Economic Focus
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Editorial

The EEA since its establishment has created different forums through which pertinent economic issues are raised and discussed. Recognizing the inaccessibility of the academic journal (EJE) to a wider public and multidisciplinary associates, it has initiated the bimonthly Newsletter in which articles devoid of algebra are appended.

Now we have recognized that the Newsletter has become an important medium through which policy relevant issues are discussed, new research findings are reported and academic but practical debates are conducted. Consequently the size of the Newsletter has also increasing.

This development required the need to make a distinction between the ‘Newsletter’ where members are informed about some development regarding EEA and a bulletin where policy relevant issues are raised and discussed. It is towards attaining the latter objective this new (and the first) issue of the bulletin is released. We are hoping that your contribution will help to strengthen the bulletin. We also welcome ‘letter to the Editor’ which accommodates readers view about the bulletin.

Notes to Contributors

The main objective of EEA Bulletin is to initiate policy relevant public discussion on national and African economic issues. It presents synopsis of research papers, panel discussions, public lectures, readers’ comments and new research findings and notes.

1. Readers and contributors are encouraged to submit short articles (not more than 5 pages in double space with 12pt font size) preferably accompanied by an electronic version.
2. If accepted, an edited version of the article will be send to the author before publication. If the author did not respond within a week, the edited version will appear in the bulletin without any notice.
3. Unaccepted articles will not be sent to the author(s).
4. We accept articles both in English and Amharic.
5. Views expressed in the bulletin are those of the authors and are not necessarily related to that of the institution in which the author(s) work or of the EEA.
6. Articles can be addressed to:

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bourgeoisie uses state and public enterprises to promote its class interest including private wealth accumulation (hence, it is a ‘statist’ not a ‘state’ bourgeoisie). “Thus, while a state bourgeoisie would identify its interest with the fate of the public sector, and would therefore be threatened by changes undermining state power and prerogatives, a statist bourgeoisie or petty bourgeoisie, using the state for ultimately private wealth accumulation, is quite capable of using policy changes, including privatization, to its own advantage” (P. 9).

The paper then goes on to look at the nature of the state. There are different views on the nature of the state. The benevolent view of the state assumes the state to be staffed with altruistic, competent and far-sighted technocrats who would mobilize and allocate scarce resources for economic growth. One problem with this view is to explain how public officials will always stay selfless, devoted and enlightened in spite of the opportunities to abuse their power. Another problem is related to their inability to efficiently conceive and implement strategies of public intervention. The malevolent (predatory) view considers the state essentially as a collection of self-centered individuals whose main objective is extracting rents from the economy. An intermediate view is the autonomous-malevolent view. According to this view, “the cumulative strength of powerful extensive state machineries will eventually result in the abuse of the public interest, with the state exploiting its powers to extract more resources from the disorganized public while rewarding individual and organized interest groups ... allied to the state’s executive leadership” (pp. 10-11). Some analysts use the idea of ‘directly unproductive profit-seeking’ (rent-seeking behaviour) as phenomenon that explains much of the characteristics of the state. Directly unproductive profit-seeking involves pursuing opportunities to get profit without increasing the productive capacity of the economy.

In many Third World societies, since there are no classes with sufficient economic and political strength and coherence to effectively subordinate states to their own class interests, the autonomy enjoyed by states has become considerable. This has created a situation where states can take very bold steps without waiting for the endorsement of their actions by the public. Although this autonomy is not a guarantee for economic progress, in some instances it has helped it.

The author argues that any attempt to create a participatory democracy must address the ‘demonratization of the economy’. The organization of the modern firm is said to be coercive, authoritarian, hierarchical and exploitative. To replace the modern firm, different forms of collective ownership and control should be experimented with. “Such economic democratization can take place within the context of a mixed economy, involving a socialized or public sector and a private capitalist sector, as well as planning in the national interest to complement competitive market forces” (p. 13).

The second part of the paper focuses on drawing lessons from the experience of East Asian newly industrialized nations. Specifically, it compares and contrasts the experiences of Southeast Asian second-tier newly industrializing countries (NICs) with the East Asian first-tier newly industrializing economies (NIEs). While the NIEs are characterized by lack of natural resources, the NICs are rich in them. In the NICs resources “have not only made important contributions to overall economic as well as export growth, but have also been crucial for the fiscal viability and political legitimacy of the states, Besides providing the basis for further capital accumulation” (p. 19). Since the NICs are located near Japan and the NIEs, this has helped the first build up their economies because of the inflow of investment from the latter. The increase in foreign investment cannot be explained by liberalization but more by ‘economics of location’. But greater reliance on foreign direct investment may coincide with the earlier stages of industrialization.

Another issue tackled by the paper is the role of industrial policy in development. The paper argues that even though there were mistakes in many instances, the structural transformations in the NICs are unthinkable without industrial policy. “Industrial policy has also been poorly conceived when it has:
“(1) not been based on sound analysis of the
market failures they were supposed to overcome,
(2) not been selective in addressing specific
market failures and maximizing the positive
externalities of developing strategic industries,
(3) ignored market signals to help achieve
efficiency,
(4) underestimated the information requirements
for effective intervention,
(5) overlooked the limited capacities, competence
and capabilities of governments,
(6) overestimated the human and other resources
available to build efficient industries,
(7) otherwise disregard scale, scope and other
efficiency considerations” (p.29).

The last part of the paper analyzes the implication
of the establishment of the World Trade
Organization (WTO) which replaces General
Agreement on Tariffs and Trade (GATT). The
author argues that developing countries will lose
from the Generalized System of Preferences
(GSP) because it will abolish the preferential
treatment developing countries get from
industrialized nations.

The establishment of the WTO accelerates trade
liberalization by abolishing non-tariff measures as
forms of protectionism. It also includes
liberalization of investment which would give
foreign companies the right to invest in any
economic sector of a member country and foreign
countries will be given ‘national treatment’
(must be considered as equivalent to national
companies). The WTO will also strengthen
transnational intellectual property rights and
increase the degree of liberalization in the
services trade. The author argues that all these
measures will facilitate the penetration of the
economies of developing countries by the
transnational companies from the North. And this
process has been interpreted by some as ‘a new
era of recolonization’.

Panel Discussion on
“Urban Development and Urban Land
Policy”

The panel was opened by Engineer Solomon Kassaye, the Manager of the National Urban Planning Institute. The panelists were Ato Abebe Kebede, the Secretary of the Lease Board of Region 14, Ato Kibur Gena, the President of the A.A. Chamber of Commerce, Dr. Aktitu Kidanu a Private Consultant and Mr. Gebhard von Katte, an Economist in GTZ/Urban Development Support Service. Panelists presented short papers and provided their
independent and open views on the topic. The opening address and the papers are presented
below.

Engineer Solomn Kassaye
Manager of the National Urban Planning Institute

Despite the long history of Ethiopia, modern urbanization process has come to picture at the
latter part of the 19th and early 20th century. Whatever the date of its emergence, urbanization
in Ethiopia has been a very slow process and its level of urbanization is very low. Today Ethiopia
is amongst the least urbanized countries in the world. According to the CSA 1994 Report, its
degree of urbanization as measured by the
percentage of population living in urban areas
(14.96%) is one of the lowest even by African
standards (average 30%). It should also be noted
that its annual rate of urban population growth
5.4% is among the highest in Africa. This high rate of population growth that is mainly caused by migration from rural to urban areas, needs to be guided rather than left as outcome of market forces.

Urban development planning in Ethiopia has had a relatively long history. Its origin goes back to the year 1963 when the second five-year development plan (1963-1967) of Ethiopia explicitly mentioned town planning as an integral part of the National Planning for Economic and Social development. Despite having such a long history of urban planning and development, it is still facing tremendous problems of plan preparation and its subsequent monitoring and controlling of the implementation of plans. This is one of the reasons for expecting the recent decentralization of power as an approach to development could lay down a ground for a healthy urbanization and better urban development planning.

Following the new economic policy and the recent decentralization of power, the Federal Republic Government of Ethiopia has issued two proclamations (i.e. Nos. 7/1992 and 41/1993) particularly on urban planning and economic development, that allocated powers and duties between executive organs of the central and regional government bodies. According to these legislations, the Central Government executive organ that is in charge of enhancing urban planning and development is the Ministry of Works and Urban Development. Proclamation No. 41/1993 again delegated parts of its power of planning to the National Urban Planning Institute.

Furthermore, the public works and urban development bureaus of the Regional Self Governments, according to the same proclamations, are also empowered to undertake studies related to urban planning functions and follow-up of implementation of plans. Due to technical incapabilities, lack of equipments and financial limitations, however, these bureaus require the assistance of the Central Government in urban affairs.

The Federal Government has provided independent revenue base proclamation No. 80/1993 that mandates towns and cities to lease the land within an urban boundary. It allows action such as negotiation, and use of proceeds to finance urban development including building of urban infrastructure and construction and expansion of low cost houses. As for disparities/inequalities in urban development, the policy guideline has come up with alternatives such as equi-sharing of resource of the central government to Regional Self Governments based on some identified indicators. The indicators include population, war affected areas, relatively less developed regions like Somalia, Afar, Benishangule, Gumuz and Gambela and the involvement of the private sector. The private real estate developers are encouraged to construct low cost houses by providing them urban land free of charge and/or without public bid.

The Government has also withdrawn from housing market and is planning to sell government owned rental houses. The Government has also taken measures to alleviate the shortage of skilled and experienced workforce through training. It is also attempting to build the capacity of regional governments through seminars and workshops. Currently, the Central Government is also providing technical, logistical and Financial Support to regions.

Implication of Urban Land Policy on Urban Development

Ato Abebe Kebede
Secretary of the Lease Board of Region 14

To begin with I thank the organizers of this panel for providing me the opportunity to air out my personal views. So far urban development has been relegated into the back yard of the development discourse. This time, first being induced by the dramatic global transformations taking place in the realm of human settlements, and second being articulated by a higher rate of urbanization in the developing countries, that again is believed to constitute the bulk of the world population in the coming century, due attention is being given to urban development. Urban economies will also play a pivotal role by becoming:
government wishes to examine in advance detailed development proposal, the transfer is pursued through a tendering modality.

Furthermore, land required for community purposes such as public housing targeted home ownership schemes, public utilities, schools, churches, clinics, welfare and certain charitable purposes are usually granted free of charge. The contractual conditions are expected to include the following items:

- the lease period
- the modality of payment
- restrictions related to:
  - land use regulations
  - building codes
  - annuisance
  - provision of car park
- timing of the completion of the building

**Land Leasing and Urban Development**

Land leasing is anticipated to contribute towards urban development as follows:

- Discharging public responsibility via the private sector: by granting lease the local government has given the private developer the opportunity to provide community facilities.
- Growth control: local government can also control the pace and direction of urban development by avoiding leap frog development.
- Risk reduction: with the permitted development as is specified in the lease contract - private developer get the security of developing land.
- Revenue generation: the other main advantage of land leasing is that it gives the local government a financial leverage to finance its infrastructural capital costs.

In so doing it is anticipated to bring an innovative market city. Land prices are likely to exert powerful influence for the recycling of the land leading towards the optimum use of resources which in turn is expected to generate an in built dynamism to a well functioning urban land market. This could trigger a density rise in the city centre and along transport corridors with a compound effect on:

A. A floor-to-land area ration increase in central locations because of land recycling through demolition and reconstruction and
B. Decrease in the consumption of land space per job or per resident. This is because the more efficient land users outbid the less efficient land users; and, hence, the latter moves to more peripheral locations where land is relatively cheaper.

The interaction of these effects are expected to produce:

- a population density profile which is negatively sloped from high population centre to the sparsely populated periphery.
- in such an economic environment the driving force behind the creation/organization of the market oriented urban space is not the master planning by the master planners but the investment decisions of developers - developers striving to maximize the difference between the production cost and the market values of the final product i.e. the urban land.

**Ato Kibur Gena**

**President of the Addis Ababa Chamber of Commerce**

A difficult topic to address particularly in a setting such as this one where time is very limited. For the business community, urban land is of great significance.

I do not have the figures but it is a fact that in Ethiopia 80% of the population lives in rural areas on over 95% of the land. So it is clear that the urban population lives on a rather small national land surface. Judged in terms of economy output or capital values, however, urban land is of vastly greater significance. The development of an urban economy is a very recent one in Ethiopia and until the last 40 years or so land development in urban centres were rather up hazard. This was tamed only recently by the introduction of some sort of town planning.

This had of course many effects such as a degree of order and tidiness and a certain form of urban centrality.
a source of innovations and economic growth and
- Entities with a capacity to provide subsidies to the rural areas.

To go back to the topic, land and urban development are ambivalently intertwined in the sense that no development can be imagined to take place outside space be it physical or social.

Given this natural linkage between social development in general and urban development in particular on the one hand and land on the other, I will go over into to the topic.

**Urban Land Policy and Urban Development in Region 14**

Land is one of the critical inputs to almost all economic and social activities that remained outside the formal exchange relations for almost two decades. Due to the idiosyncratic economic policies pursued by the ex-military regime, the private sector had been entirely barred from both owning and managing urban land. For this reason the land market was compelled to go on strike. Access to land was often secured through kleptocratic mechanisms. Consequently, illegal land prices were soaring up constituting 70% of the total construction cost which has never occurred anywhere in the world. This has continued to this date.

Contrary to official pronouncements of high achievements of the urban land nationalization policy, what happened was an ever worsening shelter conditions. About 70% of the housing stock went dilapidated requiring either total demolition or total renovation. Moreover, the formal housing sector was unable to generate more than 20% of the housing demand, leaving a backlog of several hundred thousands housing units.

Besides, as a result of the supply constraint of urban land, the opportunity to have access to urban land got extremely limiter as time passes. This gave rise to the emergence of a brokering class of land speculators and self-enriching highly placed bureaucrats and their gatekeepers. The administrative response to demand pressure was the development of the periphery while the already developed areas remained with their obsolete land uses. In order to do away with the bureaucratic/administrative handling of urban land allocation, and with the intention of enhancing the role of market forces for accurate property valuation (i.e., as a measure of the opportunity cost of a site) the government has introduced the new urban land lease proclamation No. 80/1993.

Initially what Region 14 Administration did in this respect was to see whether this national land lease policy could go in tandem with the privatization drive set in motion. Realizing the difficulties in conceptualizing ownership as an absolute right, the administration went into the identification of what really constitutes the bundle of these particular rights. From its readings, these rights other than entitling the owner (in this case the city government) to use its property to produce income as is the case with sole proprietorship were discovered to empower the legal owner the right to generate that same income whoever manages that property. Hence, convinced of its merits, the Regional Administration went into the promulgation of Regulation No. 3/1994.

Among the set of policy instruments built into the new urban land lease policy are those related to the transaction of land - instruments that provide the machinery of a private land market. Among these policy instruments are the alternative modalities through which the transfer of use rights are conducted. Land under this system belongs to the private owner for a specified period of time depending on the type of development intended to be launched. Under this tenual regime, the disposal of land rights is done through one of the following ways

a. Public Auction;
b. Public Tender;
c. Private Treaty Grant

Because the basic government policy is to sell leases to the highest bidder at public auction, this is taken as a major modality of transfer of lease rights. However, in circumstances where the user is strictly defined and the sale is unlikely to attract general interest or where the local/city
government wishes to examine in advance detailed development proposal, the transfer is pursued through a tendering modality.

Furthermore, land required for community purposes such as public housing targeted home ownership schemes, public utilities, schools, churches, clinics, welfare and certain charitable purposes are usually granted free of charge. The contractual conditions are expected to include the following items:

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This had of course many effects such as a degree of order and tidiness and a certain form of urban centrality.
Some indicators of Urban Underdevelopment

Dr. Aklilu Kidanu
A Private Consultant

According to a survey conducted in six zones in Addis Ababa in 1994, the total population was about 2.1 million while migrants account for 46%. This time the force of migration ranged between 0.9-6.1 in each zone. Urban population constitutes about 13% of the total population in 1994, compared to 3% in 1940. The densities per hectare also increased from two and five persons in 1910 and 1930, respectively, to 64 and 95 persons in 1980 and 1994 in Region 14 that has about an area of 22,000 Hectares. The survey registered the urban population growth rate in 1994 as 4% a year resulting in skewed distribution of population. The population in the city is characterized by 32% less than 15 years, 65% between the ages of 15 to 64 and 3% above 65 years of age.

Regarding housing, 63% of the houses are more than 20 years old, 83% are made of wood and mud, 50% have no ceilings, 53% have mud floors, 31% have just one room, 78% have three or fewer rooms and 66% are tenants occupied. In addition, the sanitation situation is also in a very poor condition as 90% of the housing units have no bath, 24% have no toilet and 46% share pit latrines.

Having this information, what does urban development imply under these conditions? Let us take two very important urban development aspects of HABITAT I, Istanbul 1996, to which Ethiopia ascribes to

1. Promoting security of tenure and equal access to land especially by women and the poor. Rationales: stimulate investment,
2. Supply of affordable rental housing (with rights and obligations of both tenants and owners), and rehabilitation, upgrading and maintenance of existing housing stock.

Access to land and housing
The following allocation and holding patterns of land that prevailed in the history of Ethiopia have had their impact on the form, structure and development of urban areas.

1. During the early feudal era (late 19th C.), land was allocated based on loyalty to the state. There was no clear land policy and land use did not have a pattern and/or there was irregular land use or limit. The military, religious and political interests dominated the allocation of land and perhaps land was used in that order.

2. The Imperial era (the last 100 years) was a continuation of the feudal era. Land was monopolized by the few. In 1960, for instance, the nobility owned 58% of the land that is less than 2000 families, 12% was owned by the church and 9% by the royal family. Then land became private property and had market value. There was also minimal government intervention as the tax rate was low. Settlements remained spontaneous (not planned).

3. During the Dergue era (1974-1991), land became public property and the tenancy of the feudal system was abolished. Land could not be sold or exchanged but inherited. There was a limited land size available and unoccupied. Initially, use rights of 250-500 square meters were given free of charge that later was reduced to 160-250 square meters with a limit of construction to floor size of 70 sq. Meters.

Concerning housing, all extra houses were nationalized and rental income was curtailed. The system abolished the landlord-tenant relationship. The government (through Kebeles) was collecting rent reduced by as much as 15-50%. The cooperatives housing schemes, established in 1978, created a better situation for urban land exploitation and reduced the scattered use. Planned land use
replaced the spontaneous settlement. The system realized some equity in the distribution of land. The interest rate on loans taken for housing purpose was also reduced to 4%. Later in 1990, some restrictions were relaxed such as one with a floor size of 189 sq. meters can sell his house.

4. During the EPDRF era (1991- to date), there seems essentially a continuation of the former system except the introduction of lease system with proclamation No.3/1994. The proclamation was modified several times. The current one passed in 1994 provides that the government continues to own land and all land above 175 sq meters is acquired through auctions, price determined by the market. In addition, one could acquire land size of 73-175 through lottery system at a lease price of 50 cents per sq. meter. Land size less than 73 sq. meters would be released out without charge.

In relation to housing, there is no rent control although there is a tax rate of up to 45%. There is no subsidy scheme on loans for housing purposes although the Business and Construction Bank provides credit opportunities for housing. Selling of a house is allowed although one is required to pay 30% of capital gains.

The current lease holding system provides legal authority of allocating land to the regional council. In addition to the lack of human resources in the council to allocate land, this has created very centralized holding system. According to the November 1994 Proclamation of Region 14, only about half (11,000 hectares) is in the hands of Peasant Associations and is not considered urban land. There is no available land for the expansion of the city.

Urban management in Ethiopia and Germany

Mr. Gebhard von Katte
Economist (GTZ/Urban Development Support Services)

Introduction

The paper will present some ideas that can be drawn from German and Ethiopian experiences in urban management and service delivery. The Ethiopian experience is based on works with the Urban Development Support Services (UDSS) of the Ministry of Works and Urban Development. The focus is thus more on regional towns than on Addis Ababa.

The comparison will concentrate on two aspects, (1) on possible approaches to urban service delivery and management in view of serious financial constraints and (2) on issues of a conducive legal and institutional framework which is a precondition for an efficient management.

Germany and Ethiopia are federal states and have opted for a policy of decentralization. In Ethiopia, this policy is still at its formative stage with regard to local authorities whereas the German example may demonstrate a great variety of models of local government that may exist under a federal system.

The international economic crisis has led to a very serious financial crisis of local governments in Germany. These authorities had and still have to massively reduce their expenditures and at the same time they are expected to maintain acceptable standards of service delivery. In Germany like in several other countries this has led to widespread discussions on a “New Public Management” (NPM) that is needed to cope with the problems.

The idea was pushed by the neoliberals and in some countries like in the United Kingdom drastic reforms were undertaken largely on ideological grounds. Germany in general has chosen a more pragmatic approach, reforms are even slow and ongoing. But the points raised during the reform discussions may even of greater interest.

A pressing need for reforms seems to be obvious in both countries. The German example may not be the most interesting one for comparison. But models and approaches that can be copied do not exist. Every country has to develop its own
vision and system of local government. However, international experiences can enrich the discussion.

Approaches to urban management

1. The new approaches in Germany
German local or urban administrations over the last 30 years until the late eighties were very little concerned with finances. Services were mainly delivered through specialized public agencies or enterprises or through voluntary or other nonprofit organizations. They had no serious financial constraints, there was no reason to worry about costs and efficiency. The administration and control of this public set up were the major function of the municipalities.

With the increasing crisis of public and municipal finances, urban administrations came under growing pressure to reduce their expenditures. This led to a widespread debate on urban reforms. The focus changed rapidly from good administration to service delivery where efficiency of service provision, responsiveness to needs of the urban population and transparency of the service delivery process became the major issues. Municipalities were requested:

- to review their activities and to limit themselves to those services that can only be provided by a public body,
- to privatize those services that can be provided by the private sector,
- to contract out services where possible, but where the municipalities remain responsible for the provision of the services, the coverage and quality control; the “production” only is given to private contractors,
- to introduce business-like management methods to achieve greater efficiency and transparency in the service delivery process: flat hierarchies with more delegation of responsibilities to administrative units with clearly defined performance criteria for each unit (similar to profit centers), new financial management methods with a task oriented budgeting, more flexible expenditure management and cost accounting, a management information system and a controlling system,
- a greater performance orientation of staff management either by defining performance criteria for individual with incentives in case of good performance or by creating independent service units or joint ventures with the private sector that have greater possibilities to recruit and pay more qualified staff,
- to introduce more direct participation and involvement of major stakeholders in the planning and implementation process of service delivery.

The objective of these suggested reforms can be summarized as
- to reduce the costs of service delivery,
- to maintain adequate standards of service delivery,
- to mobilize additional resources from the private sector for urban service delivery,
- to create a climate of good cooperation with the private sector and the citizens.

These reforms once implemented are tantamount to a revolution in the municipal administration. When the debate started, people were surprised how little information was available about urban services. Standards or “products” were not defined, the costs were unknown, modern management methods were thought to be incompatible with a public service. Since then, things have changed, but the implementation process is relatively slow.

In general, municipalities have been quite reluctant with the privatization of traditional public services. Some of the reasons are (1) to avoid simply replacing a public monopoly by a private monopoly (2) that municipalities often had difficulties to define the services expected and to determine the costs, both a precondition for privatization or for contracting out of services, and (3) that they have inadequate experience with the preparation of contracts that will assure adequate service delivery for everybody.

2. The Ethiopian challenge
It is generally accepted that service delivery standards in Ethiopia are very low. Urban policy, management and service delivery are neglected issues. Some adjustments of previous policies or
some improvements were prepared or are under implementation, but no general discussion on major reforms can be perceived. The challenges seem to be at least as great as in Germany.

The Civil Service Reform of the Government may be mentioned here, but this has not yet reached the local level. At least Region 14 has started to think about new forms of service delivery like privatization.

Great emphasis is given in Ethiopia to urban planning. Sometimes, you may get the impression that this is synonymous with urban development. But without a good management capable of translating plans into action, the relevance remains largely theoretical.

Urban service delivery has to be greatly improved in order to cope with the existing and the growing problems of the sector! A responsible and competent management is perhaps the most important factor to readdress the situation.

Management, however, is not only a matter of methods and tools. The persons that are qualified or that can be qualified for such jobs are equally important. The same applies to a legal framework that gives them sufficient freedom of action to develop and implement solutions.

Aspects of the legal and institutional framework of urban management

1. Some features of the German framework
In Germany, modern local self-government was introduced early last century. At that time, local administration was not really a democratic exercise, wealthier citizens, specially the emerging new middle classes, had more influence than other. Local authorities became specific public entities and were not considered any more as an integral part or appendage of the overall public administration. They had the right to settle their own affairs and to raise taxes within a defined legal framework. The role of the other government bodies was more and more restricted to supervisory functions.

In the constitution of the Federal Republic of Germany, the right of local self-government is guaranteed and defined. Nowadays, local governments have to be democratically elected and controlled, the local authorities are accountable to their council and thus to their electorate. The supervision of local governments is the responsibility of the regional or state governments. They define the legal framework within which local governments can operate and they have to supervise and control whether these laws are implemented and respected.

The way local governments are organized varies from one region to the other. Though all local governments have elected mayors and councils, the election procedures, their respective roles and responsibilities can be quite different. Basically four different models can be observed:

- the mayor is directly elected by the population. He is the head of the urban administration and chairman of the council. This gives the mayor a very powerful position.
- the mayor is elected by the council either from among its members or a professional in larger towns. The mayor is chairman of the council and head of the urban administration. This gives the council greater influence.
- the council elects its chairman who represents only the council, in addition a mayor and senior department heads who may or may not be members of the council are elected and who are in charge of the urban administration.
- the council elects a mayor as its chairman and as the political head of the city and elects a town director (chief executive or town clerk in the British system) as head of the urban administration.

The last two models introduce a kind of division of labour between a political and professional leadership.

In smaller towns, the post of a mayor is an honorary office often held by a business man/women with good managerial experience. Where professional mayors or town officers are elected, their term of office is usually longer than that of the council in order to achieve more continuity in the urban management. There are, however, always possibilities to dismiss elected office holders in case of general dissatisfaction.
Usually two thirds or even three fourth of the vote in the council is required for such decision.

Special cases in Germany are the City States of Berlin, Hamburg and Bremen. They are regional states and municipalities at the same time and no distinction between regional and local functions is made. The examples of Berlin (3.5 million inhabitants) and Hamburg (1.5 million inhabitants) may be of interest for the special region of Addis Ababa, particularly their constitution and the decentralised administration at regional and district level.

2. Some features of the Ethiopian framework
In Ethiopia, only municipalities at the local level have the right to raise taxes and to build up a local administration. The legal and institutional framework for municipalities under the new federal constitution is still at its formative stage. The following points among others have not yet found a conclusive response:

- The place of municipalities in the administrative set-up of Ethiopia is not defined in the federal or regional constitutions nor in any other proclamation; visions or orientations in this respect can hardly be found in official documents.
- The roles and responsibilities of the municipal authorities are not yet clearly defined including the important issue of accountability.
- The margin of action of the municipal administration is quite limited. The tariff rates of municipal taxes are or have been defined by other government bodies. The same is true for the organizational chart and the staffing plan.
- Mostly elected mayors are heads of the municipal administration, but they rarely complete their official term of office. Frequent reshuffling is common and new mayors usually have no experience in management or in urban administration and development.

The Tigray, Amhara and Oromiya regions have started to redefine the legal framework, but all these works are still at an initial stage.

Under present conditions, it is difficult to expect an urban management that can assume responsibility for urban problems and appropriate actions.

Final remarks
The recent German experience in urban management can be considered as an example of how a system can be adjusted to (new) major challenges, provided people are willing to do away bureaucratic ways of thinking.

The example may prove as well that urban service delivery is not only and perhaps not primarily a matter of financial resources.

An innovative management is a key factor in urban service delivery provided the legal and institutional set-up gives the management the possibilities to act and to be flexible.

Reforms and changes are time consuming processes, need a vision about what you want to achieve and you have to develop a strategy and ways and means of how to achieve it.

Comments from Readers

Urban Development and Management in Ethiopia: The Present Context
By Ato Shewaye Tesfaye, Economist, Urban Development Support Services

The comment, summarized hereunder attempts to elaborate problems of Urban Development and Management in Ethiopia within the present context.

The main thrusts of the paper is both to create an
awareness and foster discussions among the academic group as well as practitioners.

A. Institutional Set-up
At national level, the Federal Ministry of Works and Urban Development is charged with the responsibility to define strategies, policies, and guidelines concerning the urban development and construction sector (Proclamation 417/1991).

The ministry, apart from its line departments, has two specialized agencies that give professional support services to regional bureaux of works and urban development as well as to municipal administrations.

The first one, the National Urban Planning Institute (NUPI), is empowered to prepare and assist in the implementation of various types of urban physical plans.

The other one, Urban Development Support Services (UDSS), is a focal institution charged to execute the World Bank funded “Market Towns Development Project” (MTDP) as well as the GTZ-assisted “Urban Management and Capacity Enhancing Project”.

UDSS is also engaged in preparatory activities of the “Regional Towns Development Project” (RTDP) for future funding by the World Bank.

At a sub-national level are regional bureaux and zone departments of works and urban development. (In some regions they also include Mines and Energy).

Regional bureaux and zone departments are directly accountable to their respective regional councils and zone administrations. Nevertheless, except a relationship at the working level, there is no functional link with the federal Ministry.

At the grass roots, municipalities are in general responsible for provision of various socio-economic services within their respective administrative boundaries.

Regional bureaux and the departments at zone administrations are responsible to undertake supervision of performances and to provide various technical support to municipalities.

This professional support includes: urban physical plan preparation and implementation, budget administration, revenue collection, as well as personnel administration.

However, due to the prevailing inappropriate perception toward urban development and the resulting lack of conceptual clarity on the part of policy makers and practitioners in the field, the support to municipalities either from central or regional institutions is to a large extent limited to tasks related to the preparation and implementation of physical plans.

Apart from such government institutions, currently few Non-Governmental Organizations (NGOs) and development associations are engaged in various urban development activities. By and large such institutions focus on activities like community development, poverty alleviation, and infrastructure development.

At policy level, due mainly to the general inadequate concern to urban areas and their administration, a conducive legal and institutional framework that supports proper urban management is lacking.

In the constitutions enacted by both the federal and regional governments, the place of municipal administrations within the broader realm of public administration is not clearly defined.

Although the present level of urbanization for the country is only 14%, by far lower than the rate attained by economies found at a similar stage, the need to accord proper concern and attention to urban areas and their administration is unquestionable.

This is primarily because a substantial share of the national gross domestic product (GDP) originates from urban areas.

Moreover, the fact that the efficiency of urban service delivery will be reflected in the performance of the whole economy.
B. Municipal Administrations

1. Institutional Framework
The administration of municipalities is composed of
   a. A policy making or political representative i.e., the council and;
   b. Professional department heads and staff that are civil servants.

However, between these parties that assume leadership responsibilities within municipalities, a clear definition of roles and responsibilities is generally lacking. In many instances, this has resulted in overlapping of responsibilities and unnecessary competition.

The executive group or councillors in many cities usually lack the required work experience and professional competence.

Moreover, because of regular evaluations by executives in woreda, zone, and regional administrations, mayors and other executive members within municipalities rarely assume positions for a period of a single term of office which is usually two years.

Thus, the reshuffling of mayors, executive members, department heads and even in some cases of other staff within municipalities has become a regular head story on the media.

Consequently, lack of continuity in leadership and management is the major problem that urban administrations all over the country face.

Currently, the concept of accountability with respect to a municipal council is ambiguous. Some relate it to agencies that supervise performances and provide technical assistance i.e., the regional bureau and zone departments of works and urban development. Others link this to administrative supervision and control i.e., woreda, zone or regional administrations. And still others feel that municipalities ought to have a dual accountability on the basis of both technical and administrative considerations.

Concerning the relationship between municipalities and other authorities there are many indications that municipalities have little or hardly any control at all for major decisions. Obviously, despite a policy direction toward decentralization and devolution of power and responsibilities to lower levels, municipalities have little authority and freedom.

The root cause of this state of affairs is the tendency, on the part of higher authorities to consider municipalities as largely irresponsible administrations.

Nonetheless, in some instances, higher level authorities interfere in matters of internal affair such as authorization of payments, prohibition of legally enacted revenue sources, personnel administrations, and appropriation of their property, etc.

To curb the situation much effort needs to be directed toward instituting and encouraging good governance and accountability. To avoid an abuse of power, there is an accepted procedure of assigning a public oversight committee which monitors the operations of the institutions. This needs to be further strengthened.

As another major step towards good governance, a regular forum is needed at national and regional levels to foster discussion on issues of common interest in urban management and to facilitate sharing experiences between regions and municipalities.

Moreover, in the long-run, establishment of an association of municipalities has to be considered. The association, besides facilitating sharing of experiences, serves as a lobby institution in the interest of the administrations.

Organizational structures and staffing plans of municipal administrations are blue prints that were centrally prescribed during previous times - disregarding their functions, problems and priorities. These problems still remain unresolved.

Hence, in addition to the apparent lack of dynamic and competent managers, municipalities are poorly staffed in skilled and professional workforce/human resource.
Lack of incentives, and a non attractive pay rate have also contributed to worsening human resource conditions within municipalities.

Despite the autonomy of municipalities to raise and live on their own income, and distinct from the experiences of other countries, municipal personnel in Ethiopia are governed by civil service personnel regulations and pay rate.

The absence of working manuals, guidelines as well as training have all contributed to the apparent poor performance of municipalities.

Within municipalities, staff are left to learn the trade by doing. Hence, at the present even key activities are being performed without an objective understanding of the function and the relationships that exist between different activities.

2. Duties and responsibilities
One can fairly state that the duties, responsibilities and priorities of municipalities are not clearly defined. It is surprising that municipalities in many cases consider the collection of taxes as a major priority or even equate this to their mission.

In this regard there is little evidence of an awareness concerning the accountability of municipal administrations for provision of socio-economic services to town dwellers.

Indeed, the range of services provided by municipal authorities depends upon the size of the city population and the amount of revenue collected from local sources.

The major ones include;
- land management and implementation of plans;
- Garbage collection and disposal as well as provision of proper sewerage and drainage;
- construction and maintenance of roads, bridges, and culverts and;
- provision of such services as market places, livestock market, slaughter houses, bus terminals and public toilets.

However, due to poor financial resources, inefficient management, weak institutional set-up, and lack of skilled workforce, necessary equipment as well as instruments, the performance of municipalities has been by far below satisfactory.

Thus, in what ever measure, very few services are provided by municipalities at present. And the coverage, standards, and quality of the services are in general at a very low level.

To improve conditions of municipal service delivery, what is needed first and foremost is a dynamic and competent management. Moreover, such concepts as public-private partnership, privatization, and cost-recovery in service delivery are points that worth consideration in relation to the challenging task of reorganizing municipal service delivery.

The role of municipalities to discharge their regulatory function and ensure coordination of the activities of different actors within their respective boundaries has diminished through time.

In most cases, the participation of the general public, institutions and organizations in the activities of municipalities is very limited. In this regard, owing to the lack of transparency in their operations, municipalities generally seem to have failed to win the confidences of the general public.

3. Municipal finances
Ethiopian municipalities do not get grants or regular financial allocation from the central or regional governments. Municipalities are also denied access to credit from domestic financial institutions. They are autonomous in the sense that they raise income from urban dwellers and local businesses in the form of taxes, service charges fees, and rents.

The major sources of revenue for municipalities include; licence fees, land taxes and building rents, as well as various taxes on agricultural goods.

Despite this autonomy to raise revenue from local sources, the level of income for many
municipalities did not show real increases for many years.

From a total of 213 municipalities considered in the regional states of Amhara, Oromiya, Southern Peoples, and Tigray, only 15 (or 7%) collected an annual revenue of over one million Birr. On the other hand, about 84% of the municipalities collected annual revenue of lower than half a million Birr. The level of collection per capita for many municipalities falls within the range of Birr 10-30 per year.

Major constraining factor in this regard are the rates, tariffs and charges that remained unchanged for nearly three decades.

Recently, with the intention both to ease land management difficulties and to raise substantial income that could be used to finance infrastructures and services, the urban land lease holding policy was proclaimed.

However, for many regions the application of this policy is limited only to few relatively larger urban centers. Even in these few urban centers, the available experience concerning implementation of the policy does not indicate conclusive results.

A general poor economic base of urban centers, the flourishing of informal businesses, and the worsening condition of poverty in urban areas have also contributed to financial constraints of municipal administrations.

Furthermore, low collection efficiency and poor financial management practices could equally be cited as major problems. According to some studies, if improved financial management practices were introduced within municipalities, it is possible to double their current revenue collection.

4. Project planning and implementation
A good share of the annual expenditure of municipalities constitutes staff salary and other administrative expenses. The proportion of capital expenditure in annual municipal budget is very minimal.

Beside limited financial allocation to capital projects which mainly includes the construction of roads, bridges, squares, drainage and buildings, the capacity of municipalities to prepare and implement projects is quite poor.

Moreover, owing to lack of adequate professional and work experience, municipal leaders and key management groups usually keep themselves too busy with routines.

Although, almost all towns do prepare annual capital project plans, they do not have medium-term infrastructure and investment plans. But in the process of preparation as well as implementation of development projects, however insignificant these may be, often there is little participation by the general public. And in many cases projects do not reflect problems and priorities of residents.

Concluding Remarks
This brief comment is intended both to create an awareness and to foster discussions in the field. It does not pretend to present a complete account of urban development and management problems in Ethiopia.

The problems that urban centers face all over the country have multiple facets. Apart from a weak institutional set-up, other major problems of urban areas include: lack of physical infrastructure and services, inadequate housing and housing related facilities, poor state of sanitation and cleanliness, unemployment, poverty and crime.

Moreover, although, the current level of urbanization for the country is only about 14%, demographic forecasts indicate that the challenges of urban development for the coming decades will assume a much greater dimension, scale and intensity.

Research and study results have warned that such urban problems will lead to political instability and social unrest. Hence, the country cannot afford to wait and see this undesired outcomes.

To improve living conditions in urban areas or in other words to bring about urban development,
there is a need to adhere to pragmatic and feasible approaches to urban management.

In this regard, what is needed first and foremost, is to institute a conducive legal and institutional framework that supports effective urban management. To this end, a comparative review of the experiences of other countries is important.

It is true that the urban centers in the country have waited for a long time crying out for stronger municipal administrations. Indeed their problems call for competent and proactive executives and professional leaders. What is required from them is a clear vision as well as a strong sense of responsibility towards fulfilling the mission of the institutions.

**CULTURE AND ECONOMIC DEVELOPMENT:**

Does cultural change induce economic change or vice versa?
Synopsis of Study Papers

Below we present the synopses of two of the papers presented at the Sixth Annual Conference on the Ethiopian Economy.

Micro-business Development in Ethiopia

By Getachew Abebe and Getachew Belay
Ministry of Economic Development and Cooperation

After about two decades of a command economy, it is now recognized that promoting the private sector has great contribution to rapid economic development of Ethiopia. Hence, creating an awareness and emphasizing the importance of the private sector, specially the micro business sector and identifying the problems and introducing packages of measures to promote the sector is pursued.

The micro-businesses (both formal and informal) have invaluable contributions to the economic and social life of the country. Despite its contributions, the micro-business sector has been neglected in development strategies, policies and support programmes of the government. Given the existing Ethiopian economy, the micro-business sector has to get proper attention and making the government realize its immense importance is timely.

The objective of the paper could broadly be divided into two. The first part aims to provide general background about micro-enterprises, the second part deals with findings (main problems and required promotional measures) of the “World Bank - MEDaC Joint Mission” pilot assessment made on micro-businesses in 1994. The pilot assessment was conducted in five selected towns (Addis Ababa, Nazareth, Shashemene, Awassa and Mekelle). In each town the study team has contacted relevant institutions such as the Chamber of Commerce, Regional Bureaux, municipalities, etc. These contacts have made it possible to acquire as much information as possible on the sector in each selected town.

The Sector
Micro-enterprise is taken in this paper to mean an enterprise, both formal and informal, which uses simple equipment and employ up to five workers including the owner manager. However, the definition given here does not claim to be exhaustive. In fact, a base line survey and further analysis to arrive at a more appropriate definition for the sector in the Ethiopian context are highly recommended.

Although there has not been clear-cut definition for micro-business enterprises, the sector in general has invaluable contribution to the economic and social development of Ethiopia. Given the country’s limited experience with larger capital intensive enterprises, the weak indigenous entrepreneurship, the scarcity of capital resources and the urgent need and challenge to create employment etc., micro-enterprises provide, with a minimal risk, learning grounds to foster the development endeavor.

Basic Problems and Promotional Measures
Ethiopia has now recognized that supporting the micro-business sector cannot be escaped owing to the significant contribution of the sector towards poverty alleviation. However, as identified in the pilot assessment made, a number of problems have militated against the effectiveness of the sector. Foremost among these have been lack of bank credit because of collateral and other requirements, lack of market information, absence of entrepreneurial and managerial skill, lack of institutional support, lack of infra structural facilities and technological problems.
The Ethiopian Economic Association publishes the Ethiopian Journal of Economics (EJE) that comes out biannually with numbers one and two appearing in April and October, every calendar year. The Association devotes this journal to the advancement of economic science in Ethiopia. Contributions by non-Ethiopians and on economic experiences of other lands are also considered for publication.

Authors can send their articles to the editor in electronic and hard copy, double-spaced and printed on one side. Current editorial policy limits articles to a maximum of 40-50 pages (for text only). An article submitted to the EJE needs to have the following features:

- Front page: author’s full name and their institution, acknowledgments, and abstract (not more than 100 words).
- Articles: need to be divided into sections and subsections, sequentially arranged and numbered, followed by Notes, References and Appendices. References used in the article should be arranged alphabetically, number sequentially and placed under a heading “References” at the end. Diagrams should also be drawn carefully, label properly and kept in a form suitable for photographic reproduction.
- Tables need to be sequentially numbered with descriptive headings and kept within the space provided in a page (at most). Details of mathematical and statistical works that support the manuscript should be sent for use by referees.

Authors should submit statement explaining the status of their manuscripts whether or not they have published or submitted it for consideration elsewhere. The Association vests copyright of accepted articles in the Ethiopian Journal of Economics.

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