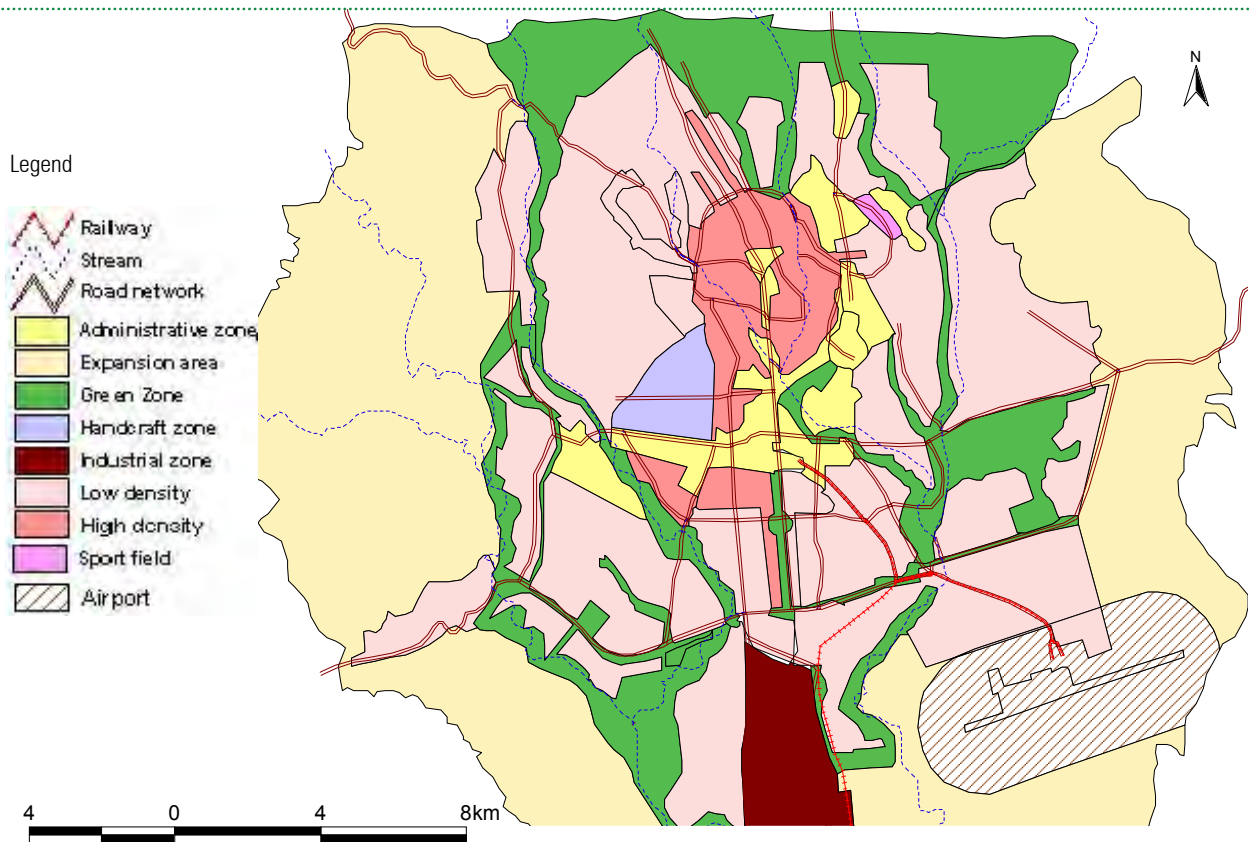
## The Italian Occupation (1935-1941)

The first attempt to incorporate Ethiopia into Italy's overseas colonial territories was aborted in 1896 after Ethiopia defeated Italy at the Battle of Adwa. Prior to the outbreak of the Second World War, Italy occupied Ethiopia in 1935 and administered it as a colony for five years (Pankhurst, 1961). During this short occupation, western urban planning practices were introduced. Two attempts to prepare a master plan for the City of Addis Ababa were made: by architect Le Corbusier in 1936 and by architects Guidi and Valle in 1938. The 1936 master plan sketch by Le Corbusier was rejected since it did not take the city's topography into consideration and could therefore not be applied practically (Tufa, 2008). In 1938, the second attempt to prepare a master plan was inspired by the previous work of Le Corbusier. Guidi and Valle proposed a plan; that is, broadly an orthogonal street plan, based on the layout of the overnight camps of the Roman Legions. This second master plan, in addition, proposed housing development with residential segregation of natives and Europeans (Mahiteme, 2007), waste management, road construction and a public transportation

system (Pasquali, 2015)<sup>7</sup>. Many of the major roads that still criss-cross the city were built during the period of Italian occupation (Duroyaume, 2015)<sup>8</sup>.

## The Imperial Regime (1941-1974)

The quest to modernize the City of Addis Ababa continued in the post-Italian occupation era - the period of Imperial Rule. During 1956-1966, three foreign urban planners proposed different master plans for Addis Ababa following the British town planning model. The first master plan, prepared by the famous British town planner Sir Patrick Abercrombie, proposed decentralized city development through planned neighbourhood units, land zones and six satellite towns in the city's periphery (Ahderom, 1986; Wubneh, 2013)<sup>9</sup>. While Abercrombie's plan was based on a low estimation of population growth, the second master plan prepared by the British consultancy firm Bolton Hennes & Partners proposed a similar plan but based on a higher population growth projection (Yitbarek, 2008<sup>10</sup>; Ahderom, 1986)<sup>11</sup>. The third master plan, prepared in 1965 by Luis de Marien, a French consulting team, was based upon the visions of its two predecessors (Mahiteme, 2007). However, none of these three plans were implemented due to the lack of financial and technical capacity. The dilapidated condition of Addis Ababa until very recently is, therefore, the result of the combination of lack of appropriate spatial development plans and shortfalls in resources and personnel required for their plans' effective implementation.



Proposed master plan by L. De Marien, 1965 (Mahiteme, 2007).

## The Dergue Era (1974-1991)

The Dergue Regime replaced Imperial Rule in 1974 and declared socialism as its major ideology to guide the economic and social development of the nation (Wubneh, 2013; Ejigu, 2013)<sup>12</sup> and transformed Ethiopia's landownership system. Under the popular phrase '*land to the tiller*' all rural and urban land was nationalized in 1974. The 'famous' Proclamation No. 47 "*Government Ownership of Urban Land and Extra Houses*" was issued in 1975 and outlawed both private ownership of land and income from sub-letting of houses to enforce a fairer distribution of land and housing across urban areas (Yitbarek, 2008).

The Dergue Regime also attempted to develop a master plan for Addis Ababa. Two different plans were proposed in 1978 and in 1986. The Hungarian Planner C.K. Polonyi led a team of Ethiopian planners and architects in 1978 to prepare a master plan under the direction of the Ministry of Urban Development and Housing (Wubneh, 2013). The plan proposed two major interventions: (1) development of Addis Ababa's inner-city areas, particularly the redevelopment of Meskel Square as a place for public gatherings; and (2) megalopolis development by integrating and linking Addis Ababa with the surrounding towns to strengthen rural-urban linkages (Ahderom, 1986). Like the master plan under previous regimes, the megalopolis concept was never put into practice since it was considered too ambitious and beyond the financial means of the government.

The 1986 master plan, developed by a team of Ethiopians and Italians, covering the period 1986-2006, was based on Polonyi's original idea (Mahiteme, 2007). The new plan focused on integration of Addis Ababa with the surrounding regions and development of urban centres in the city's periphery to promote decentralization and to provide services for the surrounding areas (Wubneh, 2013). The plan, however, had one major shortcoming: it failed to address the city's housing, sanitation and infrastructure shortages. Moreover, the plan was not officially approved until 1994, by which time it was out-dated (Mahiteme, 2007).

The failure of the Dergue Regime to timely implement a master plan contributed to uncontrolled sprawl of the city (Tufa, 2008). By 1994, when the 1986 master plan was officially approved by the Ethiopian People's Revolutionary Democratic Front (EPRDF) regime, the housing and infrastructure conditions of the city were deplorable. In response, the EPRDF government undertook remedial measures, such as the upgrading of deteriorated housing and road networks, as well as construction of new housing units in the city outskirts (Mahiteme, 2007). In the inner-city areas, upgrading of mud (*chika*) houses was prohibited. Redevelopment of inner city areas and construction of condominium housing and provision of modern services became the hallmark of the post-1991 government. Huge public investments have been made to improve water supply, sanitation and waste collection systems, drainage and road networks, as well as condominium housing to improve the quality of life of urban residents (Yitbarek, 2008).

# 1.3 Land and housing policy in Addis Ababa

## Land and housing policy during the Imperial Regime

Housing delivery during the Imperial Regime was directly related to landholding policy. The land tenure system of the Feudal regime allowed private land ownership. Each land holder was required to be in possession of a title deed showing the land size, boundaries and the number of buildings on the property (Giorghis & Gérard, 2007). Groups and individuals with strong connections to the monarchy controlled most of the land in Addis Ababa. This practice continued until the 1974 socialist revolution that abolished private ownership of land (UN-Habitat, 2007)<sup>13</sup>.

Feudal lords engaged in rental housing development and were the sole distributors of land. Until the nationalization of land in 1975, the relationship between the landlords and those who acquired a piece of land from them resembled tenant-landlord relationship as regular tributes were paid to the landlord rather than to the municipal government. These land transactions and tributes were never registered in the municipality's data bank. The loss of significant revenue deprived the city authorities the very resources needed to improve basic services and housing. Thus, during the Imperial era, some 60% of the housing stock in Addis Ababa consisted of rental units<sup>14</sup>, suggesting that housing supply was predominantly controlled by the elites who had the monopoly on land ownership. This created a situation under which low-income populations had the sole option of rental housing rather than owning their dwelling.<sup>15</sup>

Although private real estate developers were involved in housing supply during the Imperial period, their contribution towards alleviating the housing problem of low-income populations was negligible. They exclusively catered for high-income groups and the economic elite who could afford to pay. It is therefore not surprising that an estimated 90% of the population in urban areas of Ethiopia lived in substandard housing until very recently.

In Addis Ababa, the only project focused on low-income housing provision that is worth mentioning is the Kolfe Housing Project which involved delivery of 911 low-income houses constructed with financial support from the United States government (Palen, 1974)<sup>16</sup>. The Imperial Regime had failed to develop a coherent land and housing policy, thereby creating a severe housing crisis in the 1970s. Despite commendable efforts in recent years by the EPRDF government the housing problem persists (Palen, 1974). With increasing demand and higher rental prices today, a significant proportion of the people in Addis Ababa shares shelters that are of less quality and without relevant facilities.





Kebele house today. © Geo Kalev ▲

### Land and housing policy during the Dergue Period

The Dergue Regime introduced new housing delivery systems and abolished private sector rental or real estate development throughout the country. The nationalization of land and private property resulted in a significant loss of income to former landlords (Ejigu, 2013). Moreover, house owners were never compensated for their loss of land or housing. This situation was further exacerbated as the Dergue froze wages and salaries in 1974 despite rising inflation. As a result, the purchasing power of households steadily declined (Kebbede & Jacob, 1985)<sup>17</sup>.

The Dergue Regime, in line with its socialist ideology, took the decision to distribute urban land and housing equitably to the city's inhabitants. To achieve this objective it introduced two types of housing associations. The first was the Agency for the Administration of Rental Houses (AARH) responsible for the administration of government-owned rental housing with a monthly rental fee above ETB 100. The second housing delivery system was the Kebele Rental Housing, administered by Kebele Administration (urban dwellers association) and fetching a monthly rent of less than ETB 100 (Yitbarek, 2008)<sup>18</sup>. According to Tesfaye (2007) the *kebeles* controlled 93.87% (142,095 units) of the total government owned housing stock of 151,372 in Addis Ababa.

The Dergue Regime offered incentives to encourage development of housing cooperatives to expand the housing supply. Firstly, land was allocated without charge for the construction of owner-occupied dwelling units. The maximum plot size for cooperative housing was 500 square meters during the 1975-1986 period. However, with the adoption of Proclamation 292/1986, that ceiling has been reduced to 250 square meters. Secondly, building materials were subsidized. Cooperatives were given priority access to construction materials from government retail enterprises at a cost which, on the average, was less than 65% of the market value. Thirdly, mortgage loans from the Construction and Business Bank were made to cooperatives with households earning at least ETB 250 per month substantially below market interest rates.

As a result of these state interventions, a significant increase in housing supply was recorded (Tesfaye, 2007). From 1986 to 1992, in Addis Ababa alone, nearly 60,000 households were organized in cooperatives to build their own homes and between 1975 and 1992 produced 40,539 housing units (UN-Habitat, 2011). Despite these efforts, however, significant unfulfilled demand for affordable housing persists until today as demand outstrips the supply.

# 1.4 Addis Ababa today: Population and demographic characteristics

## Urban population demographics

According to the CSA July 2015 estimate, Ethiopia's total population is about 90 million people. Of the total population 19.5% (17.5 million people) live in urban areas. This number is rising fast due to an annual urban population growth of 4.89%. Ethiopia's urban population is expected to triple by 2037 (World Bank, 2015)<sup>19</sup>. Addis Ababa hosts an estimated 3.238 million people, which is a 17% share of Ethiopia's total urban population. Currently, Addis Ababa is experiencing an annual growth rate of 3.8% and is estimated to reach 4.7 million inhabitants by 2030.

There is no reliable comprehensive statistical data to show Addis Ababa's population trends since its establishment. The first census data was obtained only in 1961. However, several researchers have provided estimated population numbers for the city since 1889 (See Table 1).

TABLE 1: ADDIS ABABA ESTIMATED POPULATION  
(IN THOUSANDS, 1889-2016)

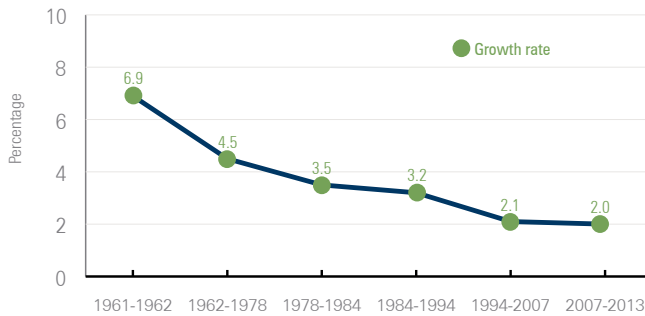
Year	(Estimated) population
1889	15,000
1910	65,000
1930s	80,000
1935	140,000
1960s	300,000 – 400,000
1961	455,490
1967	683,530
1979	1.27 million
1984	1.42 million
1994	2.11 million
2007	2.7 million
2010	3.3 million

(Source: Addis Ababa City Government (2002), CSA (2012), Mahiteme (2007), Palen (1974))



▲ Condominium housing constructed in response to housing demand. © Geo Kalev

FIGURE 1: GROWTH RATE OF ADDIS ABABA



Sources: FEDB, 2009; World Bank, 2010, Wubneh, 2013

As shown in Table 1, an estimated 15,000 permanent residents were believed to live in Addis Ababa around the time of establishment in 1889. Palen argues that the city’s population had tripled by 1910 and grew to 80,000 just before the Italian occupation in the 1940s when this number nearly doubled to 140,000 people. It had more than doubled again by the early 1960s to approximately 300,000 people (Mahiteme, 2007). Furthermore, official population censuses (1961, 1967, 1984, 1994) showed that the population of Addis Ababa grew quickly, accumulating to a total of 2.11 million in 1994. In the past two decades urban growth has decelerated in Addis Ababa and according to CSA (2013)<sup>20</sup> data, the Addis Ababa population now stands at 3,195,000.

Despite the significant population growth of Addis Ababa in absolute terms, the population growth rate has declined from 6.9% annually over the 1961-1962 period, to 3.5% over the 1978-1984 period, to 2.1% annually in 2007-2013. The periods from 1978-1984 and 1984-1994 saw the Dergue Regime, the severe drought in 1984 that drove people out of rural areas to the cities, as well as a change in the change in government in 1991 which had effects on still relatively high growth rates amidst an overall trend of decelerating growth rates. Since the 1990s and 2000s urban growth has slowed down in Addis Ababa (see Figure 1). This can also be explained in terms of the federal system that encouraged the emerging regional cities and the deliberate promotion of regional towns. Furthermore, the rise in living cost, the housing crisis, unemployment and shortage of infrastructure and services in Addis Ababa seemed to be discouraging migration to the capital city (Wubneh, 2013).

In more recent years however, this annual growth rate has accelerated. The city of Addis Ababa’s current population growth rate is estimated at 3.0% by the CSA and 3.8% by the World Bank (2015). Since fertility rates have steadily declined in Addis Ababa due to family planning campaigns (Finance and Economic Development Bureau (FEDB), 2009)<sup>21</sup> natural increase only contributes modestly to current city’s population growth. Rather, rural-to-urban migration is now the significantly contributing factor to the city’s population growth.

Between 1995 and 2000, 58% of the average growth of the city was attributed to migration (World Bank, 2015). Since this fast urban population growth is not supported by equal socio-



economic growth, the urban poverty incidence is on the rise (UNEP, 2014)<sup>22</sup>.

This population growth will put further and continued challenges and pressure on the city administration to provide efficient and affordable basic services and housing in sufficient quantities. To do so would require a doubling of the city capacity in urban planning, management and effective implementation, supported by strong political leadership from the top. It would also require prioritization of key investment decisions to enhance the competitiveness of the city and attract investment that generates more job opportunities for its growing population. Failure to plan ahead may have catastrophic impacts; both on the economy and on the welfare of its citizens.

Fortunately, Ethiopia is well on its way to building the basic policy and institutional foundations for kick-starting an industrialization path that could lead to structural transformation of its economy and towards more inclusive development. The priority for the city administration of Addis Ababa would be to build on recent gains by investing heavily in infrastructure and other key growth drivers and to continue strengthening the effectiveness and responsiveness of key municipal institutions that deliver essential services to the population and the (potential) business community.

# 1.5 The governance structure of Addis Ababa

Ethiopia has increasingly been improving in ensuring good governance, as reflected in various policy and strategy documents. Although the term ‘governance’ is a broad concept and subject to interpretation, in the Ethiopian context it refers to “the efficiency, effectiveness and accountability of public institutions in service provision, transparency and participatory interaction between the public sector and diverse stakeholders in decision-making”.

The 2005 Urban Development Policy is the first official document to integrate all principles of good governance in its strategy. In subsequent years, the government implemented several initiatives demonstrating its commitment to effective and sustainable decentralization and to creating the conditions for improving urban governance so that cities can become more competitive and productive. The most significant reform initiatives undertaken by the government to date include:

- The 2006 Urban Good Governance Package;
- The Urban Local Government Development Program (ULGDP) developed in 2008;
- The Ethiopian Cities Prosperity Initiative (ECPI) (2013/14–2025); and
- The Urban Developmental Good Governance Strategy 2014 (World Bank & Cities Alliance, 2015).

These strategy documents collectively emphasize the need to enhance citizens’ participation and civic engagement and promote transparency and accountability in decision-making.

## The governance structure of Addis Ababa

Ethiopia has a three-tier government structure: federal, regional and local. The 1995 Federal Constitution officially promulgated

and assigned autonomy and functions to federal authorities and the nine autonomous states in the country (World Bank, 2015). An exception, however, applies to the cities of Addis Ababa and Dire Dawa, who are both granted the same autonomy level as state governments.

Each regional state government is sub-divided into zones which, in turn, are sub-divided into *Woredas* - semi-independent localities with their own legal status and leadership structure (councils). *Woreda* council members are independently elected to represent each of the *Kebele* sub units (wards). However, the cities of Addis Ababa and Dire Dawa are allowed to establish local structures (sub-cities) and then *Kebeles* as the smallest administration unit. Recently, *Kebeles* are being replaced by *Woredas* in Addis Ababa and other major cities, and the structural arrangement is thereby formed by the city administration, sub-city, and *Woreda*.

Based on the Ethiopian constitutional framework that offers regional states the autonomy to establish urban local governments at the lowest administrative structures, Addis Ababa has developed an urban local government structure that reflects its dual mandate as a federal capital as well as its autonomous municipal functions. As stated clearly, “state” and “municipal” functions are different. Accordingly, state responsibilities include social service delivery including education and health. Municipal responsibilities include most infrastructure service delivery such as physical infrastructures, transportation, roads and solid waste management (World Bank, 2014)<sup>23</sup>. Table 2 below breaks down state and municipal responsibilities implemented by urban local governments (ULGs) of large cities such as Addis Ababa.

## Local governance capacity

Ethiopia’s efforts to institute urban governance show both the opportunities and challenges. A recent study on the economic impact of local government capacity-building concluded that increased autonomy along with improved fiscal and other capacities among Ethiopian city authorities generates better economic outcomes and helps to close regional spatial inequalities (Chaurey and Mukim, 2015)<sup>24</sup>. The study found that cities that

TABLE 2: STATE AND MUNICIPAL FUNCTIONS OF URBAN GOVERNMENTS

Urban local government dual responsibilities	
State functions (executed by ULGs)	Municipal functions of ULGs
<p>Functions prescribed by federal law to regional governments as their core responsibilities and assigned by regions to ULGs (and to <i>Woredas</i>, in rural areas). The key functions of this type are:</p> <ul style="list-style-type: none"> <li>• Expansion and management of primary and secondary education;</li> <li>• Expansion and management of primary health care and services;</li> <li>• Management of police and courts;</li> <li>• Support to micro and small enterprises.</li> </ul> <p>Regions retain decision-making powers and administrative control over these functions. Budgetary approval of expenditures is required by the city council, but otherwise there is a chain of management and reporting that proceeds from separate line of officers within the city administration to regional authorities.</p>	<p>Functions which are assigned to ULGS by regions through city proclamations include, among others:</p> <ul style="list-style-type: none"> <li>• Housing supply;</li> <li>• Land supply and servicing;</li> <li>• Supply and quality of water, electricity and telephone services;</li> <li>• Road construction and road lights;</li> <li>• Drainage and sewerage;</li> <li>• Solid waste disposal systems;</li> <li>• Poverty reduction;</li> <li>• Maintaining vital statistics;</li> <li>• Marriage, birth and death certificates;</li> <li>• Abattoirs;</li> <li>• Bus terminals and market places;</li> <li>• Combating soil erosion, landslide disasters and environmental pollution.</li> </ul>

Source: World Bank, 2015, p. 63

performed poorly before reforms did significantly better in the post-decentralization era because of their newly-acquired administrative autonomy and improved capacities.

Nevertheless, Ethiopia's local authorities continue to face challenges. Key among them is a severe institutional capacity gap, particularly a lack of well-trained personnel capable of implementing urban development policies, strategies and programs. In addition to human resource capacity limitations, urban institutions lack adequate material resources such as, for instance, adequate computerized systems. As a result, urban local governments are under-equipped to execute comprehensive infrastructure investment plans; lack the capacities for assets management and maintenance to enforce laws and regulations, as well as to monitor progress and to identify emerging challenges. Urban local governments further lack the capacity to generate revenues to pay for programs and projects. Moreover, local authorities also lack adequate monitoring systems.

The absence of skill, revenue-raising, technological and other capacities impacts the ability of Urban Local Governments to effectively run their jurisdictions and to deliver basic services

efficiently, opening the door for rampant corruption to take root that undermines good governance and the implementation of policies, strategies and programmes.

### Concluding notes on governance

The dual identity of Addis Ababa, both as a federal capital and an autonomous administration with equivalent status of a 'State', contributes to a blurring of roles and responsibilities between the federal and municipal governments. Despite structural and institutional reforms over the past two decades, a lot more must be done to clarify the confusing effect of the dual mandate of Addis Ababa. Due to rapid population growth, coupled with unprecedented spatial expansion of Addis Ababa, the city administration could end up shouldering the burden of service delivery; a responsibility beyond its financial and administrative capacity. For this reason, continuous review and adaptation of the urban governance structure of Addis Ababa is required to flexibly delineate roles and responsibilities between the federal government and the Addis Ababa city administration over time and as the realities on the ground dictate.

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Ethiopian  
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A STAR ALLIANCE MEMBER



# 2

## THE ECONOMIC ROLE OF ADDIS ABABA

## 2.1 The economic role of Addis Ababa

Addis Ababa's attractiveness to businesses, companies, individuals and foreign direct investment has enhanced its importance in the domestic economy. Based on the urban employment and unemployment survey (CSA 2015<sup>1</sup>), the overall primacy index of Addis Ababa is 24.8. The city is simultaneously experiencing high rates of economic growth and urbanization, suggesting a likely further rising dominance of Addis Ababa in Ethiopia's economy as well as growing agglomeration of economic activities in and around the city.

According to the *State of Ethiopian Cities 2015* report<sup>2</sup>, Addis Ababa's share in GDP accounts for 29% of the total urban centers. Furthermore the recent World Bank's *Ethiopia Urbanization Review* (2015)<sup>3</sup> shows that 20% of the country's urban labour force is employed in Addis Ababa and the city is home to 68% of the country's urban jobs, particularly in real estate, information and communication, and in financial services.

The implementation of publicly financed mega urban projects, such as condominium housing, the Light Rail Transit, the international airport and industrial zone development, have significantly contributed to the city's overall economic performance. Most of the international large and medium-size enterprises are located in and around Addis Ababa, creating huge opportunity for employment creation and technology transfer. Furthermore, Addis Ababa is, besides many embassies, also home

to inter-governmental organisations like the African Union, the United Nations Economic Commission for Africa, which collectively create strong demand for goods and services.

However, Addis Ababa's huge urban primacy and the geographically uneven domestic development implied is being challenged. A current surge in the growth of Ethiopia's secondary cities, like in so many other African nations, is unfolding with higher population growth rates in these cities than in Addis Ababa. Rural population pressures, improved infrastructure and modern communication technologies all facilitate migration from rural areas to nearby urban centers. The attractiveness of such secondary cities as Adama, Bahir Dar, Hawassa and Mekelle, particularly to rural-urban migrants, is significant and increasing (see Table 3).

TABLE 3: POPULATION GROWTH OF SECONDARY CITIES AND THE PRIMATE CITY

Urban centre	Population size (2014)	Proportion of rural-urban migrants in the city (%)	Urban population growth rate over the last 10 years (%)
Mekelle	273,601	52.4	6.2
Hawassa	212,665	60.1	6.1
Dire Dawa	262,884	46.6	4.3
Adama	271,562	59.2	4.2
Bahir Dar	191,016	55.6	3.7
Addis Ababa	3,040,740	47.6	2.1

Source: CSA, 2014







Booming construction sector in Addis Ababa. © Geo Kalev

## 2.2 Addis Ababa city productivity

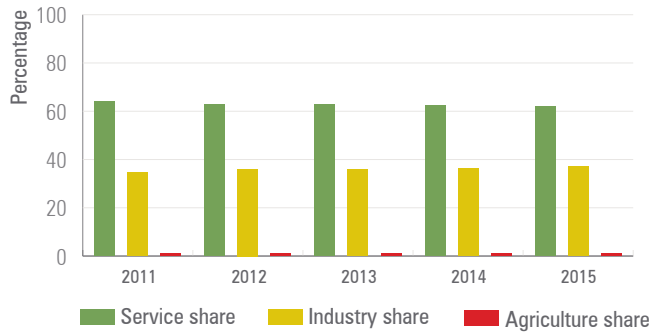
The unfolding population dynamism of secondary cities may erode Addis Ababa’s attractiveness as the preferred primary destination for investors, not only because of Addis Ababa’s growing housing and environmental challenges but also because of the easier access to land in such secondary and tertiary cities.

Since much of Ethiopia’s urban population growth will, in the foreseeable future, take place in its secondary cities, enhancing the urban planning and management capacities of these growth centres will be critical for orderly urban development and to facilitate the desirable domestic geographic distribution of economic growth and employment generation. The trend is very clear: Ethiopian secondary and tertiary cities are demonstrating their potential to serve as new and additional engines of economic growth under the unfolding national shift from a predominance of the agriculture sector to more productive urban economies. This trend should be encouraged in the interest of developing a more balanced domestic urban hierarchy and more even distribution of employment, wealth and well-being.

Owing to its central geographic location, Addis Ababa is on the crossroad linking all the corners of Ethiopia. Most goods and services produced in the country end up marketed in Addis Ababa. The city enjoys superior access to ICT services, roads, utilities and other infrastructure compared to the regional capitals. Hence, the economic agglomeration effect is significant as compared to other Ethiopian cities. Agglomeration economies occur where transport infrastructure “clusters” economic activities and connects firms at lower cost. This typically leads to higher productivity. Agglomeration benefits are also derived from the concentration of population through common infrastructures, increasing the availability and diversity of labor and market size.

Following the Growth and Transformation Plan I (2011-2015)<sup>4</sup>, Addis Ababa has shown an impressive macroeconomic performance significantly exceeding the national average or those of individual regional capitals. Based on data from the city administration’s Bureau of Finance and Economic Development

**FIGURE 2: SHARE OF THE KEY ECONOMIC SECTORS, ADDIS ABABA, 2011-2015**



Source: Own computation based on Bureau of Finance and Economic Development (BoFED)

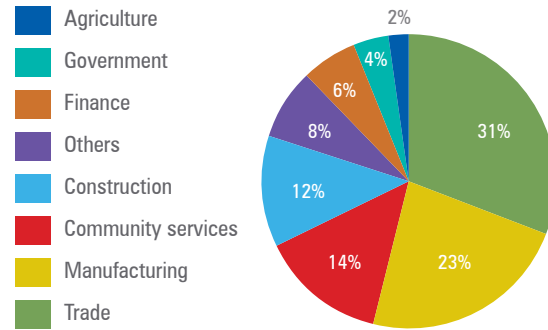
(2016), the GDP<sup>5</sup> of Addis Ababa has grown, on average, by more than 15% over the last five years; much faster than the national GDP over the same period. For instance, the city registered a GDP of about ETB90.9 billion at current prices in 2015. This is about 8% of the national GDP. The *State of Ethiopian Cities 2015* report estimates that Ethiopian cities generated about ETB 227.3 billion. In the same year, Addis Ababa's GDP was about ETB 66.3 billion, well above 29% of the overall GDP of Ethiopian cities.

In addition, other data from the city's Bureau of Finance and Economic Development (2016)<sup>6</sup>, shows that Addis Ababa's per capita income has grown from USD 788.48 in 2010 to USD 1,359 in 2015 at current prices- higher than the national average. Besides a high rate of economic growth, the city has also achieved a decline in the poverty index from a high of 29.6 in 2012 to 22.0 in 2014. Currently, the poverty headcount index for Addis Ababa is estimated at 18.9 while the poverty gap and poverty severity account for 5 and 1.8 index points, respectively. Poverty headcount index measures the proportion of a population living below poverty line while poverty gap index measures the extent to which individuals fall below the poverty line (the poverty gaps). Poverty severity index measures inequality among the poor and it is the squared poverty gap index. Although the poverty status of Addis Ababa is an improvement over previous years, there is still much work to be done to curb both the incidence and severity of poverty.

Analysis of the economic structure of Addis Ababa reveals that the services sector dominates with industry in second place (see Figure 2). Together, the services (63%) and industry (36%) sectors account for almost all of the Addis Ababa's GDP. Over the last five years the services sector has persistently dominated the urban economy and there is no sign of a changing trend. Within the services sector, transport, communications, trade, the hospitality industry (hotels and restaurants) and financial intermediation constitute the largest shares, in descending order. Booming construction activity also significantly contributed to Addis Ababa's industry sector, followed by manufacturing.

Currently, the city administration is giving major emphasis to tempering the economic domination of the services sector in favour of manufacturing. If the city can reverse the current

**FIGURE 3: SECTORAL COMPOSITION OF URBAN EMPLOYMENT**



Source: Own computation based on CSA (2015)

shares with manufacturing becoming the dominant economic sector, it is believed that this would enhance productivity and competitiveness, strengthen technology and skills transfer and create sustainable jobs and improved incomes/livelihoods.

According to CSA (2015) data<sup>7</sup>, trade contributes 31% of the urban jobs, whereas the manufacturing sector accounts for 23%, community services 14%, and the construction sector 12% (see Figure 3).

Of the 23% jobs in the manufacturing sector, most are in small-scale industries. Clearly, large and medium-scale manufacturing firms with high value-addition potential are either insufficiently present or creating insufficient employment (CSA, 2015). Furthermore, wholesale and retail trade are major employers in the services sector. Despite its contribution, the services sector is unsustainable and its contribution to the skill and technology transfer is very weak. Most service sector activities in Addis Ababa do not require skills or technology and are prone to competition from the outside world. Retailers and wholesalers in Merkato (Ethiopia's biggest open market) are vulnerable to prices of imported goods and services and hence making employment in the sector unsustainable.

### Per capita income and trends

The per capita income (PCI) of Addis Ababa residents not only exceeds the national average but is also growing by 10% annually on average (see Table 4). This illustrates the economic dominance of Addis Ababa and the lopsided development of the Ethiopian domestic economy.

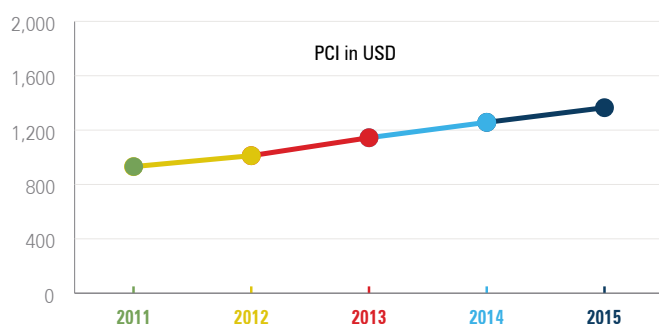
The average of USD 1,364 per capita income for Addis Ababa residents was double the national average of USD680 in 2015. If it sustains the current pace of economic growth, Addis Ababa can meet its middle-income status goal by 2025 since the pace of growth of the PCI is positive and significantly increasing (see Figure 4). Obviously, achieving middle-class status for just Addis Ababa is not and cannot be the ultimate goal for Ethiopia. Far more geographically balanced domestic distribution of income opportunities and the associated national wealth distribution is required to assure broad-based access by all Ethiopians to job opportunities, income and wealth.

TABLE 4: ADDIS ABABA CITY GDP AND PER CAPITA INCOME (PCI)

Year	Population size	City GDP at current price (in ETB millions)	Average PCI (ETB)	Average annual exchange rate ETB-USD	PCI in USD
2011	2,913,745	46,763	16,049	17	931
2012	3,047,000	55,650	18,263	18	1,011
2013	3,103,673	66,264	21,350	18	1,143
2014	3,194,999	78,040	24,425	19	1,257
2015	3,273,001	90,908	27,775	20	1,364

Source: Own computation based on CSA (2015), BoFED (2016) and National Bank of Ethiopia (NBE) (2016).

FIGURE 4: PER CAPITA INCOME TRENDS OVER TIME



Source: Own computation based on various sources

### Addis Ababa PCI projection for 2025

Three basic assumptions and corresponding scenarios are used to calculate the Addis Ababa PCI projections for 2025: a) “business as usual”; b) a rapid population growth with lower GDP growth rate; and c) lower population and GDP growth rates.

#### Scenario 1: Business as usual

- Constant city GDP growth rate of about 18% annually;
- Population growth rate of 3% (CSA, 2015); and an annual exchange rate depreciation of 4.25% against the USD.

The business as usual scenario is based on the above three assumptions that: a) the city GDP growth remains at the same pace, b) a steady city population growth of 3%, and c) a more or less linear depreciation of the ETB against the USD.

Although more than 10% GDP growth annually by itself would be a major achievement, given the current momentum it is assumed that the city could indeed repeat its 18% growth during the GTPII period. However, as noted in the city’s revenue study (2015), there remain many untapped sources of municipal income, besides desirable enhanced ICT and infrastructure facilities as well as policy interventions and investments that will need to be activated if Addis Ababa is to realise the projected growth. It would have to boost the manufacturing sector through, for example, the establishment and development of

industrial zones to boost productivity and sustain the current pace of growth.

With regard to population growth, the first scenario assumes that despite Addis Ababa’s economic boom that has attracted rural-urban and urban-urban migrants, the surge in secondary cities’ population growth could possibly ease some migration pressure away from Addis Ababa and keep its population growth at the current pace. The nation-wide urbanization rate is about 5.2% (MUDHo 2015) and Addis Ababa’s growth rate of about 3% indicates that the relative importance of other (secondary and tertiary) urban areas in absorbing new and additional urban population is growing. This trend can and should be very deliberately reinforced by stimulating secondary and tertiary cities through the facilitation of new employment opportunities, by extending ICT services, improving infrastructure and other interventions that would slowly bring Ethiopian secondary cities – and by extension the tertiary ones – to standards comparable with that of Addis Ababa today. The aim here is multi-pronged: geographically spreading income opportunities, distributing wealth, easing migration pressures on Addis Ababa and guiding Ethiopia, rather than just its capital city, to a middle-class nation status.

One note of caution is warranted. Addis Ababa may currently have a lower urbanisation rate, but given its population size, even the relatively low growth rate of 3% (CSA, 2015) translates into significant absolute numbers of new and additional residents that will have to be catered for in terms of housing, services and employment.

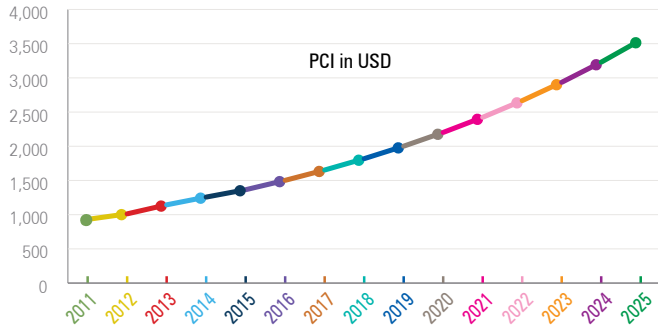
Thus, under the most ambitious scenario, in 2025 the PCI of Addis Ababa is projected to approach USD 3,500 (see Figure 5: High PCI growth scenario 2011-2025, in USD). This puts the city among those cities in sub-Saharan Africa most striving to achieve middle-income status by 2025.

#### Scenario 2:

##### Rapid population growth and lower GDP growth

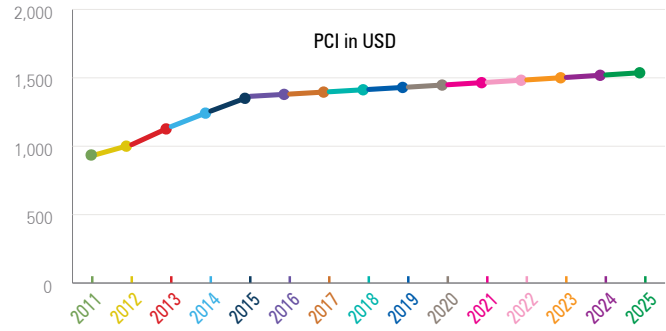
- GDP growth rate of about 11% annually (as planned by the city administration)
- Population growth rate of 5.2% (the current estimated national average)

FIGURE 5: HIGH PCI GROWTH SCENARIO 2011-2025, IN USD



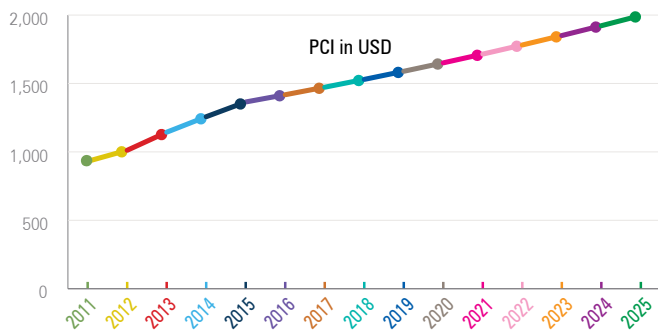
Source: Own computation based on various sources

FIGURE 6: LOW PCI GROWTH SCENARIO 2011-2025, IN USD



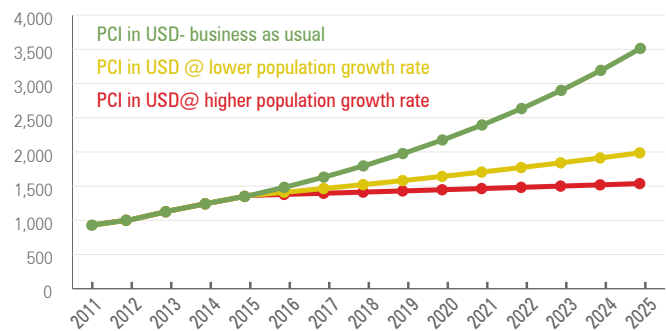
Source: Own computation based on various sources

FIGURE 7: MODEST PCI GROWTH SCENARIO, 2011-2025, IN USD



Source: Own computation based on various sources

FIGURE 8: VARIOUS PCI SCENARIOS FOR THE CITY OF ADDIS ABABA



Source: Own computation from various sources

- Annual exchange rate depreciation of 4.25% against the USD.

The second scenario assumes the city's GDP would grow at an annual average of 11% over the next 10 years. The city administration aims at this growth target in GTPII, based on the assumption that the city's GDP base will expand over time, reducing the pace of growth downwards from its present level to an estimated 11% annually.

The current population growth estimates for all Ethiopian cities underlie the Addis Ababa's population size forecast over the next decade. This assumes that the urban population growth rate is not just driven by demographic factors (death and birth rates and migration), but that it will also -and potentially significantly - be influenced by policies (including mega projects, rural-urban and urban-urban migration policies and strategic small town development interventions etc.). Considering these factors, various estimates come to a 5.2% urban population growth rate for Ethiopia. In view of its continuing economic attractiveness, Addis Ababa's population growth estimate at par with the national urban growth projection under the second scenario appears to be a realistic assumption.

Analyses of the second scenario reveal that Addis Ababa's 2025 PCI could be closer to USD 1,600 (see Figure 6). Considering

likely inflation rates this figure may not put the city in middle-income status by 2025.

**Scenario 3. Lower population GDP growth rates**

- GDP growth rate of about 11%
- Population growth rate of 2.5% (lower growth rate than its present level)
- Annual exchange rate of 4.25%

The third scenario assumes that the city GDP grows by 11% annually over the next decade; the population growth rate would be around 2.5%; and currency depreciates at a rate of about 4.25%. The surging role of secondary cities in Ethiopia could have an impact on Addis Ababa through lowering population growth rates. Rural-urban migrants or urban-urban migrants might tend to stay in their respective regional capitals thereby easing the pressure on Addis Ababa. Such cities as Mekelle in the North, Hawassa in the South and Bahir Dar in the North-East are growing faster than Addis Ababa (both economically and in terms of population size) and are expected to grow even more according to the CSA (2014). This could lead to the assumption that Addis may grow at a lower rate than its present level of about 3%. Under these assumptions, Addis Ababa's per capita income could reach about USD 2,000 by 2025 (see Figure 6)



2014: Women sell spices in an outdoor market in Addis Ababa. © Shutterstock.

## 2.3 Labour markets

This section discusses the nature and structure of employment in the city and its trends, disaggregated by sector, gender, labour force participation and activity rate, as well as the size of the informal sector in Addis Ababa. Specific challenges like youth unemployment and gender-biased employment trends will also be discussed.

### Labour force participation in economic activities

Healthy economic growth is normally accompanied by decent broad-based employment generation for the citizens and increasing the productivity so that the workforce steadily receives better wages and gets access to more diverse employment opportunities. On the other hand, proper management and efficient utilization of the existing labour force is a key parameter in the economic performance of a city. In many cases the strength and performance of a city is measured by the number of sustainable jobs which, in turn, sustains incomes and contributes to poverty reduction in the medium and long term. The level of employment within a city, however, is a reflection of not just economic performance but also of the resource intensity of output, income distribution and wealth redistribution.

The “activity status” reflects the degree to which the labour force is engaging in productive activities. Based on the 2015 urban employment survey, the activity rate is computed as the percentage of economically active population over the total of active plus not active population aged 10 years and above. The same report shows that 63.7% of the population aged 10 years and above were economically active at national level. Looking at gender differences, the activity level of males is 71.1% and 57.2% for females at national level, implying a distinct nation-wide gender bias with women not benefitting at par with men.

The CSA's Urban Employment Unemployment Survey (CSA UEUS, 2015) notes that the economic activity status for major towns in Ethiopia is 61.8%, while the remaining 38.2% were not economically active. According to the CSA (2015), economically active population comprises of all persons who furnish the supply of labour for the production of economic goods and services. In terms of gender differences, the activity rate of males (70.0%) was higher by 15.3% than of females (54.9%). The activity rate for the city of Addis Ababa as of 2015 is reported to be 60.8%, lower than the national estimate of 63.7%. There is also a big gender gap in Addis Ababa with males accounting for 70.0% and females only 53.1% of the total. National labour force data show that the total economic activity rate in 2013 was 61.3%, a bit higher than 2015. With regard to age category, the highest activity was registered in the 35-39 year and 40-44 years group, both at 86%.

Affirmative action policies might be needed with regard to gender imbalance in economic activity rates in the city.

and the city could meet its lower middle-income status target by 2025.

Given these three scenarios, one can assert that Addis Ababa has a fair chance of meeting its middle-income status target by 2025 (see Figure 8) if the aims of scenarios 1 or 3 can be realised. Scenario 1 - ‘business as usual’ - is a bit deviant from the other two scenarios for it portrays a very strong GDP growth of about 18% annually. To think that Addis will maintain such a growth rate over the next decade is a strong assumption. Given the recent state of national socio-political turmoil the city may not maintain such an impressive growth rate. The overall prospect for Addis Ababa to meet its goal by 2025 is a fair one, assuming the city administration continues its investment in essential infrastructure, improves the efficiency and effectiveness of its decision-making and, especially, enhances its revenue collection.

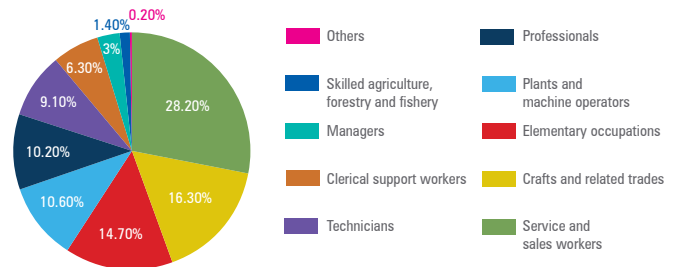
However, here too a word of caution is warranted. An exclusive focus on Addis Ababa is likely to significantly increase inequality between the residents of the capital and those in the remainder of Ethiopia. This could alter the risk of civil unrest, diminished rule of law and, by extension, a decline in the quality of the Addis Ababa business and investment climate.

TABLE 5: TREND IN URBAN EMPLOYMENT TO POPULATION RATIO

	1999	2005	2013
Country total	69.1	76.6	76.2
Urban	48.2	50.2	55.5
Rural	73	82	81.6
Addis Ababa	40.5	44.4	47.6

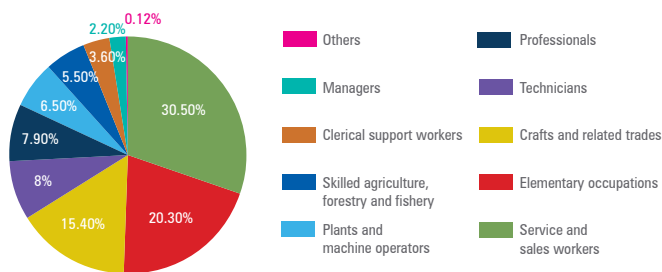
Source: CSA, 2013

FIGURE 9: ADDIS ABABA'S EMPLOYMENT BY MAJOR OCCUPATIONAL GROUP



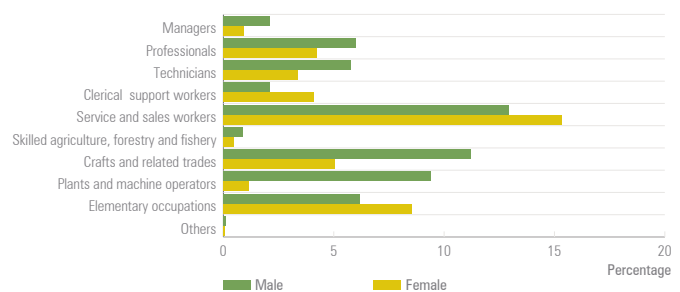
Source: CSA, 2015

FIGURE 10: URBAN UNEMPLOYMENT BY MAJOR OCCUPATION



Source: CSA, 2015

FIGURE 11: ADDIS ABABA'S MAJOR OCCUPATION OUT OF TOTAL EMPLOYMENT BY GENDER (2015)



Source: CSA, 2015

### Employment-to-population ratio

The employment-to-population ratio measures the extent to which the population is engaged in productive activities. It is measured as the ratio of total employed person to the total population aged ten years and above (CSA, 2013)<sup>8</sup> (see Table 5).

The employment-to-population ratio of Addis Ababa is relatively low compared to the urban, rural or national averages, indicating that much more needs to be done to expand job opportunities in Addis. In 2015, the figure for Addis had slightly improved to 47.9%, but still remained the lower one. What is striking is that there is a sharp contrast between male and female employment. The data for 2015 shows a significant gender bias with 59.9% of males versus 37.9% females engaged in productive activities.

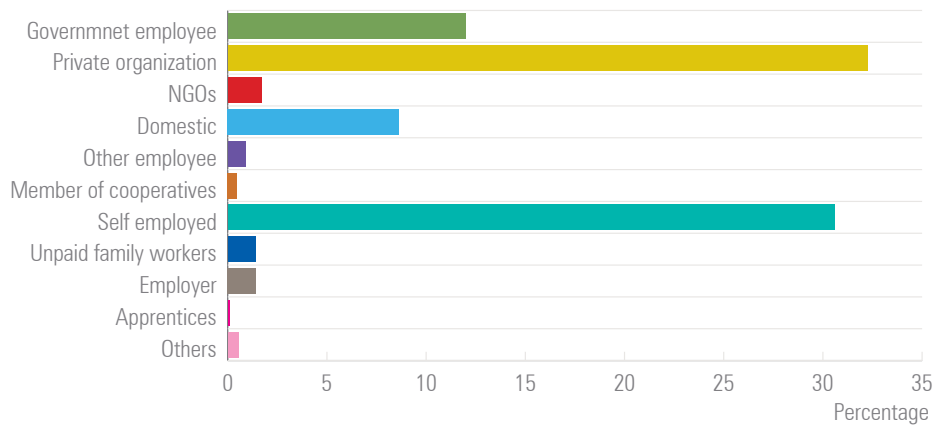
A closer look into the nature of jobs by major occupational group indicates that, in Addis Ababa, services and retail work dominates (28.2%), followed by crafts and related trades (16.3%) and elementary occupations such as cleaning, loading, unloading, vending, taking care of apartment houses and hotels, garbage collection etc. (14.7%) (see Figure 9).

Figure 10 compares major occupational groups in major urban areas and those in Addis Ababa. For major towns, the share of employment in the services and sales workers category is estimated at 30.5% followed by elementary occupations (20.3%).

With regard to employment by major occupation in Addis Ababa, the shares of managers, professionals and technicians are estimated at 3.0%, 10.2% and 9.1% respectively. The majority concerns low-skill, non-permanent jobs such as daily manual labour or related activities. From the poverty perspective though, enhancing productivity among these low-quality occupations is a desirable and viable option. Similarly, the proportion of people employed in the professional category is also low. This will have a major impact on the ability of Addis Ababa to become a production city instead of a consumption city. Enhancing technical/vocational education and training could increase the proportion of technicians and professionals, thereby expanding opportunities for employment in the micro and small enterprises (MSE) and manufacturing sectors.

Occupational classification by gender in Addis Ababa (see Figure 11) reveals that males dominate in the managerial, professional and technical categories while women's share is higher among services and sales workers, elementary occupations and clerical support. From the above data it is clear that women are not just disproportionately represented in overall unemployment, but particularly also in high-quality jobs. Gender empowerment interventions such as women's entrepreneurship development programs are needed to enhance

FIGURE 12: EMPLOYED POPULATION BY STATUS IN EMPLOYMENT



Source: CSA, 2015

the skills and job intensity towards more quality occupations for females.

CSA 2015 data (see Figure 12) revealed that the public sector provided a mere 12% of the total employment in Addis Ababa, while the private sector accounted for 64.2% (32.2% salaried, 1.4% employers and 30.6% self-employed). This is a reversal of the situation under the past regime when the public sector was the major employment provider in Ethiopian cities as the private sector was then stifled by nationalisation policies.

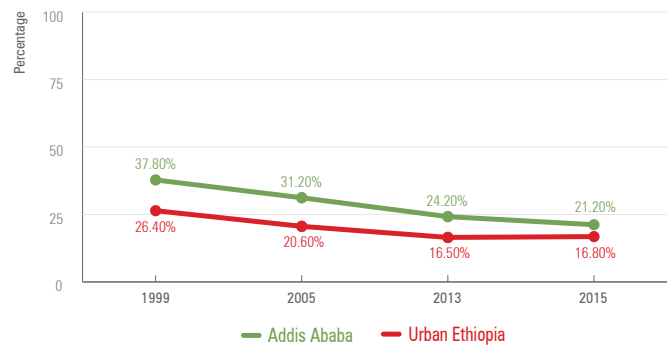
The relatively large share of self-employed in total employment, coupled with a small share of employers (1.4%) could indicate that self-owned small businesses play a key role in urban employment. This builds a case for enhancing small business support and hints at a further potential for job creation and economic growth in cities such as Addis Ababa through Micro and Small Enterprise (MSE) development programs.

### State of unemployment

The unemployment rate is a measure of the number of people who are both jobless *and* looking for a job, expressed as a share of the total labour force. This rate is calculated as the share of unemployed population over the total number of economically active population. Addis Ababa's unemployment rate has always been higher than the urban Ethiopia's unemployment rate throughout the period for which data are available. The current unemployment rate trend, however, seems to decline from a high of 37.8% in 1999 to the current low of 21.2% in 2015 (see Figure 13).

Most recent data for 2015 shows that the percentage of unemployed persons in Addis is significant and above the urban average of about 16.8%. On the other hand, Addis Ababa experiences a total unemployment rate of 21.2% of which males accounting for 14.4% and females 28.6% (CSA, 2015). The prevailing higher unemployment rate brings an increasing challenge for the urban economy of Addis Ababa despite its recorded economic growth in recent years. More importantly, female unemployment is double that of males in the city, suggesting limited employment opportunities for women.

FIGURE 13: ADDIS ABABA UNEMPLOYMENT TREND



Source: CSA, 2013; CSA, 2015

### Employment in the urban informal sector

Evidence shows a declining trend in Ethiopia's urban informal sector employment over time. According to CSA 2015 data, the nationwide share of urban informal sector had gone down to 27.8% in 2015 from a high of 50.6% in 2003, implying a regression in the economic importance of the informal sector. Moreover, 2015 data for Addis shows that the total share of urban informal employment is about 13%; much lower than the national average. Stiff tax rules and enforcement measures are the likely cause of the reduced proportion of informal sector employment in Addis Ababa.

The literature takes three perspectives in defining the informal sector: a) size definition, b) behavioural definition and c) legal/institutional aspects. The size definition emphasizes the number of employees per enterprise (usually less than five), the start-up capital, the labour-intensity of products and low-tech firms (Stewart and Ranis, 1999)<sup>9</sup>. Applying this definition of the informal sector, a large number of formal firms in Addis Ababa would be categorised as informal. The second definition focuses on the behavioural orientation of firms: 'survival firms' *versus* growth-oriented entrepreneurs (Liedholm&Mead, 1993)<sup>10</sup>.



▲ Informal income earning activities: shoe shiners. © Geo Kalev

TABLE 6: DEFINITION OF FORMAL/INFORMAL BASED ON LEGAL AND INSTITUTIONAL CRITERIA

Formality status	Legal status	Description
Informal	None	An activity for which there is a legal counterpart but that does not comply with regulatory systems regarding licenses, permits, certificates and registration of the activity.
Semi- formal	Local authority license	An activity complying with either one of the government regulations (usually local licensing without business registration at higher government level).
Formal	Full license and registered business	Licensed enterprises with a registered business name, either as a sole ownership, private limited company, or share company that comply with government rules and regulations.

Source: Nelson and De Bruijn, 2005<sup>11</sup>

According to this definition, informal sector operators are largely survival oriented and not risk takers, whereas formal firms are risk takers with a strong growth motive. The third perspective emphasizes the legal and regulatory environment in defining the informal sector. This perspective takes the perspective of the legalist school of thought, popularized by De Soto<sup>12</sup> in the 1980s and 1990s to distinguish between informal and formal (see Table 6).

Countries usually define the informal sector by combining these three research perspectives. Consequently, the informal sector is often characterized by easy entry, employing labour-intensive and endogenous technology, small scale family-owned enterprises with unregulated and competitive markets.

A problem emerges when one uses the combination of these criteria of informality. Some countries use the registration (legal aspect) and a size of 10 workers as the criteria, while others use the legal aspect, a size of five employees and the type of technology applied by the enterprise. Therefore, the size of a city's informal sector as well as the intervention type varies depending on the definition used. For instance, if a country uses the legal aspects (such as registration and licensing) for defining informality, then enforced registration and licensing of firms could bring down the size of the informal sector. However, they may still operate informally in the underground economy. Thus, registration and licensing enforcement may merely serve as a shield against confiscation while major transactions are still done in an informal way.





Small and Medium Enterprise (SME) in Piazza area. © Geo Kalev ▲

TABLE 7: SHARE OF INFORMAL SECTOR EMPLOYMENT, 2015

	Country total	Addis Ababa	Major Urban towns
Total share of the informal sector	27.8	13	18.2
Male (%)	21.7	12.4	15.4
Female (%)	36.5	13.9	22.2

Source: CSA, 2015

The CSA definition of the informal sector based on the status of registration and licensing may underestimate the actual true size of the informal sector in Addis Ababa. It therefore remains to be seen what the size of the informal sector in the city would be if the sized-based or behavioural definitions are applied. Future studies should shed light on the true incidence of informality using these different definitions.

CSA data, applying the legal definition, shows slight variation between males and females in the proportion of informal sector workers (see Table 7). In the urban informal sector of Addis Ababa, females account for 13.9% and males 12.4%. Women dominate in informal sector participation as well as ownership of small businesses in almost all cities in Ethiopia. This indicates that affirmative action is needed in informal economy support not

just for Addis but also for other Ethiopian cities. At the country level, in 2015, women constitute 36.5% of the urban informal sector workers while males account for 21.7%. These figures also indicate the importance of gender-based interventions.

Addis Ababa's overall achievement in creating jobs through MSE development is promising, but the city needs to strengthen its efforts towards enabling more graduating MSEs and continued linkages between micro, small, medium and large enterprises to create a sustainable labour market. Also, many studies indicate that female ownership of enterprises declines as businesses grow, calling for more action to empower women to also support sustained growth and female ownership of businesses.

## 2.4 Municipal finance and land value capture

Fiscal decentralization, one of the cornerstones of decentralization policy in Ethiopia, transfers the autonomy and responsibility of revenue raising and management expenditures to lower-level government bodies. Oates (1991)<sup>13</sup> argues that for local governments and private sector organizations to carry out decentralized functions effectively, they must have an adequate level of disposable own revenue, either raised locally or transferred from central government to make autonomous decisions about their expenditure.

Hence, for such fiscal decentralization to be effective and meet its desired objectives, it demands linking spending with revenue generation. For cities, fiscal decentralization is a key tool

to help them manage their revenue raising efforts and match them with their ever-increasing expenditure demands. Legal and regulatory frameworks must define local authorities' decentralised fiscal powers, revenue generation, budget preparation and administration for fiscal decentralization to become effective.

The Addis Ababa City Government's revised charter proclamation No. 361/2003 dictates the city's fiscal power and the jurisdictions of revenue generation. Box 1 below indicates the fiscal powers of the city administration based on Article 52 of the Proclamation No. 361/2003.

The same proclamation indicates the boundaries for revenue generation whereby the city government raises its revenue from bodies under its charge, income-generating activities, (joint) investments, funds investments, rentals and donations. The city government can also make contractual agreements and undertake activities to gain and generate revenue. It is also allowed to resort to sources from the federal government and also loans. However, where it concerns loans from abroad, the city government shall solicit the federal government to take loans on its behalf.

### BOX 1: FISCAL POWER OF THE ADDIS ABABA CITY ADMINISTRATION

- 1) Assess and collect tax on income from employment within the city, excluding employees of Oromia Region, of the federal government and of federal public enterprises;
- 2) Fix and collect land use fee within the city;
- 3) Levy tax on income from agricultural activities within the city;
- 4) Assess and collect profit, excise and turnover taxes from individual businessmen trading in the city;
- 5) Receive value added tax collected by the federal government from individual businessmen trading in, and public enterprises owned by, the city;
- 6) Fix and collect urban land rent and levy urban house tax in the city;
- 7) Assess and collect tax on income from rented houses and other properties in the city;
- 8) Assess and collect stamp duty on contracts and agreements as well as on title deeds-registration executed in the city;
- 9) Assess and collect profit, excise and turnover taxes from public enterprises owned by itself;
- 10) Fix and collect road-user-vehicles charge in the city;
- 11) Fix and collect rentals from houses and other properties owned by itself;
- 12) Assess and collect income tax, royalty and land rentals on small-scale mining operations undertaken within the city;
- 13) Fix and collect royalty on use of forest resources within the city;
- 14) Fix and collect fees on licenses issued, and services delivered, by itself;
- 15) Levy municipal taxes and duties as well as fix and collect service charges thereof;
- 16) Assess and collect income tax on gains from renting of patent rights within the city;
- 17) Assess and collect capital gains tax on property situated in the city.

Source: Addis Ababa City Administration Bureau of Finance and Economic Development (2016)

## 2.5 Revenue structure and performance

This section reviews revenue structure and expenditure trends of the city administration. A closer look at the actual key revenue sources of the city administration reveals that, over the last GTP period (see Table 8), the total revenue has increased by an impressive 208% (41.6% on average) in nominal terms. In real terms, however, total revenue increased by 126% (25.2% on average), since the overall price level (measured by consumer price index (CPI) during the same period has increased by about 82%<sup>14</sup>.

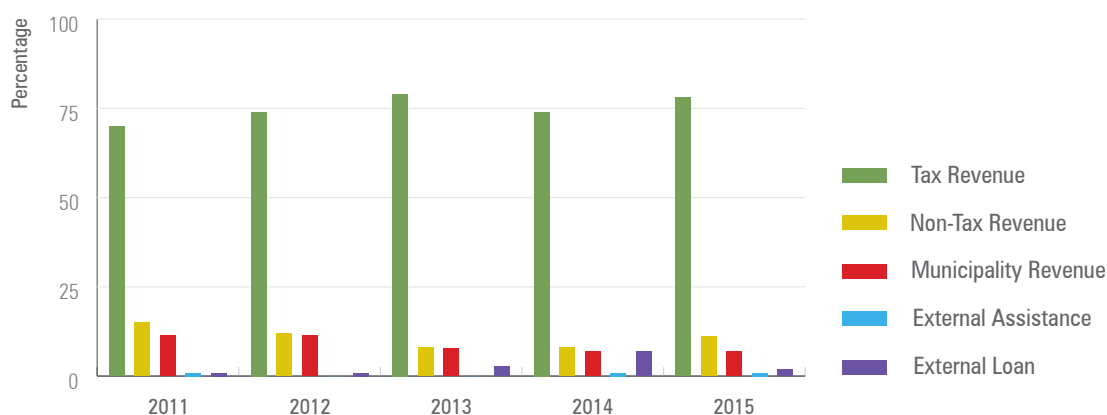
The data shows that tax revenues constitute the major share of the revenue collected through the GTP period. The city administration's efforts of broadening the tax base, awareness building, enhancing accountability and trust have born fruits. Figure 14: Share of major revenue sources, depicts the share of the key revenue sources over the first GTP period. It shows that, on the five-year average, 63% of the revenue is derived from taxation

of incomes, profits and capital gains. The shares of value added tax on sales of goods and services, on the average, is 4% and 26% of total tax revenues, respectively.

Income taxes constitute the largest share in the income, profit and capital gains component of the tax revenue. That is understandable since taxing employees through the payroll is easier than taxing business profits. This implies room for enhancing revenues derived from the taxation of profits, rental incomes and capital gains. More effort needs to be made in raising revenues from these 'under-performing' revenue components.

Total revenue has declined over most of the GTP years, except for 2014. This is a matter of concern to the city administration given the rapid rate of urbanization that brings mounting demand for funding of new and additional infrastructure, utilities, housing and poverty reduction. In contrast to the declining tax revenues, non-tax income shows an upward trend, attributed largely to government investment income and income from urban land leases in particular. Government investment income constitutes about 66% of the total non-tax revenue, with funds derived from urban land leases nearly all (99%) of the total government investment income, according to BoFED 2016 data<sup>15</sup>. This means that the non-tax revenue is basically the income from urban land leases.

FIGURE 14: SHARE OF MAJOR REVENUE SOURCES



Source: Own computation based on BoFED data

TABLE 8: CITY ADMINISTRATION REVENUE, GTP I PERIOD (ETB MILLIONS AT CURRENT PRICES)

	2011	2012	2013	2014	2015
Total Revenue	7,067.99	9,748.53	13,227.02	19,095.32	21,761.02
Tax Revenue	4,935.28	7,229.14	10,435.55	14,214.34	16,975.26
Non-Tax Revenue	1,025.44	1,142.31	1,096.19	1,542.00	2,312.86
Municipality Revenue	932.14	1,242.90	1,245.78	1,502.73	1,658.72
External Assistance	63.39	25.46	49.33	213.79	226.90
External Loan	68.37	70.67	353.18	1,571.93	543.54

Source: Addis Ababa City Administration; BoFED, 2016

Over the last two years, for example, revenues from urban land leases grew by 57% on average. But excessive reliance on this single-source income is not sustainable. Land is a limited resource in Addis Ababa while the value of leases is subject to a number of factors such as the capacity of the sub-cities to supply enough land to the market. There are also complex political factors attached to land availability. Furthermore, sky rocketing urban land prices have unintended and often severe consequences for, among others, housing supply, as discussed in the next section. Lastly, excessive dependence on income derived from urban land leases could jeopardize the administration's efforts towards exploring innovative ideas on generating new revenues.

### Municipality revenue

According to UN-Habitat (2009)<sup>16</sup>, local governments in less-developed countries face greater challenges in financing their expenditure demands for a number of reasons.

Firstly, the revenue base of local governments is usually weak compared to that of the federal government. Secondly, municipalities often have few 'own source' revenues, lack incentives to generate own revenues and often do not fully exploit the existing revenue potential from sources. The report further notes that property taxes – a key revenue source for many municipalities around the world – are difficult to administer

if cadastres are not up to date and that transfers from central government do not tend to be stable or predictable while such transfers are often also not transparent and politicised.

In decentralized governance systems, local government is responsible for providing goods and services to the local community and the users need to pay for these services. This is based on the benefits-received or cost-recovery principle in public finance. Local government is therefore responsible both for expenditure on services and utilities and revenue collection. If the revenues fall short of expenditure, the central government ideally comes in and transfers resources. However, this is frequently problematic. Therefore, it is critical for local government to generate sufficient revenue which is only possible if local governments are provided with appropriate authority on revenue and expenditure management.

The effectiveness of municipal revenue collections reflects the extent to which a city administration can finance itself (besides the tax components that cities collect on behalf of the federal and regional government and have to pass on). Addis Ababa is an exception to this. Although Addis Ababa can retain the state revenue it collected, municipality revenue still remains vital for a number of its discretionary expenditures. With a current rate of urbanization of about 3% annually (according to CSA, 2015), the city has to aggressively work on raising municipality revenues. Table 9 illustrates the key municipal revenue components over the



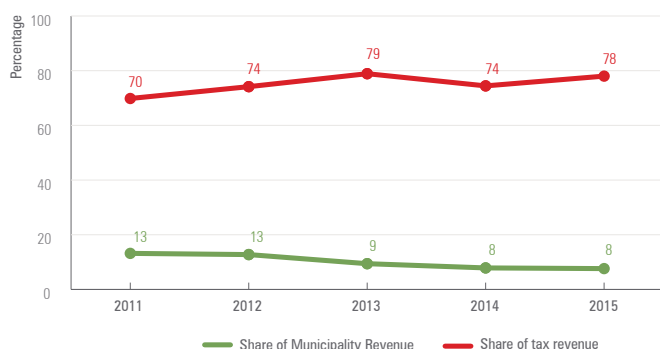
▲ Informal income source, drying and selling spices. © Geo Kalev

TABLE 9: MUNICIPALITY REVENUE DURING GTP I (IN MILLIONS OF ETB AT CURRENT PRICE)

	2011	2012	2013	2014	2015
Municipality revenue	932	1,243	1,245	1,502	1,658
Municipality tax revenue	165	167	245	306	433
Municipality rent revenue	169	177	188	187	201
Municipality service charge	97	152	112	113	164
Sale of goods and city services	489	743	685	884	825

Source: BoFED, 2016

FIGURE 15: THE SHARE OF MUNICIPAL REVENUE DURING THE GTP PERIOD



Source: Own computation based on BoFED data

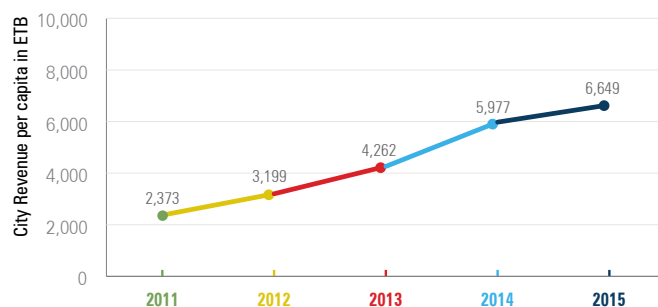
last five years taken from the Bureau of Finance and Economic Development.

The data reveal that sales of goods and city services make the largest share (about 55% on average over the last five years) followed by municipal tax revenue. Municipal rent revenues and services charges constitute the lowest share, indicating that these are potential areas to be explored more forcefully.

What is more important, however, is to look into the trend of municipality revenue shares over time (see Figure 15). The share of municipality revenue has been declining while the tax revenue is increasing. If the city did not have the privilege of retaining state revenue, like other secondary cities in the country, it would have been very hard for Addis Ababa to finance its expenditure demands.

In the case of Ethiopia's secondary cities the state (direct and indirect) tax revenue goes to the federal and regional governments whereby the city gets a share of what it has collected on behalf of the higher government level. The grants transferred to the cities are in most cases lower than the state revenue collected because other cities are also considered while redistributing grants. The State of Ethiopian Cities 2015 report<sup>17</sup>, for example, indicates that over the period of 2013 -2014, all other regional cities except Dire Dawa received less than 100% grant transfer from the state revenue that they collected. The shares varied from 22% to 68% in 2013 and from 8% to 56% in 2014. Over the same period, however, some cities received a transfer grant exceeding 100% of the state revenue collected. The key problem with such state transfers is that they are not clearly predictable. This adversely affects financial planning. While this may not be the case for

FIGURE 16: ADDIS ABABA CITY REVENUE PER CAPITA IN ETB



Source: Own computation based on BoFED data.

Addis Ababa because it can retain all state revenue collected, this municipal budgetary uncertainty is worrisome.

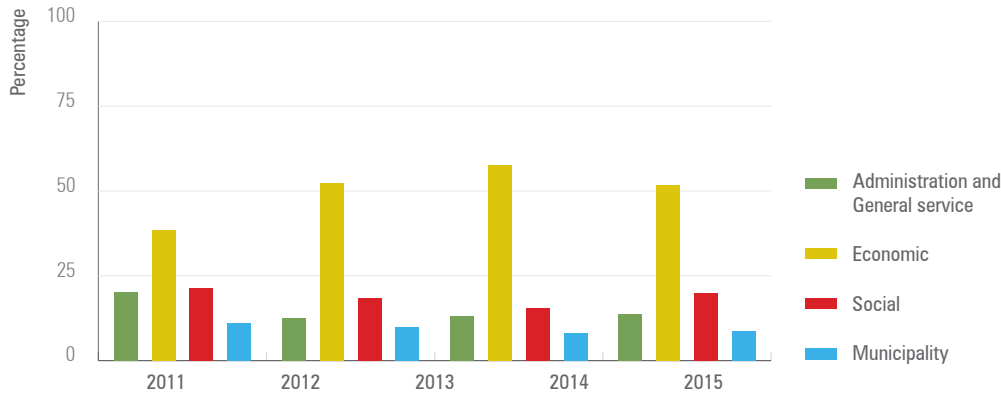
The Bureau of Finance and Economic Development of the City Administration in its 2015 revenue enhancement plan<sup>18</sup> cites five major reasons for low performance in municipality revenue collection: (a) weak institutional and human resource base, (b) low tax base and rates, (c) low tariffs, (d) low charges and fees for utilities, and (e) weak debt collection and non-recovery of major investments.

With regard to institutional and human resource capacities, Addis Ababa's city administration lacks skilled personnel and appropriate data management facilities and equipment. The city administration collects land rents at rates set long ago and can therefore not reap the full benefits of its agglomeration economy and the recent economic boom. Land rents, roof tax and rental income on city-wide properties are all well below today's market rates and need upward revision if the city is to enhance its revenue.

Low performance in municipal revenue is further attributable to low tariff charges on utilities and services such as water supply and solid waste management services. Although most of these utilities and services are subsidised on the assumptions of pro-poor spending, the collection has been inefficient and the rates are obsolete. Moreover, a blanket city-wide application of low recovery charges also subsidises those who could easily afford to pay more.

Addis Ababa's revenue per capita is among the highest if compared to secondary cities. Since the city retains the state revenue collected and there are no transfers, revenue per capita is computed as the ratio of total annual revenue over the total

FIGURE 17: SHARE OF VARIOUS EXPENDITURE COMPONENTS IN ADDIS ABABA IN TOTAL EXPENDITURE



Source: BoFED

population size. The data reveals that revenue per capita grew by about 30% on average and it was highest during the period 2014 with a 40% growth rate. Figure 16 illustrates revenue per capita for the five-year period 2011-2015.

The State of Ethiopian Cities 2015 report compares city revenue per capita based on 2013 data. The report shows that Addis Ababa's larger and stronger economy generated a revenue per capita exceeding ETB 4,000 while almost all other cities, including regional capitals, scored less than ETB 2,000.

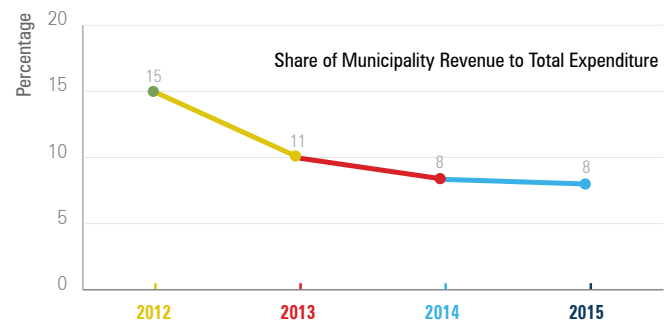
### Expenditure

UN-Habitat's 'Guide to Municipal Finance' notes that although the functions of municipal governments differ among countries, they generally include transportation and environmental services (including water, sewerage and solid waste collection and disposal), protection (including policing and fire protection), recreation and culture, planning and economic development, social services, housing and health.

Based on the principle of cost-recovery, local government-provided services should be paid for on the basis of benefits received. The extent to which municipalities can actually recover the costs is influenced by a number of factors. It is dependent on the municipality's institutional and human resources capacity to enforce tax-laws and revenue collection, as well as to create accountability and transparency. Capacity constraints are usually cited as the most impeding factor. Education and training, introduction of modern information and communication technologies together with tax reforms reportedly have positive impacts on increasing revenue generation and the collection of user fees, especially for water and sewer services. It is particularly important to enhance transparency and accountability of city revenue raising and expenditures.

The structure of expenditure obviously reflects the priority areas that a city emphasizes. Over the data period observed, Addis Ababa's expenditure in the urban economy took the highest share with the construction sector taking the lion's share in the total economy expenditure. On average, the spending on construction was more than 60% of the total economy expenditure over the last four years. Figure 17 illustrates major expenditure categories

FIGURE 18: SHARE OF MUNICIPALITY REVENUE TO TOTAL EXPENDITURE



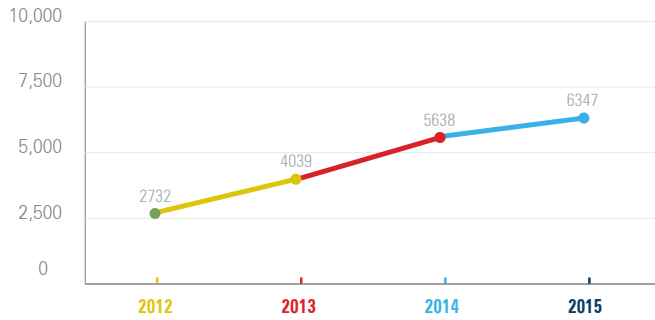
Source: Own computation based on BoFED.

and their share. The data makes clear that expenditure on "municipality" ranks the lowest while the economy and social services ranked first and second respectively.

With regard to revenue and expenditure, the key question is to what extent the municipality can generate the revenues for its own expenditures. The ability to finance the expenditures from its own revenue is one indicator of a city's strength and competitiveness. Figure 18 shows the trend for the share of Addis Ababa's municipal revenue to total expenditure. The data reveals that the share of municipality revenue is declining and that Addis Ababa cannot finance its expenditure from its own municipal revenue alone. Actually, on the average over the past four years, only about 10% of its total expenditure is covered by the municipal revenue. State revenues covered about 83% of the total expenditure over the same period. This strengthens the argument that the city needs to strengthen its own municipal revenue generation.

Addis Ababa's booming economy and infrastructure development is reflected in the city's per capita expenditure. The primacy and economic importance of Addis is shown by a huge gap in per capita expenditure if compared with Ethiopia's secondary cities. According to the 2015 State of Ethiopian Cities report, most Ethiopian cities had per capita expenditure below ETB 1,500

FIGURE 19: PER CAPITA EXPENDITURE IN ETB



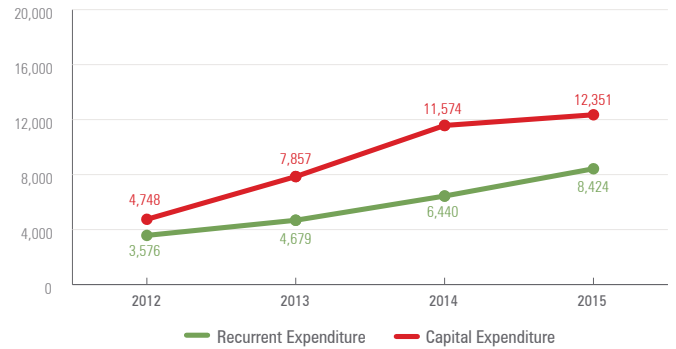
Source: Own computation based on various sources

over the period 2012-2014 while that of Addis exceeded ETB 4,000 on the average (see Figure 19).

An increase in expenditure per capita requires an increase in revenue per capita to finance the increased city expenses. Although there is a positive trend in the overall growth of Addis Ababa's city revenue per capita, any fall in municipality revenue could be a hurdle for city's sustainable growth.

Another category of expenditure component concerns the amounts the city has spent on recurrent expenses or capital investments. While both these expenditures are perceived to support city growth, capital expenditure is assumed to enhance the urban economy through its impact on long-term productivity. Investment in infrastructure and utilities is expected to yield a

FIGURE 20: RECURRENT VS. CAPITAL EXPENDITURE (IN ETB MILLIONS)



Source: Own computation based on BoFED.

positive multiplier effect in the long run. Figure 20 shows the pattern of both expenditure types.

The data, as expected, shows that capital expenditure by far exceeds recurrent expenditure. The huge expenditure on road construction is one manifestation of this. Although the trend is positive and justifiable from the long-term productivity-enhancing infrastructure investment point of view, the city needs to seek a more sustainable way of financing its recurrent expenses. Also, over time investment in infrastructure could reach a saturation point when further investment benefits will become marginal in relation to the costs. This demands careful analysis of the true economic and social benefits vis-à-vis the costs of infrastructure investment that draws capital from the city.



▲ Cleared land in Addis Ababa before outleasing. © Geo Kalev

## 2.6 Land value capture: challenges and opportunities

The concept of land value capture emphasizes that urban infrastructure investments would add value to the land. The principle of land value capture therefore is based on netting the additional land value created through urban infrastructure investment. One such mechanism, according to Peterson<sup>19</sup> (2008), is betterment levies. This method of capturing the land value is based on imposing a one-time tax or charge on gains in land value. Landowners are taxed a fixed proportion (i.e. 30–60%) of the gain in land value attributable to infrastructure investments.

However, several questions remain unanswered with the application of betterment levies, and such levies have become a contentious issue for many reasons in many countries. The basic problem is determining what the real gain in land value is attributable to an infrastructure investment. This proves difficult to establish under many circumstances and makes it hard for the authorities to determine a tax levy without an appropriate tax base.

In many advanced nations value capturing is realised through public land sales. According to Peterson (2008), if the public sector owns the land it can internalize the benefits of public investment and capture the gains through land sales/land lease. For countries like China, for instance, where land is publicly owned, the municipality typically transfers the land to a public-private development corporation which, in turn, can borrow against the land as collateral to finance the infrastructure on the land it obtained from the municipality. The corporation repays its debt with the proceeds of either selling or by leasing the land which value has increased. On the one hand, the municipality has improved its infrastructure and better urban utilities; on the other, the private sector has benefited through the process. This approach could be considered for Addis Ababa, where the municipality has total control over the land, albeit that public-private partnerships are not so strong.

Another approach to betterment fees is applied in Bogota, where, the city residents pay an ‘acceptable’ fee for the city infrastructure without delineation of a specific location in an urban area. This method might be acceptable politically and increases the willingness of paying betterment levies, but the effectiveness of delivering infrastructure services could be jeopardised as resources are spread over a wide area as opposed to a specific urban locality.

The key question with land value capture is whether an inventory of land assets/registration of fixed property system





Construction under way in Addis Ababa. © Geo Kalev

exists for the city. For a city administration to yield good land value capture, it must have (or put) in place updated property registration, land use plans, estimate the market value of land through a process of land valuation, among others. Against this background, Addis Ababa is at an infant stage.

According to a city administration land management report (2016), although there is an established systems of land banking and counting parcels of land, property registration is still in its early stages and would not effectively and accurately facilitate estimating the value that accrues to land through urban infrastructure investments. This is worrisome since clear, comprehensive and updated land registration can yield important municipal income. That is especially critical since it can facilitate meeting the infrastructure and utilities financial demands associated with rapid urbanization. Fortunately, various GIS-based technologies make the establishment of a clear, comprehensive and updated urban land register significantly less cumbersome than before the availability of these new technologies.

Although land value capture is generally a novel idea that cities must resort to, in practice there are many hurdles. Firstly, urban land markets are volatile and current transaction could indicate a bubble and not a sustainable source. The municipality has to be careful in utilizing the money obtained from land leases for investment in infrastructure and avoid becoming dependent on it as an operating budget or have unrealistically optimistic

expectations of future land price increases. Secondly, land sales often lack transparency and accountability. The entity that has legal title to the land could be corrupted unless there is a transparent public accounting system on revenue obtained from land lease. Finally, public authorities could drive up land prices by restricting the supply of land leases to the market. This could be a deliberate act or could be an outcome of low municipal institutional capacity to provide an adequate and timely supply of land for leasing. Either way would have negative repercussions on the local economy and hurt urban development.

## 2.7 Competitiveness and drivers of economic growth

This section discusses enabling business environments, performance of key sectors such as the micro and small enterprises (MSEs) and the trends of foreign direct investment in Ethiopia.

### Micro and small enterprise development

Sustaining economic growth through a focus on local economy development has been a guiding principle in the Addis Ababa city administration. This very objective is derived through the development of MSEs. It is based on the notion that MSE development would bring economic growth through reducing unemployment and enhancing equitable growth. Addis Ababa experiences modest income inequality distribution of about 0.3, on average. The Bureau of Finance and Economic Development interim poverty assessment of 2016 computes the trend in income inequality (measured by Gini-coefficient) which has been rising from 0.353 in 1996 to 0.455 in 2005 (see Table 10). After 2005, the Gini-coefficient started to decline to 0.342 in 2015. The MSE development programs have been intense over the last decade. During the last GTP period alone, the city administration has created 482,078 permanent and 248,824 temporary jobs or a total of 730,902 jobs, according to the Addis Ababa Development Agency (2016)<sup>30</sup>. This might have partly contributed to a decline in income inequality over the last decade.

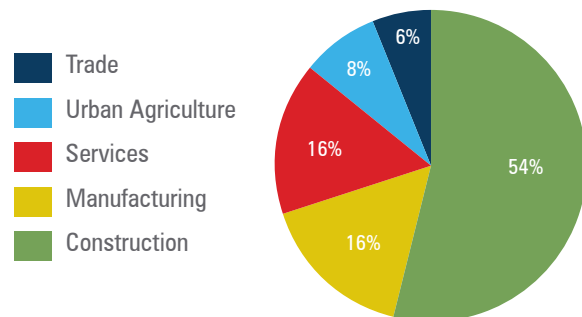
The construction sector takes the lion's share of MSE jobs created by about 54%, followed by services (16%) and manufacturing (16%) (see Figure 21). The housing construction boom and government condominium housing projects might have played important roles in this regard. A remaining question is whether the construction sector provides sustainable employment after saturation of the sector. The MSEs may need support packages that would enable them to sustain their income and strive to

TABLE 10: TREND IN INCOME INEQUALITY IN ADDIS ABABA

Year	Gini coefficient
1996	0.353
2000	0.423
2005	0.455
2011	0.336
2015	0.324

Source: BoFED, Interim poverty assessment (2016)

FIGURE 21: PROPORTION OF MSE JOBS CREATED BY MAJOR SECTORS, 2011-2015



Source: Addis Ababa Micro and Small Enterprise Development Agency (2016).

graduate to the next higher level. In this regard MSE linkages with medium and large enterprises would prove useful. Government support is needed in enhancing not only the skill and finance, but MSEs need to have national as well as international market linkages, technology transfers and subcontracting arrangements.

It is worth noting that in Addis Ababa MSEs have performed better in graduating enterprises to the next higher level. Over the GTP period, about 1,217 MSEs have become medium-size enterprises, higher than the city administration's target of 831 over the last 5 years.

## 2.8 Foreign direct investment

Foreign direct investment (FDI), depending on the type of investment, can be useful to enhance employment opportunities, technology transfer and thereby increase productivity as long as the receiving country has a good absorptive capacity. Attracting investment, however, requires a favourable business environment and a stable macro-economy. Policy interventions can help create such conditions. In the World Bank's 2016 Doing Business report Ethiopia ranks 146<sup>th</sup> among 189 economies surveyed for ease of doing business. This is an improvement over the 2015 report in which Ethiopia ranked 148<sup>th</sup>. Starting a business, obtaining credit, trading across borders and registering property however, were found to be critical impediments to doing business in Ethiopia according to the same report in 2016. These factors have adversely affected inward FDI flows into both Ethiopia and Addis Ababa.<sup>21</sup> Based on data from the Ethiopian Investment Agency (2015), Addis Ababa, as could be expected, ranks first in FDI inflows if compared to other Ethiopian cities or regions (see Table 11).

In Addis Ababa, about 1,500 FDI projects are operating, about 61% of the total number of FDI in the country, further consolidating Addis Ababa's importance in the domestic economy and urban system. In terms of invested capital amount Addis Ababa constitutes about 37.8% of the total FDI invested amount. Addis Ababa's relative position and future share in FDI

attraction is expected to rise due to its relatively good services and infrastructure, as well as demand for goods and services. The city's inward FDI has created about 83,664 permanent jobs or about 30% of the total permanent jobs created. Inward FDI has not created as many jobs in Addis Ababa as in localities in and around the city, possibly indicating Addis Ababa oriented FDI may be more capital intensive.

The data covering the past two decades on the origin of major inward FDI sources shows a strong domination of China (927 projects), followed by Sudan (370), India (346 projects) and the USA (242 projects) over the last two decades. China's FDI (excluding joint ventures with Ethiopia) constitutes about 20% of the number of projects operating in Ethiopia, about 14% of total permanent jobs created and about 17% of total FDI projects (including the pre-implementation and under implementation projects). In terms of value, China's registered capital makes up about 17.32% of the total FDI value invested excluding joint ventures with other countries. With joint ventures included China's FDI investment value increases up to about 21.85% of the total investment value. The US investment value is closer to about 1.43 of the total FDI investment value excluding joint ventures. With joint ventures, the figure for US increases to about 2.23% of the total FDI value.

For most countries operating projects are less than half of the total projects licensed with China, Germany, Italy and The Netherlands, doing better in terms of getting the FDI into operation in Ethiopia. This low performance in the proportion of FDI projects operation could be attributed to the poor enabling business environment.

TABLE 11: LICENSED FDI PROJECTS BY REGION AND STATUS (1992-2016)

Region	Total	Pre-			Capital in Millions of ETB	Permanent employment	Temporary employment
		implementation	Implementation	Operation			
		No of projects					
Addis Ababa	2,718	746	457	1,515	34,751.6	83,664	73,248
Afar	25	7	7	11	383.37	841	1,995
Amhara	214	85	62	67	9,185.4	21,579	15,585
B.Gumze	35	16	11	8	186.4	315	2,274
Dire Dawa	60	28	19	13	863.6	1,534	272
Gambella	34	24	4	6	1,059.6	474	3,600
Harari	10	6	3	1	2,500	5	5
Multiregional	306	85	72	149	3,998.6	89,406	110,182
Oromia	1,633	604	413	616	36,788.7	69,660	65,929
SNNPR	172	73	38	61	2,678.9	8,362	22,082
Somali	26	16	7	3	212.8	2,072	2,080
Tigray	84	26	26	32	1,699.9	4,116	6,325
Grand Total	5,317	1,716	1,119	2,482	91,811.5	282,028	303,577

Source: Ethiopian Investment Authority, 2016

TABLE 12: FDI BY SECTOR (1992-2016)

Sector	Total	Pre-implementation			Capital in ETB Millions	Permanent employment	Temporary employment
		Implementation	Implementation	Operation			
		No of projects					
Agriculture	823	329	218	276	8,700.0	12,4317	18,3632
Manufacturing	2,343	773	488	1,082	62,166.4	11,5921	57,176
Mining	32	8	6	18	568.7	815	327
Electricity (Generation, transmission and distribution)	4	3		1	1.	10	5
Education	121	35	32	54	377.3	2,122	1,119
Health	105	15	35	55	468.1	1,741	372
Hotels and restaurants	296	104	66	126	1,734.6	3,794	2,410
Tour operation, transport and communication	131	41	25	65	227.7	781	490
Real estate, machinery and equipment, rental and consultancy services	984	266	129	589	6,295.2	12,342	13,151
Construction contracting including water well drilling	390	130	99	161	10,609.2	18,663	39,454
Others*	88	12	21	55	663.1	1,522	5,441
Grand total	5,317	1,716	1,119	2,482	91,811.5	28,2028	30,3577

Source: Ethiopian Investment Authority (2016)

### FDI by sector

The nature of foreign direct investment that comes into an economy might influence its long term sustainability (in terms of economic sustainability) through its effect for example on the environment. Key elements to probe the quality of FDI might include such issues as what proportion of FDI operates on clean energy, environmental sustainability and investments that would consider climate change.

It has been observed that inward FDI in Ethiopia is largely dominated by manufacturing (44.0%), real estate (18.5%), agriculture (15.4%) and construction (7.3%). FDI licensed on clean energy generation, health and tourism accounts for only 4.5% of the total FDI (see Table 12). Clearly, there is room for enhancing FDI flows aiming at enhancing sustainability in Ethiopia.

## 2.9 Enabling business environment and city competitiveness

The business regulatory environment is a key determinant encouraging or discouraging investment flows and, by extension, a city's competitiveness. A variety of institutions apply different methodologies to rank city competitiveness. The Global Cities competitiveness report (2016)<sup>32</sup>, for example, compares cities based on an indexed score for business activities, human capital, information exchange, cultural experience and political engagement. A number of indicators underlie an index that determines the city ranking. Addis Ababa was ranked 121<sup>st</sup> from among 125 cities surveyed in the Global Cities 2016 competitiveness report, better only than Dhaka, Khartoum, Lagos and Luanda.

The World Bank in its Doing Business report of 2015 reviews 11 areas through a business's life cycle to judge how enabling the business environment of countries or cities is in: 1) starting a business, 2) dealing with construction permits, 3) getting electricity, 4) registering property, 5) getting credit, 6) protecting minority investors, 7) paying taxes, 8) trading across borders,

TABLE 13: DOING BUSINESS RANK FOR MAJOR TOPICS

	Doing Business Rank 2016	Doing Business Rank 2015	change
Starting a business	176	170	-6
Dealing with construction permits	73	70	-3
Getting electricity	129	127	-2
Registering property	141	140	-1
Getting credit	167	165	-2
Protecting minority investors	166	165	-1
Paying taxes	113	113	No change
Trading across borders	166	165	-1
Enforcing contracts	84	84	No change
Resolving insolvency	114	118	+4

Source: World Bank Doing Business report, 2016

TABLE 14: DOING BUSINESS RANK AND DISTANCE TO FRONTIER

	Doing Business 2016 Distance to Frontier (% points)	Doing Business 2015 Distance to Frontier (% points)	change
Starting a business	62.45	59.11	+3.34
Dealing with construction permits	71.05	70.62	+0.43
Getting electricity	58.10	57.29	+0.81
Registering property	50.04	50.02	+0.02
Getting credit	15.00	15.00	No change
Protecting minority investors	35.00	35.00	No change
Paying taxes	68.95	69.11	-0.16
Trading across borders	39.80	39.80	No change
Enforcing contracts	59.06	59.06	No change
Resolving insolvency	37.81	37.39	+0.42

Source: World Bank Doing Business report, 2016

9) enforcing contracts, 10) resolving insolvency and 11) labour market regulation. The World Bank compares and ranks 189 economies based on the ease of doing business over various years. Comparator countries are used to analyze the state of doing business of a given economy. For the purpose of this report the most recent data in the 2016 report was used to understand the state of doing business in Ethiopia<sup>23</sup>.

A closer look into both relative and absolute values of the doing business indicators for Ethiopia gives a clear picture of areas that should be addressed to enhance the competitiveness of Addis Ababa and the country as a whole. The rankings provide a relative measure of where the country stands among 189 economies around the world and points to areas where improvements will enhance its competitiveness. Table 13 reveals that over the last year, Ethiopia has progressed only in the area of resolving insolvency. This is indeed an important matter when it comes to attracting FDI, which often relies, among other things, on global rankings in conduciveness of the business environment. A good

business environment with a good global ranking attracts FDI, and foreign exchange earnings for that matter.

Despite lagging in many ranking areas, Ethiopia has progressed with respect to construction permits, starting a business, getting electricity, registering property and resolving insolvency (World Bank, 2016)<sup>24</sup>. On the other hand, there was, over the last two years, no significant change in access to credit, protection of small investors, trading across borders and enforcing contracts. If Ethiopia and Addis Ababa are seriously attempting to increase the inward FDI flows, the lagging or stagnant score areas shown in Table 13.

Starting a business in Ethiopia is clearly challenging and not getting any easier over time. The World Bank report (2016) reveals that Ethiopia is ranked 176<sup>th</sup> out of a total of 189 economies in starting a business; a deterioration from the already poor score of 170<sup>th</sup> place in in 2015.

The same report compares the procedures, the time, cost and capital required to start a business in Ethiopia with the sub-Saharan

TABLE 15: **STARTING A BUSINESS: ETHIOPIA AND SUB-SAHARAN AFRICA COMPARED**

Indicator	Ethiopia	Sub-Saharan Africa	OECD high Income
Procedures (number)	11	8	4.7
Time (days)	19.0	26.8	8.3
Cost (% of income per capita)	76.1	53.4	3.2
Paid-in minimum capital (% of income per capita)	138.9	45.1	9.6

Source: World Bank Doing Business report, 2016)

TABLE 16: **CORRUPTION INDICATORS**

Corruption indicator	Addis Ababa	Ethiopia	Sub-Saharan Africa	All countries
Bribery incidence (% of firms experiencing at least one bribe payment request)	28.7	26.8	25.0	17.9
Bribery depth (% of public transactions where a gift or informal payment was requested)	20.5	19.8	19.0	13.9
Percent of firms expected to give gifts in meetings with tax officials	19.8	17.4	18.1	13.0
Percent of firms expected to give gifts to secure government contract	22.5	19.7	31.7	28.4
Value of gift expected to secure a government contract (% of contract value)	0.6	0.5	2.1	1.7
Percent of firms expected to give gifts to get an operating license	2.6	2.3	17.1	14.5
Percent of firms expected to give gifts to get an import license	25.2	23.1	19.1	15.0
Percent of firms expected to give gifts to get a construction permit	55.9	51.2	29.5	23.9
Percent of firms expected to give gifts to get an electrical connection	20.6	22.3	25.6	16.5
Percent of firms expected to give gifts to get a water connection	17.8	20.7	26.7	16.5
Percent of firms expected to give gifts to public officials "to get things done"	9.4	8.3	23.9	21.5
Percent of firms identifying corruption as a major constraint	30.6	27.9	37.9	31.9
Percent of firms identifying the courts system as a major constraint	8.2	7.5	16.2	14.3

Source: World Bank Enterprise Survey, 2016

TABLE 17: **CRIME INDICATORS**

Crime indicator	Addis Ababa	Ethiopia	Sub-Saharan Africa	All countries
Percent of firms paying for security	53	55.3	64.9	55.6
Security costs (% of annual sales)	0.5	0.6	2.9	1.6
If the establishment pays for security, average security costs (% of annual sales)	1.1	1.1	4.9	3.2
Percent of firms experiencing losses due to theft and vandalism	4.7	6.5	22.1	19.4
Losses due to theft and vandalism against the firm (% of annual sales)	0.1	0.2	1.4	0.8
If there were losses, average losses due to theft and vandalism (% of annual sales)	1.5	3.4	7.3	4.8
Products shipped to supply domestic markets that were lost due to theft (% of product value)	0.8	0.5	1.5	0.8
Percent of firms identifying crime, theft and disorder as a major constraint	1.1	2.4	16.4	19.2

Source: World Bank Enterprise Survey, 2016

TABLE 18: FINANCE INDICATORS

Finance indicator	Addis Ababa	Ethiopia	Sub-Saharan Africa	All countries
Percent of firms with a checking or savings account	92.2	92.6	85.9	86.7
Percent of firms with a bank loan/line of credit	30	32.8	22.7	34.6
Proportion of loans requiring collateral (%)	82.9	85.8	83.5	78.7
Value of collateral needed for a loan (% of the loan amount)	301.8	296.2	214.2	205.1
Percent of firms not needing a loan	34.2	32.8	36.8	46.4
Percent of firms whose recent loan application was rejected	16.9	15.1	14.4	11.6
Percent of firms using banks to finance investments	12.3	12.9	19.1	25.3
Proportion of investments financed internally (%)	82.6	83.3	75.8	71.4
Proportion of investments financed by banks (%)	7.5	7.8	9.7	14.4
Proportion of investments financed by supplier credit (%)	0.3	0.3	4.6	4.8
Proportion of investments financed by equity or stock sales (%)	0.8	0.8	5.0	4.7
Percent of firms using banks to finance working capital	13.6	16.4	21.8	30.5
Proportion of working capital financed by banks (%)	7.8	8.7	8.4	11.7
Proportion of working capital financed by supplier credit (%)	3.2	2.9	8.3	10.9
Percent of firms identifying access to finance as a major constraint	20.0	20.3	36.8	25.7

Source: World Bank Enterprise Survey, 2016

African average, as shown in Table 15. By all standards, Ethiopia's performance in starting a business is also below the sub-Saharan average. Clearly, there is significant room for improvement.

Among the four indicators of starting a business, Ethiopia is better only in the number of days it takes to start a business compared to the sub-Saharan African standard. The paid-in minimum capital in Ethiopia is one of the worst in sub-Saharan Africa. This is the most important factor in terms of adversely affecting competitiveness. It is not easy for firms to start a business largely because of the initial capital requirements and the poor credit system. The financial sector is immature and so weak that its outreach to private firms with long term loans and provision of various financial services is inadequate. More importantly, the required collateral asset value that businesses are required to bring is among the highest, estimated at about 173% of the loan (World Bank, 2013)<sup>35</sup>. Small businesses in particular face a major hurdle in accessing financial services because banks perceive them as risky. Therefore, most micro and small enterprises start their operations with funding from family and friends or informal loan sharks. By necessity, starting capital is therefore typically small and does not allow for purchasing the latest technology, negatively affecting their competitiveness (World Bank, 2013).

The World Bank (2016)<sup>36</sup> survey (see Table 16) on corruption found that both incidence and depth of bribery are worse in Ethiopia compared to the sub-Saharan African average. Addis Ababa is doing worse in corruption related to construction permits, import licenses, securing government contracts and bribing of tax officials. A significant number of firms cite corruption as a major impediment to business expansion, implying that interventions are required if the Ethiopian and Addis Ababa competitiveness is to be enhanced. Issues of good governance, accountability and transparency are central to bringing down both incidence and depth of bribery.

Addis Ababa, on the other hand, has a competitive advantage in the crime indicator (see Table 17) with a relatively low score in security costs, theft and vandalism, as well as theft and disorder compared to sub-Saharan African average and global standards. Safety and security are attributes that many African cities lack and that the city of Addis Ababa needs to emphasize as an important competitive advantage when seeking to attract FDI.

Provision of loan/credit to firms is a key factor contributing to city competitiveness for a number of reasons: firstly, credit helps firms invest in new expansion projects with a potential to hire more workers. Secondly, credit allows firms to purchase technology and then adopt new methods of production that could lead them towards a competitive edge, enabling them to garner a greater share of the market. This is why banks need to provide credit and financial services to firms in need at considerable ease. Table 18 above indicates that firms in Addis face severe challenges of getting loans compared to average sub-Saharan African firms. A typical firm in Addis Ababa needs to bring collateral valued about 301% of the loan amount to banks and this makes it difficult for many businesses to access financial services. As a result Addis Ababa has only about 13.6% of firms getting finance for their working capital from banks and only 12.3% are financed by banks for investment purposes according to the World Bank's (2016) enterprise survey report. This pales in comparison to the sub-Saharan average of about 21.8% and 19.1% respectively.

Infrastructure provision is one of the key elements for private sector development and hence for a city's competitiveness. Firm productivity gains are directly related to the level and quality of infrastructure, for it has implications on productions costs, technology and labour productivity. Addis Ababa's provision of utilities is one of the most modest compared to the regional

TABLE 19: **INFRASTRUCTURE AND CITY COMPETITIVENESS**

<b>Infrastructure indicator</b>	<b>Addis Ababa</b>	<b>Ethiopia</b>	<b>Sub-Saharan Africa</b>	<b>All countries</b>
Number of electrical outages in a typical month	6.7	8.2	8.5	6.4
Duration of a typical electrical outage (hours)	4.8	4.6	4.2	2.4
If there were outages, average duration of a typical electrical outage (hours)	6.0	5.8	5.6	4.4
Losses due to electrical outages (% of annual sales)	4.2	4.6	5.5	2.6
If there were outages, average losses due to electrical outages (% of annual sales)	6.4	6.9	8.8	4.7
Days to obtain an electrical connection (upon application)	216.8	194.3	33.0	31.5
Percent of firms identifying electricity as a major constraint	29.1	33.3	38.3	30.9
Number of water insufficiencies in a typical month*	2.7	2.7	1.8	1.0
Proportion of products lost to breakage or spoilage during shipping to domestic markets (%)*	1.1	1.2	1.9	1.2
Percent of firms identifying transportation as a major constraint	7.5	8.3	22.8	18.1

Source: World Bank Enterprise Survey, 2016

TABLE 20: **INNOVATION AND CITY COMPETITIVENESS**

<b>Innovation and technology indicator</b>	<b>Addis Ababa</b>	<b>Ethiopia</b>	<b>Sub-Saharan Africa</b>	<b>All countries</b>
Percent of firms with an internationally-recognized quality certification	4.7	4.3	14.7	17.6
Percent of firms using technology licensed from foreign companies	12.9	7.7	17.5	14.9
Percent of firms having their own website	39.6	34.8	32.9	45.1
Percent of firms using e-mail to interact with clients/suppliers	84.5	74.0	60.2	72.6
Percent of firms with an annual financial statement reviewed by external auditors	61.0	58.1	49.0	49.3

Source: World Bank Enterprise Survey, 2016

TABLE 21: **REGULATIONS AND TAXES**

<b>Regulations and taxes</b>	<b>Addis Ababa</b>	<b>Ethiopia</b>	<b>Sub-Saharan Africa</b>	<b>All countries</b>
Senior management time spent dealing with the requirements of government regulation (%)	12.7	11.9	7.6	9.9
Number of visits or required meetings with tax officials	1.5	1.6	2.2	1.6
If there were visits, average number of visits or required meetings with tax officials	3.8	3.7	3.1	2.6
Days to obtain an operating license	4.8	5.4	19.1	30.0
Days to obtain a construction-related permit	43.5	47.5	44.5	70.8
Days to obtain an import license	11.5	12.8	14.6	18.2
Percent of firms identifying tax rates as a major constraint	23.5	22.8	33.2	29.5
Percent of firms identifying tax administration as a major constraint	18.4	17.1	26.3	19.2
Percent of firms identifying business licensing and permits as a major constraint	7.6	6.4	17.1	12.5

Source: World Bank Enterprise Survey, 2016



TABLE 22: TRADE LOGISTICS AND CITY COMPETITIVENESS

Trade indicator	Addis Ababa	Ethiopia	Sub-Saharan Africa	All countries
Days to clear direct exports through customs	9.8	7.7	10.2	7.5
Percent of firms exporting directly or indirectly (at least 1% of sales)	8.1	8.9	13.8	19.0
Percent of firms exporting directly (at least 1% of sales)	7.5	7.5	9.0	13.8
Proportion of total sales that are domestic sales (%)	93.5	92.9	93.2	91.3
Proportion of total sales that are exported directly (%)	6.0	5.9	3.9	5.9
Proportion of total sales that are exported indirectly (%)	0.6	1.3	2.9	2.8
Days to clear imports from customs*	16.5	19.2	16.3	10.8
Percent of firms using material inputs and/or supplies of foreign origin*	63.4	36.7	59.0	61.2
Proportion of total inputs that are of domestic origin (%)*	67.9	82.5	66.1	64.2
Proportion of total inputs that are of foreign origin (%)*	32.1	17.5	33.9	35.8
Days of inventory of main input	72.9	56.7	24.2	34.4
Percent of firms identifying customs and trade regulations as a major constraint	14.2	13.5	23.0	16.0

Source: World Bank Enterprise Survey, 2016

average but there is a stark contrast in the areas of; for example; the number of days required to obtain an electrical connection. In Addis Ababa, this takes about 217 days on average to obtain electricity connection compared to the regional average of about 33 days and the world average of 31.5 days (World Bank 2016 enterprise survey). Addis is also not competitive in the provision of enough water on a regular basis as its score for the number of insufficiencies in a typical month is higher than the sub-Saharan African average as can be seen in the table above.

In innovation and technology Addis Ababa scores a low comparative advantage. It has few firms with internationally recognized quality certification; much lower than the regional average. The number of firms using technology licensed from foreign companies is only about 13 % compared to a regional average of 17.5% and a world average of 15% in 2016 (see Table 20). There is some progress in terms of websites to communicate with clients if compared with 2008 which was only 18.0% according the World Bank (2006)<sup>27</sup> survey report.

The regulatory environment plays a very important role in competitiveness through its effect on direct and indirect costs. The regulation and tax indicators are within the average regional and global values. Recent tax reform in Ethiopia has contributed to a better business environment compared to 2008. The percentage of firms identifying tax administration as a major constraint dropped from 29.1% in 2008 to only 18.4% in 2016; relatively good if compared to the regional and global averages of 26.3 % and 19.2 % respectively (see Table 21).

With regard to trade-related activities, Addis Ababa performs poorly in its reliance on foreign supplies for its material inputs. The World Bank survey report (2016) (see Table 22) reveals that about 63.4% of the surveyed firms depend on imported inputs, compared to regional and global average of 59% and 61.2% respectively. Given the difficulty of obtaining hard currency and weak product competitiveness, reliance on

foreign inputs severely hurts businesses in Addis Ababa. This especially hampers competitiveness when coupled with poor performance in the average time needed to clear imports (which has worsened from 14.1 days in 2008 to 16.5 days in 2016) and average time to clear direct exports through customs (which has deteriorated from 4.3 days in 2008 to 9.8 days in 2016). Therefore, if the national goal of becoming a middle-income country by 2025 is to be achieved, policy interventions would be appropriate.

### Concluding notes

By virtue of its advantageous geographical location and as a result of the massive investment and policy reforms undertaken by the government over the past decade to position Addis Ababa as the economic hub of the country, the city's economic performance over the past decade and half has been spectacular. Huge investments in roads, public transport, telecommunications, electricity, drainage system, public housing, coupled with an improved legal and regulatory environment have unleashed the economic potential of Addis Ababa. But more still remains to be done.

The priority task for the coming decade should be for the city administration to build on recent gains by improving the efficiency, effectiveness and responsiveness of municipal institutions in service delivery. The cost of doing business needs to be eased by undertaking deep reforms to facilitate access to land, credit, investable capital, as well as by eliminating bureaucratic red tape and corruption.

Equally important is the need to reduce the transaction cost associated with environmental degradation by expediting the implementation of existing laws and regulations on pollution control, energy efficiency, improvement of mass transit to reduce congestion and carbon emission, expanding the size of green space in the city, and creating the conditions for the city to become more socially inclusive.

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Aerial view of the city of Addis Ababa. © Shutterstock





# 3

## HOUSING TO THE POOR

Rapid urbanization and unprecedented population growth over the past decades have created enormous pressure on Addis Ababa's capacity to provide affordable housing and access to basic services for the citizenry, especially for the low-income households. The gap between demand and supply of land and housing is growing day by day (Eshete and Teshome, 2015)<sup>1</sup> and has led to the growth of informal land transactions and to an alarming proliferation of squatter and unplanned settlements (Fransen, 2008).<sup>2</sup>

# 3.1 Urban planning, land and housing policies under the EPRDF since 1991

With the overthrow of the Dergue regime in 1991, many aspects of their socialist policies and programs were quickly abandoned. The one exception was state control of land which the EPRDF maintained. In subsequent years, however, the EPRDF-led government introduced a market-oriented approach to land holding, particularly after the introduction of a new urban land leasehold system in 1993<sup>3</sup>. Proclamation No. 80/1993 transformed the land tenure system from the traditional “rent” system to a market system of long-term lease while forbidding the sale of freehold land.

In 2002, the government enacted Proclamation No. 272/02 on urban landholding that reinforced the earlier 1993 Proclamation which established the market-oriented landholding system.<sup>4</sup> In 2002, the government issued Proclamation No. 721/2004 which clarified the period of lease holding for different types of housing, based on the type of sector or service type. For instance, there is a 90-year land lease for applicants to land for education, health,

culture and sports functions; 70 years for an industry; and 60 years for commerce. Urban land leases can be acquired through award, tender or allotment in accordance with the land grade and the lease benchmark price (Proclamation 721/2011)<sup>5</sup>.

Despite the introduction and implementation of various proclamations related to the market-oriented land lease system, the approach has so far failed to expand affordable housing options to the residents of Addis Ababa of *all* income groups. It is not only just the very poor that are affected by the housing crisis; teachers, nurses and others in the ‘middle class’ are unable to access affordable housing, forcing many of them to seek a second employment just to stay afloat. Lack of a strategic and comprehensive approach to housing policy were cited as major factors why Ethiopia has performed poorly in terms of the provision of affordable housing to the poor. Since the introduction of the 2005 urban development policy, however, major policy changes can be observed. The following section discusses the evolution of housing policy and strategies from 2002 to 2010.

## Evolution of urban housing in key policy strategies

Although the housing crisis had been identified by the government as early as 2002 during the drafting of the first strategic Sustainable Development and Poverty Reduction Plan, a comprehensive approach was not presented until the adoption of the 2005 Urban Development Policy white paper. Subsequent



▲ Condominium housing © Geo Kalev.

TABLE 23: SUMMARY OF HOUSING CONSTRUCTION FROM 2006-2010

Type of Dwelling	Addis Ababa	Other Regions	Total
Commercial	5,592	3,787	9,379
Studio	12,968	102,014	23,182
One bedroom	31,169	25,164	56,333
Two bedroom	23,430	18,333	41,763
Three bedroom	7,086	5,059	12,145
Total	80,245	62,557	142,802

Source: MUDHCo, National progress report on achievements of the past year, 2014

national plans brought more clarity and strategic guidance on how to address the land and housing crisis.

### Sustainable Development and Poverty Reduction Plan SDPRP

The Sustainable Development and Poverty Reduction Plan (SDPRPP) of 2002 identified that most of the housing problems in the country are “directly or indirectly related to affordability either to buy, construct, or rent a house, in the open market” (p. 126). Despite emphasis on the urgency of introducing appropriate housing standards to enhance housing affordability, the SDPRP did not offer a relevant strategic roadmap on how to ease the housing problem. The sole exception was the city of Addis Ababa where a ‘condominium housing project’ was launched in 2004 as part of its inner city upgrading development

### Plan for Accelerated and Sustained Development Program (PASDEP)

A more comprehensive policy and strategic framework on housing emerged after the introduction of Ethiopia’s first comprehensive urban development policy in 2005 which informed the drafting of the Plan for Accelerated and Sustained Development Program (PASDEP). Unlike the SPRPR, the 2006 PASDEP clearly laid out a strategy on how to curb the challenges of access to urban housing and urban land. The Ethiopian government launched one of the most expansive and large-scale public housing projects: the Integrated Housing Development Program (IHDP), a multi-sectoral project that aimed to supply residential units through the construction of condominium housing, while also providing infrastructure, services and job opportunities.

The IHDP specifically targeted at low- and middle-income households, with the aim to clear all slums and contribute to Ethiopia’s desire to become a middle-income country by 2025 (UN-Habitat, 2011). The multi-story commercial/-residential condominiums also promote more efficient use of urban space through densification (Ministry of Work and Urban Development (MoWUD) 2013). This program initially aspired to constructing 400,000 condominium housing units between the year 2006 and 2010 (UN-Habitat, 2011b). However, country-wide, the programme only delivered 142,802 housing units between 2006 – 2010 (see Table 23). Of these, a little over 80,000 were built between 2003 and 2010 in Addis Ababa,

TABLE 24: HOUSING CONSTRUCTED UNDER GTP I

Type of project	Number of Housing Unit
10/90 Low income condominium housing development	24,288
20/80 Condominium housing development	70,712
40/60 Saving housing development	1,233

Source: MUDHCo, National report on housing and sustainable development, 2014

spread over thirty different sites. It was alleged, however, that the condominium programme, limited as it was, minimized the city’s housing shortage with at least 17.6% (Addis Ababa City Government, 2002, Wubneh 2013, MoWUD 2013)<sup>6</sup>. In addition, until 2010, the IHDP created until 2010 already 176,000 jobs in the construction industry (UN-Habitat, 2011)<sup>7</sup>.

### The Growth and Transformation Plans (GTP I & II)

Building on the lessons of IHDP, the first Growth and Transformation Plan (GTP I) introduced a slightly different mode of housing delivery. As an input to GTP I, the Ministry of Urban Development and Housing developed a new housing strategy in 2009. Unlike IHDP, the strategy also offers included mechanisms to provide housing for the ‘poorest of the poor’ through two types of condominium housing developments.

The 10/90 and 20/80 condominium schemes target low-income households earning below ETB 1,000 per month and the 40/60 condominium schemes target the middle-income group households (MUDHCo, 2014). The 10/90 and 20/80 schemes are highly government subsidized and, through a cross-subsidy strategy, studio’s and one-bedroom apartment units can be purchased through a pricing strategy at a lower price than their construction at below-cost prices, while two- and three-bedroom units are sold for a higher price than their construction cost to compensate for the below-cost 10/90 apartment scheme (UN-Habitat, 2011).

Furthermore, the GTP I acknowledged and encouraged housing development by the private sector and cooperatives to complement the government-driven condominium scheme. According to a MUDHCo (2014) report, by September 2014, a total of 96,233 housing units had been constructed (see Table 24).

GTP II, which covers the years 2016 – 2020, aims to expand the housing development programs to reduce the demand and supply gaps in urban houses. Specifically, GTP II aims at increasing the construction of urban residential houses from 157,070 – 750,000 houses by 2020. The total numbers of houses constructed by 2014 were very small compared to what was planned (see Table 24).

The GTP I period also witnessed the emergence of a new master plan for Addis Ababa and its surrounding areas (The Integrated Master Plan for Addis Ababa and Surrounding Oromia Special Zone) as part of the country's ambition to become a middle-income country by 2025. The new master plan has the following major objectives:

- Improvement of waste collection and waste treatment for Addis Ababa;
- Increased green area coverage;
- Strengthened rural-urban linkages;
- Development of a polycentric city with a main metropolitan centre and sub-centres;
- Development of a mass transit systems and promotion of non-motorized mobility;
- Provision of affordable and standard housing;
- Urban densification; and
- Construction of additional health centres to improve access to services evenly distributed across the city.

The Integrated Master Plan replaced the outdated 1986 Master Plan (revised in 1999). This master plan introduced relevant urban planning tools, such as a structure plan and Local Development Plan (LDP). By the early-2000s, however, these planning tools were inadequate to address the myriad of Addis Ababa's urban challenges given the pace of urban growth that the city had experienced over the previous 25 years. The limited space of Addis Ababa was inadequate to accommodate the multiple demands for land by residents, industry and commerce. The Integrated Master Plan is a response to the increasing demand for urban land.

## Housing stock in Addis Ababa and housing typology

As shown above, post-1991 Ethiopia witnessed an increased need for urban planning and housing development. However, comprehensive, up-to-date data on the city's housing stock is unavailable. Likewise, there is also no reliable information on existing housing types and tenure forms. Despite this lack of information, it is possible to broadly describe housing typologies in Ethiopia: a) housing delivered by the formal sector, i.e. by private housing cooperatives and by the real estate housing sector; b) government rental housing; and c) informal settlement and slums (Mathema, 2004, p.10)<sup>8</sup>.

### • Formal sector housing

Formal housing refers to housing owned by individuals, private investors and by government and that complies with all legal standards - the land lease law as well as building codes and standards (Mathema, 2004). Housing delivery systems under this group include: housing cooperatives, privately owned individual houses, private real estate development, government housing for

civil servants and the “newly” initiated “low-cost” condominium housing. In 2004, for example, formal sector housing delivery systems constituted the larger share of the housing stock (47 per cent) in the city of Addis Ababa

### • Private housing cooperatives

The private housing cooperative is one of the major formal housing delivery mechanisms. It is a continuation of a housing delivery system introduced during the Dergue regime. Post-1991 private housing cooperatives made 75 to 250m<sup>2</sup> plots of land available for individual households.<sup>9</sup> Under the private housing cooperative system groups of individuals establish cooperatives which then request leased land from the government. Land allocation is based on a lottery system. Tesfaye (2005)<sup>10</sup> reports that between 1995 and 2002 this system helped deliver 2,049 plots to housing cooperatives in Addis Ababa. Between 2004 and 2005, that number increased significantly to 60,000 plots awarded to about 2000 cooperatives.<sup>11</sup> As shown in Table 25, private cooperatives contributed significantly to formal housing supply (about 25% of the total housing supply) during the past decades. This delivery mechanism effectively provides housing ownership to parts of the population previously neglected.

### • Real estate housing

Although the housing stock delivered by the private real estate sector is minimal (see Table 25), the sector has significantly grown in the post-1991 period, focusing primarily on high-income households in Addis Ababa in particular. Consequently, the real estate sector contributes little to reducing the housing demand by low-income households. The low contribution of the private real estate sector in low cost housing persists in spite of attempts by the Addis Ababa city administration to attract private real estate development to the low-cost housing market by offering affordable land lease arrangements and other incentives. The absence of affordable mortgage finance has been identified as a key impediment for these providers to enter into low-cost housing sector.

### • Government rental housing

Government rental housing concerns delivery of housing owned and managed by public institutions. Accordingly, the Agency for the Administration of Rental Houses (AARH) and *Kebele* Administrations are the two public institutions that manage and administer government-owned housing units. AARH and *Kebele* housing was established during the Dergue regime after nationalization of urban land and urban houses (Yitbarek, 2008)<sup>12</sup>. The classification of *Kebele* housing units and public housing administered by AARH is based on the amount of rent these residential units produce. Hence, housing with a monthly rental below ETB 100 was labelled ‘*Kebele* housing’ while housing with a monthly rental exceeding ETB 100 was under the responsibility of the AARH (Yitbarek, 2008). More than 90% of the government-owned housing units are administered through *Kebele* schemes. They are usually of low-standard, constructed with mud and sticks. As shown in Table 25, *Kebele* housing constitutes more than 30% of the housing stock in Addis Ababa.



**TABLE 25: ADDIS ABABA INFORMAL AND SLUM HOUSING AND THEIR SHARE IN THE TOTAL STOCK**

Typology	No. of units	Percentage
Informal housing (Organized, built to standard units and plots, illegal land occupation)	130,000	20
Slums (disorganized, below standard units, on (il)legal land occupation)	60,000	9
Total	180,000	29

Source: World Bank, 2005, p.2



▲ Informal shelter. © Marjan Klosterboer.

• **Informal settlements & slums**

In Ethiopia, informal housing refers to residential units built on illegally-occupied land and/or without conformity to the land use or zoning system and other regulations (Mathema, 2004). Despite what the term may appear to convey, informal housing is not always below standard in terms of quality. They are often built by the owner-occupant with local or adapted construction materials. Often, the owner-occupants gradually improve the structure over time by investing in new windows, bathroom fixtures and other amenities. Therefore, informality of housing refers to the lack of legality in one sense or the other, rather than substandard construction *per se*.

Unlike informal settlements in the outskirts of Addis Ababa, those in the city are typically better serviced with infrastructure, electricity, water and garbage collection. According to a report by UN-Habitat (2011), between 1996 and 2003, about 34.1% of the housing supply in Addis Ababa was informal. Evidence suggests that the government’s inability to deliver formal land and housing in a timely manner and in sufficient quantities has significantly contributed to the proliferation of informal housing in Addis Ababa (World Bank, 2015)<sup>13</sup>.

Alongside informal housing is the prevalence of sub-standard housing units built on illegally or legally occupied land, giving rise to the proliferation of slums. In the case of Addis Ababa, the majority of *Kebele* houses are sub-standard and are often characterized as slum houses since they do not conform with municipal building standards (MUDHCo, 2014)<sup>14</sup>. Slums constitute about 9% of the total housing stock in Addis Ababa. According to World Bank (2005), informal settlement and slums together constitute nearly 30% of the total Addis Ababa housing (see Table 25).



▲ Public state housing. © Geo Kalev.

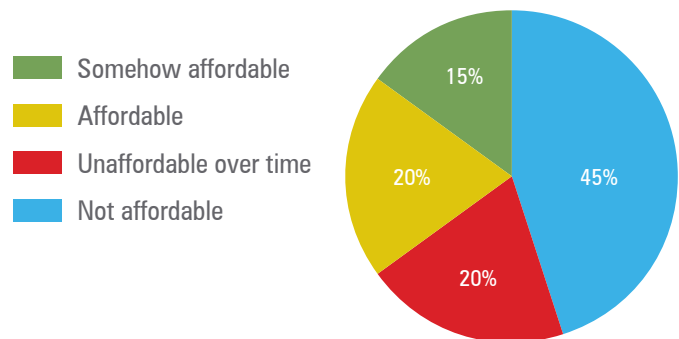
## 3.2 Housing affordability

The Ethiopian government is committed to expanding access to affordable housing for the poor. Ethiopia's major policy strategy documents provide a conceptual and operational definition of what constitutes housing affordability. Any attempt to measure housing affordability, however, needs to recognize the difficulties that households often face in balancing their housing costs (rent, purchase or mortgage repayments) and non-housing expenditures *vis-à-vis* the expendable income. This is often constrained by very low earning capacity (Stone, 2006)<sup>15</sup>.

A review of literature highlights that in many countries a ratio approach is commonly used to calculate housing affordability. According to Gan and Hill (2008), the ratio approach determines the proportion of the income that should go toward housing costs relative to non-housing expenditures (Gan and Hill, 2008).<sup>16</sup> A 30% maximum of household income for housing costs is considered appropriate.

In the African context, however, settling on a 30% threshold is often impractical because of the difficulties of obtaining adequate and accurate information on household income. Given the prevalence of low incomes and depressed wages, even spending 30% of income on housing, let alone a higher share, is not sustainable.

FIGURE 22: PERCEPTION OF HOUSING AFFORDABILITY



Source: State of Addis Ababa Survey, 2016

In the absence of a nationally accepted standard to measure housing affordability, effort has been made in this study to capture peoples' own perception of housing affordability. In this regard, the household monthly mortgage expenditure as a proportion of household income has been used to determine affordability. The data gathered from the survey shows that, out of the 992 condominium owners who participated, 48.7% spends less than 25% of their income on housing. On the other hand, 41.3% of the respondents spends more than 30% of their income on



▲ Recently constructed condominium housing © Geo Kalev.

TABLE 26: HOUSING AFFORDABILITY MEASURED BY SHARE OF HOUSING COSTS IN HOUSEHOLD INCOME

Affordability	Share of housing costs (mortgage payments) in household income					
	<25% Excellent	25- 30% Very good	30-35% Good	35-40% Fair	40-45% Burdened	>45% Severe
Percentage of households with	48.70%	9.90%	8.10%	5.80%	4.60%	22.80%

Source: State of Addis Ababa Survey, 2016

TABLE 27: CONDOMINIUM HOUSING UNIT MONTHLY MORTGAGE PAYMENTS

Round	Year	Monthly mortgage payment (ETB)			
		Studio	1-Bedroom	2-Bedroom	3-Bedroom
Rounds 1 –3	1998 -2000	665	665	950	1,140
Round 4	2001	1,100	1,414	1,728	1,807
Round 5 - 6	2002-2003	1,450	1,865	2,280	2,385
Round 7	2004	1,480	1,931	2,523	2,633
Round 8 - 9 other sites	2005	1,869	2,491	3,426	3,581
Round 7 (Lideta site)	2004	1,982	2,642	3,633	3,798
Round 8 -11(Lideta)	2005 -2008	2,036	2,714	2,732	3,902

Source: Addis Ababa City Housing Development Administration Agency

mortgage. As a result, the latter are burdened and severely stressed to keep up with their monthly payments (Table 26).

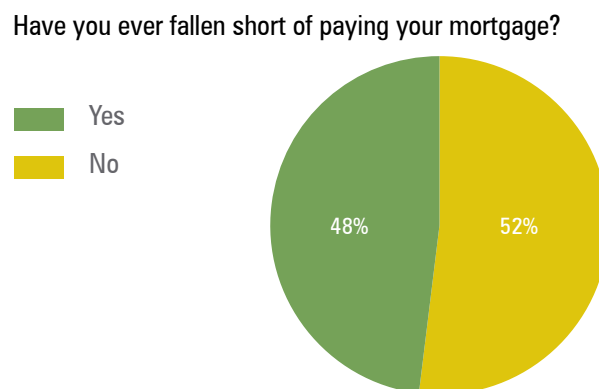
It must also be pointed out that, due to low incomes, a large majority of the urban poor can barely afford the minimum down payment of ETB 65,000 for a studio apartment in the highly subsidized condominium scheme. Accordingly, out of 1,184 current condominium unit owners who participated in the survey, 528 (44%) households are of the opinion that the condominium housing schemes are unaffordable. This finding is consistent with those in a recent World Bank and Cities Alliance (2015)<sup>17</sup> report as well as the poverty level assessment report by the Addis Ababa Bureau of Finance. Both studies concluded that the price of highly subsidized housing units in the city is unaffordable to most residents.

With increasing housing shortages, affordability is taking on new dimensions. Even survey participants who previously stated that condominium housing is affordable have now changed their mind with the escalating cost of monthly mortgages. Of the 1,184 households surveyed, 228 (or 20%) reported that condominium housing has become unaffordable over time (see Figure 22). This information is consistent with data and findings from secondary sources.

Data from the city’s Housing Development and Administration Agency shows a significant increase in condominium unit prices between the years 2006 and 2013. This partially explains the new unaffordability (see Table 27). For instance, during these years, the monthly mortgage unit price that was set for a studio, one-bedroom, two- bedroom, and three-bedroom steadily increased by 183, 274, 260, and 214 percent respectively (see Table 27).

An additional factor for housing cost escalation is persistent inflation over the past couple of years. According to the World

FIGURE 23: MORTGAGE PAYMENT DEFAULTS



Source: State of Addis Ababa Survey, 2016

Bank (2015)<sup>18</sup>, the construction cost for condominium housing in Addis Ababa has more than tripled from ETB 1,000 per square meter in 2005 to over ETB 3,000 in 2014, p. 97). Increasing construction costs, in turn, translate into higher monthly mortgage payments for condominium owners. Out of 1,181 condominium unit owners, 648 (52%) reported that they had defaulted paying their mortgage (see Figure 23). On the other hand, nearly 36% condominium owners reported that they have paid off their condominium mortgage debts way before the scheduled grace period.

Unaffordability of condominium housing is the major pushing factor for most low-income households to choose *Kebele* houses



▲ Informal settlement and construction in Addis Ababa. © Geo Kalev.

when relocated, despite knowing that all *Kebele* houses in the inner city would end up being demolished sooner or later and, ultimately they will be forced to register for condominium housing after all.

“We know all Kebele houses will be demolished in the future; since I don’t have the economic capacity to afford a condominium house, I am forced to choose a Kebele house.”

*(Interview with public tenant, relocated and compensated with Kebele house.)*

The social groups most affected by escalating housing costs include women-headed households, elderly on a small pension, as well as households making a living from informal businesses. Households without financial or physical assets or with poor social capital often struggle to pay their mortgage. On the other hand, households with financially capable relatives who can help them pay their monthly mortgages have been less burdened. There is, therefore, a strong case to be made that households need external support from the government for access to affordable housing. A free-market approach to housing provision is not feasible in a poor developing country like Ethiopia. A more suitable approach that takes into account Ethiopia’s particular condition will be discussed in the conclusion of the report.

### 3.3 Affordability of mortgage

Access to affordable housing finance also remains a major obstacle in Ethiopia. Due to the limited number of housing finance institutions, the few that exist can charge higher mortgage interest rates and demand high collaterals that few people can afford. On the other hand, large commercial enterprises and government-led mega development schemes are given priority in securing bank financing. Moreover, formerly subsidized mortgages disappeared in the post-1990 period as part of the financial reforms introduced by the government. For example, between 1997 and 2001, interest rates were revised, ranging from 10.5% to 15% making it difficult for private housing cooperatives and individual homebuilders to access housing finance.

“It was extremely hard for me to cover the down-payment, so I borrowed money from my relatives and friends”. *(Interview with private landholder, relocated)*

More recently, however, a few privately-owned banks have started to engage in mortgage lending, albeit for business construction and condominium housing projects only.<sup>19</sup> The current government-led condominium housing strategy uses a financing structure that includes loans from the Central Bank of Ethiopia. Citizens who apply for condominium housing are

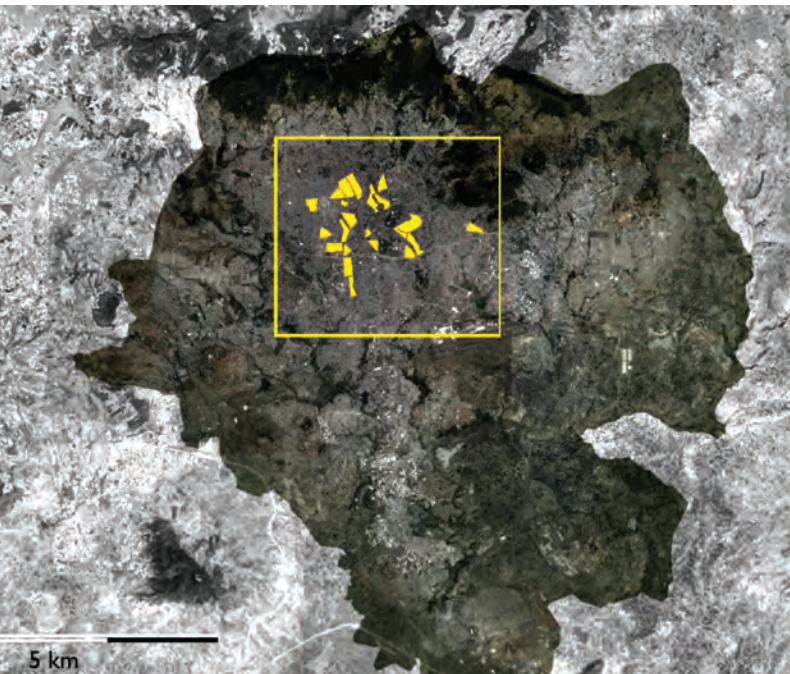
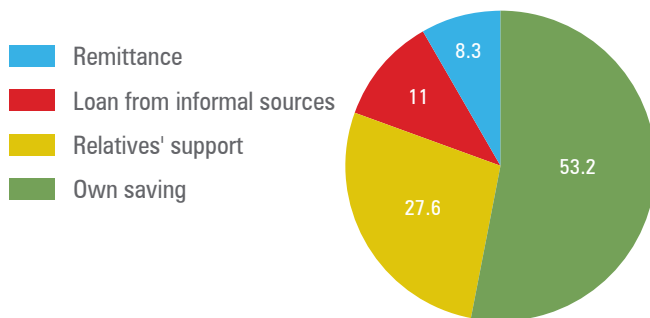


FIGURE 24: MAIN SOURCES OF HOUSING FINANCE



Source: State of Addis Ababa Survey, 2016

required to make a down payment (e.g 10% of total cost of a condominium if they are signed up in a 10/90 scheme), and the remainder is financed through a subsidized loan secured from the Commercial Bank of Ethiopia. According to a city administration report, ETB 9.2 billion was spent for building the condominium houses, excluding the additional government subsidy equivalent to ETB 7.2 billion.<sup>20</sup>

In addition to the subsidized government loans, a significant majority of the study participants reported that they use a combination of own saving, relatives' support and loans from informal sources to finance the condominium down payment and the monthly mortgage debts, as well as to pay off the overall housing mortgage debts (see Figure 24).

“My daughter in Finland paid for everything, I never paid for anything myself.”

(Interview with private landholder, relocated)

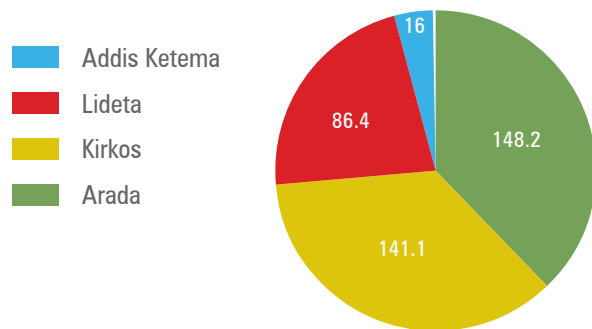
## 3.4 Relocation, compensations, and the socio-economic impacts of relocation

In Addis Ababa, nearly 80% of the inner city areas are defined as slum. Nearly 70% of the houses are dilapidated and lacking basic facilities and urban infrastructure services. The majority of these dilapidated houses are *Kebele* (government) owned (UN-Habitat, 2011). These inner city slums are being demolished at a rapid pace to make way for the development of new and modern housing schemes.

With the adoption of the Urban Development Policy in 2005, the Addis Ababa city administration has been involved in a massive urban renewal program. The city embraced a five-year strategic plan covering the years 2008-2013 and introduced a Local Development Plan that focused on urban re-development and slum renewal<sup>21</sup>. The city administration established the Land Development, Banking and Urban Renewal project office in 2008 to implement its massive urban renewal programs.

“The renewal program aims at creating a compact city. It also helps to modernize the city for efficient and effective development that adheres to the master plan.” (Interview with Addis Ababa City Administration Renewal Agency Vice Head)

FIGURE 25: INNER-CITY LAND EXPROPRIATION BY SUB-CITY (HECTARE)



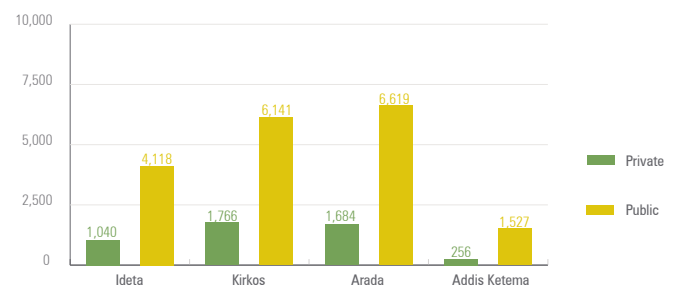
Source: Data compiled from Addis Ababa City Administration Renewal Agency database (2016)

The urban renewal program is part of the city government’s plan to improve the living condition of slum dwellers through ensuring delivery of affordable housing through the IHDP programme and providing access to basic urban services. It is also a mechanism promoted to enhance the inner city land management strategy in a sustainable manner through promoting compact city development (MOUDCo, 2014). Accordingly, from 2009 to 2015, the city has expropriated 392 hectares of inner-city land and demolished a total of 23,151 dilapidated houses in 23 Urban Renewal Project sites. This took place in the sub-cities of Lideta, Kirkos, Arada, and Addis Ketema (see Figure 25).

The demolitions in these sub-cities affected a total of 23,151 households. Of which 4,746 (20.5%) were private tenure occupants and 18,405 (79.5%) were occupants of publicly-owned houses (see Figure 26). The exact number of uncompensated relocated households is not known.

Urban renewal involves expropriation of land, house demolition, relocation and compensation of displaced residents depending on their tenure ownership position. In the case of Ethiopia, Proclamations 80/1993 and 455/2005 set out procedures for expropriation of landholdings for public purposes and payment of compensation. In subsequent years, several articles were added to these proclamations to clarify notification procedures, eligibility for compensation, and compensation mechanisms. For instance, Proclamations 455/2005 and 721/2011 clearly articulate that

FIGURE 26: NUMBER OF HOUSEHOLDS EVICTED FROM 2009-2013 BY NEIGHBORHOOD



Source: Data compiled from Addis Ababa City Administration Renewal Agency Database (2016)

compensation provided to relocating households should match the current cost for housing construction and costs associated with removal, such as transportation and the construction of new dwellings.

Furthermore, recent proclamations incorporated provisions related to notification and clearance order for a dignified eviction process. Consequently, massive consultative meetings with potential relocatees in all urban renewal sites were conducted. These amendments are significant improvements from the first generation urban renewal programs that were essentially top down and did not involve the affected communities. Through a process of ‘learning by doing’, the city administration is to be commended for these significant improvements in the implementation of urban renewal projects.

### Notification and relocation experience

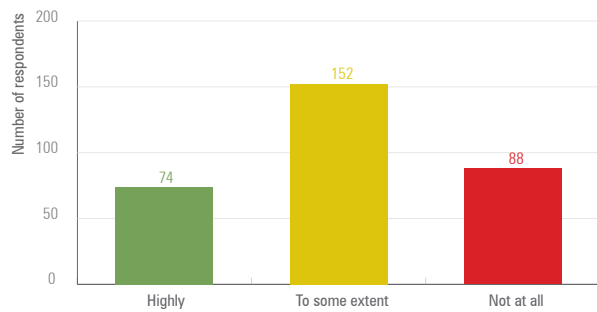
Despite efforts by the city government and a local level government structure to enhance wider acceptance of the urban renewal schemes relocatees irrespective of their prior tenure status questioned the sincerity of the public meetings. All relocatees who participated in the survey characterized the overall consultation process as top down. Accordingly, the consultation meetings were a forum for officials to communicate what the government had already decided, rather than a genuine attempt to illicit alternative solutions from the citizens through constructive dialogue.

#### BOX 2: COMPENSATION MECHANISMS FOR INNER CITY RELOCATEES

Proclamation NO. 455/2005, article 8, sub article 4 (a) and (b), the compensation mechanisms for private inner city indicate: an urban landholder whose landholding has been expropriated under this Proclamation shall:

- a) Be provided with a plot of urban land, the size of which shall be determined by the urban administration, to be used for the construction of a dwelling house; and
- b) Be paid displacement compensation equivalent to the estimated annual rent of the demolished dwelling house or be allowed to reside for one year in a comparable dwelling house owned by the urban administration.

**FIGURE 27: SATISFACTION ON JUSTIFICATION ON RELOCATION AND COMPENSATION**



Source: State of Addis Ababa Survey, 2016

The survey found that out of 323 relocated inner city dwellers, 314 were aware of the overall purpose of inner city renewal programs. However, some 28% (88 households) of the relocatees were not convinced by the justifications given for relocation by the officials (see Figure 27).

“The meetings were not to enhance participatory local development outcomes.

Rather they were used to inform us of the governments’ decision and what was expected from us. Simply, they told us how the relocation would happen. They also promised many things just to take our land. After we came here, we found that all the meetings were lies. They promised that they would relocate us to a better place and provide roads and electricity. After we came here, the situation was completely different. Roads were not built and we did not have access to electricity (...)”

*(Focus group discussion participants)*

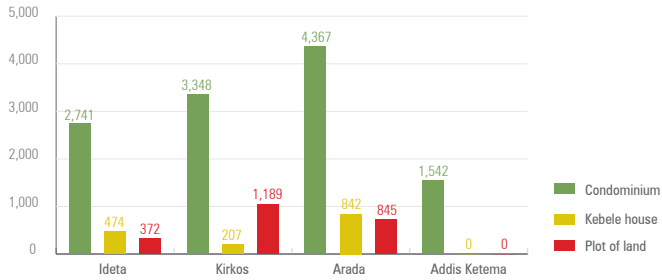
### Compensation mechanisms

Compensation to residents who were affected by urban renewal programs took many forms: an offer of substitute land; condominium housing for those who can afford mortgages; and *Kebele* housing for those who cannot afford mortgages. A total of 2,406 households affected by the evictions received substitute land in the outskirts of Addis Ababa. In addition, 11,998 former public housing occupants who could afford the



▲ Half demolished Kebele house. © Geo Kalev.

FIGURE 28: NUMBER OF HOUSEHOLDS COMPENSATED



Source: Data compiled from Addis Ababa City Administration Renewal Agency Database

mortgage payments were compensated with condominium units. Another 1,523 households who could not afford to pay the down payment for condominium units were provided with alternate *Kebele* housing (see Figure 28). For the latter group, relocation to *Kebele* housing is a temporary solution as they will more likely be affected by future demolitions as the city administration expands its urban renewal project. This research has uncovered quite a significant number of people who have been relocated three times as a result of multiple urban renewal projects.

## Non-transparent compensation system for landholders and public tenants

“(..) Land location value should have been included in calculating the compensation or replacement value. This has been often explained in terms of the injustices when it comes to comparing what relocatees receive as compensation vs. what the city government gains through auctioning expropriated inner city land.”

*(Interview with representative of academia)*

The relocation of tenants under the urban renewal projects started long before the federal government adopted clear guidelines on mechanisms of compensation. In the absence of guidelines, local authorities had discretionary power to determine the amount of compensation without taking into account current market conditions. In most cases, these decisions were arbitrary and favouritism played a big role in the final compensation package given out to individuals.



▲ Private landholder unable to afford construction. © Meseret Kassahun.



In 2007, the Federal Democratic Republic of Ethiopia Council of Ministers adopted Regulation No. 135/2007, *Payment of Compensation for Property Situated on Landholdings Expropriated for Public Purposes*. The regulation spelled out clear compensation calculation formulas. However, inner city residents who were relocated and compensated before the enactment of this regulation did not benefit since the new regulation did not retroactively apply to them. They are not entitled to a recalculation of the compensation they received prior to the adoption of Regulation No. 135/2007.

Former inner city private landholders, relocated and compensated with private land, were also frequently disappointed with the compensation procedures. Their discontent emanates from the exclusion of urban land location value in compensation determination, as well as the government's inability to improve service for the resettlement sites prior to relocation. As a result, many ended up spending a significant portion of their compensation payments on renting temporary housing elsewhere, rather than building their own residential house, or using the money to improve their condominium units if they choose for that option instead of land.

Relatively, inner city residents who were tenants in government owned properties (under *Kebele* scheme or the AARH (*kiraibetoch*) and relocated between 2009 and 2015 to condominium housing, had done better, although they complained about the timing of relocation and that the interior of the apartments were unfinished when they moved in. They were, therefore, forced to incur additional costs to finish the interior of the apartment units. Furthermore, many complained that the high upfront down payment and monthly mortgage payments are far beyond what they previously paid in monthly housing expenses.

### **Administration and outcome of grievances**

The city administration established a separate institution to manage relocatees' grievances. Accordingly, clear procedures for appeal and grievance mechanisms are put in place at local (*Woreda*) level, sub-city and city administration level. However, relocatees reported that their appeals did not result in a positive response. Rather they felt faced with more injustice with their time and energy wasted for nothing. The following quotes are from private landholders about complaints regarding the compensation determination process:

“First, I was told that I would get 150 m<sup>2</sup> as compensation. After I signed and received the compensation payment, I went to get my land certificate, I was told that a mistake had been made during measurement and that I would only get 90 m<sup>2</sup> instead of the 150 promised. I filed complaints. It took a year and I did not get any justice. The local officials treated me badly as if I was claiming something that I

do not deserve. After going through several processes, I ended up with 90 m<sup>2</sup>.”

*(Interview with relocated woman private land holder).*

“I expected to get 150 m<sup>2</sup> as compensation for my expropriated land. However, when we came here, I realized that the land I received was smaller. What I have now is 90 m<sup>2</sup>.

I filed my grievances, but I did not receive fair judgment. I wasted my time.”

*(An interview with a woman relocated from inner city)*

“I filed a complaint when they gave me 75 m<sup>2</sup> as a replacement for my 300 m<sup>2</sup>. When I complained, the officials' threatened me and told me that the government would sell the land by lease with good price if I refused to take it.”

*(Interview with a woman relocated and compensated with plots of land)*

Private landholders are compensated with replacement land smaller than the size of their original holding and received replacement payment for lost property. The money alone is, however, inadequate to build a single room house given the current construction costs. The compensation also does not consider the current location value of the expropriated inner city land; the government uses different lease benchmark prices for inner city land dependent on the location, and therefore 'grade' the land far below the actual value. This basically relates to the government's urban land holding policy that fails to commoditize land. As a result, the compensation law does not entertain location and land as compensable property interest.

As indicated in recent proclamations, public housing tenants who can afford the down payment received a facilitated purchase of a condominium unit in the expansion areas without any compensation. Public housing tenants who cannot pay the down payment were relocated to another *Kebele* house or to a temporary shelter subject to demolition in the near future. Relatively speaking, public tenants appeared benefiting from the renewal process in so far that they received alternative accommodation that was already built, with increased tenure security and, lastly, the opportunity of tenure ownership of one's own home. Two



▲ Homeless families due to renewal now living behind Chinese construction of high rise building © Geo Kalev.

criticisms were, however, recurrently heard from the respondents: firstly, the location of the condominium units (in most cases) in the outskirts of the city has fewer socio-economic infrastructure and, secondly, affordability problems related to both the down payment and monthly recurring mortgage payments.

### Compensation to informal inner city landholders and sub tenants

In addition to private landholders and public tenants, the urban renewal program displaced significant numbers of informal settlers who occupied inner city land without legal title. There are no data available on the number of these informal settlers. In addition, the inner city also used to accommodate the sub-letters of individual house owners and public housing tenants.

The proclamations on expropriation of landholdings for public purposes and payment of compensation neglected this segment of society from both relocation and compensation mechanisms. These people are only mentioned in the 2008 Urban Local Government Development Plan and Resettlement Policy Framework (RPF). According to the RPF, inner city residents without legal title will be assisted in maintaining their livelihoods. In terms of securing accommodation, the RPF offers two provisions:

- a) Providing job opportunities in the renewal project area through the MSE development program where they can be targeted in the training. In addition, they will be assisted with easier access to credit, marketing support to establish businesses and business premises; and
- b) Assistance by the project to those displaced persons who are not urban landholders and who, as a result of project activities, lost fixed improvements on the land they occupied,

to secure accommodation as per the housing policies and programmes of the Urban Local Government” (p.19).

The first provision aims at improving informal settlers livelihoods so that they will be able to provide for alternative shelter, whereas the second provision allows for compensation of informal settlers affected by the renewal program as per the urban local government housing plan. These two provisions, however, were not supported in any of the expropriation of landholdings for public purposes and payment of compensation proclamations. Hence, no other guideline elaborates how the RPF provisions can be carried out. Hence, it is not clear whether the RPF alone is legally binding or not.

“I have not been informed at all, I found out about the demolition of my house when they took the roof off. We didn’t have any money to rent anywhere else, so we simply stayed here.”

*(Interview with an informal settler affected by renewal)*

Qualitative data from the survey shows that informal settlers affected by the renewal process were never contacted or consulted in relation to the relocation processes. The compensation mechanisms did not treat informal landholders clearly. They were never invited to the local government consultative meetings.



▲ Access to water. © Linda Zardo.

Some stayed in the demolished area in plastic shelter despite frequent warnings and threats from the local administration. In some cases, sub-letters and informal households took their grievances to the city administration. However, none of them received a proper solution as a deserving citizen except for one lady with a disabled spouse who were given a *Kebele* house.

The overall conclusion from this in-depth study on relocation and compensation is less than flattering. While city residents overwhelmingly support urban renewal to better their living conditions, the procedure has been plagued with many bureaucratic problems. The practice has been quite disorganized, top-down, and left very little room for genuine and transparent discussions with the affected populations. Policies and strategies were developed 'on the go', paying scant attention to the need to develop strategies founded on evidence-based research. The approach of 'learning by doing' did not sufficiently consider the transaction costs for the people affected, their livelihoods, and the inevitable destruction of social capital built up over generations. The findings in this report offer valuable lessons for the city administration to change the manner in which the municipality should plan and execute future urban renewal and relocation programs.

## 3.5 Accessibility and affordability of basic services

### Accessibility of basic services

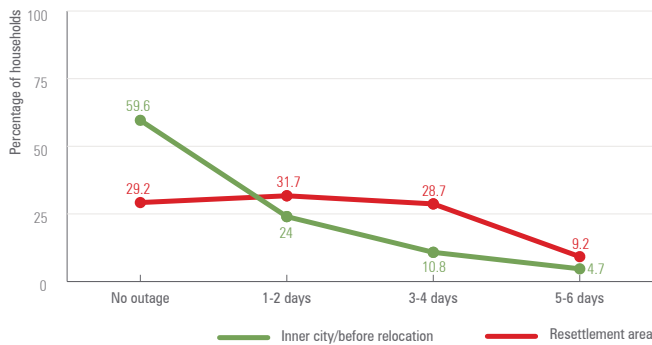
This study found that the city government has increasingly invested in enhancing city dwellers' access to basic social services. There is ample evidence from secondary sources that the coverage of social services has improved significantly, particularly during the GTP period. However, quality remains a major challenge and the level of citizens' dissatisfaction with service delivery remains high.

- **Water services**

Among the basic services provided in relocation areas, access to water has been high in comparison to electricity, roads, transport, health and education. Satisfaction with access to water is consistent with the increase of delivery by half from 17% in 2000 to 34% in 2010<sup>22</sup> and the current coverage in urban areas is 93.7% nationwide. In Addis Ababa, water services coverage is almost universal (99.9%) with access to none-shared taps increasing from 20% in 2007 to 42% in 2011.<sup>23</sup>

However, a tap is only as good as the water it provides and despite the increased coverage in water services network, the supply has increasingly become unreliable. The situation is worst for relocatees in peri-urban areas with more frequent supply

**FIGURE 29: WATER SERVICE DEPENDABILITY (IN DAYS WITHOUT WATER PER WEEK)**



Source: State of Addis Ababa Survey, 2016

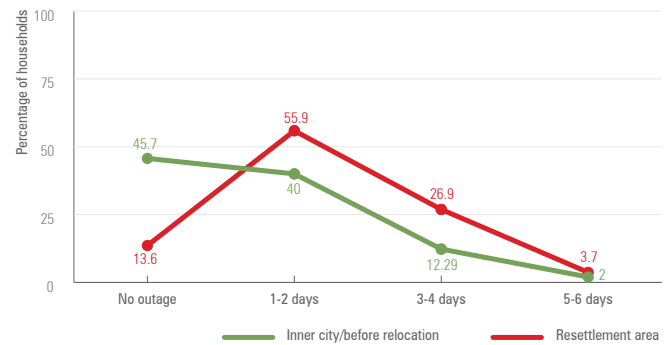
interruption in the resettlement areas compared to relocatees' experience prior to their relocation.

As shown in Figure 29, out of 1,315 survey participants, 732 (55.6%) reported no water service disruptions before their relocation. However, 360 (29.2%) reported no water service disruptions after relocation. The percentage of households who reported 1 or 2-day disruptions increased from 24% to 31.7% after relocation. Similarly, the number of households who reported a 3 to 4 and 5 to 6-day interruption in water service supply has significantly increased.

• **Electricity service**

In the city of Addis Ababa increased investments have been made to enhance access to electricity infrastructure. According

**FIGURE 30: ELECTRICITY SERVICE DEPENDABILITY (IN DAYS WITHOUT ELECTRICITY PER WEEK)**



Source: State of Addis Ababa Survey, 2016

to a report by Addis Ababa Bureau of Finance and Economic Development (2016), 61.8% and 36.7% of the study participants reported access to metered private and metered shared electricity supply, respectively. Although the use of electricity as a source of lighting has remained relatively stable, power supply to cover both lighting, cooking and refrigeration remain inadequate. Most urban residents have switched from charcoal and wood for cooking to modern electric cooking appliances. Due to the increased demand, power outages have become a regular phenomenon.

Power outages have become a regular phenomenon in Addis Ababa. The number of households who reported 1-2 days, 3-4 days, and 5-7 day power outages per week increased from 491 (40%) before relocation to 716 (55.9%) in resettlement areas



▲ Waste and electricity supply. © Geo Kalev.

TABLE 28: SCHOOL AGE POPULATION AND NET ENROLMENT FOR PRE-PRIMARY TO SECONDARY LEVELS

Education level	School age population			Net enrolment rate (%)			
	Age	Male	Female	Total	Male	Female	Total
Pre-Primary	4-6	84,963	84,766	169,729	79.45	77.44	78.45
1 <sup>st</sup> cycle Primary	7-10	86,343	87,942	174,285	95.25	98.84	97.06
2 <sup>nd</sup> cycle secondary	11-14	82,596	85,644	168,241	88.95	94.62	91.83
Secondary 1 <sup>st</sup> cycle	15-16	43,184	49,793	92,978	Grade 9 -12		
Secondary 2 <sup>nd</sup> cycle	17-18	43,485	53,798	97,282	53.52	56.38	55.05

Source: Compiled from Addis Ababa City Administration Education Bureau Annual Statistical Abstract (2014/15) report

and from 150 (12.2%) in the inner city to 345 (26.9%) in the resettlement areas (see Figure 30). This significant increase in electric power disruption has huge social and economic consequences to residents of the city and business establishments alike. Continued electricity disruptions shall undoubtedly have significant impact on the economic competitiveness of Addis Ababa, diminishing the city's capacity to attract investments, weakening its tax base and lowering its ability to generate badly needed job opportunities for its residents.

• **Sanitation, sewage services and dry waste management**

One of the most critical challenges that the city of Addis Ababa is confronted with is the provision of adequate and reliable sanitation services. Sanitation is often discussed in terms of access to such basic facilities as piped water, toilets and bathing and cooking facilities that influence the quality of life of their occupants<sup>24</sup>. Although significant improvements have been achieved over the past decade, the depth of the sanitation crisis - particularly access to basic toilet facilities and regular collection of household garbage - remain a threat to public health. According to the 2012 CSA Welfare Monitoring Survey, an estimated 72.27% of Addis Ababa residents are without access to adequate toilet facilities because the personal hygiene infrastructure of the city is highly inadequate<sup>25</sup>.

The current sewerage system of Addis Ababa has very limited capacity to receive and process waste material generated by households, hospitals, industrial and construction firms (World Bank & Cities Alliance, 2015). Hence, the city is overly-dependent on pit latrines and septic tanks. According to a key informant from the Addis Ababa Municipality, the city's current standardized sewage system provides service to only 10% of the population, which indicates great urgency to scale up investments in sewage infrastructure to process both solid and liquid wastes.

The city's capacity to collect, sort, process, recycle and dispose of household and industrial waste is also extremely limited. Improper waste collection and disposal methods impact negatively on the city's environment. According to World Bank and Cities Alliance (2015), the city has only capacity for picking up 45-80% of solid waste. The report revealed that solid waste management in the city of Addis Ababa is largely dependent on micro enterprises that provide door-to-door waste collection services. Involving micro-enterprises is an opportunity for the city administration to

strengthen the capacity of small operators rather than relying on modern and capital or energy-intensive waste collection services and imported heavy trucks.

In sum, the provision of adequate and quality waste management services remain a critical challenge for the Addis Ababa city administration. As a federal capital and the diplomatic hub of the African continent, improvement in sanitation and waste management services is both an economic and political imperative. A comprehensive approach is urgently needed to guide the development and management of the sanitation, waste collection and processing sector, supported by strong institutional arrangements to ensure enforcement and compliance by all stakeholders who rely on the services. As the industrial base of the city of Addis Ababa expands, much greater attention is also required to control illegal dumping of hazardous wastes.

• **Education services**

The city of Addis Ababa's 80% level of literacy is higher than that in other parts of the country. Over 20% of the Addis Ababa population has more than secondary level education. The 2014/2015 report from the city's Bureau of Education shows a significant increase in education coverage at all levels with the net enrolment rate at pre-primary, 1<sup>st</sup> cycle elementary, 2<sup>nd</sup> cycle elementary and secondary education at 78.5%, 97.1%, 91.8, and 55.1%, respectively. The same report revealed that the completion rate at grade 5 for both sexes is 84%. The city has achieved gender parity at 1<sup>st</sup> and 2<sup>nd</sup> cycle elementary education, however, the completion rate for girls after grade 5 is 79% compared to 89% for boys, suggesting a need for further investigation on why girls do not continue after grade 5 (see Table 28).

In addition to impressive achievement in enrolment at all levels, the city has also shown significant improvement in educational infrastructure that, in turn, improved accessibility. Accordingly, the standard class size is 21 for elementary and 40 for secondary level education. With increased expansion of school facilities, over-crowding in each class has reduced significantly.<sup>26</sup>

Another indicator of improved education service delivery is the teacher-pupil ratio. At pre-primary, primary and secondary this is 1:21; 1:28; and 1:21, respectively. The teacher-pupil ratio for pre-primary and secondary is up to standard except for primary education level, which should also aim for 1:21.

TABLE 29: PROMOTION IN SCHOOL LEVEL CERTIFICATE EXAMINATION AT EACH EDUCATION LEVEL

Education level	% of promotion in school leaving certificate		
	Male	Female	Total
Primary education	77.08	69.7	72.87
Secondary 1st cycle	29.22	36.5	65.72
Secondary 2nd cycle	48	52	57.45

Source: Compiled from Addis Ababa City Administration Education Bureau Annual Statistical Abstract (2014/15) report.

TABLE 30: HEALTH FACILITY TO POPULATION RATIO

	Population	Hospitals		Health centers		Health posts		Primary health care coverage
		No.	Ratio	No.	Ratio	No.	Ratio	
Addis Ababa	3,122,000	11	1:283,818	62	1:50,355	-	-	79.40%
National	85,729,000	127	1:675,031	3,245	1:26,416	16,048	1:5,342	93.60%

Source: Ministry of Health, Health and Health Related Indicators 2012/13 report, p. 50.

TABLE 31: PHARMACEUTICAL RETAIL OUTLETS BY OWNERSHIP, ADDIS ABABA

Pharmacy	Pharmacy				Total	Drug store			Total
	Public	NGO	Other Governmental Agency	Private		Other Governmental Agency	NGO	Private	
	31	5	1	189	226	0	0	190	190

Source: Ministry of Health; Health and Health-related Indicators 2012/13 Report, p.61

The current completion rates for primary education are 72.87%. At primary level, the promotion of girls (69%) is significantly less than boys (77%). Promotion rates for secondary 1<sup>st</sup> cycle, and secondary 2<sup>nd</sup> cycle school leaving certificate is low at 65% and 57% implying lower promotions of students from secondary 1<sup>st</sup> and 2<sup>nd</sup> cycle programs. Promotion of girls from secondary 1<sup>st</sup> and 2<sup>nd</sup> cycle education is higher (see Table 29).

#### • Health services

Provision of urban health services is another important indicator of a city's ability to improve the quality of life of its residents. Ethiopia's national health care policy advances a decentralized approach that empowers regional governments and districts in the delivery of preventive health care services to their citizens.<sup>27</sup> Hence, national emphasis has been given to the establishment of lower-level health facilities in both urban and rural areas that include health posts, clinics and health centers and training facilities for health professionals.

A 2012/3 report prepared by the Ministry of Health points out that, as of the 2012, the national health infrastructure has increased by 3,245 health centers and four hospitals, raising its

service coverage to 92 %. However, Addis Ababa for the same year has only expanded its health infrastructure with 62 health centers, bringing services coverage to 62% (see Table 30).<sup>28</sup>

As indicated in Table 30, private and public hospitals, health centres and health posts account for 79.4% of health coverage in the city of Addis Ababa. Compared to the national coverage, Addis Ababa city falls behind by 14.2%. On the other hand, private vendors dominate the distribution of pharmaceutical products, as shown in Table 31. Public pharmacies only deliver 13.71% of the service for the city's residents.

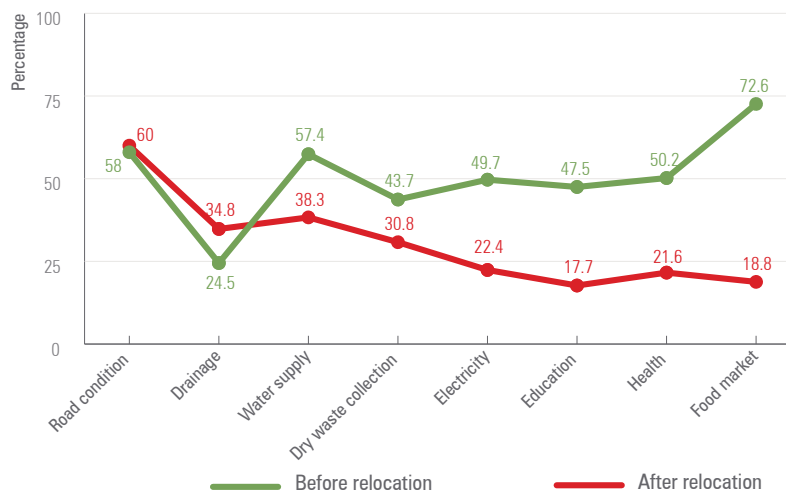
With demand for better health services growing exponentially, there is considerable room for both the federal government and city administration to develop policies and strategies to encourage more private sector participation in the health care sector. Currently, a significant amount of foreign exchange is being lost as those who can afford to do so go on 'medical tourism' to the Gulf States and Asia in search of better medical treatment. With proper policy and foresight, and with already excellent air connectivity, Addis Ababa itself could become a regional hub for high quality medical services for Ethiopians and non-Ethiopians alike.

TABLE 32: MONTHLY EXPENDITURE ON BASIC SOCIAL SERVICES BEFORE AND AFTER RELOCATION

Monthly expenditure on water, electricity, and transportation				
	Number of respondents to this survey question	Before relocation mean price in ETB	Number of respondents to this survey question	After relocation mean price in ETB
Water and sanitation services	948	20.10	1247	35.66
Electricity	871	61.54	1233	109.70
Transportation	1161	242.30	1212	675.14

Source: State of Addis Ababa Report Survey, 2016

FIGURE 31: SERVICE SATISFACTION LEVEL BEFORE AND AFTER RELOCATION



Source: State of Addis Ababa Survey, 2016

### Affordability and client satisfaction of basic social services

- Affordability of basic urban services**

This study explored whether urban renewal and relocation affected the share of household income devoted to paying basic utilities (electricity, water and waste collection, transport, and security related fees) before and after relocation. As shown on Table 32, expenditure on basic utilities has increased significantly after relocation. The mean price for water, electricity, and transportation before relocation was ETB 20.10; ETB 61.54; and ETB 242.30 per month respectively. According to the survey participants, the price for these three basic services has increased significantly. In percentage terms, after relocation, the estimated monthly expenditure on water, electricity, and transportation increased by 77.4%, 78.3% and 178.6% percent, respectively (see Table 32).

- Satisfaction in basic urban services**

On the one hand, urban renewal projects are seen positively by the residents relocated within the Addis Ababa metropolitan

area. They report that road conditions and the neighbourhood drainage in the resettlement area are of high quality compared to inner city neighbourhoods. On the other hand, high levels of dissatisfaction were reported on electricity and waste collection services, and some dissatisfaction with water services (see Figure 31). Out of 1,313 survey respondents, those satisfied with water services decreased from 57.4% before to 38.3% after relocation. Electricity and waste services also showed low satisfaction levels after relocation, 27.3% and 12.9 % respectively. Likewise with access to education and health services, although dissatisfaction is likely to diminish once the planned construction of schools, hospitals and water infrastructure by the municipality are completed to accommodate the growing population. As the resettlement areas become more established, market stalls and other services are expanding quickly and this is likely to further reduce public complaints about lack of basic food shops and other neighbourhood facilities.

In sum, it is fair to say that, over the past decade, the city administration has invested heavily in improving basic services coverage, such as water, electricity, education, health and transport for the Addis Ababa residents. In this respect, the track



▲ 2013: Street scene - men sewing textiles. © Shutterstock.

record of the government is impressive given the deplorable state of basic services in Addis Ababa when the EPRDF government took power in 1991. Needless to say, quality and affordability of the services still remain problematic for the vast majority of the urban poor due to their low earning capacity and high inflation.

Given the pace of growth of Addis Ababa, both in terms of population and the business sector, enhancing the quality and affordability of municipal services while increasing the services coverage should remain a priority area for the city administration. This will require huge financial investments in new and expanded infrastructure that may very well be beyond the capacity of the Addis Ababa city administration. Therefore, in the short- and medium-term, better use of existing investment capacity based on the highest 'efficiency gain' may be the best solution. This will demand deep administrative and institutional reforms at the city government level, complemented with better planning and enhanced investment strategies.

## 3.6 The urban renewal program's socio-economic impacts on relocatees

Urban renewal and redevelopment programs have both positive outcomes in terms of improving the physical conditions of dilapidated neighbourhoods and enhancing the living conditions of those resettled. The Addis Ababa urban renewal process has helped improve the housing conditions of a significant number of public housing tenants relocated to condominium housing units. Even though they have to carry out the finishing of the condominiums themselves at additional cost, their new accommodation is much better than the one they left behind.

On the other hand, the renewal process has exacerbated the poor housing condition for some private tenure holders compensated with substitute land, but unable to afford the construction of a new dwelling that meets the high municipal standards. Consequently, they are forced to live in sub-standard shelter on the land they received as a compensation. In a sense, these relocatees now find themselves worse off than before.

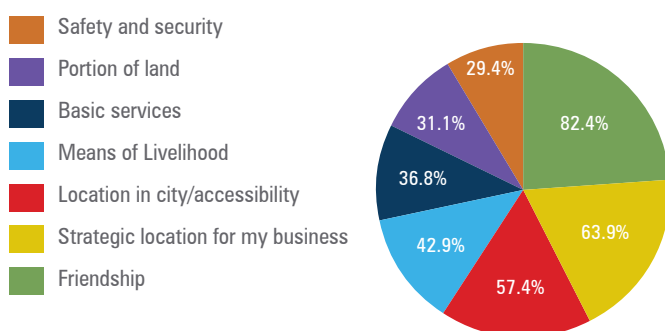


TABLE 33: IMPACT OF RELOCATION ON HOUSEHOLD ECONOMIC ACTIVITY

Items	Categories	Frequency	%
Has your ability to earn income been affected by your relocation?	Yes	187	57.9
	No	136	42
	Total	323	100
Did you own a private business in your previous site?	Yes	92	29
	No	230	71
	Total	323	100
Were you able to relocate and sustain your business?	Yes	12	13.5
	No	77	86.5
	Total	89	100

Source: State of Addis Ababa Report Survey, 2016

FIGURE 32: LOSS PERCEPTIONS DUE TO RELOCATION



Source: State of Addis Ababa Survey, 2016

In addition, public housing tenants who chose not to be moved to condominiums because they could not afford the down payment and monthly mortgage payments, have been relocated to *Kebele* houses of low quality and often too small to accommodate the household. They too are worse off than before relocation.

The urban renewal programs clearly have further unintended negative consequences for quite a few relocatees. Redevelopment often uproots people's network of social and economic ties that are usually neighbourhood-based. Regardless of the fact that urban inner cities mostly constitute substandard housing and lack proper physical and social infrastructures, the communities' social networks and economic relationships are a vital part of livelihoods and often constitute an indispensable coping mechanism for survival.

Survey results show that, out of 323 relocatees, 82% ranked destruction of social networks as a major loss and, in an order of severity, 63.9% ranked loss of strategic location for private business as the second-most important damage. Lost location in the city accessibility and loss of means of livelihood were ranked third and fourth respectively (see Figure 32).

### Economic impact

Most inner city residents depend on the informal economy, which is mostly neighbourhood based. The major urban renewal enhanced the developments of satellite cities far away from the city centre. Hence, renewal induced displacement that compromised the economic ties with neighbourhoods and the city centre.

Out of 323 households that participated in the survey, 187 (57%) reported that they could not generate income in the new resettlement area. Of these 323 relocated households, 92 (41.3%) had their business in the inner city and only 12 (3.7%) could sustain their businesses in the resettlement area. For 88 households (29.1%) the resettlement area cannot provide income opportunities (see Table 33).

Qualitative survey data also confirms that those who had been operating informal businesses lost their income sources despite efforts to sustain their economic activity in the resettlement areas, because their income economic activities depended on a neighbourhood-based clientele network lost in the renewal and relocation process.

Estrangement in the new neighbourhood and difference in the ways and standard of living significantly hampered easy blending into and restarting economic activities. Specifically, the resettlement area does not actually require the business types that relocatees operated in the inner city. Particularly, business skills that helped their inner city informal activity appeared incompatible in a new and entirely different socio-economic environment.

Relocated residents often also mention the incompatibility of the condominium design with the local culture. As a result, condominium living forced them into different lifestyles. Relocatees formerly dependent on house rent could not regain this source of income and these households are now in abject poverty unable to meet their basic needs.



▲ Girl making spices in front of a condominium. The design of condominium housing is often incompatible with local culture. © Geo Kalev.

“When we were in the city, we would find a way to make some income on a daily basis. What we used to do is based on the informal network we established over the years. We are now newcomers and the area is like rural area (...) and there is nothing we can do here (...). Women who used to sell and make a living are now jobless. Many men who used to make money in the city are now just working as security guards for mostly unfinished buildings. Some of us are just sitting idle (...)  
*(Focus group discussion participant).*”

“I used to manage with the money I earned with a small stall in front of the house, now I am dependent on my daughter, who works at a government office.”  
*(Interview with private landholder, relocated).*”

“I can’t work from where my condominium is located. My house is on the fourth floor, there is no place to cook and run my restaurant.”  
*(Interview with public tenant, relocated).*”

“I had three extra rooms and used to live with my son and sister using the rent money. The house we had near Meskal Square was spacious and clean. We had a beautiful life there. We used to have better household equipment. Now, look at us (...) look at this house (a shelter made of used corrugated iron sheet). Now, we are dependent on our two elder sisters generous enough to supply our food needs (...).  
*(Interview with private landholder, relocated, and compensated)*”

### **Impact of urban renewal on social relations**

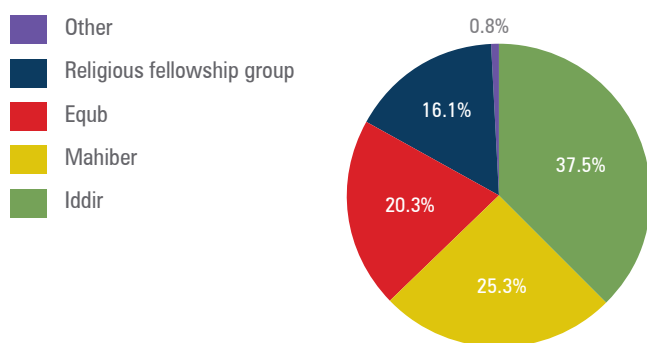
Inner city residents’ social networks are particularly vital during economic and social challenges such as celebrations, childbirth, death and other family circumstances (Yintiso, 2008)<sup>29</sup>. Findings

TABLE 34: RELOCATEES' ABILITY TO JOIN NEW SOCIAL ORGANIZATIONS AND LEVEL OF SOCIAL INTERACTION

	Response	Frequency	%
Have you relocated with the neighbours you lived with prior to relocation?	Yes	140	43.6
	No	181	56.3
Were you able to join a new social group in the resettlement area?	Yes	125	38
	No	200	62
What were your social interactions with your neighbours before relocation?	High level of interaction	289	90
	Moderate	22	6.8
	Low level of interaction	10	3.1

Source: State of Addis Ababa Report Survey, 2016

FIGURE 33: PRIOR MEMBERSHIP IN SOCIAL ORGANIZATIONS



Source: State of Addis Ababa Survey, 2016

from this study confirm that membership of various social groups is social capital that sustains people. Established inner city social networks used to offer residents the much-needed social organization to support individual and communal needs (see Figure 33).

Unfortunately, the city's renewal and relocation strategy failed to recognize the importance of relocating inner city dwellers as a group. Relocates' limited options in choosing the site of their condominium was a major social relations' disruptive factor for the majority of public housing tenants. Such life-long relationships cannot easily be reconstructed. Condominium housing units were allocated through a lottery system, and recipients were consequently assigned random locations. The government also used the lottery system in distributing replacement plots of land for private landholders, although landholders could decide the resettlement area. In both cases, long sustained neighbourhood friendships and established informal social networks could not survive relocation.

In addition to membership status, 289 (90%) of relocatees reported that they had a high level of interaction with members of the social organization before relocation. However, because of the lottery system, significant numbers of relocatees (i.e. 56% out of 321 survey respondents on this particular question) did not relocate with their neighbours, therefore, making the relocation and resettlement experience more challenging. In addition, some

relocatees do not have a social network system that they could rely on in the resettlement area for informal companionship, and instrumental as well as psychosocial support. Hence, many could not maintain their Iddir and Mahibers (or mutual aid community organizations), which are very important social capital.

Although a significant number of people could not maintain their social networks after relocation, some have joined new ones to cope with the loss. As shown (see Table 34), only 38.9% managed to join new social networks in the resettlement areas. Regardless of prior tenure type, relocatees often establish a development committee out of necessity. These development committees often serve as organized 'interest groups' that work to enhance a smooth relocation experience by demanding local government response in servicing the resettlement areas. Development committee members from public housing tenants compensated with condominiums tend to work with condominium managers representing them. The relocated private landholders' development committees often liaise with former *Woreda* or sub-city administrators to make sure basic services demands are met. However, committees' satisfaction level on the administration's response is very low. This suggests the need for further studies on the level of interaction and sense of belongingness of relocatees, because of the new social structure and the fact that the organizing development committee was not internally driven.

"Our development committee members have been relentlessly working to make our voice heard. The relocation area was underserved which is contrary to what the government promised (...) When we received the land, displaced farmers crop was on it. The committee members have to go back and forth to the government office with their own cost to get what we have now (...) however, the neighbourhood feeling is much different now compared to the friendship I had before relocation. I do not feel that I am with my friends (...)

*(An elderly participant of the focus group discussion).*

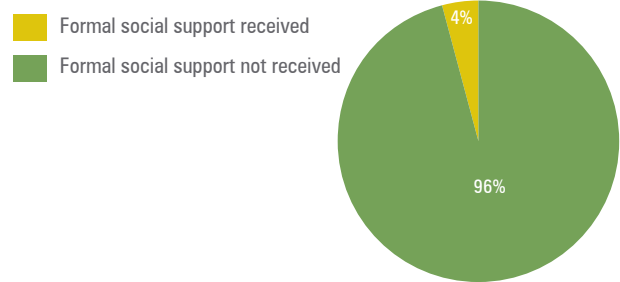
The role of these committees is like that of a formal institution trying to handle the development of new settlement areas through mediating between relocatees and local governments in matters like servicing the area with roads, electricity and other development-related issues they consider important. However, the low-level response from local authorities has discouraged many committee members. In spite of the negative impacts of relocation, some positive experiences in relation to social networking were observed. The continuation of pre-existing networks in the resettlement area and the ability to form new relationships, as well as readiness to accept change and getting used to a new lifestyle appear to contribute to positive experiences for some relocatees.

### Availability of formal social support

Undoubtedly, urban renewal relocations have disintegrated social capital. Local authorities should better assist relocatees in handling the unintended negative impacts of their resettlement through professional facilitation of the relocation experience. Assessment of formal support to help relocatees cope with the negative impacts on their livelihoods and social/communal gaps during and after relocation revealed that 96.0% reported that local authorities had made little effort (see. Figure 34)

The survey showed that almost none of the in-depth interviewed received any formal support from local authorities. They were left to struggle with their personal economic and social crises experienced due to relocation. Public housing tenants relocated and compensated with condominium housing units or whether relocated to *Kebele* housing and remaining in the inner city were not supported to smoothly resettle. Relocated private landholders compensated with land reported that, neither *Kebele* nor sub-

FIGURE 34: FORMAL SOCIAL SUPPORT EXTENDED TO RELOCATEES



Source: State of Addis Ababa Survey, 2016

city officials had visited them in the resettlement areas over the last five years nor had they been consulted on how they could improve their living situation once resettled.

“They [the officials] do not care whether we are making it through. Did they come to check on us? None of the Kebele or sub-city officials visited us after we arrived here. In our previous neighbourhood, they used to encourage us to organize ourselves in groups and to receive financial support to do business. After we came here, I never heard anything like that (...) let them come and see how we are living first (...).

(Focus group discussion participant)

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▲ Woman sitting outside her house before relocation. Socializing with neighbours often gets lost in relocation areas. © Geo Kalev.





# 4

## THE URBAN ENVIRONMENT



## 4.1 Growth, resources and equitable well-being

Urban ecosystems, referring to all green and blue areas in the city (e.g. parks, private gardens, rivers, ponds and riverbanks) and the environmental services they provide (such as food, fuel, clean water, clean air and hazards mitigation) represent a condition *sine qua non* for human life. Local and regional ecosystems provide important functions that benefit urban residents including providing a habitat for biodiversity, primary productivity, storm water absorption and retention, air pollution removal and heat mitigation (Bolund & Hunmannar, 1999)<sup>1</sup>. The absence of functional ecosystem services incurs health costs for citizens and government. Addis Ababa is sprawling in height and width, modifying the landscape and the land cover in and around the city. With an increasing built up area, the city is experiencing a decrease in the critical functions of its ecosystem services. This compromises the health and wellbeing of the city residents and their future livelihoods. The city's current land use decisions are taken mainly in response to changes in the agricultural economy and the housing market (Bown et al 2013)<sup>2</sup>. Urban

growth and the geographical expansion of city's boundaries are not based on a long-term environmental vision (Gallent & Shaw, 2007)<sup>3</sup>. Massive and rapid urbanization increasingly demands more water, energy, food, land and housing, causing rapid land-cover change and alterations in biogeochemical cycles and hydro systems, loss of biodiversity and soil degradation (Grimm et al. 2008; Xiao et al. 2013)<sup>4</sup>.

More importantly, the downward trend in Addis Ababa's ecosystems significantly weakens the resilience to stress and shocks of the whole urban system (such as urban food insecurity and vulnerability to droughts or floods) and worsens the likely impacts of climate change related hazards on the city. Hence, in a rapidly urbanizing space city planners are expected to consider how ecological resources can be strategically developed and managed to meet the needs of the urban population of today and in the future and to improve the short-and long-term wellbeing of citizens (McPhearson et al. 2013)<sup>5</sup>.

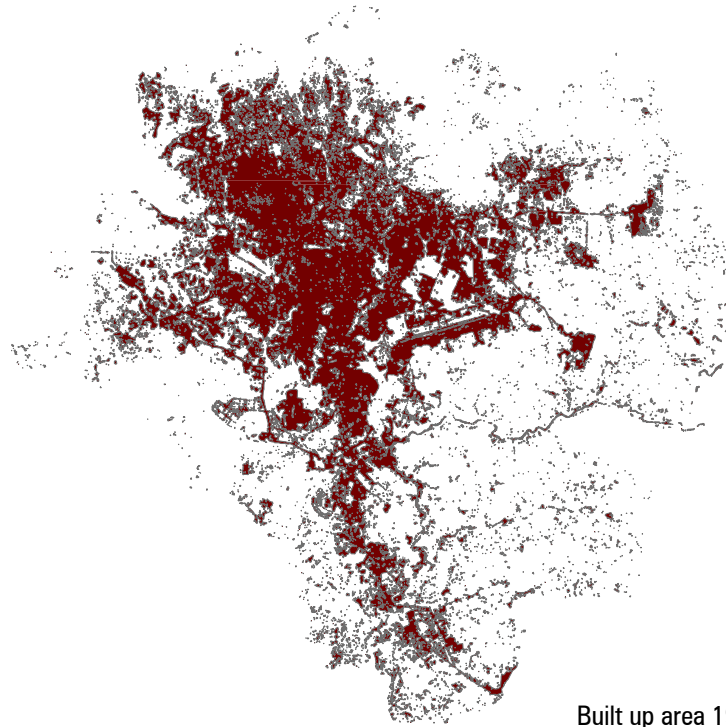
Figures 35 and 36 show the land-cover change of Addis Ababa over the past 15 years resulting from its demographic and economic growth. A critical look at the situations in 1999 and 2014 shows that the built-up area increased from 134 to 200 km<sup>2</sup>. This implies that the city is consuming the ecosystems at a speed of 4.5 km<sup>2</sup> annually. Such a rapid decrease of the ecosystem area impacts negatively on the supply of environmental services.



▲ Patches of urban agriculture provide ecosystem services © Geo Kalev.



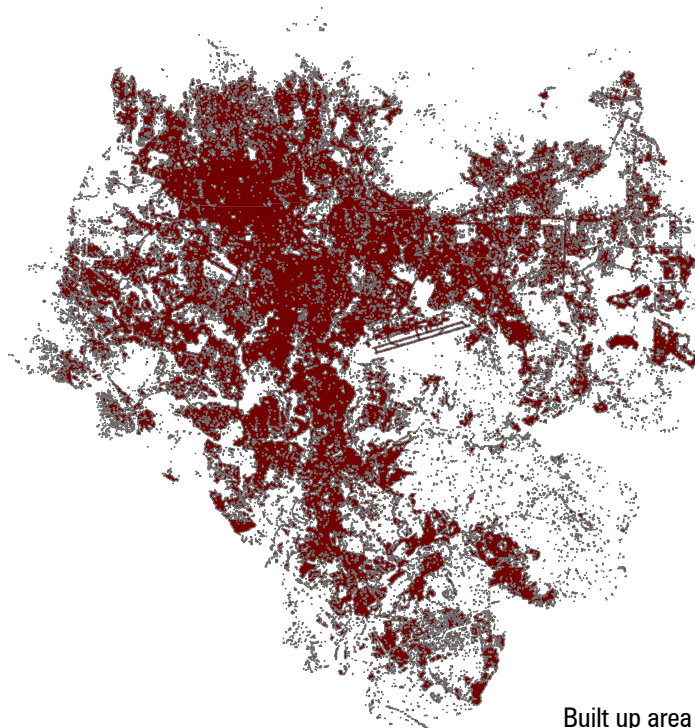
FIGURE 35: LAND-COVER ADDIS ABABA 1999



Built up area 1999: 134.0 Km<sup>2</sup>

Source: Linda Zardo and Marcia Guambe

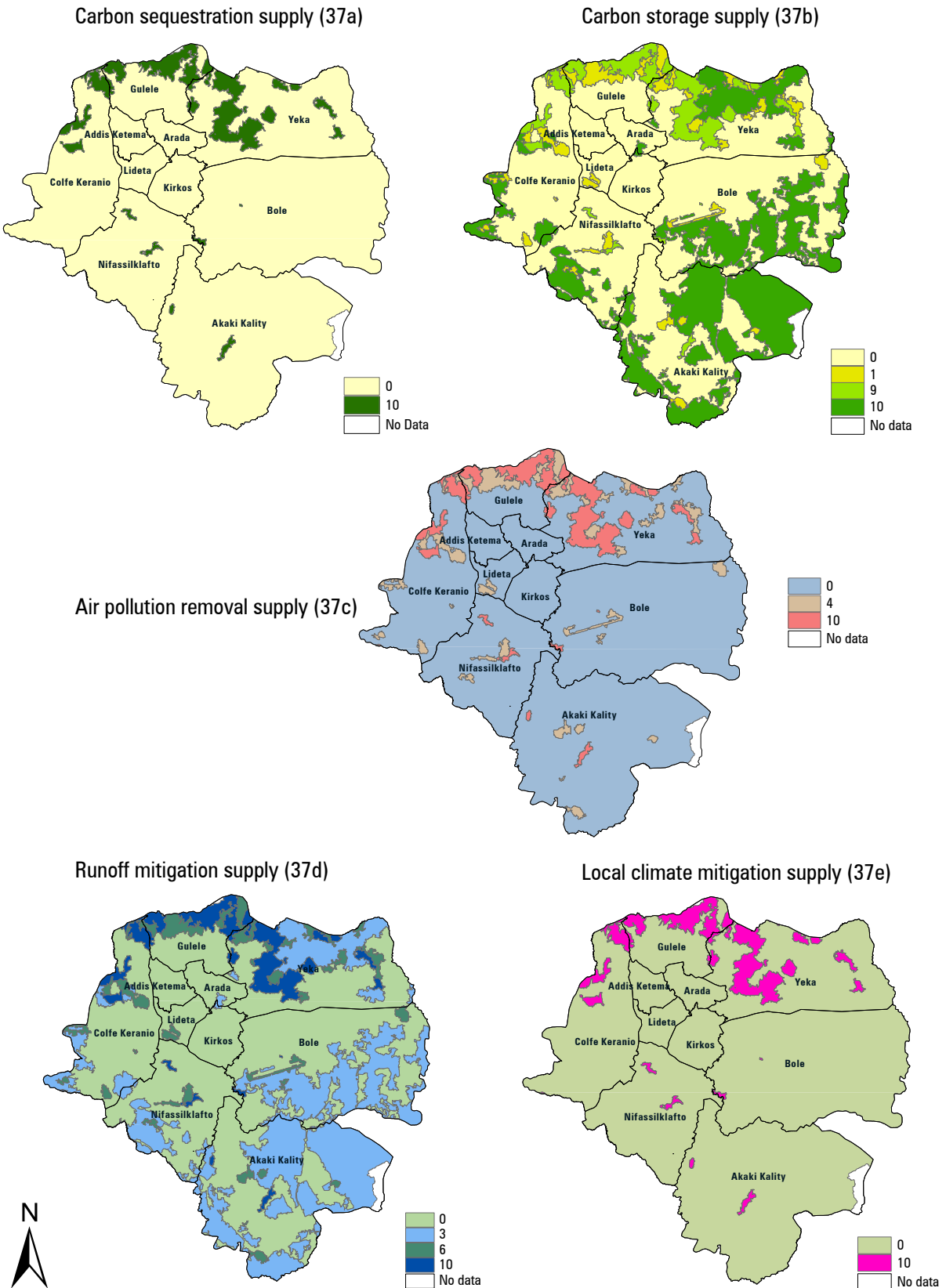
FIGURE 36: LAND-COVER ADDIS ABABA 2014



Built up area 2014: 201.0 Km<sup>2</sup>

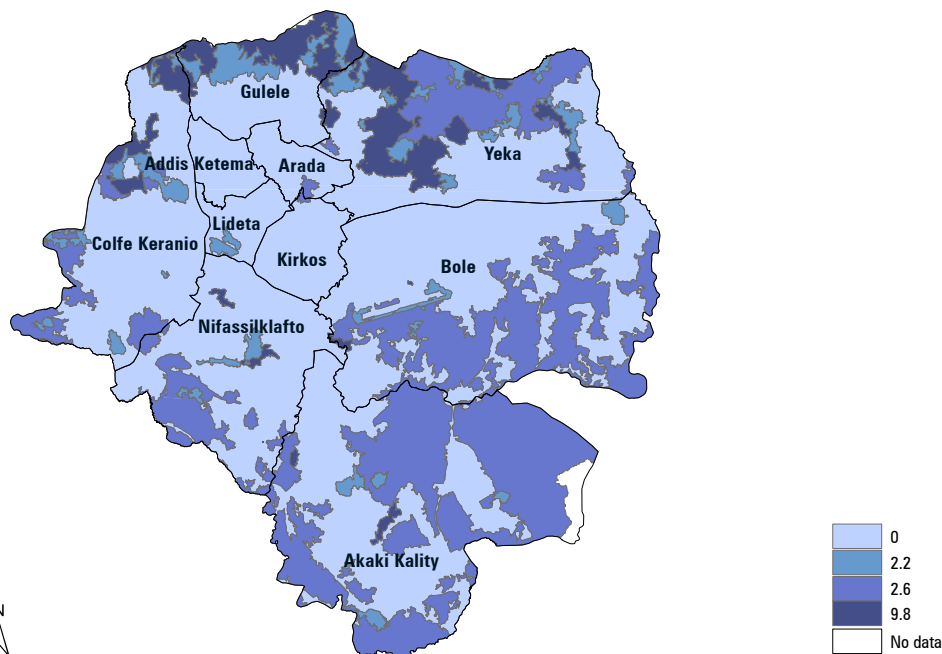
Source: Linda Zardo and Marcia Guambe

FIGURE 37: ECOSYSTEM SERVICES SUPPLY IN ADDIS ABABA PER SECTOR (BY ES SUPPLY SCORE FROM 0-10)



Source: Linda Zardo and Marcia Guambe

FIGURE 38: TOTAL ECOSYSTEM SERVICES SUPPLY IN ADDIS ABABA (BY ES SUPPLY SCORE FROM 0-10)



Source: Linda Zardo and Marcia Guambe

### The costs and benefits of growth: An ecosystem-based perspective

Ecosystems are not only an environmental matter; they also represent economic value. The presence or absence of functional ecosystems and their environmental services have impact on the strength of the economy and on the wellbeing of people (e.g. air purification, noise reduction, urban cooling and absorbing storm/flood water runoff) (Bolund & Hunhammar, 1999). For instance, the air purification performed by ecosystems in Barcelona represents economic values of over EUR 1 million of avoided costs for the city (Gomez-Baggethun and Barton, 2013)<sup>6</sup>. In Chicago, the cooling value of each tree corresponds to USD 15 of avoided air conditioning costs and hospitalization expenditures due to heat-related diseases (Gomez-Baggethun and Barton, 2013). Obviously, even bigger costs and values are related to flood mitigation. Hence, the presence of functional urban ecosystems represents significant economic and health benefits, while their absence implies costs.

In this report, the demand and supply of ecosystem services (ES) for the city of Addis Ababa was assessed and mapped to determine whether these are strong or weak. Supply and demand were calculated independently; next supply and demand information was overlaid to identify where demand matches supply and where either low demand and high supply or high demand and low supply occurred. This provided insights into locally determined needs and can serve as an indicator of socio-environmental inequalities across the city besides identifying priority areas for intervention.

The ES supply assessment was based on the land-cover. The methodology developed by McPhearson *et al.* was adopted which assigns an ES supply score from 0 to 10 to each land-cover

type. This method was applied to five ES crucial for the urban environment (Bolund & Hunhammar, 1999; McPhearson *et al.*, 2013) and adapted to the context of Addis Ababa.

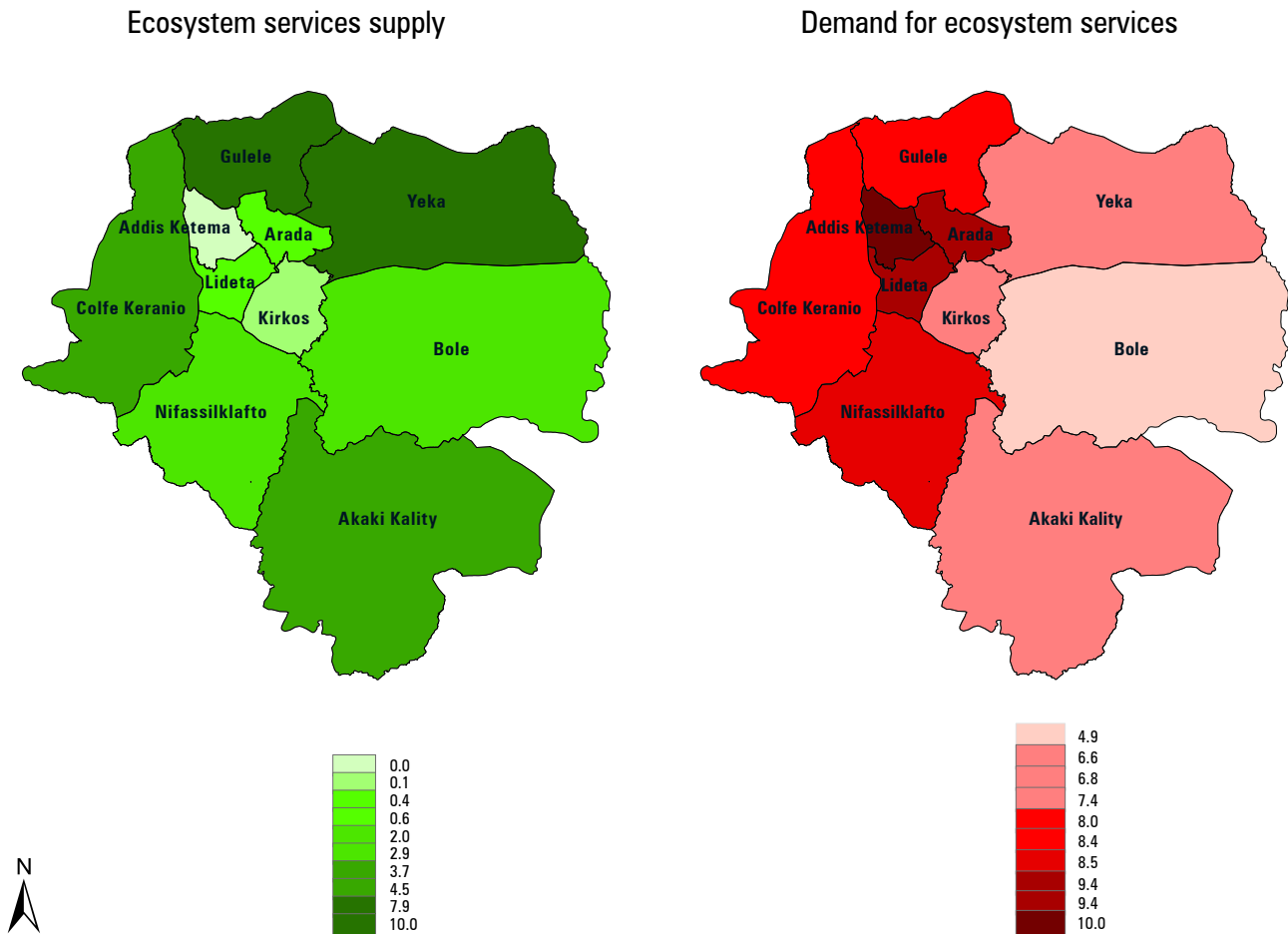
The ES analyzed included: 1) carbon sequestration; 2) carbon storage, 3) air pollution removal (PM10); 4) air temperature regulation; and 5) runoff mitigation. McPhearson’s values for these ES were adopted except for air temperature regulation, since that heavily depends on the climate type. Instead, the values for air temperature regulation in Addis Ababa were taken from a previous study<sup>7</sup>.

Figure 37 shows the city mapped according to five ES supply: carbon sequestration (37a), carbon storage (37b), air pollution removal (37c), runoff mitigation (37d) and local climate mitigation (37e). From these maps, it is evident that the major ES supply takes place far from the city centre. Thus, it is mainly located outside the city where the largest and most healthy ecosystems are found today: mainly in the North, Southeast and a few in the West.

Additionally, comparing carbon sequestration (37a), air pollution removal (37c) and local climate mitigation (37e) with carbon storage (37b) and runoff mitigation (37d), it emerges that not all ecosystems are providing ES supply to the same extent. While carbon sequestration, air pollution removal and local climate mitigation are mainly supplied in the North, carbon storage and runoff mitigation are supplied in a more homogeneous way within the city boundaries.

Figure 38 maps the average ES supply values in Addis Ababa considering the sum of the five specific ES supply –namely, carbon sequestration, air pollution removal, local climate mitigation, carbon storage and runoff mitigation.

FIGURE 39: ECOSYSTEM SERVICES DEMAND AND SUPPLY PER SUBCITY (BY ES SUPPLY SCORE 0-10)



Source: Linda Zardo and Marcia Guambe

Based on demand analysis, three major components of vulnerability among individuals and communities in Addis Ababa were identified: people with low income, children and elderly<sup>8</sup>. These three groups are in general more vulnerable and have less adaptive capacity in the case of stress or shocks. The mapping was done per sub-city, by using two sources: *Poverty Level Assessment of Addis Ababa 2015* (for income determination) and data from the Central Statistical Agency (CSA).

Figure 39 shows the demand of ES by sub-city. The map shows vulnerability weighted according to the population density per sub-city. It shows that Addis Ketema has the highest demand for ES. This is mainly the outcome of high vulnerability and high population density, followed by Arada and Lideta. Nifassilk Lafto, Kolfe and Gulele show somewhat average scores. On the other hand, Yeka, Kirkos and Akaki Kality represent the better off scenarios, while Bole has very low demand score because of its residents' low vulnerability.

Figure 39 also shows the overall supply of ES per sub-city. It is important to highlight that the sub-city with the lowest supply

and the highest demand is Addis Ketema followed by Kiros, Arada, Lideta, Colfe Keranio, Nifassilk, Lafto, Akaki Kality and Bole. Gulele and Yeka, on the other hand, show best situations with the highest scores in the city (10 out of 10) for total ES supply. The high scores or Gulele and Yeka are due to the fact that these are the less urbanized areas in the city and consequently they present a high surface of ecosystems. While if we zoom on most urbanized sub-cities, the difference between the lowest scores (e.g. Kiros, Arada and Lideta, with scores below 1 out of 10) and the average scores (e.g. Bole, with a score around 3 out of 10) is due to the physical characteristics of the sub-city, most of the time related to the socio-economic features of the sub-city. More specifically, the sub-cities with lowest scores are those with very low income, where housing is poor and there is no space for private gardens or parks, while high income sub-cities present more ecosystems thanks to the presence of gardens and street trees. Comparison of demand and supply shows need for urgent interventions in Addis Ketema, Arada, Lideta and Kirkos.



▲ Green space in the middle of Addis Ababa. © Kelly Leviker.

## 4.2 The city we want

Human activities and on-going urban growth are threatening citizens' quality of life in terms of health, economic productivity and resilience. It must be understood from the outset that sustainability has nothing to do with stopping growth. On the contrary, it seeks to ensure that economic growth is compatible with social and environmental safeguards. Therefore, this chapter identifies trends or actions that can lead to undesirable social, economic and environmental outcomes. It also identifies possible strategies to rectify these negative externalities. Towards this end, four possible growth scenarios for Addis Ababa are being considered:

1. business as usual and keeping the on-going trends;
2. intervening in practices that can damage ecosystems;
3. restoring damaged ecosystems; and
4. increasing the ecosystems in the city by promoting and creating new green areas to enhance the supply of ES and the benefit they provide to citizens.

### Business as usual: Keeping the on-going trend

Under this scenario, current growth trajectories and levels of resource consumption are assumed to continue unabated. The

built environment growth continues at a rate of 4.5 km<sup>2</sup> per year, consuming more and more open space while the remaining ecosystems become ever more polluted.

The threshold value of minimum green space per capita has been defined by the World Health Organisation as 9m<sup>2</sup>. Addis Ababa scores poorly in this respect with between 0.4 and the 0.9 m<sup>2</sup> per capita.

The rapid disappearance of urban green space will bring with it huge transaction cost for individuals, communities and private sector enterprises alike. There is evidence that the disappearance of green space is responsible for 40% of the flooding and landslides in the city (DPPC, 2015)<sup>9</sup>. Recurrence of flooding is already costing ETB 0.21 millions per event (and expected to be ETB 0.34 millions per year) for emergency assistance at the city administration level. In terms of average monetary loss per event, Yeka sub-city represents the highest monetary loss with ETB 1.21 millions per event and expected to be ETB 2.12 millions per year, not counting the loss of human lives, as this cannot be expressed in monetary terms. Green spaces are also the 'lungs' of a city. Therefore, the sustainability agenda should be given top priority by the Addis Ababa city administration.

The lack of green space also has social consequences. These are the spaces where people meet and socialize; relieve stress, satisfy their recreational needs and build social bonds within their respective communities. In a rapidly changing city where the state



▲ Cars contributing to air pollution © Geo Kalev.

of sanitation and waste management is very poor or inadequate, the rapid disappearance of open green space as the only ‘oasis’ can have serious social and psychological impacts on the residents.

Addis Ababa’s low environmental sustainability can, and *will*, compromise the city’s economic viability, worsen climate change and decrease dramatically the resilience of the city to hazards if a ‘business as usual’ scenario is pursued.

### Intervening in practices that damage ecosystems

Under this scenario, the city would grow in height – higher urban density being actively encouraged – so that the absolute amount of green space remains stable. The city administration would be actively engaged in stopping water, air and soil pollution. For this scenario to materialize, the city administration has to take decisive actions on many fronts. First, it should find a way of accommodating more citizens without eliminating additional open space. Second, all causes of ecosystem degradation should be addressed and avoided. Major interventions would be required to improve sewage and waste management - two major sources of environmental degradation believed to contribute up to 30% of the health risk to the Addis Ababa residents.

Air pollution in the city is getting worse. Besides the smoke from coal and wood burning for cooking, the transportation sector is the main culprit of the city’s worsening air pollution problems (Benjaminson et al. 2012)<sup>10</sup>. Today, Addis Ababa is

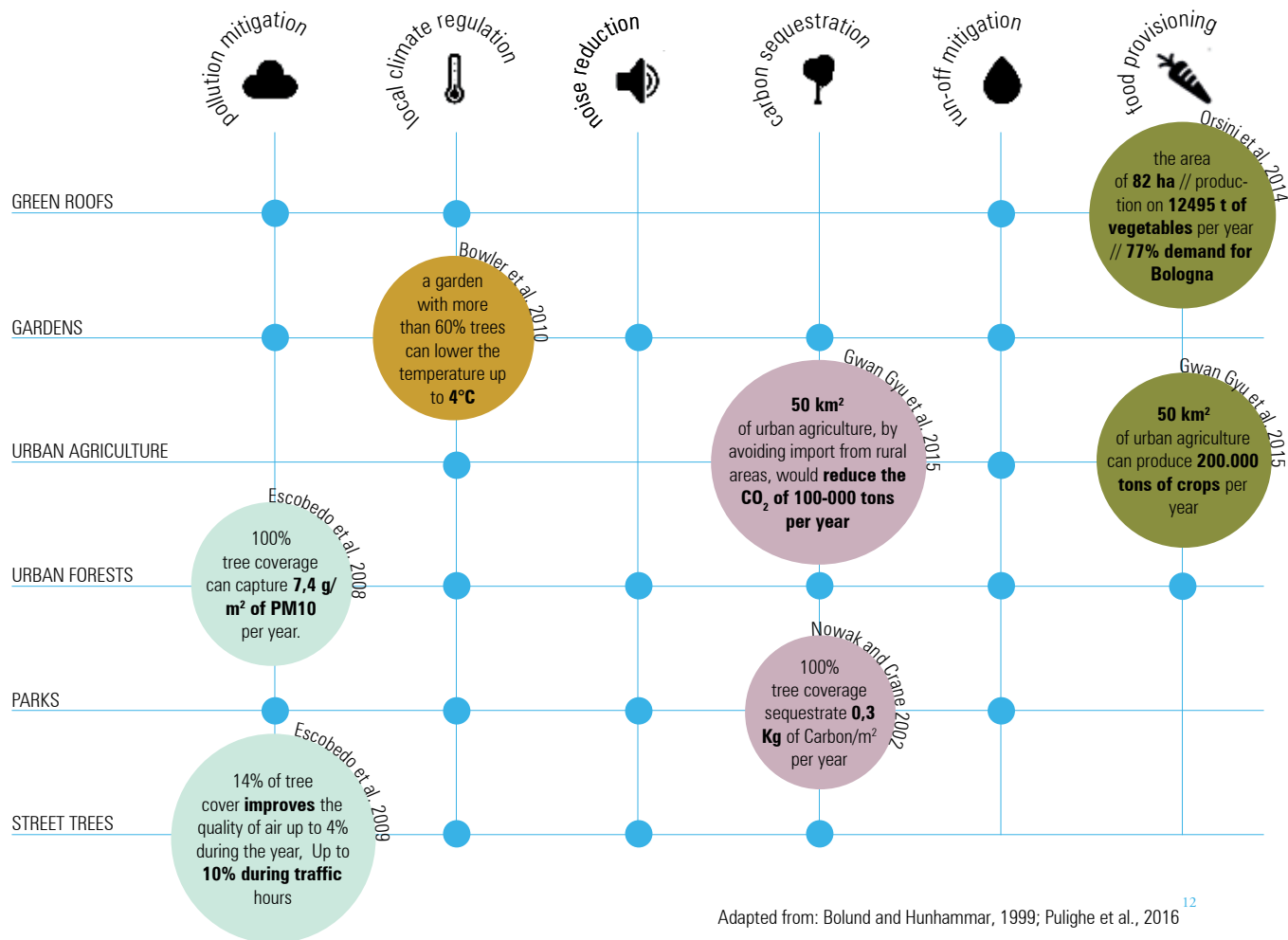
between four to 17 times more polluted than would be allowed under Brazilian, Chinese and U.S.A standards (Benjaminson et al. 2012)<sup>11</sup>: The need for expanding the mass transit system is well acknowledged by city authorities and new initiatives like the Rapid Bus Transit System and complementing the new Light Rail system are now being seriously considered.

### Restoring the damaged ecosystems

Under this scenario, the city adopts a proactive approach to restoring its degraded ecosystems. Rivers and streams in Addis Ababa are severely degraded due to uncontrolled dumping of household and industrial wastes. In 2014, however, the city administration launched a river rehabilitation project aimed at restoring nine hectares over seven years as part of the first phase of this project. The restoration project is expected to prevent flooding, while enabling city dwellers to use land adjacent to rivers and streams for agricultural production – an activity widespread in Addis Ababa prior to the city’s sprawl to peri-urban areas over the past fifteen years.

In addition to reducing flood risk, the river restoration project can create new jobs and give impetus to the development of recreational activities around the rivers while also maintaining biodiversity in the green corridors. The river restoration project would further contribute to reduction or elimination of pollutants in the river and streams. Thus, the project represents an important

FIGURE 40: EXAMPLES OF NEW ECOSYSTEMS FOR THE CITY



opportunity for Addis Ababa to rehabilitate one aspect of its natural capital that has stopped working due to human activity. If successfully carried out, the project will have significant social, economic and environmental benefits.

### Increasing the ecosystems in the city

A more preferable scenario is based on working with nature instead of against it. At the moment, however, the emphasis of the government is on achieving high levels of economic growth regardless of its long-term environmental consequences. Once growth is achieved, then attention will be focused on the environment. Such an approach is naive and could lead to *irreversible* environmental damage, with huge consequences to future city residents. Apart from avoiding such risk, the creation of new ecosystems can bring benefits to the city and also avoid many present costs. Figure 40 shows some existing examples.

## 4.3 Strategies and policies

The city of Addis Ababa is trying to mitigate the pressure on its environment through the design and application of sustainable practices. Over the past decade, the city administration has developed numerous sectoral policies and strategies. Environmental sustainability is recognized in both the Constitution and the Growth and Transformation Plan (GTP) (Emelie and Anders, 2013)<sup>13</sup>. Despite a strong commitment by the government to better environmental management, there exists a huge gap between policy and practice.

Environmental matters are typically multi-sectoral. The implementation of good plans and strategies can therefore be hampered by a lack of cooperation and coordination among sectoral ministries and departments. This is clearly the case in Addis Ababa.

### Overview of existing international agreements

Ethiopia is a signatory to a number of international environmental conventions. These include: protocols for desertification, climate change, biodiversity and pollution through the United Nations Convention to Combat Desertification (1994), the United Nations Framework Convention on Climate Change (1994), the Convention on Biological Diversity (1994), the Cartagena Protocol on Bio-safety, the Convention on Biological Diversity (2000) and the Stockholm Convention on Persistent Organic Pollutants (Emelie and Anders, 2013). Additionally, Addis Ababa is a member of C40 and the 100 Resilient Cities.

Two environmental matters are of particular importance to Ethiopia from the international perspective: climate change and regionally shared water resources. The impact of climate change is visible in Ethiopia and this is a matter of great concern. Despite limited resources, a consistent number of measures to mitigate the effects of climate change have been undertaken. With respect to the use of regional water sources, Ethiopia has been taking part in the Nile Basin Initiative along with the other riparian states. Equitable sharing of the water of the Nile has been a central negotiation position of the Ethiopian government, but the matters at hand are complex with deep historic roots and involve many different states, actors and interests. (See also *The State of African Cities 2010*, Box 4.9, p.165, UN-Habitat, Nairobi, 2010).

#### • The national level: Plans and policies

At the national level, three major cross-sectoral plans address the state of the environment: a) the Growth and Transformation Plan (GTP), b) Ethiopia's Programme of Adaptation to Climate Change, and c) the Climate Resilient Green Economy. The second Growth and Transformation Plan (GTP II), covering the period 2015-2020, has set higher growth and investment targets, including achievement of all Sustainable Development Goals (SDGs), among which goals 11 and 13 directly address sustainable cities and climate action.

Ethiopia's Programme of Adaptation to Climate Change (EPACC) is a program of action to build a climate resilient economy through adaptation at sectoral, regional and local community levels. The EPACC replaces Ethiopia's National Adaptation Programme of Action (NAPA), submitted in 2007 to the UNFCCC Secretariat. The Climate Resilient Green Economy (CRGE) – coordinated by the Environmental Protection Agency (EPA) and with strong political support from the Prime Minister's Office and the Ministry of Finance and Economic Development and line ministries – provides an opportunity to promote sustainable development in Ethiopia.

More specifically, the CRGE is composed of three complementary objectives:

- i) fostering economic development and growth,
- ii) ensuring abatement and avoidance of future GHG

emissions; and

- iii) improving resilience to climate change. Currently it builds on an investment plan of over 60 initiatives that are, or can be, turned into funded projects.

The CRGE strategy is strongly focused on reducing greenhouse gas emissions (GHGs). Internationally this is politically and financially attractive since there is a strong global need and commitment to mitigating climate change through GHG emission reductions. Notable examples of projects that the CRGE has put into place include the National Clean Cooking Stove Program Ethiopia (NCCSPE), the National Biogas Program for Ethiopia (NBPE), investments in clean energy and wind power, existing and planned hydro-electric dams (including Gibe III with environmental mitigation and management as a strong caveat), and the Sustainable Land Management (SLM) program.

There are additional sectoral plans and environmental policies, including the 1994 water policy, the 1997 environmental policy, the Environment Impact Assessment (EIA) proclamation of 2002 and the 2004 land use policy (2004). Environmental impact assessment procedures are supposed to be applied consistently when initiating any new development project. Unfortunately, these regulations are not being applied because enforcement mechanisms are either very weak or non-existent. Without strengthening the enforcement arm of the environmental agency, none of the laws and regulations can be expected to make any real difference in improving environmental management in Addis Ababa (Emelie and Anders, 2013).

#### • The city level: Plans and policies

The environmental policies of Addis Ababa are very much guided by the national level plans and strategies. The city is working on its physical structure plan which represents a good entry point for mainstreaming environmental matters in all programs and projects considered by the Addis Ababa Environment Protection Authority (AAEPA).

The city administration is not short on environmental management policies and regulations. Among these are the Environmental Audit Regulation; the Municipal Solid Waste Policy and other regulations (including on waste water); the Draft Environmental Impact Assessment (EIA) and pollution control regulations; the Draft Industrial Effluent Emission and Ambient, Air and Water Quality Control regulation; and the Draft Green Area Management regulation. The critical challenge, however, has been harmonization of these regulations, inter-sectoral coordination, implementation and measuring the resulting impact.

For this report, several representatives from different local authorities in Addis Ababa have been interviewed. Accordingly, major gaps to managing urban ecosystems relate to i) the complexity of the Addis Ababa City Government accountability and the frequent reorganization of sector offices; ii) a lack of staff with adequate capacity to deal with emerging complex issues; iii) poor coordination and integration with NGOs working on climate change.

There are a number of donor-supported programs to strengthen the capacity of the city administration in planning





▲ City Resilience Action Planning meeting in Addis Ababa © Linda Zardo.

and implementing its various initiatives. These include the Urban Development Partnership Project supported by the Government of Canada and the Small-Scale Environmental Support Program supported by Belgium. Addis Ababa is also part of the 100 Resilient Cities initiative supported by the Rockefeller Foundation and it has implemented the City Resilience Action Planning (CityRAP) Tool in Lideta sub-city. The latter is a participatory tool which enables local governments to understand risks and plan practical actions to progressively build urban resilience, developed by UN-Habitat and the Technical Centre for Disaster Risk Management, Sustainability and Urban Resilience (DiMSUR)<sup>14</sup>.

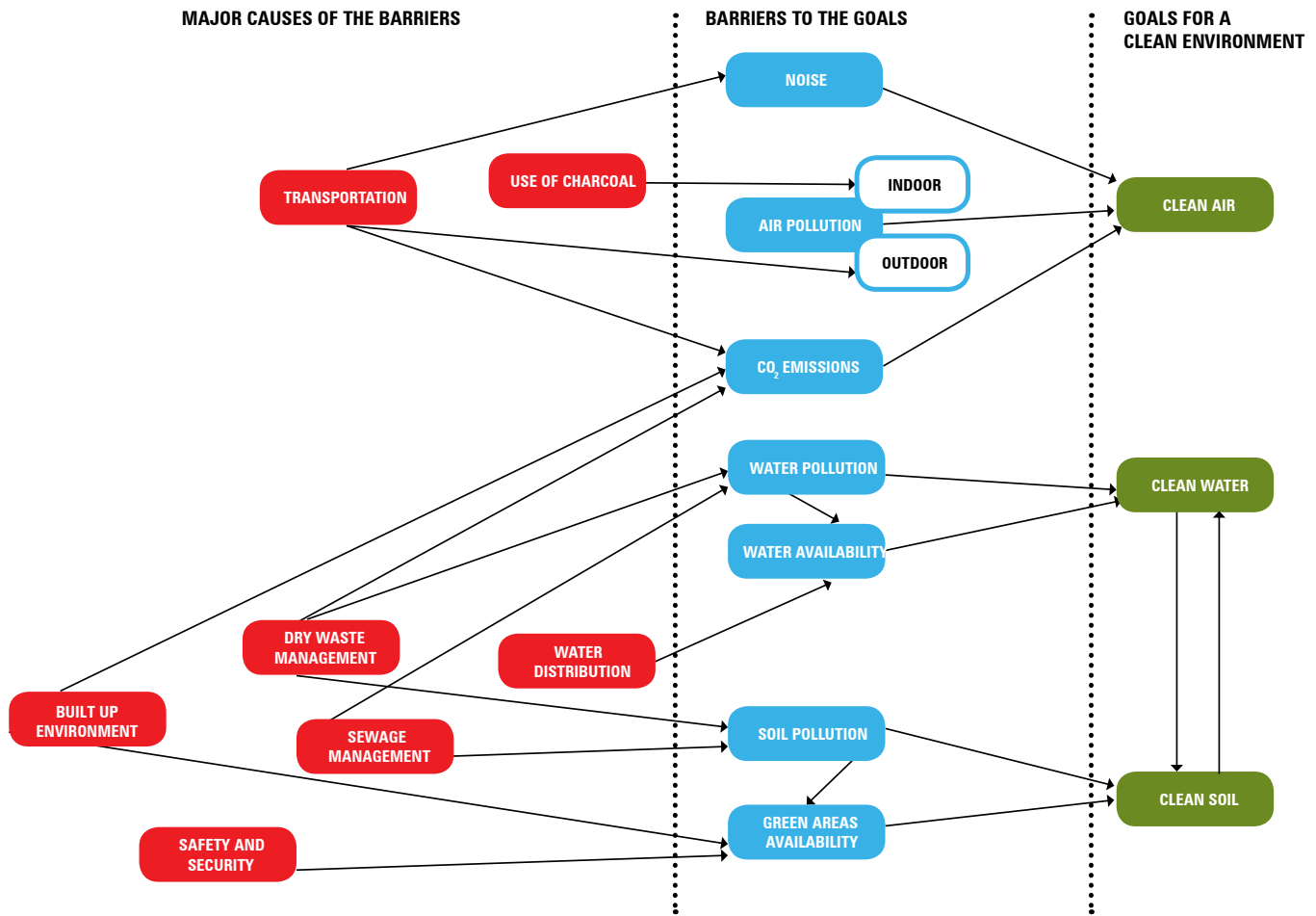
Increasing economic growth and attaining middle-income country status by 2025 might result in improvements for some environmental problems but might increase pressure on resources (such as water and energy) and increase emissions of pollutants, typically those linked with urban traffic, transport and industrial production (Emelie and Anders, 2013). The majority of Ethiopian industries are located in the capital, and a considerable number of them are based close to rivers, making them prone to discharging wastes into the waterways, which calls for providing practical alternatives and ensuring environmental law enforcement.

## 4.4 Basic services, environment and public health

The problems of accessibility and affordability of basic services in Addis Ababa is extensively discussed in section 3.5 of this report where the environmental consequences are discussed in terms of deficiency in accessibility and affordability of basic services. Indeed, over the past decade, both the federal government and the Addis Ababa city administration have invested heavily in improving basic services delivery. Despite tremendous progress, the gap between demand and supply for clean water, sanitation, electricity, open space and clean transport remains huge since the required investments are beyond the financial capacity of the city. Today, Ethiopia is one of the 10 countries in the world with the largest population lacking access to water and sanitation (Emelie and Anders, 2013).

Figure 41 shows the links between basic services management in the city, the environment and public health. What is more, the prevailing environmental problems in the city threaten not only the health and wellbeing of the population but also the rights of the future generation.

FIGURE 41: INTER-LINKAGES BETWEEN BASIC SERVICES AND A CLEAN ENVIRONMENT



Source: Linda Zardo

## Water distribution

Addis Ababa has significantly improved its water service coverage. It has yet to improve the dependability of water services. Due to faulty pipes, there are significant systemic losses in Addis Ababa's water supply. Only 50% of the 475,000m<sup>3</sup> of water pumped into the network every day is reaching the taps.

What is worrying is that around 50-55% of the population of Addis Ababa has to buy water from shops at high cost or access unsafe water from unprotected wells and rivers. It is simple arithmetic that a well-maintained water supply network would render expensive or unsafe water an issue of the past. Moreover, it is the poor in particular who can only access unsafe water. Addis Ababa's water is a major public health concern that could lead to the spread of cholera and other water-borne diseases. In addition, given the already problematic trans-boundary discussion over the use of the limited volumes of the Nile and its tributaries' water, wasting 475 million litres of fresh water on a daily basis through systemic losses is deplorable.

Water pollution also constitutes a risk to Addis Ababa's public health, mainly in the form of a high level of organic pollutants and water-borne diseases. Some studies indicate that 40% of the vegetables supplied in Addis Ababa city are irrigated with waste water drawn from polluted rivers (Kebbede, 2014)<sup>15</sup>. River borne urban pollution reaches the downstream countryside, affects the safety of food produced there and the health of people both within and outside of Addis Ababa.

Well aware of the various public health risks associated with inadequate and poor quality water, the Addis Ababa Water and Sewage Authority has put in place a plan to replace an average of 40km of pipes annually. The authority expects to have replaced all pipes of the network within 12 years and to reduce current systemic water losses from 50% to 20% in five years time. Furthermore, the Water and Sewage Authority is working on three new groundwater projects in the West, East and South of the city which it expects to finish within three years. While these measures are commendable, Addis Ababa and its surrounding region have no watershed authority to effectively manage the



▲ Waste management and recycling. © Linda Zardo.

water resources. It should be a priority that such an agency be established as quickly as possible to manage upstream resources and to ensure the sustainability of water supply for the city and its surrounding region.

### Electricity or charcoal?

Traditional stoves and woody biomass represent the major source of energy for cooking, heating and lighting among low-income households in Addis Ababa. This has multiple negative implications for the environment including deforestation, CO<sup>2</sup> emissions and indoor pollution, to mention a few. Forests beyond the city boundaries are being cut at a rapid rate to cover the urban biomass demand, even though this is now an illegal practice.

Matters are particularly worrying in terms of indoor pollution if we consider health impacts (SANA, 2013)<sup>16</sup>. Over 70,000 Ethiopians die annually because of indoor air pollution. Especially women, children and elderly are exposed. Reducing indoor air pollution will further yield benefits for the poor and help achieving Sustainable Development Goal (SDG) 3 (reducing child mortality and improving maternal health) (Emelie and Anders, 2013). The increasing access to electricity supply would ultimately eradicate the use of woody biomass. But, there is need for policies, incentives and awareness building about the societal costs of the current massive use of biomass. However, an encouraging initiative, the National Clean Cook Stove

Program Ethiopia (NCCSPE), is underway under the umbrella of the CRGE.

### Sewage and solid waste

In Addis Ababa, the sewage system and dry waste are major drivers of water (rivers in particular) and soil pollution. Although the Ethiopian government has begun taking steps to address the environmental and social challenges associated with municipal waste, there remains a great deal of inefficiency and environmental degradation as a result of current inadequate waste management practices (Regassa et al. 2011)<sup>17</sup>. More landfill sites are not a sustainable solution for the growing solid waste management crisis. While the city should be commended for building its first ‘waste-to-energy conversion’ facility, there is need for more encouragement of and support for ‘at source’ waste collection and separation as well as recycling practices.

Only 14% of the households are linked to the sewage system. The discharge of liquid and solid waste by industries into the river and streams or, in general, in open fields and vacant lots, has negative impacts on the state of soil and water and puts at risk the health of the citizenry. With almost 40% of the vegetables consumed in Addis derived from fields irrigated with wastewaters, high concentration of metals in food threaten people’s health and wellbeing. Moreover, soil pollutants can reach ground waters, creating a dangerous cycle with scarce reversibility.

Only 25 to 35% of the solid waste generated in Addis Ababa is collected (UN Habitat, 2008)<sup>18</sup>, with the remainder being dumped in open sites, drainage channels and rivers. This waste is composed of both biodegradable and non-degradable materials and can produce negative environmental, social and economic effects. Although biodegradable wastes can decompose naturally, they can still become a pollution problem when added to the environment faster than they can decompose (Filaba, 2008)<sup>19</sup>. Currently, some 60% of the waste generated in the city is organic, a quarter of which is recyclable. This indicates that there is considerable room for composting and biomass production. The non-biodegradable wastes are materials that either do not decompose or decompose very slowly and become pollutants that are extremely difficult to remove once released into the environment (Filaba, 2008)<sup>20</sup>.

In sum, the management of sewage and solid waste in Addis Ababa is worrisome and radical measures are needed to reverse the on-going ecological decline of the city. Failure to do so will have huge economic consequences and, in the long-term, increasingly will affect the well-being of the residents of the city. The government recognizes the urgency of the problem and is rushing against time to invest in critical infrastructure and management capacity. According to the Addis Ababa Sewage Authority, two treatment plants are expected to be up and running in the near future: a) the existing Kality plant is being upgraded with support from the World Bank, and a new plant is under construction in Akaki. The capacity of the Kality plant would be scaled up from 10,000 m<sup>3</sup> to 100,000 m<sup>3</sup> per day and, within two years, should be able to cover 64% of the demand for sewage treatment in the city. The Akaki plant is under construction and expected to be finished in five years, further boosting Addis Ababa's sewage treatment capacity. The challenge will be to provide capacity to deal with 100% of the waste generated. The next challenge will be linking houses to the sewage network against affordable connection and service fees since the average initial connection cost of ETB 1,000-3,000 might be beyond the means of many residents.

## Transportation and environment

As Addis Ababa lacks adequate transportation and since the city's has yet to offer affordable mass transportation, the use of private cars in general and gasoline-based public transportation in particular affects the city's ecosystems. According to Benjaminson et al (2012) the average age of 17 years of vehicles on the city's streets explains the high number of inefficiently functioning motor vehicle engines that are major contributors to Addis Ababa's air pollution.

Transport and mobility within Addis Ababa is responsible for 48% of the city's total transport-related CO<sub>2</sub> emissions. The remaining 52% are from aviation and 'out-of-boundary' road transportation. Roughly, 50% of the Addis Ababa vehicles produce about 90% of the hydrocarbon and carbon monoxide emissions. The Addis Ababa fleet of 275,500 vehicles is releasing between 25,000 and 32,000 tons of hydrocarbons and 49,000 to 58,000 tons of carbon monoxide to the city's air annually. These are serious quantities of pollutants, which are causing health and

environmental problems. Accordingly, levels of carbon monoxide (CO) in the air in the city is two to six times higher than World Health Organization standards (Benjaminson et al., 2012). What makes the air pollution situation even worse is Addis Ababa's topography: a valley surrounded by mountain peaks that trap the air and aggravates the problem.

The pollution problem in Addis Ababa is exacerbated by a lack of adequate and environment friendly mass mobility services. Although the city has introduced its first electrified light rail transit system, it is too early to determine its economic viability in the long run, and whether further extension of this system to other parts of the city is financially feasible. In the meantime, however, a Bus Rapid Transit (BRT) system is being piloted which will be integrated with the Light Rail System to improve connectivity between the two and complement their geographic reaches. The gap left by the inadequate public transport system is met by private minibus operators who criss-cross the city. These minibus taxis are often overcrowded and unsafe, and contribute to the growing traffic congestion in the city.

The growing demand for an efficient, affordable and environmentally friendly public transit system requires that the city administration integrates and prioritizes the expansion of public transportation and mobility in its development plan. Besides pollution, the economic cost of congestion to the urban economy is difficult to quantify precisely but examples from other cities around the world indicate that the economic costs are significant. The impact of air pollution on the health and wellbeing of city residents is also considerable. Outdoor pollution causes infant respiratory mortality, lung function growth (carcinogenic) and asthma (Gebreyes, 2014)<sup>21</sup> among other negative impacts. In Ethiopia, around 2,500 annual deaths are attributable to outdoor pollution. In comparison, in neighbouring Kenya it is 600 and in Uganda 100.

As mentioned before, the Addis Ababa city administration is undertaking measures to mitigate the emission of CO<sub>2</sub> under the umbrella of its CRGE strategy. The initiative is primarily aimed at tackling transport-related emissions. Furthermore, the city has subscribed the Global Fuel Economy Initiative, which sets concrete goals, like improving better car fuel efficiency, increasing the number of new vehicles and reducing traffic congestion (Gebreyes, 2014)<sup>22</sup>. However, the actual reduction of the number of old vehicles in use will take many years, particularly given the unreasonable high taxes imposed on new vehicles which discourages people from replacing their old cars. This leaves the Ethiopian government with the question of whether lowering import duties on new cars or investing in mitigation interventions is the more cost effective option.

Effective implementation of existing policies and strategies on air pollution will remain a challenge due to the city administration's weak human and institutional capacity. The city administration must try to strengthen its capacities in environmental planning, policy formulation and implementation management by recruiting the best and the brightest and reward such professionals with a competitive compensation package.



▲ Patches of greenery between residential housing providing eco system services. © Geo Kalev

## 4.5 Towards a climate resilient Addis Ababa

Climate change is another significant threat to the sustainability of Addis Ababa<sup>23</sup>. Risks associated directly with climate change in Addis Ababa mainly consist of floods, which induce landslides and water scarcity. Addis Ababa is exposed to riverine and flash floods as well as river overflows caused by extreme rainfall events and upper catchment area activities, such as land-use management or scarce watershed planning. Vulnerability to flooding is intimately linked with residential development encroaching on riverbanks, non-permanent construction materials (i.e. mud and wood), and poor drainage systems along roadways (World Bank, 2015)<sup>24</sup>. With limited availability of drainage services and continued mismanagement of storm water drainage facilities, flash floods occur following heavy rains, resulting in property damage, particularly in those *Woredas* located along rivers and streams. Parts of Addis Ababa, such as Gulele, Kolfé and Yeka, have experienced repeated landslides associated with flooding (DPPC, 2015). Apart from human and material losses, flooding can also trigger outbreaks of

diseases such as malaria, dengue fever and water-borne diseases such as cholera and dysentery.

### Planning and scales of intervention for city resilience

Urban planning can be a powerful tool in achieving sustainable urban development and wellbeing of the citizenry. For instance, through actions such as creating new open spaces or improving road sections, urban planning can reduce pollution levels in the city and ease traffic jams. This in turn not only improves the health of people and increases the attractiveness of the city, but also improves the health of people and the resilience of Addis Ababa. Identifying the spatial scale of actions enables planners to take better decisions.

Long-term planning is also about building resiliency. Urban resilience refers to the ability of any urban system to withstand and recover quickly from any possible hazard. Resilience is a concept broader than disaster risk management or climate change adaptation and can represent, at the same time, both a goal to pursue and a tool to keep the pillars of Addis Ababa developmental aims together towards a same coherent and strong direction. Urban resilience is cross-sectoral and urban planning can play a crucial role in fostering it, but cannot complete the ride alone. The pursuit of resilience can only come from an orchestrated effort from the urban governance side, with adequate infrastructure and basic services, a supportive economy and security, appropriate the disaster risk management and, of course, environmental planning.

Resilient cities will have a disaster risk management system that combines well-functioning and inclusive disaster preparedness besides emergency response mechanisms in support of an effective disaster prevention infrastructure. Such mechanism and infrastructure need an integrated citywide risk assessment that, in turn, is further integrated in all city planning processes, including construction, land use, socio-economic, and sectoral plans (World Bank, 2015)<sup>25</sup>. Even if floodings are the risk that overwhelmingly affect Addis Ababa with the inherent landslides and water scarcity, it is crucial for the city to work on its overall resilience to any type of shock or stress.

The main barriers to building urban resilience in Addis Ababa are the lack of technical capacity; reliable and up to date data and information; and lack of financial resources to invest in critical innovative technologies. As mentioned above, efforts to overcome such barriers are ongoing, as Addis Ababa is part of the 100 Resilient Cities Initiative and also implements the City RAP Tool, besides hosting several NGOs that work towards a resilient Addis Ababa.

Summarizing, the Addis Ababa city administration is moving in the right direction. Most of the necessary legal and institutional frameworks to manage the city's development in a sustainable way are in place. But legislation and regulation is only as good as their enforcement and implementation. For that to materialise more effort is needed to strengthen the institutional capacities and to capture good and best practices for replication and refinement. If successful, Addis Ababa can lead the Ethiopian nation by example.



▲ View of Addis Ababa. © Geo Kalev.

## 4.6 Conclusions and future directions

Despite the existence of numerous regulations governing environmental management in Addis Ababa, the gap between policy intention and practice remains wide. In-depth interviews conducted with representatives from different stakeholders squarely identified institutional weakness as one of the greatest barriers to sustainable development of the city. These include: lack of adequately trained staff and institutional capacities to deal with emerging, complex environmental matters. Further shortcomings to be addressed include poor institutional coordination and integration; weak evaluation and monitoring capacity; and measuring the actual impact of interventions; but also the frequent reorganization of *Woredas/Kebeles* and sector offices.

In an environment of institutional shortfalls it is difficult to imagine how long-term policies and strategies can be

systematically implemented; become firmly anchored in urban governance; and their impacts appropriately and correctly monitored. These institutional challenges tend to contribute to a confusion of agendas. Medium-term goals, objectives and short-term targets are rarely clearly specified, making it difficult to adhere to compliance with environmental laws and regulations. Such inefficiencies can in part be addressed by engaging or soliciting inputs from civil society organizations and other stakeholders. Rather than trying to do it alone, governance will benefit from the often viable and realistic alternatives civil society can contribute.

As Ethiopia strives to become a middle-income country by 2025, the pressure on such resources as water and energy, for instance, will grow exponentially. The drive towards industrialization is bound to increase emissions of pollutants; typically those linked to transportation, urban traffic and industrial production (Emelie and Anders, 2013). In the absence of practical alternatives and strong enforcement capacity, the environmental challenges facing the city will grow. Postponing interventions will only increase the challenges to be addressed. The time is now for Addis Ababa to strengthen its capacity for environmental management through strengthened government institutions and involvement of the citizenry to avoid a possibly cataclysmic future.

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# 5

## CONCLUSIONS, RECOMMENDATIONS AND WAY FORWARD: THE ADDIS ABABA WE WANT





2015 : The African Union's headquarters building: the tallest building in Addis Ababa. © Shutterstock.

This *State of Addis Ababa* report highlights the historical processes that have shaped the demographic, socio-economic structure, and the governance systems of the Ethiopian capital city through an examination of the planning practices starting from its establishment in the 19th century until the present.

The report sheds light on the impacts of on-going rapid pace urbanization in Ethiopia on the dynamics of Addis Ababa's economic development; on the state of social services delivery, including housing for the poor; and on the deteriorating state of the urban environment and its potential negative impact on future economic growth. On the basis of in depth empirical analysis, the report provides recommendations for enhancing Addis Ababa's economic productivity, liveability and environmental sustainability.

The report notes at the outset that, over the past two decades, more progress has been made in managing urbanization in Addis Ababa than over the previous 130 years of the city's existence. Indeed, the development strategies pursued by the EPRDF regime since 1991 have transformed the economic and social conditions of Addis Ababa and the country as a whole. The city's recent makeover is very much linked to the government's determined and focused approach to industrialization and structural reform.

While enormous challenges remain, notably in the provision of affordable housing, efficient water and sanitation supply, poverty and inequality reduction and in tackling a myriad of environmental challenges, the city administration supported by the federal government is guiding the growth of Addis Ababa towards a more sustainable path. This has been particularly visible after the adoption of a national urban development policy

in 2005 and, more concretely, during the implementation of the first phase of the Growth and Transformation Plan (GTP-1). Furthermore, subsequent urban development strategies in the social, economic, as well as governance structure and processes demonstrate the expressed commitment of the city government to transform Addis Ababa as a hub of innovation, economic production, and as a culturally diverse and environmentally sustainable capital city.

As a seat of federal government, Addis Ababa has a dual mandate whose control and decisions regarding issues such as land are directed by both federal and the city administration. Such a dual mandate complicates planning and decision making unless clear and transparent roles and responsibilities between these two levels of governance are assigned.

Therefore, despite commendable efforts, the institutional and responsive capacity of the city administration to both emerging risks and opportunities fall short due to weak urban planning capacity and limited scope for participatory governance in the economic and political management of the city. The emphasis on improving 'hardware' in infrastructure has not been commensurate with the equally urgent need to strengthen the 'software' of economic and political governance that are critical for building a competitive, inclusive, and environmentally sustainable Addis Ababa.

To assist the Addis Ababa city administration and the federal government of Ethiopia in addressing these challenges and coping with the city's rapid population growth and spatial expansion, a number of recommendations covering different thematic areas are listed below.

## 5.1 Improve the urban economy and business environment

Addis Ababa has achieved significant economic growth since the early 2000s. Overall macroeconomic indicators such as city GDP and productivity per capita have consistently risen over the past 15 years. The income of Addis Ababa's citizens is about twice the national average. The city's initial advantage as the national capital and its central geographic location have promoted demand for goods and services which contributed to its rising GDP. The city has also increasingly generated revenues from taxes on municipal services, external aid flows and loans.

However, for many years, the population of Addis Ababa has grown faster than the urban economy. The quite unprecedented population and geographical expansion of the city have created huge challenges. The city has been unable to create or attract sufficient numbers of new jobs or establish manufacturing businesses at the scale required. Rather, the current fast economic growth is largely generated by the services sector with its limited capacity to create jobs. Government attempts to alleviate the unemployment crisis through development of micro and small enterprises have so far fallen short of expectations. Therefore, the expansion of the manufacturing sector is one of the city administrations' main economic priorities with the aim to generate more jobs to the growing population of the city. This goal is in line with the federal government's plan to upgrade Ethiopia to a middle-income country status by 2025. The current low manufacturing base of Addis Ababa is largely the result of its weak continental and global competitiveness which discourages new investments from flowing into the city.

Surprisingly, Addis Ababa's revenues have not increased to the tune the urban booming economy would suggest. Rather, the city faces critical financial challenges, especially in raising sufficient own revenues to finance the normal municipal expenditures. One of the causes is that the city's budget heavily relies on an out-dated charges and fees structure rather than, for instance, property taxes and rates – a significant revenue source in many other cities around the world. Funding the city's rising capital expenditures is therefore increasingly based on state grants as the share of revenue raised by the municipality is declining.

Unless addressed, Addis Ababa's failure to offer an enabling business environment is likely to hurt further its already deteriorating labour market. Among the main reasons why it is not scoring well as an investment destination is its underdeveloped credit system. Businesses find it difficult to obtain start-up or expansion capital and therefore fail to create new jobs. Starting a business in Addis Ababa is further hampered by a highly cumbersome bureaucracy and debilitating 'red tape'. Registration and taxation regulations, for instance, stifle rather than support

emerging small businesses. Whereas, in principle, every enterprise wants to operate in the formal economy, over-regulation, red tape and lack of access to credit push many businesses into the informal sector where transaction costs and bureaucratic obstacles can be minimised.

### Recommendations:

#### A. Increase the city's competitiveness

- The city needs to increase its global and regional competitiveness by improving the business climate and performance to attract more and high quality foreign direct investment (FDI) flows. FDI is a key element in the desired strengthening of the manufacturing sector, job creation, technology transfer and innovation. Therefore, cutting back bureaucracy, regulation and red tape are critical first steps in furthering Addis Ababa's economic development. This may require the city to build an efficient, effective, responsive and accountable bureaucracy.
- Addis Ababa needs to simplify the process of starting a business, the paid-in minimum capital required and other related costs. As these factors severely hinder the business environment, a critical review of the same should be undertaken without any delay in consultation with the representatives of the business community and other relevant stakeholders.
- Addis Ababa needs to provide a credit guarantee for private enterprises or establish an institution for such a purpose. Not only has the city scored very low in the access of enterprises to credit, but the value of collateral required to the loan ratio is one of the highest in sub-Saharan Africa and even globally. Small and medium enterprises (SMEs) may not be able to provide the collateral needed for a loan. In such a case credit guaranteeing institutions could provide assurance to the banks or financial institutions that provided a loan to specific firms.
- There is a need to enable entrepreneurship and local economic development through well-coordinated policy to encourage the development of manufacturing SMEs. Greater efforts are needed to assist their establishment by relaxing regulations and easing access to credit and finance, as well as helping them to enter the formal economy.
- The city also needs to facilitate an environment more conducive to innovation. This requires (besides reducing bureaucratic red tape) the promotion of trade logistics, more effective infrastructure (especially regular power and water supply) and easing restrictive regulations.
- Addis Ababa must become more gender sensitive. Women are not only disproportionately represented among the unemployed but they are often also engaged in low quality jobs. Gender empowerment tools such as women entrepreneurship development programs are needed to enhance the skills and job intensity towards more quality occupations.

## B. Enhance budgetary and financial aspects

- In order to respond to the increasing demand for infrastructure services, the city needs first of all to increase its own-revenue generation. This can be realised if it upgrades and updates its cadastral records, values each parcel of urban land and levies taxation and/or rates on these properties to help generate income towards the municipal capital expenditures. For cities around the world, property taxation and levies are among the leading revenue sources and Addis Ababa should look at this income source as a matter of priority.
- To the extent land is the most important source for generating city revenue, an effective and transparent land administration system is needed. Land lease has been the most important source of non-tax revenue for the city administration. Given the scarcity and limited scope of the land size it may fall short of financing the ever rising expenditure demands of the city over time. Hence, revenues generated from land lease should be managed effectively and in a transparent way. Emphasis should be given to the long-term productivity enhancing investment projects that would help the future generation bear the burden of fiscal deficit.
- The city has to revisit and review its service fees and utility charges so that these become cost covering. However, regarding social and public health the well-off urban population strata should pay premium fees to cross-subsidise delivery of critical basic services to the urban poor at below-cost rates.
- Addis Ababa needs to introduce a system of annual property assessment on physical buildings (including residences) to boost city revenue. To do so the city should build its capacity in cadastre records, trained personnel and ICT infrastructure.
- Addis Ababa needs to improve its revenue raising capacity on a constant basis. Establishing a permanent collaboration between university institutions and the Finance Bureau of the City Administration would allow training experts on tax administration, expenditure and public financial management, and computerization. Instead of delegating the federal revenue and customs office to collect taxes on its behalf (which is currently the case), the city should develop its own capacity (both human and financial) and take full control of its tax administration.
- The city should enhance the institutional and financial capacity of urban local governance through the deployment and retention of competent human resources by developing compensation packages commensurate with the prevailing market rate.

## 5.2 Improve regional planning

The Ethiopian urban system is largely unbalanced, fragmented and mono-centric, with a mega city like Addis Ababa in the centre, few secondary cities striving to catch up and a myriad of small urban settlements spread out all over the country. This situation leads to an increased concentration of investments and people in the capital city, which determines its high population growth rate with all other unintended consequences, such as growing informal settlements, lack of basic services for all, etc. Article 7 of the Urban Planning Law (Proclamation 574/2008) stipulates three hierarchical levels of urban plans: the National Urban Development Scheme, the Regional Urban Development Plans, and the Urban Plans. The latter include the city structure plan and local development plans. Regional development plans are currently the missing links between the national and the local planning level, while they should be brought to the centre stage to ensure an overall spatial planning coherence in terms of city growth patterns, urban-rural linkages, development corridors and urban clusters.

Recent initiatives, like the construction of industrial parks in various regions of the country, represent a concrete manner to achieve a more balanced regional development. However, a lot still needs to be done to harmonise these mega projects and investments with the development dynamics of the regional capital cities hosting them (for example, in terms of infrastructure and utility provision for the massive labour force that is attracted by these investments), as well as to better plan for their regional development implications (e.g. clusters or system of urban centres at the regional scale, attraction role played by the industrial parks, etc.).

### Recommendations:

- A more polycentric urban system of the country is recommended, hence avoiding the over-concentration of capital investment, businesses and population in Addis Ababa, by establishing a system of cities composed of different important urban centres and poles of attraction well-distributed across the country and inter-linked through development/transportation corridors.
- In line with the previous point, both federal and regional governments are urged to develop and implement national and regional spatial plans and support their implementation through well-coordinated investments, and to establish a system of cities able to sustain the national territory, with the required services and factors of attractiveness, providing valid alternatives to Addis Ababa's current primacy.
- There is a need for planning the existing urban centres in an integrated manner with due consideration of strengthening urban-urban and urban-rural linkages to support the agglomerations of competitive industries in particular city-regions around a particular resource value-chain, such as leather and agro processing.

## 5.3 Increase access to housing

Over the past decade and with support from the federal government, the Addis Ababa city administration has hugely invested in subsidized and affordable housing for its low- and middle-income residents. A housing delivery mechanism for condominium units has been successful in increasing the quality of the city's overall housing stock. As an element in an integrated urban (re)development programme, the housing strategy has also contributed to stimulating the urban economy by creating employment in the construction industry and, at the same time, improved the capacity of the construction and financial sectors.

Despite these successes, however, the 'one-size-fits-all' government-led condominium housing delivery scheme has faced many challenges. Firstly, despite government subsidies to make the newly built housing units affordable and accessible, condominiums' mortgages are not affordable for 49.5% of the new owners as they represent more than 30% of their income, which is the standard income percentage used internationally to estimate housing affordability. Secondly, the compensation given to the relocated households has been far below market prices, with no proper mechanism in place for homeowners to contest that. Thirdly, the housing strategy has so far not considered more affordable alternatives such as rental housing options to avoid locking people into excessively high mortgage payments for the remainder of their lives. Unfortunately, given the reduced levels of income in Addis Ababa, not everyone can become an apartment owner.

### Recommendations

#### A. Enhance housing delivery

Recent reports from the government confirm that the condominium housing scheme is at cross roads. The track record of the Addis Ababa Savings and Housing Development Enterprise in constructing and delivering condominium apartments has been on the weak side, as planned targets have rarely been met. Recent reports indicate that the entire condominium scheme, particularly the 40/60 and 20/80 options, is temporarily suspended due to lack of sufficient budget allocation toward the project. Many of the 165,000 people registered for the 40/60 condominium scheme will not see their dreams of owning an apartment realized any time soon. It is estimated that 50 more years would be needed before all those who want an apartment in Addis Ababa today (NB: without even considering the population growth during such a period) are accommodated. In short, the 'one-size-fits-all' condominium housing strategy has run its course and a more diversified approach in housing delivery should be sought. Given all the technical and financial problems surrounding condominium housing, the following alternative actions are recommended:

- Revise the existing housing strategy to incorporate a wider range of options than just owning condominium housing units (i.e. rental housing, housing upgrading, housing cooperatives, etc.).
- Expand the rental housing options for residents who have no intention or are unable to become a home owner.
- Expand affordable housing finance: enable availability of and access to housing finance mechanisms for cooperatives and the real estate sector so that they can also contribute to the housing delivery efforts of the government for low- and middle-income households.
- Revise land administration and introduce diversified tenure regimes: both at the city and federal level, land ownership and administration regulations should be reviewed to better serve the needs of urban residents, regardless of their income levels.

#### B. Take into account social acceptability of urban renewal processes

The evidence from this study shows that urban renewal programs in Addis Ababa have triggered important socio-economic disruptions in the affected communities. Social networks and mutual aid associations that had taken many years to establish and develop were swept away as a result of relocation operations. Moreover, the compensations given to the relocated households did not follow fair market prices. Therefore, a completely new approach to the planning and execution of urban renewal projects is needed, including the following recommendations

- Prior and informed consent of communities: urban renewal projects should be done in consultation and with prior consent of the affected communities.
- Consider informal settlements upgrading as a valid alternative to relocation: possibilities for urban upgrading and densification need to be carefully explored before deciding on wholesale demolition, renewal and relocation as a final option.
- Fair compensation: in the event that relocation is the only feasible option, compensation needs to be based on actual market value of inner city land and housing.
- Before relocating people, ensure that investments were properly coordinated in the resettlement areas so that in addition to housing units, basic/social services and infrastructure (e.g. water, sanitation, electricity, roads, health and education facilities, transport, markets, etc.) and job/livelihood opportunities are also available.

## 5.4 Improve urban governance and basic services delivery

Much of the urban governance reform advocated over the past twenty years in the context of the Urban Local Governance Program (ULGP), funded by the World Bank and implemented by the Ministry of Urban Development and Housing (MUDHo), has largely focused on increasing the effectiveness of municipal services delivery. The ULGP aimed at strengthening the policy formulation and implementation competence of local government institutions through capacity building and training initiatives. Despite these efforts, poor service delivery is still observed, mainly due to the inability of public institutions to retain their most qualified professionals because of their low wages and limited career mobility opportunities. The high staff turnover in the public administration continues to hamper the overall institutional efficiency and good urban governance in particular.

### Recommendations

#### A. Foster citizens' participation

In the Ethiopian context, despite a genuine interest in getting inspired by the participatory governance principles of a liberal democracy, a more centralised approach is being promoted with a vanguard party taking all major decisions while some limited room is left for citizens' participation. This top-down decision-making culture is so dominant that lower level professional staff cannot propose any alteration to what was decided at the top. Good urban governance is also threatened by a culture of corruption, particularly where it concerns access to land and basic services. In the absence of strong anti-corruption and accountability mechanisms, these irregular practices from municipal officials are currently undermining public confidence in the integrity and responsiveness of public institutions. It is hence recommended to

- Establish genuine broad-based citizens' participation mechanisms to increase transparency in decision-making and mitigate corrupt practices at all levels, in order to reinstate trust between citizens and local authorities.
- Establish a 'citizens report card' system for annual feedback on services delivery for each sub-city of Addis Ababa, which can allow measuring the citizens' satisfaction levels.
- Strengthen the institutional set-up and procedures to better engage inner city residents in local development planning and participatory decision-making processes.

#### B. Improve basic services delivery

It is acknowledged that the city administration of Addis Ababa has made tremendous efforts to expand access to basic services (water, electricity, waste collection, sewage connection) as well as social infrastructure (education and health) to its residents.

Nevertheless, the city has yet to provide quality urban services to *all* residents. In fact, both the rapid population growth and the currently uncontrolled horizontal city sprawl far outpace the city authority's investment capacity to meet new demand for basic infrastructure and services.

The access to basic services is particularly difficult at the urban fringes of Addis Ababa where former inner-city residents have been relocated. Limited access to water, electricity, schools and affordable transport has rendered the resettlement experience difficult for many of the residents. While connection to water and electricity supply networks has expanded significantly, water and power outages are common. In short, both the quantity (networks) and quality (supply reliability) of services require significant improvements over the coming years. This needs imperatively to be combined with a more compact city development (see the urban planning and environment section below) and the creation of alternative urban poles of attraction across the country to avoid the growing influx of people to Addis Ababa (see the regional planning section above).

The city shows deficiencies in two major areas: transport and waste management. Only half of the needed trips per day within the city are satisfied by the current transportation system capacities, although tremendous efforts are being carried out through the light rail train and the design of the bus rapid transit system. Solid waste management represents another great challenge for the city administration. Recently a land slide provoked by an excessive amount of waste accumulated in the Koshe dumping site has killed several hundreds of people (exact numbers are yet to be provided by the authorities). Urgent actions are needed to improve the situation, including the following:

- Improve the dependability of electricity supply services through expanding the city's effort to use renewable energy sources that are environmentally friendly (e.g. solar system, wind mills, etc.);
- Improve the dependability of water services by diversifying water sources (e.g. taking advantage of rainwater, etc.);
- If relocating inner city residents is compulsory, before any resettlement operation is carried out, the city administration needs to ensure the timely availability of basic infrastructure/services in addition to housing, such as markets, roads, water, sanitation, electricity, health and education facilities, among others, as well as providing sufficient and reliable public transportation options; this of course requires a lot of inter-sectoral coordination;
- Re-think the waste management system of the city from the household to the landfill by introducing best practices such as waste separation (at least organic from inorganic waste), compost production (using organic waste), recycling (at primary collection points) and re-use (especially for items such as bottles, etc.); in addition, the Koshe dumping site needs to be closed and rehabilitated from a security and environmental perspective;
- In general, enhance the quality of service delivery processes in all sectors through improving municipal revenue generation mechanisms.

## 5.5 Tackle critical environmental issues and improve urban planning and design

Over the past decade, the Addis Ababa city administration has given significant recognition to the quality of the urban environment. It has adopted various policies and strategies in line with Ethiopia's national priorities. However, the lack of urban green space, high levels of air and water pollution, poor sanitation, inadequate solid and liquid waste management and treatment, poor drainage and increasing vulnerability to flooding due to climate change remain the most critical environmental challenges facing the city today.

The impacts of environmental degradation are evident. Many Addis Ababa residents are suffering from respiratory problems related to indoor and outdoor pollution. Many die from waterborne diseases caused by poor sanitation. These are preventable illnesses and deaths.

Despite the city's efforts to tackle environmental degradation, translating policies and strategies into practical and effective actions has proved difficult due to human resource constraints and institutional weaknesses.

Very much linked to the critical environmental situation of the city as well as with many other challenges the city is facing, is the central issue of urban planning and design. The city does not show a road network grid which allows for a proper traffic flow, provoking congestion and subsequent air pollution, and limiting the provision of public transport system such as the bus rapid transit, for example. Urban design has a major influence on the efficiency of the whole city system. For instance, a proper road network allows for the easy installation of basic services and infrastructure, such as water and energy supply, drainage and sewerage system, solid waste collection, etc.

In addition the spatial growth of Addis Ababa is challenged by the land claims of the Oromia region surrounding the city. This means that the city needs to increase its density at the centre and limit its horizontal expansion in the periphery. This would also help in terms of climate change mitigation, by reducing air pollution due to increased transportation distances.

### Recommendations:

#### A. Improve natural capital

- Urban planners need to be aware of their crucial role. Specific attention needs to be paid in planning processes to increasing the urban green areas; not only in absolute terms but also their even distribution over the city and its communities.

- There is an urgent need to restore degraded urban natural areas like rivers and river banks; actions for cleaning these natural ecosystems are absolutely required; then, re-greening operations could be undertaken, putting attention in using the proper vegetation and, when possible, having permeable riverbanks. To avoid cleaned areas to redevelop to their previous state, there is need to increase awareness among the population, assign to these new areas a function that avoids the creation of informal settlements (e.g. parks) and to establish monitoring activities by the community to preserve the river and the river banks. Finally, polluting discharges from both house and factories should be regulated and controlled.
- Reintroduce and facilitate the expansion of urban agriculture to enhance the city's ecosystem services. This works both ways: it adds to food production but also reduces traffic jam because of lower food transportation needs. It also has spin-off benefits like job creation, increased urban resilience and better urban food security.
- Undertake a comprehensive risk assessment to gain insight in the most practical ways to introduce climate change adaptation and mitigation strategies.

#### B. Tackle environmental challenges

- Assign clear responsibilities among the concerned government institutions to avoid overlaps or gaps, especially in terms of climate change adaptation and mitigation actions, river and water management, greenery, slum upgrading and infrastructure. Build the scientific and technical knowledge of these institutions' human resources pool.
- Create institutional awareness on existing policies and regulations for better implementing strategies to tackle pollution, waste management, and climate change adaptation and mitigation. In particular develop a realistic policy implementation strategy to reduce outdoor (transportation-related) pollution, for example, by promoting the use of public transport and introducing taxes and/or penalties for cars that are too old to match acceptable emissions standards.
- Supply pedestrian pavements and bike lanes for all urban roads to encourage non-motorized transport, enhance safety and promote better traffic flows.

#### C. Improve urban planning and design

- Promote mixed land use with residences close to employment to reduce travel time between home and work, thereby saving time and reducing energy consumption and greenhouse gas emissions.
- Plan in advance, especially the future street network in city extensions areas, to avoid unpopular demolition and expensive and socially disruptive resettlement operations

of people living in informal settlements where public spaces and rights-of-way have not been laid out or were not respected.

- Where possible, promote in-situ informal settlements upgrading by increasing the density of occupation of urban land in the inner city, maintain the urban vibrancy and the livelihoods of people, and avoid the sprawl of Addis Ababa with all its social, economic and environmental consequences.
- Plan in an integrated way urban areas for promoting a more effective and equitable basic services delivery, by maintaining a proper road grid and allowing for incremental implementation, and reserve enough land for public, open and green spaces.
- Try to control the current land speculation dynamics in Addis Ababa to promote a more equitable city growth and good planning, especially by reviewing existing land regulations and strengthening enforcement.

## 5.6 Conclusions

Over the past two decades, the city of Addis Ababa has experienced tremendous economic, social, and spatial transformations never witnessed in a hundred years. The city's recent makeover is very much linked to the EPRDFs determined and focused approach to transform Ethiopia into a middle-income industrializing country by 2025. The rapid pace of economic transformation in turn challenges the economic and political governance of the city in a sustainable way.

Despite enormous progress over the past decade and half, many challenges remain, notably in the provision of affordable housing, jobs to the growing young urban population, efficient provision of basic services, and greater role for the citizens of Addis Ababa to participate in decision making on matters that affect their daily existence. In the face of mounting pressure on the city administration to solve a myriad of social and economic problems, it is fair to say that city authorities have tried to address these problems despite capacity gaps and limited financial resources. Fifteen years is a relatively small time for a city administration to build up the necessary institutional capacity to respond to old and emerging threats. It is clear from this report that these developments take time and cannot be done overnight. Recent attempts by the city administration to strengthen urban planning, and to enhance the responsiveness of city government institutions are encouraging, but more needs to be done, and high level of political leadership from the top is an urgent priority. Closer consultation and coordination between the federal government and the Addis Ababa city administration is extremely vital to avoid duplication or issuing contradictory policy directives that would undermine the economic competitiveness of the city, and its capacity to manage social and environmental challenges.





Aerial view of Addis Ababa. © Shutterstock. ▲





Over the past twenty years, more progress has been made in managing the urbanization of Addis Ababa than over the previous 130 years of the city's existence. The development strategies pursued since 1991 have led to tremendous economic, social and spatial transformations in Addis Ababa and the country as a whole, accelerating the evolution of this relatively young capital city from a small rural settlement into a vibrant modern metropolis today. Much of this is linked to the government's determined and focussed approach to transform Ethiopia into a middle income industrializing country by 2025.

Despite enormous progress, challenges remain. As a result of rapid urbanization and unprecedented population growth, there is enormous pressure on Addis Ababa's capacity to provide affordable housing, sufficient job opportunities and access to basic services for the citizenry, especially for low income households. A victim of rapid unplanned urbanization has been the urban environment, as the current city growth is worsening the air, water and land quality and weakening urban ecosystems. The latter are indispensable environmental services for human life and to mitigate the impacts of climate change.

The State of Addis Ababa 2017 report is aimed at providing a comprehensive assessment of existing socioeconomic and environmental conditions in the city, shedding light on the impacts of on-going fast paced urbanization. The report addresses policy makers and city planners and makes bold recommendations on how resources can be strategically developed and managed to sustainably meet the needs of the urban population of today and the future, improve the short- and long-term wellbeing of citizens and transform Addis Ababa into the city that the citizenry wants.

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