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# **Rapid Urbanization and Housing Shortage in Africa: The Opportunity within the Problem for Ethiopia**

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## Master of Science Thesis

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## Abstract

On February 2010, in a conference on the future of cities in London, United Nation's head of housing agency Anna Tibaijuka proclaimed that *"After HIV and Aids, the biggest threat to sustainable development in Africa is rapid and chaotic urbanisation, because it is a recipe for disaster for increased tensions and pressure"* (MacLellan, 2010). It is truly unfortunate that a word like urbanization that for centuries has represented better living standards and growth is now viewed as a threat to sustainable growth and likened to an incurable disease. When people move to urban cities in search of a better life, they deserve to find something better than what they left behind and that is what justifies this research. The purpose of this paper is to find ways on how best to direct rapid urbanization in Ethiopia towards becoming a resource rather than a source of chaos. A comprehensive literature review complemented by a questionnaire survey distributed to real estate developers in Ethiopia was conducted as part of the qualitative research method adapted. The finding of the research show that Ethiopia has one of the highest proportions of urban population living in slums and housing deficit is at an all-time high. The government has introduced a number of policies and is trying to provide housing for low-income people while the private sector in the real estate industry is mainly meeting the needs of high-income people. The study found that this division in task will eventually lead to the segregation of the city into rich and poor neighborhoods that will ultimately make matters worse. The study also showed that with the adaption of policies that allow for the integration and collaboration of the government, the private sector and the people; opportunities of creating a conducive living environment for all income groups exist.

# Acknowledgement

“To the end that my glory may sing praise to thee, and not be silent  
O Lord my God, I will give thanks unto thee forever”.

*Psalms 30.12*

I write this note of acknowledgement in a state of gratitude to God for two reasons. The first is that writing this acknowledgement means that I’ve successfully completed my thesis and for that, I offer my thanks to God for giving me the strength and will to prevail. The second and more important reason is that having an acknowledgment page by itself is a reflection of my blessings from God for it means that I have had the love, support and encouragement of so many during my study. I truly doubt that mere words can articulate the extent of gratitude I feel. What follows is only an attempt at expressing my heartfelt appreciation.

I’m extremely fortunate and honored to have had Abukar Warsame as my supervisor. I appreciate all your guidance and encouragement and I value all the knowledge and wisdom you have shared with me. From the very start, you believed in me and because of that I only strived for best. I thank you for bringing out the best in me!

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*“Out of clutter find simplicity; from discord find harmony; in the middle of  
difficulty lies opportunity.”*

**Albert Einstein**

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# Chapter 1

## 1. Introduction

The rapid rise of urbanization in most parts of Africa has presented the continent with a number of challenges and stripped its cities of their ability to provide for basic needs like shelter, infrastructure, education and health care. As cited by Tesfaye (2007), urbanization and demand for houses are positively correlated and thus as the urban society of a city expands so does the needs for more housing. In the case of most developing countries, these needs have largely been unmet (Jaycox, 1977; Lim, 1987; Chirisa, 2008).

Consequently, housing shortage in developing countries has escalated to unprecedented rates making the percentage of slum dwellers that reside illegally in a place without authorization and property rights extremely high (Lim, 1987; Renaud, 1987; UNFPA, 2007).

The housing sector, while addressing the needs for affordable housing of low-income groups, can enormously contribute in the development of African economies (Tipple, 1994). However, in most developing countries, few segments of the economy, as contributors to growth, have been as understudied as housing (Renaud, 1987). As a result, a sector largely missing in the economic plans of most developing countries is that of housing and housing-related activities (Munday *et al.*, 2004).

Previous researches by Gibb and Keoghan (1998) and Munday *et al.*, (2004) have been able to show the significance of the housing sector in the growth of Scottish and Welsh economy. This paper will try to build on these researches and on that of Tipple (1994) to examine the fundamental question of how the current rapid urbanization and consequent rising housing demand in developing countries can play a role as an enabler of economic growth. In connection with this, the paper will try to investigate the backward and forward linkages of the construction sector in promoting employment opportunities for these new urbanities.

Furthermore, it will assess on the types of policies that need to be enacted to promote the role of the housing sector as more than just a social necessity but as a viable economic resource that needs to be invested in as other productive elements like agriculture and the industrial sector in Ethiopia.



## **1.1 Purpose**

The aim of this paper is to elucidate the importance of the housing sector as an economic entity that can play a vast role in the economic development of Ethiopia. In particular, it will emphasize on the fact that although current situations prove to show that rapid urbanization in developing countries like Africa have been closely linked to the growth of slums and increasing reliance on the informal sector to provide less than standard housing, this shouldn't have to be the inevitable outcome of urbanization in Ethiopia. In addition, the study will contribute to the concept as well as literature in assessing positive prospects of rapid urbanization in Ethiopia that is at the moment lacking and highly underdeveloped literature wise.

## **1.2 Objectives of the Research**

Every year a number of articles are published by scholars and concerned international organizations like the UN about the devastating effects of rapid urbanization in Africa. These papers have managed to capture some of the underlying problems that affect the lives of millions of people. The growth of slums and shortage of housing is one of the issues that take the lion's share of these discussions. While a problem well stated is a problem half solved, papers that comprehensively research possible solutions and propose means of turning these predicaments into productive scenarios are equally important in finding practical solutions to these problems. Unfortunately, presently, such papers are scarce.

### **1.2.1 General Objectives**

The main objective of this paper is to find a balance in the literature sphere by writing a paper predominantly focused on the positive prospects of rapid urbanization and filling the gap that exists on literature on the opportunities rapid urbanization can offer developing countries like Africa and particularly Ethiopia through its contribution in the housing sector. Towards this purpose, the specific objectives pursued during the course of this research are the following:-

### **1.2.2 Specific Objectives**

- To review the cause and extent of housing shortage in some of the fastest urbanizing countries in Africa with a special emphasis in Ethiopia;
- To analyze the backward and forward linkages of the construction sector in Ethiopia;

- To identify the government's role in facilitating rapid urbanization in Ethiopia and identify problems in the housing sector that can be resolved with the introduction of new policies to bring about a favorable living environment for all income groups;
- To investigate in what ways the housing sector can serve as an enabler of economic growth and to outline the private sector's potential to instigate growth through its involvement in the provision of affordable housing.

### **1.3 Research Design**

To meet the objectives stated above and guarantee that the facts obtained during the course of the study allow the researcher to answer the research question as explicitly as possible; the research method elected as the best means to assess the state of urbanization and housing deficit in Ethiopia and examine possible remedies is a descriptive research using qualitative data.

As the availability of data that is accurate and up-to-date is in short supply in developing countries like Ethiopia, this paper is predominantly dependent on textual rather than quantifiable data. Accordingly, the researcher has comprehensively reviewed and analyzed various literatures from books, journal articles, PhD dissertations and working papers, reports and conference proceedings to build the conceptual foundation for the qualitative research and expand the knowledge base. Moreover, as the paper is concerned with housing and urbanization, data from UN-HABITAT was extensively utilized.

A questionnaire survey was conducted to recognize the prospects of the real estate industry in Ethiopia and its significance to the provision of affordable housing and employment opportunities (Appendix 9). A five point Likert Scale stretching from 'Strongly Agree' to 'Strongly Disagree' was adopted for the purpose of this survey giving the respondents the chance to rate their level of agreement or disagreement moderately as opposed to being cornered into picking extreme choices. Furthermore, a "neutral" position was embedded in the choices to give the respondents the added advantage of being non-opinionated without having to skip the question rather than being forced into selecting an option that doesn't accurately reflect their opinion.

## **1.4 Scope and Limitations**

While this paper will touch up on urbanization in most developing countries as the situations are more or less the same, the primary focus and scope of this paper will be on the world's least urbanized continent, Africa that has the fastest urbanization rate with the spotlight on Ethiopia. Furthermore, while rapid urbanization can be associated with various detrimental consequences like pollution, stress on resources, decline in the health and quality of life and several others, this paper's focal point of interest will be the effect of rapid urbanization on housing.

In the study of Economics, research can be classified as normative and positive (McDonald and McMillen, 2010). This paper emphasizes on the positive aspects and does not seek to attain an official position into the political and socio-political aspects of Ethiopia, nor does it question or advocate one position over another. Rather it examines the current road map and discusses the existing situations purely from the principals that emanate in Real Estate Economics particularly Urban and Regional Economics leaving any political related assessments to those who are competent in the field. In this regard the scope of this paper is intentionally limited.

The limitations encountered during the research process stem from lack of data that is up-to-date and unquestionably accurate. These limitations are richly discussed on section 4.1 of this paper.

## **1.5 Disposition**

The rest of this thesis is organized in the following manner. The second chapter starts with the definition of important concepts and terms and that leads to a more detailed review of literature on rapid urbanization, the informal sector and shortage of housing in developing continents like Africa. The third chapter zooms into Ethiopia, at first showing the current situation regarding housing deficit and then relates the literature review from chapter 2 to identify the possible prospects and opportunities of rapid urbanization and housing shortage in the country. The fourth chapter is devoted to the results of the survey from the questionnaires distributed to real estate developers in Ethiopia. After a brief presentation, analysis and interpretation of the data, the chapter combines the knowledge gained from the survey to chapter 2 and 3 and builds up the discussion section. This is followed by the concluding chapter that suggests recommendations and areas of future research.

## Chapter 2

### 2 Literature Review

#### 2.1 Definitions and concepts

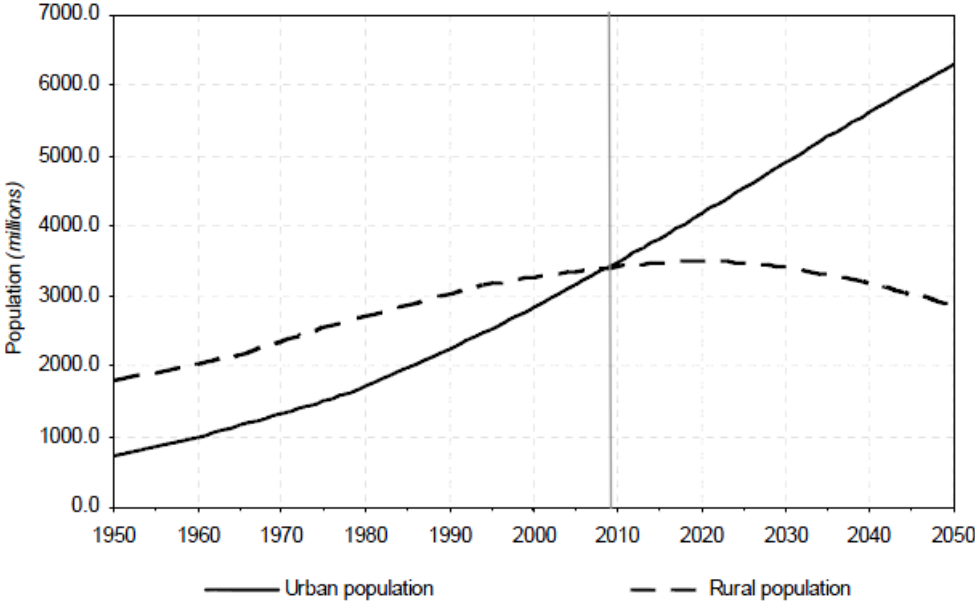
The UN defines urbanization as the course of shift in population from a rural to a more urban civilization. Numerically expressed, urbanization denotes the increases in the share of the population that resides in urban areas predominantly because of net rural to urban migration (UNFPA, 2007). Thus, urbanization is identified as the influx of a population from the rural to the urban areas. But what is an urban area and what classifies a region as urban? As stated by World Bank (2011) and Cohen (2004), a universal definition does not exist as different countries have adapted their own parameters of defining it.

As such, administrative boundaries like centers or municipalities or those having a town committee delineate a region as urban in countries like El Salvador, Iraq, Bangladesh and Pakistan. While countries like Angola, Argentina, Benin, Cuba and Ethiopia use population size or density to mark an area as urban. In Benin for instance, regions with 10,000 or more residents are considered urban while 2,000 inhabitants is the limit to denote a site as urban in Ethiopia. Some countries like Botswana employ more complex measures as they use a combination of population size and economic or social structure to label a site as urban. In view of that, a locality with 5000 or more occupants where 75% of the economic activities are non-agricultural is urban. For others, the availability of streetlights, piped water, sanitation, hospitals and schools is enough to entitle a locality an urban area (United Nations, 2001).

Having defined urbanization and urban centers, the next question that arises is what rapid urbanization is and what characterizes urban growth as rapid. A means of showing the way in which urbanization in developing countries has been rapid is to compare the current rate of growth with historical trends to see if indeed the pace of urbanization has been rapid. The second method that can be used is to compare the urbanization rate of developing countries with that of developed countries to note the difference in rate of growth.

The UN provides very useful statistics that can be used towards this purpose. According to United Nations (2010), the year 2009 marked the first time the world became more urban than

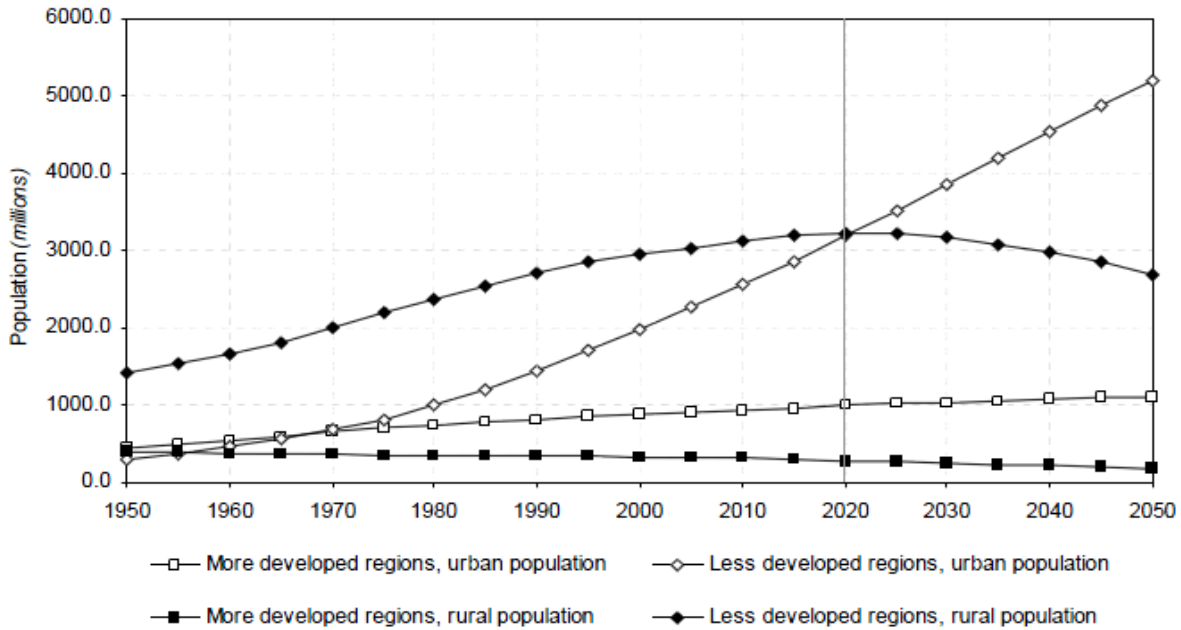
rural as the number of people residing in urban areas (3.42 billion) exceeded those living in rural areas (3.41 billion) by mid-2009 (Figure 1). The projections by UN forecast that this is only the beginning and that urbanization will continue to dominate the scales with an estimate that by the year 2050, the world urban population will be almost double from 3.4 billion in 2009 to 6.3 billion in 2050 (Appendix 1).



**Figure 1: Urban and rural populations of the world, 1950-2050**

Source: (United Nations, 2010)

Of the total urban growth projected, it is estimated that most of it (Figure 2) will take place in developing regions (World Bank, 1980; Cohen, 2006; Chirisa, 2008; United Nations, 2009; 2010). The urban population in developing countries is estimated to increase from 2.5 billion in 2009 to 5.2 billion in 2050 while urban growth in developed countries will only show a moderate increase from 0.9 billion in 2009 to 1.1 billion in 2050 (Appendix 1).



**Figure 2: Urban and rural populations by developing group, 1950-2050**

Source: (United Nations, 2010)

As can be seen on Appendix 2, even if the rate of urban growth has been declining globally, the highest rate of urbanization was recorded in developing countries in the first quarter of the 1950's (1.71% as opposed to 0.95% in developed countries). The same thing is observed presently as the rate of urbanization in developing countries exceeds that of developed regions (1.48% versus 0.34%) and this is projected to be the case in the coming years (2025-2050) with developing countries far exceeding the urbanization rate of developed countries (0.92% versus 0.33%) and thus facing rapid urbanization (United Nations, 2009 / 2010).

Davis (1955) refers to the dawn of industrial revolution as a point in history when urbanization arrived at a point of no return. He raises a significant question of what this rapid urbanization will finally lead to and more importantly who will be responsible for producing food and all the other agricultural products we are all so dependent on if such a case as an extreme degree of world urbanization should be realized. The solution he proposes is simply that there is no reason why human beings can't live in large scaled cities and that agriculture will eventually become obsolete replaced by more mechanized technological means of production until a time will someday come when "Rurality" would disappear altogether paving the grounds for a new form of urban existence as he calls it.

## 2.2 Urbanization in developing countries

McCall (1955) describes the dynamics of urbanization as a progression that starts with the journey of a few villagers that go into town with the intent of making money for a particular reason and with a plan to return as soon as that objective is met. Gradually however, as the subsequent reasons that require money rise, the trips become more frequent and that cultivates a tendency in those same villagers to spend a certain number of months and then years in town.

However, as Byerlee (1974) points out, what once used to be a "circular stream of migration" in Africa, owing to the nature of the migrants to return to their villages within 2 to 5 years after working the mines, plantations and factories during the colonial times, has now been replaced by permanency. This is because the present system of closed international boundaries, lack of jobs in the urban areas and increasing number of high school dropouts has made it risky for migrants with a paid job to return to their villages knowing their chances of finding a job again are very slim.

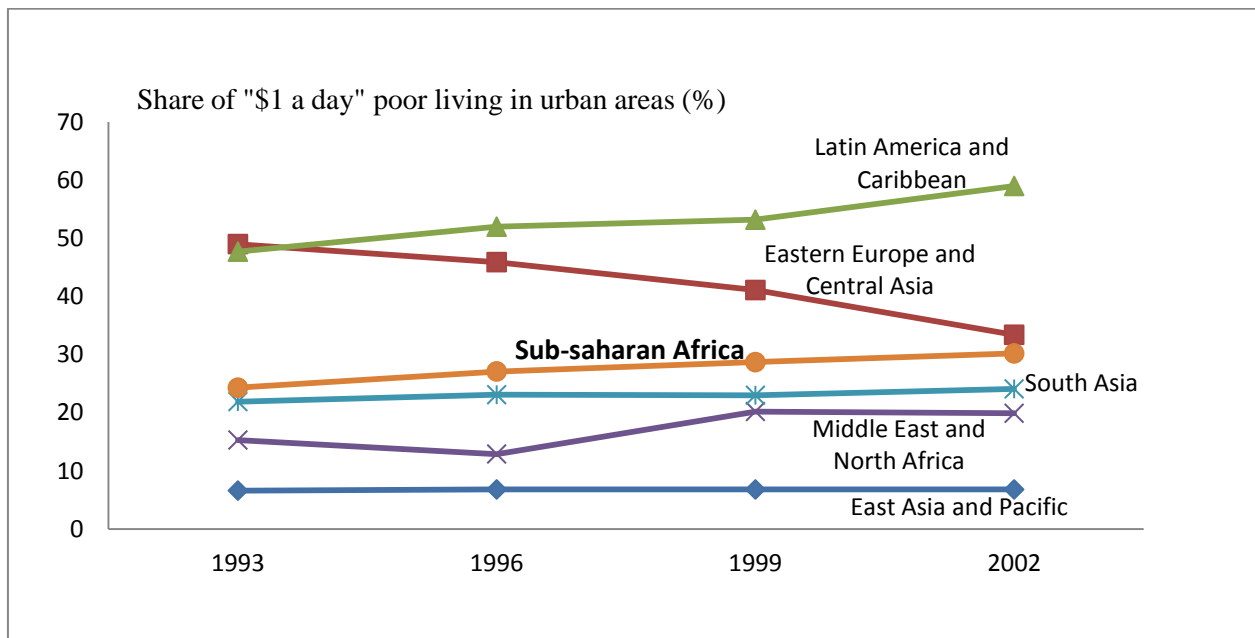
Eventually, villagers recognize the prospects of starting a family in town as opposed to making back and forth trips, the town starts to grow with the increased number of villagers all coming with the same intent their predecessors had and end up becoming part of and giving birth to urbanization (McCall, 1955).

In the second wave of urbanization which took place since the 1950s, developing countries have urbanized at a rapid pace compressing in less than three decades the level of urbanization North America and Europe took two centuries to realize in the first wave of urbanization (Malpezzi, *et al.*, 1985; UNFPA, 2007). This has widely been the result of enhancement in know-how, technology, medicine and public health (FIG, 2010).

In Africa, rural urban migration and natural increase which are the two dominant driving factors fuelling the rapid urbanization (Boadi, *et al.*, 2005) are quickly changing the image of Africa as being one of the most populated continent in the world. In the year 2009, 37% of the world population resided in two countries China and India, while 22% was absorbed by eight countries (the United States, Indonesia, Brazil, Pakistan, Bangladesh, Nigeria, the Russian Federation and Japan). Population forecasts project that in the year 2050, the ten most populated countries in the

world will include three least developed countries Bangladesh, the Democratic Republic of the Congo and Ethiopia (United Nations, 2009).

A study done by Ravallion, *et al.*, (2007), revealed that between 1993 and 2002, the share of the urban population earning less than a dollar a day was increasing at a rate of 0.6% per year while the rate of urbanization as a whole was rising by 0.5% per year. This signifies that poverty is gaining more grounds into urban areas and that the poor flocking to the cities are outpacing the urbanization rate of the population as a whole. As can be seen on Figure 3, Sub-Saharan Africa shows an alarming growth in urbanization of poverty following Latin America and Caribbean and Eastern Europe and Central Asia.



**Figure 3: Urbanization of poverty by region**

Source: Adapted from Ravallion *et al.* (2007)

Africa was once a continent with countries that hosted great empires with culture, tradition and natural resources. These countries have since then been denied growth or the chance to seek it and have for generations been beat down by words like ‘primitive’, ‘savage’, ‘barbaric’ and ‘tradition bound’ Eyong & Foy (2006). This has created slowly but surely like a mountain that through centuries of erosion crumbles into dust, a continent infested with several problems. Some of which are poverty, illiteracy, disease, high infant mortality, malnutrition, environment



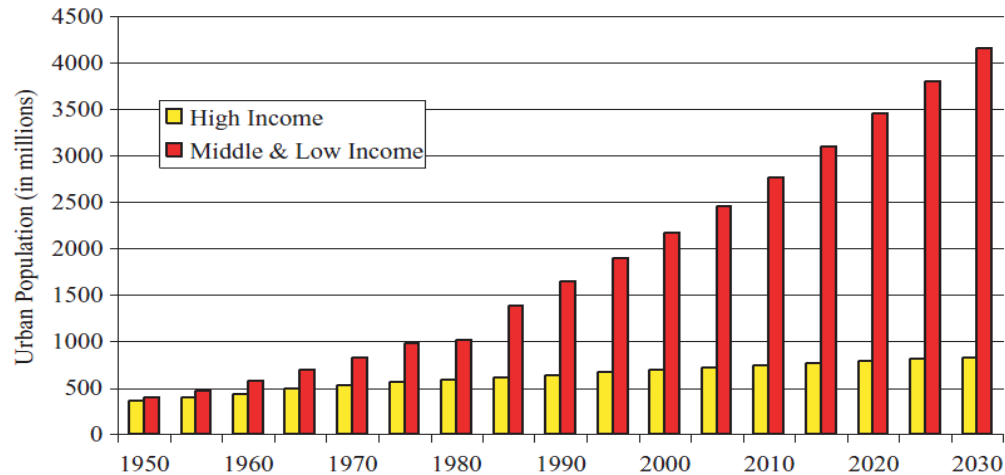
degradation, instability, air and noise pollution, congestion, high population growth and finally a continent that has witnessed a huge influx of migrants to the urban areas from rural parts due to the very poor conditions coupled with a neglect of the rural infrastructure inevitably creating “Urbanization of Poverty” *ibid.*

Situations in rural parts of Africa have become so dire that so many flee to the cities in search of a better life. Unfortunately, tough realities unlike anything they expected await them. They are mostly unable to find jobs (Herrmann & Khan, 2008; Stifel and Thorbecke, 2003), can’t afford the urban life and find themselves in worse conditions than before they moved (Potts, 2006) ultimately facing like so many before them, the “Urban illusion” (Eyong & Foy, 2006).

Presence of extreme poverty in some sections of the urban regions substantiate that the quality of life in some rural regions is actually better than that of the urban regions of the developing economies (UNCHS, 2001).

Urbanization in the west was complemented by industrialization and vast improvements in economic conditions and living standards of the population. This is in sharp contrast to the urbanization in Africa that can’t be explained with any significant economic progress or any form of upgrade in the lives of the residents (Hope, 1998). In some African countries, as cited by Warsame and Wilhelmsson (2008) and Sommers (2003), urbanization is also the result of wars and armed conflicts in neighboring countries that dislocate the residents of these countries, forcing them to take refuge in more peaceful bordering countries which leads to the growth of urban population in the cities they migrate to. As noted above, this “urbanization without growth” (Fay and Opal, 2000) has inflicted more poverty, diseases, pollution and poor living conditions (Boadi, *et al.*, 2005).

Among some of the differences between the current urbanization and the one that took place on the first half of the 20th century, the important ones as stated on Brockerhoff (2000); Hall and Pfeiffer (2000) and Cohen (2004) are that the scale and pace of change is unparalleled with any point of time in history. The current urbanization unlike the past where it mostly occurred in countries with high per capita income (World Bank, 2011), is now sweeping predominantly over low-income countries (Figure 4) and in the case of Africa has almost become disassociated from economic growth.



**Figure 4: Growth of urban population, 1950-2030**

Source: United Nations (2002) as cited by Cohen (2004)

Furthermore, as cited by Byerlee (1974), the outpouring of the working populace from the rural areas is one of the reasons for a shortage of labor force in the agricultural fields leading up to deficits in national food and a rise in the prices there of. This combined with the fate of these migrants in the urban areas where the opportunities of finding a job have been declining from year to year reflects a mismatch of demand and supply for labor and thus inefficient employment of the country's workforce.

Overall, it is evident that most African cities share the same facets of low economic development and inadequate foreign investment. Unfortunately, the highest share of urban growth rate is found in Africa (UNCHS, 2001). Backed without the vibrant economy this continent needs, the tension urban authorities are facing on a daily basis in an effort to reduce health risks, provide jobs, basic necessities like housing, expand infrastructure, and provide better living standards despite the mounting harms of congestion and pollution is extremely high and mostly beyond their ability (Cohen, 2004; 2006; Chirisa, 2008).

When it comes to housing and accommodating the rising migrants, the lack of active private developers of low-cost housing and absence of supply of mass housing for the poor from the governments has again left the task of providing homes to the poor in the hands of individuals who act outside of the circle of legality also known as the informal sector (Jaycox, 1977; Okpala, 1992; Tipple, 1994; Keivani and Werna, 2001). This happens as most of these builders are either

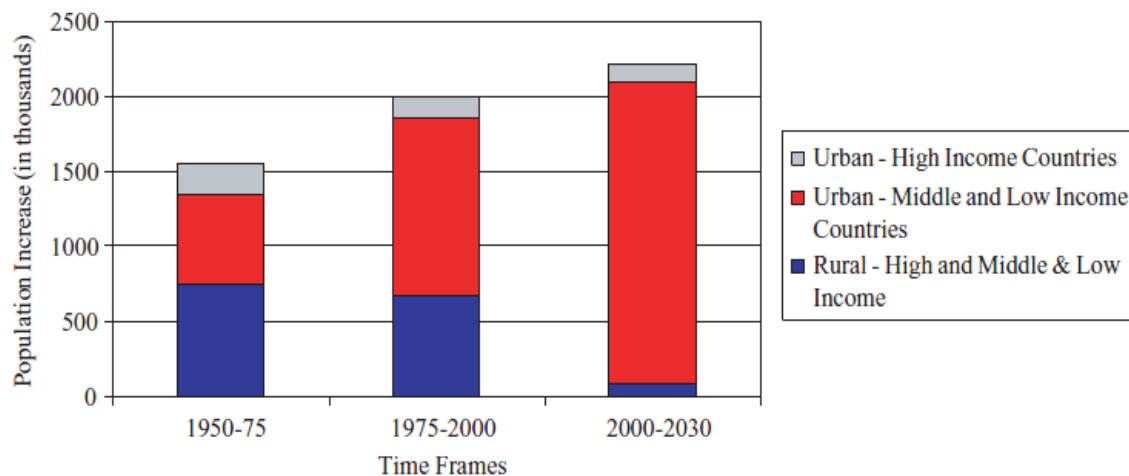
not registered, paying tax or are building houses outside of residential areas and against planning (Tipple, 1994).

Thus, due to financial constraints, poor economy and consequential inability of African countries and their governing bodies to absorb and employ the mass labor force in the urban areas (Herrmann & Khan, 2008); residents have had to become dependent on the informal sector for provision of employment opportunities and other basic necessities like housing (Jaycox, 1977; Lim, 1987; Chirisa, 2008).

### 2.3 The Informal Sector in Developing Countries

Currently, the urban areas in developing countries are unable to cope with the basic needs of the new migrants and the intensity of the problem governments, urban planners and all those involved in creating better living standards for these residents are facing is extremely high. This is evident when one looks at the pace at which the population in the urban parts has been increasing over the years and the frightening heights it is expected to reach in thirty years' time.

As can be seen on Appendix 3, population is anticipated to increase from 2.86 billion in 2000 to 4.98 billion in 2030 of which the rural population will only show a marginal increase from 3.19 in 2000 to 3.29 in 2030. This implies that nearly all the population increase to occur within the coming thirty years will do so in the urban areas (Figure 5) that are already ill-equipped to cope with the growing demand of the rising population (Cohen, 2004).



**Figure 5: Distribution of world population growth, 1950-2030**

Source: United Nations (2002) as cited by Cohen (2004)

In Sub-Saharan Africa, the situations have escalated to a point where optimistic youth migrate to the cities to be confronted by dispiriting policies and economic conditions preventing them from being part of the labor force and contributing to the productive environment (Chirisa, 2008). Thus, employment opportunities in the informal sectors have become a fall back and in a way, a crucial survival tactic for these developing countries (Gundogan & Bicerli, 2009).

As can be seen on Appendix 4, though Sub-Saharan Africa had the lowest share of paid employees in the informal sector (28.3%) in the 1990's as compared to Latin America (38.8%), South and Southeast Asia (42.6%) and North Africa (37.7%), the part of population assimilating into the informal sector has been quickly increasing. In the 2000s, paid employment in North and Sub-Saharan Africa namely Morocco (18.7% to 32.2%), Egypt (50.3 % to 64.5%) and South Africa (74.8% to 79.2%) have shown significant rise (Jütting and Laiglesia, 2009).

According to Gundogan & Bicerli (2009), it is probable that this informal sector provides for over 90% of new jobs in Africa and in a way has become the chief source of employment soaking up the surplus workforce from the rapid urbanization (Herrmann & Khan, 2008; Jütting & Laiglesia, 2009).

However, the income from this sector is never truly accounted for hence the economy is bound to suffer from loss of promising revenues. Also likely is the possibility of free-ridership as the services used by the informal sector are done so without legitimacy or official records and thus are not paid for by the users leading to further abuse and wreckage of public facilities (Chirisa, 2008).

Presently, there are two contradictory views regarding the informal sector. According to Ruffer and Knight (2007), the first line of thought accepts the informal sector as a “residual sponge”, that soaks the ever-increasing urban population unable to find jobs in the formal sectors and is considered as a sign of failure in the economic performance of the country that should be curbed with poverty fighting policies. The second view is that the informal sector is a vibrant part of the economy that incubates flourishing business ventures and should thus be promoted with the right policies. Its expansion is considered a sign of economic progress and success. Both standpoints can be correct depending on the country to which they're applied.

In the case of Africa, it is hard to settle on which point of view fits these developing countries since while the informal sector is playing a dominant role in providing jobs and basic necessities like housing, according to Herrmann & Khan (2008) and Gundogan & Bicerli (2009), there is a high price paid for the expansion of the informal sectors as it leads to a deterioration in the working conditions of employees as they mostly have no choice but to accept low salaries and no stability or security for the job they hold.

## **2.4 Housing shortage in developing nations with an emphasis on Africa**

One thing can be noted about housing and the informal sector; although the informal sector mostly works in the absence of the required permits and often does not abide by the subdivision regulations (Drakakis-Smith, 1981), it thrives in the economy owing to lack and shortage of housing in developing countries in Africa.

### **2.4.1 History of housing shortage and past attempts at solutions**

The concept and reality of slums, poverty, and housing shortages are not new to this day and age, or to developing countries in Africa but rather date back to the early cities of Mesopotamia visibly present in the histories of London during the 19th century industrial revolution and New York in the early 20th century (UNFPA, 2007). In the case of developing countries, these manifestations transpired largely after the Second World War with a rapid urbanization starting in the 1950s that demanded more housing facilities than were being produced at the time (Okpala, 1992).

Since then, least developed countries have been experiencing what is now called the second wave of urbanization following the first urbanization that took place in North America and Europe over the course of two centuries from 1750-1950 showing an increase from 10% to 52% urbanization. In the second wave (1950-2030), it is estimated that developing countries will undergo a high rise in urbanization from 18% to about 56% and that urban population in Africa and Asia will double between the years 2000 and 2030 (UNFPA, 2007).

The rapid rate of urbanization in Africa coupled with the poor economic conditions has made it almost impossible to provide for the housing demands of the rising urban population. This has

resulted in a huge bulk of the population being forced to reside in crowded, substandard, informal slums and squatter settlements lacking essential infrastructure and services (Boadi, *et al.*, 2005).

According to Lim (1987), the traditional housing policies for housing problems so far consist of five major techniques. These are:-

- Controlling land and housing prices to make them accessible to the poor,
- Setting minimum building codes to prevent the poor from building low quality houses (Annez and Wheaton, 1984; Lim, 1987),
- Demolishing informal settlements (Jaycox, 1977; Lim, 1987; Okpala, 1992),
- Limiting large-scale development to control urban growth and finally,
- Attempts to scatter the population so as to ease the pressure on metropolitan cities and related demand for housing (Lim, 1987).

Policies that prohibit and discourage new migrants in the hope of reducing slums and squatter settlements have proved futile in many developing countries in the last quarter of the century (UNFPA, 2007). For instance, controlling housing prices has resulted in discouraging suppliers from becoming active participants of the market there by increasing the shortage of housing while setting minimum building codes and regulations creates additional expenses inflating the price of houses beyond the financial capabilities of the poor (Lim, 1987; Tipple, 1994).

These attempts have proved ineffective and in some cases aggravated the problem even further. Demolishing informal settlements in certain areas for example, has rather than addressing the issue of shortage, only had the effect of relocating the poor urbanities from one slum to another (Lim, 1987; Okpala, 1992) while creating greenbelt or limited large scale development has limited the supply of land in cities making the available houses worth more.

#### **2.4.2 Current status and extent of the problem**

Thriving urban cities are able to absorb natural increase, new population from rural areas as well as other countries and to provide these new entrants with productive jobs and ways of contributing to the economy. This is achieved in parallel with allowing these new urbanities to

gain access to basic necessities (food, housing, water supply), and facilities (transportation and technology) as well as opportunities of getting good education and health care (Jaycox, 1977).

At present, as a result of the rapid urbanization the number of megacities (metropolitan areas with a total population in excess of 10 million people) has been steadily rising from just three megacities (New York, Tokyo and Mexico City) in 1975 to twenty one in 2009 (Appendix 5) with most of the new megacities arising in developing countries. Consequently, Asia now has eleven megacities followed by Latin America, which has four, and Africa, Europe and North America each have two. By 2025, it is expected that the number of megacities will reach twenty nine where again, a large portion of the population increase is expected to be in the developing parts of the world (United Nations, 2009; 2010).

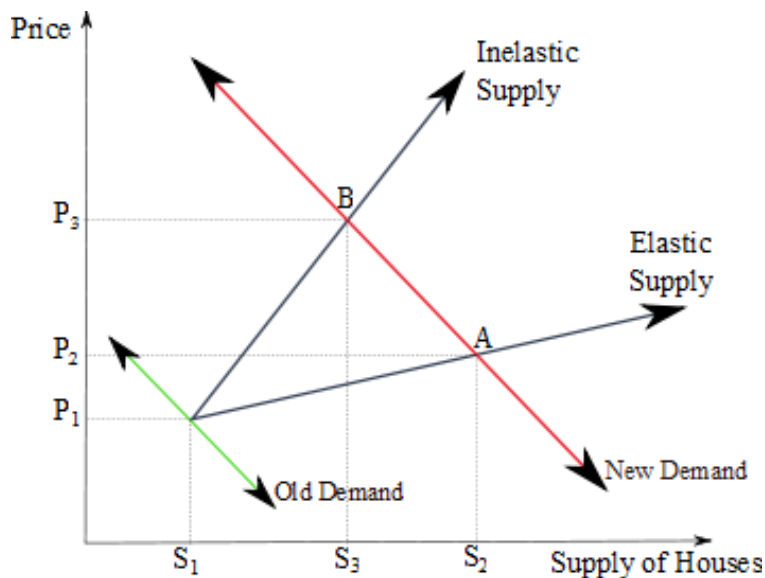
The resulting increase in demand for houses will largely be unmet as most of these developing countries are hardly able to satisfy the backlog of accumulating housing shortage let alone rise up to meet the needs of the new entrants. In Africa for instance, the two megacities Lagos and Cairo are perfect examples.

The level of housing shortage in Lagos has risen to absolute extremes that the city is now facing tremendous congestion and housing shortage unable to accommodate the residing 10 million people (Appendix 6). Just as several other countries like the Netherlands, Hong Kong, Japan and New Zealand have tried to tackle the problem of scarcity of land coupled with high population density by reclaiming land from sea, so has Lagos. In an effort to resolve the consequences of a rapid urbanization, a new city, Eko Atlantic City is being built on land reclaimed from the sea on the Atlantic Ocean, adjacent to Victoria Island. The city is being developed for mixed use of commercial and residential purposes and is expected to accommodate about 250,000 inhabitants and 150,000 daily commuters when completed on 2016. In the meantime, 70% of the country's urban population continues to be homeless and the residents' slum dwellers (Awofeso, 2010).

Egypt also faces the same problems where growth in urban population is exceeding growth in population as a whole in the country. This has led to a rapid increase in housing density and failed attempts by the public sector to provide sufficient shelter for the new migrants. Though the private sector tried to meet some of the demands, since the distribution of construction materials are monopolized by the public sector, the private sectors made the well-intentioned but ill-

advised error of trying to coax large buildings with limited materials. This resulted in the collapse of some the building built further aggravating the problem. Thus, the shortage of housing continues to be a glaring problem (Feiler, 1992).

In the face of such increase in population, in a case where there is an elastic supply of housing which can be determined by factors like supply elasticity of developable land and labor, regional planning, government regulations and subsidy (Saiz, 2010, Barker, 2004 and Muth, 1996), an increase in demand for housing due to a population rise would have a fairly small effect ( $P_1$  to  $P_2$ ) on house prices (point A on Figure 6) as the continuous supply of housing would inhibit the prices from increasing higher than the construction costs. On the contrary, in a situation faced with inelastic supply of housing as in the case of most developing countries, the rise in demand for housing from an increasing population would lead to a significant rise ( $P_1$  to  $P_3$ ) in the price of houses as can be seen as point B on the graph (Glaeser, *et al.*, 2005).



**Figure 6: The nature of housing supply and the impacts of demand shocks**

Source: Adapted from Glaeser, et al.,(2005)

Consequently, a common burden faced by the rapidly urbanizing cities of the developing nations is that none of them are primed to keep pace with the infrastructural and housing demands alongside other necessities of new residents (Jaycox, 1977; Lim, 1987; Tipple, 1994; Werna, 1994; Keivani, and Werna, 2001).



This inability of the governments and formal private sectors to meet the housing demand of the growing urbanities, has doomed these states into accepting, enduring and accommodating the growth of informal sectors and related ties of illegalities (Drakakis-Smith, 1981; Keivani and Werna, 2001).

This has further augmented the congestion of the already heavily populated squatter settlements and illegal sub-divisions that fail to offer essential facilities like proper water supply, sanitation and sewers and access to road (Jaycox, 1977) forcing the bulk of urban inhabitants to accept and inhabit dreadful living conditions causing serious risks to health (Black, 1994 as cited by Boadi, *et al.*, 2005).

### **2.4.3 Causes of shortage of housing in Africa**

The chief reasons for the growth of slums and squatter settlements are one too many. The first reason lies in an inability to employ sound housing policies (Jaycox, 1977). As clearly stated by Renaud (1987), a successful shelter project depends not only on the planning and availability of finance but also on the existence of a thriving policy atmosphere.

Creating means of generating capital can be cited as the second major reason as the population is now growing at a rate faster than the government's ability to amass sufficient financial capital for setting up the infrastructural needs of the rapid urbanization in most of these developing countries (Jaycox, 1977). This has began to be widely acknowledged by the governments in realizing that they can not supply housing for every low and middle income family in the country (Renaud, 1987) and provide the new residents with fundamental public services and urbanized land that are keystones for housing development (Jaycox, 1977).

Impractical and unrealistic standards can be stated as the third reason why most of the housing units in developing countries are out of the reach for low-income groups (Lim, 1987; Tipple, 1994). These high standards on building codes, zoning, space regulations, service delivery and the like lead to unnecessary expense in trying to abide by the rules thus adding on to the value of the unit (Jaycox, 1977; Feldman, 2002).

Incompatible standards of housing when considering the rising demand for low income housing and relatively higher supply of houses that are too expensive for low income households (Jaycox,

1977) can be mentioned as the fourth reason. In china for example, as cited by Sandhu & Aldrich (1998), with the intent of promoting urban development, large scale privatization and private property rights were strengthened in 1988 and that has helped in supplying more housing since. However, the problem has since then become that most of the houses supplied are too expensive and not in an affordable range to the poor.

An empirical study by Annez and Wheaton (1984) showed that in the construction of housing, access to credit highly increases housing consumption. Unfortunately, the poor are faced with administrative and conventional blocks from being able to secure credit and land tenure which results from their inability to provide the necessary collateral and their portrayal of bad credits as most of them are unemployed and don't seem as promising investments to the lending institutions (Jaycox, 1977).

One case that must be taken into consideration is that low-income groups fall into a common trap in trying to access legitimate rights to land as they require credit to do so and acquiring credit by itself needs backing collateral in the form of land (Jaycox, 1977).

In an attempt to discourage the expansion of subserviced and overcrowded slums, some governments in developing countries have resorted to such measures as demolishing illegal houses to which the low-income groups have been compelled to call home and offering resettlement in subsidized public housing for a small percentage of these households. These measures have proven ineffective (Lim, 1987). According to Jaycox (1977) even when strongly enforced, they have been unsuccessful and have therefore ceased to be carried out by some governments while others in Korea, India, Philippines, Mexico, and Venezuela still practice these policies. Sadly they are failing to reconstruct as many units as they are destroying placing the low-income household in worse positions than they were previously in.

Overall, such is the case of the ongoing rapid urbanization in most African countries, its toll on the economy, effect on the informal sector and most importantly, its impact on housing. A brief review of it was vital towards the paper's aim of examining the problems at hand in Africa regarding rapid urbanization and its effect on shortage of housing and towards providing an insight of the continent in which the paper's focal interest lies, Ethiopia.

## Chapter 3

### 3 Overview of Urban Growth and Opportunities

#### 3.1 Ethiopia

Ethiopia, a country located in the horn of Africa bordered by Eritrea to the north, Kenya to the south, Djibouti to the north east, Somalia to the south east and Sudan to the west is widely recognized as the cradle of humanity where anthropologists have unearthed the remains of the earliest known human ancestor and has a history that dates back to 3000 B.C. It has over eighty unique ethnic, cultural and indigenous linguistic groups and is the most populous landlocked country in the world.

According to projections by the Central Statistics Agency of Ethiopia (CSA) based on the May 2007 National population and Housing Census, the population of Ethiopia in 2011 is estimated to be around eighty two million (CSA, 2011) of which close to three million (Appendix 7) people live in the capital city of Ethiopia, Addis Ababa.

Addis Ababa, the heart of Ethiopia was founded in 1887 during the reign of Emperor Manlike and in 1889; the emperor chose a place called Entoto as his palace for its hilly setting as it was strategically well situated for defending the country and foreseeing any threats. From there on, Empress Taytu played the lead role in giving rise to the Addis Ababa of today as she began to oversee the construction of new houses and appointed land to the nobility so that they may build their own homes. In 1915, The Addis Ababa City Municipality was established for administrative purposes like collecting tax, providing land and trade licenses and the wheels of a new city has quickly been set in motion (The Addis Ababa Millennium Secretariat, 2007).

Addis Ababa is more than 10 times larger than the second largest city in Ethiopia and is the seat of the African Union and the headquarters of the United Nations of Economic Commission for Africa. While housing deficit is present in most parts of the country, this paper will primarily focus on the capital city as it believed that it is where the predicament of housing shortage is extreme. The section below will give an elaborate explanation for why the spotlight of this paper lies in the capital city of Ethiopia, and will substantiate the grounds for assuming that the manifestation of housing shortage would be highest in the capital.

### 3.2 Primate cities and the Rank-Size Rule

Primacy index and the Rank-Size Rule are both indicators of how optimal the urban hierarchy of a country is. The law of the primate city as introduced by geographer Mark Jefferson in 1939 states that, “A country's leading city is always disproportionately large and exceptionally expressive of national capacity and feeling.” (Jefferson, 1939, p. 231).

The Rank-Size Rule also known as “Zipf’s Law” on the other hand states that rank of a city multiplied by the population is constant across cities meaning that the second largest city will have half the population of the principal city and that the third largest city will have 1/3 the population of the principal city. This relationship is stated as  $(\text{Rank} = C/N^b)$  or can also be calculated by taking the natural logarithms of the rank and of the city size;  $\text{Ln}(\text{Rank}) = \text{Ln}(C) - b\text{Ln}(N)$ , where C is a constant, N is population and the exponent b is estimated by using the data on rank and population (O’Sullivan, 2009).

For the rank-size rule to hold, plotting this correlation on a graph with a logarithmic scale for population sizes should give the result of a log-linear pattern where the slope of the line is minus one (Knox and McCarthy, 2005).

The more the Rank-Size Rule holds i.e., the more proportional the population of a country is across its cities, the more favorable it is, as it signifies that economic development is not confined to one specific section or city of the country but rather evenly distributed throughout, availing all people across all cities access to basic services and infrastructure. Urban primacy however is mostly associated with congestion, pressure on the available infrastructure and pollution as the population is highly concentrated in one city where there is a better economic performance and the rest of the cities in the country exhibit an imbalanced undeveloped economy.

To see if the Rank-Size Rule holds true for Ethiopia, the natural logarithms of the rank and of the city size were regressed respectively taking all the cities in the country and the results were analyzed as follows.

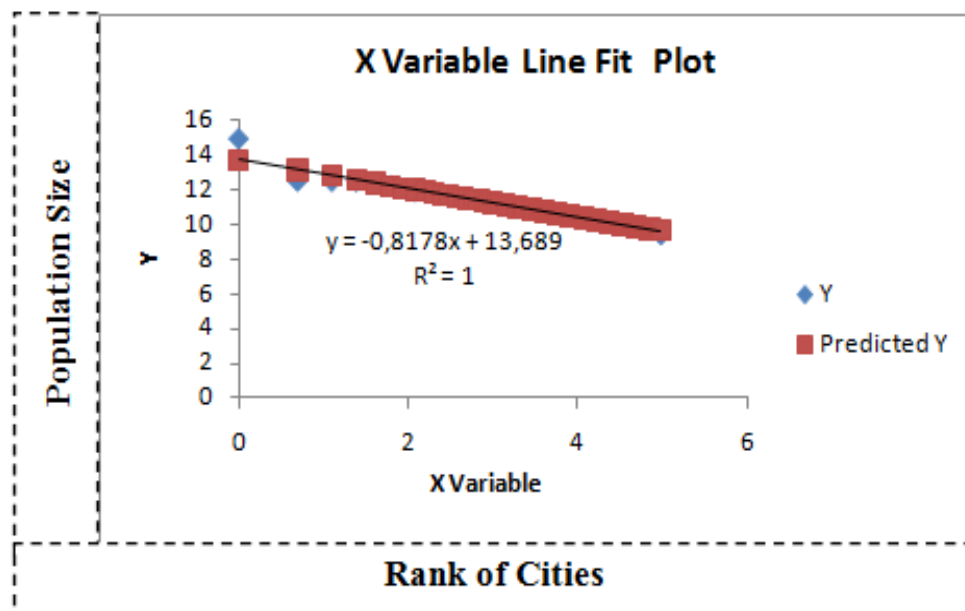


Figure 7: The Rank-Size distribution of towns and cities in Ethiopia, July 2011

As can be seen on figure seven above, the slope of the line reveals a more flatter distribution as opposed to a negatively sloped line that would have been observed if the coefficient of the regression had been minus one (-1) as per Zipf's Law. Regressing the rank and population size using cities with population above 50,000 also resulted in the value of the coefficient being of -0.874 with a flatter distribution as that of figure 7. The rank size rule therefore does not hold for Ethiopia and further cements the theory that primacy to a large extent is often observed in developing countries while the Rank-Size Rule mostly applies to developed countries.

While the Rank-Size Rule can be used to compute if there is urban primacy in a country or not, it does not identify which city the primate city is in cases where there is urban primacy. To identify the primate city, various methods have been devised. The most commonly used method is the one originally coined by Mark Jefferson in 1939 as a city that is more than twice as large as the next largest city and principally significant in all facets of socio-economic, political and cultural aspects (Jefferson, 1939). In Ethiopia's case, the capital city, Addis Ababa encompasses all the characters of a primate city as per this definition.

Other methods comprise of the four-city primacy index, also known as F-index which is computed by dividing the population of the largest city by the total population of the next three largest cities (Sokona, 1985). Countries with a high primacy index tend to exhibit high F-index (Dutt, *et. al.*, 1994). In Ethiopia's case, the four-city primacy index revealed that Addis Ababa is 3.83 times larger than the total population of the next three largest cities while using the same logic to compute the 11-city primacy index which also employs the same procedure of dividing the population of the largest city to the total population of the next 10 largest cities revealed that Addis Ababa is 1.56 times larger than the total population of the next 10 largest cities. Using these methods, it is easy to see beyond doubt that Addis Ababa is the primate city in Ethiopia.

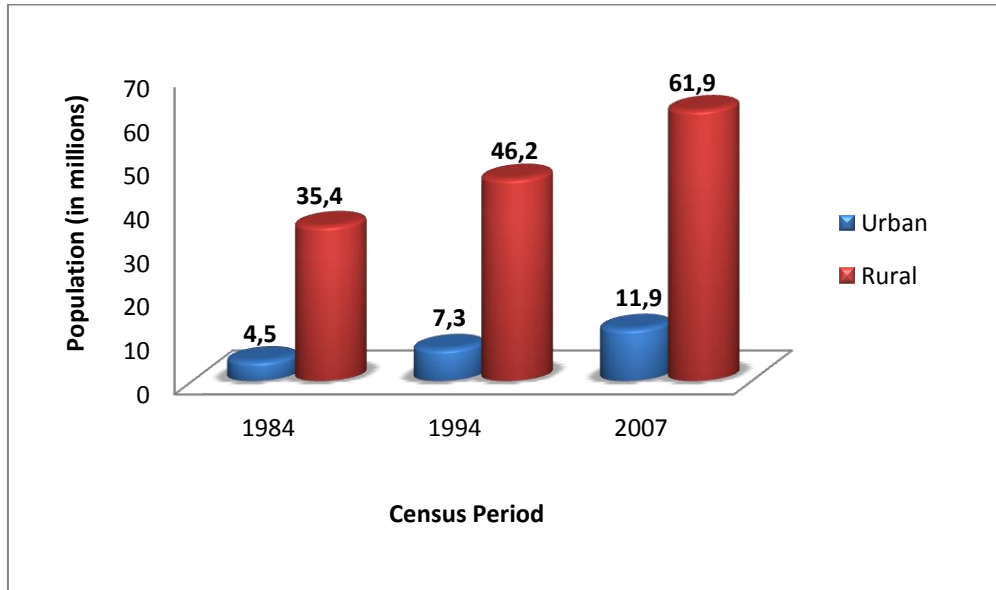
Accordingly, Addis Ababa attains the largest portion of the country's population and is a robust economic hub offering strong pull factors of better living standards than all other cities in the country like access to basic services, infrastructure and employment opportunities for citizens across the country. This has magnetized Addis Ababa as the principal city to migrate to and has propelled it to grow even larger and faster than other smaller cities in Ethiopia. As a result, Addis Ababa is constantly overburdened by the pressure coming from an exploding population growth and the difficulty associated with meeting the consequential rising demand for housing.

### **3.3 Rapid Urbanization and Housing shortage in Ethiopia**

Ethiopia is a country with favourable climate endowed with water and vast land resources combined with a high population growth meaning that the country also has a strong labour force. At the very least, these resources should be able to give the country what it needs to meet the subsistence needs of the people. Despite this however, Ethiopia is now recognized as the second poorest country in the world (UNDP, 2010; Oxford Poverty and Human Development Initiative, 2010) when evaluated in terms of the new international measure of poverty, Multidimensional Poverty Index (MPI) which employs the combination of the three dimensions health, education, and standard of living to assess the level of poverty in a country.

To top it off, Ethiopia like most African countries, has joined the race to urbanization. As seen on Figure 8, over the past two decades, Ethiopia being a predominantly rural country has shown a massive 164% increase in the rural population between 1984 and 2007 while the urban region has also shown a considerable rise of 75% in the number of urbanities from a population of 4.5

million in 1984 to 11.9 million in 2007. It is estimated that by 2015 about 17.8 million people will account for the urban population and that by 2020, the figures will reach 22 million (MWUD, 2006).



**Figure 8: Distribution of population by urban-rural residence and census period**

Source: (CSA, 2010a)

Considering the state of poverty in the country, this high urban growth will unequivocally lead to a substantial rise in the urban poor and agitate the already lacking efforts of the government to accommodate the needs of the rising urbanities. According to UN-HABITAT (2010b), at present, housing deficit in the country lies between 900,000 and 1,000,000 units with over 300,000 of those deficits in housing being in Addis Ababa. Furthermore, as stated by the Urban Sector Millennium Development Goals Needs Assessment on December 2004, due to the high population growth and rapid formation of new households in the country, meeting the Millennium Development Goals (MDGs) in 2015 will require constructing a total of 2,250,831 accommodations or 225,000 housing units per year (MWUD, 2007).

In connection with the implication this rising population has on the shortage of housing in Ethiopia, Tesfaye (2007), states that the consequent rise in the number of households' is yet another facet that best reflects and provides a measure of the level of demand for housing in the country. According to the 2007 National population and Housing Census (Appendix 8), the

number of housing units in Addis Ababa (approaching 629,000) was about 4% less than the number of households (around 655,000) creating shortage of housing for close to 26,000 households of the city (CSA, 2010b).

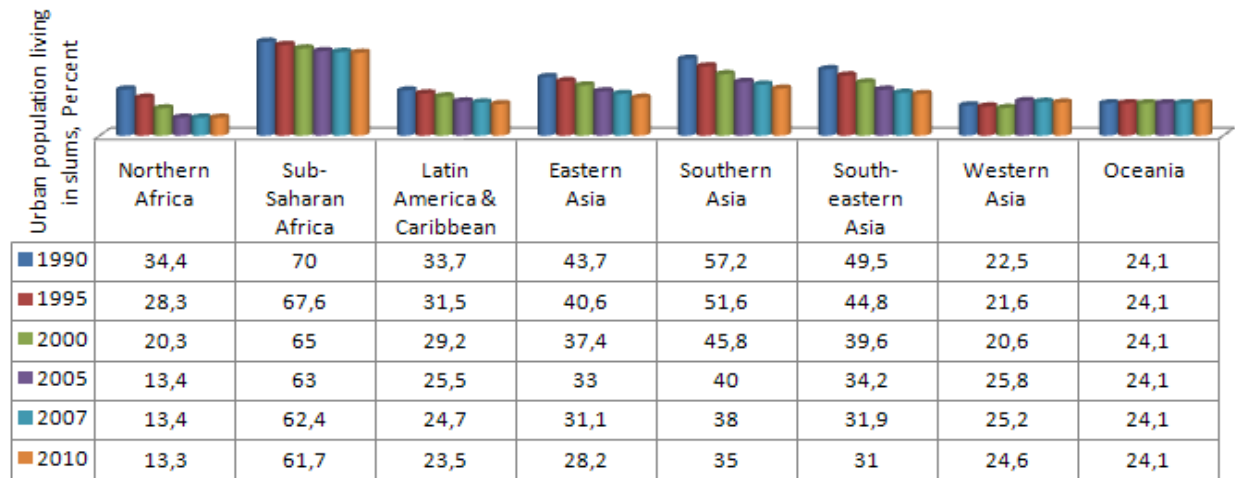
This figure represents the magnitude of cohabitation in the society and though no proof or evidence of it being a forced or voluntary cohabitation exists to date, Abelti *et al.*, (2001) assert that most of these cohabitations are forced owing to the lack of housing units and inability of the households to finance and gain access to the housing market.

Housing provision as recognized by Drakakis-Smith (1980) and Van Vliet - (1990) and cited by Chen & Gao (1993), falls into three main categories. The first one is the industrialist model where housing is perceived as a commodity and its consumption largely depends as other products, on the supply and demand of the economy. The second is the socialist model that is founded on the ideology of an equal political and economic system in which the state is duty-bound to provide consistent and subsidized housing opportunities to all urbanities. What is left is the Third World Model, its name coined after the countries that apply it most. This category avails the opportunity of housing only to the wealthy and parts of the middle class leaving out a huge chunk of the population with low income, inevitably leading to an accelerated growth in informal slums and squatter settlements.

In conformity of the Third World Model, which applies to Ethiopia, Bahir (2010), states that the on-going urban land lease policy of Ethiopia favors the rich in the country with its policy of market economy impeding any chance of the urban poor to afford and compete for accommodation ultimately paving the grounds for more slums.

The highest percentage of urban population living in slums is spotted in Sub-Saharan Africa (figure 9) with Ethiopia being residence to the world's record share of slum dwellers (Gilbert, 2007 and Davis M., 2006). A recent estimate shows that an alarming 70% of the urban population in Ethiopia live in slums (UN-HABITAT, 2008).





**Figure 9: Proportion of urban population living in slums, 1990-2010**

Source: Adapted from UN-HABITAT, 2010a

As seen in the cities of most developing countries and cited by Alemayehu (2008), the slums in Addis Ababa are of three kinds:-

- Shelters built in unoccupied lands without tenure rights and infrastructure on the outskirts of the city “Informal peripheral squatter settlements”.
- Shelters assembled from plastics, cardboard boxes and rags in the inner parts of the city adjacent big buildings, main roads, and public parks “Inner-city squatters”.
- Shelters that meet all the criteria of slums even though their residents have legitimate tenancy rights, “Non-planned old inner-city settlements”. These shelters are composed of *Kebele* (the smallest government administration units operating at the neighborhood level) houses and are in poor conditions mostly due to lack of renovation and maintenance.

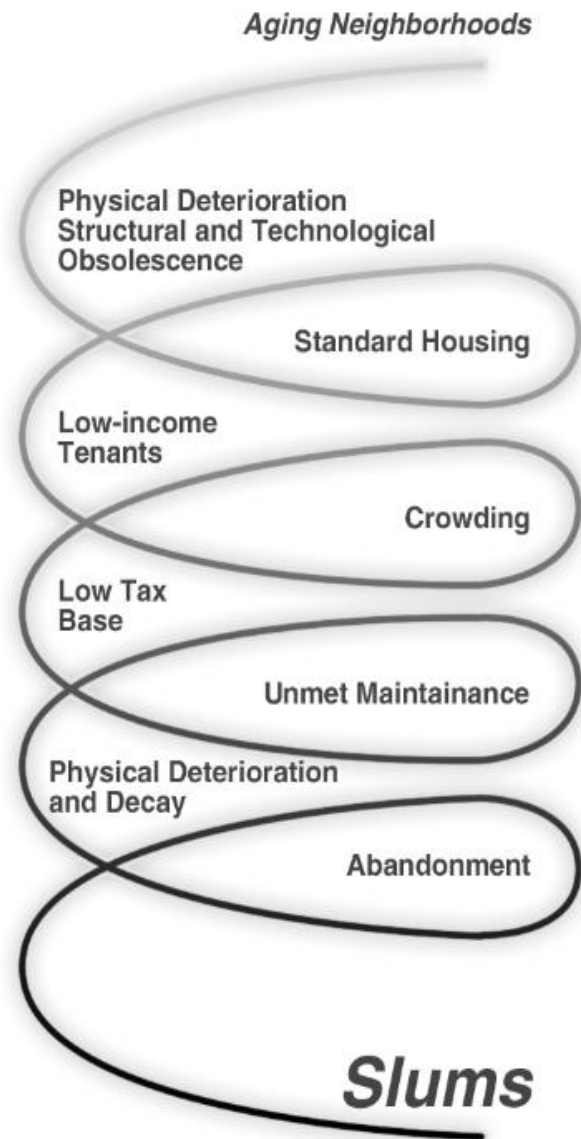
The “Non-planned old inner-city settlements”, which have now become the slums of Addis Ababa, clearly portray the phenomenon of “Spiral of Decay” (Knox and McCarthy, 2005) which denotes how neighborhoods that are composed of substandard houses and occupied by legitimate low-income households are exposed to serious risks of converting into slums.

The spiral of decay (Figure 10) starts with substandard houses being occupied by low-income residents incapable of renting large rooms and thus renting the smallest amount of space. The overcrowding that follows on top of causing more ruin to the already physically and structurally deteriorated house brings about more pressure on the surrounding infrastructure of educational and health institutions, recreational areas and roads.

The required maintenance that can help relieve these problems is absent lacking from the individual households that can't afford to pay for the maintenance costs and the landlord's lack of will to find solutions when the demand for houses are very high. Lastly, the public authorities' consideration of these neighbors as insignificant as they have low tax base since the residents are low-income households and thus have negligible political power, gives them little incentive to make the necessary repairs.

On the other end of the spectrum, businesses in these neighbors also face the same predicaments of the spiral of decay as the over-crowding low-income residents considerably lower the profit margin for these companies leaving insufficient funds for maintenance. Subsequently, small and recently started business in the wake of loss and unable to relocate to profitable neighbors start to leave the commercial building vacant for indefinite periods of time and finally in the event of lack of renters or buyers, the faith of such properties proves to be abandonment.

What follows is the “contagion effect” resulting from the collective depressing nature of vacant properties making it more accessible for crimes to rise and more importantly the “psychological abandonment” of these neighbors by outside realtors, investors and property owners who stop to invest in these neighbors and public authorities that start to cut back on providing basic services. Slums then simply become an inevitable disheartening conclusion (Knox and McCarthy, 2005).



**Figure 10: The Spiral of neighborhood decay**

Source: Knox and McCarthy, 2005

It takes but a flip through the pages of Ethiopian history to understand that in Ethiopia, the “Spiral of Decay” of neighbors as illustrated above is largely the product of generations of well-intentioned unsuccessful policies and strategies related to land and housing provision of the country.

The challenges of providing sustainable affordable homes dates back to the time of Emperor Haile Selassie who reigned from 1930 to 1974 and in which period over 70% of the land was owned by less than one percent of the populace. This left over 80% of the population that principally comprised of low-income groups at the mercy of and with no alternative but to rent land from the privileged few (Kebbede and Jacob, 1985).

The imperial rule was succeeded by the “Marxist” revolution of 1974 in favor of a fairer distribution of land and the consecutive proclamation 47/1975, “Government Ownership of Lands and ‘Extra’ Houses” that led to the nationalization of all urban land. The administration of all houses below a rental value of 100 birr<sup>1</sup> was then placed under the *Kebele* Housing managed by *Kebele* Administration units while all other properties were placed in the hands of government-owned rental units, supervised by the Agency for the Administration of Rental Houses (Alemayehu, 2008).

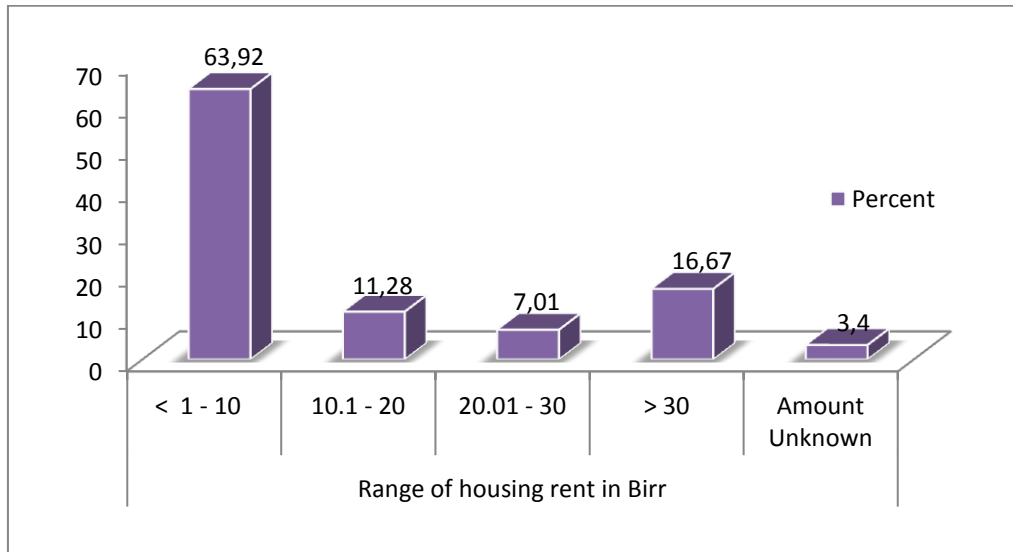
Following the nationalization, rents in Addis Ababa were cut by 30% for about 80% of the residents to increase affordability for the low-income households. The low rental charges however left little room for investment in the *Kebele* houses resulting in physical and structural deterioration owing to the lack of appropriate management and maintenance (UN-HABITAT, 2010b), ultimately creating the first step of the “Spiral of Decay”, Substandard Houses.

At present, although a new government now rules and over four decades have passed since the proclamation in 1975, the nationalized houses remain to be under the ownership of the state still administrated by the *Kebeles* (Alemayehu, 2008). Bulks of the existing houses are either beyond repair or far below optimal standards (Workneh, 1985), are in a continuous state of deterioration and exhibit lack of crucial facilities like toilets, kitchens, electricity and drainage immensely affecting the health and living conditions of the inhabitants (Bihon, 2007; Tesfaye, 2007).

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<sup>1</sup> As of 16 September 2011, 1.00 US Dollar = 17.0598 Ethiopian Birr  
1.00 Swedish Krona = 2.57904 Ethiopian Birr

Currently, low-income households occupy over 82% of these *Kebele* houses with nearly 64% of these households paying less than 10 birr per month for rent (Figure 11) while the collective rest pay less than 30 birr monthly (Alemayehu, 2008). This largely reflects on the low living standards of these residents paving the path for the next step of the “Spiral of Decay”, Crowding.



**Figure 11: Range of rent in *Kebele* owned houses**

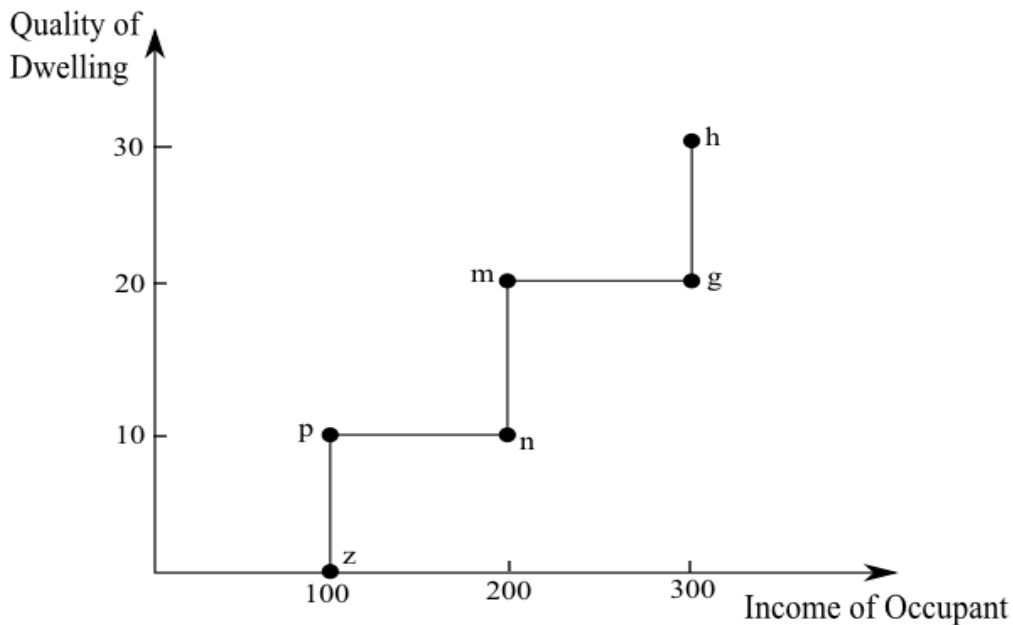
Source: Adapted from Addis Ababa City Administration (2004) as cited by Alemayehu (2008)

In Ethiopia, where urbanization has sky rocketed and hundreds flock to the capital on a daily basis, overcrowding of low-income households strongly relates to the “Spiral of Decay”. This is because in addition to the fact that these households are incapable of affording many rooms and thus cohabit, they also share what little space they have if new relatives shall arrive in search of better lives in the city. What results is a logical progression of the “Spiral of Decay” and the present reality of the non-planned old inner-city settlements, the slums of Addis Ababa.

According to the slum definition of the UN-HABITAT, at present, over 80% of Addis Ababa is a slum of which 70% of the dwellings are situated in the central part of the city and are government owned *Kebele* houses (UN-HABITAT, 2010b; Haregewoin, 2007; Lemma, *et al.*, 2006). These slums are the pinnacle of worst living conditions typified by multiple shelter deprivations including poor physical conditions, inadequate basic facilities like safe water and sanitation, dreadful waste management systems, overcrowding and health risk (Asfaw, 2005). Studies by UNFPA (2007), show that slums in Ethiopia claim more lives of their residents with mortality

rate in slums (180 per 1,000 live births) being almost double the mortality rate of the formal shelters (95 per 1,000 live births).

Unlike the “Spiral of Decay” that shows how substandard houses eventually convert into slums, the faith of houses that lose their quality over time does not necessarily have to end in slums and can be viewed using a different approach. One such approach is the Filtering Model whereby when houses lose their quality or the quantity of services they provide over time, they change hands to occupants with lower income (O'Sullivan, 2009).



**Figure 12: Filtering and the Quality Stepladder**

Source: O'Sullivan (2009)

On figure 12 above, on the horizontal axis, the three income types classify the households as high-income (\$300), middle-income (\$200) and low-income (\$100). On the vertical axis, quality of houses is depicted, with 30 being a house with the highest quality. The filtering model assumes that quality is proportional to income and that the quality of the houses decreases every decade by 10 units. When the quality of a house declines from point h to g over the assumed period of 10 years, the high-income households vacate it to move to houses with quality h where as the house they vacate is taken by the middle-income households moving the dwelling from high to middle-income households, point g to m. Likewise, when the quality of the houses deteriorates from point m to n, the middle income households move to another dwelling with quality 20 while the

vacated dwelling changes hands from middle to low-income households, point n to p. When the quality of the houses further deteriorates to point z, the dwelling retires from the housing market (O'Sullivan, 2009).

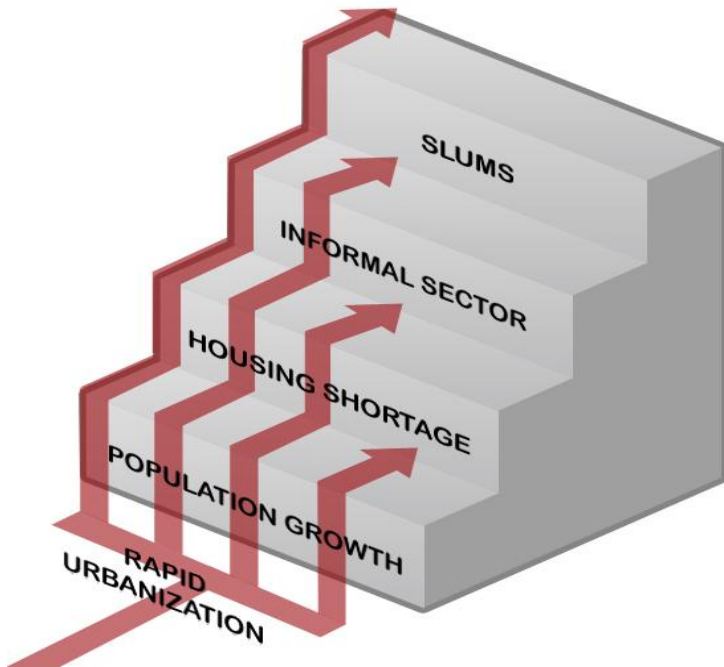
The filtering model illustrates that it is possible for houses that lose their quality over time to be filtered down the quality stepladder without giving rise to the detrimental consequences of the “Spiral of Decay”.

Rapid urbanization and its strain on the capacity of cities is not a challenge that is unique to Ethiopia. In Asia, 44 million people join the city population every year that translates to 120,000 people each day and necessitates the construction of over 20,000 new housing units and 250 km of new roads per day. Brazil is tackling the transformation of a nation that was predominantly rural to one that now encompasses over 82% of the population in urban areas (Cities Alliance Members' Reports, 2008). In Nigeria, addressing housing shortages is no longer a question of just accommodating the exponential population growth but is a crisis situation requiring immediate attention for the residents facing insanitary circumstances, undeveloped infrastructure, congestion and rapid growth of slums (Ogunshakin & Olayiwola, 1992).

In accordance with the aim of this paper, the question remains how Ethiopia and all these developing countries can direct their rapid urbanization towards a productive resolution and provide for their citizens proper homes and reduce if not eliminate the spread of unhygienic, disease ridden slums and squatters while curbing the unlawful and often flawed efforts of the informal sector. *The question remains what opportunities in the face of these problems exist!*

### **3.4 Opportunities**

The following illustration (figure 13), is a very simple depiction of the current effect of rapid urbanization in Ethiopia. It delineates the consequence rapid urbanization has on a fragile economy that has not yet developed well enough to absorb and provide work for the additional population. Consequently, this has led to a profound amount of unemployed citizens in need of low-income houses in the absence of any, and thus facing housing shortage and turning to the informal sector for survival and ending up in slums and squatter settlements.

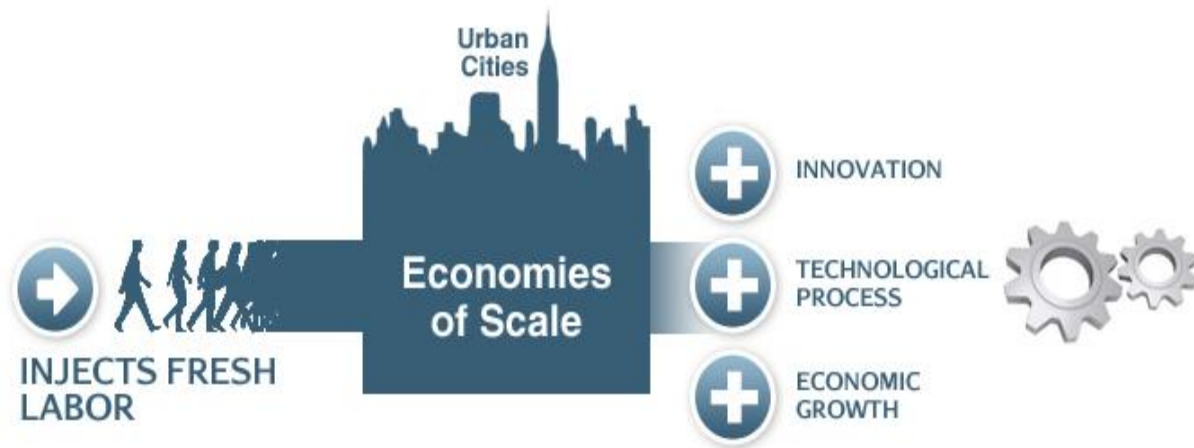


**Figure 13: Effect of rapid urbanization in Ethiopia at present**  
 Source: Author

Even though the current circumstances prove otherwise, the diagram above does not have to be the inevitable outcome of rapid urbanization in Ethiopia. Each of the elements in the diagram, rapid urbanization, population growth and related unemployment, housings shortage and the informal sector can just as easily operate as instruments for building a robust economy as opposed to exacerbating the existing setting. In line with this, the rest of the paper will explore the opportunities each of these factors possesses.

### **3.5 Rapid Urbanization and Population Growth: Positive Prospects**

The optimistic view on the effects of rapid urbanization holds that urbanization and population growth can be good in fuelling the economy with fresh labor force and inspiring technological progress paving the way for economies of scale and thus economic growth (Boserup, 1981 and Bloom and Freeman, 1986). Figure 14 portrays the prospects of innovation and economic growth the rise in the population could avail.



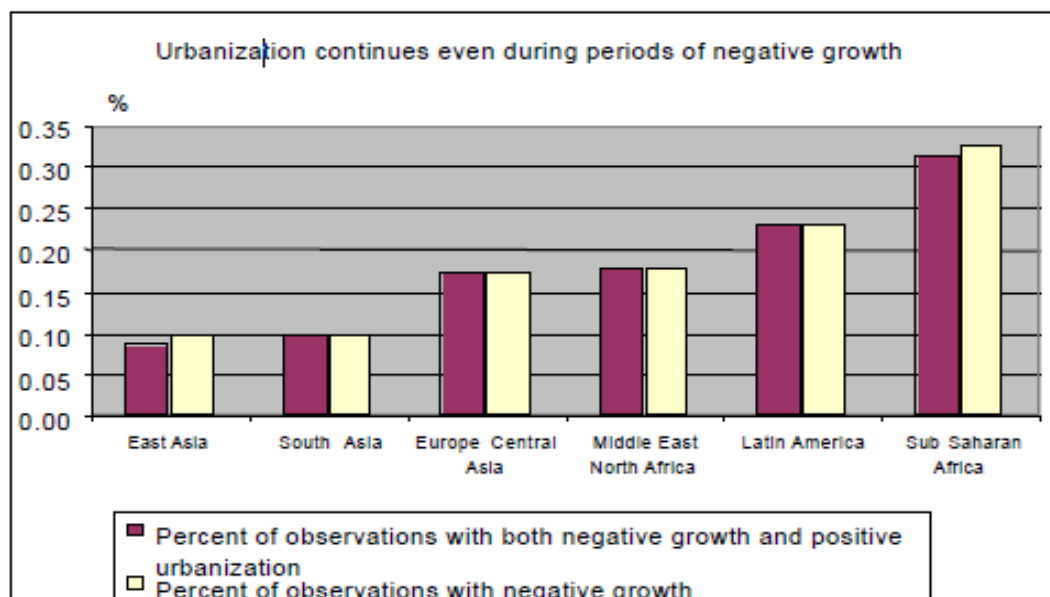
**Figure 14: Effects of rapid urbanization & population growth on an Economy**

Source: Author

For instance, although megacities in developing countries are infamous for their numerous economic, social and environmental problems, it is imperative to note that they're also the backbone of their economies and usually yield far more than the initial investments made to these cities. For example, Bangkok and Sao Paulo each account to only 10% of their respective country's populations yet Bangkok contributes up to 86% of the nation's gross national product in producer services and 74% in manufacturing while Sao Paulo covers over 40% of industrial value added and 25% of net national product. Similarly, Lagos accounts for 50% of Nigeria's manufacturing value added (Rondinelli and Kasarda, 1990 and McNulty & Adalemo, 1988 as cited by Kasarda & Crenshaw, 1991).

Even the fact that Africa is exhibiting urbanization in the face of negative economic growth is according to Fay & Opal (2000), not a unique African trend and not necessarily an alarming situation. According to their research, from a total of 187 observations in their database covering all continents, 183 observations showed positive urbanization even though they had negative growth for a period of five years (Figure 15).



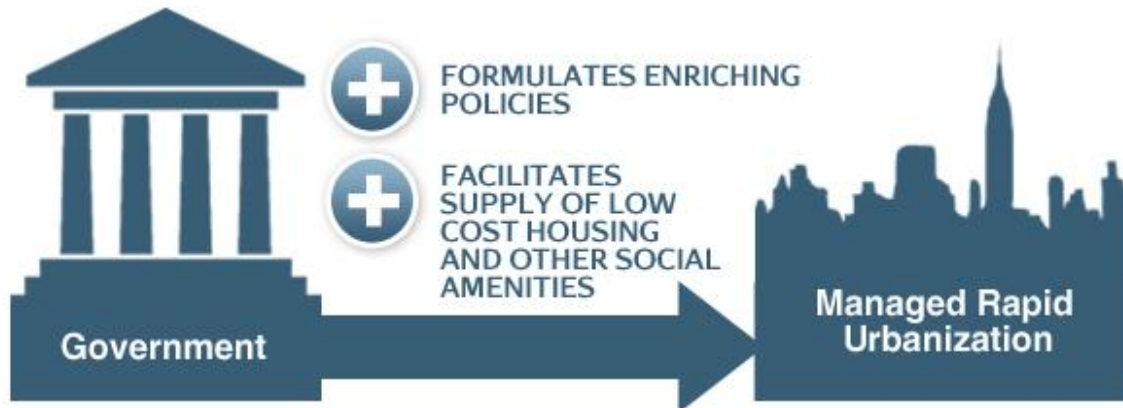


**Figure 15: Urbanization continues even in periods of negative growth, 1960-1995**

Source: (Fay, M., & Opal, C., 2000)

*“Poverty is not the only reason for slums and inadequate infrastructure – these are also the outward sign of failed policies, bad governance, in appropriate legal and regulatory frameworks, dysfunctional land markets, unresponsive financial systems, corruption and – last but not least – a lack of political will.”* (Tannerfeldt and Ljung, 2006, p. 82)

Correspondingly, Castells (1978), as cited by Ogunshakin & Olayiwola (1992), argues that an urban housing crisis is more than just a predictable consequence of rapid urbanization and that it is in fact a manifestation of the content and direction of the socio-economic system guiding the urbanization within the country. As seen on figure 16, the governments political will and stance towards urban development can play an enormous role in shaping the nature in which a city develops in the face of rapid urbanization. Through the formulation of the appropriate policies, it is possible to facilitate the supply of low cost housing, curb housing deficit and create an environment where the needs of rapid urbanization are fairly met.



**Figure 16: Government's role in managing rapid urbanization**

Source: Author

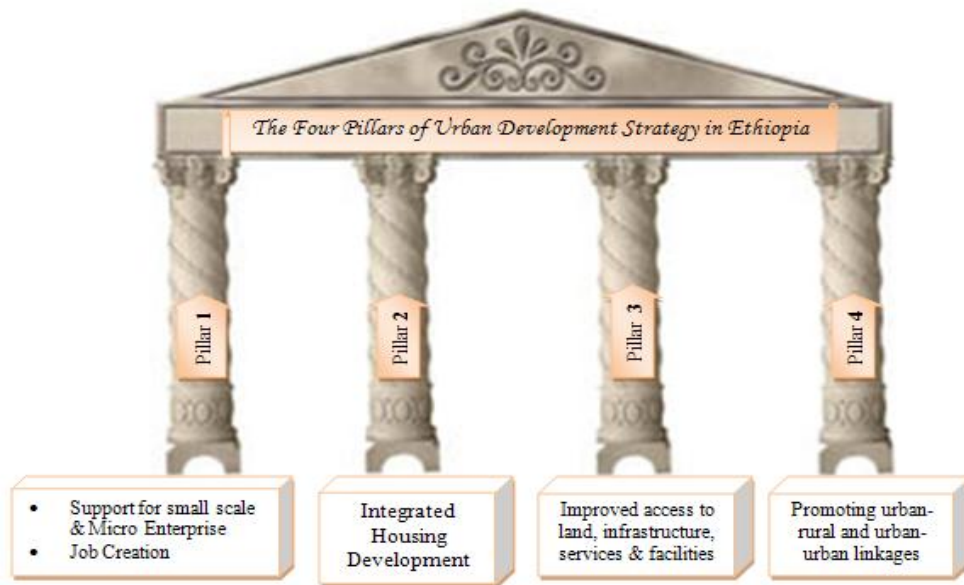
### **3.6 Government's Role on Directing Rapid Urbanization in Ethiopia**

As a stepping-stone towards alleviating the problems of a quickly urbanizing Ethiopia and ensuring a smooth transition from a dominantly rural to an urban state, the Ministry of Federal Affairs completed the development of a National Urban Development Policy, which was approved by the Council of Ministers in March 2005. Its aims is to enable the cities of Ethiopia provide job opportunities and competent services to its inhabitants while promoting economic growth in both urban and rural developments. Towards fulfilling these goals within five years, a plan for accelerated and sustained development to end poverty (PASDEP) was set up (MWUD, 2007).

#### **3.6.1 PASDEP: The Urban Development Strategy in Ethiopia**

PASDEP is the second stage of such a strategy following the Sustainable Development and Poverty Reduction Program (SDPRP) set in motion between the years 2001 to 2004 with the aim of enhancing human and rural development, realizing food security and capacity building. Since its conception, PASDEP has been functioning as Ethiopia's guiding strategic framework for the period between 2005 and 2010 and in addition to the objectives of SDPRP has paid foremost attention to achieving economic growth, scaling up investments in housing and infrastructure and strengthening all endeavors to achieve the Millennium Development Goals (MWUD, 2006).

On October 2005, The Ministry of Works and Urban Development (MWUD) was created to bring a stronger focus to urban development, taking over responsibility for urban affairs from the Ministry of Federal Affairs. To meet the objectives of PASDEP, an urban development strategy that stands on four pillars was devised. Figure 17 depicts the pillars as well as their roles in meeting these goals.



**Figure 17: The urban development strategy: Four pillars**

Source: Adapted from MWUD, 2006

While all four pillars are of great importance in reducing poverty and fostering sustained growth in Ethiopia, as the main concern of this paper is the relation between rapid urbanization and housing shortage, only the 2<sup>nd</sup> pillar will be exhaustively discussed with only a mention of the other pillars when need be.

The Integrated Housing Development Program (2<sup>nd</sup> pillar), stands in line with Millennium Development Goals 7, Target 10 that seeks to reduce by half residents without access to safe drinking water and sanitation by 2015 and Target 11 that seeks to bring about considerable improvements in the lives of at least a 100 million slum dwellers by 2020. It is also concerned with the objectives of upgrading the conditions in urban areas, achieving high-density development and trimming down the cost of infrastructure, lowering the rate of urban sprawl and

reducing slums in Ethiopia by about 50%. Through this program, the government aims to finance and construct much needed accommodations giving priority to the interest of middle and particularly low-income households.

Towards these aims, the ambitious vision set by the government as part of PASDEP and particularly the Integrated Housing Development Program for the years between 2005 and 2010 comprised of five major goals (MWUD, 2007). These included:-

- Constructing 360,000 housing and 36,000 commercial units nationally and
- In the process generating 200,000 job opportunities,
- Availing the necessary infrastructure, planned and serviced land for housing,
- Boosting the performance of the contractors, consultants and engineers and finally,
- Providing adequate assistance to property developers, housing cooperatives and private homebuilders so that they can be able to construct 125,000 housing units per annum.

Since the start of Integrated Housing Development Program in 2005, half of the initially targeted number of housing units (213,000) have been built nationwide, presenting low-income residents a chance to secure tenure in accommodations with basic services and infrastructure (MoFED, 2010). Unfortunately, these houses are still outside of the financial reach of the “poorest of the poor” in the country with government estimates suggesting that as much as 70% of the low-income tenants that receive these houses rent them out to households with higher income as they can’t make the bank loans or the necessary monthly mortgage payments (UN-HABITAT, 2010b).

Although this contradicts with the original purpose of the program to provide homes with basic services for low-income tenants, all is not lost, as even in the current setting of this persisting challenge of providing affordable homes, two unforeseen opportunities have risen from the new income the rents bring these low-income landlords. The first is that, the low-income landlords are now able to relocate to better-facilitated *Kebele* houses with the new income and the second is that it is an income generator in itself meaning that they are economically wealthier and can afford a better standard of life than before (UN-HABITAT, 2010b).

Clearly, there is much to be done to realize the full rewards of the ambitious visions set on 2005 on the onset of the Integrated Housing Development Program in improving the living conditions of Ethiopians. At the same time however, it is imperative to note that the program has sparked a

large-scale low-income housing initiative that has been widely successful in partially curbing the house deficit in the country, in its creation of over 176,000 new jobs and considerable role in the enhanced performance and capacity of the construction sector (MoFED, 2010; UN-HABITAT, 2010b). This accomplishment demonstrates among others, the employment opportunities the Integrated Housing Development Program has availed while constructing much needed low-cost houses and the potential of the housing sector to enable growth in the economy.

### **3.7 The Housing sector as an enabler of Economic growth**

Customarily, in most African countries rather than viewing housing as an economic entity that can play a vast role in economic development, it has more or less been regarded as a necessity or a social good and thus was allotted the lowest share of capital resource in comparison to other productive elements of the economy like agriculture, the industrial sector and trade. This erroneous hypothesis has aspired governments to pay little notice to housing and the needs of the growing populations and even less attention to availing shelter to the poor (Tipple, 1994).

In the 1950s and 1960s, this was true of China as well, as the country had adopted the "xianshengchan, houshenghuo" policy which meant "production first, consumption later". At the time, investment on housing was considered as consuming rather than as a productive element of the economy and thus was assigned the least amount of capital investments. The situation changed later in the 1980s when China's urban housing reform began and brought with it a shift in the distribution of the lions share devoted to production activities to be allocated to housing construction (Chen and Gao, 1993).

Unfortunately, most countries in Africa have yet to recognize housing as a viable economy enriching option. According to Renaud (1987), 80% of housings in developing countries are financed without mortgage lending as few segments of the economy, as contributors to growth, have been as unexamined and uninvestigated as housing. Not surprisingly, not much has been done to promote investment in this sector and this has manifested in the lack of strong financial institutions and instruments that could help finance housing and promote growth.

Economic growth happens through time and in different phases and in the context of developing countries, it relies on a number of stimulating factors that are affected by the availability of affordable housing in one way or another. Some of those stimulants include the influx of skilled

labor that is highly determined by a country's capacity to provide a good living condition, business costs that are intertwined with housing prices, the growth of infrastructure that goes hand in hand with increasing housing supply and can in adverse condition lead to high economic costs (Glossop, 2008).

Gate (2006) states that although not much evidence exists, there seems to be a relationship between housing prices and investment, the most probable one being that if house prices are too high, it would increase the labour cost of companies reducing the capital available for investment. As proof of this statement, in a business survey conducted in South East England, it was established that 13% of companies that were facing high housing costs withdrew their investments unable to keep up with the rising costs.

The ability of a country to attract skilled labor lies in its capacity to provide the essential requirements of the migrants (Glossop, 2008). Rising housing prices owing to the imbalance in the demand and supply of housing discourages the inflow of skilled labor and thus downgrades most opportunities of the country to improve on inward investment in different sectors of the economy (Gibb and Keoghan, 1998).

Allocation of investment to the housing sectors highly promotes economic growth as residential capital stock comprises the largest share of the total national capital stock in all economies. This is due to the fact that housing is a long-lasting investment and the demand for it grows in times of fast urban developments (Renaud, 1987).

The housing sector is an important enabler of economic growth as it contributes to increasing employment opportunities in the process of construction, maintenance and the like (Glossop, 2008). Those advocating the importance of housing further affirm that provision of housing will lead to political stability and increase in employment as the construction sector will be able to employ many of the new unskilled urbanites from rural areas putting the abundant unskilled human resources to good use in these developing countries (Burns and Grebler, 1976).

In connection with this, Tipple (1994) states that the employment opportunities and thus the rise in income acquired from housing constructions are augmented by backward and forward links in the financial system as several other economic sectors get involved in response to the demands of

the construction sector. For this reasons, construction is considered as a prime stimulator of recovery during periods of economic recession as well as in facilitating economic growth (Field and Ofori, 1988). Figure 18 depicts the nature of how growth in the housing sector and simultaneous expansion in the construction industry leads to more employment opportunities.



**Figure 18: Housing sector's effect on the construction sector**  
Source: Author

### **3.8 Backward and forward linkages from Construction**

Gibb and Keoghan (1998) explain the relation between investment in housing and other economic sectors in two forms. The first is the backward linkages, which illustrates the demand the construction sector generates for unprocessed, partially-processed and processed (Lean, 2001) inputs like land, labor, equipment and other supplies. The second is the forward linkages, which refers to the consumption expenditures for finished products like furniture (Gibb and Keoghan, 1998) and the income it generates through the sale of its products (Lean, 2001).

Construction is strongly linked to most economic activities in one way or another (Lean, 2001). The financial institutions are no exception to this as their existence can promote housing through mortgage banks and the like and can highly contribute towards economic development as it increases the means by which entrepreneurs can raise capital, strengthening the relationship between the housing sector and growth in the economy (Black & de Meza, 1996). It is also worth noting that the role financial institutions play is imperative as construction is normally heavily dependent on the amount of credit available before and after the commencement of projects (Punwani, 1997).

One way through which the housing sector affects the economy is through the employment multipliers, which have been divided by Munday *et al.* (2004) into two. The first (supplier effect) is the multiplier effect the suppliers of construction firms would realize because of changes in housing related sectors like construction also known as the backward linkage. The second (induced-income effect) is the multiplier effect the employees of housing sectors as well as suppliers of construction firms have through their spending of income in the economy (Forward linkage). The two multipliers together make up the total multiplier effect.

In his research, Munday *et al.* (2004) shows that an extra job in the construction sector in Wales, would support 0.25 jobs indirectly through the supplier effect. This happens for example, as a growth in a construction company would stimulate the suppliers of this company as well as other construction related professions like carpenters. The extra wages earned and thus extra local spending because of the supplier effects would then induce and support more jobs (induced-income effect) and result in booting the economy.

Through these multipliers, construction makes a significant contribution in most sectors of the economy affecting people in all walks of life (Hillebrandt, 1985). As the chain linking construction to various sectors of the economy crosses all industrial borders affecting almost all of them directly or indirectly, it is safe to convey that the wealth of a country is determined to a large extent by the construction industry. Figure 19 pictorially depicts how growth in the construction industry and simultaneous increase in employment and income through backward and forward linkages, reduce slums and the influence of the informal sector.



**Figure 19: Growth in the constructions sector's effect on the informal sector**

Source: Author



### **3.8.1 PASDEP: The Construction Industry Strategy in Ethiopia**

As discussed above, the construction sector plays a vital role in the development of an economy and in Ethiopia's case, its role will most definitely be amplified as it could generate numerous labor intensive job prospects while availing the country which much needed infrastructure and facilities needed for the production as well as distribution of goods and services. This will in turn chop down business costs marking the construction sector as a catalyst for economic growth and creation of employment opportunities.

Unfortunately, the quality standard as well as contribution of the construction sector to the economy currently is below average even comparing it with Sub-Saharan countries (MWUD, 2006). In view of this, the main objective during the PASDEP period is to establish an efficient construction sector through the setting up and implementation of a Construction Policy and Construction Capacity Building Program. This objective is to be met with the help of six fundamental pillars as detailed below.

#### **Pillars 1&2: Enabling Environment and Private Sector Development**

The first pillar allows for the formulation of policies that will enable the construction industry to flourish in conformity with the new finance laws and taxations while availing access to credit and facilitating equipment import. It will also be concerned with the development of various manuals and guidelines for quality, health and safety management. The second pillar will be devoted to Micro and Small Enterprises, large and medium contractors as well as consultants and providing them with various training and capacity building programs by the Ministry of Works and Urban Development and other concerned parties.

#### **Pillars 3&4: Human Resources Development and Standards and Quality Assurance**

The third pillar will be composed of training and skills upgrading for different professionals within the construction industry. It will investigate the current licensing rules and regulations for professionals, contractors and consultants and what aspects need to be incorporated in the curriculum by the Ministry of Education to get better results. The fourth pillar will deal with the conception and implementations of construction standards regarding quality of building materials, methods and design by the Ministry of Works and Urban Development.

## **Pillars 5&6: Public Private Partnership Enhancement of Construction Materials, Methods, Technologies, Production & Supply**

The Ministry of Works and Urban Development and all other parties involved will utilize the fifth and sixth pillars to strengthen associations in the construction industry so that they may work to their full potential and carry further research into how the current construction materials, production and management systems and building techniques can be improved upon.

A word of caution, it goes without saying that most developing countries have the best-laid plans and policies but are often challenged by various problems when trying to implement them. These six pillars if implemented in Ethiopia can together work towards raising the quality standards and practical functioning of the construction sector in Ethiopia while providing jobs for the unskilled labor force, homes for the low income groups thus reducing slums and squatters and becoming the resource and facilitator of economic growth it has the potential to be.

### **3.9 Low-Income Groups, Slums and Squatters as an Economic Resource**

Gibb and Keoghan (1998) were able to show that in the construction process a great number of employment opportunities arise from the increase of demand for inputs thus being able to prove that the construction sector have a large output and employment multipliers. One such input is labor and is available in millions in developing countries like Africa. The persistent and rapid urbanization coupled with lack of employment opportunities is leaving a large sum of the population unemployed and conceiving a generation of labourers in search of jobs (Frank, 1968).

On top of the fact that most of the new urbanities that flock to the cities of developing countries like Africa are unemployed, a common feature noticed is that even the ones employed, especially for unskilled work are highly underpaid, the wages being less than sufficient to cover any of the basic requirements for survival (Elkan, 1959).

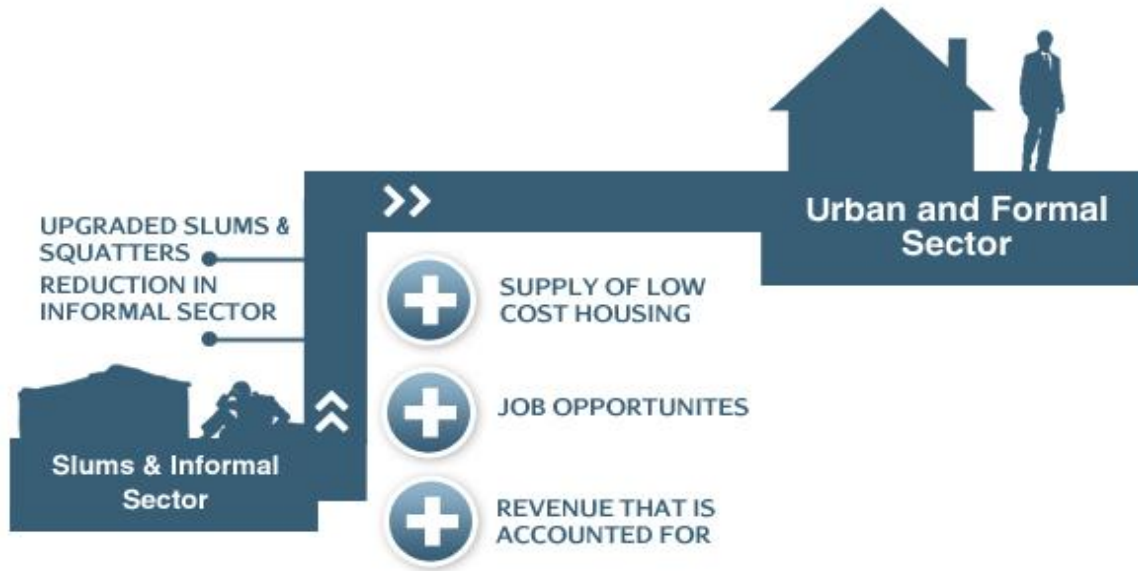
The urbanization in these developing countries are therefore highly characterized by low-income groups (UNFPA, 2007) and are forcing the growth of slums as the only option available. According to Werna (1994), many researchers are now advocating self-help policies instead of policies that focus on demolishing slums and re-housing the slum dwellers, due the fact that these self-help schemes allow the low-income groups to build at their own pace and based on their

income which changes from time to time. Further more, as opposed to large-scale schemes, self-help policies which employ mainly unskilled labour and require little technological advancement, have received support from policy makers and researchers alike as they have been more successful in trying to meet the housing demands of the poor at an affordable rate.

In the context of Africa and other developing countries and supplying low-cost shelters, housing construction could play a major role in the economic development since it would require little or no imported materials meaning that the investment that goes into this sector would produce a greater domestic multiplier than would other import intensive investments (Tipple, 1994).

As can be seen on figure 20, enabling self-help policies would help upgrade the slums and squatter settlements while reducing the informal sector. More importantly, housing can contribute immensely in the development of African economies as investment in this area can accelerate employment thus create demand for workers in the construction industry. With this in mind, the goal of providing a large supply of housing to the poor has more chance of speeding up economic development than conventional apartments and luxury houses as they mostly require skilled labor and are capital intensive. While low-income housings are labor intensive thus generating more employment opportunities and don't necessarily require that a high percentage of the laborers be skilled (Tipple, 1994).

Figure 20 also depicts that the employment opportunities that result from growth in the housing sector would create a channel for taxable income as opposed to the revenue that is never accounted for from employment in the informal sector. This taxable income can in turn be injected into the economy by the government for providing education, healthcare, job opportunities and low-income housing. Housing deficit and rise in unemployed populace resulting from rapid urbanization are two of the major predicaments that are causing the spread of slums and dependence on the informal sector. As stated in the previous sections, with the right mix of policies and government's effort to direct the rapid urbanization towards economic growth (figure 14), it is possible to transform these slums into urban cities that offer decent housing and legitimate employment opportunities in the formal sector to all income groups.



**Figure 20: Reduced informal sector opens new avenues of economic growth**

Source: Author

While the illustrations above give clear portrayals of different forces that can shape the outcome of the rapid urbanization in Ethiopia, an equally vital element that has yet to be discussed is the role of the private sector in the real estate industry in Ethiopia and the opportunities there in.

### **3.10 The Private Sector in Ethiopia**

The private sector in the real estate industry can immensely contribute in the provision of low-income housing (Poschmann, 2009). In Ethiopia, the real estate industry has shown a substantial growth in the past few years highly contributing to the national GDP which adding up to the construction sector's role, amounts to a considerable involvement in the growth of the economy as a whole (Access Capital, 2010).

To determine the level of contribution the private sector in the real estate industry in Ethiopia has in the provision of affordable housing as well as its implication to a rapidly urbanizing nation, a questionnaire survey was conducted. The results of the survey are presented, analyzed and interpreted in the following chapter.

## Chapter 4

### 4 Results of Survey and Discussion

#### 4.1 Pilot Survey

Prior to the distribution of the questionnaires to all the respondents between the months of June 2011 and August 2011, a pilot survey was conducted from April to June 2011, to test the quality and efficiency of the questionnaire design, the feasibility of accomplishing an online survey in Ethiopia and to investigate the attitude of respondents towards filling out questionnaires.

#### Results of the pilot survey

The pilot survey highly contributed during the research process as it instantly illustrated some of the limitations and major setbacks that could have been encountered without it. The findings from the pilot survey are listed below.

- Although initially an online survey was meant to be conducted, the pilot survey proved to show that due to lack of access to good internet connections and the embryonic level of maturity the society has towards online surveys in Ethiopia, results of good quality can only be acquired by manually distributing the questionnaires.
- After the pilot study demonstrated that an online survey was impractical, the next preliminary stage comprised of employing a random sampling technique to pick 150 licensed real estate developers in Ethiopia from a list of licensed developers registered with the Ethiopian Investment Authority and calling them, asking if they would participate in filling out the questionnaires. Over 90% of the calls revealed that the respondents were either unreachable, not yet working in the industry or uninterested in participating. While conducting the pilot survey it was realized that most of the real estate companies with low capital are registered with the Ethiopian Investment Agency as it offers several benefits to such budding real estate companies like customs duty and income tax exemption but have

yet to start construction and are currently in the pre-implementation stage of their development, meaning that most of these companies have not yet started to supply housing.

- At this stage it was decided that, as the purpose of this survey largely focuses on the private sector's contribution to the supply of housing, an effective sampling technique would have to be adapted to make the sample population consist of the most actively involved operational real estate companies. In Ethiopia, the companies that are actively participating in the country are the ones with the highest capital, therefore, the sample population size that was originally selected using random sampling technique was refined using a systematic sampling technique to select the first 50 companies that are currently operational and with the highest capital in the industry with sufficient funds to run their business.

### **The Main Survey**

Upon the successful completion of the pilot survey and a methodical revision of the original questionnaire to its final version (Appendix 9), the main survey was launched on June 2011 and continued to be distributed until the end of August 2011. The sampling strategy adapted as a result of the findings from the pilot survey was a systematic sampling technique and it was applied to pick the first 50 operational real estate companies with the highest investment capital. Statistical inferences were made using the sample population of the 50 operational real estate companies with the highest capital from a population that comprised of all licensed real estate companies in Addis Ababa. Out of the total 50 questionnaires distributed to real estate companies in Addis Ababa, 29 responded while 21 opted out yielding a 58% response rate. The data presentation and analysis is illustrated below.

#### **4.1.1 Presentation, Analysis and Interpretation of Data**

The questionnaire was formulated so as to be able to shed light on three important points regarding real estate development companies in Ethiopia.

- The first is the role of these companies in supplying homes within the affordable range of low-income households.

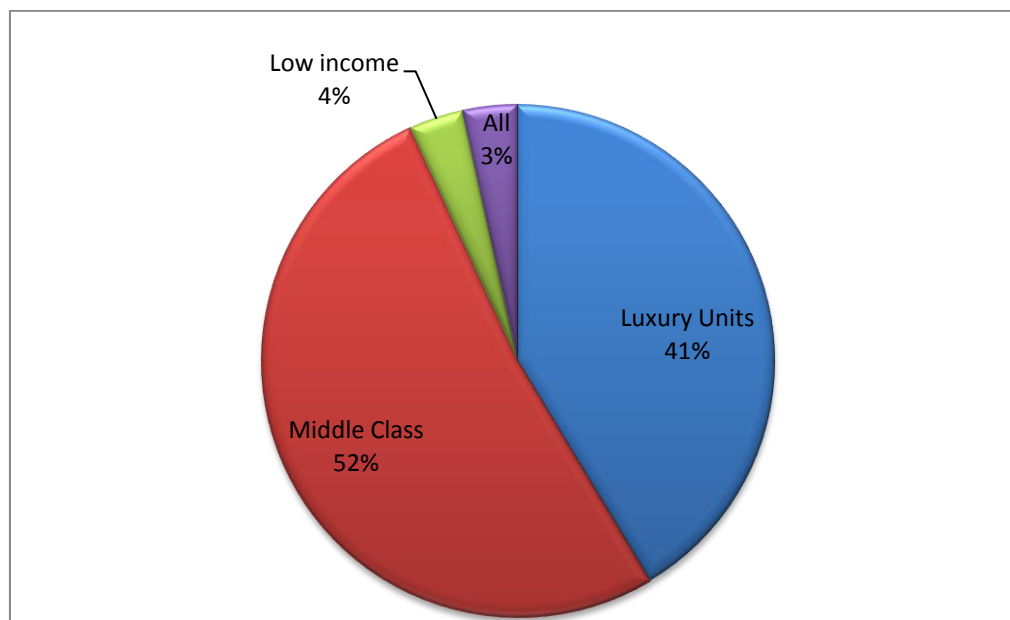
- The second aim involves investigating the availability of appropriate policies in the country that encourage and facilitate these companies to engage in the provision of low-income housing
- Lastly, the purpose of the survey was to identify the role of these companies towards creating employment opportunities for unskilled workers and the impact these companies have on fostering the growth of domestic multipliers to prop the economy.

The results of the survey are presented below in the order of these three principal objectives.

### 4.1.2 Affordable Housing

In addition to the government’s role of supplying reasonably priced homes, real estate developers specifically those involved in the residential homes construction industry can significantly contribute in increasing the level of affordable homes. In Addis Ababa, when the real estate companies were asked the type of residential property produced in their company (Chart 1), only 4% of the respondents acknowledged that their companies provided homes that were in an affordable range for low-income households.

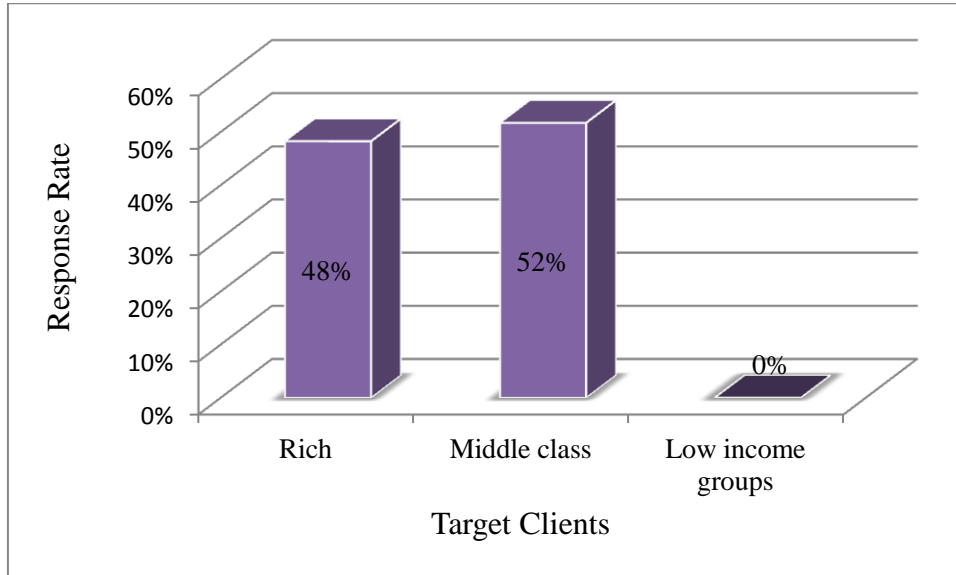
**Chart 1: Type of residential property produced**



Subsequently, 100% of these respondents (chart 2) remarked that their target clients were the rich (48%) and the middle class households (52%) substantiating that they had no incentive to tap into

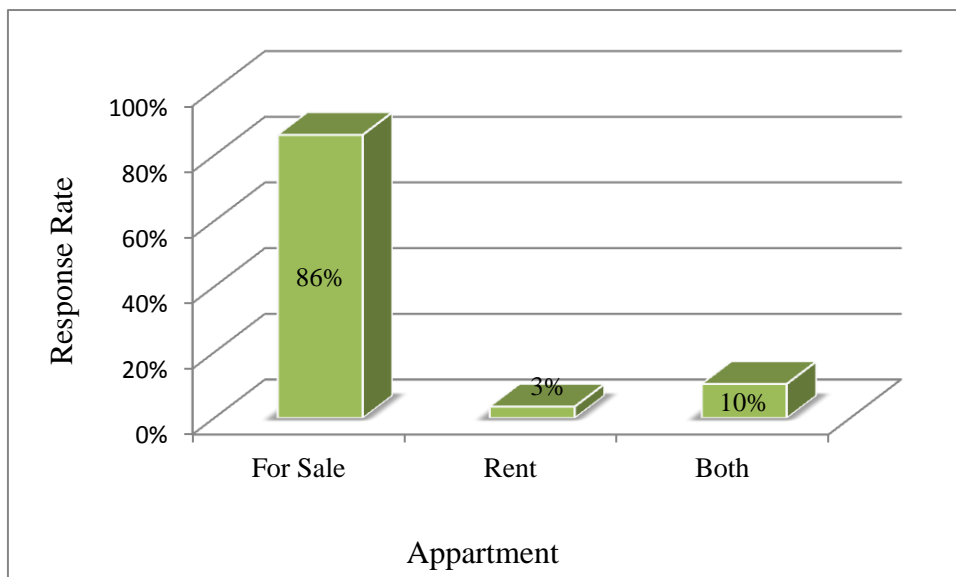
a market that comprises of meeting the demands of low-income households that comprises of as much as 90% of the population.

**Chart 2: Target clients of real estate developers**



The survey further revealed that about 86% of the residential apartments (Chart 3) built by the real estate developers are for sale while only 3% are built for the purpose of renting. This highly clashes with the life style of low-income urban dwellers as they cannot afford to buy such apartments ultimately eliminating any chance of them being able to acquire such properties.

**Chart 3: Properties built for Sale or Rent**

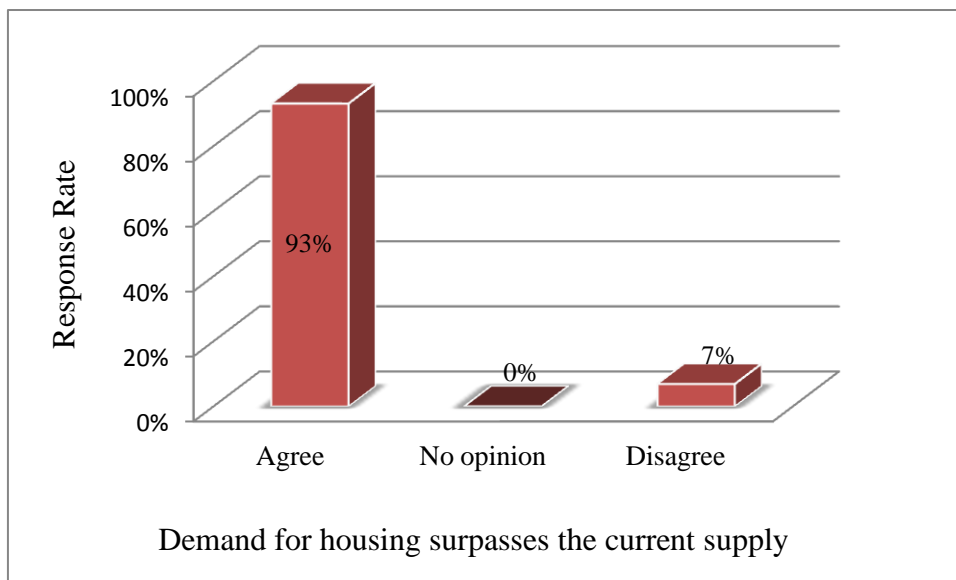




### 4.1.3 Conducive Policies

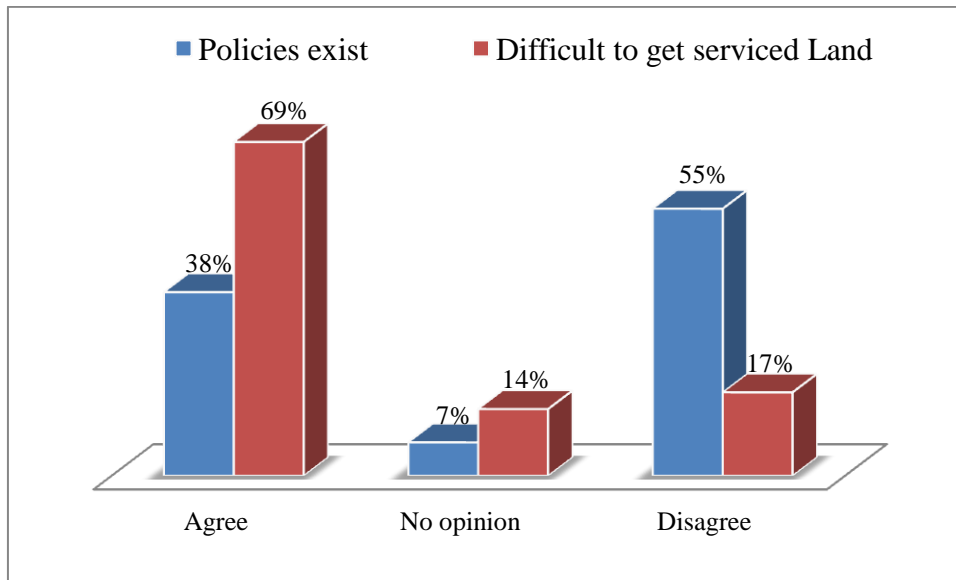
The demand for housing is at an all-time high in Ethiopia and this is recognized by 93% of respondents from the real estate development companies operating in Addis Ababa (chart 4). This demand for housing comprises of both luxurious as well as affordable residential properties. While most of these companies are actively participating in constructing houses with the target clients predominantly being the rich and the middle class, the results show that the availability and implementation of sound housing policies are necessary for increasing the supply of low-cost housing from the private developers.

**Chart 4: Demand for Housing in Ethiopia**



The data from the survey shows that the private sector has currently detached itself from the supply of affordable housing and that only the government is actively involved in the delivery of low-cost housing as described above with programs like PASDEP constructing a little over 200,000 housing units in the period between 2005 and 2010. In line with this, a greater majority (55%) of the respondents in the private sector disagreed that the present policies promote and encourage the construction of low-income housing (chart 5). Moreover, when asked about the process of getting planned and serviced land for building, a vast majority of these respondents (69%) felt that it was a difficult procedure while only 17% of the respondents believed that it was easy to acquire land for construction (chart 5).

**Chart 5: Policies and level of access to Land**

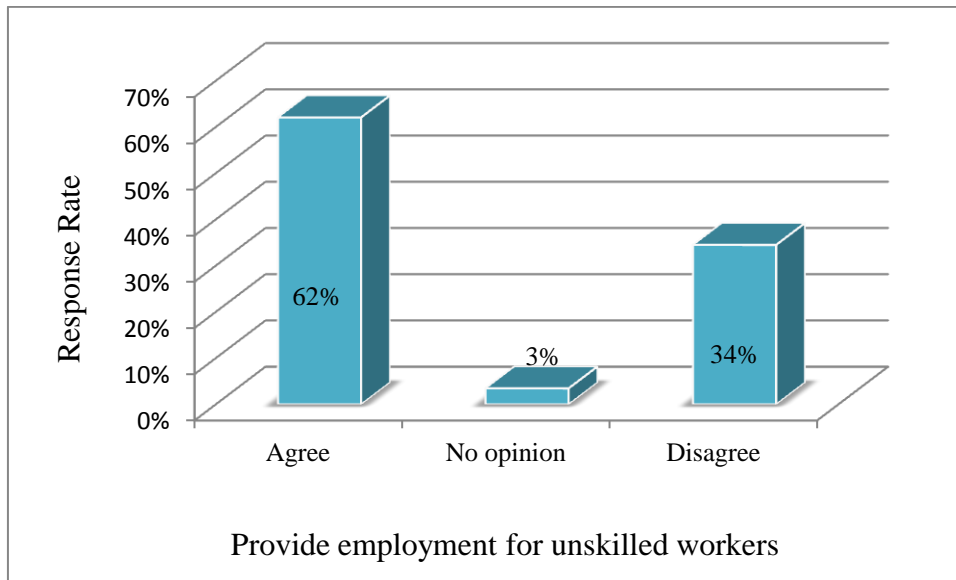


#### **4.1.4 Multiplier Effect**

One of the ways the housing sector can immensely contribute in boosting the economy is through the opportunities it opens up in the form of employment for both skilled and unskilled workers in the process of construction, maintenance and the like. In Ethiopia, where a vast majority of the rapid urbanization predominantly emanates from rural-urban migration, a high percentile of these new urbanities are mostly uneducated and unskilled and therefore find it extremely difficult to find sustainable jobs in the city that require some level of education and expertise. The new residents although uneducated and unskilled are a source of fresh labor force and if tapped into can generate enough income to start up the employment multiplier effect in which they themselves would eventually become enablers of economic growth through their spending in the economy.

To see the role the real estate developers in Ethiopia have towards this end, they were asked about their provision of employment opportunities for unskilled workers (chart 6) and a higher percentage (62%) of the respondents replied that they mainly employ unskilled workers while a lower proportion of the respondents (34%) replied that they preferred to employ skilled employees.

**Chart 6: Employment opportunities for unskilled workers**

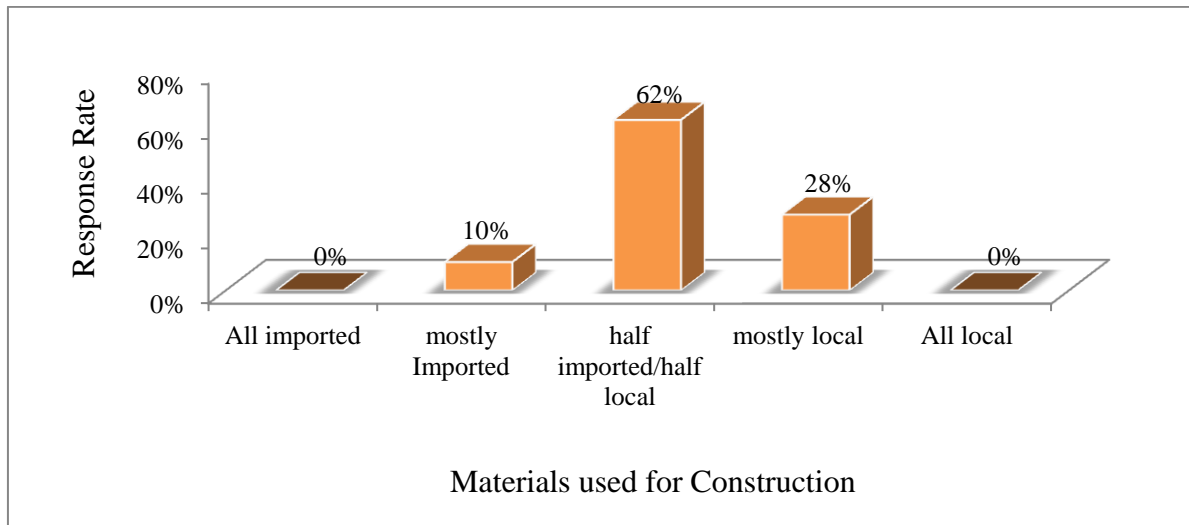


The significance of the housing sector for the economy does not just halt with the provision of employment opportunities for unskilled workers.

Most African countries all share a common trend of having some of the highest import rates even for products that can easily be produced domestically. This highly depletes the countries resources as in addition to importing, these countries are confronted with the risk of not being able to maintain the equipment they import. Building with material locally available helps reduce unnecessary costs and generates job opportunities and extra income for the inhabitants (Baumeister and Knebel, 2008).

In Ethiopia where there is a scarce foreign exchange at present, the use of local goods by the housing sector as opposed to lavishly importing inputs can play a great role in directing this capital spending into producing a greater domestic multiplier. In view of that, when asked about the material used for construction in their company (chart 7) a majority of the respondents (62%) replied that they used an equal blend of both local and imported materials while 28% of the respondents replied that they chiefly use locally manufactured materials while a minor number of the respondents (10%) said that they mostly used imported goods.

**Chart 7: Materials used for construction**



## 4.2 Discussion

The findings from the survey prove to show that currently the private sector is widely participating in the provision of housing for the rich and the middle class and is distinctively building residential properties that are luxurious and homes that are within an affordable range for the middle class but has left the task of building low-income housing to the government. This lack of motivation to provide low-income housing can be viewed from two angles.

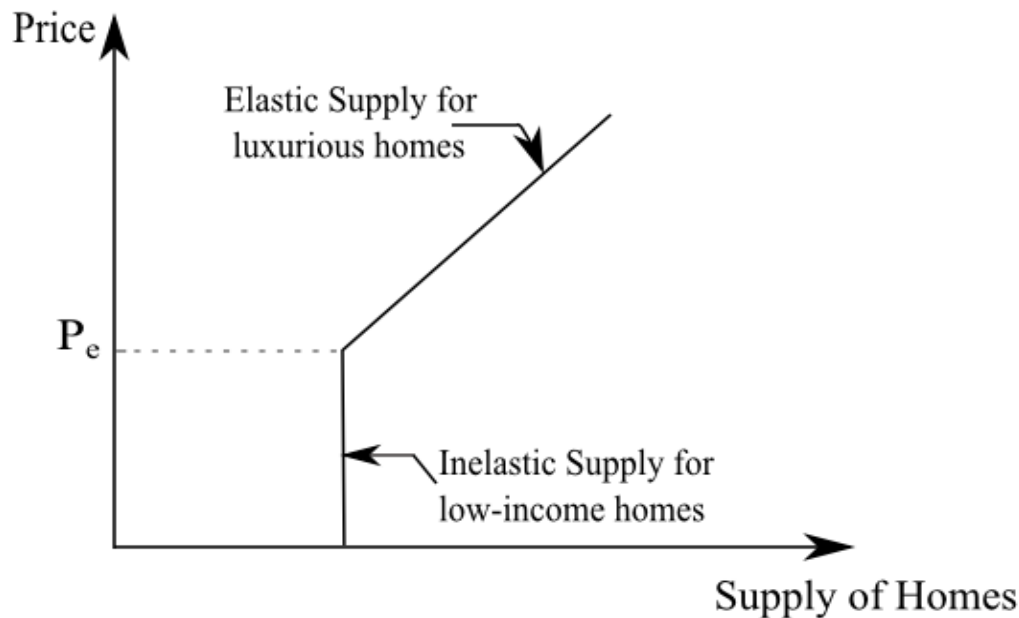
### I. Profit

The reluctance of real estate developers in Ethiopia to construct low-income housing can easily be explained with the help of a kinked supply curve<sup>2</sup>. On figure 21, the curve or turning point of the supply curve also known as the kink is the point at which the supply function meets with the economically feasible price ( $P_e$ ) that matches the cost of that additional house in other words, the marginal cost of the additional unit. It follows that when the prices are below the kink, which is the situation for low-income houses in Ethiopia, the present value of the low-income houses constructed by the real estate developers are below their replacement costs, which include acquisition and construction costs. It is there unprofitable for the real estate developers in Ethiopia to construct low-income housing which explains the inelastic supply. However when the price for houses rise above the kink as in the case for most luxurious buildings, there are plenty of

<sup>2</sup><http://miller-geltner.swlearning.com/>

Student Resources: Chapter 2: Condensed chapter 2 slides. ppt

incentives for the real estate developers to construct and meet the demands and thus the elastic supply above the kink.



**Figure 21: Kinked supply curve**

Source: Adapted from <http://miller-geltner.swlearning.com>

## **II. Post-Socialist Mentality**

Another possible explanation for the lack of motivation by the private sector to partake in the construction of low-cost housing can be that it is the consequence of a post socialist mentality whereby citizens of post-communist countries that have undergone a transition from a socialist to a democratic regime are heavily under the impression that the government is responsible for the provision of all social welfare and security and given blame for all problems in the state.

*“The conduct and mentality of post-communist people are just the symptoms of reflections. This cultural barrier has been raised by several decades of “real Socialism”, it has acquired considerable autonomy, and therefore retains great potential of persistence long after institutional and organizational foundations of “real socialism” have been broken.”*  
(Sztompka, 1993, p. 87)

In most cases, the society adapts a “grab and run” standpoint which can be noticed in the lack of responsibility and ownership the private sector feels towards public properties like parks in most developing post-communist countries where the people feel no sense of ownership for the public goods and continuously adapt the psychology of “the private Vs the public” allowing them to disassociate themselves from the provision and maintenance of public goods (Sztompka, 1993). Ethiopia, a country that has endured this historical experience of communism portrays these very features in the irresponsible nature public goods are handled and the indifferent attitude of the private sectors. The real estate industry is no exception to this reality.

The survey as well as reports on housing policies (MWUD, 2007) were able to show that there exist favorable policies meant towards the expansion of affordable homes in Ethiopia and that they are being well implemented in the country by the government. These policies are working for now, the government is constantly pressurized by the rapid urbanization and is diligently working towards meeting the needs of low-income inhabitants in Ethiopia by providing them with much needed affordable housing. However these policies have largely endorsed the government with the responsibility of building for low-income urban dwellers and has left the task of building luxurious homes to the private sectors.

If left unchecked, this adding up to the lack of motivation from the private sector be it from there being no incentive profit wise or as a result of a post-social mentality, could very well lead to the segregation of the city into poor and rich neighbourhoods. This is because the continued effect of such programs like PASDEP predominantly concerned with availing low-income housing for the poor in one end and the persistence of the real estate developers only adhering to the needs of the wealthy on another will inevitably literally split the city into segments where the geographical setting of the society is defined by their earning capacity. A continuum of this further spells “Spiral of Decay” as the future for most of the low-income neighbours currently under construction by the government.

So as to avoid this, new policies regarding the responsibility of the private sectors and the role of the government in the provision of housing will need to be introduced and existing ones amended. The aim of the new policies would be to work towards an integrated approach that involves the people, the private sector and the government striving towards common goals.

### **4.2.1 A Holistic Approach**

The term holistic is derived from the word ‘holism’ as first coined by Jan Smuts in the year 1926 explaining that it is hard to give meaning to parts or components of a system without the context of the whole picture (Freeman, 2005). The holistic approach in much the same way can be applied as a method for finding a solution by looking at the whole picture and trying to find answers which are otherwise impossible to see in isolation when looking at the individual components.

The introduction of a holistic approach to the housing sector in Ethiopia will avail the opportunity to look at the problem of the shortage of housing in the country from a completely new perspective that is primarily focused on the whole system that comprise of the government, the private sector and the people rather than the individual components. Each of the three components have a lot to offer one another in bringing about a favorable living environment and the holistic approach is about binding this relationship and amplifying their co-dependence so that they can operate as one element towards a common goal.

As stated above, the continuum of the present policies will eventually lead to segregated cities and this will further lead to the “Spiral of Decay” occurring in the low-income neighbors. The government in view of avoiding such outcomes needs to adapt a holistic approach designed to integrate the private sector from the very start. That is, the responsibility of constructing and maintaining low-income houses that the government presently solely shoulders will need to be partially shifted to the private sector and the people.

Currently, the government is placing various efforts towards building infrastructure in all segments of the economy. Furthermore the government is granting a considerable amount of resources for the provision of private goods like education, healthcare and low-cost housing. However, housing remains to be continually seen as a social necessity as opposed to an economic entity capable of fostering economic growth. Moreover, the efforts of the government towards offering widespread affordable housing are susceptible to a future plagued by the “spiral of Decay” in the low-income neighbors of the city.

The private sector on the other hand is successfully building luxurious residential properties using mechanized construction technologies that provide their residents with first-rate utilities as well

as various amenities in the form of aesthetic green landscaped areas, child play areas, shopping spaces and the like. However, most of these properties are being built on the outskirts of Addis Ababa as it has become extremely expensive to acquire land in the inner parts of the city. The findings from the survey also show that currently the vast majority of the real estate developers in Ethiopia feel that the process of getting planned and serviced land for building is exigent.

By means of a holistic approach, a “give and take” tactic can be adapted in which the government avails the private sectors with the resources they need be it in the form of subsidized planned and serviced land for development in favorable locations inside the city, a good infrastructure, a subsidy in the construction sector and practical building codes and standards rather than ones that require unnecessary investment. In return, the private sector can be required to partake in the construction for low-income residents alongside luxurious properties. Through the integration and collaboration of these two sectors an advantageous arrangement for both can be reached.

The government for instance would be able to prevent the threat of “spiral of decay” from materializing since people from all circles would be able to mix. The holistic approach in this sense would help eliminate the possibility of segregation of the city that would arise if the integrated housing development program solely focused on providing housing for the poor while encouraging the private sector to supply high income housing continues to be implemented.

The private sector’s motivation to take part of a holistic approach would surface from the increased profit it will be able to gain since it would be able to offer its high paying customers residential properties that are in favorable locations of the city, have the important social necessities like school, hospitals and good infrastructure and would thus attract more clients.

The people, like the public and the private sector would have a lot to gain as well as contribute to an approach such as this. Building cities is a great way to assimilate the large number of unemployed people and switching high tech machineries for labor intensive building techniques can help in realizing this goal (Baumeister and Knebel, 2008). Furthermore initiatives like ‘Make our Home Ourselves’ can be set up which would give interested low-income people the chance to earn their own homes by supplying labor during the construction phase which is later converted monetarily and deducted from the price they have to pay when buying the house (Shrestha and Taniguchi, 2003). This will instill a sense of ownership for the properties the low-income



residents acquire and help break the post-socialist mentality. The mixing of high and low income residences would also neutralize the negative aspects of low-income neighbors as the low-income inhabitants would be able to share aesthetic features like parks that are originally constructed and maintained for the pleasure of the rich at no additional cost.

Furthermore, in Ethiopia's case, if a holistic approach is adapted, through its elimination of the possibility of the segregation of the city into rich and poor neighborhoods, it would create the opportunity for the filter model to materialize whereby houses are filtered down the quality stepladder across all income groups.

The government now has an opportunity to revitalize the vision of the city and integrate the private sector into bringing more prosperity for the people through new policies in the housing sector. This can be done by adapting a holistic approach that seeks to establish a joint venture between the government and the private sector so that the individual benefits realized from both the public and the private sector can harmoniously co-exist and bring about a safe and conducive living environment for all people regardless of their income.

#### **4.2.2 A New Growth Model**

While it seems natural to try and solve most problems inherent in developing nations by modeling the solutions already devised by developed nations when they first encountered similar challenges, as argued by Jaycox (1977) this task might prove unfeasible in the context of addressing urbanization in Africa. The reason being that, there exist substantial differences in the rate of urbanization as the speed and degree of population growth per annum in developing countries like Africa is persistently higher than that experienced in Europe and North America during their urbanization. The absolute magnitude of population growth developing countries are now facing has no precedent in the history of mankind (Bloom & Freeman, 1986; Kasarda & Crenshaw, 1991).

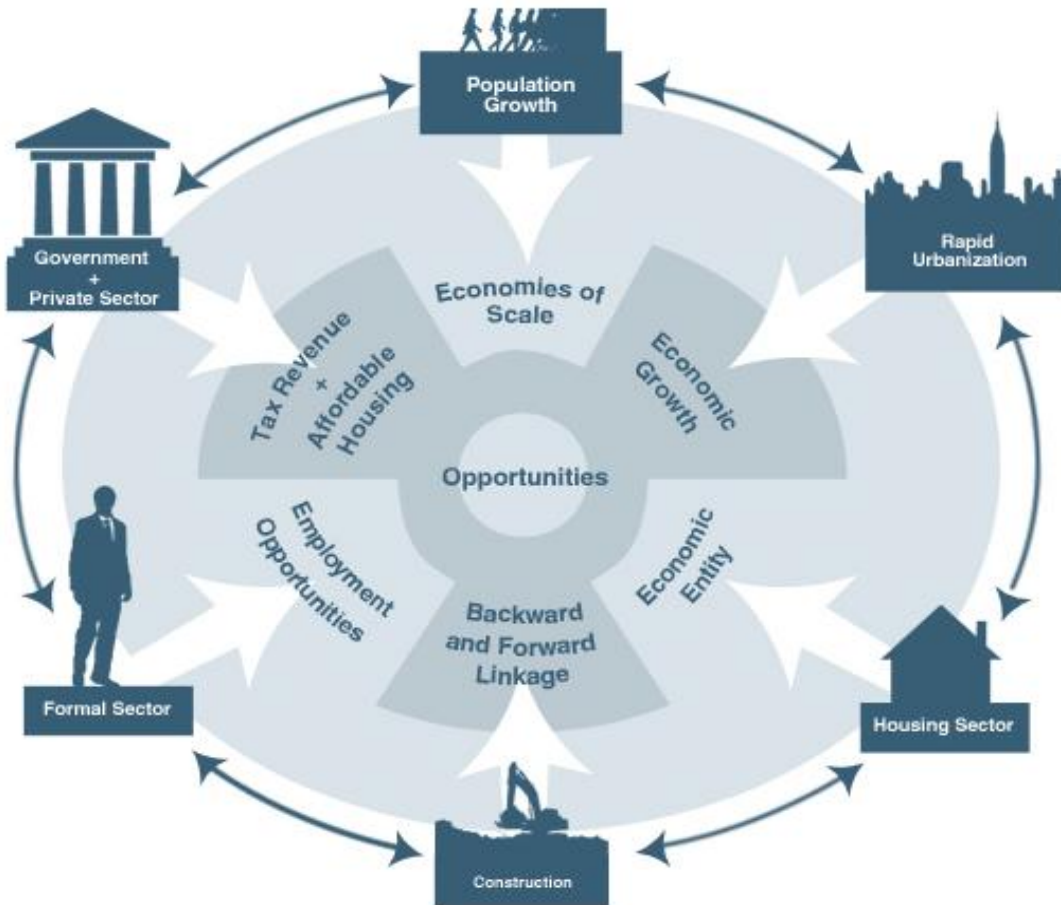
In connection with this Sovani (1964), attests that it is unrealistic to benchmark the level of industrialization that led to a dynamic urbanization in Europe as a standpoint from which to judge the urbanization in developing countries as dynamic or not. Urbanization as he describes it has its own universal flavor bound by social, economic, or cultural changes. It is unique in its state and affects various countries depending on their own social, economic, ecological and cultural

makeup not necessarily dependent on a blooming industrialization or manufacturing employment as it so happened in the 19th and 20th century in Europe.

This necessitates the exploration and development of new ideas and patterns customized for these African Countries. In the case of Ethiopia, as she is destined to face urbanization in a setting of extreme poverty, it is evident that steering this rapidly urbanizing country towards a sustainable existence will instigate unprecedented challenges. Therefore, it is of utmost importance to stop relying on borrowed solutions from developed nations and to find unique resolutions for Ethiopia. The conceptual growth model below (Figure 22) is an attempt as such.

Figure 22, is a holistic illustration of the big picture that connects each of the factors towards directing rapid urbanization away from poverty, unemployment, growth of slums and informal sectors and closer to more housing for the poor, job opportunities, better living standards and ultimately, economic independence in the following manner.

- Rapid urbanization injects a fresh labor force into the economy allowing for division of labor and specialization thus enabling economies of scale to result. This in turn promotes innovation and economic growth.
- The increase in demand for housing as a result of the rapid urbanization can stimulate a construction boom which would result in enabling the benefits of backward and forward linkages in the form of increased income as well as employment in the country. Moreover, the resulting increase in the supply of housing would lower the price of houses and would help attract skilled labor and investment prospects to the country.
- Growth of the construction sector would avail those dependent in the informal sector better living as well as employment options thus reducing the informal sector.
- The government would be able to collect increased tax revenue from the decline of the informal sector as the revenue gained from employment in this sector is never truly accounted for and thus does not contribute to the gross national product of the country. With the increased revenue, the government can facilitate the needs of the growing population and achieve economies of scale. Furthermore, by adapting a holistic approach and working with the private sector, opportunities of availing affordable housing for all income groups can be attained.



**Figure 22: A conceptual growth model of opportunities from rapid urbanization and housing shortage**

Source: Author

The conceptual growth model above maps out the connection between each factors and how one factor is reliant on the other. The central focus of the paper is housing and how it should be seen as more than a social good. The figure signifies that demand for housing will lead to more construction leading to the benefits of backward and forward linkages. The expansion in the construction sector will avail more jobs making employment opportunities in the formal sector grow. This will raise the government’s revenue from tax which can be injected back into the economy to provide healthcare, education, housing and job opportunities where the rising populations would have the chance to reap the benefits of economies of scale. In this sense, the rapid urbanization that threatens the lives of so many in developing countries like Ethiopia can act as an instrument of economic growth. In this circular model, the rapid urbanization leads to a demand in more housing which starts up the circular motion all over again.

## Chapter 5

### 5.1 Conclusion and Recommendations

At present, a rapid pace of “Urbanization of Poverty” is gaining more grounds in most African countries, the rate of the migrating poor from the rural areas outpacing the urbanization rate of the entire migrating populace. Unfortunately, most of the poor that drift to the urban cities in search of better lives become victims of “urban illusion” unable to realize the enriched lives they set out to secure. This unprecedented scale and pace of urbanization has handicapped urban authorities in these countries from being able to provide basic necessities and has paved the path for informal sectors to gain a degree of power, accelerating their expansion in various segments of the economy.

In Ethiopia, a review of the present conditions showed that Addis Ababa is a primate city facing numerous pressures as a result of the rapid urbanization, associated housing shortage and growth of the informal sector. An examination of the policies set forth to ease the demand for housing showed that the government has devised a strategy meant to reduce slums while availing mass low-income housing through an integrated housing development program backed by a number of policies that can facilitate the construction industry. As to the provision of the housing for high-income people, the results from the questionnaire survey show that private real estate developers in the country have taken on the responsibility.

The finding from the research show that such a policy can lead to segregation of the city into rich and poor neighborhoods which can in turn lead to the “spiral of decay” in which case most of the low-income houses provided by the government are at risk of converting into slums in the long run.

As a solution to this, the paper proposes the implementation of a holistic approach that integrates from the very start the role of the government, the private sector and the people in the process of availing affordable housing for all income groups. This would grant the opportunity for people from different social, economic, intellectual, political and cultural aspects of the society to live amongst each other which will support the community into becoming an incubator of growth through integration while shaping the development and quality of institutions that provide societal necessities like education, healthcare and employment opportunities.

Although the problems of shortage of housing as a result of a rapid urbanization have so far led to the distress of many, this paper argues that policy makers in Ethiopia now have the opportunity to turn this predicament into a productive situation if the housing sector can be recognized as the economic entity that it is, instead of just viewing housing as a social necessity. Once that mindset is achieved, if as much investment is poured into the housing sector as is devoted to other economic sectors like agriculture and manufacturing, the paper shows that, it could very well direct the economy towards growth as investment in the housing sector would spark and ignite improvement in several other sectors of the economy.

This would be possible as investment in the housing sector to provide dwellings for millions of people would simultaneously boost the construction sector's contribution to the economy as well as demand for more labor. This in turn would avail those dependent in the informal sector better living as well as employment options, pulling them towards the formal sector and thus reducing the influence of the informal sector. All this would be achieved through the construction of more housing there by increasing the supply which would automatically lead to a decrease in their prices and thus avail affordable housing to low-income groups reducing growth of slums. In addition, the drop in the price of housing would attract skilled labor from abroad as well as investment prospects in the country as lower housing prices avail more capital for investment in other sectors of the economy.

The government would then be able to collect increased tax revenue from the decline of the informal sector as well as from the increase in income that would arise as a result of the backward and forward linkages from expansion in the construction sector. This increased revenue would allow the government to work towards facilitating the supply of social amenities for the growing population so that economies of scale can be realized setting the country towards the path of economic independence.

A number of challenges lie ahead in trying to increase the supply of housing and reduce the existing heavily populated squatter settlements in Ethiopia. However, as shown in this paper, the opportunities that can be realized from investment in housing as a viable economic entity are considerable and should thus be facilitated with policies that aim to capture the full extent of the potential and opportunities the housing sector avails.

## **5.2 Further Studies**

In Africa and particularly in Ethiopia, the housing sector as a viable economic entity is perhaps one of the most understudied subjects to date. This paper is only a modest contribution very much like a scratch on the surface when considering the lack of literature that exists on how the housing sector can facilitate economic growth in Africa and particularly Ethiopia. Very little has been written on it and even less attention has been given to it by policy makers as a means of advancing growth and tying the construction sector's backward and forward links to different segments of the economy.

Further research on this topic would help academicians' link five points: - massive population growth from rapid urbanization, housing shortage from rising demand, expansion of the construction sector, employment opportunities that would arise, and the increase in revenue from the creation of new jobs. This can then be taken up by governments and policy makers to create more tangible solutions.

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## Appendix

### Appendix 1: Total populations by development group, selected periods, 1950-2050

<i>Development group</i>	<i>Population (billion)</i>					<i>Average annual rate of change (percentage)</i>			
	<i>1950</i>	<i>1975</i>	<i>2009</i>	<i>2025</i>	<i>2050</i>	<i>1950-1975</i>	<i>1975-2009</i>	<i>2009-2025</i>	<i>2025-2050</i>
<b>Total population</b>									
World.....	2.53	4.06	6.83	8.01	9.15	1.89	1.53	1.00	0.53
More developed regions....	0.81	1.05	1.23	1.28	1.28	1.02	0.48	0.22	-0.01
Less developed regions.....	1.72	3.01	5.60	6.73	7.87	2.25	1.82	1.16	0.63
<b>Urban population</b>									
World.....	0.73	1.51	3.42	4.54	6.29	2.91	2.40	1.76	1.31
More developed regions....	0.43	0.70	0.92	1.01	1.10	1.97	0.82	0.58	0.33
Less developed regions.....	0.30	0.81	2.50	3.52	5.19	3.96	3.30	2.15	1.55
<b>Rural population</b>									
World.....	1.80	2.55	3.41	3.48	2.86	1.39	0.85	0.12	-0.77
More developed regions....	0.39	0.35	0.31	0.26	0.18	-0.39	-0.35	-1.01	-1.62
Less developed regions.....	1.41	2.20	3.10	3.21	2.69	1.77	1.01	0.22	-0.71

**Source:** (United Nations Population Division, 2010)

### Appendix 2: Percentage urban by development group, selected periods, 1950-2050

<i>Development group</i>	<i>Percentage urban</i>					<i>Rate of urbanization (percentage)</i>			
	<i>1950</i>	<i>1975</i>	<i>2009</i>	<i>2025</i>	<i>2050</i>	<i>1950-1975</i>	<i>1975-2009</i>	<i>2009-2025</i>	<i>2025-2050</i>
World.....	28.8	37.2	50.1	56.6	68.7	1.02	0.87	0.77	0.77
More developed regions .....	52.6	66.7	74.9	79.4	86.2	0.95	0.34	0.36	0.33
Less developed regions.....	17.6	27.0	44.6	52.3	65.9	1.71	1.48	0.99	0.92

**Source:** (United Nations Population Division, 2010)

### Appendix 3: Population size and growth, urban and rural, by region

Region	Mid-year population (millions)				Growth rate (%)		
	1950	1975	2000	2030	1950–75	1975–2000	2000–30
<i>Urban</i>							
Total	751	1,543	2,862	4,981	2.9	2.4	1.8
High-income countries <sup>a</sup>	359	562	697	825	1.8	0.9	0.6
Middle and low income	392	981	2,165	4,156	3.7	3.2	2.2
Europe	287	455	534	540	1.8	0.6	0.04
Latin America and the Caribbean	70	198	391	608	4.2	2.7	1.5
Northern America	110	180	243	335	2.0	1.2	1.0
East Asia and Pacific	103	258	703	1,358	3.7	4	2.2
East Asia and Pacific without China	33	96	246	474	4.3	3.8	2.2
South Asia	72	164	372	849	3.3	3.3	2.7
Central Asia	14	40	77	118	4.3	2.6	1.4
Middle East and North Africa	22	70	177	360	4.6	3.7	2.3
Sub-Saharan Africa	20	67	219	648	4.9	4.7	3.6
<i>Rural</i>							
Total	1,769	2,523	3,195	3,289	1.4	0.9	0.1
High-income countries <sup>a</sup>	219	187	184	139	-0.6	-0.07	-0.9
Middle and low income	1,550	2,336	3,011	3,151	1.6	1.0	0.2
Europe	261	221	193	131	-0.7	-0.5	-1.3
Latin America and the Caribbean	97	124	127	116	1.0	0.1	-0.3
Northern America	62	64	71	61	0.1	0.4	-0.5
East Asia and Pacific	639	1,008	1,113	870	1.8	0.4	-0.8
East Asia and Pacific without China	153	242	294	268	1.8	0.8	-0.3
South Asia	392	645	982	1,176	2	1.7	0.6
Central Asia	32	51	63	63	1.8	0.9	-0.04
Middle East and North Africa	59	85	130	160	1.4	1.7	0.7
Sub-Saharan Africa	156	255	426	622	2	2	1.3

Source: United Nations (2002) as cited by Cohen (2004).

#### Appendix 4: Informal employment by status in employment: 1990s and 2000s

Regions/Countries	% self-employed in informal employment		% paid employees in informal employment	
	1990s	2000s	1990s	2000s
<b>North Africa</b>	<b>62.3</b>		<b>37.7</b>	
Algeria	66.6		33.4	
Morocco	81.3	67.8	18.7	32.2
Tunisia	51.6		48.4	
Egypt	49.7	35.5	50.3	64.5
<b>Sub-Saharan Africa</b>	<b>71.7</b>		<b>28.3</b>	
Benin	95.4		4.6	
Burkina Faso	86.9		13.1	
Chad	92.7		7.3	
Guinea	95.0		5.0	
Kenya	42.0		58.0	
Mali		78.1		21.9
Mauritania	72.8		27.2	
Mozambique	63.3		36.7	
South Africa	25.2	20.8	74.8	79.2
<b>Latin America</b>	<b>61.2</b>		<b>38.8</b>	
Argentina				
Bolivia	81.3		18.7	
Brazil	41.5	52.8	58.5	47.2
Chile	52.4		47.6	
Colombia	38.2		61.8	
Costa Rica	55.2		44.8	
Dominican Republic	73.8		26.2	
Ecuador		45.4		54.6
El Salvador	65.2		34.8	
Guatemala	60.2		39.8	
Haiti	68.5		31.5	
Honduras	71.7		28.3	
Mexico	53.7	52.1	46.3	47.9
Panama	65.5	56.5	34.5	43.5
Paraguay				
Peru		60.1		41.2
Venezuela	68.7	71.7	31.3	28.5
<b>South and Southeast Asia</b>	<b>57.4</b>		<b>42.6</b>	
India	52.3		47.7	
Indonesia	63.0		37.0	
Philippines	48.3		51.7	
Thailand	66.0		34.0	
<b>West Asia</b>				
Iran	65.7	74.5	34.3	25.5
Lebanon		46.8		53.2
West Bank and Gaza Strip		62.0		38.0
Syria	65.5		34.5	
Turkey	10.7	37.3	89.3	62.3
Yemen	89.2	88.6	10.8	11.4
<b>Transition countries</b>				
Kyrgyzstan		53.4		46.4
Moldova		32.1		67.9
Russia		44.2		55.8

Source: Jütting & Laiglesia (2009).

**Appendix 5: Population with 10 million people or more: 1950, 1975, 2009 & 2025 (Millions)**

1950			1975		
Rank	Urban agglomeration	Population	Rank	Urban agglomeration	Population
1	New York-Newark, USA	12.3	1	Tokyo, Japan	26.6
2	Tokyo, Japan	11.3	2	New York-Newark, USA	15.9
			3	Ciudad de México (Mexico City), Mexico	10.7
2009			2025		
Rank	Urban agglomeration	Population	Rank	Urban agglomeration	Population
1	Tokyo, Japan	36.5	1	Tokyo, Japan	37.1
2	Delhi, India	21.7	2	Delhi, India	28.6
3	São Paulo, Brazil	20.0	3	Mumbai (Bombay), India	25.8
4	Mumbai (Bombay), India	19.7	4	São Paulo, Brazil	21.7
5	Ciudad de México (Mexico City), Mexico	19.3	5	Dhaka, Bangladesh	20.9
6	New York-Newark, United States	19.3	6	Ciudad de México (Mexico City), Mexico	20.7
7	Shanghai, China	16.3	7	New York-Newark, United States	20.6
8	Kolkata (Calcutta), India	15.3	8	Kolkata (Calcutta), India	20.1
9	Dhaka, Bangladesh	14.3	9	Shanghai, China	20.0
10	Buenos Aires, Argentina	13.0	10	Karachi, Pakistan	18.7
11	Karachi, Pakistan	12.8	11	Lagos, Nigeria	15.8
12	Los Angeles-Long Beach-Santa Ana, United States	12.7	12	Kinshasa, Democratic Republic of the Congo	15.0
13	Beijing, China	12.2	13	Congo	15.0
14	Rio de Janeiro, Brazil	11.8	14	Beijing, China	15.0
15	Manila, Philippines	11.4	15	Manila, Philippines	14.9
16	Osaka-Kobe, Japan	11.3	16	Buenos Aires, Argentina	13.7
17	Al-Qahirah (Cairo), Egypt	10.9	17	Los Angeles-Long Beach-Santa Ana, United States	13.7
18	Moskva (Moscow), Russian Federation	10.5	18	Al-Qahirah (Cairo), Egypt	13.5
19	Paris, France	10.4	19	Rio de Janeiro, Brazil	12.7
20	Istanbul, Turkey	10.4	20	Istanbul, Turkey	12.1
21	Lagos, Nigeria	10.2	21	Osaka-Kobe, Japan	11.4
			22	Shenzhen, China	11.1
			23	Chongqing, China	11.1
			24	Guangzhou, Guangdong, China	11.0
			25	Paris, France	10.9
			26	Jakarta, Indonesia	10.8
			27	Moskva (Moscow), Russian Federation	10.7
			28	Bogotá, Bolivia	10.5
			29	Lima, Peru	10.5
				Lahore, Pakistan	10.3

**Source:** (United Nations Population Division, 2010)

**Appendix 6: Population of urban agglomerations with 10 million inhabitants or more in 2009 and their average annual rates of change, selected periods, 1975-2025**

<i>Urban agglomeration</i>	<i>Population (millions)</i>			<i>Average annual rate of change (percentage)</i>	
	<i>1975</i>	<i>2009</i>	<i>2025</i>	<i>1975-2009</i>	<i>2009-2025</i>
Lagos, Nigeria	1.9	10.2	15.8	4.96	2.74
Dhaka, Bangladesh	2.2	14.3	20.9	5.47	2.40
Karachi, Pakistan	4.0	12.8	18.7	3.43	2.37
Delhi, India	4.4	21.7	28.6	4.68	1.71
Kolkata (Calcutta), India	7.9	15.3	20.1	1.95	1.71
Mumbai (Bombay), India	7.1	19.7	25.8	3.01	1.69
Manila, Philippines	5.0	11.4	14.9	2.44	1.65
Al-Qahirah (Cairo), Egypt	6.4	10.9	13.5	1.54	1.35
Beijing, China	4.8	12.2	15.0	2.73	1.29
Shanghai, China	5.6	16.3	20.0	3.14	1.27
Istanbul, Turkey	3.6	10.4	12.1	3.11	0.96
São Paulo, Brazil	9.6	20.0	21.7	2.15	0.51
Los Angeles-Long Beach-Santa Ana, United States	8.9	12.7	13.7	1.03	0.48
Ciudad de México (Mexico City), Mexico	10.7	19.3	20.7	1.74	0.44
New York-Newark, United States	15.9	19.3	20.6	0.57	0.42
Rio de Janeiro, Brazil	7.6	11.8	12.7	1.32	0.42
Buenos Aires, Argentina	8.7	13.0	13.7	1.16	0.34
Paris, France	8.6	10.4	10.9	0.58	0.28
Tokyo, Japan	26.6	36.5	37.1	0.93	0.10
Moskva (Moscow), Russian Federation	7.6	10.5	10.7	0.95	0.08
Osaka-Kobe, Japan	9.8	11.3	11.4	0.41	0.02

**Source:** (United Nations Population Division, 2010)

**Appendix 7: Population Size by Area and Density by Region, Zone and Woreda July 2011**

<b>Region and Zone</b>	<b>Total Population</b>	<b>Area in Sq. Km</b>	<b>Density</b>
Addis Ababa			
<b>Addis Ababa Total</b>	<b>2 980 001</b>	526,99	5654,8
Akaki Kaliti-Sub city	197 180	118,08	1669,9
Nefas Silk-Lafto-Sub city	344 043	68,30	5037,2
Kolfe Keraniyo-Sub City	466 539	61,25	7617
Gulele-Sub City	291 113	30,18	9645,9
Lideta-Sub City	219 418	9,18	23901,7
Kirkos-Sub City	240 651	14,62	16460,4
Arada-Sub City	230 065	9,91	23215,4
Addis Ketema-Sub City	277 786	7,41	37488
Yeka-Sub City	377 091	85,98	4385,8
Bole-Sub City	336 115	122,08	2753,2

**Source:** Adapted from Central Statistics Agency of Ethiopia

CSA. (2011). *Population-2010*. Retrieved April 5, 2011, from [www.csa.gov.et](http://www.csa.gov.et):  
[www.csa.gov.et/index.php?option=com\\_rubberdoc&view=category&id=75&Itemid=561](http://www.csa.gov.et/index.php?option=com_rubberdoc&view=category&id=75&Itemid=561)


**Appendix 8: Households and Housing Units for Conventional Households: 2007**

<b>Geographical Area</b>	<b>Households</b>	<b>Housing Units</b>
Tigray Region	989 512	957 684
Afar Region	245 838	235 754
Amhara Region	3 965 170	3 849 137
Oromia Region	5 615 572	5 425 088
Somali Region	682 857	648 601
Benishangul-Gumuz Region	173 718	167 749
S.N.N.P Region	3 100 111	2 993 046
Gambella Region	65 904	63 692
Harari Region	46 417	44 914
<b>Addis Ababa City Administraion</b>	<b>655 118</b>	<b>628 984</b>
Dire Dawa City Administration	76 361	72 937
Special Enumeration Area	17 792	15 596

**Source:** Adapted from Central Statistics Agency of Ethiopia

CSA. (2010b). *Country level*. Retrieved March 19, 2011, from [www.csa.gov.et](http://www.csa.gov.et):  
[www.csa.gov.et/index.php?option=com\\_rubberdoc&view=category&id=72&Itemid=521](http://www.csa.gov.et/index.php?option=com_rubberdoc&view=category&id=72&Itemid=521)

## **Introduction**



This survey is being conducted for the purpose of researching the opportunities that can be realized from the ongoing rapid urbanization in Ethiopia and about the real estate industry, identifying some of the problems present in this sector and its significance to the provision of housing and employment opportunities.

Please be assured that your privacy is of utmost importance and that that your responses to the survey will remain confidential. This survey will only take about 10 minutes of your time and the answers you submit will provide valuable information.

I am thankful for your time and patience in completing this survey and I hope my analysis and results will offer a contribution to the realization of the prospects of the real estate sector in Ethiopia. If you are interested in the result of the survey, we will be glad to share it with you. Please send your request to [ewrobi@kth.se](mailto:ewrobi@kth.se)



# Survey

## 1. Personal Information

Name (Optional)

Name of Company

Job Title

Experience   
(number of years)

## 2. What type of residential property is produced in your company?

Luxury Units  Middle Class  Low income  All

## 3. The apartments you provide are

For Sale  Rent  Both  For Sale

## 4. Who are your target clients?

Rich  Middle class  Low income groups

## 5. Demand for housing is greater than the current supply in Addis Ababa.

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree

**6. Currently there are adequate policies that promote and encourage the construction of low-income housing.**

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree

**7. Such policies exist but they are not well implemented.**

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree

**8. The materials used for construction in our company is**

All imported  Mostly Imported  Half Imported/Half local  Mostly local  All local

**9. Our company MAINLY provides employment opportunities for unskilled workers.**

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree

**10. Currently, the government's role in facilitating the real estate industry in Ethiopia is not adequate.**

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree

**11. The process of getting planned and serviced land for building in Addis Ababa is difficult.**

Strongly Agree  Agree  No opinion  Disagree  Strongly Disagree



Thank you for completing this Survey!