

Ethiopia

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Overview

With a population of approximately 123 000 000 in 2022, Ethiopia remains the second most populated country in Africa. Its current population growth rate has largely stabilised at 2.5% per annum. Ethiopia's economy grew at a rate of 9.5% each year on average for the last 15 years, until 2019. Capital accumulation, particularly through public infrastructure projects, among other factors, fuelled this growth. However, in 2021, the Gross Domestic Product (GDP) growth dropped to 6.3% due to COVID-19, with growth in industry and services falling into the single digits.¹ In the year 2022, the country registered a further decline, with a 5.3% annual growth rate. Four percent of the total labour force in the country is currently unemployed.² The country's major goods exports include coffee, gold, khat and cut flowers, which translated to Br47 679 211 350 (US\$873.5 million) in revenue in the 2022/23 financial year third quarter review. Merchandise imports are valued at Br229 253 220 (US\$4.2 billion) with oil and petroleum products taking the largest share of imported goods.³ While the country is very rural, this is changing rapidly, and the urban growth rate is 4.7% annually. The demand for housing in the country is currently not being met, forcing 64% of the urban population into informal settlements.⁴

The number of unemployed in urban areas of the country is 1 951 375 and the unemployment rate is 19.2%. Female unemployment is considerably higher than male unemployment at 28.6% against 10.8%.⁵ To absorb the present backlog of unemployed and new entrants into the labour market, 14 million jobs must be created between 2020 and 2025.⁶ Using the latest available data from 2015/16, 23.5% of the population in Ethiopia live below the national poverty line.⁷ However, this does not fully register the levels of need. In 2019, it was estimated that 68.7% (improvement from 72.7% in 2015) of Ethiopia's population (more than 84 million) was multidimensionally poor, and another 18.4% vulnerable to multidimensional poverty.⁸ The level of inequality as measured by the Gini Index is 35%, which indicates that the country does not suffer from exceedingly high levels of inequality.⁹ The informal sector employs 21% of the population with 12% being female and 9% being male.¹⁰

The country has suffered significant economic setbacks caused by both extraneous circumstances, such as drought and the influences of the Russia-Ukraine war, and self-inflicted challenges such as internal conflict. The war in Tigrinya has affected the operation of banks in the country and in some cases has resulted in the closure of bank branches.¹¹ Based on 2021/22 financial year results from banks operating in the country, Non-Performing Loans (NPLs) varied from 1.5% to 8.5% for all loans.¹² These ratios show a decrease compared to previous years and are less than the regulatory maximum requirement of 5%.¹³ Ethiopia's inflation rate rose to a high of 34% in 2022, from 26.8% in 2021 and the dollar gained 45% against the Birr since 2019. The projections are still optimistic, and the country's economic growth is projected at 6.1% in 2023.¹⁴

There are various estimates of housing backlogs in Ethiopia. The most useful is supplied by the World Bank. The country is predicted to experience a demand of approximately 471 000 units per year between 2015 and 2025,

KEY FIGURES

Main urban centres	Addis Ababa
Exchange rate (1 July 2023): 1 USD = [a] 1 PPP\$ = (2022) [b]	54.60 Ethiopian Birr (ETB) 17.75 Ethiopian Birr (ETB)
Total population [b] Urban population [b] Population growth rate [b] Urbanisation rate [b] Percentage of urban population living in slums (2018) [c] Percentage of female-headed households (2019) [c] Unemployment rate (% of total labour force, national estimate) (2017) [b] Percentage of women participating in the labour market formally (2022) [b] Gini coefficient HDI country ranking (2021) [d] HDI country score (2021) [d]	123 379 924 27 959 125 2.54% 4.71% 64.3% 22.1% 5.2% 75.0% n/a 173 0.49
GDP per capita (Current US\$) [b] GDP (Current US\$) [b] GDP growth rate [b] Inflation rate (2021) [b] Lending interest rate (2008) [b] Proportion of adult population that borrowed formally [b]	US\$1 027 US\$126 783 million 5.32% 26.8% 8.0% 39.0%
Number of residential mortgages outstanding (2021) [e] Value of residential mortgages outstanding (USD) (2021) [f] Prevailing residential mortgage rate Term [e] Maximum LTV on a residential mortgage [e] Ratio of mortgages to GDP (2021) Number of residential mortgage providers [f] Percentage of women who own a house alone and/or jointly (2019) [c] Number of microfinance loans outstanding (2020) [g] Value of microfinance loans [f] Number of microfinance providers [f]	247 000 US\$420 million 8-16% 30 years 70% 2.6% 14 49.6% 500 000 US\$648 million 46
Total number of residential properties with a title deed (2019) [h] Number of formal dwellings completed annually [i] Number of residential projects certified by EDGE Price of the cheapest, newly built house by a formal developer or contractor in an urban area in local currency units (2022) [j] Size of cheapest, newly built house by a formal developer or contractor in an urban area (2022) [k] Typical monthly rental for the cheapest, newly built house (2022)[l] Cost of standard 50kg bag of cement in local currency units [m] Type of deeds registry: digital, scanned or paper (2020) [n] World Bank Ease of Doing Business index rank (2020) [n] Time to register property (days) Cost to register property (2020) [n] World Bank DBI Quality of Land Administration index score (0-30) (2020) [n]	2 800 000 200 000 n/a ETB 903 200 20m ² ETB 8 000 ETB 1 059 (US\$19.40) Paper 159 52 days 7.3% 5.5

NB: Figures are for 2023 unless stated otherwise.

[a] Xe.com

[b] World Bank World Development Indicators (as of end 2022)

[c] Demographic and Health Surveys, USAID

[d] United Nations Human Settlements Programme (UN-HABITAT)

[e] Commercial Bank of Ethiopia

[f] National Bank of Ethiopia

[g] World Bank Report: How to Escape the Micro Finance Squeeze: Evidence from Ethiopia

[h] World Bank report:Unlocking Ethiopia's Urban Land and Housing Market 2019

[i] Ministry of Urban Development and Construction

[j] Condoaddis.com

[k] Urban Transition Global

[l] Et.loozap.com

[m] Mikias Building Materials

[n] World Bank Ease of Doing Business Indicators

and another 9.7 million in total thereafter to the year 2037.¹⁵ Given the high rate of urbanisation, a good proportion is in cities. The numbers estimated for Addis Ababa are estimated at 1 172 195 units over the next 10 years, approximately a third of the predicted demand.¹⁶

Access to finance

There are 28 private and two state-owned banks and 46 microfinance institutions in the country.¹⁷ The state-owned Commercial Bank of Ethiopia (CBE) has market dominance with over 60% of deposits.¹⁸ The state development finance bank, the Development Bank of Ethiopia (DBE) does not specifically target lending for housing projects, although it has a wide lending net that includes microfinance and cooperatives.¹⁹ Foreign banks

are not permitted to provide financial services in the country although there are signs this will change. In a move to ease restrictions on foreign banks operating in the country, the government has announced that up to five banks are set to be licensed by the authorities over the next five years.²⁰

There are signs of growth in the banking sector. According to the National Bank of Ethiopia (NBE), there were two new entrants in 2022.²¹ One of them, a dedicated mortgage lending company, GOH Betoch Bank, lends solely for the construction, purchasing and renovating of houses and notes that the market is large with great potential for growth. Within the current financial year, GOH Betoch Bank has lent to 37 borrowers and opened four branches with three in the capital city. The average loan size for GOH Betoch Bank mortgages (both residential and commercial) is Br5 500 000 (US\$102 415).²² The state-driven mortgage lending program, the Integrated Housing Development Program (IHDP), directs state subsidies to eligible citizens for built houses and mortgage finance. Although the programme has delivered nearly 400 000 units of housing in 12 years, its sustainability and scalability has been called into question.²³ It is also restricting the private sector with its "crowding out effect" because it controls land supply.²⁴ Its poor targeting of beneficiaries,²⁵ and the unfairness in the expropriation process of peri-urban land has also been criticised.²⁶

There are 46 microfinance institutions (MFI) and over 21 000 Savings and Credit Cooperative Organisations (SACCOs) in Ethiopia.²⁷ These non-banking financial institutions play a crucial role in financial inclusion. SACCOs in particular are able to reach underserved rural areas. The SACCO industry is still in its infancy however, and it is small, unevenly scattered, and lacks competitive products.²⁸ In 2017, the five largest MFIs had a mortgage loan market share of 6% compared to other lenders. These institutions offer short-term housing loans at an interest rate of 14.3% for terms ranging between 5 to 15 years.²⁹

Most of the housing in the country is ultimately however financed through the informal sector, including family and friends. Due to a lack of consolidated data on loans, Ethiopia is among the countries with the least developed credit information system.³⁰ Lending terms typically are a loan-to-value (LTV) ratio of 70% (this is the LTV offered by CBE and GOH Betoch Bank). Interest rates on mortgages are as low as 8%³¹ for state subsidised loans, and as high as 15.5% in the private sector.³² Ethiopian banks have "diaspora mortgages" that target Ethiopians abroad, and housing loans for locals. Non-citizens of Ethiopia also have access to these housing loans. There are often differences in pricing, largely determined by whether payment is in foreign or local currency.

Ethiopia suffers from a lack of long-term capital for housing lending.³³ This persistent challenge is acknowledged by the latest housing finance entrant, GOH Betoch Bank, stating that "mobilisation of long-term funds will be a single important challenge for the Bank in the coming years".³⁴ There have been some limited positive movements in this regard and in particular the country is "gearing up" to launch its first ever securities exchange in 2024³⁵ with the support of the International Finance Corporation (IFC).³⁶ The regulatory regime for pension schemes is still restrictive and allows only investments in government securities.³⁷ Various bank annual reports show that 14 private and one state run bank, the CBE, offer financing for housing. Nevertheless, the mortgage market is considered underdeveloped. The country's mortgage to GDP ratio is a low 2.6%. The country also does not have an operational mortgage refinancing company.³⁸

Financial inclusion remains a challenge in Ethiopia. Approximately 46.5% of persons older than 15 years have access to a bank account, and approximately 4.6% have a mobile account. This is much lower than its neighbours such as Kenya where the same figures are 79.2% and 68.7% respectively. With regards to gender, 38.7% of women have a bank account, while the figure for men is 54.7%.³⁹ This disparity is also present in borrowing data which shows that approximately 33% of women have a savings account at a financial institution, compared to 45.1% among men.⁴⁰ However, the Constitution of Ethiopia Article 35 provides for the rights of women and women in Ethiopia also enjoy equal treatment in the inheritance of property.⁴¹

Affordability

The country's aspirations to achieve lower-middle-income classification by the year 2025 will be a significant challenge, given the widespread poverty. Ethiopia's per capita gross national income is Br55 675.8 (US\$1 020).⁴² In perspective, middle income countries include South Africa Br370 080 (US\$6 780) and Mauritius Br587 325 (US\$10 760). Typical housing prices in Ethiopia range from, for a one-

bedroom apartment of 47.5m², Br5 700 000 (US\$104 395) in Addis Ababa. A larger three-bedroom unit goes for Br9 700 000 (US\$177 655). For a one room apartment costing Br5 700 000 (US\$104 395), with an LTV of 70%, term of 30 years and interest rate of 15.5%, the total monthly cost of servicing a mortgage is Br36 363 (US\$666). This is above the average monthly salary for the common Ethiopian such as a teacher earning Br2 058 (US\$37.7) or policeman earning Br2 566 (US\$47).⁴⁴

State supplied housing is cheaper given the subsidies. For a twenty-five-year loan for an IHDC condominium at 8% interest, the monthly cost is approximately Br737 (US \$ 13). While this is affordable, the delivery program does not produce nearly enough houses.⁴⁵ The IHDP subsidises infrastructure, program administration charges, tax and duty and financing. It is not clear what the precise quantum of the subsidy is, but useful estimates place the average cost of delivery of a single unit at approximately Br1 255 434 (US\$23 000), while the cost to the beneficiary through a loan is usually less than Br109 168 (US\$2 000). This means the subsidy per unit is more than Br1 091 682 (US\$20 000). In addition, following a four-year hiatus, the Addis Ababa city administration in 2023 declared commencement of a land lease auction. A total of 297 properties were on offer. The properties, a combined area of 143 000m² had a starting price of between Br960.21 (US\$17.59) to Br2 213.25 (US\$40.54) per m².⁴⁶

The narrative on rental is similar to home ownership. While most Ethiopians own their homes, in larger cities, renting is higher by as much as 60% to 75%.⁴⁷ A small portion of Ethiopians rely on state rental housing and kebele units. Kebele is previously private housing nationalised by the Derge government in 1975.⁴⁸ These are rented out at low cost, Br109.168 (US\$2). Similar rates are charged for government owned rental units for civil servants managed by the Federal Housing Corporation (FHC). Private rental rather than state rental is where the vast majority source rental housing. An affordable one room apartment in Addis is Br1 500 (US\$27.4). According to the International Labour Organisation (ILO), a household of five will spend approximately Br130 (US\$2.4) per month on utilities. For transport and other essential goods and services, the same household will spend approximately Br357 (US\$6.5).⁴⁹ This does not include education or health costs. The total costs are therefore approximately Br2 000 (US\$36.3), very close to the average monthly salary for a teacher or policeman.⁵⁰ Most household incomes are too low to sustain formal housing and the most realistic option is renting in informal settlements and it is not uncommon for multiple households and extended families and friends to share single houses.⁵¹

Housing supply

To date, approximately 160 000 formal housing units are produced annually nationwide. This falls short of the almost half a million needed to address the growing backlog. The state-driven IHDP program delivers between 25 000 to 35 000 of these houses and the rest are delivered by the private sector.⁵² Another form of housing delivery is through housing cooperatives where the state allocates land to housing cooperatives. To qualify, a small number of individuals, commonly 10 to 24, none of whom already own a home, must register. The cooperative must have 50% capital upfront for construction before land registration. The remaining 50% must be provided prior to construction.⁵³ These requirements mean cooperative housing is only feasible for wealthier households given the high savings requirements.⁵⁴

Government-owned rental units, often of poor quality, are a very small proportion of the housing stock countrywide. The FHC provides approximately 24 587 units and there are approximately 360 000 Kebele units largely in urban areas. Kebele housing stock is seen as a sub-optimal use of land due to its prime urban location, and is being demolished for denser redevelopment.⁵⁵ Existing tenants are offered either IHDC condominiums or moved to another Kebele house.⁵⁶ Another source of rental housing stock is the IHDP, as many beneficiaries rent out their houses to generate revenue. Approximately between 20% to 46% of beneficiaries move into their apartments.^{57,58} Private rental, often in the form of house extensions by individual owners, is the main supplier of housing.

Access to water is relatively good, with 69% of households nationally having access to an improved source of drinking water, of which 87% are urban households. However, approximately 20% of Ethiopian households use improved toilet facilities, with 42% in urban areas and 10% in rural areas. On access to electricity, 35% of households on average are connected, with urban areas having much higher connectivity at 83%.⁵⁹

PRICE OF BUILDING MATERIALS AND CONSTRUCTION COST INFLATION – ETHIOPIA

The high cost of construction is often cited as a key factor undermining housing affordability. The need to import materials instead of purchasing those produced locally, the shortage of and high cost of local skills, and the absence of financial mechanisms that allow for materials to be bought in bulk – all these factors impact on construction costs and may create cost overruns.

Strikes or fuel shortages also increase the price of building supplies, by driving up transport costs. High inflation rates, as are being seen across the continent in 2023, also undermine affordability. As a result, low-income households may not be able to afford the price of construction materials in order to build their own home incrementally.

CAHF has been collecting a few basic housing cost indicators for the past decade, including the price of key building materials, the price of the cheapest, newly-built house in an urban area by a private developer and the average size of this house (see Key Figures section).

Wholesale price of a standard 50kg bag of OPC cement (strength class 32.5N)

ETB 1 059 (US\$19.4)



Price of ceramic floor tiling (per sq metre)

ETB 800 (US\$14.65)



Price of steel profiled roof sheeting per sq metre

ETB 1 350 (US\$24.73)



Price of roof tiling (per sq metre)

ETB 3 470 (US\$63.55)



Price of cheapest, newly-built house by a private developer in an urban area

ETB 903 200 (US\$16 542)



Cautionary notes

This data was collected by Yearbook authors as part of their research. Authors were asked to contact three building material supply stores and ask for the price of the product, and then, based on the responses received, estimate the typical cost of the material. The figures given are therefore not formal averages but informed estimates, based on the canvassing of a handful of suppliers in urban areas.

Minimum plot sizes are relatively small in Ethiopia compared with other countries in sub-Saharan Africa and are also accompanied by relatively high plot ratios. In Addis Ababa the minimum and maximum plot sizes for a residence are 75m² and in Mekelle, 140m² and 500m² respectively.⁶⁰ It takes 15 procedures and 136 days to obtain building permits. It further costs up to 12.6% of property value.⁶¹ It takes seven procedures, 52 days and 6% of the total property value to register property in Ethiopia according to the World Bank. Ethiopia has a Construction Contractors Association that does not have any regulatory powers and rather serves as a voice of the industry. Regulation is done through the professional organisations that register individuals who are involved in the construction industry. There is no publicly available information on how many people the industry employs.

Property markets

Land administration is divided between municipalities (for urban land) and regional governments (for rural land). The state also holds most of the land and is heavily involved in land production and housing development. It readily expropriates land, including in peri-urban areas in cities and towns for urban development.⁶² Land is released to the private sector by the national government, city administrations and municipal government through auctions and administrative allotment. Leases are granted to new owners for as much as 99 years. However, there has been uncertainty on how secure these leases are as collateral, due to perceived risks on the value and transferability of the titles.⁶³ Land is a key constraint to housing supply in the country. Its production for development is slow, inefficient and non-transparent and has stifled the development of a vibrant primary and secondary land and housing market because it does not meet demand. Land production also does not maximise the potential for revenue raising for the state, which can better leverage it to fund expansion of infrastructure.⁶⁴ Informal land development is an inevitable consequence of this restricted supply with mushrooming peri-urban informal settlements.⁶⁵ This high demand also means the cost of land in the informal market is up to four times the cost of land produced in the state housing scheme.

The land administration system in the country does not regularly provide updated data on the housing sector in the country. A 2016 study revealed that there are 400 000 registered titles in Addis Ababa (100 000 leases, 140 000 permissions, 127 000 condominium units, and 16 000 government-owned). This from a total of 680 000 land parcels in Addis Ababa and 6.5 million in urban areas across the country.⁶⁶ The titling system has many gaps and does not provide a true reflection of the number of individual parcels that can be titled. There are many pilot projects underway to incrementally improve coverage.⁶⁷ An ambitious program by the Federal Urban Land & Land Related Property Registry & Information Agency targets land adjudication and registration of 1.6 million and 1.2 million landholdings respectively, across 91 cities in five years with 200 000 adjudicated and 150 000 registered in just the first year.⁶⁸

Ethiopian law allows for taxing of both land and improvements based on market value.⁶⁹ The main challenge has been the low capacity to implement the system. Addis Ababa for example does not have up to date valuation rolls for tax collection, which makes property taxes collected less than 1% of total revenues.⁷⁰ A building census is underway in 2023 although there is criticism that it is not based on a comprehensive mapping and digitisation process and does not include an analysis of current land uses.⁷¹

Policy and legislation

Ethiopia's ten-year development plan has several planned policy and regulatory changes intended to stimulate the housing markets. It provides for changes to increase land and land-related registration and cadastre services from 3% to 60%.⁷² It also provides for reducing the proportion of land directly allocated to the government from 95% to 30%. The latter measure would be crucial in allowing greater supply of housing in the country as approximately 7% of land in Addis Ababa was auctioned to the private sector between 2012-2017.⁷³ Some of these reforms have been attempted before. On land registration, the ongoing projects to adjudicate and register land have only had mixed success.⁷⁴

Ethiopian law has long allowed for banks to foreclose relatively simply.⁷⁵ There have been concerns recently, however, that a new commercial banking code has created a potential gap. Applicable during bankruptcy proceedings, the provisions potentially allow for debtors to use the courts to stay enforcement actions such as foreclosures.⁷⁶ Banks in Ethiopia are also required to invest 1% of their outstanding loans on low yielding DBE bonds annually, until their aggregate bond holding equals 10% of total outstanding loans and advances.⁷⁷

Recent policy and regulatory advancements could advance inclusion through digitisation. The Ethiopian government has moved to liberalise the telecoms sector and adapted regulations to allow non-banks and mobile network operators to offer mobile money services.⁷⁸ Finally, there are policy changes towards developing greener cities. The Addis Ababa Structure Plan proposed under the chapter on "compact and green development" is aimed at higher density development along its transportation lines. It also proposes inner city renewal upgrades to informal settlement areas through vertical higher density development and infill in low density condominium sites.⁷⁹

Opportunities

The high demand for housing especially in urban areas presents the greatest opportunity. These opportunities cut across the entire housing delivery chain, from construction and development to retail and developer financing. These opportunities are particularly available in the affordable housing sector, where there is inadequate delivery. Many households can pay but struggle to access well-priced decent accommodation regardless of whether they are looking to buy or rent. This is leading to many opting to live in informal settlements.

The much-awaited structural reforms to the housing sector are slowly happening and greater allocations of land to the private sector during auctions is taking place, which should release more land for housing development and increase supply. There are also signs of easing restrictions on operations of foreign banks in the country. Availability of long-term patient capital may improve if the launch of the securities exchange is a success. Finally, financial inclusion will improve with the introduction of mobile money services.

Websites

National Bank of Ethiopia: <https://nbe.gov.et/>
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 Gift Real Estate PLC: <https://giftrealestate.com.et/>
 Ethiopia Property Center: <https://ethiopiapropertycentre.com/>
 Ethiopian Construction Contractors Association:
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 The Reporter: <https://www.thereporterethiopia.com/>
 Construction Review: <https://constructionreviewonline.com/>

Availability of data on housing finance

Obtaining data on the various aspects of the housing value chain is difficult. The lack of bank lending data from the regulator; the NBE, means that it is not easy to gauge lending activities in the housing sector. Banks do not report on mortgage lending distinguished from other lending, and neither do they disaggregate data by gender. Cities, municipalities and national authorities do not adequately capture land related activity such as building activity, sales and mortgages. The Statistics Bureau which provides useful census data on housing conditions could potentially do more in including housing data points, such as housing costs per household and greater gender disaggregation. Mobile money introduction has the potential to provide a new frontier for data availability, and the appropriate regulatory framework and protocols should be pre-emptively introduced to allow this data to be easily available.

Examples of innovation: 70/30 Public-Private Partnership Scheme

The 70/30 Public-Private Partnership Scheme is deemed to be the largest housing project in the city of Addis Ababa. It is a partnership between the administration of the city and 68 developers (foreign and national). The project will relieve strain on the government's affordable housing program, which has struggled to deliver more than 20% of demand for more than 13 years. It will also open greater private sector involvement which currently has enormous untapped potential.⁸⁰

The plan, developed to incentivise delivery of affordable housing by the private sector, proposes developers finance and build houses, keeping 70% of them for sale and the remaining 30% to be allotted to the government for prioritised lower income individuals. The 30% is part of the state led IHDC program and CBE provides retail mortgages to beneficiaries. As its contribution to the scheme, the city has set aside 350 hectares.⁸¹ The program has the advantage of allowing greater private sector delivery of housing for both affordable state-subsidised housing and private sector delivered housing. It will also supply more land for housing. By mixing both state-subsidised, and household financed housing in a single development, it will also allow greater integration of housing affordability types and create more diverse communities.

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