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ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS & ECONOMICS
DEPARTMENT OF MANAGEMENT

**MAJOR CHALLENGES OF ACCESSING HOUSING PROJECT
FINANCE IN ADDIS ABABA**

**A Thesis Submitted to the Department of Management of Addis Ababa
University in Partial Fulfillment of the Requirements for the Degree of
Executive Master of Business Administration**

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COLLEGE OF BUSINESS & ECONOMICS
DEPARTMENT OF MANAGEMENT

**A RESEARCH STUDY ON THE MAJOR CHALLENGES OF ACCESSING
HOUSING PROJECT FINANCE IN ETHIOPIA-THE CASE OF ADDIS
ABABA CITY ADMINISTRATION**

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Declaration

I declare that this study is my original work towards the Executive Masters of Business Administration and has not been submitted for any Degree or Diploma in any University. To the best of my knowledge, all source of materials used for the study have been duly acknowledged. I have undertaken the study independently with the guidance and support of the research advisor.

Signature: _____

Yinebeb Girma

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Abstract

In developing countries among important factors influencing housing provision, finance is one of the most critical. This is the case with Ethiopia and in particular in Addis Ababa City Administration. The research objectives include the examination of the factors affecting access to long-term housing finance in Addis Ababa. The study also examines major policy and practical challenges facing the housing development projects in accessing long-term housing project finance. The methodology employed by the research includes the collection of primary and secondary data. In-depth interview was made with senior government officials from the National Bureau of IHDP, and bureau of the Addis Ababa City Administration Office of the IHDP. Interview was conducted with 5 real estate developers, and 11 individual residential house builders. Interview was also conducted with loan officers from 2 CBE, 2 CBB, and 5 private banks. Data obtained were analyzed through transcribing the interview results. Among major findings of the research include the following: that all banks in Ethiopia are highly engaged in the provision of loans for working capital requirements and trade facilitation services, finance for the housing project is given minimal attention, insufficient amount of fund set aside for housing project, CBE is highly engaged in the provision of long-term finance for public projects leaving housing projects insufficiently attended, and private banks complain about the directive of the National Bank of Ethiopia requiring them to purchase government bond for 27% of any outstanding loan they issue. The study suggests that the government housing finance policy should be reviewed and that facilitates the development of housing for all income groups of citizens. In addition, banks should be empowered in facilitating long term finance for access by key players in the sector.

ACRONYMS

AAIHDP	Addis Ababa Integrated Housing Development Program
CBB	Construction and Business Bank
CBE	Commercial Bank of Ethiopia
CSA	Central Statistics Agency
FDRE	Federal Democratic Republic of Ethiopia
GTZ	German Technical Cooperation
HSB	Housing and Saving Bank
IHDP	Integrated Housing Development Program
MDG	Millennium Development Goals
MoFED	Ministry of Finance and Economic Development
MWUD	Ministry of Work and Urban Development
NBE	National Bank of Ethiopia
NGO	Non-Government Organization
ORAAMP	Office of the Revision of Addis Ababa Master Plan
PASDEP	Plan for Accelerated and Sustained Development to End Poverty
SDPRP	Sustainable Development and Poverty Reduction Program
SME	Small and Medium Enterprises
TVET	Technical and Vocational Education and Training

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CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND

Addis Ababa is a city with various aspects of urban problems, which include among others, severe housing shortage and poor housing, a highly skewed income disparity, deepening poverty, a concentration of low incomes, overcrowded conditions, high rates of unemployment, transport and infrastructure problems, and problems of environmental degradation, squatter settlements and other related urban problems (Kamete et al., 2001; UN-Habitat, 2007). In Addis Ababa, there is an ever growing mismatch between the size of the population and its demand for basic services. Housing is one of these services, which has been for long gravely demanded by the public at large. Housing shortage is especially acute for low-income households which account for over 80 percent of the city's population. An estimated 60 percent of the city's core is dilapidated and about a quarter of all housing units have been built informally. The city is also not able to provide adequate services to the extension areas. Such problems are discouraging house construction and contributing to the expansion of slums (Office for the Revision of Addis Ababa Master Plan, ORAAMP, 2002).

Although various strategies have been designed and introduced to tackle the housing problem of the city by regimes of the past and the present, which ranges from initiating low cost housing projects of the Imperial regime to nationalization of urban land and extra houses and formation of housing cooperatives during the time of the military junta-the Dergue, to condominium projects of the current regime - Federal Democratic Republic of Ethiopia (FDRE), the housing problem of dwellers in general and the urban poor in particular still remains an unsolved challenge (UN-Habitat, 2007).

As the rate of urbanization is at its highest point in the city of Addis Ababa compared to other cities in the country, the current regime is committed to provide basic services including provision of affordable houses for low income category of the urban dwellers. According to the housing strategy of the FDRE, the government is committed to curb the housing problem of the country in general and the various needs of housing in the city of Addis Ababa in particular through designing and implementing a framework for urban housing supply strategy (Framework of Urban Housing Strategy, 2013).

In addition to government efforts, individuals, either in group or privately, have been striving hard to build their own residential houses. As recorded in the Urban Housing Strategy document, the efforts made so far were not satisfactory due to poor access to finance. On the other hand, the real estate sector has been significantly involved in the construction and provision of residential houses to city dwellers. According to the sector review report assessed by Access Real Estate (2010), the industry has been challenged by many problems, of which access to finance was the major one.

Like any other major city of Africa, the underdevelopment of housing and infrastructure contributes to the poor conditions under which the majority of Addis Ababa's dwellers live. The lack of satisfactory housing conditions acts as a barrier to many low-income women to gain easy access to basic resources, including employment, health care and education. The urban poor particularly women and their families remain under the threat of eviction in Addis Ababa as part of the urban renewal program and because of road construction, land issuance for investors, housing cooperatives, office buildings, and residential quarters for higher military and civil governmental officials and condominium houses (Tebarek, 2006; Etenesh, 2007).

The main objective of this study is to examine the general access challenges of housing finance in the country [focusing on the Capital] and analyzing the intensity of the problem with respect to housing project segments: Government, Real Estate and urban dwellers.

1.2. STATEMENT OF THE PROBLEM

Ethiopia's growing population and rapid rate of urbanization is placing substantial pressure on housing, especially amongst the lower income population. The government has taken part massively in the development of a housing project with the intention of addressing the housing demands of the lower income earning sect of the population. Individuals/urban dwellers have been exerting efforts to build their own residential houses either being a member of housing associations or securing land from the city administration through land lease system. Real estate developers, in their part, are engaged in developing various housing options to medium/high income earners. Despite all these, however, provision of residential housing still remains the major challenge in urban Ethiopia and, at least, it will remain for a while. Although a number of policy and practical issues have been claimed and being

argued over the last decade, there are still major challenges facing the various housing projects in the country.

The challenges for lower income households to acquire their own home are twofold; lack of affordable, good quality housing stock and the difficulty of obtaining housing finance. The actual situation in Ethiopia is that the poor, low-and even middle-income majority of the population cannot afford a loan even for the least expensive, commercially built housing units.

On the other hand, financing possibilities are often limited because of the peculiar nature of the sector. Banks tend to offer short-term credit to large enterprises with better information and financial strength. Instability in income combined with long maturity, makes housing finance a very risky business for commercial banks. The instability of income is a problem as the borrower might cease repayment due to lack of income at a later stage of the loan term thus increasing the financial institution's portfolio in arrears. The fact that housing loans are of long-term duration creates a maturity mismatch for commercial banks since their sources of funds are of short-term duration repayable at demand.

Credit risk is another risk that is linked to housing finance. This arises as a result of the high magnitude of the housing loans in comparison to the income of the borrower, and the less developed regulatory and legal frameworks for mortgage loans recovery. The argument is that banks, in case of default, will be in a difficult position to easily convert mortgaged property into liquid funds without entering into a lengthy and costly legal procedure. The narrow real estate market is another problem for loan recovery making it difficult to dispose of a defaulters' assets.

To put it in a nutshell, the mortgage market in Ethiopia is not well developed. The absence of such a market has impeded the emergence of either savings institutions or long-term financing facilities in the country. At present, only government owned banks, viz. the Commercial Bank of Ethiopia (CBE) and the Construction and Business Bank (CBB), provide housing finance for residential consumers. Because of the risk factor and shortage of capital for investment in the housing sector, the contribution of the emerging and fast expanding private banking system in providing long-term housing finance is insignificant. The absence of a developed formal network of housing finance institutions has meant that the housing financing sector has negligible impact on the development of the broader banking system.

Penetration by the formal banking institutions into the urban housing finance market has been by and large minimal over the past four decades. Study conducted in the mid-1990's, for example, indicated that only 10 percent of households used the public sector housing bank as the primary source of funding for residential construction, and only 6 percent used the same source to purchase their plot of land (PADCO, 1997).

1.3. STUDY QUESTION

The present study tried to answer the following basic research questions:

- What is the current housing finance system in Ethiopia?
- How easily are the Long-term housing finance accessible by the housing development projects?
- What are the major housing finance policies in the country? What are the required procedures that any housing project should comply with in accessing housing finance? Do these policies, directives, or procedures discriminatory among the housing development segments [government, real estate or individuals]?
- Are there any current developments in the financial sector, which enhances mobilization of housing finance that is readily and easily accessible?

1.4. OBJECTIVE OF THE STUDY

The major objective of this research was to assess, identify and analyze the factors affecting access to long-term housing finance in Ethiopia, and to provide possible recommendations based on the principles and concepts in the literature review, and the findings of the study. The specific objectives were:

- To assess the housing finance systems in Ethiopia and determine the degree of its accessibility to the housing project sector.
- To identify the challenges of accessing housing finance by the government, real estate developers and individual housing projects.
- To examine major policy and practical challenges facing the housing development projects in accessing long-term housing finance.
- To identify possible areas or means of finance that would enhance the long-term housing finance mobilization.

1.5. SIGNIFICANCE OF THE STUDY

It is critical to promote growth in housing finance to a wider population group at affordable cost. The government of the FDRE recognizes the importance of the housing sector and its potential to contribute to long-term economic development. Consequently, it has been taking steps to tackle current problems through designing and putting into practice of nationwide strategy to ensure the development of a more stable and vibrant housing sector. This study builds on these efforts and attempts to formulate recommendations for improving access to housing project finance for identified groups (government led housing development program, real estate and individual) of the society in the country. In addition, the study paper may assist decision makers who are engaged in the design and implementation of housing development strategy to be able to better see the challenges faced by the housing development sector and make an informed decision in the area of financing housing development projects. It also suggests appropriate actions to be taken by the government, financial sector players [mainly banks] or relevant development partners to collaboratively work towards creating conducive housing project finance environment.

1.6. SCOPE OF THE STUDY

The scope of the study has focused on challenges with regard to accessing housing project finances by players in the sector such as the government Integrated Housing Development program, the Real Estate and individual citizens, either in cooperative form or private basis. Those real estate projects which are engaged in building complex buildings for commercial purposes have not been covered in the study. Although housing projects have so many challenges that should be given considerable attention, this study only concentrated on one of such challenges which is housing project finance. The study was conducted in Addis Ababa which is the seat for government ministries & supervisory authorities, financial institutions and other organizations, which are included in the study sample.

1.7. LIMITATION OF THE STUDY

The research papers tries to examine the problems of accessing finance for housing projects. Such projects are of government managed, real estate and individual citizens. The researcher believes that further research is necessary as the financing issues of housing projects are too much connected with

various factors like land policy, legal issues, government priority areas with respect to poverty reduction strategy, capacity of city administration in providing quality service, etc.

1.8. ORGANIZATION OF THE STUDY

This study paper is organized into four chapters. The first part provides the introductory aspect of the study which encompasses the background of the study, statement of the research problem, objective of the study, the research question, significance of the study, scope of the study, and description of the methodology and data sources for the study. The second chapter explores the related literature on the subject matter. Chapter three presents the data analysis and interpretation that support the conclusion of the study. The fourth chapter winds-up the study with a conclusion and recommending a solution to the problem

CHAPTER TWO

2. LITERATURE REVIEW

2.1. RAPID URBANIZATION AND HOUSING SHORTAGE IN ETHIOPIA

Ethiopia is a country with favorable climate endowed with water and vast land resources combined with a high population growth meaning that the country also has a strong labor 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 just ahead of Niger (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. 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 6.8 million in 1984 to 11.9 million in 2007 (CSA, 2010a). 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).

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 subsequent 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, 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 in 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, Abeltiet *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 with Ethiopia being residence to the world's record share of slum dwellers (Gilbert, 2007; Davis M., 2006). A recent estimate shows that an alarming 70% of the urban population in Ethiopia live in slums (UN-HABITAT, 2008).

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 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).

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 (Kebede 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 was then placed under the *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).

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 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.

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 peak 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).

2.2. THE URBAN SITUATION IN ETHIOPIA

Researches indicate that the magnitude of slums in Ethiopia is one of the highest in the world. The revised Addis Ababa City Development Plan and the Millennium Development Goals Needs Assessment Study asserted that 80 % of the housing in Addis Ababa is slum (ORAAMP, 2001). The situation in the other urban centers of the country is not different from the capital (CSA, 2005).

Though the contextual definition and the extent of Ethiopian slums might appear debatable, there is a general consensus on the poor conditions of housing, services and infrastructure in most urban neighborhoods across the country.

The causes of physical deterioration of urban centers in developed countries are related to transport improvement, suburbanization, the withdrawal of large firms and higher income groups from city centers, and related emerging social problems due to the decreasing attractiveness of such centers for investment. These are not the causes of inner city deterioration in the Ethiopian urban context. Even though the physical condition of city centers in Ethiopia is deteriorating, the locations are still in high demand because of the limited improvement in transport, low level of suburbanization and the micro nature of economic activities. The social problem is not as such a push factor to leave the central locations.

The causes of physical deterioration of Ethiopian city centers are related to the way the areas were built – i.e., without proper planning, utilizing temporary construction materials and in rural tradition. The majority of the houses in the cities are similar to those in rural areas as they do not have toilets, bathing facilities and modern kitchens (CSA, 2005).

The other cause of deterioration is lack of proper management. Though the demand for central locations is very high, residents cannot make meaningful improvements to the housing units because they are predominantly publicly owned. Moreover, the majority of the residents are low income families. Absence of tenure rights and low capacity are the limiting factors for market forces to operate and renew the area. Thus major renewal interventions have been waiting for government actions.

In the urban renewal of developed countries, there are possibilities for maintaining the central area buildings, upgrading and re-using them for better functions. The same is true with the already existing

infrastructure. In the Ethiopian context, renewal may not have the comfort of retaining the existing structures and infrastructure network, except for some few historical buildings. Most of the inner city buildings and infrastructure networks have physically deteriorated and are unfit for living and working.

The Ethiopian urban renewal process is not a consequence of suburbanization as it was in the United States and in Europe. Though there are recent trends of high income real estate developments on the outskirts of cities, Ethiopian urban history has not come across suburbanization in the real sense of the term.

In previous times, physical urban development was basically carried out through expansion to the outskirts; and it is common to see the city center leapfrogging and expanding to intermediate and expansion areas without appropriate planning. This has now changed to renewal of inner city areas for two basic reasons. One is because of lack of expansion areas and the challenge of going indefinitely into agricultural land. The second is the need to renew the slum central areas of the city so as to boost the local economy, improve the efficiency of land use and improve the urban quality. As land for expansion has become scarcer and the cost of infrastructure has become very expensive, Ethiopian urban local governments have reverted to renewal approaches to meet their development goals and objectives. Thus it is no surprise that the government recently decided to redevelop the existing urban fabric and make maximum use of land, infrastructure and services which are already within urban areas. This, in general, is a commendable policy.

Though there were some renewal and upgrading attempts in Ethiopian urban centers, urban renewal/upgrading on a wider scale as a major urban development policy instrument is a relatively recent phenomenon. The Tekle Haimanot upgrading and Filwuha Area Resettlement projects can be cited as examples of the early upgrading projects in Addis Ababa. The recent renewal projects might have started with the development of Sheraton Hotel, Dembel City Center and Casanchis Renewal Project. With the launching of the Integrated Housing Development Program (IHDP) and the growing attention of the government to urban development, the initiative has been extended to cover wider localities of Addis Ababa and other secondary cities in the country with more vigor, especially during the last five years.

2.3. HOUSING POLICY AND ISSUES IN ETHIOPIA

Currently though housing policy is not yet formulated at national and city level, the city's housing principle is following the free market economic policy adopted in 1991 that create conducive atmosphere for private sector particularly the real estate developers to participate in housing development (Azeb, 2006).

The federal government enacted proclamation on urban development policy that gives high attention for alleviating housing problems of urban areas. The city administration has also prepared five years housing development program in 2004 to reduce housing problem of the city by 50%.

The program gives prior attention for alleviating housing problem of low income households. It promotes high raise (up to G+4) condominium buildings with a minimum built up area of 22 m² to minimize the construction cost so as to benefit low income families. Government, Private sector (Real estate developer, Cooperatives, and Individuals) and Non-Governmental Organizations (NGO) are considered as the major actors in housing construction and marketing activities. Accordingly even though the involvement of NGO's is limited, the first two actors are playing a great role in increasing housing stock of the city.

The city administration has established legal institutions Housing Agency, Housing Development Project Office, Micro and Small Scale Commercial Enterprise and Technical and Vocational Education Training to implement housing development program. Under housing agency a department is created with the main responsibility of looking for assistance from different sources to be used for constructing residential houses for low-income residents. Nevertheless, different forms of financing or funding schemes of low-income housing couldn't yet be practical. Instead the city administration is building units by its own revenue only which leaves the successful implementation of the program under question.

In parallel to improving housing situation, the city administration has stressed on alleviating poverty by creating job and loan opportunities for unemployed households. In both directions a prior attention is given for improving the living standard of women.

2.3.1. KEY PLAYERS IN THE HOUSING SECTOR

The dominant player in housing is the state, manifested through its various arms such as regional governments, districts, and kebeles. The state controls the majority of the rental accommodation and influences the supply of new housing through active involvement in material production and importation, land supply, and housing finance.

Very few private housing developers exist. The private construction industry is very small and it is complicated and time consuming to start a company, register it, and conduct business. Those that do exist operate only for high-income groups as there is little incentive to construct low-income housing. Since the late 1970s housing cooperatives have also provided an avenue for home ownership. This delivery method was established in 1978, through CONCERN, who have been involved in upgrading of sanitation and infrastructure and facilitating community participation in upgrading projects. They work mainly at the city and kebele level. The German Technical Corporation (GTZ) has been operating in Ethiopia for many decades, primarily in providing technical support and building capacity in building construction.

The Government sees one of its roles as the principal provider of land for housing construction by co-operatives at subsidized prices. In addition, the Government will also provide basic facilities, such as water, electricity, sewerage, telephone, etc. services to reduce cost and make the houses affordable to the target group. Low and moderate income earners have been the main beneficiaries of housing cooperatives.

Housing co-operatives are the primary mode of housing construction in Addis, constituting over half of the city's total formal sector housing stock. Co-operatives in Ethiopia, similar to many other countries, are formed by groups of people who come together as an entity to perform the function of a "developer". In the absence of an active private sector presence in real estate development, the cooperatives are clearly filling in the gap. They are recognized as legal entities by the government, and allocated land upon which to design and construct the development (residential for most part).

The Government is also aware of the potential contribution of the private sector towards easing the housing problem and aims to encourage its participation in the housing industry. As a result, private real

estate developers have increasingly been involved in the construction of standard housing units, mainly for the middle and high income groups (Poschmann, 2009).

To make housing affordable, the Federal government has been helping private developers through incentives, for example, giving free land to real estate developers to build rental housing for low-income families (with rents less than 100 Birr per month) and also facilitating the supply of essential infrastructure, like water, roads, telephone and electricity services, etc (Ayenew, 2009).

During the incumbent government, there have been 1,667 registered real estate developers since 1992, with corresponding capital outlays of Birr 11.9 billion and Birr 20.9 billion by foreign and domestic developers, respectively. From the total investment capital registered on various sectors, real estate development took an average share of 10% during the period 2000/01-2006/07. Besides, since 2005, public investment by regional governments have highly involved in housing development with a 9.3 billion bank loans.

2.3.2. HOUSING FINANCE IN DEVELOPING COUNTRIES

Challenges of accessing housing finance in developing countries, especially in Africa, exhibit comparable situation. Large financial institutions in developing countries often marginalize the poor in various housing credit initiatives (Nakweenda, 2014). This is supported by Keyssi and Furaha (2010) who argued that large financial institutions exclude the low income groups in society, claiming that they are incompatible with the banking requirements. In addition, financial institutions do not consider long-term lending for housing a priority because of the associated risks in non-integrated financial systems.

According to the report issued by Center for Affordable Housing Finance in Africa (Year Book 2013), the situation of housing affordability across Africa is not good. Only a fraction of the population in each country can afford the cheapest, newly built house available on the market today. The real challenge facing housing practitioners is building to the market. The demand for affordable housing is significant – all players acknowledge this – but the current average house price of about US\$31,000 does not even begin to scratch the surface.

The same report provides information on Ethiopia regarding housing affordability stating that the cost of a newly built house is \$68 783. That means, a buyer would have to deposit 20% of this amount (\$6 878).

To afford a mortgage for the difference at 9.5% interest over 20 years, the buyer would have to earn \$2 061 per month.

2.3.3. HOUSING FINANCE INSTITUTION IN ETHIOPIA

There is a distinct absence of a diversified and flexible housing finance sector in Ethiopia. For many years, the Construction and Business Bank (CBB) (formerly the Housing and Savings Bank) was the only bank to offer housing construction loans and long-term mortgages for the procurement of housing. The Bank, which was owned by the government of Ethiopia, relied heavily on the Central Bank for its capital. During previous regimes this was not a problem, as the government was responsible for the procurement of housing for the urban poor and housing units were completed and held by the government in a rental portfolio. However, in the 1990s, the Construction and Business Bank started lending money directly to housing cooperatives. Overall, this centralized financial set-up has resulted in a housing finance sector that is very limited in its scope and diversity of the products it offers.

A major challenge facing securing affordable housing for low-income Ethiopians has been access to housing finance. Following the market-led adjustments implemented post-1991, subsidized interest rates were removed which significantly increased lending rates. Rates increased from 4.5 per cent for co-operatives and 7.5 per cent for individuals to 16 per cent for both, severely reducing the opportunity for the low-income households to secure a home loan. Furthermore, with a high percentage of low-income people receiving income from informal sources and lacking capital to use as collateral, access to formal credit has been limited or non-existent. The low level of domestic savings of the population, coupled with the shortage of external resources, has affected the availability of investment in the housing sector. At the household level, these translate into a low level of investment in housing, and little capacity of the low income population to own minimum-standard housing. Houses of a minimum standard have simply been out of financial reach for the poor.

Progress in the housing finance sector in Ethiopia can be achieved through the collective involvement of several players in the real estate market. As indicated by Ayenew (2009) the potential roles of some of these players are discussed below.

The Construction and Business Bank (CBB): This is the nation's pioneer bank in the mortgage industry dating back to the early 1970's. Over the years, it has played an important role in extending housing loans that have been invested in the building of thousands of residences. Currently, the CBB has a serious limitation in capital to reach more customers/potential house builders.

To enable the bank play an expanded role in the housing market the Government will need to invest more capital in it and increase its capacity to extend loans to potential home builders. If the Government chooses not to proceed with privatization, the bank can also serve as a clearing house for the government to provide low-cost housing to poor households at highly subsidized rates. However, given the current inflationary pressure on the economy largely spurred by heavy investment in public construction (mainly roads and big dams), this may not be sustainable in the long run.

Commercial Bank of Ethiopia: This is by far the nation's biggest and most powerful bank. It has vast resources at its disposal controlling the lion's share of the banking sector, nearly 50 per cent of the total bank capital and business coverage. In addition, it has huge reserves of liquidity which can be harnessed for the real estate market in the country. With such a huge potential, there is no doubt that the Commercial Bank of Ethiopia (CBE) can be an important player in the growth and expansion of the housing finance sector in Ethiopia. A change of policy by the government combined with innovative leadership by bank management is needed to enable the Commercial Bank of Ethiopia to be an active player in the mortgage finance market.

However, a policy change by the government is needed to involve the Commercial Bank of Ethiopia to engage in the mortgage business. This means that the current constraint that prevents CBE from engaging in mortgage housing finance must be lifted. As was discussed earlier, the recent change of policy to involve the Commercial Bank of Ethiopia in mortgage finance of condominium houses is a good start in the right direction. Not surprisingly, other lenders have not been attracted to this arrangement because of subsidized interest rates charged by CBE.

But other study by Wiedmaier-Pfister et al. (2008) depicted that Commercial Banks (CBs) have a limited involvement in financing poorer households, mainly through a number of guarantee schemes and other minor support activities. Some cases of limited lending to, or through, MFIs were found. In three

cases banks had a shareholding in MFIs and some limited form of technical assistance. Banks do play a role in small deposit mobilization but it was not possible to quantify the number of small accounts.

The Private Banking and Insurance Sector: In Ethiopia, the private banking and insurance sectors have made considerable progress in a relatively short period of time. In a span of less than 15 years, this sector has managed to control nearly 50 per cent of the banking and insurance industry. As was discussed earlier, its participation in the real estate market at present is very limited for several reasons, including, as was discussed earlier, lack of experience, less profitability and risks associated with long-term financing. This has to change in favor of an expanded role by the private sector.

There is a shortage of capital for investment in the housing sector as the only bank that specializes in the provision of housing finance is the Construction and Business Bank. Moreover, the commercial banks favor short-term loans. The low degree of penetration of formal housing finance institutions means that the housing financing sector has a minimal impact on the development of the broader financial system.

The lack of functioning mortgage markets in Ethiopia impedes the emergence of both savings institutions and long term financing facilities. Risk bearing financing is provided in other countries by venture capital institutions, which are non-existent in Ethiopia. In the short to medium term, therefore, it is unlikely that such institutions, which are capable of mobilizing substantial resources to finance the housing sector, will be developed in Ethiopia. At the same time, the Government should encourage the participation of private banks in the mortgage market. Possibilities for addressing this situation include Government guaranteeing their loans, and the sale of the land after careful assessment of its market price. These will diminish the risk factor and thus encourage private banks to enter the mortgage industry.

2.4. THE DEMAND SIDE OF THE HOUSING SECTOR

About 3 million inhabitants of Addis Ababa live in some 500,000 housing units with an average density of approximately 6 persons per household. Low rise, and mud and wooden structures are the city's dominant features. Some 30% of the households live in informal settlements, and 5% are homeless, sleeping on the streets (commonly known *Godana Tedadari*). Worn out physical structures, high-levels of congestion, abundant solid waste and severe shortage of services and infrastructure facilities are the dominant characteristics of most neighborhoods (CSA, 2005; ORAAMP, 2002).

More than 80% of the housing units are built from wood and mud. The majority of these housing units are mixed commercial and residential houses. It is rare to find a housing unit solely used for residential purpose in the old central parts of the city in particular. Usually, the front rooms are used for selling of goods and services, while the rear rooms and backyards are used for processing and production of goods and services and also for residential purposes.

The city has already used over 75% of its potential expansion area for development within its administrative boundary. According to ORAAMP (2002), the potential expansion area of 10,000 hectares within the city's administrative boundary was expected to get exhausted by 2010. As a result of natural population growth and the influx of population from the hinterland and the regions, the city is expected to grow markedly in the next few decades. Studies indicate that the city's population will reach the 6 million threshold in 20 years, and the mega city level of 10 million in 40-50 years.

The city government has embarked upon a number of initiatives to act upon the deep-rooted housing problem and poor environmental quality of the city. In order to combat the housing problems and improve environmental quality, the Addis Ababa City Government launched studies, programs and projects as part of the overall urban development and urban management initiatives. Besides the federal laws, the city has enacted its own regulations, directives and issued a manual on redevelopment management. With a view to utilizing urban land and services more efficiently and cost-effectively as well as minimizing the gap between supply and demand, the City Government issued the Condominium Regulation No. 12/2004.

A three-year Urban Development and Good Governance Plan (2004-6), which gave adequate focus to housing in tandem with the regulation, was also put in place. A target has been set to halve the then housing shortage or backlog (more than 900,000 units), by constructing up to 50,000 housing units each year.

The city government has also approved a working manual on urban development and displacement management. According to the manual, legal property owners in the city center, farmers in the expansion areas and informal holdings prior to 2005/2006 (1998 E.C.) are qualified for compensation of

land and financial payment for lost property. No compensation provision is made for loss of income to business operators and informal traders or for relocation of tenants in rented business premises.

2.5. THE SUPPLY SIDE OF THE HOUSING SECTOR

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 to 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).

2.5.1. 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).

In 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. The four pillars of Urban Development Strategy in Ethiopia are:

1. Support for Small Scale and Micro Enterprise and Job Creation
2. Integrated housing development
3. Improved access to land infrastructure and services
4. Promoting urban-rural and urban-urban linkages

While all four pillars are of great importance in reducing poverty and fostering sustained growth in Ethiopia, as the main concern of this paper focuses on the challenges in accessing housing finance project, only the 2nd pillar will be exhaustively discussed with only a mention of the other pillars when need be.

The Integrated Housing Development Program (2nd 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 includes:-

- 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 to 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.

2.5.2. THE ADDIS ABABA INTEGRATED HOUSING PROGRAM (AAIHDP)

By creating and supporting SMEs, the AAIHDP aims to tackle simultaneously the problems of a housing shortage and unemployment. The specific objectives of the program include '*promotion of micro and small-scale enterprises, which can absorb more labor force and operate at a lower overhead cost*' as well as '*promotion of cost efficient housing construction technology*' (HDPO, 2004, p1). To achieve these objectives, the AAIHDP aims to construct 192,500 houses, generate 80,000 job opportunities, support 1,300 existing SMEs and create another 1,000 new ones.

To construct housing affordable by low-income dwellers, the IHDP designed a production process that deviates from the one conventionally used in the construction sector. The low-cost aspect of the program consists in building a less luxurious, homogeneous type of housing using novel low cost construction technologies such as pre-cast beams and ribs labs, fixed-price contracts and standardized production procedures permitting greater specialization. To implement this production process, the IHDP intervenes

in the construction sector by both creating new SMEs and providing support for firms in the program. Participation in the program is conditional on passing a test. Anybody who has either graduated from a Technical and Vocational Education and Training (TVET) college or can show proof of having experience in the construction sector can take a test to participate in the program. Successful candidates can establish an enterprise, either by themselves or together with other successful applicants. Individuals who failed the test are allowed to re-sit for the test at a later date and may attempt to upgrade their skills by joining successful candidates in the project as apprentices.

Once firms are formed, they can register their interest in IHDP construction work with the Program Office, which is in charge of implementing the program. Existing firms are not allowed to compete for IHDP jobs unless IHDP capacity does not suffice. In theory, incumbent firms could attempt to join the program by having their employees take the test and regroup as a "new" firm. Anecdotal evidence suggests this is not very common. The IHDP does not create firms which can execute foundational and structural works but it does hire existing firms for these tasks. For the purposes of this paper, firms which can execute such tasks are referred to as contractors, while firms which cannot are referred to as constructors. The latter category consists predominantly of SMEs and is consequently of focal interest.

The IHDP provides wide-ranging support to firms participating in the program by i) providing and, in certain cases, subsidizing a place to work, ii) facilitating access to credit, iii) providing training and access to inputs (on credit), iv) subsidizing machinery for firms producing reinforcement bars or hollow blocks, v) providing training to firms engaging in pre-cast beam and hollow block production and vi) awarding contracts to program firms. Not all newly created SMEs are awarded contracts but IHDP contracts are almost exclusively awarded to firms created by the IHDP (except for contracts assigned to contractors).

By providing these different types of support the program alters the factor prices different firms face, which in turn affect technology adoption and factor choices and thus labor demand. The program does not affect technology adoption or factor usage directly. The modeling challenge is to identify the impact of the IHDP interventions on labor demand and earnings and separate the effect of the program from differences between participants and non-participants not due to participation.

At this juncture, it is important to note that the unit of analysis in this paper is the firm, not the house being constructed. Our data enable us to assess the impact of the program on the technology and labor intensity of constructors and contractors separately. The labor demand of the housing construction sector as a whole may also be affected by the mix between constructors and contractors in the construction process, if these firms differ in their labor intensity and/or adopt different technologies. Unfortunately, our data do not enable us to rigorously assess whether, and if so to what extent, such substitution effects are occurring.

CHAPTER THREE

3. METHODOLOGY OF THE STUDY

This chapter involves presenting the choice of method of collecting and analyzing data, from practical point of view. This includes the research design, description the research methods, sampling techniques and the instruments employed in the data gathering. At the end, the data analysis was presented.

3.1. RESEARCH DESIGN

The methodology employed here is a descriptive analysis where the sources of the data are both primary and secondary data. The researcher considered adopting qualitative techniques in analyzing the study objectives and addressing the research questions that have been raised above. The qualitative analysis technique was used to understand the research problem from the perspectives of the local population it involved and to make critical analysis. This method is especially effective in obtaining specific information about the demand and supply of housing finance. This paper is predominantly dependent on textual rather than quantifiable data.

3.2. SAMPLE AND SAMPLING TECHNIQUES

Among the 10 sub cities of Addis Ababa City Administration, Bole sub city was chosen for the study using purposive sampling method (non-probability sampling) for it marks the core of the city where several housing constructions are being undertaken by government, real estate and urban dwellers.

As indicated under the scope of study above, the research targets were selected players in the housing project. Consequently, sampling was taken from the Government Integrated Housing Development Program, which aims at addressing the demands of low and middle level group of the society. The sample for this study has also targeted real estate developers that are involved in the construction of residential houses. Finally, as far as individual housing project builders are concerned, the sample for the study targeted only those individuals that secured land through a lease for construction of residential houses, being in cooperatives or individually.

With respect to the government initiative housing development program, two senior officials each from The Integrated Housing Development Program office and a respective department under Addis Ababa

City Administration Office were approached and interviewed. The rationale for taking such officials is due to the fact that they are key informants who can provide sufficient information regarding the policy, strategy as well as housing project finance issues of the government in the area of its housing development endeavor.

In the second stage, as indicated under the scope of the study, this research doesn't look into financing challenges of those real estate developers that are engaged in the construction of commercial building complexes. Besides, the research targets only those real estate developers operating in the Bole Sub City and it was discovered during the data collection process that there are 30 real estate developers around Bole Sub City. Consequently, the researcher targeted and took a sample of five real estate developers around Bole Sub City through purposive/judgmental sampling. This is because all the selected samples are close to Woreda 08, the specific target area where the third category of population is located. Such method enabled the researcher to make use of his judgment to select cases that were involved in the samples and could develop samples that are adequate for the study.

With respect to the third stage, localities/neighborhoods containing the target population have been identified with the help of municipal and Woreda officials. The Bole Sub City has been targeted and only Woreda 08 around CMC locality was identified to be the research area. This is because CMC Woreda is found to be one of the residential area where many individuals are engaged in building their own houses. However, it has come to be known that the data obtained from Woreda 08 of the CMC localities was not exhaustive and this led the researcher to focus only on the data, in relation to the target woreda, obtained from the Sub City as this was properly captured with necessary information of individual builders. Consequently, according to the raw data collected from Bole Sub City, out of the 117 residential house builders, there are 34 of them that are found around Woreda 08. The researcher would like to focus on recent housing finance challenges and considered all individuals who secured land and started construction since 2007 and onwards. These individuals are 11 in numbers and all were approached and interviewed using purposive sampling method.

Data has also been collected from the financing sectors, banks. Hence, two senior officials of government owned bank from Commercial Bank of Ethiopia (CBE) and Construction and Business Bank (CBB) were approached and interviewed. In order to have the views of the private banking sector, five banks (United Bank, Dashen Bank, Oromia International Bank, Birhan Bank and Addis

International Bank) out of the 16 currently operational in the country were interviewed. With regard to private banks, the sampling was conducted in such a way that reasonable representatives have been taken care of by considering the banks year of establishment. Each bank (government or private owned) has many branches and sampling of same for subsequent interview was not considered as the population is assumed to be homogeneous where the policies of respective banks are being administered uniformly across the branches. In general, the following table summarized the type and size of samples considered during the study:

Table 1 Sampling and Sample Size

Type of Population	Population Size	Sample size
The National Bureau of Integrated Housing Development Program	2	2
Bureau of the AA City Administration Office of the IHDP	2	2
Real Estate Developers around Bole Sub City (of the city of Addis Ababa)	30	5
Residential House Builders (by individuals in Woreda 8 of the Bole Sub City)	34	11
Commercial bank of Ethiopia	2	2
Construction and Business Bank	2	2
Private Banks	16	5
Total	88	29

3.3. DATA SOURCE – PRIMARY AND SECONDARY

The methodology adopted for the research included compilation and analysis of both primary and secondary data. The primary data was collected through in-depth interview made with the identified sample interviewees given above. The secondary sources that have been consulted to garner relevant data include: the annual reports of financial institutions, the National Bank of Ethiopia’s (NBE) financial sector directives and commercial and investment acts/proclamations. The official website of Ministry of Urban Development of Ethiopia, the UN Habitat, WB, real estate developers, and banks were also visited to have in-depth understanding of the housing finance in the country and to be able to make sound comparison of the practice in other developing countries.

3.4. DATA COLLECTION METHOD

The study was conducted based on data generated through the administration of in-depth interviews and document review. In an effort to get the opportunity to supplement, adjust and/or alter interview questions, semi-structured/open ended interview technique was adopted. The method allowed the researcher to have an outstanding personal interaction with the respondents, supplement questions when needed and clarify confusions.

The very intent of the in-depth interview was to collect information from people who are responsible to implement government policies and strategies related to the construction of houses. The interview in this respect was believed to dig in depth to better understand the policy as well as implementation of the government initiated housing development program as well as the financing aspect of the program thereof. In addition, an interview was made with those who are responsible to facilitate housing finance/loan at CBE, CBB and private banks to garner information to better understand policies and procedures in approving long-term housing project finance. Critical challenges and potential prospects in the future with respect to housing finance were collected and further analyzed.

On the other hand, the in-depth interview questions have been designed in such a way that they allow the researcher to capture the perspectives of real estate developers and those individual builders who secured land through a lease for construction of residential houses. The interviewer took note, from the individuals' perspective, by which the respondents successes and/or challenges they had faced in accessing housing finance either from public or private banks; including their impressions towards government policies and strategies in encouraging the urban dwellers in building and securing their own houses. The in-depth interview was conducted using open-ended questions to allow ample time for the subject to comment, explain, and share experiences and attitudes toward accessing housing finance in Ethiopia.

3.5. THE INTERVIEW PROCESS

The interview was conducted in accordance with the guideline provided and recommended by Bhattacharjee (2012). In conducting the interview process with government officials, bankers and real estate developers, advance appointment was made through first explaining the purpose of the interview in confident and professional manner. The identified interviewees were made to be comfortable when

being interviewed through providing assurance that the interview would be handled in utmost confidential manner. They were also made aware that they participated in the interview process to discuss on issues of common interest in light of the responsibility they are currently holding only.

The interview questions (transcript) were prepared in such a way that they address the research questions given in section 1.4. The interview and discussion was conducted in Amharic language so that interviewees were free to discuss and reflect on issues of concern. The research questions were finally translated into the English language by a professional translator. Two interviewers, the lead and the assistant, took part during the interview process in order to ease the management of the discussion and note taking. The assistant was hired for this purpose and was trained regarding what to be captured and the nature of the interview process. One of the interviewers (the lead) handled the overall interview process through mainly focusing on addressing the interview questions to ensure that the process was being managed smoothly. He was also responsible that proper communication was attained while each interview question was read. The second interviewer was responsible for note taking while the interview was going on. He was, of course, free to probe or interrupt in the middle of the interview to seek for further explanation of the issue being discussed.

3.6. DATA ANALYSIS METHOD/APPROACH

This study made use of qualitative data collected from interview transcripts. Hence, the analysis didn't take into account of numerical data that would be analyzed through tools of statistical methods. In this study, the purpose is to understand the phenomenon being researched better rather than predicting or explaining (Bhattacharjee, 2012). Consequently, in undertaking the task of qualitative data analysis under this study, the researcher made use of individual interviews and produce data in the form of notes, summarizing, categorization and structuring of data as per the five category of respondents (*Government Owned and Managed Banks; Private Banks; Integrated Housing Development Program of the Government; Real Estate Developers; and Housing Cooperatives and Individual Builders*) from which data were collected. Points and views of the respondents raised during the interview process were captured and analyzed through presenting them in four categories and discussed in the study. As a matter of fact, almost all interview respondents have given comparable response to all the interview questions as their fellow respondents within the same cluster. As adopted exploratory method for the study and in an effort to avoid repetitions and make the study report attractively readable, the interview

response was analyzed based on CLUSTER with the exception of few peculiar and important issues that demands interviewee referencing.

Documents and reports are also used in this qualitative study to describe the amount of loan provided to the various sector, assets and equity of the CBE, trends of public saving at the CBE, analysis of loan types of CBB, registrants under each housing program in Addis Ababa, and the amount of loan with various range of interest rate

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

This chapter discusses the actual implementation of the respective policy of the banks in relation to availing long-term housing project finance for access by government, real estate developers as well as individual builders. The analysis also looks into the views from the demand side in order to learn any challenges and opportunities they encounter with regard to accessing long-term housing project finance. Both the prime and secondary data sources have been used to base the analysis and the interpretation thereof. In order to make the presentation readable and understandable, the respective discussion is presented in categories.

4.1. THE DEMAND FOR LONG TERM HOUSING PROJECT FINANCE

4.1.1. INTEGRATED HOUSING DEVELOPMENT PROGRAM OF THE GOVERNMENT

As stated under the Literature Review, the Federal Democratic Republic of Ethiopia has been involved in massive construction of residential houses for its citizens since 2005. The purpose is to supply affordable and economical houses for the low and middle income earners of the citizens through significant subsidy. According to the data, there are 945,159 people who were registered (in three categories of housing type, such as 10/90; 20/80 and 40/60) in the city of Addis Ababa with the hope of getting government built condominium houses. The current capacity of the city administration is to construct only up to 50,000 houses per year.

The very intent of the research paper is to explore the financing aspect of this huge project. It was found out that the government has been financing the project through a mortgage loan arrangement made with the Commercial Bank of Ethiopia. Registered citizens are required to save the minimum requirement which is 10%, 20% or 40% of the estimated cost of the three types of houses respectively and to pay right away when winners are announced through a lottery scheme. The government will, then, get the balance from the CBE through transferring the loan arrangement to the bank and to each individual winner. The loan period is long-term with a current maximum period of 15 years.

There are many positive aspects of the program. In the first place, the initiative benefits citizens to acquire residential houses through a facilitated mortgage arrangement with an interest rate of 9.5%, a reasonably lower interest cost than the market rate. Besides, citizens become engaged in saving culture for the purpose of meeting the required down payment. This saving culture has a positive impact to the

economy of the country, too. Moreover, the program benefits citizens to efficiently make use of their money for the housing purpose as costs related to land issuance, legal ownership and related management costs are covered by the government for free.

Respondents from government office have also made it clear that the housing development program has not been undertaken properly as the process of registration was carried out without undertaking proper scrutiny. When announcement for government subsidized condominium house was made, anyone interested got registered and there was no immediate check to have come to arrive at the real demand for such types of houses. The same respondents have indicated that there should have been some sort of control mechanisms in order to ensure that only the needy ones of the city dwellers are being considered. The respondents had suspicion that city dwellers with one or more houses might have been registered. In addition, citizens who do not permanently reside in the city were suspected to be registered with a speculation of getting returns through being involved in housing investments. Respondents confirmed that the city government is doing its best to get reliable information regarding the demand side of the housing industry. Besides, people that cannot afford saving or paying the required down payment right away was registered. The Table below shows the details of the current database of registrants for government built condominium houses.

Table 2. Summary of Registrants under Each Housing Program in Addis Ababa

Type of Housing Program	Number of Female	Number of Male	Total
10/90	12,677	9,647	22,324
20/80	315,577	442,571	758,148
40/60	69,258	95,429	164,687
Total	397,512	547,647	945,159

Source: Ministry of Urban Development, Housing and Construction

As shown in Table 2, a total of 945,159 house seekers are registered under the three low cost housing scheme; of which 22,324 in 10/90 scheme, 758,148 in 20/80 scheme and 164,687 in 40/60 scheme. In response to shortage of houses in Addis Ababa city, the city government has planned to construct 200,000 apartments in its initial plan; and in the future the government has also planned to supply more than 50,000 apartments each year.

The researcher has a conviction that the scarce finance resource that has been accessed by the government from the public money through CBE is not efficiently used due to the facts described above. Any amount of finance that can be attained as a result of good management of the government run integrated housing program could have been set aside for access by other builders of residential housing projects.

On the other hand, although the government is financing 100% of its housing project immediately after the initial completion of the construction of the project from the two sources (the down payment made by winner house buyers and the remittance of the balance by the CBE), the program is said to be challenged by constraint of finance to meet the huge demand. Respondents from the government office noted that even if there are other capacity gaps from the side of the government to build only up to 50,000 houses per year, finance takes up the major constraint to go beyond the capacity limit. This calls for seeking other sources of long-term housing project finance other than depending on the only sources of finance for the program; down payment and mortgage from CBE.

The integrated housing development program is being criticized as it missed its original objective of meeting the housing demands of the poor and the middle class group of the society. In the first place, winners are required to pay 30% of the construction cost immediately. According to the respondents, they acknowledge this fact as winners are too much stretched in getting the down payment due to insufficient own fund. Secondly, even though the bank interest rate of 9.5% is somehow lower than the prevailing market rate, it is still very expensive for the poor to be able to pay the monthly interest payment with the principal amount. Lastly, but not least, winners have to cover some finishing costs like fixing inside doors, floor plastering and painting which, for many, have become challenging. According to respondents, it has been common to see winners tend to sell or rent their houses due to the huge costs awaiting ahead of them. The government noted already this fact and it considered the problem to be temporary as lower income earners will get their income increased in the future.

4.1.2. REAL ESTATE DEVELOPERS

The residential real estate market in the city of Addis Ababa targets a largely high-end incomes built by real estate developers. The respondents in this category confirmed that the sales price of a modest house developed by the developers normally exceeds ETB 1,000,000.00. The respondents made clear that

there are many factors that caused the price inflated. In the first place, the land price that was secured through a lease system from the city administration is expensive. Secondly, the construction standard and the materials that are being used to finish the villas or apartments are somehow of good quality since the business targets the high income earners of the city. In addition, which is the critical point, the developers usually sacrifices equity sources to cover much of the construction progress including the challenging part of the management. Consequently, the expected rate of return from the investment is high.

According to the respondents, no local financing institution within the banking industry are willing to open their doors to provide long-term finance. They explained that all banks, government owned and private are not interested in their business due to liquidity problem of the banks themselves. The respondents suspected that the main reason, according to their opinion, is that banks do not want their finance to be tied up in one industry. They prefer to provide finance for commercial activities which revolve funds in short period of time. Besides, the respondents felt that the government banks consider real estate market to be last priority areas. One real estate developer, however, confirmed that it became successful in facilitating with the CBB to some of its customers (home buyers) who could meet the minimum requirements of the bank to get housing loans. According to the respondent, such arrangement with the bank is very beneficial to the real estate business as many of the home buyers have been struggling to cover the outright price of the house or even the shorter term installment payments.

The respondents didn't hide that the industry is facing only financing problem though it is the critical one. The real estate business is confronting with challenges of land policies, the scarcity and cost of construction material and infrastructure. The respondents went on explaining that had finance been accessible with sufficient amount, the business would have been flourished much better than it is now through reaching even the medium class of the society. Since finance has become a problem, the business urges its customer to pay the price of the house outright or to meet the stringent installment payments up to the period when the construction is completed. That means only those with sufficient disposable income, more of the diaspora community, can afford meeting the obligation.

Taking into account of the economic reality of the country, the researcher believes that positive consideration should be given to the industry on case-by-case basis. This is to mean that a real estate business with international capital and targets the Diaspora community may be exempt for financing

eligibility for a certain period of time. However, those developers which mobilize local resources after being attracted by the business should be considered for financing as they are contributing much in the country's endeavor of reducing the housing problems. The researcher argues that the government cannot solve the housing problems of the country by itself only.

4.1.3. HOUSING COOPERATIVES AND INDIVIDUAL BUILDERS

These are citizens who are striving to build their own residential houses being in cooperatives or individually through securing plots of land in a lease system. The respondents under this category said that they are faced with multi-faceted problems to get their long dreamt house being constructed. Almost all respondents confirmed that the sources of their housing finance have been from own source made available through long term forced saving. Some acknowledged, however, that they were partially supported by relatives and friends who live abroad. This group of individuals considered the loans from relatives and friends being inappropriate source of housing finance, as the ties set by their relationship complicated the issue in situations where there is a likelihood to default. Consequently, they are stretched to pay back the loan in order to maintain the smooth relationship with the family or friends. Individual builders clearly indicated that their preference of housing finance is from established funding sources, in case available, even though the supply of same are becoming more and more remote with expensive cost of finance (high interest).

Those in cooperatives admitted that even though some of the members are in good financial position just to meet the lending requirements of the CBB, they could not proceed as land holding title is in the name of the cooperative. All members should provide their consent to allow the person to proceed with the loan application process. On the other hand, some respondents said that individual builders with minimum financial capacity to be eligible for loan application at the CBB have been struggling with the cumbersome bureaucratic process of the respective sub city administration in getting the required legal certification including letter of permit for construction. Hence, their dream to get housing project finance at the only scant available fund at the CBB has become challenged.

Majority of the respondents, more than 70%, confirmed that their monthly incomes are not sufficient enough to be eligible for loan application. Table 3 below depicts the amount of loan a customer, with various range of income, can be issued at the current interest rate of the CBB. As can be seen on the

table, a person with a monthly income of ETB 10,000 will get a maximum housing loan of ETB 227,000 if he determines to settle the loan with interest cost within 10 years. If he prefers to settle the loan with the interest cost within 15 years, he can be entitled to get a loan amount of ETB 270,000. Considering the current inflation and the constant rise in the price of construction materials, the figures indicated above will not be sufficient enough to undertake construction of residential houses. Due to this fact, respondents admitted that they prefer to get housing loans, if available any way with the prevailing interest rate, for covering costs in relation to the finishing work of the construction activities.

Table 3 Loan Calculation

		Estimated Maximum Loan that can be approved with two loan periods	
Monthly Income	Interest	10 years	15 years
Below ETB 2,000	12.50%	45,000.00	54,000.00
ETB 2000 – 5000	12.50%	113,000.00	135,000.00
ETB 5000 – 10000	12.50%	227,000.00	270,000.00

Source: Own computation through using the bank's loan amortization table

The researcher would like to emphasize here regarding the policy of the government concerning cooperatives or individual builders which are engaged in the construction of building their own residential houses. According to the strategy framework for urban house supply that was endorsed by the government two years ago, the city administration allows citizens to form cooperatives or being individually through a lease system for the purpose of constructing their own residential houses. The city administration facilitates the supply of land with basic infrastructure and legal procedures. However, builders must be capable to block 100% of the estimated cost of the house they aspire to build. The strategy document implied by this proceeding states that people have the opportunity to take part in the three government built condominium houses opportunities if they claim they cannot afford blocking 100% of the construction cost right away.

The researcher strongly argues that the framework is meant to serve only citizens with higher income or the Diaspora community who can afford blocking a 100% outright cash outlay to the government bank account even before the construction takes off. Local citizens who are at least medium class of the

society should be encouraged by the government through availing a workable housing project financing system as this is the practice in other countries.

4.2. THE SUPPLY FOR LONG TERM HOUSING PROJECT FINANCE

The most common financing institutions in Ethiopia are banks. Other types of financing opportunities like capital market are not functional in the country. There are three government owned banks in the country; namely, Commercial Bank of Ethiopia, Construction and Business Bank and Development Bank of Ethiopia. As the latter is engaged in long-term investment related project financing other than housing projects, the data collection and the corresponding analysis doesn't include the bank under this study. As far as the functionalization of private banks are concerned, there are 16 banks currently operating in the country.

4.2.1. GOVERNMENT BANKS

i. COMMERCIAL BANK OF ETHIOPIA

The CBE is the largest bank in the country with asset base of more than 244 billion birr (Annual Report; CBE 2013/14). The bank plays significant roles in the development endeavor of the country through availing long-term loans of commercial nature. Long-term bank loans for housing projects are available and administered on a limited basis in CBE. The table below shows the performance of the bank with respect to housing financing for the past three years.

Table 4 Long Term Loans approved to various sectors of customers by CBE

Loan to Customers	In '000,000 ETB			
	2010/11	2011/12	2012/13	2013/14
Agriculture	7,836.80	13,551.80	11,941.39	294.04
Manufacturing	8,587.80	18,673.70	30,514.89	42,724.18
Domestic Trade	3,393.60	5,310.30	4,038.64	3,682.53
Foreign Trade	10,345.80	14,949.20	15,479.22	3,736.75
Building and Construction	3,481.60	4,635.50	4,389.41	3,863.39
Personnel	328.90	719.10	3,362.63	5,517.94
Total	33,974.50	57,839.60	69,726.18	59,818.18
% of Building & Construction Loan to Total Loan	10%	8%	6%	6%

Source: Annual Reports of the bank for the respective years (Available on line)

As can be seen on Table 4 above, the amount of loan provided to the sector of Building and Construction had shown reduction from 10% since the fiscal year 2010/11. In fact, under this category, loans given for the construction of commercial building complexes and for other construction activities which are different from housing projects were included. According to the respondents during the interview, it was identified that the only type of housing project loan included under this category was loans given to winners of condominium houses through special arrangements with the government and loan given to employees of CBE for the construction of residential houses. No long-term housing project has been approved to real estate developers or individuals. From this discussion, we can infer that long-term loan provided to housing projects by CBE is far below what has been provided in the other sectors.

Respondents of the CBE during the interview process confirmed that the amount of loan approved and released so far for residential houses which are being undertaken by the Integrated Housing Development Program of the government reached more than 8 billion birr. It was also estimated that the figure will keep on increasing as far as the government commitment to pursue the program and the mortgage arrangement with the bank remain to be operational. The interview respondents had also emphasized the points below even if they acknowledged the fact that the long-term loan supply is minimal for access to housing projects:

- ✓ CBE is not only striving for generating profit but it does take part in the development endeavor of the country through financing the government/public projects. According to the respondents, private banks seem short sighted as they simply focus on only earning significant amount of profits in the operationalization of banking service.
- ✓ After taking note of the high demand for long-term finance for housing projects that are being undertaken by the various groups of the society including the government, CBE significantly involved in financing the government initiated housing development program. The respondents made clear that apart from availing finance for the program, the bank went extra miles in taking care of the management part of the program. To this effect, the bank established four centers in Addis Ababa with the necessary human and material resources in order to properly manage the mortgage loan administration. This is costly to the bank and the respondents believed all these efforts can be regarded as good justifications for not issuing housing project finances to the other categories of citizens under the same sector.

- ✓ It has become very difficult nowadays to increase domestic saving. With this challenge, the respondents believed that, any government owned bank would reason to prioritize loans in accordance with government policy and hence housing project loans have been given little attention despite the bank effort in getting involved in the housing development program of the government.
- ✓ Though not operational, there is a policy for administering housing project finance in the bank. That means when the cash position of the bank gets improved in the future due to improvement in savings, the bank may consider entertaining long-term housing project loans to residential house builders of the citizens (individuals, housing cooperatives or real estate developers).

The researcher would like to comment on the arguments given by the respondents. In any for-profit organization, one of the driving factor is profit for long-term sustainability through ensuring competitiveness. Hence, the researcher would argue that private banks should continue working for optimal profit realization while exercising stewardship of the resources entrusted to them by the shareholders. Otherwise, their leadership will be questionable and may subject to scrutiny for replacement. Consequently, the researcher doesn't believe private banks should be blamed for not issuing a huge long-term loan under this inflationary situation as they all are using the public money and hence required to respect the public interest. In fact, the government must have a responsibility to protect the public (saving public) interest as the public asset in the hands of the commercial banks is much more than the bank's capital and reserve as clearly seen from Table 5 below. In this regard, it is advisable to have better understanding of the situation in detail so as to seek for solution to satisfy the thirst for long-term housing finance.

Table 5 Assets and Equity of the CBE

Item	In '000 000 ETB			
	2010/11	2011/12	2012/13	2013/14
Total Assets	114,645.19	158,853	194,488	244,032.82
Capital & Reserve	6,333.14	7,699.90	9,031	11,073.58

Source: Annual Reports of the bank for the respective years (Available on line)

As far as the issue of public saving is concerned, the situation significantly favors CBE as citizens were advised to open account and to start saving with the CBE in anticipation of condominium houses. Table 6 below justifies how the savings have been increasing for the last four years taking into consideration of the year 2010/11 as the base year. These period were the time in which citizens were encouraged to

save at the CBE to take part in government housing development program. According to the respondents, it was also confirmed that CBE has made significant efforts to increase savings through opening branches and exercising public promotion. The researcher, hence, argues that CBE is in a better position than private banks with respect to capacity in mobilizing public savings.

Table 6 Trends of public saving at the CBE

Item	In '000 000 ETB			
	2010/11	2011/12	2012/13	2013/14
Public saving	84,799.32	120,115.52	154,438.28	193,106.04
Percentage	1	42%	82%	128%

Source: Annual Reports of the bank for the respective years (Available on line)

ii. CONSTRUCTION AND BUSINESS BANK

Construction and Business Bank S.C. (CBB) is a wholly government-owned public enterprise and successor of the Housing and Savings Bank (HSB) which was formed in 1975 through the merger of two financial institutions namely, Imperial Savings and Home Ownership Association, and Savings and Mortgage Corporation of Ethiopia which were nationalized at the on-set of the socialist era of Ethiopia.

HSB's objectives were granting long-term loans for residential housing and commercial building construction, purchase and renovation by mobilizing financial resources through ordinary savings, time deposits and long-term borrowings. HSB has made important contribution to the development of housing in the country in which it hitherto enjoyed the reputation as a household name since its formation in 1975.

Following the market-based economic policy of the country and the ensuing economic reform programs initiated by the government in 1992, HSB was reconstituted as Construction and Business Bank in September 1994 by regulation No. 203/94 with an authorized capital of Birr 71.8 million. The regulation gave CBB the mandate to provide universal banking services. In line with this, CBB has ventured into commercial banking operations stage by stage maintaining construction financing as its core business. In September 2000, CBB was converted to share company in accordance with the Ethiopian Commercial Code with a capital of Birr 79.0 million.

As can be seen in the history of the CBB, it currently engages more in common banking business. Consequently, the situation with the Construction and Business Bank is not significantly different from CBE. CBB is the only bank in Ethiopia that is somewhat involved in issuing long-term housing project loans. However, the bank entertains housing project loan requests only with conditions that the following requirements are satisfied:

1. There should be reasonable amount of fund made available, specifically earmarked for housing projects. The respondents at CBB confirmed that long-term loan for housing projects is not always available due to shortage of savings and government priority areas on the balance at hand. According to the respondents, long-term housing project finance has not been given attention as a government priority areas. If sufficient funds are available, loan would be approved to government priority areas of manufacturing and export enhancement business activities. Besides the bank is struggling to be in compliance with the directive of the National Bank of Ethiopia which affects its lending capacity (see the section below for more discussion in this respect).
2. In a situation where there is a certain amount of fund for long-term housing project finance, applicants should meet the minimum requirements to be eligible. Some of the minimum requirements are:
 - a. Certification regarding progress of housing construction with a minimum of 20%
 - b. Certification regarding ownership of land holding
 - c. Certification regarding financial capacity; this should be either salaried income due to permanent employment or business operation. No other type of income is considered to be eligible for loan application in this respect.
 - d. Capable of making loan settlement with a maximum period of 19 years.
 - e. Willingness to pay current interest rate amount ranging from 11.5% to 12.5%.

As can be seen from the above criteria, the respective housing finance is restricted to those with salaried jobs or business income, holding formal land lease rights, and capable of making substantial down payment of 20% or more. The respondents made clear during the interview that any income that can be generated out of non-formal business activities is not considered to be treated as income by the bank.

The researcher argues that the fund ear marked for housing project loan will be used up early without addressing the needs of many customers due to two major facts. In the first place, individual builders will find it difficult to complete a minimum of 20% of the construction work from own resources taking

into account of the current high price of construction materials coupled with inflation issues. Hence, only those who are better off with regard to financial resources will be eligible to get their requests positively considered by the bank. On the other hand, if the loan request is approved anyway, the incomes of the significant number of citizens are not sufficient enough to be eligible for the remaining loan amount which is 80% or more to be settled in addition to interest payments ranging from 11.5% to 12.5%. The respondents confirmed that the practice favors applicants with high salary figure (with employment in international companies) only. Consequently, it can be inferred that only those loan applicant with higher monthly income will have chances to get long term loans for housing projects. It is sad to see that the only bank, CBB, that has been assumed to entertain the needs of housing project finance for the public, at least with middle income, seems to be in capable to do so in this respect.

The table below justifies the discussion given above. As can be seen from the table, the percentage share of long-term housing project loans issued for the last three years at the CBB has not been even reached to 2% of the total loans approved.

Table 7 Analysis of loan types of CBB

	In '000,000 ETB		
Loan to Customers	2009/10	2010/11	2011/12
Mortgage Loans:			
Public-For the construction of building complexes	454,839.30	367,303.71	318,714.15
Public-For the construction of residential houses	8,837.90	7,460.71	6,912.00
CBB staff-For the construction of residential houses	-	10,249.82	13,908.30
Other types of business loans	1,285,101.10	1,341,902.46	1,463,694.18
Total	1,748,778.30	1,726,916.70	1,803,228.63
% of Loan issued for the construction of residential houses to Total Loan	0.51%	1.03%	1.15%

Source: Annual Reports of the bank for the respective years (Available on line)

4.2.2. PRIVATE BANKS

The private banks do not involve that much in approving long-term finance to any form of business sector let alone to housing projects. They are highly involved in approving loans for the working capital

financing and trade facilitation being their prime objective of establishment. The respondents from this group underline their view on the ground that with the small level of mobilized saving and the excessive state intervention in the sector make the banks selective in approving loans.

In addition to this fact, respondents argued that approving long term finance requires thorough market and risk analysis. That means due to inflation, other uncertainty in the future and the issue of time value of money, the agreed interest rate most of the time doesn't commensurate the decision regarding the amount of long term fund and the period thereof. The borrowed money can be regarded as cheap cash given to clients at the expense of the banks as the banks has to absorb the inflation and any misfortunes in the future. Accordingly, the respondents confirmed that in a normal circumstance it is preferable to issue short term loan by any banks.

In fact, housing finance is regarded as the least preferred long term product of banks as the business is believed to be risky. The respondents stressed this fact through mentioning cases in their experiences. In the first place, long term loan for housing purpose, if approved ones, has a higher probability of being diverted by clients in order to cover the costs of activities that have not been originally thought of and critically analyzed. The loan in this respect was approved considering the receipt of the collateral value which is the house that is being constructed. If the money is used for other purpose, the risk is two folds: the value of collateral will get deteriorated far below the value of the loan amount and there will be higher probability that the diverted money will not be recovered as it was invested in a business that was not assessed. On the other hand, banks and long term loan seekers for housing projects do not, most of the time, agree with the value of collateral being placed. The estimation value that banks come up doesn't fairly and reasonably represent the fair value of the property being assessed for collateral. Hence, clients have to come up with a higher value of property in order to get a reasonable percentage share of housing loan. This means that the chance of getting housing loan from private banks by the poor is too remote.

For instance, the National Bank of Ethiopia (NBE), a supervisory body of all financial institution in the country, issued a directive in 2001 and required commercial banks (all private banks and CBB) to

allocate 27% from each loan they issue and to purchase government bond bearing an interest rate of only 3%. The interest rate is lower than the saving rate of 5% which private banks pay to depositors. This directives will further affect the performance of the private commercial banks and enhance the already dominance position of the government owned banks. Consequently, the housing project sector position of accessing loan from the banking sector has further been tightened as the entire 27% lending amount of the private commercial banks would be used to finance the big government infrastructure project, the Ethiopian Renaissance Dam.

Respondents from the private banks made it clear to the researcher that the efforts these banks initiated in trying to systematically react to the directive of the NBE (Directive No. MFA/NBEBILLS/002/2013, Amendment of NBE-Bills Purchase) by increasing the number and amount of long-term loans has been again adversely affected by a subsequent directive issued by the supervisory body. The strategy was to reduce the frequency and amount of the 27% obligation by approving many of their loans to be long-term. It had been hoped that the strategy would benefit the housing sector as housing project loans are long-term. However, the new subsequent directive has required private banks to maintain the proportion of loan portfolio to be 40% and 60% for short-term and long-term respectively. Consequently, private banks have been stretched since the issuance of the directive as banks must allocate only 60% of the available funds for long-term loan. The respondents confirmed that the likelihood of considering housing project finance has been diminishing significantly. According to the respondents, the banks approved housing project loans only to their employees on case-by-case basis.

CHAPTER FIVE

5. DISCUSSIONS OF FINDINGS AND CONCLUSIONS

5.1. SUMMARY OF FINDINGS

All banks in Ethiopia are highly engaged in the provision of loans for working capital requirements and trade facilitation services. Finance for the housing project is given minimal attention. The Commercial Bank of Ethiopia, in spite of being the largest bank in the country with huge financial capacity, the significant part of its long-term finance goes to public projects leaving housing projects insufficiently attended. In fact, it has been financing the government initiated housing development program since 2005 through a special arrangement made between the government and the bank. The bank rates its participation in the housing development program of the government through the supply of finance highly as it is the only bank in the country that takes part in the program. This should be appreciative about but it can go beyond and reach the other sectors in the housing development program considering the huge financial capacity it has.

This fact further strengthens considering the potential of CBE in branch expansion and its implication towards saving mobilization thereby enhancing its long-term financing capability. The bank is also exempted from the government's 27% bond purchase as imposed on the private commercial banks including CBB which have effects in creating the long-term finance in the market. Despite all these facts of making the bank as a source of long-term finance for all sectors, it fails to meet the needs of long-term housing project finance as it significantly engages in financing public projects including housing development project.

Evaluation of the CBB reveals that the bank is not addressing the needs of long-term finance seekers for housing projects. This bank is the only bank in the country that is supposed to entertain financing housing projects. The CBB, as in other banks in the country, is highly engaged in financing public projects with minimal intervention in the financing of residential housing projects. The bank is also complaining about the directives of the National Bank of Ethiopia regarding the imposition to allocate 27% of every loan it approves for the purchase of government bond. The directive requiring banks to maintain 40%/60% of short and long term finance causes the bank to be selective in approving loans and hence housing projects have become further challenged. Even to tap into what is earmarked for housing

projects at CBB, the stringent preconditions that are put into practice deprives many borrowers from getting the loan.

With respect to private banks, the situation is not significantly different as far as their capacity to finance housing project is concerned. They are struggling with deposit problems and compliance issue of the directives of the National Bank of Ethiopia. Consequently, to better manage the liquidity problem, they deal with financing long-term projects that are believed to generate higher interest income with lesser risks other than housing projects.

Looking at the demand for long-term housing project finance by real estate developers and citizens, the situation is so severe that it needs the attention of financing institution as well as the government. It is surprising to see that the government is requiring house builders to block 100% of the estimated construction cost even before the start of construction. Builders after sacrificing their capital for initial lease payments and for other preparatory works, it is unfair to require them to block 100% of the cost of construction which definitely prevents citizens from taking part in the construction of their own residential houses. The government seems to take the responsibility of availing residential houses on its shoulders without sharing to its development partners, real estate and citizens, through facilitating finance.

5.2. CONCLUSIONS

The main aim of the study was to assess, identify and analyze the factors affecting access to long-term housing finance in Ethiopia, and to provide possible recommendations. Bole Sub City was chosen among the 10 sub cities of Addis Ababa City Administration for the study. Information was gathered through an interview, as the study is more of qualitative. Data were collected from the following target groups: the respective government officials from the National Bureau of Integrated Housing Development Program, and Bureau of the AA City Administration Office of the IHDP; real estate developers around Bole Sub City; individual residential house builders; officials of the government owned banks from commercial bank of Ethiopia, and construction and business bank, including private banks.

The main limitation of the study was that the study didn't address those financing issues of housing projects that are connected with land policy, legal issues, government priority areas with respect to poverty reduction strategy, and capacity of city administration in providing quality service, etc.

However, the research paper has made an attempt to reveal the challenges of accessing long-term housing finance. It particularly focused on the banking sector from the supply side and the real estate, government and citizens (being in cooperatives or individually) **from the demand side to be able to critically look into the challenges and future prospects.** The government, in this case, has been viewed into as policy maker as well as long-term housing project finance seeker to finance its huge housing development program.

Due to the fact that Ethiopia is in a state of growing population and rapid rate of urbanization, there is a corresponding significant pressure on housing accessibility. The problem is exacerbated among the lower income population as getting the required finance has become very difficult and challenging. In order to address the problem, the Government has launched an ambitious subsidized integrated housing program which was meant to serve primarily the poor (lower income group) and the middle income earners. However, both the government and the citizens have been stretched in accessing the required finance due to insufficient as well as ineffective current housing finance system in Ethiopia.

In principle, the banking business prefers to finance projects with low risk of default to get the approved loan recovered with the expected interest income. To this effect, banks tend to make thorough risk analysis before approving any long term finance. In any long term finance, the issue of time value of money and risk due to uncertainty of the future must be further looked into. In addition to this, the study elicited that the housing project finance is one of the long term finances which banks regard the sector being risky due to two common reasons. The first one is due to the fact that banks regard (after scrutiny of facts) long term loan approved for housing projects have a tendency of being diverted to finance projects that were not originally intended to. Hence, there is a high risk that the loaned money will be unlikely to be recovered, with interest, as the collateral will get devalued because of the diversion of fund. The second one is that there is always a big gap between the estimated value assessed by the bank and the market value of the collateral. This causes the bank to approve finance, if there is one, which is far below the value of the collateral property. Consequently, getting long term housing finance becoming very remote.

In the field of housing finance, the only one bank, CBB, is operating in the country with the original intent of providing finance for housing projects. It caters for banking services, mainly financing loans for construction, repair, modification and acquisition of residential and nonresidential buildings, for construction sector activities and for the development of hotels and tourism. It also provides business

loans to meet the working capital requirements of commercial and industrial activities. The bank also has the mandate to offer foreign banking services. The narrowness of the mortgage market dominated by the CBB was a major factor that has not helped the expansion of mortgage finance for housing project in Ethiopia. Accessing long term finance from CBB is still challenging for housing project finance seekers.

The government is committed to curb the problem of residential houses through undertaking the Integrated Housing Development Program. To this effect, it is engaged in the construction of various types of condominium houses through arranging mortgage loans to registrants with the CBE. The government believes this program will significantly reduce the housing problem and gives little attention in availing finance for individual builders and real estate developers. This group of citizens are expected to finance their housing projects from equity or own resources.

Real estate developers are actively involved, mainly in the city of Addis Ababa, in the construction and provision of residential houses. As the sector is challenged with lack of long term finance to better manage its projects, they tend to target the Diaspora community or those of high class category of the society who can afford paying the outright payment to get their long dreamt houses. Consequently, the poor and the middle class are not targeted by the real estate developers.

5.3. RECOMMENDATIONS

It is known that the country has a housing policy with the intent of addressing primarily the needs of the poor. However, the researcher believes that Ethiopia is strongly advised to adopt a better housing policy to facilitate the development of housing for all income groups in various forms of tenure. Subsidy policies for needy households should be part of the general social security system of the country. At present, the government's intent to provide housing to the poor and low-income has missed its target despite the good intentions of the government. For example, the condominium houses meant for the poor and low income are being taken up by middle and upper income households and individuals.

There is an encouraging level of political commitment to addressing the issue of inadequate housing in Ethiopia. Despite the good will; however, the government lacks the mechanisms and resources for the implementation of a solution that casts it in the role of developer and deliverer of housing. Among other things, the cost is simply too great given the problems of affordability that low income households face. Hence, it becomes necessary that the government take on more of a facilitative role, focusing on the regulatory framework in which development is to take place particularly for poorer households.

The research paper provides the following recommendations for better provision of accessing long-term finance for residential housing projects taking into consideration of the analysis and the concluding remarks given above:

- ✓ Appreciating government's efforts in the development of housing programs so far, it is also critical for the government to involve citizens and to consider them as development players as far as their commitment in the construction of residential houses are concerned. The government's intent to build condominium houses for all its citizens may not be feasible as people with some sort of income should also be encouraged to take part in the construction of their own houses through facilitating long-term finance. This can be achieved through enhancing the capacity of CBB or other banks by allocating funds to entertain the thirst for housing finance.
- ✓ Government owned finance institution like CBB is advised to arrange mortgage to provide long-term loans to individuals to purchase units from developers, or in a few cases to build their own complete houses. This can be done through making the preconditions loose. For example, land security does not have to mean full legal title. Potential housing lenders can service poor households with secure tenure not based solely on full legal title. Besides, the risk evaluation can be based on the credit on a sound appraisal of the borrower's willingness and capacity to repay (i.e. cash flow analysis). It considers the incomes and expenses of the house and business of the loan applicant and crosschecking these with other sources of information like neighbors, employers, suppliers, etc.
- ✓ The government is advised to make better the facilitation of land provision and the corresponding legal as well as infrastructure service. Such supports would help builders to save money that can be used otherwise to cover much of the initial construction costs and hence they will be able to be eligible to get finance from the bank.
- ✓ The government is advised to think of financing housing projects through public mortgage institutions. The required fund can come from high liquid institutions like reserves of insurance and pension funds. The use of such fund by mortgage institutions provides them with capacity to avail finance for housing projects with reasonable interest rate.
- ✓ The recently issued NBE directive compelling private commercial banks to purchase government bond in an amount equal to 27% of every loan they issue further complicates the challenges of accessing long-term housing finance as the fund will get its way to finance the public projects of the government's priority sectors. In this respect, I recommend that the government should issue an

instruction to waive the requirement in such a way that it allows banks to hold a certain amount of fund, out of the 27% amount they are about to buy bond, to be made available for housing projects. The government can further require the same banks to lend this fund to housing projects with a lower market interest rate.

- ✓ Despite the determined efforts by the government to try to solve the problems in the low income housing market, the formal banking sector finds financing the housing sector being too risky to act in the market. The established banking institutions have not succeeded in normalizing the market. There is still an acute shortage of houses in the country and the reluctance and unwillingness by traditional financial institutions to grant loans to low-income earners exacerbates the situation. To this effect, the following model can be recommended for consideration by the government in order to quench the thirst for long term housing finance for the poor and middle income earners:
 - (a) The government considers establishing National Housing Finance Fund with the intent of encouraging increased and sustained involvement of formal financial institutions in the low-income housing market through risk sharing ventures with these institutions. Formal banking institutions will be encouraged to avail funds for housing finance and the government will commit to share risks in time of default. The encouragement by the government can be through offering guarantees to the financial institutions.
 - (b) In order for the government to better involve in housing market, it is advised to make a categorization of citizens' incomes into workable segments. This is to mean that incomes of citizens, of whatever form, can be segmented being lower, middle, higher and poor. Then, the government will take complete commitment in subsidizing the finance for the poor and arranging coordinated efforts, with financial institutions, of availing finance for the rest. With this effort, housing finance can be provided within a normalized market and thus attract maximum private investment.
 - ✓ The government runs CBB is strongly advised to restructure itself so that it starts exercising its original mission of availing housing finance for the poor. The government, in this regard, is advised to take maximum commitment to allocate funding, in addition to mobilizing public saving, for the purpose of meeting the needs of housing finance to both citizens and real estate developers.

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ANNEX

Annex I – Interview Protocols-Government Officials

Interview Questions (Government Bodies)

Thank you very much for volunteering to participate in this one-on-one personal interview. The main objective of this interview is to identify the major challenges of accessing housing project finance in Ethiopia with a focus on and reference to Addis Ababa City Administration. Your responses will be treated with utmost confidentiality and will not be used for any purpose other than the objective of the research. Moreover, the results of the research will be reported in manner that could not identify you or your organization.

1. The government is committed to alleviate the housing problems of its residents in the nation in general and the problems of same in Addis Ababa in particular:
 - How do you measure the demand and supply gap for residential houses in the City?
 - What are the major endeavors that have been taken to avail affordable houses for the citizens?
 - In your opinion, what are the challenges facing the government in successfully carrying out its housing development program?
 - Apart from involving significantly in the construction of condominium houses, does the government pay attention to the challenges of real estate developers and individuals that are struggling to build residential houses?
 - According to the Urban Development Policy issued in 2013, individuals who plan to build their own houses through securing land from the government should deposit 100% of the cost of construction in advance. In your opinion, from which source do such individuals are expected to finance the requirement?

2. Housing problems in Ethiopia is deep rooted and it is not believed to be solved only by government intervention. Each citizen and real estate developers should be encouraged to build residential houses.
 - What are the efforts that have been taken to support real estate developers and individuals that play significant roles in contributing to the reduction of housing problems in the country?
 - Is there any strategy to support such citizens that cannot be entertained through the conventional banking services in searching of finance for their housing projects?

- In light of the every growing demand for residential houses in the city, what do you think should be done by the government during the years to come to alleviate the problem?
- It is believed that there is untapped resource of finance under the government pension fund and insurance companies. Is the government considering to make available some of these resources to serve for housing project finance?

Thank you!!

Annex II - Interview Protocols-Real Estate Developers

Interview Questions (For Real Estate Developers)

Thank you very much for volunteering to participate in this one-on-one personal interview. The main objective of this interview is to identify the major challenges of accessing housing project finance in Ethiopia with a focus on and reference to Addis Ababa City Administration. Your responses will be treated with utmost confidentiality and will not be used for any purpose other than the objective of the research. Moreover, the results of the research will be reported in manner that could not identify you or your organization.

1. There are significant numbers of real estate developers in the country, especially in Addis Ababa. Though some of them engage in the construction of commercial building complexes, many are involved in the construction of residential houses.
 - How do you measure the demand and supply gap for residential houses built by the real estate developers?
 - How do you appraise real estate developers' current performance in view of meeting the every growing demand for residential houses?
 - What are the major challenges you have faced in furtherance of your mission?
 - How do you see the supports from the government and the banking industry in availing finance for your projects?
 - In your opinion, what other supports you think appropriate to be provided to real estate developers in order for them to better contribute towards the reduction of housing problems in the country?
2. Real estate development requires huge financial capacity to start the construction and complete the work for handover to the buyers. The buyers, on the other hand, are required to pay in full or partial for the purchase of their homes or apartment to the sellers.

- How have you been financing your real estate projects, especially during the early construction stage (through self-finance or bank loan)?
- Are all your customers (buyers) capable of covering the entire purchase price at once?
- Have you ever been working with banks in arranging housing project finance to buyers to at least cover part of the purchase price?
- How do you see the housing project finance being administered, if any, by the banking industry in the country?
- What do you suggest for the financial system of the country in providing long term housing project finance (both to the developers and buyers) so that the sector would grow faster and broader?

Thank you!!

Annex III - Interview Protocols-Individual Builders

Interview Questions (For Individual Builders)

Thank you very much for volunteering to participate in this one-on-one personal interview. The main objective of this interview is to identify the major challenges of accessing housing project finance in Ethiopia with a focus on and reference to Addis Ababa City Administration. Your responses will be treated with utmost confidentiality and will not be used for any purpose other than the objective of the research. Moreover, the results of the research will be reported in manner that could not identify you or your organization.

1. Many citizens dwelling in the city of Addis Ababa are confronting with various challenges while struggling to build their own houses after securing plots of land from the city administration. Although, there are many challenges facing individual builders, being in cooperatives or individually, access to long term finance is believed to be one of them.
 - How do you see the demand and supply gap of accessing long term finance for housing projects in Ethiopia?
 - In your opinion, do you think there are both accessible and affordable long term housing project finance in the country?

- Have you ever applied for long term housing project finance in any banks in Ethiopia? If yes, what was the result? If no, why you prefer not to apply?
 - How do you see the supports from the government and the banking industry in availing finance for housing projects?
 - In your opinion, what other supports you think appropriate to be provided to individual residential house builders in order for them to better contribute towards the reduction of housing problems in the country?
2. Construction of residential house requires huge financial capacity at household level to start the construction and complete the work to at least make it habitable.
- How have you been financing your housing projects, especially during the early construction stage?
 - In your opinion, what are the major challenges of accessing long-term housing finance in the country?
 - How do you see the housing project finance being administered, if any, by the banking industry in the country?
 - What do you suggest or recommend for the financial system of the country in providing long term housing project finance for individual builders so that they will be able to contribute their parts in alleviating the housing problems?

Thank you!!

Annex IV - Interview Protocols-Bankers

Interview Questions (For Bankers)

Thank you very much for volunteering to participate in this one-on-one personal interview. The main objective of this interview is to identify the major challenges of accessing housing project finance in Ethiopia with a focus on and reference to Addis Ababa City Administration. Your responses will be treated with utmost confidentiality and will not be used for any purpose other than the objective of the research. Moreover, the results of the research will be reported in manner that could not identify you or your organization.

1. Being the most common financial system in Ethiopia, banks are the main source of long term loan in the country:
 - How do you measure the demand and supply gap for long-term housing finance projects in Ethiopia?
 - How do you appraise bank's current performance in view of serving the demand for housing project finance loan in the country (both in terms of amount and convenience)?
 - In your opinion, how accessible your bank long-term loan is to finance housing project in the face of the prevailing restriction and preconditions, if any?
 - How do you compare the proportion of housing project finance (construction of residential houses initiated by government, real estate developers and individuals) with other types of long term loans or finance (Please provide the summary of long term loans approved to different sectors by your bank during the last five years)
 - What are the main priority areas for your bank to approve requests for long term loans? Has your bank been challenged by shortages of loanable funds that have forced you to make long term loans through sticking to priority areas?
 - What are the required procedures that any applicant for a long term loan of housing project should comply with in accessing finance? Do these policies, directives, or procedures in your bank discriminatory among the housing development segments [government, real estate or individuals]?
 - What are the requirements to be met by applicants in securing long-term loans for the construction of residential houses (Maximum size of loan, loan duration time, interest rate, collateral, others)?
 - What are the factors that make housing loans more risky compared to long term loans approved to other sectors in your bank?

2. The Ethiopian government has said that it has taken a favorable financial sector reform measures when it opened-up the banking and insurance private engagement in 1994. However, it has been highly criticized for denying foreigners the opportunity to invest in this sector.
 - What is your general observation/evaluation of the reform measures?

- Do you think the reform measures were favorable enough in availing the required finance for housing projects in relation to the ever growing demand for residential houses as a result of the growth in economy?
 - How do you weight the foreign investor's involvement in the financial sector in view of creating long-term finance in the economy in general and housing projects in particular?
3. It is known that the Ethiopian government has strong intervention and put excessive regulations in the economy in general and in the financial sector in particular. For instance it sets interest and exchange rates; it establishes statutory deposit and reserve amounts and most recently it has issued directives that instructed all commercial banks (Except government banks) to allocate 27 % of their lending to the government with an interest rate of just 3% which is much lower than the minimum deposit interest rate of 5 % or the effective lending rate of 10.3%.
- What does it implies to you?
 - How do you evaluate the government's intervention and regulation in terms of creating conducive financial sector that support the economy in general and financing capacity of banks to housing projects in particular?
4. In your opinion,
- What are the major policy/regulatory challenges of accessing housing finance (by government, real estate developers, and individuals) in its effort of garnering long-term (investment) finance?
 - What do you suggest to alleviate such challenge in the years to come?
 - What policy/legal measures are required to enhance and diversify the long-term financing sources for housing projects?
5. What else do you want to say or suggest regarding financing of housing projects in Ethiopia?

Thank you!!