Evaluating the Economic Potential of the Addis Ababa Corridor Project

Necessity, Challenges, and Long-Term Returns

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ADDIS ABABA

Abstract

The Addis Ababa Corridor Project aims to transform Ethiopia's urban framework by alleviating congestion, fostering economic diversification, and promoting inclusivity. However, challenges remain, and the project's economic returns and timing are subjects of debate. In this article, we scientifically investigate the project's potential impacts, weighing both its promises and its uncertainties.

Context

Ethiopia has launched corridor development projects across major cities to drive urban growth and economic transformation. This article focuses on the Addis Ababa Corridor Development Project, which holds significant potential to reshape the capital's urban and economic landscape.

Ethiopia's urban development is profoundly influenced by its rapid urbanization rate and the concentration of population and resources in a limited number of major cities, particularly Addis Ababa. As the nation's primary urban hub, Addis Ababa attracts skilled individuals and investment but simultaneously exacerbates regional disparities and fosters inefficient urban growth.

A significant factor behind Addis Ababa's limited economic dynamism is its narrow, monopolized economic structure. Historically, a small group of industrialists and large-scale exporters—primarily from land-based, low-value agricultural sectors—have dominated wealth creation. However, their contributions to urban economic growth have been limited due to a lack of reinvestment in value-adding industries and technology within Ethiopia. Much of their wealth has flowed abroad rather than fueling local industrialization. This has prevented the emergence of a diverse urban economy capable of driving modern industries. Additionally, until recently, the state played a central role in industrialization efforts, limiting private sector participation. Now, with Ethiopia pivoting toward a private sector-led growth model, Addis Ababa must evolve into a global metropolitan hub capable of hosting international businesses, in line with its status as the seat of the African Union.

The roots of Addis Ababa's urban structure can be traced to historical and ideological factors, particularly the 1966 Ethiopian Revolution. The socialist land reforms redistributed prime property from a few capitalists to a broader population, most of whom lacked the capital necessary to renew or develop urban spaces. This redistribution, while addressing equity issues, left the city's central districts stagnant and contributed to long-term urban inefficiencies.

Although land ownership remains under state control, Ethiopia is gradually transitioning toward a private sector-led economy. The government has indicated that once it establishes robust regulatory capacity and comprehensive land data systems, it will open urban land for private ownership to stimulate real estate investment and urban development.

The shift toward a market-oriented economy in 2018 marked a critical turning point. Reforms such as the liberalization of the telecom and banking sectors, the introduction of capital markets, and the allowance of foreign property ownership signaled a return to a more capitalist framework. These measures aim to attract foreign investment, positioning Addis Ababa as a focal point for economic transformation. The liberalization of trade and property ownership demonstrates Ethiopia's commitment to integrating into the global economy and modernizing its urban infrastructure.

However, these ideological and macroeconomic shifts require a solid urban foundation—a city capable of hosting capitalists and industries that can catalyze changes in agriculture, manufacturing, and other sectors by bringing in state-of-the-art knowledge and capital. The Addis Ababa Corridor Development Project represents a key strategy in this transformation. While agriculture is not part of the urban economy, Addis Ababa plays a crucial role as a hub for agro-industrial processing, trade headquarters, and logistics. Modernizing the city's infrastructure is vital to support these functions and ensure it becomes a global business destination.

This project aims to address urban challenges such as congestion and inefficient land use while promoting economic diversification. By integrating commercial, residential, and industrial spaces, the project seeks to alleviate infrastructure pressures and ensure equitable access to urban resources. The Addis Ababa Corridor Project aligns with Ethiopia's broader liberal economic reforms, offering a roadmap for sustainable urban growth. It addresses historical legacies, meets contemporary demands, and supports ambitions for an inclusive, diversified economy.

However, the project has sparked three major lines of opposition:

1. **Timing and Priority:** Critics question whether the project is being undertaken at the right time, considering Ethiopia's pressing economic and social challenges.
2. **Implementation:** Concerns have been raised about the manner in which the project is being executed. There are two key arguments in this category:
    - One group advocates for leaving Addis Ababa as it is and building a new capital elsewhere.
    - Others question the project's transparency and inclusivity.
3. **Political Motives:** Some argue that the project is a political tool aimed at reshaping Addis Ababa's social and economic dynamics.

This article aims to evaluate the economic returns of the Addis Ababa Corridor Project, offering a data-driven foundation for assessing its merits amidst varying viewpoints. However, before diving into this analysis, we'll first explore the reasons behind the need for such a corridor, potential challenges to consider during implementation, and the key factors to watch for. Of course, it's assumed that there is already a strong case for the project's necessity.

1. Economic Structure & Urban Stagnation

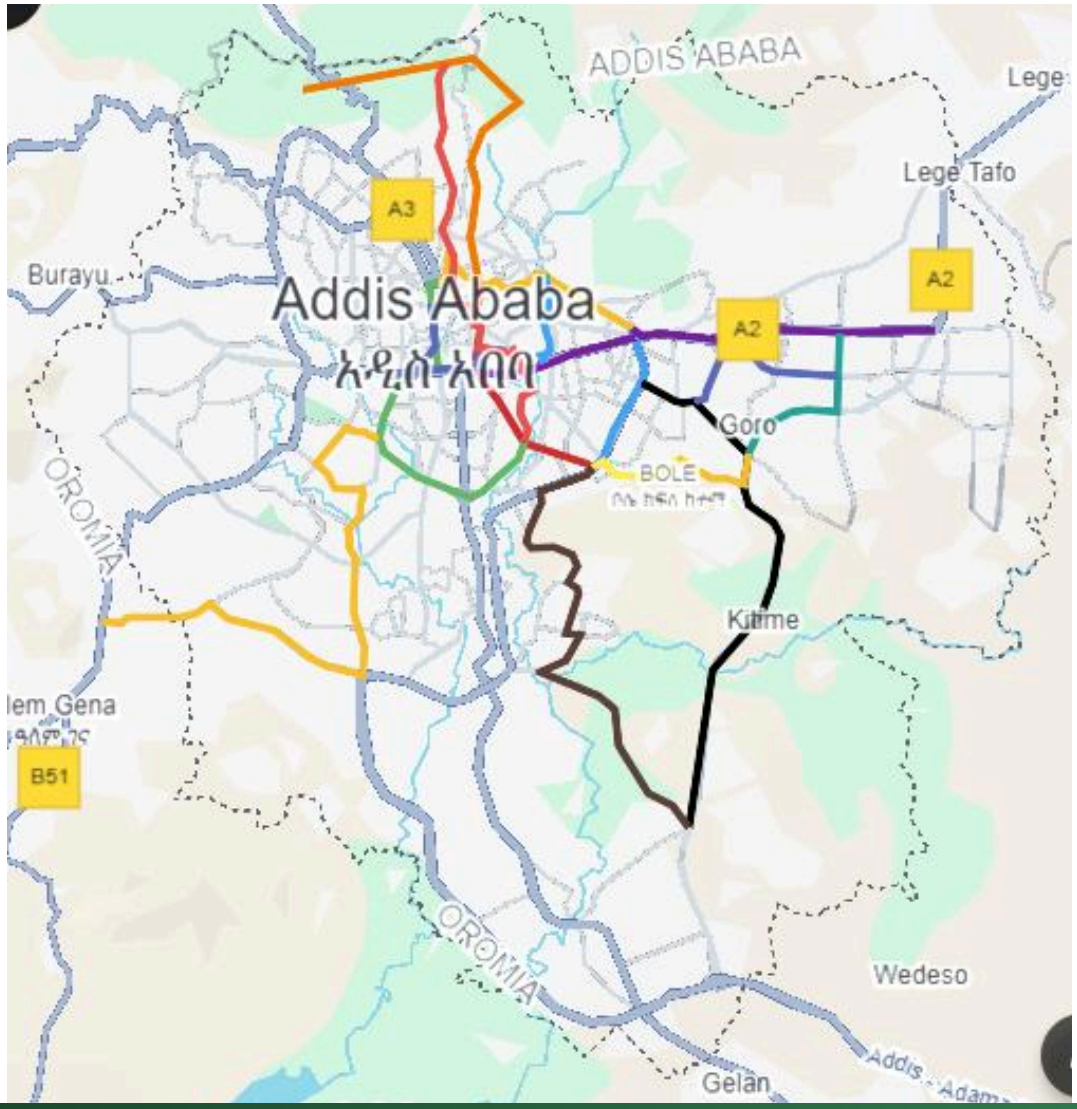


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1. Economic Structure and Urban Stagnation

The structure of Ethiopia's economy, where agricultural land ownership and land-based wealth are concentrated among a small elite, heavily influences the urban real estate market, particularly in Addis Ababa. Urban sociologist Saskia Sassen, in The Global City: New York, London, Tokyo (Sassen, 2001), has observed similar patterns in emerging economies, where capital flows into prime urban real estate rather than productive enterprises. This pattern perpetuates wealth inequality and restricts city expansion by driving up property prices, making housing and development inaccessible for lower-income residents.

However, the core issue in Ethiopia is not just capital concentration but the absence of profitable opportunities for large-scale urban development. Unlike in open economies where real estate investment often leads to commercial and residential developments, Ethiopia's state-led development model has historically excluded private and foreign investors from participating in major urban projects. Additionally, land remains nationalized, and urban land leases are tightly regulated by the government. As a result, private sector actors—who are often politically connected landowners rather than sophisticated industrialists—have had little incentive or ability to drive urban renewal or modernize the city's core areas.



Moreover, this economic structure has created a narrow and monopolized real estate market dominated by speculative investments. Wealthy landowners, many of whom made their fortunes through politically facilitated land acquisitions or agricultural exports, have primarily parked their capital in urban properties without developing them. Their reluctance to invest in construction and redevelopment stems from limited profit potential, as the state monopolized large-scale development initiatives and kept the market closed to competitive forces and foreign capital.

Ethiopia's urban policies, shaped by state land ownership, have also contributed to urban sprawl and congestion. Because central Addis Ababa remains largely off-limits for private development due to restrictive land laws and complex leasing processes, developers and landowners have sought available space on the city's periphery. This has led to rapid, low-density expansion rather than urban densification. As depicted in the context above, urban renewal within the city center has been stifled by outdated property ownership structures stemming from post-revolution socialist reforms and the lack of incentives for redevelopment.

The result is a city with limited economic activity in its core districts, forcing residents from sprawling outskirts to commute long distances for work, trade, and services. Despite the relative inactivity in the city center, the scarcity of commercial zones and modern infrastructure in the periphery means that downtown Addis Ababa remains a central hub for government offices, financial institutions, and wholesale markets—critical services that draw commuters from distant neighborhoods. This, combined with insufficient public transport and poorly planned road networks, has placed immense pressure on the city's highways and main corridors.

In a well-balanced economy, urbanization is driven by industrial growth, which demands a skilled workforce and creates a need for modern infrastructure, housing, and public services. However, Ethiopia's state-led economic model, which favored public enterprises and restricted private sector participation, has failed to generate large-scale urban employment hubs within the city. The limited industrialization that has occurred has been confined to specialized industrial parks, typically located on the outskirts of the city rather than integrated into the urban fabric. Consequently, Addis Ababa has experienced peripheral growth rather than internal renewal.

This imbalance underscores why wealthy landowners have chosen to accumulate property without developing it: there was no vibrant private sector-led economy to create demand for modern office spaces, residential towers, or commercial centers. As Ethiopia now transitions to a private sector-led economic model, opening sectors such as real estate, finance, and capital markets to international investors, the potential for urban renewal is increasing. The Addis Ababa Corridor Development Project aims to leverage this shift, integrating commercial, residential, and industrial spaces to catalyze economic activity and relieve the infrastructural strain caused by unchecked sprawl.

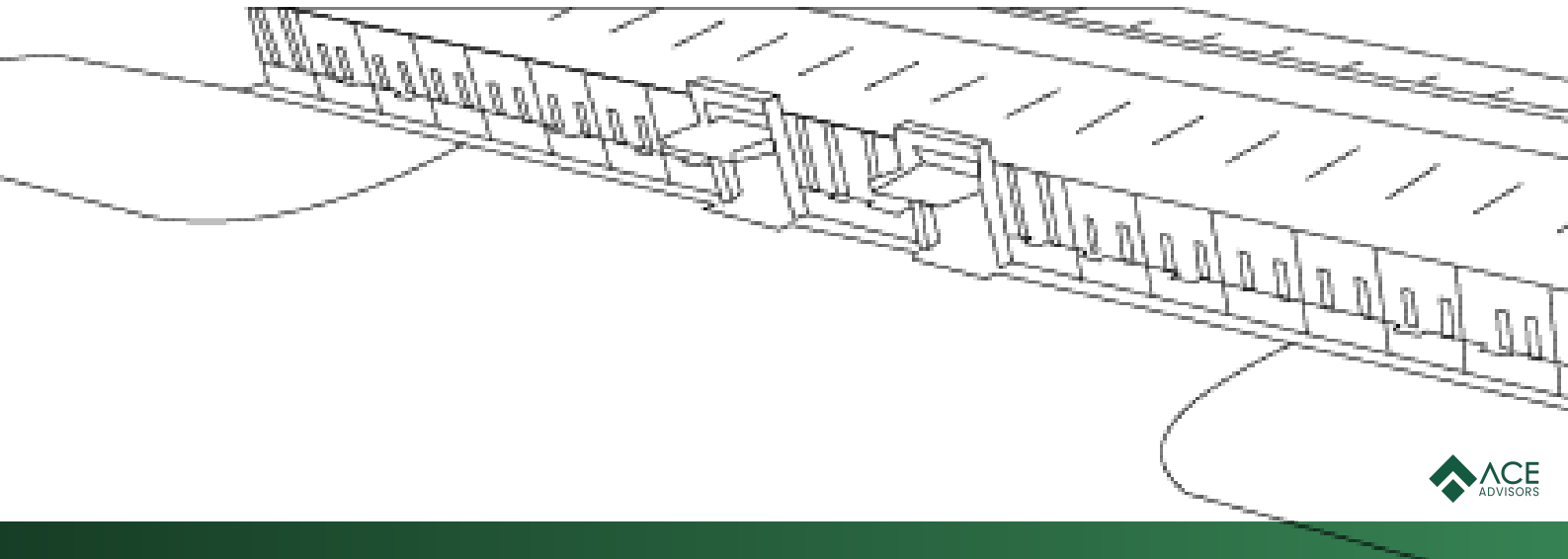
1.1. The Need for Dense, Urban Growth to Drive Transformation

Economic transformation from an agrarian to an industrial and knowledge-based economy requires capital, expertise, and connectivity—factors that thrive in dense, urban settings. Edward Glaeser, in Triumph of the City (Glaeser, 2011), emphasizes that cities are engines of innovation, where high-density environments foster knowledge spillovers, skill exchange, and efficient resource distribution. Urban centers facilitate collaboration and productivity, providing the critical spaces needed for industrial, technological, and service-oriented economies to flourish.

For Ethiopia to achieve a similar transformation, Addis Ababa must evolve beyond its current form and become a dynamic hub where residents can live, work, and engage in continuous learning. Successful global metropolises such as London, New York, Beijing, and Tokyo exemplify this urban growth model. Each has cultivated a robust ecosystem of diverse work opportunities, high-quality infrastructure, and access to global markets. These cities benefit from a “critical mass” of people, ideas, and investments, creating a self-sustaining cycle of development—an urban dynamism currently absent in Addis Ababa.

Despite being a city of over 10 million people, Addis Ababa lacks the dynamism typical of large urban centers. The issue is not a lack of urbanization—Ethiopia has experienced rapid urban growth for over two decades—but rather that this growth has occurred within an urban infrastructure designed for a much smaller city. Addis Ababa’s expansion has outpaced the development of efficient transportation networks, digital connectivity, and modern urban services. The city has yet to establish the critical density of productive enterprises and knowledge industries necessary for a thriving, innovation-driven economy.

This stagnation is further compounded by a historically state-centered economic approach that limited private sector participation in urban development. Unlike global cities that leveraged private investment to build financial districts, research hubs, and technology parks, Addis Ababa's urban core remains underutilized, offering limited spaces for productive collaboration and knowledge exchange.



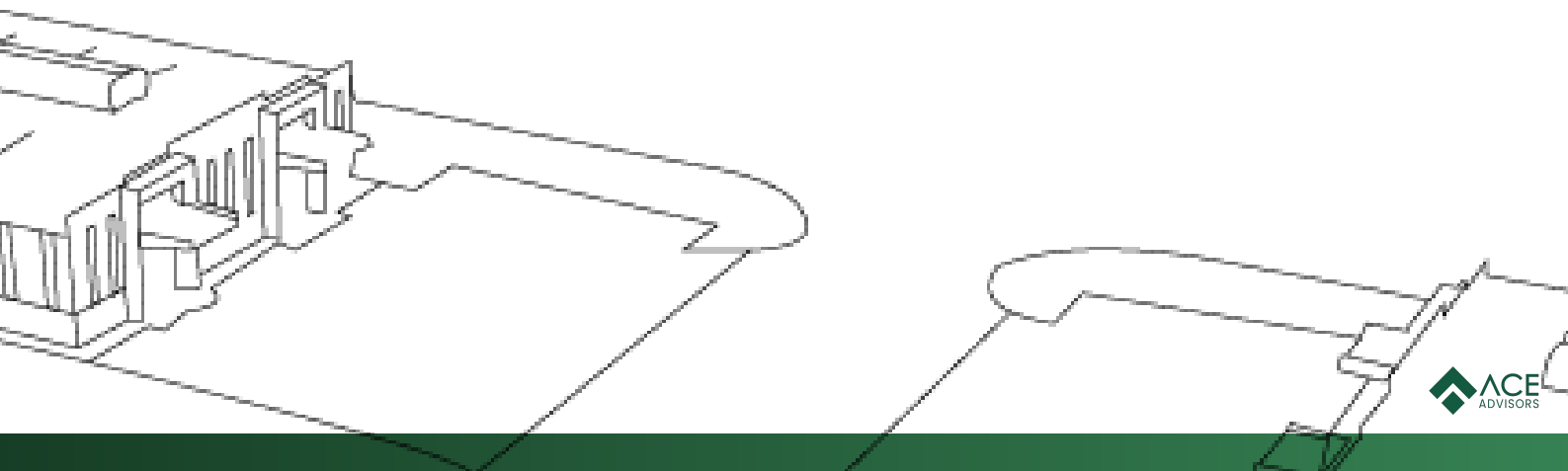
As Ethiopia shifts to a private sector-led economic model, Addis Ababa must reorient its growth strategy to foster urban density not only in terms of population but also in economic activity. Projects such as the Addis Ababa Corridor Development Project aim to address this gap by integrating commercial, industrial, and residential zones, enabling the cross-sectoral collaboration necessary to drive innovation and productivity.

The challenge for Addis Ababa is not merely one of urbanization but of creating an urban environment that catalyzes economic activity. By building modern urban infrastructure, opening the city to private and foreign investments, and developing knowledge-driven economic clusters, Addis Ababa can harness its population size to drive sustainable growth and emerge as a true engine of Ethiopia's economic transformation.

1.2 Key Policy and Institutional Reforms Impacting Corridor Development

Ethiopia's shift toward a private sector-led economy has been marked by significant policy and institutional reforms aimed at modernizing its financial, commercial, and real estate sectors. These reforms are not only reshaping the country's economic landscape but also driving the urgent need for coordinated urban development—particularly through projects like the Addis Ababa Corridor Development. The corridor, envisioned as a dynamic urban hub, is set to integrate financial, commercial, and residential spaces, supporting the growth stimulated by these reforms.

The following sections summarize the major policy changes that are accelerating the demand for modern urban infrastructure and positioning Addis Ababa as a center for economic transformation:



A. Capital Market and Financial Hub Consolidation

The establishment of the Ethiopian Capital Market Authority (ECMA) and Ethiopian Investment Holdings (EIH), and the imminent launch of Ethiopia's securities exchange in Addis Ababa's designated financial district has positioned the city as a nucleus for financial institutions, regulatory bodies, and investment entities. This centralization, coupled with the anticipated entry of foreign banks under the Banking Business Proclamation of June 2024, underscores the growing demand for enhanced urban infrastructure, including upgraded roads and public amenities, to support the rising economic activity in the financial district which will form the centre of the city.

B. Liberalization of Retail and Investment Sectors

Directive No. 1001/2024 by the Ethiopian Investment Board reserves key sectors like retail, import-export, and wholesale trade for domestic investors, while allowing conditional foreign participation. This policy aims to stimulate competitive markets while safeguarding local enterprises. Foreign investors are required to establish significant retail spaces within defined timelines, necessitating large commercial plots and consistent utility services in Addis Ababa's high-traffic zones forming the second layer that will wrap the financial district center.

C. Telecommunications Liberalisation

The Communications Service Proclamation No. 1148/2019 opened Ethiopia's telecommunications sector to new entrants like Safaricom, significantly improving connectivity critical to business operations along the corridor. The arrival of additional telecom providers has also heightened demand for reliable utilities, modern public infrastructure, and workforce accommodations in the capital.

D. Real Estate Market Opening

The 2024 policy permitting foreign ownership in real estate is expected to attract international developers to Addis Ababa's housing market, especially in urban centers. This policy shift will likely boost demand for improved transportation, infrastructure, and residential developments, accommodating both expatriate professionals and local workers in sectors such as telecommunications and banking. Real estate growth is poised to address Addis Ababa's housing deficits and enhance the corridor's functionality as a well-integrated urban hub (Ministry of Finance, 2024).

2. The Strategic Importance of Corridor Projects



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Ethiopia's urban development strategy faces significant challenges due to the concentration of political and economic power in Addis Ababa. This centralization has led to regional disparities, with other areas lacking the autonomy and resources necessary for balanced growth. The Addis Ababa Corridor Development Project aims to address these issues by transforming the capital into a modern metropolis, thereby setting a precedent for nationwide urban renewal.

Objectives of the Addis Ababa Corridor Development Project

Initiated in December 2022, the Addis Ababa Corridor Development Project seeks to upgrade key routes and enhance connectivity within the city. The project encompasses the construction of bicycle routes, spacious pedestrian walkways, improved roads, parks, libraries, and additional housing. These developments are designed to modernize the city's infrastructure, improve transport networks, and elevate the quality of life for its residents.

2.1. Alternative Considerations: New Capital vs. Urban Corridor Development

The idea of establishing a new capital city has been proposed as a means to decentralize power and promote regional development. However, such projects are typically feasible for resource-rich nations or those receiving substantial foreign investment. Ethiopia, with its limited financial resources, faces significant constraints in pursuing this path. Moreover, the lack of consensus among the country's regions regarding the location of a new capital further complicates this option.

Advantages of the Corridor Development Approach

Focusing on the Addis Ababa Corridor Development Project offers several benefits:

- **Resource Optimization:** Enhancing existing urban areas is more cost-effective than constructing a new capital from scratch.
- **Immediate Impact:** Upgrading the current infrastructure can provide immediate improvements in transportation, housing, and public services.
- **Economic Stimulus:** Modernizing the capital is expected to attract both domestic and foreign investments, fostering economic growth.
- **Scalability:** Successful implementation in Addis Ababa can serve as a model for similar projects in other cities, promoting balanced regional development.

Challenges and Considerations

While the corridor development approach has its merits, it also presents challenges:

- **Displacement Risks:** Urban renewal may lead to the displacement of existing communities, necessitating comprehensive resettlement plans.
- **Historical Preservation:** Balancing modernization with the preservation of cultural and historical sites requires careful planning.
- **Inclusive Growth:** Ensuring that the benefits of development are equitably distributed among all residents is crucial to prevent further social disparities.

2.2. Is it the right time for this project?

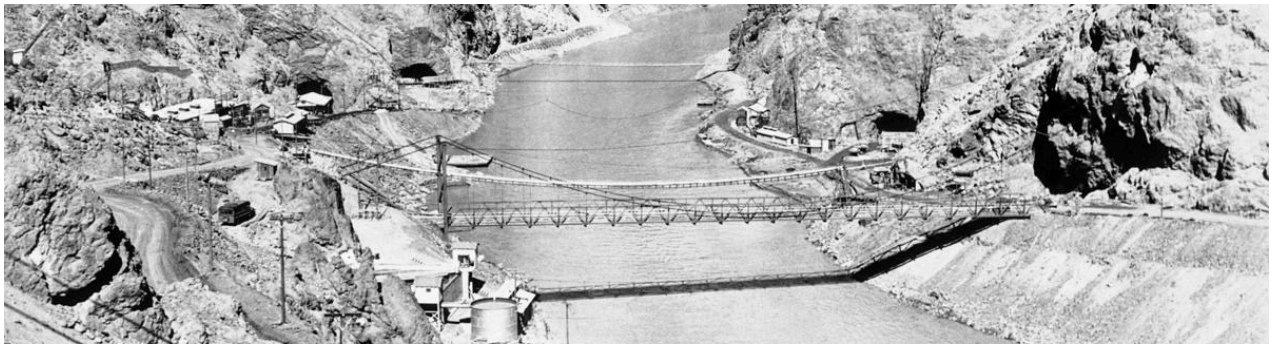
Investing in infrastructure during economic downturns has historically been a strategic tool for stimulating economic recovery. The experiences of major projects, such as the Hoover Dam and New York's urban development initiatives, illustrate how infrastructure investments can drive employment, economic activity, and long-term growth, even during times of financial hardship. Ethiopia's Addis Ababa Corridor Development Project echoes these historical lessons, presenting an opportunity to stabilize the economy while laying the foundation for future urban and regional development.

Historical Precedents for Infrastructure Investment in Economic Downturns

1. The Hoover Dam and Economic Stimulus

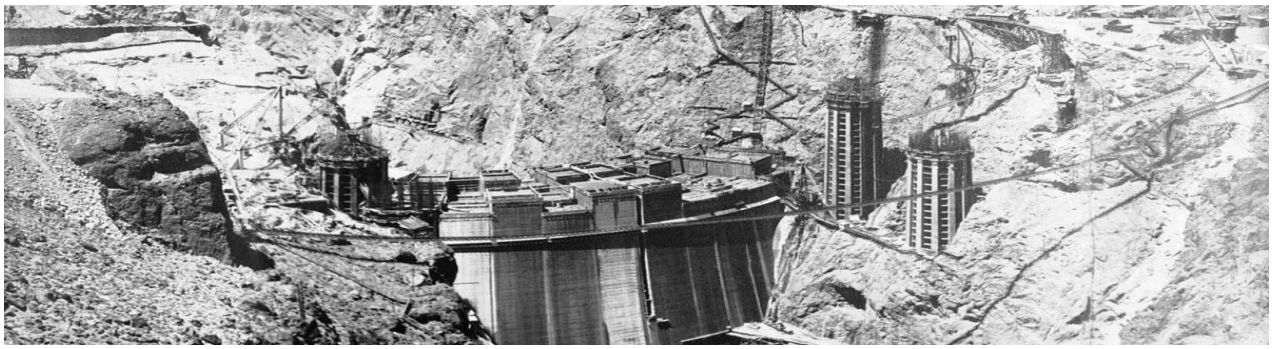
During the Great Depression, U.S. President Herbert Hoover championed large-scale infrastructure projects to mitigate economic panic and maintain employment. The construction of the Hoover Dam, initiated in 1931, was a landmark project, employing thousands of workers and injecting significant capital into the economy. Although primarily a non-urban project, its impact was multifaceted: it provided electricity, water management, and flood control, fueling economic growth in nearby cities like Las Vegas and Los Angeles. The dam's construction demonstrated how large infrastructure projects can create both immediate economic relief and long-term regional transformation (Hoover Presidential Library, 2023; Miller Center, 2023).

Before Construction - 1931



A parallel can be drawn with Ethiopia's Grand Ethiopian Renaissance Dam (GERD), another large-scale, non-urban infrastructure project with transformative potential. GERD is designed to provide energy security, boost industrialization, and attract foreign investment. Much like the Hoover Dam, its benefits extend beyond power generation, impacting urban development by supporting industries that drive urbanization. The Addis Ababa Corridor Project, while urban in scope, shares GERD's economic rationale: it will create jobs, stimulate construction and real estate sectors, and improve connectivity within and around the capital, fostering long-term urban and regional growth.

Under Construction - 1934



After Construction - 1936



2. Robert Moses and Urban Infrastructure's Role in Economic Development

In the 1920s and 1930s, Robert Moses, a key urban planner, reshaped New York City through ambitious infrastructure projects, including public parks, bridges, and expressways. These initiatives, undertaken during periods of economic uncertainty, were instrumental in creating jobs and enhancing the city's long-term economic prospects. Moses's projects not only addressed immediate urban needs but also laid the groundwork for New York's emergence as a global metropolis, demonstrating the transformative impact of urban infrastructure on economic vitality (Econlib, 2023; Truman Library, 2023).

The Addis Ababa Corridor Project seeks to achieve similar outcomes: improving traffic flow, enhancing public amenities, and supporting business activities. Like Moses's vision for New York, this project positions Addis Ababa for future growth by making the urban environment more functional, livable, and attractive for investment.

The Timing for the Addis Ababa Corridor Project

Given Ethiopia's ongoing debt challenges, the debate over whether to prioritize infrastructure projects such as roads, factories, and hospitals is less relevant. These types of investments, though crucial for long-term development, don't offer immediate returns and require substantial foreign exchange. With limited alternatives available, large-scale infrastructure projects like the Addis Ababa Corridor Development are essential to sustaining economic growth and positioning the country for future prosperity.

The rationale for pursuing the Addis Ababa Corridor Project during economic uncertainty aligns with these historical examples:

- **Immediate Economic Stimulus:** The project will create jobs in construction, engineering, and services, providing a direct boost to the economy.
- **Long-Term Urban Efficiency:** By easing congestion and improving connectivity, it will enhance productivity and reduce transportation costs for businesses and residents.
- **Investment Attraction:** Modernized infrastructure will appeal to private investors, particularly in real estate, retail, and services, amplifying economic growth.
- **Future-Proofing the City:** Just as the Hoover Dam and Robert Moses's projects shaped regional economies, the Addis Ababa Corridor Project will lay the foundation for Addis Ababa's evolution into a modern, efficient, and globally competitive urban hub.

Corridor Development Benefits



Quality of Life Improvement

Designing livable spaces with essential services



Congestion Reduction

Creating new urban centers to alleviate city congestion



Industrialization support

Integrating industrial parks and hubs for economic growth

Bryant Park. Midtown Manhattan





New York





Lessons from 1920s' New York

Ethiopia's urban development initiatives, such as the Addis Ababa Corridor Project, can draw valuable lessons from New York City's mid-20th-century transformation under urban planner Robert Moses. Moses spearheaded extensive infrastructure projects, including expressways and bridges, aimed at enhancing connectivity and driving economic growth. Notable projects like the Long Island Expressway and the Cross Bronx Expressway linked previously isolated areas, fostering new residential and commercial opportunities.

However, Moses' approach faced significant criticism for prioritizing road infrastructure over public transportation, leading to increased car dependency, urban sprawl, and the displacement of low-income communities. Critics, including urban activist Jane Jacobs, highlighted the cultural and social disruptions caused by his projects. Jacobs advocated for community-focused urban planning that preserved neighbourhood integrity and opposed large-scale developments that neglected the needs of existing residents.

Ethiopia can learn from these experiences by ensuring that its corridor projects prioritize a balanced integration of transportation modes, including efficient public transit systems, to support sustainable urban growth without reinforcing car dependency. Additionally, engaging with local communities and considering the social and cultural impacts of large-scale infrastructure projects can help mitigate resistance to change and ensure that development efforts are inclusive and equitable.

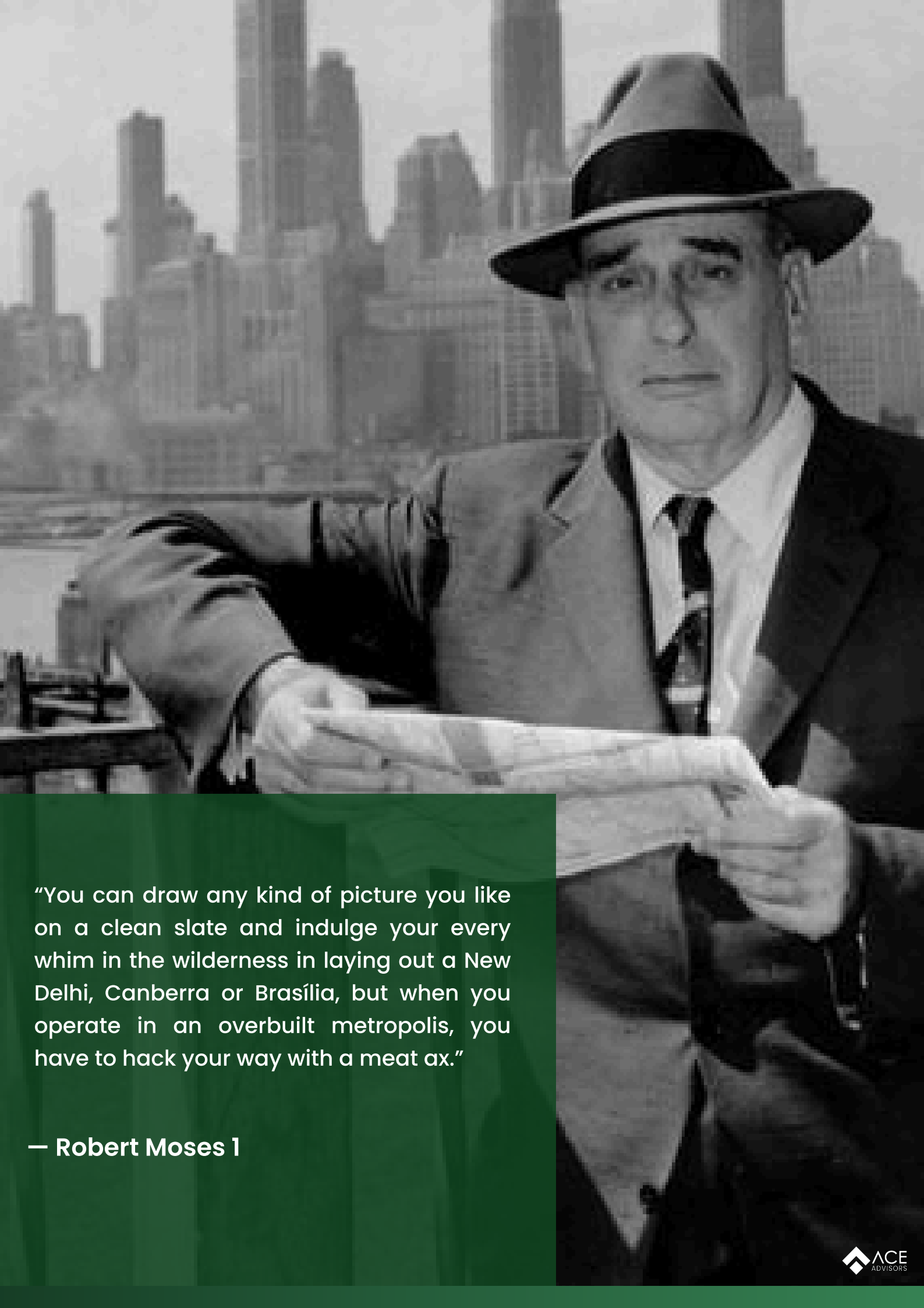
Ethiopia's corridor development projects, such as the Addis Ababa Corridor Development Project, have the potential to reshape the country's urban and economic framework. However, their success hinges on addressing systemic challenges through strategic planning and implementation.



Fiorello La Guardia



Robert Moses



"You can draw any kind of picture you like on a clean slate and indulge your every whim in the wilderness in laying out a New Delhi, Canberra or Brasília, but when you operate in an overbuilt metropolis, you have to hack your way with a meat ax."

— **Robert Moses 1**

Formalizing Informal Markets for Sustainable Growth

Addis Ababa attracts a large influx of youth from rural areas seeking informal, low-paying jobs, often as a last resort. Many of these young individuals, instead of continuing education or contributing to local agricultural innovation, migrate to the city, where they face exploitative conditions, homelessness, and limited upward mobility. This cycle of rural stagnation and urban overcrowding underscores Ethiopia's urbanization paradox—a self-reinforcing system where underdeveloped rural areas push migration to cities ill-equipped to absorb and utilize their labor potential effectively.

How the Corridor Project Reduces Informal Economy Structures

The Addis Ababa Corridor Development Project directly targets the challenge of informality by restructuring urban spaces to integrate informal markets into the formal economy. It achieves this through:

1. **Designated Commercial Zones:** By creating designated retail and business hubs within the corridor, informal vendors will be relocated into formal marketplaces equipped with proper facilities. These zones will reduce street congestion, streamline commercial activities, and ensure better regulatory oversight.
2. **Affordable Commercial Spaces:** The project will establish affordable rental spaces for small and medium enterprises (SMEs), allowing informal vendors to transition into formal business owners with proper documentation, licensing, and taxation.
3. **Integrated Digital Payment Systems:** Formalized marketplaces will be linked with digital payment systems, making transactions traceable and taxable, which helps integrate the informal sector into the formal economy.
4. **Public-Private Partnerships (PPP):** Through PPP frameworks, the corridor project will offer business registration support, licensing assistance, and access to microfinance, enabling informal enterprises to transition smoothly into formal operations.
5. **Zonal Infrastructure Development:** The project will develop essential urban infrastructure such as roads, public transportation, and utilities in commercial zones, making formal business operations more feasible and cost-effective for former informal vendors.

Economic Impact of Formalizing Informal Markets

As of 2023, informal enterprises accounted for 45% of businesses in Addis Ababa but contributed less than 5% to total tax revenues (City of Addis Ababa, 2023). By formalizing these enterprises and reducing uncontrolled urban settlements that strain roads, electricity, water, and administrative services, tax revenues could increase by an estimated 15-20%, generating critical resources for infrastructure, education, and social services.

Addressing Concerns of Job Loss and Ensuring Economic Transition

While concerns about potential job losses in informal sectors are valid, data shows that these jobs often yield precarious incomes, averaging less than $40 per month. The corridor project is designed to transition these opportunities into formal jobs, projected to create over 50,000 stable positions within four years. Formal employment is expected to provide incomes between $150 and $200 per month, significantly improving living standards.

Additionally, skill development initiatives linked to the project aim to enhance workforce capabilities by 30%, equipping workers for higher-paying roles by integrating them into emerging sectors such as technology, retail, and manufacturing.

Broader Impact: Building a Sustainable Urban Economy

This transition not only addresses urban challenges but also lays the foundation for a higher-quality, sustainable, and resilient economy capable of supporting Ethiopia's broader development goals. By reducing informality, increasing tax revenues, and improving job quality, the Addis Ababa Corridor Project will contribute to a more inclusive urban economy while alleviating pressure on the city's infrastructure and services.

Infrastructure and Economic Diversification

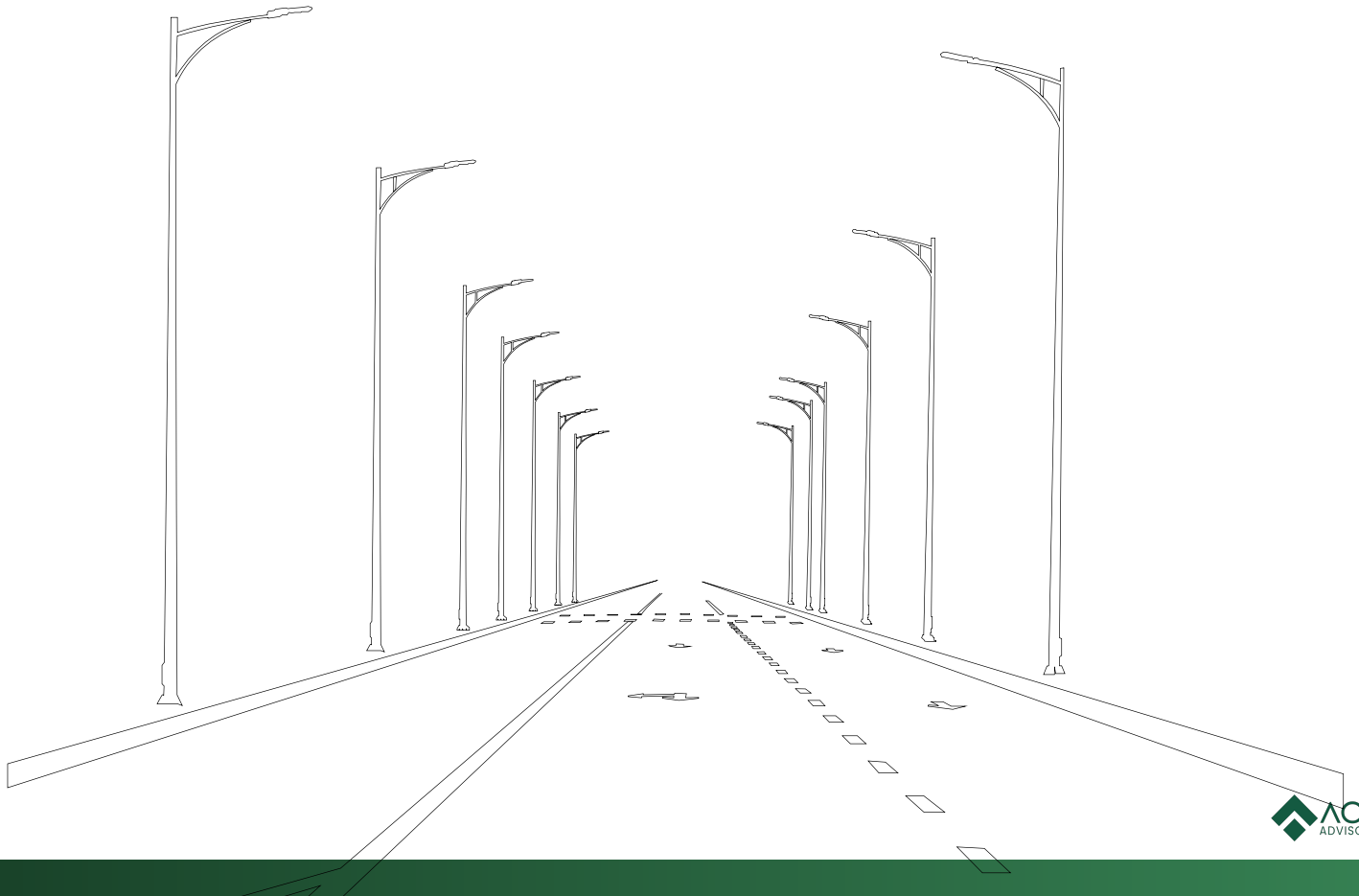
The Addis Ababa Corridor Development Project is poised to significantly enhance the city's infrastructure and stimulate economic diversification. The project encompasses multiple initiatives, including the Addis Tomorrow Special Economic Zone, a collaborative effort with China Communications Construction Company (CCCC). Launched in August 2024, this economic zone spans 35 hectares and involves an estimated investment of $700 million. *(english.news.cn)*

In addition to the economic zone, the broader corridor development encompasses the redevelopment of 114 hectares of land, with the government projecting revenue generation of ETB 99 billion (approximately $1.9 billion) from leasing this area. This revenue is expected to cover half of the investment cost, indicating a total investment of around ETB 40 billion (approximately $800 million) (*thereporterethiopia.com*)

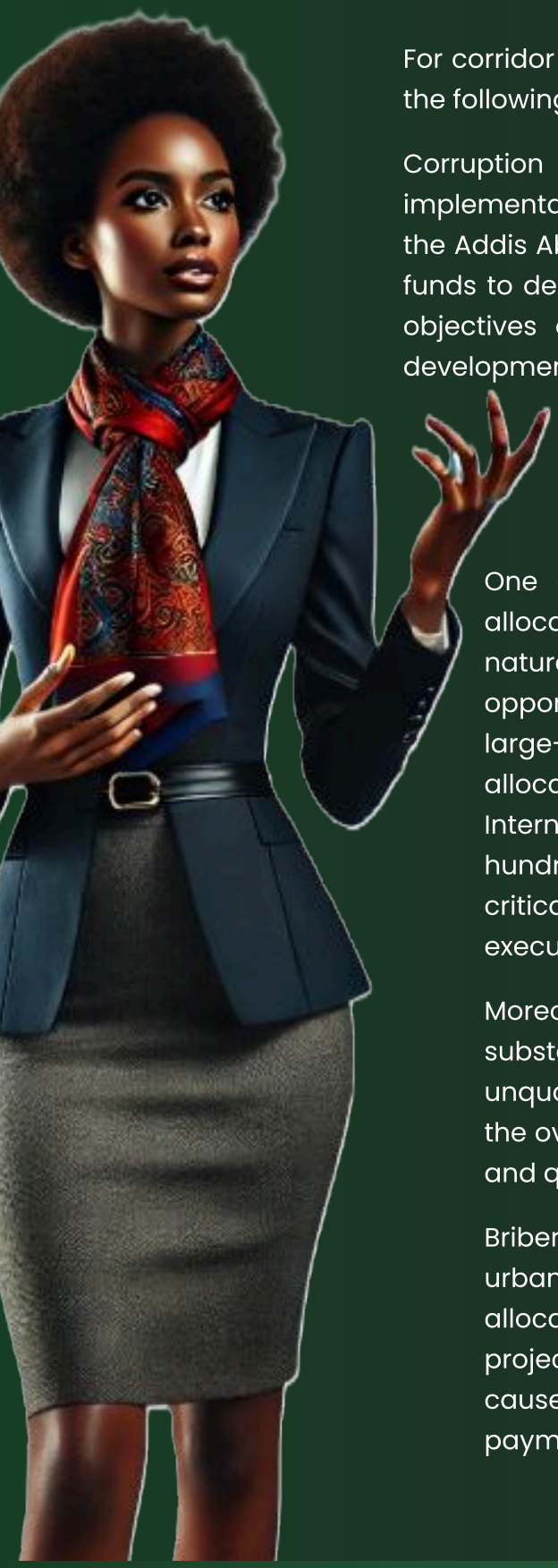
These infrastructure enhancements are anticipated to reduce average commute times by 20%, thereby increasing urban efficiency and accessibility. Moreover, by formalizing supply chains and reducing reliance on contraband goods—which currently account for 25-30% of informal market products—the project aims to strengthen economic resilience and foster a stable supply chain.

As of 2024, the project has already created over 50,000 jobs, with expectations to double this figure as development continues *(medium.com)*

The quality of these jobs is noteworthy, as the involvement of international contractors, particularly Chinese firms like CCCC, facilitates significant technology and knowledge transfer. This collaboration not only enhances the skill sets of the local workforce but also contributes to the long-term sustainability and competitiveness of Ethiopia's economy.



If you agree with the necessity of such a project, you may have questions on its implementation; this is an important but distinct topic.



For corridor projects to deliver on their promises, Ethiopia must tackle the following challenges:

Corruption poses a significant threat to the successful implementation of Ethiopia's corridor development projects, including the Addis Ababa Corridor Development Project. From misallocation of funds to delays in project execution, corruption undermines the core objectives of these initiatives, such as fostering equitable urban development and boosting economic productivity.

One of the primary risks is embezzlement or diversion of allocated budgets. Public infrastructure projects, by their nature, involve substantial financial investments, creating opportunities for unethical practices. Reports from similar large-scale projects in the region indicate that up to 15-30% of allocated funds are lost to corruption (Transparency International, 2022). In Ethiopia, this could translate into hundreds of millions of dollars being siphoned away from critical infrastructure, leaving projects incomplete or poorly executed.

Moreover, corruption in procurement processes can lead to substandard materials, inflated costs, and the selection of unqualified contractors. Such inefficiencies not only increase the overall project cost but also diminish the long-term viability and quality of the infrastructure.

Bribery and favoritism also exacerbate inequalities in access to urban resources. For instance, preferential treatment in land allocation could push out marginalized groups, defeating the project's goal of equitable development. Additionally, delays caused by bureaucratic corruption—such as requiring unofficial payments for permits or approvals—further hinder progress.

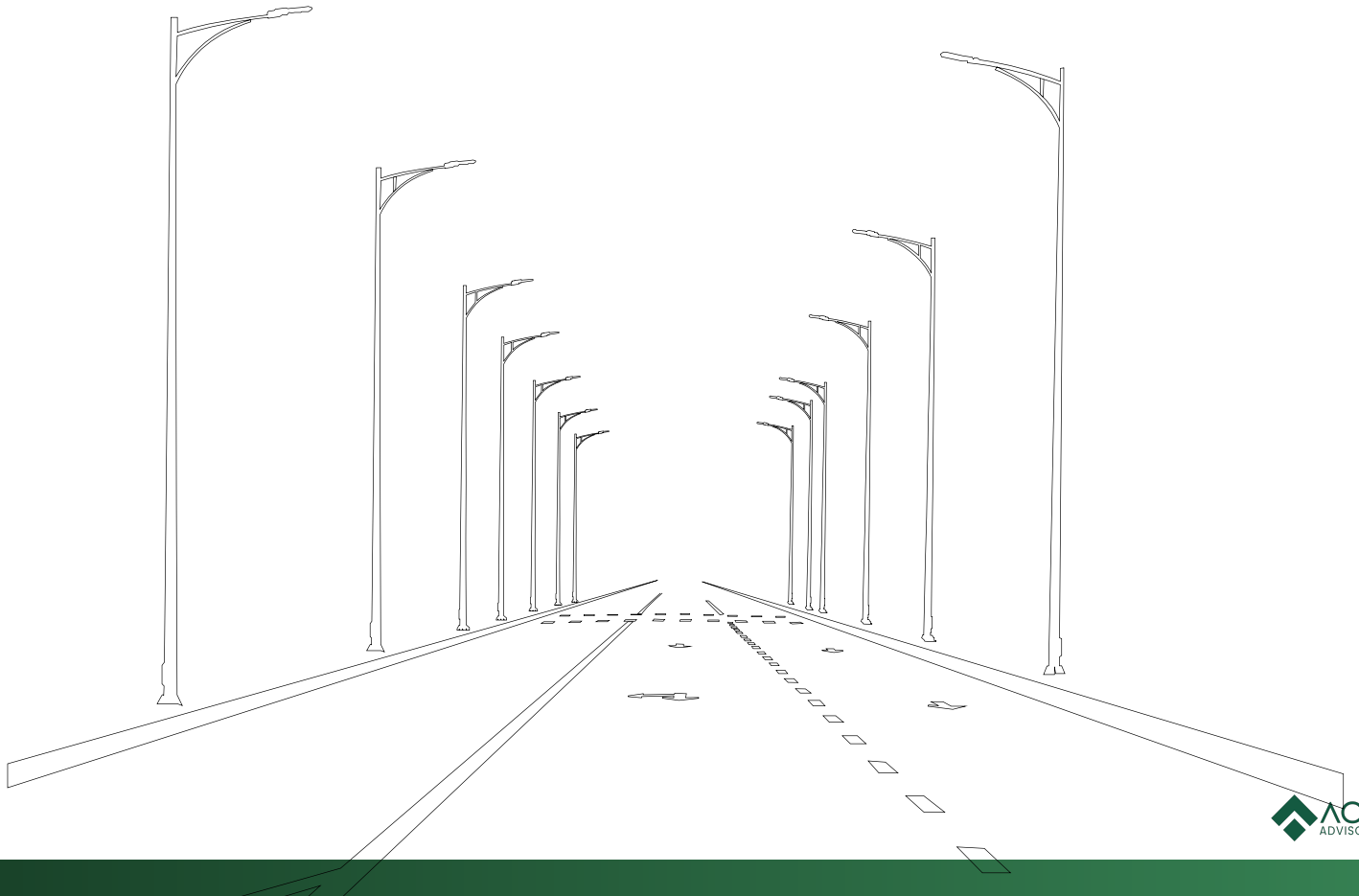
Mitigation Strategies

Addressing corruption requires robust institutional reforms, transparency mechanisms, and active citizen engagement. Specific actions could include:

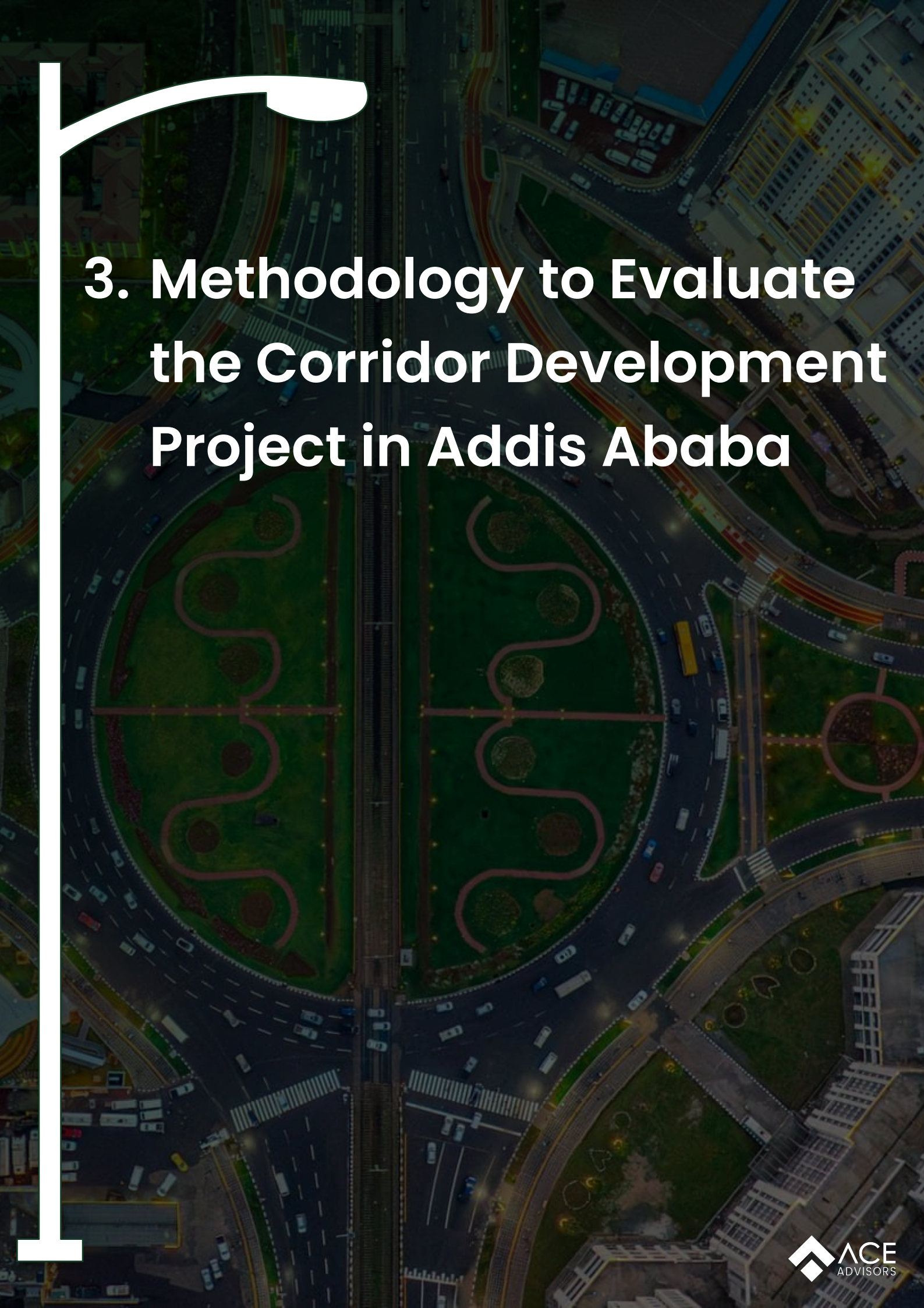
1. **Independent Oversight:** Establishing independent bodies to oversee project implementation and ensure accountability in fund allocation and procurement processes.
2. **Digital Systems:** Utilizing digital platforms for public procurement and project management to minimize human intervention and increase transparency.
3. **Whistleblower Protections:** Encouraging reporting of corrupt practices by safeguarding whistleblowers and ensuring their anonymity.
4. **Community Involvement:** Engaging local communities in monitoring project progress to increase accountability and ownership.

By prioritizing anti-corruption measures, Ethiopia can ensure that the corridor development projects achieve their intended goals of economic modernization, job creation, and urban equity.

While transitioning from informal to formal economies requires sacrifices, including job displacement and cultural shifts, the long-term benefits outweigh the short-term disruptions. Increased tax revenues, sustainable employment opportunities, and diversified economic growth provide a strong foundation for urban modernization.



3. Methodology to Evaluate the Corridor Development Project in Addis Ababa



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3. Methodology to Evaluate the Corridor Development Project in Addis Ababa

Evaluating large-scale infrastructure projects like the Addis Ababa Corridor Development requires a comprehensive framework that incorporates both the economic benefits and costs. On the benefits side, factors such as economic multipliers, investment efficiency, and socioeconomic impacts play a crucial role in understanding the broader gains, often referred to as "welfare multipliers." These benefits can include increased urban productivity, job creation, enhanced access to services, and improved business efficiency.

On the cost side, it is equally important to account for the initial capital outlay required for infrastructure construction, as well as ongoing maintenance costs, financing expenses, and potential environmental impacts. By comparing the expected returns to these costs, the project's overall viability and long-term sustainability can be properly assessed. A balanced cost-benefit analysis will ensure that the project delivers not only immediate economic advantages but also long-term value for Addis Ababa's residents and businesses.

Economic Multipliers and Their Role

Infrastructure investment drives the multiplier effect, where each Birr spent generates more economic output. For instance, a multiplier of 1.5 means every 1 Birr invested yields 1.5 Birr in the economy, driven by higher retail activity, improved services, and job creation.

1. **Urban Infrastructure Benefits:** Reduced travel times and logistics inefficiencies enhance business productivity and investment.
2. **Land Value Growth:** Infrastructure increases land utility and property values, boosting tax revenue and lease income.

Maximizing the Welfare Multiplier

1. **Investment Efficiency:** High public investment efficiency ensures better cost management, timely implementation, and resource allocation, maximizing GDP growth and societal welfare. Developing economies like Ethiopia often face inefficiencies, which can significantly reduce the multiplier effect.
2. **Economic Context:** Multipliers are stronger during downturns or under fixed exchange rate regimes, while high debt or economic openness can dampen their impact.
3. **Infrastructure Gaps:** Ethiopia's infrastructure gap implies higher marginal productivity of new investments, offering a strong multiplier effect if implemented efficiently.

Factors Influencing Long-Term Gains

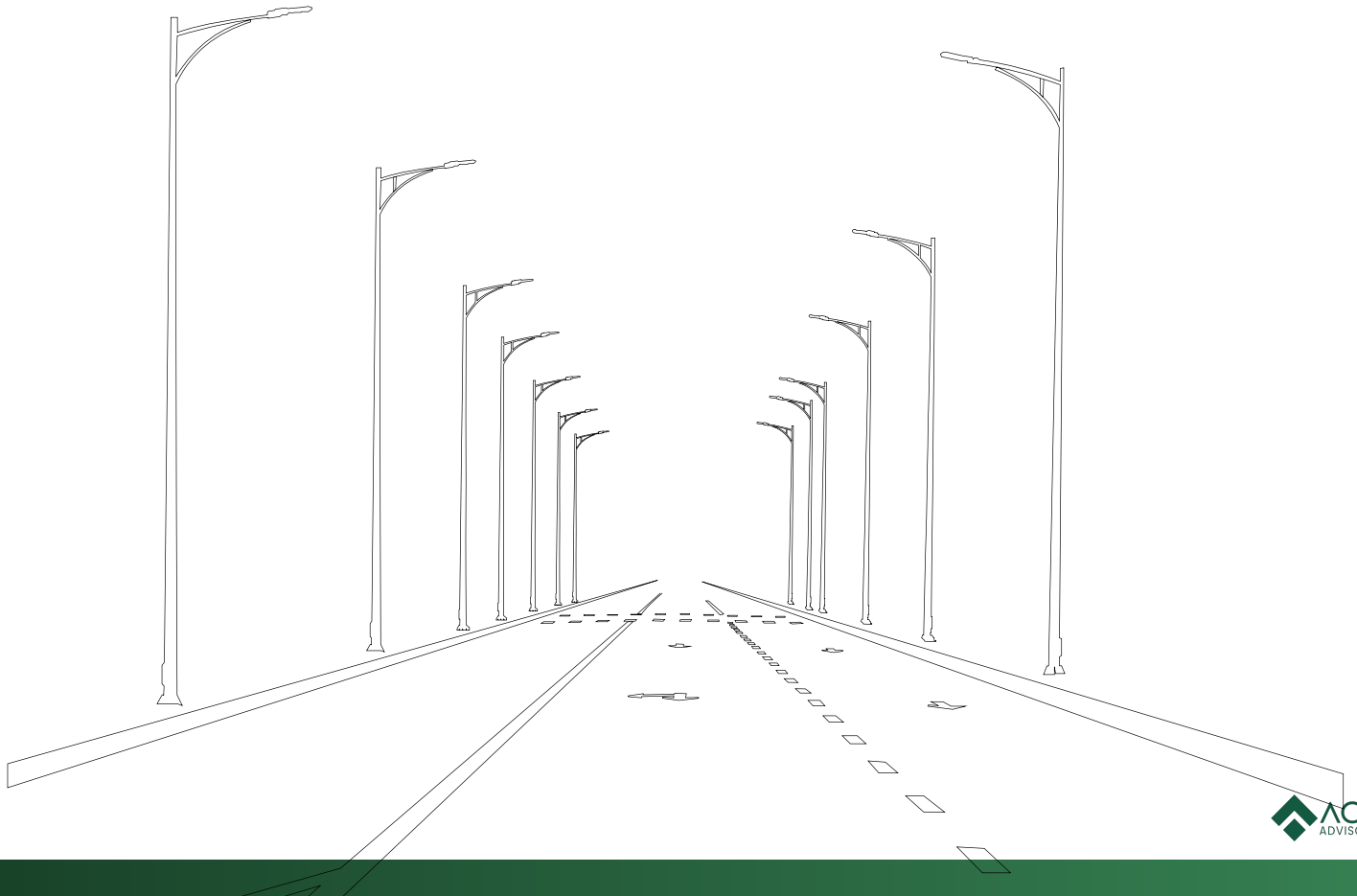
1. **Public Capital Output Elasticity:** Higher elasticity in infrastructure-deficient contexts like Ethiopia can amplify economic output relative to costs.
2. **Depreciation Rate:** Longer-lasting assets ensure sustained economic benefits, increasing the welfare multiplier.
3. **Financing Mechanisms:** Non-distortionary taxes or sustainable borrowing can prevent reductions in private consumption, maintaining the multiplier's strength.

Evaluation Metrics

1. **Demand-Side Metrics:** Consumption patterns, labor supply, and import substitution effects help assess immediate demand increases.
2. **Supply-Side Metrics:** Public capital output elasticity and increased production capacity measure long-term growth impacts.

Key Multiplier Metrics

1. **Cumulative Multiplier (CM):** Reflects total GDP changes over time relative to government spending.
2. **Net Present Value Multiplier (NPVM):** Discounts future economic benefits against project costs to evaluate fiscal sustainability and productivity gains.




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Strategic Implementation for Success

The Addis Ababa Corridor Project can deliver transformative benefits, from economic growth to social equity. To maximize its impact, Ethiopia must prioritize efficient planning, stakeholder engagement, and sustainable financing. With a well-structured approach, this project could set a benchmark for urban and economic development in the region.

Return on Investment (ROI) Analysis

Key Assumptions:

- **Corridor Development Cost:** $844 million (converted from 33 billion ETB at 1 USD = 120 ETB for each phase of the project). The project is planned to be executed in two phases: Phase 1 focuses on the primary infrastructure and initial connections, while Phase 2 will complete the remaining infrastructure developments, including utilities and transportation links.
- **Direct Annual Revenue Contribution:** 5% of Addis Ababa's total revenue in 2023/24, generated by businesses and properties established within the corridor. The direct revenue contribution comes from income taxes, property taxes, and other taxes collected by the municipality from businesses and real estate development within the corridor, including both new enterprises and expansions of existing ones.
    - Total revenue: 146.8 billion ETB.
    - Corridor revenue contribution: 146.8 billion ETB×5%=7.34 billion ETB
    - Converted to USD: 7.34 billion ETB120≈61.2 million USD annually
- **Indirect Return Multiplier:** A conservative multiplier of 1.2 is assumed for indirect economic activities spurred by the project. Given that this is an in-city project within Addis Ababa, already home to established settlements, the multiplier is higher compared to a similar project in a new, undeveloped area (like building a new capital). The project will directly interact with existing businesses, residential areas, and the city's infrastructure, enhancing its effects. Businesses in the corridor will benefit from increased demand and access to markets, which can catalyze additional investments, job creation, and economic activity across sectors such as retail, technology, and services.

Calculations:

1. **Total Annual Revenue (Direct + Indirect):**
   - Direct revenue: $61.2 million.
   - Indirect return: 61.2×1.2=73.44 million
   - Total annual revenue: 61.2+73.44=134.64 million
2. **ROI Formula:**
   - ROI (Years)=Cumulative Revenue (Years)Total Project Cost×100

Payback Period:

The project cost is $844 million, and the annual total revenue is $134.64 million.

Payback Period=844/134.64 ≈ 6.27 years

Discounted Payback Period: To account for the time value of money, future revenues must be discounted at the inflation rate (20%) over the next six years, as projected by the National Bank of Ethiopia (NBE). Using a 20% discount rate, we calculate the present value of future revenues:

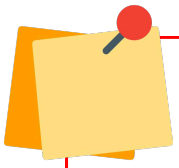
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ROI Over Time:

Year	Cumulative Revenue (USD Million)	ROI (%)
5	134.64×5=673.2	673.2844×100=79.8%
10	134.64×10=1346.4	1346.4844×100=159.5%
20	134.64×20=2692.8	2692.8844×100=319.1%
30	134.64×30=4039.2	4039.2844×100=478.7%

Insights:

- **Break-Even Point:** The project breaks even within approximately 6.3 years (without considering discounting).
- **Long-Term Benefits:** ROI increases significantly over time, showcasing the project's potential for sustained economic impact and its value for the city's development.
- **Indirect Impacts:** The inclusion of indirect returns highlights the corridor's role in fostering broader economic growth, such as job creation, the expansion of the local supply chain, and increased investments in surrounding sectors like retail, tech, and services.



Note, We understand this article is not a finalised conclusive analysis of the return on investment but sincerely hope point to possible directions and prompt a full blown study.

The assumptions and figures presented here should be further validated through primary data from the government, detailed feasibility studies and expert consultation, particularly regarding the indirect return multiplier and the appropriate discount rate to use for future cash flows.

- A more detailed financial model should incorporate sensitivity analyses to account for variations in revenue projections, investment costs, and external economic factors, especially in terms of inflation and changing interest rates.
- The two-phase approach will also allow for staged investments and returns, with Phase 1 generating early revenues and economic activity, which will increase in Phase 2 as the full corridor infrastructure is completed.

Return on Investment



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ACE INSIGHTS

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