

**INSTITUTIONAL INTERFACES AND ACTORS'
BEHAVIOR IN TRANSITIONAL REAL ESTATE
MARKETS OF ADDIS ABABA
(ETHIOPIA)**

Frew Mengistu Truneh

Cover design by author and Getachew Mandefro (senior architect and artist).
Central thematic symbol adapted from Michael Angelo “the creation of Adam”
symbolizing the interface between the Creator and humanity.

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INSTITUTIONAL INTERFACES AND ACTORS' BEHAVIOR IN TRANSITIONAL REAL ESTATE MARKETS OF ADDIS ABABA (ETHIOPIA)

Wisselwerking tussen instituten en het gedrag
van actoren in de veranderende onroerend
goed markt van Addis Ababa

Thesis

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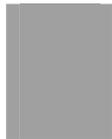
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Dr. K. Biekart

Dedication

*To my father of blessed memory from Fuyan Birra,
who knew no literacy but opened the door for me;
and also to my family and relatives*



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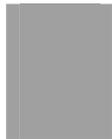
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Acronyms

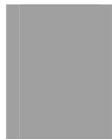
AACA	Addis Ababa City Administration
AACCS	Addis Ababa Chamber of Commerce and Sectoral Associations
AACG	Addis Ababa City Government
AARH	Agency for the Administration of Rental Houses
ATM	Automated Teller Machine
AU	African Union
BID	Business Improvement District
CBD	Central Business District
CDS	City Development strategy
CEO	Chief Executive Officer
CSA	Central Statistics Agency
DFID	Department for International Development
Eth.C	Ethiopian Calendar which follows the Julian calendar
EC	Executive Committee
ECSU	Ethiopian Civil Service University
EEA	Ethiopian Economic Association
EEPRI	Ethiopian Economic Policy Research Institute
EU	European Union
EPRDF	Ethiopian Peoples' Revolutionary Democratic Front
FDRE	Federal Democratic Republic of Ethiopia
GDP	Gross Domestic Product

GTZ	German Technical Cooperation
HIV	Human Immune Deficiency Virus
IAD	Institutional Analysis and Development
IDP	Integrated Development Planning
IHS	Institute for Housing and Urban Development Studies (International Institute for Urban Management)
IMF	International Monetary Fund
LDMP	Land Development & Management Board
LDP	Local Development Plan
MMDIPF	Merkato Millennium Development in Partnership Forum
MMD/TF	Merkato Millennium Development Task Force
MNCs	Multi-National Corporations
MSE	Micro and Small scale Enterprises
MSSC	Merkato and Surrounding Special Committee
MUDH	Ministry of Urban Development and Housing
MUDC	Ministry of Urban Development and Construction
NGO	Non-Governmental Organisation
NUPI	National Urban Planning Institute
OECD	Organisation for Economic Cooperation and Development
ORAAMP	Office for the Revision of the Addis Ababa Master Plan
R&D	Research & Development
RED	Real Estate Developers/ real estate developments
RIP	Recurrent Interaction Pattern
PA	Peasants Association
PIPs	Policies, Institutions and Processes
PPP	Public Private Partnership
SNNP	Southern Nations, Nationalities and Peoples
TCE	Transaction Cost Economics
TGE	Transitional Government of Ethiopia

Acronyms

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UK	United Kingdom
U.d.	Undated
US	United States
USD	United States Dollar
UNCHS	United Nations Centre for Human Settlement
UNESCO	United Nations Educational, Scientific and Cultural Organisation
WTO	World Trade Organisation



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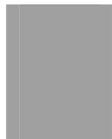
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Abstract

With the collapse of communism in the early 1990s which heralded the transition from centrally planned economy to free market economy, the issues of property rights and the role of institutions in development have become of paramount importance. However, compared to the transitional economies of East European communist countries, the case of the transition of former socialist oriented developing countries like Ethiopia has been given less attention than it deserves. This research compares two views regarding transition of such developing countries: one by De Soto (1989, 2000) *liberal market consensus view* based on 'secure, reliable property rights' through the hidden revolution of informality; and the other by Khan (2002, 2003) *social transformation view or developmental state approach* which revokes the 'stable property rights' motto and upholds the necessity of making massive interventions in reallocation of property rights by dynamic states in the interest of growth and creating dynamic capitalist classes while destroying property rights of unproductive groups. Rather than opting for a prescriptive espousal, this research endeavours to investigate what real circumstances on the ground indicate.

The main research question is how the formal and informal institutions interface and influence actors' behaviour in the transitional real estate markets of Addis Ababa. The theoretical and analytical frameworks have been developed by taking elements from Williamson (2000) level of institutional analysis, Ostrom (2005) Institutional Analysis and Development framework (IAD), North (1990, 2003) and Lauth (2000) interaction of formal and informal institutions, Beker (2003) and Pentland and Associates (1996) recurrent interaction patterns. Two criteria of *property rights* and *transaction costs* from the New Institutional Economics paradigm were applied within a specific context. Insights from evolutionary economics (institutional path dependency) and behavioural economics have also been utilised. An eclectic combination of survey, multiple-cross case study and ethnographic research strategies has been employed to maintain breadth (reliability) and depth (va-

lidity). Five cases representing different sub markets ranging from informal settlements to informal activities by real estate developers have been studied. A total of 459 survey questionnaire respondents (out of a sample size of 518 with 88.6% response rate) and 74 interviewees were involved. Relevant policy documents and statutes, newspaper reports, investigative reports by city administrations and secondary data collected by private consultants have been utilised. Non-participating observation as data collection was also employed.

The Ethiopian real estate market is characterised by a market in which the government is the sole supplier of land and the main developer of land. Institutional development, specifically the period after the 1974 revolution, has been marked by changes in which ideology, political and doctrinal considerations rather than appreciation to culture, traditions, societal values and norms have played a greater role. Such an institutional environment has led to the widening gulf between formal and informal institutions which in turn has led to institutional mono cropping and institutional limbo on the part of the formal institutions.

Regarding property rights, currently a move from secured stable property rights to unstable and asymmetric property rights has been already observed with massive expropriation for land consolidation to promote growth of the city. Despite the legal backing for bureaucratically determined compensation, some developers negotiate purchase deals with the former owners to maintain social capital. Actors in Addis Ababa real estate markets also have a different dimension of transaction costs than that experienced in the advanced developed countries. Explanation based on mental accounting from the behavioural economics describes the inconsistencies people experience in judging the relative value of money, in which contrary to the principle of fungibility, a dollar is not always interchangeable with another dollar. Actors from the low and middle income groups are governed by the convention expressed in the saying: "*A poor person doesn't need to save on his energy*" provided they manage to succeed. Nevertheless actors show a great resentment for outcomes they perceive as unfair: "*A misfortune to all is not something to worry about... A misfortune to all is like porridge, everyone will have a mouthful of it.*" Hence despite the rational and self-interested standard *homo economicus* model of neoclassical economics, actors are found often willing to lose so much, provided everyone suffers the same. This also concurs with the social preference psychological anomaly of the behavioural economics. Therefore the research concludes that transaction costs need to be assessed in conjunction with the extent of property rights the right holders enjoy and equity considerations.

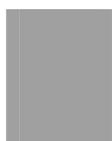
Based on insights from Lefebvre (1967) and Harvey (2008) *'right to the city'*, Porto Alegre's *'social urbanisers'*, and emerging trends which emphasise not only the economic function of land but also give consideration for social function as well; neither De Soto's secured and stable property right through informal revolution (because of the high emphasis on improvements in a single institution – property rights) nor Khan's reallocation of property rights in favour of emerging capitalist classes (because of the circumstantial nature of success, the threat of rent seeking and capture by predatory states) could guarantee fairness in access to resources and pave the way for transition to a capitalist economy. Findings show that managing access and use of resources such as land need to be decentralised at community level with upgradable tenure rights and an institutional arrangement which allows the city government to augment market and community initiatives.

Success factors for institutional reform which enable real estate markets to contribute to urban development include: positive interactions among city/government and community/private actors while pursuing compatible goals; and earlier attempts by the city government to create joint forums with user groups for participatory crafting of the rules of the game including urban plans.

Keywords:

formal-informal institutional interface, actors' behavior, property rights, transaction costs, real estate market, transition, right to the city

*Wisselwerking tussen instituten en het gedrag van actoren
in de veranderende onroerend goed markt van Addis Ababa
(Ethiopia)*



Samenvatting

In de jaren negentig begon ook in Ethiopië een transitie naar een meer door de vrije markt bepaalde economie. Deze transitie betekende dat het eigendomsrecht opnieuw geformuleerd moest worden en instituties van de grond af opgebouwd moesten worden. De Soto's (1989, 2000) visie wordt als 'liberal market consensus' aangeduid en gaat uit van goed geregelde, overdraagbare eigendomsrechten en het inlijven in de informele economie, terwijl Khan (2002, 2003) de nadruk legt op sociale transformatie, of de zogenaamde 'developmental state approach', waarin niet geloofd wordt in stabiele eigendomsrechten, maar de noodzaak om te interveniëren omdat een dynamische overheid in het belang van groei deze eigendomsrechten opnieuw moet toe wijzen. Daardoor wordt een dynamische kapitalistische klasse gecreëerd en het eigendomsrechten ontnomen aan onproductieve gebruikers. Zonder een keuze tussen beide standpunten te maken wordt in dit onderzoek gezocht naar de feiten.

De belangrijkste onderzoeksvraag is in hoeverre formele en informele instituties het gedrag van actoren op de zich ontwikkelende onroerend goed markt van Addis Ababa beïnvloeden. Het theoretische en analytische framework is ontwikkeld op grond van Williamson's (2000) 'level of institutional analysis', Ostrom's (2005) 'Institutional Analysis and Development framework', North (1990, 2003) en Lauth (2000) interactie van formele en informele instituties, Baker (2003) en Pentland en Associates (1996) hun 'recurrent interaction patterns'. Criteria voor eigendomsrechten en het begrip transactiekosten uit de Nieuwe Institutionele Economie worden toegepast, maar ook inzichten uit de gedrags- en de evolutionaire economie worden gebruikt. Een eclectische combinatie van survey, multiple-cross case study en ethnographische methoden wordt gebruikt. Vijf gevalsstudies werden bestudeerd. In totaal werden 459 vragenlijsten ingevuld en 74 personen diepgaander geïnterviewd.

De Ethiopische onroerend goed markt is bijzonder omdat de overheid de enige aanbieder is en het land zelf ontwikkelt. De institutionele ontwikkeling, in het bijzonder in de periode na 1974, werd gekenmerkt door meer aandacht voor ideologie en politieke overwegingen dan respect voor cultuur, normen en waarden en tradities. Daardoor werd de kloof tussen de formele en informele instituties groter. Met betrekking tot eigendomsrechten is de ontwikkeling weg van de veilige vaststaande rechten naar ongelijke eigendomsrechten, mede door massale landonteigeningen om de groei van de stad te bevorderen. Ondanks het bestaan van compensatie proberen sommige projectontwikkelaars direct land te verkrijgen van de vorige eigenaren. Een verklaring gebaseerd op de gedragseconomie toont dat actoren wel bereid zijn er op toe te leggen, als iedereen er op toe legt.

Gebaseerd op de inzichten van Lefebvre (1967) en Harvey (2008) over de 'right to the city', is er ook aandacht voor de sociale naast de economische functie van land. Noch De Soto's ideeën, noch die van Khan voorkomen dat actoren 'rent seeking' gedrag vertonen. Het onderzoek toont aan dat het managen van toegang tot stedelijk land gedecentraliseerd moet worden. Op het community niveau is het mogelijk om eigendomsrechten te introduceren die geleidelijk verbeterd kunnen worden. Daar kan de stedelijke overheid ook initiatieven stimuleren en markten beter laten werken. Succesfactoren voor institutionele hervormingen die er toe zullen leiden dat de stad zich ontwikkelt zijn: betere relaties tussen de lokale overheid en de verschillende actoren en het creëren van overlegorganen waarin actoren kunnen deelnemen en zelfs kunnen bijdragen aan het opstellen van stedelijke ontwikkelingsplannen.

PART I: Introduction & Theory

1

Introducing the Thesis

1.1 Introduction

Numerous studies have focused on the nature and transformation of former socialist regimes in Eastern Europe. The impact of these transformations on existing institutional arrangements has also been addressed in depth. Compared to transitional economies of East European communist countries, the case of the transition of former socialist oriented¹ developing countries, like Ethiopia, has won far less attention than it deserves. At the center of the reform in both developing and transitional economies has been the question of property rights. Since the collapse of the Soviet Union, worldwide, a different kind of debate has emerged on issues of land tenure and property rights in the context of transition from a socialist mode of production towards a more market oriented system. This research takes property rights and real estate markets as the main manifestations of this transformation. Effort has been made to investigate institutional interfaces between formal and informal institutions and how actors behave under the influence of such interfaces. Two criteria of *property rights* and *transaction costs* from the New Institutional Economics paradigm had been applied to a specific political, social and economic context. The analysis covers the three layers of institutional analysis in a continuum as specified by Williamson (2000), namely: the informal institutions, formal institutions and institutional arrangements. Concerning property right institutions and institutional arrangements, different approaches from two opposing views have been contrasted: one of de Soto's view of '*secure, reliable property rights*' or the *liberal market consensus* and the other, Khan's *social transformation or developmental state view* which revokes the '*stable property rights*' motto, and upholds the necessity of making massive interventions in reallocation of property rights by dy-

dynamic states in the interest of growth and creating dynamic capitalist classes. This argument had been demonstrated through investigation of a variety of property right institutions and institutional arrangements from empirical case studies.

The word *interface* is largely used as a technical term in system theory and computer sciences. Nevertheless it appears also in social science works such as Baker and Pedersen 1992; and Guyer 1995. The Penguin's Word Master Dictionary (1987) defines the word *interface* as: "...a surface that forms a common boundary between two parts or areas, or a point of communication between two different systems". The Oxford Advanced Learner's Dictionary (2005) defines *interface* as: "...the point where two subjects, systems, etc. meet and affect each other". Guyer (1995:8) qualified the word incorporating the dynamic of exchange and subsequent change: "[the *interface* is] a point of meeting where difference is maintained, albeit on changing bases and with changing terms". Hansen and Vaa (2004:9) used the notion of *interface* to highlight "encounters between entities or processes that are governed by different rules. These meetings include individuals or groups, practices and beliefs, institutions or systems."

Analysis of the dynamism of interfaces between formal (legal rules) and informal (norms of behaviour) institutions and how they influence the economic behaviour of actors within specific political, socio-cultural and economic situation of a city is regarded as essential in understanding the management of scarce resources of society such as land and real properties. Research, which goes beyond general stereotyped recommendations and tries to analyse the dynamism of institutions and behaviour of actors, is scant. This research contributes towards such an endeavour.

This chapter provides an introduction to the thesis by presenting a definition of the research subject matter. It highlights the setting of the research and delimits the scope of the thesis in terms of temporal, spatial and conceptual boundaries. It also presents the structure of the dissertation with its methodological limitations.

1.2 Background

In none of the transitional economies is a real estate market said to exist on any scale or as a normal mechanism for allocating real estate

(Adlington et al., 2000). Consequently, the transition from a centrally planned socialist economy to a free market economy after the fall of communism took a variety of paths in different countries, for example, Albania has privatised land and other properties since 1991 (Misja, 1997). In contemporary China, the economic reform which was initiated by Deng Xiaoping in 1978 helped to introduce market mechanisms such as private ownership, individual interest, and competition; and following the 1988 amendment of the constitution of China, land users have been able to trade their use rights for money (Han and Wang, 2003). The greatest challenge shared by all transitional economies and those formerly socialist oriented developing countries in this respect, is the creation of an institutional and organisational framework which supports a healthy function of real estate markets.

In Ethiopia urban land and extra (rental) houses have been nationalised since 1975 during the socialist oriented Military Government or locally known as the *Derg*. Currently, except in a single regional state where nationalised houses were restored to former owners, land and nationalised houses are still publicly owned. The real estate market has been suffering a long standing legacy of institutional problems in which formal institutions do not function on the ground while the major share of the market operates through informal (extra legal) institutions and mechanisms. Long before the downfall of the socialist oriented military regime, when urban land was distributed through public allocation procedures, a considerable number of potential house builders were looking to purchase land in the prohibited markets rather than wait for their turn, in the tiresome and almost impossible queuing list. Following the proclamation 47/75 which nationalised urban land and extra houses and also prohibited the sale of houses through individual transactions, a government agency was established to process the sale and purchase of urban houses. Though the agency was established in the later years of the regime, apart from a few houses that had been sold by court order, transactions of houses continued in the illegal markets. Most real estate property transactions are made without respecting the formal rules and procedures. Even today, despite the official government pledged commitment to allocate plots of land for house builders, free of lease prices (by casting lots), the Addis Ababa City Government had registered about 450,000 plot applicants in preparation for the public initiated Integrated Housing Development Program (condominium housing).

The Government of the Federal Democratic Republic of Ethiopia issued a land lease proclamation in 1993 with the aim of efficient utilisation of urban land and as a leverage input resource for development. The main tenet of the proclamation was to provide the value of land utilisation to be expressed in terms of money, based on free market principles. Though improvements had been incorporated to secure stronger and eventually tradable use rights, it has become clear that without other institutional and organisational reforms, the lease land administration by itself doesn't suffice to enable functional real estate markets. Despite all these, construction activities are taking place on an unprecedented scale in the history of the city. Side by side with the booming of the construction sector, the land and real property administration is in a crisis with rampant speculation and corruption. The *Ethiopian Reporter* reported in its January 20, 2008 edition (Amharic version) that the Federal Ethics and Anti-corruption Commission had disclosed a list of 41 illegal housing cooperatives. This was in addition to the previously disclosed list of 66 illegal housing cooperatives. The *Daily monitor* in its December 23, 2007 edition in the article "*Ethiopia: City Gravely Afflicted by Corruption*" reported the level of gravity of corruption surrounding the proprietorship of land and construction of illegal houses. The issue gained wide media coverage resulting in a considerable number of technical and land administration personnel, and sub city managers of the City Government of Addis Ababa being placed behind bars.

1.3 Scope and Focus of the Research

The real estate sector is an activity which encompasses issues of institutions, organisations, governance, finance, political, economic, social and technological aspects. This research deals on institutional aspects of real estate markets with reference to the transition of formerly socialist oriented countries by focusing on the city of Addis Ababa, Ethiopia. To further limit the focus of the research two guiding criteria of '*property rights*' and '*transaction costs*' have been selected. The selection of these two criteria to limit the research focus is based on the fact that:

1. The whole history of property is about recognition of rights and transactions based on these rights
2. Irrespective of paradigm differences in economics, major arguments about property are anchored on the conceptual tools of property right and transaction costs

3. The interdependence between property rights and transaction costs.

The research analyses the interface between formal and informal institutions in both land and non-land real property (buildings and structures). With regard to the time line the research covers the socialist military (*Derg*) regime and the transition to free market economy under the EPRDF led government since 1991. For the sake of analysis on path dependency of institutions pertaining to land and real property, reference has also been made to the land tenure system in the Imperial period. Nationalisation of urban land and extra houses in 1975, issuance of the land lease proclamation in 1993, and the Proclamation to provide for the expropriation of landholdings for public purposes and payment of compensation (Proclamation No. 455/2005) together with Urban Planning Proclamation No. 574/ 2008 are the four milestones in the formal institutional framework.

1.4 Significance of the Research

From the global media and international meetings of heads of state, it seems at this historical period, we are in a state of ontological shock. On the one hand, we are witnessing neo liberalism as ideology and its neo-classical economics assumptions being challenged (Kasper 2010). The sub-prime mortgage crisis (credit crunch) of USA 2007/08 followed by the debt ceiling crisis of 2011 and defaulted states of Europe against their huge debt have often been cited as evidence. On the other hand, the Chinese growth is seen as an anomaly which has set a wide precedent as the result of which many governments in least developed countries, who are partially attracted to the unconditional loans and assistance, have convinced themselves that economic growth and social welfare improvement could be possible even within the Chinese political setup. The modern version of this paternalistic Chinese political-economic system has become the “developmental state”.² In terms of property rights, this move from neoliberal free market economy to the Khan (2002, 2003) version of developmental state might necessitate a corresponding move from the *stable and secured property right* paradigm of De Soto towards *incomplete property rights* (Nicita 2005) and *asymmetric property rights* (Zhang 2006). In this dissertation the developmental state view is represented by Khan’s *social transformation* model whereby dynamic states use their legitimate violence power (using force if necessary) to change prop-

erty rights in the interest of growth; while the neoliberal view on stable and secured property rights is represented by de Soto's argument. To what extent are alternative property right institutions and institutional arrangements other than the polar, *state – to – market* (from proto-socialism to capitalist free market) and again from *market* (proto-neoliberal market) – *to – state* are available and could possibly be utilised?

Importing the economic institutions of countries from emerging economies could not be as easy as transferring their technology and capital. From the new institutional economics perspective many scholars agree on the role that institutions play in the economic growth of a country. Institutions are rooted in a culture of society where they exist. As it is often said; “culture is the mother and institutions are the children” (Etounga-Manguale, 2000:75). Both formal and informal institutions do not stand in isolation; they exist in interrelatedness, complementarities and are mutually reinforcing. Specifically the informal norms are more related to the unique culture of every society.

Even though ideology continues to influence the development paradigms which states decide to adopt, empirical research on formal-informal institutional interfaces and how actors behave under such influences, based on specific geo-political, economic and socio-cultural context of a country will help to unveil the pitfalls and the challenges in such transformation processes. Regarding academic interest, this research will help to develop theoretical and analytical frameworks, which will contribute to a greater understanding of the complex institutional mechanisms and behaviour of actors in real estate markets in the transformation of former socialist oriented developing countries. The findings rather than leading to recommendations of prescriptive “remedies,” will contribute limited practical policy recommendations to manage the transitional real estate market in Addis Ababa.

1.5 Structure of the Thesis

The structure of the thesis is organised in four parts comprising of thirteen chapters. The four parts in their logical order are: introduction and theory, frameworks, research design and context, empirical case studies, synthesis and conclusion.

Part One includes **Chapter One** which introduces the background of the thesis, delimits the scope and highlights the focus and significance

of the thesis and its methodological limitations. **Chapter Two** helps to position the relevancy of the thesis in the urban development research milieu which includes among others: livelihood strategies, City Development Strategies (CDSs), city marketing and city branding, the role of real estate and the role of institutions in real estate development. Finally the chapter culminates by introducing the research problem, research questions and hypotheses. **Chapter Three** explains the epistemological and ontological aspects of the thesis and the main conceptual basis or constructs which include transaction cost economics; land, property rights and tenure, real estate markets, institutional development and governance structures, and transitional economy. **Chapter Four** discusses debates and identifies a gap for the research based on the critical literature review. It compares and contrasts the neo liberal view of De Soto (1989, 2000) against the social transformation model of Khan (2002, 2003).

Part Two discusses the theoretical and analytical frameworks and the research design, as well as the context. **Chapter Five** discusses the theoretical and analytical frameworks which are based on four scholarly works: Williamson's (2000) layers of institutional analysis, Ostrom's (2005) framework for Institutional Analysis and Development (IAD), North (1990, 2003) and Lauth (2000), Becker (2003) and Pentland and Associates' (1996) operationalising routines and recurrent interaction patterns. It also discusses the research design including the research strategy and methods, the selection of cases, research population, instrumentation and methods of analysis. **Chapter Six** elaborates the context for the research which includes Globalisation and its influence on the real estate markets, international experiences and country regional practices, the institutional framework governing real estate in Ethiopia, and the national and city level contexts.

Part Three includes the five empirical chapters. **Chapter Seven** investigates a case of consolidated settlement by Worku Sefer. **Chapter eight** investigates the case of housing cooperatives, which includes two cooperatives from each of those classified as informal and formal cooperatives in the Ayer Tena area in Addis Ababa, Ethiopia. **Chapter Nine** investigates real estate development by developers. **Chapter Ten** investigates the case of real estate development by petty providers. **Chapter Eleven** investigates the case of a commercial centre redevelopment in Merkato which is known as the largest open market in Africa. Data

presentation and analysis of each case study follows the analysis steps as specified in the analytical framework and operationalisation of the respective variables.

Part Four includes the synthesis, conclusions, major insights and an outlook for further research. In **Chapter Twelve** synthesis of the analyses of the five case studies has been carried out. Finally, **Chapter Thirteen** provides conclusions, major insights and an outlook for further research.

1.6 Methodological Limitations

In this section we briefly explain the limitations of classical ethnography as a methodology when applied to research in an urban setting. Some experiences of urban researchers who applied the ethnographic methodology have also been highlighted.

Classical ethnographic research has its origin in the anthropological tradition, which is the study of cultural behaviour; often culture of indigenous people or “virgin” cultures of isolated communities. “The basic assumption of anthropology as a science is based on the existence of bounded cultures with identifiable features” (Balasescu u.d.). Ethnographic researchers used to document beliefs, kinship patterns and ways of living. These anthropological researches often call for intimate engagement and immersion through direct and often participant observation of the community or culture to be studied in a fieldwork. When applied to the study of urban activities, the following circumstances need to be considered:

1. The loose-knit network nature of urban communities is quite different from the close-knit network of the isolated indigenous or rural communities. Loose-knit networks might not attribute to homogeneity through occupation, kinship, ethnic or religious domains. An individual in such a loose-knit urban network may have a wide range of meaningful relationships with people who do not know one another. Members of a loose-knit network tend to have a more open outlook; each one can take advantage of choices the urban setting offers and has a greater leeway in deciding with whom to associate and which cultural pattern to abide with. Within such an environment the classical methods of anthropological research that emphasises homogeneity, proximity and intimacy (spending considerable time, 24 hours per

day, 7 days per week and during different seasons of the year) may not fully adapt to challenges of urban ethnography. Balasescu (u.d.) argues in a multi sited nature of urban ethnography, that the urban researcher; “has to find her or his Coral Gardens among billions of activities taking place in the city”. In his experience, the superlative mode of conversation in an urban setting is the interview.

2. The issue of structuring the temporal course of data gathering in parallel with the temporal course of the social processes to be investigated is another issue for consideration. Contrary to the classical ethnographer’s belief that the only way to gain a native’s view of his or her own world is to spend considerable time in that world, focusing merely on a static, isolated virgin culture; the urban ethnographer may not arrive at the scene at the point at which members get there, or if s/he does, because of the dynamic nature of urban activities the matter of interest might develop on time schedules that are not convenient to the researcher. Compounded with the multi-sited nature of urban research, this necessitates the use of informants for the very reason they are there and they were there when the social processes unfold (Marcus 1998, Katz 2001, 2002).
3. In applying the eclectic research method, overlaps have been observed among the research strategies, instruments, analysis and reporting. The notoriously eclectic nature of ethnography in its employment of multiple methods of data collection has mainly contributed to the overlap of the data collection instruments with other research strategies. Ethnography also employs survey questionnaires. Therefore within a single questionnaire some questions might lend themselves more to ethnography (open questions typically qualitative, addressing complex issues but with more flexibility to respond) than to a survey (closed questions and typically quantitative) as a research strategy. A separate ethnographic life history focused on single individual, group or organisation taken from each case has been included to explain an in-depth description. However some of the case histories lack details. This is due to the secretive nature of story-telling on wealth acquisition during such a transitional period on the part of respondents and the not yet developed corporate transparency culture. Lack of trust and confidence was also observed among many respondents. Some block associations, in the case of Merkato, do not even want to disclose the name of their association let alone post bill-

boards bearing information regarding ongoing construction project(s). Some data gathering which was simultaneously carried out by other public bodies for taxing purposes also contributed to a lack of cooperation in disclosing information.

Notes

¹ Former socialist oriented countries are pre-industrialist and pre-capitalist countries which may be grouped in the category of *Least Developing Countries*, they have neither maintained the achievement of communism in creating the industrial state nor have they developed other sectors such as education, and they have taken political and socio-economic measures according to communist ideology. From Africa, Ethiopia, Tanzania and Mali can be mentioned as examples.

² The United Nations Economic Commission for Africa in its 2011 edition of Economic Report on Africa suggested that states should be major actors in determining the overall direction of development, initiate leap growth, and serve as a vehicle for sustainable development to bring economic growth in Africa.

2

Trends in Urban Development and the Role of Real Estate

2.1 Introduction

This chapter discusses the changing trends in urban development from the perspective of general societal development. The marked differences in trajectories followed by urbanisation in developed countries and in developing countries of the south have been highlighted. The role of real estate development vis-à-vis the changing trends and cycles of urbanisation have been discussed. Finally the chapter outlines the research problem statement, research questions, and research hypotheses.

2.2 The Technological and Social Revolution Perspective of Development

Development is often defined as a change that improves quality of life, more generally a process of societal changes that generates a state of perceived human wellbeing (Dale 2004:1). The permanent elimination of poverty is among the main objectives of development. From the technological change perspective, societal transformation can be described in terms of the transition from the Palaeolithic economy of nature exploitation i.e. hunting and gathering to the Neolithic economy of wealth creation by agriculture and animal husbandry. This is followed by the transition from an agricultural society to the industrial revolution of the 19th century Europe and Northern America, then manufacturing ceasing to be the growth engine and giving way to the service sector and finally to the knowledge industry. The information age with its digital revolution is bringing new technology. Information Communication Technologies (ICT) plays a significant role in the socio-economic change process (Windén 2003).

Castell (2000) notes two predominant modes of production in the twentieth century namely; capitalism and statism. Capitalism is oriented towards profit maximising while statism is oriented towards power maximising i.e. increasing the military and ideological capacity of the political apparatus for imposing its goods on a greater number of subjects. The Marxian theory of social transformation advocates that only by smashing the structure of class domination would it be possible to create the conditions for achieving a just society. This is to be resolved by class struggle and its highest manifestation; social *revolution* (Nikitin 1983). Hence, three class based societies followed the primitive communal society namely; slavery, feudalism and capitalism. The theory also holds that the replacement of capitalism (or imperialism at its latest stage) by socialism is inevitable. Nevertheless the events that took place in the late 1980s and early 1990s in Eastern Europe witnessed the crumbling of seventy years old Soviet Socialist States and its Eastern communist allies, which were obliged to take the arduous road of transition to free market economy. A transition economy or transitional economy refers to an economy which is changing from a centrally planned economy into a market economy (IMF, 2000). By modern parlance this transition is manifested in a transition from a centrally planned or directed economic system, dominated by state and collective ownership and coordinated by administrative means, to a market economic system where private property rights and the market mechanism prevail. These changes have implications in the political economy of former socialist oriented vassal states in developing countries. The latter group of countries lacks the communist industrial development and the necessary physical capital which produced infrastructure and buildings, which are necessary to welcome a free market economy as well as the social capital accumulation in education and health sector.

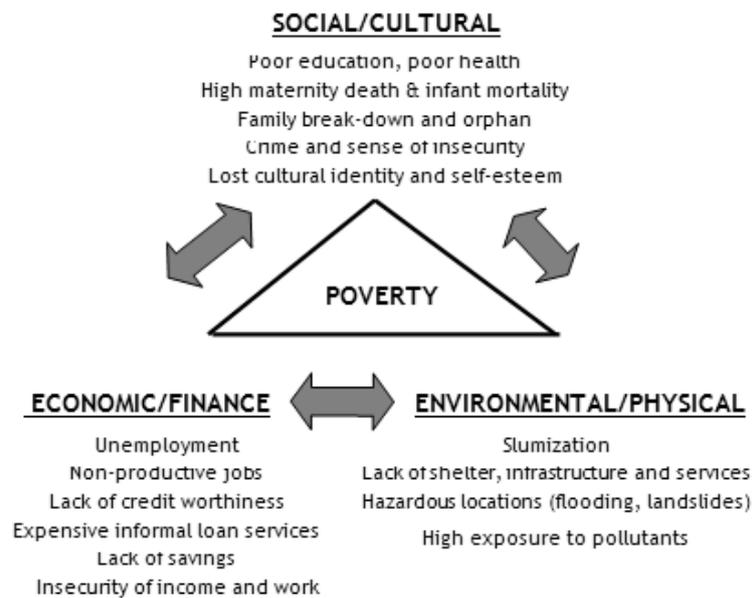
As Cour (2003: a, b) and Arnaud (2000, 2003) noted, the trajectory followed by the economic transformation of developed countries is marked by a transition from agriculture (rural) to industrialisation (manufacturing) followed by the service and knowledge based urban economy currently known as the 'innovative economy'. In developing countries, though the urban-based economies are taking over the agricultural economy in their share of GDP, the primary sector still contributes around half of the GDP and employs the majority of the work force. The economic transformation is also not characterised by a transition from agri-

culture to industrialisation but to an urban economy marked by informality which is dominated by weak service sector activities - an economy and urban development activity expressed by a duality of words such as: *formal/informal, legal/illegal, authorised/unauthorised, planned/unplanned, regular/irregular, official/popular* etc. Industrialisation in the sense of mass production of goods by way of large productive capital has not been the main engine of urbanisation in developing countries. The main economic transformation in such countries is not the replacement of manpower by machines but the separation of 'farmers' from 'non-farmers'. In general this transformation will not occur before the demographic growth has fallen. Therefore in contrast to the trajectory of economic transformation of developed countries, the progression of industrialisation will follow urbanisation, rather than preceding it. Hence the informal economy has to be taken as a parallel economy of pre-industrial type i.e. using maximum manpower (which is the abundant factor) and minimum capital (which is the rare factor).

With rapid urbanisation of the world, cities are becoming engines of national economic and cultural development and centers of social progress. Increasing Globalisation and integration of national economies and the emergence of decentralisation has forced cities to shoulder responsibilities of economic growth and social development (Van Dijk, 2000). Following a societal development trajectory, cities in developed nations have exhibited a cycle of urban growth. This growth pattern has been explained by van den Berg (1987) as an urban growth cycle which includes: *urbanisation* (associated with industrial concentration), *suburbanisation* (people moving to the suburbs), *disurbanisation* (people moving further away to surrounding municipalities) and *reurbanisation* (the rise of renewed interest in city centers with the emerging of the information society). Nevertheless, cities in developing countries hardly follow this growth cycle. Urbanisation in this part of the world is characterised by: an absence of a direct relationship between industrial employment and urbanisation but a link between industrial production and urban growth [phrased as '*urbanisation without industrialisation*'], a strong imbalance in the urban network in favour of one predominating area, increasing acceleration of the process of urbanisation, lack of jobs and services for the new urban masses, a reinforcement of the ecological segregation of the social classes and a polarization of the system of stratification (Gilbert and Gugler, 1992). Rather than the rich going to the suburbs in pursuit of

green fields and open air, here, new immigrants after a period of economic gestation in the city center slums will later informally settle in the periphery suburbs. These peripheral slums are normally devoid of basic infrastructure, social services and are not properly connected to the main city by transportation network facilities. However, recently in Addis Ababa, the city government has induced a leapfrogging urban growth through the allocation of large tracts of periphery urban land to real estate developers and settlement developments for relocated people, which has been complemented by inner city renewal and road infrastructure development projects, consequently imposing an urban style more or less with a similar pattern.

Figure 2.1:
Illustration on the different dimensions of poverty



This urbanisation process in developing countries is associated with the lowest level of economic development referred to as 'urbanisation of poverty' (Satterthwaite 1997, UNDP 1998, Wekwete 1999, and World Bank 2000). Urban poverty is often characterised by cumulative depriva-

tions. One dimension of poverty often becomes the cause of or contributor to another dimension. Unhygienic living conditions cause poor health; poor health in return is a cause for inability to hold a job. Figure 2.1 illustrates the different dimensions of poverty. On the other hand sustainable economic development is generally recognised as an important moderator of social inclusion. Economic growth generates jobs which may help to reduce social exclusion.

The antithesis of this interdependence among the different components of poverty is expressed in the concept of sustainable development which integrates the social, economic and environmental aspects of development. Carley (2001:10) citing Carley and Ian (2000) noted the objective of sustainable development:

... is a continuing process of mediation among social, economic and environmental needs which results in positive socio-economic change that does not undermine the ecological and social systems which communities and society are dependent. Its successful implementation requires integrated policy, planning, and social learning processes; its political viability depends on the full support of the people it affects through their governments, social institutions, and their private activities.

The most often cited definition of sustainable development is that from the Brundtland Report (WCED, 1987:43):

... development that meets the needs of the present without compromising the ability of future generation to meet their own needs.

Næss (2001:505) discusses the challenges raised by the imperative issues of the Brundtland report on poor developing countries as well as Western European countries and other wealthy nations:

... whereas improvement of the residential and hygienic standard will be among the main tasks of a sustainable urban planning in the former countries, reducing the per capita expenditure of natural and environmental resources must be a central topic in the latter.

The underlying issues of sustainable development ('environmental capacity') of the wider concept known as Agenda 21 developed by UN 'Earth Summit' in Rio 1992 include: quality of environment, equity of resource consumption, public participation and 'futuraity' or the city of tomorrow and its cultural heritage (Deakin and Curwell, 2004).

Lele (1991) discusses the incomplete understanding of the links between poverty and environmental degradation, vagueness in relating to the role of economic growth and lack of clarity on what being 'sustained', the lack of prominence on the contribution of participation to sustainable development and the need to avoid the confusion between the conservation of natural resources and the sustainability of development. Green (1990), while accepting the application of the concept of sustainability to the natural environment, farming and forestry, also questioned its applicability to the built environment. Campbell (1996) admits the shortcomings of the idea of sustainability, however he argues the concept of sustainable development bears the quality of integrity and enormous potential so that the issue is one of redefining and making it more precise rather than negating it.

Sustainable urban development is often defined as urban development that does not compromise the natural resources that will be available for future generations. Nevertheless it also includes economic and social development sustainability as well. The linkages and balance between social, economic and environmental development is critical in understanding sustainable urban development (European Commission 2002). Hall and Pfeiffer (2000) discerned the aspects of sustainable urban development to include a sustainable economy, a sustainable urban society, a sustainable urban environment, sustainable urban access, sustainable urban life (building the livable city), sustainable urban shelter (decent affordable housing for all), and finally sustainable urban democracy and empowerment. Van Winden (2003) discusses the interrelations between dimensions of sustainability in terms of the interrelationships between economic vitality, social inclusion, quality of life and accessibility. Accessibility is explained to include both internal and external movement of economic agents and access to the global network.

In current literature quality of life is becoming the achievement and at same time the main drive of societal development (Rogerson, 1999; Van Winden, 2003). Quality of life, though different authors give different definitions and attributes, most agree on it being one of the key determinants of urban competitiveness and the fundamental aspect of its ability to prosper. The most frequently used attributes for quality of life are the quality of the environment, the costs and access of housing, the quality of health care, the education provision and the presence of arts and cultural diversity (Rogerson, 1999).

2.3 The Capital Assets Framework and Livelihood Strategies

A major shift in conceptualizing poverty has been the shift in analysing it from quantitative terms such as income and expenditure to multi dimensional perspectives of household assets. Under the Capital Assets Framework, poverty is seen as vulnerability to insecurity, impoverishment and reduced self respect of households which lack assets that they can mobilise in the face of hardship (Rakodie 2002, 1999; Moser, 1998). The assets which constitute the stock of capital at household, community and societal levels are noted by different authors. Rakodie (2002:10-13, 1999) cites the core assets available to the urban poor as natural capital (natural resources including land, water and environmental resources, biodiversity), physical or produced capital (basic infrastructure, housing and the means and equipment of production), financial capital (savings, credit, regular remittances or pensions), human capital (the quantity and quality of labour resources, knowledge, skills, availability of labour and information), social capital (social relations at household, community and societal levels) and political capital i.e. access to decision making. Moser (1998:1) noted household assets as comprising of labour, human capital (health status, education and skills), productive assets (housing being the most important for poor urban households), household relations and social capital. These assets as a stock of capital can be stored, accumulated, exchanged or depleted and put to work to generate a flow of income or other benefits (Rakodi, 1999, 2000). Vulnerability of households arises from an inadequate command of these assets or capitals. The more assets people have, the less vulnerable they are and vice versa.

The crucial determinants of households' ability to achieve increased well being are access to these capital assets and the effects of external conditioning variables which constrain or encourage the productive use and accumulation of such assets. According to Rakodie (1999) these external conditioning variables include institutional arrangements and transaction costs in various markets. Under normal circumstances, institutions act as the 'gateway' or 'access mechanisms' through which stakeholders, armed with their bundle of capitals (assets) pass on their way to outcomes. As institutions keep on changing, consequently the manner in which stakeholders (actors) are able to use their bundle of capitals changes as do the outcomes and hence a state of equilibrium should be maintained. Return on these assets depends on access to markets and all

the global, national and local influences on returns in these markets (World Bank, 2001). The World Bank also acknowledges that returns depend not just on the behaviour of markets, but also the performance of institutions of state and society. Payne and Majale (2004) noted that policies, institutions and processes (PIPs) influence livelihood at all levels, from the individual and household to the international and global levels. PIPs are described to encompass a complex range of issues associated with participation, power, authority, governance, laws, policies, regulations, standards, procedures, public service delivery, social relations, institutions (laws, markets, land tenure arrangements) and organisations.

Livelihood comprises of the capabilities, assets (stores, resources, claims and access) and activities required as a means of living (Carney, 1998:4). A sustainable livelihood is a livelihood which can cope with and recover from stress and shocks, maintain or enhance its capabilities and assets, and provide sustainable livelihood opportunities for the next generation; and which contributes net benefits to other livelihoods at the local and global levels in the long and short term (Chambers and Conway, 1992). The responses of poor people to their deprivation have been conceptualized in terms of household strategies. Households use different strategies in converting one asset into another. This conversion takes place through a process of assets interacting with market and social opportunities to generate income, a better quality of life, and a sense of psychological wellbeing (Mooya and Cloete *ud.*). Payne and Majale (2004: 74-75) distinguish four categories of livelihood strategies which in reality are characterised in a continuum. These are survival strategies (that seek to prevent destitution and death), coping strategies (minimising the impact of livelihood shocks), adaptive strategies (spreading risk through livelihood adjustment or income diversification) and accumulation strategies (increasing income flows and stocks of assets). The achievements of livelihood strategies are termed as outcomes.

2.4 From Livelihood Strategies to City Development Strategies

Based on a research carried out through interviews with 40 senior figures – political (mayors) and managerial leaders (city managers) from a range of cities all over the world by PricewaterhouseCoopers (2004:8-9), the sets of capital which constitute elements of the city include: intellectual

and social capital (people, knowledge), environmental capital (natural resources), technical capital (manmade capital and infrastructure), democratic capital (participation, accountability, transparency, and consultation), culture and leisure capital (values, behaviours and public expression) and financial capital (money and assets). Based on their societal development and technological levels different cities possess different assets. The most important assets for different types of society are noted as shown in Table 2.1.

Table 2.1:
Most important assets to type of society

Type of society	Most important assets
Hunter	Wild animals
Agriculture	Animals and land
Industrial	Iron and steel
Information	Data
Knowledge ('creative')	Creativity and innovation
Experience	Vision and dream

Source: PricewaterhouseCoopers (PwC) 2004:19

Though the trajectory of societal development shows a move towards softer components of development such as culture and art, every and each society in the history of its development has been providing, adjusting and rejuvenating the necessary physical capital i.e. infrastructure and buildings or in more general terms the urban space to accommodate or communicate the other assets. This might be done by providing shelter or clean water and sanitation as basic necessities in the urban areas of developing countries or building icon buildings or rapid transit services in cities of developed countries.

In a knowledge economy citizens' knowledge, creativity and innovation are identified as the driving force of wealth. A society of knowledge economy gives high value for quality and density of educational and research excellence (PricewaterhouseCoopers 2004:20, Houghthon and Sheehan 2000). It is driven by developments in information and communication technologies. The quality of labour supply becomes an essential location factor. The people in a city - their skills, their capabilities and knowledge make a critical difference to a city's ability to compete. Such societies make their cities attractive to skilled entrepreneurial people. Thus the future economic growth of a town or region will be largely de-

terminated by the quality of its living environment. This necessitates cities to develop strategies of supplying better quality housing, shops, culture and leisure time provisions etc. in the form of more accessible office complexes, shopping centres, leisure complexes, and residential quarters.

The quality of the living environment is also a necessary condition for the experience economy. PricewaterhouseCoopers (2004:4) defines the experience economy to consist of:

... the whole range of associations and emotions that people experience when they spend time – or consider spending time – in a particular place. Creativity – the bedrock of the experience economy cannot be ‘bought in’. Instead, city planners have to tease out their city’s unique qualities, and invest in nurturing and developing them.

The ‘experience economy’ is an increasingly important concept in understanding what makes one city different to another. It goes beyond simply the institutions (cultural or otherwise) that a city offers. A dream society emphasises story telling, culture, value and ethos. Emphasis is placed on cultural heritage.

The issue of strategic trust advocated by PricewaterhouseCoopers (2004) is founded on one central question: How does a city develop a new integrated approach across all its capital bases (resources) that will create a better, more sustainable and competitive city in the future? The integrated strategic approach discussed by PricewaterhouseCoopers (2004:14-28) includes: identifying major issues that a city faces i.e. directing a city’s attention to key issues, instigating a debate and exchange of information (a public dialogue between city government, business professionals, and wider civic society), perceptions and insights of those in the “hot seats” i.e. leaders with the vision and dreams that they share with the people and inspire them, developing strategies on how to create and prepare for the future, taking action and measuring performance, etc. These activities in answering the questions of the trade such as: where are we right now (identifying the strategic position)? Where are we going (knowing our destination)? What are our visions or dreams for the city? How quickly and by which path will we reach our destination (deciding the route and speed)? How do we track our progress? - are not different from the generic strategic planning or City Development Strategies (CDS) at city level.

According to the Cities Alliance (2006:3-5) guide to CDS, the stylized city development strategic planning process mainly involves five substantive themes and eight methodological steps. The themes that are important in most CDS processes are; I) Livelihood such as job creation, business development and sources of household income; II) Environmental sustainability and energy efficiency of the city and the quality of its service delivery, III) Spatial form and its infrastructure, IV) Financial resources, and V) Governance. The point which needs to be emphasised here is that since the household income is the bottom line of every city, every CDS has to address the question of livelihood. The building blocks that are recommended in the CDS process are I) initiating the process, II) establish the initial parameters and the scope of the CDS, III) make a rapid assessment, IV) formulate your vision, V) identify your strengths - weaknesses opportunities-threats (SWOT) analysis, VI) set your strategic thrusts, VII) build awareness and VIII) start the implementation.

Organising, implementing and evaluating these activities requires, as elaborated by van den Berg et al. (1997, 2003) social organising capacity. Organising capacity is defined as:

... the ability of those responsible to solve a problem to convene all partners (public and private, internal and external) concerned and jointly generate new ideas and develop and implement a policy that responds to fundamental developments and creates conditions for sustainable growth (Berg et al. 2003:1961).

These elements of organising capacity include: **vision** on long-term sustainable development (for strategies, programs and projects to hold on to); formulation of concrete, measurable objectives; strategic and coherent thinking and acting; **leadership** qualities to manage processes and projects adequately; creating and supporting **strategic networks** of relevant partners needed to develop and implement policies successfully; creating **political and societal support** and emphasising **communication strategies** both within the city administration and as external communication (to citizens, companies, public bodies, and so on). **Organising capacity** refers to the entire process from the identification of certain needs, through development of strategies and policy, to implementation of the policy and monitoring the results. The components of

the strategic approach discussed by PwC 2004 above, more or less follow these elements of organising capacity.

Fransen (2008) examines the debate on the efficacy of CDSs. On the one hand he argues as Globalisation of the economy continues, cities increasingly need to improve their business climate to attract and retain businesses based on their specific production factors which renders their competitive edge; and CDSs will contribute to attain such objectives. On the other hand, citing Begg (1999) and Boddy and Parkinson (2004), he raises strong reservations on the efficacy of CDSs on the ground that CDSs alone will hardly affect investment flows; rather government policies and macro sectoral trends set the scene for urban economic development. He consolidates his argument by suggesting that some cities might also be endowed with a certain profile of companies (e.g. a mining dominated economy) which is not easy to change in the short term. Finally, he concludes that CDSs can help to launch economic diversification if they are set within a conducive national and international environment.

City Development Strategies as they are promoted by Cities Alliance are also planning systems. However, City Development Strategies (CDSs) are not intended to substitute strategic planning or Integrated Development Plan (IDP) as it is sometimes referred to. Any of these are still necessary and an important complement of a city development strategy. Physical plans are expected to flesh out the physical implications of the CDS, and need to be deliberately linked to it (Cities Alliance 2007:4). Nevertheless strategic urban planning on its own is not without criticism. Critique has been raised vis-à-vis not only it being cumbersome, time consuming and its 'big bang approach' but also from its fundamental working principles and procedures: being based on an unpredictable future stuck in the wishful thinking of the planner, unable to react to sudden discontinuities and unable to change the fixed trajectory. Most of the future visions created following this style are infused with personal values, ideas, ideology, experience etc.; therefore many strategic planning processes have resulted in the lack of a strategic focus. Basically the current practice of strategic urban planning neglects the fact that the object of intervention - the urban space is a complex adaptive system i.e. a system made up of many variables or inputs whose outcomes are non linear, and unpredictable characterised by uncertainty (Coetzee and Serfontein 2002:4).

Fainstein (2005) discusses the three paradigmatic theory of planning: namely the communicative planning, modern urbanism and the just city theories. According to Fainstein (2005:3) the planner's role in the communicative planning approach is:

To listen to people's stories and assist in forging a consensus among differing viewpoints [In its effort to save planning from elitist tendencies]. Rather than providing technocratic leadership, the planner is an experiential learner, at most providing information to participants but primarily being sensitive to points of convergence.

Multiple factors have contributed to the communicative approach to planning and the change in the role of the planner. To use the expression of Coetzee and Serfontein (2002), democratization opened up planning to a much greater public participation and accountability. Decentralisation has shifted decision making to local and community levels. This hybridization of the planning environment has resulted in the transformation of urban planning from an overly technical/physical discipline to a much broader people-oriented and developmental approach. Critique in the communicative planning include: Communicative theorists avoid dealing with the classic topic of what to do when open processes produce unjust results and ignore the fact that paternalism and bureaucratic modes of decision-making may produce desirable outcomes (Fainstein, 2005). However, approaches in planning and the urban circumstances that they are trying to deal with, are not direct and simple.

Webster (2006) poses challenging questions against the paradoxical planning quest in trying to generate order in complex urban systems: How do we design the informal? Manage spontaneity? Redistribute with growth? Predict the unknowable? And aggregate the irresolvable? He highlighted also some of the features of planning complex systems in which he mentioned positive outcomes are sometimes unanticipated while planned outcomes are often not achieved and some of planning's greatest achievements arise by chance. This can be exemplified by the fact that more than eighty percent of master plans in Chinese cities prepared in the past five years have been out of date before being published (Zhou 2006); whereas, the UK Government moratorium on green field developments helped fuel the renaissance of city centres by spontaneous processes (Webster 2006).

Hamdi (2004), in his popular work *'Little changes'* which discusses practice, emergence, disturbance and development activism working in the informal city everywhere; mentioned about reversing the classical planning process of Geddes which follows the order of survey-analyse-plan, to working in a cyclical and progressive order of plan-analyse-survey, then reflect, then plan-analyse-survey. Specifically dealing with informality and spontaneity in terms of unpredictability and dynamism of investment, requires not only a *proactive* approach to navigate in which a premeditated detail plan for the future is made and trends are set but an *interactive* approach shaping and responding to changing trends over-time (PricewaterhouseCoopers 2004:14). Battram (2001:128) refers to the 'game of life' which implies making frequent small changes and observing the effects rather than a 'big bang approach'. Hamdi (2004) mentioned about cultivating an environment for change from within, starting on the ground and often with small beginnings which have emergent potential. Establish a bus-stop and it will be followed by a sprawling settlement.

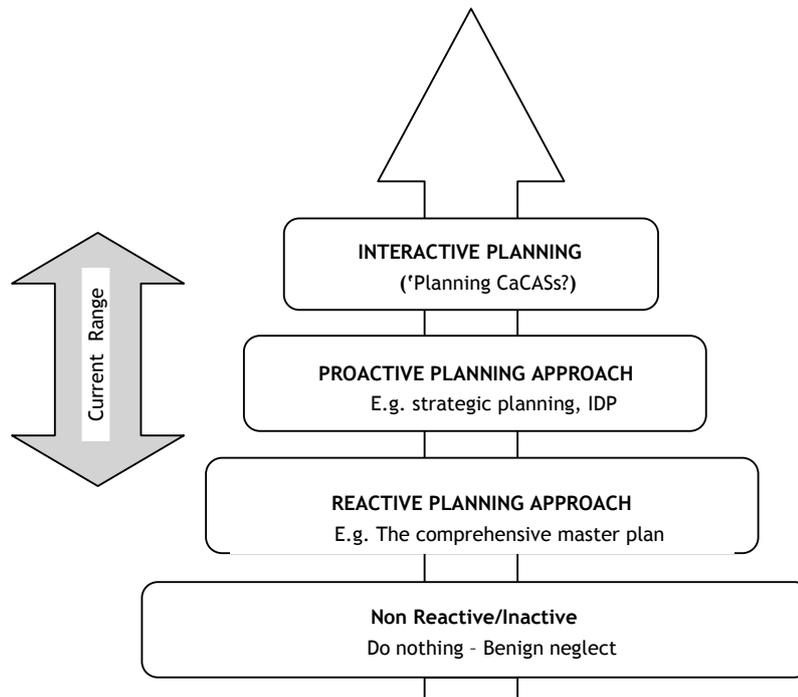
Coetzee and Serfontein (2002:5) also envisaged a strategic planning which becomes a learning process that leads to continuous improvement through the introduction of small catalytic inputs, shifting the emphasis from the typical 'vision driven' strategic process to a more 'context and situation driven' process. This lends itself to an opportunity-oriented approach. The opportunity-oriented approach recognises that at any one time, there are limited means and opportunities to achieve fundamental goals. It is based on goal-directed serendipity. Serendipity is defined as a gift of finding valuable things in unexpected places by sheer luck (Penguin English dictionary 3rd edition). Goal-directed serendipity starts by getting broad goals to judge whether the proposed solutions over the long term, move as further towards the realisation of the broad goal/vision or further away (Greg, ud.).

Webster and Lai (2003: 29-31), recognising cities as the spatial manifestation of cooperative actions, they highlighted two approaches in ordering human cooperation: one of planned (imposed, centralised, governed and within-firm) and the other - spontaneous (voluntary, decentralised and market based). They compared the benefits and risks of each coordination mechanism: coordination in the market is achieved by; "*very simple information – the price*" while bearing the distributional risk of increased inequality with economic growth. The planned order might

risk the politicized decision making power being captured by powerful groups, and over-control might also inhibit creativity and reduce the opportunities of the marginalised. Therefore they suggested the boundary between planning and markets to be demarcated. Webster (2006) argues that this can only be achieved by mechanisms which closely resemble markets. Battram (2001) argues in favour of not a “*command and control*” arrangement but networking, partnerships and alliances: a partnership or alliance which naturally can grow into a City Development Corporation.

The debate continues. This review of literature does not attempt to identify a consensual stance but the issues might open a wide frontier for future research to planning and urban management professionals. However from the preceding discussion it seems that trends in planning are shifting in direction, from *reactive* to *proactive* and to a more dynamic *interactive* planning approach, each taking element(s) from its predecessors. Refer to Figure 2.2.

Figure 2.2:
Changing trends in planning approaches



NB: CaCASs = Cities as Complex Adaptive Systems (Doak and Karadimitriou 2006, Guy and Henneberry 2000, Webster & Lai 2003)

2.5 From City Development Strategies to City Marketing

In the face of economic competition among cities, a business-like and efficient urban management is becoming necessary. More and more pressure is being exerted on cities so that they need to be managed as business enterprises. Hence the concept of marketing has become more important within the theoretical framework of urban management. In Europe it has been in cities' management agenda since the 1980s. In USA it has been associated with the "*entrepreneurial city*" with predominantly commercial nature, while in the Netherlands and elsewhere in Eu-

rope it includes the promotion of all aspects of societal welfare (Berg et al. 1990).

Marketing as a management function is generally defined by Ratcliffe et al. (2002:469) as a function;

... which organises and directs all those business activities involved in assessing and converting customer purchasing power into effective demand for a specific production or service to the final customer or user so as to achieve the profit target or other objective set by the company. It is the skill of matching the needs of the buyer with the product of a seller, for a profit.

Nevertheless urban products differ from common marketing products by their complexity, lack of flexibility and relative longevity (Berg et al. 1990:4).

Extending the concept of marketing, an early description given to city marketing by Boerema and Sundervan (1988) in an English translation in van den Berg et al. (1990:2) quotes:

... a set of activities intended to optimize the supply of the urban functions of living, working, and leisure by municipalities, and the demand for them from inhabitants, companies, holiday makers/tourists and other visitors.

The ultimate goal of applying market techniques to the urban fabric is to attune the supply and demand for urban products so that the urban actors may benefit inhabitants from better houses, provisions and services; the business sector from well developed industrial estates, office parks and other more important elements of the business environment; and business or touristic visitors from the overall improvement and appeal (Berg et al. 1990).

Urban products consist of core products and other product attributes. The “*core products*” include office space, housing, city parks, hotel accommodation, shopping malls, tourist attractions etc., which predominantly fall under the real estate development domain. City marketing customers include inhabitants, visitors, investors and firms. Customers in cities look for places that satisfy their needs and wants. They look for places to spend some time, recreational places, and places with urban attractions. Businesses look for places to locate, to serve customers, places to find employees, places to connect to other locations and places

for business partners. Investors seek places as investment opportunity for businesses, real estates and development projects (Braun 2008: 54-58).

What in many ways city marketing seeks to do for cities, is achieved using branding strategies. It provides a base for identifying and integrating a wide range of meanings and images in one marketing message - the city's brand. A brand is a well-defined sense of identity. A brand is some kind of value proposition that really sets a product apart from others. Branding is a deliberate strategy to select some attributes of a product as its core values in order to facilitate the process by which consumers confidently recognise and appreciate those attributes (De Chernatony and Dall'Olmo Riley 1998). This definition encompasses two inseparable aspects - the core attributes of the product and the perception of consumers to identify and appreciate those attributes. As it is emphatically noted by Zhang and Zhao (2009:246) it is a prime requirement to establish a close fit between the consumer's own physical and psychological needs and the brand's functional attributes and symbolic values. The identity of a city is a complex mixture of a city's spatial configuration and its socio-cultural values. It is to be developed from a range of contextual variables such as history, demography, economy, politics and policies (ibid).

Zhang and Zhao (2009:247) Citing Anholt (2007) in their case study of Beijing branding in relation to its hosting of the 2008 Olympic Games, identified six City Brand Indices through which the city is perceived and city branding is evaluated. These include: presence (the city's global contribution), place (city appearance and physical attributes), potential (opportunities for future development), pulse (vibrancy and exciting way of life), people (culture, safety, friendliness) and prerequisites (living standards, infrastructure and amenities). Strategies for city branding can be based on material such as branding through signature buildings, events, and flagship projects and /or can be through revitalization planning and infrastructure support. It can also be through myths, symbols, logos etc. However, in order to be taken as a city's identity and core values, these developments need to produce significant changes of the urban landscape and functions.

2.6 The Role of Real Estate in Urban Development and City Marketing

Helmsing (2001) in his discussion on local economic development in Africa mentioned three categories of local initiatives, namely: community based economic development, enterprise or business development and locality development. Local economic development is defined as a process in which partnerships between local governments, community-based groups and the private sector are established to manage existing resources to create jobs and stimulate the economy of well-defined areas (ibid:8).

Sachs (2001) noted that countries need a basic level of infrastructure and services before they can take off (cited in Fransen 2008:217). When a local economy develops to certain economic level, this is reflected in the buildup of infrastructure and physical structures which serve and accommodate it. Specifically when a local economy is at its take off or re-viving stage and the necessary local infrastructures and physical structures are non-existent or have deteriorated, as witnessed in transitional and emerging developing economies; economic growth is accompanied by intensive maintenance and expansion of infrastructure and building constructions. Provision of roads and other infrastructure increases the land values in areas adjoining the road which stimulates the construction of better buildings that match the increase in land value. This will enable a locality to improve the basic conditions for the economic activities to stay competitive. Corresponding to Helmsing locality development is:

...to the management of the entire local territory. That is to say, built up physical infrastructure and economic and social overhead capital of the locality in such a manner that it generates the balanced development of all land uses, resolving land use conflicts, minimising negative (congestion, pollution) and maximising positive externalities (agglomeration economics). Localities that succeed in better management of their territories contribute to enhance the competitiveness of their economic activities. It may also improve the local quality of life. Together these may make the locality more attractive to external investments, firms and people (2001:18).

The “*management of the territory*” involves components such as participatory local economic development planning, physical planning and development controls, urban planning and design, infrastructure, socio-economic overhead capital (ibid).

There are many socio-economic and historical factors that contribute to the significance of the real estate sector. A tremendous shift from an industrial economy to a service economy exerts a high demand for office space and an explosion in retail space (Porter 1989:2). Reurbanisation leads to a revival of central areas as real estate development in the form of refurbishment of old industries and warehouse or redevelopment expanded. Demographic shifts in the population and their location preferences on where to work and where to live is another noteworthy factor. Significant improvement in technology and productivity leads to a flourishing of complex of new buildings. Castells and Hall (1994) remarked on the role of image creation as an essential basis for successful competition.

A high proportion of China's growth comes from investment in real estate. Nothing, not even massive government infrastructure spending, has driven China's growth more than real estate investment. In 2009, total fixed asset investment accounted for more than 90 percent of China's overall growth; residential and commercial estate investment comprised nearly a quarter of that. On the other hand the real estate development has triggered a fear for the worst that China's property market might turn into a massive bubble (*Time*, March 22, 2010). Taipei has been made into a "real estate profit machine" in the drive to attract global capital. Barcelona has become a forefront and trend setting city in urban planning and architecture. Though the real estate sector is a recent development in Ethiopian urban development, it has become one of the fastest growing segments of the country's economy. According to a review made by Access Capital an independent consultant group, had it not been for the expansion of the real estate sector and the closely affiliated construction sector, Ethiopia would not have registered double digit economic growth in the past five years (*Access Capital*, May 2010).

Among the societal capital assets, land and real estate account for 45-75 percent of the wealth of developing countries (Iboston et al. 1985). Their potential for leveraging as resources for development is also immense. Nevertheless cities and towns of developing countries are marked by chronic infrastructural deficiencies, a higher level of housing shortage and low quality of working spaces with 80 percent of the development being unplanned. Transportation is dominantly informal marked with pollution, high traffic congestion and a deficient transportation infrastructure. The majority of roads, particularly access and collector roads,

are unpaved and the available few paved roads are riddled with potholes. Most of the houses in the urban areas of most developing countries are mere shelters built through self help. Therefore the housing problem has become as much about land ownership and access to land as it is about housing itself (Potter and Lloyd-Evans 1998). From a demographic point of view, the ever growing population has intensified the contest for urban spaces in terms of informal settlements, street vending, local governments and formal businesses.

Though excellent and well maintained infrastructure cannot guarantee a community's growth, its absence is a major liability seriously undermining urban productivity by inhibiting the movement of people, goods and information. Good infrastructure is required to sustain quality of life and to support economic productivity. Moreover, a city's image as a place to live, work, invest, visit, recreate, shop etc. mainly depends on the built environment and infrastructure network. Behind the popularity of cities and places with sporting events of international repute are the buildings and infrastructure facilities, examples include the Olympic Games in the case of Barcelona and Beijing, Monte Carlo Formula 1, and Wimbledon tennis games.

From a different perspective, Harvey (2008:34) argues against the capitalist drive for property speculation and the sorting of land use according to the rate of return for its highest and best use. He notes:

A process of displacement and 'accumulation by dispossession' lie at the core of urbanisation under capitalism.

This capital absorption through urban redevelopment where it is practiced, is giving way to numerous conflicts over the capture of valuable land from low income populations that have lived there. Governments' eminent domain have been abused while being used (often with action that involves the use of physical power or violence) to displace established residents in favour of high order land uses. Harvey (2008:37) cites China as an example where millions of people have been dispossessed of the spaces they have long occupied – three million of them in Beijing alone. He warns that:

... the hitherto successful neo liberal, post modernist and consumerist phase of capitalist surplus absorption through urbanisation is at the end of a broader crisis ensues.

Næss (2001) notes the construction of buildings is basically an endeavour that puts a load on the natural environment, even if the extent of negative environmental impacts may be significantly affected by the choice of solutions. As the growth in the building stock increases there is high concern from a number of environmental aspects about the total environmental load i.e. the need to heat larger volumes, even if energy conscious designs and locations are applied. He also remarks on the negative environmental impacts of the materials being used in buildings and infrastructure.

On the other hand the information age with its digital revolution is bringing new technology in which human needs can be satisfied without construction, employing electronic services in place of built facilities, bits substituting atoms – where telecommunication is substituting transportation, where material responses to human needs is being gradually replaced by *dematerialization*. The wide use of ATMs and electronic home banking decreases the need for branch bank buildings scattered everywhere. Telecommuting supported by high band width digital communication provides teleconferencing, database access and a significant increase in a wide variety of electronically supported working and service delivery. Consequently adaptation of our built-up environment could be the main strategy in the future. However, looking at current trends the wide use of digital services has never resulted in the once feared abandonment of the central business areas of cities in the advanced economies (Mitchell 1998).

2.7 The Role of Institutions in Real Estate Markets

The failure of both strict state controlled and unregulated market policies to reduce poverty has led to a new focus on the role of governance institutions as well as on more micro- oriented targeted approaches. With sustainable livelihood strategic approaches, creating institutions which enhance poor peoples' capability to use their assets to their highest value use has become the main focus of many researches (De Soto 1989, 2000; Leduka 2001; Mooya and Cloete 2007; Royston 2006). The way in which people combine and use assets in pursuit of livelihood outcomes is dependent on the availability and accessibility of assets, which can be positively enhanced or adversely undermined by policies and institutions. The choices or strategies in converting one asset into another is also constrained to a greater or lesser extent by contexts which comprise

macro economic circumstances, social context, culture and ideology. De Soto (2000) in his book *The Mystery of Capital* enthusiastically discusses the tenure/institutional framework which help to unlock the latent value of property to fight poverty.

Existing institutions delineate the rule boundedness within which actors make their choices and take action and they also delimit the socio-economic space. Under normal circumstances, institutions serve as 'gateways' or 'access' mechanisms through which stakeholders, armed with their bundle of capital (assets) pass on their way to outcomes. A society is deemed an organised community as individuals living together as group members share the same rules and customs which regulate their social behaviours. In return the manner in which stakeholders (actors) are able to use the bundle of capital also changes as do the outcomes. This might necessitate evaluation of the distributional and equity consequences of alternative property right systems and collective action interventions which might lead to practical implications on the political and social structure of society.

Regulatory frameworks affect access and development of livelihood assets by urban residents. Access to natural capital (land) and physical capital (housing, infrastructure, and facility) by the poor is highly constrained in urban areas of developing countries by unaffordable standards, stringent land use regulations, tiresome procedures and occupancy qualifications. The majority of urban residents can not afford housing that meets the existing regulatory framework. Such institutional frameworks oblige the urban poor to resort to squatting on marginal land. These marginalised sites are often under environmental threats. Lack of security of tenure demotivates poor households to make improvements on their living environment. Reliance on factory produced and often imported materials restrain poor immigrants to apply their skills and capacities in building houses using traditional construction techniques. Regulatory frameworks prevent the poor from engaging in income generating activities in residential areas.

Urban plans as institutions govern how and when a portion of urban area develops through land use regulations, density and height regulations, and phasing of development plan. Urban plans through shaping market behaviour might contribute to the enhancement of equity, efficiency and sustainability. As discussed by Bertaud (ud.) imposing a regulated low density will reduce the price of land and concurrently encour-

ages development. Higher density will increase land prices, but helps to decrease the amount of land which is required for the development of the city and normally results in cheaper housing. Imposing unaffordable standards will make housing more expensive and therefore a large number of people will be devoid of access to housing and join the informal sector housing provision.

The choice among institutional arrangements/ governance structure for example among governments, private firms and public and private partnerships entails understanding which arrangement can most efficiently control resources in pursuit of a particular set of goals (Webster et al., 2003). Nonetheless, in the case of government ownership of land and substantial share of the housing stock, a role conflict has been observed where the government plays as development promoter, distributor, regulator, and guardian of public interest and at the same time a transactor or seller of land or houses.

2.8 Problem Statement, Objectives, Questions and Hypotheses

2.8.1 Research problem statement

The shortage or lack of appropriate institutions, the very slow pace and unresponding nature of reform in former socialist oriented developing countries have rendered it impossible to prescribe the remedies applied in the East European transitional economies. It is imperative that the specific historical, political, economic and socio-cultural context of each nation and city has to be considered. The working dynamism of the institutions and the interfaces between formal legal rules and informal norms of behaviour and how actors under such institutional influences behave in transitional real estate markets needs to be analysed. The central research problem statement is therefore: analysing the working dynamism of the institutions i.e. interfaces between formal legal rules and informal institutions and how actors under such institutional influences behave in transitional real estate markets and identifying the institutional success factors which contribute to the creation of facilitative institutions for transformed real estate markets that contribute to urban development.

2.8.2 Goal of the research

The goal of the research is to empirically analyse the working dynamism of institutions and actors' behaviour and identify institutional success factors to manage real estate markets in a transitional period in the case of former socialist oriented (proto socialist) developing countries, by studying the case of Addis Ababa, Ethiopia.

2.8.3 Specific objectives of the research

The specific objectives of the research are:

1. To identify and analyse the role of the major actors and agents in the real estate market and identify how their behaviour is influenced by the formal and informal institutional interfaces in the transition period;
2. To investigate whether the real estate market suffers from lack of appropriate formal institutions; and if so, to explore strategies to fill the gap;
3. To identify institutional arrangements and success factors for transformed real estate markets that will contribute to urban development.

2.8.4 Main research questions

How do formal and informal institutions interface and influence the behaviour of actors in the real estate market in the transitional economy of Addis Ababa and what are the institutional success factors?

2.8.5 Hypotheses

Given the long standing operations of the overlapping formal and informal markets it is our assumption that a sound institutional and organisational reform can be generated based on the interface between the formal and the informal (extra legal) institutions. It is our conviction that real estate market needs to be analysed as non-linear adaptive systems dynamically adapting to and transforming under the two forces of formality and informality.

The research hypotheses and the corresponding questions are organised based on Williamson's (2000) four layers of institutions for analysis. The first layer refers to the *informal institutions* i.e. values, traditional norms, attitudes, customs etc. Institutions at this level are considered as

the most fundamental and most enduring institutions. Analysis at this level exerts its greatest influence at the four levels of analysis. The second layer refers to the *formal institutions* i.e. the legal rules and laws. The main concern at this level is about *property right* institutions. As noted by Williamson (2000), the definition and enforcement of property rights is not without cost. This leads to the third level of analysis. The third level concerns the so called *institutional arrangement* i.e. looking for an efficient transaction – cost minimising governance structure. The focus at this level of analysis according to Williamson is on *transaction costs*. The fourth level which is not covered in this research refers to the *market* as the institution that coordinates demand and supply optimizing marginal conditions. For the specific questions and corresponding hypotheses see Table 2.2.

Table 2.2:
Organisation of Hypotheses and Research Questions

Main research question: How do formal and informal institutions interface and influence the behavior of actors in the real estate market in transitional economy of Addis Ababa? What are the institutional success factors?		
Levels of Institutional Analysis (Williamson O., 2000)	Purpose	Hypotheses and Corresponding Questions
Level Four: Market Supply and demand: prices and quantities	Get the marginal conditions right	(Not included in this research)
Level Three: Institutional arrangements (Governance Structure) Aligning governance structure with transactions (Transaction cost economics)	Get the governance structure right	Hypothesis 3 Hybrid institutional arrangements/governance structure create conducive environment for real estate markets during transition period, however in the Addis Ababa specific situation no such arrangements exist and mainly a government/ hierarchy dominated real estate market strives to sustain urban development . Questions What type of new legality to resolve the tension between informal and formal institutions can be created? What are the success factors for institutional reforms which enable real estate markets contribute to urban development [as measured in terms of improvement in size and quality of welfare elements of inhabitants i.e. quality of housing, availability of social facilities,

		transportation]? How do transaction costs influence actors to choose among different types of transactions and institutions? What other factors contribute to their decisions?
Level Two: Formal Institutions Formal rules of the game (Theories on property right)	Get the institutions right esp. for property right	Hypothesis (2) Managing the transition needs to be based on adopting informal social norms and practices, however in the Addis Ababa real estate market, the further aggressive enforcement of the formal legal framework can ensure both the efficiency of the real estate market and societal equity concerns. Questions How does the assignment of property rights differ under various institutional settings? How do actors manage access to land in the transitional markets of Addis Ababa where land is publicly owned?
Level one: Informal Institutions: Values, traditional norms, attitudes, customs, general practices etc. (societal theories)	Spontaneous societal	Hypothesis (1) Institutional building in the Addis Ababa real estate market is driven by ideological motives and does not consider values, attitudes and culture; therefore actors in different arenas prefer to apply informal norms and practices in appropriation and transactions of property rights. Questions How do actors pursue their goals under the influence of informal and formal institutions? Why are actors including middle and high income groups attracted to informal practices? What customary practices of giving recognition to property rights are used by communities? What types of actors and institutions play more important role in the transition period? To what extent do formal policies and institutions pertaining to the real estate market reflect values, attitudes/culture?

3

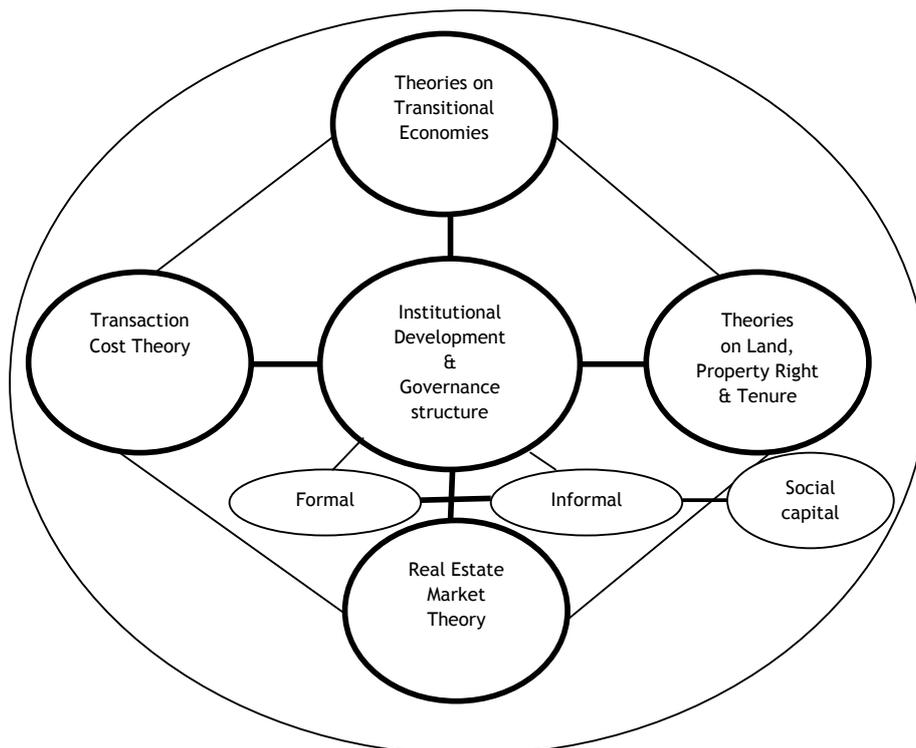
Understanding Real Estate Markets and Institutions

3.1 Introduction

This chapter introduces the epistemological approach, the economic schools of thought adopted and the relevant theories and concepts used in the research. The chapter is intended to facilitate understanding of the basic concepts and theories used, and it basically constitutes the conceptual framework. A conceptual framework serves basically as an initial clarification of the key concepts helpful to define the ideas [theories] on which the research rests and to establish linkage between the main concepts (Wong 2006: 106-108). It serves as a basis for the development of the theoretical and analytical frameworks and facilitates common language for the further unfolding discussions and arguments. As a prelude to the main discussion, epistemological and ontological aspects of the research and the paradigms in economics theories are discussed. The aim is to provide the philosophical frame and the authors' point of view. Then an overview of the theories and concepts (the building blocks of theory) used in this research follows. Figure 3.1 depicts the conceptual framework.

The major theories and concepts used include theories on land and property rights, transaction cost theory, real estate market theory, theories on institutional development and governance structure, and theories on transition economies.

Figure 3.1:
Conceptual framework



3.2 Epistemological and Ontological Aspects

Philosophically researchers need to claim about what knowledge is (ontology), how we know it (epistemology), what values it is comprised of (axiology), how it is written about (rhetoric), and the process for studying it (methodology) (Creswell 1994). Ontology is concerned with the nature of social entities – whether social entities are external to social actors or whether they can or should be considered as social constructions (Bryman 2008).

Among the philosophical schools, *post positivism* is taken as the ‘scientific method’ and belongs to quantitative research domain. The basic assumptions of the post positivist position are: knowledge is *conjectural* and

absolute truth can never be found, research is the process of making claims and then refining and abandoning some of them for other claims more strongly warranted; data, evidence, and rational considerations shape knowledge; and being objective. In contrast the *interpretivists* seek to understand the subjective reality of those they study. They aim on values and outcomes assessed by various stakeholders and engage in the qualitative data collection procedures to promote dialogue, such as participant observations, interviews, and focus groups, giving a voice to insider perspectives (Howe 2004:53-54). The philosophical approach that has been taken into consideration for this research is *constructivism* i.e. the socially constructed knowledge claims¹. Assumptions of the *constructivist* perspective hold that individuals seek understanding of the real world in which they live through developing subjective meanings of their experiences leading the researcher to look for the complexity of views by relying as much as possible on the participants' views of the situation being studied. These subjective meanings are formed through interactions with others (hence *social constructivism*) and through historical and cultural norms that operate in individuals' lives (Patton 2002).

The alternative ontology elaborated upon by Cupchic (2001) referred to as *constructivist realism* accommodates *positivism* and *constructivism* and the methods they subtend. In particular it tries to bring together the '*realism*' aspect of *positivism* with the social constructed '*constructivist*' philosophical view. Contrary to a *subjectivist* view which would hold that there is no external reality and what exists is what we are each making about it, a *realist* believes that there is a reality independent of our thinking about it that science can study and is accessible to the researcher's tools and theoretical speculations (Bryman 2008). According to Cupchic (2001) *constructivist realism* is a position which acknowledges that social phenomena exist in communities quite independently of professional researchers. Hence, *Realism* helps to complement Constructivism with the strong elements of the post-positivist perspective. Thus *constructivist realism* as a philosophical view is taken as the epistemological and ontological basis of this research which helps to investigate institutional interfaces and actors' behaviour.

3.3 Paradigms of Economics

The debate whether real estate markets (and markets in general) can be understood only by analysing economic factors alone or whether political

and institutional aspects should also be considered has led to different schools of thought. Three key issues represent dividing lines among the varied schools of thought. These are: the assumption debate, the use of mathematics and the conceptualization of time i.e. static versus dynamic.

The basic assumptions of the neo-classical economics is that, with traditional factors of production (land, labour, capital and entrepreneurship) in place, economic growth will depend on rational or economic maximising behaviour of individuals operating in an economic environment of zero transaction costs and no institutions (Boschma and Frenken 2006). The assumption of perfect information is the other bottleneck of the neoclassical economist. The excessive concentration on equilibrium and statics is its other shortcoming (Nabli and Nugent 1989).

Contrary to the view of neo classical economists, institutional economists assert that economic behaviour is not described accurately as utility maximising but by a satisfying strategy (Simon 1947: xxiv), whereby economic actors seek to attain aspiration levels in a procedural rationality and as being rule guided. Businessmen and other economic actors endeavour to proceed in a reasonable, purposeful, rational manner in terms of the decision making process itself, using an approach that could be characterised as boundedly rational, that is, behaviour “*intendedly rational but only limitedly so*”. People tend to rely on heuristics, which are defined as fast decisions, using particular and simplified rules of thumb or principles that contribute to the reduction in the average search to a solution (Newell et al. 1962). In contrast to the old or original institutional economists’ (Thorstein Veblen, Westley Mitchell, John R. Commons, Gunnar Myrdal) view, the New Institutional Economics (NIE) while basically retaining and building on the fundamental assumptions of scarcity and competition, augments the neo classical economics by incorporating institutions into its analysis. Regarding the use of mathematics, neo-classical economists methodologically make use of formal modeling and derive major model conclusions from equilibrium analysis while most institutionalists reject the use of formal modeling on the ground that it does not capture the contextual nature of economic and social life, thereby excluding [place] specific qualitative factors such as culture and institutions (Martin 2000; in Boschma and Frenken 2006). Therefore methodologically institutional economists use no formal modelling and emphasise inductive and case study research.

The evolutionary economics view shares with institutional economics a fundamental critique on the neo-classical assumption of utility maximising individuals. Though they do not mean that agents do not strive to maximise utility they argue that real-world agents are not able to do so due to bounded rationality. Both claim that economic agents are bounded rationals [heavily constrained, for example by the past] and base their decisions on routines (at the micro level) and institutions (macro level) (Veblen 1998, Simon 1955, Nelson and Winter 1982 in Boschma and Frenken 2006). Regarding the use of mathematics, evolutionary economists share the opinion of the neo-classical economists. Both neo-classical and evolutionary economists share a common methodology of modeling. However, the methodological foundations of evolutionary economics are based on ‘formal modeling’ (deductive) and ‘appreciative theorizing’ (inductive), favouring pluralism in methodology. Regarding the conceptualization of time, evolutionary approaches take a critical stand towards static analysis on both neo-classical and institutional approaches. They explain a current state of affairs on the basis of its history (Boschma and Freken, 2006). Therefore evolutionary economics deals with path dependent processes in which previous events affect the probability of future events that will occur.

Another strand of economics which shares the argument against the rational utility maximising description of economic behaviour is behavioural economics. Behavioural economics is a combination of psychology and economics which typically begins with the description of a real life phenomena that cannot easily be explained by the standard rational man paradigm and advances its argument with references brought from experimental research in psychology and neuro economics. The three important ways in which humans deviate from the standard economic model are *bounded rationality* (limited cognitive abilities), *bounded will power* (people making choices that are not in their long term interest, they have a present bias) and *bounded self interest* (humans willingness to sacrifice their own interest to help others) (Mullairathan and Thaler 2004). Kahneman and Tversky launched in the seventies a research project on human judgment based on what they called the “Heuristics and Biases Approach”. The evidence from their experimental studies is that people are in fact far from displaying maximising behaviour as assumed by conventional economic theory, instead they rely on heuristics. Some of the heuristics that attracted most attention and received detailed treatment in

Tversky and Kahneman (1974) are: *representativeness* (to assess the likelihood of an object A belonging to class B, people compare how similar A is to B, that is, the degree to which A resembles B), *availability* (events that are easy to retrieve or to imagine will be perceived as more likely to happen), and *conventions* (in a situation of fundamental uncertainty people rely on a series of conventional behaviours to make decisions and base their actions).

With the emergence of the New Institutional Economics emphasis has been given to property rights, transaction costs and collective action approaches. From the ongoing discourse, the adoption of the institutional approach to the study of informal and formal property markets is considered to bring a particular perspective that is more realistic. This research while utilising the insight of the evolutionary economics paradigm, in terms of path dependency and behavioural economics, often makes use of the institutional economics view.

3.4 Transaction Cost Theory

The classical theory of transaction cost by Coase (1937), associates transaction cost with the origin of the firm. The theory suggests that the origin of the firm is associated with the necessity of compensating the cost of “organising” production through the price mechanism like costs for discovering the relevant price, contracts and uncertainties. Within the firm, these costs and the complicated market structures are substituted by the entrepreneur-coordinator who directs production and does not need to make a series of contracts with the factors with whom he is co-operating with in the firm. These costs incurred by using the price mechanism are called transaction costs. According to the theory, the firm is the favoured means of production when the transaction costs involved in using the price system exceed the costs of organising those same activities through direct managerial controls within the firm (McEachern 2003).

Current literature defines transaction costs as costs which are distinct from physical marketing costs and which arise from the coordination of exchange among market actors. Transaction costs are “*costs associated with transfer, capture and protection of rights*” (Barzel 1997: 4-5). Furubotn and Richter (1998) group the cost of using the market into three categories, namely: search and information costs, bargaining and decision costs, and

supervision and enforcement costs. Eggertsson (1990:15) elaborates these costs as: the search for information about the distribution of prices and quality of commodities, the search for potential buyers and sellers and for relevant information about their behaviour and circumstances, the bargaining that is needed to find the true position of buyers and sellers, the making of contracts, the monitoring of contractual partners to see whether they abide by the terms of the contract, the enforcement of the contract and the collection of damages when partners fail to observe their contractual obligations and the protection of property rights against third party encroachment. Matthews (1986) was opposed to production costs, which are costs of executing a contract, summarises transaction costs as to consist of the cost of arranging a contract *ex ante* and monitoring and enforcing it *ex post*. Transaction costs are unique to each market participant.

According to Williamson (1985, 2003) transaction characteristics are: *asset specificity*, *uncertainty* or the disturbances to which transactions are subject and the *frequency* that transactions occur. *Asset specificity* refers to the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrificing its productive value. Once specific assets are locked into a relationship, they can only be redeployed at a great loss in value. Asset specificity takes the following variety of forms: physical, human (highly specialised human skills), site (specific location), dedicated brand name and is a measure of non-redeployability (difficulty to adapt to other uses). Transactions that are supported by generic assets are ones where there are large numbers of actual and potential suppliers throughout. Because such assets can be redeployed to alternative uses and users with negligible loss in productive value, each party can go its own way with little cost to the other. *Uncertainty* refers to the overall degree of unknowns surrounding the exchange. The greater the uncertainty surrounding a transaction, the less likely the transaction is to be efficiently mediated by the spot market and thus creates an incentive to shift away from institutions like the spot market towards contingency contracts which in turn increases the costs of renegotiating contracts. *Frequency* refers to the frequency in which transactions occur. These three characteristics are related to the transaction cost economizing governance arrangements. For example as asset specificity and uncertainty increase, decision makers are more likely to choose a hierarchy (firm based) governance structure.

This is specifically true for real estate markets and firms. The transaction costs of the real estate market which involve goods of high asset specificity, infrequent transactions, uncertainty and information asymmetry are high compared to other economic activities. As Liu et al. (1990) have emphatically stated, property markets are distinguished by high transaction costs.

3.5 Theories on Land Economics, Property Rights and Tenure

According to Ricardo (1817), unlike other economic goods the value of land is derived from the value of the product or the use of land. The price of land (even in urban terms) is determined by the demand for it in certain areas or its use. Doebele (1986) notes that land price also depends on its demand as inflation proof protection thus incorporating psychological factors. Wide spread investment and speculation might lead to artificial cycles of land price inflation. The level of speculation in return, is closely related to macro economic factors such as availability and profitability of other investment projects, the cost of capital (interest rate) and rate of inflation. Therefore much of the profit in land business is not due to reduced development costs but artificial scarcity of land.

Land supply is fixed or completely inelastic. Apart from minor exceptions it cannot be created nor destroyed (Doebele 1978, Darin-Drabkin 1977 in Baken and van der Linden 1992:1-2). On the other hand, while total land supply may be limited, for each type of individual use, it is in principle completely expandable. The fact that land is heterogeneous i.e. each piece of land is unique and its immobile nature renders to inexchangeability of land as a resource. This uniqueness of each piece of land is the cause of imperfect (asymmetry) information. This in turn incurs an immense transaction cost on real estate actors. The immobility of land property also makes it a source of negative/positive externalities and since it is immobile, a national land market is not possible. Land in itself is physically undepreciable. Therefore it is used as a vehicle for investment or as a basis for savings or as collateral. Compared to most other economic goods, land also has strong public aspects. Therefore it is taken as a permanently fixed community resource and in many jurisdictions there is no doctrine of absolute ownership of land other than by the state (Adlington et al. 2000). These characteristics of land pose seri-

ous questions about the basic assumptions taken by the neo-classical economists.

This has led to the recognition of public obligations, which are institutionalized in every society. In addition, urban land development is to a large extent determined by public interventions and investments, for example, in the provision of services, infrastructure, changes in permitted land use and also decisions by private institutions such as banks (Doebele 1983). Land also requires bulky finance to acquire and develop. This causes the inability to finance the acquisition and development of land and real estate through personal savings, making a lack of term finance a problem (Galal and Razza 2001).

According to the Marxist theory, land cannot be regarded as a commodity since it was not a product of man's labour and hence as a gift of nature land has no value. Since land in a communist society belongs to the state itself the government does not seem to find it necessary to tax the state. Therefore Marxist theory of land has abolished land tax (Marx 1863).

Property refers to the right to a stream of benefits from a given set of resources. Hence, what owned are socially recognised rights of action. It is not the resource itself which is owned, it is a bundle or a portion of rights to use the resource that is owned (Alchain and Demsetz 1973, Dubben and Sayce 1991). In its original meaning, property refers solely to a right, title or interest. Property rights come from culture and community, and as Adlington et al. (2000) argued rights are real only when the sovereign power or the government, as an agent of society recognises them. One interesting definition of property rights with regard to natural resources such as land is given by Bromley (1991:15), as;

... the capacity to call upon the collective to stand behind one's claim to a benefit stream.

Thus, property rights involve a relationship between the holder and other members of the group as well as an institution that backs the claim by placing a corresponding duty on others to uphold the right (Di Gregorio et al. 2008). Thus, three actors are involved in establishing a property right system: the right holder, the duty bearer and the community/government that enforces the right. Securing property rights depends on the capacity and willingness of the third party to enforce duties, the capacity of right holders to mobilise power resource to counteract any

intrusions, and on how much the duty bearers internalise the legitimacy of the claims of the right holders. Nevertheless the institution which provides the backing need not always be a government; communities or other institutions may also provide the backing (Meinzen-Dick and Di Gregorio 2004).

Enforcing property rights consist of two components - the rule (including customs and traditions in the case of customary land tenure) and its enforcement mechanism. Property rights are only as strong as the institutions that back them up, and collective action can provide the collective support to secure claims. Alchain (1977:130) also explains:

... a property right for me means some protection against other people's choosing against my will one of the uses of resources said to be "mine."

The functions of such enforcement institutions include supervision, sanctioning in case of non-compliance, and provision of forums for resolving disputes over property rights. These rights by the community or government which grant the right are also justified by the fact that all costs in land development cannot be internalised. There are costs which have to be borne by neighbours or society's at large, and benefits that accrue to free riders. The existence of such externalities provides legitimacy to government to control land use, building construction and to levy different taxes from property.

Following the concepts of property rights as developed under Roman law, these bundles of rights are grouped as: the right to use the asset (*usus*) including access and withdrawal; the rights to appropriate the return from the asset (*usufructus*) including earning an income from it; the right to change its form, substance and location (*abusus*) including decision making rights such as management and exclusion. According to Furubotn and Richter (1997) the term *usus* refers to the right to use property, the term *fructus* indicates the right to receive income from property, and the term *abusus* identifies the right to dispose of property by transforming it, transferring it, or even destroying it. Other authors identify three basic categories of property rights: user rights that determine what individuals can legitimately do to their property, the right to earn an income from an asset and engage in contracts with others for this purpose and the right to alienate or sell ownership rights over an asset to others (Pejovich 1990, Eggertsson 1990).

In summary, O'Driscoll and Hoskins (2003) noted two essential elements of property rights: the exclusive right of individuals to use their resources as they see fit as long as they do not violate someone else's rights; and the ability of individuals to transfer or exchange those rights on a voluntary basis. Malloy (2004) discusses four features of bundles of rights: exclusivity, transferability, appropriability, and divisibility. Leaving the former three as self-evident, divisibility here refers to the right of a property owner to reallocate parts of the rights associated with his property. The property theory does not emphasise who "owns" the land but rather analyses the formal informal provisions that determine who has a right to enjoy benefit streams that emerge from the use of assets and who has no such rights (Bromley 1991, Eggertsson 1990). The demarcated uses of a resource are in actual fact partitioned among several parties, and in such a way that those partitions of rights can be aggregated into bundles of property rights. These bundles are assigned to the transacting party who is most capable of efficient production.

In day to day terminology a land owner's bundle of rights can include: sell, lease, mortgage, subdivide, devise and grant easements. The community or the culture or government that grants the rights also reserves a number of stocks for its own use. These rights can include: the right to tax, to claim property for the public use, to control the type of use, to dispose of the property in case of death (Meyer, u.d.). Each element of the bundle can be assigned to and controlled by different parties. Therefore it is said that no individual or government can have absolute control over all elements of the bundle. In other words, a number of such rights can occur on the same parcel at the same time: e.g. a freehold owner, an easement holder (for the use of access way for utility), occupancy right holders or informal dwellers who are protected from forced evictions. In the case of public lease, a government can be the owner of the public land and can retain the title of the land and lease the right to use, develop, transfer, inherit and have benefit from land to private entities. The private lessee can enjoy the assigned land rights only for a specified time and as stipulated in their lease contract(s).

Nevertheless since assets have multiple attributes for which many of them may not be specified (Barzel 1989), it is impossible to describe the complete set of rights that are potentially ownable (Demsetz 1988). Barzel (1997:4) notes;

... if both the full protection and the full transfer of rights are prohibitively costly then it follows that rights are never complete, because people will never find it worthwhile to gain the entire potential of “their” assets. In order that the rights to an asset be complete or perfectly delineated, both its owner and other individuals potentially interested in the asset must possess full knowledge of its valued attributes.

If rights are never complete, it follows that; some uses are non-contractible as they cannot be verified by a third party. However it is possible to specify a particular possessory right as a right to commit a particular act or a right to prevent others from a particular act. A completely specified act includes in its description the place, the time and the contingency under which it is committed. As Barzel (1989) argues whenever transaction costs are positive by implication that means property rights are not perfectly defined. Therefore “complete and well defined” property rights basically do not exist (Nicita et al. 2005).

Figure 3.2:
Typology of rights and holders in collective properties

RIGHT	DESCRIPTION	HOLDER OF THE RIGHT				
Access	A right to enter a defined physical property	Authorised viewer				
Withdrawal	A right to harvest the products of a resource		Authorised User			
Management	A right to regulate the use patterns of other harvesters and to transform a resource system by building improvements			Claimant		
Exclusion	A right to determine who will have the right to access to a resource and whether that right can be transferred				Proprietor	
Alienation	A right to sell or lease any of the above rights					Owner

Source: Schlager and Ostrom (1992)

Schlager and Ostrom (1992) distinguish between two major types of property rights that are associated with increasing levels of command over benefit streams and resources bestowed upon the rights holders:

operational level property rights and *collective choice* property rights. Operational level property rights include access rights and withdrawal rights. Collective choice property rights include management rights, exclusion rights and alienation rights. The difference between operational level rights and collective choice rights is the difference between “*exercising a right and participating in the definition of future rights to be exercised*” (ibid), which means that holders of *collective choice* rights determine operational rules (Schlager and Ostrom 1992, Ostrom 2000). Schlager and Ostrom (1992) have identified five sets of rights in the case of collective properties or common property regimes. Figure 3.2 illustrates the typology of rights and holder of rights.

A person who has only access rights can be called an **authorised viewer** (like a person who buys an operational right to enter and enjoy the natural beauty of a park), while a person who has access and withdrawal rights can be called an **authorised user**. However authorised users lack the authority to devise their own harvesting rules. Operational rules can allow authorised users to transfer access and withdrawal rights either temporarily, through a rental agreement or permanently, when these rights are assigned or sold to others. A **claimant** possesses the operational rights of access and withdrawal plus the right of managing a resource. Claimant’s rights also include decision making power concerning the construction and maintenance of facilities as well as the authority to devise limits on withdrawal rights. But claimants do not have the right to exclude others from the use of a resource or the right to alienate (or transfer) a resource. A **proprietor** is a person having all the first three rights plus the right of exclusion i.e. the right to determine who may access and harvest from a resource. *Claimants* also have management rights, whereas *proprietors* also dispose of exclusion rights. Only *owners* hold all four types of rights (access, withdrawal, management, and exclusion) and can sell or lease but not bequeath their collective choice rights (Schlager and Ostrom 1992, Ostrom and Schlager 1996). However, proprietors do not possess the right to sell their management and exclusion rights even though they most frequently have the right to bequeath it to members of their family. An **owner** possesses the right of alienation (the right to transfer a good in any way the owner wishes that does not harm the physical attributes or uses by other owners) in addition to the bundle of rights held by a proprietor. Even the rights of owners, are never absolute. They have responsibilities not to generate particular kinds of harms

for others (Ostrom 1998). Ownership can also be shared and property rights on the same asset that are owned by different, contracting parties are interdependent. A joint venture where two or more independent firms pool resources into a separate legality can be mentioned as an example of shared ownership.

One interesting area relevant to discussions on property rights is the property right regime. A property right regime is the structure of rights that characterise the relationship of individuals and groups to one another and to the resource (Bromley 1992). Four types of major property right regimes can be identified namely: private property regime, open access property regime, common property regime and public property regime. Rights under a private property regime emphasise individual, private rights and therefore require the existence and enforcement of a set of rules that define who has the right to undertake which activities on their own initiative and how the returns from that activity will be allocated (Ostrom 2008).

Resources under open access regimes (*res nullius*) are resources over which no property rights have been recognised (Bromley 1991). In such regimes, no one has the legal right to exclude anyone from using a resource. There are no limits as to who is authorised to use a resource. Examples include local grazing, inshore fisheries, and forests. Under a common property regime members of a clearly demarked group have a legal right to exclude non-members from using the resource. The popular work of Hardin (1968), *The Tragedy of the Commons*, had been later criticised for confusions related to the difference between common property and open access regimes (Ostrom and Hess 2007).

The nature and extent of property rights on land is intimately related to the modality under which property rights are held which is often known as land tenure. Land tenure is the act, right, manner or term of holding a landed property. Middleton (1988:ix) defined land tenure as:

A system of relations between people and groups expressed in terms of their mutual rights and obligations with regard to land.

This is basically a system of relations among the three actors in property right relationship: the right holder, the duty bearer and the community or government that enforces the right. Land rights are affected by the state policy and power relations in a society. For example the state can use its *eminent domain* which is the inherent power of the state to take

private property for a public purpose provided that any legal requirements for compensation are complied with (Bruce 1996).² Therefore formal rules of tenure define the nature and content of property rights and determine how society will allow individuals or groups to hold property rights on land or other resources and the conditions under which those rights are to be held and enjoyed. This exercise of rights of ownership is thus an expression of political processes necessary to exercise those rights over others with potential claims or uses for the land and therefore land tenure is said to be highly influenced by the system of law. Basically there are two main families of law: the western families (Roman German law, common law, and socialistic family) and customary tradition law family (religious family, "ethics" family). Under the common law (e.g. England, Kenya) private ownership of land is in principle accepted but no absolute ownership of land exists. Bundle of rights applicable to certain property are held by different actors. The civil law (e.g. Germany, South Africa) land tenure furnishes absolute property right to the private owner. However this does not mean that the ownership right is free from government interference. The civil law guarantees perpetual land ownership rights.

Private freehold, private lease/leasehold, public freehold, public leasehold, communal ownership (tribal) and communal ownership (neighbourhood) are some of the categories of land tenure under the Anglo-American concept. Fee simple is an absolute ownership of land that lasts forever through heirs. Easements are use rights without possession, such as common drive ways, rights to lay utility lines, placing bill boards along high ways. Liens are agreements that limit rights over property, such as mortgages, and other types of agreements (such as leasing and purchasing agreements) and claims over property for unpaid debts. According to Place et al. (1994:19) land tenure security is said to exist;

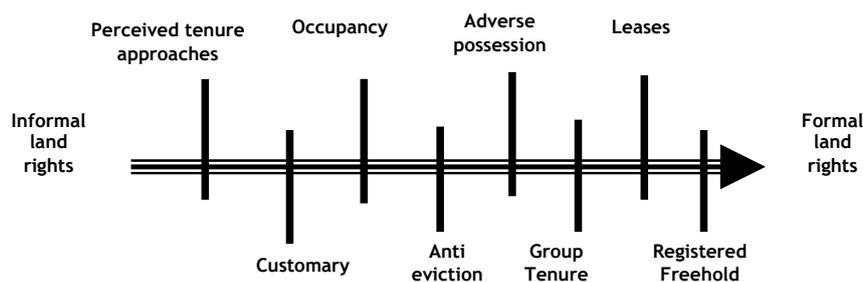
When an individual perceives that he or she has rights to a piece of land on a continuous bases, free from imposition or interference from outside forces, as well as the ability to reap the benefits of labour and capital invested in that land either in use or upon transfer to another holder.

The authors indicated that there is a widely held belief among development specialists that tenure security is an important condition for economic development. Secured rights based on economic theory are believed to:

1. Increase credit through greater incentives for investment, improved credit worthiness of projects, and enhance collateral value of land;
2. Increase land transactions, facilitating transfers of land from less efficient to more efficient uses by increasing the certainty of contracts and lowering enforcement costs;
3. Reduce the incidence of land disputes through clearer definition and enforcement rights;
4. Raise productivity.

More generally, the stronger the set of property rights the stronger the incentive to work, save, and invest, and the more effective the operation of the economy. Transfer rights (the right to sell, give, mortgage, lease/rent, bequeath, register etc.) are assumed to imply greater tenure security than use rights. Rights of permanent transfer are assumed to be superior to temporary transfer. The right to sell is assumed to be superior to the right to give. However from the institutional economics perspective land tenure systems are not designed based on economic considerations alone but also on political and social exigencies. The scale of tenure and rights ranging from informal to formal rights is constructed as shown in Figure 3.3.

Figure 3.3:
Tenure typology and continuum of land rights



Source: UN-HABITAT (2007)

Under *perceived tenure security* municipal authorities provide assurances that an existing informal settlement will not be moved say for example for the next ten years. It might include provision of services without tenure. It requires information about the occupiers to be collected as soon

as possible to maintain a land record system to ensure that there are no dealings in that land. It provides immediate security of tenure to occupiers. Nevertheless settlers have less tenure security. *Customary rights* are based on recognition of existing customary rights and involving tribal leaders and communal village ownership. *Occupancy* right belongs to documented but unregistered group rights which include a variety of use rights such as sub lease, sub rental, co-tenancy, and co-occupancy rights. Therefore ownership cannot be transferred but all other right can be transferred and the lessor-lessee relationship is important. *Anti eviction* belongs to the informal tenure types based on de facto recognition of occupation in slums and squatters accompanied by protection against forced eviction. Security of tenure in this case depends on various local circumstances such as political patronage or informally recognised customary rights etc. *Adverse possession* is the possession by one person of land belonging to another in a manner deemed adverse (harmful) to the interest of the owner. Some laws have provisions allowing the title to the land to become vested in such a person after a fixed number of years if the owner fails to assert his or her right. *Adverse possession* belongs to formal undocumented tenure types and refers to use/occupancy rights without certificate which provide a certain degree of security of tenure. Providing simplified and affordable procedures for claimants of adverse possession might be a further improvement. *Group tenure* relies on a strong cohesion of groups and can be registered in a freehold or lease. The unit of group registration can be a block or plot of land or a building such as housing cooperatives thereby diminishing the number of registration units and the technical process to follow, hence much affordable than individual tenure. Individual occupation rights/sublease can be granted by the group. It necessitates protective measures such as the consent of the spouse before an individual right is transferred. *Leases* can vary from 30 years as in Thailand to 99 years or in perpetuity as in South Asia. The longer the term of lease the more it resembles freehold. Most leases place restrictions on the leaseholder. *Freehold* has very few restrictions and is considered more secure. *Free hold* tenure rights use professionals to create transfer rights and maintain the registration records (UN-Habitat, 2003).

3.6 Real Estate Markets

Markets are mechanisms of exchange. The nature of real estate markets is different from other markets. Economics defines a perfect market as one in which there are many buyers or sellers, homogeneous product(s), perfect knowledge of transactions, and the inability of one supplier to affect price i.e. absence of monopoly. Although no market probably fulfils all these conditions, Dubben and Sayce (1991) assert that the property market is remarkable in its level of imperfection. As Harvey (1996) and Balchin et al. (1998) emphasised, perhaps the fact that what the property market deals in are 'interests' or property rights, not the land or the real estate itself; which exposes the property market to institutional influences.

The most common features of real estate properties can be cited as heterogeneity, durability, longevity and costliness. Dubben and Sayce (1991:27-28) noted the following characteristics of the property market:

- a. **No central market place:** transactions take place through series of submarkets divided by property type, location and according to whether it is being traded for owner occupation, investment or development;
- b. **Lack of knowledge:** lack of central market place [due to the fixed nature of real properties and dealings on interests or property rights] contributes to the lack of knowledge of transactions;
- c. **Fixed supply:** though the supply of land (within a given location) for any use can increase overtime subject to planning consent, the supply of land is fixed. This can result in monopoly power amongst vendors and lessors;
- d. **Complexity:** unlike most other markets, transactions in the property market are often dependent on complex finance agreements and involve several parties each with different legal interest. This inevitably means time taken to complete any deal can be lengthy and cause additional expenses;
- e. **Variety of interests:** the property market deals with many types of interests in land.

These and other characteristics of landed property discussed above make the real estate market paradoxically intangible and highly complex in which market, politics, social and cultural and institutions as contextualized at macro, meso, micro level intermingly play. The real estate mar-

ket is tied to wider aspects of the general economic growth, and it is therefore, regarded as an important barometer of a country's wider economic activity. This calls for the development of new tools along the emerging paradigms in economies.

From the evolutionary and institutional economics view point the organisation of the real estate market (including both landed and non landed property) cannot be understood by analysing economic factors alone. The political, institutional, socio-cultural aspects are at least of equal importance. According to Doak and Karadimitriou (2006) property markets should be viewed as *cultural entities* shaped by tradition. Even the operations of the so-called formal sector include many illegal or semi-illegal dealings (Berry and McGreal 1995). Therefore real estate market research needs a synthetic approach that is able to blend the economic and social/cultural dimensions wrapped up in the process development (Guy and Henneberry 2000).

A very important distinction to be made in the property market is the distinction between the formal and informal markets. Formal markets rely on a host of institutional arrangements, organisations and actors to structure and facilitate exchange including statutes, land registries, listing agreements, contracts, estate agents, conveyancers and lawyers. These are supposed to reduce transaction costs in the market (Keogh and D'Arcy 1999, Jaffe 1996). Informal properties are properties, which are acquired without the formal titling and/or in the case of non-landed property built without official building permit and planning consent. De Soto (2000:6) remarked:

Because the rights of these possessions are not adequately documented, these assets can not readily be turned into capital, cannot be traded outside narrow circles where people know and trust each other, cannot be used as collateral for a loan and cannot be used as share against an investment.

Informal markets in particular have become intrinsic in economic activities in developing countries. According to Thirkell (1996) most people enter the informal market in one of three ways: Informal rental agreements either with the landowner or a caretaker, the purchase of land use rights from the user of the land, and through encroachment on marginal areas such as foreshore, river banks or pavements. However Informal markets in their own environment develop institutions, which facilitate exchange. In a recently completed research, Rakodi (2005) con-

cludes that the informal delivery systems are often effective in delivering land for housing, due to their user-friendliness in their characteristics and social legitimacy.

It is one of the basic assumptions in the case of markets in least developing countries where *informality* dominates the economy, and in which the costs of transaction outweigh the benefits in making formal transactions and this invites not only poor and lower income groups but also substantial middle and high income groups to look for informal ways of doing transactions. Many studies (Antwi and Adams 2003, De Soto 1989, Omirin and Antwi 2004) have shown that navigating the formal system might be too costly for the poor. Making a transaction requires the use of lawyers, conveyancers and other professionals whose services can only be accessed by making considerable expenses. Other costs which entail like information costs, costs arising from bureaucratic procedures such as delays and corruption are additional transaction costs. On the other hand among the problems of the informal property the following can be mentioned: conflicting and unrecorded ownership claims, multiple sales of the same property; high transaction costs and defective property rights including lack of information on land availability, relying on communication by word-of-mouth, considerable possibility of fraud and lengthy negotiations, lack of general framework for setting prices and lack of official title for land acquired (Fekade 2000, Kironde 2003). Relatively low transaction costs and secure property rights are necessary (but not sufficient) conditions that make it possible for large numbers of secure and impersonal transactions to take place in a decentralised market and consequently unlock the potential of property to alleviate poverty. Nevertheless, as things stand, titling and a credit market that permits the use of title as collateral are too far to be attained, therefore Mooya and Cloete (2007:162) recommend increasing the turnover in markets needs to be the immediate task in order to make land markets work for the poor.

Actors and agents in the real estate market can include: land owners, developers, public sector and government agencies, planners and other related professionals, financial organisations, building contractors, agents, users (occupiers). Actors in the informal real estate markets can include politicians (clientelist), corrupt civil servants, speculators, brokers, informal land developers/sub dividers, land owning farmers, caretakers, squatters and the urban poor. The processes along the main stag-

es of real estate development are: initiation and evaluation (recognising the potential for development), acquisition, design and costing, permissions (authorisation), commitment (arranging finance), implementation, administration and disposing. The cost of real estate development may include, land costs, land development costs (surveying, preparation of subdivision plan(s), approval, servicing), actual building construction costs, disposal costs, and cost of borrowed money (interest). Such costs are beyond personal savings and therefore need to be financed in the form of construction credit (short term) and developer credit (medium term). Customers also need a mortgage to finance the purchase of the real estate products.

Realising the latent benefits of property presupposes exchange in, rental, capital and developmental markets. In the context of real estate, markets represent aggregations of transactions in the sales (capital), rental and development sector. Income from real property may be earned in the form of rent, sale or using it. DiPasquale and Wheaton (1996), conceive property markets in terms of actors - users, investors and developers, each forming distinct market segments, and all embedded in an institutional framework, which may be formal or informal. The market segments and the respective prices are summarised in Figure 3.4.

Figure 3.4:
Major categories of actors and market segments

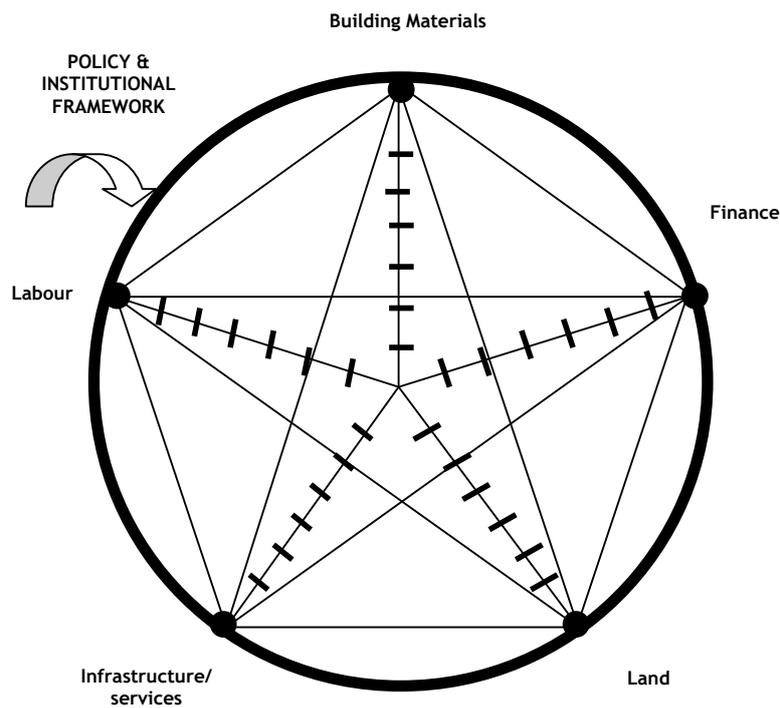
Major categories of actors	Market segments	Prices
Users	Letting markets	Rentals
Investors (financiers)	Capital market	Capital value
Developers	Development markets	Profit or yields

Based on DiPasque and Wheaton (1996)

Supply and demand determinants and influencing factors in the formal markets vary according to the different segments. For example supply and demand factors for housing differ from businesses and offices real estate market segment. According to the World Bank (1993), demand side determinants are demographic conditions i.e. the rate of urbanisation and new household formation and macro economic conditions that affect household incomes. Demand for housing is very much influenced by property rights, availability of housing finance, government fiscal policies such as taxation and subsidies.

Hendershott and Weicher (2002), also mention that inflation affects housing demand in a fundamental way. Accordingly the three demand side interventions, which constitute the seven instruments of the *enabling strategy for housing markets to work* (World Bank 1993a:71-113) include: developing property rights, developing mortgage finance, and rationalising subsidies. Housing supply is influenced by provision of infrastructure, the organisation of the construction industry and the involvement of the public sector in housing production and most importantly policies affecting the inputs for housing such as land, finance, building materials and infrastructure, skilled and productive construction labour and the degree of dependence on imports. Refer to Figure 3.5 for the necessary factor inputs of housing.

Figure 3.5:
The Housing diamond of perfect equilibrium of inputs



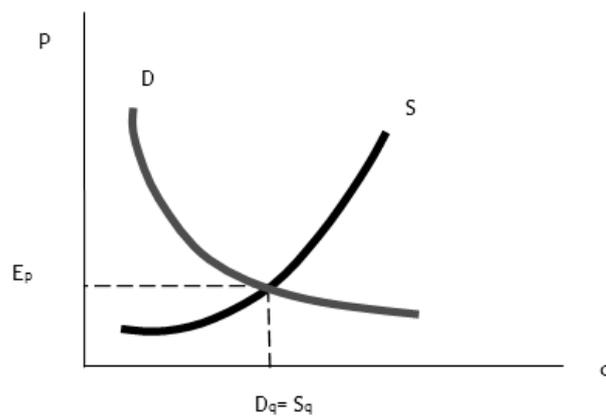
Source: Acioly C., (1994, 2003)

Accordingly supply side interventions of the enabling strategy include: providing infrastructure for residential development, balancing the costs and benefits of regulations that influence urban land and housing, and organising the building industry. Both demand and supply for housing are highly influenced by the institutional (policies and regulations) framework for managing the housing sector (ibid). The demand and supply conditions for office and manufacturing space basically depend on economic growth and on the associated changes in employment.

Matching of supply and demand is realised through the working of the price mechanism. Market equilibrium in economics occurs where the amount consumers wish to purchase at a particular price (D_q , demanded quantity) is the same as the amount producers are willing to offer for sale

at that price (S_q , supplied quantity). It is the point at which there are no shortages or surpluses and therefore there are no incentives to producers or consumers to change their behaviour. Graphically, the equilibrium price (E_p) and output are found where the demand curve intersects/crosses the supply curve. Mathematically, what we do in equilibrium analysis is to find where the quantity demanded (D_q) is equal to quantity supplied (S_q). Thus the equilibrium price (E_p) is also known as the 'market - clearing price'. Figure 3.6 illustrates market equilibrium.

Figure 3.6:
Market equilibrium

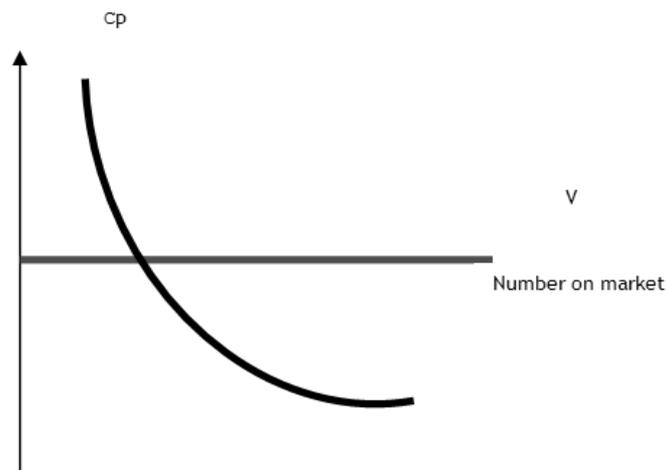


The price setting on the market, at which demand equals supply, requires a number of assumptions. The basic assumption is the concept of perfect competition in which competitive firms produce homogenous or identical products sold by others in the industry, and one of them can not affect the price and simply takes the price as given. In such a competitive world of price-takers every agent behaves as if he had no influence on the prices and considers them as given when choosing his own actions (Debru 1982 in Ramrattan and Michael 2005). There is also a large pool of buyers and sellers. However, as noted by Evans (2004:61-71), the goods for sale in the property market are too heterogeneous primarily due to locations. The price for identical properties will differ because of their locations. Properties differ also by having different bundles of characteristics. The participants may buy or sell infrequently (low

transaction frequency), and there is not and cannot be one central market. Relatively there can only be a small number of buyers and sellers at a time. People buy houses and remain in them for many years before they move to another. Since they trade infrequently they look for information after a very long absence from the market when they wish to buy or sell again. By then the information gathered the last time becomes obsolete. Thus property markets suffer from poor flows of information. Evans has concluded that prices are not wholly determined by the market, but are “*determined within a range*”. She noted that the bargaining process (each trying to manoeuvre) to reach a price affects the behaviour of transacting actors, and their behaviour (bargaining abilities and positions) in turn can affect the price. Information capabilities, psychology (e.g. the urgency and need to sell) and personal relationships, and contractual positions will all affect people’s behaviour which also affects the price. Therefore property markets are known to be imperfect and not 100% efficient.

Another important aspect in property markets considered by Evans is time. When prices are rising rapidly there will be relatively few houses on the market and they will be sold quickly as the initial asking price begins to look cheaper. When prices are falling there will tend to be a large number of houses for sale, and they will take a long time to sell as sellers are reluctant to reduce their asking price. The inefficiency of the property market, that is to say, the fact that the price is not determined by the market but only determined within a range, also lends itself to the possibility of unethical behaviour of agents thus affecting the price. Therefore the price in the property market is not set at the level at which the supply equals demand and hence no clearing price per se. Rather there is a relationship between the rate of change of prices and the amount of property on the market on a specific time (see Figure 3.7).

Figure 3.7:
Price variation and volume of housing



Source: Evans (2004)

For example, in the case of the housing market, there is an inverse relationship between the number of houses for sale at any time and the rate of change in house prices. These intrinsic characteristics make the property market, in contrast to other markets highly exposed to transaction costs. Both buyers and sellers have to search for information simultaneously for what property to buy or sell and whether the cost of further searching would outweigh the possible benefits.

3.7 Theories of Institutional Development and Governance Structure

Institutional structure of the property market is a critical aspect in understanding the urban development process. It refers to the arrangement of organisations and agents and regulations on the market and the interplay among actors (Han and Wang 2002). As noted by Van Dijk et al. (2001) institutions are necessary to direct the urban development process. Institutional development is a long term process and the final outcome is de-

terminated by the interaction between actors and their institutions. According to World Bank (2002), institutional factors have been key causes of poor development performance, and institution building is an important condition for growth and poverty reduction.

3.7.1 Theories of Institutional Development

The most widely used definition of institutions is the one used by North (1990:3) which defines them as “*the rules of the game in a society or, more formally are the humanly devised constraints that shape human interactions*”. In many of his works (North 2003:2, 1991:97) institutions are defined as to consist of “*formal rules, informal **constraints** and their enforcement characteristics*”. To Nabil and Nungent (1989:1335), a social institution is “*a set of **constraints** which governs the behavioural relations among individuals or groups.*” The objectives of institutions as behavioural rules for social interaction are to reduce uncertainty by establishing a structure to human interaction (North 1990), to create a degree of predictability in human interaction (Kasper and Streit 1998), to create certainty and social order (Ostrom 1990). When actors are confronted with recurrent interaction problems, rules facilitate their decision making and behaviour by shaping expectations about how to behave successfully in these situations, thus reducing their behavioural uncertainty. To Ostrom (2005b:824-825) institutions are prescriptions that humans use to organise all forms of repetitive and structured interactions including those within. In all these definitions of institutions by different scholars the *constraining* role i.e. *shaping of behaviour*, or in other words the *restrictive function* of institutions is emphasised.

Nevertheless institutions are not only constraints. According to Hodgson (1988) institutions play also an enabling role, by providing more or less reliable information regarding the likely action of others. Institutions also possess cognitive functions in a sense of influencing human behaviour by restricting or providing information. Institutions shape the very perception that individuals have about reality (Dequech 2006). As noted by North (1990), such conventions or views embedded in cultural and religious values or the ideology of individuals, serve as *filters* in the process of reasoning and learning, thereby influencing the perception individuals have about reality. This aligns with Zijderveld’s (1998) definition whose definition of culture is a totality of institutions of a group of people. Etounga-Manguéle (2000:75) identifies culture as the mother and institutions as children. However in many cases there are

situations where by formal institutions are not in tune with the existing culture of society. These shared mental models of individuals in a society in return can facilitate or impede the kind of change or innovation that has to occur in the society. In a nutshell, as North (1990:6) stressed the major role of institutions is to reduce uncertainty by establishing a stable (not necessarily efficient) structure to human interaction. In ordinary terms North (2003:1) expresses the importance of institutions by mentioning that without institutions we would not know how to deal with each other.

Nabil and Nungent (1989:1335) summarise the three common themes which underlie the conception of 'institutions': First, as rules and constraints, institutions exist to minimise the cost of transactions by either prescribing or proscribing certain actions and behaviour. Second, institutions govern relations between individuals, whether in voluntary associations or groups bound by custom and tradition, or in relations enforced by a third party, such as the state or government. Third, a rule is a social institution only if it is "*predictable and able to guarantee a stable (but not necessarily efficient) structure to human interactions.*"

Social institutions can be formal or informal. Formal institutions are formally created or devised rules of the game, such as national constitution, government statute or common law and contracts that formally specify rules to be followed in performing certain activities and fulfilling obligations. Informal institutions are conventions or codes of conduct that are not formally specified but nonetheless structure social relations (North, 1990:36, 47). With regard to real estate property; a legal written title to land constitutes part of the formal institutions, where as customary rights, a series of embedded but fluid social rules, norms and practices might be taken as informal institutions. According to Redmond (2005:666), the basis of fundamental differences between formal and informal institutions lies in the concentration of control over the institution:

Informal institutions are embodied in and across group members, with a substantial degree of egalitarianism... On the other hand, formal institutions are much less egalitarian: authority rests with a specially designated subgroup. Formal institutions are administered by central authority. Thus the essential difference is a difference in locus and type of control.

Informal and formal institutions influence each other. For example informal institutions can limit the effectiveness of formal institutions through their effects on people's perceptions about different states of the world. On the other hand formal institutions can also affect the effectiveness and stability of informal institutions. To North (1990) informal institutions are norms of behaviour derived in part from formal institutions and also from the way individuals perceive their world. He nevertheless acknowledges the importance of informal constraints by themselves. He substantiated this with the evidence that the same formal rules and/or constitutions imposed on different societies produce different outcomes (1990:36). According to Eggertsson (1996) informal institutions as complementary to formal institutions can develop in response to different situations: as means to '*internalise*' the formal rules seeking to adapt the rules to their operational environment; as a means to ensure '*compliance*' with the existing institutions and as a means to regulate unexpected or '*non-regulated*' situations i.e. when existing formal institutions do not cover all the situations actors face, or when the existing institutions are not known or properly understood by all. In such circumstances informal rules emerge spontaneously to take care of recurrent interaction problems that are not regulated by the formal rules.

The interaction between formal and informal institutions has a mutually transformative effect. Helmke and Levitsky (2003) based on the works of Lauth (2000) have noted a typology of interactions between formal and informal institutions. Their typology is based on two dimensions. The first is that of the effectiveness of the relevant formal institutions. The second dimension is that of the degree of compatibility between actors' goals (what they seek to accomplish through a particular informal institution) and their expectations about likely outcomes generated by formal institutions. Where informal institutions exist in a context of weak or ineffective formal institutions, non-compliance routinely goes unsanctioned. From the aspect of compatibility dimensions, in some contexts actors pursue goals that are similar to or compatible with expected formal institutions' outcomes, in other contexts actors pursue goals that are at odds with those outcomes. It is assumed that where in the context of effective formal institutions and in which actors pursue compatible goals, informal institutions tend to be *complementary*. Where as in the same context but when actors pursue conflicting goals informal institutions tend to be *accommodative*. *Competing* informal institutions exist

in the context of weak or ineffective formal institutions. They structure actors' incentives in ways that are incompatible with the formal rules. To follow one rule they are forced to violate another. *Substitutive* informal institutions are created or employed by actors seeking to achieve outcomes that formal institutions were expected to deliver but have failed. These are typical of the informal institutions in the case of informal settlements in cities of developing countries. Both *substitutive* and *competing* informal institutions are more likely to be found in developing and post-communist countries. *Complementary* and *accommodating* informal institutions exist in stable institutional settings generally found in advanced industrialized countries. However increased enforcement of formal institutions might raise the cost of complying with competing informal institutions which could trigger their collapse.

Figure 3.8 illustrates the typology of informal institutions as a consequence of formal-informal institutional interfaces.

Figure 3.8:
Typology of formal - informal institutional interactions

Goals	Effective Formal Institutions	Ineffective Formal Institutions
Compatible Goals	Complementary	Substitutive
Conflicting Goals	Accommodating	Competing

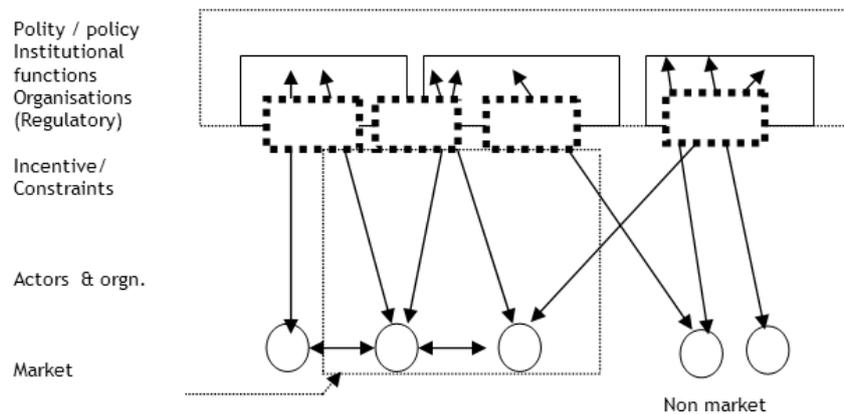
Source: Based on Helmke and Levitsky (2003)

Institutional enforcement refers to the use of institutionally authorised deterrents or social sanctions to effect compliance with the law or norms of behaviour. The effectiveness of enforcement depends to some extent on whether people see the rules as being worthy of respect. If the formal rules are not in harmony with the informal socio-cultural rules of society and are not fairly enforced, they will lack legitimacy and even if an attempt would be made to enforce them through coercion, individuals and organisations have greater incentive to evade them, thereby ultimately increasing the difficulty and cost of enforcement (Burki and Perry, 1998). The main purpose of informal institutional enforcement is to ensure that members abide by their obligations. They are often subtle and even illegal by their nature. They might take a variety of forms and include hostile remarks, gossip, ostracism (a rejection or exclusion by general consent, as from a group or from acceptance by society), other

forms of disapproval to ‘hit-men’ and other extra judicial violence or threats. Informal institutions are said to be self-enforcing institutions in the sense that they constitute members of a community’s mutual best response to one another (Helmke and Levitsky, 2003).

Most often than not, the terms “institutions” and “organisations” are used interchangeably. However, organisations are structures, which operate under these rules. North (1990:5) defines organisations as; “*groups of individuals bound by some common purpose to achieve objectives*”. Organisations usually have discrete boundaries, a budget and a structure. Organisations bear some institutional functions to perform. As the saying goes, institutions are the rules of the game while organisations are how players and actors structure themselves to play. These rules shape the incentives that drive behaviour, performance and expectations about rights and obligations (DFID 2003, 2007). Examples from informal organisations include: clans, mafias, and kinship networks. Formal property rights as institution need organisations such as land registry, courts of law and banking systems in order to be used as sources of capitalisation. Figure 3.9 Summarises schematically what has been discussed on the interrelationship among the elements of institutions-organisations-actors’ interactions.

Figure 3.9:
Schemata of institutions-organisations-actors interaction



Source: Based on Lindfield (1998)

Polity refers to society as a political system including the form of government. The political system/polity determines policy since it also determines the allocation of resources and provision of services between competing interests. It is the polity that defines and enforces property rights. It is polity that specifies and enforces the formal rules. Polities shape economic performance because they define and enforce the economic rules of the game (North, 1995). Policy as the formulation and expression of intent and generated through political processes in the context of distinct historical legacies and geopolitical circumstances will have far reaching and quite distinct institutional implications. It is difficult to think of institutions without recognising the policy driven and hence the political goals which they are supposed to serve. Therefore, institutions like politics are never neutral (DFID, 2007). Keogh and D'Arcy (1990) by reasoning on the ground of the role of institutions as manifestation of influence and power in a society; assert that institutions tend to reduce transaction costs for certain group and activities but not for others. Even in the case of informal institutions they are created in a context in which power and resources are unevenly distributed and therefore they tend to produce winners and losers (Helmke and Levitsky, 2003). Even though it is true that not all social groups will benefit equally from the prevailing institutional structure, the measuring yardstick is whether politics and institutions are serving the public good or for narrow interests.

A given set of rules promoting an objective is termed by Lindfield (1998) as an institutional function. The organisations charged by a government with undertaking a given institutional function influence actors and markets through incentive structure and constraints embodied in various legislative instruments. The continuous interaction between institutions and organisations (whether regulatory or actors' organisations) in the economic setting of scarcity and competition is taken as the key to institutional change.

Institutions play their role by forbidding, encouraging group and individual actors' behaviour through instruments of constraints (negative incentives) and incentives respectively. An incentive can be generally defined as the incremental gain or loss that is incurred as a result of a particular choice. An incentive is simply a means of urging people to do more of a good thing and less of a bad thing (Levitt and Dubner 2009).

A constraint restrains actors not to behave in certain ways in acquiring their goals. Hence incentives and constraints create the force field for behaviour. However institutions shape individual behaviours not only through mechanisms of punishment and rewards by forbidding or allowing some behaviours but also as Chang (2002) argued individual actors by operating under institutions inevitably internalise some of the values (world views, moral codes, social norms etc.) embodied by the institutions. The interaction between actors and institutions is two sided, represented by double arrows in the above figure. Not only rules influence actors by constraining or promoting their behaviour, on the other direction actors' concerted actions might also result in institutional change. Through their concerted actions actors give feedback to the institutional framework by providing legitimacy/ acceptance or requesting redefinition or effecting reform or change.

Economic behaviour of actors is based on their perspectives on economic values which in turn are related to their role in economic interactions. Figure 3.10 shows a typology of actors'/ stakeholders perspectives on economic value of real estate development.

Figure 3.10:
Perspectives of actors and stakeholders on economic value of Real Estate Development

Actors group	Perspective on economic values of real estate development
Investors	To secure investment which provide: Above market average incomes, Long term income streams and/or capital growth, Good quality covenants, New market potential increasing sales and rental values.
Developers	Market imperative Recognise and take advantage of opportunities provided e.g. designation of enterprise zones Higher rental returns and more lettable area Quick permit, short process i.e. low transaction costs
Occupiers	Quality of space vis-à-vis its cost Location (distance from previous location or work place and amenities) Good ambience Prestige and image Operational performance
Local authorities	Regeneration of areas Attraction of private sector resources Opening up of development opportunities Improved competitive edge
Users/ citizens	Creation of jobs Whether instrumental in projecting a new economically Dynamic image of their city Provision of leisure facilities and amenities Safety and security/peace Pleasant and attractive spaces.

Source: Based on Ratcliffe et al. (2002:328-358)

According to Ratcliffe et al. (2002:343), the major formal sector groups of actors in the real estate market and the development process include: consumers (space consumer groups) those who attempt to buy or rent real estate; producers (space production group) and providers of public infrastructure i.e. those who provide a network of tangible and non-tangible off site system for the individual space user. Formal sector suppliers include property development companies, financial organisations, construction firms, etc. Actors also vary depending on the segment of the market; formal/ legal, semi-legal, or informal/illegal.

An actor's living and working environment are among the biggest assets where they are able to exercise their decisions on. Actors respond to

incentives in their decision making i.e. incentives where to use such productive assets where they receive the highest return. A typology of actors' interaction grouped into two major categories is shown in the Figure 3.11.

Figure 3.11:
Typology of actors' behavior

Goals	Actors' behavior
Compatible	Cooperative
Conflicting	Competitive

Source: constructed based on preceding explanations by Author

Actors pursuing compatible goals tend to be cooperative while they tend to be competitive when pursuing conflicting goals. According to Prochaska et al. (1992), individual behaviour change in stages. These stages include: pre contemplation, contemplation, preparation for action, action, and maintenance of the new behaviour. This maintained behaviour in a certain activity constitutes the behaviour of interest.

The development of institutions is marked by a life cycle characterised by periods of stability and change. In a given environment of exogenous and endogenous factors, the institutions and the patterns of behaviour they generate create equilibrium. In these situations they are not susceptible to change, since they are internalised norms and shared beliefs rooted as part of the habitual behaviour of actors which provide a framework for organising actions and creating social bonds (Greif 2003). However in other circumstances institutions might not be able to cope with the demand put upon them or to evolve fast enough to cope with changing situations. This might lead to institutional change. Institutions typically change incrementally because of the embeddedness of informal constraints in society (North 1990). Institutional change ³might come along two routes: formal route, where new rules are explicitly decided upon. Such change, however, is often dependent on the willingness and ability of the state to help new institutions emerge. Short of this actors will find their own way in attaining their objectives. Thus an alternative means of ensuring formal institutional compliance recommended by Helmke et al., (2003) is to redesign the formal rules so that they correspond more closely to the goals of the subversive actors, that is, to formalize the informal rules. Another source of informal institutional

change is an alteration of the status quo conditions that has previously sustained the institution. This includes a development in the external environment which could result in a change of distribution of power and resources within a community, resulting in weakening those actors who benefit from a particular informal institution and strengthening those who seek to change it. A point of vital interest will be how changes in the formal rules are complemented, supplemented or influenced by norms of behaviour. Gradualism i.e. a coexistence of new and old institutions referred as transitional institutions spurred by gradual reforms was among the institutional factors which facilitated the Chinese economic growth. These transitional institutions provide a link between the outgoing socialist planning and incoming system of market orientation. Ambiguous property rights are among these transitional institutions (Zhu and Sim u.d.).

The endogenous and exogenous factors, which lead to institutional change, have been discussed by Florensa (2004). Exogenous factors are changes in the political, economic, social context in which the institutions are embedded which can induce transformation or redefinition of the existing institutional arrangements. These might include: changes in the physical environment and the attributes of natural resources (e.g. disaster), attributes of actors for example new members joining, changes in markets and technological innovations. Endogenous factors do emerge when individuals are reacting to the constraints imposed by their internal environment by way of interpreting the rules, norms, and practices and by way of redefining them in a way that best fits their interest. They include: learning processes, ideological change and innovation and changes in the taste or preference of actors. Tension between expectations of individuals who are affected by the institutional structure and the conditions in the internal and external environment and the operating rules might be created at certain stage of institutional development process. A mixture of external and internal factors will lead to institutional changes.

Florensa (2004) referring to North (1990) discussed three patterns of institutional change: evolution, redefinition, and crisis. *Evolution* takes place when through learning processes, acquisition of new skills, information and knowledge by actors involved lead to the readjustments in the institutional structure. Institutions evolve to 'adapt' to new conditions. *Redefinition* is when changes in the surrounding social, economic, or political context may lead to a change in the formal institutions (i.e. legal

change). New rules or additional enforcement mechanisms will then be established to achieve more favourable outcomes. *Crisis* will come about when the outcomes associated with past institutions are perceived to be so dismal, that there is a willingness to forgo this knowledge and despite the asymmetry, initiate relatively comprehensive institutional change. Two patterns of change are distinguished: *bottom up* i.e. processes of change at the lower or operational level can induce changes at deeper level; and change driven from *top-down* for e.g. changes at the constitutional level can lead to changes at the lower level.

Another relevant point of discussion regarding institutional change is institutional efficiency. In terms of real estate market, efficiency is responsiveness to a rapid increase in demand, responding also to the needs of those (low income and the poor) who do not have easy access to the market, and responsiveness to rapid change in urban form, to the ability to be adaptive to the dynamic development taking place in urban centres or the maximum productive use. With allocation of land as a resource, efficiency can be viewed from the dual function of land: land as an economic function (the right to use it traded as a commodity expressing economic relation between people) and land as social function (expressing the relation between groups/societies). Efficiency from the perspective of land as commodity means enough land supply to serve market needs, low transaction cost, adequate and timely provision of infrastructure, and ease of market entry to developers. This requires among others, level and transparency of information; removing market imperfection and externalities and better titling and registration (World Bank 1992). Efficiency from the social approach to land does include in addition to some of the aspects formerly mentioned, also safeguarding of people from negative environmental changes, minimal constraints of plot occupancy, or incentives to provide plots for the poor (De Oliveira 1993, Edésio 2001, UN-HABITAT 2002).

World Bank (2002) describes effective institutions as those institutions which are incentive compatible with internal enforcement. The effectiveness of an institution is evaluated in comparing the outcomes with the goals of the institution. Basically the outcome areas for any public institution are universal such as welfare improvement. World Bank (2002:6) notes:

“...when the state acts as an agent that shares the objectives and beliefs of its citizens – and implements rules consistent with them – it is more likely to build effective formal institutions to support market development.”

For example with respect to real estate market output parameters and outcomes include: accessibility and affordability of housing, better access to land, changes in the number of housing stock, serving the underserved i.e. contribution to alleviate the housing problem of the low income and the poor, and contribution to welfare improvement. Such factors constitute success factors for institutions.

When the objectives/goals of an institution are not attained and the derived incentives promote other unanticipated outcomes (North 2008) which do not align with the objectives/goals of the institution so that they lead to the creation of unanticipated actors and rogue behaviour of such actors dominates the economy or the sector for example pirates in the case of modern sea transport and illegal land sub-dividers and speculators in the case of real estate market where all land is nationalised and has become state property, then it is possible to say *institutional failure* has occurred. Institutions fail when they are no longer capable of coordinating human actions to achieve some purpose for the larger society. Manifestations might include rules that generate perverse incentives or a serious lack of enforcement. However with this sense of the meaning it is also possible to use the alternative construct *lack of proper institution*. A similar danger is *institutional uncertainty*. Institutional uncertainty is a risk arising from a high volatile institutional environment (Borner and Weder 1992). It means that there are no clear and irrevocable rules of the game. It reflects the permanent danger of expropriation or limitation of property rights, or insecure access to land.

Social capital is an important institution, which plays a significant role in institutional development. In the analysis of livelihood approaches it is defined as;

The rules, norms, obligations [sanctions], reciprocity and trust embedded in social relations, social structures and society's institutional arrangements [connectedness in institutions] which enables members to achieve their individual and community objectives (Narayan 1997:50)

Putnam (2000:19) defines social capital as referring to; “...connections among individuals – social networks and the norms of reciprocity and trustworthiness that arise from them.” In another definition he explains social capital as the

capacity of some societies to solve collective problems by the greater accumulation of trust and connection among their members. Ostrom (1990) and other works have shown that local institutional arrangements including customs and social conventions designed to induce cooperative solutions can help to achieve efficiency in the use of common resources. As Herath (2005) noted cultural similarities, community cohesiveness, interdependence among local firms, repeated interaction, and familiarity creates trust which can reduce opportunistic behaviour. Trust and reciprocity lower the costs of working together i.e. transaction costs and improve the efficiency of economic relations. Performance in the real estate market is the result of formal rules, informal rules, and enforcement. In this thesis we analyse how changes in formal rules were complemented, supplemented or influenced by norms of behaviour.

3.7.2 Governance Structures

The discussion of governance structures goes back to Coase (1937). Williamson (2003) introduced transaction cost economizing governance structures. Transaction cost economics (TCE) holds that each generic mode of governance is defined by internally consistent attributes to which different adaptive strengths and weaknesses accrue. The three attributes of principal importance for describing governance structures are (1) incentive intensity, (2) administrative controls, and (3) contractual law regime. Spot markets and hierarchy differ with respect to these attributes as follows: Spot markets have stronger incentives, fewer administrative controls, and are more legalistic than hierarchies. Specifically, the high-powered incentives of markets are supplanted by lower-powered incentives when transactions are organised within firms, the spontaneous control mechanisms of spot markets give way to hands-on administrative involvement in firms, whereas the contract law of markets is legalistic and relies on court ordering, whereupon the firm becomes its own court of ultimate appeal since courts refuse to hear (most) internal disputes. Williamson (2003) uses the term *discriminating alignment* through which transactions which differ in their attributes are aligned with governance structures. The governance structures differ in their cost and (adaptive) competence, so as to affect transaction cost economizing result. Figure 3.12 Summarises governance attributes and governance modes.

Figure 3.12:
Attributes of leading generic modes of governance

Governance attributes	Governance modes		
	Market	Hybrid	Hierarchy
Incentives	High powered	Less high powered	Low powered
Adm. Support by bureaucracy	Nil	Some	Much
Contract law regime	Legalistic	Contract as framework	Firm as own contract of ultimate appeal (fiat)

Source: Williamson (2003)

The discourse on governance has currently won a wider societal application. Hitherto, two types of institutions are generally considered to control economic behavior: markets and hierarchy. Markets are forms of coordination in which individuals, autonomous parties achieve equilibrium through price mechanisms. Hierarchy on the other hand gives the appearance of coordination in which command, control and legislation are important. Hierarchy is associated with government agencies that coordinate through bureaucratic procedures. State based arrangements are hierarchical and top-down (command-and-control) forms of setting rules and exercising power. Much of the art of governing in the 20th century is conducted by hierarchical and bureaucratic state forms. The distinction is also linked to specific products: markets supply private products while government agencies supply collective (Klijn and Teisman 2000). The historical aftermath of the credit crunch in the mortgage markets which ignited the US and swept across the Atlantic in 2007/08 has proven the need for the invisible hand to be complemented by the visible hand of regulation. As Berner (2000:5) noted;

The invisible hand that coordinates the individual greed in order to achieve the common good needs to be complemented by a quite visible hand that sets the limits to greed.

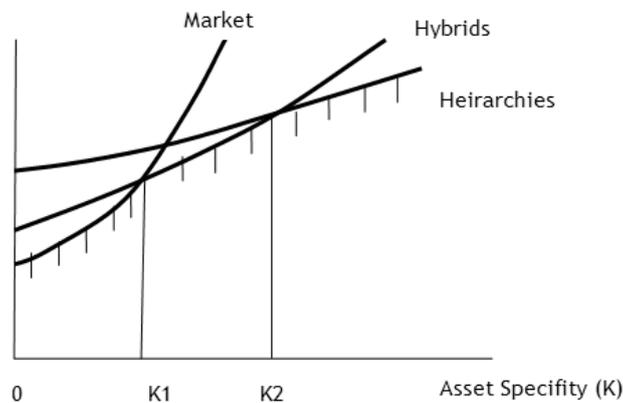
Moreover, the market mechanism cannot set the rules of the game and does not bring the pre conditions for its own functioning among them: rule of law, guarantee of private property, generally accepted currency, contract enforcement etc.

A third type of various hybrid and intermediate modes based on arrangements such as joint venture and partnerships coordinated by bilateral power sharing and trust are also observed. With the advent of the network society the dependency of public agencies on the whole set of

private and third-sector actors for policy making is becoming crucial. Such forms of governance are based on horizontally networked tripartite bodies (private, civil society and public) in interactive relations who are at the same time independent and interdependent actors (Klijn and Teisman 2000, Castells 1996). Such institutional forms and experiences in partnership are extensively discussed in Van Dijk et al. (2001).

Transaction cost economics identifies three attributes of transaction that have pervasive effects on governance. These attributes include: asset specificity (as measure of non-redeployability), uncertainty (the disturbances to which transactions are subject) and frequency with which transactions recur (Kaiser 2003:17-19). See also the discussion in the section dealing with transactions cost theory in this chapter. Figure 3.13 shows transaction costs and governance as a function of asset specificity. The higher an asset's specificity, a shift from market to hierarchy is observed to organise the economic activity in transaction cost economizing way. This explains why an airline fleet needs to have its own garage.

Figure 3.13:
Transaction costs and governance as function of asset specificity



Source: Kaiser (2003:18)

The choice among the different institutional forms can be explained by different cost structures. According to Williamson 1979; and Kiaser 2003 the choice depends on the characteristics of transactions. However, in reality institutional arrangements do exist in overlaps. They cannot be perfectly defined as one type or the other and as Klijn and Teisman

(2000) noted the traditional distinction between market and hierarchy has become less strict. The boundary between the private and public sectors as an expression of the distinction between market and hierarchy also seems to be fading (Drewry 2000).

It is more often said that market-augmenting government is the path to prosperity. The research sub question along this review is: How do different institutional arrangements/governance structures contribute to goal achievement of actors?

3.8 Theories on Transitional Economies

A transition economy or transitional economy refers to an economy which is changing from a centrally planned economy into a market economy (IMF 2000). Issues of transition are concerned with complicated interrelationships between liberal democracy, a market economy and the rule of law, which in reference with the East European experience is a transition from a centrally planned communist economy to a welfare state and society. According to Temmes (2000) the major 'blocks' of theories relevant to the core processes in transitional economies includes: administrative machinery developed in line with Weber's (1978) ideal-type model of bureaucracy and the most relevant institutions of a market economy. Institutional arrangements are of a particular relevance to the success of reform in transitional countries.

Moreover, despite the fact that the transition from socialism to market oriented economy was one of the most significant events in the world economy since industrialisation, it turned out to be a challenge for the economics profession for which there was little in terms of conceptual thinking to move an economy from one system to another. The first reaction was to embark on neo liberal basket of stabilisation measures. The 'big bang' approach by Lipton and Sachs (1990); Blanchard et al. (1993) have been based on monetary theory and stabilisation policy which include measures such as 'shock therapy', complementarities of reforms; and the 'Washington consensus' or structural reforms with strong emphasis on liberalisation, privatisation and fiscal discipline. However, expected outcomes didn't materialise: price liberalisation (moving from fixed price to equilibrium price) didn't lead to an increase in production output and greater allocative efficiency. The divide between the Central and Eastern European (CEE) and the Former Soviet

Union (FSU) resulted in output fall in the CEE followed by recovery, where as the FSU experienced a much deeper and protracted economic decline. On the other hand the Chinese economy through reforms progressing gradually has been set on robust growth path. All these stimulated economists to look for other explanations focusing on contracts and their legal, social and political environment. A shift towards the institutional underpinnings of markets and the 'laws of contract' were later observed (Berglöf and Roland 2006).

A market economy is based on the principle of free choice and competition. It is governed by competition through price and quality. However there is no single accepted model of market economy. Two types of market economy can be discerned: the American model liberal- market economy and the Northern European social market economy. The main distinction between the two models is illustrated by the comparison in Figure 3.14.

Figure 3.14:
Comparisons between Liberal Market and Social Market Economy

	Liberal market economy	Social market economy
1	Maximum freedom for the individual	Universal freedom based on the idea of equal freedom for all (equal opportunities and equal life chances)
2	Private ownership of the means of production	Property carries obligation and used in a social context i.e. should not disadvantage others, should serve the common good
3	Based on self-interested individual model	Citizens are not only self interested but also care for the common good and social peace
4	Primacy of markets: uncoordinated market economy	Primacy of politics: coordinated market economy
5	Focus on productivity	Balance between productivity and social aims
6	Basic social security	Strong welfare state
7	Focus on civil and political rights	Protection of all sets of human rights: civil, political, economic, social and cultural rights
8	The role of the state minimised	State has much greater role

Source: Broyer (1996), Friedrich Ebert Stiftung (u.d.)

Common (2000) discusses a third market economy, an East Asian or Asia Pacific model, which argues for a collectivist approach to the market place. Chinese leadership stresses this later model in their approach to market reforms to create a *socialist market economy*.

The transition following the collapse of the Soviet communist bloc was one of immense cultural change. More importantly identifying the

necessary and *adequate institutions* and capacity of enforcing agencies in a given country at a given time became crucial. Among these most important market institutions were institutions regarding systems of property rights. Regarding the specific area of real estate property, communal ownership of land was at the heart of the communist ideology. Adlington et al., (2000:3-4) expressed the existing allocation in property right systems as follows:

The normal means of allocating real estate (like the other means of production) was through the central planning system...Businesses tended to enjoy rights of occupancy over real estate rather than ownership rights or security of tenure. ...Capital charges tended to be too low to influence behaviour Housing policy tended to be an aspect of labour policy.

As Collier (2007) noted one big incentive for the countries of Eastern Europe in their transition to market democracies is membership of the European Union (EU). The EU had an established set of rules, the *acquis communautaires*, which all new members have to adhere to. However, moving from a system where the state is the only land owner to one where private ownership dominates, not only requires a framework of economic, legislative and institutional reforms but also the way in which people think about land. These shocks were not without their bitter experiences. For example, in Russia, members of the mafia eliminated some former occupiers in pursuit of garnering the fruits of privatisation. In many countries false claimants appealed for restitution. Adlington et al. (2000:4) noted:

In real estate, the process of transition has meant that control, even if not ownership, of significant parts of the stock of land and buildings has passed from the state into private hands. The principal processes by which this has been accomplished are privatisation and restitution.

The development of real estate markets in transition economies are constrained by a wide range of factors, which fall into five groups: cultural, political and socio economic framework; legal framework, governmental and administrative framework, financial and banking system, and private sector support services. East European communist countries, though focused more on the physical conditions of houses than ownership and tenure status, have developed detailed cadastral systems. This is one major difference from their counterparts in Africa. In the case of former socialist oriented African countries, inherent complex issues per-

taining to the real estate market make the role of institutional development very crucial in their transition. This is addressed in the literature review on major debates and arguments on transition and property rights.

3.9 Linkages and Implication to Research Theory

From the neo-classical economists' point of view economic growth depends on utility maximising rational individuals. Utility maximization drives the economic behaviours of individuals i.e. producers for maximum profit and consumers for maximum utility by lowest price. Institutional and evolutionary economists recognising the utility maximising assumption however contend that economic behaviours of firms and individuals is rule-guided i.e. they base their decisions on routines and institutions. There is also the effect of institutional path dependency on the behaviour of actors.

Real estate markets, property rights and transaction costs are taken to play an important role in guiding economic behaviour of actors in the market. Property rights define the nature of sanctioned human behaviour (Furubotn and Pejovich 1972). Such sanctioned behaviour allows people the right to use resources with the 'class of non prohibited uses'. These property rights are supported by the force of etiquette, social custom, ostracism, and formal legally enacted laws supported by the state's power of violence or punishment' (Alchian 1965). Property rights need a socially sanctioned enforcement, though this institution does not always need to be government. Even though property rights are attuned to *ownership*, it has been stated that the ownership of natural resources such as land, in effect is limited to ownership of legal interests or rights. Due to this and the other peculiar nature of real properties the real estate market is said to be under complex political, social, cultural and institutional influences. It has also been discussed that linkage between property rights and transactional costs is intimate. Defined and secured property rights, facilitate market and non-market institutions. Social capital is assumed to minimise transactional cost and promote economic efficiency. However secured property rights help to increase reallocative efficiency only if transaction costs are minimum. It is stated that institutions emerge to reduce friction, uncertainties i.e. transaction costs in general. This interaction between various types of property rights, transaction costs and

institutions has led to the division of *formal* and *informal (extralegal)* markets and corresponding institutions.

As such two types of institutions are generally considered to control economic behaviour: markets and hierarchy. Markets in ideal terms operate through the price mechanism while hierarchy by authority. A third – hybrid type of institutions that are institutional arrangements such as joint venture and partnerships coordinated by bilateral power sharing and trust also operate. In a particular environment of transition economics and social transformation institutions play a crucial role. Success depends on the appropriateness and plausibility of institutions. The discussion has led to major debates and arguments in the development thinking with regard to the role of property rights and institutions in economic transition and social transformation of poor developing countries. These debates are presented in the following chapter.

Notes

¹ Crotty, M. (1998) makes a distinction between *constructivism* and *constructionism* reserving constructivism for the epistemological considerations, focusing exclusively on the *meaning making – making activity of the individual mind* and to use constructionism where the focus includes the collective generation (and transmission) of meaning. Constructivism refers to the unique experience of each of us, while social constructionism emphasises the hold our culture has on us. However, as noted by Whitehead (2005), since human individuals live their lives in wide social contexts (e.g. family, peer etc.), shared ideational systems (beliefs, attitudes, value etc.) and preferred behaviors that help to meet a range of human needs, under the influence of significant historical events and context elements such as the physical environment; the behaviors of individual member of the cultural system is inevitably influenced by these factors. Therefore this distinction between *constructivism* and *constructionism* is questionable.

² The term *public purpose* is defined by national laws and can vary from country to country. In some countries it is limited to public uses such as public health facilities, education facilities; infrastructure etc. while in others like Ethiopia it might also include private investment projects.

³ Institutional change is taken to have a neutral value regardless of whether the change is good or not. In contrast, institutional development refers to institutional change in a direction that promotes sustainable economic, political and social development and which aims at poverty reduction.

4

Debates and Arguments on Transition & Property Rights

4.1 Introduction

The purposes of literature reviews are to familiarize with major debates and arguments which include both theoretical as well as methodological aspects, to identify gaps, accentuate the relevance of the research topic, and establish a link in the chain of research in a specific field. A literature review is an ongoing process throughout a research thesis. This chapter is integrative in the sense of summarising the major developments and identifying gaps to establish a link in the chain of research in the specific field of real estate markets, institutions and transitional economies. The review starts from literature with a broad perspective of institutions and development and then goes to specific areas of property rights and transitions. It is organised in three sub topics: purpose and frameworks (concepts and theories used); linkages, compatibility and identification of gaps; and research methodologies, flaws and critiques. The major resources used are: Collier (2007), De Soto (2000, 1989) and Khan (2002, 2003). This is followed by an alternative theoretical perspective.

4.2 Purpose and Frameworks (Concepts and Theories Used)

Institutions which facilitate the transition of poor developing countries have been attracting researchers in recent years. Collier (2007:3-5) makes a distinction between the general set of developing countries which encompasses five out of the six billion people in the world of which eighty percent are developing and the remaining countries are falling behind and often falling apart. His book deals with the macroeconomic aspects of development and discusses four development traps: the conflict trap, the natural resources trap, the trap of being land locked with bad neigh-

bours, and the trap of bad governance in a small country (ibid:176). These countries are caught in one or a combination of these traps. The problem of the bottom billion, as Collier (2007:11) stated:

... has not been that they have had the wrong type of growth [like 'not sustainable or pro-poor growth'], it is that they have not had any growth.

Therefore he emphasises the limit to good governance and policy, by stating that good governance and policy might help a country to realise its opportunities but cannot create opportunity where none exist. While recognising the role of bad governance and policies in drastically destroying an economy and the role of excellent governance and good policies in enhancing the growth process, he mentions a limit to feasible growth rates at about ten percent. He therefore recommends that though change must come from within, to strengthen the hands of reformers the international community must act in a new approach. His recommendation is based on the convention that remedying the problems of the bottom billion is a global public good which includes instruments of aid, security (military intervention), trade policies, laws and international charters. To carry out these an international coordinating body is necessary and he suggests the G8 as the main coordinator (ibid: 183).

Many contemporary authors and researchers have made their contribution on transition of poor developing countries and the role of systems of institutions in the transition. However, two major arguments are considered here: one argument is taken from the point of view of De Soto (1989, 2000). The other point of argument is one promoted by Khan (2002, 2003). De Soto's contribution is based on revolution through a wave of informality. His theoretical framework is based on the distinction between what is called *Mercantilism* and the market economy. *Mercantilism* is the name given to the economic policies pursued in Europe between the 15th and 19th century, which was a politically administered economy. Economic agents were subject to specific and detailed regulations. The mercantilist state decides which economic activity is desirable and should be promoted or not, and what to produce. The mercantilist state granted privileges to favoured producers and consumers by means of regulations, subsidies, taxes, and licenses (De Soto, 1989:201-202). Access to enterprise is limited to those who have political connections and could repay the king for his authorisation and blessing. The other reason for over-regulation was because of the mercantilist state's

determination to keep the rural population from migrating to cities. The intention was to keep the peasants moderately content and geographically spread to consolidate power. From the systems of institutions perspective, De Soto associates this with *political voluntarism* school of legal thought which considers social institutions to be the outcome of deliberate government action. He argues against the viability of *political voluntarism* in modern and widely complex urbanised societies. Based on historical facts he further mentions that it was impossible to have an industrial revolution until an economy administered by politicians was abandoned (De Soto, 1989:237).

De Soto (1989:208-210) observes a similarity between the then *mercantilist* system in Europe and the system of *redistributive law* in Peru – authoritarian law making, an economic system with high state intervention, obstructive regulations, constrained access to enterprise for those who do not have close ties with the government, excessively cumbersome bureaucracy and a population organising into *redistributive combines* (opportunistic and rent seeking). One difference he observes between the two is that in the modern day *redistributive systems*, access to enterprise and administering privileges is not dictated by the king but are results of consultations with privileged economic groups or merchants. He compares and contrasts this with a truly *liberal market economy* in which competition reigns (rather than the ability to win privileges), open access to markets is maintained, consumers are served efficiently, productive justice rather than redistributive justice prevails, the burden of state regulation is minimised (to the necessary level) through decentralisation and deregulation, and the state ensures clearly defined and stable property rights. Hence, De Soto (1989:235) establishes that a revolution against *mercantilism* or its present day equivalent - the *redistributive system* is informality. He supports his argument by the historical fact that the decline of European *mercantilism* began with the mass migration of peasants to cities.

De Soto (1989) argues that informal activities proliferate when the legal system imposes rules which do not honor the expectations, and choices, and preferences of those whom it does not admit within its framework and when the state lacks coercive power. After discussing the tremendous costs of being informal and the difficulties posed by the high costs of operating formally within existing legal framework, De Soto (1989:158-162) recommends the need of institutional transformation. Good laws which provide property rights, contracts and extra contractu-

al legal system need to be provided. At one point, based on the conclusion of the research carried out by the *Instituto Libertad Y Democracia* (ILD), he upholds the view that the most significant cost of the absence of a good law is the absence of secure, reliable property rights. He argues that if the informals cannot enforce their rights to property (land, housing, and equipment) their incentives to invest will be highly reduced. They neither can transfer their property nor use them as collateral to access financial capital for additional investment. So to overcome this De Soto (1989:244) recommends:

... to change legal institutions in order to lower the cost of producing and obtaining wealth, and to give people access to the system so that they can join in economic and social activity and compete in equal footing.

In order to achieve this, the most practical approach, he suggests, is to draw on the extra legal¹ system which is the result of spontaneous and voluntary adaptation to a life which requires greater interdependence and coordination. The extra legal system through its built in mechanism of regulating property rights and contracts, enforcing them through decentralised informal organisations has been accepted by most of the population and he reasons, in economics terms such voluntary compliance occurs only if it is relatively more efficient than the formal system. The aim is to remove unproductive restrictions from the legal system and incorporate every one into formality.

De Soto's (2000) other work *The Mystery of Capital* is basically the continuation of his research work – *The Other Path* whose focus is limited to Peru (the capital city Lima). *The Mystery of Capital* is a wider assessment of the application of it in solving the problems of the Third World and the former communist countries of Eurasia. De Soto's main research question is:

“If people in countries making the transition to capitalism are not pitiful beggars, are not helplessly trapped in obsolete ways and are not uncritical prisoners of dysfunctional cultures, what is it that prevents capitalism from delivering them the same wealth it has delivered to the West?” He answers: “...the major stumbling block that keeps the rest of the world from benefiting from capitalism is its inability to produce capital” (2000:5).

It is the one thing that the poor countries of the world cannot seem to produce for themselves. They possess a magnitude of assets but they hold their resources in defective forms: rights to these possessions are

not adequately documented, and therefore these assets can not readily be turned into capital, and can not be traded outside of narrow local circles and can not be used as collateral or as a share against investment. In the West, by the *process of representation* every property is represented in a property document (titles, deeds, status of incorporation, etc.) that is to say the visible sign of a vast hidden process that connects all these assets to the rest of the economy. He notes:

By this process [of representation] the West injects life into assets and makes them generate capital. Third World and former communist nations do not have this representational process. ... It is the unavailability of these essential representations that explains why people who have adopted every other Western invention ... have not been able to produce sufficient capital to make their domestic capitalism work. This is the mystery of capital. (2000:6-7)

The other argument is based on Kahn (2002, 2003) who makes an almost analogous comparison between two views about the role of the state from the perspective of institutional reform: one based on the *service delivery* view and the other the *social transformation* view. The *service delivery* view describes the role of the state as provider of law and order, market regulation, essential public goods and welfarist distribution. The model uses, as a benchmark, a well-performing market economy in which he coined the term *liberal market consensus* as an alternate term for the model. The consensus view argues that to generate growth, states have to protect stable property rights, defined by strong contract enforcement, low expropriation risk, and low corruption. States have to ensure undistorted market defined by low rents, and promote accountability and civil society participation (2002:1-3).

On the other hand, the *social transformation* or *developmental state* view looks at the role of the state as a key player in the transformation of essentially pre-capitalist and pre-industrialist societies into a dynamic capitalist economy. From the *social transformation* view point the state is portrayed rather than a mere service provider, as an instrument in the hands of contending classes, groups and political entrepreneurs competing to capture resources and try to steer the transformation in a specific direction (2002:14). The role of the state in creating and enforcing institutions is crucial². Khan (2002, 2003) accepting the importance of the service delivery role by its own right, argues the ability of the state to carry out relatively massive interventions in property right systems has been critical

in dynamic social transformations in many high growth economies, as has been the creation and management of growth-generating rents. He has this to say:

“Our basic contention is that during this transition period, state success or failure is not related to any simple way to the state’s neutrality in upholding pre-existing property rights, or its abstention from intervening in the economy or in social conflicts” (2002:14).

The two views differ in their underpinning theoretical components. The theoretical components underpinning the *service delivery* (the liberal market consensus) are stated as follows:

1. Efficient markets are rent³ free, and have stable property rights;
2. Rent-seeking creates rents and destabilises property rights;
3. The absence of democracy and a weak bureaucracy allows rent-seeking to continue.

The theoretical components underpinning the second view (*social transformation* model) are:

1. Dynamic states have the capacity to alter property rights in the interest of growth;
2. Dynamic states have the capacity to manage growth enhancing rents and destroy growth-reducing rents;
3. Dynamic states can organise ring-fenced transfers to maintain political stability.

The argument from the *social transformation* point of view is that the effect of instability of property rights is not as proclaimed by the *consensus* theorists. Based on historical evidence the rapid emergence of new capitalist classes in dynamic countries has typically entailed long periods of instability of pre-existing rights. Dynamic transformations involve potentially large reallocations of rights (including rights on resources and technology acquisition) to accelerate the development of the capitalist sector at a time when pre-existing markets are weak. Khan (2002:16, 2003) reasons that in such circumstances the transaction costs of purely market re-allocation are likely to be too high to rule out rapid transformation. But he makes a cautious note that such exercise of state by re-allocating rights from above with compensations determined bureaucratically, as could in theory significantly improve efficiency and growth, it could also make things worse. He concedes such state-supported changes in the

property rights structure which go beyond what would have happened through bilateral *market* negotiations can also lead to social waste, particularly in a situation where predatory classes or state leaders grab resources or bank abroad. However, since dynamic capitalists have emerged through such processes in developing and also in the currently advanced countries, the outcome depends not on the stability of prior property rights but on who is capturing resources and the institutional structure imposing discipline. Khan's (2002:17, 2003) evidence is based on the historical fact that virtually all high growth states (South Korea, Thailand) undertook such reallocation measures at their early stages of takeoffs. Such creation, transfer and destruction of property rights with the support of the state might involve legal and illegal transfer mechanisms such as: straight forward nationalisations and privatisations, and more subtle fiscal and price interventions that accelerate the transfer of rights to new emerging capitalist classes. In China, property rights of many of the dynamic enterprises are not yet well defined. The status of property rights over assets in the Township and Village Enterprises which account for at least 40 percent of industrial employment and export remain vague.

Summary of differences between dynamic transformation states and failed states is presented to make a contrast between the view point promoted by De Soto (1989, 2000) and Khan (2002, 2003). See Figure 4.1.

Khan (2002, 2003) compares the state failure⁴ of *service delivery view* (*market consensus*) and *social transformation* (*developmental state*) view. State failure of the *liberal market consensus* is related to constellation of governance failure including corruption, rent seeking, distortions in the market and absence of democracy. He holds the view that it is unlikely that sustained growth will be attained by service improvements in such areas. To use his phrase:

... at best it is unlikely to work, at worst could further undermine the state's institutional and political capacity for ensuring dynamic transformation (2002:1).

Figure 4.1:
Institutions and interventions in transformation states

Typology of states	Property rights	Rents/competition policy	Service delivery
Dynamic Transformation States	Protection, creation and transfers of property rights for productive groups	Regulatory and industrial policy to manage growth-enhancing rents	Efficient provision of infrastructure by ring-fenced institutions
	Destruction or loss of property rights of unproductive group	Regulatory and competition policy to remove growth-reducing rents	Ring-fenced transfers to maintain political stability
Stagnating or Failed States	Protection, creation and transfers of property rights for unproductive groups		Service delivery systems captured by privileged groups
	Destruction or loss of property rights of productive groups	Protection of growth-reducing rents	Open ended transfers to maintain political stability

Source: Khan (2002:22)

The more critical area of state failure according to Khan is rather the absence of adequate institutional and political capacity to enforce institution to assist and accelerate a dynamic transformation.

Khan (2002, 2003) concludes by suggesting neither models and in particular the *service delivery* model suggests viable directions of reform for poorly performing developing countries. He finally recommends that institutional capacity building to be effective has to proceed in parallel with political interventions that aim to restructure the distribution of political and organisational structure. This is achieved as discussed by Castells (2000), by the political capacity of development states to impose and internalise their logic on their societies but with few concessions to society's demands. Historically this was administered through repression as the Koumintang managed to establish its hold on Taiwan through widespread massacres in May 1947, and/or by destroying, disorganising the traditional and dominant social groups or making them subordinate to the state through land reforms in Korea and Taiwan. The traditional oligarchy was destroyed and what was left had been made appendage to the development strategy decided on by the state through government sponsored credit, co-opting with a number of government committees and

through informal but effective channels of communications (Jockey Club in China) between government and businesses led by government enlightened technocracy. Regarding the working classes a strategy of integration, complementing repression and if possible to substitute in the long run (maintaining a double edged ploughshare ready to transform into a sword when required) has been applied. This in turn necessitated the construction of an efficient, technocratic state apparatus, for which more or less these development states were successful.

4.3 Linkages, Compatibility and Identification of Gaps

The view points of De Soto (1989, 2000) and Khan (2002, 2003) need to be investigated more closely. De Soto (1989) denounces the systems of institutions enshrined in the *redistributive (mercantilist) state* which is managed by the joint obstructive forces of state and *redistributive combines*. He recommends moving to a liberal market where competition instead of seeking privileges reigns. And this change comes through the *hidden revolution of informality (extralegal)*.

On the other hand, Khan (2002, 2003), while accepting the importance of *service delivery* reforms by their own right, he defies the *liberal market consensus* but upholds the *social transformation (developmental state)* model by which dynamic states should use their legitimate violence power to change property rights in the interest of growth as well as manage growth enhancing rents. The strategy he recommends is the creation and transfers of property rights for productive groups (emerging capitalist classes) and destruction of the rights of unproductive groups.

These views are not compatible with each other. What De Soto (1989) upholds i.e. the *liberal market* is by analogy what Khan (2002, 2003) defies as the *liberal market consensus* or the *service delivery view*. De Soto considers the informal or extra legals as vanguards of his hidden revolution while Khan's social transformation relies on emerging dynamic capitalists. It is also obvious that the *informals* or *extra legals* which De Soto considers as vanguards of the hidden revolution are not the *emerging dynamic capitalists* that Khan refers to and at worst might constitute the *unproductive groups* whose property rights deserve to be destroyed by dynamic transformation states.

The benchmark for De Soto's view is an ideally operating (liberal) market while Khan says this will not lead to social transformation in

poor developing countries where pre-existing markets are weak. He asserts that getting development economies through such transformations has historically requested stronger and interventionist states. The fact that high growth states do not score significantly better than developing countries' average in terms of conventional governance indicators challenges also the governance-growth correlation observed by the service delivery view. Khan (2002, 2003) contends that it is rather a misperceived interpretation, so that, since most developing countries lack dynamic transformation capacities *poor governance* appears to correlate with poor growth. The *well defined property rights* concept which De Soto (1989, 2000) defends is also challenged by Khan. Citing Coase and Posner (the founders of the modern theory of property rights), he argued that well defined property rights would help efficient reallocations only if transaction costs are low. Therefore where high transaction costs in existing markets try to stifle social transformation, dynamic states should be able to use their monopoly of legitimate violence to carry out massive interventions in property right systems.

4.4 Research Methodologies, Flaws and Critique

Collier (2007) claims the Malawi's and Ethiopia's of this world are a minority of developing countries at the bottom of the global economy. His research population includes 58 countries which fall under the development trap. He used statistical evidence based on data aggregated on global and regional level. The author's professional, as well as rich experience as Director of the World Bank Research Department, is reflected in his work.

De Soto (1989) has made no reference to major contemporary scholarly works relevant to informality or self-help shelter development such as Baross (1983), Durand-Lassevre (1987), Turner (1968, 1976), and Payne (1989). Khan, though his view specifically on property rights and the role of the state in creating and enforcing institutions contrasts with the view held by De Soto, he also did not make any reference to his work.

De Soto's (1989, 2000) work is based on research carried out by himself and his colleagues at the Institute for Liberty and Democracy (ILD). The research applies a multi disciplinary approach in which a team of anthropologists, lawyers and economists were involved. The research

incorporated a meticulous collection of a wide set of data including time series data. The team used cost benefit analysis as a tool to compare the effect of legislations. Even though not wholly presented in this review the research covers informal or extralegal operations in business, manufacture, housing and transportation sectors.

Kahn's (2002, 2003) research is based on econometric data and historical evidence. He used mainly secondary data. One of his analyses is based on Transparency International Corruption Index in which he regressed the median GDP growth rate (1980-90) and median corruption index (1980-85) of 54 countries. The population is composed of 24 developing countries, 6 high growth developers and 24 advanced countries. He extracted a graphical pattern of growth versus governance. Taking out the few high growth performing countries as outliers, he found that growth rates in high-growth developers were associated with governance indicators that were insignificantly better than the average of developing countries. He reasoned that lack of time series data including data before the take off stages of high growth developers led to a wrong interpretation by those who argue in favour of the service delivery view.

De Soto's (1989, 2000) work despite its wide popularity is much exposed to criticism. Much of the critique focuses on the validity and applicability of his findings specifically on the high claims he made on the importance of secured and stable property rights to alleviate poverty. One of his critics is Gilbert (2002). He used data gathered in newly legalised settlements of Bogota, Colombia. He commented on the assertion that legal title provides incentives to invest in house improvements, facilitates access to credit, leads to appreciation of house prices and to the development of secondary housing markets. Citing Payne (1989), Razzaz (1993) and Varley (1987), he remarked that perceived security of tenure has been more critical in releasing investment for housing consolidation than legal status. He also argued that house investment would be more likely to contribute to the granting of legal titles (Hirschman 1984, Razzaz 1993). From the same perspective, many studies have shown that the demand for formal credit by the poor for purposes other than consumption is low (Ward *et al* 2004, Smith 2003, Ward 2003, Gilbert 2002, Varley 2002). Access to credit by itself is therefore unlikely to be a catalyst for capital accumulation in contexts characterised by lack of investment opportunities, widespread risk aversion and high interest rates. Access to formal credit is based on many factors, for example, willingness

of households to borrow. Most low income people avoid the risk of being engaged in such formal credits. Lanjouw and Levy (1998:45) remarked;

Just as transfer uncertainty limits a household's ability to sell its property; it limits the bank's ability to repossess property, lowering the value of property as a collateral asset.

Location is also an important factor in determining the value of a real estate property and since the location of such settlements is rarely recognised as desirable, this also lowers the value of the properties to be used as collateral assets. Based on his observations, Gilbert (2002) challenged the opinion that secured property rights will help the development of secondary markets; by arguing that illegality has never stopped a market to develop but reduces the price. High transaction costs in the formal markets reduce the number of houses for sale. Even worse, legalisation of such settlements might lead to down-raiding by high income groups (Burgess 1982). Gonzalez (2009) discussed three problematic areas of De Soto's analysis. Among his critiques some are targeted against the exaggeration on the benefits of formal title and suggest that the benefits of formality and informality must be evaluated on a case by case basis.

It is concluded that these remarks should be viewed with respect to the specific political, socio-economic cultural, and physical context of a country. The type of government, the institutional framework and the political power distribution also play a role. For example considering the assumption made about informal settlements being tolerated by third world governments, might not be a valid assumption when faced with a government with a zero - tolerance policy towards informal settlements specifically if elections are not forthcoming.

Our critics on the works of De Soto (1989, 2000) basically focus on four areas. In the first place, De Soto's arguments take the stance of a neo classical economic analysis. His advocacy of the right of the majority of the population living under the obscure shadow of *extra legality* is laudable. As such when he emphatically advocates the role of secured property rights, which is one aspect of public institutions as a remedy for the socio-economic ills of the poor; he seems to neglect the fact that rather than the effect of a single institution it is the synergy created by the inter-relatedness of institutions that matters in reducing poverty and improving general societal welfare. This can be verified with respect to both

empirical as well as theoretical aspects. The 1985 document of Botswana Government on the Government Policy on Land Tenure (para 1.03) cited in Yahya (2002: 198) noted:

Land tenure is just one change among many which may be necessary to create or provide new economic opportunities. A land tenure change alone which runs ahead of other developments can be dangerous as it can be socially disruptive and create landlessness before other economic opportunities are available.

Though some countries in Latin America and particularly Peru have done much in legalising informal settlements, the outcomes have not resulted in a reduction of poverty. Another empirical finding is one based on the sub-prime mortgage crisis which began approximately in 2005-06 in the US and swept the whole world. It is mainly attributed to the rift between the financial institutions and regulatory institutions. Banks have been faced with non-performing loans secured against assets worth less than the values of the outstanding loans. Consequently major banks and financial organisations around the world have reported losses in hundreds of billions of USD. This was not a recent phenomenon, neither was it the first of its kind. The events following the 1968 urban revolts in the US and bursting of the global property market bubble in 1973 was followed by the fiscal bankruptcy of New York City. The banking crisis in Latvia in 1995, the UK banking crises of 1995-96, the resulting economic crises in the Far Eastern Tiger Economics were all significantly affected by conditions in the real estate market and its relationship with financial institutions. These empirical evidences prove that operations of institutions need to be construed as systems of interlocking institutions or institutional architecture rather than anticipating the positive outcomes of a single institutional aspect.

Secondly, the emphasis on illegality and the; *hidden revolution from below*, is also not without criticism. The neo liberal antidote, that markets provide all the answers, is challenged even by scholars and international organisations (Stiglitz 1999, 1998; World Bank 1998a, 1998 b.) It is now commonly agreed that the “*invisible hand*” that coordinates individual greed needs to be complemented by the “*visible hand*” in order to achieve the common good (Berner 2000:5). Changes from below also need to be complemented by changes from above, unless we want to declare open rebellion.

Thirdly, De Soto's recommendations are not only confined to housing but also claim universal applicability extending to manufacturing, retail trade and transportation sectors too. Such generalisations which do not consider sectoral differences are not always without their pitfalls. Confining our self to the research topic, real estate transactions under both state and market institutional arrangements are processes to move land resources from lower use to their best possible uses and ad[re]dressing equity considerations. Moreover, as North (2003) noted people do not live in an economic world, a political or a social world but in a world that is a blended mixture of all these. This necessitates a policy environment which enables people and their government to utilise not only their natural capital (land) or physical capital (housing, infrastructure) but all their livelihood assets in tandem both at household and city level. Changes in the economic sphere by themselves do not suffice to create an impact on the livelihood of the poor. Moreover only if reforms in the institutional arrangement are accompanied by (or lead to) changes in actual political and social practices, can vicious circles of poverty and under development be broken (Chang 2000, Putnam 1993:184).

Fourthly, regarding theory development, De Soto (2000) has suggested the same recommendations to all developing and ex-communist countries alike. The case study countries covered by his team: Peru, Egypt, Haiti, and Philippines; though they are of different historical, political and socio-economic contexts, the research did not demonstrate the potential anomalies which might lead to diagnose what effects different circumstances/situations can cause. In what circumstances do secure property rights lead to the alleviation of poverty? And in what circumstances do the gospels about "*secure property rights*" turn to bad news for the "*extra legals*"⁵? How do norms of behaviour, customs and traditions which might be different in every society with different enforcement characteristics affect changes in securing property rights? For example AlSayad (1993) made a comparison of informal developments in Latin America and the Middle East. He noted that while political participation in some Latin American contexts often sustained important gains, exactly the opposite i.e. withdrawal from all formal channels and an attempt to achieve political invisibility was the best strategy for illegally subdividing agricultural land and transforming it into informal urban housing in the Middle East. He also mentioned that land invasions most likely occur under conditions of political change in the case of Latin American coun-

tries while such occupations were more likely to occur in the Middle East during times of economic transformation. Therefore from a theory building process, for lack of circumstance-based categorisation, it is possible to observe that the theoretical conclusions are too general.

The categorisation used by Collier (2007) is important because it helps to bring forward the specific problems of the 58 poor countries being snared in the development traps. He stressed that these failed states pose the central challenge for world development in the 21st century. The set of international charters he recommended includes: a charter for natural resources, a charter for democracy, a charter for budget transparency, a charter for post conflict situations, and a charter for investment. The author's list of recommendations goes as far as to include military interventions. When differences go beyond peaceful negotiations (sometimes augmented by international sanctions to constrain those in power to obey some negotiation); the conflicting parties might inevitably resort to war. In such a situation military support might facilitate the efforts of insurgents. However, the empirical cases in East Africa have showed that foreign military interventions failed in Somalia to create peace and bring the different war lords to the negotiation table. This is one of the failed states. Most scholars agree that the ability of poor countries to catch up is determined to a large extent by the institutional environment in which economic activity takes place in these countries (Keefer and Knack 1998, North 1991, North and Weingast 1989). Though Collier (2007) upholds the position that change must come from within, the question on how such international charters as exogenous institutions interface with endogenous informal and formal institutions and can be harnessed to bring change has to be answered. Importing and adapting institutions is not as easy as importing technology and capital. It is not necessary to collect data in support of how many of the international covenants and conventions on shelter, tenure, anti eviction, and human rights etc. are relegated even by the signatory states in their respective home countries.

Khan (2002:30-32, 2003), while comparing the *high growth transformation states* which operate on corruption and rent-seeking levels which are not significantly better than failed/failing states, against the *theoretical developmental states* which effectively enforce at low cost; he does not complete his argument. He simply notes that the observation does not explain why all developing countries do not migrate towards the attrac-

tive developmental state position. Against Khan's advocacy for growth enhancing rent-seeking, the official policy of most developmental states regarding corruption and rent seeking is quite pejorative.

The *developmental state* view has recently been grabbed by some states in developing countries. However there is uncertainty when it might lead to social transformation as in the case of high growth performing countries or might be abused, being snatched by predatory states and bureaucrats, sacrificing the rights of the people which inevitably might lead to wide spread political contestation. Moreover the origin and success of developmental states has been, to the large part circumstantial (based on some specific events). A closer examination shows that each developmental state has its own historical, institutional and geo-political circumstances. Some derived legitimacy from their efforts to suppress socialist or communist agitation. The Philippines, South Korea and Indonesia can be mentioned as examples. Taking the case of South Korea, the US Government played a midwife role in the birth of South Korea at the historical moment when the expanding Soviet communist regime was looming in the northern half of the country. For example, the 1946 land reform by the US military government was partly inspired by developments in North Korea (Kwon and IlCheong 2009). The US Government used South Korea as bulwark against communism paying its huge defense bill (Castells 2000:264). By the time the geo-political rationale of the US government changed in the late 1980s and early 1990s towards a more democratized South Korea, nurturing the vitality of South Korean government was not necessary anymore. Since 1997 not only was the military dictatorship on trial but also the corrupt linkage between the authoritarian regime and the South Korean businesses was condemned (ibid: 299). Devoid of such historical and geo-political context analysis, Khan's research theory is inconclusive. Nevertheless a lesson to be learned from the South Korean experience is that the developmental state took the opportunity to spur the economic growth of the country through innovative use of generic governance tools such as policy (opportunity-oriented approaches⁶), multifunctional institutions, effective bureaucracy, and human resource development.

From the social constructivist's philosophical view point, even if the inhabitants' and actors' participation in the political decision making process is not required, their perceptions need to be taken into account. On the other hand, as Gilbert (2002) commented, a populist capitalism

in which the population becomes capitalist through the establishment of secured property rights (the hidden revolution of informality) is a utopia. Here in lies the gap which necessitates an alternative analysis of formal-informal institutional interfaces in a specific political, spatio-economic and socio-cultural as well as demographic context. This is what this research aims to clarify.

4.5 Alternative Theoretical Perspective

When one searches for an alternative theoretical perspective one needs to try many approaches to discover what most likely will fit a development context. One of these alternative theoretical perspectives is the '*rights based*' approach. What alternative theoretical perspective can the '*rights based*' approaches contribute to theory development? For example the view of one of the ardent advocator of the '*right to the city*;' Harvey (2008:38) directly contrasts Khan's approach to social transformation view when he notes;

Neo liberalism has ... created new systems of governance that integrate state and corporate interests, and through the application of money power, it has ensured that the disbursement of the surplus through the state apparatus favors corporate capital and the upper classes in shaping the urban process.

Harvey denounces such a collision of financial powers and the state behind the process of '*accumulation by dispossession*' which lie at the core of urbanisation under capitalism.

The concept of the '*right to the city*' was originally coined in the late 1960s by the French philosopher and sociologist Henri Lefebvre (1901-1991). A central theme in his work (Lefebvre, 1967) is the perception of the city as an '*oeuvre*', a collective artwork of all the inhabitants and users (not limited to the citizenship) of a city. They can contribute to the *oeuvre* by collectively shaping the future of urban space and by inhabiting their environment actively. The main idea was the formulation and materialisation of a new political contract (replacing the notion of Rousseau's '*social pact*' that has determined the long standing framework of liberal legalism) in order to reduce the gap between the state and citizens, and between the institutional power and the power of civil society. According to Lefebvre (1967) some of these interrelated political rights which still need to be fully recognised include: the right to information, the

right of expression, the right to culture, the right to identity in difference and in equality, the right to self management (i.e. democratic control of the economy and politics), the right to public and non-public services and above all the right to the city. The '*right to the city*' basically has two pillars: the right to habitation (appropriation) i.e. the right of all city dwellers to fully enjoy urban life with all of its services and advantages; and the right to participation i.e. taking direct involvement in the management of cities. According to Lefebvre the appropriation of space is more important than the domination of those who own it. Everybody has the inalienable right to use all space including centrally located space. As an *oeuvre*, Lefebvre (1967) stressed the need for the full recognition of use values over the excessive emphasis on exchange values to redress the historical imbalance which was typical of the capitalist production of the urban space. This implies the social function of space is more important than the profit that can be made by exploitation or selling⁷ it.

Lefebvre's work has been interpreted in different ways. His concept of the '*right to the city*' was taken to be more of a political-philosophical platform and did not directly explore how, or the extent to which the legal order has determined the exclusionary pattern of urban development. UNESCO and UN-HABITAT (2009:15) conceded that;

"Lefebvre's work was disconcertingly vague as to how it could be implemented"

and that there is no practical guidance on what the right to the city entails or how it can influence relations between urban dwellers and the state. As stressed by some scholars, there is an urgent need for further research on how the idea of the '*right to the city*' can be grounded, without being confined to an abstract and ineffective claim. Harvey's contribution of the '*right to the city*' turns the abstract ideas of Lefebvre into practical aspects of urban development and governance. It is a shift from private property and the profit rate to upholding the social function of the city and property. Harvey (2008) insisted the right to the city to be established by granting a greater democratic control over the land rent and development gains.

To facilitate the search for an alternative theoretical perspective, four categories of countries with respect to transition have been entertained. This categorisation is based on two correlated aspects of transition: demographic transition and economic transition. Accordingly the categories include:

1. Countries with the demographic transition completed but still in the peripheral capitalism of transition to market economy e.g. Latin American countries, some post-communism transitional economies of Eastern Europe;
2. Countries where the demographic transition has not yet been completed and categorised as developing countries without an industrial base and found to be at an early stage of transition to the market economy e.g. former socialist oriented states e.g. Ethiopia, Tanzania, Mali;
3. Countries where the demographic transition has been stabilised with matured capitalist economy e.g. OECD countries;
4. Countries where the demographic transition is either dynamically progressing or is policy regulated and are classified as emerging market economies e.g. emerging economies and China.

The second category of countries are demographically still in the '*peopling*' process. The demographic transition has not yet stabilised, marked by an ongoing high rate of rural-urban migration and a high rate of urban growth. From studies carried out by Arnaud (2000, 2003) and Cour (2003a, 2003b) on the urbanisation history of developed countries by comparing logistics curves of their level of urbanisation, a country is said to be demographically stabilised when its urban population reaches eighty percent of its national population and the remaining twenty percent agricultural population is able to feed the urban population. This has a tremendous implication on the structure of the real estate sector in the cities and towns of least developing countries. The trajectory followed by economic transformation of developed countries is marked by a transition from agriculture (rural) to industrialisation (manufacturing) followed by the service and knowledge based urban economy, currently known as the '*innovative economy*'. On the other hand, in the least developing countries, where the urban-based economies are taking over the agricultural economy in their share of GDP, the primary sector still contributes around half of the GDP and employs the majority of the work force. The economic transformation is also not characterised by a transition from agriculture to industrialisation but rather to an urban economy marked by informality dominated service sector activities.

Informality fuelled by high rural – urban migration rate cannot be a trivial development issue in the current demo-economic reality of poor developing countries. The concern includes the migrant labour force

with their scanty or rudimentary skills, their shelter, petty economic activities, the stock of capital for their livelihood and also their norms of behaviour. This implies that poor developing countries are marked by *time-space bound and circumstance based multiplicity of development occurrences*. This does mean the coexistence of formal and informality, mixity in land use, customary and modern tenure, and diversified income groups etc.

No single development approach can solve the problems of such poor developing countries, and no single actor can single handedly improve the situation. Development in such countries marked by *time-space bound and circumstance based multiplicity of development occurrences* necessitates a 'staged, multi-level cocktail approaches' to development interventions. Such interventions need to be based on a strategic plan not driven by a 'big bang' distant vision but a series of effective courses of actions led by short-to-medium opportunity based (situational) visions which converge to broad fundamental collective goals. It necessitates *interactive* approaches which shape and respond to changing trends over time. Such approaches might be sometimes experimental (piloting), opportunity – oriented approaches, and leap frogging (mentioned in Van Dijk et al. 2001, and Van Dijk 2006). A development situation where multiple actors contribute their efforts towards achieving common targets necessitates organising capacity (Berg et al. 2002, 2003). Three bodies of theories which comprise decentralisation, competitiveness and the New Public Management with their respective methods and tools have been discussed in Van Dijk (2006). This has incurred enormous political, economic and social costs for the government and population of poor developing countries. In the real estate sector, these new approaches mean:

- Hybrid institutional arrangements (Etounga-Mnaguele 2000),
- Multiple tenure types (UN-HABITAT 2003, 2004),
- Flexible strategic structure plan + mixed use planning (Coetzee and Serfontein 2002, Hamdi 2004, Cities Alliance 2007),
- Upgradable tenure system (UN-HABITAT 2004),
- Abundance of raw (not serviced) urban land for residential expansion (Arnaud 2000, 2003 and Cour 2003a, 2003b),
- Incremental construction and development (Turner 1968, 1976; Siddiqui et al. 1994),
- Preferential regulations and incremental standards (Turner 1968, 1976), and

- Building livelihood stock capital; not working against it (Chambers and Conway 1992, Moser 1998, and Rakodie 1999).

In ‘*staged and multi-level cocktail*’ approaches, distinction should be made between addressing strategic issues of development and development interventions at the community level with the aim to create a relatively decent living. Compromising on opportunity based strategic development issues and missing the opportunity might back fire deadly. As a demonstration of this approach, one can look at the strategic plan of Addis Ababa. Addis Abba is marked by slums, under-serviced (informal) residential expansion, unemployment, environmental and sanitation problems. Strategic interventions more or less addressing these problems have been incorporated; however the opportunity factor for Addis Ababa being the ‘*diplomatic center of Africa*’ might create much impetus for the transformation of the city and constitute a question of national pride. However inspite of its popular hospitality and peace this has not been adequately addressed⁸ as an opportunity to spur the economic growth of the city. There are also key roles that the government needs to play as agent of economic transition and social transformation as well as the role of delivering services administered at the different levels of the hierarchy. There is also a possibility to utilise a variety of institutional forms which include formal institutions of hierarchy and market as well as customary and informal institutions, and hybrid forms of institutional arrangements. The hypotheses for testing these propositions are shown in Table 2.2.

Notes

¹ *Extra Legal* implies operating outside of the law or beyond the scope of the law or the state’s regulatory framework while *illegal* implies subversion of the law.

² Focusing on institutions to examine potential locations of state failure during the transformation, it is assumed that states can differ in terms of institutions and policies observed during transition, how effectively these institutions were enforced, the cost of enforcement and the processes of driving institutional changes.

³ Rents are incomes that individuals can earn that are higher than in their next best opportunity, thus, rents exist if those in the next best activities are prevented from getting access to particular resources or opportunities. This could be because of protected rights over information, monopoly rights to supply particular markets, rights over subsidies, or even rights over a valuable resource. Rent seeking consists of activities such as lobbying and corruption to persuade states to

create rents while at the same time waste resources in unproductive persuading activities (Khan, 2002). Corruption is a form of illegal rent-seeking where the rent seeker uses bribes to influence public officials (ibid).

⁴ Based on Krueger's (1990) definition of government failure, states failure is defined as consisting of both *errors of omission*, when the state fails to do things that could have improved economic performance, and *errors of commission* when the state does things which worsens economic performance (Khan, 2002).

⁵ The cost of titling might become too high in terms of charges for installation of services, property taxes (Ward, 1989) tenants might suffer from raised rents, and might turn victims of down raiding from higher income groups (Burgess, 1982)

⁶ Opportunity oriented approaches to development policies are *serendipitous*, approaches where opportunities for one aspect of development can be found in another policy sphere (Berg et al., 2003a:3, 2003b:1977). Taking the case of S. Korean developmental state as an example, the land reform in addition to providing access to means of production (land) and poverty reduction resulted in the creation of a reservoir of educated human resources. The education reform and pension scheme were utilized to promote industrial growth.

⁷ In recent years the right to the city has gained new attention. There are already regional, national, and municipal instruments such as The Charter of Educating Cities, The European Charter for Safeguarding Human Rights in the City, The European Charter for Equality of Women and Men in Local Life, The Aberdeen Agenda of the Common Wealth Local Government Forum, the Brazil City Statute of 2001 and the Montréal Charter of Rights and Responsibilities. UNESCO and UN-HABITAT have also launched the joint research project under the name of Urban Policies and the Right to the City: Rights, Responsibilities and Citizenship in March 2005 (UNESCO and UN-HABITAT, 2009). UN HABITAT's new report 2010/2011: Bridging the Urban Divide, recommends giving every resident the; "*right to the city*" in which they live.

⁸ Reference is made to: City Government of Addis Ababa (April, 2002), Strategic Development Framework (SDF) and the Strategic Development Action Plan (SDAP).

PART 2: Frameworks & Research Design

5

Theoretical & Analytical Framework

5.1 Introduction

The road map for this research takes us from the process of identifying variables and developing indicators to research approach and design. The research basically follows the empirical research cycle. The adopted empirical research cycle is a reiterative process which includes: setting the philosophical and theoretical proposition, *conceptual framework (conceptualization)* which has been done in chapter three, *theoretical framework (formalization)*, *analytical framework (operationalisation)* (Wong 2006:106-109); deciding on the choice of research strategy and method, preparation of observation (choice of methods, selection of unit of analysis, sampling etc.), observation, data analysis (hypothesis testing and logical inference), again revising as the research unfolds until reporting and compilation of the thesis. The theoretical and analytical frameworks have been developed by taking essential elements of Williamson's (2000) level of institutional analysis, Ostrom's (2005) Institutional Analysis and Development framework (IAD), North (1990, 2003) and Lauth's (2000) interaction of formal and informal institutions, Beker (2003) and Pentland and Associates' (1996) recurrent interaction patterns.

Williamson (2000) distinguishes four layers of institutions for analysis. The first layer refers to the *informal institutions* i.e. values, traditional norms, attitudes, customs etc. The second layer refers to the *formal institutions* i.e. the legal rules and laws. The third level concerns the so called "*institutional arrangements*" i.e. looking for an efficient transaction – cost minimising governance structure for each specific transaction cost. Finally at the fourth level Williamson refers to the *market* as the institution that coordinates demand and supply optimizing marginal conditions. Williamson also indicates the types of theories that are useful to study

the institutions at different levels. Accordingly he recommends ‘social theories’ for level one, the theory of property rights for level two, and transaction cost economies for level three. For level four in which marginal analysis is central, he recommends the neo classical and agency theory. Figure 5.1 summarises the four levels of institutional analysis.

Figure 5.1:
Levels of institutional analysis

Levels	Purpose	Theories
Level iv: Market Supply and demand: prices and quantities	Get the marginal conditions right	Neo classical and agency theory
Level iii: Institutional Arrangements (governance Structure) Aligning governance structure with transactions	Get the governance structure right	Transaction cost economies
Level ii: Formal Institutions Formal rules of the game	Get the institutional environment right esp. for property right	Property rights
Level i: Informal Institutions values, traditional norms, attitudes, customs etc.	Spontaneous societal	Social theories

Source: Williamson (1998:26, 2000)

In the case of developing countries, taking real estate property (land and non-land) as a research focus, we can distinguish between the study of informal institutions in traditional rural communities (close knit rural communities) in which case, the theory of collective action for the management of common pool resources is more relevant; or communities in transitional stages (newly incorporated urban communities), and market based (urban) communities. In a close-knit homogeneous community, informal institutions as a product of collective action and unwritten codes of social conduct may serve to coordinate members’ expectations and behaviour. However, being culture specific, informal institutions may not be sufficient to provide order in the absence of formal institutions when society becomes diverse and heterogeneous (World Bank, 2002). In the later cases theories of property rights and transaction cost economies are also relevant. However, depending on the specific nature

of the arena and the scope of the research, institutional analysis, more importantly, needs to be studied in a continuum across levels.

The second and third sections discuss the theoretical and analytical frameworks. The fourth section explains the research approach and design.

5.2 Theoretical Framework

Theoretical framework, also known as *formalization*, is the further unfolding of the theoretical ideas, reviewing and summarising of theories to generate variables and their linkages (Wong 2009:108-109). Following the conceptual framework and the literature review and in line with the research problem, questions and research hypothesis; it is now possible to identify the major variables and their linkages. Some of the variables like Globalisation, the national and city level politico-administrative, spatio-economic, socio-cultural and demographic aspects are context variables. Even though not directly analysed, they considerably influence the relationships between the main variables and the outcomes. The national and city level contexts will be discussed in Chapter six.

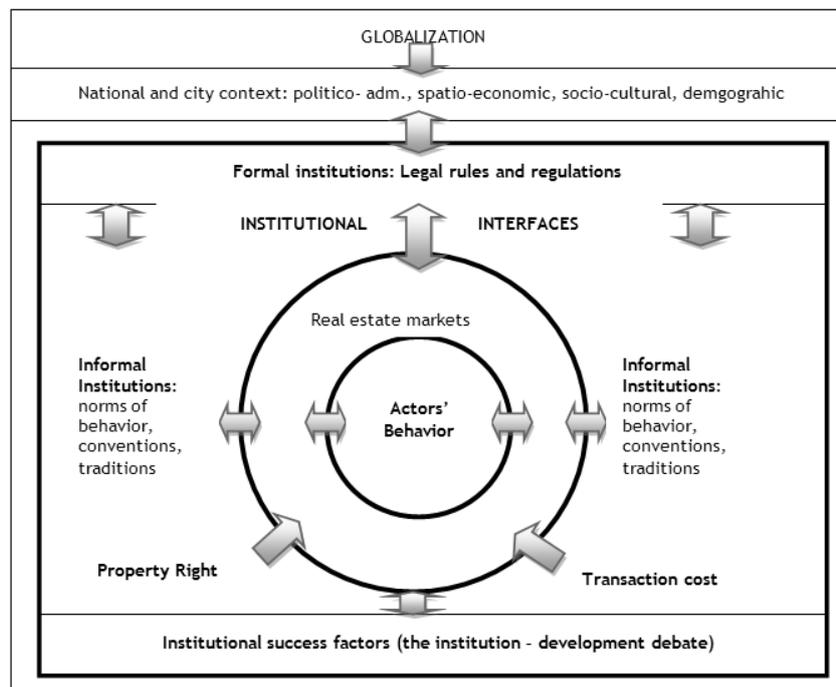
Globalisation as a competitive threat and an opportunity has forced local initiatives whether in agriculture, industrial or real estate developments, to tune with the resonance of global changes. It has become a major force in influencing the policies and institutions of national and city governments. *National and city level* politico-administrative, spatio-economic, socio-cultural and demographic contexts are the exogenous context factors which shape institutions pertaining to the transitional real estate markets of Addis Ababa. Institutions in return affect behaviour of actors in an economy. Changing contexts can alter available problems and opportunities of development and subsequently result in the change of institutions and policies (Florensa 2004).

In an increasingly urbanised world and urbanisation of poverty, and the aftermath of the repeated failure of most previous development strategies; the development debate is now revolving more and more around *institutional development*. In an economy dominated by informality, the formal-informal *institutional interfaces* and the way they influence behaviour of urban actors is central in institutional development. In both developing and post-communist East Europe, the right to property has become the central agenda in the transitional economy debate. Hence

property rights and *transaction costs* are selected as the two major indicators for the study of institutional interfaces. The relation between property rights and transaction costs is intimate. For example, Barzel (1997:4) defines transaction costs as the costs associated with the transfer, capture and protection of property rights. Allen (1991) defines transaction costs as the costs of establishing and maintaining property rights. Both Eggertson 1990 and Barzel 1997 defined transaction costs in terms of property rights, as the resources spent on delineating, protecting and capturing control over resources in use and exchange. Both North (1990) and De Soto (2000) share the same opinion on the role of informal rights by stating that such rights come at a high cost because the lack of formal property right safeguards, restricts activity to personalized exchange systems that can provide self enforcing types of contracts.

Moreover transaction costs are unique for each market participant. This nature of transaction costs draws attention to study the *behaviour of actors*. Institutions pertaining to property rights and transaction costs create incentives and constraints in governing *actors' behaviour* in the real estate market. From evolutionary and institutionalist economic paradigm it has been ascertained that micro economic behaviour of actors is not only driven by utility maximization but is rule/institution guided and influenced by culture and history i.e. path dependent. Figure 5.2 depicts the theoretical framework to answer the main research question on how formal and informal institutions interface and influence behaviour of actors.

Figure 5.2:
Theoretical framework



5.3 Analytical Framework

The analytical framework referred to also as *operationalisation* is related to the conceptual as well as the theoretical frameworks and is basically the identification of the attributes/indicators for each variable, how they interact, how they are measured and establish causal relationships (Wong 2009:108-109). The top-down approach in generating variables has been followed, that is, from prior analysis of the basic concepts to a further unfolding of detailed levels of variables. The analytical framework is developed with reference to Williamson's (2000) level of institutional analysis. It draws on essential inputs from Ostrom's (2005) Institutional Analysis and Development framework (IAD), North (1990, 2003) and Lauth's (2000) formal and informal institutional interaction, Becker

(2003) and Pentland and Associates' (1996) Recurrent Interaction Patterns (RIPs).

A common methodological approach to all three is their consideration for specific context, explanation of actors' course of action through the linkage between antecedents (opportunities and constraints), resultant actors' behaviour (recurrent interaction patterns, and behaviour of interest) and outcomes or consequences.

5.3.1 Analytical Framework for Institutional Interfaces and Actors' Behaviour

The Institutional Analysis and Development (IAD) framework was developed by Ostrom and colleagues at the Workshop in Political Theory and Policy Analysis, Indiana University (Ostrom 2005). Going through some of the research works which applied the framework, most of the applications focused on the study of the performance of common pool resources which include case studies on forests, irrigation systems, meadows, etc. Most often than not, such common property rights are based on traditionally established praxis, customary laws etc., which are not always sanctioned by the legal apparatus of the modern state. Therefore the main concerns in such studies have been the crafting of institutional arrangements that offset the incentives to over harvest, overcoming problems of free riding and ultimately enable individuals to achieve and sustain self-governing ways of life. On the other hand, property arrangements in an urban setting dichotomize property into private and public domains. Urban plots, whether with possessory or usufructuary rights are subject to high excludability and public properties are marked with non-excludability and being non-rivalry. It is also true that urban communities can also contain diverse ranges of collectively managed goods such as services and infrastructure. New forms of common property resources such as condominium and house owners associations are also emerging. Nevertheless, in contexts where urban land is under government ownership, it is administered through government regulations, therefore the institutional arrangement for urban real estate markets inevitably depends on the institutional interaction between formal (state) and informal institutions.

Central to the IAD approach to institutional analysis is the identification of a conceptual unit called the *action arena* and the analysis of a configuration of actors, and institutions and their change within its parame-

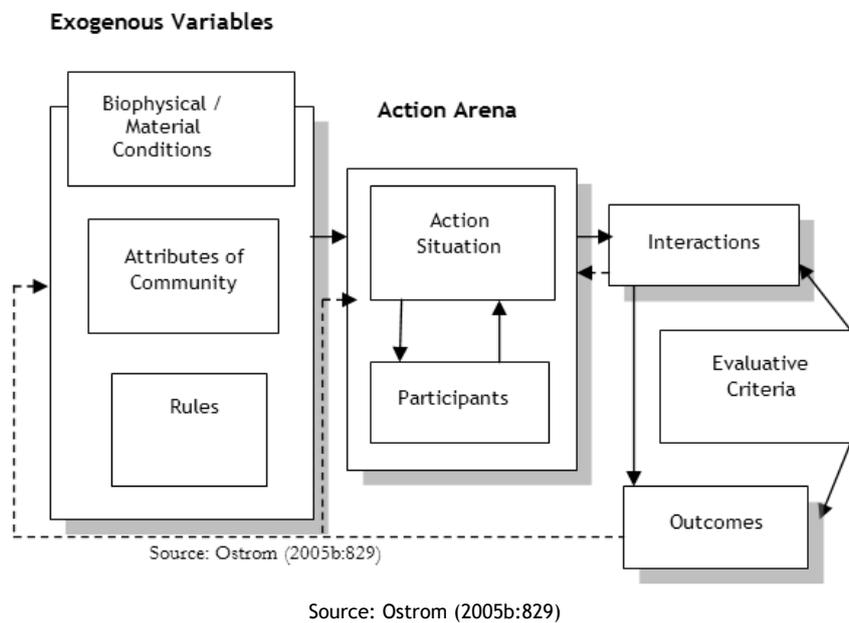
ters. Action arena is the focus of examination, mapping and prediction. It is composed of two components an *action situation* component and an *actor* component. *Action situations* refer to: the social space where individuals ‘interact, exchange goods and services, engage in appropriation and provision activities, solve problems, or fight,’ and is determined by a set of factors – the rules organising inter individual relationships, the attributes of a *physical world*, and the *nature of the community* within which the arena is located (Ostrom et al. 1994 cited in Aligica 2006:87). These three factors are also taken as factor variables that determine the structure of the action arena. They jointly affect the type of actions that individuals take, the benefits and costs of these actions and potential outcomes, and the likely outcomes achieved (Ostrom 2005b).

Action situation can be explained or characterised by variables which include participants who have positions, preferences, information processing capabilities, selection criteria and resources and who must decide among diverse actions (exercising control) in light of the information they possess about how actions are linked to potential *outcomes* (action-outcome linkages) and the costs and benefits assigned to actions and *outcomes*. Participants and action situations interact as they are affected by exogenous variables (*antecedents*) to produce outcomes that in turn affect the participants and the action situation. Overtime outcomes may also slowly affect some of the exogenous variables (*antecedents*). However, for the purpose of analysis the exogenous variables are treated as fixed (*ibid*). This is incorporated into the research analysis method as shown in Annex 15: Ethnography – Case Study Analysis Schema.

The *development* aspect of the IAD approach connotes policy implications. Rules as part and parcel of policy concerns are given special attention. Rules are seen as prescriptions that define what actions (or outcomes) are required, prohibited, or permitted and also the nature of sanctions that result from failure to follow them. Ostrom (1990) notes three levels of rules. Constitutional choice rules determine who is eligible and the specific rules to be used in crafting the set of collective-choice rules that in turn affect the set of operational rules. Formulation, governance, adjudication and modifying constitutional decisions occur at the constitutional level. Policy making, management and adjudication of policy decisions occur at the collective level. Appropriation, provision, monitoring and enforcement occur at the operational level. However, since most social reality is composed of a multiple arena linked sequentially or

simultaneously, a complete procedure will take into account and deal first with each of them separately, it seeks the linkages at various levels and then analyses them in conjunction (Ostrom 1990).

Figure 5.3:
The institutional analysis & development framework



Depending upon the nature and configuration of the physical environment and the nature of goods (Common pool resources, public goods, toll goods or private goods) that are objects of human action, the same *rule configuration* may yield different types of *action situations*, patterns of interaction and outcomes. The same applies to the relationship between attributes of community – its size and structure and the final outcomes. To sum up, the IAD approach is built around three mapping procedures in a predetermined framework.

1. Identifying and mapping the action arena (action situation and actors),
2. Identification of factors determining action arena (the rules, the attribute of the physical world, and the nature of the community),
3. Elaboration of projection of how (1) and (2) once put together generate patterns of interaction and specific outcomes over multiple action arenas (Figure 5.3).

One of the features of institutions is their predictability and stability. In order to be predictable, institutions require repetitive human interactions to emerge (Ostrom 2005a, Knight 1992). The stability of institutions establishes expectations of different actors in a social system that in turn, influences current and future actions as well as outcomes. When institutions are unstable and unpredictable it is difficult to observe regularised actions among different actors (Ostrom 2005a). In this regard, one of the objectives of the work of Becker (2003), *Operationalising Routines: Linking Antecedents, Characteristics, and Performance Outcomes of Routines*, is to review the methods for operationalising organisational routines. Though the basic term *routine* is used to mean organisational routine, the structure and the procedures can be adapted to map the behaviour of actors in an economic activity.

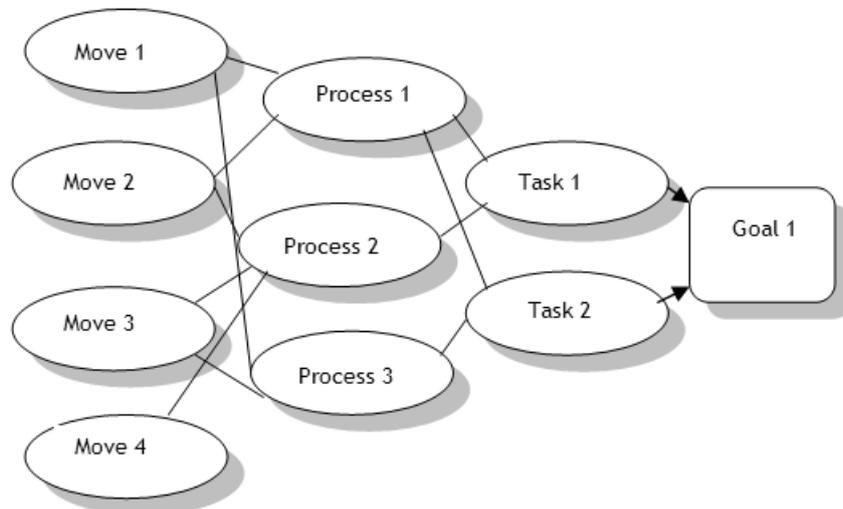
Routines are taken as repetitive, stable activities (Nelson and Winter 1982). Routines indicate regularity in economic activity and regularity in economic activity shows regularities in behaviour. Winter (1986) refers to routines as behaviour. Hargreaves (1989) includes routines in his list of informal institutions along with behavioural norms and codes of conduct. Routines as institutions are social, not individual phenomena. Becker (2003) instead prefers to use the phrase '*recurrent interaction patterns*'.

Two key dimensions characterise recurrent interaction patterns; repetitiveness and similarity. Repetitive interaction patterns refer to some unvarying repetition of an activity. Based on Pentland and Associates (1996) concept of sequential variety, they are measured by directly comparing sequences to each other, that is *string matching techniques* or by comparing the set of observed sequences to a *completely random process*. Patterns of interactions refer to regularised and observable behavioural outcomes of actors acting within a specified set of rules. In these interaction processes actors reinforce existing institutions or create new institutions.

Actions plus patterns of interactions will result in outcomes which have direct effects on wellbeing.

The Pentland method encompasses four stages: identifying *content*, *process*, *sequence*, and *combination constraints*. *Content* refers to the description of the content of action, the actors, goals, artifacts and context to understand how and which processes are taking place. *Process* refers to analysis of *moves* i.e. the breaking down of processes into their moves to describe the way these processes are accomplished. *Sequence* refers to aligning combinations (*sequential variety*) i.e. separately analysing sequences of moves and constraints to the combination of moves. Analysing combinations and constraints basically originates from two sources: Constraints that emerge because of the different kinds of interdependencies between actions, and constraints arising from institutions 'external' to the action. It could be for instance - social, institutional, technological, coordination, culture and cognitive structures (Pentland 1995).

Figure 5.4:
Recurrent Interaction Patterns (RIP)

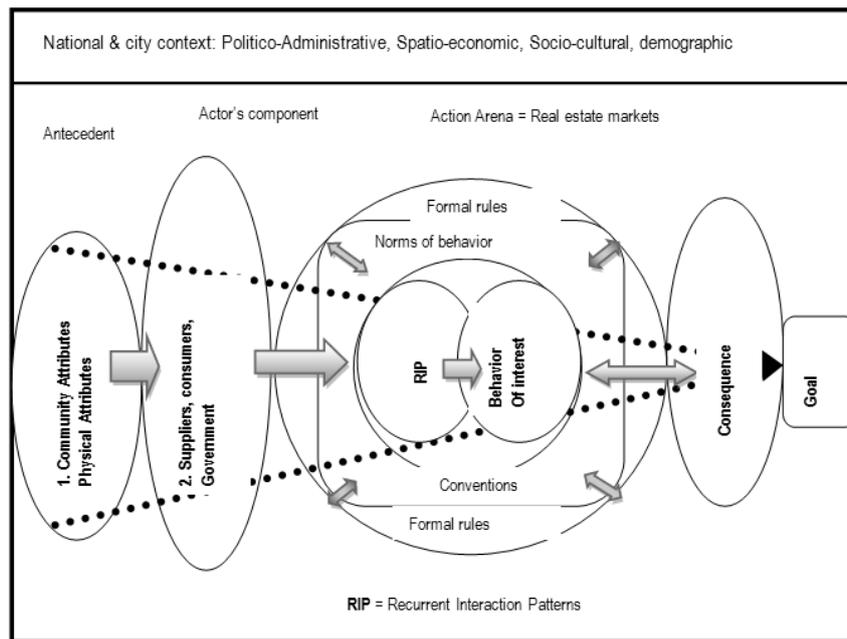


Becker (2003) describes in depth recurrent interaction patterns. They are further divided into *moves* of the different *processes* for achieving different *tasks*. Once these are known, he recommends two measurements to be used as a way of analysis. *Lexical variety* is the variety of steps employed in order to achieve these tasks. It is measured by asking; How large is the lexicon of moves? Or how many kinds of different moves were observed? Or How far does the distribution of different moves deviate from the uniform distribution? The other measurement refers to the *sequential variety*. *Sequential variety* is defined as the variety of the different combination of moves to achieve the same goal. This is helpful to understand how informal work practices differ from formal guidelines. Once the moves of the different processes for achieving different tasks are identified, sequential variety can be measured for a given lexicon of moves: Is the sequence always the same? Or can it vary depending on the circumstances? See Figure 5.4.

To understand the larger picture it is important to link the *recurrent interaction patterns* to their *antecedents* i.e. the environmental conditions or stimulus changes that exist before the behaviour of interest, and to the *outcomes*, which are stimulus changes that follow the behaviour of interest. Based on the theoretical framework provided by the Institutional Analysis and Development (IAD) approach and the operationalisation details of Pentland and Associates (1996), an adapted analytical framework for mapping institutional interfaces and actors' behaviour can be worked out as shown in Figure 5.5.

Context provides the historical, politico- administrative, spatio-economic, socio-cultural, demographic and institutional environment in which development activities or interventions are conceived and implemented. Context determines opportunities and constraints. History influences the path dependency on the accumulated experience and skills for example on cooperative action and concerted efforts of existing communities symbolised in the existence of historical buildings and stories. Political ideas and ideologies shape the mental constructs that individuals use to interpret the real world around them and make choices. A common cultural heritage provides a means of reducing the divergence in mental models. Social evolution, economic base and the environment crystallize in distinct social values. Existing and proposed institutions (as rules and regulations) limit the socio-economic space and the rule – boundedness in which actors make their choices and take action.

Figure 5.5:
Analytical framework for mapping institutional interfaces and actors behaviour



Antecedents as environmental conditions before the behavior of interest can be taken as problems and opportunities. *Actors* include suppliers, consumers or users, government and the go betweens like real estate agents and speculators. Processes which are located within *Recurrent Action Patterns* (RIP) include the major processes, for example, in the case of real estate development by developers, it can include acquisition, authorisation, implementation and administration. *Behavior of interest* is a result of the interface between formal institutions (rules and regulations) and informal norms of behavior, for example, non-compliance. *Consequences* are stimulus changes that follow the behavior of interests. Creation of an alternative institutional arrangement can be mentioned as an example. *Goals* or outcomes include the desired results, for example, being owner

of a plot of land or a house. See Annex 14 for the schedule of operationalisation.

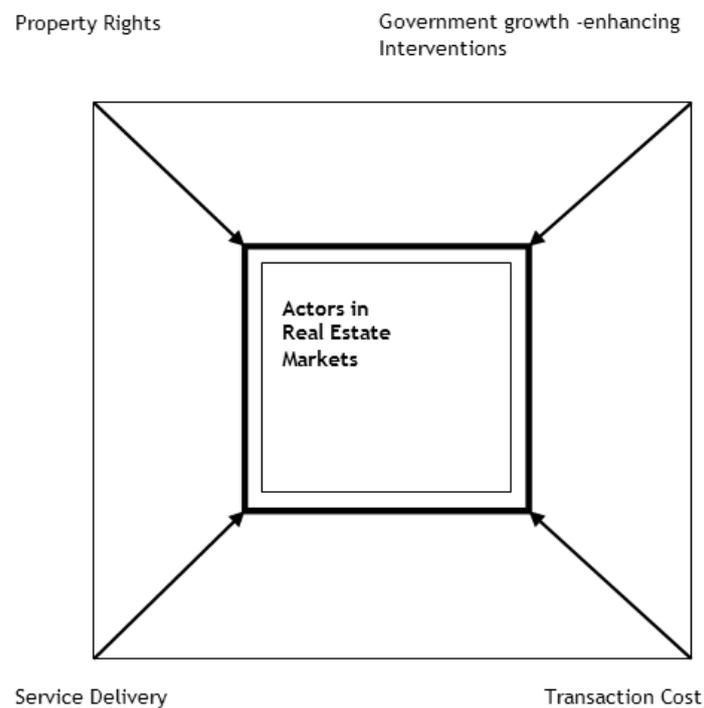
5.3.2 Analytical Framework for the Study of Government (Hierarchy) as Coordinating Institution

The approach to establish an analytical framework for the study of government as public authority starts with identifying the economic functions of government. The three main economic functions of government are: to increase efficiency, to promote equity and foster macroeconomic stability. Government increases efficiency by promoting competitions, curbing externalities, and providing essential public goods. Nevertheless even if markets work efficiently they do not lead to a fair distribution of resources. The government by using taxes and transfer payments has to play a redistributive role (Samuelson and Nordhaus 2005). Moreover, not only through fiscal and monetary policies and other legal instruments; governments being beholders of *legitimate violence* are the legitimate organs to enforce institutions, collect taxes, redistribute income wealth, resolve conflicts and enforce social cohesion (Khan 2002, 2003). According to Herath (2005) governments beyond exercising their power of *legitimate violence*, must support indigenous management institutions through conflict resolution support and empathize with the claims of poor people in the case of elite group domination in institutions and facilitate the effective functioning of traditional and indigenous organisations and local systems of management. The point here is how to come up with an analytical framework to analyse the part played by government (hierarchy) acting as the public authority in performing the above functions, play its role in coordinating and regulating economic behaviour of actors and manage transition in the specific case of transitional economies.

A model for understanding institutional failure developed by Wood (2000) in the case of Bangladesh is known as the *Institutional Responsibility Square* which comprises of the four institutional domains of state, market, community and household. The model is used to assess the general issues of governance. The framework uses the two notions of *prisoners* and *escapees*. The *prisoner, metaphor* is used to explain how different classes are forced to pursue their livelihoods under the trap of constrained environment of the four institutions. The strategic agenda for institutional improvement based on the principle of shifting people's right from the problematic uncertain sphere towards the formal relations, formal rights

is expressed as *escape* from the prison. Following Wood's schema, a framework for the analysis of government (hierarchy) as the coordinating institution is shown in Figure 5.6. For convenience of analysis, four variables have been used to analyse the role of government as coordinating institution in the real estate market. These are: property rights status, transaction costs, service delivery and government growth enhancing interventions. The logic behind the framework is on how the activity of real estate market actors in pursuit of their goals is affected (expressed by deformation of the central square) by action of government (hierarchy) at the four corners representing the independent variables.

Figure 5.6:
*Analytical framework for the study of government (hierarchy)
as a coordinating institution*



5.3.3 Synthesis as Analytical Framework for Analysing Institutional Arrangements

In order to analyse at institutional arrangement level, all the findings of the different case studies are synthesized and confronted with the development – institutional debate. The aim is to look for a conducive institutional arrangement for transformed real estate markets which contribute to urban development. The results will be compared with the alternative theoretical perspective which in the mean time lead to support or refute the hypothesis. This will be followed by a reiterative cycle of explanation building, including revision of the alternative theoretical perspective in line with the case study analysis techniques.

5.4 Research Approach and Design

The selection of research approach and strategies for the study of institutions and actors' behaviour falls outside the most frequently used research methods and strategies. Contemporary scholars involved in institutional and behavioural research (e.g. Johnson and Onwuegbuzie 2004, Aligica 2006, and Helmke and Levitsky 2003) recommend an eclectic combination of strategies and methods. An eclectic combination of multiple-cross case study, ethnography and survey has been adapted for this study. The assumption behind the choice of methodological pluralism was that such a combination would reveal different ways of seeing institutional interactions and actors behaviour. It is also assumed that triangulation among multiple sources of evidence and analytical results of the various strategies helps to maintain validity and reliability. Further elaboration on the eclectic combination of strategies will be given later. This section on research approach and design is a continuation of the preceding sections on the search for frameworks. Following the empirical research cycle, it is preceded by highlighting the epistemological and ontological viewpoint and discusses the details of the constituent parts and mechanisms of the eclectic research strategies. Finally it culminates with the analysis techniques and methods of maintaining validity and reliability.

5.4.1 Research Approach

This study is embedded in a specific political, economic and social, cultural and historical context. From the epistemological and ontological

view point, the research is based on the *constructivist realism* philosophical view which is a variant of *social constructivism*. The research also shares the *social constructivist* view's claim that meanings about situations are formed through interactions (socially) through historical and cultural norms. This is in line with the institutionalist theory about behaviour. The institutionalist economics paradigm in its original content focuses on understanding institutions giving importance to history, culture and path dependencies (Williamson 1998). This tenet of institutional economics is important in studying the interface between formal and informal institutions. Hence in this research much use has been made of the institutional economics paradigm with insights from the evolutionary paradigm and behavioural economics.

5.4.2 Research Strategy

Research relating to institutions and behaviour is a complex undertaking which falls outside the most frequently used research strategies like survey and case study. Some scholars who worked in related research areas highly recommend an eclectic combination of ethnography, statistics, life history and organisational history to do full justice (Aligica 2006). Regarding research on informal institutions, Helmke and Levitsky (2003) noted that advances are likely to come on a variety of fronts, ranging from abstract modeling, to ethnographic studies to survey research. To capture the interfaces among institutions and their influence on the behaviour of actors we need research strategies which allow us not only *in-depth* but also *in-breadth* study. Hence for this research an eclectic combination of survey, multiple-cross case study and ethnographic research strategies has been employed. The eclectic method allows one to combine the relative strengths of each strategy, while compensating the relative weaknesses by strengths of the other strategies. The major strength of ethnography is that it is the most intensive and in-depth (by taking only one culture) research. This strength of ethnography makes it helpful in the study of actors' behaviour. Knowledge about what happens on the ground through ethnographic in-depth study can provide vital information to challenge our assumptions (Meyers 1999). On the other hand the major weakness of ethnography is lack of breadth. This is compensated through multiple case studies and survey methods. Specifically the major strength of survey research is in-breadth study (how wide spread is the phenomenon?) based on survey questionnaires on respondents

drawn from a properly selected and representative sample and analysed statistically to make accurate inferences to a larger population. The main strength of case study is depth - detail, richness, completeness and variance, however to a lesser degree compared to ethnography. According to Smelser and Baltes (2001:1513) case studies and statistical methods can; "*Achieve far more scientific progress together than either could alone*".

The root word *eclectic* is defined in the American Heritage Dictionary of the English language as "*choosing what appears to be the best from diverse sources, systems, or styles*." Methodological eclecticism involves selecting and then synergistically integrating the most appropriate techniques. Such research requires a wide-angle lens utilising all data sources available to answer research questions. In research literature, eclecticism is more often considered as a combination of quantitative and qualitative methods. Mixed method research is invariably referred as multi method research, mixed methods, mixed methodology, mixed research, and integrated research. Mixed methods research is defined by Johnson et al. (2007:123) as:

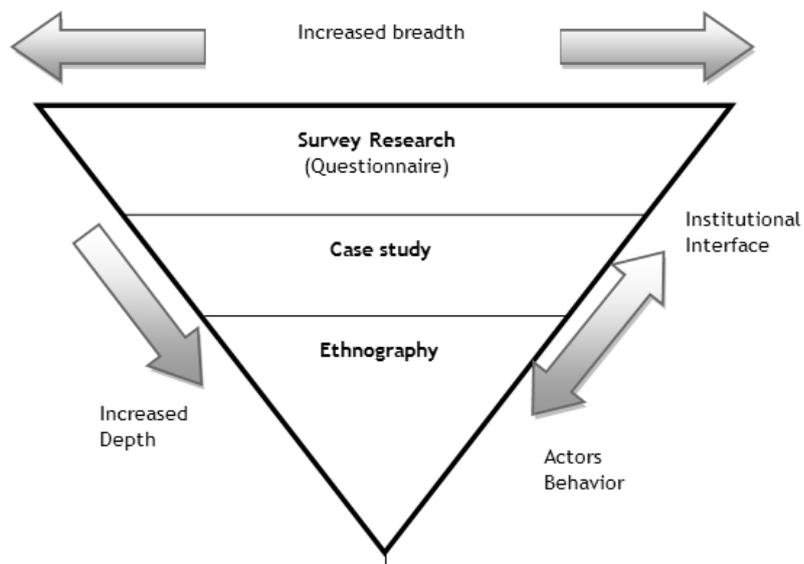
...the type of research in which a researcher or team of researchers combines elements of qualitative and quantitative research approaches ... for the broad purpose of breadth and depth of understanding and corroboration (cf. Johnson and Onwuegbuzie, 2004.)

Tashakkori and Teddlie (2003:5) consider mixed method approaches as the third methodological movement following quantitative and qualitative methods. Marying (2007:1) refers to it as "*a new star*" in the social science sky. As a method, it is preferred on the grounds that it compensates for the weakness of one method by the strength of the other method. Such a strength has become an essential characteristic of mixed method research. However the meaning goes beyond simply combining qualitative and quantitative methods. Paradigm pluralism, that is, a variety of paradigms serving as underlying philosophy is among the other characteristics of mixed research. In this research two research strategies from qualitative domain: case study and ethnography are integrated to one basically quantitative i.e. survey research strategy. Mixed method is characterised by the cycle of research which includes both deductive and inductive logic in the same study (Tashakkori and Teddlie 1998). It can proceed from ground facts through inductive logic (logic of discovery and in depth understanding) to general inferences, from general infer-

ences through deductive logic (logic of justification) to tentative hypotheses or predictions (ibid). These designs have also been referred as concurrent and triangulation designs by Creswell and Plano Clark 2007:85.

Therefore, considering the strengths and limitations of the different strategies and the purpose (problem statement) of the research, an eclectic combination of survey, multiple-cross case study and ethnographic research strategies was found to be the best combination. The combination of research strategies had resulted in complementarities funnel moving from the broader picture of in-breadth analysis to an in-depth analysis. Within the complementarities funnel, case study is ideally used to study interfaces at the institutional level while ethnography is used for the study of the behaviour of actors. Figure 5.7 below illustrates the eclectic complementarities funnel. See also Annex 15 for the combined ethnography-case study analysis schema.

Figure 5.7:
Eclectic research strategy: complementarities funnel



5.4.3 Research Method

This research is basically a qualitative research supplemented with a quantitative method. A mixed inductive (discovery based) and deductive research method was adopted. Although there are no deductive hypotheses per se, there are hypotheses like propositions which can be verified or refuted from descriptions and explanations of what is observed as valuable outcomes. It is inductive because a research problem has been posed, requiring an investigation on how institutions interface and how they influence behaviour of actors, which might contribute to theory development. A deductive approach has partly been used as the exploratory findings were analysed, synthesized and confronted with transition/development-institutions debate in verifying hypotheses like propositions.

5.4.4 Selection and Justification of Case Studies

Real estate development is defined as a conversion of land from one use to another. This might take the form of either development or redevelopment. Real estate development in Ethiopia has been and still is activity undertaken by every citizen, where everyone requires space for living, working and recreation or providing services. The rise of the real estate sector as an economic activity in its own right in the 1990s had heralded a change from subsistence to specialisation, where a person develops land and property for sale or rent. Real estate projects as properties can be generally grouped into two: income producing properties (for sale or rent) and owner - occupied properties (use). Income from real property is earned in the form of rent, sale or by using it. The income streams usually overlap. A house once used can be let or sold another time. A single house can be used by the owner while partially letting with a co-dwelling arrangement. The case studies in this research include real estate property development from all three income streams or sub-markets. This helps to make a comprehensive analysis of the formal-informal institutional interaction and accompanying actors' behaviour at a transitional real estate market. The selection of the case study projects is based on the following criteria:

- To address both groups of income generating and for occupation
- To address both groups of formal and informal
- To include different uses – commercial/businesses and residential

- To include different locations – centre, transition zone, periphery
- To address different income groups of users

Institutions are prevalent where people attempt to work together. Such group interactions and practices are simply inconceivable without a minimum of agreed understanding, norms, conventions, procedures and rules which shape and constrain behaviour and make such interactions both predictable and comprehensible to people engaged in them. Keeping this in mind and based on the selection criteria, the specific case study projects for the respective property classes include the following:

- Case study one: Informal settlement - Worku Sefer
- Case study two: Cooperatives housing in Ayer Tena
- Case study three: Real estate development by developers
- Case Study four: Real estate development by petty providers
- Case Study five: Merkato commercial centre redevelopment

The case study on Worku Sefer represents a settlement which originally started as an informal settlement and gradually changed into a consolidated urban settlement. It represents the informal as well as use by owner-occupiers. The case on cooperatives housing in Ayer Tena represents the housing cooperative submarket with a predominant use by owner occupiers. The case on real estate development by petty providers is part of the rental submarket. The case on real estate development by developers represents the capital (sale) sub market. The Merkato commercial redevelopment represents a mix of use by owner-occupiers and a rental submarket. The case study projects grouped in their categories of properties are shown in Figure 5.8.

Figure 5.8:
Research case study projects

Property Categories			
Income producing properties		Owner - occupied properties	
1	Mercato commercial centre redevelopment	4	Cooperatives housing in Ayer Tena
2	Real estate development by providers	5	Informal settlement - Worku Sefer
3	Real estate development by developers		

For an elaborated discussion on choice of research strategies, instrumentation, data types please refer to Annex 1.

6

Globalisation & the Ethiopian Context

6.1 Introduction

This chapter covers the background contextual information before the presentation of the field data. It has three sub topics: Globalisation and its effect on real estate market, the experience of transitional real estate markets in East Europe and former socialist oriented African countries, and the national and city level context giving emphasis to the institutional framework.

6.2 Globalisation and the Real Estate Market

With the emergence of Globalisation, three major transitions have been observed with tremendous implications on the lives of the poor in developing countries. These are: the increasing urbanisation of developing countries, the urbanisation of poverty and the greater prominence given to property rights in the development agenda (Jones 2003). However the relationship between globally driven liberalisation and locally based informality is often ambiguous (AlSayyad 2004). Hasan (2004) examining the effect of liberalisation on the informal sector in Karachi notes how privatisation has made formerly cheap government land an important commodity that is inaccessible to the urban poor. Bayat (2004) discusses the effect of recent neoliberal policies by obliging previously privileged segments of the workforce such as state employees and professionals to challenge structures established by the propertied and powerful through silent, largely atomized actions that allow them to survive and improve their lives through a modality he named; *quiet encroachment*.

Bardhun and Kroll (2007) noted that the physically unmovable nature and the predominantly local tradability have contributed to disregard the role of the real estate sector as a possible participant in the process of increasing Globalisation until the 1990s. However, in the last decade,

with the opening up of formerly closed economies in the developing world and the global economic integration, real estate developers and service providers have been working in tandem with multinational companies (MNC) and other clients, to ensure whether their entities are *housed* wherever they are located globally. Factors for the involvement of the real estate sector in the global surge include: the advancement in ICT that helped to extend the geographic reach; liberalisation of business licenses, taxation and property ownership registration in some of the largest emerging economies; and advances made in financial markets such as securitization and other varieties of financial instruments which lend liquidity and tradability of both equity and debt. On the demand side, some of the largest consumers are becoming increasingly global which includes firms ranging from finance, legal and R&D to residential real estate brokerage. The need for real estate material inputs (cement, iron, wood etc.), machinery and instruments has also created an international supply chain for the global real estate construction industry (ibid).

Globalisation has exposed cities to global competition for goods and services forcing them to shift land from less productive to more productive uses. As Fransen (2008) argues to compete globally, local production factors are of increasing importance to attract footloose investments in terms of the existence of a highly qualified labour power, networking opportunities, infrastructure provision, and institutional development to improve their business environment. Cities are being forced to compete internationally for external investment. As a result of such competition vast capital sums are placed wherever policies and regulatory frameworks offer the greatest returns and the lowest risks. Multinational corporations can also impose on host governments to install institutions of governance of their preference putting them under threat by the possibility of shifting to another competitive location (Deshpande and Deshpande 2005). Consequently, as MNCs spread globally, homogenization of institutions of governance is inevitable.

6.3 Overview of International Experiences and Regional Practices

The transition economies of Eastern Europe and the former Soviet Union have been experiencing a radical change in the way real estate is owned and managed since the reforms started in 1990. Collective ownership under state management has given way to extensive private owner-

ship of buildings and in some countries to ownership of land itself, both through privatisation and restitution to former owners. The transition has requested these countries to put in place and undergo substantial programmes of reform in both the real estate and financial sectors (Adlington et al. 2000). The structure, culture and behavior of financial and banking agencies were required to change from centrally planned credit to appropriately regulated commercial decision making. Hence the role of institutional framework for the real estate sector has become more crucial in a free market economy than a centrally planned economy (Betraud u.d.).

Key constraints identified by Adlington et al. (2000) in the development of real estate markets in the transition economies include: cultural, political and socio-economic framework, legal framework, government and administrative framework, financial and banking systems and private sector support services. The relative severity of each constraint varies between countries. While some transition economies made some progress in overcoming certain constraints some have lagged behind. Some had fallen nearly into chaos like the infamous Albania's Pyramid Schemes (Ponzi Saving Schemes¹) in mid 1990s (Jarvis 2000). One lesson which can be learned from the experience of Albania is how the low performance of banks and the formal credit market led to the flourishing of informal credit mechanisms. An observation made was the fact that while in Central and Eastern Europe output fall was followed by recovery, the former Soviet Union experienced a much deeper and protracted economic decline. The extra ordinary success of the transition process in China as an anomaly helped to raise the question: what constitutes *adequate institution* at a given time?

From the African transition experience, Tanzania, after relatively long years of colonial legacy both under the German and British rule from 1884-1961, had undergone 20 years of a national brand of socialism since 1967. The Villagisation Program and creation of Ujamaa villages since 1975 was the main manifestation of socialist intervention in human settlement. 15 million people were made to live in 8,300 registered Ujamaa Villages and Development Villages in mainland Tanzania by 1979. Interest on land shifted from freehold titles to government leasehold rights and then to occupancy rights in 1969, reducing interest from being perpetual to a definite period. After the National Land Policy of 1995 land access in urban centers was administered through plot allocation and a

titling system (Ngeregere 2008, Stein and Askew 2009). The case of Tanzania illustrates how the statutory instruments inherited from the colonial period can be used to bring institutional reforms.

Coming to regional practices in Ethiopia, the case of Jijiga City is discussed in Box 6.1. Jijiga is the capital city of Somali Regional State, which is one of the nine states established on the ethnic based federal administrative structure. Despite the institutional change in the administration of land at national level, customary land rights had been restored *de facto* in the south and eastern part of the country. The case of Jijiga demonstrates how customary tribal land administration works in an urban context under a modern free market economy.

Box 6.1:

Land Tenure in Jijiga Town (Somali Regional State, Ethiopia)

The traditional land tenure in the Somali Region is a clan based system. Though land is said to be government or public property, in traditional terms it belongs to the clans and in some places to the clans and in turn to the individuals within the clan. Much of the pastoral periphery continues to be administered by traditional laws, untouched by the proclamation to nationalise rural land. No formal institution has had a strong influence over natural resources (land, pasture, water) in this region. Tough inter and intra clan armed conflicts over resources are not rare. Traditional councils of local elders known as *odiyal* are there to resolve all types of disputes on resource ownership and use. The customary law *hër* is still strong and regulates the whole socio-economic and traditional politics of the rural people. Each clan of the Somali society has its own defined territorial area over which it claims ownership. The whole territory is divided among the inhabitant clans of the area. Bigger clans (in terms of number of descendants) occupy a larger area. Boundaries between different territories of clans are demarcated by natural features such as streams, hills etc, and in some pastoral areas by buffer zones. Nevertheless, a distinction is observed between the semi arid zones and arid zones. In the former case agropastoralism i.e. a mixed cultivation and pastoral economy is pursued while pastoral economy prevails in the latter case. All arable lands in the traditional Somali system are individual properties. Therefore, clan territories in the semi-arid zones are divided among sub clans, and further sub divided among individual members of the sub clans. A holder of a plot of land has the right to transfer his holdings to his children of close agnatic kin. Women are not entitled to inherit their fathers' or husbands' land. In a polygamous family, wives under one household head are allocated a portion of farmlands to use for which the male children born from each wife would be the potential heir. The wife of a deceased husband is expected to remarry one of her husband's living brothers to secure the children and property. Land sale is possible, but it is restricted to clan members. The most common way in which farmland can be acquired is through inheritance. A father allocates farmland to his son when he marries. Daughters do not receive land instead they will be given other gifts. Nobody has the right to buy or occupy land in a territory of another clan unless he is voluntarily assimilated by the host clan.

In the arid zones where most of the people are mobile and production is mainly pastoral, every clan/sub clan has its own territorial limit. However, further sub division of the land into private plots is rare. Hence in this zone clan based communal ownership dominates. Most of the land is commonly owned rangeland. However in the last 6-7 decades communal grazing lands have been appropriated by individual families thereby effectively privatising the range lands. In some minority groups such as Rer Bare (descendants of Bare) which are exceptional in the Somali society in their preference to farming over pastoralism, the land has been privatised. According to a research by Takele et al (1994), communal land tenure arrangements are increasingly being changed into privatised range lands.

The capital city Jijiga has currently an estimated population size of 150,000. It has been growing with a fast urbanisation rate of 9-10% over the last two decades. A high rate of migration is the major contributing factor. There are six kebeles and one municipality. Jijiga serves also as a major commercial centre for the South Eastern part of the country. The major economic activity is trade on smuggled goods from neighboring countries. The sale and export of *chat* also plays a significant role in the economy of the town. The local community of similar lineage serves as the Somali social organisation. Allegiance to the Somali norms and traditions is important. Hence kinsmen tend to live together in the same area. The feelings of the Somali people whether in the rural or urban areas towards fixed (landed) property is changing and currently there is high contestation to acquire property. There are two land delivery systems in Jijiga city: land allocation by the town administration and the customary way. According to the formal municipal land allocation plots for private dwelling in excess of 400 square meters are given upon payment of Birr 0.12, Birr 0.10, Birr 0.08 and Birr 0.06 rent per square meter for 1st to 4th grades of land respectively. The customary land delivery is very common in the expansion areas of the town where land is occupied by clans. A plot area of 250 square meters in the customary areas costs Birr 5,000-10,000.

Two clans known as Bartirre and Yabarre dominate in the city. It is said that the mayor of the town never comes from other clans other than these two. The southern part of the main highway which divides the town along the east-west axis into two is dominated by the Bartirre clan (and the Hawiye clan to some extent) while the northern part, which is inhabited by people of different ethnic groups is under the influence of the Yabarre clan and some others like Geri-Jarso. This demarcation is well recognised by the clans so that no dispute has ever taken on such matters. One man has died in a dispute which arose in the occasion of demarcating land by the municipality for the Regional Teachers Training Institute. Land demarcation and handing over of sites even for public facilities (including the Regional University) necessitated the use of the federal police force. An investor has to bargain with the clan chief for the sale of a plot of land. Since any person can voluntarily be a member of a clan, inhabitants belonging to other ethnic groups can also join a clan by paying the necessary payment. This provides them security of ownership of their land.

Source: Field interviews with municipal and elderly citizens 2009, Takele et al., 1994

6.4 The Institutional Framework Governing Real Estate in Ethiopia

The institutional framework governing the real estate sector in Ethiopia are the policies, rules and regulations governing tenure and the management of land in general and urban land in particular. Depending on the ideological and political views of the different regimes, different governments have addressed the issue in different ways. This review covers three different periods corresponding to different regimes, namely: the Imperial period (the pre-1974 period), the socialist oriented military government period (the 1974-1991) and the EPRDF led government period (post-1991).

6.4.1 The Imperial Period

The pre-revolution (pre-1974) land tenure in Ethiopia is based on reciprocal and redistributive modalities. The Imperial Crown, the nobility and the church, and in some areas the community were the four major groups in whose hands land was held concentrated. Some groups disagree with the inclusion of the church as one of the major landlord groups. Most studies (Yigremew 2002, Joireman 2000, Mulatu and Yohanes 1988, Donham 1986, Dessalegn 1984, Hoben 1973, Pankhurst 1966) identify three major traditional types of tenure: *Rist* (communal), *Gult* (grant land), and *Riste-Gult*². Two additional types of major tenure systems include private and government ownership.

The Rist System

Rist is the right to claim a share of land based on kinship to a historical ancestor held in common with other *rist* holders. Generally speaking *rist* rights are use rights and land under *rist* rights cannot be owned or alienated and was held for perpetuity. In effect it was a descent corporation i.e. a person could inherit *rist* rights from either parent based on ambilineal descent principles. Although *rist* holders were not tenants, their hereditary right to use the land was also conditional on meeting taxes and service obligations associated with those rights (Yigremew 2002). Reduced landlessness and tenancy were among the positive attributes of the *rist* system, while diminution and fragmentation of holdings and persistent litigation over land access were among its shortcomings.

Joireman (1994) studied extensively how the traditional tenure system of the *rist* institutions flexibly adjust to changes in the environmental factors such as population increase, drought and the development of markets. Her study concluded that despite the fact that the Civil Code of 1960 (Art. 1494/2) forbids sale of land without the written permission of the Ministry of Interior (this too had to be after approval by the lineage), the *rist* holder enjoys extensive rights through a variety of contractual arrangements. Two most interesting types of contracts were observed, namely land sale and particular types of rentals. Those who found themselves no longer capable to farm the land and wanted to sell, would sell it to their family members. In which case if they succeeded they need not go to court and therefore the transaction remained obscured from official records. In order to sell to outsiders, a *rist* holder had to get a document signed by the members of his lineage stating that they were unable to buy the land from the holder and that he or she could sell it out of the lineage. Two rental systems were also exercised: one, which was a share rental based on *ekul* (equal share) and *irbo arash* (a quarter of the share to the landlord). However an arrangement called *yequm wurse* or *bequeathment before death* in which *rist* land was passed on to a person's heirs was a share contract arrangement in the *rist* system. It allowed *rist* holders an alternative to land sales or farming the land themselves. Joireman noted that the *de facto* rights held by the *rist* holder did not correspond entirely with *de jure* rights. Taking the definition of common property regime in which decisions on what was to be done on land was made by a group of people who were co-owners of the land, the *rist* system can be taken as an example of common property regime.

The Gult System

The *gult* system is closely associated with the establishment and expansion of state power. *Gult* land is land which was granted in lieu of other remuneration to certain persons who perform or are liable to be called upon to perform services to the state. The nobility (*gult* lord) to whom land was conceded under the *gult* system earned his income as salary or living allowance from the tax he collected from settlers on his *gult*. Part of this tax was transferred to the next nobility in the hierarchy. The individual or organisation that held land as *gult* also had judicial and administrative authority over those who lived on it. Therefore *gult* was not a right on land per se, rather a right to tax the benefits from land either in cash

or in kind from farmers who tilled it. Superimposed on the *rist* system, it was a type of a fief right that required the *rist* holding peasants to pay tribute and taxes in cash, kind or labour to landlords. *Gult* rights over land were given to members of the ruling elite as a reward to loyal services to their lord and to religious institutions (*samon*) as endowment (Hoben 1973). The emperor or head of state concedes a variable size of land based on their status through the *gult* system. This traditional category of land tenure also includes *maderia*, *mengist* and *budad* land which was granted mainly to individuals of lesser classes, like soldiers, on the condition that they attend military service when called. In the Abyssinian centre of Ethiopia, these *gult* holders largely belonged to the aristocratic group, whereas in the southern periphery they were civil and military servants of the Imperial regime who received *gult* rights as compensation for their services. They do not pay land taxes and in principle, they cannot alienate the land or pass it by inheritance to their families. Hence, *gult* is not transferable. Moreover, since formal ownership of land rested in the state, it is liable that *gult* rights can be withdrawn by the crown at any time. *Rist* and *gult* can be found over the same land. They normally do not refer to different types of land but distinct and complementary types of land rights.

Riste-Gult

When *gult* right is hereditary it is called *Riste - Gult*. It was a heritable right vested on the *gult* lord with the right to independently extract taxes in cash; kind and labor for the landlords own purse (Aberra 2000, Joireman 2000). It was land from which one can collect and retain land tax for own personal profit and can use the personal labour of the tenants. Though it was initially only granted to the royal family and provincial nobles, granting of heritable *riste gult* became the rule in the regions of the newly conquered south (Cohen and Weintraub 1975, Pausewang 1983).

Private Tenure

Private tenure was recognised as the most dominant system during the last days of the Imperial regime. This tenure system was generally found in the southern and south western Ethiopia (Arussi, Bale, Gemu Gofa, Illubabor, Keffa, Wellega and some parts of Shoa and Wollo). It was created through the process of grant of vast blocks of the crown confiscat-

ed land to a wide range of people and institutions including soldiers, northern civil servants who came to administer the new areas, peasants moving south because of land pressure in the north, local tribes who did not resist local chiefs and the church. The return of Emperor Haile Selassie I from exile in 1942 had hastened such granting of land to selected individuals such as soldiers and civilian victims of the Italian Occupation. Serious land concentration, exploitative tenancy and insecurity have characterised the private tenure system.

Another milestone for the introduction of freehold tenure on land during the Imperial period was the Tax Reform of 1941 which defined the land for which tax had been paid to the government, as the property of the taxpayer. As a consequence, taxpaying *gebbars* became the legal owners of their land (Donham 1986). The consequence of the tax reform was that it converted all land on which no tax was paid to the government (or land for which land lords pocketed tax payments made by farmers, instead of forwarding it to the government) into government land. This also victimised the pastoralists by depriving them of their communal rights. This tax reform limited the influence of the local landlords and abolished all *gult* and *riste gult* rights, including those of the Orthodox Church. The tax reform increased tenure security, in particular for *rist* right holders in the North who had paid land tax and at the same time improved the situation of a class of taxpaying peasants in the South. However, many peasants under the tribute system imposed on them, had lost their land or had lived on the land of the new class of taxpaying *gebbar* owners (which turned from tribute-paying peasants to private owners). In addition, many landlords had registered formally as taxpayers and thereby deprived those farmers of their land rights (Pausewang 1983). These farmers then became tenants who practiced sharecropping (Donham 1986). Sharecropping demanded from the tenant to deliver a large share of, up to half of the produce to the landlords to maintain the right to use the land for subsistence production. Under the freehold tenure system land was sold and exchanged, but given that all land was originally state property and the private holders had no absolute rights, it was different from the western concept of a freehold system.

Government Ownership

Government ownership of land was also characterised by its predatory nature since it was snatched from the people under subjugation. Regard-

ing government tenure 46.6 percent of the total land of Ethiopia and 11.8 percent of the agricultural land was government land (Cohen and Weintraub 1975). Estimates as to the amount of church landholdings are inconsistent. Dessalegn (1984) puts his estimate at not exceeding 10-12 percent. Though the local people bitterly opposed the granting of their land to settlers and commercial farmers coming from outside, all nomadic lands were assumed to belong to the government. The perception about land as property on the part of the nomadic economy, as opposed to sedentary farming, was as a common property with open access under tribal chiefs. These government lands include arid range lands in the low lands of eastern and south eastern Ethiopia and those unoccupied arable lands distributed all over the country.

Following the establishment of Addis Ababa as the permanent capital of Ethiopia in 1887, Emperor Menilek granted large tracts of land to the nobility, important personalities of the state, churches and clergymen, European expatriates, and foreign legations. In 1907 he ratified for the first time an urban land decree in which 32 articles were contained. According to the narration of Solomon (1994), the decree authorised Ethiopians and foreigners for whom the Emperor gave permission to purchase land in Addis Ababa. Purchase of land from both private individuals and government was allowed. Those who bought land were required to register their lands and get them mapped by engineers, which in turn could then be included in the cadastre of Addis Ababa. Title deeds were introduced for the first time. The new owners, specifically the ones who bought land from the government, were free to sell the land in whole or part, to transfer it or use it to borrow money. If the land was needed by the government for some reason, compensation was to be paid.

Pankhurst (1966) noted that when temporary possession was transformed into permanent occupation; the principle of more or less inalienable ownership of land was officially recognised for the first time. This was consolidated during the reign of Emperor Haile Sellasie through articles in the constitution of 1931, its revised version in 1955 and a land decree issued in 1932.

The private possession of extensive land in the hands of few landlords resulted in the lack of access to land for those who came to the city in the subsequent years. 5 percent of the population in the pre-1974 Addis Ababa owned 95 percent of the privately owned land. Only 23.3 per-

cent of the households owned their houses while 66.8 percent of them were renters (MUDH 1982). Land lords planned and built tenement slums on their own accord. The majority of the urban population lived in these highly crowded and congested dwellings, in slums owned by the landlords. The cumulative effect was the predominance of renters and the construction of low standard housing which was a striking characteristic of pre-1974 urban centres of Ethiopia. Realising the gravity of the problem, two major legislations were promulgated in the 1960s which specifically deal with the establishment of financial organisations to finance the purchase of residential buildings. The Imperial Savings and Home Ownership Public Association was the first such financing public organisation established in 1965.

Figure 6.1:
Distributions of rights during the imperial regime for stylized types of right holders

	Representative of Rist holders/corporation of elders	Individual rist holder	Gult holder (a)	Riste-Gult Holder	Gebbar (b)	Tenant
Access		+	+	+	+	+
Withdrawal		+	+	+	+	+
Management	+	+	+	+	+	
Exclusion	+		(+)	+	+	
Alienation				(+)	(+)	
Type of right holder	Not clear	Claimant	Proprietor	Owner	Owner	Authorised user

(+) = likely, but not explicitly defined in the literature; anecdotal evidence only;

local variations a) Right during period of service only; b) Rights after 1941 tax reform

Source: Crewett et al. (2008)

To summarise the land tenure and real estate development of the pre-1974 Addis Ababa: land was mainly the property of a few landlords, and private sector actors i.e. speculative developers, petty providers and owner-builders were the principal actors. One of the notable features of the urban development of the period was that, squatters in the real sense of the meaning did not flourish, since landlord's exercised close control over their territory. The land tenure system of the Imperial regime was considered a hindrance and was largely the most important cause of po-

litical grievances that led to the 1974 revolution. It was characterised by institutional inadequacy, lack of a necessary legal framework, and lack of administration organisations. Figure 6.1 summarises the bundles of rights for different tenure arrangements.

In studies of land tenure systems in Sub Saharan Africa, the Ethiopian land tenure in the Imperial regime was found to be one of the most complex systems (Joireman 2000). Moreover, since Ethiopia was not colonised (except the brief Italian occupation) it was impossible to find the kind of colonial heritage or legacy pertinent in other Sub-Sahara African countries. Rather the Ethiopia colonial legacy confers to an Imperial [expansion] in the second half of the 19th century starting from its heartland in Abyssinia towards the South and the imposition of an exploitative land tenure system in those newly conquered territories (Donham and James 1986). Joireman (1994) in her research finally identifies what the traditional tenure system can teach in instituting a land tenure policy:

1. When implementing a system of property rights, it is more important to look at the *actual stream of rights available to the right holders* than to its particular appellation as communal, state, or private property;
2. The *flexibility* of the *rist* system allows a flexible contractual environment which promotes the right holder to cope with uncertainty and change;
3. The legal codes referring to the *rist* system were *not made to change it, but simply to codify its conventions*, thereby witnessing a certain degree of change and transition in the way the *rist* system operated.

6.4.2 The Socialist Oriented Military Government (*Derg*) Period (1975-1991)

With the coming into power of the socialist oriented Military Government (*Derg*) in 1975, a centrally planned command economy became the economic policy of the country. From the point of formal institutions starting with the 1987 constitution, Ethiopia was declared to be a socialist country with Marxism-Leninism as state ideology. The constitution which was casted in the mould of such ideology in Article 12 states:

In the People's Democratic Republic of Ethiopia the forms of ownership of the means of production are socialist, that is state and cooperative own-

ership, private ownership and other forms of ownership as determined by law.

Though the Constitution was promulgated at the later years of the military government (*Derg*), the ideological stance and the underlying principles were socialistic from the very beginning the *Derg* took over state power in September 1974. State ownership was declared public ownership. All natural resources such as land, water, forest and minerals were turned to state property. The state also owned key production, distribution and service enterprises including factories, warehouses, banks, insurances, and private schools. To this effect the military government issued four proclamations consecutively from the 7th of February 1975 to 29th of September 1975.

The Proclamation to provide for the public ownership of rural lands (No. 31/1975), basically helped to abolish landlordism and the exploitation of the peasantry and redistribute available assets to the peasantry. The proclamation provided ten hectares of land as a maximum a family can possess (the current average land holding is less than 0.5 hectares). The power of administering rural land was vested on the Ministry of Land Reform and Administration, and Peasant Associations at the grass root level. The peasant associations were to be established on 20 *gashas* (800 hectares) of jurisdictional area. The proclamation prohibited the transfer of use rights over land by sale, exchange, succession, mortgage or lease.

Proclamation No. 47/1975, the Proclamation for the Nationalisation of Urban Land and Extra Houses, abolished the relationship between landlords and tenants and consequently all urban land and extra houses (beyond a single dwelling unit and business establishment in the whole country of his/her choice for a formerly entitled owner) became property of the government. No person, family or organisation could hold urban land in private ownership. Not only this, no compensation was to be paid with respect to urban lands. Property right on urban land was limited to use right i.e. personal use which shall not include the right to transfer it by will, donation, mortgage or sale. The transfer of private house by succession, sale, or barter was permitted but later the transaction among individuals was replaced by transaction with the public agency established for the selling and buying of houses since 1986. Though the proclamation targeted the feudal landlords, aristocrats, high government officials and capitalists of the Imperial regime; properties of small

proprietors including low income groups who invested their savings on rental houses were also expropriated. The proclamation promised a fair compensation to owners of houses transferred to government ownership, but this never materialised.

Pursuant to the institutional change pertaining to land and housing, regulatory and implementing organisations were set up as new. Among these newly formed organisations include: the Cooperatives Societies of Urban Dwellers later renamed as Urban Dwellers Association and introduction of *Kebele* as the lowest administrative unit in 1976, the Ministry of Urban Development and Housing (MUDH) through restructuring of the former Ministry of Public Works and Housing as one of the main regulatory organisations, the Agency for the Administration of Rental Houses (AARH) in 1975, Housing and Savings Bank (HSB) in 1975, Agency for the Purchase and Sale of Urban Houses in 1986, Construction Materials Supply Enterprise in 1987, and Housing Construction Corporation in 1987. The Ministry was entrusted with responsibilities of issuing regulations and guidelines to implement the proclamation and organise the Urban Dwellers' Associations. Kebele Urban Dwellers' Association and the Agency for the Administration of Rental Houses (AARH) took over the administration of nationalised houses.

The Legal Notice (No. 194/1986) which legalised co-dwelling opened up the rental market anew. Though the practice was there before the issuance of the legal notice, the legalisation led to severe overcrowdedness. Dwellers in government owned houses replaced the former owners of the houses to become the new renter-landlords. This was unfair and very disappointing for the former owners who did not have other income and used to rely on house rent. They became forced to live on the meager allowance they were entitled to (maximum up to Birr 250), while the current renter-landlords (former tenants) benefited from the co-habitation regulations, earning much money by subletting their rooms with exorbitant monthly rents.

From 1975-1991 land was allocated administratively through a redistributive system as a production means which was based on use right for an indefinite time rather than by pricing mechanisms. It was forbidden to benefit from economic activities that involved land as a commodity. A nominal amount of land rent and housing tax was established by Proc. No. 80/1979 and its amendment Proc. 161/1979. The housing market, production and distribution of construction materials became under the

control of the government. Government, owner builders and majorly housing cooperatives became the most important actors. Cooperatives enjoyed subsidised credit with a preferential interest rate which was 4.5 percent per annum as compared to 7 percent for individuals. A 500 square meters ceiling on plot size for the construction of a dwelling unit was set. Later it was reduced to 250 and to 108 square meters.

During this period, even though urban land was virtually freely allocated through administrative channels, low-income people could not benefit from such policy environment on the grounds that their income was too low to construct even the smallest standard dwelling. Free resources encouraged land squandering. Particularly some of the bureaucrats and technical personnel in the land allocation organisations in the Ministry, and the Addis Ababa City Administration grabbed a number of urban plots as many as possible in the names of their relatives and sold it later. This led to ingenious ways of flourishing of land markets.

Through the years the outcomes did not flourish into what had been envisaged in the proclamations. Policy-wise the cumulative effect of centrally planned economy, government monopoly of production and distribution of building materials and control of the housing market resulted in soaring prices and shortages of supply in construction materials and provision of serviced land. Some of the effects of the series of proclamations and regulations were:

1. Due to the artificially fixed low level of rent from which half of it was payable as compensation to the former owners who had no other means of income, the amount of rent income generated could not enable maintenance of the nationalised housing stock. As a result the existing housing stock continued to diminish;
2. The very low level of rent below the market price had also demotivated tenants to build their own houses;
3. Since the relationship between lessor and lessee was abolished, the role of the whole class of private petty providers had been wiped off the housing market,
4. The existing house provision modalities by government, cooperatives owner-builders were too short to meet the housing demand of citizens from low and lower middle income groups;
5. Even though tenants of public housing had the duty to relinquish their rental houses as soon as they made their own houses ready for occupation, this was violated in most cases;

6. The regulation which requires potential house builders to deposit about 20 percent of the construction budget in a block account, totally ignored the way housing construction are financed by the majority of house builders and only led to the exclusion of them;
7. Government land was considered no-man's land, therefore the lower middle income, low income and the poor who never had a chance to get shelter in the formal channels resorted to informal means of land acquisition.

Solomon (1994:287-288) Summarised the effect of the legal framework pertaining to land and housing of the *Derg* Regime:

The urban land and house[ing] policy of the Derg Administration is a classical example of how policy and reality go in parallel lines. It is also an example of how a policy that does not take the societal reality in to account is bound to further complicate and worsen the situation it set out to address. At the root of the policy was ideology and rhetoric, and thus, when it began to experience the test of reality, the objective it set out to accomplish and the means followed began to take opposite directions.

Worse, the regulatory and administrative organisations which were established to implement the institutional reform changed their role to safeguarding the revolution by being active actors of red terror and promoters of; “*everything to the war front*” campaigns, rather than making efforts to ameliorate the housing shortages. Rural-urban migration, though presumed to be at low tide in the few years following the rural land reform, soon took over aggravated by the drought and diminishing farm sizes.

6.4.3 The Period of EPRDF Led Government (The Post-1991 Period)

The coming to power of the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) coincides with the collapse of the Eastern European communist bloc and the dawn of transition to a free market economy. The Government soon adopted a structural adjustment program which manifested in administrative restructuring, trade liberalisation, monetary and financial regulations, devaluation of the national currency, privatisation of nationalised properties, and encouragement of the private sector. The value of the *Birr* and interest rate was set to be determined by market.

The Constitution of the Feral Democratic Republic of Ethiopia (1995), in its article 40/3, stated that land, as one of the natural resources, is the common property of the nations, nationalities and peoples of Ethiopia and the right to ownership of land as well as natural resources is exclusively vested in the state and the peoples of Ethiopia. Land should not be subject to sale or other means of exchange. In mid February 1995 the EPRDF led government issued a proclamation related to the properties taken in violation of the relevant proclamations by the defunct socialist oriented Military Government (*Derg*). The proclamation gave de jure recognition of the previous proclamations and perpetuated their effect leaving for reconsideration only those properties taken by administrative fiat, directives, written and oral orders by the different organs of the military government in violation of the proclamations. The Ethiopian Privatisation Agency, later renamed the Privatisation and Public Enterprises Supervising Agency or the delegated Central/Regional government body were mandated to handle such cases.

In 1993 the EPRDF led Transitional Government introduced lease land administration through its Urban Land Lease Proclamation No. 80/1993. The fundamental distinguishing feature of the lease policy from the previous administrative allocation of urban land was the creation of conditions whereby the right to use urban land can have market value along the principles of free market economy. Another complementary objective was to control appropriation of unjustified gains in the value appreciation of the transfer of use rights of urban land which is necessary to promote the economic development of urban centers. According to the proclamation, other objectives of the lease land administration include: to utilise urban land in such a manner to satisfy the needs of the various sections of the population and to provide finance for the building up of infrastructure, social services and also satisfy the needs of the low income groups by building dwelling houses.

The proclamation allows a lessee to transfer or pledge such a right or contribute it in the form of a share to the extent of the rent paid (Art.10.1). A lessee on transfer of his right cannot collect income higher than the rent of land. Upon transfer of his right, if a lessee collects an amount higher than the rent, s/he has the duty to pay the difference to the town administration. Obviously this has become difficult to enforce. Such a transfer of land without developing it has been later condemned as rent-seeking. All former possessions were to be governed under im-

proved land rent laws promulgated by the regional administrations until such time that they were incorporated into the lease system. However if a house under former possessions was to be transferred to another person other than through inheritance it was liable for the person to whom the house was transferred to be incorporated in the lease system.

According to the proclamation (Art. 8) the (benchmark) lease rate amount was to be determined by laws issued by the appropriate national/regional council taking into account the level of the urban center, the zoning of the urban center and the purpose for which the particular piece of land was to be used. The government might also grant land freely or without public tendering for investments it encourages or for social service establishments or for other purposes which directly benefit the public. The proclamation provided for the termination of the lease contract if the land was required for public purposes or when it was required to develop the land according to the master plan provisions of a town. Regarding the utilisation of income from lease, the proclamation stipulated at least 90 percent of the revenue to be used for building urban infrastructure and for the construction of low cost houses. This was followed by regions adopting the proclamation. Some regions adopted dual land management systems: a land lease and a rental based management system for formerly held landholdings. Even though implementing the lease land management system started with few cities and towns, the leasehold system was declared to be universally applicable.

However during implementation of the lease policy inconsistencies and issues which need further elaboration were discovered. A group of experts in the Addis Ababa City Administration had forwarded 83 remarks under 12 topics for consideration in the new proclamation (No.272/2002). The highlights include: the difference for lease period between a house for letting (60 years) and private (99 years) need to be the same for it discourages consumers of real estate housing; the repeal of the article which forbids a lessee from not collecting higher income than the rent he has paid, the inclusion of other modalities such as negotiation, the elaboration and handing over of the site to the lessee developer, the need to fix the advance payment, clarifying the amount of interest to be paid upon the unpaid amount.

This new proclamation (No. 272/2002) came into force as of May 2002. Based on the new proclamation the new modality - negotiation was a practice where land prices were determined by negotiations be-

tween the two parties i.e. the local government as a seller and developers as buyers. One advantage of the negotiation modality was that it allows for former rental users of government owned houses to negotiate the lease price and retain the plot for further investment in the form of re-development.

6.4.4 Effect of Later Changes in Modes of Distribution on Different Tenure Regions

During the Imperial period there were different types of land tenure, historically devised according to local needs under the main principles of the crown administered land. Subsequent changes of modes of distribution not only introduced new tenure but also resulted in varied effects on the existing control of land and tenure in different parts of the country. Figure 6.2 summarises the effect of later changes in modes of distribution.

Figure 6.2:
Effects of later changes on historic land tenure systems

No	Modes of allocation	Explanation	Northern Ethiopia	Southern Ethiopia	Eastern Ethiopia
1	Market (Imperial period)	Freehold right	Little effect land was communal and not to be transferred	Land under nobility encouraged the sale of land to large firms	Crown and tribal chiefs holding encouraged sale of land to large firms
2	Nationalisation (since 1975)	-Control of land by the state, - Abolished the tenant-land lord relationship -Usufruct	Taken as a threat to the <i>rist</i> tenure which was held as a free hold given by the community	Helped to dispossess the nobility and redistribute land to the tenant population	Nationalised large scale commercial estates, little impact on the nomadic population with only use right
3	Lease policy (since 1993)	-Universally applicable based on ability to pay and tenure of a fixed period	Perpetuated state monopoly preserved the long standing threat to <i>rist</i>	Access to land on payment and for a fixed period	- Transfer rights were largely blocked -Customary (tribal chief administered) land continue to exist

Source: Extracted from various sources

6.5 City Level Policies, Rules and Regulations

Addis Ababa, the capital city of the Federal State of Ethiopia, has a full measure of self government and is represented in the House of Peoples Representative in accordance with the provision of the 1995 Constitution.³ It has the right to issue regulations and directives for the implementation of the federal policies and proclamations pertaining to land. Rather it is possible to say that because of its position as capital of the Federal state, the city of Addis Ababa has served as a test-bed for land policies. It was the first administration unit in the Federal Republic to issue a regulation on lease following the Federal lease proclamation No. 80/1993. Other Regional states have followed suit usually referring to what Addis Ababa has done as a prototype regulation. It is also possible that some proclamations conceived on the specific situations of Addis Ababa could have been replicated for other cities and small towns in the regions.⁴

Following the Federal Lease Proclamation No. 80/ 1993, the City Administration (named Region 14 Administration at that time) had issued urban land lease regulation No. 2/1994. The regulation in order to set the lease price divided the city into 5 zones and each zone was further divided into 3 grades of land. The maximum lease price was set at Birr 6,000 per square meters for land in Zone 1 and grade 1 land, while the lowest was Birr 33.25 for zone 5 and grade 3 urban lands. The regulation provided reduction of 90 percent on the lease price for those who build rental houses with monthly rent amount up to birr 100 and 10 percent reduction for rental amount of birr 600-800. For private dwelling houses a minimum of 73 and a maximum of 175 square meters were allowed upon lease payment of 0.50 cents per square meters annually throughout the lease period. Those who need more land could obtain it through the tendering system. The regulation was short lived, replaced by Regulation No. 3/1994.

The Addis Ababa City Administration in order to implement the lease hold system established two organs – the Lease Office and the Lease Board. The Lease Office was made accountable to the Lease Board. The Lease Board was the main decision making body in approving or disapproving lease plot applications specifically for requests based on negotiation. The Lease Board was also responsible for issuing operational rules and guidelines. Its members were composed of representatives of the

City Administration, Bureau of Works and Urban Development, Addis Ababa Water and Sewerage Authority, Addis Ababa City Administration Road Authority, Ethiopian Electric Power Corporation, Addis Ababa Investment Authority, and the Bureau of Finance. As of 2004 this role was transferred to the Addis Ababa City Government Land Development and Management Board.

The Addis Ababa City Administration has modified its lease regulations for many rounds partly following the modification or re-enactment of the Federal lease proclamation. The lease period of 60 years for rental houses had been later extended to 99 years. The advance payment was finally limited not to be less than 5 percent, and was left to the willingness of the tenderer, nevertheless it was considered for evaluation of the winning price. The first set of lease modalities contained tender, free and grant, later negotiation was also included. The repayment period for businesses was 15 years; finally it was extended up to 30 years. Compound interest was originally payable upon the delayed amount, later it was improved in accordance to the bank interest rate on loan and penalty at the bank loan return rate upon delayed amounts. Regarding a grace period, no provision was made in the first regulation, although later it was specified as 2-5 years. Rights on lease included transfer in full or in part as a form of share contribution, nevertheless later restricted with conditionality of: "*not to be transferred without the consent of the lessor*". No contractual law was specified in the first regulation but later the civil code provisions on contract were mentioned as applicable. The series of modifications and the subsequent changes made are indicated in Annex 2.

Regarding the issue of former possessions, since the capacity of the City Administration was limited to incorporate the whole urban land to the lease administration all at once; a regulation which provides the conditions for administrations of such possessions during the transitional period was necessary. The City Administration issued the Regulation for Rent Holding of Urban Land (No. 14/1994) and the Fixing of Rate of Rent Regulations (No. 4/1994) to this effect. The regulation recommended the necessity of continuing to be governed under the proclamation to nationalise urban land and extra houses (No. 47/1975) which was conceived completely based on the socialist ideology of the *Derg* regime with many restrictions on property rights. Such possessors have to pay a fixed annual land rent. Possessions of plots smaller than 73 square me-

ters were for free. Transfer from rent to leasehold was automatically possible (without auction) following written permission from the Bureau of Works and Urban Development. Upon transfer to leasehold, the lease price was stipulated to be the average tender price of the surrounding area.

Leaving aside the details, from the institutional perspective the following remarks can be forwarded on the attributes of the lease land policy both at the national and city level:

1. In contrast with the long held sense of free hold ownership in the Imperial period and *use right for perpetuity* in the *Derg* period, the time bound contractual holding of right on urban land was not palatable for most Ethiopians;
2. The traditionally held view expressed as: “*individuals die, but land is ever lasting... and therefore the fact that somebody having currently his own share doesn't deprive the future generation from making use of land,*” still persists;
3. It has also perpetuated the socialist legacy that separates a house or a building which is a private property, from the land on which it is erected owned by government;
4. A transitional double track system encompassing a rental system (use right for perpetuity with payment of annual nominal land rent) for former possessions and a lease system which includes use right and ‘transfer right’ has led to differential treatment;
5. Both the previous and the current lease proclamations provide articles allowing a person with the right of surety to make use by transferring the right, the building on the land and facilities when the person undertaking a surety fails to perform his obligations; however in the case of collateral for a bank loan no such explicit provisions are provided. Therefore banks specifically government banks have refrained to cater loans by holding a lease right as a collateral, doubting whether they or the City Administration have priority to foreclose or dispossess the duty bearer in the case of default;
6. Both lease proclamations state that each Region or City Government should use at least 90% of the lease income to expand infrastructure (in the previous proclamation in addition to infrastructure it also included construction and expansion of low cost

- houses), however by whom and how the specific land development is to be carried out was not explicitly stated;
7. The tension between the need to broadly expand the streams of use rights on lease properties, proving that it is the second best choice next to free hold and the restrictions imposed on land rights provided by other laws even at the constitutional level is clearly visible (the Chinese have resolved this tension by revising their constitution to include the sale of *development rights* on land).

6.6 National and City Level Context

Context provides the historical, politico-administrative, spatio-economic, socio-cultural and demographic situations in which people interact and develop institutions to coordinate common actions. The national and city level contexts have been briefly highlighted.

6.6.1 The National Context

Ethiopia is located in the North Eastern part of Africa at a cross roads between Africa, the Middle East and Asia. It covers an area of 1.14 million square kilometers. Ethiopia is endowed with immense landscape contrasts marked by high rugged mountains, flat topped plateaus, deep gorges, incised river valleys and vast rolling plains with an altitude ranging from 4,620 meters above sea level on the Seimen Mountains in the Northwest, to 148 meters below sea level at the Dallol Depressions (Afar Region). Climatically it is characterised by mean minimum temperature varying from 0°C in the high lands to 45°C in the low lands, with annual rainfall ranging from 100 mm to 2,800 mm. Demographically it has a total population of 80 million (2007 projection) with 17 percent level of urbanisation which is the least even compared to the rest of Africa with a 30 percent average urbanisation. The people are ethnically, culturally and linguistically diversified with about 80 ethnic groups speaking a variety of languages. Christianity and Islam are the two major religions.

Concerning ideology, reference can be made to the excerpt of a monograph by H.E. Meles Zenawi (u.d), Prime Minister of FDRE, entitled: *African Development: Dead Ends and New Beginnings*, in which he challenged the neo-liberal paradigm advocacy of a night watchman state, arguing that a state whose intervention in the economy is very limited could not be able to overcome the vicious circles and poverty traps. Considering

the role of government to foster accelerated growth, the monograph criticises the neo-liberal paradigm which claims that, most if not all government intervention in the economy would be detrimental to growth and therefore suggests the *night watchman state* as the best state. After discussing the success of Taiwanese and Korean developmental states, the monograph poses a challenge to the neo-liberal paradigm by raising the argument that most successful development experiences have not been brought about by a night watchman state restricted to protecting individual property rights and enforcing contracts. In contrast it discusses the theory of the *developmental state* as an alternative paradigm which intervenes in the economy to accelerate growth while at the same time limit socially wasteful rent-seeking activities. It argues that developing countries face formidable market failures and institutional inadequacies which create vicious circles and poverty traps, which can be adequately addressed only by an *activist state*. Discussing the nature of such an *activist state*, the monograph upholds the view that development is first and foremost a political process followed by an economic and social process. It is the creation of a political set-up that is conducive to accelerated development that sets the ball of development rolling. It ascertains that only a state that has the characteristics of a *developmental state* can meaningfully deal with the elimination of rent-seeking behaviour. Therefore a successful developmental state would thus be very well placed to be both developmental and democratic. Building social capital is also considered as a requirement for fruition of the effort of a developmental state in accelerating growth.

The monograph also raises the related issue of the need for continuity of policy. It ascertains that developmental policy is unlikely to transform a poor country into a developed one within the time frame of the typical election cycle. A stable long-term coalition which stays in power for a long period but do so by democratic means is proposed to ensure the need for continuity and stability of policy. One of the defining characteristics of a *developmental state* is that it must be autonomous from the private sector. It only has to be independent of the private sector while at the same time doing things that will punish the rent-seeking part and reward the value creating part of it. The monograph notes that the rural population should be the solid base for a stable developmental coalition in a developing country. With the votes of the peasants who constitute the bulk of the coalition, with the democratic potentials of a socially

transformed peasant, the developmental coalition will have what it needs to rule democratically and ensure continuity by democratic means and stamp out patronage and rent-seeking activities. A coalition based on the very sector, which has historically been the victim, rather than the beneficiary of patronage and rent-seeking activities will have all the will to stomp it out. The urban middle classes and labour, however small they could also be members of such a coalition. The most likely scenario for a state that is both democratic and developmental to emerge is in the form of a dominant party or dominant coalition democracy.

Upon the overthrow of the socialist oriented military government (*Derg*) in May 1991 by the EPRDF forces, a federal system replaced the unitary state. The Federal Democratic Republic of Ethiopia (FDRE) was established under the new Constitution of 1995. The constitution provides a Federal system of state which is structurally based on nine ethnically based autonomous states and two chartered cities namely Addis Ababa and Dire Dawa. The country has a parliamentary form of government with a bi cameral parliament, which comprises the House of the Peoples Representative and the House of Federation. The House of the Peoples Representative is the highest authority of Federal Government. According to the Constitution, the powers and functions of the Federal Government, among others include: formulating/establishing and implementing the country's policies, strategies and plans with respect to overall economic, social and development matters; national standards and basic policy criteria for public health, education, science and technology as well as for the protection and preservation of cultural and historical legacies; formulate and execute the country's financial, monetary and foreign investment policies and strategies; *enact laws for the utilisation and conservation of land and other natural resources, historical sites and objects*; administer the National Bank, print and borrow money, mint coins, regulate foreign exchange and money in circulation; levy taxes and collect duties on revenue sources reserved for the Federal Government; draw up, approve and administer the Federal Government's budget.

Regarding States' power and functions, the Constitution in Article 52(1) stipulates all powers which are not expressly given to the Federal Government alone or concurrently to the Federal Government and States to be reserved for the States. Consistent with this sub article the powers and functions of the States include among others the following: enact and execute the State's Constitution and other laws; formulate and

execute economic, social and development policies, strategies and plans of the State; *administer land and other natural resources in accordance with Federal laws*; levy and collect taxes and duties on revenue sources reserved for the States and to draw up and administer the State budget.

According to the World Bank (2008) Ethiopia has entered the early stages of a *dual take off* in the provision of basic services and in economic growth over the past decade. GDP growth has averaged over 11 percent over the last four years. The percentage of Ethiopians living in poverty, which stood at 46 percent in 1996 and 44 percent in 2001, fell to 39.1 percent in 2006 (*Capital*, Vol. 10 No. 490, May 4th 2008). However, structural problems of the economy still persist. Trade deficit at the end of 2006/07 was 20 percent of the GDP, a much higher figure than what is internationally tolerated (*Fortune*, Vol. 9 No. 423, June 8, 2008). Export trade is dependent on few commodities such as coffee (65%) hides and skin. *Chat* has become the second highest export item.

Ethiopia's financial sector remains closed and is less developed than in neighboring countries. Ethiopia has no capital market. Though a series of financial sector reforms have been introduced since 1994, and even though private banks were allowed to establish; the three largest State banks (Commercial Bank of Ethiopia, Construction and Business Bank of Ethiopia and the Development Bank of Ethiopia) continue to dominate the markets in terms of capital, deposits and assets. According to an assessment of the financial sector liberalisation in Ethiopia by Kiyota et al. (2007), the two factors that may constrain Ethiopia's financial development are: the closed nature of the financial sector (no foreign banks, a non-competitive market structure, and strong capital controls in place), and the dominant role of state-owned banks. Liquid liabilities i.e. currency plus demand and interest bearing liabilities of banks and non-bank financial institutions as percentage of GDP (Levin et al. 2000), were 44.6 percent of GDP, the largest in East Africa in 2004. However the authors argue that since this can be increased by worker remittances rather than by domestic savings, it may not reflect financial depth in the case of Ethiopia. Though credit issued to the private sector in 2004 was 19.1 percent of GDP compared to the relatively low GDP, the authors have the view that the intermediation may not be stronger. In summary the authors have noted that *financial liberalisation index* (measuring banking security and independence from government control on a scale of 10-100) is only 20 for Ethiopia showing that the financial sector is highly

controlled by the Government. Private banks have higher interest rate spreads (defined as lending rates minus deposit rates) which lead to a decline of interest rates (showing differences in lending rates though deposit rates remain the same for state owned and private banks), however considering the small number of private banks, the authors identified the banking sector as a non-competitive market.

In October 1992, the Transitional Ethiopian Government initiated a long, gradual devolution of the *Birr* allowing its value to decline from the long standing value of 2.07 Birr per USD1 to an average of 8.78 Birr per USD1 in 2003. The five year average the national reserve was able to buy since the beginning of 1997 was 3.4 months of imports. In 2008 it declined to lower than two months. Inflation is not only double digits these days, in 2008 and 2009 it staggered between 20 - 40 percent, with prices of food registering an over 26 percent increase in April 2008 (*Fortune*, Vol. 9 No. 423, and 8th June, 2008).

The IMF (2007) has welcomed Ethiopia's recent strong and steady growth, and encouraging progress toward achieving the MDGs. On the other hand the Executive Board expressed its concern about emerging pressures on domestic prices and the balance of payments, a persisting large fiscal deficit, the continued vulnerability of the economy to weather-related shocks and shortfalls in donor support. Recent national labor force survey (CSA 1999) shows total unemployment rate of 26.4% for urban and 5.14% for rural.

Coming to the real estate sector, one of the limiting factors for accessibility of land and housing for lower middle and low income people in Ethiopia is the non-existence of public loan finance. On the other hand, the real estate sector being not exposed to the credit market and bank loans has rescued the Ethiopian real estate and by extension the financial and economic sector from the credit crises which swept the world since 2006.

6.6.2 City Level Context

Addis Ababa the capital city of Ethiopia was established by Emperor Menilik II and his wife Queen Taitu in 1887 on the impressive Finfine plain, a name which is still retained today in the Oromifa language for the city. The new city was located on location in the centre of the then national territory which is a strategic position to maintain the Kingdom. During the brief occupation period of the colonisers the city also served

as the capital of the annexed territories of East Africa (AAMPRO 2002). The current Addis Ababa is a seat for many headquarters of international organisations including the African Union, the Economic Commission for Africa as well as branch offices of several international organisations and over ninety embassies. Presently, the city has been designated the capital of the African Union. Hence the vision statement envisions Addis Ababa as; “*the diplomatic capital of Africa*”. As a gesture to its role, the City Government has named its streets after each AU member country.

Physically the city of Addis Ababa occupies an area of 522 square kilometers (0.05 % of the Ethiopian land mass) with a current population estimate of 3 million inhabitants. Addis Ababa is located at an average altitude of 2,500 meters above sea level with ranges of mountains and hills surrounding the city from the north, west and south west. The general gradient of land on which the city lies drops from north to south, gradually opening in to the Southern Shoa plains. Its elevation gives the city a mild and pleasant Afro-Alpine temperate climate.

The city historically grew around three nodes, i.e. the palace established on the north of the hot springs of Filwoha (hot springs), the St. George Church located in approximately the geographic centre of the city and Arada market area. The market area later shifted to Merkato following the establishment of a new city quarter *Addis Ketema* - a settlement for the indigenous people. *Sefer*s or a cluster of settlements developed around each of the structuring elements of the traditional city. The heads of each *Sefer* built their houses on selected elevated places. The officials were allotted land around the palace.

Addis Ababa as the hub of major services, industrial and commercial activities of the country; attracts the lion’s share of the national investment capital and generates a large portion of the national industrial products. In terms of real estate development, Addis Ababa has a share of 66.47 percent from the national real estate investment. It is the entry and exit of international tourists as well as providing the major link between the different parts of the country. Nevertheless, the city still faces a host of problems. It is not capable of providing its residents with the necessary infrastructure, public services and shelter. Trade is dominantly based on petty trade and the major share is informal, which supports the survival of a great segment of the population. There is a high level of poverty (50%) and unemployment (40%) with 12.4% HIV/AIDS prevalence rate, characterise the economic and social status of the city (City

Government of Addis Ababa 2005). Culturally, Addis Ababa reflects a diversity of culture in which almost all the 85 ethnic groups are represented.

Following the federal administration structure, Addis Ababa was given a regional status as it is named Region 14 Administration in the early years of the EPRDF led government. The Federal Government granted it a Charter (Proc. No. 87/1997) which repealed its name as region 14 and restored its original name as City Administration with autonomous status and responsibility of planning its development. However with its surrounding expansion reserve being under the jurisdiction of Oromia National Regional State, a joint steering committee was established in 2007 and Terms of Reference were drafted in May 2010 to undertake joint development projects and maintain cooperative relationships.

The City Council which is the legislative organ of the city is accountable to the Federal Government and the residents of the city and has the power to adopt policies on matters falling within the purview of its power and promulgate proclamations, among others, to constitute the executive organs and establish the judicial body of the city, to approve budget including allocation of budgetary subsidy to the Sub-Cities, and issue the Master Plan of the city. It is also stated in the proclamation that the Mayor is the Chief Executive of the city and is accountable to the City Council and the Federal Government.

According to the revised Charter of the City (Proclamation No. 361/2003) the City Administration is divided into ten sub-cities and about 99 kebeles (woredas since 2010). This administration division was a result of a merger since 2003 of 28 woredas and 330 kebeles. A sub city encompasses an average of 300,000 inhabitants while a kebele is limited to 30,000 – 50,000 inhabitants. Originally a kebele is equivalent to a neighborhood of 5,000 inhabitants, currently it constitutes six to ten neighborhoods. In terms of land area the largest sub-cities are Akaki-Kality, Bole, and Yeka each of which covers an area exceeding 80 square kilometers. The City Government organs of power include: City Council, Mayor, City Cabinet, City Judicial Organs and Office of the City Chief Auditor. The sub-city organs of power include the sub-city council, sub-city chief executive and the sub-city standing committee. These organs of power are also available at the kebele (woreda) level. In addition the kebeles have their own social courts.

According to the same revised Charter the City Government was vested with power to make laws and exercise judicial powers as well as executive powers and functions. In addition to generic municipal (city administration) administrative functions, the powers and functions entrusted to the city Government include among others: Issuing and implementing policies and development plans concerning the development of the city, *administer according to law the land and natural resources located within the bounds of the city, expropriate private property and takeover land holdings designated as an object of public interest, subject to payment of commensurate compensation in accordance with the law;* and borrow money from domestic sources under authorisation of the Federal Government; and identify external resources for loans and request the Federal Government to borrow money on its behalf.

Notes

¹ Through the pyramid schemes, borrowing companies raised their interest rate to attract funds. At their peak the nominal value of the pyramid schemes' liabilities amounted to half of the country's GDP. When the scheme collapsed, there was uncontained rioting, the government fell and the country descended into anarchy and near civil war in which 2,000 people were killed

² In northern Ethiopia (the former Eritrea as Ethiopian territory, Tigray, Begemdir, Gojam and some parts of Shoa and Wollo) most land was held by the community as *rist* land where as in the nomadic Moslem dominated areas of Eastern Ethiopia, land was controlled by the community and its use was limited largely to communal use. In the southern regions much of the land was later annexed after the subjugation of local chiefs and communities as the result of wars waged to expand the Imperial territory and the land was distributed among the royal families and war lords and governors in the form of *gult* and *riste-gult* while most of the local population was reduced to exploitative tenantry (*chiseegna*). A study by Mulatu and Yohanes (1988) in Ethiopia of the 1950s and 60s ascertains that exploitative tenantry constituted 2 percent in the Northern Ethiopia while it ranged from 65-80 percent in the southern regions.

³ According to this constitution the Federal Government is entrusted with the responsibility of enacting laws for the utilization and conservation of land and other natural resources, historical sites and objects.

⁴ Two instances can be mentioned here. One took place during the Derg period through the proclamation No. 292/1986 on Construction and Use of Urban Housing and the accompanying Legal Notice 92/1986 on Standardization of Dwelling Houses that promoted a storeyed (G⁺) type of housing and limited

floor area of houses from 17-70 m². For those who could not afford it, they were provided with a plot size of 108 m² (9m*12m or 6m*18m) to build row houses of a standard L-shape house plan which is attached by all its sides except the front side to neighboring houses. Even though this new housing policy was conceived in the situation of Addis Ababa where scarcity of urban land, building materials and houses were expected to be built according to relatively higher standards, subdivision schemes for such house typology were prepared for whole urban centres of the country, deploying all architects, planners and surveyors of the Ministry of Urban Development and Housing. However, to the disappointment of the authorities and the professionals all the schemes except in Addis Ababa (in the area known as Gerji) were abandoned. Regarding the G⁺¹ housing, the Minister complained about the soaring prices and the shortage of building materials (reinforcement steel used to be imported from abroad) for the multi-storeyed housing standards he himself recommended and consequently was sacked. The second was the Condominium Proclamation No. 370/2003 which though might be relevant to few other major regional cities outside of Addis Ababa, has been replicated even in the smaller towns. Currently, though some public organisations are obliged to buy some of the condominium units, their marketability has become an issue of concern.

PART 3: Empirical Case Studies

7

The Informal Settlement - Worku Sefer

7.1 Introduction

Informal properties are properties acquired without formal titling and/or built without an official building permit and planning consent (Hansen and Mariken 2004:9). Informal settlement activities involve a non-statutory mode of land ownership, development and transaction. They are known in various local nomenclatures throughout the world: *katchi abadis* in Karachi, *favelas* in Brazil, *kampungs* in Malaysia and Indonesia, *aashwa'i* in Egypt. The local name for such type of settlements is *yechereka bettoch*, literally meaning houses built overnight under moonlight. Often *informality* and *illegality* are used synonymously. However illegality is a characteristic of activities that are prohibited by law. It sometimes refers to the law, in other cases it is used to describe non-conformity.

Werhmann (2001:1-2) distinguishes among *illegality*, *semi-legality* and *criminality*. Accordingly, *illegality* refers to violating both land tenure and planning laws; but *semi-legality* refers to violating only planning laws while land rights are legally valid; and *criminality* is taken as violating laws which safeguard moral principles through fraud (cheating), theft or exploitation of others. Royston (2006:5) suggests the terms *legal* and *extra-legal* as a more constructive alternative to *formal* and *informal* respectively. Citing Leap (2005:13), argues

Extra-legal is different from 'illegal' as the latter implies subversion of the law, whereas 'extra-legal' implies operating 'outside of the law' and it can simply mean 'beyond the scope of the law or the state's regulatory framework' (Royston 2006:5).

Under extra-legal, property rights may be held with the tacit consent of the state even though formal acknowledgement is withheld

(McLaughlin and Palmer 1996:11). The terms *licit* (allowed or legal, socially perceived right) and *illicit* (illegal or disapproved by society) are also used by Castells and Portes (1989:14-15) in the analysis of formal, informal and criminal economic activities.

Nonetheless, clear cut categorisation is difficult. Some of them obtain land from the informal sector and then proceed to build legally. There are also those who, even though they belong to the formal sector, engage in illegal activities both in terms of land acquisition and development. Moreover one can be formal on one dimension (paying taxes for example), while being informal in another (no official land title). Therefore formal-informal constitute a continuum (UN-Habitat 2009). From the societal aspect, however the continuum should not be taken as always ending in the formal end of the spectrum but also with equal chance of ending on the informal side.

Van Dijk and Fransen (2008) made a distinction between *exclusionary* and *voluntary informalisation* in the case of Ethiopia, where many middle income families construct expensive houses on illegal and unserviced land to reduce costs and circumvent bureaucracy and corruption. Nevertheless the majority are those, due to the alienating requirements of the statutory land tenure and building laws, are constrained to operate informally. When it is difficult to access land through legal channels either due to bureaucracy, corruption and related market failures (i.e. exclusionary processes); people are left with only informal means.

7.2 Background

For the case study on informal settlements, a popular informal settlement from the socialist oriented military regime by the name of Worku Sefer has been studied. Worku Sefer literally translated means *Worku's settlement*. Worku Sefer does not only demonstrate informal settlements flourishing in the periphery of a fast growing city, but also demonstrates how a community initiative can create an orderly informal settlement which can be incorporated into formal plans or at least *tolerated*.

Worku Sefer is located in the South-eastern part of Addis Ababa, in the former Woreda 19 Kebele 59 or in the current Kebele 10-11- Serety Administration in the Akaki/Kaliti Sub City. The settlement is bounded in the east by Bulbula River, in the west by Akaki Drivers' Training Centre and in the south by many parastatal and private construction enter-

prises. The area gently slopes to the east and south. The existing land use is predominantly of residential use, while areas along the main access road passing through the middle of the settlement are of small commercial activities i.e. small retail shops, bars and miscellaneous services. The mid western part of the settlement is dominated by activities such as flour mills, garages and workshops. Stone quarries and crusher plants are located along the Bulbula River on the eastern and southern border of the settlement. An astonishing aspect of the development is that many of the residential blocks are provided with six meters access roads. However since most of the roads are not permanently surfaced and lack proper drainage ditches, this still remains the main infrastructural problem of the area.

Worku Sefer, established in the early 1980s, was a consolidated settlement of approximately 1,000 households. Drivers, factory and quarry workers constitute the dynamic actors among the first urban settlers. However, the majority of the current occupiers belong to the middle income groups. A combined process of crisis sale and downward raiding has contributed to this change of the dominant income groups. A respondent who worked as a member of the first kebele 59 Executive Committee remarked he barely recognises the current residents. Though the dominant housing typology was single storey housing, many of the houses were built with stable materials i.e. stone and hollow concrete blocks. The southern half of the settlement specifically was of larger plot sizes - some exceeding 500 square meters.

Before the 1974 revolution, the locality was known by the names of *Felege Niway* and *Desete Birhan* area. It was used as agricultural land and cattle farming by some feudal land lords - Fitawrari Alemayehu and W/ro Muluemebet among them. In 1980 there were only 7 (some mentioned 16) farmers. One interviewee responded: “*we were sixteen of us, yearning for people to come and join us, yearning for neighbors*”¹. Then came in 1982 Ato Worku Debelu, the then Chairman of Abu Chefe Peasant Association. Ato Worku, together with his assistants started to allocate land to applicants who were requesting to be residents of Abu Chefe Peasant Association. Almost all of the respondents honestly confirm that Ato Worku was a simple and straight forward person who was not having any vested personal interest in these processes of plot allocation. Hence the settlement was known after his name as the founder of the settlement.

Ato Worku started to allocate plots for the first time to five individuals in 1982. These individuals spread the news around. Later on when he and some other members of the Executive Committee were arrested, being accused of illegally subdividing public land, the reason he gave was:

...it is a barren land and cannot be used for farming therefore when such poor people applied for a place to rest we have allocated them as members of our association.²

They were jailed twice in 1983 and 1984 for an average of one and half months each time. Later on when he died in June 1987 some residents proposed to erect a memorial statue on a square inside the settlement, as a token of their gratitude for the contribution he made in the establishment of the settlement.

The process of plot allocation and construction of houses includes:

1. Formal lodging of an application to the Office of the Peasants Association located at *Serefy* (it is possible that this might be preceded by some socialisation process on the part of the applicant with Committee members);
2. The Executive Committee (EC) decides on the application upon checking the sincerity of the application and investigating the status of the applicant through face to face interviewing i.e. whether he has a house elsewhere, whether he is really able to construct a house and whether he belongs to the poor income groups and *wozader* (proletariat);
3. On field allocation of plots is usually done for a group of applicants at a time and often on holidays. This is done upon field inspection of the plots, whether the land is suitable for farming or not, and checking whether it is free of claims by other farmers and individuals. Measurements are carried out by pacing usually a plot approximating the size formally allocated by the government i.e. 20 by 20 paces (400 m²) or 20 by 25 (500 m²);
4. Letter of allocation will then be given to the allottees on the very day bearing the signature of the EC members and seal of the Peasants Association;
5. This is followed by a *Miriqat* (blessing and thanks-giving) in the form of a small feast hosted by the new allottees in which all concerned parties present on the allocation ceremony will take part.

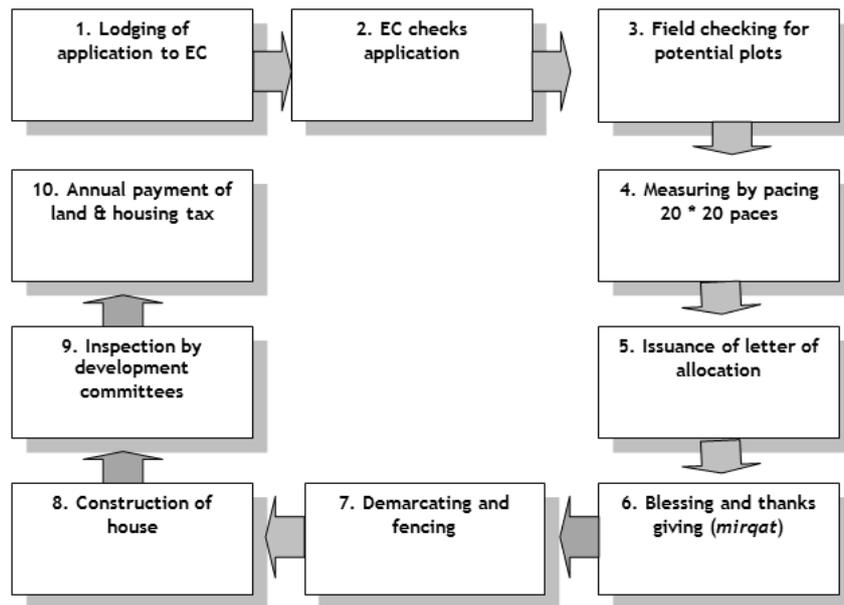
This feast is normally carried out by eating *Kurt* (a special raw fatty meat) and drinking *tej* (fermented local drink which possesses honey as its ingredient) *in* one of the local bars (*Tej Bet*) and restaurants located in *Saris*;

6. Monitoring of whether fencing of one's boundary does not affect the right of way reserved for roads is carried out by development committee members;
7. Upon fencing of the plots, the allottees will proceed to construct the houses using whatever building materials and resources they have in their possession. No building plans or permits are required at this point in time;
8. A person allocated land is expected to pay an annual payment of ten birr as land and housing tax to the branch office of the Ministry of Finance located in Akaki carrying the letter of allocation by the Peasant Association. It has to be noted that a peasant pays Birr twenty as land use tax at the time. Figure 7.1 shows the process flow.

This type of plot allocation was the main type of provision of plots for settlers until 1984. However the settlement process was not as such smooth and orderly. Overnight organised invasion particularly under the light of the moon had been practiced during the early years of the settlement. Demolishing measures were also taken on some of the houses built during the period 1985-88. This coincided with the moratorium on further allocation of urban land for the preparation of the Addis Ababa Master Plan.

Following the replacement of Ato Worku Debelu's leadership in 1984 by new members of the Executive Committee, individual peasants started to sow lentils and linseed, tilling the land right up to the foundations of the houses of the new settlers. Conflict became imminent between the peasants under the new leadership and the new settlers. Then aggravated by the provoking actions of the peasants, resentment grew among the settlers and they took to their feet seeking protection from the government. A squad of policemen was deployed to pacify the situation.

Figure 7.1:
*Worku Sefer: Process flow diagram for plot allocation
 by EC of the peasants association*



An official of the Derg (the ruling military council) by the name of Major Debela Dinsa paid a visit to the area. The decisions which he took which had tremendous effect on the later development of the settlement were:

1. Prohibition of further allocation of plots;
2. Prohibition of further construction on occupied plots, and
3. Permit improvement of infrastructure (access roads).

A party official from zone 3, was annoyed by the misuse of public land and decided to look for himself at what was happening. After seeing kids playing in the school compound established by the community, the houses, the facilities and road arrangements, he quietly went back never to take further action. This paved the way for the settlers to secure *de facto* recognition by the government. Development committees were set up following Major Debela's visit. Three committees, each for road, water, and electric power were established. The committees were coordi-

nated by a higher committee for managing the overall development. The committees endeavored to pull resources from private businesses, government and parastatal organisations (Ethiopian Building Construction Authority, Ethiopian Electric Light and Power Authority, Addis Ababa Water and Sewerage Authority, Addis Ababa Road Authority), non government organisations (Mulu Integrated Development) and even foreign companies like the Chinese Bridge and Road Corporation (CBRC). Electricity and piped water services were provided for the settlement in the period of 1987-1989. The community paid for all these services through residents' contribution. They even borrowed money for water and electric connection from two individuals living in the settlement and repaid them later. Digging the trenches to lay water pipes was all done by the community themselves. Financial contributions (the minimum contribution of Birr 100 per household) had been collected for asphalt surfacing of the main trunk road which branches from Water Works Construction Enterprise premises connecting to Berta Construction.

Bulbula elementary school was established in 1988. A land plot for a high school was reserved in the current site where blocks of government initiated condominium houses were constructed. A site for the construction of a health station was reserved and by the time of the field data collection, fund for the construction had been secured. The settlers also organised a sort of community security force. St. Mary's church was established around the same period. The establishment of a church and cemetery was traditionally taken as a symbol of permanent settlement. Taking the opportunity of change in government by the takeover of political power by the EPRDF forces in May 1991, they requested the new government to be organised into Kebele Urban Dwellers' Association. Two months later, they were incorporated as urban Kebele 59 (later Kebele 11), Woreda 19, under Zone 3. *Idirs* (cooperative societies) were also helpful instruments in collecting and channeling the community's contribution. There are more than five *Idirs* in Worku Sefer. The major ones include *Abu Chefe*, *Serto Ader*, *Michael*, and *Rasn mechal*.

Following these events the modalities of land delivery changed after 1988. Plot allocation by the Peasant Association had ceased. The main modalities after 1988 were: partial sale (*kefil shiyach*) of own plot by former allottees preserving his/her own house on the remaining, and whole sale of plots (*forfe*) by individual farmers and by other occupiers in the disguise of sale of an existing house. A small number of individuals had

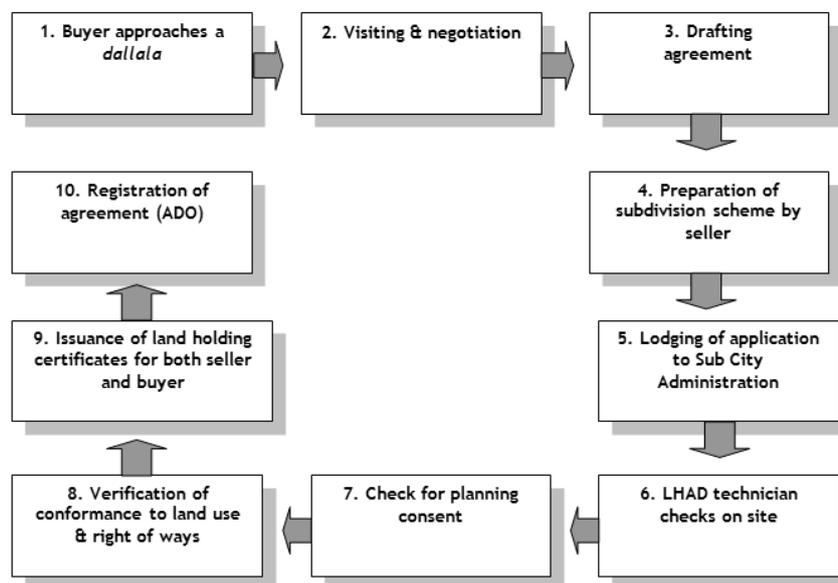
also settled through the process of squatting on marginalised sites. The price of land continued to increase, forcing gradually the former agricultural settlers to be displaced further to the fringes and nearby rural settlements. The maximum price in those times was four Birr per square meter. Around the year 2000 it rose to about ten to twenty Birr and currently some respondents have paid over a thousand Birr per square meter. For variation in land value from the year 1978-2007 refer to Annex 3. Though the complete choreography is very much extended, the major processes in partial sale of a plot by a former owner possessing land certificate includes the following steps:

1. A potential buyer of a house/a plot approaches a *dallala* (local broker or middleman), normally one who is living outside or within the settlement (the later *dallala* might not be a regular *dallala* by occupation but by being resident of the community knows exactly who wants to sell or not);
2. Negotiation on the rate or total price;
3. Drafting an agreement by the two parties;
4. Employing a surveyor or technician by the seller and preparation of a subdivision scheme (300 m² is the minimum plot area to be subdivided into a minimum plot size of 150 m² each);
5. Lodging of application with the subdivision scheme of the plot to the Land and Housing Administration Department (LHAD) of the Sub City Administration;
6. On site checking by technicians of the Department;
7. Checking for planning consent;
8. Receiving of planning remarks (conformance to land use, right of ways etc.);
9. If accepted, issuance of land holding certificates follows for both parties i.e. to the seller for the remaining portion of the plot and to the buyer for the portion of the plot he bought;
10. Registration of agreement in the Acts and Documentation Office (ADO). Figure 7.2 shows the process flow.

The process might follow another short path in which seller and buyer go directly to the Acts and Documentation Office for the registration of the agreement and the registration (deed) serves as the only authenticated document for the consummation of the transaction. This is done to deliberately avoid the payment to be made to the City Administration as capital gain tax which is in the order of (4-6%) as a requirement of

processing the title. Such practice is not only limited to transacting parties in Worku Sefer.

Figure 7.2:
Worku Sefer: Process flow diagram for partial sale of a plot with certificate



The partial sale of a plot by former owners who do not have land holding certificates is made through *ye mender wul* (traditional/village agreement) under the observance of elderly people as witnesses.

A new land holding certificate for merger of plots is often required. This is a case where a buyer looking for a larger plot makes transactions with different sellers for a partial sale of smaller adjoining plots. The intention is to make a deal with each occupier because of the fact that the selling price for a smaller plot is cheaper than one bigger plot. The purchase is made in different names, often in the name of members of the buyer’s family or relatives. Then the buyer builds small shacks on the adjoining pieces of plots and after a while asks for the combined land holding certificate under a single name. Then the shacks are demolished and replaced with a bigger and higher standard construction. Such a re-

quest is processed by the Sub City Administration after checking conformance with the master plan, the legality of the holdings, and technical convenience of the location and arrangements of the plots in plan³.

Residents of Worku Sefer were requesting for land holding certificate ever since the settlement was incorporated as an urban kebele in 1991. They had been consistently paying annual land tax for so long. However, it was not until the year 2002/03 the administration for Kebele 11 posted the list of names considered for legal titling. The names were screened based on a tax payers' list. Accordingly, they were requested to submit supporting documents to substantiate their being legal holders. The supporting documents submitted by the residents included among others: receipt of payments made for land tax, receipts of payments for services e.g. water and electric power consumption bills, and kebele urban dwellers identification card. These credentials were cross checked with the measurement taken by the Information Urban Development Project - an initiative by the City Government to establish database of urban land holdings until May 1996. The former Kefitegna 19 Urban Dwellers Association and later on Akaki – Kaliti Kifle Ketema (sub city administration) continued issuing land holding certificates by verifying the above documents and taking on site-measurement of plots by technicians. Nevertheless, it was stopped after an estimated number of 250 households received their title certificates. According to interviews⁴ with key informants some of the residents were hesitating to pay the fee amounting between Birr 3,000-5,000 for the certificates, hoping such payment might be altered or even cancelled later. However the issuance of a land holding certificate was never resumed until the finalisation of this research. Issuance of a land holding certificate still remains the number one issue for the settlers of Worku Sefer.

7.3 Community Attributes

The settlement area was a peri-urban area under the jurisdiction of Abu Chefe Peasant Association. According to the interviews with the former peasants' association executive committee member and some inhabitants⁵, the first allocatees of plots in Worku Sefer belong to the occupation group of factory and quarry workers (locally called *wozaderes*, the Amharic word for proletariat), drivers and ex-soldiers which belong to the lower income group. The ethnic composition of the first settlers was predominantly the Oromo ethnic group. However under the dual pro-

cess of crisis sale and downward raiding by people which belong to a higher income group, the current settlement had become a transformed urban neighborhood of emerging middle income groups.

59.8 percent i.e. 61 household respondents were born in towns outside of Addis Ababa, from faraway places including Eritrea, Tigray and Amhara region in the north, Harar and Dire Dawa in the east, and Southern Region of Ethiopia. Their migration history is shown by the period they settled in Addis Ababa. Refer to Table 7.1.

Table 7.1:
Worku Sefer: Migration History

No	Period migrated to Addis Ababa	Frequency	Percentage
1	1945 - 1954	1	1.6
2	1955 - 1964	2	3.3
3	1965 - 1974	17	27.9
4	1975 - 1984	12	19.7
5	1985 - 1994	19	31.1
6	1995 - 2004	9	14.8
7	2005 - present (2009)	-	-
8	Non respondent	1	1.6
	Total	61	100

Source: Field survey July 2009

The migration history data in Table 7.1 shows a higher rate of migration in the period between 1965 and 1994. Except for the period 1965-1974 which might be attributed to the 1974 agrarian revolution which displaced people from rural as well as small towns in the provinces; the period between 1975-1984 and the period between 1985-1994 in particular the period between 1982-1984 coincides with the active years of plot allocation by Ato Worku and his committee. The consecutive years following 1988 were also years when the informal land market in Worku Sefer was at its climax. Thus it is possible to deduce that Worku Sefer had served as adaptation ground for these migrants. Regarding ethnic and religious composition of the current inhabitants of Worku Sefer, results of field data are shown in Table 7.2 and Table 7.3.

Table 7.2:
Worku Sefer - Ethnic composition of households

No	Ethnic Group	Frequency	Percentage
1	Oromo	36	35.3
2	Amhara	34	33.3
3	Tigray	16	15.7
4	Southern Nations, Nationalities and Peoples	12	11.8
5	Unspecified	4	3.9
	Total	102	100

Source: Field survey July 2009

Table 7.2 shows that the Oromo ethnic group has the highest share followed by almost equal share of the Amhara. Among the Southern Nations, Nationalities, and Peoples ethnic groups the Guraghes constitute 91 percent. It can be deduced that the settlers of Worku Sefer do not constitute a homogenous group. The religious composition of households of Worku Sefer is shown in Table 7.3.

Table 7.3:
Worku Sefer - Religious affiliation of households

No	Religious Affiliation	Frequency	Percentage
1	Christian Orthodox	88	86.3
2	Islam	8	7.8
3	Protestant Christians	5	4.9
4	Unspecified	1	0.98
	Total	102	100%

Source: Field survey July 2009

The major groups of household respondents belong to the Christian Orthodox faith. The Muslims constitute a small percentage however they had a prayer house even though it was not designed as a typical mosque. As Christian Orthodox dominated neighborhood the establishment of St. Mary church with its own burial ground within the settlement had been a significant step in consolidating the settlement. The establishment of a church and a burial ground to honor the deceased within or nearby a settlement whose legal status is not yet ascertained symbolises stability and permanent settlement. The income status of respondent households is shown in Table 7.4.

Table 7.4:
Worku Sefer - Monthly income of respondents

No	Monthly income (in Birr) ⁶	Frequency	Percentage
1	101 - 350	7	6.9
2	351 - 600	5	4.9
3	601 - 850	22	21.6
4	851 - 1100	26	25.5
5	1101 - 1350	7	6.9
6	1351 - 1600	7	6.9
7	1600<	20	19.6
8	Non - respondents	8	7.8
	Total	102	100

Source: Field survey July 2009

The major income groups of respondents belong to the income group of Birr 851-1,100 and income group of Birr 601-850, which altogether make 47.1 percent of respondents. The share of respondents earning more than Birr 1,600 constitutes the third largest income group. Among this later group 77.8 percent of them earn a monthly income of Birr 2,000-4,000 including outliers of monthly income of Birr 5,000 and 30,000. The mean monthly income (excluding 8 non-respondents) is Birr 1,531.02, while the median monthly income is Birr 975.50. Table 7.5 shows household size of respondents. The dominant groups of household size are those with 6-8 members followed by size category of 4-5 household size.

Table 7.5:
Worku Sefer - Household size of respondents

No	Household size category	Frequency	Percentage
1	One	3	2.9
2	Two	2	2
3	Three	12	11.8
4	4-5	31	30.4
5	6-8	39	38.2
6	8<	15	14.7
7	Total	102	100

Source: Field survey July 2009

Crossing monthly income with household size gives the result shown in Table 7.6. With the exception of the sixth income group there is a tendency of larger household size being associated to higher income level.

Table 7.6:
Worku Sefer- Results of crossing monthly income against household size

No	Monthly income group (Birr)	Mean household size
1	101 - 350	4.6
2	351 - 600	5.4
3	601 - 850	5.4
4	851 - 1100	5.7
5	1101 - 1350	6.8
6	1351 - 1600	5.1
7	1600<	5.7

Source: Field survey July 2009

This might be related to educational status and occupation of respondents. For an educated civil servant depending on a regular salary there is a higher tendency of practicing family planning or limiting the size of family. Whereas for a high earning business men with lower levels of education a higher number of children might be the norm. Taking an exchange rate of Birr 11.5 to the US Dollar at the time of field data collection and using 5.6 as mean household size even those in the fourth income group of Birr 851–1,100 i.e. 58.9 percent of the respondents can hardly make ends meet. The data on educational status of the residents shows that 87.3 percent are at high school level and below while 64 percent of this group belongs to elementary school education level and below. Data on occupational status of respondent heads of households and their partners is shown in Table 7.7.

Table 7.7:
Worku Sefer-Occupational status of respondents

No	Occupational Category (Source of income)	Household head		Spouse / partner	
		Frequency	Per-centage	Frequency	Per-centage
1	Employee of private enterprise	20	19.6	15	14.7
2	Micro and small business	4	3.9	2	2
3	Business man/woman	10	9.8	6	5.9
4	Civil servant	18	17.6	16	15.7
5	Military/police	-	-	1	1
6	Pensioner	12	11.8	6	5.9
7	Unemployed	13	12.7	3	2.9
8	Casual labor	6	5.9	1	1
9	Student	2	2	-	-
10	Housewife	12	11.8	14	13.7
11	Artist	1	1	-	-
12	House rent	3	2.9	-	-
13	Diaspora	-	-	2	2
14	Farmer	-	-	3	2.9
15	Dependent	1	1	-	-
16	Non-respondents	-	-	33	32.4
	Total	102	100	102	100

Source: Field survey July 2009

The major occupational groups were: employees of low paying private enterprises, civil servants, pensioners, or housewives. Respondents who were engaged in these categories of occupation (sources of income) constitute 60.8 percent. Respondents who responded *unemployed* constitute 12.7 percent. According to the interviews, the HIV/AIDS scourge in the neighborhood had been so severe that some families had lost both parents⁷. Rental income was part of the income earning source for such families. There were also some farmers living in the neighborhood who still complained that their former land holding had been allotted unfairly to others by the former executive committee.

Current occupants as well as first settlers (as verified in the interviews) were heterogeneous groups in their history of migration, place of origin, as well as ethnic background. With regard to the original settlers the one common attribute they share was their occupation as dictated by the criteria set by the executive committee for the purpose of plot allocation i.e. their being from an underprivileged class like *wozaderes* (proletari-

at). Even though these occupational groups as employees of private enterprises were still the dominant groups; settlers from other occupations had also gradually joined getting access to land through the informal land markets which flourished after 1988.

Regarding neighborliness in Worku Sefer inhabitants responding to the question *who they consider as their neighbour*, the majority of them (51% excluding 8 non-respondents) replied *households in adjacent dwellings and those within the same block*. Only 9.6 percent of them responded all of the households in Worku Sefer. 46.5 percent of respondents value most the mixed ethnic and religious composition about the social grouping of Worku Sefer.

7.4 Physical Attributes

The area known as *Felege Niway* and *Desete Birhan* before it acquired its name *Worku Sefer* was a wilderness with its water bogged land which had not been convenient for settlement. It was not even suitable for agriculture and had been used as cattle keeping ground. It was a barren land in the peripheral area of the city adjoining the southern industrial zone. The perception of inhabitants about their locality before development took place is shown in Table 7.8. Responses are given in Likert scale of 1 (high positive value indicating excess in availability and quality) to 5 (indicating high negative value i.e. not sufficient). The cut point or mean value is 3 indicating qualities of sufficiency or of acceptable quality.

Table 7.8:
Worku Sefer: Physical attributes at initial stage of development

No	Degree of quality/availability	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Size of available constructible land	18	12	22	13	23	14	3.1
2	Quality of housing	1	5	15	36	34	11	4.1
3	Transport services & street lighting	0	2	5	22	61	12	4.6
4	Road & storm water drainage	0	1	6	20	64	11	4.6
5	Water supply & sewerage	0	3	7	18	63	11	4.5
6	Education & health facilities	0	1	6	23	60	12	4.6
7	Security services & police station	2	2	19	24	44	11	4.2
8	Sanitation & green areas and parks	4	5	9	7	64	13	4.4

NR= Non respondents are excluded from mean value computation

Source: Own computation on field survey data July 2009

The perception of inhabitants about the area when they started settlement activity indicates poor conditions in all measures of amenities and services. In particular access to road and storm water drainage, street lighting and transport services, education and health facilities were almost non-existent. The only merit of the area was its location. The three major factors based on respondents' answers for the question what motivated them to seek plot/housing in this location were: lack of own house (60 % of respondents), ever increasing high rent amount (9.8 %) and a combination of lack of own house and high rent (6.9 %). Among the opportunities available in the area as a potential settlement area were easy access to land (39.2 %), affordable construction standard (13.7 %) and a combination of both (17.6 %). Together these groups of respondents make up 70.6 percent. Regarding tenure condition 79.4 percent of respondents were owner-occupiers.

7.5 Antecedent

The former settlers of Worku Sefer who had been allocated land by the Executive Committee of Abu Chefe Peasant Association were all pushed by different environmental and socio-economic distresses from their respective place of origin. They were looking for a plot of land to build shelter. Even though land was allocated freely by the administrative decision the system could not cater for such people. They were required to deposit 20 percent of the construction cost in a blocked bank account as proof that they have the capacity to build one of the standard houses. In addition to the inaccessible bureaucratic procedures for such people, they were also required to submit standardised house plans for approval. Faced with such harsh environment the settlers were determined to overcome all these problems with their own initiative.

7.6 Actors' Component

Most actors (63.3 %) came to know about the settlement opportunities in Worku Sefer through their relatives, family members and peer groups in workplaces. 12.2 percent of respondents received information from local *dallalas*. Based on responses of 44 respondents who responded the three main methods to fix the rent or buying price, were by consulting family members (29.5 %), advice from local *dallalas* (22.7%) and consulting peer groups at work places (15.9 %). Therefore social networking

plays a very important role as both information source and decision making compared to the familiar market information services. 81.8 percent of renter/buyer respondents never regret the decision they made regarding the rent amount or sales price.

7.7 Property and Transaction

To relate the history of settlement/development activity in Worku Sefer with the individual actor's home building activity, data on the period of settling in the area is presented in Table 7.9.

Table 7.9:
Worku Sefer - Settlement History of Actors

No	Period	Fre- quency	Percent- age	Remarks
1	Before 1982	7	6.9	Pre- allocation by the EC
2	1982-1984	29	28.4	Allocation of plots by the EC
3	1985-1988	18	17.6	Counter measures by new EC
4	After 1988	45	44.1	Allocation through informal land market
	Non respondents	3	2.9	
	Total	102	100	

NB: EC = Executive Committee of Abu Chefe Peasant Association
Source: Field survey July 2009

It shows that the major share of settlement activity by individual actors took place after 1988 through partial (*Kefil shiyach*) and whole plot sale (*forfe*) in the informal land markets. The discrepancy with Table 7.10 below might be due to the fact that the categories used in the two tables do not exactly match. Plot allocations for their peasant members might continue in the third period by the new Executive Committee (EC). This is reinforced by the data on modalities of possession of plots/houses presented in Table 7.10. 70 percent of the purchases were made in and after the year 1988.

Table 7.10:
Worku Sefer - Modality of possession

No	Modality of possession	Fre- quency	Per- centage	Re- marks
1	Rent	14	13.7	
2	Inheritance	10	9.8	
3	Purchased	37	36.3	
4	Allocated by peasant association	36	35.3	
5	Allocated by Government	1	0.98	
6	Squatting	1	0.98	
7	Gift from individuals	2	2	
8	Representative (deported Eritrean)	1	0.98	
	Total	102	100	

Source: Field survey July 2009

The major modality of land/housing possession of respondents was through purchases in the informal land (house) markets which comprise more than 36.3 percent. *Rent* and *inheritance* could be sub categories of either *land allocated by peasant association* or *purchased*. The second largest share (almost equal with the former) in modality of possession was allocation by the Peasant Association (Table 7.11).

Table 7.11:
Worku Sefer- From whom land was bought

No	Bought from	Fre- quency	Per- centage	Re- marks
1	Bought from individual peasant	20	54.1	
2	Wholesale from owner (<i>forfe</i>)	9	24.3	
3	Partial sale from owner	7	18.9	
4	Others	1	2.7	
	Total	37	100	

Source: Field survey July 2009

Respondents purchased plots mainly (54.1%) from individual peasants. These peasants after selling their possession had resettled in the surrounding peri-urban area like Gelan, Hana Mariam, Furi, etc. Purchases from other former allocatees either in whole sale or partial sale together also constitute 43.2 percent.

Table 7.12:
Worku Sefer - Plot size

No	Size category (in meter square)	Frequency	Percentage
1	≤100	1	0.98
2	101-150	2	2
3	151-200	12	11.8
4	201-250	2	2
5	251-300	9	8.8
6	301-350	6	5.9
7	351-400	33	32.4
8	451-500	17	16.7
9	551-600	3	2.9
10	601-650	1	0.98
11	651-700	1	0.98
12	951-1000	4	4
13	Non-respondents	11	10.8
	Total	102	100

Source: Field survey July 2009

The two predominant sizes of plots were of 400 meter square (20 paces by 20 paces) constituting 32.4 percent and 500 meter square (20 paces by 25 paces) constituting 16.7 percent which the leadership of the peasant association had emulated the provision of the Proclamation for Nationalisation of Urban Land and Extra Houses. The proclamation limits a ceiling area of 500 m² for urban private residential use. Excluding 15 non-respondents, 92 percent of the households had paid property (land and building) tax. Only 2 of the 87 respondents used their property as collateral for a bank loan. 29 out of the 87 (33.3 %) respondents responding to the question what improvements they plan to make on their properties responded that they had no intention of making any improvements. The main reason given not to make any planned improvements was mainly lack of money (58.6 % of the 29 respondents including 2 non-respondents). The reasons related to tenure insecurity were fear of eviction due to construction of planned road crossing from south west to north-east across the settlement⁸. There are two respondents who said also; “*better to use it as it is, while staying informal*” combined with lack of money. Together these later groups form 13.8 percent of those not having any future plans to invest in house improvements.

Responses from respondents for whom land holding certificates not yet issued for the question what other means they use as proof of owner-

ship indicate that the most commonly used means include: a combination of letter of allocation by the peasant association, electric and water bills and kebele residency identity card. One respondent answered: “*my guarantee is Ato Worku’s signature. Thanks for him*”.

7.8 Institutional Interfaces

Responding to the question which aspects of government policies, rules and regulations have they assumed would help them to acquire a house in the course of action they choose, 58.6 percent among 82 respondents answered “*the responsibility and mandate given to peasant associations to administer the land area under their jurisdiction*”. The second largest group (13.4 %) responded “*citizens’ right to shelter themselves against natural calamities*”. One response which deserves mentioning is quoted as follows: “*I assumed government would be sympathetic towards efforts by the people to shelter themselves.*” Respondents were also asked to respond to the question which government policies, rules and regulations had they been anxious about. Their response include: not having a land holding certificate (22 respondents among the 77 who responded making 28.6 %), not having approved house plans (18.2 %), not having both land holding certificate and approved house plans (24.7 %). Together these groups of respondents make up 71.4 percent. Only 12 respondents (15.6 %) replied they had nothing to be anxious about. Asked about their expectations from the legal rules and regulations pertaining to the real estate market, the majority of respondents (64.8 % excluding 14 non respondents) had the opinion that the rules and regulations were appropriate, 20.5 percent replied they were facilitative and only 9.1 percent of them replied they were restrictive. The remaining 4.5 percent confessed that they know nothing about law. Respondents’ assessment results on the role of government in institutional development and enforcement is shown in Table 7.13. Responses are given in the Likert scale of 1 (indicating high positive value i.e. very satisfied, very high, very appropriate) to 5 (indicating high negative value i.e. unsatisfactory, very low, and not appropriate respectively). The cut-point or mean value is 3 indicating qualities of being satisfied, sufficient and acceptable. Mean values on the Likert scale below 3 indicate high positive assessment while mean values above 3 indicate negative assessment values.

Table 7.13:
Worku Sefer: Assessment of government's role

No	Aspect	Likert scale					NR	MV
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	18	7	38	18	8	13	2.9
2	Sufficiency of public allocation of residential plots as compared to the number of applicants	2	11	27	33	20	9	3.6
3	Institutional enforcement capacity of government: in terms of professional manpower	3	12	44	27	4	12	3.2
4	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	4	16	52	21	2	7	3.0
5	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	11	1	34	9	44	3	3.7

NR= Non respondents are excluded from mean value computation

MV = mean values

Source: Own computation on field survey data July 2009

Perception expressed in the mean value on the Likert scale shows that except for service delivery of the city administration and institutional enforcement capacity of government in terms of issuing appropriate (enforceable and affordable) rules and regulations; the rest of indicators show a negative attitude specifically towards institutional enforcement capacity of government in terms of use of legitimate violence (mean value of 3.7) and sufficiency of public allocation of residential plots (mean value 3.6). The inhabitants of Worku Sefer also tried to develop internal rules to sanction against non-cooperative tendencies. These internal rules include: local development regulations, norms of sanitation, security, and penalty.

7.9 Goal achievement

Referring to Table 7.8, the quality and availability of amenities (services and facilities) at the initial stage of development had resulted in mean values of above 4.0 on the Likert scale. Nevertheless, the assessment of sufficiency and availability of amenities after development during the field data collection show satisfactory levels of amenities as shown by mean values of 3.0 and below in the Likert scale (Table 7.14).

Table 7.14:
Worku Sefer - Sufficiency of housing and availability of services after development

No	Degree of quality/ availability	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Size of plot	4	27	58	11	2	0	2.8
2	Number of rooms	5	19	62	16	0	0	2.9
3	Internal electric supply	5	16	63	14	4	0	3.0
4	Internal Water supply, toilet facilities & sewage treatment	6	10	72	12	2	0	2.9
5	Telephone & internet connection	4	10	71	10	5	2	3.0
6	Roof , wall and floor condition	7	19	51	20	4	1	3.0

NR= Non respondents are excluded from mean value computation
 Source: own computation on field survey data July 2009

From field observation and interviews, the necessary social facilities such as nursery schools, kindergartens, elementary school, and a police force exist in the neighborhood. Kebele (neighborhood) administration office was also available before it was transferred to another location due to new demarcation of administrative jurisdiction of urban kebeles. A site for a health service had long ago also been reserved. According to some informants budget and some preparation work had already started⁹. Access roads, even though not asphalted, function properly. In June 2011 the construction of part of the proposed asphalt road had started.

7.10 Ethnographic Case History: Peasants Who Built a City

Abu Chefe Peasant Association is one of the rural *kebeles* established according to the provision of the Proclamation to Provide for Public Ownership of Rural Lands (Proc. No. 31/1975). It was established on 20 gashas of rural land i.e. about 800 hectares. The name Abu Chefe combines the localities of *Abu* (which was later renamed *Sejere Genet*) and *Chefe* which used to be the area to the south of *Abu* and currently occupied by the Habitat Real Estate Housing. Other localities under the jurisdiction include *Chancho*, *Kaliti*, and *Arega Melka*. Administratively Abu Chefe peasant Association was under *Menagesha Anraja* and *Akaki Woreda*.

Ato Worku Debelu was not the first and the only person associated with the leadership of Abu Chefe Peasant Association: Ato Hiye Feyisa, Ato Dema, and Ato Guda Abuye were some of the predecessors of Ato

Worku. These individuals had been tenants on the land which belonged to members of the nobility – W/ro Emebet and Fitawrari Alemayehu, before the 1974 revolution. They used to pay rent in kind or cash for tilling the land. The motto of the agrarian revolution; “*Land for the tiller,*” liberated them all and they were able to possess farm land in their own name. Ato Worku Debelu came onto the scene in 1983. It was a time when some desperate people came and begged for a plot of land to build shelter, pleading that they have no other means. Their issue was raised in the meeting of the Executive Committee (EC). Ato Worku took the lead, the decision reached by the EC was:

...We have been given the mandate to administer the land under our jurisdiction. The land they are asking for is not suitable for tilling. Land belongs to the people, why not let them build if we don't use it for ourselves. Let us check their background - whether they are really destitute with no other alternative and they don't have a house of their own in other locations...¹⁰

They also needed to safe guard the interest of their member peasants. They had to check whether the plot of land was not under possession of a peasant, whether it was not used as a farm land, and someone was not paying tax for the land. This was recorded in the minutes of the EC and signed by 21 members.

As a matter of procedure an applicant has to appear in person at the meeting of the EC. The EC members would observe the person's physical situation i.e. his appearance, clothing, the smoothness or roughness of his hand, and how he expresses his problem. Most applicants at the beginning were quarry workers, crusher operators and assistances, factory workers, and retired soldiers. If everything went right and the application accepted, the applicant would be notified and given an appointed date for plot allocation. The date for the plot allocation was normally done for a group of applicants and usually set during the holidays.

As time passed by, there were some funny stories circulating about the measurement of a plot. It was said that Ato Worku used to throw a stone and the point where the stone hits the ground limits the boundary. However measurements were done by pacing. As authentication of the plot allocation, a letter would be signed by members of the EC who were present, and simultaneously issued. This was endorsed with the seal of the Peasant Association. The only payment expected from the new

allotees was to pay a tax on residency (house and land tax) which was collected by formal receipts from the Ministry of Finance (Model 30). The feast which was called *Miriqat* (blessing and thanks giving) was purely a voluntary response on the part of the allottees and not a requirement.

Nevertheless life for the settlers in the early 1980s was not easy. With no access roads, the settlement was approached by crossing compounds of adjoining parastatal organisations. The area was water bogged, every morning when the settlers would leave for work, they had to carry two pairs of shoes, one pair of plastic boots which they had to deposit somewhere in a kiosk and join their daily routine by regular shoes and put it on again to reach their homes in the evening. With no water and no electricity the area was described as wilderness where the sunset was heralded by screaming hyenas at dusk. With no government noticing their existence, their security was also at risk in the evening. As one female respondent expressed; “*women had been robbed of their jewellery in broad day light...for there was no police force.*” However, driven by the incentives of the informal discretionary land allocation with the prospect of becoming owner of a shelter of their own, the settlers were ready to turn every stone to improve their settlement.

When the EC members were imprisoned for the second time on alleged abuse of public land, they were able to produce the minutes of the EC trying to defend themselves on the ground that it was a decision of all of the members of the Executive Committee. Already some of Ato Worku’s cabinet members, who even though they had signed the minutes, defected from their former stance and started to instigate accusation against Ato Worku and his group. While Ato Worku and his group were in prison these remaining members of the EC seized the leadership and threatened their sympathizers by saying that the criminals would be punished by death and would be hanged in the middle of the neighborhood.

At the start of the Ethiopian rainy season of 1984, while Ato Worku and his group were still in prison, the new leadership - a woman chairperson by the name of W/zo Wossene, set retribution fees for damages and ordered the peasants to saw lentil the whole area up to the foundations of the houses to constrain the movement of the new settlers. This motivated some of the new occupants to take action in support of the former leadership of the peasant association. In particular six retired soldiers, who were employed as guardsmen for the Defence Construction

Enterprise site, committed themselves to appeal to the highest political leadership of the country. They were confident in winning their sympathy and they did it.

... These men have given us plots of land to build shelter so that we will be able to rest our heads and keep our families. They helped us to share a bit of human dignity. They have committed no crime. We would rather surrender our land than let them lose their lives. We will appeal to the highest authority if there is anyone willing to listen to us.¹¹

It might not be by accident that Major Debella Dinsa, a higher official of the *Derg*, paid an undeclared visit to the settlement around this time.

"Which resettlement is this?" he required.

"This is Worku Sefer, some peasants' settlement"

"We certainly have done with the Balabats (landlords). Is Worku a landlord (Balabat)? By what authority is he allocating public land?"

He got out of his car and talked to some of the residents one by one. What he heard was a different story:

"Look, I am here a destitute, thanks to them, they allocated me a plot free of charge to erect a shelter"

"How much have you paid?"

"What money do I have that I can pay them?"

"So, have you been given government land free of charge?"

"Am I not belonging to the government too?"

This contributed to the release of Ato Worku and his group. The directive given by the official was taken as *de facto* recognition of the settlement. Nonetheless allocation by the EC of the Peasant Association had stopped by then. However the development of Worku Sefer as an urban settlement never stopped. Some of the peasants, who occupied land, remained there selling their oxen and keeping only 2-3 milk cows. Even long before the take-over of power by the EPRDF, the area occupied by the Peasant Association was shrinking and Abu Chefe Kebele Peasant Association had been gradually dissolving. The transformation to urban settlement culminated by its incorporation as urban kebele at the end of 1991.

Ato worku died three years later after his release from prison on 11th June 1987 and was buried in the cemetery at Salo Giorgis Church. Upon

his death some people tried to mobilise the residents to erect a statue of him at a central place in the neighborhood but it never materialised. Ato Worku Debelu as a chair person of the Executive Committee was not driven by any vested interest in the allocation of land. Nor did he attempt to exploit the situation for his own benefit. He didn't *even change his clothing* (he did not improve his appearance) let alone improve the livelihood of his family¹². Some people regret the fact that he only established his name as the creator of Worku Sefer. Most appreciate him for his sound judgement in contrast to his being illiterate. As an illiterate he used to sign with his finger prints. With his traditional costumes of short and narrow legged pair of trousers (*Teferi qid*) and a pair of sandals, he was a kind of person who enjoyed friendly chat with people while drinking *Tej* and eating *Kurt*. His son Leta Worku currently shares with his sister an old house inherited from their father located in Sefer Genet - a neighboring rural settlement where they stayed as the settlement their father created was blooming. They too depend on farming. Their compound is marked with haystacks and *Andima* (a clean leveled area to crush a dried up plant to separate the seed from the stem) which renders the compound an appearance of a typical farmstead.

His former deputy chairman is currently not in good health. An exception is the youngest of the executive members who joined them because of some issues related with his parents' possession. He had another job before he joined the EC. However since his family had been endowed with a good size of farmland, the Peasant Association threatened to confiscate the land or else the son should join them in the leadership. When he was presented for election he was welcomed by a majority vote. This young man was considered as the son of Ato Worku, as he was always beside him as the secretary and keeper of the seal of the peasant association. Therefore he was put in prison whenever Ato Worku was also jailed. Currently he is operating a metal workshop in Worku Sefer inside the compound of his villa. He has been elected time and again to any development committee organised in Worku Sefer.

7.11 Analysis

When settlers of Worku Sefer came in 1982 from different *woredas* of Addis Ababa and even some from different regions of Ethiopia, they were driven by the aggravated shortage of housing, environmental and economic stresses in their respective area of origin. Their choices had

been constrained by the existing institutional framework which has been described above. The actors had perceived that their future expectations could not be fulfilled through the existing formal rules. However it was the moment when the Executive Committee of Abu Chefe Peasant Association which had been legally established according to the Proclamation No. 31/1975, was willing to consider their request. Specific reference can be made to article 10.1 about the responsibilities of a peasant association:

To distribute, with the solicited assistance of the government when necessary, land forming the area mentioned in article 8 [the 800 hectares on which a peasant association is established] as much as possible equally ...

When the actors including Ato Worku Debelu, his leadership team, and the new settlers came together in the localities known by then as *Felege Nimay* and *Desete Birhan*, there were no building permits required, and no need to deposit 20 percent of the cost of the house construction in a blocked bank account. Once they were allocated land by the Peasant Association they could proceed with the construction of their shelter by whatever means they had at their disposal. The simplicity of norms and standards limited to the checking of whether the right of ways reserved for access roads were maintained or not by the development committees has had a power of respectability. This created a mechanism for self regulation by the community.

Driven by the incentives of the informal discretionary power of land allocation by the Executive Committee and with the prospect of becoming an owner of a shelter of their own, the settlers were determined to take any risk and were fully willing to cooperate. As the size of the community was relatively small, where everyone knows one another, problems of collective action and free riders were also easier to solve. Through reputation mechanisms it was simpler to oversee whether a settler was cooperating or not. As the coordinators of the then various developmental committees reflected¹³, mentioning the names of the defaulters in the regular monthly meetings of the whole community was a severe punishment in itself. Their cooperative endeavors have been demonstrated in the provision of infrastructure and facilities, for which they contributed by their labor, finance, organising skills and knowledge. With a sense of strong solidarity they established a community policing service to maintain security; peacefully sought for protection when intim-

idated by the leadership which came after Ato Worku; and they stood and defended their former leaders when their successors pushed further to incriminate them; they demanded the establishment of a kebele administration and later silently protested the relocation of the kebele office further to the south being amalgamated with other neighbouring kebeles. As time passed, people from the middle income groups joined the settlement and consequently the social cohesiveness and cooperative behavior gradually gave way to defaulting behavior by people willing to contribute their money but not willing to share their time. However since some of the old settlers, as members of the development committees, were still active in coordinating the efforts of the community, the level of cooperation had not yet diminished to a critical level. Their cooperative efforts and the informal institutions they created through the process of consolidation resulted in welfare improvements, from a level of 4.1-4.6 (not a sufficient level) before development took place, to 2.8-3.0 (sufficient level) thereafter, measured in terms of availability of infrastructure and other facilities on the Likert scale.

Abu Chefe Peasant Association was not allocating land for farming since the size of a farm plot for any farming family was in the range of 6-10 hectares. Rather the Executive Committee under the leadership of Ato Worku Debelu was emulating the size of plot allocated for urban residents according to the Proclamation for Nationalisation of Urban Land and Extra Houses which limits a ceiling area of 500 m². As the interview with the then secretary of the peasant association clarified, applicants were allocated land as residents not as peasants. This is clearly a discretionary allocation of public resource which can be interpreted as the use of informal discretion under a cover of formal institution. This case study demonstrates a case where an informal institution substitutes an ineffective existing formal institution which failed to solve the housing problem of the low income citizens. However, seen from the perspective of resource allocation in society, they were complementing the formal rules and regulations. During the period where access to land was through the informal land/shack markets, processes which started as informal were also legalised by the formal rules and procedures. Due to the development of the settlement land prices have been continuously increasing in Worku Sefer (Annex 3). This helped to avail land held informally to be used under formal procedures. As Berner (2000) noted the informal market was no different from its regular counterparts in price

7.12 Conclusion

The main actors in the Worku Sefer development include settlers from different occupations such as drivers, quarry and factory workers, ex-soldiers, elite groups, and peasants; and the Executive Committee members of Abu Chefe Peasants Association, and *dallalas*. Other stakeholders include city administration, parastatal organisations, utility companies, NGOs and international/foreign companies. These people were suffering from lack of shelter, and ever increasing house rent in their previous locations. Even though during the socialist oriented military government land was supposed to be allocated by administrative decisions free of payments, the early settlers were driven to the opportunities available in Worku Sefer, by the combined factors which include: The alienating requirements of the statutory land tenure and building laws which require 20% prior cash deposit in a blocked bank account, standardised house plan for the permit and protracted and cumbersome bureaucracy. The first settlers were homogenous underprivileged low income groups but these were later joined by elite workers forming a heterogeneous group of settlers in their income, ethnicity, and history of migration. The settlers came to know about the opportunities through their relatives, family members, and peer group members. Access to land in the first phase was through allocation by the executive committee of Abu Chefe Peasant Association, later through partial sell (*Kefil shiyach*) and whole sale (*forfe*) of plots in the informal markets with *dallalas* (local Broker) playing an important role in bringing buyers and sellers. The settlement had through time transformed itself into an emerging middle class settlement. The allocation by the Executive Committee of the peasants' association was also through the use of informal discretionary power of the leadership. The informal (customary) practice of giving recognition to the informal property rights include: a plot allocation letter by the peasant association, village agreements witnessed by elders, receipt of tax payments, water and electric bills, and kebele resident identity cards.

Their chronic shelter problems as well as, the harsh environment characterised by water bogged ground (not even suitable for agriculture), the lack of access roads, water, electricity and security, on the one hand; and the opportunities of easy access to land and building with available material while only maintaining right of ways of roads, on the other hand, helped to develop a cooperative behaviour among settlers. The attempt by the new leadership of the Executive Committee to superim-

pose two ownerships on the same asset by sowing lentils and linseed up to the foundations of houses of the new settlers invited the intervention of government. The government officials patiently investigated the factors behind the development and whether there had been any vested interests of individuals in the leadership of the peasant association and in particular Ato Worku's role. Depending on their own judgement and being impressed about the self initiation of the community, they took no further action to evict the settlers and this was taken as de facto recognition. Following this the settlers set up different development committees and coordinated in pulling resources and labour to provide basic infrastructure and facilities. 81.8 percent of buyers and renters never regretted their decision concerning the amount they paid. The formal-informal institutional interface in this case study shows that the informal institutions were trying to emulate the legal provisions of formal rules (e.g. the plot size of 400 - 500 m², 20*20 paces or 20*25 paces) and activities started in informal practices were later given approval under the formal institutions. Examples can be given of issuing of land title certificates for dividing or merging of plots transacted in the informal markets. This case study demonstrates a case in which informal institutions substituted an ineffective existing formal institution which failed to address the housing problems of low income citizens; as well as a complementary interface.

Notes

¹ Interview with Ato Getachew G/Mariam (one of the first residents of Worku Sefer)

² Interview with Ato Tadesse Balcha (former secretary of the Executive Committee of Abu Chefe Peasants Association and aide to Ato Worku Debelu)

³ Interview with the Building Permit and Ownership Administration Process owner of the sub city administration

⁴ Interviews with Ato Metaferia Dema, Ato Getachew G/Mariam, and Ato Worgu Urga (long time member of the development committee)

⁵ Interviews with Ato Tadesse Balcha (former secretary of Abu Chefe Peasants Association), Ato Getachew G/Mariam, Ato Besufikade Zewedu

⁶ Birr is the Ethiopian Currency. Its exchange rate was devalued by 58% from Birr 2.07/USD to 5 Birr/USD in 1993 and was then left to be decided by the market (biweekly foreign exchange auction market). Following the successive

devaluation measures the rates of the Birr against USD were 9.50/USD (2008), 13.75/USD (Aug.31st 2010), 16.35/USD (Sept. 1st 2010), and 16.96/USD (Feb. 2011).

⁷ Interview with Ato Damtew Alemayehu, former member of the Executive Committee of the Kebele Urban Dwellers Association

⁸ According to the revised master plan of Addis Ababa (2002-10).

⁹ Interviews with Ato Tadesse Balcha and Ato Worku Urga

¹⁰ Interview with Ato Tadesse Balcha (former secretary of the Executive Committee of Abu Chefe Peasants Association and aide to Ato Worku Debelu)

¹¹ Interview with Ato Tadesse Balcha

¹² Almost all interviewees and remarks of previous residents confirm this

¹³ Interviews with Ato Tadesse Balcha, Ato Worku Urga, and Ato Damtew Alemayehu

8

Cooperatives Housing in Ayer Tena

8.1 Introduction

Cooperation can be defined as any form of social interaction in which individuals/personalities or groups combine their activities or work together with mutual aid or on voluntary basis in a more or less organised way for the promotion of common ends or objectives, for e.g. housing. Sazama (2000:575) defines housing cooperatives as cooperatives where member residents jointly own their buildings. Ideally members exercise democratic control of the cooperative and receive the social and economic benefits from living and owning the cooperative. The Construction and Use of Urban Houses Proclamation (No. 292/1986) often referred to the *Housing Policy* during the socialist oriented military government, defines housing cooperative as a voluntary association legally formed by individuals in pooling together resources, labour and know-how with a view to constructing dwelling and infrastructure related thereto (Article 2/5). In Ethiopia, though there is a long tradition of cooperative work, the rise and flourishing of cooperative housing dates back to the last years of the 1970s and throughout the 1980s. Based on socialist ideology, cooperatives in Ethiopia were important forms of community organisations with privileges of second on priority order to public organisations in resource allocation.

8.2 Background

Voluntary mutual aid organisations have been long established in production and house construction activities in rural Ethiopia. *Idir*, *Debo*, *Wonfel*, *Equb*, and *Meredaja Mahiber* are among the traditional self help associations. However, even though national acts on cooperatives were promulgated since the Imperial period, the cooperative way of urban

housing construction had its roots in the socialist way of economic organisation. This took effect through Proclamation for Cooperative Society (No. 138/1978).

During the socialist oriented Military Government, the Ministry of Urban Development and Housing (MUDH) was entrusted in organising, registering and directing housing cooperatives. The ministry also served as liaison office between housing cooperatives and other concerned public bodies. Other organisations involved in the activities of housing cooperatives were the Housing and Savings Bank, Building Materials Supply Enterprise, Housing Construction Enterprise, municipalities, and utility companies for provision of services and utilities.

Based on the prevailing ideology at the time, housing cooperatives were not only viewed as a means to alleviate urban housing problem, by coordinating resources of society, but also as a means to adapt socialist ideology. Housing by cooperatives was considered as the major means of housing provision. According to the ten year plan of the Military Government (1985/86-1995/96), 86% of the targeted housing construction was planned to be provided by housing cooperatives. It was also assumed housing cooperatives could help to facilitate dissemination of technical and material support by the government and other bodies.

During the critical transitional years from a command economy to mixed economy and then to a free market economy, new actors emerged who exploited the institutional vacuum pertaining to cooperative housing. Illegal private sector organisers organised housing cooperatives with hundreds of members and subdivided public land in thousands of hectares, garnering millions of Birr as membership payments. 15 years later the *Ethiopian Reporter* in its January 20, 2008 edition (Amharic version) referring to the Federal Ethics and Anti-corruption Commission disclosed a list of 41 such illegal housing cooperatives. This is in addition to the previously disclosed list of 66 illegal housing cooperatives. The *Daily monitor* in its December 23, 2007 edition under the article "*Ethiopia: City Gravely Afflicted by Corruption*" reported the level of gravity of corruption surrounding the proprietorship of land and construction of illegal houses. The issue gained wide media coverage resulting in a considerable number of technicians, land administration personnel and sub city managers of the City Government of Addis Ababa being placed behind bars.

The Housing Cooperatives as Organisations

According to the guidelines for housing cooperatives compiled by the MUDH, housing cooperatives were organised at three levels: basic housing cooperatives, union of housing cooperatives, and country level association of housing cooperatives. The minimum number of members for basic housing cooperatives was 20 and was known to be less as little as 6 for those who build multi storey housing. The Union of Housing Cooperatives was formed by two or more adjoining or nearby cooperatives to facilitate provision of infrastructure which needed effort beyond one cooperative and social facilities of a higher threshold. The Country Level Association of Housing Cooperatives was formed to facilitate the study and preparation of economical housing standards, facilitation of housing construction and infrastructure by cooperatives. This research dealt at the level of basic housing cooperatives. The three types of basic housing cooperatives were: regular cooperatives (with bank loans), pure self help (self financing cooperatives), and aided self help (subsidised).

1) Regular Cooperatives (With Bank Loans)

This type of cooperative was targeted for middle income groups with regular incomes who were mostly civil servants qualifying for bank loans. The majority of the beneficiaries were earning 500¹ Birr or more per month at that time. Members could also be persons who may deposit the full loan amount or combine a partial loan with their own deposit.

2) Pure Self Help (Self Financing) Cooperatives

This category was intended for the low income group working in the private or in the informal sector. These were people who were either not permanently employed as a civil servant or their salary level being very low (<200 Birr/month) were not qualified for bank loans and also were unable to save the financial requirements that qualify them to build the minimum housing standard. They were expected to construct their houses through their own savings and/or personal labour.

3) Aided Self Help (Subsidised) Cooperatives

This was a category for those persons from the formal sector low income employees who could not fulfill the minimum requirement to borrow money from the Housing and Savings Bank to build the minimum house type. They were able to get financial assistance with a soft loan but

were obliged to cover upto 40% of the construction costs of their house through direct labour and personal savings. The intention was to assist the households who have a regular income (<200 Birr/month) but could not qualify for formal bank loans. Special support had been furnished for such cooperatives. MUDH provided technical assistance, auditing of accounts, and labour contribution of its employees through free work campaigns.

8.3 Institutional Context

Cooperatives thrive in a specific legal environment. The purpose of the cooperatives' law include: regulate internal administration and external relations; protect members, creditors, all persons and organisations; regulate relationships between cooperative societies and public cooperative departments and to stipulate conditions for registration. Acts/proclamations pertaining to cooperatives during the Imperial period include the farm workers' cooperatives decree (No. 44/1966); and the proclamation to provide for the formation of cooperatives societies (No. 241/1966). This later proclamation was entrusted to the then Ministry of National Community Development and Social Affairs. The socialist oriented military government issued a proclamation to provide for the establishment of cooperative societies (No. 138/1978); while the EPRDF led Government issued proclamation on cooperatives' societies (No. 147/98).

According to the Imperial Proclamation 241/1966 types of societies may include primary societies (not less than 10 members) and secondary societies where in addition to other members comprise of at least one member who is in another society. The hierarchical organisational structure includes a Registrar (appointed by the Emperor) and Cooperatives Tribunal established under the Ministry. An appeal on the decision of the Registrar might be taken to the Tribunal.

The cooperatives proclamation of the socialist oriented Military Government assigns the responsibilities of implementing, registering and regulatory services to different ministries. Accordingly, the Ministry of Agriculture and Settlement was entrusted with organising and following up Agricultural cooperative societies. The Handicrafts and Small Scale Industries Development Agency (HASIDA) was mandated to promote and organise the artisan producers and service cooperatives. The Ministry of Urban Development and Housing was entrusted in promoting,

organising and assisting housing cooperatives; while the National Bank of Ethiopia had been exercising control on thrift and credit cooperatives. A board for the coordination and supervision of activities of cooperatives was established by members who represent the sectoral coordinating ministries and other public organisations. The power and duties of the board include among others: to advise the government on policy measures for the advancement of cooperatives, to issue policies and guidelines for the establishment and development of cooperatives, and to issue directives for the implementation of the proclamations and regulations. In line with the socialist ideology, objectives of cooperatives include the following: To put the means of production under the control of cooperatives and to transform them gradually to collective property, to conduct political agitation, and to participate in the building up of a socialist economy. Therefore all public distribution and service organisations were expected to give priority to cooperatives over private persons and organisations. The organisational structure of a housing cooperative included: the General Assembly, the Executive Committee and the Audit Committee and other necessary sub committees and individual members. Disputes between cooperatives and their members were settled by the Kebele Judicial Tribunal for which appeal on its decision was taken to the judicial tribunal of Higher Urban Dwellers Association whose decision would be final.

During the EPRDF led government two proclamations in addition to the main proclamation for cooperatives societies were issued. These were the Cooperatives' Commission (No. 274/2002) and an amendment proclamation (Proc. No. 402/2004). In contrast with the previous proclamations the proclamation specifies the guiding principles of cooperative societies which among others included: voluntary and willingness to accept the responsibilities of member without gender, social, racial, political or religious discrimination; active membership and being democratic with equal voting rights; distribution of dividends from profit according to their shares, and a democratic control by members upon entering agreement with their members etc.

The proclamation specifies assistance by the government to cooperative societies which include those incentives under investment laws and other laws, to be exempted from income tax, to acquire land as determined by a region or a city accountable to the Federal Government and other assistances. The proclamation states the establishment of a Federal

state organ responsible for organising, registering and rendering training services, conducting research and furnishing other technical assistances to cooperatives. This Federal organ is the Cooperatives Commission established by Proc. No. 274/2002. The Commission was made accountable to the Ministry of Agriculture and Rural Development and was partially entrusted with the functions assigned to the previous regime's Cooperatives Societies Affairs Board. Among the major responsibilities of the Commission include: inspect the account of cooperative societies to be established at federal level, provide uniform standards of accounting and audit for cooperatives society throughout the country, facilitate markets for cooperative producers, study and prepare projects suitable for the development of cooperative societies, facilitate experience sharing and exchange products and information about the market, provide technical and professional assistance for the bureau of cooperative societies to be set up in the regions, formulate and distribute model by laws to cooperative societies, and to cancel them when dissolved.

The amendment on the cooperatives societies' proclamation 147/1998 states that a legally registered cooperative can engage in any business as of the date of registration without the necessity of securing additional trade license. Any cooperative society securing the decision of the General Assembly can also sell shares that shall have equal numbers and par value with the view to enable the society to obtain capital necessary to start its function.

Tenure Conditions of Housing Cooperatives

According to the housing cooperative guideline of the MUDH, the houses and related infrastructure were the collective property of the cooperative. Specifically ownership rights of the houses belong to the cooperative while members had the possessory right of the houses. However a member's right to dispose his/her possessory right by sale or bequest or to transfer otherwise was respected. The title deed for land would be first given to the cooperatives but also at a later time specifically after the full repayment of bank loans; tenure could be changed into private. Therefore as compared to the definition given by Sazama (2000) and the experience of some other countries which require ownership of houses to remain by the cooperative, it can be said in Ethiopia, cooperative housing was primarily a mode of housing development detached from tenureship. Rather the advantages of housing cooperatives included

group lobbying arrangements, they help in exerting pressure in fulfilling commonly held objectives such as acquiring land, technical assistance, training and advice offered by the respective technical public organisations.

The Role of Government

One of the aims of the ten year plan of the Military Government was to improve the standard of living and culture of the people to a sustainable level. Provision of shelter was taken to play a major role to attain such an aim. Therefore the government along with its role in creating a conducive environment for the operation of housing cooperatives and organising inhabitants to build their houses, was committed to: Issue rules and regulations for operations of housing cooperatives; organise, register and provide legal status to cooperatives; study and implement means to strengthen them; provide freely house designs and site plans, follow up and supervise construction of houses; provide training on accounting and auditing; ensure acceptable standards of accounting systems and provide audit services if necessary; extensively produce basic building materials and supply them to the cooperatives through government agencies at affordable prices; and facilitate house construction by cooperatives through the development of large tracts of land with the necessary infrastructure.

8.4 Activities of Housing Cooperatives

The activities of housing cooperatives among others include; To apply and secure a plot and a site plan of the permitted plot; To pool financial resources through loans, contribution of members and donations and invest in the construction of the houses and expansion of the necessary infrastructure; Coordinate knowledge, skills and labor of members to reduce the total construction costs per unit house; Create a conducive environment to involve government, urban dwellers association and other mass organisations with the main objective of reducing construction costs; and Maintain scale economics by bulk purchase and transportation of building materials to reduce the costs of building materials and transportation.

The land acquisition and housing process by cooperatives starts with an initiation. Usually one person or a small interest group of individuals

initiates the idea and starts looking for potential members among colleagues or compatriots who they assume can work together amicably. Then, this small group (about 20-24 members) approaches the Ministry of Urban Development and Housing (MUDH) specifically the Housing Cooperative Promotion Department. After an introduction on the procedures by organisers of the department, candidate members proceed to fulfill the necessary credentials. Such credentials include a document from the social court of kebele of residence declaring that the applicant is a resident in the kebele and has no house in his/her name, and another document from the applicants employer stating his/her birth date and the amount of his/her salary together with an expression of commitment declaring that the employer would deduct the monthly loan repayment from his/her monthly salary.

Next, the organisers in the department verify the documents submitted by the members and check the selection of members. After pursuing the eligibility check, the primary registration of the cooperative would be processed. Then the voting procedures and monthly contributions would be agreed upon by the candidate members of the cooperative, which then leads to an election of provisional and permanent executive and other committees and also the adoption of a model by-law and internal regulations prepared by the ministry. A blocked account in the name of the cooperative would be opened. In the mean time preliminary assessment of the loan capacity of each member would be done by the cooperatives department of the ministry and transferred to the Town Planning and Land Administration Department for the study of the location and zoning; as well as to the Housing and Services Study Department for the house type selection based on the loan capacity of members and also for the study of the site plan.

The selected site and house plans would be transferred to the Addis Ababa City Administration for subdivision of plots on the ground and issuance of building permits. This would then led to recognition of the cooperative as a legal body through issuance of a certificate signed by the Minister. The police department would be also notified about the establishment of the cooperative with its legal stading. Then the loan agreements with the Housing and Savings Bank would be processed. The Housing and Savings Bank would pursue loan capacity assessment and loan determination after seeking risk assessment (by the health check of each individual member) in the form of an insurance certification from

the Life Insurance Branch of the Ethiopian Medhin Insurance Company. In the mean time those who are unable to cover the full estimated housing costs because of their salary level and remaining working age are expected to directly deposit the deficit amount. Then the bank loan is granted in the name of the cooperative. Upon entering a loan agreement with the bank, the cooperative has to deposit the original land title and building permit as guarantee.

The construction would usually be carried out using a labour contract to a contractor while supply of building materials is handled by the cooperative. The cooperative members have to make financial, labour, skill and knowledge contributions during the implementation process. While in progress monitoring of the construction work would be carried out by professionals and technicians from the Ministry, the Addis Ababa City Administration, the Housing and Saving Bank, and Kebele administrations. The organisers from the Cooperatives Department of the Ministry provide backing services such as writing letters of cooperation for the concerned bodies (e.g. public building materials shops and industrial firms), authorise replacement of members, and certification of loan repayment. They also observe every milestone activity of the housing cooperatives. According to interviews with the then section head of the Housing Cooperatives Department, Ato Eyob Dolicho, these milestone activities/tasks were considered as critical turning points in the progress of development activities of cooperatives. Therefore they had to be recorded each time they were processed in special records in the Cooperatives Department of the Ministry. These critical tasks include: primary registration, opening a bank block account, transferring the site study to the City Administration for allocation and title certification, receiving issuance of the title certificate by the Ministry, handing over legal certificates to the cooperatives, transferring lists of cooperative members to the Housing and Savings Bank, and allocation of completed houses among members. A series of registration would be carried out at the end of each critical stage which included a transfer of documents from one process to another.

Allocation of houses among members was carried out by drawing lots in a special ceremony with a small feast in which all members with their families were present with invited guests from the Ministry, the bank and others. The results of the lot drawing are duly documented. After completion of repayment of the bank loans by each member, members are

promoted to request the City Administration for private titles. This is not the end. The activities of the housing cooperative will continue even after the allocation of houses is done. The cooperative's responsibility continues in the areas of provision of infrastructure, security (hiring and administration of guards), development and maintenance of common open spaces and social activities such as *Idir* and *Meredajba*. The contribution from members continues to cover the salary of security guards and the upkeep of greening, communal facilities such as playgrounds and green spaces, and provision and maintenance of infrastructure like paving of roads.

Development activities by housing cooperatives were complex processes which necessitated dealing with by widely diversified behaviors of members. Free riding was an inherent problem. There was a wide tendency to leave the responsibility to the leadership and committee members. Bringing members to meetings was not done without substantial effort and yet decisions had to be made with the participation of members. Delays hampered the motivation and momentum of members, hopelessness and despair from time to time also prevailed. This sometimes led to internal skirmishes. The price of basic building materials like corrugated iron sheets, reinforcement bars over time had shown increments of 400-900 percent while the price of a bag of cement had an exceptional rate of increment. Areas studied for housing cooperatives were predominantly located in peripheral locations (more than 10 Km from the city centre on average) devoid of any infrastructure. Before the new *housing policy* proclaimed in 1986, the cooperatives were not only expected to provide roads and drainage ditches but they were also obliged to buy expensive transformers for electric power line connections. After the policy even though it was declared that the government would be committed to provide support in the provision of infrastructure, the limited capacity did not result in noticeable help.

Housing cooperatives had been active in Ethiopia in the period between 1976 and 1989. Following the proclamation to provide for the construction and use of urban houses (No. 292/86) often referred to the *new housing policy*, housing cooperatives were granted a preferential interest rate for bank loans which was reduced from 9 percent to 4.5 percent (individuals were charged 7% interest rate). Cooperatives were also given top priority of procurement from governmental building material retail

shops. Therefore a new surge of cooperatives activities took place during the period 1987-1989.

In the last years of the Military Government, (around 1989) there took a turn in the ideological gesture from centrally planned socialist economic policy towards a mixed economy in which the role of the private sector in investment was also acknowledged. Nevertheless investment capital was limited to a ceiling level of Birr 250,000. Then following the mixed economy policy the Housing and Savings Bank disapproved the interest rates of 4.5 percent on the grounds that it was not viable for the bank's profitable operations and quitted dispersing loans. This was followed by a slow decrease of cooperative activities. However some cooperatives continued constructing only the service quarters leaving the main houses to be built on a self help basis.

Since the Ethiopian year 1969 (1976/77) housing cooperatives using bank loans or on a self help basis constructed houses. In the period between 1976 and 1992, more than 1,400 cooperatives with members exceeding 40,000, including those organised by the Urban Development Project Office (UDPO) had been certified, received land holding certificates and had constructed their houses (Eyob 1993). 30 percent of the total house construction during this time was undertaken by cooperatives and 70 percent by the private and public sectors. This achievement was not only in terms of the number of houses constructed but also in the provision of infrastructure such as access roads, drainage ditches, water and electricity. Eyob (1993) remarked on the passive role of Addis Ababa municipality in the provision of infrastructure. Regarding beneficial groups, predominantly middle income people were the most benefited and to a small extent low income people.

8.5 What Happened After 1993?

Three years later, after the EPRDF took power in February 1993, the Housing Cooperatives Department in the Ministry was dissolved and the list of 1,500 cooperatives with members amounting to 45,000 was transferred with their documents to the Addis Ababa City Council. This was a period in which neither the previous regulations had been allowed to function nor were repealed by a new legal framework until 1998. Neither a Federal nor a Regional state body responsible for organising and coordinating activities of cooperatives was established until 2002. Wubshet

(2004) remarked later, that the emerging government tried to avoid the cooperative system of housing development as one of the mechanisms to distance itself from the housing policies of the previous regime. Eyob (1993) expressed his anxiety at that time about the problems these cooperatives were going to face, for they were not allocated land due to the vacuum created in the institutional framework and therefore were obliged to stay in limbo.

When these documents were transferred to the City Administration, the cooperatives were at different stages of development. Some of them had been at the stage of approved allocation with communal title certificates issued by the City Administration. Though a new Housing Cooperatives Office was organised in the municipality it soon came under the Micro and Small scale Enterprises Development Section of the City Council and later on the function was decentralised to the sub cities. As a consequence of the moratorium following the mixed economy policy and later on reinforced by free market economy on bank loans a metamorphosis in the type and form of housing cooperatives had been already observed. All of the *regular cooperatives* which were organised to benefit from bank loans had been obliged to be converted into the less regulated and flexible *self-help* form of housing cooperatives.

This mass conversion from *regular* to *self-help* housing cooperatives became a concern on the part of the implementing public organisations and the issue was brought to the attention of the higher officials in the Ministry. The issue of concern was the fact that the self-help housing cooperatives were originally designed to support the low income groups in the informal sector and it had become the only option for even for the middle income households and part of the high income groups. A visit by the Deputy Minister, head of the Housing Cooperatives Department, and the National Urban Planning Institute to a housing cooperative whose members were drawn from the Engineering Head Quarters of the Army, influenced them all to admit that self-help housing should be the new typology to be adopted. This was justified on the grounds of the rise in interest rate, the ever increasing cost of building materials, and the unreliable assistance of the government in the face of tightening economic conditions. The involvement of loan finance was a very important factor in maintaining compliance to planning regulations and building codes as non compliance to regulations lowers the value of the property. Hence banks used to monitor compliance much more strictly. However, in the

new circumstances, self-help housing cooperatives were not attached to bank loans, therefore they were permitted to modify the house plans. They could even change the type of building materials according to the available resources, compromising on the standards.

The number of members of a regular housing cooperative was limited to 16-24 people. The World Bank Loan Financed Housing Project, coordinated by the Urban Development Project Office (UDPO) for the first time raised the number to 40. The number of members of the self-help cooperative could be extended to 100 or even 300 members. The self-help cooperatives were requested to deposit 10 percent of the construction cost in a block account and raise it up to 20 percent upon launching of the construction work. The account would be activated when they had delivered the necessary building materials on site and the foundation work was accomplished. Phasing of construction by self-help cooperatives was also flexible. They might start with site clearing, opening of access roads and water connection to the site; then allocate plots by drawing lots among members and continue the actual house construction individually. In most cases individual plot allocation was carried out after the foundation work had been finished to avoid any bias or self-interest. Often this part of the work was done as an expression of commitment of building together in a cooperative. In some cases houses were allocated among members after the major construction was completed, leaving finishing works to be done individually by members according to their preference and capacity. One can observe the very lax situation in which the self-help cooperatives were operating and the mechanisms of unrestrained flexibility they applied.

What actually happened? Abuse of the self-help cooperative model

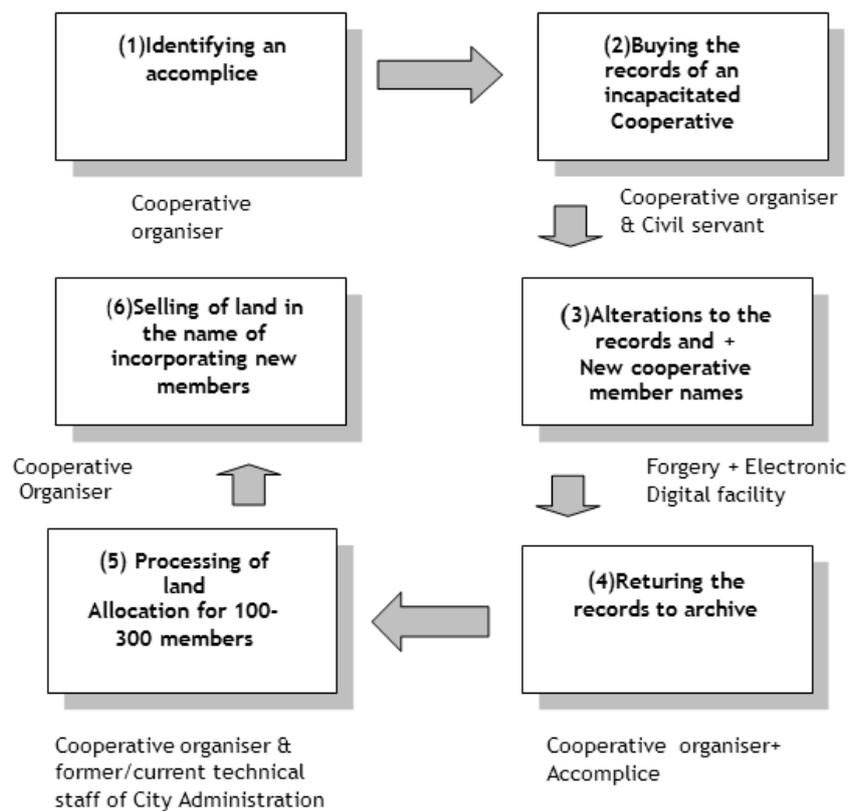
In the desperate situation that followed these circumstances, some members abandoned the cooperative option while a few of the remaining tried to reorganise. In the new setting, cooperatives were required to deposit the money in blocked bank accounts. As a result, cooperatives lost a substantial number of their members who were unable to deposit the required amount of money and build the standard house without bank loans. Consequently surviving cooperatives had to replace 50-75 percent of their former members to preserve their names and legal status. Some of the cooperatives had been in the process of plot allocation and some had already identified their location and had copies of the site

plans even though they were not yet converted into individual land holding certificates. Then amid all the confusion, the practice was snatched by curious speculators which later turned it into a rampant speculative market of public land. The situation led to the emergence of new type of actors from the private sector; *cooperative organisers*, (translated in the Amharic language as *Mabiber yemisern*) who became major role players and benefitted immensely from the crisis. The most important move in this covert operation involved getting access to and manipulating the records and documents of the housing cooperatives which were transferred to the Addis Ababa City Administration and later to the sub cities. The processes followed include:

1. A private *cooperative organiser* had to identify an accomplice who is an employee of the City Administration (possibly an archivist) to access the records of an incapacitated cooperative
2. Getting access to the records and documents of an incapacitated cooperative was done through bribing the archivist, a move known as *buying the records*
3. Making alterations to the records and documents of the cooperative including replacing the cooperative members with new names, and simulating every correspondence with forged signatures and seals, supported by forged documents, site plans, and model by laws. This was facilitated by modern electronic and digital facilities such as colour copiers and scanners
4. Returning the record to the archive of the City Administration and reactivating the incapacitated cooperative
5. Processing land allocation for the 100-300 members with an average plot size of 150 square meters (the organisers often opted to make it to the maximum size of 175 square meters). This was facilitated by some technical staff member of the City Administration. In some cases the land allocation decision was even hastened by taking the cases to the courts
6. Selling the land, in the name of incorporating new members and sometimes in an outright sale of public land. A new member of a cooperative would be asked to pay Birr 20,000-30,000 to join a ready-made housing cooperative. This would result in a total sale of six to nine million Birr in a single housing cooperative. Figure 8.1 depicts the process flow.

Most of the properties had changed hands in ownership to third and fourth persons. These speculative markets in the aftermath of the institutional limbo in the housing cooperatives were the main factors which triggered a city wide crackdown by the government in 2007. The crackdown resulted in the imprisonment of several former executives and technical staff members of the city administration, executive committee members of the illegal housing cooperatives and a few of the speculative cooperative organisers.

Figure 8.1:
Ayer Tena- Process in the criminality drive



8.6 The Illegal - Legal Divide in Housing Cooperatives of Ayer Tena

Up to 2008 The Federal Ethics and Anti – Corruption Commission had disclosed 107 illegal housing cooperatives (*The Ethiopian Reporter*, Jan. 20, 2008). According to the list obtained from the Commission in July 2009 the number of dubious cooperatives had increased to 163. The cooperatives were located in six sub cities of Addis Ababa, namely: Kolfe Keranyo, Nifas Silk Lafto, Yeka, Bole, Gulelie, and Akaki-Kality sub cities. Kolfe Keranyo Sub city takes the lion share with 63 (39%) of the cooperatives. Specifically the area locally known as Ayer Tena, accommodates a large number of the so called *illegal* cooperatives. The sample cooperatives for the study include two *illegal* cooperatives by the names of Debre Abay No. 1 and Eremijachin 83 and other two *legal* cooperatives which are known as Mars 227 and Megenagna 230 from Kebele 01/05. Membership size, sample size and response rate are shown in Table 8.1.

Table 8.1:
Ayer Tena-Cooperatives membership size and sample distribution

No	Name of Housing Cooperative	Membership size	Actual Sample size	Remark
1	Megenagna 230	16	7	45%
2	Mars 227	24	11	45%
3	Irmijachin 83	200	31	(10%) ≥ 30
4	Debre Abay I	372	33	(10%) ≥ 30
	Total	612	82	

Source: Field survey July 2009

8.7 Community Attributes

The migration history of respondents of the sampled four cooperatives show that 57 of them i.e. 69.5 percent were born outside Addis Ababa and most of them (86 %) migrated to Addis Ababa in the years 1975-2004 specifically in the year 1985-1994. The majority of them came from towns of Amhara, Oromia, SPNN and Tigray National regions in descending order of number of frequency. See Table 8.2.

Table 8.2:
Ayer Tena - Housing cooperatives migration history

No	Year	Frequency	Percent
1	1955-1964	3	5.3
2	1965-1974	2	3.5
3	1975-1984	12	21.1
4	1985-1994	17	29.8
5	1995-2004	15	26.3
6	2005-present(2009)	5	8.8
7	Non respondents	3	5.3
8	Total	57	100

Source: Field survey July 2009

The ethnic composition shows the predominant number (39 %) of respondents came from the Amhara followed by the Oromo ethnic group (Table 8.3).

Table 8.3:
Ayer Tena - Housing cooperatives ethnic composition

No	Ethnic group	Frequency	Percentage
1	Amhara	32	39.0
2	Oromo	26	31.7
3	SPNN	13	15.9
4	Tigray	9	15.9
5	Non respondents	2	2.5
	Total	82	100

Source: Field survey July 2009

Regarding religious affiliation of respondents the predominant group (68.3 %) belonged to the Christian Orthodox faith while 19.5 percent are Muslims and the rest 12.2 percent belonged to the Protestant faith. The majority of respondents (83.3 % out of 60 respondents) appreciate the mixed ethnic and religious composition of the social grouping of their community. Data on marital status of respondents showed 64.6 percent of respondents were married while 20.7 percent were unmarried. Widowed and divorced respondents constitute 8.5 and 4.9 percent respectively. A comparison between the *legal* and *illegal* cooperatives with re-

spect to household size, income level, education level, and occupation is shown in Tables 8.4–8.7.

Table 8.4:
Ayer Tena - Housing cooperatives comparison by household size

No	Household size	Mars 227& Megenagna 230		Irmijachin 83 & Debre Abay	
		Frequency	Percentage	Frequency	Percentage
1	1	0	0	1	1.6
2	2	0	0	2	3.1
3	3	3	16.7	12	18.8
4	4-5	8	44.4	30	46.9
5	6-8	5	27.7	16	25
6	8+	2	11.1	3	4.7
	Total	18	100	64	100

Table 8.5:
Ayer Tena - Housing cooperatives comparison by monthly income

No	Monthly income category (Birr)	Mars 227& Megenagna 230		Irmijachin 83 & Debre Abay	
		Frequency	valid %	Frequency	valid %
1	< 100	1	5.6	1	1.6
2	351-600	1	5.6	2	3.2
3	601-850	1	5.6	6	9.5
4	851-1100	3	16.7	6	9.5
5	1101-1350	1	5.6	7	11.1
6	1351-1600	1	5.6	10	15.9
7	1851-2100	0	0	10	15.9
8	2101-2350	0	0	1	1.6
9	2351-2600	2	11.1	3	4.8
10	2601-2850	0	0	1	1.6
11	2851-3100	4	22.2	9	14.3
12	3101-3350	0	0	1	1.6
13	3351-3600	1	5.6	2	3.2
14	3851-4100	2	11.1	1	1.6
15	4851-5000	1	5.6	1	1.6
16	5000<	0	0	2	3.2
17	Non respondents	0	0	1	-
	Total	18	100	64	100

Source Tables 8.4 & 8.5: Field survey July 2009

Referring to Table 8.4, the results show no significant difference in family size between the two groups of cooperatives. The first group of cooperatives were legally organised while the second group are classified as *illegal*. One minor difference that has been observed was a slight increase in the lower family size and decrease in the upper family size for the second group which resulted in a mean family size of 5.3 for the first group and 4.9 for the second group.

Comparison on monthly income for the two groups is made in Table 8.5. The average monthly income for the first group (*legal*) was Birr 2,247 while for the second group was Birr 2,142.8 with a mean difference of Birr 104.20, while the median value for the first group was Birr 2,500 and Birr 1,800 for the second group.

Table 8.6:
Ayer Tena - housing cooperatives comparison by educational status

No	Educational status	Mars 227 & Megenagna 230			Irmijachin 83 & Debre Abay I		
		Frequency	%	Cumulative %	Frequency	%	Cumulative %
1	Illiterate	0	0	0	6	9.4	9.4
2	Literate	0	0	0	5	7.8	17.2
3	Primary Sch.	3	16.7	16.7	7	10.9	28.1
4	Secondary school	3	16.7	32.4	24	37.5	65.6
5	Vocational training	2	11.1	43.5	5	7.8	73.4
6	Diploma	8	44.4	87.9	13	20.3	93.7
7	Bachelor degree	2	11.1	100	3	4.7	98.4
8	Masters degree	0	0		1	1.6	100
9	PhD	0	0		0	0	
10	Non-respondents	0	0		0	0	
	Total	18	100		64	100	

Source: Field survey July 2009

Results of the comparison using descriptive statistics show that the second group of housing cooperatives (*illegal*) has 65.6 percent of respondents at or below secondary level education with 9.4 percent illiteracy while only 32.4 percent of the first group of respondents (*legal*) is found at the same level with no illiterate head of a household.

Table 8.7:
Ayer Tena - Housing cooperatives comparison by occupation type

No	Occupation of household head	Mars 227 & Megenagna 230		Irmijachin 83 & Debre Abay I	
		Fre-quency	%	Fre-quency	%
1	Employee of private enterprises	3	16.7	18	28.1
2	Micro and small business operators	0	0	1	1.6
3	Business man	3	16.7	15	23.4
4	Civil servant	7	38.9	13	20.3
5	Military/police	0	0	1	1.6
6	Pensioner	0	0	3	4.7
7	Unemployed	5	27.7	11	17.2
8	Casual labour	0	0	2	3.1
9	Non respondents	0	0	0	0
	Total	18	100	64	100

Source: Field survey July 2009

Results show that the second group (*illegal*) has a more heterogeneous group of respondents by occupation type while the first group (*legal*) has relatively homogenous groups with respect to occupation. The first group has also a higher percentage of civil servants which associates with a higher percentage of diploma level educational status.

8.8 Physical Attributes

The area in which the four cooperatives are located is a contiguous area in the north western corner of Addis Ababa. The main road separating the two groups of cooperatives departs from the square on the ring road at Ayer Tena and connects to the World Bank residential settlement locally known as *Alem Bank*. The first group of (*legal*) cooperatives is located in the eastern flank while the second group (the *illegal* group) is located in the western flank. Specifically Irmijachin 83 is located at the northern part at the foot of Entoto hills. The whole area was previously a forest of eucalyptus trees which belonged to the Addis Bah Fire Wood Project. The cooperatives cleared all the eucalyptus trees to get their respective areas ready for settlement. Some patches of eucalyptus trees are still present in the western flank along the approach road to Debre Abay I cooperative.

The perception of the inhabitants about their locality at the initial stage of development measured by the Likert scale is shown in Table 8.8. Responses are given in values of 1 (high positive value indicating excess in availability and quality) to 5 (indicating high negative value i.e. not sufficient). The cut point or mean value is 3 indicating qualities of being *sufficient* or of *acceptable* quality.

Table 8.8:
Ayer Tena - Housing Cooperatives: physical attributes at initial stage of development

No	Degree of quality/availability	Mars 227	Megenagna 230	Irmijachin 83	Debre Abay I
1	Size of available constructible land	3.5	3.0	3.6	2.9
2	Quality of housing	3.7	4.0	3.7	3.5
3	Transport services and street lighting	3.2	4.3	3.8	3.8
4	Road and storm water drainage	3.2	4.3	4.1	3.6
5	Water supply and sewerage	3.8	4.3	4.4	4.0
6	Education and health facilities	3.5	3.7	4.3	3.8
7	Security service and police station	3.5	3.7	4.3	3.7
8	Sanitation, green areas and parks	3.2	4.3	4.3	3.6

Source: Computation on data field survey July 2009

Results on the Likert scale show that Megenagna 230 housing cooperative from the first group and Irmijachin 83 from the second group fare poorly by all indicators. Except for the availability of constructible land in the case of Megenagna 230 and Debre Abay I, for which the assessment shows an acceptable level, all other indicators show poor levels of availability and quality. Considering the values for most indicators, the physical attributes of the location where the *illegal* cooperative Irmijachin 83 is located, fares most poorly.

8.9 Actors' component

Most respondents (excluding 10 non-respondents) came to learn about the opportunities of the cooperative housing in Ayer Tena through information from local *dallalas* (36.1%) followed by family members and relatives (30.6%) and peer groups (23.6%). A variation in the source of information by the two groups of legal and illegal was also observed. While the legal cooperatives Mars 227 and Megenagna 230 use peer groups and local *dallalas* (82.45%) the second group of cooperatives use

family members, relatives and local *dallalas* (70.9%). The majority of respondents 65.5 percent preferred the cooperative option due to the fact that being organised in cooperatives was taken as a perquisite for land allocation by the City Government and also to avoid the hassle of looking for plots individually. According to their responses, the majority of respondents (72.9%) joined their respective cooperatives from the beginning of its establishment. The type of cooperative for the first group i.e. Mars 227 and Megegnagna 230 is *aided self-help* while the second group is a converted *pure self-help* type. Being in a similar income bracket and having sufficient cash were the main criteria for membership in an aided self-help cooperative. Every month members had to contribute to the development activities such as opening access roads, pipe water connection, and electric power provision.

8.10 Property and Transaction

Majority of respondents (75.6 %) from the four cooperatives are owners, while tenants account for only 15.9 percent. Regarding the issuance of land holding certificates respondents' response show mixed results. Only one of the legal cooperatives – Mars 227 had been provided with individual landholding certificate. 80 percent of respondents from Irmijachin 83 had responded that they had land holding certificates. According to respondents of Irmijachin 83 cooperative, the title certificates were issued in the years 2005 and 2006. This is associated with the aftermath of the the 2005 election, giving a clue that some illicit authorisation might have taken place. However members had been paying land and building tax since 1991. Members of Debre Abay I Housing Cooperative had been claiming that though they had a copy of the site plan in the name of their cooperative it was due to sabotage that their individual title certificates had been withheld up to now.² When asked to what extent had they been sure of their title documents, while there was wide talk of forged documents; most respondents from the four cooperatives (48.9 % of the 47 respondents for this particular question) responded that a combination of the following serve as guarantees: that the community as a whole recognises them as holder, being authenticated by all authorising officials of the sub city and that as a sign of authentication they have put a seal at the back of the certificate.

Whatever the tenure status of the holdings, transactions in the form of letting and selling of houses had been carried out. Even in the process

of the house construction some members had sold their membership to another new member. Such a buyer of a membership had to pay a considerable amount of money for membership transfer to the cooperative and to the departing member. Rental or selling/buying prices were fixed by consulting family members (41.2 %) and taking use of advice from the local *dallalas* (38.2%).

8.11 Institutional Interface

The first group of cooperatives – Mars 227 and Megegnagna 230 were organised following the legal procedures for aided self help cooperatives. The second group of cooperatives in the name of Irmijachin 83 and Debre Abay I were either products of the institutional limbo which occurred around 1993 or were original members who had undertaken part of the procedures. Respondents were asked about their awareness on some provisions of rules and regulations which commonly apply to house construction activities. Results are shown in Table 8.9.

Table 8.9:
Ayer Tena - Housing Cooperative Awareness of Rules and Regulations

No	Provisions of rules and regulations	Mars 227 & Megegnagna 230 (N = 18)		Irmijachin 83 & Debre Abay I (N = 64)	
		Yes	No	Yes	No
1	Lease is also applicable on land held previously through a permit system	1	17	15	49
2	You need a building permit to fence your compound	15	3	45	19
3	You need a building permit to extend your house	16	2	35	29
4	You cannot sell a house before building the main house according to approved plans	2	16	32	32
5	A letter from kebele of residence proving that you do not own a house is required to be organised under a housing cooperative	8	10	41	23
6	You need to keep a distance of two meters from your boundary to excavate a pit for the latrine	1	17	25	39

Source: Field survey July 2009

Results on the awareness of some provisions of legal rules and regulations show that respondents from both groups know a building permit is

required for fencing a compound or extending an existing house. However results on the requirement of a letter from kebele as a requirement to be organised by the housing cooperative had been recognised by more respondents from the second group of cooperatives (illegal) than the first (legal) group cooperatives. A possible explanation might be the fact that 27.8% of respondents had bought their houses from the former owners and another 38.9% were tenants and caretakers in the first group. Note that most respondents i.e. 94.4 percent of the first group and 76.6 percent from the second group do not know a lease is applicable on former holdings acquired through the permit system. The result of an assessment of the government role in institutional development and enforcement capacity by respondents is shown in Table 8.10.

Table 8.10:
Ayer Tena: Housing Cooperatives - Assessment of government's role

No	Aspect	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	10	20	33	12	1	6	2.7
2	Sufficiency of public allocation of residential plots as compared to the number of applicants	0	6	14	46	9	7	3.8
3	Institutional enforcement capacity of government: in terms of professional manpower	0	3	53	18	3	5	3.3
4	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	3	6	28	35	5	5	3.4
5	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	8	2	25	15	28	4	3.7

Source: Field survey July 2009

Results show that except for the favorable assessment with respect to the service delivery of the city administration, the other results show unfavorable assessment. Issues of the highest concern for improvement are whether there is a sufficient public allocation of residential plots (Mean value of 3.8) and the use of legitimate violence by the government (mean value of 3.7).

8.12 Goal Achievement

Members had been making monthly contributions towards the development activities, such as opening access roads, pipe water connections,

and electric power provision. The common strategy in providing water in self help type of cooperatives was first providing one communal water tap and later extending the connections to individual houses. Individual houses in the case of the second group of cooperatives were financed individually by the owners while financing of the aided self-help (first group of cooperatives) had loan components from the World Bank. Security of the cooperative and its surroundings had been managed by the cooperatives. Goal achievement in terms of quality and availability of housing and services is shown in Table 8.11.

Table 8.11:
*Ayer Tena: Housing cooperatives -
sufficiency of housing and availability of services*

No	Degree of quality/availability	Mars 227	Megenagna 230	Irmi-jachin 83	Debre Abayl
1	Size of plot	3	3	3	2.6
2	Number of rooms	3.1	3	3	2.9
3	Internal electric supply	3.1	2.9	3.5	2.9
4	Internal water supply, toilet facilities & sewage treatment	3.5	3.1	4.1	3.5
5	Telephone & internet connection	3.1	3	2.9	3.4
6	Roof, wall and floor condition	2.6	2.7	3	2.8

Source: Field survey July 2009

Results show that assessment of improvement in the quality of housing and services in terms of satisfying aspiration levels of actors. Assessment results vary across the cooperatives. The cooperatives in the second group (illegal) expressed their dissatisfaction in provision of utilities such as electric, water and telecommunication. From the first group of cooperatives, respondents of Megenagna 230 were found to be relatively more satisfied. Regarding quality of house structure (i.e. roof, walls, and floor condition) respondents from all cooperatives were satisfied.

8.13 Ethnographic Case History: The 'Illegal' Cooperative of Debre Abay I

The area now occupied by Debre Abay housing cooperative is located in the north western section of the city at the foot of Entoto Hill. It used to be the fire wood reserve of the city. Debre Abay I is located about 150

meters north of Kidane Mihiret Church along a major road just off from the square on the ring road at Ayer Tena and leading to Alem Bank residential area. There was a plate bearing the name of the cooperative posted on the side of the road, therefore the locality used to be known as Debre Abay after the name of the cooperative. Debre Abay housing cooperative was established in 1990.³ There were originally 400 members, during the field work they were only 372.

Prior to the subdivision of ground plots, the eucalyptus trees had to be removed along with the roots. Then based on one common site plan for the whole cooperative, the land was subdivided with plot size of 175 square meters. The subdivision of the land was done by a technician from the sub city administration. This was followed by the lying of access roads. Just after the subdivision work was finished, another claimant, who used to be the tenant of the former landlord, claimed that he has the right to be the owner of the land according to the provisions of the proclamation of the government ownership of urban lands and extra houses (No. 47/1975)⁴. He consequently sued the cooperative and Woreda 24 Administration in 1994. This halted any further construction advancement in the area until the verdict of the dispute was proclaimed in 1996 in favor of the cooperative and Woreda 24 Administration.

Then, following the reinstatement of their land, housing construction proceeded individually according to each individual's capacity and preference. Between 1994-95 the cooperative members in a joint effort paved the road for easy access of delivery of building materials. This costed the cooperative members Birr 340,000. They installed public water taps in 1996 at the expense of Birr 26,000 which at a later date was expanded to private connections within individual residences. Electric power connection was installed in 1999. The coordinating body of the cooperative, which was structured to include an executive committee and three other committees for development, security and auditing had tried to win cooperation and support from the Highway Authority and Kebel level development committee. The members were proud to mention their being treated as a model housing cooperative. In witness thereof, they mentioned that no member of their executive committee was imprisoned during the recent crackdowns and save for the two deceased former executives the remaining members were still actively participating⁵.

Any dispute among members was handled through an arbitration committee. Some members were replaced not because of disciplinary

matters but due to lack of financial capacity to cover the cost of construction of the houses. After the dissolution of the army of the former government, some members who belonged to the military were unable to afford the construction costs, therefore they had been replaced.

The funny thing about the Debre Abay housing cooperatives was that it had been organised based on a *mother and child* arrangement. At one time they had been told that the records and documents of Debre Abay II (the *child* cooperative) were lost from the archives of the municipality and the municipality openly apologised for its mistakes. So the executive members had been obliged to follow the matter seriously and their efforts resulted in the issuance of land holding certificates to the members of Debre Abay II in 2006. As a consequence members of the *child* cooperative became legally entitled to their land unlike the *mother cooperative* Debre Abay I, who had to answer to the Federal Ethics and Anti-Corruption Commission. The Executive committee members confidently spoke out that they had availed all information and recorded evidence that was required by the investigators and the attorney.

The executive committee members pointed out that when they attempted to save one large tract of land from speculators, this had resulted in their houses being bombarded by stones at night and they associate the withholding of their land holding certificate was due to the ensuing sabotage by the speculators.

8.14 Ethnographic Case History: The *Illegal* Cooperative of Iremijachin 83

Iremijachin 83 was a housing cooperative established in 1991⁶. Initially the site was intended for 204 members but later on it had been discovered that only 166 of them could be accommodated. The remaining members were allocated in other locations. On field plot subdivision was carried out by Kolfe Keranyo Sub City Administration in 1998. This was followed by house construction by individual members. Members also made monthly contributions for infrastructural development. In addition to the executive committee, other development committees for water, electric power and roads were also set up. Development committees for electric power provision and road construction including members from the executive committee were established in 1997. A water connection committee was also established in 1998. Basic infrastructure connections

had been completed in the period between 1998 and 2000. Members received individual land holding certificates in 2005-2006. They paid land and housing taxes during 1991-2009. They had also established an *Idir*. The original space for communal activities like the *Idir*, had been subdivided and used for housing construction⁷. During the field visit, the facilities of the *Idir* were found to be located in the common area of the cooperative.

They explained that they had checked the legality of the cooperative with the Housing Cooperatives Department. As members who took part neither in the initiation nor organising the cooperative; the interviewees referred to '*them* and *us*'. A clear principal-agent problem had been reflected in the manner in which ordinary members (the principals) refer to the executives (agents) who were remanded in custody at that moment.

The interviewees did not answer some of the questions, which they left for the executives to answer: for example questions regarding the first time they applied to be organised; whether some members had withdrawn or additional members were added later on; whether they had been requested by authorising officials for incorporation of someone into their cooperative as a favor; and whether some members had abandoned the cooperative by selling their membership. The interviewees confessed that the executives told them that everything was going fine until the day that they had been summoned by the police. After they received their own land holding certificate they had no more contact with the former executive committee members.

Box 8.1:

Land grabbing in the aftermath of national election 2005

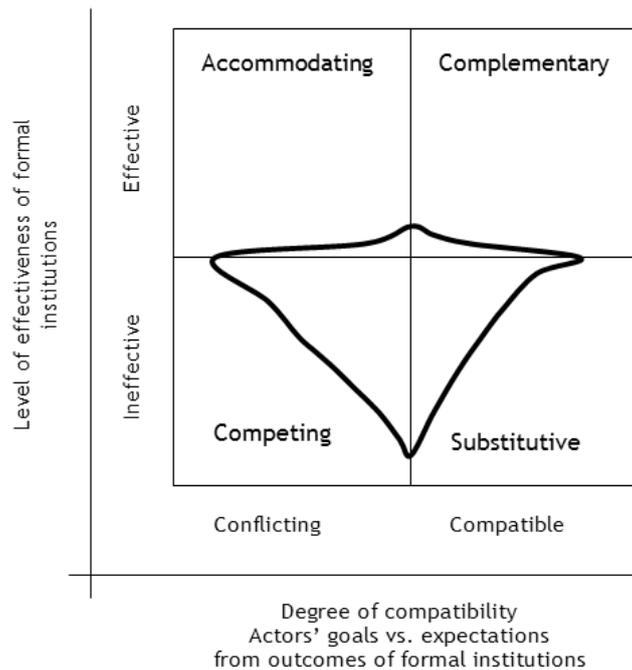
In the aftermath of the 2005 election the phenomenon of land grabbing by speculative housing cooperative organisers continued at scale, which can be referred as looting. The looting at the time was not confined to land but also government houses. Though the City Government later claimed to take measures in dispossessing those employees of the government machinery and party apparatus; the new sets of actors were not limited to ordinary informal operators. As of 2010 the housing share of cooperatives in Addis Ababa was estimated to be 46,021 units.

Source: Addis Lissan, Vol. 18, No. 1630, 23rd Oct. 2010

8.15 Analysis

Comparisons between the two groups of *legal* and *illegal* cooperatives show no significant differences with respect to household size and monthly income. However the more important differences are the educational status and occupational type. The education status of 32.4 percent of respondents from the first group of legal cooperatives is at or below a secondary level of education. In their occupational status, respondents from the first group seem also to be relatively homogenous with a higher percentage (38.9%) of civil servants as compared to 20.3 percent for the second group. The majority of respondents (65.6%) from the second (*illegal*) group of cooperatives had secondary schooling or below and 9.4 percent were illiterate. In addition these respondents from the later group were occupationally heterogeneous with a small number of civil servants. Educated civil servants tend to be more law abiding compared to lower educated individuals, who, although they might not tend to take illegal actions by themselves could be an easy target for illegal intentions by unlawful speculators and organisers. A group of privately employed individuals had a higher propensity for independent actions. Therefore a correlation can be established between low level of education and being self employed to propensity to an independent action. Less educated members of society are easy targets for people who want to organise activities beyond the law. The two groups of actors also vary in the sort of information sources they use. Peer group members and *dallalas* were the major sources for the first group (*legal*) cooperatives whereas relatives, family members and local *dallalas* were used for the second or *illegal* group.

Figure 8.2:
Ayer Tena informal housing cooperatives: formal-informal interface



Regarding formal-informal institutional interfaces, the activities of the informal organisers and members of their illicit housing cooperatives vis-à-vis the formal rules and regulations, can be categorised in two. Firstly, they used to fill the institutional limbo created due to suspension of former formal rules, regulations and procedures pertaining to housing cooperatives. They substituted the passive stance of the government towards the cooperative issues. Their experience witnessed that though the cooperative momentum slowed down due to change of bank policy on interest rate, it never died out. Rather the situation created an opportunity for the rise of new actors who filled the vacuum i.e. *informal cooperative organisers*. Therefore the ensuing informal practices played a role of substitution. This was important specifically for the house seeking beneficiaries. Secondly, the methods and means that they employed to achieve their goals, their aims of garnering income from property that they do not own in the first place, and their acts of robbery of the public equity

from the appreciated value of land effected as the result of the transition from fire wood land to urban residential use, could be seen as a total conflict with the formal rules and regulations. From pure consideration of the law, they might even be taken as criminals on the grounds of applying forgery and counterfeiting. However it is true that in this movement of assets from lower value to their best use/value, they had played a role which satisfied some social need i.e. housing. Therefore the formal-informal interface can be diagrammatically illustrated as shown in Figure 8.2 above.

8.16 Conclusion

In socialist Ethiopia, housing cooperatives were used to provide opportunities to acquire land, loan finance, technical assistance, and training offered by public organisations. On the one hand they were treated as part of the ideological structure being considered second in priority order to public organisations in resource allocation. On the other hand, being a group lobbying arrangement, the cooperative way constituted a potent force to exert pressure in fulfilling commonly held objectives. In other words it served as a means of mobilising power to deal against the exclusionary bureaucracy prevailed at the moment in accessing resources such as land.

The main actors were cooperatives, public regulatory organisations like the Ministry of Urban Development and Housing (MUDH), Addis Ababa City Administration, Housing and Savings Bank, and public insurance companies. Stakeholders included employers of the cooperative members, kebele offices, and building contractors. Informal actors, involved later include informal cooperatives and their members, informal (private sector) cooperative *organisers*, forgery experts and digital technicians, some civil servants (bureaucrats, technical staff as well as ex-technicians), and *dallalas*.

Three concurrent factors resulted in the institutional limbo in the legal framework for housing cooperatives: first, the decentralisation of part of the responsibilities of the Ministry to the city administration and later on to the sub cities; second, the undeclared suspension of existing regulations, guidelines and procedures on housing cooperatives due to new ideological gestures; and third, the accompanying prohibition of preferential interest rates on bank loans for housing cooperatives. Previous

rules and procedures were neither reactivated nor replaced by new rules. The necessary care in transferring documents of cooperatives to their newly decentralised destination was not taken. This resulted in the abandonment of regular housing cooperatives (with bank loans and the number of members limited to 16-24) for self help cooperatives (without bank loans and the number of members extended to 100-300). As the result some old cooperatives in the pipeline were suddenly abandoned by some of their members. Then surviving members were obliged to replace 50-75% of their members. The incapacitated cooperatives found themselves at different stages of the land acquisition process at the time. Some of them already had in their possession the copy of the site plan studied for their cooperative. The situation created incentives for new actors who were interested to capitalise on it - the *informal* cooperative organisers and their accomplice civil servants in the sub/city administration. They soon started to organise new members, advertising - *a ready-made cooperative!* What had been normally an interest of peer groups in work places or among compatriots, the informal organisers started to pull members from a wide range of areas and walks of life requesting large sums of payment for membership. This opened unexplored business for local *dallalas*. As the analysis shows, self employed low educated people fell easy prey.

The construction and transaction of houses by such cooperatives continued unabated from 1993-2008 until the crackdown on illegal cooperatives. It was a period where informality approached a level of criminality through the use of counterfeited signatures and forged documents with the use of digital facilities. It was a period where house owners were provided with title certificates bearing all the respective signatures and seals but were not sure whether they have the correct ones or not. Some sought comfort in the community recognition of them being owners. The city Administration in its part remained in oblivion about the situation. Nevertheless, the *informal organisers* helped the transfer of unused land resources from lower use (firewood reserve) to their best use (residential area) by filling the institutional limbo (substitutive role) through conflicting means against what the legal rules allowed.

In line with Eisenhardt (1989) and Eisenhardt and Graebner's (2007) view that qualitative research could lead to develop propositions, we suggest one based on the analysis of the empirical case in this chapter: *If formal actors do not play their role in the movement of real estate assets from low value*

use to their best value use, their role could be overtaken by informal actors in an environment of ineffective formal institutions.

Notes

¹ According to a draft housing policy during the military government (March 1980) the income group of between Birr 201 – 500 per month were considered a middle income group, while those who earn below 200 Birr per month belong to the low income group and those above Birr 501 per month are categorized as an upper income group.

² Group interview on 20th September 2009 with Major Tilahun and three other residents of Debre Abay No. 1 who requested anonymity

³ Though the survey concentrated in Debre Abay No. 1, during our interviews, the Executive Committee members explained that they were organised by *mother & child* cooperatives which are managed by one executive committee

⁴ Article 6 of the proclamation grants a possessory right for a tenant on urban land he holds not exceeding 500 square meters

⁵ Group interviews with Major Tilahun and three other residents of Debre Abay No. 1 on 20th September 2009

⁶ A group interview was carried out on 20th September 2009 with Ato Wolde Mariam, Ato Getachew and two others who requested anonymity. The interview was carried out with four active members of Iremijachin 83 housing cooperative as some of the executive members had been taken into custody.

⁷ Based on an interview with a key informant on the 18th September 2009, the common open space that was used for *Idir* had been used up.

9

Real Estate Development by Developers

9.1 Introduction

Development with respect to real estate or property is a process of conversion (development or redevelopment) of land from one use to another (Balchin et al. 2000: 320). The Washington Association of Realtors (u.d.) defines real estate development as the continual reconfiguration of the built environment to meet society's needs. It is the art of building real estate value by managing development risk. Value is realised by providing usable space with associated services needed so that consumers can enjoy the intended benefit of the built space. This goes along with the definition given by McDonald and McMillen (2007: 279) as; “*taking a parcel of land and adding improvements to produce a completed, operational property.*” Real estate development is linked with specialisation in the sense that a person develops land and property for sale or rent. As far as semantics are concerned, historically the term ‘*real estate*’ has its origin in the American tradition where immigrants discovered the new territory and grabbed land. In Britain the phrase; ‘*land and landed property*’ was used where all land was crown land and later transferred to the private property of individual citizens through leasing. The Ethiopian Civil Code of 1960, which is basically of French origin, in its Art. 1130 refers to such landed properties as ‘*immovables*’. It includes both land and buildings.

‘*Development*’ is conceptually distinct from ‘*investment*’ in real estate. Many firms and individuals invest in property – buying existing properties and managing them for investment purposes. Investors often incur some risk in leasing and may make minor renovations, but developers usually engage in both the development and the operating phase of the business (Brooks & Tsolacos, 2010). A developer can be defined as the person or firm that is actively involved in the development process and

takes the risks and receives the rewards of development. Like any other economic activity real estate development deals with satisfying wants with the application of scarce resources.

This chapter presents data on formal-informal institutional interfaces and on the behavior of actors which include real estate developers, customers, and city government; it describes, explains and analyses one of the cases of the research which focuses on real estate development by developers. The chapter unfolds in accordance with the analytical framework and culminates in a conclusion.

9.2 Background

Real estate development as a business form commenced in Ethiopia in the mid 1990s. In the Imperial period, land was privately owned and few landlords built rentable units or tenement units, apart from the rarest cases of multi storey blocks of offices and apartments in the big cities such as Addis Ababa. One of the merits of such mode of development was their easy accessibility to those potential tenants with an affordable price. These petty providers¹ were the main suppliers of rentable units in addition to housing provision by owner occupiers i.e. those who build for their own use.

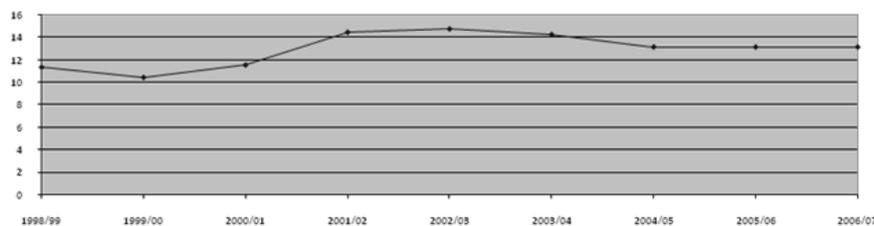
Under the socialist oriented military government, all land and rental units were nationalised and the relationship between lessor and lessee was abolished since the 7th of August 1975.² No person, family or organisation was allowed to obtain income from urban land or house rent. Users had been limited only to usufruct rights. Due to this the real estate development as an economic activity was aborted. This triggered a shift to a new set of actors and new systems of delivery. The new actors operated as owner-occupiers either individually or in a form of cooperatives. The other main actor was the government who not only was the provider of public infrastructure and regulator but was also the supplier of built up spaces. This period specifically after the mid eighties was also associated with burgeoning of informal and squatter settlements.

With the overthrow of the *Derg* by the EPRDF forces in May 1991, though land still remained state property, new actors including petty providers and real estate developers emerged as the main actors. Ever since the Investment Proclamation No. 37/1996 was issued some investors showed interest in real estate development and started operations in

the residential subsector. As a consequence of these policy changes the real estate sector became the fastest growing segment of the Ethiopian economy. The Ethiopian Investment Agency issued licenses to 160 real estate developers up to 2009 to operate throughout the country.

Figure 9.1 shows the contribution of the real estate and construction sector in percentage of GDP contribution for the year 1998/99 – 2006/07. Macroeconomic statistics available from a private consultancy firm – *Access Capital* shows that the real estate and the construction sector accounted for 14.9 percent of the GDP in 2008/09, with the real estate sector comprising of 9.1 percent and construction comprising of 5.8 percent. The real estate and construction sector grew by an average of 14.1 and 10.4 percent per year respectively in the five years up to 2008/09. This is above the average annual growth rate of real GDP during this period which is 11.4 percent. Had it not been for growth in these two sectors, real GDP growth would not have reached the double-digit growth rate records (*Access Capital*, May 2010).

Figure 9.1:
Real estate & construction sector percentage distribution of GDP



Source: Access Capital (May 2010)

9.3 Institutional Context

The Urban Development Policy which was approved by the Council of Ministers (March 2005) states that the main focus of the government in housing development is the expansion of housing estates. Such housing schemes were envisaged to be cost and material saving condominium buildings targeted to be sold to low income groups through lower advance payments, long term loans and lower interest rates. Among the principles of the policy for land delivery, it stated that the delivery of ur-

ban land needs to be implemented in a sustainable and efficient way by giving priority to accelerating development and stabilising prices. The policy also pledges to facilitate mechanisms by which low income groups will be allocated adequate land at a reasonable cost. Among the core urban development activities identified by the policy to accelerate urban development was real estate development. The policy envisaged that the government would have a major role in the construction of housing estates. Investors would also have a significant role in the construction of residential buildings and offices for middle and high income groups. The private investors who would be engaged in real estate development to let out for low income groups would be given support by way of provision of infrastructure, design and construction materials.

According to the Council of Ministers Regulation on Investment Incentives and Investment Areas Reserved for Domestic Investors (Regulation No. 84/2003), investors engaged in manufacturing and agro industry who export their product or supply 75 percent of their production as input to an exporter or who expand or upgrade their existing enterprise or increase in value of their production by 25 percent were entitled to various incentives. However, real estate developers were not eligible for customs duty exemption. Instead real estate developers are supposed to benefit from incentives in the form of simplified and transparent investment and business licensing procedures by the Ethiopian Investment Agency (EIA) or the Addis Ababa City Government Investment Agency. Proposed incentives included; communal grounds, rights of ways, etc. without fixed upper limits being exempted from lease payments, and the right to be free from lease payment of a 50 square meters plot (on which only land tax was payable).

However, the Provisional City Government of Addis Ababa in its Regulation No. 20/2005 to provide land for real estate, rescinded the later incentive and included provisions to limit green areas and space for roads. The regulation reasoned on the grounds that several developers had already joined the sector. The share of villa and condominium types had been limited to be of 30 percent and 70 percent respectively. The regulation also stipulated that the incorporation of an expansion area for a real estate project outside of the reserved area would be entertained by auction. With regard to the size of the villa the regulation was not clear and was left to be determined by the developer. There were also provisions for determining the price of land for plot sizes which ranged from

250-2500 square meters. Land size for leasing for first time request by an investor to develop was limited to 25,000 square meters. An investor was only able to request an additional expansion of land only after his/her completion of 75 percent of the previous project. The advance payment of a real estate project had been also stated to be 20 percent of the total lease payment. All these provisions were intended to promote economic use of urban land and regulate some irregularities observed within the real estate sector.

The Addis Ababa City Administration Directive on Conditions for Land Request and Authorisation Services defined a real estate developer as a developer who builds houses which can accommodate 50 or more households through rental or transfer on sale. The directive among others, also limited the size of land to be requested by a developer not to exceed 20 hectares if it is located in an expansion zone of the city and 5 hectares in developed areas. For those developers requesting land in excess of such an amount it had to be decided by the board. Only condominium type housing was allowed in the developed part of the city, however if the local development plan, based on the master plan provisions, allows for villa type housing then the later component cannot exceed more than 30 percent. Real estate projects to be constructed in areas exceeding 5 hectares needed to be phased into two. According to the directive a developer was able to request individual land holding/condominium ownership certificate only for the phase he had completed. The detailed action plan submitted by the developer needed to be reviewed according to the provision of the master plan and decision of the investment board.

9.4 Developers' Perspective

9.4.1 Community attributes

The majority of real estate developers customers (85%) belong to the higher and higher middle income groups. The composition of the diaspora group among the customers is shown in Table 9.1.

Table 9.1:
Share of the diaspora group as customers in Addis Ababa real estate market

No	Range	Frequency	Percentage
1	< 25%	3	21.4
2	26-50%	3	21.4
3	51-75%	1	7.1
4	76-100%	6	42.8
5	Non respondents	1	7.1
	Sum	14	100

Source: Survey results (Oct. 2009 - Jan 2010)

The majority (49.9%) of real estate respondents replied that the diaspora group constitutes from 51 to 100 percent of their customers followed by another 21.4 percent indicating that it constitutes from 26 to 50 percent of their customers (Table 9.1). This is a substantial share which shows that the diaspora, even though not the only customer group constitutes the major group in the Addis Ababa real estate market.

Regarding participation of customers in the design of the houses and planning of the settlement, collected survey data shows that 36 percent of real estate respondents responded positively 'yes' while 43 percent responded 'no'. One respondent answered that the company provides alternative plans and customers will select their preference. Asked whether real estate developers allow customers to bring their own plans, 79 percent responded 'no'. The question of manageability might also be one factor. Nonetheless this result also converges to the results of the survey made by a private consultant who submitted its report in October 2009.³ According to the result by the later survey, 60 percent of the customers responded that the design had been made by the developer and only 26.5 percent of the real estate respondents conceded that the designs were made by the developer while 23.5 percent replied 'jointly'.

9.4.2 Physical attributes of real estate project sites

Most of the sites for real estate projects were located either in the transitional zone i.e. the area between the CBD and the periphery (28.6% of respondents), 21.4 percent of the respondents' projects were in the surrounding satellite towns in the Oromia Special Zone, and another 21.4 percent in the transition zone and peripheral area. Only 14.3 percent are located within the central business district area and peripheral zone

combined. In general 85.7 percent of the respondents' projects were located in the transition, periphery or the surrounding satellite towns. It has to be noted that none of the real estate development sites were initially planned for residential or real estate development. Therefore they required a change of land use and alteration of the existing pattern. The selection of most sites (35.7%) was carried out by the City Administration. Joint selection by the real estate developer and the city administration also comprises 35.7 percent. Only the remaining 28.6 percent responded that the site selection was carried out by the real estate developer.

9.4.3 Actors' component

Following Ostrom (1990) actors characteristics include: information capabilities, selection criteria on their decisions, preferences, and resources. According to the survey results (N=14) except the pioneer real estate developer Ayat Company which was established in 1996, most of the real estate developers were established after 2005. The business organisational form of most developers is a private limited company (57%) followed by a share company (29%). The registered capital of the enterprises varies from Birr 8.1 million the smallest, to Birr 260 million the biggest; with the majority (43%) of them ranging from Birr 8 to 50 million. 57 percent of the real estate developers have sister companies to work with. These sister companies are involved in diversified businesses such as general businesses, fitness centres, importers, hoteliers, furniture manufacturers, building materials suppliers, rental machinery suppliers, and construction contracting firms. The majority (43%) of the sister companies are construction companies or contractors. It is not unusual in Addis Ababa for a contractor or an architectural and engineering consulting firm to co-own and operate real estate projects. These sister companies serve also as a source of loan finance for the construction of the real estate projects. 57 percent of the respondent real estate developers are companies specialised in large scale area-based residential real estate development.

Regarding information sources, none of them depend on real estate agents for market information, rather they depend on their own intuition and analysis (35.7%) and another 35.7 percent use their own intuition and analysis in combination with feasibility studies of real estate consultants, investment advisory groups, potential and project profile studies by

the Addis Ababa Investment Office, and conversations with other real estate developers. The remaining group (28.8%) use studies by real estate consultants in combination with potential and project profile studies by the Addis Ababa Investment Office and other investment advisory groups. Regarding strategic business management almost all of them (86%) have a company vision and employ one of the following strategic thrusts (Table 9.2).

Table 9.2:
Real estate developers by strategic thrust

No.	Strategic thrust	Frequency	Percentage
1	Competitive advantage in developing and delivering at lower cost	3	21.4
2	Branding	2	14.3
3	High class villa	2	14.3
4	Specialisation - selection of narrow scope (particular geographic location, or project etc)	1	7.1
5	Satisfying customer choice	1	7.1
6	Competitive price for every house type	1	7.1
7	Non-respondents	4	28.8
	Summary	14	100

Source: Survey data (Oct.2009 - Jan 2010)

9.4.4 Real Estate Development Process

Acquisition of land is one of the major activities in the real estate development process. Urban land in Addis Ababa is allocated through lease contracts. The lease land system has three leasehold permit modalities, namely: auction, negotiation, and award. Respondents were asked which modality they prefer. Results of the survey show that the majority of the respondents (42.9%) prefer 'negotiation', in addition 28.6 percent of them prefer negotiation in combination with 'auction' and 'award'. The two groups together form 71.5 percent of respondents. Only a single respondent preferred 'auction'. When asked what advantages negotiation has over auction, 28.6 percent of them responded: it allows the formation of innovative project ideas on the part of the developer by selecting a specific site, it shortens land acquisition time, it avoids throat cutting competition in making offers which might arise from fewer numbers of plots available for tender. Though negotiation is often criticised on

the grounds of transparency and accountability, 50 percent of the respondents believe that the advantages outweigh its shortcomings.

Among the cumbersome situations faced by real estate developers in land acquisition, the most frequent ones include: negotiation with the former settlers and farmers, the time lag for relocation of former occupants, the decision on the amount of compensation, and settling the issue of other claimants for ownership rights. Regarding the source of finance 28.6 percent of the developers use customers' periodic payments while the larger groups 50 percent use customers' periodic payments in combination with one or all of the following: bank loans, selling of shares, own finance and facilitating bank loans for customers. In combination 78.6 percent of real estate respondents rely on customers' periodic payments with or without other additional sources to finance the construction of their projects.

Most of the developers (28.6%) carry the bulk of the construction work through only labor contracts to a contractor, another 28.6 percent of them use labor contracts in combination with their own force and labor plus material supply contract alternatively. Two of the respondents use only their own force while two others use their own force in combination with labor and material supply contracts and sister companies which are the contractors. Together these latter groups constitute 28.6 percent. Therefore the majority (57.2%) of the real estate developers use labor contracts in combination with or without other modalities.

When asked whether real estate developers have a working experience with other development teams such as valuers, real estate agents, brokers or commissioned agents and property managers; 28.6 percent responded that there are no such working relationships with these development teams. 35.7 percent remained non-respondents. The remaining groups (35.7%) have working experience with one of the above mentioned actors at some time in practicing their trade. For the question whether real estate developers have a working experience in public partnerships with public, civil society and other private sector actors like an area development project; the majority (50%) replied 'no' while 43 percent of them responded 'yes'. However when asked whether the experience was positive i.e. a win-win situation 71.4 percent of the respondents preferred not to respond.

On the modality of transferring the real estate properties to the customers, the majority of respondents (85.7%) replied that they transfer

through sale while 14.3 percent of them opted for long term lease contracts. In determining the sale price whether real estate developers use professional consultants or real estate agents, 57.1 percent of them replied 'yes' while 35.7 percent replied 'no'. The most important factors for determining selling price of a house are floor area and number of rooms, building materials used and the size of the plot and lease price (see Table 9.3).

Table 9.3:
Factors for determining selling price of real estate properties/houses

No	Factor	Weighted average
1	Floor area and number of rooms	61
2	Building materials used	43
3	Size of plot and lease price	36
4	Location	30
5	Housing typology whether condos/ apartment units or villas	30
6	Availability of infrastructure and facilities	18

Source: Own computation on field survey data (Oct. 2009 - Jan. 2010)

Real estate developers use modalities of payments which vary in the amount to be paid at a time and its timing. Responding to the applied payment modality, responses show that 64 percent of them use advanced payment plus periodic payments according to the rate of progress of the construction work. Interviews with developers and customers show that the advanced payment ranges between 20 to 30 percent and other payments would have to be made in three rounds of 25, 25, and 20 percent. Respondents' response on when the termination of the real estate developer's control over the site will be effected, the major group 57.1 percent responded that the responsibility of the real estate terminates when all the payments are paid back by customers. By implication this also concerns the settling of the lease payment.

The Land Administration and Building Permit Authority of the City Government of Addis Ababa pursued two surveys in 2009/2010 on activities of real estate developers since 1993 i.e. the year the lease policy came into effect. The first round of investigative survey by the City Administration only focused on Bole Sub City and the second survey on the remaining six sub cities: Yeka, Akaki-Kaliti, Nifas Silk-Lafto, Kirkos, Kolfe-Keranyo and Lideta. In the document search, 114 records of real

estate projects were found in the seven sub cities of Bole (60), Yeka (23), Akaki- Kaliti (2), Nifas Silk-Lafto (22), Kirkos (4), Kolfe-Keranyo (2) and Lideta (1). 15 real estate developers out of the 114 investment projects whose records were located had transferred their leased land to a third party (Refer to Annex 4 and 5). 14 of the real estate developers had transferred 38 hectares of land in the period from March 2006 to September 2009. However the amount paid for thirteen of them was not stated in any of the respective records. Some developers requested an individual holding certificate just after the on-ground subdivision of plots without commencing the construction work or upon completion of only the service quarter.⁴ The report also noted that five developers had borrowed from four private banks by using their leased land as collateral with only two of them having constructed 8 to 30 villas at 30-50 percent stage of performance. According to the interviews with officials of Land Administration and Building Permit Authority of the City Administration, this is in violation of the warning inscribed on the title certificate that reads: “*the plot of land in this certificate cannot be used as collateral without the prior consent of the lessor.*” Some of the real estate developers have even provided surety for their customers’ bank loan.

Based on the information from the Land Administration and Building Permit Authority of the City Administration, in total 550 hectares of land had been leased for not less than 120 real estate developers until 2007/8 EFY.⁵ Housing units of not less than 30,000 were expected to be provided by these real estate developers. However only 2,387 housing units were completed and about 1,775 were found at different stages of construction. Totally these two categories comprise of not more than 14 percent of the anticipated housing units. 47 sites having 119.7 hectares of land were not yet developed. According to the respective lease agreements the construction commencement period (a period of 18 months) was over for most of them. The report noted that even those who started construction were only showing half-hearted attempts to give the impression that they had started construction work. The usual alibis mentioned in the report include: delay in handing over the site on the part of the City Administration, delay in provision of infrastructure, price escalation of building materials and lack of loan finance.

Some real estate developers who had been given land free of lease payments or at a nominal rate, had transferred the land to a third party without developing it and succeeded to garner a huge amount of money.

Ultimately the transferred land goes to few (1-3) high class real estate developers. Hence the report admits the inefficiency of the land distribution system. The issuance of individual land titling for undeveloped land is also another concern. According to the survey results by the consultant⁶ 69.5 percent of the customers and 44.1 percent of the real estate respondents responded that legible customers had already received title certificates. 41.2 percent of the real estate respondents were non-respondents. Nonetheless, all the precautions which need to be done before issuing individual land titling such as the status of the construction project, remaining lease payments, and lease period and the accompanying rights and duties were overlooked. How undeveloped land had been used as collateral and for surety was also a dubious aspect of the transactions; for some of the sureties are very high compared to the lease price of the land. It was also impossible to locate some of the real estate sites on the base map of the city since they were not recorded. This shows also a clear follow up and tracking system had not been established. As a result, a huge amount of arrears on lease payments were unable to be easily detected.

According to the study report compiled by the consultant (Oct. 2009), among the findings of the survey on the responses of residents on the short comings of the City Administration in dealing with real estate developers were: weakness in monitoring and evaluation of the performance of the real estate developers (64.6%), and corruption on the part of the employees and officials of the City Government (58.8%).⁷ (Refer to Annexes 6 and 7.)

Regarding acquisition of land 44.1 percent of the real estate developers responded that the land was their former holding while only 23.5 percent had bought through lease negotiation from the City Administration and 20.6 percent of them conceded that they bought the land from another lessee. This selling of land by a lessee is taken as a criminal act by the City Administration for the obvious fact it contravenes the provision of the constitution of the FDRE.

Factors which can be used to assess the efficiency of the utilisation of land resources used by the survey of the consultant include among others the following: keeping it fenced for long without developing it, subdividing undeveloped land and transferring it to a third person, and using land for non-permitted use. Regarding these indicators, responses of customers and real estate developers show a distinct discrepancy in

which customers with a response rate ranging from 43.7 up to 47.4 percent responded 'yes' while the real estate developers responded 'no' with a response rate of ranging from 58.8 up to 61.8 percent for all the three indicators.

Regarding the question at what level of construction was the property when transferred to the customer, 77 percent of the customers disclosed that the site was either empty or at an early stage of construction. Though non-respondents account for 38.2 percent, the majority (58.8%) of the real estate developers respondents responded that they had transferred the property to the customers after either completing the main house or at least completing more than 50 percent of it. However it can be ascertained that a considerable number of customers bought undeveloped land or uncompleted houses. Regarding the responsibility for completing the unfinished house after transfer, 56 percent of the customers believed that it is the responsibility of the customer (buyer). 64.7 percent of the real estate developers remained non-respondent to the same question, 20.6 percent responded that it is a joint responsibility and 11.8 percent said that it should be the responsibility of the developer.

With regard to provision of infrastructure, 81.5 percent of the customers and 91.2 percent of real estate respondents responded positively that infrastructure had been fully or partially provided. For the question who completes it if partially provided, 12.4 percent of customers and 26.5 percent of real estate respondents responded the 'city administration', while 28.5 percent and 23.5 percent of them respectively responded the 'developer'. 22.1 percent of customer respondents responded the 'buyer'. 15.6 percent of customers and 17.6 percent real estate developers responded 'I do not know'. The astonishing aspect of the discrepancy in the responses of the different actors is the fact that such a tripartite contractual relationship was not explicit regarding the issue of infrastructure provision which requires a high financial expenditure. For those real estate developers who do not know by whom it would be completed, it raises questions on their professional competency as contractual partners as well as the effectiveness of the licensing procedures. Nonetheless, regarding what the selling price includes, 44.2 percent of the customers believe that the price included the infrastructure cost and 29.5 percent of them had no idea. 44.1 percent of the real estate developers responded 'it is situational,' while 35.3 percent remained non-responsive and only 11.8

percent of them responded that it includes the cost of building, lease payment, and infrastructure cost.

It had been later made known that the investigative surveys which had been carried out for a year both by the City Administration and the private consultant were preparations to take necessary rectifying measures in the real estate market by the City Government of Addis Ababa. Box 9.1 describes the actions taken.

Box 9.1: The aftermath

Agreement of 34 real estate developers annulled

The Land Administration and Building Permit Authority of the City Administration of Addis Ababa announced that it cancelled the agreement of 34 real estate developers who had not started construction according to their agreement. It also disclosed that even the performance status of those who started construction was not more than 16 percent.

*Addis Lissan*¹, Vol. 18 No. 1632, 20 Tikmt 2003 (30th Oct. 2010), Amharic version

Radical rectifying measure on land and land related issues is underway

H.E. Mayor Kuma Demekessa disclosed that up to now 5.8 million square meters of urban land has been slated for 125 real estate developers. However, hitherto only 18 percent of the slated land is used for the intended purpose. Consequently 1.175 million square meters of land has been dispossessed in a campaign of three days in the first week of November 2010. Some developers have kept the slated land idle by fencing, sold their slated land with only start up structures, invaded public land and have even taken bank loans using undeveloped land as collateral. Effort to collect unpaid lease payments and other income payable to the City Administration amounting to Birr 69.9 million is continuing. Illegal land holding of 180,000 square meters by Ayat Real Estate in Yeka has been dispossessed. About 125,000 square meters of this was encroached and fenced land used to produce different building materials. Unauthorised land amounting to 5,000 square meters where the real estate developer started constructing condominium housing and construction work on 50,000 square meters of land transferred from another developer has been terminated and the land has also been dispossessed. Ayat has also been transferring on sale plots with only the service quarter having been built. 21 out of the 27 real estate developers operating in Yeka City expanded their land holdings illegally.

Addis Lissan, Vol. 18 No. 1633, 24 Tikmt 2003 (3rd Nov. 2010), Amharic version

We welcome investors who abide by the rules

H.E. Mayor Kuma Demekessa has given an interview with the City Administration's organ *Addis Lissan* on rectifying measures being carried out on the misuse of public land. The Mayor explained that the 5.8 million square meters of urban land slated to the real estate developers was made through a nominal price and in some cases freely. As an incentive 50 square meters of land per household has been allocated freely. According to a survey by the City Administration, 82 real estate developers have illegally expanded their holdings amounting to 1,403,431 square meters of land. 38 developers who did not start construction according to the agreement have kept fenced 983,973 square meters of urban land idly without developing it.

According to the Mayor, reprimanded real estate developers have been served repeated prior notices. They have no lack of information and awareness. They definitely know the sale of land to third parties is a criminal act. The Mayor, on the other hand admitted the lack of monitoring and regulatory supervision on the part of the City Administration. He has finally remarked: 'The message what the City Administration has been trying to convey is that the short cut drive to prosperity by grabbing public land illegally is a criminal act and has to be stopped...There is only one path - following the developmental path.'

Addis Lissan, Vol. 18 No. 1633, 24 Tikmt 2003 (3rd Nov. 2010), Amharic version

City Claims Plots Massively

'Should it go for the average price of Birr 3,000 per square metre on the outskirts of the city, the Addis Ababa City Administration would gain over 4.2 Billion Birr reclaiming 1.4 million square meters of 'illegally obtained' land from 120 real estate developers.' This was the breaking news of the newspaper *Capital*. The city has reclaimed 923,380 square meters of urban land from the 983,937 square meters of idle plots kept fenced by 38 developers. The city also reclaimed over 240,000 square meters from the pioneer developer - Ayat Real Estate. The newspaper remarked that according to most lease agreements the developers are expected to develop their housing units within 24 months from the date of signing the lease contract. However this became a difficult condition to meet on the grounds of poor infrastructure, escalating costs of construction materials and financial problems. The real estate developers complained to the City Administration that obstacles created by the City Administration in clearing plots of land had triggered the delay. There have been complaints also from people who had fully paid for their homes and who were waiting for the completion of the construction by some of the real estate developers on the list. For these cases, the city has promised to take care of customers who bought houses on the reclaimed plots saying that it will come up with something that will not affect these people and their houses.

(*Capital*, Vol. 12 No. 621, 7th Nov. 2010, English Version)

These actions were followed by much indignation on the part of the real estate developers and concerned professionals. The newspaper, *Fortune* in its editorial note critically commented on the activities of the City Administration (see Box 9.2).

**Box 9.2:
The Reaction**

City Authorities Have None but Themselves to Blame

'...It seems as if the once thriving real estate industry is on the retreat; timid and subdued by the government's crackdown....Businessmen and women are made to lose their properties, whether they are earned legally or otherwise, with a stroke of an administrative pen... Nonetheless, the government has made money from the transfers of these plots which they claim were unconstitutional. Those with plots have actually gone to the public notary offices to notarise the transferred deeds, paid stamp fees and taxes on capital gains, and were issued lease certificates by the districts and the city government... Where were the kebele officials who are normally very zealous in stopping residents from refurbishing houses and re-erecting fences when these real estate firms built on plots for which they don't have deeds? Where were the local authorities when these firms fenced vast tracts of land, which the city claims didn't belong to them in the first place? ... It is unraveling the behaviors of an executive body that often forgets the fact that it is a party in a contractual agreement. As in any contract, when disputes on the execution occur, both parties turn to an arbitration body where they mutually agree or to a court of law. Unfortunately, here is a development where the City Administration appears to enter into a contract with citizens only to take the law into its own hands whenever its officials feel aggravated... Whether or not the city authorities are right in taking the measures they have so far, the manner in which they have travelled has created an overwhelming sense of fear and insecurity among many in the business community... If they have to lay the blame on anyone, they have only to blame themselves.'

Fortune, vol. 11 No. 550, Nov. 14, 2010, English version

According to the Director for Land Administration and Building Permit Authority the possible rectifying measures include: to repossess the land invaded by the real estate developers, make reuse of idly kept plots, punish those who deserve punishment. And the city administration has to undergo a tremendous house cleaning task (4th November 2010 interview broadcasted in the Ethiopian Radio National Broadcasting Service).

9.4.5 Institutional interface

The process of erecting buildings to provide space employs the following key factors: land for the site, capital for purchase of the land and materials, labour to erect/ construct and manage the process and the entrepreneurial talent of the property developer (Balchin et al., 2000). The research shows that real estate developers in Addis Ababa have been operating under an unfavorable institutional climate while accessing these factors of production. These unfavorable circumstances include:

1. Shortage of bank loans both in terms of project finance for developers and long term mortgages for buyers. Therefore real estate developers were obliged to use upfront financing through customers advance payments and periodic installment payments phased according to the rate of progress of construction work;
2. In addition to the lease payment which is usually in the order of tens and hundreds of millions of Birr, there are such costs as: 5 percent VAT payment, 4 percent title transfer payment, bank interest ranging from 10-12 percent, a financial equivalent in the order of 60 percent of the loan amount from private banks, and 50 percent from state owned banks need to be paid as collateral on the loan amount.
3. Article 10(b) of the proclamation for the re-enactment of urban land lease holding states 5 percent as the minimum advance payment, however the regulation of the City Government to provide land for real estate (Regulation No. 20/2005) states 20 percent advance payment for real estate developers;
4. Lack of government support to import building materials e.g. cement import by the private sector is not currently allowed (*Access Capital*, May 2010);
5. Scarcity, rapid and unexpected escalation in construction material cost (according to CSA price data, an increase up by 125 percent since the mid 2000s even as high as 300 percent for certain critical items such as cement has been reported);
6. High lease price: small number of plots being presented in infrequent timing and application of benchmark prices without ceiling, aggravated by information asymmetry led to fierce competition. For example in Bole sub city plots of land whose benchmark price was Birr 299 per square metre had reached an auction price of between Birr 17,105-20,000 per square metre for residential use (*Fortune*, Vol. 12, No. 590, 21st August 2011). According to an interview with the lease officer of the sub city, the minimum offer was Birr 600 per square metre while the highest goes up to Birr 25,000 per square metre for a commercial plot. Table 9.4 below shows data on average lease price in May 2010;
7. Most leases require developers to deliver their housing units within 24 months from the signing of the lease contract. In practice this has been a difficult condition to meet;

8. Administrative and bureaucratic delays in the actual release of already assigned land;
9. The spatial locations of most real estate development projects are at the outskirts of the city. 85.7 percent of the projects were located in the transitional zone, peripheral zone, and nearby satellite towns where infrastructure provision is costly;

Table 9.4:
Average Lease Price in May 2010

No	Modality	Sub City	Use	Rate (Birr/m ²)
1	Auction	Arada	Commercial	11,000
		Kirkos	Commercial and mixed use	7,560
		Lideta	Commercial and mixed use	4,913
2	Negotiation	Bole	Residential	4,720
		Akaki-Kality	Industrial	3,413

Source: Access Capital real estate sector report (May 2010)

If an adjoining land is not demarcated or reserved for real estate use, the lease price to expand an existing project site to the adjoining land will be the highest auction price of the surrounding multiplied by a factor of 1.5 up to 5 for plot areas ranging from 250-2,500 square meters respectively (Addis Ababa City Government Regulation to Provide Land for Real Estate, No. 20/2005). According to this arithmetic the negotiation lease price for a 1,000 square meters plot area in Bole Sub City amounts to more than 4.7 million Birr. Rather being involved in such costly transactions some of the real estate developers sought for an alternative. With the green light provided by the City Administration they managed to purchase land from other real estate developers (through private lease?). A single real estate developer had sold a tract of land which he was expected to develop, for Birr 12.6 million without making any improvement. Often such buyers and sellers go to the public notaries (Document Registration and Acts Office) and register the deal. Nevertheless such contracting parties do not necessarily go to the City Administration for authorisation of the transfer.

The issue of capacity of real estate developers with respect to their skills and knowledge of the trade is another concern. According to Peiser and Shwanke (1992) real estate developers, in addition to having the

normal real estate skills in financing, marketing and property management are expected to be informed critics of architecture to be knowledgeable in construction, law, and public finance. The few successful developers who survived in the market actually have had experience as managers of sister companies in construction contracting or engineering/development consultancy or building materials suppliers.

Real estate investment in particular requires high capital investment which cannot usually be covered by own personal savings on the part of consumers nor from own capital by developers. It requires interim financing during the construction and development phase and permanent financing after improvements have been made and the property is leased to tenants. Residential purchase is impossible without a mortgage. Unless the financial system can, overtime, provide such project finance in the form of construction credit and development credit to developers and long-term mortgage finance to prospective buyers, affordability will remain difficult (*Access Capital*, 2010).

Contrary to the high demand for a credit market, the focus of the Ethiopian Government was for a long time based on stabilisation i.e. containing inflation and reducing domestic and foreign imbalances. This goes back to the first phase of the economic reform program for the period 1992/1993 to 1995/96 whose focus was on liberalisation and stabilisation. Provisions of finance for real estate, consumers, and mortgages were insignificant or all together nonexistent (*Fortune*, November 7, 2010). It is just recently, after the Five Year Growth and Transformation Plan (2011-15) that attention was given to develop the credit market. Based on interviews with some real estate developers, almost no real estate developer starts work without securing about 20 percent of the house price as an advance payment from potential customers. Financing real estate development with customers' cash became the standard practice in Addis Ababa. This lack of finance actually contributed to the revival of informal money lenders which in turn led to a crackdown on rampant usury during the years 2009-2010, resulting in some of the major usury lords ('IMFs' as some of them used to be called) to be imprisoned.

Some real estate developers overcame this handicap by actually facilitating bank loans for their customers. The land holding certificate of each customer (which is somehow issued prematurely and informally) is used as security for a loan to guarantee the repayment and the customer

is provided with a loan of up to 50 percent of the price in the form of an overdraft facilitated by the real estate developer. Thus the developer then acted as a mortgage guarantor or surety. This might have been adopted from the public condominium financing in which the customer pays an advance payment of 20 percent of the price and the rest is covered by a bank loan. The loan agreement is made between the customer and the Commercial Bank of Ethiopia and the government plays the role of facilitator and guarantor of the deal. For example the government would replace another new customer in case of default, playing its role as guarantee. In fact the bank did not finance the construction of condominium houses as part of its business strategy; however it could be in compliance to the government directions.

The data collected shows that real estate developers in Addis Ababa acquire land through various means. The first is by default through public leasing from which the majority (71.5%) preferred negotiation among the three leasehold permit modalities. The second is acquiring land plots through private leasing where a lessee potential developer transfers his/her leased land to another developer with a negotiated amount. This is usually done by settling the blocked bank account for the lease payment plus some additional amount which goes into the seller/ lessors pocket. Among these individual lessors there are developers who acquired land free of lease payment or at a nominal lease payment. Investigative reports by the City Administration disclosed that 15 out of 114 (13.2%) developers transferred their land to a third party, almost all of them in the period between March 2006 and September 2009.⁸

The third means of acquiring land for real estate projects is the use of ones own land. Survey data by the private consultant on 34 real estate developers showed that only 23.5 percent bought a land plot through lease negotiation. 44.1 percent of the respondents had responded that the land was their former holding. Additional 20.6 percent of real estate respondents conceded that they had bought the land from another lessee. These later groups together make up 64.7 percent of the real estate respondents. However since the Proclamation No. 47/75, the Proclamation for the Nationalisation of Urban Land and Extra Houses had been issued, the size of a plot for personal residential holding was limited to a maximum of 500 square meters. The portion of land in excess of this amount was to be expropriated and allocated to another allottee as long as the plot was divisible and able to accommodate another residence or

use. A small calculation as shown in Box 9.3 disproves the possibility of such former land holdings by an individual real estate developer.

Box9.3:

The Minimum Land Possession as a Real Estate Developer

Taking the minimum amount of 50 units which was required to qualify as a real estate developer, assuming 100% villa type (before 29th November, 2005) and plot sizes in a range of 500-1,000 m² or an average of 750 m², the total area required would be:

$$50 * 750 * 1.20 \text{ (allowance for road and green area)} = 45,000 \text{ m}^2$$

Or in the case of a ratio of 3:7 for villas and condominium and taking G+4 storey condominium and an average of $(50+150)/2=100$ m² of floor area per condominium unit including the common units, the minimum area required would be:

$$[(15 \text{ villas} * 750) + (288 * 3 \text{ blocks of condos})] * 1.20 \text{ (road and green area)} = 14,536 \text{ m}^2 \text{ or roughly } 15,000 \text{ m}^2$$

Such former holdings of land area in this range could only be acquired through one of the following means:

1. Land allocated in the later days of the Derg for investment purpose,
2. Land leased under the incumbent government for non-private residential investment,
3. Land informally purchased from peasants or from other developers/investors or from other inhabitants who managed to grab urban land following the 2005 elections,
4. Land transferred from another residential real estate developer through private lease purchase,
5. Potential developers wanting to redevelop their former plots used for own occupation or business into a multi-storey building (though they do not qualify as a real estate developer in the later sense of the meaning i.e. one who builds 50 houses and above).

Except for the fifth option, most of the above mentioned means of acquiring land would somehow involve informal land transactions. It is important to note the fact that it was impossible to locate most of the real estate sites on the base map of the city. Additional evidence is the illegal land expansion of 82 real estate developers which totaled 140 hectares of land according to the briefing by Mayor Kuma (Box 9.1). This was a finding which turned against our assumptions. Our first assump-

tion was that developers would carefully follow the formal procedures since real estate projects were formally registered investments which involve huge financial resources.

Our survey showed that 64.4 percent of respondents benefitted from receiving one or a combination of the incentives before they were rescinded later by the City Government. Results of the real estate respondents' assessment of existing proclamations/regulations pertaining to the real estate sector by their degree of contribution for the promotion/facilitation of private sector real estate development is shown in Table 9.5. The results are shown by the frequency count of respondents on a Likert scale ranging from 1 (highly facilitative) to 5 (restrictive) with a cutting mark of 3 (tolerable).

Table 9.5:
REDS' assessment results of existing proclamations and regulations

No	Proclamation/Regulation	Likert scale 1-5					NR	Mean values
		1	2	3	4	5		
1	Urban Lease proclamation	3	6	2	2	0	1	2.2
2	Investment proclamation	2	8	2	1	0	1	2.2
3	Rights of foreign nationals of Ethiopian origin on their country of origin	3	6	4	0	0	1	2.1
4	Regulation to provide land for real estate (Addis Ababa City Government)	1	3	0	3	2	5	3.2
5	Expropriation of land holdings for public purposes and payment of compensation proclamation	0	3	2	5	0	4	3.2
6	Proclamation to provide for property mortgaged or pledged with banks	0	3	3	0	3	5	3.3
7	Value added tax proclamation	0	2	3	3	3	3	3.6
8	Income tax proclamation	1	3	3	4	1	2	3.1

NR = Non respondents

NB: Non respondents are excluded from mean computation

Source: Own computation on survey data (Oct. 2009 - Jan. 2010)

Accordingly the first three rules i.e. the urban lease proclamation; the investment proclamations and rights of foreign nationals of Ethiopian origin on their country of origin are categorised as facilitative. The later one is taken as the most facilitative with highest mean Likert value of 2.1 (one can relate it to the emergence of the diaspora group as a major customer in the real estate market) while the value added tax proclamation is taken as the most non-facilitative with lowest mean Likert value of 3.6. The fact that there is only one non-respondent per regulation in the first

three proclamations and an average of 4 non-respondents per regulation in the non facilitative group i.e. # 4 to 8, magnifies the unfavorable attitude to the later group of rules. Respondents are also asked in which area of the institutional framework further improvement needed to be made. Table 9.6 shows the prioritised list based on weighted averages.

Table 9.6:
Prioritisation for Institutional Improvement

No	Area of institutional framework	Weighted average
1	Institutional arrangement favoring the development of credit facilities and financial (capital) markets	109
2	Institutional facilitation for the development of basic building materials like cement and reinforcement steel bars	55
3	City government authorisation procedures & standards	41
4	Master plan land use and height regulation	40
5	Procedures for the transfer of ownership from the developer to the new owners	39
6	Radical changes from government ownership of land to freehold private ownership	38
7	Land lease allocation through private land development companies	32
8	Compensation and valuation regulations	25

Source: Own computation on field survey data (Oct. 2009 - Jan. 2010)

From results shown in the above Table 9.6 and as ascertained by other surveys and studies, the institutional reform to avail loan finance is of high urgency in the development of the real estate sector in Addis Ababa. Overhauling the institutional framework to facilitate production and supply of basic building materials was identified as the second highest priority area. Operational level rules such as authorisation procedures and standards together with the master plan and land use regulations are also identified as high priority institutional improvement areas.

Responding to the question on the role of the private sector and government in the provision of housing 71.4 percent of the real estate respondents have the impression that the government is playing the leading role. Responding to the question whether the government needs to change its role, mixed feelings were observed in which 50 percent responded *no they do not need to change their role*, while 35.7 percent replied *yes* and the remaining are identified as non-respondents. Asked for their opinion on who is more legible to provide housing for the low income

from the market perspective (affordability), 71.4 percent of respondents replied the government, while 21.4 percent replied the private sector and 14.3 percent replied government, community groups and NGOs. Only one respondent answered government and private sector jointly. The role of government in institutional development and enforcement was also assessed by real estate respondents. The results are shown in Table 9.7.

Table 9.7:
REDS' Assessment of government's role

No	Aspect	Likert scale					NR	Mean Value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the City Administration	1	1	7	3	1	1	3.2
2	Conduciveness of legal rules and regulations for new entrants in the real estate sector	0	1	4	6	2	1	3.7
3	Sufficiency of number of plots and frequency of public auction for land lease	0	1	2	5	2	4	3.8
4	Role of government in promoting growth partnership in terms of breadth (quantity) and depth (strength)	0	1	6	5	1	1	3.5
5	Institutional enforcement capacity of government: in terms of professional manpower	0	1	2	6	3	2	3.9
6	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	0	0	3	6	2	3	3.9
7	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	3	1	3	3	2	2	3.0

NR= Non respondents are excluded from mean value computation
Source: computation on own survey data (Oct. 09 - Jan 10)

Responses are given in Likert scale of 1 (indicating high positive values i.e. very satisfied, very conducive, very sufficient, very high, very appropriate) to 5 (indicating high negative values i.e. unsatisfactory, not conducive, not sufficient, very low, not appropriate respectively). The cut point or mean value is 3 indicating qualities of being satisfied, sufficient and acceptable.

According to Table 9.7, except for the use of legitimate violence, the use of police force to evict and demolish informal settlements, which was taken as acceptable indicated by mean value of 3, all mean values indicate to a lesser or high degree not a favorable assessment. Specifically institutional capacity of government in terms of professional manpower, and the capacity of government in issuing appropriate (enforceable and affordable) rules and regulations, the number of plots and frequency of public auction for land lease, and conduciveness of legal rules and regulations for new entrants to join the real estate sector need to be concerns to deal with.

9.4.6 Property and Transaction

Communicating information to promote sales is fundamental in markets so that transactions could take place. Real estate developers in Addis Ababa had been using a variety of communication media ranging from word of mouth to modern information and communication technology. The most widely used communication media by their weighted average in their order and number of frequency is shown in Table 9.8.

Table 9.8:
Communication Media Used by Real Estate Developers

No	Media	Weighted Average
1	Media (newspaper ads, TV, radio)	77
2	Internet/company websites	62
3	Promotion through real estate agents	16
4	Billboards	13
5	Brochures/fliers	10
6	Exhibitions	9
7	Sponsorships	6
8	<i>Dallalas</i> /Local brokers (commission agents)	5
9	Word of mouth	2
10	Mobile SMS	1

NB: only one real estate company remained non respondent
Source: computation on own survey data (Oct. 2009 - Jan 2010)

The two most widely used forms of communication media by real estate developers in Addis Ababa are public media (press, TV, radio) and internet/company web sites. Another important observation in the above data is the weak relation between real estate developers and real

estate agents as well as local brokers (commission agents). 71.4 percent of the real estate respondents believe that it is beneficial for real estate developers to market themselves. The sample for the study of interaction and property transfer between developer and consumers was taken from residents of Ayat Mender. A sample population of 99 customers was randomly selected which include all zones of the village. By the time of data collection out of 64 respondents 52 (81.3%) of them had received individual title certificates and 50 respondents (78.1%) had approved house plans in their names.

Looking for manageable and measurable indicators for transaction costs, we were confined to the selection of indicators which include: cost arising from bureaucratic procedures, delays, dispute resolution costs, and market information costs. The questions in the questionnaires refer to worst case and most fortunate real estate projects. Indicators include the time in months it took to acquire land (worst case projects) and to process authorisation services and if there were court cases, how much time elapsed until that final verdict was given. Another question was concerned about who bears the costs of transferring rights. The survey results on time elapsed to acquire land plot for worst case projects are shown in Table 9.9.

Table 9.9:
Time Elapsed to Acquire Land for 'Worst Case Projects'

No	Time elapsed	Frequency	Percentage
1	Less than 3 months	2	14.3
2	3-6 months	2	14.3
3	7-12 months	3	21.4
4	13-18 months	1	7.1
5	19-24 months	-	-
6	25-36 months	-	-
7	Over 36 months	1	7.1

NB. Non respondents account to 35.7%
Source: Survey data (Oct. 2009 - Jan 2010)

The survey results show more than six months elapsed for projects of 5 respondents which comprise 35.7 percent. Since the launching of the civil service reform much improvement was observed in recent years in the delivery of authorisation services as compared to that of pre 2003. The data on time elapsed for processing authorisation services such as lease certificate, planning approval, building permit, and property trans-

fer registration shows the shortest time, it took 11 days and only one project case took five years. Two of respondents replied that no big problem as such had been encountered. However 7 of them, turning the number of non respondents (50%) is quite a concern. Recall the survey results and discussion followed on the assessment results of existing proclamations and regulations by real estate developers (Table 9.5). The data on time elapsed on processing authorisation services for most fortunate case projects is even more frustrating in which 12 (85.7%) respondents turned non-respondents.

According to the response on who pays the cost for property transfer registration 64.3 percent responded it is the *customers responsibility* while one respondent replied the *developer* and another one replied *jointly*. Regarding time elapsed in court cases until the final verdict was given, 9 respondents (64.3%) remained non-respondents while 2 respondents (14.3%) replied that they had never encountered such court cases and another one (7.1%) replied they used arbitration rather than the courts. The remaining 2 respondents (14.3%) responded it took 6-12 months as the shortest time and 2-5 years at the longest period of time.

9.4.7 Goal achievement

The effectiveness of institutions refers to comparing the outcomes with the goals of policies and institutions. These can be in terms of accessibility and affordability of housing, contribution to alleviate housing problem including the low income and the poor, better access to land and increasing the housing stock. Regarding increasing the total housing stock, the revised master plan of Addis Ababa 2003-2010 in its housing proposal projected the lion share of provision to be from the private sector and only 2.2 percent of the projected amount from the government. However an evaluation report on the implementation of the master plan shows about 80,236 condominium housing units were produced by the government which makes 53 percent of the total housing supplied. The expectation from private real estate developers was about 30,000 and what developers pledged to provide was estimated at 25,000 housing units in the plan implementation period. Actual output so far is limited to about 25 percent of the pledged amount or 4 percent of the total housing supplied. This is expressed in the responses of real estate respondents in which 71.4 percent concurred that the government is playing the leading role in housing provision and the government need not

change its current role in housing provision. As things stand now, for a real estate developer, who depends much on customers' financial capacity, providing housing for low income and the poor might be unthinkable.

On the other hand interviews with some real estate developers disapprove the comparison with the state promoted Integrated Housing Program (condominium housing) and housing development by private real estate developers as unfair since the two operate on different playing fields. Condominium housing consumes basic building materials such as cement and reinforcement steel bars imported duty free. Lease payment is not an issue in the case of condominium housing. Bank loans are available. Infrastructure costs and other overhead costs are covered by government. Therefore, the claim that private real estate developers do not cater for low income groups does not hold true. Some respondents genuinely appreciated those pioneering developers for the success they achieved by overcoming such an unfavorable institutional environment.

9.5 Customers' perspective

To study real estate developers-customers interaction, a sample (N=99, simple random sampling) was taken from Ayat Mender residents. Residents in Ayat Mender are diversified in their origin. The origins of 44.4 percent of respondents were not from Addis Ababa. Their places of birth vary from Tigray, Amhara, Oromia and SNNP regions. Their ethnic composition is shown in Table 9.10.

Table 9.10:
Ayat Mender - Ethnic composition of resident respondents

No	Ethnic Group	Frequency	Percentage
1	Amhara	57	57.6
2	Oromo	18	18.2
3	Southern Nations, Nationalities & Peoples	11	11.1
4	Tigray	9	9.1
5	Harari	1	1
6	Non-respondents	3	3
	Total	99	100

Source: Field survey Sept. - Oct. 2009

The predominant group belongs to Amhara while Oromo and SNNP are the second and third largest groups. In their religious composition, followers of Christian Orthodox are the predominant religious group. More results of the survey are shown in Table 9.11.

Table 9.11:
Ayat Mender - Religious affiliation of households

No	Religious Affiliation	Frequency	Percentage
1	Christian Orthodox	60	60.6
2	Protestant Christian	25	25.3
3	Moslem	14	14.1
	Total	99	100

Source: Field survey Sept. - Oct. 2009

Regarding the marital status of respondents, majority of them (74.7%) were married with an average of 4.7 family size. 55.4 percent of the married households had a family size of 4-5 followed by 21.6 percent of them with a family size of 6-8 persons. A substantial size of married households, 17.6 percent of them had a household size of 3 persons showing a high percentage of newly married couples (including the *mamite* or maid) or families with a single child. 24.3 percent were unmarried singles. The educational status of respondents is shown in Table 9.12.

Table 9.12:
Ayat Mender- educational status

No	Educational status	Frequency	Percentage	Cumulative percentage
1	Illiterate	1	1.0	1.0
2	literate	2	2.0	3.0
3	Primary Sch.	6	6.1	9.1
4	Secondary school	26	26.3	35.4
5	Vocational training	2	2.0	37.4
6	Diploma	23	23.2	60.6
7	Bachelor degree	22	22.2	82.8
8	Masters degree	17	17.2	100
	Total	99	100	

Source: Field survey Sept. - Oct. 2009

Table 9.12 shows that 35.4 percent of respondents had an educational level of secondary school and below, while 64.6 percent of them had di-

ploma or were at graduate and post graduate level in their educational status. This is a higher standard educational status in relative terms as compared to other residential communities of Addis Ababa in general and the other two settlements of Worku Sefer and residents of housing cooperatives in Ayer Tena. Regarding occupational status and monthly income of respondents the results are shown in Table 9.13 with occupational status crossed against monthly income.

Table 9.13 shows that respondents as employees of private enterprises were highly paid white collar workers. It is noticeable also that income from remittance plays a substantial role. This is ascertained in the case of the monthly income of students and pensioners. The mean monthly income of respondents was Birr 8,501.60. According to data collected 57.6 percent of respondent households had a single car while 16.2 percent owned more than one car. The car ownership rate, therefore, was 0.90 cars per household, almost a car per household. The car in the Addis Ababa transportation system is a necessary machine for such a suburban life style. This community is a high income community. Therefore it is possible to ascertain that the real estate option of housing provision was more appealing to the high income groups.

Table 9.13:
Ayat Mender - Occupational status and monthly income groups

No	Occupational category	Total	Monthly income category								NR
			I	II	III	IV	V	VI	VII	VIII	
1	Employee of private enterprise	37	2	6	4	17	4	3	0	0	1
2	Business man/woman	23	0	7	4	7	0	1	1	3	0
3	Civil servant	11	0	1	3	4	1	0	0	1	1
4	Pensioner	8	2	2	1	1	1	0	0	0	1
5	Unemployed	11	3	2	2	1	1	0	0	0	2
6	Casual labor	1	1	0	0	0	0	0	0	0	0
7	Student	5	0	0	1	2	1	0	0	0	1
8	NGO	1	0	0	0	0	1	0	0	0	0
9	Employee pvt. Enterprise +business	2	0	0	0	0	0	1	1	0	0
	Total	99	8	18	15	32	9	5	2	4	6

Income categories in Birr: I (< 2500), II (2501-5000), III (5001-7500), IV (7501-10000), V (10001-12500), VI (12501-15000), VII (15001-17500), VIII (>17501)

NR=Non-respondents

Source: Field survey Sept. - Oct. 2009

As a measure of the social relationship, respondents were asked who they considered were their neighbors. Their responses show that out of the 88 who responded 48.9 percent responded households in adjacent dwellings, 33 percent those households in adjacent dwellings and those facing the same internal access road, while 13.6 percent of them responded by saying those within the same block. In actual fact, houses facing the same internal access road are considered to belong to the same block. Such a block had about 26 households. Residents in each block had their own committee. According to interviews with Ayat Residents, households in the same block celebrate holidays together such as *Meskel* (the founding of the true cross) and the Ethiopian New Year. On these occasions, particularly during the *Meskel* celebrations, they have a habit of awarding their best performing students.

Blocks were gated and guarded at both ends. These communities signify typical gated communities. Regarding the composition of their community, most respondents (68.2%) appreciated having mixed income groups from various occupations. 26.1 percent of them appreciated that they dominantly belong to the high income group. Results exclude 11 non-respondents. Ayat residents had been organized into a cooperative association known as Ayat Mender Residents' Limited Cooperative Association which was connected with two functionary associations: Ayat Mender Residents' Development Association and Ayat Mender Residents' Meredaja (mutual help) *idir*. Some zones had their own *idir*. However not all households in a zone were members of an *idir*. For example Zone 2 had 470 households but only 90 were members of their *idir*.⁹ This was due to high number of tenants and caretakers (46.5%) who might not be as interested as the owners in such mutual help associations.

The problems in their former living areas which served as pushing factors were the lack of their own house (57.6%), inconvenient living area (12.1%) or living abroad they were yearning to have a house in their country of birth (10.1%). Regarding tenure 52.5 percent of all respondents were owners, while 8.1 percent were caretakers in behalf of the owners, and 38.4 percent were tenants. Among the 60 owners and caretakers, they were attracted to the real estate option to avoid the hassle of looking individually for plots (31.4%), to avoid the hassle of individually managing the construction (19.6%), availability of high quality homes in a modern neighborhood (13.7%), and due to a combination of these fac-

tors (35.3%). Results exclude 9 non-respondents. Most of (62.6%) respondents were members of *idir*.

Prior attempts to acquire a house before settling on the real estate option by respondents include: tried to purchase a house from individuals but turned too cumbersome (49.4%), applied to government allocation of plots through lots but did not succeed (27.7%), and tried to be organised in a housing cooperatives but withdrew later (12.1%). The sources of information through which respondents received access regarding Ayat real estate in descending number of respondents were: public media i.e. newspapers, radio, and TV (33.3%), local *dallalas* (27.3%), family members and relatives (22.2%) and peer groups (13.1%). Most respondents analyse the information they received about the opportunities in Ayat real estate through discussion with family members and relatives (57.6%), and self-cogitation (39.4%). The often applied criteria by respondents in selection of a site for housing were: availability of infrastructure and services (56.6%), attractive view to natural scenic sites (22.2%) and a combination of both (19.2%).

Regarding internal norms, responses of 50 respondents show that using their *idir*, they had established norms of security, sanitation, administration of communal open fields and local development (54%). Some of the respondents (30%) replied that some *idirs* had focused on security issues. Regarding legal rules and regulations, some respondents were anxious about the lack of regulations governing contractual relationships between developer and customers (29.3% of 58 respondents). Some of them (15.5%) also had doubt on the lease land administration conduciveness for housing provision by real estate developers. Respondents had also expressed their preference to build their own houses had the policy and institutional framework provided urban land policy which facilitated access to owner-occupiers (51.7% of 87 respondents), preferential cooperative law (10.3%), and financial policy which allowed easy access to housing loan (8%) or a combination of them (27.6%). In general comparing their expectations and the actual legal rules and regulations pertaining to the real estate market; 46.7 percent of respondents found them restrictive, while 31.5 percent of them found them appropriate, and the remaining 20.7 percent found them facilitative. Assessing the government role in institutional development and enforcement respondents' assessment is shown in Table 9.14.

The Likert scale mean values show that the three most critical assessments were sufficiency of number of residential plots and frequency of public auction for land lease (mean value of 4.2), institutional enforcement capacity of government in terms of issuing appropriate (enforceable and affordable) rules and regulations (mean value of 3.7), and institutional enforcement capacity of government in terms of professional manpower (mean value of 3.6).

Table 9.14:
Ayat Mender - Assessment of the government's role

No	Aspect	Likert scale					NR	Mean Value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	5	7	13	15	6	53	3.2
2	Conduciveness of legal rules and regulations for new entrants in residential real estate	1	6	26	6	8	52	3.3
3	Sufficiency of number of residential plots and frequency of public auction for land lease	1	3	9	14	26	47	4.2
4	Role of government in promoting growth partnership in terms of breadth (quantity) and depth (strength)	3	6	19	6	0	65	2.8
5	Institutional enforcement capacity of government: in terms of professional manpower	2	2	31	30	12	22	3.6
6	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	5	5	27	34	22	6	3.7
7	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	18	4	24	23	24	6	3.3

NR=Non-respondents are excluded from mean value computation

Source: Field survey Sept. - Oct. 2009

Ayat Mender residents had lived there for six years. However except for some churches in the vicinity, the only visible facilities as part of the project were a play ground for children and a cafeteria located along the main road dividing the Ayat Mender into two. Retailing services by consumers cooperative shops had been also observed giving services. The goal achievement from the perspective of customers is shown in Table 9.15.

Table 9.15:
Ayat Mender - Sufficiency of housing and availability of services

No	Degree of quality/ sufficiency	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Size of plot	6	15	70	3	4	1	2.8
2	Number of rooms	5	17	68	7	1	1	2.8
3	Internal electric supply	6	13	75	2	2	1	2.8
4	Internal Water supply, toilet facilities & sewage treatment	7	12	68	7	4	1	2.9
5	Telephone & internet connection	6	10	74	5	3	1	2.9
6	Roof , wall and floor condition	16	12	57	11	2	1	2.7

NR= Non respondents are excluded from mean value computation

Source: Own computation on field survey data Sept. - Oct. 2009

For all indicators of quality/efficiency, mean Likert values are less than 3.0 indicating higher levels of quality/sufficiency. However the developer had not yet handed over the settlement. Responding to the question whether they were convinced the property rights of the developer and the customer were clearly identified, 83.3 percent (of 60 respondents) responded positively while 16.7 percent had doubts as the developer had not yet handed over the development project to the community. Still the inhabitants of Ayat Mender lack a school and health facilities in or nearby their neighborhood. Access roads were not asphalted according to the agreement. Only a single respondent had expressed regret on the amount he paid to purchase the house. The respondent complained about the frequent maintenance that he had to make.

Box 9.4:

“As a consequence of the misbehavior of public land and abuse of incentives provided by the City Government, we are now focusing on auction. We will try to pull those who have gone astray onto the legal track. Repossess the land plots which were invaded by them. We will support those who are on track. We will utilise those plots on which no development has yet taken place for future developments. Penalise those who deserve it. The City Government also needs to carry out house cleaning of its bureaucracy.”

Measures to be taken by the City Administration

Source: A city official on Ethiopian National Radio Broadcasting Service (4th Nov. 2010)

9.6 Ethnographic Case History: Ayat Real Estate Company

Ayat Share Company is a business enterprise established in 1996 according to the Ethiopian Commercial Law. It was named by the founder of the enterprise Ato Ayalew Tessema. The idea of the real estate project was conceived after observing the housing shortage in Addis Ababa by the founder¹⁰. It was first established as private limited company by entrepreneurs of Ethiopian citizenship. The company had been involved in real estate development, real estate construction and real estate finance. Ayat Real Estate was a pioneer or trail blazer private company in real estate development specifically in the residential sector not only in Addis Ababa but also in the whole country. In February 2007 it changed its business organisation status to Share Company with a paid up capital of Birr 330.8 million by 18 shareholders. In fact Ayat remained the largest real estate developer in terms of size and scope of work. The label *My home, My abode* is associated with the name of the company.

Its vision was to excel in providing its customers with affordable choices of quality homes that also reward investments. Its mission was to ensure the satisfaction of all stakeholders and to contribute to the alleviation of the housing shortage and create jobs in the process of building thousands of homes. Ayat also claimed to become a learning organisation providing training and education to its work force. Its core values and guiding principles were: customer – focus and satisfaction, trustworthiness, respect of all customers, community and staff; efficiency and effectiveness in operations, honesty and fairness in all dealings, and environmentally friendliness.

Ayat upon its establishment had an ambitious plan of building 25,000 homes in four phases with a master plan to develop a full-fledged township. Upon completion Ayat was expected to cover 300 hectares (actual holding 293 hectares) of land. The input resources for the realisation of the project were anticipated in such a way that land could be accessed through lease purchase, finance from own finance and bank loans, and use of own machinery and rental.¹¹ Lately Ayat Share Company became interested to sell 55 percent of the total shares to the public. The organisation justifies the sale of shares on the ground of: the high investment cost of house provision and even from the customers' point of view establishing long term credit sale requires larger capital, the increasingly high lease price necessitates high rise construction which also requires

higher investment capital, to establish a sustainable income base with a public foundation, the better opportunity of corporate type organisational structure to win over government support; creating competent organisation by utilising ideas, finance, knowledge and leadership skills of many investors as shareholders.

According to the original payment modalities, Ayat's customers could be grouped into three categories: those who can pay the whole price at once, those who can pay the larger share as upfront payment and the rest through monthly installments, and those who pay the smaller amount as upfront payment and the rest on a monthly installment. Initially, an alternative credit sale of 30 years repayment period had been provided.

With respect to financing modalities two types of payment modalities were arranged by the developer which the clients were expected to choose from. The *cash method* of payment was arranged in such a way that clients pay in installments proportional to the progress of construction by which at the end of the construction the client was expected to pay all the costs. The second option was the *mortgage system*, in which a client was required to pay 60 percent of the construction cost at the beginning and the remaining 40 percent with the interest over a period of 30 years. The latter option did not materialise in the first phase. In the former arrangement, as observed by Wubshet (in NUPI, 2004), the developer was merely acting as a construction management consultant rather than a developer, since financing of the project was covered by the clients from the beginning to the end of the project.

In this regard Ayat was proud of introducing the first credit-mortgage system in Ethiopia. Nevertheless experience of Ayat Real Estate did not justify the credibility of the company when according to the mortgage system the first group of potential customers who had paid 20 percent of the house price as advance/upfront payment had been rejected by the company after the prospective customers selected the house type of their preference and the newspaper *Reporter* announced their names. According to interviews with one of the victims, one morning they were told that the modality was not found viable and therefore the company was forced to cancel the contract and requested them to fill a request reclaiming their money. The company repaid their money with a 10 percent penalty the very day they were appointed. However by the time they were paid back already six months had elapsed. The potential customers had gone to the Addis Ababa Bureau of Works and Urban Development

and made sure the real estate company had already taken possession of the site. The unfortunate prospective customers thought that the company had most likely managed to secure customers who could pay all the payment at once probably from the diaspora group.

Ayat was committed to handover the houses in a period of 2-6 years with a completion period of 18 months according to requirements and preferences of its customers. Ayat's marketing strategy had also been to advertise for competent commission agents in Ethiopia or abroad who wanted to be involved in marketing apartment units within the registration period and who wanted to abide to the rules of the organisation. The company committed to pay 4 percent of the registration fee and 3 percent commission from the payments to be made upon signing the contract by the potential buyer.

The case study project, locally known as *Ayat Mender* (Ayat village), is located in Kotebe, the eastern expansion area of the city of Addis Ababa in the former Woreda 28 kebele 04. The site is located 15 km from the city centre. Its location has benefited the project by being near masonry stone quarry sites. The site is endowed with spectacular panoramic views of the surrounding hills. The village falls under two jurisdictions; Bole and of Yeka sub cities. The recently completed ring road and the water supply lines from Legedady and Dire dams pass along the Ayat village. Therefore Ayat Mender was adequately provided with infrastructure.

The selection of the site was governed by the preference of the developer. It is a typical case in which development influences planning rather than planning guiding development. Factors for the choice of the site included: the ease to acquire one large area able to accommodate the ambitious large housing real estate, relatively low lease price (about Birr 129/ m²), accessibility, convenient topographic conditions i.e. gentle slope for drainage. Being an open grazing field the compensation paid to former users (Birr 5 / m²) was very small and even this amount had been deducted from the lease price. Its location, however, heralded a move towards suburbanisation of Addis Ababa. The location of other real estate sites in the vicinity and the adjoining Oromia Region reinforced this trend.

Ayat received approval for its investment plan in 1996. However it took three years to acquire land. A shopping mall, school and health facilities were also proposed. When the company launched its project the site was considered to be remote and inaccessible, where infrastructure such

as roads, water and electricity did not exist. According to the master plan of the development, upon completion Ayat Mender would be furnished with facilities such as a full-fledged university, a mid-sized hospital, multi-purpose shopping center, entertainment and sport facilities. Ayat also claimed that it would grow with the community, thus it had included the original farmers as an integral part of its 6,000 workforce, nurturing them with the necessary skills and craft.

Ayat Real Estate completed 4,000 homes in its first phase and had already started a second phase with the intention of providing 5,080 residential units composed of apartments interspersed with villas. Three types of houses can be distinguished: Standard houses, which include villa type houses on plots ranging from 225 – 400 square meters and ground+1 (one storey) houses on plot areas ranging from 300-500 square meters, special houses to be constructed on request and low cost houses. The low cost houses were not low cost per se but houses with no site work and no service quarters, only the main house constructed on plots ranging from 105-250 square meters. A buyer who has fully paid the payments can have a land holding certificate issued by the sub city administration. The buyer also has to pay the property transfer fee from the developer to the buyer which is an amount of 6 percent.

Ayat Mender (village) was planned and implemented in an arrangement which includes zones, (for example Zone 1 and 2 are located in the southern portion which fall in Bole Sub City Administration), followed by blocks i.e. a group of houses facing each other and served by a common access road in between. Each access road is identified by a road number. Therefore a guest who visits relatives or acquaintances has to remember the zone as well the road number. Once s/he is in the access road s/he will be guided by one of the neighbors. A house number by the Kebele (woreda) was not yet provided at the time of the field visit. Some zones had actually established an *idir* which is an essential community based organisation. Tenants and caretaker/agents were less socially interactive. Households served by one access roads (i.e. belonging to one block) developed more intimate social interactions like celebrating holidays (*meskel*) together. The first concern for the occupants after moving in was security since the development was at the time a kind of isolated community far away from the main city. They first tried to hire private security enterprises which eventually was not a feasible alternative in terms of payment, therefore it was decided that the issue be handled at

zonal level in a decentralised arrangement. So gates were introduced at the end of each access road.

According to interviews with key informants some irregularities were observed in the process of executing the contract. For example according to the contract asphalted access roads were to be provided by the developer but later an arrangement was fixed to cover 40 percent of the cost from the buyers while 60 percent of the cost was covered by the developer. Buyers had also paid additional lease payments amounting to Birr 35,000 after they have been informed about the changes in the lease prices. At one time the developer was able to sell after constructing only the service quarters but latter on this was prohibited.

Being a pioneer, Ayat Real Estate also suffered many inconveniences. The lease period for the area of land which the developer first leased in 1996/7 was 70 years while the land the developer leased later in 2005/6 was 99 years according to the re-enactment of the lease proclamation No. 272/2002. The former customers complained, requesting to be granted an equal amount of lease period like the other citizens. Ayat was the first victim hit severely by the crackdown which was launched in November 2010. According to a survey report of the City Administration and private newspapers, illegal land holding of 180,000 square meters by Ayat in Yeka had been dispossessed. About 125,000 square meters of land used as site office, building materials production and storage compound had been dispossessed. Unauthorised land amounting to 5,000 square meters, where the real estate developer started constructing condominium housing and construction work on 50,000 square meters of land transferred from another developer had been terminated and the land was also dispossessed. Ayat was also blamed for transferring on sale, plots with only the service quarters built (*Addis Lissan*, 24 Tikimt 2003, 3rd November 2010).

On March 7th 2010 the Revenue and Customs Authority (RCuA) arrested the founder of the company – Ato Ayalew, accusing him of tax evasion, money laundering and transferring customs duty free vehicles to third parties. While Ato Ayalew was in custody, Ayat Share Company had been audited by the Revenue and Customs Authority (*Capital*, November 2010). On Friday, the 29th October 2010 at about 4:45 PM just a quarter of an hour before the end of the week day office hours, individuals from the Woreda administration came and posted a notice that gave orders to the company to remove their property within three days and

evacuate the site which they had been using as a project office and as storage for building materials ever since the project site started. The next Monday they came again and tried to interrupt them from moving out of the properties, however under such intimidation they managed to move out using about 400 laborers and 16 trucks. There were heavy machines like cranes and conveyor belts which they had to move. On the tenth day the employees of the company were prohibited to enter the site. The days following, the Woreda personnel were busy selling whatever building materials and scraps they found. In months to come, not only scraps of building materials but also a heap of box files with accounting documents lay exposed under the open sky. Heavy moving machines with conveyor belts were observed lying unprotected.

According to interviews with some staff members of the company (who requested to remain anonymous), the area of the compound used as the project site office was rented from a peasants' association under which the jurisdiction of the site fell. Obviously land leased for construction of the houses cannot be wasted as a project site office of such size. Annual rent had been paid based on a contractual agreement to the farmers. Until the date of the interview three rounds of payments had already been paid. The 5,000 square meters, for which the company was blamed to have illegally occupied and built low cost condominium houses, was a piece of land adjacent to Zone Six. By the time of the data collection (Sept. - Oct. 2009) the condominium units were at the stage of finishing. The idea was initiated by H.E. Mayor Arkebe who suggested including affordable housing units for low income groups during his visit to Ayat village. The 50,000 square meters of land was transferred from another real estate developer which the company had transacted with, according to allowable procedures and rules enforced at the time.

9.7 Analysis

Most informal/illegal activities of the real estate developers took place under the shadow of formal state rules, from which the developers selectively and in opportunistic ways tried to take advantage of. This was made possible because of the inconsistencies and contradictions observed in the formal rules and their enforcement methods. Such inconsistencies and loopholes in the formal rules include:

1. The decision of the Land Development and Administration Board of the City Government on transfer of real estate plots to a third party, which allowed the transfer and sale of partially finished houses and also the issuance of individual land holding certificates even if the construction is not completed (reference is made to Minutes No. 12/2005 of the Land Development Board of AACCA dated September 31st 2005).
2. The provision of incentives which provided land free of lease payment for developers who proposed real estate development projects which accommodate 50 square meters of condominium per household targeting low income customers. As the result some *smart* developers who know how to play around with the rules of the game submitted such proposals and took land which amounted to thousands of square meters free of lease payment and later on transferred it to other developers for sums of millions of Birr. These developers did not even pay the normal land rent which was applicable to all former holdings or holdings exempted from lease payment. This provision on incentives was later rescinded by City Government Regulation No. 20/2005, regulation to provide land for real estates.
3. The application of the provision of the proclamation on re-enactment of urban land lease holding (Art. in 13) which allows any lease possessor to transfer or undertake a surety on his right of leasehold, and also use it as capital contribution to the amount of the lease payment he has made. However this was not supported by clearly detailed procedures. The enforcement of this right has faced resistance by government owned banks on the ground of priority to repossess the land in case of default. Is that the City Government (the owner of the land) who has priority or the bank (the lender) upon default of the lessee/the borrower? See Table 9.16 for the summary of provisions/ loopholes in the formal institutional framework.

Table 9.16:
Provisions of Various Rules Pertaining to the Real Estate Sector

No	Action	Major Provisions of Formal rules/ Administrative Decisions	
		Source	Provision
1	Transferring leased land to third party without/partial development made on land	Urban land lease holding proclamation No. 80/1993 Art. 10/1	(Subject to Art. 7 & 9.1) Any person who acquires the right to hold urban land on lease may transfer or pledge such right or contribute it in the form of a share to the extent the rent paid
		Re-enactment urban lands lease holding Proc. 272/2002 Art.13/1	(Subject to Art. 7 & 4/1) Any lease hold possessor may transfer, or undertake a surety on his right of leasehold; and he may also use it as a capital contribution to the amount of the lease payment he has made.
2	Issuance of individual land holding certificate	Minutes No. 12/2005 of the Land Development Board of AACA (Sept 31 st 2005)	A lessee of land leased for real estate development can transfer his right if he wants to, even if the house is not constructed and a land holding certificate could be issued by the sub city administration in the name of the new possessor. This reinforces the above provisions. However in the Directive for Land Request and Authorisation Conditions for Real Estate Developers (Nov. 2004), a developer can only request for individual land holding certificate or a common ownership certificate in case of condominium for the phase he has completed (Art. 5.7).
3	Land granted free of lease payment	Implementation Directive for Land Request and Authorisation Conditions for Real Estate Developers, Preamble (Nov. 2004)	Makes reference to the Regulation to be issued to provide land for real estate, No. 20/2005. Despite the fact that the date of the issuance of the regulation is one year later, the directive presumes a regulation which allows to grant land free of lease charge for developers who want to be involved in economical condominium housing projects which allow access to housing specifically for low income people. However by the time the regulation was issued it provided no such provisions.
4	Phasing and control of progress	Implementation Directive for Land Request and Authorisation Conditions for Real Estate Developers (Nov. 2004)	The directive in its Art. 2.6 defines <i>commencement of construction</i> when the substructure work (i.e. foundation and backfill) is completed according to the building permit issued. Land holding certificate and building permit will be issued only for the first phase and liable to get the same for the second phase only after it has been ascertained that construction work of the first phase has commenced according to the [submitted] activity schedule (Art. 5.3). If the developer fails to meet the schedule he will be serviced a notice three months before the expiry of completion of the phase and might lose the land for the next phases if he fails to commence the construction (Art. 5.6).

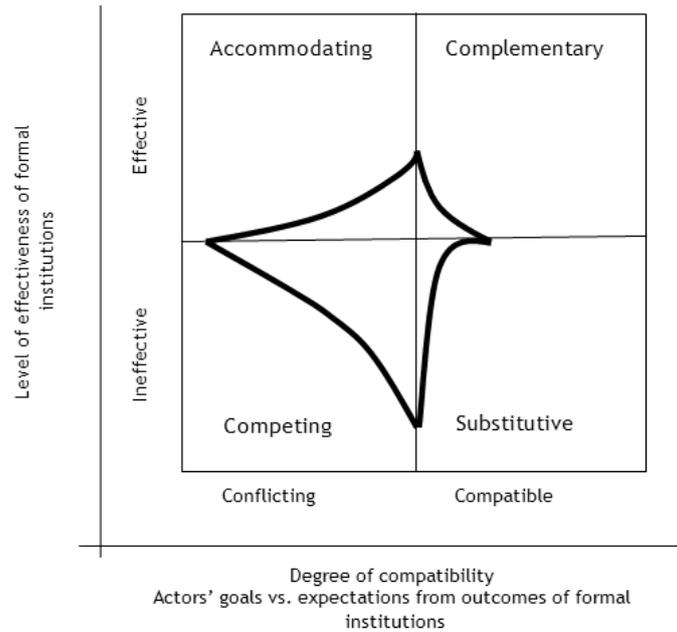
Source: Analysis result on review of various rules and regulations

It is clear from the above comparison that there was an apparent conflict between expanding meaningfully the lease right (that it is no more inferior to freehold except in its tenure being limited in time) and the desire to forbid the transfer of land through selling or exchange which allowing it might lead to contravene the constitution of the FDRE. There were also conflicting provisions among the different levels of rules. Such conflicting provisions were observed for example between the Minutes No. 12/2005 of the Land Development Board of AACA

(Sept. 31st 2005) and Implementation Directive for Land Request and Authorisation Conditions for Real Estate Developers (Nov. 2004). The various provisions made by the different rules and regulations at different levels were also not consistent with the hierarchy of laws and rules. Most of the detail directives were issued before the promulgation of the regulation to provide land for real estate, Regulation No. 20/2005 of the City Government of Addis Ababa.

Based on the survey results of the research the real estate developers have an unfavorable assessment of the majority of rules pertaining to the real estate sector (see Table 9.5 and Table 9.7). They have an unfavorable attitude towards the role of government in institutional development and in its enforcement capacity. After going a considerable distance in abiding to the provisions of the formal rules (accommodating), it seems that they finally resorted to their informal arrangements when the possibility to co-produce better laws was lacking, resulting in competing norms of behavior. The early and premature issuance of individual land holding certificates facilitated by the technocrats in the City Administration and using it as a guarantee to loan, with the real estate developer playing the role of surety was one of such arrangements. The informal deal on adjoining land for expansion is another example. Hence it is possible to say that the real estate projects could not have been materialised without these informal arrangements. Therefore the formal – informal interface can be depicted as shown in Figure 9.2.

Figure 9.2:
RED by developers: formal - informal interface



For those 85 real estate developers who illegally extended their land-holding an explanation might be given to the endowment effect in the behavioral economics. Actors value goods more if it is part of their endowment (an adjoining piece of land to ones project site) than if it is not. The endowment effect is addressed by assuming that actors treat additions to their endowments differently from subtractions (Thaler 1980). Therefore these actors have paid whatever cost to incorporate the adjoining land to their holdings. From the preceding discussions the inefficiency and ineffectiveness of the existing institutional framework pertaining to the real estate sector is quite visible.

9.8 Conclusion

The main actors in real estate development include real estate developers, consumers and the city administration. Other actors include suppliers, utility companies, professional architectural and engineering services

and contractors, banks, professional real estate consultants and to a lesser degree commission agents. The Urban Development Policy 2005 which focuses on the expansion of housing estates (by public, cooperatives, private actors) and the sustainable and efficient use of land provided a green light for real estate type of development in Addis Ababa. However the fact that real estate development very much depends on the availability of input resources such as land, infrastructure, finance, building materials, skilled and productive labour and the entrepreneurial talent of the developer; and the fact that demand and supply factors in the real estate sector are highly influenced by the policy and institutional framework; seem not to have been taken into serious consideration by the city officials. The availability of one resource without the complementary resources, for example, availability of land without loan finance, or without building materials led to inefficient use of the available resources. This was what happened when 5.8 million square meters of land was slated (some for free or at nominal price) for about 125 developers who were unable to do anything without loan finance, and with scarcity of basic building materials such as reinforcement steel bars and cement at skyrocketing prices. Nor can they do anything without the necessary entrepreneurial talent and skills. Therefore some of them managed to make money out of it without developing. For no actor easily allows a reduction in his endowment. They exploited the inconsistencies and loopholes observed in the formal rules and regulations at different levels. Few of them managed to devise an informal arrangement for financing - use of customers' finance. Some facilitated bank loans for their customers, partly through employing informal means (use of prematurely issued individual land certificates). The expansion of the consumer market only happens when there is a credit system capable of transforming the existing need into effective demand. Without a credit system, the danger is that as noted by Stanfield (1999:6):

Few people or companies who manage in one way or another to take advantage of position, ethnicity or restitution claims to acquire a disproportionate share of privatised properties, or manage to get disproportional access to capital, will dominate the land markets as they emerge, setting the stage for polarisation of the society into a few land lords and a mass of people without property.

Findings on the efficiency of the performance of the real estate developers show that developers were keeping it fenced for long, some

subdivided the undeveloped land and transferred it (12% of developers transferred 38 hectares of land between 2006-09) and some used the land for unpermitted use. 65.6 percent of the developers expanded their land illegally amounting to 1.4 million square meters. Only 18 percent of the slated land had been used for the intended purpose. With regard to effectiveness, the stock of houses built and under construction by private real estate developers constitute only 14 percent of the target set by ORAAMP (2002) i.e. only 4,162 out of 30,000. In a nutshell the formal rules and regulations pertaining to land and real estate did neither produce the expected efficient utilisation of land resource nor promote fairness in accessibility to public resources. They also did not help to meet policy objectives in housing provision. According to a survey by the consultant only 23.5 percent of respondents bought lease land from the city administration. 64.7 percent of them had somehow employed informal transactions. Note that some of the real estate sites were not even located on the base map of the city.

Real estate developers believe that it is beneficial for developers to market their product by themselves rather than using real estate agents or commission agents. From transaction cost aspect, cumbersome situations cited by respondents include: negotiation with former settlers, time lag for relocating former occupants, deciding on the amount of compensation, and settling the issue of claims for former owners. For the specific questions based on indicators of transaction costs, the common responses included *no big problems, never encountered such problems*. There was a non-response rate ranging from 50-85.7 percent for such questions. On the other hand incomplete contracts and systematic defaulting or breaches were concerns for consumers. General opinions of consumers include: the need for a communal forum which include city government, developers and consumers to redress damages; institutional arrangement which accommodate the role of real estate consumers' cooperative groups, the need for clear demarcation of responsibility among the three groups in infrastructure provision. On the other hand consumers prefer to build their own houses had there been an institutional framework which facilitated accesses to land, preferential cooperative law and housing loans. Summarising the formal-informal interaction within the sub-market of real estate development by developers had been categorised as an early attempt trying to be accommodative, ended up later to be competing that eventually led to a general crack down.

Notes

¹ Petty providers are not as such professional real estate developers and as a category of developers they are not involved in area based development. They are private individuals or legal individuals such as companies who build separately a flat or an office building individually and mainly for rental purposes. They might occupy part of the floor space for their own use.

² The date the proclamation for nationalising urban land and extra houses was issued.

³ The sample size used by the consultant included: 1,674 city residents, 620 customers and 34 real estate developers. It has to be noted here that among the 120 real estate developers assumed to operate in Addis Ababa the consultant was able to locate only 34 of them.

⁴ A service quarter is a separate unit from the main house, normally built at the rear side of the compound which often accommodates traditional kitchen, maid's room, store, toilet facilities, laundry and ironing room etc.

⁵ EFY The Ethiopian calendar follows the Julian calendar. The Ethiopian new year commences on the tenth or eleventh of September every year and lags behind seven to eight (January 1 – September 10th or 11th) years from the Gregorian calendar. The Ethiopian fiscal year starts July 8th every year and ends July 7th of the next year.

⁶ INFODIS Consult (October 2009), Public opinion survey report on real estate development and its problems.

⁷ Lack of support for real estate developers and provision of infrastructure were not taken as short comings of the City Government.

⁸ Recently the newspaper *Fortune* (Vol. 11 No. 570 Sunday April 3, 2011) revealed the news that Sunshine Real Estate Plc. is in the process of transferring a 14,000m² plot of land located around Megenagna in Bole Sub City to Access Real Estate Plc. According to the newspaper even though the deal has been agreed it is not clear which law provides such provision to finalize the deal.

⁹ Interview with Ato Tadesse /Giorgis resident of Ayat Mender and active participant of the *Idir*

¹⁰ According to the interview with the Ato Ayalew the founder of Ayat Real Estate

¹¹ Interview with the founder Ato Ayalew Tessema

10

Real Estate Development Activities by Petty Providers

10.1 Introduction

The category of actors in which this case study focuses, known by the name of *petty providers*, are not professional real estate developers and as a category of developers they are not usually involved in area based development. They are private individuals or legal entities such as companies who build separately a flat, an office building, shopping center /mall, or for mixed uses individually and mainly for rental purposes. The real estate projects from their very conception are basically conceived to accommodate their own business. Therefore such developers usually occupy part of the floor space of their real estate for their own use.

Real estate developments along two separate axes, namely Urael-Bole axis and Urael-Megenagna axis were selected for the study of this case study. The Urael-Bole axis and Urael-Megenagna axis are two linear real estate development sites. As the names imply the two axes bifurcate from the junction at Urael Church junction. The Urael Church junction is located at the point where the Piasa-Casanchis extends to intersect the main East-West Axis road of Addis Ababa. The south-eastern segment of Addis Ababa ring road which runs from Megenagna Square to Bole Airport connects the two axes, enclosing a large triangular tract of developed land in Bole sub city.

The dominant modality for the Urael-Bole Axis constitutes redevelopment where petty providers have converted their former plots which were used for private residential use or un-built land areas used as open yards for communication antennae by the Ethiopian Civil Aviation Authority, or purchased land plots which were occupied for private use by individual owners.

The Urael-Megenagna Axis constitutes a redevelopment modality where formerly occupied land plots were reallocated through lease tendering because of the fact that existing uses do not conform to the building height regulations, and to the land uses as specified in the master plan or fail to meet the new standards. Therefore, this particular case shows a redevelopment intervention which involves displacement and relocation. It provides an interesting case for the study of formal and informal institutional interfaces in a redevelopment intervention. The Urael-Bole axis development is also used to illustrate the rental sub market from the tenants or users' perspective. Backgrounds about the two linear development axes have been separately provided.

10.2 Institutional Context

The major sources of rules and regulations which apply to redevelopment, urban renewal and upgrading of urban areas are provided in different proclamations and regulations which include the constitution of the Federal Democratic Republic of Ethiopia 1995, the lease proclamation, the proclamation for the provision of urban plans, the proclamation to provide for the expropriation of land holdings for public purposes and payment of compensation, and the respective regulations and directives for acquisition, expropriation and compensation.

The Urban Development Policy which was approved by the Council of Ministers (March 2005) states that residents who might lose their houses which were constructed legally or illegally prior to the issuance of the policy for being dilapidated or non-conforming to the plan would be given replacement land or priority to rent or buy units in the public initiated housing estates. Compensation would be paid only if the demolished houses were legally constructed. Among the principles of the policy for land delivery, it is stated that the delivery of urban land needs to be implemented in a sustainable and efficient way by giving priority to accelerating development and stabilising prices.

The lease proclamation (No. 272/2002) extensively deals with matters such as clearing urban land, pleading, appeals, commission, receipt of land, throughout articles No. 16 – 20, and penalty (Art. 22). Among the provisions about clearing urban land (Article 16) the following are cited here:

1. The appropriate body may clear and take over urban land which it decides is necessary to commit for public interest by issuing a clearance order in writing to the concerned person. It shall also publicise the order through other alternative means.
2. The appropriate body may clear urban land with a property there on from illegal holders by serving a written notice, warning the person having illegally held it to move away and without any need of giving him a clearance order and compensation in accordance with [the] Proclamation. The body may take over the land illegally held by clearing it from the holder and, where it finds it necessary by using the police force as set forth in Sub-Article (3) of Article 20.
3. It is only before the following bodies that any justifiable claim relating to a clearance order or a warning notice may be invoked: primarily only before the body which has issued the order, on appeal before Urban Land Clearance Appeals Commission, and, on appeal concerning only compensation claims, before the High Court having jurisdiction over the place where the property is situated or before the Municipal Appellate Court.

The Proclamation to Provide for the Expropriation of Landholdings for Public Purposes and Payment of Compensation (Proc. No. 455/2005) which was preceded by another proclamation which it repealed - the Proclamation for the Appropriation of Land for Government Works and Payment of Compensation for Property (Proc. No. 401/2004) provides detailed proceedings on the execution of acquisition, expropriation, valuation and compensation. Following this Council of Ministers' regulation for payment of compensation for property situated on landholdings expropriated for public purposes (Regulation No 135/2007) was also issued.

According to the proclamation *landholder* refers to an individual, government, or private organisation or any other organ with legal personality and has a lawful possession over the land to be expropriated and owns property located there (Article 2/3). It also redefines what a *public purpose* is. It explains as:

...the use of land defined as such by the decision of the appropriate body in conformity with urban structure plan or development plan in order to ensure the interest of the peoples to acquire direct or indirect benefits

from the use of the land and to consolidate sustainable socio-economic development (Article 3/1).

Supreme laws of several countries state the legal right of the government to expropriate private property for *public purposes* with compensation and based on a due process of law. However, it has to be noted that in countries where private ownership of land is allowed, public purpose is strictly limited to those social and other facilities to be built by the government (e.g. Uganda) for the common good such as hospitals, schools, roads etc. In the Ethiopian case public purpose also includes private investment, the criteria being left to be decided by the City Administration. Land on which a privately owned house/building exists can be repossessed by another individual investor for the execution of a private investment project. The decision of the woreda or the city administration matters. In this regard an occupant residing in a nationalised kebele house is the easiest prey. When viewed from the perspective of the government such aggressive measures were not without reason.

1. Investment has been delayed because of injunction orders from regular courts which took many years until the dispute between the occupants and the investor was settled (refer to Proclamation to Provide for the Expropriation of Landholdings for Public Purposes and Payment of Compensation, Proc. No. 455/2005) ;
2. The dilemma on what strategy to follow with regard to nationalised houses was for a long time not clear since the last years of the Derg after a shift to mixed economy was announced. Among the proposed strategies included were: restitution to the former owners (which was actually implemented in Tigray Region by Tigray Peoples Liberation Front - TPLF), privatisation to the current occupants, and passive observance in which it had been recognised that maintenance of the nationalised houses was long overdue and therefore the fate of the houses better left to die their natural deaths, allowing the reuse of the prime land they occupy for new investments;
3. Addis Ababa being the diplomatic capital of Africa, an attempt to modernise the city through urban redevelopment (renewal and upgrading) was promoted both in the urban development policy as well as in the proclamation to provide for urban plans.

A *Woreda* or an urban administration when it believes a rural or urban land should be used for a better development project to be carried out by any legitimate urban actor whether public entity, private investor or cooperative society or where such expropriation has been decided by appropriate higher regional or federal government organ for the same purpose, has the power to expropriate rural or urban landholdings upon payment in advance of compensation. However a comparison can be made to another sub article which states that no land lease holding may be expropriated unless the lessee fails to honor the obligations he assumed under the lease proclamation and pursuant regulations or the land is required for development works to be carried out by the government (Article 3/2). The proclamation provides the procedures for notification of expropriation and the subsequent appeal handling in the case of disagreement. An attempt has been made to construct a choreography of procedural activities:

1. The *woreda* or urban administration decides to expropriate a landholding;
2. Notifying the landholder in writing indicating the time when the land has to be vacated (not less than 90 days);
3. Landholder hands over the land to the *Woreda* or urban administration (within 90 days from the date of payment of compensation or if he refuses to receive, from the date the *Woreda* or urban administration deposits the sum in a blocked bank account);
4. Landholder who has been served an expropriation order has to handover the land to the urban or *Woreda* administration and secure a document proving that he has handed over the land;
5. A landholder dissatisfied as to the amount of compensation can lodge his complaints (together with the document proving he has handed over the land)¹ to the administration organ established by the urban administration to hear grievances related to urban landholdings. In a rural area or an urban center where such an organ has not been established complaints on compensation can be submitted to the regular court having jurisdiction;
6. The organ entrusted to hear grievances will give a decision within a short period of time as specified by the region;
7. Decision of the organ will be communicated to the parties in writing;

8. A party dissatisfied with the decision can appeal to the regular appellate court or municipal appellate court within thirty days from the date of the decision (the decision of the court is stated to be final).

Valuation of property situated on land to be expropriated, is to be carried out by certified private or public institutions or individual consultants. Until the Ministry (the former Ministry of Federal Affairs) ascertains such capacity has been developed the valuation is to be carried out by committees designated by the Woreda or urban administrations. The proclamation only mentions that property valuation committees will be composed of experts with relevant qualifications.

Compensation for a dwelling is to be determined on the basis of the replacement cost of the property (Article 7/2). However such an amount cannot in any way be less than the current cost of constructing a single room low cost house in accordance with the set of standards by the concerned region or chartered city administration (Article 7/3). A rural landholder whose land is permanently expropriated will also be paid additional *displacement compensation*. Such compensation shall be equivalent to ten times the average annual income he secured during the five years preceding the expropriation of the land (Article 8/1). An urban landholder whose landholding has been expropriated shall also be provided with a plot of urban land to be used for constructing a dwelling house and be paid a *displacement compensation* equivalent to the estimated annual rent of the demolished house or be allowed to reside for one year in an equivalent house owned by the urban administration. The Council of Ministers regulation specifies the method for determining compensation for buildings, fences, crops, perennial crops, trees, protected grass, permanent improvement on rural lands, relocated property, mining license(s), and burial grounds. The regulation also contains a formula for calculating each compensation item. A dweller whose landholding has been expropriated for public purposes is also entitled to *replacement land*. A possessor who has been provided replacement land for land used for growing crops or a protected grass or pastoral land upon expropriation for public purposes will also be provided with *displacement compensation*.

Box 10.1:*The Campaign for Redevelopment and Urban Renewal in Addis Ababa*

The Addis Ababa City Administration planned to demolish over 4,500 houses within this fiscal year. This includes 471 kebele and private houses in Wollo Sefer, 280 private and kebele houses and small businesses in the area adjoining the Economic Commission for Africa (ECA) in Kirkos Sub City, 1,271 houses in Basha Wolde Chilot (around Arat Kilo), and 2,275 kebele and private houses surrounding Sheraton Addis. A compensation amount of 115 million Birr was allocated for the later group of houses.

Source: Capital Vol.12 No. 614; Sunday September 19, 2010

10.3 Implementation Processes

Results of the survey show different modalities and acquisition of land plots for (re)development among which include redevelopment of own former holding, purchase of a house/building, lease purchase with displacement/relocation and lease purchase without displacement and relocation. However according to the formal rules the standard procedures are described as follows.

An investor applies to the Land Administration and Building Permit Authority of the City Administration indicating the site (sub cities have no such mandate). The respective sub city administration will send a report to the city administration identifying the houses to be relocated by their house numbers, the number of families residing in each house, and whether the house is private or government owned. The City Administration Lease Board (or Land Development and Management Board (LDMB) since 2004) then decides on the proposal submitted by the investor, the lease price, and the modalities of relocation and compensation for each tenure type. The decision of the Lease Board or the LDMB is then communicated to the respective sub city administration via the Land Administration and Building Permit Authority. The sub city Land Administration then communicates the decision of the Lease Board or the LDMB to the Land Development, Banking and Renewal Project Office of the sub city administration. The Land Development, Banking and Renewal Project Office together with the Woreda office then organises a discussion forum with the occupants. Often such discussions are held with the aim of convincing the occupants that the location has been identified for better development which contributes to the development of the city. However in reality they are limited to informing the occupants of the decision that has been reached. Most often such forums end

up with angry and frustrated former occupants. The new investment site is then delineated according to the site plan approved by the Lease Board or the LDMB, followed by documentation of the existing assets through video and photo pictures, then measurements are taken and valuation of each asset made. The investor or his representatives and the former holder or his representative are also invited to attend the measuring process. All the parties attended have to sign the measurement taken.

After the valuation has been compiled by the project office it will be communicated to the appropriate body as indicated on the decision of the Lease Board or the LDMB. The investor will also be informed through a formal letter about the valuation results and compensation amount. The investor will deposit the amount to the respective finance department of the sub city administration or the city administration according to the decision of the Lease Board or the LDMB. Occupants who are entitled to compensation and displacement allowances will also be informed not only through a formal letter but also in person by the Woreda. A legal possessor of a house (including the land) in the claimed area will be entitled to compensation, displacement allowance in the form of one year rent amount and a replacement land. Then the investor will submit the receipt to the Land Development, Banking, and Renewal Project Office with evidence that s/he had deposited the said amount. After checking whether the evictees had collected their compensation or the sum having been deposited in a closed bank account then a letter to the Woreda administration is sent communicating to clear the site. The Woreda administration will communicate the evictees to clear their property within a specific number of days (normally less than 30 days). After the site has been cleared the investor will take over the site in accordance with demarcated boundaries.

10.4 Urael-Megenagna Axis Development

10.4.1 Background

Urael-Megenagna axis development is part of the Addis Ababa East - West Axis road which stretches from Ayat real estate in the east to the Army Hospital ring road interchange in the west. The East-West axis divides the city into two major parts – the northern and southern section. It crosses the main city centre around the La Gare area. It functions as a collector and distributor road as roads from north and south con-

verge on it. It is also a major route for mass transport. 34 bus routes served by 107 buses daily use the axis. The total length stretches about 16 km. The axis used to encompass 32 Kebeles of 10 Woredas before consecutive alterations to the administrative jurisdiction was made.

The Urael-Megenagna axis stretches for about 3.12 km starting from Urael Church to Adwa Square (Diaspora Square) commonly known as Megenagna. In terms of street names it consists of Major Haile Gebre Silase Street which stretches from the junction at Urael Church to Haya Hulet Mazoria (the turn-around at 22) and Equatorial Guinea Street (from Haya Hulet to Megenagna). The road has a boulevard character with its tree - planted median and an average width of 40 meters. The action area extends in depth for about 50 meters south and north along the axis. According to current demarcation of the city's administrative jurisdiction it encompasses five woredas of three sub cities: Bole (Woreda 4, Woreda 5), Kirkos (Woreda 8) and Yeka (Woreda 7, Woreda 8). Topographically the Urael – Megenagna axis starts from Urael Church slightly dropping to Kebena River to the east, followed by a gentle slope up to the Ministry of Water Resources or Zerihun Building, a flat stretch until Haya Hulet Mazoria then declining to the river at the duty free shop of the Ethiopian Tourism Commission, again gently undulating until Megenagna Square.

The road edge used to consist of a mixture of functions and building styles. Commercial shops, offices, accommodation buildings, catering services, and furniture stores were the major land uses. Areas immediately behind the axis were predominantly residential in function. The Agoza market served the surrounding community at a location about 200 meters east from Urael Church junction along the Kebena River valley. A formal green field with a soccer field along the segment from 22 Mazoria to Lem Hotel was also available along the secondary river which crosses the axis just before reaching the duty free shop. The segment from Lem Hotel to Megenagna was busy daily with informal roadside vendors. Building composition along the edges was characterised by highly porous and perforated (prevalence of individual and separate buildings standing alone facilitating high accessibility by secondary roads to the neighborhoods behind) and without a uniform building line; thus rendering a haphazard road edge development.

The axis was characterised by low rise buildings, poor conditions and haphazard morphological patterns until it recently developed some me-

dium rise private and public buildings. The axis for long had suffered from an absence of new development, other traffic related problems such as congestion of motorised and non-motorised traffic, on street parking, absence of off line bus stations and taxi stands, and incursion and violation of right of ways by other users. The structure plan study of the Revised Addis Ababa Master Plan (2002) envisaged a rapid mass transit system along the axis. It was planned to be furnished with bus priority in the short term and tram-line in the long term. According to the harmonisation plan for the axis, commercial use would be common along the axis and mixed uses in the secondary routes and interior areas. The proposal for typology of buildings along the axis was medium to high rise buildings. The main strategy proposed included relocation and compensation. It had been envisaged that private investors would play the lead role.

Unfortunately the previous LDP study covered a small portion of a sub-segment which stretches between Haya Hulet Mazoria (the roundabout at 22) and Lem Hotel covering a length of only one kilometer. Extrapolating the data of this sub segment to the whole Urael-Megenagna segment, 66 percent of the total plots were occupied by Kebele houses and 5 percent of them were owned by public organisations. This was seen by the planning team as an advantage for it could hasten the handover of land for private investment. The high incidence of Kebele owned houses and their being in bad conditions had increased the need for the renewal of the area.

Currently new developments along the segment concentrate in the area at the Ministry of Water Resources up to the turnaround at Haya Hulet and around Megenagna Square. Already a high rise office building by the Ethiopian Commercial Bank is being erected at the south western corner of the adjoining area around Megnagna Square.

10.5 Urael-Bole Airport Strategic Investment Area

10.5.1 Background

Strategic Investment Areas (SIAs) are areas identified in relation to the major strategic issues of a city in which investment activities with multiplier effect on the city development are located. SIAs are selected and planned with the objective of initiating change by attracting new investments.

The Urael-Bole strategic investment area includes the strip of land stretching from the road junction with Haile Gebre Silasse Road at Urael Church to the ring road along the Bole International Airport (ORRAMP 2003). The strip was selected by ORAAMP for the local development plan study in order to guide the pending development which has been emerging due to the rehabilitation of the major road from Urael to the Ring Road along the Bole International Airport with thirty meters right of way. The vision of the strategic investment area is; *to create a developed continuous urban corridor* (ORAAMP 2002c). The main tenet of the planning approach was to create a continuous corridor as exemplified by the continuous 30 meters wide road.

The Urael Church-Bole Airport strip can be divided into three parts with a unique morphological character. The first part includes the portion of the strip from Urael Church to Atlas Hotel junction and is characterised by an irregular layout of plots and poor housing conditions. Most of the houses are old, overcrowded, unplanned and lack basic housing facilities with an average density of 5.7 persons per room. The second part includes the strip from Atlas Hotel junction to Bole Medhane Alem Church junction which is characterised by a relatively regular layout of plots and a well developed mixed area. The third part includes the strip from Medhane Alem Church junction to the ring road adjoining the Bole International Airport and is characterised by regular residential plots and the development of multi storey buildings.

To achieve a continuous development corridor, it was envisaged that the same kind of regulation and land use needs to be applied along the whole corridor. In order to realise the vision, a dual planning intervention had been recommended by the master plan. One intervention was a renewal scheme for the area from Urael to Atlas in which residents would be accommodated in condominium (minimum G+4) houses, thus creating an opportunity to relieve spaces along the main road for mixed commercial development. The other intervention was mixed, it was mainly commercial development for plots facing the main road in the area from Atlas to Bole Ring Road. For areas not facing the main road, mixed use mainly residential was proposed. Since the area from Atlas to Bole Ring Road was characterised by a regular layout of plots, the area could be developed keeping most of the plots as they were; allowing the residents to develop the area by themselves. During the master plan study a high resistance to relocation had been anticipated.

The strategic investment area falls under two sub city administrations: the eastern part falling under Bole Sub City and the western part under the Kirkos Sub City Administration. The segment from Urael to Atlas was in particular characterised by socio-economic problems such as large family size, poverty, high dependency ratio, and high unemployment. The study of the master plan concluded that since most of the residents fall in the very low income group, much of the coming development was envisaged to be conducted either at the expense of the government or by private investors through lease sales of the land. Hence relocation was the prescribed action. In the specific circumstances of Addis Ababa where dilapidated national houses situated in prime land along major streets prevail, the development pattern which was usually followed become a gradual filling of the spaces by such individual developers.

Tenure

The analysis of the ownership patterns of plots by ORAAMP (2002c), for the area from Urael to Atlas Hotel indicated that there were totally 1,149 housing units. Of these units 71 percent (816 units) were of residential use, 18 percent (207 units) were of business use and 11 percent (126 units) were of mixed residential and business use. Kebele - owned houses represented 69.8 percent (802 units), privately owned 17.3 percent (199 units) and the remaining 12.9 percent (148 units) belonged to the Agency for Administration Rental Houses (AARH). That means 82 percent of the houses along this segment of the strategic investment area belonged to the government. This implies that occupying residents were unable to claim the houses and the land if they were provided with replacement houses and could be easily relocated and the City Government could make use of the prime land for other productive investments through land lease. Compensation was to be paid and replacement land was needed to be provided for those who wanted to leave the area. The planned development along the segment Atlas-Bole MedhaneAlem square was predominantly based on private holdings.

10.6 Providers' Perspective

10.6.1 Actors' component

The major active development actors involved in the development of the Urael-Bole Axis were individual petty providers. The developers were of

different professional and occupational backgrounds. From a sample size of 13 petty providers, four of them (30.8%) were import-export traders, three of them (23.1%) were engineers and town planners; while the rest 46.1 percent were retailers, hoteliers, an employee of an international organisation or belonged to the diaspora group. Four of them (30.8%) had experience in construction work as contractors (one has a son who is a contractor), one used to be a professional who had worked in building design enterprises and another had experience in supplying building materials. Those who had experience related to real estate development constitute 46.2 percent while those who had no such experience constitute 53.8 percent. Respondents were involved in real estate development to carry their own business (23.1%), or considering it as a better investment to cope with inflation (15.4%) and to earn rental income (7.7%). The remaining 46.2 percent gave a combination of reasons. Source of finance to cover development costs, was mainly from a combination of own savings and bank loans (58.3%), whereas 25 percent of them used only bank loans.

Table 10. 1:
*REDs by petty providers: Comparison on commencement year
between Urael-Bole and Urael - Megegnagna axes*

No	Year	Urael- Bole axis	Urael-Megenagna axis
1	1991	1	0
2	1994	1	0
3	2000	2	0
4	2005	1	1
5	2006	0	4
6	2007	1	0
7	Non respondents	2	0
	Total	8	5

Source: Field survey data (June - July 2011)

One of the remarkable differences in the period of commencement of construction between Urael-Bole and Urael-Megenagna axes was that the years for the former range from 1991 up to 2007 with only two of them commencing in and after the year 2005, while in the later case all of them started in and after the year 2005. This was not by mere coincidence. According to some informants some of the lease deals were a culmination of land acquisitions which were initiated in the turmoil following the

2005 election. Table 10.1 shows a comparison of commencement year of construction of sample developments taken from the two axes.

Another remarkable difference between the two groups is the modality of land acquisition. Most of the developments along the Urael-Bole axis took place on land acquired (except the communication antenna yard of the Ethiopian Civil Aviation Authority) by house purchases through market deals (50%) or own former holding (37.5%) and one of them bought through an auction as the result of a foreclosure measure of a lending bank. In the Urael-Megenagna axis all developments were carried out on leased plots which always involved displacement of former occupants. One store which was rented to a tailors' cooperative was destroyed by fire before the open plot was leased out. The plot sizes for Urael-Bole range between 200-1,300 square meters with an average plot area of 698.5 square meters. Such holding sizes had their origin in the maximum allowable residential plots of 500 square meters which were allocated during the first decade following the nationalisation of urban land. Therefore areas measured in thousand square meters were a result of a combination of two adjacent former plot holdings. The leased plots along Urael-Megenagna axis range between 850-1,928 square meters with an average area of 1,228.20 square meters. The lease price per square meter ranged from Birr 800 to Birr 4,302 with an average of Birr 2,150 per square meter. The average expense for land acquisition for those who purchased houses through market deals along the Urael-Bole was Birr 2,583.33. The two might not seem comparable, however since the houses would ultimately be destroyed to give way for the new constructions, the price of the houses can be ignored.

Most respondents agree that potential tenants come to them asking for rooms to let. Therefore most respondents did not bother to advertise more than posting a notice which read *to let* on the buildings. This shows that there was still more demand to be satisfied and therefore the role of local *dallalas*/brokers was not required. This might be also a sign of improvements in the underlying economy. By the time of the field survey only two buildings had two room vacancies. This was while the finishing work had been still progressing. The change of behavior on the part of shop customers from bazaar or market hall shopping to shopping in multi storied shopping centres and malls was also another factor to be noted. Shops were being located on the second and third floors in most commercial buildings. Some businesses like hotels and guest houses

however needed some advertisement. Some of the advertising media used by such enterprises included: word of mouth, internet social networking, magazines, and sponsorship of music festivals.

Seven out of the nine respondents had occupied some rooms in their respective buildings, which was mostly used for offices (building administration office) while some of them also had shops of their own. The day to day administration of buildings such as cleaning and security, in most of the cases (53.8% or 7 out of 13 respondents) was managed by their own administration office which occupied some of the office rooms in the upper most floors while 30.8 percent of them had outsourced such services to other private enterprises. Outsourcing is frequently used by owners along the Urael-Megenagna axis. In two of the cases (15.4%) they hired property managers.

Consumption of electricity was usually managed through individual kilowatt meters, some of them using card systems. However with regard to water consumption some owners whose buildings had rental shops and offices pay communally while in three out of eleven respondents the owners bear the cost for water consumption and tenants do not pay. Often average consumption costs were implicitly considered in the rent. In two of the cases, owners and tenants shared the costs. Nevertheless for high water consumption uses like restaurants, hair dressers, and beauty salons; individual water meters were installed.

Rental payments in most of the cases (61.5%) were arranged in three or six months' term payments followed by monthly payments in some cases, or continuing by the same term depending on their contract agreement. The turnover of tenants had not been frequent. In 91 percent of the cases a quarter and less of tenants left annually.

10.6.2 Institutional interface

Responding to the question which rules and regulations need improvement the following were suggested in their order of importance either singly or in combination: Institutional facilitation for the supply of building materials like cement and reinforcement steel bars, institutional arrangement favoring the development of credit facilities and financial markets, and city government authorisation procedures and building standards. However a distinction can also be made here between real estate developers and petty providers. Institutional arrangement favoring

the development of credit facilities and financial markets had been the number one concern for real estate developers.

In the case of petty providers, though it also constitutes the second most important issue, opinions of few individual respondents suggest a different tone: “*Commercial real estate depends on the growth of the country, it can come slowly, for now let those who have the money build.*” Had petty providers been limited by the relatively smaller project scope they usually deal with as compared to real estate developers? The common understanding is that, since the stock price of real estate development whether housing or estate is relatively large as compared to incomes, it is an international standard practice to finance real estate development by means other than personal savings. An assessment of existing rules and regulations by the degree of promotion/facilitation of the private real estate sector is shown in Table 10.2.

Table 10.2:
RED by Petty providers - assessment of existing formal institutions by degree of facilitation of the private real estate sector

No	Proclamation/Regulation	Likert scale 1-5					NR	Mean values
		1	2	3	4	5		
1	Urban Lease proclamation	1	5	2	4	1	0	2.9
2	Investment proclamation	2	5	2	2	0	2	2.4
3	Rights of foreign nationals of Ethiopian origin on their country of origin	1	5	4	2	0	1	2.6
4	Regulation to provide land for real estate (Addis Ababa City Government)	0	3	1	5	0	4	3.2
5	Expropriation of land holdings for public purposes and payment of compensation PROCLAMATION	1	6	1	3	0	2	2.5
6	Proc. To provide for property mortgaged or pledged with banks	0	3	3	5	1	1	3.3
7	Value added tax proclamation	1	4	2	6	0	0	3.0
8	Income tax proclamation	0	4	3	4	0	2	3.0

NB: Non respondents are excluded from mean computation

NR = Non respondents

Source: Own computation on survey data (June - July 2011)

The assessment of the existing rules and regulations by petty providers was more favorable except for the two rules i.e. the proclamation to provide for property mortgaged or pledged with banks (mean value of

3.3) and the Addis Ababa City Government regulation to provide land for real estate. These groups also had different views in some aspects of real estate development. Some opinions which could be taken as outliers (i.e. opinions forwarded by few respondents) but very interesting for behavioral study of actors in real estate markets include:

“The main thing is being the first possessor of a property by whatever means you have.”

“Whether a foreign investor or an Ethiopian living in the diaspora, it is good if they bring with them their own capital and knowledge, if they are coming to scramble for the limited resources available here, it is just useless.”

Table 10.3:
*RED by Petty Providers - Assessment of government’s role
institutional development and its enforcement capacity*

No	Aspect	Likert scale					NR	Mean Value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	0	0	6	4	3	0	3.8
2	Conduciveness of legal rules and regulations for new entrants in residential real estate	0	2	4	4	1	2	3.4
3	Sufficiency of number of residential plots and frequency of public auction for land lease	0	1	4	3	2	3	3.6
4	Role of government in promoting growth partnership in terms of breadth (quantity) and depth (strength)	0	0	4	6	0	3	3.6
5	Institutional enforcement capacity of government: in terms of professional manpower	0	0	2	7	3	1	4.1
6	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	0	1	5	5	1	1	3.5
7	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	1	0	7	3	1	1	3.3

NR=Non-respondents are excluded from mean value computation
Source: Field survey June - July 2011

On the contrary, respondents from the real estate developers were very enthusiastic about the diaspora group since they constituted major customers. This is manifested in a mean value of 2.1 assessment result by real estate developers on the proclamation on the rights of foreign na-

tionals of Ethiopian origin, whereas petty providers' corresponding assessment result for the same proclamation was 2.6. Table 10.3 shows the assessment by petty providers on the government's role in institutional development and its enforcement capacity.

Results show a more unfavorable assessment in all aspects. Those that constitute most concern include: institutional enforcement capacity of government in terms of professional manpower and satisfaction on the service delivery of the city administration. The two seem to go together.

10.6.3 Displaced peoples' perspective

The interaction of displaced people with new occupiers or the government in some respect depends on the modality of the (re)development. Two modalities can be discerned in the current practice of Addis Ababa city administration: area based (re)development and on-plot based (re)development. Area based (re)development covers a wider area than a plot which includes a block or group of contiguous blocks. Formerly such area based interventions were carried out to implement larger public projects. Following the provisions on renewal, upgrading and land reallocation of the Federal proclamation on urban plans, nowadays such (re)developments are being carried out by both government (e.g. condominium housing), private entities and cooperative societies either jointly or separately based on a local development plan for an area or axis.

The decision to expropriate an area or a plot for (re)development is currently taken by a Woreda or urban administration. Such decisions can also be taken by the appropriate higher regional or federal government organ. Plot based (re)development usually starts by the public lease sale of plots to private investors. Sometimes the individual investor can also initiate searching by himself or herself for potential plots. In the case of plots which are located along such major axes and if the potential investor is the owner of an adjacent plot s/he can easily claim his neighbor's plot to redevelop it together and can apply to the city administration and pave the way for lease negotiations.

The capacity of the neighboring occupant to invest and (re)develop the plot according to the specified land use and allowable building height of the local development plan determines whether s/he is going to surrender her/his plot. Project affected people from area-based

(re)development are treated *en masse* following the procedures set by the rules for expropriation and compensation. The outcome is either obedience (in most of the cases) or confrontation. The most controversial issue is the amount of compensation received which is a replacement cost and does not include the land price since land belongs to the government. A replacement plot can also be given freely even though the new plot size may be smaller. The most frequently heard complaint is:

*"The compensation doesn't suffice to pay design fee for the design of the new house let alone finance the construction work".*² Refer also to table 10.4.

In the case of on-plot based (re)development there are some possibilities of informal dealings. If a former occupant is convinced that s/he has no means of redeveloping according to the local development plan, s/he can negotiate with a potential investor to sell her/his house *willingly*. Otherwise it is possible for the potential investor to initiate expropriation with compensation determined bureaucratically. It is then not surprising that such interactions between a potential investor and a former occupant sometimes take life threatening forms. Some potential investors consider the neighborliness they had enjoyed for so many years in bad and good times. Although they know that the law is on their side, they try to play it fair, and openly discuss the matter with the neighbors and try to handle the issues amicably.

However not every potential investor behaves in this way. Specifically if the potential investor does not share social ties as neighbors with the former occupants or if s/he feels that the other party is troublesome then s/he prefers to go via the formal procedures. The feeling which might develop can be very acrimonious among parties who never had any grudge before or even knew each other. This is more glaringly observed on the day measurements of the building are to be taken to determine the compensation amount by technicians from the sub city administration in the presence of all parties.

Displaced people in the samples taken from Urael-Megenagna axis were affected by losing their jobs, trade, and residence. Properties demolished included former kebele social recreation centres, private residential houses, houses for mixed use (both commercial and residential use) and shops. The properties belonged to either the Agency for the administration of government owned houses (or the former Agency for the Administration of Rental Houses - AARH), or Kebele administra-

tion, or to private individuals. Tenants of Kebele and AARH owned houses are the easiest prey to evict without much treatment. Tenants of Kebele owned shops are obliged to interrupt their businesses for about six months until they finally succeeded in finding appropriate premises in front of the multi-storey office or in the shopping center built on their former location.³ One interviewee remarked:

“six months in businesses is too much a loss, you miss your customers, and worse, they never follow after you.”

Employees of a Kebele owned catering service center tried to stop an investor appealing to the Kebele Administration, Zonal Administration (former equivalent of sub city administration), to the lease board of city administration, and the Ministry of Works and Urban Development; stage by stage all the way along the hierarchy for almost seven years. They also tried to bring an injunction order from the court but in vain.⁴ Not only private owners but also the Agency for the Administration of Government Owned Houses was often a cause of delay in settling compensation issues. The number of property holdings affected by a single project and the amount of compensation paid is shown in Table 10.4.

Table 10.4:
Property holdings displaced by a single project and compensation paid

No.	Ownership	Number of houses	Amount of compensation in Birr
1	Private	5	309,118.79
2	Kebele	7	171,585.52
3	Agency for Administration of Govt. Owned Houses	1	334,893.83
	Total	13	815,598.14

Source: Bole Sub city Lease Administration July 2011

10.7 Users’/Tenants’ Perspective: The Urael-Bole Rental Sub Market

10.7.1 Physical attributes

The Urael-Bole strategic investment area is a strip of land about 3.16 Km long. The existing land use is predominantly of mixed use development

with rapid conversion to commercial development which has been triggered by the rehabilitation of the existing road.

According to the Local Development Plan, the action area was delineated taking the river as a boundary on the eastern side (Urael church) and an average of 100 meters effective depth on the western side. The whole action area is 120.3 hectares. The planning area extends to encompass 348.2 hectares of land more to the left (eastern side) including the social services and other nearby influence areas. Since the strip is located in the inner city area, infrastructural services like electric power, water and telephone are available. Social services such as churches, schools, kebele centres are also located within the planning and action area. There is not a big market in the action area, but small *Gulets* with poor hygiene facilities found here and there in the area. Thus, people in the study area need to travel to use markets like Agoza, Sholla and other small nearby markets. Hotels, restaurants, bars, pubs, nightclubs etc are also available in the area. Health services are available from the nearest hospitals and health institutions such as Zewditu, Tikur Anbesa, Kidus Gebreal, Hayat hospitals and Casa Inches Health Center. Elementary, junior and secondary schools are also available around the action area.

One of the problems of the existing settlement along the Urael-Bole area was that many of the houses in the action area specifically those in the first segment from Urael Church to Atlas Hotel junction were old, over-crowded, densely populated, unplanned and lacked basic housing facilities (refer to section 10.5.1). More real estate development was concentrated around the square at Atlas hotel road junction, around Bole Medhane Alem square and the junction at the ring road. The most dynamic development had been taking place around Medhane Alem square which included Mati Multiplex (Edna Mall), Sheger House, Redwan Building, New Bright Tower, Jambo (Mafi City Mall) building and Bekele Keninesa Hotel building. The Bole Medhane Alem church with its high quality cathedral design and site planning contributed to a spectacular composition for the urban design around the square. A smaller development corridor connecting the square with the main Africa Avenue was also developing. Mixed use development dominated the action area with rapid conversion to commercial development. At the time of the LDP study the biggest potential area along this axis for new development was the big open space used as the communication antenna yard used by the Ethiopian Civil Aviation Authority. During the field study the area ac-

commodated many of the real estate developments taking place along the axis.

10.7.2 Community attributes

Among the respondents 87 percent of them were tenants in the newly built buildings and only 13 percent were either owners of the buildings or caretakers on behalf of the owners. Most respondents along the Urael-Bole strip development were engaged in trades like: retailing (26.1%), import-export (19.6%), consultancy and legal services (13%), entertainment (10%) and non-governmental and aid organisations (10%). The business organisation type of their businesses were individual businesses/sole proprietor (56.5%), Private Limited Company (28.8%) and Share Company (6.5%). In December 2008 most of them (47.8%) were employing up to 5 persons, 21.7 percent of them employed more than 10 persons while 15.2 percent were run by self and family members. Out of 37 respondents who responded, 64.9 percent were category C tax payers (lowest) while category A (highest) and B constituted 18.9 percent and 16.2 percent respectively. As a group of users, tenants of the respective buildings had not established a tenants association.

10.7.3 Antecedent

Responding to the question why they prefer to rent office/business rooms rather than build their own buildings, 35 out of 46 respondents mentioned the following reasons in their decreasing number of frequency: lack of construction finance, lack of finance for lease land purchase and being unable to find suitable plots in proper locations. Responding to the question what factors have pushed them to find rentable units/buildings of their own for their business in this location, 34 out of 46 respondents gave the following factors in their decreasing order of frequency: lack of own business space, and inconvenience for customers in their former location. About the opportunities they had found here in their current location their responses in decreasing order of frequency include: high customer frequency area and being in a prime location.

10.7.4 Actors component

The frequent information sources used by respondents to be aware of the opportunities in this location included local *dallalas* and commission

agents (64.9%) and peer businessmen (16.2%). Actors analysed the information they acquired through a process of self-cogitation (35%), discussion with family members and relatives (22.5%) and discussion with peer businessmen (20%). Most respondents (93%) claim that they reached decisions of their preferred actions after thorough analysis of the costs and benefits of each alternative. Main criteria used by most actors (78.3% of respondents) in the selection of locations for business included availability of infrastructure and services and being prime locations suitable for business, either singly or in combination.

According to respondents from both groups of tenants and building owners, tenant turnover was very low. Among 34 respondents 50 percent of them had changed their business locations only once in 2-5 years, 23.5 percent of them once in a period of less than a year. 26.5 percent of them never changed their business location ever since they engaged in business.

10.7.5 Institutional interfaces

Tenants/users had not established tenants' association. Therefore, they had not attempted to establish internal rules of managing their common issues. The management of communal services was normally carried out by the building administration office of the owners. Respondents of tenant groups were asked how familiar they were with the government regulations, most of them (from 63% to 91%) were familiar with the following legal requirements: a building permit being required to fence ones compound and to extend an existing house, the possibility for a lease hold possessor to undertake surety on her / his rights, and the requirement of a two meter set back from boundary line to excavate a pit for a latrine. The majority of the respondents (from 54.3% to 58.7%) did not know that lease land administration was also applicable on former holdings of the permit system, and the lease period for commercial use was 50 years. In a response in which 50 percent of them were non respondent, 47.8 percent of those who responded were concerned about the absence of rent control. Tenants' assessment of the role of the government in institutional development and its enforcement capacity has been shown in Table 10.5.

Table 10.5:
Urael-Bole - Tenants' Assessment of government's role

No	Aspect	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	0	2	7	5	7	25	3.8
2	Conduciveness of formal rules & regulations pertaining to real estate development	1	4	23	5	5	8	3.2
3	Sufficiency of number of plots and frequency of public lease auction	0	4	18	12	2	10	3.3
4	Role of Government in promoting growth in terms of breadth (quantity) and depth (strength) of growth partnership	2	5	28	4	0	7	2.9
5	Institutional enforcement capacity of government: in terms of professional manpower	3	2	14	15	4	8	3.4
6	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	4	2	21	11	2	6	3.1
7	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	6	0	21	4	12	3	3.4

NR= Non respondents are excluded from mean value computation
Source: Own computation on field survey data July 2009

Results measured on a Likert scale in Table 10.5 show that major areas of concern constitute: dissatisfaction of the service delivery of the city administration, the low institutional enforcement capacity due to the lack of professional manpower, and the appropriateness of the use of legitimate violence in institutional enforcement.

10.7.6 Property Rights and transaction costs

Most buildings to let along the Urael-Bole road were mixed use i.e. shops, offices restaurants and entertainment (including 3D cinema, the first of its kind in Addis Ababa) and office use.

Consumption payments for electric power and water were managed through private meters or included within the rent respectively. The size of the floor area rented by tenants or used floor area by sampled users ranged from 9 square meters the minimum to a maximum of 228 square

meters. Those enterprises occupying larger floor areas include NGOs, whole sale businesses, restaurants/cafes and recreational facilities. Floor area used by 21.7 percent of respondents ranged from 9-23 square meters while another 21.7 percent of respondents' used floor area ranged from 39 to 53 square meters. 13 percent of the users occupied floor areas ranging from 24-38 square meters. Rent per square meters of floor area ranged from Birr 75 the minimum to Birr 1,330 the maximum. The median rate was Birr 200 per square meter. 47.5 percent (valid percentage) of respondents paid rent per square meter ranging from Birr 75 - 187.5 while another 35 percent pay Birr 200-267.5 per square meter. The maintenance of the buildings was carried out by owners.

10.7.7 Transaction costs

Most tenants (64.9%) came to know about the spaces for letting, through commission agents and local *dallalas* and 16.4 percent of them through peer businessmen. 38.7 percent out of 31 respondents found their locations within less than a month once they had decided to leave their former locations and started searching, while another 38.7 percent managed within a period 1-3 months. Results of surveys from both groups of tenants and owners show that the tenant turnover had not been frequent. Out of 34 respondents 26.5 percent of them never changed their location, while 29.4 percent of them changed their locations every 3-5 years. 38.2 percent changed every 1-2 years.

10.7.8 Implementation Process

The owners decided on how much the rent amount per square meter should be by taking into consideration factors such as room area, the floor level in which the room is located (the rate per square meter decreases in ascending order of floor levels, while no such variation was made for office use) and whether located on the front or rear side of the building. Some of the owners also took into consideration factors such as proximity to lifts, escalators and staircases. In few cases did the rate for undivided office floors decrease, as tenants individually bore the costs of partitioning the space into smaller units. According to responses from the majority of respondents (76.9%), it was the rental price of other competitors which mattered most on negotiating the rent amount, even though the negotiation capacity of the individual matters too. The most common modalities for rental agreements were monthly rental for a

specified period (47.6%) and monthly rental for unspecified period (40.5%). Most rental agreements (76.1%) were done through contract agreements registered by the public notaries. Almost all of tenant respondents (96.7%) never encountered contract disruption. 91.7 percent of disputes over contract agreement were always or often (3/4 of the cases) were settled without involvement of third party. However when disputes go beyond bilateral negotiation between land lord and tenant, they were settled by arbitration through elders (32.1%) or taken to regular courts (32.1%).

10.7.9 Goal achievement

Table 10.6 shows the quality and availability of amenities after development from the users' perspective.

Table 10.6:
*Urael-Bole development quality and availability of amenities
(from the users' perspective)*

No	Degree of quality/ availability	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Size of plot + parking	3	5	22	13	2	1	3.1
2	Number and size of rooms	2	10	27	5	1	1	2.8
3	Internal electric supply	2	6	36	1	0	1	2.8
4	Internal water supply, toilet facilities & sewage treatment	0	11	33	1	0	1	2.8
5	Telephone & internet connection	1	11	24	3	4	3	3.0
6	Roof , wall and floor condition	12	11	21	1	0	1	2.2

NR= Non respondents are excluded from mean value computation
Source: Own computation on field survey data July 2009

The level of satisfaction of users is shown using the Likert scale with mean values ranging from 1 (best/in excess) to 5 (not sufficient) with 3 as the cutting mark. The results show an acceptable level of standards with high appreciation of their rented business offices and shops in terms of material and quality of construction of roovesf, walls and floor conditions. A small point of concern could be the size of the plot and the availability of parking spaces.

10.8 Ethnographic Case History: Building Providers

10.8.1 Ethnographic case history: Building provider H (Urael-Bole Ring Road)

Ato H was an employee of a UN mission for many years. He returned to his home country Ethiopia to build a house for retirement. He started looking for a real estate developer or contractor. Then a friend advised him rather to try another option. They looked for a plot to purchase through one of the local *dallalas*. They found one along the Urael-Bole Road. It was a villa in a good condition built on a standard plot of 500 square meters and belonged to a wife of an official of the former government. A deal was struck to pay 1.2 million Birr in 2003. When they checked for the permitted land use, they were told it is for a mixed use. Why not venture on a multi storey building which can also incorporate accommodation as a guest house on the top floor? They hired a consultant and Ato H found the design marvelous – a post modern building with modern cladding materials. Securing a building permit was cumbersome for they were requested to furnish hand greasing to which Ato H was not used to. Therefore the authorisation process took some time.

Unfortunately the area was susceptible to subsidence. This required more money to invest on the foundations than Ato H expected. He had to invest his own money and needed to reach 30 percent of the work before applying for a bank loan. Another problem was the importing of the materials for the finishing touches. All the modern finishing materials: tiles, wall cladding materials and glazed wall panels need to be imported. Then the customs duty posed a challenge for his progress for he was requested to pay more than he expected. Ato H had to argue with the customs presenting his receipts on demand. As the days passed the customs were also counting on their storage services. Ato H had to fight through the newspapers, posting what he suffered against his desire to invest in his home country. This helped to reach the ears of some higher officials. He finally succeeded to get his materials out of customs. The six-storey building which was initiated by the desire to have a house for retirement was finished in 2007. The construction commenced in 2005 at a cost of Birr 12.5 million including the land cost. 40 percent of this amount was financed through bank loans.

The building had been let mainly for office use. The rent rate per square meter of floor area had been lower than the average for Bole area.

Since the building was let for office use the rates remain all the same up to the fifth floor. Therefore no vacancies were available for long and turnover of tenants had been also negligible.⁵

10.8.2 Ethnographic case history: Building provider D (Urael-Megenagna road)

Building provider D is a seasoned businessman who used to run a grocery store and became later hotelier. He had a hotel on his former holding (which he possessed in 1985) however being located along the main axis around the junction at Haya Hulet Mazoria, he was inspired to redevelop it by incorporating a plot which adjoins the road in front of his own plot. The plot was occupied by the Kebele Catering and Recreational Centre. He initiated the process of land acquisition by applying to the City Administration to allow him lease negotiation. He was required to transfer his former plot to a lease hold as the consequence of the incorporation of the new leased plot for which he resisted. Finally Ato D managed to lease the new plot (867 m²) separately for a lease amount of Birr 4 million including compensation payment of Birr 270,500. However resistance against the incorporation and redevelopment came from employees of the Kebele Catering Service. They considered it a threat to their jobs.

In 2003 after seven years of appeals and litigation, finally Ato D succeeded to secure the plot. He planned to finance the construction until the sixth floor with his savings and thereafter with a loan from a government owned commercial bank. When after two years the government owned commercial bank failed to grant him a loan, he requested his documents to be returned and approached a private bank which gave him a loan to finance the remaining construction from the 7th to 9th floors. The building project which started in 2006 was at its finishing stages in 2010. At the time of the study, the building was estimated to cost Birr 70 million at completion. Ato D has a plan to build on his previous holding a conference hall and multi storey garage most probably annexed to the main hotel building currently being constructed.

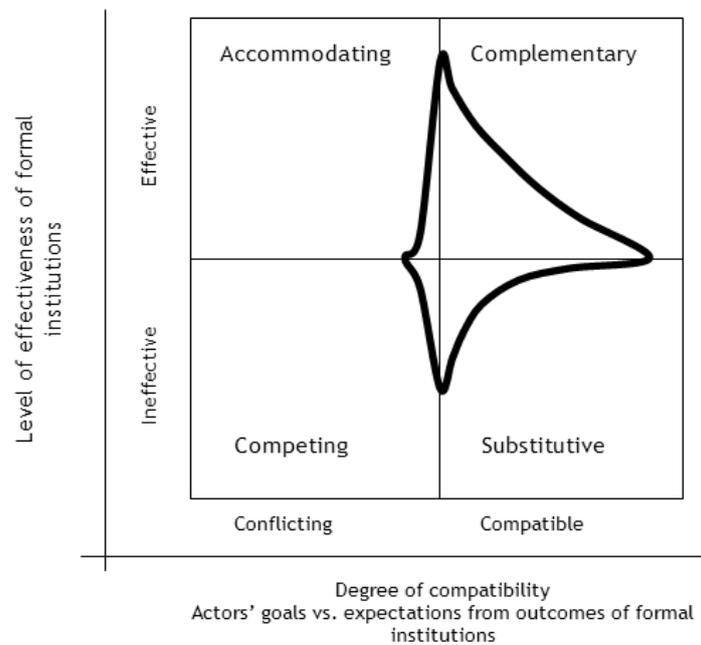
10.9 Analysis

The main modalities of land acquisition and development by petty providers, according to the case study include: Redevelopment of own former holding, purchase of a house/building, lease purchase with displacement/relocation and lease purchase without displacement and relocation. The comparative cases of real estate (re)development in the two axes of Urael-Bole and Urael-Megenagna result in a very different approaches. In the former case re/development was based on redevelopment of former holdings, or purchased house plots, or lease purchases without displacement and relocation. In the later case most (re)development took on lease purchased plots with displacement of former occupants. Redeveloping plots on which properties of former occupants existed and bought in a free willing market transaction can be assumed to be an outcome of negotiation processes between sellers willing to sell and willing buyers able to pay. However when developers or investors acquire land plots on which property of former occupants exist through a lease sale (through negotiation with the City Government) and the compensation was to be determined bureaucratically, the transaction takes a different setting.

Compensation costs were limited to the replacement cost of a property and displacement/ disturbance compensation. Such costs do not naturally include the price of land since the land belongs to the government and it does not consider other development factors such as availability and level of infrastructure and facilities in the surrounding areas. Therefore the replacement cost was very far below the market price of the property. Furthermore such compensation schemes do not include opportunity costs. Evictees either lost their livelihoods and their income sources or broke their social ties which are dearer to them than the replacement by new houses. Developers/providers have much more incentive to adhere to the rules and take possession of plot to (re)develop by paying such administratively decided compensation costs. Refer to Table 10.2 for petty providers' assessment of the laws on expropriation of land holdings for public purpose and payment of compensation which was assessed with mean value of value of 2.5 on the Likert scale. The respective assessment by real estate developers was a mean value of 3.2. However some potential developers who were also concerned about so-

cial capital, being neighbors or being acquainted with the residents, or for their own reasons, tried to negotiate with former holders to buy them, even though they know that they are backed by the law. Therefore the institutional interface can be categorised as highly complementary and substitutive on matters which the rule overlooks such as the social capital. Figure 10.1 depicts the formal – informal institutional interface.

Figure 10.1:
RED by Petty Providers- Formal-Informal Institutional Interface



For the displaced or the disadvantaged neighbors such transaction constitutes the second best choice to a market transaction carried out of free will. However, displaced people always compare the compensation amount they had been paid with the exorbitant lease price the land was sold at and feel unfairly treated as they were not given the right to claim their equity to the land. They often claim that they had been paying property tax (including land tax) which was based on the land grade of the location or defending it from other competing actors - a sacrifice

they had paid to maintain it so far. The investor who was able to acquire his neighbor's plot, obtains some satisfaction from the transaction, for he has acquired an additional plot for his investment and has not endangered his social ties, thus maintaining his social capital. Nevertheless the lingering feeling is not the same for both parties in the transaction. For the seller it is painful and regrettable, as an interviewee said;

*"it is as if you lost your child for being handicapped to cover medical expenses to save his life."*⁶

The right of government to expropriate landholdings on account of *public interest*, constitutes one of the main tenets of constitutions and/or land policies of many countries. This inherent power of governments to take private property for public purpose, provided the legal requirements for compensation are complied with, we refer to it here as *eminent domain*. Theoretically *eminent domain* is desirable to overcome transaction costs (to mitigate hold-up problems) in assembling large parcels of land for private development and the often cited justification is market failure limiting the ability of private developers to assemble land and hindering economic development. However the Vietnamese experience had shown that this might lead to social conflict and result in jeopardising public confidence (Ingram and Hong Yu-Hung 2009). In American history the use of the *eminent domain* power goes back to the Progressive Era for which it legally achieved a lower level of acceptance than its other reforms and was criticised from all political quarters (Eagle, 2010).

The data on the commencement period of most sample developments on leased plots took place after 2005 is indicative some association with the events which took place in the aftermath of the May 2005 national election. Though the City Government took prompt corrective measures, some informants have suggested that few transactions might be addressing the final touches of the informal land acquisition actions taken in the months of high uncertainty and confusion following the 2005 election.

*"It took us so long to transfer a property which is in our own hands into a lease hold"*⁷

*"The conception of the project was not deliberate; it was just not to miss some opportunity created then"*⁸

Such remarks of respondents and informants give clue to some informal transactions.

10.10 Conclusion

Actors in the petty providers' rental sub market include providers, consumers (tenants), former occupants and city administration. Stakeholders can include: banks, professional consultancy services, contractors, and property managers. Two axes: Urael-Bole and Urael-Megenagna were studied for this case study. The dominant land acquisition modalities in the former case were purchasing of existing houses or redeveloping own land holdings and in some cases public leases on formerly unoccupied land; whereas with the later axis the main modality was lease hold resulting in displacement and relocation of former occupants. A marked difference in the commencement of construction between the two axes, specifically in the period 2005-2006 along the Urael - Megenagna axis might indicate the finalisation of land acquisition which started in 2004/05 following the 2005 national election. The purchase of a house from another owner in order to redevelop it among free willing buyers and sellers was the usual transaction observed in a free market economy. However, when the role of *eminent domain* intervenes in a city where land belongs to the government and compensation costs were determined bureaucratically then the transaction takes a different form. In particular when *public purpose* also includes private investment, the implication cannot be simply ignored. Some developers because of being sensitive to their social capital or out of their own accord prefer to negotiate with the owners even though they know the formal rules of the game back them. The price determined through such transactions turns to be second best price that is to say it is more acceptable than the bureaucratically determined compensation price.

Tenants were attracted to the rental arrangements rather than building their own shops due to lack of construction finance, lack of finance for leased land purchases, and being unable to find suitable plots of land in appropriate locations. The opportunities provided by their new locations include the area being; a high customer frequented area and prime city location. The rental markets for multi-storey offices and shopping centres were increasing in Addis Ababa. This had been accompanied by the change of behavior of the general populace from bazaar shopping to shopping in multi-storey shopping centres and malls in recent years. As far as transaction cost indicators were concerned, providers were not used to advertise about available shopping/office space. A simple *to let* sign posted on the building served the purpose. 38.7 percent of tenant

respondents found their new locations within less than one month once they decided to abandon their former location; whereas another 38.7 percent of them managed within 1-3 months. 76.1 percent of rental agreements were made through contracts and registered in the public notaries. The turnover of tenants was also found not to be frequent. Disputes in 91.7 percent of the cases were resolved without third party involvement. Tenants got to know about the opportunities in their new locality through local *dallalas*. *Dallalas* play a major role in facilitating transactions in this sub market. Therefore it is possible to conclude that the land lord – tenant interaction had been marked by relative stability in terms of tenant turnover and stability of rent. However absence of rent control and the institution of rental tribunals constituted concern for tenants. Petty providers' assessment of formal rules was relatively more favorable. The formal–informal interaction was categorised with respect to petty providers as one of complementarities while a substitutive role had been manifested in informally negotiating with former occupants in their effort to assemble larger plots of land for redevelopment and trying to maintain social capital.

Notes

¹ Appeals can only be filed against the amount of compensation. The execution of an expropriation order cannot be delayed due to a complaint regarding the amount of compensation.

² Interview with a displaced lady who was formerly an owner of a house around Haya Hulet junction. This is also shared by sub city administration staff members who asked for anonymity.

³ Interview with a shop keeper who used to carry out his business in a former kebele owned house and was later displaced

⁴ Interviews with two former employees of a kebele owned recreation club

⁵ Interview with one of the providers along the Urael-Bole road though he never requested for anonymity, it was not found important to mention his name.

⁶ A displaced lady from Haya Hulet area

⁷ A property administrator who requested anonymity

⁸ A representative of an owner of a building for mixed use

11.1 Introduction

The Merkato case study is about a redevelopment of Africa's biggest open market by a block association of businessmen and businesswomen. Two aspects of the institutional framework which influenced the trajectory of the redevelopment process were the Lease Proclamation No. 80/1993 and the launching of the revision of the Addis Ababa Master Plan (2003-2011) and its Local Development Plan (LDP) for Merkato. The predominant tenure type before the redevelopment was state ownership which constituted 90 percent of the business houses. The businessmen in Merakto were practically tenants. Driven by the incentive to own business spaces in this heartland of businesses, the businessmen established block associations to manage the construction of multi storey buildings. With the help of the Addis Ababa Chamber of Commerce and facilitated by the German Technical Cooperation (GTZ) they successfully established a public private partnership arrangement involving the city government, resident communities, and other civil society groups to facilitate the smooth operation of the redevelopment process. Nevertheless the partnership by the name of Merkato Millennium Development in Partnership Forum (MMDIPF) though it was among the first public private partnerships experienced in Ethiopia, it was abandoned after 2005. This chapter discusses the formal-informal institutional interfaces through the process of negotiation, mediation and contest in redeveloping the market centre and assesses the strength and weakness of the public private partnership.

11.2 Context

Merkato traces its origin to the Italian occupation (1936-41) and its racist policy of spatial and social organisation. The colonial master plan studied by Guidi and Valle in 1937, which was based on racial segregation divided the capital into different zones. Consequently with the launching of the 1937 resettlement program, 100,000 natives i.e. 90% of the then total city population were forced to resettle in an empty area called Addis Ketema (New Township) in the Northwest of Addis Ababa. This led to two distinct settlement camps: the *Merkato Indigeno* and the Ethiopian settlement (*Quarteri Indigeno*) surrounding it, later christened as *Addisu Ketema* (the new township) for the local people; and the other - *Piazza* including the original major market *the Arada Gebiya* or the *St. George market* and the nearby settlement known as *Piazza* as part of the white settlement. *Merkato indigeno* become the predecessor of the current Merkato and its local version *Addisu Ketema* is still retained as Addis Ketema sub city.

Except for their servants and policemen, Italians were prohibited by decree to enter the quarter of the indigenous people. Natives were also not allowed to enter the Italian, *Piazza* area. The local people were forced to live in congested settlements that were planned in a rigid grid-iron layout. However the free allocation of plots for living (182 m² per household) and space for trading on one side, and endemic violence in the rural areas on the other side as push factors caused an influx of migrants such as the Guraghes into Merakato and its surroundings.

According to Shimelis (2009), most of the land in which Merkato is located belonged to nobility by the name of Fitawrari Habte Giyorgis. The name Fitawrari Habte Giyorgis still today indicates the area between the former Arada Gebeya or the current City Hall and central Merkato. Upon his death in 1926 the ownership was transferred to his heirs. However the Italians took this land with a promise of compensation which they consequently did not pay in full. They erected stone masonry buildings and distributed them as rewards, mostly to leading Eritrean Muslim supporters, Arabs and Indians. These expat traders owned the buildings until the 1960s when protest by Ethiopian merchants brought an end to their exclusive hold. This prompted the local Ethiopians to get access to these buildings. In addition the local merchants were allocated open retailing spaces. This perpetuated the use of open markets. This

continuation of the open market phenomena gradually gave way to the development of specialised quarters (*terras*) for retailing of similar items and related services. Examples include: *Mismar Terra* (for selling nails and locally made shoes), *Koricha Terra* (for saddles, bridles), and *Shema Terra* (for locally woven fabrics). An updated map of Merkato Central shows 44 specialised quarters or *terras*. The morphological landscape of the *terras* has exhibited a continuous change in function and naming as old traditional products or services become obsolete or were relocated elsewhere. For example one of the *terra* formerly known as *Berbere* (pepper) *Terra* was later changed into *Shera Terra*, which was mainly used for selling canvas and products made from canvas. In addition to the *terras*, one can find stalls with rows of big stones on which the sellers squat and display their goods. The open markets together with the shack shops, the houses used as tea rooms and local bars all survived until the 1960s.

At the end of the Italian occupation, the Imperial Government embarked on a process of modernisation of the city from which Merkato experienced its own share. The municipality started constructing the *Adarashes* (municipal shopping halls) in 1962 on the site of the previous open market. Two separate modern market halls (now called 'Mehal Gebeya,' meaning central market) with a total capacity of 432 stalls and 80 shops were inaugurated by the Emperor in 1963. The municipality also built seventy shops to accommodate merchants who were forced to leave their rented shops. Haile Silassie I Foundation in 1970 built 94 shops in two rows of separate buildings and rented them to the merchants by auction. The buildings were named by the Emperor as *Aba Qagneu* and *Aba Nefso* after the names of his father's horse and the famous warrior nobility Dejazmach Balcha respectively. Nonetheless, they continued to be often referred to as *Bego Aderagot* by the local version of the Emperor's foundation. Thus the municipality through compensation payment and restitution to the heirs removed the legal hurdles to investment. Another factor for the modernisation thrust was the over crowdedness due to the disproportionately increasing number of businessmen compared to the limited number of existing shops and stalls.

Merkato was not only a shopping centre but a residential area, a production centre with rows of workshops and service areas, countless restaurants, hotels, tea rooms, coffee houses and bars. Its residential environment was characterised by minimal infrastructure, substandard housing, very poor health conditions and abominably poor waste dispos-

al methods. According to the LDP study¹, the area designated as Merkato planning area covered 113.6 hectares of land. This area comprised of the former Woreda 5 which included the newly amalgamated kebeles, namely: Kebele 01-02-03 and Kebele 10-11-12. Parts of the adjoining Kebeles of Woreda 6 were also under the influence area of the local development plan. Based on later developments, Merkato's built up physical environment can be roughly divided into several typologies of buildings: a row of bazaar shops, old big shops and stores, manufacturing workshops, open stalls, few newly built multi storey buildings, recycling open yards of Chid Terra, Minalesh Terra etc. Merkato, in sheer physical size is referred to as the largest open market in Africa and the main commercial centre of Ethiopia.

According to the latest census (CSA, 2007), Merkato as a residential area was inhabited by 255,000 residents. Merkato had been a place where different people from different cultures, languages, ethnicities, religions and social backgrounds live and work together forming a colorful palette of human life. One can perceive it as a miniature Ethiopia compressed in a single space. Merkato remarkably was a symbol of friendly and peaceful interaction between various ethnic groups and followers of different faiths. It was endowed with mutual tolerance, peace, industriousness, and unity. This had resulted in creating harmony between different languages and faiths. Therefore Merkato served as major entrance and incubation space for migrants. There had been a high level readiness for self organisation among residents and fellow businessmen. Traditional organisations generally known as *mabeber* (associations) provide arrangements for cooperative efforts. *Equb* and *Meredaja Idir* were abundant as traditional forms of associations. It was believed that some *Equbs* collect in savings as much as six digits - figure. The culture of *credit transactions* had been a unique arrangement in Merkato based on trust and reciprocity. Lending in kind without collateral was a common practice. Non Governmental Organisations also operated in Merkato pursuing different social programmes like health services, support and care for orphans and vulnerable children.

Merkato used to be a place where traditional and modern activities, commercial and residential, the very rich and the poor coexist. Sellers selling from every sort of hip commodity to second hand materials and scraps, *guilt* sellers selling vegetables, street vendors amidst a throng of ever moving customers and tailors with their machines in the open ve-

randas were scenes from the daily activities of Merkato. Merkato had been employing an estimated 13,000 people in 7,100 business entities. The most dominant forms of economic activities included formal sector wholesale, retail and informal activities. It was estimated that over 200,000 people used to come to Merkato from dawn to dusk to buy, sell, produce and provide services everyday. According to some estimates Merkato had been generating 20-25 percent of the annual revenue of the City Government. Merkato also used to be a major tourist attraction center. All tourists that arrive in Addis Ababa visit Merkato at least twice during their stay. It was estimated that a tourist spends 50-300 USD in Merkato while shopping (Getachew, 2000). Merkato had also served in saving foreign currency by substituting some of the imports. The variety of salvaged materials for reuse, modified and fabricated materials can be mentioned as examples. Merkato used to have established trade relations with neighboring African, Middle East countries, China, India and Thailand. Merkato had been and still is a safe place where everyday business and transactions take place without fear of violent disruption. It was not without reason that such phrases were used praising Merkato: *'the Taiwan of Africa'*, *'hope for the rural migrant'*, *'the Wall Street of Addis'* and many others.

11.2.1 Tenure

Upon nationalisation of urban land and extra housing in 1975, 90% of the existing houses in Merkato were nationalised. The dominant tenure typology included the following:

1. Informally modified AARH (Agency for the Administration of Rental Houses) and Kebele administered buildings, rented to stall traders
2. Small shops largely administered by Kebeles
3. Residential houses administered by Kebeles but later converted to mixed and commercial use
4. Large shops administered by AARH
5. Business buildings like Adarash (the central market hall) administered by the City Government

However, attachment to Merkato as a market place transcends such tenureship divisions. The tenureship history of Merkato has exhibited a continuous struggle on getting hold of access to retailing spaces. In the 1960s the local businessmen protested against ownership of Italian built

business houses by expatriates and won. Most of the descendant businessmen in Merkato actually take their business spaces as if inherited from their ancestors. A successful businessman told me that their merchant fathers developed this area which used to be an ant field by squatting on a bunch of white eucalyptus leaves to avoid the sting.²

Then came the Malaysian Investment Group Adorna-Shebele who pledged to spend six billion USD to undertake massive investment activity in Addis Ababa. One billion USD would be invested in transforming Merkato into the largest and neatest market place in Africa while the rest was planned to be invested on a satellite town with 200,000 houses. The redevelopment project consisted of the construction of shopping malls and modern infrastructure which included underground storm water drainage, an efficient sewer system and an internal transport system. The Agreement apparently came after an Ethiopian high delegation visited Malaysia from Sept. 6-10, 1999. The investment agreement was signed between Adorna-Shebele and Addis Ababa City Administration (*Addis Tribune*, Sept. 24/1999). Even though no public consultation had been carried out, higher officials of the Ethiopian Investment Agency briefed local journalists about the launching of the massive projects. Subsequently local media - TV and radio reports aired the news. At some later day, a top official of the City Administration announced the withdrawal of the Malaysian company Adorna-Shebele on the grounds that negotiations had failed due to the demand by the investors of a commitment of 20 million USD from the City Administration for the relocation and construction of the many small scale businesses and private houses that were to be destroyed to give way to the project (Capital 30, 2001).

This opened a new opportunity for the businessmen of Merkato. No one of the businessmen had anticipated the *redevelopment* option. They remembered the incident that took place in 1994/95 when the City Administration suddenly raised the rent of the shops under the ownership of Kebele and the Agency for Administration Rental Houses. The businessmen objecting to the decision closed down their shops and demonstrated up to the Prime Minister's Office. The consequences were drastic. They were served with public notices to open their shops within one hour or lose their trade licenses. Those who did not comply with the notice lost their trade licenses. There after they assumed that government ownership of the shops in Merkato would continue forever and their only leverage was bargaining on the rent from time to time. So now the

case of Adorna – Shebele opened their eyes for the possibility of redeveloping the land to become owners of their own shops in the heartland of Merkato. They requested permission from the government mentioning that if it had been possible to redevelop Merkato by private investors, why not they too be given the opportunity. They were told that if they were committed to redevelop Merkato and change its horrible situation, they would be welcomed. This helped to break the ice.

11.3 Institutional Framework

Both the 1986 master plan and the new revised master plan (2002-2010) recommended rationalisation of land use in Merkato – Central with multi-storey buildings. The Addis Ababa Master Plan prepared by the Ethiopian team in 1986 and approved much later in 1994 by the City Administration recommended a development approach which required the relocation of a number of handicrafts and commercial activities and the inevitable replacement by new and specialised trade and production functions. This necessitated large scale urban renewal and substantial investment (Ahderom and Ceccarelli, 1986). Consequently two redevelopment plans for Merkato were studied by the Master Plan Development and Inspection Department of the City Administration in the period between 1997 and 1998. The first plan which was based on a block-to-block renewal approach neglected area-wide problems such as infrastructure and traffic systems. The second plan was based on zoning of the market place into zones of businesses and commercial use separated by a service zone and a residential zone. It proposed 5-7 and 7-9 storeys for commercial and buffer zones respectively. This plan was also rejected for it did not incorporate plots acquired prior to the study. The accompanying land use and building height regulations (recommending 5-9 storeys) became sources of contention. The lease proclamation No. 80/93 reinforced land use regulations by stating a town administration should only grant a lease holding permit for those uses which conform to the land use provision of the master plan of the town.

The Revised Master Plan (2002-2010) had the aim of transforming Merkato into a vibrant trading center of an international standard. Therefore it had designated the Merkato area as one of the ten strategic investment areas. The guiding planning principles of the Local Development Plan (LDP) study included: maintaining the established socio-economic networks, building upon the typology and urban characteris-

tics of Merkato, and promoting the development of mixed use and making it active and alive in the night time (ORAAMP 2002 b). In line with these principles the Revised Master Plan recommended strategies of gradual upgrading (46% of the project area) and partial renewal (58% mixed upgrading and renewal). It had also initiated structured participation in city visioning and a revision of the master plan. The LDP also recommended a redevelopment intervention for the area focusing on replacement by higher order uses. One of the purposes of the LDP of Merkato was to construct improved shopping centres/blocks where diverse commercial activities could be hosted. This might involve the demolition of existing shopping blocks and their consequent replacement with new and better buildings. The LDP was envisaged to be implemented through four mechanisms, which included: public investment, Urban Development Company (UDECOM), private investment and Public Private Partnership (PPP).

Among the strategies recommended by the revised master plan for its implementation was Public Private Partnership which is discussed later in detail. The establishment of the Merkato Millennium Task Force based on the principles of Public Private Partnership was in line with the strategy of the master plan and the Local Development Plan of Merkato (ORAAMP 2002 b). The LDP also recommended a company by the name of Merkato Urban Development Company to be established to implement the renewal projects.

Two planning approaches in the development of Merkato were initially entertained by ORAAMP (2002a, b). According to the first approach, Merkato would be developed as a primary market in a system composed of a hierarchy of markets, serving mainly as a wholesale centre with retailing services for the local and neighboring residents. These activities were envisaged to be accommodated in a typology characterised by low-to – medium rise type buildings and semi-covered open spaces with other marketing facilities such as storage areas, warehouses, terminals for mass transport, loading and unloading facilities etc. The second approach took mixity as a fundamental land use principle and tried to bring more green and public open spaces or plazas, maintaining a mixture of functions which would accommodate business offices, cultural centres, hotels, high quality services, residential apartments and transportation facilities. Thus, part of Merkato area would be developed into a modern financial centre.

The two approaches required different designs and planning approaches in the institutional framework. According to the former approach developing an area as a primary market with predominately wholesale services demands a low to medium (3-5 storey) buildings (ORAAMP, 2002b) whereas according to the later approach if Merkato would be developed into a modern business centre with offices, apartments and hotels then a height regulation which allows high rise (5-7 and more storeys) would be required. Lately a regulation map containing a higher number of stories was produced by the National Urban Planning Institute (NUPI) as an implementation regulation for the local development plan of Merkato. The proposals include:

- 7–10 storeys for Merkato North
- 5–8 storeys for central and South-Eastern Merkato
- 4–6 storeys North- Western Merkato.

It has to be noted that the preparation of the Revised Addis Ababa Master Plan was unlike its predecessors based on a paradigm shift in its approach and participatory level. The master plan had been formulated based on a strategic planning approach in which a statutory structure plan in combination with Local Development Plans (LDP) for strategic intervention areas was adopted. As far as the records of ORAAMP show, four major events deserve mentioning. These are summarised in table 11.1.

The other aspect of the institutional framework with high influence on the redevelopment of Merkato was the lease land administration. The lease proclamation No. 80/1993 had helped to bring change in the mode of land allocation by allowing plots occupied by nationalised houses to be made available for redevelopment. However the perception of the businessmen was that the lease policy could only avail empty plots and not the already occupied plots.³ As a consequence the accompanying modalities either demolished the existing nationalised houses and then sold through an auction which favors the highest offer and might displace the former occupants or through negotiation which might lead to the former occupants negotiating for the lease price and securing their former properties.

Table 11.1:
Major participatory events of the Revised Addis Ababa Master Plan

No.	Participation event	Period	Aim
1	Addis Ababa Public Forum & Exhibition (visited by 50000 residents and 1,200 participants in 25 public forums; collaborators include BAUHAUS, Dessau)	May 26-June 25, 2000	Bring the urban development agenda into public debate, establish communication, identification of key stakeholders, prioritise issues
2	'Addis 21: Planning the Future of Our City' Conference (250 national and international participants took part and was the first forum in which business people and representatives of opposition parties took part; it was organised by Ethio-French-German trilateral cooperation)	Dec. 18-21, 2000	Shared vision, presentation of first draft of the revised master plan, and designing appropriate strategies for implementation
3	City Charter, Governance structure and the master plan - wider stakeholders workshops	July 4-6, 2002 July 8-9, 2002 July 25-26, 2002	Present the new City Charter & governance structure, inputs for draft final content
4	Concluding National - International Conference	August 7-10, 2002	

Source: Compiled from various flyer issued by ORAAMP

11.4 Community attributes

Historically, Merkato had undergone different development interventions which include: the squatting fields as open retail spaces (*Terras*) and sheds by the local traders, the Italian built stone masonry houses for the expat traders mainly Arabs, Indians and Eritreans; businesses carried out in municipality built stalls (since the 1960s) and the Emperor's foundation (since the 1970s), private and public agencies-built shopping centres and hotels such as Amede Gebeya and Tana Gebeya; and trading in a row of bazaar shops, and multi storey shopping centres sporadically placed since the mid 1990s. Data on the period of business establishment of respondents is shown in Table 11.2.

Table 11.2:
Merkato- Period of Business Establishments of Respondents

No.	Establishment Period	Frequency	Percent
1	1966-1970	4	4.3
2	1976-1980	10	10.8
3	1981-1985	5	5.4
4	1986-1990	3	3.2
5	1991-1995	13	14
6	1996-2000	15	16.1
7	2001-2005	6	6.5
8	2006-2010	16	17.2
9	Do not know	11	11.8
10	Non-respondents	10	10.8
	Total	93	100

Source: Survey data June 2009

The results show that most businesses (53.8% of the total sample) were established after 1991. This might be associated with the liberalisation of trade and improvement in trade licensing procedures due to free market policy measures. It can be observed that no businesses were established in the period between 1971 and 1975. This was the period in which the Ethiopian revolution of February 1974 erupted and consequently the socialist oriented *Derg* took power. Most of the business men (38.7%) were engaged with garments and ready made clothes followed by building construction materials (10.8%). The legal business organisation form of most respondents (89.2%) was sole proprietor. However, because of the need to organise joint investments in building multi storey business buildings, most businessmen had been organised into share companies of block associations. These forms of share companies (Private Limited Companies (PLC's) in some cases) were intended to coordinate investment and management of the new buildings rather than the trade that each individual businessman was engaged with. 50.5 percent of enterprises run by respondents employed self/family labor and 40.9 percent of them employed less than 5 employees at the end of 2008. 74.2 percent of these enterprises were classified as class C tax payers (the lowest category), followed by (15.1 %) as class B tax payers.

Merkato is a place where different people from different ethnic groups, religions and social backgrounds live and work together. The day to day interaction among the business community is one of friendliness and peaceful interaction transcending differences in ethnicity and being followers of different faiths. The ethnic composition of respondents is shown in Table 11.3.

Table 11.3:
Merkato - Ethnic composition of respondents

No	Ethnic Group	Frequency	Percent
1	Southern Nations, Nationalities and Peoples	46	49.5
2	Amhara	23	24.7
3	Tigray	11	11.8
4	Oromo	4	4.3
5	Afar	1	1.1
6	Harari	1	1.1
7	Non respondents	7	7.5
	Total	93	100

Source: Survey data June 2009

Table 11.4:
Merkato - Religious Composition of Respondents

No	Religious affiliation	Frequency	Percent
1	Christian Orthodox	44	47.3
2	Islam	41	44.1
3	Protestant Christian	4	4.3
4	Non respondents	4	4.3
	Total	93	100

Source: Survey data June 2009

The dominant ethnic groups among respondents belong to the Southern Nations, Nationalities and Peoples (SNNP) Region. Among the set of ethnic groups in the Region, the predominant ethnic group belongs to the Guraghe ethnic group (78.3%), followed by Silte (19.6 %) and Wolene (2.2 %). Considering the big picture of Merkato as well as the whole of Ethiopia, trading activity historically was much related to the industriousness of the Guraghe people. The Guraghe people used to be engaged in services and trading activities from the smallest shoe shining, lottery vending and peddling to the biggest import and export com-

panies all over Ethiopia. This had previously resulted in many stories regarding the Guraghe people. It was said: *'A Guraghe can take any menial work which earns money except theft and beggary.'* In Addis Ababa during the last two decades these smaller activities have been overtaken by migrants from other ethnic groups from SNNP, the Amharas and Tigrrians.

The religious composition of respondents from the business community of Merkato is shown in Table 11.4. Traditionally trade and commerce were also the domains of Muslim traders and businessmen in Addis Ababa and elsewhere in Ethiopia. Religious tolerance is one of the values Merkato is proud of. This is symbolised by the existence of the two emblematic symbols for the unity and tolerance of the Merkato business community - the St. Raguel Church and the Anwar Mosque, which are located side by side.⁴ The Merakto LDP paid respect to the architectural values of these emblematic symbols by limiting the height of the buildings around them not to be taller than the dome and the minaret. What respondents appreciated as good values about the social groupings in Merkato business community included: working in the same locality and trade for many years (53.8%) and mixed ethnic and religious background (19.4%) either singly or in combination.

11.5 Physical Attributes

Merkato Central as a market place in contrast to its high land value gradient was an area characterised by low facilities, poor physical conditions, low service standards of slum habitation, and small scale and informal economic activities. Its infrastructure, buildings, and open spaces were becoming obsolete. Waste management was close to non-existent. Storm water drainage was inadequate, consequently the streets during the wet season were flooded and infested with floating garbage. The sewerage systems were limited to individual cesspit systems. The only parking places available were the sidelines of the already overcrowded narrow streets. The streets were also sometimes used by parked mini trucks as vending points. Congestion, inappropriate road infrastructure and unsafe electrical line installation on top of cramped and contiguous old buildings without internal fire safety systems frequently exposed the area to fire hazards.

11.6 Antecedent

The horrible situation of Merkato necessitated some intervention. The main weaknesses of Merkato include: slum habitation, insufficient and deteriorating infrastructure and public facilities, and poor physical quality. Its strengths include: readiness for self organising, high social capital (though limited to bonding type) and high economic potential. From the institutional perspective, constraints and concerns in the development of Merkato included: building height regulations/number of storeys, the lease price, lease modalities, financing the construction work, sustaining the livelihood of the businessmen and their families once the old shops were demolished and the new construction begun.

From 76 respondents who responded to the question of which policies, rules and regulations would help them acquire a business office or a shop in Merkato area they replied: the lease administration of urban land (40%), the investment policy (22.4%), and the redevelopment strategy for the implementation of the revised master plan (18.4%). From the 71 respondents who responded to the question which policies, rules and regulations they assumed would restrain their effort to acquire a business office or a shop in Merkato, they replied: the land lease proclamation (14.3%), lack of rent control (14.3%), and arbitrary transgression of contract (14.3%). 28 (36.4%) respondents anticipated no problem. The Local Development Plan studied by ORAAMP had also identified three development hindrances which included: building height regulation, high lease prices and finance for construction (ORAAMP 2002 b). These were actually issues raised by the Merkato business community at the participatory forums organised at the time.

11.7 Actors' Component

Businessmen in Merkato were informed of Merkato redevelopment through the participatory forums organised by ORAAMP. The main sources of information included: peer group members of the business community in Merkato (49.5 %), family members and relatives (24.7%) and newspapers (21.5%) either singly or in combination. The use of *dallalas* (local brokers) as information source was less compared to the other cases for this research. To analyse the information they acquired, most respondents discussed with family members and relatives (50.5%), or discussed with peer groups in work places (36.6%) and self-cogitation

(35.5%) either singly or in combination. 40.9 percent of the respondents view the big businesses as contestants in the bid for Merkato redevelopment, followed by foreign investors specifically Malaysian investors (18.3%). Urban plots in prime locations were valued most (96.8%) either singly or in combination with access to services and facilities, in the selection of sites for location of business properties. The main criterion for membership to block associations was belongingness to the same *Terra* (54.8% of respondents). For example businessmen who were operating in the Military Terra had established one association.

According to the study for the preparation of Merkato local development plan (ORAAMP 2002 b), the LDP was intended to be implemented through privately managed and financed projects. Hence the block associations, individual businessmen and local residents were supposed to be the main actors. The city government was expected to channel public investment in accordance with its investment plan and priorities (ibid). However the ultimate burden rested on shoulders of the local businessmen and businesswomen and particularly on the part of small and informal businesses who could not shoulder the burden of financing such developments. As noted by Heyaw (2005), this manifested by *opposing change* and demanding *no redevelopment* or *responsive redevelopment*; an alternative with a smaller risk of eviction.

The Merkato business community with access facilitated by GTZ had also tried to take part in the different participatory forums organised by the Office for the Revision of the Addis Ababa Master Plan Project (ORAAMP). The businessmen raised the need for a lower height of buildings on the different forums organised by ORAAMP, even to the extent of giving an ultimatum that they should not be invited in the first place if their points of view are not taken into consideration.⁵

Development initiative had been taken by some businessmen in some of the *Terras* specifically by *Joniya* (sacks) *Terra* (currently known as *Mestawot/ mirror Terra*), *Military Terra* (originally used to sell military uniforms and decorations), *Shemma Terra* (for local fabrics), *Satin Terra* (for boxes, trunks) and *Atkilt Terra* (vegetables). Businessmen in every *Terra* tried to organise themselves into associations. Nonetheless, the form of business organisation in which the associations were organised was not clear from the very beginning. Some associations took the form of a Private Limited Company (PLC). Others chose a Joint Partnership Association; while the majority of them organised themselves in the form of

Share Companies. Some started with Joint Partnerships and later changed into Share Companies.

Slowly some issues came to the forefront, specifically concerning the lease price, the number of storeys/ floor levels, how to finance the construction works, how the livelihood of the businessmen and their families would be sustained ones their former shops were demolished.

With respect to the lease price, they needed to negotiate with the city government. On average the benchmark lease price for Merkato was about Birr 3,541 per square metre in the mid 1990s. This was far higher than the rate for other city centres such as Legehar (Birr 2,274/m²) and Piazza (Birr 1,996/m²). The situation reinforced the already bias against the lease policy which was perceived as a *monster* from the very beginning. Then the associations continued to demand for a fairer lease price. The Military Terra Share Company (formerly organised by the name of the initiators Ayalew and Kassu Share Company) on a letter addressed to the Lease Office of the City Administration dated Megabit 22, 1991 in the Ethiopian Calendar (30th March, 1999) requested that the leaders of the association had defaulted their agency role and effected the payment of nine million Birr without consultation and authorisation by the General Assembly. The letter also reminded them that the act of intimidation with threats of eviction would only stifle the development initiative and they requested the Lease Office to forward their case to the Lease Board and facilitate negotiation with the concerned authorities for a fairer lease price.

Other actors became involved too. Some of the higher businessmen who had contact with the Addis Ababa Chamber of Commerce requested the Chamber of Commerce to stand beside them in support of their cause. As Merkato was the main business centre, the Chamber of Commerce was also looking for opportunities to strengthen its organisational capacity by extending membership in the area. The Chamber of Commerce positively responded and a meeting between the Chamber of Commerce and the business community was held on 9th June 1998 and this led to the establishment of the committee by the name of 'Merkato and Surrounding Special Committee' (MSSC). The Addis Ababa Chamber of Commerce had also established a satellite office in 2001 with the aim of serving the Merkato business community. However after serving until November 2004, it discontinued due to lack of budget. It reopened in July 2006 following the financial assistance from the German Tech-

nical Cooperation (GTZ). Since November 2007 it was upgraded to branch office level by the project support from the Royal Netherlands Embassy in Addis Ababa (AACCSA/Addis Ababa Chamber of Commerce and Sectoral Associations, 2009). The vision of the branch office was:

To make Merkato a vibrant business hub as well as a historical and tourist attraction through the concerted efforts of the business community and other stakeholders (AACCSA, 2009:34).

Among its objectives included networking with the Addis Ababa City Government, Sub City Administrations and other development partners for the growth of Merkato. The adopted strategies among others included: promoting Public Private Partnership (PPP) in Merkato, organising annual festivals inside Merkato that exhibit handicraft products of MSEs, and publishing annual magazine on Merkato's historical, social, trade and economic perspectives. Among recent major activities which the branch accomplished included the launching of a Local Area Network (LAN) and Wide Area Network (WAN) Information Technology Capacity Building Program, and planned to establish computer and internet training center in Merkato. The project intended to facilitate information sharing from the head office and enhance awareness of the business community on the significance of Information Technology to advance their businesses (AACCSA, 2009: 34-35). Among the early concerted development activities carried out in collaboration with Addis Ababa City Administration, other government organisations, members of civil society both local and international groups include: cleaning and beautification activities, installing lights in alleys, maintaining security, enforcing business law and regulations and improving the working and living environment in Merkato.

The Office for the Revision of the Addis Ababa Master Plan (ORAAMP, 2002b) suggested a local jointly financed project in the name of Merkato Development Initiative (MDI) involving local businesses, NGOs and donors. The MDI was planned to include Business Improvement District (BDI), gradual upgrading, and partial renewal projects. Among the important mechanisms for the implementation of the LDP was Public Private Partnership. The establishment of the Merkato Millennium Task Force on principles of Public Private Partnership was

in line with the strategy of the Master Plan and the Local Development Plan of Merkato (ORAAMP, 2002 a, b).

The Merkato Millennium Task Force⁶ was established in November 2003 with an executive office led by a hired coordinator. According to the interviews with the then representative of GTZ in the task force, the idea of creating such a partnership was perceived against an environment of anxiety and fear created at the moment in which most of the businessmen were anxious, lest they might be displaced from their location. The demolishing of premises using the police force had started. Associations with overdue lease payments were requested to clear their arrears. So GTZ came with the idea of creating a result oriented dialogue between the businessmen and the City Government. Interests of GTZ included: institutional support, infrastructure development, market development and land information systems. Members of the task force and their roles are summarised in Table 11.5.

Table 11.5:
Merkato Millennium Task Force-members' composition

No.	Represented entities	Members	Main role
1	Addis Ketema Sub City Administration	3	Management
2	The Merkato business community	4	Investment & development
3	Resident communities (<i>Idir</i>)	1	Secure social support
4	Non- Governmental Organisations (NGOs) (Pro-Pride, Christian Childrens Fund)	2	Advocacy
5	International Organisation (GTZ)	1	Financial and technical support & advocacy
	Total	11	

Source: Minutes of the Task Force

Initially meetings were held every week then later it changed to a fortnightly and monthly basis. Though the two members from the Christian Children's Fund and resident communities (*Idir*) abandoned the partnership from the beginning, the remaining nine members of the Task Force continued as functionary members. Based on interviews with other members of the task force, the two members abandoned the partnership on the ground that their objectives and anticipations were different from the issues of demolishing existing business buildings and replacing

them with modern multi storey buildings in which the partnership was routinely engaged.

The advocacy role by GTZ and NGO representatives was focused on inclusion of the neglected and recommending a pro-poor approach in the design, planning and development of Merkato, for example recommending for a longer grace period for the payment of the lease price. The Task Force was later renamed Merkato Millennium Development In Partnership Forum (MMDIPF). The Partnership was established basically to implement the Merkato Local Development Plan (MMDTF, 2005). According to a flier circulated by the MMDTF, the vision of the Task Force was:

“Merkato: Africa’s biggest, modern, clean and safe market.”

The objectives of the Merkato Millennium Development Partnership were: facilitation of the Merkato LDP implementation, improvement of service delivery, strengthening Merkato as an employment generation center, strengthening of the Public-Private Partnerships in Merkato and contributing to the development of a sound and sustained development strategy for Merkato. The mandate of the task force was basically coordinating all the implementation activities in Merkato which included:

1. Contribute to the implementation of the Merkato LDP development projects and programs through sensitisation of all actors and stakeholders
2. Mobilise funds, materials and technical know-how from members to run Merkato LDP
3. Establishing a sustainable strategy on how to align all development activities in Merkato
4. Promote the establishment of Merkato Business Improvement District
5. Safeguard the interests and benefits of members and stakeholders in the design, execution and management of development projects and programs in Merkato area.

The organisational structure of the task force was composed of a chairman (the CEO of the sub city), a vice chairman (from representatives of the businessmen) and a secretary (from Pro Pride) supported by one project coordinator and an assistant. The office for the Task Force was located in the Sub City Administration premises. The Task Force also opened a bank account to be operated by joint signatories. GTZ

contributed budget for the initial year in the amount of Birr 200,000. The forum had served as a mechanism of dialogue between the state functionaries and the business communities as well as creating awareness among residents on their role in the development of Merkato⁷.

In the meantime, a series of ongoing reforms had been introduced in the Addis Ababa City Administration. A revised charter was granted for the City Government. Counselors had been represented from the citizens of Addis Ababa. A new Mayor, Ato Arkebe Uqubay took office at this time and was determined to make change in the City Government. The Mayor had this to say about Merkato:

... in fact Merkato is sleeping. Year in and year out Merkato is the same; we see nothing new in Merkato. It is one big sleeping city. Someone needs to shake Merkato to wake it up from its slumber. (MMDTF, 2005:10).

The new City Government had also shown its utmost commitment to implement the newly revised master plan of the city which was by then ready for implementation.

11.8 Property and Transaction Costs

The main outcome of Merkato redevelopment was the transfer of predominantly public ownership of business spaces to private holdings through leases. The redevelopment of Merkato provided an opportunity for businessmen, changing them from being lifetime tenants to becoming owners of their own shops. However, some businessmen had remained uncertain about the tenure status of their new shops. Their uncertainties involved with the form of the business organisation they had set up to manage the construction and administration of their respective commercial buildings. What they chose was no building association, building society or cooperative type of organisation.

A Share Company is a business organisation with legal status which operates under the provisions of the Ethiopian Commercial Code 1960 and Civil Code 1962. One of the benefits of a Share Company is that it allows selling shares to raise capital. The share company, not the individual members, owns the building. The individual member as a share holder is entitled to share dividends but has to enter a rental contract with the share company to possess a commercial space. There are also third party interests – the government is authorised to tax any legally earned income, which in this case is mainly based on rental income of

the Share Company. The periodic lease payments have to be made according to the lease agreements. Bank loans, if any, have to be paid. Some members requested to sell their shares which in turn needed to be approved of by the respective board. The sale of half a share is not allowed on the grounds that a share is not subject to be divisible.⁸

Despite the many achievements in possessing business space in Merkato; the process of organising, mobilising finance, acquisition of land or providing lease contracts and starting up the construction work was not smooth. Principal agent problems between executives and other members had been observed in a considerable number of block associations during different periods. Some of them turned into court cases, one group suing the other. Some court cases took up to about ten years before the final verdict was given. Even though some Share Companies opted for an equal number of shares, there was a disagreement in some of them. The problem was that those with a higher number of shares demanded a proportional allocation of business space according to their number of shares.

The other factor was the contest for business space in Merkato. Often, one of the popular big businessmen would claim priority so that he could develop the space which was occupied by a group of businessmen. Such contests needed to be settled before any move was made. This required round table negotiation, appeals to the city officials, and filing indictment in courts which could take a year or two to settle. Having land titles and building permits issued, settling disputes with another contestants, and having connection to utilities all require hand greasing. Out of 71 respondents 66.2 percent of them accepted the necessity of hand greasing to process one or a combination of the above mentioned tasks. In addition to all these factors, even with the coordinating role played by the Merkato Millennium Development Task Force, most of the challenges were new, all the actors were solving the new challenges they faced and doing the actual work at the same time. In the aftermath of the 2005 election the role of the Millennium Task Force was ended and this resulted in further delays of the progress of the redevelopment.

11.9 Institutional Interface

Region 14 Administration (later named City Administration of Addis Ababa) in its Proclamation No. 3/1994 specified two modalities of lease

payment: the total amount of the lease price at the signing of the contract or periodically with bank compound interest on the unpaid portion (Article 14.2). However there were three main sources of contention arising from the lease regulation of the City Administration: advance payment of 25 percent, the need to balance the remaining amount within 5-15 years, and the high lease price compared to other city centers such as Legher and Piazza. Those block associations who already acquired land through lease (about 52 of them) in the period 1996-1999 declined to continue. Others also joined them in complaining. The City Administration started to issue notifications to the defaulters reminding them to fulfill their obligations. The tense situation invited other actors to become involved. This was when the Addis Ababa Chamber of Commerce was invited to help and paved the way in the establishment of the Merkato and Surrounding Special Committee (MSSC).

A national conference on implementation of land lease policy and its problems was held in December 2001 in which representatives of the Merkato and Surrounding Special Committee played a significant role. Finally the lease proclamation was amended by proclamation No. 272/2002. The advance payment had been reduced to a minimum level of 5 percent of the total lease price (Art.10.1b). Rate of Interest over the remaining payment was to be determined by the rate of interest on the loan offered by the banks (Art.10.1d). The modalities through which land lease hold would be acquired were also extended to include negotiation or by the decision of the City Government (Art. 4.1b). Compound interest on the unpaid amount was replaced by a bank penalty (Art. 10.1e). The lease regulation of the City Government was also amended accordingly. With the cost approach method of determining reserve price (determination of reserve price was based on infrastructure and compensation cost) this resulted in a great reduction of the lease price between 27-70 percent. Down payment had been reduced to 10-20 percent while the repayment period was extended to 20-30 years for businesses (Addis Ababa City Government Regulation No. 29/2002).

Among the shortcomings of the City Administration mentioned by respondents to work in the partnership included: inefficient leadership with high turnover, communication problems, low capacity in terms of knowledge/professional, organisational and financial aspects; averse to taking responsibility, neglect of the demands of the business community, inappropriate typology of building for a market center, bureaucratic bot-

tlenecks, lack of trust, corrupt professionals and inconsistent policies. The perception of respondents on the role of government in institutional development and enforcement is shown in Table 11.6.

Table 11.6:
Merkato redevelopment - Assessment of government's role

No	Aspect	Likert scale					NR	Mean value
		1	2	3	4	5		
1	Satisfaction on the service delivery of the city administration	4	7	48	25	4	5	3.2
2	Conduciveness of legal rules and regulations to involve actors in the development of Merkato	4	7	57	24	1	0	3.1
3	Role of government in promoting growth partnerships in terms of breadth (quantity) and depth (strength)	7	9	44	29	4	0	3.2
4	Institutional enforcement capacity of government: in terms of professional manpower	2	13	34	39	4	1	3.3
5	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	4	6	42	35	5	1	3.3
6	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	15	4	26	17	29	2	3.5

NR= Non respondents are excluded from mean value computation
Source: Survey data June 2009

Table 11.6 shows a slightly below *acceptable* levels or an unfavorable assessment for all aspects. Specifically institutional enforcement capacity in terms of: using legitimate violence (mean value 3.5), issuing enforceable and affordable rules and regulations (mean value 3.3) and in terms of professional manpower (mean value 3.3) constitute issues of concern.

11.10 Goal Achievement

Implementation started with the demolition of shopping blocks in *Jonia Terra* (Sacks quarter) area, followed by the demolition of *Bomb Terra* (formerly where grenades and hand weapons were sold) and *Military Terra* areas. One of the associations Addis Fana PLC come up with an ingenious idea of building temporary shops not to disrupt businesses and

the livelihoods of their families while construction work was undergoing. These temporary shops were constructed from metal sheets on the periphery of each association's construction site by narrowing the right of ways of adjoining public roads. According to an interview with the former administrator of Addis Ketema Sub City and who was also the chairperson of the Task Force, by 2004 among the seven associations which were provided with building permits, six of them had such temporary shops (MMDTF 2005:23). However progress had been very slow. Even though 52 business associations had already acquired land through lease long before the study of the revised master plan was over in the period 1996-1999, by the time the field survey was carried out in July 2009, only four associations among the surveyed ten associations in Kebele 01-02-03 and Kebele 10-11-12 started giving services, and two others had completed construction work. The four associations who went operational were: Addis Fana PLC, Tewekel SC., Yirga Haile, and Addis Ababa Shopping Centre. Military Terra Share Company, planning to proceed in phase, built only one of the four blocks.

Allocation of shopping space had also been cumbersome in those block associations which could not accommodate all their members on the ground floor. Even for those who had accommodated all their members on the ground floor, orientation to customers' approach direction was an important factor in determining their daily sales and cash income. Direct observation on field experiences in shopping centres which had gone operational show that consumers found it cumbersome to take the staircases to upper stories while shopping in these buildings. It had been practically impossible for persons with disabilities and the aged since the buildings with lifts and escalators had either not yet gone operational or were frequently without power or had mechanical problems which consequently restrained their uses.

Infrastructure development, apart from the installation of street lighting by the Sub City Administration was way behind schedule and seemed relegated. Provision of infrastructure such as roads (new roads and widening of existing roads), parking garages and storm water drainage had not yet started. A multi storey commercial building requires a high water head (pressure/pump), uninterrupted power supply, an internal fire alarm, safety mechanisms, an internal security system and a functional sewerage system in order to be operational compared to a single storey

building. Sewage treatment had been limited to a cesspit system under the basement of each building.

One of the shopping centres was at one time during the field study, smelling awful due to an overflowing cesspit. Much of the development activities seemed to be concentrated in demolishing old buildings and replacing them with new multi storey post-modern commercial buildings. Worse, these buildings neither maintained harmony and variety within blocks and beyond, nor respected the unique architectural heritage of Merkato. According to results of survey questionnaires on the question whether there could be any inconvenience in carrying out their business in the new multi storey buildings, 54 out of 88 (61.4%) respondents observed no inconveniences while those that mentioned inconveniences pointed out: reduction in customers visits, lack of bulk stores, allocation of space (orientation vis-à-vis customers approach direction), inconvenience for storing and selling bulky goods. Since only a few of the new buildings had gone operational it might be natural for the number of respondents who noticed inconvenience to be few (38.6%). From the 51 respondents who envisaged an adaptation strategy, the majority (56.9%) decided to continue their old businesses in the new commercial buildings by adjusting to the circumstances. 9.8 percent had opted for changing their former business type. 7.8 percent preferred to carry their former business in a rented accommodation in another location and let their new shop.

The LDP study had somehow tried to respect the typology and urban characteristics of Merkato and also attempted to maintain the established socio-economic networks. However from the current progress of construction activities on site, the principles of the LDP study seemed to be relegated. Some of Merkato's tourist attraction sites such as historical and landmark buildings were demolished. Mars Hotel can be mentioned as an example. On the other hand the tourist attraction values of Merkato were not limited to the few historical sites and landmark buildings. Specifically shopping tourists could be attracted by the great assortment and variety of commodities. Unique trade modes evolved in such quarters like the Minalesh Terra and the recycled products; the craft products - the embodiment of traditional skills and natural tastes such as jewellery, handmade fabrics, pottery, saddles and bridles, crosses, leather articles etc.; the indigenous spices, grains, cereals were all precious items for shopping tourists. In addition the way they traded in the *terras* and

gulits (small stalls) as a manifestation of Ethiopian culture is very interesting for cultural tourists.⁹

Box 11.2:
Merkato - Recent developments

Addis Ababa City Administration is going to allow bids to modernise plots in Merkato that had previously been the preserve of associations of traders. The move raised objections from the businessmen in the area who had been allowed by the former City Administration to lease plots and develop modern market places

The administration dropped the renewal, but dropped it following a serious demand from traders to lease the plots and construct modern market places. *“We have been accruing finances for the last three years; however the city administration communicated to us weeks ago about the rejection of the plots.... Authorities are not willing to listen to complaints; they simply told us to withdraw our deposits,”* members of one association told *Capital*. The previous administration had offered the plots after negotiations with the businessmen over the value of the lease. But the present administration has cancelled this method in order to avoid potential corruptions. A city official told *Capital*: *“We didn’t reject their willingness to lease the plots, but it should be in the normal bidding process.”*

Source: Capital (web based)

An explanation given by one of the city officials¹⁰ was: there were 84-100 organised associations (almost 50 percent of them in Merkato) who had had approved decisions of lease sale by the previous caretaker administration of Addis Ababa but who had not yet received their plots. Negotiation is accompanied by its own costs – other people will be displaced and the social and political costs are high. It is much easier to pay back the interest on their deposits than face such social costs. A differentiation should be made between the different projects. There are projects related to social facilities such as hospitals, universities or other special manufacturing industries. There are those who have already built buildings without enough parking spaces. If the city administration decides to promote multi storey garages, then some of the people who do not yet receive their plots need to be cancelled to avail space for the building of a multi-story car park. With the new local development plan guidelines all of these possibilities need to be carefully considered.

11.11 Ethnographic Case History: Idiget Bandinet Share Company and Tewekel Share Company

Idiget Bandinet (*growth in unity*) and Tewekel are among the pioneer block associations which were also among the first to go operational. Idiget Bandinet is located in Satin (boxes, trunks) Terra while Tewekel is located in Joniya (sacks) Terra.

11.11.1 Idiget Bandinet Share Company¹¹

The previous name of Idiget Bandinet S.C. before it was established as a Share Company was the *Satin Terra kebele 06 Association*. The association was set up in 1991 to improve 66 shops that they had rented from the municipality. When it was decided in 1990 by the administration that some of the annexed shops would be demolished, some people from other areas tried to occupy the spaces and develop them. Some of them bought trade licenses from the former operators and by dividing a single shop in two requested for legal recognition. This was followed by the closing of the shops for six months. Later on, members of the association succeeded in getting the shops reopened. The shops were made from metal sheets and they had the intention to rebuild them with hollow concrete blocks so that they could be more fire resistant. They committed to cover all the expenses for the rehabilitation by themselves and pledged to continue paying the rent to the municipality.

Then came the question of how to develop their surroundings. At that moment Region 14 administration was trying to implement the lease policy. They took this as an opportunity and submitted their application in 1994 after being reorganised as a Share Company. They were told to wait and in 1995 their legal status as Share Company was recognised and their application for lease was approved and consequently they submitted their design proposal. In 1997 in addition to the existing members (66*2=132) they were ordered to incorporate 27 businessmen who were by then reprimanded for sub-letting the rental shops owned by the public organisations, or else they would lose their permit. They incorporated them making about the membership upto 159. While they were negotiating for the lease price another contestant (one of the big businessmen) came and offered a high lease price and submitted his design proposal. They tried to negotiate with him. They suggested that they would build the ground and first floor for their shops and he would have the oppor-

tunity to build upwards. Later, part of the plot was partitioned for the big contestant. Then they submitted their appeal to Administration of Region 14 (the current City Administration of Addis Ababa). In 1998 after three years it was finally decided in their favor. The request which was forwarded to the Health Bureau of Region 14 for permission to incorporate the space occupied by a dysfunctional public toilet which was located adjacent to their plot was not settled until 2000.

Then they were faced with the following new issues: 20 percent advance payment, the issue of compounded interest on the unpaid amount, and the building height regulations of the master plan which specified 7 stories. They complained that they would lose their customers if they had to trade up to seven stories high according to the master plan. They tried to incorporate their opinion through involvement in Merkato Millennium Development Task Force. The questions they raised included: the height of the building to be lowered to a range of 2-7 stories and this then needed to be incorporated into the Local Development Plan Study, compounded interest on unpaid lease amounts to be revoked, temporary shops around the building site need to be allowed so that they can carry on their livelihood, sewerage and electricity need to be provided when the capacity of the City Government allows.

When the land acquisition process was finalised the issue of finance to start the construction was still in the pipeline. It was decided that members should make a weekly contribution (*equb*) of Birr 300. Such *equb* continued for four years. It was decided that priority should be given to those members who were in debt.

The Share Company proceeded with the preparation of design drawings which it had achieved by carrying out a design competition. The jury members were drawn from the Addis Ababa University and an engineer who was a member of the Share Company. Results of the jury were discussed by the members of the Share Company and they invited a professional from GTZ to give his opinion. Finally the winning design was given an award. Eight contractors were invited to tender for the construction work. Finally the construction contract was awarded to the China Road and Bridge Corporation (CRBC) to be completed within 15 months. They also employed professionals for the supervision who succeeded to control some discrepancies of using inferior materials such as lower grade hollow concrete blocks and cement. Aspects of the construction they controlled were the sand ratios, the selection of cladding

materials and the tiles. By the time the interview took place (September 2009), allocation of the shops had been already completed by casting lots and the temporary shops removed. 98 shops each 11 square meters were located on the ground level and 66 shops each 15 square meters were located on the first floor. An escalator costing Birr 3.5 million had also been installed to assist customers' movement to the upper floors.

There were still hanging issues during the field study. Every member was a tenant. Initially the members were not convinced of the attributes of this. Why should I pay rent for my own shop? This was every member's question. The rent amount for the upper and ground floors had not yet been distinguished. Even though it was possible to sell their share when approved by the board, there was a preference for an association of building owners to create the sense of private ownership.

11.11.2 Tewekel Share Company¹²

Tewekel Share Company was established in 1996 as a Private Limited Company (PLC) by 38 members. Tewekel Share Company was a unique case history in which 90 percent of the members were Muslims and belonged to the same Wolene-Gelebano ethnic group from the Southern Nations, Nationalities and People Region. The members were businessmen who had shops and warehouses on the site where their new shopping center was erected. Until 2004 they spent organising themselves, bidding for leases and building up confidence. The advance payment for the lease was Birr 1.5 million and they had to settle the remaining account within twenty years. The building cost estimation was about Birr 30 million. Some of them had sold their houses to pay for the contributions. A member had to pay Birr 1,000 to register and a contribution of between Birr 100-200 every week. Birr 15,000 for the lease payment was also necessary. The first PLC had been established paying Birr 38,000 contributed by the 38 members each contributing Birr 1,000. Those who were not able to, or unwilling to build in block association were relocated to an area called Asko. Later the contribution amount was raised after receiving an alarming notice that their plot would be taken from them if they failed to make the timely repayments and start construction on time. The number of members was also raised to 64. Some of the newly joined members were not formerly holders of shops on the same site. Before demolishing their former shops they built about 50 temporary shops through a temporary lease holding arrangement with the sub city admin-

istration which cost per person Birr 14,000 per year. Members, except two of them, had equal shares. There was penalty suggested for those who were lagging behind in paying the regular payments. However, since the penalty would be in the form of cash, which is considered as interest, it was not acceptable in the Muslim faith. Therefore only warnings were served.

The construction was not awarded to contractors. Instead they hired engineers who were also family members. Different committees, such as committees for reinforcement steel bars, cement, security etc. were set up. They made no use of bank loans (for it is considered as *haram* i.e. a source of sin). All costs were covered by the members' contribution. At the beginning of the year 2007 they completed construction and spaces were allocated to members. Even then they did not complete everything. The water and electric connection was not yet secured. The floor area was estimated to be about 2,000 square meters and would not only contain shops but was planned to accommodate stores, restaurants, cafés, gymnasium and a mosque (prayer room). The structure of the Share Company was organised into departments for administration, commerce and finance under a manager accountable to a board, and a general assembly of share holders.

Regarding the issue of tenure status, ownership belonged to the Share Company as a legal body. The concept of of Share Company as a form of building association was a new concept. Some members were erroneously making resemblances between a Share Company and a housing cooperative. Ownership had no relation to the individual member. The title certificate is in the name of the Share Company. Members considered themselves as owners.¹³ Profits from investments on the building were acquired through dividends. According to the rules of the Share Company a share was not to be divided, therefore those who wanted to sell half of their share due to different reasons were not allowed to do so. Connections for services were possible only when the Share Company wrote letters to the utility companies. Members in the share company had the privilege of the right of priority to rent shop spaces.

Allocation of rentable shops among members was made through casting lots. There were 67 shops on the ground floor. A shop on the second floor could be rented for Birr 2,000 while on the first floor it might be rented on amount of Birr 3,000-4,000. To maintain equity in allocation of spaces, those who received shops on the first floor would be allocated

a store or office space on the third or fourth floor. Those who turned unlucky on the allocation process were to be compensated by allowing them have additional annexes. Beyond the privately allocated space, the communal spaces include: stairs, lifts, corridors, parking, communal toilets and cesspits, and electrical system. Every shop had its own electric meter; all the bills were settled by the management of the share company. Individuals were expected to repay their consumption. There was only one water-meter for the whole building. The communal toilet system was controlled by distributing fixed numbers of tickets for each shop. A ticket had to be submitted to the attendants to be allowed to use the toilets. A tenant bank had been provided with its own toilet and water metre. Such services like cafes, restaurants, gymnasiums had to be provided with their own toilets. Installing telephone lines was the responsibility of the management while every shop had to manage its own bills. A communal fire alarm system and extinguishing hoses were installed. Security had been a sensitive issue, because of the presence of eight gates which lead to the many stores. During the day time the management of the gates was left to the user-owners while at night it would be taken care of by the management. No private security service was required. Instead they hired individual guards.

Even though there were two or three cases handled through courts, most disputes were handled informally through elders. Sanctions in the form of penalties in money were not practiced due to religious reasons. Instead interruption of power, water or toilets was applied. According to the custom of the ethnic group when a member goes against the norm and resists any disapproval by his peers, a team of elders would be sent to him. It might cost him an ox, which would be slaughtered. Resisting the elders mean the person faces ostracism. Most transactions among the businessmen in Merkato was informal based on social networking. If you strike a deal through an established network, it should be considered as done. Nevertheless, it was difficult to penetrate such a network for a new entrant.

11.12 Analysis on Merkato Millennium Development Partnership (MMDP)

The Merkato Millennium Development Partnership¹⁴ (MMDP) was established as an institutional arrangement to coordinate the activities of

Merkato redevelopment. The data for analysis of the partnership was collected through questionnaires filled in by ten of the fifteen former members (at different times) of the Task Force, interviews with key informants (both carried out in April, 2010), minutes of a review workshop by members led by an Organisational Development Consultant in February 2005, and reports and minutes of the Task Force. The analysis on Merkato Development Partnership, in addition to analysis on contextual factors, governance and capacity issues was carried out with respect to two sets of factors, namely: strategic level factors and behavioral interaction level factors. The analysis on the context elements of MMDP showed that there were many contextual aspects which constitute opportunities for collaborative development by the different partnering actors. Such opportunities include: ORAAMP's model scheme on Public Private Partnership, a provision in the revised City Charter for such arrangements (Proc. 361/2003 Art. 11), a redevelopment initiative as an opportunity for tenure change, strong and historic attachment to Merkato and a long established business community. Nevertheless, the lack of a legal framework for Public Private Partnerships at city and federal levels except the single article in the City Charter, the constrained decentralisation which have resulted in limited management discretion and lack of previous experience on local development, the high solidarity which was limited to bonding type social capital, the prevalence of illicit trade, the focus on the construction of new business buildings (lack of attention for social aspects), the ignorance to the traditional and historical values of Merkato, and the high cost (actual and induced) of its development posed challenges for Merkato Millennium Development Partnership by eroding its political as well as social support. See Annex 11 for complete context analysis.

Strategic level factors

Strategic level factors are factors which transform the interaction and relationship between partnering bodies to the goal achievement of the partnership through a formulation of shared vision and execution through policies/strategies, programs and projects (Berg et al., 2003). Leadership, vision and mission of the partnership were mutually agreed upon and all activities of the partnership were coordinated by the leadership. This was reflected by the expectation of 80 percent of the respondents; *"a developed, safer and cleaner Merkato,"* which corresponded to the vi-

sion of the Merakto Millennium Task Force: “*Merkato: a modern, clean and safe Africa’s biggest market.*” Affordability of the building construction works was also an important concern for the representatives of the business community.

However the leadership, under the chairmanship of the CEO of the Sub City Administration and his successor from the business community, did not act responsibly to maintain continuity and keep the momentum going in the aftermath of the 2005 election (confirmed by mean value 3.8 on the Likert scale). The partnership from the very beginning had not been successful in winning the support of Merkato’s neighborhood residents (mean value of 3.3). This was proved by early withdrawal of representatives of the *idirs* in Merkato and one of the NGOs. The magazine: “*Merkato Today,*” which was published by the Merkato Millennium Task Force as a medium of communication was never published after its first issue due to the interruption of the external support and lack of a local body to take it over. With respect to strategies, although 100 percent of respondents had a broader view beyond the mere construction of new commercial buildings, practically the activities of the partnership were confined only to construction issues. Regarding political support, respondents agreed on the fairness of the sub city administration in handling conflicts between public and private interests and facilitating the collaborative activities of the partnership. However a clear lack of enthusiasm was observed on the part of the top city and federal urban sector officials for the partnership.

Behavioral Interaction Level Factors

Behavioral interaction level (mutuality) factors are interpersonal and inter organisational relationship factors as well as the interaction rules developed by the partnership (Brinkerhoff, 2002a, 2002b; Drewery 2000). As indicators of power balance, the financial resources of the partnership had been controlled by all members, there were authorised members to sign from both the city administration and the business community. No one group dominated the discussions held in the meetings. Regarding mutual respect, meetings were scheduled with consideration to all partners and opinions of all partners were openly discussed before decisions were made (confirmed by mean values of 2.0, 2.4). One of the problematic areas in the behavioral interaction factors was the widely observed mistrust between the main partnering actors, namely the sub city admin-

istration and the business community. The public sector representatives took the view that the businessmen were: “*thieves and cheats, who are unwilling to pay taxes,*” and the businessmen had the view that officials and experts representing the public sector were: “*people used to bribes.*” Referring to the attendance of the members in meetings as indicators of commitment, assessment of respondents resulted in low scores for *idirs* and NGOs. Regarding another indicator, *the contribution of innovative ideas and constructive suggestion*, the low scores again belonged to the *idirs* and NGOs while the high scores belonged to the GTZ, Sub City Administration and representatives of the business community.

Regarding internal rules of interaction the main partnering actors recognised the existence of norms such as: rules and responsibilities of each position, which decisions to be taken by members in a position and which decisions need the collective consensual decision of members, and rules of rotational leadership. There was no clear demarcation of roles among the partners even though responsibilities for the different positions in the Task Force (some by *de facto*) existed. Moreover, archival documents search revealed that a TOR had been drafted in later days of the partnership to hire a consultant to draft such rules and norms of conduct. However more serious problems which challenged the partnership were related to the identity of the partnership itself. Upon its establishment members had the perception that the partnership was in charge of the full mandate over the implementation of the redevelopment activities in Merkato. However, they soon realised that there were issues which needed decisions beyond the task force. The businessmen representatives assumed such indecision were mainly due to the risk of avoidance behavior of the Sub City Administration officials. Members started feeling that the partnership was not empowered. Another problematic aspect was the organisational identity of the partnership. Ever since its establishment, the partnership was conceived as a trust based (informal) partnership rather than a contract (formal) based partnership. For example in responding to which public body was the task force accountable various responses were given. The results are shown in Table 11.7.

Regarding organisational culture of the task force, even though, the task force was in its early stage, most of the respondents’ assessment (80%) resulted in a higher tendency to possess a centralised and bureaucratic culture in its operation. The organisational values of the partnering parties also varied which include profitability and competitiveness (busi-

ness associations), promotion of socially responsible trade and investment (Addis Ababa Chamber of Commerce), humanitarianism (NGO), public service (city administration), and technical cooperation and respecting tradition and hierarchy (GTZ). However 80 percent of respondents did agree the values of their respective organisations were in alignment with the values of the Merkato Millennium Development Partnership, and 90 percent of them believed that the partnership's objectives complemented objectives of their respective organisations. Therefore such values can be taken as complementary values in collaborative actions for development. The role of partnering parties in the task force included: facilitator (Block Association and City Administration), advocacy (NGO, Chamber of Commerce and business community), financial and technical support (GTZ), and resource mobilisation and public support (NGO). The resources that contributed to the Partnership by partnering bodies included technical know-how, management skills and administrative clout (NGO, city administration), finance and technical knowhow (GTZ) and coordination skills (Chamber of Commerce and business community). One thing that was taken for certain was the financing of the construction of commercial buildings which was purely through private investment of businessmen, and coordinated by the respective block associations.

Table 11. 7:
Merkato redevelopment - Accountability of the task force

No.	Category- to which public body was the task force accountable	Respondents Organisation	Percentage
1	The Addis Ababa Chamber of Commerce and Sectoral Associations	Business association, GTZ	20
2	The Addis Ababa City Government	GTZ, NGO, Business Assoc.	30
3	The Addis Ketema Sub City Administration	Business Assoc., NGO	20
4	Not clear	City Adm., GTZ	20
5	(Non respondents)		10
			100

Source: Field survey April 2010

Governance

From the composition of the urban actors involved, it was clear that the partnerships had been instrumental to involve governmental, civil society groups and private businesses in the decision making process of the Merkato redevelopment project. 80 percent of the respondents, with a mean value of 2.7 on the Likert scale, agreed that the working culture of Task Force could be expressed in terms of openness and integrity. Interviews showed that the businessmen expressed openly their views without beating around the bush.

Capacity analysis¹⁵

The Merkato Millennium Development Partnership had suffered from many capacity related challenges both at organisational and individual level. The Task Force for the partnership as an organisation had no structure of its own, lacked its own office space, it had no power of its own to make decisions on the development issues raised by the businessmen; and was not able to maintain a common understanding on how an integrated development, beyond the physical construction of mere buildings, would be realised in Merkato. Financially, except for the amount contributed by GTZ, no member had contributed what it pledged. Individual members of the partnership also suffered from capacity problems which could be expressed as a lack of experience in PPP and consequently a lack of main competencies such as collaborative skills, negotiation, advocacy and communicative/lobbying skills. Shortage of skilled and professional staff on the part of the Sub City Administration had also limited its supervisory role in maintaining overall quality of the redevelopment. See Annex 12 for a detailed capacity analysis.

Partnership's goal achievement

Respondents from representatives of the business community agreed on the enthusiasm of the Sub City Administration, which was expressed in facilitating the construction activities by organising design competitions, the tendering and bidding of construction work and settling disputes. Among the main practical problems solved by the Task Force was the provision of space on public alleys for the construction of temporary shops so that the livelihood of the businessmen and their families would not be affected while construction was progressing on sites where their

former shops were demolished and cleared to give way for the new constructions. The Task Force also served as an arbitration body. Sometimes an individual investor might claim land occupied by one of the associations. This was often met with reactions of members ranging from covert negotiation to life threatening intimidation. This also on occasions required a third party to pacify the situation with local mediation skills.

Regarding the construction of commercial buildings by associations, in 2006 there were only six projects under construction in central Merkato. By 2010 six buildings had gone operational while only five additional projects were under construction. This achievement need to be measured against a total of 52 plots which acquired leased land since 1996. Infrastructure development, apart from the installation of street lighting by the Sub City Administration with an investment worth 6 million Birr had been relegated. 90 percent of the respondents had confirmed that what had been accomplished by the partnership could not have been attained by the business community alone. This implies that synergy was attained. 70 percent of them (+20% responded *partially*) do not believe that the partnership had fulfilled its mission and 80 percent of them had the opinion that the development and management problems which the partnership tried to solve still persisted. 60 percent do not believe that the accomplishments so far were to the satisfaction of all members. 80 percent of them answered *no* in response to whether they still owe allegiance to Merkato Millennium Development Partnership. Nevertheless 70 percent of them were hoping that political and ideological trends of the City Government would support such collaborative arrangements between the public, private and civil society groups paving the way for genuine partnership.

The only strengths of the partnership at strategic level factors were with respect to vision and strategy. Strategy was limited to having a broader view of development objectives and clarity on how to reach there i.e. through collaborative efforts. All members had a broader view of development than mere construction of shop buildings and were committed to achieve it through collaborative efforts. Strategic level factor weaknesses included the inability of the leadership to keep the partnership going, weak political support at a higher political level, lack of societal support, and the interruption of the communication medium. Regarding behavioral interaction factors save the problem of mistrust among the main partnering bodies (between the businessmen and City

Government) other indicators need to be considered as strengths. Other problematic areas were related to the identity of the partnership such as: unclear organisational identity, accountability and lack of clear demarcation of roles. Refer to Annex 13 for the synthesis of strengths and weakness of the partnership.

11.13 Analysis

Businessmen in Merkato, historically had a strong attachment to the business spaces in Merkato. Though tenure conditions were predominantly public, even such rental tenures were handed down through inheritance in the ancestral line. The long history of contest for business and commercial spaces ever since the establishment of Merkato had been the manifestation of such historical attachments. The context analysis for Merkato Millennium Development Partnership shows such attachments had given rise to a strong social capital within Merkato business community. Such social capital had been expressed through the culture of *credit transactions* which had been a unique arrangement in Merkato based on trust and reciprocity, and lending in kind without collateral. They stood together in times of sorrow and happiness. However such social capital was limited to a bonding type capital which often had negative implications for new entrants. Merkato used to be impenetrable. There was a missed opportunity in redeveloping a market place for recyclable goods in *Minalesh Terra* due to a decision by the consultant and the city administration to incorporate plots aligning the main road for lease sale. The operators in *Minalesh Terra* opposed the proposal seriously. This led to a stalemate even after the design proposal had been made by the support of GTZ. The contest over business and commercial spaces for Merkato is not yet over. In the future it might take different forms involving overt and covert techniques and instruments by the different contesting parties.

Two aspects of the formal institutions had created opportunities for the redevelopment of Merkato. One was the revised Addis Ababa Master Plan and its local development study for the redevelopment of Merkato. The second had been the lease land administration which paved the way for the tenure change from public ownership to private property right. The emergence of the Merkato Millennium Development Partnership as a forum for bargaining, mediating and negotiation in the allocation of commercial and business spaces had been one of historical significance

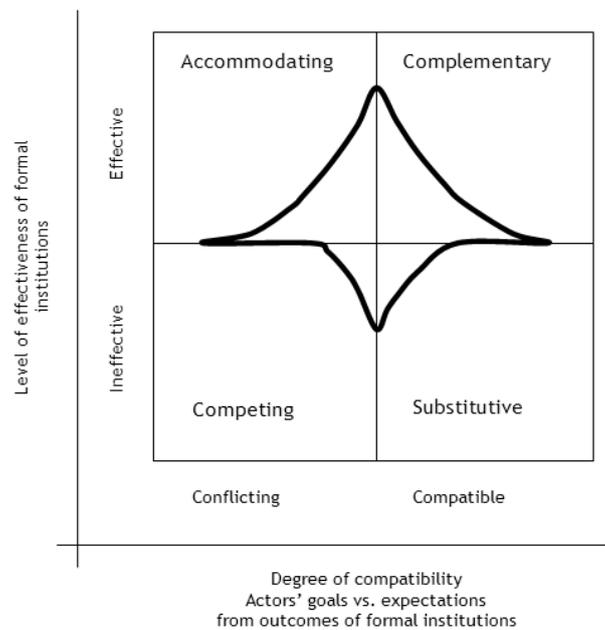
with much experience to learn. As the initiators of the idea said, MMDP was an organ of *civilized dialogue*. It helped to dissipate tension between the businessmen and the city administration. Conflicting opinions were resolved through discussions in the meetings of the task force. Therefore before interests of the major parties went astray and ended up with them either competing or forming substitutive resolutions they would negotiate and try to reach consensual agreements. Hence, all parties endeavored to enforce the formal rules and regulations. This was an opportunity for the sub/city administration to enforce government rules and regulations and also help converge public interest with private interest through development. Refer to Figure 11.1 for formal-informal institutional interface.

In a free market, economy urban planning is said to be a forum for a process through which different urban actors bargain, negotiate and compromise over the distribution of scarce environmental resources such as land, infrastructure and services, etc. There were some unresolved dilemmas about the redevelopment study of Merkato. One of the dilemmas was about the development approach to Merkato, i.e. whether Merkato should develop as a *market centre* or as a *business centre* with modern high rise business offices rendering modern financial services such as banks, insurance companies, and stock exchanges; professional consultancies, shops for high quality electronics, media centres, recording studios and accompanying entertainment and recreational facilities etc. This later approach is a familiar scene in the revived city centres of western countries and some emerging economies. Part of Merkato area would be developed into a modern financial centre (ORAAMP, 2002 b). Redevelopment as a market centre was the other approach by which Merkato was going to be developed, as a primary market in a system composed of a hierarchy of markets, serving mainly as a wholesale centre with retailing services for the local and neighboring residents. These activities needed to be accommodated in a typology characterised by low-to-medium rise buildings.

Were the businessmen and women in Merkato given a choice on the alternatives? What were the achievements of the business community by taking part in the different participatory forums organised by the ORAAMP? Or had it turned into an elitist plan imposed on the shoulders of the businessmen to bear the costs? Or had some of the recommendations in particular implementing mechanisms been relegated? In-

interviews show that some of the block associations who had already gone operational were proud and considered themselves fortunate to have a building permit for a 5-7 storey building before another height regulation applied. Some questioned the suitability of the buildings for their trade and complained on the high cost of development. With the current inflation rate and unprecedented price escalation of building materials and the pressure from other contestants, those who had already built their business buildings felt relieved while there was much uncertainty verbalized by the people who were still in the process of building.

Figure 11. 1:
Merkato Redevelopment- Formal-Informal Institutional Interface



From a behavioral interaction perspective, the Merkato case study could be also taken as a case in point to study how cultural values were applied in the management of businesses and management of real estate development. Traditional ways of mediating differences, using elders, were applied routinely to resolve conflicts and abate non-conforming behavior in the cooperative endeavor. There are so many lingering ques-

tions about Merkato like: If most of the block associations had a lease agreement with the city administration since a decade and half ago, why did the redevelopment progress take off so slowly? Why was such a facilitative forum like the MMDF abandoned? Was the behavior of Merkato businessmen erratic?

11.14 Conclusions

The main actors in Merkato redevelopment included businessmen organised in block associations, the sub/city administration, resident communities of Merkato, and the Addis Ababa Chamber of Commerce. Stakeholders included: NGOs, and international technical cooperations, local and foreign developers and investors. Stakeholders could be extended to include the citizens of Addis Ababa (merchants from the regions also depend on Merkato for their supplies), banks, contractors, professional consultancy services and property management services. The businessmen/women had historical attachment to Merkato. The history of Merkato business community had been and still is one of contest for commercial/business space. Even though the tenure status before redevelopment was predominantly public, rental contracts had been handed down through inheritance from ancestors. Two aspects of the institutional framework were instrumental in paving the way to redevelopment and accompanying tenure changes from public ownership to private ownership in Merkato. These were the revised master plan with its local development plan for Merkato and the lease land administration. The main interest in studying Merkato as a case study was the interaction between actors in the redevelopment of a commercial area and the institutional arrangement created for a cooperative endeavor. Two main actors with different perceptions of one another: the sub/city administrations officials considering the businessmen as *thieves and cheats* and the businessmen referring to the officials as *people who were used to bribes*, worked together. The institutional arrangement (PPP) created had helped in solving day to day issues of the redevelopment project from tendering to entering agreements, providing temporary shops and dumping sites etc. From the institutional perspective the partnership had been very instrumental in resolving conflict of interests and improving the formal rules and regulations (for e.g. improvements in the lease administration rules) and in so doing helped to enforce the formal rules and regulations.

Even though both the 1986 Master Plan and the revised master plan of Addis Ababa (2003-2010) recommended the rationalisation of land uses in Merkato with multi-storey buildings, the partnership succeeded to lessen the disturbance and lower the development cost. Merkato business community had also established a Business Improvement District (BID) to make collective contributions to maintain, develop and promote their commercial district. The businessmen had been participating during the master plan revision study in the different participatory forums organised by the Office for the Revision of the Addis Ababa Master Plan (ORAAMP). Two approaches were presented for redeveloping Merkato: redeveloping Merkato as a primary market (with low to medium building typology) or Merkato as modern business and financial centre (medium-high rise building typology). A dilemma had still been hovering over this issue. Two modalities were also entertained on how to redevelop Merkato, one of demolishing the existing nationalised houses and sell the space through auction, and the other, allowing former occupants to negotiate for lease price and secure their former plots. To date, the later modality had been implemented. The study for the revision of the Master Plan recommended a partial upgrading (46%) and partial renewal (54%).

Regarding transaction costs, the main information sources used by the business community in Merkato included peer groups (49.5%), family members (24.7%) and newspapers (21.5%). Therefore the use of local *dallalas* was limited in issues related to the redevelopment project and the use of its products. Disputes were settled often through traditional arbitration such as the use of elders. However Merkato had witnessed agency-principal problems for which some cases ended up in court. Informal based social networks played a very important role in building social capital. Ethnicity also had some role in Merkato. Hand greasing while seeking authorisation services was another problem. The establishment of block associations in the form of Share Companies and Private Limited Companies to manage the construction and administration of the new business buildings had created uncertainty on the extent and delineation of property rights. Taking into consideration the fact that 52 business associations had acquired land in the period between 1996 and 1999, and only 4-6 buildings were operational until 2011; together with the dissatisfaction of some of the respondents on the appropriateness of the building typology for their trade; one can raise the question as to the goal

achievement of the redevelopment. However the Public Private Partnership, though it had been operating in an unfavorable institutional framework and had its own problems related to identity, strategic aspects and capacity; it managed to contribute towards an ideal type of interaction through which the government and private businesses could work together fostering an accommodative and complementary interaction between informal procedures and practices, and formal rules and regulations.

Notes

¹ A Local Development Plan is an instrument that facilitates the implementation of the city's master plan by focusing on strategic investment areas located both in the inner city and expansion area. It provides the foundation for the planned development of a selected section of a city.

² Interview with one of the successful businessmen in Merkato and at the time of the field study chairman of one of the block associations

³ Interviews with the leadership and members of block associations in Merkato

⁴ The Merakto LDP has paid respect to the architectural values of these emblematic symbols by limiting height of buildings around them not to be taller than the dome and the minaret.

⁵ According to a member of the former ORAAMP and later an official in the recent Addis Ababa City Government, the reduction in height typology was not only the result of the pressure from the business community but also an internal debate among the professionals on what type of building typology might be recommendable if Merkato is to develop as a market center.

⁶ The Merkato Millennium Development Task Force was envisaged to replace its predecessor the Merkato Coordination Office (MCO) which was established in January 2000 by the Chamber to coordinate the activities of the four Sub Committees established by Merakto and Surrounding Special Committee (MSSC): Master plan and Lease, Business Improvement District (BID), External Relations and Business Ethics.

⁷ Among the tasks accomplished by the Task Force include the study of design for the big enterprises by inviting architects from the Addis Ababa University. Later with the financial support of GTZ a consultant was hired to prepare a development plan and design for Minalesh Terra - recycling businesses in the south western part of Merkato. On October 17, 2005 the forum published 4,950 Merkato Tourist Guide books and 1,000 copies of the first bi-lingual magazine *Merakato today* (July 2005). In February 2005 a workshop to review the performance of

the forum was organised and measures for improvement were identified. After the turbulence following the May 2005 election the forum suffered leadership and was forced to stop its operation. However in November 2006 a general assembly was called for improving the operation of the task force. A board was established and the chairmanship shifted from the Sub City to the representative of the business community. The meeting venue was also changed from the Sub City office to Merkato Chamber of Commerce and Sectoral Association Office.

⁸ Interviews with businessmen and lawyers who advised some of the block associations (see the list of interviewees for this case study)

⁹ Cultural tourism can be defined as the movement of people to cultural attractions in cities in countries other than their normal place of residence, with the intention to gather new information and experiences to satisfy their cultural needs. Traditional markets provide opportunities for such tourists.

¹⁰ Refers to an interview with the Land Administration and Building Permit Authority

¹¹ Based on an interview with Ato Hailesenbet, who was once the leader of the block association and representative to Merkato Millennium Development Partnership. Additional opinions were given by questionnaire respondents from the association.

¹² Based on the extensive interviews with Ato Elias, manager of the executive office of the association and additional opinion given by questionnaire respondents from the association

¹³ In some other share companies, members were disappointed when they were provided with rental agreements to sign with their own share company.

¹⁴ The analysis on the partnership was based on two sets of factors as independent variables: strategic level factors and behavioural level factors. Strategic level factors include: vision/ goal, strategies, leadership, political and societal support, and communication (Berg et al., 2003); while behavioural level factors (mutuality factors) include: perceptions, trust, power balance, mutual respect, commitment, and partnering bodies i.e. their role, motives/expectations and underlying values/culture and interaction rules (Brinkerhoff, 2002a, 2002b; Drewery 2000). The main data collection instruments used include interviews with key informants, questionnaires distributed to 10 members out of 15 members of the Task Force who served at different times, archival documents searched and desk reviews of previous studies.

¹⁵ Capacity analysis took the form of identifying the key players and their major stakeholders, who they are (public sector, private sector, civil society groups, donors, development co operations etc.), understand what capacity they need vis-à-vis their roles and assess what capacity they possess and what they lack.

PART IV: Syntheses & Conclusions

12 Syntheses

12.1 Introduction

Synthesis on the analysis of the five empirical case studies has been organised around six thematic areas which have been found helpful in answering the research questions and testing the hypotheses. These thematic areas include: institutional path dependency, property rights and transaction costs, the role of intermediaries, the role of government and governance structure, actors behavior under the influence of formal – informal institutional interface, and goal achievement.

12.2 Institutional Path Dependency in Property Right Systems

Institutional path dependency has been analysed by taking four property right institutions: the *rist* system and free hold from the Imperial period; the permit system (administrative allocation) of the socialist oriented military regime and the lease market system of the EPRDF led government.

12.2.1 The rist hold

The rural land allocation in the Imperial period was based on redistributive and reciprocal modalities. Rural land was occupied through inheritance along lineage, and communal use of land reserves such as grazing and forestry (wood land). Land was the only reliable resource and since the government was devoid of cash; salary of the military and civil servants was made by allocating land in the *gult* system. They collect their remuneration (tax) as a tribute in kind (farm products) from some *gebbars* who worked on the land in return for the labor or services they rendered. All *gebbars* in Ethiopia were attached to some land. Among the ingenious

(complicated by some authors) land systems developed in the period was the *rist* system. The *rist* system helped to claim a share of land based on kinship to a historical ancestor by family and descendants. *Rist* holding had its own cost of paying tax or service obligation. *Rist* land was not meant to be owned. The major characteristic of the *rist* hold was a holding for perpetuity with the use and transfer rights. *Rist* was inalienable outside a family line thus preserving for the next generation. However in some places alienation was allowed through land sale contract to their family members or to outsiders (to be renewed on a short term contract) provided a clearance was presented signed by the rest of the members of the lineage declaring that they understood the gravity of the problem and they could not buy it for themselves or support the potential seller. This had to be followed by written permission from the Ministry of the Interior. The *rist* system was managed through *Descent Corporation* with elders, serving like a *Board of Trustees* who control the allocation of land. However it did not guarantee equal access for those members of the lineage living in the area. Social status, proof of kinship/lineage, proximity to the land a claimant claims and politics played a role. The strong points of the *rist* system included: reduction in landlessness and tenancy, and flexibility in adjusting to changes in the environment such as demography, drought and market development. The weak points of this system included: fragmentation of holdings and persistent litigation which might result in psychological distresses due to internal feud among members of the same lineage. There were also high transaction costs in the *rist* system. Among the noticeable change brought by the measures taken following the revolution by the Derg was the avoidance of such persistent litigations.

However the *rist* system was also appreciated for flexibility and the actual stream of rights that it bestowed on the *rist* right holder. There were two rental systems practiced: *irbo arash* (a contractual agreement in which tithe and a quarter of the harvest would be paid to the land lord) and *ikul* (where the tithe was paid from the crop and the harvest was divided on a fifty- fifty basis). Nonetheless, rent to outsiders was not allowed. *Rist* land could also be passed through bequeathing before death to a person's heir on a share contract arrangement. *Rist* right included the right to exclude certain parties from inheritance, the right to alienate with the permission of the lineage, the right to invest and the right to choose what type of crop, tree to plant etc. The effect of the *rist* right was so

enduring that it is even today included in certain idioms in the Amharic language, for example, when somebody remains stationed in some place or on a seat, he may receive the remark: “*Have you made it your rist, come on...*” On the contrary the saying: “*somebody has been uprooted from his rist,*” in its Amharic equivalent: “*ke ristu tenekele*” implies a disaster.

In most cases all these flexible contractual arrangements were made without being sanctioned by law, which was against the penal code requiring formal approval by an authorised judge to certify a transaction. The *rist* system provided strong tenure security and a wide range of benefit streams with flexible contractual arrangements to the *rist* holders, and being managed under the trusteeship of a descent corporation of elders, it maintained intergenerational responsibility by using land as a natural resource. The tax reform which had been instrumental in converting state tenure to freehold had increased the security in particular for the *rist* right holders in the North. Taking the fact that decisions on what to do with the land was made by a group of owners, the *rist* can be considered as an example of common property regime. However as accurately noted by Joireman (1994:94), while analysing a system of property rights, it is more important to look at the *actual stream of rights available to the right holders* than to its particular appellation as a communal, state, or private property.

12.2.2 Free hold

During the last days of the Imperial regime the most dominant system was the private tenure as the result of the general effort of the Imperial Government to convert state tenure into freehold. The change to the private tenure was effected through the process of granting a vast block of crown confiscated land to a wide range of people, and a tax reform which made all the taxpaying *gebbares* into legal land owners. Land rights included selling, exchanging, transferring, using it to borrow money, and to receive compensation. The right to purchase land from government and individuals was respected. Title deeds were provided for legitimate holders.

In urban Addis Ababa the prime and largest tract of land with central location was demarcated for the Imperial palace and depending on their status and rank in service, the surrounding land was apportioned to the nobility. The military officials, depending on the size of the army, occupied large areas on the surrounding strategic heights (elevated places).

The army officials in their return apportioned the surrounding land to their soldiers to settle. Emperor Menelik made a decree ordering land holding certificates to be issued to all who owned a house. This was taken as free hold for perpetuity providing the rights of use (access and withdrawal) including leasing land (*mirrit*) on a contract basis, management, exclusion and alienation. This continued also during the reign of Emperor Haile Silasie. However the private possession of extensive urban land in the hands of few landlords (5% of landlords owning 95% of the privately owned land) posed as a difficulty to access land for those who come to settle later. The Imperial land tenure including the *rist* system and freehold came to an end with the consecutive issuance of the proclamation to provide for the public ownership of rural lands and government ownership of urban land and extra houses by the socialist oriented military government in 1975.

12.2.3 The permit system (administrative allocation)

Following the revolution in 1974 the last Emperor of Imperial Ethiopia was replaced by the socialist oriented Military Council (*Derg*). The *Derg* no later than it took over power decreed the nationalisation of urban land and extra houses. The proclamation for the public ownership of rural land altered fundamentally the relationship between tenant and landlord. Transfer of use rights by sale, exchange, succession, mortgage or lease was prohibited. From 1975 -1991 land was allocated through a redistributive system based on use rights for an indefinite amount of time. As a result all urban land and extra housing (except a single house for residence in the choice of town of residence) were nationalised becoming state property. Private ownership of urban land was prohibited. Urban land for those who wanted to build houses was allocated through administrative allocation using a permit system. Access to land for residential housing was entertained on the precondition of depositing 20 percent of the cost of the construction in a blocked bank account as proof of financial capacity to finance the construction. The allottee had to pay land tax in the form of land rent. The right upon an urban plot was limited to use right (access and withdrawal) and excluded the right to transfer it by will, donation, mortgage or sale. It was forbidden to benefit from economic activities that involved land as a commodity. Even the selling of a house among individuals was banned. After co-dwelling¹ arrangement was legalised in 1986, those occupiers of nationalised houses

became rental lords by accommodating several co-dwellers while former owners received a subsidy of less than 250 Birr per month. This land administration and property right system was purely the result of socialist state ideology.

The permit system of land tenure, with use rights for perpetuity was abandoned by the moratorium on land allocation during EPRDF led transitional government of Ethiopia and was replaced by lease administration of urban lands in 1993. Though a separate rental system was devised for formerly owned properties, the lease land administration was declared universally applicable throughout all the urban centres. Currently a newly improved lease proclamation (for the third round) has been endorsed by the parliament. It is applicable to 150 urban centres.

12.2.4 The lease hold

The EPRDF led government had perpetuated the public ownership of land giving it a constitutional backing. Lease land administration was introduced to avail land as a public resource for investment through a market system. The Ethiopian lease hold system is a system in which use rights (since urban land was public property) of urban land was transferred or held contractually. Even though some regions adopted a dual land management system as mentioned above, the lease system was declared universally applicable on all urban land holdings whether new or existing. The aim was to promote efficient allocation of land as a resource.

The set of rights the leasehold provides in its current practice is limited to use rights (access and withdrawal) earning income (though constrained), management (use pattern was dictated by the land use type and conditions specified in the lease certificate/contract) and exclusion. The right to transfer exclusion rights was also associated with the improvements that had been made, for a specified time and based on what the lease contract allows. Lease hold was permitted if its use conforms to the land use provision of the master plan of the town. The lease certificate specifies the type of land use allowed thus limiting the lease right to a specific use. A lessee was expected to utilise the land within the fixed time limit. For example the lease period for rental dwelling houses was initially set at 60 years compared to 99 years for private use to the disappointment of real estate developers until it was later improved. A lessee was unable to sublease or transfer the leased land even though it was al-

lowed in some of the regional proclamations. The lease proclamation stated that leased land was to be used as collateral or as an equity contribution equivalent to the paid amount. Nevertheless banks had resisted to comply on the issue of priority on claiming the property (use right) upon default of the debtor – who has priority to foreclose, is that the city government (the owner of land) or the bank - the creditor? The first lease proclamation forbids a lessee to collect higher income than the rent s/he paid. The lessee was required to pay the difference to the town administration. It turned to be one of the unenforceable provisions and was repelled in a later proclamation. The proclamations had some provisions to show that leasehold was no less than a free hold. However practically all these were restrained either from resistance by the banks, or stifled by attempting excessive control. The aim of excessive control was to check against speculative land markets; however none of the applied instruments were effective.

According to the opinion of some developers: *It seems we had reached a point of no return with regard to the lease policy. The time when lease was considered a monster seems to be subsided.* This was evidenced by the positive assessment of the lease policy in the Likert scale, which is a value of 2.2 by respondents from real estate developers. Many professionals and private businessmen /women had contributed to the later improvements on the lease land administration system. However it still had to undergo further improvements in extending the rights a leasehold provides including its modality of allocation, payment modality, the focus on utilisation of the lease system as a means of revenue source of the city, the information asymmetry, lack of transparency with regard to negotiation, and its being uncompetitive in the market etc. It had also created high uncertainty about what would happen after 3-6 decades to the buildings when some of them were built with loans. At this juncture it has to be noted that the path dependence on the institutions of the socialist military regime i.e. the continuation of government ownership of land, had contributed to tolerance on the part of the population to the time bounded use rights of the lease system. The problem was the institutional mono-cropping where by all the demands of the various sub markets and the needs of the different income groups, from basic shelter need to real estate development by developers, from global investment to local demands, all were attempted to be addressed by the universal application of the leasehold

institutions. Figure 12.1 illustrates the institutional path dependence and the extent of rights each land tenure system provided.

Figure 12.1:
Property right institutions - path dependency

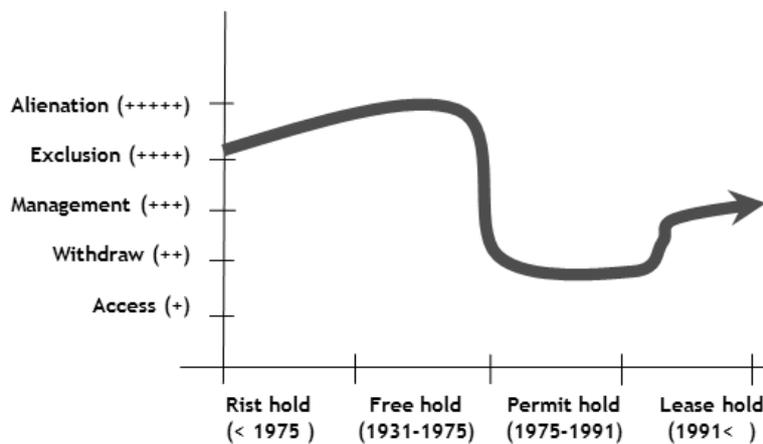


Figure 12.1 shows that *rist* hold and free hold co-existed in the imperial period. The *rist* hold is taken as a common property regime while the freehold belongs to the private property regime. However observing the extent of rights between *rist* hold and freehold, we concur with Joireman (2000) that what matters is not whether it is a common property regime or private property regime but the actual stream of rights available to the right holder. The flexibility of the *rist* system, the space it provided to allow informal practices by community groups of users, circumventing the rules as long as members meet their objective, makes the *rist* system excel in its ingenuity. The sudden fall in the extent of right streams in the transition from freehold to permit hold (administrative allocation) and to some degree the rise in the transition from permit hold to leasehold were both the results of ideological considerations rather than evolutionary cultural and institutional development. Another difference observed was that while *rist* hold, freehold and permit hold are all perpetual rights on land, the lease hold is for a specified time. The analysis on path dependence of institutions pertaining to the real estate market in Addis Ababa has shown that Ethiopia, specifically after the 1974 revolution, is a coun-

try where political and doctrinal purposes prevail over appreciation of culture, traditions and societal norms and practices.

12.3 Property Rights and Transaction Costs

Access to land and property right systems vary in the five case studies we observed. In the informal settlement-Worku Sefer, access to land was basically through the informal allocation by the executives of the peasant association (35.3%), and after 1988, through partial and whole sale of plots by former holders (44.1%). Initially the main actors – the settlers were allocated land by the discretionary power of the Executive Committee of the peasant association. *Dallalas* played a key role in the period after 1988 in facilitating transactions in the informal land/shack markets. For the majority of households who do not possess land holding certificates, the informal means used to give recognition of property rights include: plot allocation letter by the peasant association, village agreements by elders, receipt of tax payments, water and electric bills, and Kebele resident identification cards. The majority of respondents (92%) still paid land and property tax. The only factor related to tenure insecurity was fear of eviction due to construction of a planned road crossing the settlement from south west to north-east; which was a road proposed by the Revised Master Plan of Addis Ababa (2002-10).

Regarding exercising rights on property, only 2 of the 87 respondents used their property as collateral for bank loans. 29 out of the 87 (33.3 %) respondents said that they had no intention of making any improvements. The main reason given not to make any planned improvements was the lack of money (58.6 % of the 29 respondents). Two respondents replied: “*better to use it as it is, while staying informal,*” combined with lack of money. Together this later group form 13.8 percent of those not having future plans to invest on housing improvements. During the development phase, authorisation of building work was limited to maintaining only right of ways. In the second phase of development of the settlement, when the illegal land/shack markets continued, seller and buyer used either village agreements (witnessed by the elders) or went to the Akaki-Kality Sub City Administration or directly to Acts and Documents Office. The deed in some cases also served as a title document. This saves them 4-6 percent tax to be paid for the Sub City or to the City Administration in the form of capital gain tax upon transfer.

In the housing cooperatives of Ayer Tena the main group of actors in the case of legal cooperatives include: cooperative members, the organising Ministry of urban Development and Housing, Addis Ababa City Administration, and the Housing and Savings Bank. Informal group actors include: cooperative members of the illegal cooperatives, informal cooperative organisers, some technical staff and bureaucrats of the civil service, and *dallalas*. Access to land in the case of the informal/illegal cooperatives was made possible by the informal sector machinery which included illegal cooperative organisers and informal sub dividers (ex- or contemporary civil servants) with digitally assisted forgery experts. One of the *informal* cooperatives Debre Abay I, whose members amounted to 372 (the *mother* cooperative) did not have landholding certificates. 80 percent of the 200 members of Irimijachin 83 claimed to have land holding certificates. Only Mars 227 aided self help cooperative had been provided with title certificates. Informal means of recognition included: relying on the recognition by the community groups. *Dallalas* had played a role in facilitating transactions in the informal cooperatives. Much uncertainty persists due to the wide use of forged documents. It is expected that the verdict shall be given by the courts and will finally settle the tenure security issue.

Main actors in the case of real estate development by developers include: developers, consumers, and city administration. Other actors include: suppliers, utility companies, professional architectural and engineering consultants, contractors, banks, professional real estate consultants and to a lesser degree commission agents. Developers believe that it is beneficial for them to market their products by themselves rather than using real estate agents/commission agents.

Transaction costs with regard to real estate development by developers were analysed by using the following indicators: time needed to access land, time took to process authorisation services such as lease land holding certificate, planning consent, building permit, property transfer registration for both groups of *fortunate* and *unfortunate* projects. Time taken for land acquisition in the case of unfortunate projects show: 1-6 months (28.6% of respondents), 7-18 months (28.5%) and more than 36 months (7.1%). The cumbersome situations faced during land acquisition were: negotiation with former settlers, time lag for relocating former occupants, fixing amount of compensation, and settling the claims which arose. However, responding to the time taken to process authorisation

services mentioned above, 50 percent turned non-respondent for unfortunate projects while a corresponding non-response rate for fortunate projects was 85.7 percent. For those who responded, time taken to process authorisation services for the unfortunate projects ranged from 11 days to 5 years. The corresponding value for fortunate projects was from 7 days to 6 months. The other indicator was time elapsed until final court verdict was given on cases of contract breach. Among the five respondents who responded, the shortest it took was 6-12 months, while the longest duration was 2-5 years. The familiar response even for those who had a longer period of delays was: “*no big problem*”. Incomplete contracts and systematic breaching of contracts constitute major sources of complaints from the customers’ point of view. Breach of contract in this case was the result of inadequate regulations and the absence of a legal enforcement mechanism. Customers remarked that there must be a mechanism to redress the disadvantaged. They suggested a tripartite forum for customers, developers, and the city administration to be installed; and also the role of the consumers’ cooperative in the real estate markets need to be legally instituted. According to a survey by the consultant only 23.5 percent of respondents from the real estate developers bought leased land from the city administration, 20.6 percent of them acquired land through private leases and 44.1 percent said it was their former holding. Some calculation and arguing (Box 9.3) shows these latter groups which constitute 64.7 percent had somehow employed informal transactions.

In the case of real estate development by petty providers the main actors include provider/developers, consumers/tenants, city administration and former occupants. Other actors include professional consultants, contractors, property managers and banks. The introduction of the legal instruments for eminent domain since 2005 to facilitate assembling of large parcels of land for private development had helped to overcome transaction costs by mitigating holding problems and banning injunction orders from regular courts. However, previously there were court cases which took upto seven years. The rental submarket had been a growing market with unmet demands to satisfy its customers. Owners did not need to advertise, thus minimising their advertisement costs. Buildings were occupied before completion. 77.4 percent of tenants managed to find their new locations within less than 3 months once they decided to abandon their former locations. The tenants’ turnover was also not fre-

quent. Rents seemed to be relatively stable. 91.7 percent of disagreements were handled without third party involvement. From customers/tenants side, commission agents and *dallalas* were helpful in finding new business locations.

The history of Merkato had been one of getting access to business space. The main actors were businessmen (most of them organised in block associations), the sub city or city administration, resident communities of Merkato, Addis Ababa Chamber of Commerce, NGOs and international cooperation's. Merkato commercial center was marked by 90 percent public ownership of business houses. The businessmen were tenants. However the lease land proclamation and latter the Local Development Plan for the redevelopment of Merkato commercial center were two aspects of the institutional framework which became instrumental for change of tenure from public to private ownership. Businessmen established block associations to manage construction and management of the new commercial buildings. From the beginning principal-agent problems had manifested in the block associations between the executives (agents who are themselves members but engaged in covert activities against the objectives of the ordinary members) and the rest ordinary members of the associations. For example in the case of the Military Terra block association, the dispute turned into a court case and took about ten years to settle. Disputes against the big contestants need time and effort to settle. Trust among the established business communities of Merkato had helped in handling day to day transactions related to the redevelopment as well as their business routines. Disputes were usually resolved traditionally through arbitration by use of elders. Social network including ethnicity had a dominant role in Merkato business community. The creation of Business Improvement District and the Merkato Millennium Development Partnership embracing all the main actors were milestone achievements in facilitating the redevelopment project. 90 percent of respondents had remarked, what had been accomplished by the partnership could not have been achieved by the business community alone. 80 percent believe that the development and management issues that the partnership tried to solve still persisted. Nevertheless, the partnership role lost momentum after the 2005 election. The establishment of block associations in the form of Share Companies and Private Limited Companies just for the sake of managing the construction and administration of business buildings had imposed uncertainty in

property rights when a member had to enter into a rental contract for a building he jointly owns. Some interviewees including lawyers, who advised the businessmen, reasoned the lack of experience. A considerable number of the businessmen and lawyers initially considered the Share Company as a building cooperative/association.

The main information sources used by the business community in Merkato included peer groups (49.5% of respondents), family members (24.7%) and newspapers (21.5%). The role of *dallalas*, in the redevelopment project was insignificant. Hand greasing (bribery) to get land titles, building permits, utility line connections etc. had been a serious concern for respondents. 66.2 percent of respondents accept the need for hand greasing.

One very important organisational arrangement relevant to our discussion on transaction costs in the Addis Ababa real estate market is the establishment of the Documents Authentication and Registration Office (notary office) in 2003 (Proc. 334/2003) and later its reestablishment under the Ministry of justice in 2005 (Proc. 467/2005). The office was first organised as a functionary unit of Addis Ababa City Administration under the name of Acts and Documents Registration. Since then the office had brought tremendous changes in efficiency improvement in registration and authentication services which had been for long the most cumbersome, bureaucratic and corruption-prone service of the City Administration. From 2005, the office was under the Ministry of Justice. Following this organisational arrangement, transacting parties on real property have to register their agreements or contracts (deeds) in this office and ask for their land title from the Land Administration and Building Permit Authority of the City Administration or the respective Sub City Administration. A marked difference was observed between the two services. The one which processes the deed registration i.e. the Federal Notary Office was characterised by being efficient and transparent that it deserved to be referred as the *diamond in the dirt*, whereas the Land Administration and Building Permit Authority was considered not yet transparent and efficient. In addition the former would only require a nominal service charge and stamp duty; for example 0.5 percent for lease transfers and a payment of only Birr 5 stamp duty for a house sale. The later requires 4 percent in the form of capital gain tax and 2 percent sales tax. This is a substantial amount of money on a house sale of a million or hundred thousand Birr. The Documents Authentication and Registration

Office (the Federal Notary Office) was accountable to the Federal Ministry of Justice, while the Land Administration and Building Permit Authority was accountable for the City Administration. Therefore transacting parties prefer to go the former and they remained satisfied with the deed until having the title become indispensable. It is part of the standard procedure of the Notary Office to request an explanation from the respective sub city administration on the legality of the holding, whether the structure built is according to the permitted plan, whether the current land/property tax has been paid, and if the property is free of injunction orders or restriction orders or whether it has a mortgage etc. However technicians of the sub city administrations have more incentive to give wrong information to an external body. Small wonder most of the lease transfers among developers had been registered by the notary offices but transacting parties had not visited the city administration for the issuance of the titles. As a result a huge gap was observed between the number of transactions on real property which had been registered at the notary offices and those who had requested titles at the authority of the city administration. This had been experienced by most transactions including Worku Sefer and real estate developers alike.

12.4 The Behaviour and Role of Intermediaries

Intermediaries can be defined as actors who facilitate transaction between seller and buyer by bringing them together and communicating information. Among such intermediaries can be mentioned: real estate agents, commission agents, and local brokers (*dallalas*). The few real estate agent offices which had once been established with the awakening of the real estate market had gone bankrupt no sooner than they were established. As Levitt and Dubner (2009) noted, when a cheap informal market is available for a product, then the formal market for the same product ceases to function. The next highest number of intermediaries belongs to commission agents. According to the database of the Bureau of Trade and Industry of the City Administration of Addis Ababa, there were 93 commission agents registered in November 2010. Upon a random check as to whether they were operating, 45 percent of them had either returned their license or had not gone operational. Some of the commission agents were more professional in their office set up and were licensed, while the difference between the remaining commission agents and local *dallalas* was vague. Some commission agents had special-

ised services that they render which include: advertising, tour companies, customs goods transfer, product sales (including building materials such as wall panels and claddings), mortgages and insurance, and agricultural marketing etc.² The bulk of intermediaries constitute the local brokers or *dallalas*. These later groups are contactable solely via their cell phones, most do not own offices.

The local brokers (*dallalas*) not only constitute the main intermediary actors in the real estate markets of Addis Ababa but also serve as the very core foundation of informality. In a stretch of not more than three kilometers of road from Megegnagna square to Meri-luke along the CMC road, 25 billboards were placed by local brokers in the median of the road, with only their cell phone numbers and obscure names. Some billboards even were carrying the inscription: “*house and land broker*”. These *dallalas* operate the real estate market in the eastern sector of Addis Ababa. More billboards could be found also along the road to Sebeta, a hot spot of land market. The sanctity of land in the constitution of FDRE seems to enjoy less respect in these informal markets.

Dallalas in Ethiopia and particularly in Addis Ababa have no specialisation. A single *dallala* can be engaged in every sort of transaction from assisting to look for a housemaid to bring together marriage partners, from machinery to car deals, and from house sales to land sales. Since the income of a *dallala* is as wide as the variety of services he furnishes, most *dallalas* are comfortable with their current role. Similarly those in the real estate market have no area of specialisation, they can engage in residential, commercial as well as industrial real estate. Some respondent *dallalas* and local brokers disagree on this. They argue that a *dallala* working on car deals needs to possess knowledge about cars, the model, the year of service etc. They explained a *dallala* with experience with house deals or land cannot indulge himself in car deals, what happens is that this *dallala* when approached by a potential car buyer or seller, will contact another colleague specialised in car deals. For example most of the brokers/*dallalas* around the National Theatre (city centre) are specialised in car deals while those along the CMC road and Meri Luke (expansion area of the city) are specialised on land/house deals. One of my potential interviewees was too sensitive, so that day-after-day of continued appointments, when I finally managed to meet him, he pointed towards his new billboard which reads: “*marriage partners specialisation*” and told me to leave since he was not in the real estate business anymore. The power of

dallalas is not to be underestimated. A *dallala* can mess up your family life by threatening the maid to abandon you at any time without notice.

There are no specified academic or professional qualifications to be a *dallala*, however, there are some personality traits required to be a good *dallala*. Based on the interviews with *dallalas* (refer to list of interviewees), these include: being smart, articulate enough and able to convince, honesty, being mature and self controlled, having a wide social network and responsible mindedness or being able to be aware of the consequences of his actions. Some have a strategic view of their trade in the future. They want to apply information technology and develop websites for their businesses and engage in international broker services. Few of the brokers have a small single room office, with a computer which they use for secretarial services and store photo pictures of the houses for their listing. Some have actually introduced on-line services. Such brokers complain about the resistance of sellers for not letting them take pictures of their houses to post on their websites. Some are organised in brokers' cooperatives.

A very interesting phenomenon is the rise of a new class of brokers who transformed themselves into investors in the real sense of the meaning. Such investor-brokers would promptly rent or purchase a house or land of a needy owner by themselves and then let the house or sell it. They would lure the needy owner by offering him a slightly higher rent rate than the reserved price as an incentive; and manipulate him to enter into a five years contract. Once the rental contract agreement is made between the owner landlord and such broker, the relationship between the land lord and tenant would be replaced by the investor–broker and tenant. The investor-broker as the new landlord capitalises on his capability to have information on market price change. The owner will be obliged to receive only the original rent rate for the five years or so. Sometimes agreeing with a little increment, the contract between the broker and landlord would be extended. But, if the owner becomes problematic, the investor-broker had every advantage such as knowing all the legal provisions relevant to a contract agreement and having connections in the judiciary to threaten him. Such investor-brokers were estimated to be not more than one hundred in Addis Ababa. All other *dallalas*/brokers were satellites or terminals in the wider network of such investor-brokers. Whatever potential buyer or tenant they come across they would take them to such investor-brokers. Most of the G+2-4

houses or mixed shop and office blocks had been managed through such investor-brokers.³

With no code of ethics and no criteria for their qualification this is the most *ungoverned market* of all occupations in Addis Ababa. Those who once had licenses prefer to work without it. In fact most of them had returned their licenses. Even though some provisions were provided in the Civil Code 1960 (Art. 2199-2265) and Commercial Code 1960 (Art. 28-62) about agencies, commission, and commercial brokers; the trade seems to be no creation of any law what so ever. It seems that it only hangs on the need of sellers and buyers for an intermediary. Some *dallalas* specialised in some part of the city could provide counterfeited receipts for land sale, thereby raising the land price in those localities as compared to other localities who could not produce such receipts. A *dallala* not only advises his/her client on the price but also how to circumvent the bureaucracy and the formal rules to save some money.

The general services rendered by brokers include: assisting buyers and sellers in sale, purchase, rent or lease; assessing the quality of houses, valuing and assessing the feasibility of the deal; price negotiation, making up contracts and handling the necessary paper work etc. Fee/rates depend basically on the price of the good, property or service delivered and type of service. Remuneration is paid on a commission basis as a percentage of the transaction price, usually 10 percent for rent and 2 percent for house sale and also for car sale. The commission is fixed in such a way that if a tenant agrees on Birr 3,500 monthly rent and pays three months rent in advance (this might imply 6-12 months guarantee not to be kicked out), the commission payable to the broker/*dallala* would be about Birr 1,050. Payments are made directly for the broker upon the sufficient delivery of the goods, property or service. However often *dallalas* serve both seller and buyer and they earn their 2 percent commission from both seller and buyer making it 4 percent. By dealing with both parties in one transaction, they unfairly fix the price with an opportunistic behavior (raising the asking price too high and see what the other party offers) and no concern about being impartial.

Among the most unethical aspect of a broker service in this respect is when a *dallala* approaches a seller (or by the initiation of the seller himself/herself) and asks the seller to keep *ferq* for him *i.e.* make a promise to let him keep the difference if he succeeds in selling it above the reserve price of the seller, for which he will in return not require commission.

This deal is made after knowing the reserve price of the property owner or aiming to win advantage of information asymmetry on price rates. The *dallala* imagines that the seller had underestimated the reserve price, and he, the *dallala* knowing very well the current price of the house and/or the plot in such location, seeks to take an extra advantage. A similar comparison was made between the Ku Klux Klan and a group of real estate agents by Levitt and Dubner (2009). Such a deal has its own characteristic: first, the seller being a relative or an associate could let the *dallala* benefit from the transaction; second, much time might elapse until the *dallala* finds the price he is looking for. In this process the *dallala* might lose his customer by keeping him waiting for too long. A danger in the business is when one *dallala* intervenes in another *dallala*'s deal that had established a contract (not necessarily written) with one of the transacting parties or both. Then this might lead to turf war and dangerous vendettas. The same happens if a seller or landlord refuses to pay what he promised. The consequences might be fatal.⁴

The majority of brokers/*dallalas* are one-man operators with no assistants and employees. They acquire information on buyers' demand when customers come to their office, or through informal networks of people used as informants (which might be paid as commission), or through requests made on phone. Despite the legal requirement on agreements for broker service to be in written form, most brokers rely on trust. Most of them do not focus on a specific area but may be endowed with knowledge of available land and houses in a specific locality. For example a *dallala* may possess detailed knowledge about the opportunities available in Bole and Yeka sub cities. Clients of *dallalas* mainly belong to the middle and high income people. The diaspora group constitutes the major share of customers. Most customers look for land plots to purchase, which is not surprising. This goes back to the last years of the *Derg* period (since 1986 in Addis Ababa), even when land was administratively allocated, it had been a common practice by most house builders to purchase land plots in the informal markets. Still informal transactions of land play a dominant role in the real estate market of Addis Ababa. With huge unsatisfied demands due to availability of fewer numbers of plots for auction in the formal markets, infrequent land lease auctions (refer to Table 12.1) and allocation of minimum sized residential plots through a lottery system being abandoned, the consequences of denying this market might be unpredictable.

Public opinions are not so favorable on the role of *dallalas* or brokers. They consider them as people who garner easy money at the expense of the sellers'. They are taken as people who do not respect their contract obligations. They abandon you in the middle without any excuse. On the other hand *dallalas* or brokers complain about such unfair opinions starting from the use of the very name *dallala*, which connotes *a cheat*. The brokers explain that their services are not as such easy jobs and they also involve risks. If the goods, property or product is not legal, say for example a house with a counterfeit title documents, the consequences might be serious for them too. Some sellers or buyers default not to pay after they received the goods, property or services. Brokers complain not being given protection by government against such defaulters even if they carry legal licenses. Brokers also explain their positive role in raising government revenue. In the case of a house sale, since most of the sales are carried out by village agreements or elders' agreements before going to the public notaries, it is a requirement later by the public notaries to submit an estimate by a technician from the sub/city administration. Since the technician's estimate excludes land and is based on engineering estimates of only the house structure; a house actually sold for a million Birr can be estimated to a hundred thousand Birr which might result in a tremendous deduction of the sales tax and capital gain tax. So honest *dallalas* (it might also be for fear of disclosure) might insist on the actual price. The same happens with the sale of lemons (used cars), which are often estimated in a range of one tenth of the actual selling price by the technicians from the respective public authorities. Sometimes the valuator from the public sector himself processes the registration of the transfer as the agent of the seller. Because of such positive role of brokers, they have been frequently double crossed by transacting parties; finishing every process by themselves and making the *dallalas* lose their fees.

The role of intermediaries, with regard to the specific case studies, *dallalas* had played key roles in the facilitation of transactions in the informal land/shack markets in Worku Sefer, particularly in the period after 1988, when growth of the settlement was shifted from peasants' allocation to market transactions. In the cooperative housing in Ayer Tena, brokers/*dallalas* were useful with the informal cooperatives. Their role together with the informal cooperative organisers during the formation stage of the cooperatives and later with the house sales, had helped the growth of the settlements. However the role of commission

agents/brokers in the real estate development by developers was not significant. This was confirmed by the response of developer respondents. It was observed that developers believe that it is beneficial for them to market their products by themselves without the use of commission agents/brokers. Also interviews with commission agents/brokers show that they do not have working relationships with developers. In the case of real estate development by providers, even though, owners do not require the services of brokers/*dallalas* to market their business spaces, from the customers/tenants point of view the role of brokers had been important in searching for rentable rooms for offices, shops and other services. In the case of Merkato commercial center redevelopment, the role of commission agents/brokers with respect to the redevelopment process and marketing of rentable units was limited. This shows that social networks in the form of families, relatives and peer group members play a more important role in information flow in the real estate market of Addis Ababa than the formal marketing services (real estate agents, broker services) which had not yet been developed.

12.5 Role of Government and Governance Structure

The role of government includes: encouraging efficiency and reducing transaction cost (deal with imperfect competition, externalities/spillovers), public goods including peace, security and taxes; to promote equity (market outcomes are not necessarily socially fair or equitable), and promote macro economic growth and stability aiming for full employment, price stability, and economic growth through fiscal and monetary policies. In order to perform such roles, the government needs to establish and enforce rules of the game (institutions), safe guard private property, enforce contracts, make sure market participants play fairly and abide by the rules of the game, and maintain a more equal distribution of income (a basic standard of living for all households) (McEachern 2003). Regarding property, government is often granted with rights to tax, to claim property for public use, to control the type of use (basically to regulate externalities), and to dispose of the property in case of death.

Khan (2002, 2003) categorises most of the above mentioned roles of government under his *service delivery view* or *liberal market consensus view*. According to this view, states have to protect stable property rights defined by strong contract enforcement, low expropriation risks, and low corrup-

tion to generate growth. Khan accepts the importance of the service delivery role in its own right. However based on his *social transformation view*, he sees the state as an instrument in the hands of contending classes, groups and political entrepreneurs competing to capture resources and steer the transformation of essentially pre-capitalist and pre-industrialist societies into a dynamic capitalist economy. He upholds the stance that such states have the capacity to alter property rights in the interest of growth.

Based on the above mentioned typical roles of government, seven sub-indicators have been used which can be grouped under four indicators which include: service delivery, property rights, transaction costs, and promoting growth partnerships. Property rights as an indicator had been operationalised as claimed and actual issued titles, and safe documents (counterfeited or authenticated titles). Transaction costs included a search for information, processing of the contract (ex-ante), interruption and delays on the handover of the site (ex post) including the time elapsed in court cases, stringency/facilitation of easy entry for new entrants including licensing. Service delivery was operationalised as infrastructure provision and authorisation services. However as discussed under the sub topic on property and transaction, the number of non-respondents to indicators of transaction costs was so high that it impeded valid generalisation or in some cases it had turned difficult to quantify. Therefore in addition to the previous narration on both property rights and transaction costs it would be much easier to use the assessment by respondents of the five case study projects. Refer to Table 12.1. Accordingly, indicators 2, 5, 6 and 7 were used as proxy indicators for transaction costs, while number 3 is used for property rights and the rest are self evident. The median value of each group of actors for an indicator or group of indicators has been used. Favorably assessed roles are shown by encircled mean values in the Likert scale in the table. Cross-case results are presented in the Likert scale of 1 (indicating a high positive value i.e. very satisfied, very high, very appropriate) to 5 (indicating a high negative value i.e. unsatisfactory, very low, and not appropriate respectively).

Table 12.1:
Respondents' assessment of government role

No.	Aspect	Mean Values in Likert scale						
		Worku Sefer	Ayer Tena	Real estate dev.		Petty providers		Merk. Com.
				Dev.	Cons.	Prov.	Tenat.	
1	Satisfaction on the service delivery of the city administration	2.9	2.7	3.2	3.2	3.8	3.8	3.2
2	Conduciveness of legal rules and regulations for new entrants in the real estate sector Conduciveness of legal rules and regulations pertaining to real estate development Conduciveness of legal rules and regulations to involve actors in the development of Merkato	-	-	3.7	3.3	3.4	3.2	3.7
3	Sufficiency of number of plots and frequency of public auction for land lease Sufficiency of public allocations of residential plots as compared to number of applicants	3.6	3.8	3.8	4.2	3.6	3.3	-
4	Role of government in promoting growth partnership in terms of breadth (quantity) and depth (strength)	-	-	3.5	2.8	3.6	2.9	3.2
5	Institutional enforcement capacity of government: in terms of professional manpower	3.2	3.3	3.9	3.6	4.1	3.4	3.3
6	Institutional enforcement capacity of government: in terms of issuing appropriate (enforceable and affordable) rules and regulations	3.0	3.4	3.9	3.7	3.5	3.1	3.3
7	Institutional enforcement capacity of government: in terms of legitimate violence e.g. use of police force to evict and demolish informal settlements	3.7	3.7	3.0	3.3	3.3	3.4	3.5

NR= Non respondents are excluded from mean value computation

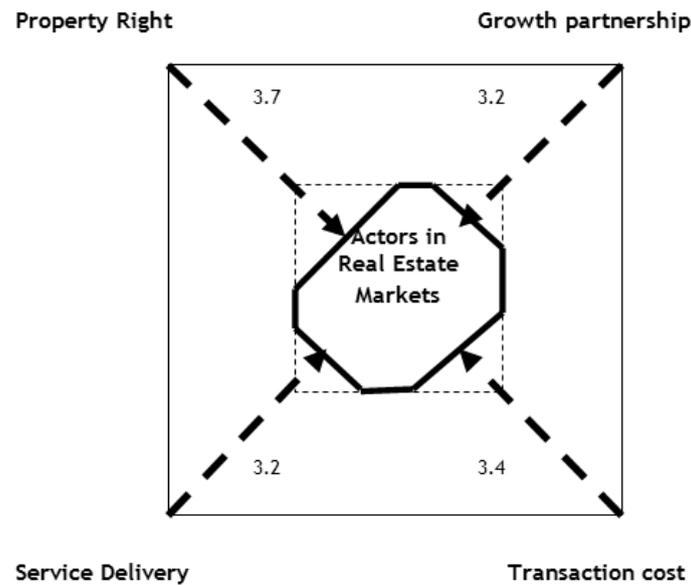
Source: Own computation on field survey data (July 2009-July 2011)

Accordingly save assessment of the satisfaction on the service delivery of the city administration by respondents from Worku Sefer and Ayer Tena; and assessment on the role of government in promoting

growth partnership by real estate consumer groups and tenants of petty providers, all assessments show to a lesser or higher degree an unfavorable assessment. Exceptionally, a mean value of 3.0 (appropriate) is given by real estate developers on the use of legitimate violence to evict and demolish informal settlements. This is in fact the only positive assessment on this indicator by the whole group of actors. The highest negatively assessed aspects include: sufficiency of plot allocation for residential use or on sufficiency of number of plots and frequency of public auction for land lease which had been assessed with mean values ranging from 3.3–4.2 (the median being 3.7). Another highest unfavorably assessed aspect is the institutional enforcement capacity of government in terms of professional manpower. This has been given mean values ranging from 3.3–4.1 (the median being 3.4).

Another high-negatively assessed aspect is institutional enforcement of government in terms of issuing appropriate (enforceable and affordable) rules and regulations. This has been assigned mean values ranging from 3.0–3.9 (the median being 3.4). Another high-negatively assessed aspect is the institutional enforcement capacity of government in terms of using legitimate violence. What has been given as an example was use in evicting and demolishing of informal settlements. This has been assigned mean values ranging from 3.0–3.7 (the median being 3.4). Other negative assessments are specific to certain groups of actors. For example petty providers and tenants on the service delivery of the city administration (mean values of 3.8 and 3.8 respectively), developers and petty providers' assessment on the conduciveness of legal rules and regulations for new entrants in the real estate sector (mean values of 3.7 and 3.4 respectively), and developers and petty providers' assessment on role of government in promoting growth partnership in terms of breadth (quantity) and depth (strength) (mean values of 3.5 and 3.6 respectively). Figure 12.2 shows the results in the framework for the study of government (hierarchy) as coordinating institutional arrangement.

Figure 12.2:
The analysis of hierarchy as coordinating institutional arrangement



Regarding service delivery, an additional opinion survey of citizens, customers and real estate developers according to the consultant report (INFODIS Consult, 2009) shows the following as problematic areas: the frequent change of land regulations almost every month rendered unpredictability and became an obstacle for developers, frequent turnover of staff resulted in lack of institutional knowledge and deters service delivery, and inefficient service delivery and ethical problems on the part of employees and officials of the City Administration (see Annex 7 and 8). Regarding professional manpower, while visiting some of the sub city administrations to collect data, it was witnessed that even those educated in urban management to serve in the public sector had abandoned their jobs to join the private sector.

It has to be noted that these are results of a synthesis on analyses of responses of 530 respondents that were taken from all walks of life including: from an unemployed or casual laborer in Worku Sefer to a mul-

millionaire investor; household heads whose monthly family incomes varied from less than Birr 100 in Worku Sefer to Birr 30,000 of a white collar worker in Ayat Mender. Their role in the real estate sector also varied from being a squatter to a housing estate developer. The data collection was carried out with assistance from various higher education institutes. Some of the questionnaires for certain groups of actors were self administered i.e. filled in by the respondents. These respondents were also asked how they found the formal rules and regulations pertaining to the real estate market as compared to their expectations. The findings are shown in Table 12.2.

Table 12.2:
Comparison of actors' expectation and the formal rules and regulations

No.	Cases & Actors' Group	Found them		
		Facilitative	Restrictive	Appropriate
1	Informal settlement - Worku Sefer	20.5%	9.1%	64.8%
2	Cooperatives housing - Ayer Tena	26.8%	14.6%	43.9%
3	Real estate development by developers (customers)	20.7%	46.7%	31.5%
4	Real estate development by petty providers(tenants)	18.8%	6.3%	75.8%
5	Merkato commercial center redevelopment	22.4%	24.7%	52.9%

NB: Percentages may not add to 100% b/s of non-respondents and other responses e.g. "I do not know about law"

Source: Analysis on field survey data (July 2009 - July 2011)

Even though most respondents do not classify the formal rules and regulations as *restrictive* except the real estate customers, they also did not classify them as *facilitative*. Classifying as non-facilitative, and in the mean time, considered as *appropriate* seems very paradoxical. However one can be very certain about them being not *facilitative* compared to them being *appropriate*. Two groups of actors do not consider them *appropriate*. Developers and petty providers were also asked to evaluate specific legal provisions. Table 12.3 compares responses of developers and petty providers.

Table 12.3:
*Comparison between real estate developers and petty providers on
 assessment of some legal provisions*

No.	Legal provisions	Developers	Petty providers
1	Urban Lease Proclamation	2.2	2.9
2	Investment Proclamation	2.2	2.4
3	Rights of foreign nationals of Ethiopian origin on their country of origin	2.1	2.6
4	Regulation to provide land for real estate (Addis Ababa city Government)	3.2	3.2
5	Expropriation of land holdings for public purposes and payment of compensation Proclamation	3.2	2.5
6	Proclamation to provide for property mortgaged or pledged with banks	3.3	3.3
7	Value added tax Proclamation	3.6	3.0
8	Income tax Proclamation	3.1	3.0

NB. Assessments show mean values in the Likert scale

Source: Own computation on survey data (Oct.2009 - July 2011)

The comparison in Table 12.3 shows a marked difference between the two supplier groups. With regard to the urban lease proclamation, petty providers have other alternatives (e.g. buying a house on a large former plot located along a major axis) to assemble land for (re)development. In addition the lease price especially through auction is exorbitantly high compared to lease price for real estate developers for sites at the periphery. Land required for real estate developers is so large that the usual means of assembling land is through lease sales. Contrastingly the assessment on legal provisions for expropriation of land-holdings for public purposes and payment of compensation is quite different by developers (mean value of 3.2) and petty providers (mean value 2.5). The possible explanation is that since petty providers are operating by redeveloping the already existing built up area, the legal provision is dearer to them than for developers who usually need to assemble large unbuilt plots on peripheral locations. Another big difference is the assessment of the Value Added Tax which is 3.6 by developers for which they seriously complain since it affects the purchasing power of their customers, who are using their product as a residence and not as a source of income. The respective assessment by petty providers is 3.0. Petty providers are not as enthusiastic as developers on the legal provisions on rights of foreign nationals of Ethiopian origin on their country

of origin (2.6 to 2.1). Developers considered the diaspora group as their major customers as they are most often ready to pay in cash. Despite such differences both groups are similar in their more favorable assessment of the lease proclamation, investment proclamation, and the proclamation for the rights of foreign nationals of Ethiopian origin on their country of origin. Measures taken by the city government in response to informal practices in each case study are shown in Table 12.4.

Table 12.4:
Reaction patterns of city administration on response to informal practices

No	Case study	Reaction
1	Informal settlement - Worku Sefer	Oblivion - passive tolerance - incorporation
2	Cooperatives housing - Ayer Tena	Illicit support[i]-passive observance - crackdown - active persecution - incorporation?
3	Real estate development by developers	Explicit support - withdrawal - crackdown - active persecution
4	Real estate development by petty providers	Illicit facilitation - passive observance - explicit support
5	Merkato commercial center redevelopment	Explicit facilitation - partnership - gradual withdrawal -?

[i] Illicit support by some technocrats and bureaucrats
Source: Field survey data (Oct.2009 - July 2011)

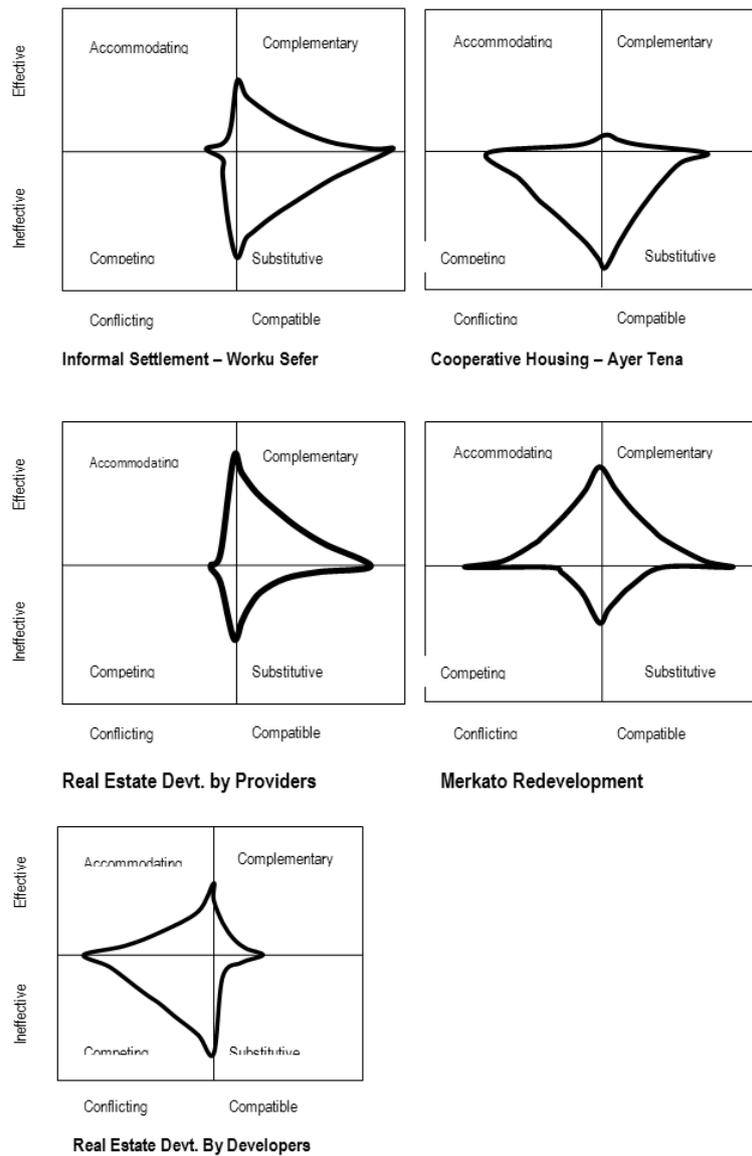
12.6 Actors Behavior under the Influence of Formal - Informal Institutional Interface

An attempt has been made to generalise about the behavior of actors in the transitional real estate markets of Addis Ababa. The set of actors is limited to the major actors specifically which belong to consumers, producers (developers and petty providers), and the city administration. In the case of owner occupiers (both cooperatives and community action in the case of Worku Sefer) the major actors included informal organisers, consumers and the city administration. The city administration is a component of the main actors, not only because of its role as provider of infrastructure and services, or by being a provider and enforcer of the rules of the game, or authoriser of the development process and guarantor of property rights but also for the very fact that it has a stake in every

urban development activity. The investigation proceeded by noting if some patterns could be observed between the models for formal-informal institutional interfaces and the respective activities, routines (re-current interaction patterns) of the respective actors. Figure 12.3 illustrates the models for the respective institutional interface.

It is possible to discern some pattern in the formal-informal institutional interfaces when comparing each model with the reaction patterns of the city administration as shown in Table 12.4. All competing informal institutions for example in the cases of cooperative housing in Ayer Tena and real estate development by developers were confronted with crack down and persecution measures by the City Administration. The behavior of actors under competing institutional interfaces is characterised by being competitive. They tend to pursue conflicting goals. Different incentives worked behind such activities on the part of the informal actions of actors. The institutional limbo created around 1993 by implicit suspension of former formal rules and procedures pertaining to housing cooperatives, resulted in an institutional void whereby the informal cooperative organisers captured the situation as opportunity. Institutional void turned to be worse than ineffective formal institutions. Most housing cooperatives, even though found at different stages of land acquisition, were incapacitated being abandoned by their members due to changes in the bank's policy on interest rates. The informal cooperative organisers filled the gap. They succeeded to pull some people that were not only in need of housing but also could pay what was asked. Most of these potential owner-builders were people with a low level of education and self-employed with relatively better incomes. It is possible to say that the activities of the informal cooperative organisers showed that informality had advanced to a higher level of contravening the formal rules and regulations. Never before in Ethiopia, was counterfeiting and forgery so wide spread using modern digital technology. As a consequence many individuals, technical staff members and officials of the authorisation bodies of the City Government were placed behind bars. Perhaps they belittled the competency of the new government at that moment.

Figure 12.3:
Modeling Formal-Informal Institutional Interfaces



Incentives for real estate developers engaged in misuse of large tracts of urban land was created by reckless licensing and provision of large tracts of land without follow up and monitoring on the part of the City Administration. It was also disclosed that no information was available on the activities of the developers in some of the Sub City Administrations. Findings show that most of them were able to acquire large tracts of land informally. For those for whom land was slated by the City Administration with nominal lease prices and sometimes freely, they were in a dilemma on how to use it in the face of lack of loan finance, exorbitant increase in prices and shortage of basic building materials, as well as lacking the entrepreneurial knowledge and skills required as a developer. Experimental findings from behavioral economics show subjects value a good more if it is part of their endowment than if it is not (Thaler, 1980). They never easily give up what constitutes their endowment. Therefore some of them sold it or transferred it (through payment) to another developer without any added value.

Another observation, that of the substitutive informal discretionary allocation of land by the Executive Committee of Abu Chefe Peasants Association under the leadership of Ato Worku Debelu was not driven by vested interests on the part of the leadership. Though their action was met by repeated imprisonment of the executive members, the informal settlement had been finally given de facto recognition and the settlement they created was incorporated as an urban settlement even by the socialist military dictatorship (refer to Table 12.4). No other explanation can be given for the de facto recognition unless the self help effort of the community was appreciated in solving their shelter problems and creating an orderly settlement with the necessary basic facilities. For the settlers the main incentive for their cooperative endeavor was the allocation of land in a location which was relatively better connected to the main city without the exclusionary requirement of the bureaucracy such as a deposit of 20 percent of the house construction budget in blocked bank accounts, unaffordable standards, standardised copies of house plans with their bills of quantities for approval, and cumbersome procedures. By the same token, their counterpart action on the part of *illegal* housing cooperatives in Ayer Tena, which was partly substitutive when viewed from the members' perspective, would have deserved incorporation. In both cases their effort was to satisfy one of the basic needs of human beings - shelter. The corresponding behavior of actors can be character-

ised to be cooperative since they both aimed to attain compatible goals of shelter provision. As a government, taking legal measures to punish the informal cooperative organisers in pursuit of enforcing law and order might be justifiable; however the issues of the owners and occupiers need to be of concern. When the survey took place, the final legal decisions/verdicts had not yet been reached.

The case of real estate development by petty providers is another important case study to investigate actors' behavior under the formal-informal institutional interfaces. It can be observed in the model that the interface is characterised by being complementary and not significantly substitutive. The major incentives for petty providers had their origin in the proclamation for provisions of plans and the proclamation on expropriation of land holdings for public purposes (including private investment) and payment of compensation for which the amount was decided administratively. However some of these actors being sensitive to social capital tried to buy the land (*buying the house*) through bargaining with the occupier-owner in their effort to acquire land for (re)development. Such prices could be the second best price to the seller, next to what s/he could have gained through free willing market transactions among sellers and buyers. However most petty providers especially if they did not share social relations with the seller before, could prefer to follow what the formal rules provide. In an environment of complementary institutional interfaces, actors' behavior tends to be cooperative since they pursue compatible goals. However, the predominantly complementary aspect of the interface needs to be investigated with caution. It might lead to a *redistributive combine* (term used in De Soto, 1989) characterised by opportunistic and rent seeking behavior through which access to enterprises and privileges are determined through lobbying and corruption in persuading politicians to create rents on the part of the developers, and/or consultation with privileged economic groups in the part of politicians. On the one hand De Soto denounces this as the modern version of the mercantilist redistributive system while on the other hand, Khan (2002, 2003) upholding the capacity of dynamic states to organise ring-fenced transfers, supports such reallocation of rights on resources. Nonetheless, such transfers as witnessed with the case of the real estate developers do not always result in efficient and effective utilisation of resources.

The case with Merkato commercial centre redevelopment provides the ideal interface characterised by competitive and substitutive aspects while striving to achieve more accommodating and complementing institutional interfaces. Actors' behavior under accommodating and complementing institutional interfaces are characterised by being competitive and cooperative at the same time. The incentive for the businessmen in Merkato was the possibility of tenure change from public ownership to private rights. This was made possible by opportunities in the institutional framework which included the lease land administration and the local development plan of Merkato. Urban planning in a free market economy serves as a forum for a process through which different urban actors bargain, negotiate and compromise over the distribution of scarce environmental resources such as land, infrastructure and services. Action processes of bargaining, negotiating and compromising need to be taken as routines in the planning process rather than challenges to the status quo. The Merkato Millennium Development Forum created such a forum for negotiating and compromising. It helped to dissipate tension between the businessmen and the City Administration. Conflicting opinions were resolved through discussions in the meetings of the task force. Therefore before interests of the major parties went astray and ended up with either competing or substitutive resolutions they were negotiated and consensual agreements reached. Hence, all parties practically were trying to enforce the formal rules and regulations. This is the ideal institutional interface promoted by the institutional governance arrangement created to implement a redevelopment project. Through negotiation and participation of the businessmen much improvement was made on the lease proclamation and the local development plan of Merkato. The abandonment of the partnership and the gradual withdrawal of the City Administration might be a regrettable step which could be counted as throwing the baby out with the bath water.

12.7 Goal Achievement

The goal achievements of actors of each case study project have been assessed from the perspective of the actors involved specifically from consumers' perspective. Goal achievement results or outcomes vary among case studies. Table 12.5 summarises the goal achievement of actors in all case study projects.

Table 12.5:
Case study projects - Summary of sufficiency of housing and availability of services

No.	Degree of quality/availability	Mean values in Likert scale				
		Worku Sefer	Informal cooperative		Ayat Mender	Urael-Bole (tenants)
			Irimijachin	Debre Abay		
1	Size of plot	2.8	3.0	2.6	2.8	3.1
2	Number of rooms	2.9	3.0	2.9	2.8	2.8
3	Internal electric supply	3.0	3.5	2.9	2.8	2.8
4	Internal water supply, toilet facilities & sewage treatment	2.9	4.1	3.5	2.9	2.8
5	Telephone & internet connection	3.0	2.9	3.4	2.9	3.0
6	Roof, wall and floor conditions	3.0	3.0	2.8	2.7	2.2

Source: Own computation on field survey data (Oct.2009 - July 2011)

Results show more than anything else, how actors appreciate/adore the outcomes of their efforts in satisfying their aspirations rather than architectural or engineering assessment of the quality of the structures. According to the assessments by the Ayat Mender residents, Urael-Bole tenants, and residents of the consolidated informal settlement -Worku Sefer, rank in satisfaction in their consecutive order from high to low. Residents of the informal housing cooperatives in particular Irimijachin 83 ranked low in their satisfaction.

Notes

¹ Co-dwelling is an arrangement in which a tenant of a public (nationalised) house or owner of a private house will let somebody as cohabitant in return for monthly payment. In reality it is a rental arrangement, however since the proclamation for nationalisation of urban land and extra house forbids a land lord – tenant relationship, it was a mere change of vocabulary.

² Interviews with a real estate agent, commission agent and dallalas.

³ A very important interview with a commission agent Ato Abiyot (literal meaning *revolution*, he might most likely have been born during the socialist oriented military regime)

⁴ A very important interview with a senior broker operating around Sumit Soft Drinks Factory and Meri-Luke kept anonymous on the grounds of respondents' security

13.1 Conclusion

From the new institutional economics perspective many scholars have noted the role of institutions in economic growth of a country. Both formal and informal institutions exist in interrelatedness, complementarities and are mutually reinforcing. The informal norms are specifically more related to a unique culture of a society. Institutions are rooted in a culture of the society in which they exist. As Weisner (2000:142) noted,

Culture is a mixture of shared values and beliefs, activities organised in daily routines of life, and international experiences that have emotional meaning... [Cultures] they are hardly monolithic and uniform.

Some governments in African states have been struggling to clutch at the developmental state view which has been claimed to be the ideological drive for the economic growth in emerging economies in South East Asia. The United Nations Economic Commission for Africa in its 2011 edition of Economic Report on Africa suggested that states should be major actors in determining the overall direction of development, initiate leap growth, and serve as a vehicle for sustainable development to bring economic growth in Africa. Might this unleash a new wave of evictions due to abuse of the eminent domain, like the urban renewal wave of the 1970s which accompanied neo liberalism? What is the role of eminent domain in between the drive for the activist state and promotion of community initiatives in the management of, say for example, land resources?

It is true that our assumptions in the 1970s about what *urban* is, no longer hold water. Even Khan (2002) an advocate of the developmental state and its role to change property rights in the interest of growth by using its legitimate violence power, makes a cautious note that the exer-

cise of state by re-allocating rights from above with compensations determined bureaucratically, in theory, as it significantly improves efficiency and growth, could also make things worse. Such state-supported changes in the property rights structure which go beyond what would have happened through bilateral *market* negotiations can also lead to social waste, particularly in a situation where predatory classes or state leaders grab resources or bank abroad. However Khan did not repudiate the role of such dynamic states; instead he insists that the outcome depends not on the stability of prior property rights but on who is capturing resources and the institutional structure imposing discipline. In terms of property rights these moves from neoliberal free market economy to Khan's version of developmental state economy might rather necessitate a corresponding move from the *stable and secured property rights* paradigm of De Soto or the liberal consensus towards *incomplete property rights* (Nicita 2005) and *asymmetric property rights* (Zhang 2006). Nonetheless, despite their different views on property rights, both De Soto's liberal market consensus and Khan's social transformation approaches are converging on the same liberal market economy (Figure 3.13). De Soto's approach is a bottom-up approach emphasising the informal revolution from below while Khan's is a top-down approach emphasising the role of the state from above.

The benefit of PPP to promote good governance and build up social capital by bridging between public and private businesses and community is widely mentioned in current literature (Brinkerhoff, 2002 a, b; Osborne, 2000; and Van Dijk et al., 2001). These partnerships have taken different forms: Public Private Partnerships, municipal-community partnership, or public-private-community partnership. However the role of PPP in the development drive by an activist state is at most conflicting. Based on experiences along the developmental state view, the activist state needs some autonomy (needs to distance itself) from the private as well as civil society groups. Some of the organized civil society groups had turned to be parasitic and rent seeking. Leftwich (2000) associates the emergence of developmental states with social contexts in which the presence and role of civil society has been weak, negligible and subordinate. Formal rules on registration of NGOs might help to get rid of them. The strategy against other civil society groups is to recreate them devoid of their independent thinking. Nonetheless as the state itself cannot play the role of civil society, those newly created civil society groups

as appendage to the government apparatus cede to be civil society groups. The action of such activist states in their urge to foster economic growth might not face condemnation. For even the omniscient God himself created man in his own image. The problem is that such state created groups do not function anymore as civil society groups. Musamba (2010) raises a cautionary remark on Leftwich's (2000) contribution by questioning whether conditions of authoritarianism and insulation on the one hand and weakened social groupings on the other remain a necessity for undertaking a coherent developmental project under contemporary conditions. Jenkins (2004) distinguishes between a horizontal civil society which has intra-societal relations and a vertical civil society which has state – society relations. The relationship with the fledgling NGOs and the intellectual community and professional associations constitute part of the later group of the vertical civil society.

One concern was the search for appropriate institutional arrangements or governance structures to manage natural resources such as land. The issue of managing natural resources such as land, and property right institutions is intrinsically the concern of society as a whole. What role could horizontal civil society play in the creation of alternative institutional arrangements for the management of natural resources and property right institutions to facilitate their use? What alternative institutional arrangements other than the polar *state-to-market* and again from *market-to-state* could possibly be utilised in an African context? Does clinging to De Soto's informal revolution provide an alternative?

The role of the state is not decreasing as professed by some. Pierre et al. (2000) agrees on the role of the state being transformed from a role based on constitutional powers towards a role based on coordination and fusion of public private resources. The term *synergy* encapsulates the idea, indicating that development would be successful when governments cooperate rather than suppress initiatives and participation by local community networks.

The case studies gave examples of leaders of a peasant association that initiated an urban settlement by changing a property system from a common pool resource (used as grazing land) to private (use) right by allocating residential plots for those needy people to shelter themselves and their families. It was also observed that the settlers from the low income groups and the elite from middle income groups together as community provided services and emerged as a consolidated urban neigh-

borhood. There were also examples of privileged individuals who were able to take urban land in tens and hundreds of hectares for free or at nominal prices and sold it without developing. The arguments presented below in the process of testing the hypotheses and answering the respective questions would help to elaborate the main thesis of the research and summarise the findings.

Hypothesis 1

Institutional building in the Addis Ababa real estate market is driven by ideological motives and does not consider values, attitudes and culture; therefore actors in different arenas prefer to apply informal norms and practices in appropriation and transactions of property rights.

The synthesis on path dependency of systems of property right institutions in Ethiopia shows three distinct periods of property right systems: the *rist* hold and freehold during the Imperial period, public hold in which allocation was made through a permit system of usufruct rights during the socialist oriented military government, and the public lease system of public owned land. The Imperial period was marked by a smooth transition from a traditional system to a modern freehold system through the introduction of a tax system. The historical change from free hold property rights to public hold and a permit system of usufructs rights following the 1974 revolution was based on purely socialist ideology. It was taken as a threat to the *rist* tenure in Northern Ethiopia where land was held as a freehold given by the community. In southern Ethiopia it helped to dispossess the nobility while in eastern Ethiopia its effect on the nomadic population whose rights had already been limited to use right of land was neutral. The continuation of public ownership of land and allocation through lease sale transfer might have helped the smooth transition from socialist distributive system to free market allocation of land as a resource. The idea of *tenure for a fixed period* would not have been tolerable for many Ethiopians had it not been for loss of confidence on property right system which had been eroded during the socialist oriented military government. The issue still remains a concern compared to the *right for perpetuity* even under the permit system. However the lease system survived with its own intrinsic complications and problems. The major problematic area was the uncompetitive nature of the lease market due to one monopolistic supplier, that is, the government being able to control the quantity supplied and manipulate the

price. The sufficiency of number of plots and frequency of public auction for land lease was assessed in mean values ranging from 3.3-4.2 with median value of 3.7 on the Likert scale by actors from all walks of life (refer to Table 12.1). This transition was also based on ideological grounds of the previous system, albeit modified by the land administration system. It practically helped to perpetuate a state monopoly. The less attention given to the housing cooperatives in the early 1990s was also part of the ideological dilemma. Despite the progress of knowledge and available technology, what was achieved in efficiency, flexible use of land and actual streams of rights enjoyed by right holders has not yet reached a comparable level to what had been achieved by flexible contractual arrangements of the *rist* system and free hold system during the Imperial period (Figure 12.1).

Actors engaged in the real estate market are involved in both the formal and informal development and market activities. Actors in the formal markets can be generally categorised into consumers (customers, tenants), producers (developers, providers), and producer-consumers (owner-builder-occupiers). Actors in the informal activities include peasants and their associations, squatters, settlers, local brokers (*dallalas*), informal cooperative organisers, some technocrats and bureaucrats in the civil service (as illegal sub dividers), real estate developers and petty providers. The cases of informal settlement in Worku Sefer, the informal cooperatives in Ayer Tena and the real estate developers of whom 64.7 percent had employed informal transactions to assemble land for real estate development, and the informal dealings on the part of petty providers; show that informality is wide and not limited to low income groups during transition.

Actors from the middle and higher income groups were attracted to informal means for various reasons. Those looking for individual residential plots sought for a cheaper price compared to the lease price. They also wanted to avoid entering into a lease contract. Such informal transfers for example in the case of whole sale and partial sale in Worku Sefer had been legalised by registering the deeds at the public notaries. In the case of the informal cooperatives in Ayer Tena, house seeking people received the opportunity which was orchestrated by the informal cooperative organisers and they took the chance (bought membership). Real estate developers wanted to minimise the cost of land. Even for those who were allocated land through lease by the City Administration, the

cost for extending their site was expensive at prices which were calculated by multiplying factors on the highest bid price offered for the surrounding area. Some even produced plans to construct cheaper condominium units for the low income people for which they in return were awarded with an incentive of 50 square meters of land per each household for free. When they were not able to develop, they sold it undeveloped. The informal means for recognition of property rights include: plot allocation letter by the peasant association, village agreements by elders, receipt of tax payments, water and electric bills, and Kebele resident ID cards, relying on the recognition by the community groups and use of counterfeited documents. However it was also observed that there was a practice of completing only half of the formal procedures. This was done through registering the deed at the public notaries but leaving out the title (to be processed by the sub city administrations) which costs more in the form of capital gain tax and sales tax. It is possible that all deals on leased land transfers and land/shack sales were registered in the public notaries. Generally speaking, actors in the real estate market assessed unfavorably the role of government in institutional development and enforcement. Only 6 out of 44 cells in Table 12.1 bear favorable assessment values. Most of the actors excluding developers and providers do not consider the existing formal rules and regulations as facilitative while pursuing their goals (refer to Table 12.2). Developers favorably assessed only the lease proclamation, the investment proclamation and the *diaspora* proclamation.

If formal rules are not seen as fair or fairly enforced, individuals and organisations have greater incentives to evade them (Burki and Perry 1998). Instead real estate actors were seen to ingeniously craft or adapt existing traditional practices. Some of these informal institutions (routines, recurrent interaction patterns, traditional practices, norms etc.) include: village agreements (witnessed by elders), partial sales (*Kefil Shiyach*) i.e. buying a portion of a plots from adjoining owners and merging it into one big plot later, counterfeited certificates of titles and forged receipts, deed registration without titling, sale of shacks (rather than outright land sale), bargaining under the threat of being displaced, grabbing land (during chaotic situations) and claiming later for lease negotiations, lease transfer of land (without developing the land), mortgage arrangements using prematurely issued individual land holding certificates in collaboration with bureaucrats and technocrats in the civil service, and trust-based

informal partnership in the case of Merkato. The real estate market was dominated by local brokers (*dallalas*) who placed the formal real estate agents out of market, this exemplifies an informal dominated market.

Therefore the hypothesis 1: “*Institutional building in the Addis Ababa real estate market is driven by ideological motives and does not consider values, attitudes and culture; therefore actors in different arenas prefer to apply informal norms and practices in appropriation and transactions of property rights*” is not rejected.

Hypothesis 2

Managing the transition needs to be based on adopting informal social norms and practices, however in the Addis Ababa real estate market the further aggressive enforcement of the formal legal framework can ensure both the efficiency of the real estate market and societal equity concerns.

Durand-Lasserve (2003) discusses three government attitudes regarding customary land delivery: restoration and/or integration of customary ownership (e.g. Ghana, Botswana), attempt to dismantle and control informal land delivery system (in two-thirds of Sub Saharan African countries including Ethiopia after the 1974 revolution influenced by socialist oriented reforms), and progressive integration or subordination of the customary system (Kenya, Tanzania, Chad, Cameroon and former French colonies). The customary system had been practiced in Ethiopia even after the change of government in 1991 in the south eastern regions including the urban areas. See the case of Jijiga town in Box 6.1. However the issue is not to be limited to a country level. How can the gap between formal rules and informal practices at the city level as illustrated in the five case studies be resolved?

The case studies show that most actors in the real estate market employ various informal means to access land. When we say adopting the informal institutions we mean that legal codes need not be made to change all the conventions, norms, practices and traditions on which most of the society rely upon in pursuit of fulfilling basic needs, promoting fairness and improve market efficiency; but to codify their conventions. Not all the informal norms, conventions and practices deserve such treatment. In the informal settlement - Worku Sefer, access to land was basically through the discretionary allocation of the executive committee of the peasant association (35.3%), and after 1988 through partial and whole sale of plots in the informal land/shack markets by former

holders (44.1%). In the illegal housing cooperatives of Ayer Tena access to land was made possible through the informality machinery which includes illegal cooperative organisers and informal sub dividers (ex- or contemporary civil servants) with digitally assisted forgery experts. In real estate development by developers, access to land was managed through government lease sale, free of lease payment as an incentive, and the majority through informal transactions. According to the report of the city administration 82 out of the 125 *developers* expanded their land holding illegally. Petty providers had various possibilities to assemble land for (re)development. Among these include redeveloping their own plot, buying houses especially those located on major road axes, buying an existing building as the result of the application of the foreclosure law, and lease sale. Some petty providers had also applied informal means in assembling land for (re)development. In Merkato commercial centre re-development, lease sale through negotiation between block associations and City Administration was the main modality. The possibility of informal practices in Merkato was minimised because of the fact that 90 percent of the existing houses were public owned and therefore their transfer to private holding was controlled through lease sales. Even in the case of Merkato, it has to be noted that the partnership which comprised of the main actors was informal based on trust rather than contract-based. The City Administration had taken measures to punish informal actors. However a question might arise here on whether it is changing the rules of the game (the institutions) or the players of the game (because they were not good at playing according to the rules of the game) that matters?

There are two perspectives about the relationship between formal and informal institutions at the urban level: (1) relations may be characterised by conflicting co existence between formal and informal institutions and actors, or (2) they may be interactive or synergistic coexistence, in which elements of each are used by different actors to minimise the cost of transactions. Depending on the willingness and enforcement capacity of the political system, the outcomes might be one of dismantling the informal practices and domination by the formal institutions, acquiescence (often unwillingly), accommodation and manipulation (Rakodi and Leduka 2003). Based on the findings of this research there are good reasons for formal – informal synergistic coexistence. Among the many the following can be mentioned:

1. The existence of unaddressed needs such as housing for the low income which could not be addressed either by the city government formal institutions or the formal market (the infiltration process going on in the public initiated housing program - condominium i.e. relatively better off households living in the housing units for the lower income). Not only infiltration, sadly there are indications supporting the view that the emerging investor-brokers organise the people from the low income groups to register for the public initiated condominium and buy their *chances* with very little money. The informal/illegal housing in both the cases of Worku Sefer and Ayer Tena was the result of unaddressed needs due to the exclusionary requirement of the bureaucracy or the suspension of the government services at the time;
2. The role played by the informal intermediaries (*dallalas*) being instrumental in fighting against tax evasion in contrast to the pitiful action of government formal employees to help tax payers evade government money in the name of preparing formal valuation reports;
3. Informality contributes to the proper and participatory enforcement of formal rules and regulations. If the formal rules are not consistent with the informal socio-cultural rules of society, they will lack legitimacy in the eyes of the members of that society and are likely to be ignored unless they are enforced by coercion (Burki and Perry 1998). The case of Merkato commercial redevelopment shows that the trust-based informal partnership created by the main actors including the businessmen and the Sub City Administration had actually helped the effective enforcement of the formal institutions in the form of the lease policy and local development plan; (Compare the model in Figure 12.3 for formal-informal institutional interface for Merkato with others);
4. Suppression of informality resulted in an equal and opposite reaction which in turn worsened into criminality threatening the life and security of people in making use of their property assets; for example from the case studies, the early form of informality was the use of other means such as a plot allocation letter by a Peasant Association, village agreements and recognition by the community; the later developments brought with them technology facilitated forgery and counterfeited documents as in the case of Ayer Tena cooperative housing; thus rendering the shade between informality and criminality to be unclear;

5. Historically the transition in institutional development from one dominated by competing and substitutive informal institutions to one dominated by accommodating and complementary informal institutions in the developed economies was the result of an evolutionary process which took many years.

The above mentioned factors (and much more inference to the literature can be cited) necessitate the synergistic coexistence of formal and informal institutions in a transitional period to market economy. There are mixed feelings in institutional development pertaining to the real estate market during the transitional period in Addis Ababa. Reviewing the practical activities in institutional development of the City Administration, the following have been observed: early demolishing activities of informal settlements, followed by the ongoing activity of the city wide regularisation program, aggressive crackdown measures on some informal activities of actors in the real estate market (still more measures expected to follow), and revising and modifying the existing rules and regulations pertaining to the real estate market. These moves need to be partly assessed positively. However due to the reasons mentioned above such state-centered measures in their own right would not be sufficient to ensure the efficiency of the real estate market and societal equity concerns in a transitional period.

Nevertheless the recent issuance of a third lease proclamation in 2011 with the emphasis on its universal application from the smallest town to the primate¹ city Addis Ababa, attempting in its application to solve all the problems of land allocation and management, and preceded by a moratorium on land allocation for the last 3-4 years in all towns of the country shows an aggravated development in the formal institutions. The lease policy when it was originally introduced was intended to be universally applicable. However the basic rationale for its suspension in medium and smaller towns was to give time for the town administrations to build capacity so that they would be able to incorporate the former holdings to the lease land administration and also manage the new ones. The current move is taking place in an institutional environment where the institutional capacity of even the city government for the capital city is assessed weak (refer to Table 12.1). The proclamation has triggered much open controversies which had never been experienced in the incumbent policy regime. The drafting of the third lease proclamation lacked public consultation so that even government affiliated public me-

dia suggested the parliament to reconsider it. *The Reporter* referred to it as: “one of the most controversial laws in the country’s history” (*The Reporter*, February 11, 2012). The fact that the issuance of the proclamation in the *Federal Gazette* was delayed also sustained public anticipation for the time being. It might be too early for impact analysis; however there are indications of slowing down the economic growth together with reducing inflation.

Therefore the theoretic aspect of the hypothesis: “*Managing the transition needs to be based on adopting informal social norms and practices,*” is not refuted, while the empirical aspect of the hypothesis: “*In the Addis Ababa real estate market the further aggressive enforcement of the formal legal framework can ensure both the efficiency of the real estate market and societal equity concerns.*” is rejected.

Hypotheses 3

Hybrid institutional arrangements/governance create a conducive environment for real estate markets during the transition period, however in the Addis Ababa specific situation no such arrangements exist and mainly government/hierarchy dominated real estate markets strives to sustain urban development.

The choice of an institutional arrangement depends on to what extent it minimises transaction costs. Transaction costs are said to be opportunity costs. The value of transaction costs depends on the value actors give to time i.e. foregone benefits in terms of ex ante contract preparation and ex-post follow up and monitoring of execution of contract or in the form of tied up capital in a property for the period of time required a transaction to be completed. Information cost is an important aspect of transaction costs. Nevertheless real estate actors from the low income and middle income groups have their own dimension of transaction costs. These groups of actors in whatever protracted time they managed to enter into a contract (including lease contract) or following up its execution (time taken by court cases on breach of contract), they would prefer to end up by saying: “*thanks God, I finally managed ...*” There is a proverb widely used: “*A poor person does not have to save on his energy.*” In the case of actors from the high income groups, it is a common practice that they employ their own lawyers, conveyancers, and individuals known as in Amharic *Guday Asfestamy* (who follow up cases). These individuals are very well known by the city officials and technicians. They have a green light to queue-jumping every lineup. Some of the developers and petty

providers in the interviews also responded by saying: “*Not a big problem as such ...*” This might emanate from rent seeking behavior or from lack of confidence on accessing land and on a property right system under unpredictable institutional environment and uncertainty (see appendices Annexes 7 and 8 for respondents’ opinions).

Most respondents did not respond to questions on indicators of transaction costs. It is not that transaction costs had been so low that they were considered negligible. Possible explanations could be given from two psychological anomalies concerned with actors’ values and attitudes from the behavioral economics: social preference and mental accounting theory. Experimental findings in behavioral economics show that actors are often willing to settle for a smaller payment provided everyone gets the same; whereas actors reject outcomes they perceive unfair (Güth et al., 1982). This is typically demonstrated not only by actors in the Addis Ababa real estate market but also throughout the whole country by the proverb: “*A misfortune to all is not something to worry about.*” Another proverb which has its origin in Tigrigna language is: “*A misfortune to all is like porridge, everyone will have a mouthful of it.*” Mental accounting as psychological anomaly is based on the inconsistencies people experience in judging the relative value of money. Contrary to the principle of fungibility a dollar is not always interchangeable with another dollar (Thaler 1999). In an economy governed by chronic and ever prevailing scarcity, actors who had court cases on disruption or breach of contract would be satisfied if they win the case however long, even if it took 3-5 years. Here it might be difficult to establish the reference line experimentally. The five years expense in the form of opportunity/transaction costs could be compensated with winning the case if successful. However, if after the five years they lose the case, then it would turn to be a real disaster with exaggerated opportunity costs.

Under the property right institutions during the Imperial period specifically with the *rist* system in Northern Ethiopia, there was an unaccountable number of cases of litigation resulting in wide spread social as well as psychological stresses implying very high transaction costs. However due to the wide stream of rights enjoyed by the *rist* rights, holders had enjoyed exercising their rights and paying the cost it deserves. The rampant corruption in the judiciary system of the Imperial regime might have rendered transactions as costly and as cumbersome as they were pronounced during the 1974 revolution. Under the property right institu-

tions during the socialist oriented military regime, litigations on land were eliminated by law. The proclamations for nationalisation of land whether urban or rural contain articles on the prohibition of court action: Article 28 in the case of proclamation for the public ownership of rural lands, and Article 40 in the case of the proclamation for government ownership of urban lands and extra houses. This might imply lower transaction costs or lack of the right to access the judiciary system. However, the stream of rights enjoyed by possessors was limited to *usu-fruct* level i.e. access and withdrawal rights. Consequently their ability to use their assets to create wealth was so constrained that the economy suffered to abject poverty level.

Regarding transaction costs as costs of search for information; social network in the form of family, relatives and members of peer groups were the main sources of information used by many actors across the five case studies. Therefore, it is concluded that the application of transaction costs in the analysis of property right institutions in economies characterised by artificially induced chronic and ever prevailing scarcity and where social network prevails as an information source over formal market infrastructure (such as real estate agent, brokers etc), it needs to be seen critically compared to its application in advanced economies. Of course transaction costs remain positive; however they need to be investigated in association with the extent of stream of rights that right owners enjoy and equity concerns.

The success factors for institutional reforms which enable real estate markets to contribute to urban development based on the findings of the research include the following. Firstly, the positive interaction among city/government and community/private actors while pursuing compatible goals which converge at broad societal goals. This is expressed as passive tolerance and latter incorporation in the case of Worku Sefer informal settlement; explicit facilitation and later partnership in the case of Merkato commercial center redevelopment; and explicit support in the case of real estate developers. These can be mentioned as examples of government action augmenting community initiatives in Worku Sefer and city government effort to promote development.

The second success factor is the attempt by the city government to create joint forums with user groups for participatory crafting of the rules of the game including urban plans. The case of Merkato commercial redevelopment can be cited as an example. The various participatory

forums created by the Office for the Revision of Addis Ababa Master Plan (refer to Table 11.1), helped the business community of Merkato to voice their opinion on the local development plan which resulted in reduced floor heights and also on the lease policy which led to its re-enactment. However analysing the goal achievement of the redevelopment project in which 52 business associations had acquired leased land in the period 1996-1999, and only 4-6 buildings going operational until 2011; together with the dissatisfaction of some of the respondents on the appropriateness of the building typology for their trade, it raises doubt as to the level of participation and ownership of the local development plan. It is also because of the planning approach adopted does not accommodate fundamental changes in market price. The opinion of real estate customers in the consultant report is cited here:

“Policy change need not always focus on safe guarding government interests, it rather needs to consider our capacity and current price situation.”

In other aspects, actors in the real estate market of Addis Ababa seem to recognise the indispensable role of the city government in institutional development and enforcement including urban plans. They had emphasised the need for a tripartite communal forum composed of city government, private developers, and consumers to follow up gaps created on provision of infrastructure, oversee execution of contract, and to compensate the disadvantaged. They cried out for institutional arrangements which accommodate the role of community groups such as consumer cooperatives; and rent tribunals. Refer to Annex 8 and 9. Two opinions of real estate customers are quoted here under:

“Government alone cannot alleviate the housing shortage by building condominium housing; there is a need to involve real estate developers.” And *“Everything should not necessarily come only from the government.”*

The appeal to the city administration from the consumer groups was to play a role in augmenting markets (since market outcomes might not be fair), and community initiatives in their endeavor to development (since consumer groups are susceptible to actions of suppliers, intermediaries and other exogenous forces such as inflation). However this needs to be reciprocated by equal recognition on the part of the City Administration, that crafting rules of the game requires a joint enterprise with inhabitants (citizens and users) through whom the rules of the game are implemented or respected. The experience of Merkato Millennium

Development Partnership was a missed opportunity for which the business communities are still longing. The partnership as an institutional arrangement was not only an instrument of cooperation but also of healthy competition. The cumulative outcome was the effective enforcement of mediated formal rules of the game.

Findings of the research reinforce the need of such collectively called hybrid institutional arrangements to jointly craft and enforce the rules of the game pertaining to the real estate market. One of the reasons is respondents' assessment results on the capacity of the city administration in its role of institutional development and enforcement. Only six out of forty four cells in Table 12.1 contain favorable assessment values ranging from 2.7–3.0. The aggregate assessment values by respondents from all case studies on the City Administration (hierarchy) as coordinating institutional arrangement show the following results: Development and enforcement of appropriate property right institutions (median value of 3.7 on the Likert scale), level of transaction cost in terms of appropriate transaction cost minimising institutions (median value 3.4), service delivery (median value 3.2), and promoting growth partnership with different sectors of society (median value of 3.2). Refer to Figure 12.2.

The dominant formal institutional arrangement in coordinating the activities of the real estate had been so far limited to government. Based on the social transformation/ developmental state view the transition to market economy where the state will also play a greater role is envisaged to materialise through the dominant role of an activist state. As it is mentioned this requires autonomy from other non-governmental actors too. The transition sought, where the market dominates as coordinating institutional arrangement has not yet come. Therefore the hypotheses: “*Hybrid institutional arrangements/governance structures create a conducive environment for real estate markets during the transition period. However in the Addis Ababa specific situation no such arrangements exist and mainly government/hierarchy dominated real estate markets strives to sustain urban development*” is not rejected from both theoretical as well empirical aspects.

13.2 Summary

Hitherto, the formal rules and regulations pertaining to land and real property did neither produce the expected efficiency in utilisation of land resources nor promote fairness in accessibility to public resources. In

this whole mess of transactions only few individuals become prosperous. In the final analysis the government custodianship of land so far did not succeed to collect value appreciation of land for the betterment of the society. Other actors, organised and speculative land invaders, corrupt bureaucrats and technical personnel, slum lords, renter-land lords, private *housing cooperative organisers*, speculative real estate developers, and individuals who were privileged to get through the land distributing machinery have succeeded to grab the benefits.

Institutional development pertaining to the real estate market had been driven by ideological motives and did not address culture, value and attitudes. Formal and informal institutions operate often in conflict, resulting in competing and substitutive interface followed by crack down measures. Therefore many problems had been highlighted from frequent change of regulations which render unpredictability, inconsistency of rules and regulations at different levels, and creating loopholes with unintended incentives to real estate actors. Institutions had focused only to one aspect of the real estate market e.g. facilitating access to land for real estate developers and providers leaving out institutions which facilitate loan finance, increasing the supply of basic building materials, and standards for entrepreneurial knowledge and skill qualification during registration and licensing etc. The capacity of the City Administration in playing its role in development of institutions and their enforcement with respect to professional man power, issuing enforceable and affordable regulations, and the use of legitimate violence had been assessed by respondents unfavorably.

Institutional mono-cropping (applying the same blue print institution to the various aspects of real estate development) can be taken as the main problem in institutional development in the case of real estate market in Addis Ababa. There are many questions which need to be addressed by different institutions. How can efficient access to land be facilitated to attract investment? How can the demand of low income groups to shelter be met? What about the higher and middle income groups? How is it possible to accommodate the request of former occupants along with the need to consolidate land for redevelopment? A policy based on the premise of: "*Land should be accessed only by those who can pay and develop multi storey blocks*" attains neither efficiency nor effectiveness objectives.

The lack of appropriate institutional arrangement (considering the current shortcomings of both state and formal markets) is recognisable. Institutional arrangements need to be viewed not only to minimise transaction costs but also in broadening the stream of property rights people enjoy in using their property assets and maintaining fairness in allowing access to resources.

13.3 Major Insights

Among the factors for Botswana's growth, it has been mentioned, the willingness on the part of the government to develop new and adapt old forms of tenure to suit the new urban needs of Botswana. The government in 1985 sought to integrate land policy with economic and social development. The fact that land tenure has been one change among the many necessary to create or provide new economic opportunities (Payne 2002) is well recognised. The government acknowledged the need to provide for the poor a foothold in the property market before moving on to a higher title with acceptable credentials. We concur with Jenkins (2002) where in prevailing conditions of Mozambique; it was unlikely that the urban poor can get access to formal state and market land supply mechanisms. Therefore, the need to be based on the very social mechanism and structures whereby the majority of the population manage their survival had been appreciated. This specifically refers to a community land trust. Such institutions could be used for both protection of existing *de facto* land rights as well as development of new low income residential areas. This can be a possible institutional arrangement for the management of many existing peripheral and peri-urban informal settlements together with some of the tenure arrangements (Figure 3.3). This suggests a decentralised land administration and management system, with local registry and protection through structures answerable at the neighborhood level supplemented by overall registry, guidance and supervision at sub city and city administration level. It could also help to prevent speculative behaviors so that they do not stifle shelter provision efforts for the poor and the low income. This needs to be accompanied by basic services and materials loan. Another exemplar experience is the provision of the Federal Constitution of Brazil 1988, which provides multiple forms of real rights such as freehold (individual, collective condominium), leasehold, and collective ownership (which nominally provide security of tenure and protection against eviction).

Based on the empirical findings the following insights were gained: **First**, the need to move to a network of hybrid institutional arrangements which basically depends on the involvement of a horizontal civil society. The case of Merkato Millennium Development Partnership is a good experience to build upon. This also implies the necessity of synergetic existence of formal-informal institutions. Actors behind informality are not confined to the underprivileged masses as De Soto observed in Peru. Van Dijk and Fransen (2008) made a distinction between *exclusionary* and *voluntary informalisation* in the case of Ethiopia. Betraud et al (ud) mentioned about *growth retarding informality* in the case of the Addis Ababa real estate market. Neither the privileged few actors towards whom the available scarce resources are channeled in the name of promoting growth turned to be the emerging dynamic capitalists as Khan anticipated. No claim is made here for a redistributive allocation. However resource channeling in the name of promoting growth does not have to be at the expense of those underprivileged who look for a space to rest their head and shelter their family or a space to carry a small trade to sustain their life.

Secondly, the move from regularisation which is more costly than incorporation (referred to as *mild regularisation*²) to address the problem of informal settlements as long as basic safety and public health standards are met is also important. In the case of Worku Sefer, since road access was provided for most of the blocks, the landholders who were served land certificates were not required to conform to sub division standards. The sudden jump to higher tenure scale with credible titling has its own drawbacks. It might lead to escalated speculative attempts which might ultimately result in a downward raiding by upper middle and higher income groups relocating and sustaining informality in the further peri-urban/expansion areas. Introduction of the community land trust with start-up tenure scale ranging from anti-eviction, adverse possession, and group tenure (Figure 3.3) according to the specific circumstances provides a better alternative. The case of Worku Sefer provides a living experience for incorporation approaches to deal with informal settlements.

Literature on regularisations shows a prolonged process of administrative, legal and technical procedures. The administrative aspects might contain approval of plans and work schedules, while the legal sphere consist of legal titling of land and registration. The technical activities might include: surveying, preparation of subdivision scheme, adjustment

to sub division scheme, implementation of basic infrastructure such as water supply, drainage, electricity and pavements. Some of the activities are under the competence of municipal governments and others might depend on state companies. This process might take years. It might even be interrupted for some time and reconsidered at other times after increased pressure, making it ultimately expensive. It took 45 years (from 1934 -1979) for the municipal government of São Paulo to regularise only 101 illegal subdivisions (Grostein 1993 cited in De Oliveira 1993). With the incorporation approach, informal land holders were not required to conform to imposed sub division standards and meet new costly building standards. Figure 13.1 makes a comparison between regularisation and incorporation.

Figure 13.1:
Comparison between regularisation and incorporation

Regularisation	Incorporation
Requires total compliance with regulations (expensive for the poor)	Combining informality as an existing and valuable phenomena
Compliance with sub division requirements	Accepting its positive and negative contributions
Requires to adhere to standards and building permits	Relies on gradual improvement and meeting upgradable standards

Thirdly, the need to avoid institutional mono-cropping had also been recognised. Institutional mono-cropping refers to applying the same blue print institution to the various aspects/issues of real estate market. It is a blanket approach to formulation of rules and regulations. Many examples can be cited from the *Derg* regime. One straight forward example was what happened in the nationalisation of urban land and extra houses. What had been intended against the feudal landlords was applied to all citizens including those urban dwellers who prior to the proclamation had let part of their houses even a single room to assist their family budget. As a consequence these people for the last three and half decades, since 1975, could not have title certificates, for there were government owned house in their compound. This means that they were unable to sell or mortgage their houses. Most of such owners were now old and their children have left home. The cost of applying the same blue print

institution to all issues of the real estate market might turn so high that it could stifle the whole real estate market. Institutional framework to facilitate access to land to attract investment and to solve the shelter problem of poor and low income people cannot be addressed by a single lease regulation. Addressing the housing needs of the upper middle and higher income cannot be addressed with the same institutional framework intended to address the shelter problem of the low income. During the *Derg* regime both high and low income groups had the chance of accessing land through administrative allocation for free. This led to wastage of resources by subsidising the rich in terms of the low income. It is equally important to view institutions in their entirety and interconnectedness. The case with the real estate development by developers shows that the lease institution which facilitated access to land without accompanying institutions on loan finance, supply of basic building materials, and registration and licensing requirements for developers had resulted in inefficient and ineffective use of scarce urban land. This is one of the problematic areas for De Soto for which he had placed over emphasis on the effect of a single institution of stable and defined property rights for creation of wealth.

Fourthly, the recognition of the fact that opportunities the city provides need to be open to all. Let the ones who win based on their capability to take resources such as land to their best use do it, contesting in a leveled competitive plain field without jeopardising the chance of others to survive with dignity. This is what the *right to the city* advocates. A win-win situation is possible. The involvement of former occupants in assembling land for redevelopment, in the case of real estate development by petty providers helps to increase the social capital which is essential for society in providing stability not only in peace time and days of tranquility but in times of crises and chaos too. There are a multitude of empirically tested modalities available to do this including land readjustment, land sharing/pooling etc. We think it is here, at this point, that capitalism departs from socialism, that a social market economy differs from a liberal market economy and good governance prevails over bad governance. In this regard Khan's social transformation state view is actually another path which ultimately leads to the liberal market consensus, for he challenges both the theoretical underpinnings of the *right to the city* and the tenets of social market economy. One of the tenets of social market economy is that property carries obligations and need to be used

in social context i.e. should not disadvantage others, and should serve the common good (Figure 3.14).

Fifthly, the need to move towards new legality to resolve the conflict between formal and informal institutions had been also highlighted. This involves all groups of actors including suppliers, consumers, intermediaries and city administration. In light of this, there are two strategies to be considered: continuing the aggressive enforcement of existing rules and regulations or with minor improvements, in which case evaluating the outcomes and impact needs some time; or analysing the discrepancies between the informal practices/ norms of behavior and formal rules/regulations and adapt some of the norms of behavior through an institutional reform in a participatory/co-governance arrangement. As a prelude to the recommendations on moving towards new legality, we first hereby briefly introduce two newly revived concepts: the *right to the city* and *social urbanisers*.

The work of Lefebvrek (1967) advocates the equal usufruct of the city through the principles of sustainability and social justice. Basically it has two pillars: the right to *habitation (appropriation)* i.e. the inalienable right of all city dwellers to use all space of the city with its services and advantages in order to provide themselves with the necessities of daily life; and the right to *participation* i.e. taking direct involvement in the management of cities. Therefore according to him the *use value* of space has the priority above the *economic value* which means the social function of space is always more important than the profit that can be made by its exploitation or selling. In recent years the right to the city has gained new attention. We have mentioned in chapter four some of the regional, national, and municipal instruments developed by different countries and international organisations.

Along these lines of argument theoretical discourse on city and property views land and property from the perspective of their economic as well as social function. The economic function concerns issues of efficiency while the social function deals with equity issues. The *social value of land* has its origin in the fact that land value appreciation is partly due to the public sector and community contribution and is not only individual investments. Land value appreciation takes place due to the effect of urbanisation through say for example conversion of agricultural land into urban land, when an area is redeveloped and land use changes are made for more profitable use. For this inhabitants pay prices. Farmers lose

their fertile land and their equity share in the form of improvement made on their land, and their established social networks are broken. Evicted poor urban residents lose their homes, livelihoods and social capital. The benefits as a result of such costs need not be appropriated by intermediaries - contractors, petty providers, real estate developers, and brokers. Land value appreciation also takes place as a result of public sector investment through the installment of infrastructure, like opening of a new road passing along or providing access/connection to the land or nearby property. Therefore appropriation of future land value appreciation by the public and distributing it to the society, needs to be the responsibility of city governments. Private investment is also a source of land value appreciation through construction of buildings, houses and other structures. Private sector investors should also be individually entitled to reap the benefits.³

The concept of *social urbaniser* was used in the Integrated and Sustainable Development Project by Beatriz and Bonat (2010), a contribution to a compilation of urban development practices in Latin American countries (Rojas, 2010). In fact the phrase has been used since early 2000 in an agreement between the municipality of Porto Alegre⁴ (Brazil) and the Lincoln Institute of Land Policy in Cambridge (Massachusetts), to test the viability of *social urbaniser*. According to Porto Alegre's Master Plan (LC 434/99), the *social urbaniser* is the private real estate company registered in the municipality to undertake urban operations of social interest in urban development areas identified by the public sector. As an instrument its objective was to subdivide land that is suitable for urban use in order to satisfy the demand for housing among low income households. More important in understanding the characteristics of the *social urbanisers* is the nature of the formulated project, that is, an integrated and sustainable development project. The Integrated and Sustainable Development Project was launched in August 1999. It supported an alliance between the public and private sectors. The public sector led the incorporation of new lands into the city while at the same time protected the environment. The private sector made it possible for the construction of low cost housing in areas of urban expansion that are attractive to real estate developers. Our intention here is not to make an extensive discussion on the emerging concept of *social urbanisers*. However, to make a long story short, the concept of *social urbanisers* is very much related to

contemporary concepts such as: *pro-poor growth*, *smart growth*, *sustainable growth* or *corporate social responsibility*.⁵

In a parallel discourse Grondona (2000:48) discusses three basic levels of morality: the highest is altruistic and self denying which is the morality of saints and martyrs. The lowest is criminal(ity), disregard for the rights of others and the law. The intermediate morality is what Raymond calls; “*a reasonable egoism*” – the individual reasonably seeking his/her own well being within the limits of social responsibility and the law. Morality as used by Gorndona refers to the behavior of someone who acts out of respect for an intrinsic value formerly accepted at will and later incorporated as an inner imperative. Whether real estate developers/petty providers or owner occupiers may or may not involve themselves in the provision of housing for the low income and the poor, they need to accept the following limits in pursuing their profit goals/utility goals from the perspective of social function of land and property:

- From the perspective of social function of land, the value appreciation of land is not only derived from private investments, rather a substantial amount of it is public either due to the effect of urbanisation through for example conversion of agricultural land into urban land (i.e. a change of land uses into a more profitable uses) or through public sector investment to install infrastructure. The government has a responsibility to appropriate such future land value increases to the benefit of society (UN-HABITAT 2002:27-31);
- A very important characteristic of real estate is the nature of externalities in land development. A primary function of property rights is that of guiding incentives to achieve a greater internalisation of externalities (Demsetz 1967). Real estate developers to the best of their capacity need to contain/internalise their negative externalities. However, since all costs and benefits in land development cannot be internalised there are costs which have to be borne by neighbors or society at large, and benefits that accrue to free riders. This externality issue provides legitimacy to government to control land uses and to collect different taxes from property;
- Where land is publicly owned the government also has the responsibility to expropriate or penalise holders of vacant land in a form of un/development tax. Holding vacant land or idle property for long creates incentive for speculative markets at high cost to society;

- The government has the responsibility to protect benefits accruing from deregulation and relaxation of stringent housing standards and regulations (if at all these are applied) in order to allow the low income and the poor to shelter themselves from being appropriated by intermediaries including real estate developers, contractors and investor-brokers;
- Opportunistic behaviors such as tax evasion, quality shirking and adverse selection invite state intervention. For those who want to gamble they have to accept the results of the gamble whether in the form of profit, loss or punishment.

Greed as self interest with disregard for others' welfare might come at this point when developers/providers who have been given urban land free of lease payment as an incentive to provide affordable housing for low income groups, sell the land without making any added value and garner an income they do not deserve. Greed as all-consuming and insatiable behavior comes when a lessee developer using his subleasing right (according to contemporary provisions of some of the regulations or decisions of the authorised bodies of the City Administration) takes away the public share (equity) of the appreciated value of land.

In corollary to the above highlights on the social function of land and property the concept of *social urbaniser* can be extended in the Addis Ababa real estate development to include real estate actors whose activities and goals transcend beyond the immediate economic gains and address sustainability aspects of the social function of land and property.

Regarding City Administration

Urban development as an endless endeavor is the cumulative effect of contributions made by all inhabitants and foreign investors which include government (bilateral and multi lateral co-operations), community groups, civil societies and private businesses. As a matter - of- fact, the backbone of urban growth is the private businesses. Working with the private business in development partnership requires trust. Making reference to Gorndona (2000:48):

“To trust in the individual, is one of the elements of a value system that favors development... Implicit in the trusting society is the willingness to accept the risk that the individual will make choices contrary to the desires of government. If this risk is not accepted and the individual is subjected

to a network of controls, the society loses the essential engine of economic development...;" (Emphasis added)

The city administration as a contracting entity entering into contract with other development actors is obliged to respect and behave according to the provisions of the contract to matters involving that transaction;

Harmonising the rules of the game at operational level and collective choice level to the constitutional rules is the sole responsibility of the public regulatory organisations specifically in the absence of a co-governance arrangement to craft rules of the game jointly. Providing a coherent, consistent and relatively stable institutional framework is one of the main roles of government. This helps to promote predictability in the investment environment.

However there are decisions to be made by the city administration on choices of risks to accept or not to accept. Which of the following activities of real estate developers' involves higher risk to accept? The activity of a real estate developer X who appropriated an adjacent piece of land 50,000 square meters in area through an informal transaction and built cheaper condominium houses; or the activity of a potential *developer* Y who took 5,000 square meters of land free of lease payment as incentive to provide relatively cheaper housing and sold it without making any development/improvement?

13.4 Outlook (Areas of further research)

Based on Williamson's (2000) levels of analysis, the institutional analysis pertaining to Addis Ababa real estate market had been made on three levels: *the informal institutions* (norms, customs, traditions, conventions), *formal institutions* (formal rules and regulations) including their interface, and the *institutional arrangement* (governance structure)⁶. Institutional arrangement is an arrangement between economic units that governs the ways in which these units can cooperate and or compete. *Institutional environment* is the set of fundamental political, social and legal ground rules that establishes the basis for production, exchange and distribution (Davis and North 1971:5-6, Williamson 1993:55). Research at the institutional environment level can help to investigate the entire interconnected exogenous institutional factors such as those applying to the banking system, the building industry and infrastructure, labour and professional services, other political, social and legal aspects. How can real estate

markets contribute to sustainable/quality of life in urban development whose concern is not only the economic function of land and real estate property but also social and environmental concerns? Relevant research questions which had been contemplated by other scholars include: How can real estate [land] markets be enhanced to work for the poor (if they ever work)? What is the implication of the *rights to the city* on the day to day life of inhabitants and entertaining their property rights? Such research questions can be investigated at the institutional environment level rather than at the property rights or transaction cost level.

Notes

¹ Urban primacy measures how high the share of a city's population is compared to the total urban population of a country. The derivative *primate* is often used in the literature but you cannot find its definition in the dictionary in this sense.

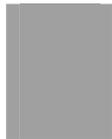
² An ongoing research by Fransen J. (IHS) and Samson K. (ECSC) can be mentioned as an example in this direction.

³ The provision in the first Lease proclamation No. 80/93 which obliges a lessee to pay the extra amount in excess of the lease payment (s)he made, to the town administration on the transfer of his right to a third party is first of all simply impractical without any possibility of monitoring which makes it difficult to enforce; and secondly it is naïve economics, even if, on the grounds of the opportunity cost of depositing money spent on the lease payment in bank and get interest.

⁴ Porto Alegre acclaims world recognition in introducing the participatory budgeting process too.

⁵ All imply the recognition by businesses themselves that sustainable practice (economically, socially and environmentally) is not only good but also profitable

⁶ Institutional arrangements are specific guidelines and governance structures, Williamson (1985, 1996).



Annexes

Annex 1: Elaboration on Research Strategies & Data Collection Methods

1. Elaboration on Research Strategies

Research on formal-informal institutions and actors behavior is so complex that it falls beyond conventional single strategy such as a survey. Regarding informal institutions, Helmke and Levitsky (2003) noted advances are likely to come on a variety of fronts, ranging from abstract modeling, to ethnographic studies to survey research. Yin (1994) observed from different perspectives in which he discussed that each individual case in multiple case study may consist of multiple holistic cases or multiple embedded cases. When each individual case involves multiple levels of analysis (informal, formal, institutional arrangement levels) the multiple case study is said to be a multiple embedded case study. When an embedded design is used, as noted by Yin (1994: 51):

Each individual case study may in fact include the collection and analysis of highly quantitative data including the use of surveys within each case.

In line with such an approach an eclectic combination of survey, multiple-cross case study and ethnographic research strategies has been employed for this research. Such a diversity of research methods and analyzing data from multiple sources, collected by diverse methods and supported by a range of theories is believed to maintain accuracy, trustworthiness and verify emergent assertions through triangulation and cross checking. However obvious benefits and limitations are also observed in each research strategy.

The literal meaning of ethnography is given by Harris and Johnson (2000) as: “*A portrait of a people.*” Much emphasis is given to the study of

culture. Another definition by Harris & Johnson, 2000, defines ethnography as: “*A written description of a particular culture based on information collected through fieldwork. Such culture includes the customs, beliefs and behavior of the community under study.*” Giving a broader elaboration, Whitehead (2005:4) describes ethnography as: “*The study of the socio-cultural contexts, processes, and meanings within cultural systems. As a method, ethnography is an open-ended emergent, interpretive, reflexive, and constructivist learning process.*” Van Dijk (2006: 70) defines ethnography as; “*A research strategy that focuses upon describing and interpreting the social world through first hand field study.*”

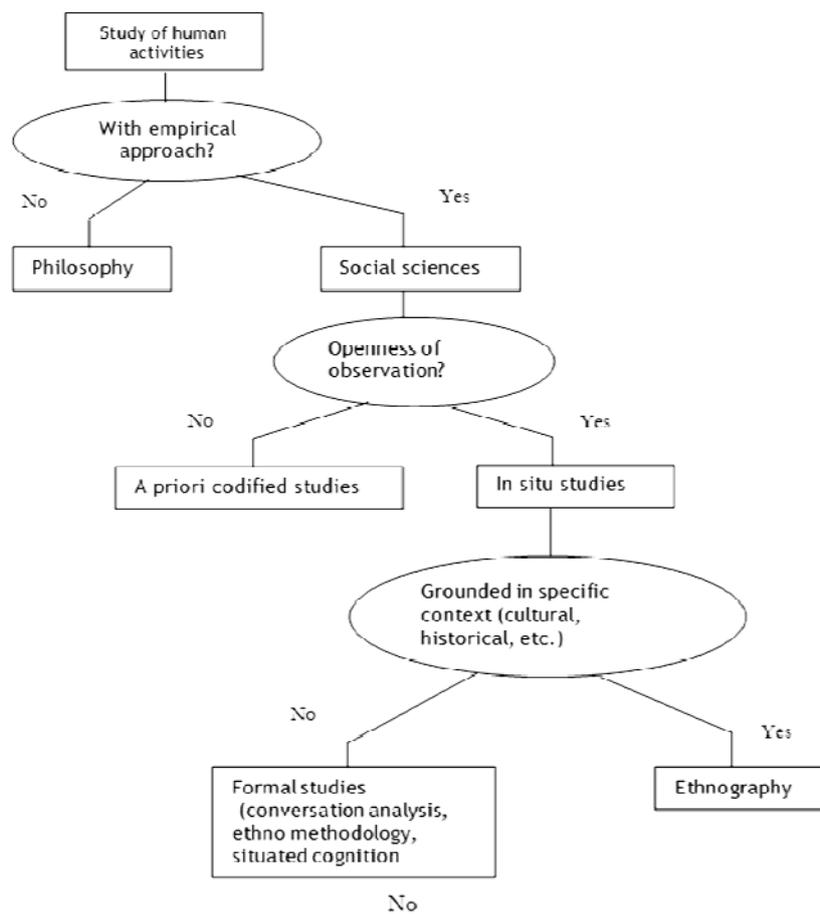
All the definitions given above indicate that the profound strength of ethnography lies on it being the most intensive *in-depth* research method. Hence it is a very *productive* research method considering the amount and likely substance of the research findings.

More importantly ethnography leads us to question what we take for granted. Knowledge about what happens on the ground can provide vital information to challenge our assumptions (Myers, 1999: 5-6). This is the main tenet of this research where it was opted to investigate what facts on the ground indicate rather than picking the easy options specifically in situations where studies on formal-informal institutions suffer from over generalisation. Ethnography, since it builds on a bottom-up approach, from what lies on the ground and in the community to knowledge; it is compatible to social constructivist epistemological and ontological claims of our research. However ethnography has its own limitations. One of its limitations is that it does not have much breadth. Ethnography studies one organisation and one culture and as some argue it is impossible to develop more general models from just one ethnographic study.

Moreover, the classical ethnographic research which has its origins in anthropological traditions which had been used to study the *virgin* culture of isolated communities through methodology emphasising proximity and intimacy, is very much challenged when applied to a study of loose-knit urban communities. Members of such loose-knit urban communities have a more open outlook and more choice to whom to associate with and which cultural pattern to attend. Therefore contrary to classical ethnography, the agreed upon methods of data collection among others have become interviews and use of informants (Balasescu u.d, Katz 2001, 2002). See in Chapter One for methodological limitations of ethnography. By way of justification for its applicability to our research, the

characterization of ethnographic as a research strategy is illustrated in Figure Annex 1.1.

Figure Annex 1.1:
Characterization of the Ethnographic Study



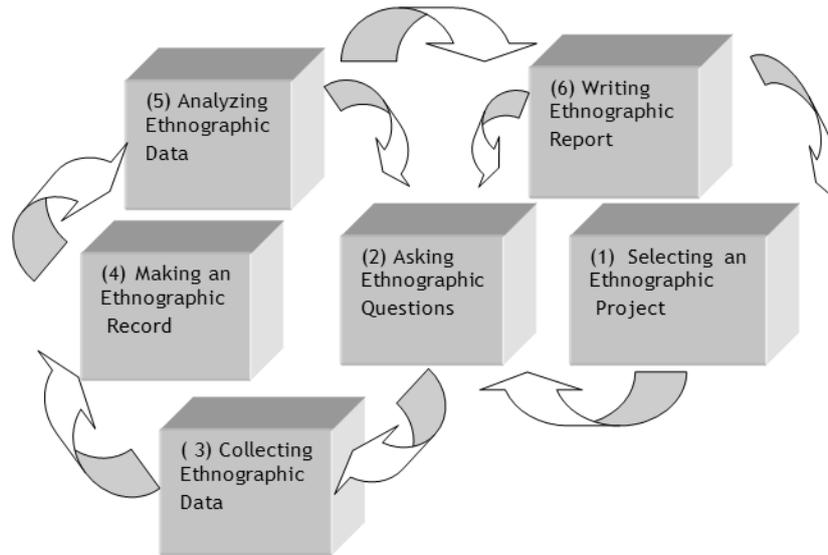
Source: Baszanger and Dodier (1998:18)

Ethnography as a research strategy is an open ended emergent process of learning episodes that is facilitated through the reiterative process

of continual observations, asking questions (interviewing), making inferences, and continuing these processes until questions have been answered with the greatest *emic* (insider perspective) validity possible. It includes six basic steps, namely: selecting an ethnographic project, asking ethnographic questions, collecting ethnographic data, making an ethnographic record, analysing ethnographic data, and writing an ethnographic report (Burns 2000).

Ethnographic questions concern the link between culture and behavior and /or how cultural processes develop over a period of time and reflected in daily activities of communities of a research population. Interviews based on open-ended questions provide a chance to learn how people reflect directly on behaviours, circumstances, identity, events and other things which help to give an insider perspective. The ethnographer researcher moves between data collection and conceptual analysis, between writing and acquiring further evidence, seeking to refine the way different categories fit together to provide explanations. The researcher observes as many activities, or interviews as many people as are needed in order to *saturate* the categories being developed, and then turns to the next theoretical issue, and carries out the same process again. Data analysis most usually takes place throughout the project, however eventually there comes a point when working with the data gathered takes place. This is mainly done through taking notes on any patterns, connections, similarities, or contrastive points in the data. Coding of the data is based on searching for *local categories of meanings* or *native points of view*, or for identifiable themes. This is followed by testing the categories and explanations started to draw against the variety of the cases recorded. Are there alternative explanations from a variety of perspectives? Triangulation among the various forms of data gathered helps to resolve the issue. The thesis gets to maturity by working iteratively between emerging conclusions and guiding questions. Analysis leads to interpretation. Finally the different steps culminate by writing an ethnographic report. This is accomplished by jotting down points at the data analysis stage and continuous editing to render a coherent feel and style. Figure Annex 1.2 illustrates the ethnographic research cycle.

Figure Annex 1.2:
The Ethnographic Research Cycle



Source: Burns, (2000)

In order to decide the choice of instruments the weakness and strength of each strategy in the eclectic research need to be identified. However before that, it is helpful to compare the similarities and differences between case study and ethnography. The summary is provided in Figure Annex 1.3.

Figure Annex 1.3:
Similarities and differences between case study and ethnography

Similarities	Differences
A detailed description of the setting or individuals, followed by analysis of the data for themes (Stake 1995, Wolcott 1994)	Ethnography focuses usually on a single set of relatively small size, in case study multiple case studies possible
Both can be used for exploratory research	No premeditated theory is required for ethnographic research, case study needs theory development prior to conduct of any data collection (Yin 1994)
Data can be gathered from a range of sources (Both allow documentary research)	Ethnography traditionally necessitates participant /observation (in situ study, the observer as a detective), case study might not require the always presence of observer
Analysis involves interpretation of meanings and function of human actions	Ethnography while stronger in depth lacks breadth
Both need to have purpose, not necessarily propositions	Ethnography is not limited to hypothesis testing rather it is discovery based (Genzuk u.d.), case study needs propositions

On the other hand, a clear contrast between ethnographic and survey research is noticeable. While Ethnography has its strength for in-depth study it has a weakness in lack of breadth; on the contrary major strength of survey is in-breadth study (how much a phenomenon is spread among a population), while its weakness is lack of depth. Survey research usually draws on respondents from a properly selected and representative sample which must be analysed statistically to make accurate inferences about a larger population. Ethnographers study whole, functioning communities. Normally survey researchers have no personal contact with respondents. Ethnographers strive to establish a rapport based on personal contact with their informants. A shift in methodology has emerged from the original anthropological research applications of ethnographic study to a combination of survey research and ethnography (Conrad, 1991). This can provide new perspectives on life in complex societies. This also helps to give a broader picture.

2. Data Collection

The data collection and analysis are guided by the analytical framework. Data collection is based on identification of unit of analysis, research population, major data types and collection methods.

2.1 Unit of analysis & case study projects

By definition a unit of analysis is the kind of empirical case or unit that a researcher observes, measures and analyses in a study. The units of analysis are real estate markets and development activities. Through these real estate markets and development activities we analyse how actors (individuals, groups, organisations) interact and behave in pursuing their goals under the influence of formal and informal institutions.

2.2 Study Population

When we say our units of analysis are real estate markets and development activities we mean that our objects of study are people and their organisations who are involved or interact in these markets/development activities and are influenced by institutions. This means that through the sample specimens (unit of analysis) of sub markets in the real estate sector what we studied are actors' behaviour, regulatory organisations and institutions. In other words we are not interested in those who are not involved in these real estate markets and development activities. The categorised research population is indicated in Figure Annex 1.4.

2.3 Data types (primary and secondary)

Research data types are composed of primary and secondary data types. The research relies on multiple sources of evidence: what people say, what the researcher sees them doing and what documents and records reveal. Accordingly three types of basic data categories are required: respondents' data, observations plus artefacts and archival documents. The corresponding instruments of data collection include: semi-structured questionnaires, open ended interviews, interviews with key informants, direct observation, and document review. Closed-ended structured multiple-choice questionnaires lend themselves to the survey strategy while open ended interviews and value assigned questionnaires lend themselves to the cases study and ethnographic instruments. All these instruments are combined to serve the chosen eclectic research strategy. The sample of data types required for our research is shown in Figure Annex 1.5.

Figure Annex 1.4:
Research Population by category

Study population	Represented group	Role
Users		
Prospective businessmen	Businessmen cooperatives, associations, individuals	Own, purchase rent offices, shops etc.
Prospective households	Cooperatives, individuals	Own, purchase or rent houses
Suppliers		
Real estate development companies	Private business organisation	Build, sale houses
Petty providers	Individual investors	Build, let/ sale mixed use buildings
Owner-builders	Housing cooperatives and individuals	Build-own houses
Intermediaries		
Real estate consultants, contractors, lawyers	Private business organisations	Consultancy, engineering works, legal advise
Real estate agents /commission agents	Private business organisations	Advise, advertise, facilitate transactions
Informal brokers (<i>Dallalas</i>)	Service cooperatives and individuals	Link prospective users (buyers, tenants) to sellers and landlords
speculators	Individuals (informal solidarity)	Informal, 'illegal' provision of land
Government organisations		
Policy makers	Federal Government, Ministry of Urban Development and Const., Addis Ababa City Government	Issue policy, rules , regulations
Authorising officials	Addis Ababa City Government	Allocate public land, authorise permit, register transactions

Figure Annex 1.5:
Data types

Primary data	Collection instruments	Secondary data
Socio economic data	Surveys (questionnaires)	National & city level political, economic, social, demographic data
Antecedents (problems, opportunities)	Surveys (questionnaires), interviews	Civil society groups reports, news letters
Policy influences (incentives, constraints)	Interviews	Policies, rules and regulations
Decisions, moves	Interviews, observations, arte facts	Minutes of meetings, correspondences
Descriptions of feelings, sensory data	Participant observations, interviews, survey with psychometric scales	
Behavioral data, opinion	Interviews, surveys (questionnaires)	Studies by other consultants and researchers
Enforcement instruments	Interviews	Rules, minutes of meetings, correspondences
Consequential events, status of goal achievement	Interviews, surveys	Site documents
Property rights status	Interviews, surveys (questionnaires)	Registry, Records of court proceedings
Incurred transaction costs	Interviews, surveys (questionnaires)	Official reports: authorisation reports, licenses, registry of transactions, contracts
Satisfaction on service delivery	Interviews, surveys (questionnaires)	Official reports: authorisation reports, licenses, registry of transactions, contracts
Perceptions on government development interventions	Observation , interviews, surveys	Journal reports, civil society groups reports, news letters

2.4 Data collection instruments

The selection for data collection method and instrumentation depends on the research problem statement which is administered through research questions and hypotheses. Data collection instruments derive from the mixed qualitative and quantitative research methods we applied. The methods adapted in turn affect the choice of research strategies. The study of formal-informal institutional interfaces and how actors behave in transitional real estate markets under the influence of such interfaces is so complex that it goes beyond the conventional research strategies

such as survey or case study. It needs not only in-depth study but also at the same time in-breadth study. Investigating how a certain phenomenon and behavior is distributed among different actors' groups requires data collection instruments for an in-breadth study. Therefore an eclectic combination of research strategies which include survey, multiple-cross case study and ethnographic research strategies was employed. Case studies and ethnography both belong to in-depth study, whereas survey research is known for its in-breadth study. The research strategies adapted - case study and ethnography are research strategies in line with the social constructivist ontology which relies on exploring the *emic* perspective of actors/respondents.

The corresponding data collection instruments include survey questionnaires (open and close ended), semi-structured interviews, interviewing key informants, non-participant observations, archival documents and artefacts. The major ethnographic research instruments include observing activities of interest (partial observation), various forms of informal and semi-structured ethnographic (in-depth) interviews by the use of informants, life histories, household survey (with psychometric scales and other cognitive elicitation and measurement methods e.g. ratings by using the Likert scale, and rankings in which respondents are asked to rank items in a domain based on some sort of criteria), assessing network ties, and assessing secondary data (media reports, uses of federal and city government reports, studies by consultants and other researchers). The inclusion of the researcher's own experience, thoughts and feelings in the field notes and observation notes are also part of the ethnographic data collection. Some of these instruments are also employed as case study instruments e.g. use of media reports, uses of federal and city government reports, interviews of key informants and questionnaires. Key informants include regulatory bodies, organisers, NGOs, professional service providers etc. Artefacts include photographs and video records showing real estate development activities and related occurrences.

Case studies typically combine data collection methods such as archives, interviews, questionnaires and observations (Eisenhardt 1989, Yin 1994). Marshall and Rossman (1989) extend the list of instruments used in case studies to include among others films, photographs, videotapes, psychological testing, *street* ethnography and life history. Both ethnography and case study require collection of data in their natural settings i.e. in connection to context. The basic data collection instruments

applied for the survey research strategy includes structured interviews and self-completion questionnaires and use of secondary data collected by other professional consultants and public organisations.

By way of giving justification for the selection of data collection instruments and considering the eclectic combination of survey, multiple-cross case studies and ethnographic research strategies; the two major primary data collection instruments are survey questionnaires and semi-structured interviews. Semi-structured interviews allow formulating questions, in reference to the analytical framework and schedule of operationalisation, albeit that they take a general form of an interview schedule. Semi-structured interviews allow leeway for interviewees to reply; therefore the interviewer has chances to create questions out of the context and in response to what informants say. Thus helping the interviewer to explore insights into how research participants view the world and reveal insights on perceived impacts of policy contents on people. For example such an instrument is helpful to address why people resort to informal/illegal mechanisms. What was interesting in applying the semi-structured interviewing (as qualitative interviewing) is its being more flexible, responding to the direction in which interviewees take the interview and there by understanding what interviewees value most.

Nevertheless since semi-structured interviews take much time in data collection, and analysis, the size of the research population per case on which it can be applied is limited. On the flip side, the obvious weakness of semi-structured interviewing or qualitative interviewing is the lack of breadth (Bryman, 1992). This is compensated by the survey questionnaire. The survey questionnaire is an instrument based on structured interviews and self-completed questionnaire which relies on distributing the same set of questions to a larger population and helps to identify general patterns and trends i.e. how a phenomenon is spread. On the other hand it does not penetrate deeply into ideas and motives. Thus since our eclectic combination of strategies is based on complementarity, the selection of corresponding data collection instruments is also based on the same principle of complementarity. A distribution of questionnaires (simple random sampling) and interviews per case study is shown in Table Annex 1.1 and Table Annex 1.2 respectively.

Table Annex 1.1:
Sample size for survey

No	Case study/population group	Sample	Actual	Response rate
1	Informal settlement - Worku Sefer	103	102	99.0%
2	Cooperatives housing in Ayer Tena	90	82	91.1%
3	Real estate development by developers (developers)	22	14	63.6%
4	Real estate development by developers (consumers)	120	99	82.5%
5	Real estate development by petty providers (providers)	21	13	61.9%
6	Real estate development by petty providers (tenants)	52	46	88.5%
7	Merkato commercial centre redevelopment (business men)	95	93	97.9%
8	Merkato commercial centre redevelopment (members of the task force for Merkato Millennium Development partnership)	15	10	66.7%
	Total	518	459	88.6%

Interviewees include actors and stakeholders in the real estate markets of Addis Ababa. The choice of interviewees was based on the type of actors assumed to take part in a case real estate submarket. Those actors which could not be categorised to a case or because of their role crossed across cases were grouped as a non-categorised group. The major groups of actors include policy makers, sub/city government, regulatory public organisations, private sector providers (developers and petty providers), consumers (tenants, purchasers, owner-occupiers like in the case of informal settlements and housing cooperatives) and intermediaries (real estate agents, commissioned agents and local brokers). Professional services like architectural and engineering consultants, lawyers and bankers were also involved. Table Annex 1.2 shows corresponding numbers of interviewees per case study and those who could not be categorised under a specific case study.

Table Annex 1.2:
Number of interviewees per case study & non-categorised group

No.	Actors	Worku Sefer	Ayer Tena	RED by developer	RED by provider	Mer-kato	Non categorised	Total
1	Ministry of UD & Const.	-	1	2	-	-	1	4
2	Commission	-	1	-	-	-	-	1
3	Banks	-	-	-	-	-	2	2
4	City Government	1	-	1	-	1	4	7
5	Sub city government	1	1	-	4	2	-	8
6	Kebele Adm.	3	1	-	-	-	-	4
7	Peasant Association (Executive committee)	1	-	-	-	-	-	1
8	International cooperation & NGOs	-	-	-	-	3	1	4
9	Residents	10	-	2	3	-	-	15
10	Housing cooperatives	-	8	-	-	-	-	8
11	Real estate developers /providers	-	-	3	5	-	-	8
12	Real estate agents	-	-	-	-	-	1	1
13	Commission agents Local brokers (dallalas)	1	-	-	-	-	3	4
14	Businessmen	-	-	-	-	6	-	6
15	Lawyers	-	-	-	-	2	-	2
16	Professional consultants (architects & engineers)	-	-	1	2	-	-	3
	Total	17	12	9	14	14	12	78

The actual total sample size of respondents for the survey questionnaires was 459. This when compared to a total sample size of 518 results in 88.6% response rate. The most problematic area with low response rate was the case of real estate development by developers. This was compensated by making use of secondary data collected by a consultant (Oct. 2009) and investigative report (2009-10) by Addis Ababa City Administration. The low sample size with regard to real estate development

by petty providers had been partially due to the actual limited number of new developments. The number of interviewees was 74 (4 repetitive interviewees across cases being reduced) making a total size of 533 respondents.

3. Analysis

The analysis of a qualitative research is fundamentally interpretive, that is making an interpretation of the data. As noted by Creswel (2002: 190-92) this involves:

1. Developing a description of an individual or setting
2. Analysing data from themes and categories and finally making an interpretation
3. Use of complex reasoning that is multi-faceted, iterative and simultaneous
4. Though the reasoning is largely inductive, both inductive and deductive processes are at work, and
5. Simultaneous activities of collecting and writing up data in the case of ethnographic and case study research strategies.

In our research the analysis under the eclectic combination of strategies is guided by the analytical framework to maintain focus, quality and validity.

3.1 Analysis of surveys

In the preceding pages it was mentioned that there was a need to include surveys as supplementary strategies to increase breadth since both case studies and ethnographic research are strong in depth but limited in breadth. Hence as a supplementary strategy the analysis on surveys is limited to descriptive statistics with the aim of providing a general image.

3.2 Case study analysis

Analysis in the form of a case study is an inquiry of multiple resources of evidence to converge in a triangulation. Pattern matching and explanation building analysis techniques are discussed in Yin (1994). Pattern matching compares an empirically based pattern with a predicted one. If the patterns coincide, the results can help a case study strengthen its internal validity. Explanation building is a special type of pattern matching. The goal is to analyse the case study data by building an explanation about it. Explanations need to reflect theoretically significant proposi-

tions i.e. comparing the findings against such propositions, revising the propositions as many times. The final explanation will be a result of a series of reiterations. Yin (1994) notes four principles to produce analysis of the highest quality:

1. Show that the analysis relied on all relevant evidence,
2. Include all major rival interpretations,
3. Address the most significant aspect of the case study, and
4. Use of the researcher's prior expert knowledge to further enhance the analysis.

3.3 *Ethnography analysis*

Analysis in an ethnographic survey is basically an inductive or discovery based analysis within a chain of description - analysis- interpretation. It is a continuum of assembling raw data at one end and interpretive comments at the other end. It starts giving order to data, organising into patterns, categories and basic descriptive units. In this process data reduction (filtering) strategies (for example in our case those which lead to repetitive or recurrent patterns than the others) is important. Interpretation involves attaching meaning and significance to the analysis, explaining descriptive patterns and looking for relationship and linkages among descriptive patterns. It involves interpretation of the meanings and functions of human actions in the form of verbal descriptions. Use of creative insight, careful attention to the purpose of research has been maintained, for quality depends on focus, detailed description and in-depth quotation (Genzok, u.d.).

4. Syntheses

Synthesis is a way of recognition or a way of reasoning based on the assessment or integration of different results of analysis with the objective of summarising the evidence relating to a particular question or hypothesis. In our research all the results of the different case studies are synthesized to produce valid conclusions by way of proving or refuting the research hypotheses. Refer to the discussion on synthesis as analytical framework in Chapter Five.

5. Validity

Validity refers to the extent to which a test, questionnaire or other operationalisation is really measuring what the researcher intends to

measure (Hall and Hall 1996). Do our findings accurately represent what actually exists? Are our findings valid? The quality and internal validity (analogous to credibility) of analysis in a qualitative research is based on the details of the instruments and procedures used in data collection. Iteration as a process had been administered in our research to maintain validity. Iteration relates to the process of repeatedly returning to the source of the data to ensure whether understandings are truly coming out of the data. In practice this was meant a constant process of collecting data, carrying out a preliminary analysis, and using that to guide the next piece of data collection and continuing this pattern until the data collection was complete. In such kinds of sensitive research all the necessary precautions had been taken to annul the impact of the researcher on the setting or in changing the behavior of the research participants (avoiding what is known as the Hawthorne effect).

Validity in case study research depends on the use of multiple sources of evidence, establishing a chain of evidence which includes inference to other earlier occurrences, consideration of rival explanations and possibilities, checking for evidence convergence. Pattern matching was another way of maintaining validity applied in this research. External validity (analogous to transferability) deals with knowing whether the results are able to be generalised beyond the immediate cases. The use of multiple cases helped to strengthen the results by replicating the pattern-matching, thus increasing confidence in the robustness of the emerging insights. Cross validation and triangulation among the different kinds of data from different sources e.g. observation, interviews, reports, recording, data from key informants had helped us maintain validity.

6. Reliability

Reliability (analogous to dependability) is the extent to which a test would give consistent results if applied by different researchers more than once to the same people under standard conditions. Surveys are supposed to rate highly on reliability because each person being studied is asked the same set of questions. In depth interviews were more problematic in terms of reliability. By applying triangulation the problems associated with one strategy were compensated by the strength of the other.

Annex 2: Summary of Lease Regulations of Addis Ababa City Government

Criteria	Regulation No. 3/1994	Regulation No. 29/2002	Regulation No. 29/2010
Fixing lease payment	<ul style="list-style-type: none"> - Generally to be determined by tender (Art. 4) - Worship houses and public social services rendering establishments are exempted from lease charges (Art. 4) - Free of charge for lease holdings for private dwelling under 73 m2 - Birr 0.50 per square meter per year for lease holding of private dwelling b/n 73-175 m²(Art. 6/2) - Private dwelling houses in excess of the maximum limit of plot area to be effected by tender 	<ul style="list-style-type: none"> - The auction price is the highest price for the auction of each land - Free of lease payment by the decision of the Executive Committee for development activities or social service delivery which the administration promotes - Birr 0.50 per m² annual payment for land to accommodate private home within plot area margin of 105-175m² (later amended by regulation No. 10/2003 to birr 3 per m²and to be amended by the Cabinet) - Price of land through negotiation shall be decided by the board on the basis of the minimum price of the land 	<ul style="list-style-type: none"> - Highest price the winner offers for auction - Free for development activity or social service rendering institutions which the City Board encourages - For negotiation to be determined by the city board based on the initial auction price of the area - For land permitted by drawing lot for condos beyond the area made free from lease payment, the initial lease price of the surrounding area - Plot of land permitted free of lease payment shall pay an annual lease based on the grade of land to the amount not less than 3 birr/m² unless otherwise decided by the City Board
Fixing lease period	<ul style="list-style-type: none"> - 99 years for private dwelling -90 years education, science, technology, culture, health and sport - 60 years for rental housing and industry - 50 years for others 	<ul style="list-style-type: none"> - According to Article 6 of the Federal Lease Proclamation 	<ul style="list-style-type: none"> - According to Article 6 of the Federal Proclamation 272/2002 -Exceptions shall be determined by the City Board
Lease hold permit modalities & identifying winner of auction	<ul style="list-style-type: none"> - Tender, freely, grant 	<ul style="list-style-type: none"> - Auction, negotiation, by lot for the construction of private homes, and award - A party who offers the highest price for land wins the auction 	<ul style="list-style-type: none"> - Auction (at sub city level), negotiation, allocation, drawing lot (for building residential house), reward/award - In addition to price other requirements shall be implemented to identify winner of the auction
Modalities and Performance of payment (repayment period)	<ul style="list-style-type: none"> - Does not mention about down payments -99 years repayment period for lands for Private dwelling With bank compound interest - 30 years for lands for industry, rental dwelling house -20 years for culture, sport, education - 15 years for business 	<ul style="list-style-type: none"> - Down payment of 10-20 % depending on the type of the development activity or service -A term of finalising remaining payment amounts to 20-30 years depending on the type of development or service - Interest on the remaining payment in the amount of bank interest rate 	<ul style="list-style-type: none"> - Down payment of not less than 5% - After effecting down payment, annual lease repayment up to 30 years depending up on the type of development - Pay interest rate at bank loan rate upon the amount remaining after deduction of

Criteria	Regulation No. 3/1994	Regulation No. 29/2002	Regulation No. 29/2010
	- 10 years for pvt. dwelling plot area in excess of 175 m ²	- Defaulter of yearly payment and/or interest pay a fine of bank penalty on defaulters	the already period (interest rate to be revised along with bank loan rate) - Pay penalty at bank loan return rate upon the unpaid annual lease payment and interest thereof
Right of lease-hold	- Transfer fully or in part, by sale or other lawful means (the lessee upon transferring pays 10% of the profit in addition to capital gain tax) - Pledge or contribute such right in the form of a share to the extent of the rent paid	- Transfer and surety of lease right executed according to Article 13 of the Federal Lease Proc. No. 272/2002	- Transfer to third party and attachment in security of lease right - May not be transferred to a third party on sale or in the form of gift without the consent of the lessor
Renewal of period of lease	- Upon the application of the lessee a year before the expiry	- As per Article 7 of the Federal Lease Proc. No. 272/2002	- In accordance with the provisions of Article 7 of the Federal Lease Proc. No. 272/2002
Termination of leasehold	- After a written notice in advance of six months - When termination is effected before the expiry of lease period the compensation= the market value of the property on the land + (the amount of rent outstanding for the duration + compound interest) or a substitute land on the choice of the lessee	- Failure to commence construction according to the provisions and failure to finalise as per the terms and conditions and within the time set in the construction plan - According to Article 15 of the Federal Lease Proc. No. 272/2002	- If the lessee did not commence construction according to the provisions and accomplish within the limit of period of 24, 36, 48 and extended time of not more than 30, 48, 72 months for small, medium, higher construction respectively, the city govt. may terminate and take over the plot of land
Commencement of construction (defined as completion of the foundation work)	- Within 6 months upon authorisation to enter the land for private dwelling houses - Others 18 months - Dispossessed in case of default unless otherwise delayed due to force majeure (Civil Code Art.1793)	- For construction of a private home 18 months - For all others 18 can be extended up to 30 months - If the lessee did not launch construction pays 3-5% penalty and, the contract terminated and the land conferred to another person unless the delay is ascertained by the Bureau on account of force majeure according to the Civil Code (later amended by regulation No. 10/2003: "...shall pay as a penalty the rent of the land with 5% addition of the total price of the lease for the time of the delay and including one year period used to transfer the land for another person ...")	- To be determined based on level of construction and type of use for the specific plot of land (9-24 months), extended for additional time not exceeding 6 monthspenalty of 3-5% and the plot shall be returned - For private residence or condominium within 6 months from the time of signing the lease contract - Extended for additional 3 months along with written notice - Not beginning within the extended period +force majeure no penalty but the plot of land shall be taken back
Provisions for housing	- Plot area for private dwelling house 73-175 m ² leased out by casting lots without tender	- Plot size for the construction of private home 105-175 m ² , in excess of this size through auction or negotiation	- Up to 40% of the area free of lease payment for housing cooperatives who build condominium

Criteria	Regulation No. 3/1994	Regulation No. 29/2002	Regulation No. 29/2010
		(later amended by regulation No. 10/2003 to 50 m ² free of lease payment)	
Applicable Contractual provisions	No specific provision	No specific provision	Provision of the Civil Code for administrative contracts
Entrusted implementing body	<ul style="list-style-type: none"> - Board - A body for the execution of tender designated by regional self-govt. - An Appellate Tribunal 	<ul style="list-style-type: none"> - Board (the Bureau of Works and Urban Development was the main implementing organ) + Land Clearance Appeal Commission - The rights and duties of the Lease Office transferred to the Bureau 	<ul style="list-style-type: none"> - City Government Land Development and Administration Board + Negotiation Executing Team+ Auction Executing Team +Clearance Order Appeal Commission - Land Administration and Construction Licensing Authority, and Development, Bank and City Renewal Project Office are the major implementing organs
Expropriation on public interest/ purpose (definition)	<ul style="list-style-type: none"> - Expropriation possible to use the land for either public purpose or in accordance with the master plan - However public purpose is not explicitly defined 	<ul style="list-style-type: none"> - Public interest is defined as per the Federal lease proc. No 272/2002 which an appropriate body determines as a public interest in conformity with master/development plan in order to continuously ensure the direct or indirect usability of land by peoples, and to progressively enhance urban development 	<ul style="list-style-type: none"> - The use of land as such by the decision of the appropriate body based on urban plans to ensure the interest of the people to acquire direct or indirect benefits from the use of land and to consolidate sustainable socio-economic development
	- Regulation No. 3/1994 (Effective as of Nov. 3rd 1994)	- Regulation No. 29/2002 (Effective as of May 17th 2002)	- Regulation No. 29/2010 (Effective as of Feb. 9th 2010)

**Annex 3:
Worku Sefer - Land Value Variation**

No	Year	Plot area	Price	Rate (birr/m ²)
1	1978	500	10000	20.00
2	1983	400	5500	13.75
3	1983	271	1000	3.69
4	1985	500	2000	4.00
5	1987	1000	2000	2.00
6	1988	650	1500	2.31
7	1990	400	1000	2.50
8	1991	152	2000	13.16
9	1992	200	10000	50.00
10	1994	400	30000	75.00
11	1995	160	14000	87.50
12	1998	350	3500	10.00
13	1999	200	10000	50.00
14	2000	1000	20000	20.00
15	2002	200	20000	100.00
16	2004	400	100000	250.00
17	2005	350	250000	714.29
18	2007	400	250000	625.00
19	2007	269	130000	483.27

Source: Field survey July 2009

**Annex 4:
Real Estate Development Projects in Bole Sub City**

No.	Type	Number of units	Percentage status	Remark
1	Service quarter ¹	587	100	By Ayat Real Estate
		42	<30	1 by Ayat Real Estate
		1	30-50	
		289	50-70	216 units by Ayat Real Estate
		299	>70	229 units by Ayat Real Estate
2	Villas	203	<30	43 units by Ayat Real Estate
		124	30-50	32 units by Ayat Real estate
		5	50-70	
		363	>70	229 units by Ayat Real Estate
3	Condominium building	27	< 30	17 units by Ayat Real Estate
		4	30-50	
		18	>7%	By Sunshine construction

Source: Land Administration and Building Permit Authority of the City Government of Addis Ababa (2009/10)

Service quarter: a separate unit from the main house built usually at the rear side of the compound which accommodates traditional kitchen, maid's room, store, toilet facilities, laundry and ironing room and etc.

**Annex 5:
Status of real estate development projects in sub cities**

No.	Sub city	No. of RED	Proposed number of housing units	Leased area in hectare	Status				Remark
					Construction started	Not started	Interrupted	Completed	
1	Nifas Silk - Lafto	22	4971	62.8	14	6	2	2	Those not started didn't receive plots
2	Lideta	1	Unknown	8	No	1	No	No	Received 6400 m ²
3	Kolfe - Keranyo	2	1391	30.5	1	No	1	No	
4	Kirkos	4	Unknown (apartments) 9 sites	2.11	2	2	No	No	5 sites belong to Ayat 2 REDs started construction
5	Akaki-kality	2	Unknown	4.02	No	2	No	No	Not yet received site b/s of delayed hand over of site
6	Yeka	23	2483	78.7	7	11	3	2	7 REDs started construction, 11 not yet started, 3 interrupted
7	Bole	63	16000	332.3	33	31	Unknown	1	The data on 4 REDs was not found
	Total	117		518.43					

Source: Land Administration and Building Permit Authority of the City Government of AA (2009/10)

Annex 6: Summary of the performance of real estate developers (REDs)

No.	Theme	Customers (N=620)	Real estate developers (N=34)	Remarks
1	Role of RED in alleviating the housing problem			REDs contribution to alleviate housing problem is not as anticipated
2	Design decision of houses	Is done by developer (60%) By the customer (30%)	Done by the developer (26.5%) Jointly (23.5%) Non respondents (35.3%)	The involvement of customers is very limited
3	Land acquisition		-Own former holding (44.1%) -Lease negotiation with the city government (23.5%) -Bought from another lessee (20.6%)	
4	Efficiency in the utilisation of land resource	- Yes they keep it fenced (43.7%), No (46.3%) -Yes REDs subdivide the empty land and transfer (47.4%), No (37.4%) - Yes they illegally use the leased land for non-permitted use (44.1%), No (40.7%)	- Yes keep it idle and fenced (5.9%), No (61.8%) -Yes, transfer the leased land without developing it (2.9%), No (61.8%), non - respondents (35.3%) - Yes used the land for non-permitted use (5.9%), No (58.8%), non-respondents (35.3)	Most customers bought undeveloped land
		When they signed agreement with developer the status of the house/plot was: - Completely built (7%) - Empty (32.9%) - Construction was at early stage (24.7%) - Only the service quarter was built (19.4%)	Transferred the house/plot: - Completing the main house (35.3%) - Completing >50% (23.5%) - Empty (0%) - After building only the service quarter (2.9%) - Non-respondents (38.2%)	
		Who is responsible to complete the unfinished house: - The developer (17.3%) - The buyer (56%) - Non respondents (17.3%)	Who is responsible to complete the unfinished house: - Joint (20.6%) - Developer (11.8%) - Customer (2.9%) - Non-respondent (64.7%)	Partially constructed house is completed by the buyer
5	Support of City Government		- Incentives and support is sufficient (29.4%) - Not sufficient (23.5%) - Non-respondents (47.1%)	Clearly the support of the city government is insufficient
6	Infrastructure provision	- Infrastructure has been fully provided (44.2%) - Partially provided (37.3%)	- Fully provided (44.1%) - Partially provided (47.1%) Who provided? - The developer (41.2%) - Unknown (23.6%) - The city administration (20.6%) - Buyers (2.9%)	There is widely observed discrepancy on who provides infrastructure. Infrastructure involves big cost. It is astonishing that

No.	Theme	Customers (N=620)	Real estate developers (N=34)	Remarks
				who covers such cost is not clearly known.
		If partially provided by whom will be completed, by: - The developer (28.5%) - The buyer (22.1%) - Do not know (15.6%) - City administration (12.4%)	If partially provided by whom will fully provide: - The city administration (26.5%) - The developer (23.5%) - Do not know (17.6%) - Customers (0%) - Non respondents (32.4%)	
7	Efficiency of authorisation services	- Not efficient (72.6%) - Is efficient (20.5%)		
8	Price for house/plot	- Yes Price is fair (71%) - Yes the buying price is inclusive of infrastructure cost (44.2%), - Has no idea (29.5%) - Is not inclusive (23.9%)	Price is fixed considering - It is situational (44.1%) - Building cost, lease payment, infrastructure provision (11.8%) - Building and lease payment (8.8%) - Non-respondents (35.3%)	
9	Payment modality	Current payment status - Paid fully (65.5%) - Partially paid (28.7%) - Paid nothing (1.9%) - Non respondents (3.9%)	- Partially advance payment and the remaining by installment (26.5%) - Conditional based on the contract (23.5%) - Loan Finance (11.8%) - Cash payment at once (0%) - Non respondents (38.2%)	Real estate developers use upfront financing of their projects through advance payments made by their customers
10	Issuance of title certificates	Yes have got land title certificate (69.5%) - No (26.3)	-Yes individual title certificate was full provided (44.1%) -Partially (14.7%) - Non-respondents (41.2%)	Most customers (2/3) have already individual title certificate
11	Contractual obligations	- No, REDs do not respect their contractual agreement (56.8%) - Yes they do respect (35.3%)	Yes REDs timely hand over according to contract (55.9%), No (17.6%)	
			Take advance payment from customers as guarantee against default : - Yes (44.1%) - No (20.6%) - Non –respondents (35.3%)	
12	Transparency of rules and regulations	Yes lack transparency (51.5%) No (42.9%)		Lack of transparency has led to information asymmetry to real estate developers
13	Monitoring and evaluation	Lack monitoring and follow up (71.9%)		Certainly the lack of monitoring and evaluation is visible

Source: Survey data by a consulting firm Infodis October 2009

Annex 7:
Summary of the performance of real estate developers
(REDs) (Residents opinion)

No.	Theme	Residents (N=1674) opinions	Re- marks
1	Role of RED in alleviating the housing problem	Is not at par with expectation - Contributed much (50.4%) - Contributed less (50%)	
2	Efficiency in the utilisation of land resource	-Yes REDs usually keep plots fenced for long (71.1%) - Yes REDs subdivide the undeveloped land and transfer it for third parties (75.0%) -Yes REDs illegally use the leased land for non-permitted use (76.4%) -Yes REDs transfer on sale after only building the service quarter or partially the main house (71.4)	
3	Infrastructure provision	- Yes infrastructure was provided (43.7%) - Infrastructure was not provided (47.8%)	

Source: Survey data by a consulting firm Infodis October 2009

Annex 8: Additional opinions by respondents

No	Theme	City Residents	Real Estate Customers	Real Estate Devl.
1	Policy and institutional aspects	Reckless land provision without follow up and monitoring done at high cost to the displaced poor peasants and poor urban dwellers	There is no regulatory framework on real estate development at national level	Lack of monitoring and follow up by the City Government
		Some incentive-sanction mechanisms necessary on real estate developers while they are allocated land so that they accommodate housing units accessible also to low income groups	Government intervention is necessary. An organ need to be established which will oversee contract execution and take the necessary actions so that the disadvantaged is compensated	
		Lack of transparent legal framework in land provision Frequent violation of the master plan also observed	The need for consistent, and stable institutional framework on land applicable to all	Working systems lack clarity and transparency
		Major laws of the nation prohibit the sell and exchange of land but the act of REDs contravenes such laws	Contractual breach is common. We had been later on requested to include lease price which was not initially included in the contract	Regulations on supply of building materials and maintain standards
		Subsidy is important to lessen impact of price escalation on the low income groups	Policy change need not always focus on safe guarding government interests rather need to consider our capacity and current price situation	
2	Service delivery	The frequent change of land regulations almost every month rendered unpredictability and become obstacle for developers	Frequent turnover of staff results in lack of institutional knowledge and deters service delivery	Inefficient service delivery and ethical problems in the part of employees and officials of the City Government
3	Private sector involvement	To alleviate the housing problem of the middle income groups and government employees REDs can be involved in the provision of condominium units	Reduction of lease payment might help more houses to be built. Government alone cannot alleviate the housing shortage by building condos, need to involve REDs	
4	Partnership	The need for common forums for private developers and government	-The need to be organised in consumers' cooperative -Customer communities, developers, and government need to work in cooperation - Everything should not necessarily come only from government	Sharing of cost for infrastructure e.g. if government provides major collector roads

No	Theme	City Residents	Real Estate Customers	Real Estate Developers
5	Government support	As most condos are built in the central areas real estate developers also need to be provided access to land in the central areas	The need to facilitate bank loan Developers' effort to cope with ever escalation of price is appreciable	Lack of government support to import building materials
6	Access to land	Despite land being the property of government some individuals are misusing it therefore policy which provides access to land for the poor/low income to build shelter according to their capacity is necessary	Access to land is highly exposed to corruption	Land is not made available through fair price

Annex 9: Recommendations of users & inhabitants on activities of real estate developers

1 Policy and institutional framework

- 1.1 No regulatory framework exists on real estate development at national (federal) level
- 1.2 Lack of incentive mechanisms to real estate developers to provide housing units accessible to low income groups (government alone cannot alleviate the housing shortage by building condominiums, need to involve real estate developers)
- 1.3 Government needs to develop efficient institutional mechanisms rather than labyrinthine and bureaucratic mechanism to oversee contract execution and to ensure the disadvantaged is compensated
- 1.4 Lack of transparent, consistent and predictable legal framework in land provision (the frequent change of land regulations only contributed to unpredictability of the legal framework)
- 1.5 Contracts in addition to being not comprehensive, their legal enforcement is so weak that contractual breach is common
- 1.6 The need for communal forums for government, private developers and customers of real estate housing
- 1.7 The constitution forbids the sale of land but the action of real estate developers contravenes the constitution
- 1.8 Conducive institutional framework to enhance supply of major building materials and regulate their standards is lacking
- 1.9 Policy change always focuses on safeguarding government interests rather than addressing the paying capacity of customers and current price situations
- 1.10 Frequent turnover of staff has resulted in lack of institutional memory deterring service delivery
- 1.11 Institutional arrangement which accommodates the role of community groups such as consumers cooperatives is necessary
- 1.12 Reform on financial institutions to facilitate loan finance is required

2 Land

- 2.1 Reckless provision of large tracts of land without follow up and monitoring mechanism done at high cost to displaced poor peasants and poor urban residents;
- 2.2 No access to land for the poor and low income groups to build shelter according to their capacity
- 2.3 Equal access to central locations for private real estate projects

3 Finance

- 3.1 The need for subsidy to lessen impact of price escalation
- 3.2 Lease price need to be reduced so that the focus is to increase the stock of housing and its affordability rather than mere revenue enhancing means of the city administration
- 3.3 The effort in the part of real estate developers to operate under an ever-escalating price needs to be appreciated

4 Infrastructure and services

- 4.1 The need for clear demarcation of responsibilities in infrastructure provision

5 Building materials

- 5.1 The need to liberalise import of building materials

Annex 10:
Sampled Business Enterprises for Merkato Redevelopment

No.	Name of Block Association	Location / Terra	Members at the beginning
1	Ediget Bandinet Share Company (SC)	Satin Terra	132
2	Admas Zemenawi SC	Dubai Terra	34
3	Africa Shopping Center (SC)	Bomb Terra	24
4	Dir Terra SC	Dir Terra	111
5	Meserete Hiwot SC	Dubai Terra	35
6	Shekla Terra SC	Kibe Terra	80
7	Tewekel SC	Joniya Terra	68
8	Addis Ababa Shopping Center (SC)	Military Terra	38
9	Military Terra SC	Military Terra	630
10	Nigat Birhan SC	Worq Terra	154
11	Mehal Merkato SC	Berbere Terra	24
12	Addis Fana PLC	Joniya Terra	17
13	Addis Mela SC	Raguel	18
14	Yirga Haile PLC	Raguel	Private
15	Pvt shops		2

Annex 11: Merkato Millennium Development Partnership: Context Analysis

Aspect of context	Element	Opportunities	Constraints	Remark
Historical	Historical establishment: evicted from the existing main market on grounds of segregation, Existence of historical buildings	Strong and passionate historical attachment, Duality: modern and historical promotes inclusion, tourist attraction	Makes difficult for late joiners /new entrants, Conflict between preservation & creation of more commercial space	Family business and right to business spaces are considered as inheritance from ancestors; Resulted in demolition of historical buildings e.g. Mars Hotel
Institutional	Policy/Legal provision for PPP Lease Proclamation Revised Addis Ababa Master plan & Merkato LDP	Proc. No. 361 /2003, City charter, Article 11, Lease was instrumental for tenure change Revised plan recommends PPP as implementation instrument	No policy /regulatory framework on PPP at national or city level; Lease price and modalities were restrictive	ORAAMP's model scheme on PPP and attempt by Policy Study and Plan Commission of AACG relegated, Those unable to afford were forced to pullout
Political	Decentralisation	Stimulate people to take initiative, an opportunity for management of urban development at local level	Most issues raised by businessmen were considered policy issues beyond the sub city mandate	Constrained decentralisation limits space for managerial discretion and local development policy initiatives
Social	Social capital	High trust and solidarity creates high potential for collaborative actions	Social capital limited to bonding type restrains new entrants	Makes difficult for late joiners (e.g. the resistance to the lease sale of road side plots in Minalesh Terra)
Economic	Major trading center, illicit trading, tourism	Merkato epicenter of national economic and financial growth & center of employment	Conflict b/n enforcing ethical business and prevalence of illicit trade	Preference to high quality shops and improper handling might lead to exclusion of micro and small enterprises

Aspect of context	Element	Opportunities	Constraints	Remark
Spatial	<p>Slum habitation, obsolete infrastructure, poor physical condition</p> <p>Tenure: 90% government owned</p> <p>Existence of specialised quarters_ Terras</p>	<p>Necessitate concerted efforts of all concerned actors</p> <p>Redevelopment as opportunity to tenure change</p> <p>Duality: modern and traditional, high tourist attraction</p>	<p>Requires high financial investment, conflict of interest b/n construction of new buildings and social rehabilitation,</p> <p>Land grabbing tendency,</p> <p>Loss of traditional market</p>	<p>Excludes unable members of the business community, turned to be a serious challenge for MMDP, led to be abandoned by two of its members,</p> <p>Aggravated by irresponsible architecture & urban design might lead to exclusion of traditional traders</p>
	<p>Incentives:</p> <p>(1) Help win political and social support for the PPP</p> <p>(2) Improve the performance of the PPP</p> <p>(3) Help to expand membership and networks</p> <p>(4) Build the legitimacy of the partnership</p>		<p>Disincentives:</p> <p>(1) Erode the political and social support of the PPP</p> <p>(2) Reduce the performance of the PPP</p> <p>(3) Members might withdraw</p> <p>(4) Erode the legitimacy of the partnership</p>	

Source: own analysis

Annex 12: Merkato Millennium Development Partnership - capacity analysis

No.	Key players & major stakeholders	Cat-egory	Role	Unique capacity	Capacity limitations	Remarks
1	Merkato business-men's block associations	Private businesses	Construction of business buildings and infrastructure, Resource mobilisation, facilitation, Advocacy	Flexibility, Quick practical decisions, Management & coordination skills	Low collaborative effort: Allegiance to the partnership gave way to commitment to ones block association	Progress of construction of business buildings has been retarded
2	Addis Ababa Chamber of Commerce	Private business associations	Organising and coordination, Capacity building (information system, good business practice etc.), Resource mobilisation & facilitation, Awareness raising, Networking and advocacy	Experience and skill in negotiation Coordination skills	Limited advocacy capability, less organising and coordinating skill	Not able to sustain the magazine <i>Merkato Today</i> after GTZ withdrew, Unable to sustain the momentum and reorganise the partnership
3	Addis Ketema Sub City	Governmental	Facilitation of construction routines (arranging temporary shops, access to supplies, dumping site for excavated soil etc), Maintain overall quality of Redevel., Regulate financial flow of the PPP, Provision of infrastructure, Communicate (policy related issues to the City Government e.g. lease, tax etc.),	Know how on government working procedures, Management skills, Political capital and networking, Conflict handling skills	Shortage of skilled professional staff, Itself at early stage of establishment, Less selling skill in the promotion of the ideas of PPP, Less communication	It failed to resolve issues related to lease (modality of payment and selling price)

4	Addis Ababa City Government	Governmental	Administrative backing and facilitation, Policy direction,	Technical and professional knowledge on planning & design, legitimate authority and eminent domain to acquire property	Lack of experience in PPP, Absence of legal framework for PPP	Limited to passive observation and choose not to take action to provide policy framework on PPP
5	Pro Pride	Non-Governmental Organisation	Advocacy (whether redevelopment adversely affects the livelihood of the people), Resource mobilisation	Long years of experience in poverty alleviation projects in Merkato	(-)	Served as secretary of the Task Force
6	Christian Children Fund	Non-Governmental Organisation	Advocacy	(NA)	(NA)	Unable to find its niche and withdrew earlier
7	Idirs in Merkato	Community Based Organisations	Advocacy for resident communities of Merkato	Local knowledge on the needs of resident communities	Low negotiation skills, limited innovative & constructive suggestions	Unable to find its niche and withdrew earlier thereby abandoning its advocacy role
8	GTZ	International Development Cooperation	Financial and technical support, Networking and assist in resource mobilisation, Facilitation of participatory fora	Experience in PPP Expertise knowledge Networking skills	(-)	GTZ seems satisfied by the length it traveled to create the partnership as a joint forum between the main parties

Source: Reconstructed from own survey questionnaires and interview results, reports of the Task Force, Report on assessment workshop by the OD consultant, and other studies.

Annex 13:
Merkato Millennium Development Partnership synthesis of
strategic and behavioral level factors

Figure 13.1:
Strength of the partnership

Strategic level factors	Results on Likert Scale or percentages	Behavioral interaction Level factors	Values on Likert Scale or percentages	Remark
Shared vision	80%	Perception Organisational value alignment, Complementary objectives	1.7 80% 90%	High belief on the effectiveness of MMDP, Conviction that organizational value and objectives align with that of the partnership
Strategy	100%	Expectation Commitment	80% (clear direction)	All have broader view of development than mere construction of shop buildings
Political support Facilitative role of sub city adm. & handling conflicting interests	2.5 & 2.9	Commitment	Growing cooperative activity at early stage	The sub city administration showed great enthusiasm in the redevelopment
Governance -openness and integrity -participation	2.7 All (70%)	Mutual Respect Power balance	2.2 (fair)	There is mutual respect and all members actively participate in meetings

Source: Own computation and summary

Figure 13.2:
Weaknesses of the partnership

Strategic level factors	Results on Likert Scale or percentages	Behavioral interaction Level factors	Values on Likert Scale or percentages	Remark
Leadership	3.8	Commitment	(interval b/n meetings 2-3 months)	Failed to maintain the continuity of development activities of the partnership
Societal support	3.3	Commitment	(representatives of the societal groups with drew earlier)	Lack of involvement of residents in implementing Merkato LDP
Political support	(Passive observance)	Commitment	(businessmen take the forum for voicing but no action)	Passive observance of higher level City Government
Communication	70% agree on the magazine <i>Merkato today</i>	Trust	Mistrust b/n the main partnering bodies (4.0)	<i>"Merkato today"</i> stopped publishing after its first issue
Governance -Accountability	(not clear)	Partnership identity -bureaucratic & centralised	4.0 (70%) / 3.3 (100%) 80%	Accountability and organisational identity of the partnership is not clear; it adopted the bureaucratic culture

Source: Own computation and summary

Annex 14: Operationalising Variables

Variables	Definition	Indicators	Measurement	Scale
National and city level Context variables	Exogenous and endogenous factors at the national and city level which influence research variables	Globalisation, political, economic, social & cultural, demographic, physical	Exploration of how they influence the nature of institutions pertaining to the real estate market based on secondary data	Nominal, interval, ratio
		Globalisation	Number of international/foreign real estate firms (supply side) Number of international/foreign business firms and corresponding accommodation needs in Addis Ababa (demand side) Foreign Direct Investment (FDI) in the sector	Ratio Ratio I/R
		political	Administrative structure Level of decentralisation	Nominal Nominal
		Economic & finance	Real GDP Economic growth rate Unemployment rate Inflation rate (retail price index) Interest rate Mean & median per capita income Land price index House price to income ratio Home ownership rate Real Estate Mortgage Debt outstanding Size of public investment in housing/infrastructure Foreclosure rates	Interval Ratio Ratio Ratio Ratio Ratio Ratio Ratio Ratio I/R I/R ratio
		Social & cultural	Level of Education (%) Life expectancy	Interval interval

			Health coverage (%) Social networks Cultural diversity	Interval Nominal Nominal
		Demographic	Population size Population growth rate Productive population Rural – urban migration rate Total number of household size Average house hold size New household formation rate	I/R Ratio I/R Ratio I/R Interval Ratio
		Physical	Available constructible land size Number of houses Housing deficit Quality category of built environment (%-age of slum areas) Coverage of infrastructure and utilities (road length per capita, water coverage, electric power coverage, sewerage coverage)	Ratio I/R Ratio Ordinal Interval

HYPOTHESIS (1):

Institutional building in Addis Ababa real estate market is driven by ideological motives and does not consider values, attitudes and culture; therefore actors in different arenas prefer to apply informal norms and practices in appropriation and transactions of property rights.

QUESTIONS:

How do actors pursue their goals under the influence of informal and formal institutions?

Why are actors including middle and high income groups attracted to informal practices?

What customary practices of giving recognition to property rights are used by communities?

What types of actors and institutions play a more important role in the transition period?

To what extent do formal policies and institutions pertaining to the real estate market reflect values, attitudes/culture?

Variables	Definition	Indicators	Measurement	Scale
Institutional interfaces – actors behavior	A continuum of two levels of inter-dependent interactions i.e. institutional interfaces/ interactions (formal and informal) and actors behavior under the influences of these institutions			
Level I. Institutional interface (process variable)	Interaction between formal and informal institutions	Role significance	The proportion of number of properties acquired based on formal and informal institutions	Ratio
Formal institutions & enforcements	Formal rules or prescriptions that forbid, allow or stimulate specific behavior of actors in the real estate market. They are established and communicated through officially accepted channels e.g. land titles, written contracts, registered transactions.	Secured property rights and transactions made through formal institution processes	Number of real estate property (land and non-land) rights acquired through formal channels and according to formal rules i.e. with legal written titles	Ratio
			Number of real property sold and purchased through formal channels and according to formal rules	Ratio
			Number of transaction deals based on legal written contracts	Ratio

Variables	Definition	Indicators	Measurement	Scale
Informal institutions & enforcements	Conventions, community codes of conduct, social rules and social norms of behavior, culture and customary practices which structure social relations and organise actions in the real estate market. They are created, communicated and enforced outside of officially sanctioned channels e.g. social recognition that a property belongs to somebody in the community.	Property rights and transactions made fully or partially using informal institutions and mechanisms	Number of real property rights acquired through informal channels (customary, black markets, etc., and according to informal rules i.e. social conventions and practices) and do not comply to formal rights	Ratio
			Number of real estate property sold and purchased through informal channels and according to informal rules	Ratio
			Number of transaction deals made without written contracts*	Ratio
			Number of real property rights which do not comply to official permit authorisation	Ratio
			Formal real property rights which partially employed informal means (including those informally acquired but later legalised)	Ratio
Level II. Institutional influences and actors behavior	A two way relationship between institutions and actors behavior		Exploring the ways actors behave and influence institutional change (bottom-up effect)	
Action situation	The social space where individuals interact, exchange goods and services, engage in appropriation and provision activities, solve problems, or fight.	Community attributes	Size of community in number of households or enterprises	Interval
			Structure of the community i.e. how they are organised	Nominal
			Type of dominant economic activity the community engaged	Nominal
			Income group (high, medium, low income groups)	Ordinal
			Degree of diversity (ethnic, religious diversity)	Nominal
		Attributes of the physical assets	Available constructible land in hectares	I/Ratio
			Quality of the physical environment i.e. buildings and structures	Ordinal
Availability of infrastructure and utilities (road length per capita, water coverage, electric power coverage, sewerage coverage)	Interval			
Antecedents	Environmental conditions or stimulus changes that exist before the behavior of interest	Problems: (Definition: an obstacle which makes it difficult for real estate actors to achieve their desired	By asking actors what problems they encountered to achieve their goals and noting their problem expressions	Nominal

Variables	Definition	Indicators	Measurement	Scale
		goals for e.g. to attain access to land)		
		Opportunities: (Definition: existing potentially favorable circumstances in the external environment that can be utilised by real estate actors to achieve their goals)	By asking actors what opportunities they discovered and how they tried to tap them to achieve their goals and noting their opportunity expressions	Nominal
Institutional influences	Influences arising from institutions external to the action.	Incentives (Definition: institutional influences which encourage real estate actors to make certain choices and behave in a certain way to acquire their goals e.g. attain property rights & negative incentives such as penalty, eviction, expropriation)	By asking actors what incentives from which institution motivated them to take such decisions and actions towards achieving their goals and noting their perceptions of the incentives	Nominal
		Constraint (Definition: institutional influences which constrain real estate actors not to behave in a certain way in acquiring their goals e.g. required permit procedures informal rules)	By asking actors what constraints from which institution discouraged them to take the formal course of actions to achieve their goals and noting their perceptions on the constraints	Nominal
Actors' component		Expectations (Preference on actions and outcomes)	By asking actors a series of questions on what their expectations are, and what and why they prefer some actions to achieve the outcomes they desired to reach and noting their responses and feelings	Nominal
		Acquisition, processing and use of information (learning processes)	By asking actors a series of questions and a document search on minutes of meetings on how they perceived the problems, constraints in the environment, about the formal rules and how they analysed and reached commonly shared information and mapping their learning process	Nominal
		Decision criteria	Asking actors and pursuing document search and noting the decision criteria they used	Nominal
		Resources actors bring	The package of assets (land,	Interval,

Variables	Definition	Indicators	Measurement	Scale
			infrastructure, finance, social networks and trust) that they intend to achieve their goals with	ratio, nominal
Actors behavior		Rule based repetitive interaction patterns (Definition: descriptions of moves (actions to accomplish processes), processes, and task responding to established rules)	Repetitiveness and similarities among the different moves and processes taken to accomplish a task	Nominal
		The rules organising inter- individual relationships	Noting mutually understood codes of conduct and norms of behavior (social rule)	Nominal
		Behavior of interest Definition: is a declared intention as a result of the interface between formal institutions (rules and regulations) and informal norms of behavior as collectively reached by actors; it might include for e.g. non-compliance, quite protest, quite encroachment)	Noting shared socially sanctioned decisions	Nominal
		Enforcements (Definition: used social sanctions to effect compliance with the norms of behavior or rule of conduct and ensure members abide by their obligations)	Noting the social sanctions employed to effect compliance	Nominal
Consequence	A stimulus change that follows the behavior of interest, it might include reinforcement of desired behavior, no response or punishment	Effects of the stimulus change on what is significant relative to what the actors' want	The consequences of the behavior of interest of actors relative to their wants and goals for which it is significant to the actors themselves and to their community is also judged by advocates and key informants	Nominal
Status of goal achievement		Success or failure in achieving desired results	Whether the desired results are achieved or not	Nominal

HYPOTHESIS (2):

Managing the transition needs to be based on adopting informal social norms and practices, however in the Addis Ababa real estate market the further aggressive enforcement of the formal legal framework can ensure both the efficiency of the real estate market and societal equity concerns.

QUESTIONS:

How does the assignment of property rights differ under various institutional setting?

How do actors manage to access land in transitional market of Addis Ababa where land is publicly owned?

Variables	Definition	Indicators	Measurement	Scale
Lack of proper formal institutions	The incapability of existing public institutions as coordinating institution of the real estate sector in facilitating actors' actions to achieve their goals or societal interest and also failing to rectify high market transaction costs, and failing to use efficiently natural resources such as urban land for the betterment of society	Property right status, incurred transaction costs, consumers satisfaction on service delivery, perceptions on government growth enhancing interventions, enforcement capacity	Assessing the performance of the pertaining public institutions in coordinating the real estate sector as perceived by actors and community groups and document search on minutes of a series of public forums organised by the government using qualitative case study analysis and descriptive statistics on empirical data	Nominal, ordinal, interval and ratio
		Property right status (Definition: Rights that accrue to the owner of a real property (land, buildings) by virtue of owning it; includes the rights to use, share, acquire additional assets, the right to alienate or sell property. Status refers to the registration of and usability of such rights)	Registering property (the proportion of claimed and actual issued titles)	Ratio
			Safe documents (the proportion of forged to authenticated titles held by actors reported by sub city administrations)	Ratio
			Able to use as collateral? Yes/no	Nominal
		Transaction costs (Definition: costs that arise, when. real estate market actors exchange ownership rights to economic assets and enforce their exclusive rights include costs arising from bureaucratic procedures, delays, and corruption, dispute resolution costs, market information costs)	Labor time in hours (min. wage*labor hours) invested in searching for information on prices, qualities, buyer or seller of a real estate property	Ratio
			Labor time in hours (min. wage*labor hours) invested on processing of contract,	Ratio
			Opportunity cost of working capital (rent*days) in not using a property during reinstating or handling breach of contracts	Ratio
			Opportunity cost of working capital (rent* days) due to delays of handing over property after transaction i.e. the number of days between conclusion of transaction with authorities and actual hand over of site or property	Ratio

Variables	Definition	Indicators	Measurement	Scale
			Leveling of playing field for new entrants to real estate firms and other actors measured in the degree of stringency of regulations for registration and licensing of new entrants in terms of requirements, registration fees, taxes	Ordinal
		Service delivery (Definition: Authorisation office services public plots allocation, land holding certificates and building permits and registration of transaction on real estate properties; including provision of utilities and infrastructure)	Public (consumers) satisfaction/ dissatisfaction in terms of number of processes, units, and days taken for processing allocation of plots , title registration, building permit, registration of transactions on real estate properties.	Nominal
			Satisfaction level of provision of infrastructure by actors	Ordinal
		Government growth enhancing interventions	The width of growth coalition between government and private sector or community groups (associations, partnership) in terms of number of coalitions, partnering bodies, and members	Interval
			Sustainable use of key resources (urban land) to the development activity and shelter need of the community (public land plots provision rate per annum and number of applicants in waiting list for different uses)	Ratio
			Opinion of actors in the real estate market on the government growth enhancing interventions by degree of satisfaction categories	Ordinal
		Enforcement capacity (Definition: use of institutionally authorised deterrent to effect compliance with policies, legal rules, and regulations pertaining to the real estate sector)	In terms of professional manpower in the city administration and sub city administration pertaining to real estate development	Ratio
			The capacity to issue enforceable rules and regulations in terms of the extent of non-enforceable legal rules and regulations	Interval
			Actors opinion on the government use of legitimate violence in enforcement of institutions e.g. the use of police force on eviction and demolition of informal settlements	Ordinal

HYPOTHESIS (3):

Hybrid institutional arrangements/governance create conducive environment for real estate markets during the transition period, however in the Addis Ababa specific situation no such arrangements exist and mainly government/hierarchy dominated real estate market strives to sustain urban development.

QUESTIONS:

What type of new legality to resolve the tension between informal and formal institutions can be created?

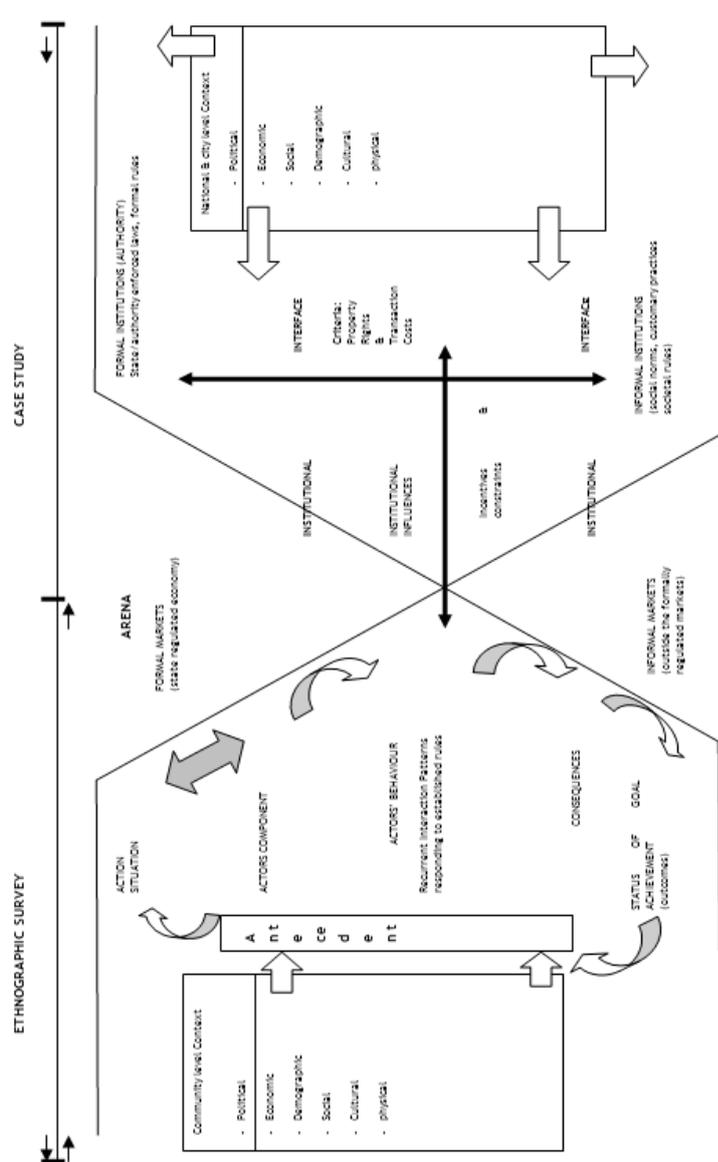
What are the success factors for institutional reforms which enable real estate markets contribute to urban development [as measured in terms of improvement in size and quality of welfare elements of inhabitant i.e. quality of housing, availability of social facilities, transportation]?

How do transaction costs influence actors to choose among the different types of transactions and institutions? What other factors contribute to their decision?

Variables	Definition	Indicators	Measurement	Scale
Institutional arrangement Institutional forms (independent variable) conducive environment for real estate markets (dependent variable)			Synthesis on the test findings of the preceding two hypotheses (+ logical inferences) and identifying institutional success factors in terms of their impact in transforming real estate markets for economic growth and welfare improvement	
Institutional arrangement (independent variable)		Market (Definition: an institutional form to control economic behaviors of actors in the real estate sector coordinated by the price mechanism)	Findings of the research along the liberal market consensus view in the institutions-development debate	Nominal
		Hierarchy (Definition: an institutional form to control economic behavior of actors in the real estate sector as coordinated by mechanisms of authority known also as the top-down approach)	Findings of the research along the developmental state view in the institutions – development debate	Nominal
		Hybrid intermediate institutions (Definition: an intermediate institutional arrangement in the	Findings of the research along the hybrid intermediate institutional arrangements along the alternative	Nominal

		form of a joint venture and partnerships among government, private businesses and or community and civil society groups and coordinated by bilateral power sharing and trust to control economic behavior of actors in the real estate sector)	theory view in the institutions – development debate	
Conducive environment for real estate markets (dependent variable)		Transformed real estate markets for economic growth and welfare improvement	As measured in terms of the efficiency (reduced transaction costs) and effectiveness of the achievement of goals/objectives of actors in the real estate market	Nominal ordinal Interval Ratio

Annex 15:
Ethnography - case study analysis schema



Annex 16: Glossary of basic terms

<i>Actors</i>	Individuals or group of individuals (players) or organisations in an action arena with purpose in pursuing objectives/goals to satisfy some needs. Actors can be abstracted into categories of public, private or community sector. Actors can also vary depending on the segment of the market they engaged, example formal or informal. See also economic actors.
<i>Asking price</i>	Is a price slightly higher than the expected price and then to wait and see what offers are made (Evans 2004).
<i>Complex Adaptive Systems</i>	A term used in systems thinking to describe any system that is made up of many variables or inputs that can be said to be complex, having sudden paradoxical and chaotic behavior and characterised by non-linear outcomes. They are adaptive in that they interact and learn from their environment to preserve themselves. [http://www.wellcom/user/bbear/definitions.html]
<i>Convention</i>	Is an institution which is to some degree arbitrary and followed/respected not only that there is an external pressure to comply to but mainly because other people are following it.
<i>Conveyance</i>	The transfer of title to property from one person to another.
<i>Deed</i>	A document through which a conveyance of property is affected.
<i>Easements</i>	Are use rights without possession, such as common drive ways, rights to lay utility lines, placing billboards along high ways, etc. A right to use all or part of the land owned by another for a specific purpose, e.g. may entitle its holder to install and maintain sewer or utility lines.

<i>Economic Actors</i>	Individuals and firms transacting (buying or selling goods and services) in markets
<i>Economic agent</i>	Is an independent economic entity (person, firm, industry) which can exhibit the following properties: autonomous (operate without human intervention the assumption is that supply is adjusted to demand, and production to consumption, by a process that is automatic, elastic and responsive), goal oriented (act according to specific rules to accomplish a pre-determined goal), asynchronous (operate independently), reactivity (perceive the environment and respond to changes) and pro activities (have individual internal states and goals and acts through rules to meet its goals) (Wooldridge and Jennings, 1995: intelligent agents: theory and practice, Knowledge Management Review January 1995, 1-62)
<i>Economic sector</i>	Is an area of the economy in which businesses have the same or related products or services or a distinct subset of the market or economy whose components share similar characteristics.
<i>Eminent Domain</i>	The inherent power of governments to expropriate landholdings on account of public purposes under condemnation proceedings subject to payment of its fair market value
<i>Equity</i>	The market value of real property, less the amount of existing liens
<i>Estate</i>	An area of land with a lot of houses or factories of the same type, e.g. housing estate, industrial estate. A large area of land, usually in the country, that is owned by one person or family (Oxford Advanced Learner's Dictionary, Sixth edition, 2000; Oxford University Press).
<i>Extent of property right</i>	A person's ability to realise the potential value of a property. It consists of ability to use (and exclude), to alienate and to derive income from the property (Barzel, 1989). It depends on how well the right is defined and secured.

<i>Fee simple</i>	Is the absolute ownership of a parcel of land. The highest degree of ownership that a person can have in real estate, which gives the owner unqualified ownership and full power of disposition
<i>Firms (business firm)</i>	Is the basic private producing unit in an economy. It hires labor, rents or owns capital and land, buys other inputs in order to make and sell goods and services (Samuelson and Nordhaus, 2005, p. 371).
<i>Foreclosure</i>	The termination of a loan agreement when the debtor does not pay, and the taking of the land and its improvements upon it by the creditor. A legal proceeding in which real estate secured by a mortgage or deed of trust is sold to satisfy the underlying debt
<i>Forgery</i>	The fraudulent signing of another's name to an instrument such as a deed, mortgage or check
<i>Former Socialist Oriented Countries</i>	Pre-industrialist and pre-capitalist countries grouped in the category of the Least Developing Countries which neither maintained the achievement of communism in creating the industrial state nor developed other sectors such as education, which however had been taking political and socio-economic measures along the communist ideology. Ethiopia, Tanzania, Mali can be mentioned as examples from Africa.
<i>Freehold (English law)</i>	A right to exclusive and perpetual occupation of land (and any immovable objects there on) without periodic payment to any higher landlord. A free hold right may be transferred permanently by gift, sale, or inheritance, or temporarily by lease or license without interference from the state.
<i>Governance systems</i>	Are the sum of the many ways that individuals and institutions (public and private) manage their common affairs. Are a tiered aggregation of formal institutions of governments, markets, the justice system,

	and organisations, as well as informal institutions of traditions, values and norms.
<i>Insecure Property Rights</i>	Rights that can be appropriated by others (Kim and Joseph 2005)
<i>Land</i>	The surface of the earth and includes the material beneath the surface and the air above the surface
<i>Land tenure</i>	The mode by which land is held or owned, or the set of relationships among people concerning the use of land and its product
<i>Leasehold</i>	The right to possession and use of land for a fixed period of time
<i>Lessee</i>	Tenant holding a leasehold
<i>Lessor</i>	A landlord; one who gives a leasehold to a lessee
<i>Liens</i>	Agreements that limit rights over property, such as mortgages, and other types of agreements (purchasing agreements) and claims over property over unpaid debts
<i>Market</i>	An arrangement by which buyers and sellers are brought together to fix a price at which goods can be exchanged
<i>Market value</i>	The average of the highest price that a buyer, willing but not compelled to buy, would pay and the lowest price a seller, willing but not compelled to sell, would accept
<i>Mortgage (Home loan)</i>	A legal agreement by which a bank or similar organisation lends money to buy a house, etc., and the borrower pays the money back over a particular number of years, the sum borrowed plus some interest. A conditional pledge of property to a creditor as security for the payment of a debt
<i>Non-land(ed) property</i>	Improvements such as buildings and structures excluding the land

<i>Norms (social norms)</i>	Social standards of behavior and/or thought that indicate what people should and should not do or think under circumstances, and are at least in part enforced upon individuals by external pressure (Dequech 2006)
<i>Norms (legal norms)</i>	Social norms enforced by the legal system (Dequech 2006)
<i>Norms (Informal social norms)</i>	Social norms enforced by the approval or disapproval of other people in the group or community (Dequech 2006)
<i>Property</i>	A benefit or income stream (Bromley 1991).
<i>Property rights</i>	A claim to a benefit stream that the state (or grantor) will agree to protect. It denotes a set of actions and behaviors that the possessor may not be prevented from undertaking (Bromley 1991:3). Recognised interest in land or property vested in an individual or group and can apply separately to land or development on it. What is owned are rights to use resources (Aichian & Demsetz 1973).
<i>Rational decision</i>	When individuals make decisions purposefully, always seeking to choose the option they expect to be most consistent with their personal goals
<i>Real estate</i>	Is land in a developed form. A distinction is made between raw land and land in its developed form or land as a resource and land in a productive form. Raw land is land not put to use of any kind but which as a resource has latent use value. Land as a resource provides basic goods and services such as minerals and vegetation. It is also a capital good which can supply other goods and services (such as housing, roads and recreation. Raw land has to be transformed so that it is in a productive form.
<i>Real estate agent</i>	A person licensed to negotiate and transact the sale of real estate on behalf of the property owner.

<i>Real estate market</i>	The market that encompasses all transactions, which involve dealings in rights or interests in land and buildings; a dealing being the transfer of a right temporarily or permanently in return for a consideration usually money (Adlington et al., 2000).
<i>Real property</i>	Is a commodity of tangible nature that usually fixed in place such as a building.
<i>Real estate property</i>	The characteristics of having certain rights on land and appurtenances, including anything of permanent nature such as structure, trees, minerals and the interest, benefits, and inherent rights thereof.
<i>Rent seeking</i>	The term is derived from the older established practice of appropriating a portion of production by gaining ownership or control of land. Rent seeking occurs when an individual, organisation or firm seeks to earn income by capturing economic rent through manipulation of or the exploitation of the economic or political environment, rather by earning profits through economic transactions and the production of added wealth. It occurs when a company, organisation, or individual uses its resources to obtain economic gain from others without reciprocating any benefits back to society through wealth creation.
<i>Reserve price</i>	A price set by seller, below which the property will not be sold (Evans 2004)
<i>Segment (market)</i>	Market segments are distinct subsets (segments) that behave in the same way or have similar needs. Because each segment is fairly homogeneous in their needs and attitudes, they are likely to respond similarly to a given marketing strategy.
<i>Serviced land</i>	Land with access to basic infrastructure such as roads, water, electricity etc.
<i>Speculation</i>	Buy goods to sell at higher prices later. The act of investors who purchase land, but keep it vacant

	without making any improvements to it, thus realising unearned increment; or in anticipation of future development opportunities, or delay development until the uncertainty about the most profitable use is clear mostly related to planning regulations (Evans 1983, 2004; Graffney, 1994).
<i>Surety</i>	A person who agrees to be responsible for a debt or obligation or obligation of another. The pledge or agreement by which one undertakes responsibility for the debt or obligation of another.
<i>Title</i>	The rights of ownership recognised and protected by the law.
<i>Transaction</i>	Is the exchange of goods/services, through markets or within organisations and the ex-ante (cost of arranging contract) and ex-post (monitoring and enforcing) related activities to complete the exchange (Chihiro and Maria Makbenta-Ikeda 2006).
<i>Transaction costs</i>	They consist of arranging a contract ex ante and monitoring and enforcing it ex post as opposed to production cost, which are the costs of executing a contract. Just like in economic theory there are both fixed and variable costs (Matthews 1986). Transaction costs as the costs of establishing and maintaining property rights (Allen D. W., 1991)
<i>Unclearly Defined Property Rights</i>	Rights that have not been assigned to the contractual party with the economic incentive and the ability to maximise utilisation (Kim and Joseph 2005)

Annex 17:
List of local terms

<i>Adarash</i>	Hall
<i>Ato</i>	A title for addressing a gentleman of ordinary civilian equivalent to Mr., its female counter part is woizerit (shortened W/t) for unmarried young lady and woizero (W/ro) for married woman
<i>Anraja</i>	Third tier administrative unit during the Imperial and the Derg period, higher than woreda administration but lower than a province or administrative zone
<i>Birr</i>	The currency of Ethiopia It was equivalent to USD 2.07 during the socialist military regime later on its exchange rate is left to be decided by market conditions ever since it was devalued in 1991 It has been devalued second round in September 2010 to 16 Birr per USD.
<i>Chat</i>	A mildly stimulant leaf that is chewed.
<i>Dallala</i>	Traditional agents with no formal education in real estate but who basically mediate between buyers and sellers.
<i>Derg</i>	Military council
<i>Debo / Wonfel</i>	A reciprocal mutual assistance arrangement in which members usually neighbors, colleagues or compatriots give a helping hand for some specific task, example house construction, ploughing the farm etc., bringing along with them their labour and/or material belongings such as oxen, hand ploughs, sickles etc. Generally it is requested by a household when it needs extra labour to accomplish a certain task.
<i>Equb</i>	A local socio-economic association based on mechanism of pulling money to be used by members as rotating fund each having its turn determined by drawing lots.

<i>Gebbar</i>	Tenant who works on the land under a gult holder and pay tribute for the holder
<i>Gebeya</i>	Market
<i>Gulit</i>	A small market stall with or without shade in which the traders sit with their small and usually local edible items for sale
<i>Gult</i>	Grant land during Ethiopian Imperial Period which was basically not a right on land per se but a right to tax benefits from land either in cash or in kind from farmers who tilled it
<i>Idir</i>	A cooperative association with traditional social objectives such as burial and mourning ceremonies
<i>Ikul</i>	Equal or divided on fifty-fifty basis
<i>Irbo</i>	Quarter
<i>Kebele</i>	Is a settlement unit (at the fourth level in Ethiopian Administrative hierarchy). It is a unit equivalent to a neighborhood which was introduced in the proclamation No 47/1975, the proclamation to provide for government ownership of urban lands and extra urban houses. Originally it was taken as settlement unit composed of 5,000 residents.
<i>Kebt beret</i>	Cattle stall/pen
<i>Kurt</i>	Is especial raw fatty meat (beef) served with hot chilly
<i>Mahiber</i>	Literally translated as association used for both religious and non-religious purposes. It has its origin in traditionally religious celebrations of saints day hosted by a household whose turn it is. There are also gender based mahibers (referred to as Meredaja Mahiber)
<i>Mamite</i>	Maid
<i>Mebal</i>	Central

<i>Mender</i>	Village
<i>Meredaja Mabiber</i>	A communal society to coordinate and organise support and socialisation usually organised by women in neighborhoods
<i>Meskel holiday</i>	National religion based holiday celebrating the Founding of the True Cross
<i>Minalesb Terra</i>	“What do you have for sale?” “What have you brought for sale?” a question frequented in the quarter (terra) to greet someone approaching looking for used items/ second hand goods
<i>Rist</i>	A hereditary traditional communal land tenure in Ethiopian Imperial Period
<i>Riste gult</i>	When gult right is hereditary
<i>Sefer</i>	Village
<i>Tej</i>	Is a fermented local drink which possesses honey as one of its ingredients
<i>Terra</i>	Special quarter or a stall where similar items are marketed
<i>Tisseгна</i>	An exploitative tenancy, the literal meaning is: “one with a smoking fireplace” signifying having an abode on a plot of farm land to dwell on it and till the land, in return paying tribute to the land lord.
<i>Woreda</i>	The third administrative tier in EPRDF led Ethiopian government in an administrative hierarchy which includes federal, states/cities at the upper levels.

Annex 18: List of interviewed respondents

Case Study 1 - Worku Sefer

I Sub/ City Government, Kebele officials

1. Ato Tadesse Balcha (former secretary of Abu Chefe Peasants association, 23.02.09)
2. Ato Damtew Alemayehu (former Executive Committee Member of the Urban Kebele Administration for Worku Sefer, 31.01.09)
3. Ato Desbalew Jiru (CEO Kebele 10-11-Sereti Administration, 10.11.08)
4. Ato Lemmu Gemechu (Akaki – Kaliti Sub City Administration - Building Permit and Ownership Administration Process owner, 28.02.09)
5. Ato Efram Bekele (Addis Ababa City Government – Urban Planning Department Head, 03.02.10)

II Residents

1. Ato Getachew Gebre Mariam (resident of Worku Sefer, 10.11.08, 08.02.09, 15.02.09)
2. Ato Leta Worku (son of Ato Worku Debelu, 06.02.09)
3. Ato Metafferia Demma (son of the Chairman of Abu Chefe Peasants Association, predecessor of Ato Worku Debellu and resident in Woku Sefer, 31.01.09)
4. Ato Worku Urga (development committee member and resident in Worku Sefer, 08.02.09, 15.02.09)
5. Ato Sisay Tadesse (Resident and local dallala in Worku Sefer, 14.02.09)
6. Ato Teshome Gemechu (former member of the peasant association, 08.02.09)
7. Ato Gadissa Haile (former member of the peasant association, 08.02.09)
8. Ato Tadesse Bedane (former member of the peasant association, 28.01.09)
9. Ato Besufekad Zewedu (resident of Worku Sefer, 06.02.09)
10. Ato Kebede Tessema (resident of Worku Sefer, 1.01.09)

III Local Brokers

1. Ato Dereje (Local broker Qusquam Area, 14.02.09)

Case study 2 - cooperatives housing in Ayer Tena

I Public officials

1. Hon. Ato Ali Sulaymen, Commissioner for Ethics and Anti-corruption (28.07.09)
2. Ato Zewde Mamo (Former Manager of Kolfe-Keranyo Sub City Administration, 22.06.09)
3. Ato Eyob Dolicho (Former Housing Cooperatives Promotion Department, Section Head, Ministry of Urban Development and Housing, Senior Expert Policy Research and Planning Coordinating Bureau, Ministry of Works & Urban Development, 23.06.09)
4. Ato Dawit (Kebele – Administration Office, Capacity Building Officer, 14.09.09)

II Residents

1. 4 Members of Irnijachin 83 housing cooperatives (Ato Getachew, Ato Woldemariam and two others, 14.09.09)
2. 4 Members of Debre Abay housing cooperatives (Major Tilahun and three others, 14.09.09)

Case Study 3- Real Estate Development by Developers

I Public Officials

1. Ato Abebe Kebede (Policy advisor to the Minister for Urban Development & Construction, 03.05.10)
2. Ato Tesfaye Yalew (Head, Construction Works and Coordinating Bureau, Ministry of Works and Construction, later renamed Ministry of Urban Development & Construction, 29.06.09)
3. Ato Kassim Fite (Director for land administration and Building Permit Authority AACAA. 08.10.10)

II Real Estate Developers

1. Ato Ayalew Tessema (Manager Ayat Real Estate Share Company, 2.10.10)
2. W/ro Muluaem (Country Club Real Estate, 23.08.10)
3. Ato Legesse (Berekume Real estate, 19.11.10)
4. Ato Surafel (Finance officer, Ropack International Real Estate, 16.10.10)

III Residents / Customers

1. Ato Zenabe Befekadu (Unsuccessful applicant for Ayat Real Estate housing, 01.07.11)

2. Ato Taddesse W/Giorgis (Customer of Ayat Real Estate Share Company and resident of Ayat Mender, 11.10.09)

IV Professional organisations (Architects and Engineers Consulting firms, lawyers)

1. Arch. Cheru Gizaw (General Manager Savior Architects and Engineers, Consultant for Ayat Real Estate Share Company, 29.06.09)

Case Study 4 - Real Estate Development by Petty Providers

I Public Officials

1. W/ro Meseret Ayalew (Land Development, Renewal and Banking Process Owner- Yeka Sub City Administration, 21.01.11)
2. Ato Million (Bole Sub city Administration, Lease Officer, 03.08.11)
3. Two other staff members of the sub city administrations of Bole and Yeka who asked for anonymity (21.01.11 and 03.08.11 respectively)

II Petty Providers

1. Ato Haile Michael (21.06.11)
2. Ato Kiflu (Manager, Mafi complex) (23.07.11)
3. Ato Gebremariam Gebrekirstos (9.08.11)
4. A property administrator who requested anonymity (10.08.11).
5. A representative of a new constructed building for mixed use (15.08.11)

III Former owners/users (displaced people)

1. Two shop keepers in kebele houses displaced from Megenagna square (16.08.11)
2. A lady former house owner who sold her house to an investor who used to be her neighbor around Haya Hulet Mazoria (requested to remain anonymous) (05.08.11)
3. Two workers of former kebele owned recreation club (11.08.11)

IV Professional organisations (Architects and Engineers Consulting firms, lawyers)

1. Tesfaye Mengesha (Tefamen Architects and Engineers, 9.08.11)
2. Edule W/Giorgis (Architects and Engineers, 27.08.11)

Case study 5-Merkato Commercial Center Redevelopment

I Public Officials

1. Ato Gebre Egzabher (Former Addis Ketema Sub City Administration, Manager, 13.05.10)

2. Ato Efreem Bekele (Representative of the Addis Ababa City Administration in Merkato Millennium Development Partnership, 27.08.09, 03.02.10)

II Business Associations

1. Ato Hailesenbet (Idiget Bandinet Share Company, 15.09.09)
2. Ato Feleke (Military Tera Share Company, 20.08.09)
3. At Zenebe Frew (Addis Fena PLC, 26.10.09)
4. Ato Elias Awil (Tewkel Share Company, 16, 28.07.09)
5. W/t Rosa (Addis Ababa Shopping Center, 17.07.09)
6. Ato Wogene (Merkato and Surrounding Special Committee (MSSC), 18.05.10)

III Professional organisations (Architects and Engineers Consulting firms, lawyers)

1. Ato Yohanes Aklok (Lawyer, Meserete Hiywot Share Company, 14.08.09)
2. Ato Tefera Denbel (Lawyer, 12.08.09)

IV International Development Cooperation and Non-Governmental Organisations

1. Ato Ibrahim Mama (Former employee of GTZ technical support, active participant in organising Merkato Millennium Development Partnership, 03.05.10)
2. Ato Dinkineh (Coordinator, Merkato Millennium Development Partnership, 12.05.10)
3. Ato Tafesse Negash (Former employee of GTZ technical support, 12.05.10)

Interviewees on Issues across Cases

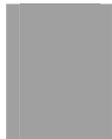
I Public Officials

1. Ato Tariku (Construction and Business Bank , 08.08.08)
2. Ato Tamiru (Development Bank of Ethiopia, 08.08.08)
3. Ato Getachew Mandefro (senior architect and member of licensing committee, Construction Works and Coordinating Bureau, MUDC, 29.06.09)
4. Ato Molalign Alemneh (GTZ Integrated Housing Project Office, 04.09. 09)
5. Ato Daniel Tadesse (Former manager, Addis Ababa Housing Development Project Office, 05.09.09)
6. Ato Efreem Bekele (Manager of Urban Planning and Information Bureau, Addis Ababa City Government, 27.02.09)

7. Ato Kassim Fite (Bureau head, Land Administration and Building Permit, 28.10.09, 25.05.10)
8. Ato Matheos Asfaw (Former manager of the Office for Revision of Addis Ababa Master Plan (ORRAMP), 20.05.10)
9. Ato Abebe Kebede (Advisor to the Minister of Urban Development and Construction 27.10.09)

II Real Estate Agents, Commissioned agents and local brokers

1. Ato Getachew Regassa (Former General Manager Get Real Estate Agent, 19.05.11)
2. Ato TesfaMichael (local broker, 08.05.11)
3. Ato Tadesse (local broker, 08.05.11)
4. Ato Abiyot (Commissioned Agent, 14.09.10)



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Frew Mengistu

Mr. Frew Mengistu was educated in architecture and town planning (BSc Degree), Geographic Information Systems for Urban Application (Post Graduate Diploma) and Urban Management (Master's Degree). After his graduation from the Addis Ababa University in 1983 he was employed in the former Ministry of Urban Development and Housing and worked for two decades in various capacities including architect town planner, department head and bureau head. He was involved in the Urban Management Master's Program, given by the Institute for Housing and Urban Development Studies (IHS) –Erasmus University Rotterdam (EUR) which he completed with honors in August 2005. After completion, he joined the Ethiopian Civil Service University (ECSU) as a lecturer. He soon became Course Manager for the Up-Scaled Urban Management Master's Program run in partnership with the Institute for Housing and Urban Development Studies (IHS) – Erasmus University Rotterdam; in which 400-600 students were involved in a single intake. After working for a year in this role he enrolled in his PhD studies.

While at the Ministry of Urban Development and Housing he studied and coordinated the study of architectural and landscape designs of public buildings, and urban plans for small, medium and capital cities in the regions. While serving as department head and head of the Bureau of Works and Urban Development for the Amhara National Regional State he executed various packages of the Urban Management Capacity Building under the World Bank sponsored program for Capacity Building for Decentralized Service Delivery (CBDSD). Among his contributions can be mentioned being the co-author of training materials for city mayors and managers, drafting urban land and urban development related regulations and guidelines, and preparation of manuals for municipal service delivery improvement. The drafting of the latest Proclamation for the Establishment, Organization and Definition of Powers and Duties of Urban Centers of the Amhara National Region (2003) is just one of his main contributions.

His academic contributions include national level conference papers on urban development management and planning issues. The following can be mentioned: Appropriate urban planning for enhancing development (3rd National Conference on urban planning and related issues, National Urban Planning Institute (NUPI), 2002), The need for planning urban areas as integral parts of regional and national systems (4th National conference, NUPI, 2003), Changing contexts and responses in urban planning (National

conference on growth and transformation & the Ethiopian urbanization agenda – the Ethiopian Urban Planners Association and Canadian Urban Institute, 2012). He also co-authored other conference papers with Prof. van Dijk among which can be mentioned: Developers' greed or an institutional issue? (4th National conference on Ethiopian urbanization, ECSU-IHS-EUR, 2012). His future research interest is related to behavior, institutions, planning and urban resilience.