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Understanding Urban Land Leasing System as a Strategic Value Capture Instrument to Enhance Urban Revenue in Ethiopia

A Case of Bahir Dar City

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Presentation Outline

1. Introduction
2. Methods and Study Site
3. Theoretical Framework
4. Result and Discussion
5. Conclusion

1. Introduction

- After it came in to power in 1991, the Transitional Government of Ethiopia (TGE) found the existing laws inefficient to monetize the increase in land value.
- As a result, the TGE introduced the urban land leasing system in 1993, with Proclamation No. 80/1993.
- Amendments of the urban land lease proclamation
 - Proclamation No. 272/2002 and
 - Proclamation No.721/2011 - Currently under implementation

1. Introduction

- The review of previous studies on urban land lease in Ethiopia indicate that
 - most of them are national surveys and evaluations of the legal framework; and
 - a few of them have focused their investigation on Addis Ababa; and
 - no adequate documented scientific studies carried out on the issue in Bahir Dar city.
- The preliminary assessment shows that the city has faced an acute **shortage of municipal revenue**.
- These circumstances, therefore, can justify undertaking in-depth study to understand the implementation of the urban land leasing system as VC instrument.

1. Introduction

- Thus, the purpose of this study is to **explore and understand** whether Bahir Dar city is leveraging the urban land lease system as a strategic value capture instrument or not.
- Based on this objective, this research has raised the following questions:
 - Does the urban land leasing system enable the government to capture the upsurge in land value realized from public investment, economic growth, and population growth in Bahir Dar city?
 - What are the main factors that deter the city from enhancing its revenue related to public land lease?
 - What are the actions that should be taken to enable the system to improve city's local revenue?

2. Methods and Study Site

2.1 Methods

- Case study design – Yin ([2003](#))
 - *how, why* and *what* questions
 - understanding the contemporary situations
- Thus, the case study design has been selected since
 - it is impossible to cover all cities of the country in this study
 - study has included the ‘what’ questions
 - location-specific factors affect land lease revenue, and it needs case study investigation
- This study has used qualitative approach.
- Secondary and primary data were used to realize the objectives of the study.
- The data were qualitatively analyzed - reduced, displayed, and conclusions were drawn from them.
- The study covers the period from 2013/14 to 2019/20.

2. Methods

2.2 Study Site

- The study site is Bahir Dar city, which is the capital of Amhara National Regional State (ANRS).
- It has urban and peri-urban (rural) *kebeles*.
- The city comprises six sub-cities, and 25 *kebeles*.
- According to the (CSA) ([2013](#)) projection, the city has an estimated total population of 362,297.

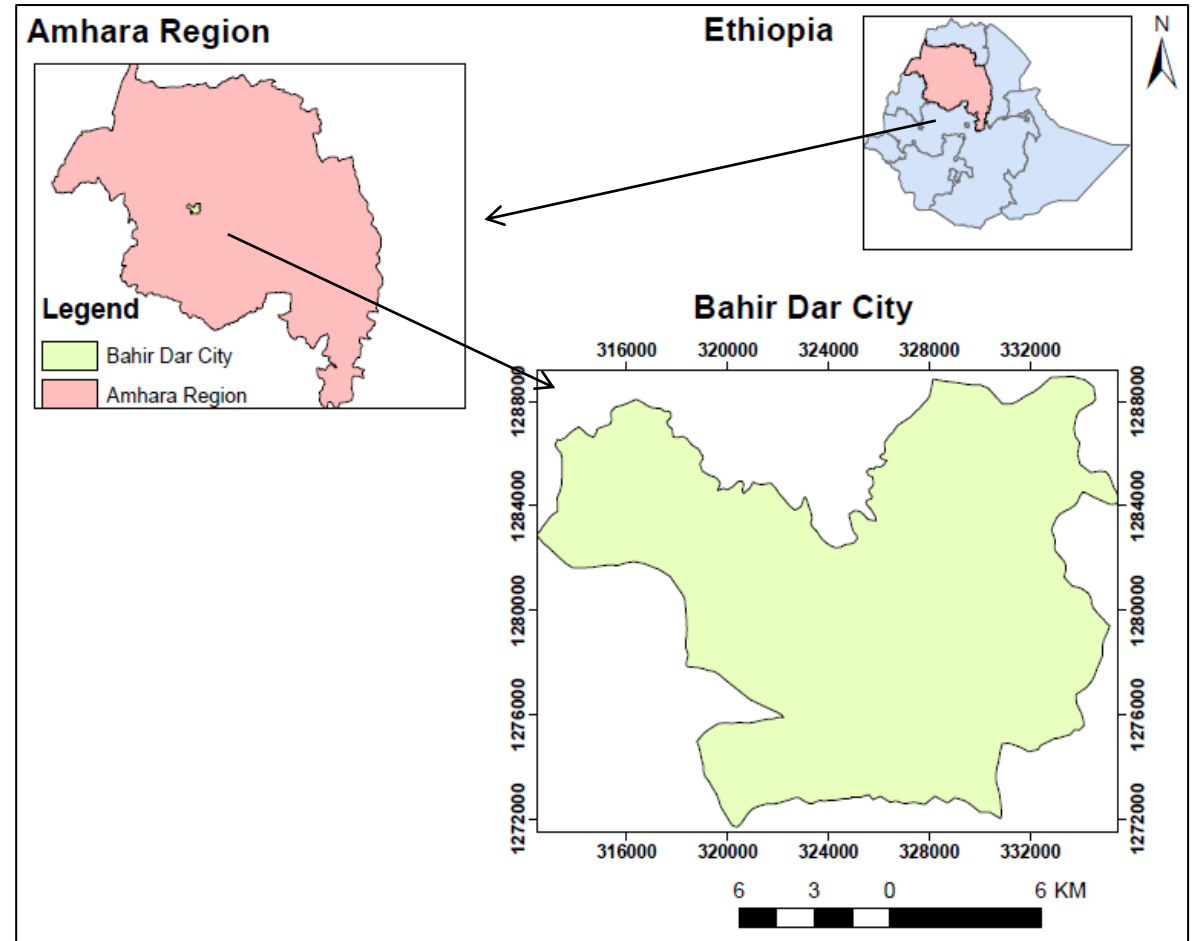


Figure 1. Map of Bahir Dar city

3. Theoretical Framework

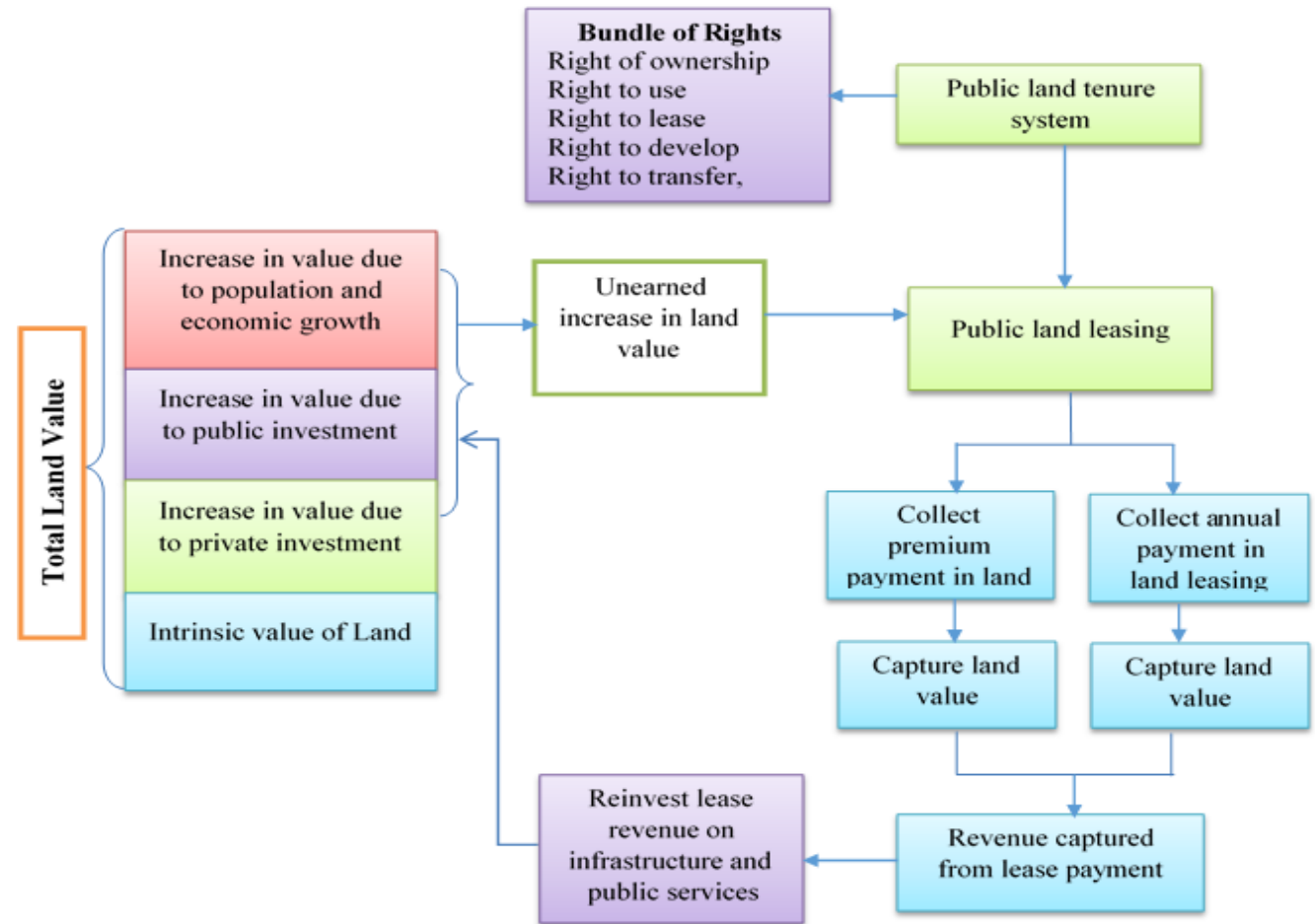


Figure 2. A Theoretical framework of urban land leasing as land value capture instrument in a public land tenure system

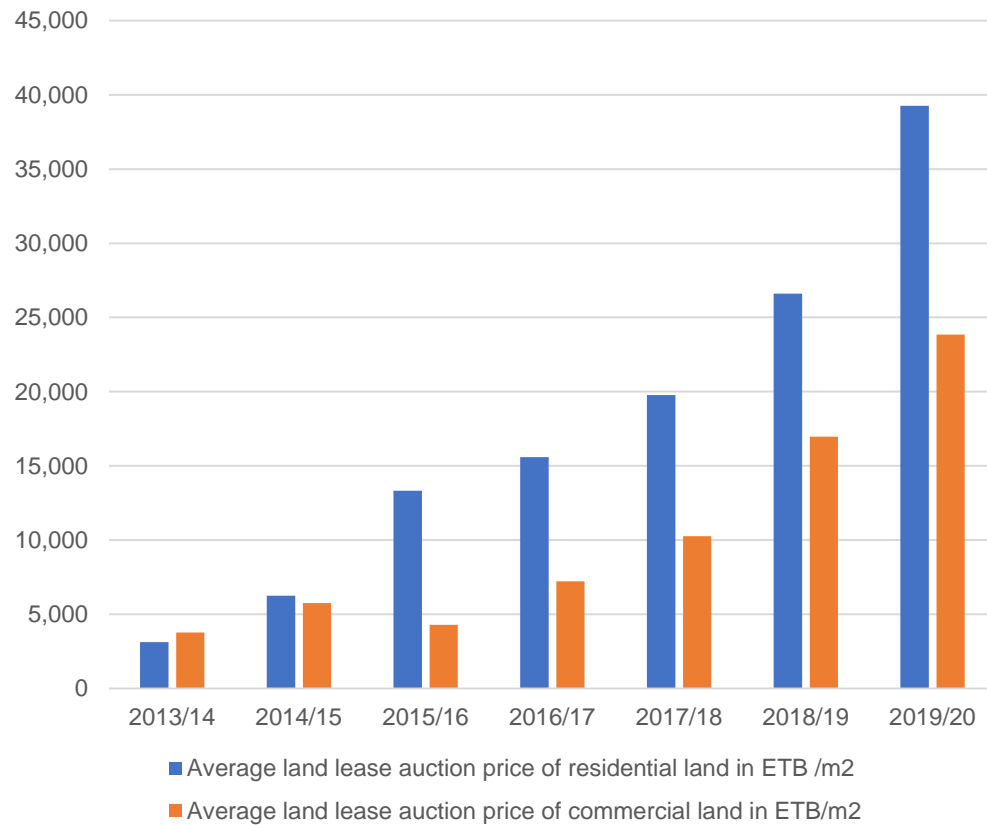
4. Result and Discussion

4.1 Forms of urban land tenure and Land allocation in Bahir Dar City

- The finding indicates that out of the total urban land, about 86% - permit system and 11% - leasehold tenure
- In the permit system - negligible amount of annual land rent.
- This situation compels the city to lose an immense amount of land-related revenue.
- Two methods of land allocation in the leasing system:
 - Public tender/auction (as the **primary method**), and
 - Administrative allotment
- However, the finding shows that out of the land leased out from 2013/14 to 2019/20, about 93% was transferred through administrative allotment.

4. Result...

4.2 Trend of urban land lease auction price



Factors identified as the cause of increase in land lease auction price in the city:

- increase in the number of people migrating to Bahir Dar city;
- inefficient urban land delivery system;
- the perception of people towards urban land as a means of accumulating wealth; and
- the rent-seeking behavior of brokers in the process of the land transactions

4. Result...

4.3 Lease Benchmark price

- Lease benchmark price as
 - a reference for bidders to decide land price, and
 - a lease price to deliver land through administrative allotment
- Article 14(1) and 14(3) of Proclamation No. 721/2011 – estimation of benchmark price (BMP).
- Article 14(3) of proclamation No. 721/2011 - updating of BMP.

- Table 1. Lease benchmark price based on land use type and land grade in Bahir Dar City since 2013/2014 (Birr/m²) Birr – **Not yet updated.**

Land Grade	Benchmark Lease Price for each Land Use Type in Ethiopian ETB per square meter					
	Residence	Commerce	Social Service	Industry	Government organizations	NGOs
1	350	900	390	60	100	80
2	300	800	300	51.42	90	70
3	250	700	250	34.28	80	60
4	200	600	200	17.14	70	50
5	150	500	150	8.57	60	40

4. Result ...

- The study shows that the BMP of grade 1 (high value) residential land is 350 Birr/m².
- However, the average of the seven years average land lease auction price is 17,699 Birr/m².
- The data from brokers indicate that the price of land ranges from 7,000 Birr/m² to 12,000 Birr/m² in the informal market.
- Thus, the BMP could not reflect the average market price of land in the city mainly due to
 - lack of considering the relevant factors in estimating the BMP, and
 - the absence of periodic revision of the BMP.

4. Result ...

- The city has transferred most of its land through administrative allotment with the **outdated lease benchmark prices**.
- This situation has diminished the revenue that the city could collect from land leases.

4.4 Methods lease payment and value capture

- Advance payment and annual lease payment
- Interest on the annual payment
- Packages of discount to encourage upfront payment (5% discount for a lessee who pays all lease payment as upfront)

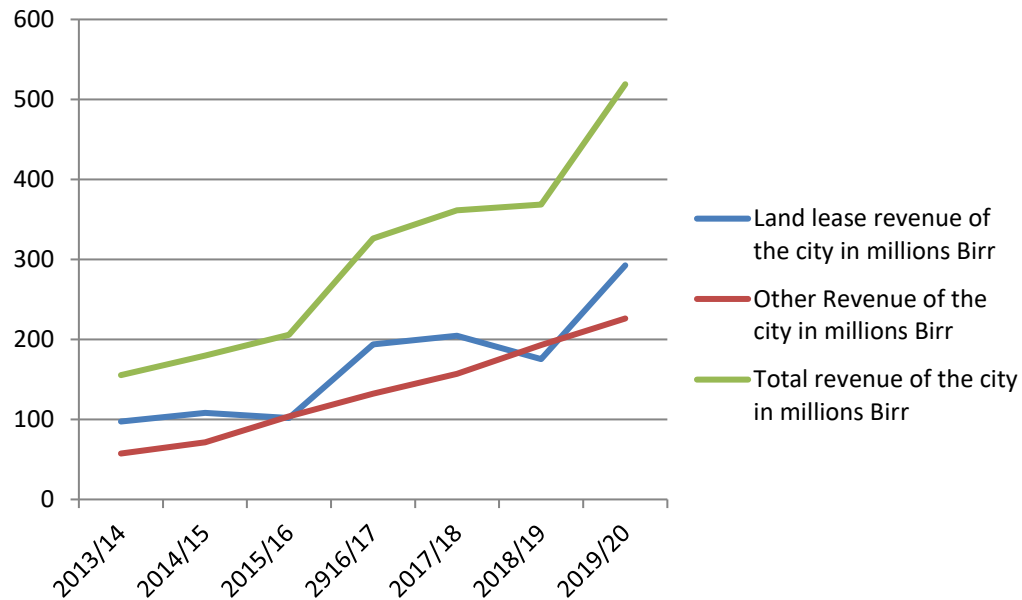
4. Result ...

- The city cannot capture the land value increase over time since there is periodic revision of land lease rent.
- In transferring the land lease right, the law has allowed a lessee to take the sum of
 - the lease payment made together with its interest,
 - the value of improvements developed on the land, and
 - five percent of the transfer value of the leasehold rights.
- The government shall capture the remaining amount of the transfer value of the lease rights.
- However, the study has found that it is practically difficult to implement it.
- The reason is that lessees, in collaboration with brokers and buyers of the lease rights, are 'gaming the system' to garner all transfer value of the lease rights.
- The administrative system is not capable enough to avoid such abusing actions of the hidden nexus among lessees, brokers, and buyers of land lease rights.

4. Result ...

4.5 Contribution of lease revenue to total municipal revenue

- Average contribution - about 56% from 2013/14 to 2019/20. It varies from 48% to 67% in these years.



4.6 Enforcement of lease payment collection

- The study has pointed out that the enforcement of lease payment collection is ineffective for the following main reasons, among others.
 - Absence of well-organized cadastral information system on urban land;
 - Shortage of experts working on lease payment collection; and
 - Institutional fragmentation

5. Conclusion

- To conclude, Bahir Dar City is not leveraging the urban land leasing system to enhance its local revenue due to the following factors.
 - dominant form of permit system;
 - delivery of most of its land through allotment at the outdated BMP;
 - inability of the city to supply the required land due to supply side constraints;
 - absence of periodic revision of annual lease payment in line with change in land value;
 - difficulty to gather the land value increase realized during lease rights transfer; and
 - ineffective lease payment collection system.

5. Conclusion

- In view of these findings, this study has given the following suggestions.
 - The government has to install a modern cadastral land registration system in the city.
 - The government should shift its attention from administrative allocation of urban land use rights to market-based allocation through public tender.
 - The government should empirically identify the significant factors that affect the lease benchmark price and update it regularly considering the main factors.
 - To capture the future increase in land value, the government either should attach the annual lease payment with the rate of inflation, or it should regularly appraise the land value and update the land lease payment accordingly at least with three or five years interval.

5. Conclusion

- To minimize the appropriation of the unjustified gain during lease rights transfer, the government should design a system to improve people's attitudes towards formal land transactions.
- The lease payment collection system should be automated with noticing service to lessees.

Thank You for Your Attention!

