

Housing Supply and the Establishment of Agro-Industrial Parks in Ethiopia

Practices, Challenges & Opportunities in
Yirgalem and Bulbula Towns



1. Introduction

In order to promote socio-economic development in Ethiopia, the federal government of Ethiopia has taken the development of industrial parks as a key strategy to attract investment in the manufacturing sector. In turn, the expansion and development in this sector are hoped to propel wider economic growth. In Ethiopia, two types of industrial parks are under development: **large, medium, and light-scale industrial parks**, and **integrated agro-industrial parks (IAIP)**. Fundamentally, an IAIP is a clustering of several independent firms in a defined plot of land, grouped to achieve more favorable economies of scale and positive externalities by sharing infrastructure such as roads, electricity, communication capabilities, storage, packaging facilities, logistics and transport, laboratories, waste treatment, and by-product utilization. To date, four integrated agro-industrial parks have been built in agriculturally rich regions of Ethiopia. The fact that these parks are located in small towns but expect big industries and employers, means that a large concentration of industrial workers needed to run the parks will migrate from rural areas to the big cities where the parks are located. These industrial workers are looking for both affordable housing in the selected areas.

However, the provision of access to adequate and affordable housing remains one of the most serious global challenges – so too in Ethiopia. Important factors driving this have been the rapid growth of the urban population, limited government capacity to keep up with the high demand for urban housing, and the less accommodative nature of urban housing and the land-lease policy. On top of that, next to low availability, much housing in Ethiopia is of poor quality, with as much as 70% requiring replacement which can quickly become unaffordable to only a few. As a result of this, significant swathes of Ethiopia's urban population, though disproportionately those from the lowest socio-economic positions, are suffering from serious housing shortages and bad housing conditions.

In order to meet the demand for adequate housing, the federal government of Ethiopia has taken a variety of policy and legislative measures. These have been either more market-oriented or more government-driven with a strong social housing element. Nevertheless, despite all the government's efforts, for many reasons, housing has remained a major issue. To better understand the dynamics driving Ethiopia's housing shortage and thus provide more informed and effective policy recommendations to the cities and regions that have to provide housing, in addition to other services, to these influxes of workers, VNG International commissioned two research reports from Ethiopian universities (Hawassa University and Oromia State University). The purpose of these was to investigate prevailing housing practices and the accompanying challenges and opportunities, along with the provision of possible solutions in the form of viable recommendations and policy implications.

This publication synthesizes and summarizes the findings and recommendations of the two research reports. It will begin by presenting cases of the Bulbula and Yirgalem Integrated Agro-Industrial Parks to illustrate prevailing practices, challenges, and opportunities. Subsequently, it will delve into a general analysis of Ethiopia's housing crisis, outlining areas where public action is necessary to counteract the negative externalities of urban expansion and development. Building forth on these, the publication will conclude by suggesting several policy recommendations.

2. Case Studies

2.1. Yirgalem Town



Yirgalem town is located 47 kilometers from Hawassa, the capital of the Sidama Regional State, and 322 kilometers from Addis Ababa, Ethiopia's capital. Yirgalem is an important regional commercial center and has an estimated population of around 110,000 inhabitants. Moreover, the city has a medium-to-high population growth rate with a recent uptick which can largely be attributed to the town's favorable climate and location, urban expansion, and the establishment of the nearby Yirgalem Integrated Agro-Industrial Park. Yirgalem's expansion has had a great impact on the population's housing situation, though this has had both positive and negative consequences.

The Positive

On the positive side, the expansion of Yirgalem has resulted in a greater centralization of economic and human resources, in turn leading to greater innovation, development, and service provision. In particular, education, infrastructure, cultural activities, and health, social, and public services have become more accessible and cheaper. In particular, the Yirgalem IAIP has been accompanied by an increase in services and infrastructure which the wider community is also able to benefit from. Furthermore, the expansion and accompanying development have resulted in increased job creation and a greater market for local farmers.

In terms of housing, the study indicates that many already-present residents and developers have taken the increasing expansion as an opportunity to construct additional rental properties. Whereas before the establishment of the Yirgalem IAIP, demand for housing was negligible, now demand is high and land values have drastically increased. Importantly, in response to the increase in demand for housing, the local government has become incentivized to ensure the provision of more (social) housing.

The Negative

Despite the market response to build more housing, Yirgalem is still experiencing a housing shortage. Consequently, rents have increased incrementally with some residents being pushed to the town periphery to find housing or displaced altogether. Nevertheless, rents remain relatively low compared to other comparable towns in the Sidama region and are far under the housing affordability threshold of 30% of the average monthly household income. However, for those that have been pushed out, living in the town periphery increases the time they spend commuting and decreases their access to infrastructure and services. Even though the build quality of the houses has generally remained relatively good, the housing shortage has also resulted in most renters being forced to live in more crowded spaces with a lower degree of personal freedom. As a result, many tenants are unsatisfied with their housing conditions.

Basic goods and services such as food, water, sanitation and electricity have been harder affected than housing itself, with these becoming less accessible and more expensive. This further drives up the cost of living. The town's expansion also has grown the user base of public services beyond the local government's capacities, overwhelming its ability to address the situation. Moreover, the expansion has led to an erosion of cultural identity and lower participation in informal associations which traditionally provided a social safety net.

In short, while affordability remains relatively good, many other key facets of living have come under untenable strain. However, it should be noted that the IAIP is currently only employing about one-quarter of the estimated 40,000 workers it would provide with jobs when operating at full capacity. As such, these negative consequences may be even further compounded in the future.

Government Action

Though government ought to play a central role in counteracting the negative consequences of Yirgalem's expansion, there are only a few governmental housing programs, most of which focus on promoting home ownership. This is a major problem since it does nothing to address renters' housing needs. Further, formal rental housing schemes are absent from both the government and private sectors. As such, the formal rental market is almost non-existent, leading most of the housing and land market to be informal. While some kebele houses do exist, these do not qualify as public rental housing units since they were confiscated from private owners. The inconsistency and sporadic application of housing policy is another challenge, with policies often being implemented as a short-term political response to discontentment rather than as a continuous social policy. As such, there is a strong need for a comprehensive, clear, and inclusive government housing policy.

2.2. Bulbula Town



Bulbula Town lies in the Oromia Region in central Ethiopia, 184 kilometers from Addis Ababa. By way of its central location, it is an important economic, social, and administrative center, being a gateway to the economically-important investment corridor which connects many regional states. As a result, Bulbula has become attractive to many looking for jobs or investment opportunities. This is further compounded by the presence of the Bulbula Integrated Agro-Industrial Park, which is expected to attract an estimated 70,000-100,000 workers to Bulbula and the surrounding villages upon completion. This is an astronomical amount given that Bulbula is at present only home to around 25,000 inhabitants.

Though this expansion and influx of opportunity has had some positive consequences, it has also greatly negatively impacted the housing situation of Bulbula's inhabitants.

The Positive

The large gap between the housing supply and demand should provide a major incentive for housing developers, contractors, and other stakeholders. This is further aided by the fact that Bulbula's expansion has resulted in an influx of relatively cheap local labor. Additionally, the Bulbula IAIP has provided a large amount of available in the direct vicinity of the Park. Together, these three factors should incentivize private sector investment in new housing, with a particular focus on providing housing opportunities for IAIP workers.

The Negative

Already before the present rapid urban growth, housing quality in Bulbula was relatively low. Many houses are old, built from poor materials, cramped, and have shared toilets and kitchens. Furthermore, electricity is unreliable and facilities and services such as clean water, solid waste disposal, sewage, and lighting are all inadequate.

Next, the affordability of housing is low, with many residents paying far above the housing affordability threshold. This is paired with a lack of credit services such as mortgages or loans – both for individuals and for developers. Concurrently, most residents are renting privately, which is characterized by power imbalances between landlords and tenants as well as a lack of both tenure security and formal tenant protections. In fact, at the federal level, there are no regulations on private rental housing. As a result, renters are generally at the mercy of their landlords to not be subjected to rent increases, arbitrary evictions, or limitations of domestic freedoms (e.g. privacy).

These pre-existing issues have been compounded by Bulbula's expansion. Firstly, existing inadequacies in primary infrastructure have been further laid bare and exacerbated. Secondly, there is presently an acute housing shortage to accommodate the soon-expected Bulbula IAIP workers. However, land prices in Bulbula itself are disproportionately high with the existing legal framework giving the state ownership over land while restricting land transfers. Also, building materials are highly expensive. Together, these factors have negatively impacted the private sector's ability to respond to the increase in demand for more affordable housing.

Government Action

Government action is necessary to address the challenges Bulbula's residents face in their housing situation, yet concrete initiatives lack political support and are constrained by the local government's capacity. Data on housing needs is low, with no records existing for the registration of newly-built housing or the inventory of already available housing stocks. Further, there is no clear government plan to build new houses to address the housing shortage and, similarly to Yirgalem, housing policy in Bulbula is characterized by its focus on promoting ownership while not actually addressing the needs of the majority of the population who rent. This is further underlined by the lack of formal protections for renters. And, the laws that do exist, such as those regulating housing permits or the registering of property, are unnecessarily complicated and expensive. Taken together, there is a distinct need for a comprehensive housing policy to address negative market externalities and provide a more conducive environment for private sector action to provide new, affordable, and high-quality housing.

3. Analysis

While there are some differences between Yirgalem and Bulbula – chiefly regarding to what degree the negative impacts of the town expansion have been felt –, housing quality, affordability, and accessibility are major challenges facing cities globally, including those in developing countries. Rapid urbanization is exacerbating housing deficits. This while on the whole, the increasing demand for housing presents a major opportunity for the private sector to build more housing and infrastructure. Yet, for several reasons, the private sector has not been able to benefit fully from this opportunity.

This poses a major issue given that the increase in the urban population has led to a significant intensification in demand for basic social amenities and infrastructure such as housing, water, sanitation, roads, and electricity among many others. In particular, the housing market has suffered. In both Bulbula and Yirgalem, new residents struggle to find housing that is both affordable and well-located. However, the government does not have the financial or human capacity to keep up with this demand, meaning that access and quality of these fundamental amenities have suffered and that prices have increased.

There is often a mismatch between housing supplied near industrial parks and demand from workers. Workers end up living long distances from jobs or in substandard housing due to shortages. This while provision of adequate worker housing is important for industrial park success. It affects ability to attract and retain skilled labor as well as worker productivity and welfare. Greater efforts are needed to provide affordable housing at scale near agro-industrial parks through public-private partnerships, financing schemes, rental options, and comprehensive policy frameworks.

In both Yirgalem and Bulbula, the legal and policy framework to address the challenges while harnessing the opportunities that come with urban growth are lacking. Firstly, the governments do not appear responsive to the needs of all and focus more on promoting home ownership, which disproportionately benefits the more socio-economically advantaged. Adding to this, there is a lack of responsiveness in government policy is added to by the inadequacies in public housing data which negatively affects the government's decision-making and planning ability. Secondly, there is a lack of government-provided social housing. This is paired with insufficient clarity and protections in housing market regulations. In turn, this means that most residents rent privately and informally, which significantly impacts their housing situation and security since landlords enjoy a highly favorable position of power.

Given this, there is a clear need for concrete government action. Furthermore, this must conform to the needs of the situation. In other words, it must be comprehensive, responsive, and clear with the aim of providing adequate housing. Furthermore, the government must look to provide an enabling environment for the private sector to harness the existing opportunities, in particular, incentivizing developers and financial institutions given the major role these stakeholders have to play. However, at the same time, it must look to counteract and constrain negative market externalities.

4. Policy Recommendations

Based on the need for government action, the studies suggest the following policy recommendations to ensure a sufficient supply of affordable and adequate housing and meet the rapidly growing demands of the IAIP worker population.

General Principles for Government Action

On the general level, government housing policy should be responsive to public needs, in an inclusive and non-discriminatory manner. In particular, it should take the needs of IAIP workers into account. In this, the local government should look to reach a **consensus among key stakeholders** on an appropriate worker housing standard. In doing so, the government should take into account the seven UN Committee on Economic, Social, and Cultural Rights' factors for adequate housing:

1. **Security of tenure;**
2. **Habitability;**
3. **Location;**
4. **Housing facilities and infrastructure;**
5. **Cultural Adequacy;**
6. **Accessibility;**
7. **Affordability.**

Similarly, to counteract the negative impacts of the acute imbalance between supply and demand for affordable and adequate rental housing, local governments should look to enhance **cross-sector collaboration** among and between stakeholders. There should be an increase in **communication, public engagement, and transparency & coordination** in the drive to improve the local housing situation and quality of life. In this spirit, local governments should also look into **integrating IPs** into their governments' structural and infrastructure investment plans.

Finally, given the dynamic situation that they are often faced with, local governments should design and implement **preventive strategies** than take reactive measures.

Specific Policies

Moving to specific policies, both studies suggested that local governments should look to follow an **integrated and comprehensive approach to housing policy**. Under this, the government should establish strategies for the development of **low-cost rental housing**. Currently, housing policy is focused only on home ownership as a strategy to solve urban housing problems. However, for various reasons, attaining universal homeownership is neither desirable nor possible in developing countries like Ethiopia. This makes the development of the rental housing sector the best available and feasible option to drive a well-functioning and healthy housing market. Thus, to help solve the acute housing shortage in the Ethiopia, support to rental housing should be a central aspect of the government's housing policy.

First, it should look to provide **support and incentives to the private sector** to develop high-quality and affordable housing. Since, the private sector is the largest supplier of housing and helps reduce the burden on government, ensuring its continued committed involvement in the housing market will be key to solving housing shortages. In this, key elements for government policy will be:

1. **Diversified financing opportunities**, for example, by liberalizing the financial sector and housing loans accessible to low income groups.
2. **Revisions to existing land policies and amendments of laws** which exclusively give land ownership rights to the government and restrict land transfers, and simplify procedures making it easier to obtain construction permits or register property.
3. Modernization of **land management systems**.
4. Enhanced access to **affordable land**, such as through more market-based allocation.
5. Increased regulation of the supply and price of **construction materials**.
6. Encouragement of the introduction and use of **new construction technology**.

In this, both studies suggest the establishment of a dedicated local government housing agency. This would oversee the above-mentioned incentivization mechanisms, as well as ensure that new housing meets habitability standards and adheres to the law.

Second, local governments should also further provide more **social housing** as an alternative to private sector rental houses.

Third, to tackle affordability issues, local policy should focus on the **enhancement of the local economy** and the creation of **high-paying jobs**.

Fourth, to further constrain negative market externalities, city governments should formulate rules and regulations to offer a **greater degree of protection to tenants**. For example, by **controlling unreasonable rental house price increases**, or **preventing arbitrary evictions**.

Finally, to accompany this new housing, city administrations should undertake serious measures to develop the city's infrastructural facilities, such as transportation, social services, and cultural and sports amenities.

At the federal level:

- The federal government should allocate more funding and resources to urban housing development programs.
- Policies, strategies and programs that promote alternative housing models like rental housing and cooperatives should be developed and scaled up.
- Establish/revise regulatory frameworks like building codes, land laws, rental laws etc.
- Capacity building and technical support should be provided to regional and local administrations to effectively implement housing strategies.
- Coordinate housing data collection and research.

At the regional level:

- Develop regional housing strategies and annual plans in line with federal policies.
- Incentives and subsidies should be provided to encourage private sector participation in housing.
- Collaboration with local administrations to address housing challenges specific to local contexts needs to be enhanced.
- Support housing construction through direct programs or PPPs.
- Supervise and monitor housing delivery at local level.

At the city administration level:

- Municipalities need to work actively to expand housing supply through direct construction, PPPs and land allocation.
- Rental housing regulation and closer supervision of private housing sector needs strengthening.
- Local stakeholders collaboration and coordination through councils should be optimized.
- Provide municipal infrastructure and services to housing areas.
- Enforce building bylaws, standards and approve construction permits.
- Manage public rental housing and its maintenance.
- Support involvement of cooperatives, private sector, NGOs in housing.
- Collect and maintain housing and land use data within jurisdiction.

So in summary, the federal government provides the overall framework while regional and local governments are responsible for on-ground housing delivery and management within their respective jurisdictions.

The Ethiopian Cities Association (ECA) plays an important role in urban housing development, though it is not explicitly involved in direct construction. Some of the key actions that ECA could play include:

- Advise the federal and regional governments in the formulation and review of national urban housing policies, strategies and legal frameworks.
- Develop best practices for housing provision that can be adopted at city level.
- Build the capacity of city administrations in areas like urban housing finance models, land management etc.
- Organize experience sharing platforms between cities to promote learning on innovations and good practices.
- Advocate and lobby the national government to prioritize and increase funding for municipal housing programs.
- Partner with international agencies to mobilize technical and financial support for member cities.

So in summary, ECA plays an advisory, representative, coordinating and advocacy role to support improved housing delivery at local level through its member cities.

The studies as summarized in this report were presented by ECA in an Urban Housing Workshop. Some of the outcomes of urban housing workshop were:

- Enhanced knowledge and understanding of housing challenges facing different cities in Ethiopia.
- Networking opportunity for city officials to learn from each other's innovations, programs and exchange ideas on tackling housing problems. This fosters inter-city cooperation.
- Improved awareness of existing policies, laws and guidelines on urban housing issued at federal level.
- Concrete recommendations for urban housing policy and reforms based on the research studies.
- Feedback to ECA on support needs of member cities to effectively deliver on housing mandates.