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Institutional Analysis of Condominium Management System in Amhara Region: the Case of Bahir Dar City

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Session agenda: Construction Economics and Management

Presentation outline

1. Background and rationality of the study
2. Analytical framework
3. Methodology
4. Main findings
5. Conclusion and recommendations

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1. Background and Rationality of the study

- Housing is one of the basic necessities for human beings, however, it remains a critical problem which millions of poor people of developing countries. Ethiopia being no exception
- Until recently, in Ethiopia, there was no specific legislation that recognized citizens' right to housing or which imposed a duty on the government to recognize that right. Nevertheless, there were few national coordination policies
- During the first half of the 20th century, land and housing were controlled by a few individuals and groups.
- The Derg regime came to power in 1974 -ownership of all urban land and extra houses were transferred to the government in an effort to enforce a fair distribution of wealth across the country.

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- Housing supply was controlled by the central government and urban residents were allowed to keep one residential house
- Housing supply was insufficient to meet the large demand and all cities in Ethiopia
- In the late 1980s, the regime loosened its control on supply of housing and allow large-scale private sector housing developers to enter in to market , but there was little incentive to construct low-income housing and failed to address demand of housing by majorities
- The Ethiopian People's Revolutionary Democratic Front (EPRDF) that overthrew the Derg regime in 1991 introduced leasehold tenure system for urban Ethiopia
- To address housing problems , the government provides various incentives including: Allocation of land without charge ,Subsidization of building materials and Loan arrangement

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- However, these incentives ultimately satisfied only a small portion of housing demands, not address housing problem of poor
- To benefit great number of people, government allocated urban land to a high rise or a row of houses condominium building
- In order to pursue this new direction, the government launches a national Integrated Housing Development Programme (IHDP) in 2005.
- The main objective of the programme is to increase housing supply for the low and middle - income population
- Housing issues were also made a regional responsibility

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- Amhara region is one of those regions which has started to implementation of IHDP
- Condominium become a dominant form of home ownership in Amhara region .Yet managing and up-keeping such homes poses a challenge to most condominium owners
- A small number of empirical studies have examined the quality and management of the currently supplied residential condominiums houses
- The methods adopted in these studies to evaluate the quality of housing have measured quality by using indicators such as availability of adequate space for privacy and mobility and the physical condition of the condominium
- Till date, there has not been an institutional analysis of the management system for condominium houses
- This aspect of housing is worth of study because, in Ethiopia, there is a national and regional law on how condominiums should be established and regulated and how they should function

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- In the case of Bahir Dar city, **self-organized resident associations** have taken over the ownership and management of common facilities in condominium units
- The governing rules in matters of common ownership closely resemble Ostrom's famous design principles for managing common property resource regimes. This study, therefore, analyses the condominium management system in Bahir Dar city
- In particular, this study examines the relationship between institutional structures, collective action and the performance of owners' associations in relation to Ostrom's design principles
- Despite there are several models and frameworks that can be used for institutional analysis, this study used the institutional analysis development (IAD) framework (Ostrom, 1990; Ostrom et al., 1994)

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2. Analytical Framework

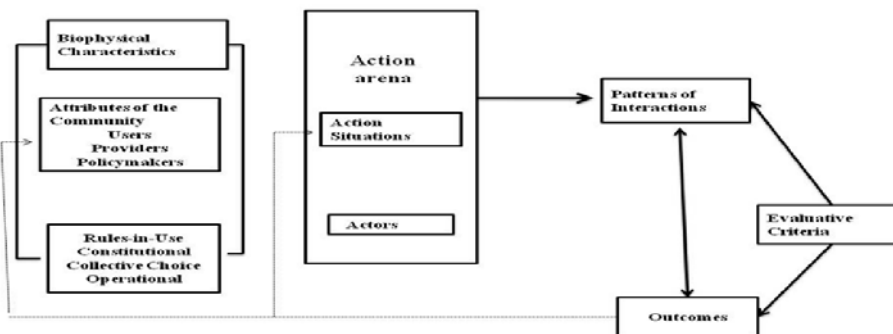


Figure 1: Institutional Analysis and Development framework :Ostrom (1990); Ostrom et al. (1994)

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3. Methodology

- The IAD analysis attempts to understand one of the most fundamental social questions: how residents of condominium houses cooperate or do not cooperate with each other in various circumstances.
- A qualitative descriptive case study has used
- Document reviews, interviews, and a questionnaire were used to collect data.
- Thematic analysis was used to provide a rich thematic description of the data set.
- This study uses Ostrom's (1990) eight predefined variables as a base for describing the institution governing the use of condominium houses in Bahir Dar city.

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4. Main Findings

Evolution of institutions/rules that govern condominium management

- The rules were prepared by a housing committee formed under the city administration ; potential condominium house owners were not participate in formulating regulations
- While establishing the institution it was impossible to identify potential purchasers of condominium units
- To overcome this problems:
 - Buyers have the right to be informed of all laws, rules and regulations and to be advised by experts before they decide to buy a condominium
 - Buyers have right to change, modify or amend the laws, declarations, by-laws and rules, but changes need to be approved by a two-thirds majority vote of unit owners.

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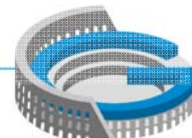




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Ostrom (1990) found that groups that are able to organize and govern their behavior successfully are marked by the following design principles of robust, long enduring, common-pool resource institutions

1. *Clearly defined boundaries:*

- The rules of condominium clearly demarcates what is deemed to be individual property and jointly owned property, but there is no legal requirement that any expense be allocated according to ownership percentage

- There is an assumption that owners' associations characterized by homogenous communities will do well since there would be a high incentive to cooperate in collective action.

- The study showed that performance of owners' associations has anything to do with the community attributes as identified by this study

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2. *Congruence between appropriation and provision rules and local conditions:*

- This is frequently described in the literature as congruence between costs incurred by users and the benefits they receive via their participation in collective action

- There are rules that determine benefits to owners of condominium units, but there is no provision that determines each owner's responsibility for costs sharing

- The price of the communal buildings was not included in the unit purchase price and this has created problems for coming up with declarations about divisions of ownership

3. *Collective-choice arrangements:*

- The condominium laws are consistent with the third design principle through the fundamental idea that unit users of condominium houses have the right to participate in collective decisions and in modifying rules for regular operation of the resource over time

- However, the laws allow only the owners (buyers) or their agents to participate in decision making and to take collective actions, forbidding renters from exercising such a privilege

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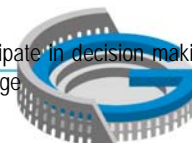




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The other three most important ingredients for successful collective action identified by Ostrom (1990) are 4) **effective monitoring**, 5) **graduated sanctions** and 6) **low cost conflict resolution mechanisms**.

- The study found that the regulation is over-ambitious regarding the monitoring mechanism, the gradual sanctions and conflict resolution mechanism
- The condominium agreement clearly states that the general responsibility for monitoring and undertaking gradual sanctions (technical committees and local elders)
- The empirical evidence indicated that these principles were not adhered to: monitoring of local norms/rules/ in the management condominiums is ineffective
- Taking appropriate sanctions on those who violate operational rules are not practised.
- The study underlined that an intervention by local elders or a technical committee's agreement is unlikely to directly address the low-cost local arenas to resolve conflicts

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7) *Minimal recognition of rights to organize:*

- The documentary analysis of the laws on condominiums showed that unit owners are allowed to have their own institutions that are not challenged by external governmental authorities
- The empirical evidence for this principle was not available in the city

8) *Nested enterprises:*

- The structure of condominium law provided nested enterprises for the management of commons, but this does not necessarily result in good patterns of interaction among residents.
- Although there are chains of command and governance activities which are organized in multiple layers of nested enterprises, the nested activities are not working well
- Instructions are written in administrative procedures, laws and legislations but they are not known by the residents and have never been enforced

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Analyzing outcomes

- While analysing outcomes in this study, evaluative criteria suggested by Ostrom et al. (1994) have been used: *Fiscal Equivalence , efficiency, and sustainability*

Fiscal Equivalence

- In principle, beneficiaries need to pay reasonable and proportional payments for the services they receive
- institutional arrangements lack clear distribution of rights and obligations

Efficiency

- Most residents are ignorant of the laws and this means the capacity of users to evaluate the actions of others in policy situations is poor.
- There are no effective and transparent legal procedures for monitoring, or for handling conflicts and imposing modest sanctions on offenders.

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Sustainability

- The law stated that owners' association is responsible for repairing the commons and the assets of the association damaged by accident.
- The practice indicated that condominium management systems do not meet the current needs of many unit users.
- lack of renters participation in decision making unit tends to distort social, economic and political incentives, leading to inefficient use of condominium property.

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5. Conclusion and recommendation

Conclusion

- In Bahir Dar city, an external government agency (the city administration) established laws that govern condominium houses, but do not challenge the right of condominium unit owners to create their own institutions.
- Local and formal institutions' involvement in assisting, teaching and creating awareness to improve the knowledge of condominium unit users on how to use and manage jointly owned property has been very weak.
- Rules in use are merely written in administrative procedures and legislation, but they are not known by the unit users. Indeed, most of the rules are not enforced.
- Ostrom's design principles are incorporated in the institutions crafted for condominium management, but they are not well configured and practised.

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Recommendations

- The details of the inner workings of the condominium should be clearly understood
- Graduated sanctions should be devised for non-compliance with collective rules
- The possibility of institutional improvement or changes to rules should not be cosmetic
- There should be an incentive for each unit user to engage in supervising the actions of others and to help the owners' associations to control the use of the commons
- Training on the subject and awareness creation among users needs to be provided
- The institutions should consider the interests of all unit users
- Collective action in the multiple uses of condominium houses needs to be further researched.
- Outcome indicators should be developed and used to evaluate the performance of management.
- Evaluation results should be used to change goals, objectives, management strategies and desired outcomes, if necessary.
- Further research is required on mode of condominium management

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