



LAND VALUATION

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KEY MESSAGES

Land is the most scarce and valuable resource in Ethiopia. The economic importance of land in Ethiopia is highly significant. Agriculture, fishery and forestry contribute to about 36% of the GDP, while industrialization consisting of construction, mining, manufacturing, energy, water accounts for near 24% of the GDP. The social, environmental and political influences are also very significant. Taxation, collateral, market transaction and value capture are all dependent on valuation of landed properties and this makes land valuation policy imperative. Ethiopia's land valuation and taxation system is not timely updated and does not represent the present worth of land.

Quantities and qualities of land and fixtures are the fundamental for land valuation. Land value information theoretically is supposed to be part of cadastral data set. Valuation can generally be classified as mass valuation and ad hoc valuation. Value information that is part of cadastral data set is usually generated and updated by periodic mass valuation with in a clearly defined time interval. The value information included in the cadastral data set is basic information to calculate taxation, transaction value, and collateral value. Different percentage margins will be given for each kind of land values based on the value given in the cadastral system.

A value zone with similar property nature has to be demarcated and unique properties within the zone identified. Defined criteria to demarcate and classify value zones are required. The increase in value as a result of infrastructure development or plan change has to be captured. The property owners must pay a proportional share of the increase as a result of public investment. The responsibility to conduct both ad hock and mass valuations must be clear. Valuers generally have to be neutral from the interests of property owners and property claimants.



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The calculated value will be binding only after agreement from both parties. In the case of disagreement either of the parties have a full right to take the case to the competent court or appeal. Multitude of valuation methods need to be applied to value properties of different nature. However, it should be acknowledged that some properties and improvements are difficult or in certain cases impossible to be economically valued. Lack of transparent and consistent land valuation methods leads to undervaluation and inequitable tax assessments. Rapid urbanization and infrastructure development have resulted in significant land value appreciation, but local governments struggle to capture and reinvest these gains.


Ethiopia is lacking clear standalone land valuation policy or a section in the general land policy. However, there are supporting legal documents such as valuation, expropriation and compensation proclamations and regulations.


BACKGROUND AND CONTEXT


The constitution is the supreme law in Ethiopia. The most important land related issues are enshrined in the constitution. According to the constitution land is not subject to sell or any other of means of exchange. Citizens have full right on the properties they develop using their labor capital and creativity. However, when land is needed for development purpose the state has the right to expropriate properties and the property owner has the right to get commensurate compensation. The property owners are expected to be in relatively same economic position before and after compensation. This principle can be realized only when there is proper valuation exercise in place.


Land valuation in Ethiopia is dominantly for expropriation and compensation. Though this valuation practice and the right to get commensurate compensation are rooted in the constitution, frequent compliments and dissatisfactions were reported from expropriated property owners. Recently exaggerated compensation claims are becoming the concerns of the developers also. But after the introduction of property taxation system and the relaxation of limits on collateral rights the need for mortgage valuation and mass valuation is becoming apparent.


The key challenges observed in the status of the Ethiopian land valuation and value capture are:

-  The mighty state power on the valuation of land and fixtures.

-  Lack of value data and information such as clearly defined capitalization rate.

-  Institutional gap and capacity limitations.


-  Lack of effective stakeholders' integration and peoples participation.


-  Weak coordination awareness level between land administration, urban planning, and public finance agencies hinders effective land value capture.





Mass valuation system is required to implement other valuation types. The mass values created before the request for compensation can also increase transparency and decrease fraudulent activities during valuation. The mass values can also be used as a base for different ad hoc valuation exercises. A multitude of valuation approaches that are fit for the purpose have to be applied to correctly value properties and value capture exercises. Compensation and expropriation exert clear and significant impact on tenure security and sustainable development.


Institutional gaps are among the major constraints to benefit from proper and timely valuation exercises. The studies reviewed identified the following main challenges:

-  Limited technical capability.

-  Wrong interpretation of the constitutional provision stating land is the property of the state and peoples of Ethiopia not to pay compensation.

-  Integration challenges.

-  Data and information limitation.

-  Corrupt practices.

Methodology

Literature review was the main method of this study. The review was made systematically. The key words that can represent the study subject were identified. The databases that are globally recognized were searched. All studies made on

Ethiopian land administration were downloaded and summary tables for all relevant study reports were organized. Assessment report was prepared and was used as the base for developing draft policy briefs. The draft policy briefs were further refined and finalized considering feedback and comments gathered from stakeholders and the client.

Findings

The introduction of valuation for compensation and payment of values for expropriated properties is a major breakthrough in the Ethiopian land administration system. The main reason for tenure insecurity was the belief that government can take the land whenever it needs and the compensation payment after expropriation is minimal or no.

The constitutional provisions protecting the property rights of citizens were largely realized after land administration and use proclamation and the proclamation for expropriation and compensation are enacted. However, inconsistency in application and the domination of the state apparatus found to be the major constraint for expropriation, valuation and compensation activities. The introduction of property taxation, value capture and collateral in the rural areas is a move forward that necessitates the introduction of mass valuation. Mass valuation is an exercise of periodically valuing properties regardless of expropriation order or transaction demand or even collateral claims.

The values used to be encoded in the cadastral database. A certain percentage increased or decreased value information in the cadastral database will be used to calculate property taxes. The value information is also important to calculate the current value of properties for different purposes. The policy objectives, institutional arrangement and legal instruments needed for a robust valuation



system are weak. The access and availability related constraints to get land information are another challenge for effective valuation exercise. The minimal attention for common pool resources and joint rural properties as a property negatively impacted tenure security for sustainable development. Capacity limitation is found to be critical. Short and long training for the staff is required. The valuation firms have to be created and capacitated too.

Recommendations

The land valuation endeavor in Ethiopia must target fairness and equity. The fruit of land and other improvements on land must be harvested by the landholders who made the improvements by investing their capital, labor and creativity. The role of the government is to protect this right. However, the other responsibility of the state is to protect public advantage. In the effort to protect public advantage, land can be expropriated from landholders by paying commensurate compensation in advance. The payable compensation must be enough to the economic status of the property holder to be equivalent before and after compensation.

The valuation exercise must not be limited to compensation. Valuation for other purposes such as property taxation, value capture, and property transaction, collateral has to be introduced. The quality of valuation exercise is dependent on the investment and cost of valuation. The state alone should not bear all the costs of valuation. Cost recovery method need to be introduced and both the land holder and land claimant have to share the valuation cost.

The land holder should be given the right to choose independent valuation firms; in case when

valuation firms are not existent the valuations unit in the land administration should replace the role of an independent valuation firm. In this case professional integrity and independence is a requirement to produce users' satisfaction and fairness. Responsibilities and obligations of stakeholders, property owners and bodies to whom property will be transferred or tax levied, income collected or financial institutions etc. must be clarified. Legal system, valuation procedures and value capture procedures have to be crafted. Conflict and grievance management and the right to appeal are very important considerations to make valuation decisions fair. The role of including value information cannot be underestimated. It needs systematic and sporadic updating of value information in the cadaster and creation of value zones and updating zoning information. Systematic value capture mechanisms must be crafted after the development of major infrastructure and services. Cost sharing principles have to be introduced for all on the demand valuations requested by clients but mass valuation that is a basic infrastructure for all valuations has to be provided for free by the government.

Special valuation methods and principles have to be applied for the valuation of common pool resources, joint properties and in general for special properties that are not governed by economic principles per se. The valuation system in Ethiopia has to introduce methodologies to estimate the damage of polluters to make them liable for the damage they cause. The community has the right to share the benefits earned from cultural heritages and aesthetic values of the natural environment. The share can be calculated only when valuation system capable of valuing such properties is introduced.



The recommendations for valuation and value capture policy in Ethiopia are:

- Establish clear legal and institutional frameworks to enable local governments to capture and reinvest land value gains.
- Regularly update land values to reflect changes in market conditions and infrastructure investments.
- Ensure transparency and public participation in the land valuation process.
- Introduce or expand the use of land-based revenue instruments, such as land value tax, betterment levies, and land readjustment.
- Build the capacity of local authorities to effectively implement and manage cost recovery mechanisms.
- Enhance coordination and data-sharing among land administration, urban planning, and public finance agencies.
- Develop a centralized land information system that integrates land valuation, taxation, and value capture data.
- Regularly monitor and evaluate the performance of land-based financing instruments to inform policy adjustments.
- Ensure that land value capture mechanisms so that beneficiaries of infrastructure development bear the main development cost.
- Implement targeted programs to support affordable housing and community development in areas experiencing rapid land value appreciation.
- Engage with local stakeholders, including community representatives, in the design and implementation of land value capture policies.
- Combat Corruption and Enhance Transparency Incorporate Environmental Considerations.

ACTION PLAN

Effective property valuation policy implementation requires the existence of strong institution. The first action therefore will be resolving the institutional challenges. Property valuation is a multidisciplinary activity that requires the involvement of all actors. The institution that is responsible for land and property valuation needs to have the authority to plan, implement and control valuation processes. The next key function will be policy formulation.

Legal framework and enacting or modification of laws is the next important task. The legal status of the responsible institution is very important for implementing valuation processes. Clear strategy and action plan development is the next step. The policy and legal system need to be strengthened by regulations, directives, manuals and standards. After the preparation and approval of the legal system capacity building is needed.