

BTI 2016 | Ethiopia Country Report

Status Index	1-10	3.55	# 111 of 129	
Political Transformation	1-10	3.23	# 113 of 129	➔
Economic Transformation	1-10	3.86	# 109 of 129	➔
Management Index	1-10	3.49	# 108 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2016. It covers the period from 1 February 2013 to 31 January 2015. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	97.0	HDI	0.435	GDP p.c., PPP \$	1493.9
Pop. growth ¹	% p.a.	2.5	HDI rank of 187	173	Gini Index	33.2
Life expectancy	years	63.6	UN Education Index	0.317	Poverty ³	% 71.3
Urban population	%	19.0	Gender inequality ²	0.547	Aid per capita \$	40.5

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | UNDP, Human Development Report 2014. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.10 a day at 2011 international prices.

Executive Summary

With nearly 100 million inhabitants as of 2015, Ethiopia has maintained strong economic growth (7% to 10% annually), boasts a small emerging urban middle class, and received increased foreign aid (\$3 billion) and foreign investment during the review period. Nonetheless, it remains one of Africa's poorest countries, with a third of the population still living below the poverty line, and its regime is one of the continent's most authoritarian in character. Between five and seven million people require emergency (donor) food aid throughout the year.

Despite a relatively smooth political transition following the death of Prime Minister Meles Zenawi in August 2012, the Ethiopian government continued harassing and imprisoning political opponents, journalists, human-rights activists and other civil-society representatives in 2013 and 2014. In addition, the Muslim community suffered greatly from state interventions into its religious affairs. Restrictions on journalists perceived to be sympathetic to the Muslim community's widespread protests have been particularly tight. According to the Committee to Protect Journalists, Ethiopia has the second-highest number of jailed journalists in Africa after Eritrea.

Ethiopia is ranked 124th out of 167 countries in the Economist Intelligence Unit's 2014 Democracy index. Both its ranking and its overall score have deteriorated, and it continues to be categorized as an authoritarian state, a category it shares with neighboring states including Eritrea and Sudan. Political liberties and freedoms have eroded in recent years, with overt opposition leaders being overtly attacked and many journalists imprisoned. Through the passage of restrictive laws governing the media, civil society and political funding, the government has gradually constricted the available political space. It has begun to employ a broad definition of "terrorist" groups that encompasses even the non-violent political opposition. Andargachew Tsige, the secretary-general of Ginbot 7, a group headed by former Addis Ababa mayor Berhanu Nega, was

arrested while travelling through Yemen. Tsige, a British citizen, had been condemned to death in absentia by the Ethiopian government in July 2014, as has Berhanu Nega.

In Ethiopia's Ogaden region, violence resumed after talks failed between the government and the Ogaden National Liberation Front (ONLF), a separatist group that has fought for independence since 1991.

The Charities and Societies Proclamation of 2009 restricts the activities of non-governmental organizations by prohibiting work on political and human-rights issues. Foreign NGOs are defined as groups receiving more than 10 percent of their funding from abroad. While there were 3,522 registered NGOs before the law was passed, recent estimates of the number of NGOs have ranged from 1,500 to 1,700 (2013/2014).

Official results show that the governing-party coalition under the leadership of the Tigray People's Liberation Front (TPLF) secured a 99% majority in the 2010 polls. The coalition was expected to gain another substantial majority in the May 2015 elections, which some opposition parties had threatened to boycott. However, despite this apparent strength, the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) is in "an embryonic crisis state" (as the Indian Ocean Newsletter wrote on 9 May 2014), because the various factions and regionalist tendencies are fragmenting federal power. The increased incidence of government land-grabbing activities – the lease of land previously used by smallholders and pastoralists to foreign investment and agrobusiness companies – has prompted heavy unrest in Gambela, in Oromo and other regions. In the western Gambela region, as many as 70,000 people have been forced to move as a result. Women's rights are protected by legislation, but are routinely violated in practice.

Despite problems and difficulties that limit Ethiopia's reputation as a stable and politically trustworthy (or certainly democratic) state, the government has sought to achieve "output legitimacy" in the eyes of its people based on persistent economic growth, large infrastructural investments, improvements to education institutions (including the construction of several new universities), and better health and job prospects. The country achieved impressive annual growth rates of between 7% and 10% during the review period. Yet despite some improvements in the health, educational and social sectors, poverty is still widespread. The country is among those political regimes in the Third World that prioritize strong economic growth (under the guidance of state institutions), a high degree of political stability, and the forceful prevention of chaos and civil war at the price of human rights and civil liberties. Ethiopian policymakers regard the successful development path pursued by the People's Republic of China as a primary model. Moreover, both countries hold a similar political attitude with regard to defending their "right of national self-determination," rejecting all external interference into internal affairs.

History and Characteristics of Transformation

With a long history as a sovereign Christian state, Ethiopia was for many years a key Western focus, and was able to rely on massive development aid from abroad. Ethiopia under Emperor Haile Selassie enjoyed a strong reputation among developing countries, especially among African liberation movements and African political parties that identified Ethiopia with Pan-Africanism. Moreover, it was an important country in the global movement of non-aligned states.

The current federation of Ethiopia is a multicultural state with a diverse cultural heritage and a reasonably good stock of resources (rain-fed areas, fertile soils, water power), giving it promising development prospects. Yet one-third of its nearly 100 million inhabitants (96.6 million in 2014) live in absolute poverty, and up to seven million people depend annually on food aid from abroad.

The emergence of a modern military state began during the reign of Menelik II (1889–1913), the Abyssinian ruler who fended off an Italian invasion in the famous battle of Adwa in 1896, sparing his people the experience of colonialism. He expanded his imperial domain prodigiously by conquering the Oromo and southern tribes, defining the borders of the state which later became Eritrea. However, the policy of integrating the conquered regions into the political, cultural and legal systems of the Amharic Highlanders (sometimes called “black colonizers” by oppositional Oromo people) was not successful, continues to be the source of political tensions and demands for regional secession today.

Uniquely among African countries, the ancient Ethiopian monarchy remained intact during the period of 19th and 20th century colonial rule (with the exception of a short-lived Italian occupation from 1936 to 1941 under Mussolini). Emperor Haile Selassie, who rose to power in 1930, was the first ruler to begin modernizing a feudal society dominated by aristocratic landlords and the Ethiopian Orthodox Church. However, a military junta (the so-called Derg, led by Colonel Mengistu Haile Mariam) deposed the Haile Selassie regime in 1974 following the imperial government’s indifference toward the great 1972–1974 famine, which cost an estimated 200,000 lives.

After 1974, the Derg established a socialist state supported by the Soviet Union and the German Democratic Republic, and practiced a top-down land-reform strategy that ultimately caused much harm among the peasants forced into resettlement schemes. Torn by bloody coups, uprisings, wide-scale drought and massive refugee problems, the unpopular regime was finally toppled in 1991 by a coalition of guerilla armies, led by the Tigray People’s Liberation Front (TPLF).

After the collapse of the Mengistu regime (Mengistu himself escaped into exile in Zimbabwe), the liberators immediately ended the civil war and started to build a coalition called the Ethiopian People’s Revolutionary Democratic Front (EPRDF). This encompassed several of the country’s largest ethnic groups, the Tigray, Amhara, and the Oromo, as well as many smaller ethnic tribes such as the Afar, Issa and Somalis from the southern regions, through the Southern Ethiopian People’s Democratic Movement.

In 1994, the EPRDF created a democratic constitution that called for regular parliamentary elections to create a central government in Addis Ababa and nine regional federal-states governments. The first multiparty elections took place in 1995, bringing the EPRDF coalition an expected victory. The new government under the leadership of the TPLF and party head Meles Zenawi had to cope with a threefold transition: the transition from civil war to a lasting comprehensive peace; the political transition from totalitarian dictatorship to a pluralistic multi-party democracy, which was a condition sine qua non for receiving foreign aid; and a transition from a socialist planned economy to a capitalist market economy that could engage in competition within the globalized marketplace. Since that time, some remarkable results have been achieved with regard to economic growth, infrastructural development and reconstruction of the society's institutional framework, mainly in the areas of education and health.

The first elections in 1995 resulted in a stable government under Prime Minister Meles Zenawi, albeit one with limited legitimacy due to unfair treatment of opposition parties. The state maintained its monopoly on the use of force nearly throughout the country, although some military resistance against the government still exists in the south, in the Afar, Issa and Somali regions, and among militant sections of the Oromo (OLF). Eritrea achieved independence in May 1993 after holding a referendum; although the separation went smoothly at first, relations between the two countries' governments deteriorated following a border dispute near Badme and ongoing tensions over monetary and trade relations. This dispute erupted into a full-scale war in May 1998, killing more than 100,000 people. Most regional development projects and social investments came to a halt. In March 2002, an Eritrea-Ethiopia Boundary Commission (EEBC) finally confirmed that the small town of Badme, which had been under Ethiopian administration for decades and had served as a flashpoint for the 1998 – 2000 war, belonged to Eritrea. However, the Meles government did not accept the decision completely, much to the frustration of Eritrea and the disappointment of the international community.

On the level of socioeconomic development, Ethiopia has taken steps toward increasing economic growth, agricultural production, and the industrial processing of crops. The high rate of population growth has hampered efforts to improve peoples' living conditions. Public expenditures have recently accelerated in education, health and road construction. Under Prime Minister Hailemariam Desalegn, a southerner elected in 2012, the policies of Meles have been continued in principle, although observers say the new leader lacks authority over competing political leaders from the Amhara, Oromo and Tigray fractions.

Ethiopia has played a dominant political and military role in the Horn of Africa, both as a strong and reliable partner of the United States in fighting Islamist terrorism, and as an active participant in several humanitarian interventions in Somalia, Sudan and South Sudan. It is likely to continue to enjoy a privileged position as an anchor of political stability. Observers expect that Western countries will continue to support the regime with few questions asked, treating reports of human-rights abuses, domestic repression and displacements with benign neglect, and continuing to transfer large amounts of foreign aid.

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The Federal Democratic Republic of Ethiopia is a strong and stable state with an authoritarian government under Prime Minister Hailemariam Desalegn, the successor to Meles Zenawi who died in August 2012. Since 1991, the country has been ruled by a coalition of parties, the Ethiopian People's Revolutionary Democratic Front (EPRDF), which is dominated by the Tigray People's Liberation Front (TPLF). This coalition radically transformed the previously centralized state into today's Federal Democratic Republic. Ethnic and religious identities have played an important role in identity formation for centuries, while control over central power has shifted between the Amhara and Tigray ethnic groups (both Orthodox Christian) since the 19th century. Other ethnicities, including the Oromo and Somali, but also the Afar and other minorities living in Gambela and the Southern Nations, Nationalities and Peoples region feel excluded from state power. When the TPLF came to power through a military victory in 1991, it tried to address these structural problems by institutionalizing ethnic federalism as a means of empowering marginalized ethnic groups (including itself). Under the 1995 constitution, the government created nine ethnically based regional states and two federally administered city-states. The result is an asymmetrical federation that combines populous regional states such as Oromiya and Amhara in the central highlands with sparsely populated and underdeveloped ones including Gambela and Somali. However, ethnic federalism has failed to resolve the "national question." The EPRDF's ethnic policy has empowered some groups, but has not been accompanied by dialogue and reconciliation. For the Amhara and national elites, ethnic federalism impedes progress toward a strong and unitary nation-state. For ethno-national rebel groups such as the Ogaden National Liberation Front (ONLF), made up of Somalis in the Ogaden region, and the OLF (Oromo Liberation Front), ethnic federalism remains artificial. While the concept has failed to accommodate grievances, it has powerfully promoted ethnic self-awareness among all groups.

Question
Score

Monopoly on the
use of force

7

The state's monopoly on the use of force is established nationwide in principle, but it is challenged by the above-mentioned regional separatist movements.

In Ogaden, thousands of residents have fled the area as a result of fighting between the army and rebel groups.

During the period under review, there were also sporadic clashes between government forces and Oromo Liberation Front (OLF) units in the east and west of the Oromiya region. The OLF is fighting for the independence of the Oromo people, who make up 40% of the country's population as a whole. But due to a lack of external support and financial and logistic resources, the OLF cannot be regarded as a serious danger to the stability of the country.

Under Ethiopia's sweeping Antiterrorism Proclamation of 2009, the government imposed restrictions on portions of the Muslim minority. In 2013, Muslim demonstrations against the government's brutal suppression increased political tensions between the state and civil-society groups. However, Ethiopia is today more stable than was the case under the centralized rules of either Haile Selassie or the Derg.

The legitimacy of the nation-state is rarely questioned. Ethnic federalism may be contested by some groups (mainly by the Amhara elite, which formed the core power elite before the TPLF/EPRDF came to power), but other groups tend to demand that ethnic federalism be implemented consistently rather than seeking return to a centralized political system. Major societal groups, mainly in the peripheries (south, east and west), feel excluded from equal access to power at the central level of the nation-state's administration. The majority of these groups are Muslims or non-Orthodox Christians. Some political organizations (OLF and ONLF, and to some extent also the Afar Revolutionary Democratic Unity Front (ARDUF)) reject the current nation-state in favor of regional autonomy, and are seeking independence. However, these groups existed and pursued the same goal long before the current government came to power in 1991. Major groups in society, mainly in the south and among the Muslim population, do not accept or support the official concept of the nation-state as defined by the government. It is dominated by one ethnic minority, the Tigray. Increasing numbers of Muslims, who make up one-third of Ethiopia's population, have developed skepticism toward the state and the Ethiopian Orthodox Church as the country's largest religious group. Conflicts between Muslims and Orthodox Christians have taken place for centuries, with the latter traditionally monopolizing state power at the expense of the Muslim population. Initially, the EPRDF improved rights for Muslims, but in recent years has intervened more deeply in Muslim affairs, imposing increasing restrictions on a community that has grown to rival the Orthodox Church in size. This has helped alienate some Muslims from the government.

State identity
6

The Orthodox Church was the nation's state church until the fall of Emperor Haile Selassie in 1974. Today the state is secular, with no state church. The governing EPRDF coalition consists mainly of politicians with a Marxist background. However, religious traditions and religion-based customary laws (both Christian and Muslim) have some influence on the legal order and political institutions. According to the 2007 National Census results, Christians made up 62.8% of the country's population. A total of 44% of the population belonged to the Ethiopian Orthodox Church, while 34% were Muslims. The increasing political tensions between the government and political-opposition groups, including Muslim organizations, have had some impact on legislation (Antiterrorism Act). The large Muslim population in the Afar region has resulted in a Muslim separatist movement seeking a sharia-compliant constitution.

No interference of religious dogmas
6

The administrative structures of the state provide most basic public services throughout the country, but their operation is to some extent deficient. Public services experience particular shortcomings in peripheral areas, and pastoralist groups have less access to public services than do sedentary farmers and urban groups.

Basic administration
6

The efficiency of the federal administration suffers from widespread corruption. In the southern provinces, where opposition and separatist groups are active, the federal government pursues a policy of discrimination against localities that are known to be disloyal to the EPRDF. As was discovered by Human Rights Watch in 2014, the government, due to its monopoly of the telecommunication network, has installed a complete control and information system that allows the EPRDF vast spying capabilities.

2 | Political Participation

General elections are held, but serious irregularities during the voting process and ballot counts occurred during the latest elections in 2010. The rights to vote, campaign and run for office are severely restricted, and since 1995 elections have de facto had only limited influence over who governs,. Voters have not been presented with a realistic alternative to the ruling EPRDF coalition, which is led by an inner circle of Tigray representatives. The political transition following the 2012 death of Prime Minister Meles Zenawi, who had served as a strong authoritarian leader since the regime change in 1991, was relatively smooth. However, the government under Meles's successor, Hailemariam Desalegn (who comes from the SNNP region and belongs to the Wolayta ethnic group) continued throughout the review period to harass and imprison political opponents, journalists and representatives of the Muslim community.

Free and fair elections
2

As of the time of writing, the next parliamentary elections were scheduled for 2015, with no signs of improvements in the election procedures. During the 2010

parliamentary and regional elections, the EPRDF tightly controlled the campaigns and the electoral results. Voters were threatened with loss of their jobs, homes and access to government services if they failed to vote for the ruling party. Opposition meetings were broken up and candidates were threatened and detained, with the consequence that opposition parties lost their 160-seat parliamentary presence nearly completely. The governing parties (EPRDF) won all but two of the 547 seats in the lower house. That meant the de facto end of the multi-party system introduced in Ethiopia in 1995. In the elections of May 2015, the incumbent government coalition won 100% of the parliamentary seats.

There are no democratically elected political representatives in Ethiopia. Strong veto groups, including military and the Political Bureau of the Tigray People's Liberation Front (TPLF), which is a member of the government coalition, are able to undermine fundamental elements of democratic procedures.

Effective power to govern
2

In Freedom House's Freedom in the World 2014 report, Ethiopia scored very low in the categories of political rights and civil liberties, receiving a score of six (seven is the worst) for each. The constitution allows the formation of independent political and civic associations, but these are not able to operate or assemble freely. Assembly rights are restricted, and violence against peaceful protesters is frequent. In 2014, protests by Oromo students against the extension of the Addis Ababa city space into Oromo territories were violently dissolved.

Association / assembly rights
3

In practice, there are severe restrictions on the rights of assembly and association for all citizens. Opposition political groups and Muslim minority groups are prevented from exercising their freedom of association.

Before 2009, there were many non-governmental organizations (NGOs) in the country, mainly in the fields of development assistance, education, health, and social services. However, with the Charities and Societies Proclamation of 2009, the government dramatically restricted NGO activities. According to the Ministry of Justice, there were 3,522 registered NGOs before the law was passed, as compared to between 1,500 and 1,700 at the end of 2013. NGOs that receive more than 10% of their funding from outside the country are classified as foreign institutions, and have to pay high taxes and are barred from activities in various fields, including human rights and capacity building issues. NGOs have struggled to maintain certain operations as a result of this law, which also requires them to register with the state authorities.

The government uses intimidation, harassment and threats of retaliation to prevent citizens from exercising their association rights. In 2010, the Human Rights Council (HRCO) and the Ethiopian Women Lawyers' Association (EWLA) had their bank accounts frozen for violating rules on the receipt of foreign funds. An HRCO appeal of this policy was rejected by the Supreme Court in October 2012. According to

Freedom House, both organizations have dramatically downscaled their operations. As of 2013, HRCO had shut down three-quarters of its offices and shed 85 % of its staff, while the EWLA had laid off 70% of its staff. The German-based Heinrich Böll Foundation was not willing to accept these restrictions, and instead left the country altogether.

Freedom of expression is often subject to interference and government restrictions. The state engages in a systematic censorship. Distortion and manipulation shape the public debate. The media are dominated by state-owned broadcasters and government-oriented newspapers. After one of the few independent papers in the capital, Addis Neger, was closed in 2009 amid claims of harassment by state authorities, many journalists were driven into exile or imprisoned. In 2013, three new outlets were either banned or shut down indefinitely. A 2008 media law criminalizes defamation and allows prosecutors to seize material before publication in the name of national security. Due to the risks of operating inside the country, many Ethiopian journalists work in exile. The government has driven 49 journalists into exile in the past five years. Ethiopia has the second-highest number of jailed journalists in Africa (after Eritrea). In general, displaying a dissenting opinion is a risky matter in Ethiopia, as the structure of the media system hampers the plurality of opinions. Recent years have seen increasing intervention against online journalism, with various bloggers imprisoned in 2014 for publishing critical opinions. Reporters Without Borders' World Press Freedom Index ranked Ethiopia in 174th place worldwide (down from 172) in 2015.

Freedom of
expression

2

3 | Rule of Law

The separation of powers is formally enshrined in the 1995 constitution, but is weak in practice. One branch, the executive, has largely undermined any opportunity for effective exercise of checks and balances. The national parliament (in which the opposition parties held just a single seat during the period under review) is regarded as a rubber-stamp institution, without any influence on decision-making processes within the EPRDP, the sole ruling party for 24 years. The government maintains a network of paid informants, and opposition politicians have accused the government of tapping their telephones. It is therefore unrealistic to expect that elected parliamentarians can freely and fairly participate in law-making. No development toward a more democratic system or a strengthened democratic public debate, inside or outside parliament, could be discerned. State and party remain closely intertwined.

Separation of
powers

3

Ethiopia does not have an independent judiciary with the ability and autonomy to interpret, monitor and review existing laws, legislation and policies. Access to fair and timely justice for citizens, at least as conventionally defined by legal experts, cannot be said to exist. In general, there are no judges able to render decisions free from the influence of the main political-party leaders, despite these jurists' professionalism and sincerity. The independence of the judiciary, formally guaranteed by the constitution, is significantly impaired by political authorities and the high levels of corruption. High-level judges are usually appointed or approved by the government. This process is to some extent institutionally differentiated, but is also severely restricted by functional deficits, insufficient territorial capacities and scarce resources. The judiciary functions in ways that usually support the political stances and policies of the government. Pro-government bias is evident in political-and media-freedom cases, as well as in business disputes.

Independent
judiciary
3

Officeholders who break the law and engage in corruption are generally not adequately prosecuted, especially when they belong to the ruling party (EPRDF). In some cases, "disloyal" civil servants are subject to legal action. Corruption remains a significant problem in Ethiopia due to the lack of checks and balances in the governing system. ERDF officials reportedly receive preferential access to credit, land leases and jobs. In 2013, the government attempted to demonstrate its commitment to fighting corruption after the release of a World Bank study that detailed corruption in the country. As part of the effort, the Federal Ethics and Anti-Corruption Commission arrested some prominent government officials and businessmen on corruption charges. In May 2013, the head and deputy head of the Ethiopian Revenue and Customs Authority, Melaku Fanta and Gebrewahid Woldegiorgis were arrested along with several businessmen. Even a High Court judge (Zerihun Assefa) was detained, accused of accepting bribes. In the course of 2013, the Oromia state authorities dismissed 82 employees for corruption in connection with the issue of land management. Often it is not easy to decide from outside whether the government is using a popular anti-corruption campaign as a simple means of getting rid of "disloyal" officeholders, or whether it is honestly interested in cleaning up the political apparatus.

Prosecution of
office abuse
4

Civil rights are codified by law, but even the most fundamental rights (i.e., to life, liberty and physical integrity) are often violated in practice when government authorities suspect citizens of opposing the system or of sympathy with a "rebel" organization. As membership of the party is seen as an informal prerequisite for gaining access to jobs, loans, stipends or favorable court decisions, citizens who lack membership card must reckon with discrimination.

Civil rights
2

Mechanisms and institutions to prosecute, punish and redress violations of civil rights largely do not exist. Journalists are routinely harassed and jailed, and often prosecuted under the 2009 Anti-Terrorism Proclamation. In the last five years, 49 journalists have been driven into exile, and many journalists from independent (non-state-

owned) publications have been jailed or banned from working. Civil rights are systematically violated, and there are no legal institutions to protect residents against violations of their rights. This includes peasants who are deprived of their rights to life and to cultivate the soil when these come into conflict with the government's land-grabbing activities. The Charities and Societies Proclamation severely constrains the work of human rights organizations such as EHRCO.

4 | Stability of Democratic Institutions

Although the political system consists formally of an elected parliament based on (unfair) competition between several parties, Ethiopia must be regarded as a “facade democracy.” The legally elected institutions are in fact part of an authoritarian system that does not offer citizens a free choice between competing political parties. Since 2005, the government has harassed and imprisoned political opponents, journalists and members of the Muslim population.

The parliamentary and regional elections of 2010 were tightly controlled by the EPRF. Voters were threatened with the loss of their jobs, homes or government services if they failed to vote for the ruling party.

Since that time, the government has intensified the harassment of political opponents further. Repression of the Oromo and ethnic Somalis in the Ogaden region, and the relocation of 70,000 peasants in the Gambela region (to make way for the lease of large tracts of land to foreign investors) do not improve the prospects for genuine democracy in this authoritarian country. The EPRDF dominates state institutions at all levels (central, regional and sub-regional, down to the kebele/local and neighborhood levels) despite the existence of a federal system.

None of Ethiopia's institutions are genuinely democratic, and no relevant government actors, including the president, leading politicians, directors of state and parastatal companies, and the higher ranks of the military, are in favor of democracy. The picture is slightly more mixed in the opposition camp, with some opposition leaders advocating on behalf of democratic principles.

Ethiopia remains a highly fragmented society, composed of some 80 ethnic groups who are organized in many different political organizations. All of the country's regions have a rich history of traditional participatory organizations such as village councils (baitos).

People in Ethiopia have never experienced “democracy” as an attractive reality, and the repressive atmosphere produced by the ruling party has left no space for the development of a democratic culture among society's various groups.

Performance of
democratic
institutions
2

Commitment to
democratic
institutions
2

5 | Political and Social Integration

Basically, there are three major political convictions or ideologies that have shaped Ethiopia's political landscape and the party system for decades:

Party system
3

1. Pan-Ethiopian nationalism, which is still actively promoted primarily by members of the Amhara political elite and can be associated with the former Coalition for Unity and Democracy (CUD/Kinijit). It continues to strive for political influence, but has been weakened by the TPLF.

2. The ethnic federalism propagated by the ruling coalition. This can be seen as a compromise between 1 and 3, and is probably accepted by the majority of the population in principle.

3. Political movements striving for regional autonomy or even secession for their home regions (Ogaden, Oromia/OLF, parts of the Afar). These groups have been excluded from access to the regular party system, and have been branded as "terrorist." Most are socially and culturally rooted in their regions.

Since the 1990s, the state has primarily been constructed along the principles of ethnic federalism, with artificial ethnic-regional parties. The large ethnic groups – the Oromo (with a 34.4% share of the total population), the Amhara (27%), the Somali (6.2%), the Tigray (6.1%), the Sidama (4%), the Gurage (2.5%), and the Afar (1.7%) – have all developed their own regional or ethnic parties. National and local electoral rules require that local representatives stand for election, in order to exert at least some local influence on decision-making. However, because the people are not free to vote for candidates in accordance with their own priorities and interests, the established political parties do not necessarily reflect the values, interests and identities of the regions. Therefore, one can say that the parties of the coalition government, all of which are under the strong control of the TPLF (Tigray People's Liberation Front) are neither independent nor authentic. Their political legitimacy in the eyes of their compatriots is damaged by the fact they have to pursue and defend the policies decided by the TPLF, which is to some extent unpopular.

Opposition parties and new political parties are accorded little space to exert influence or to become stable and socially rooted in society. A new opposition party called the Semayawi Party (Blue Party), a moderate democratic movement with broad support and a young constituency, was created based on the experience of previous democratic parties. But it came immediately under pressure from government authorities, and has been kept under constant surveillance.

There is a range of interest groups in Ethiopia, but important social interests are underrepresented or not represented at all. Only a few players, dependent on the consent of the EPRDF, can exert some influence as mediators between the state and the society. The most important interest groups are the churches.

Interest groups
2

The Ethiopian Orthodox Church (EOC) has some influence on the government when religious questions are at stake. Religious tensions between the government and the Muslim community have increased in recent years, notably in Addis Ababa. The frequency of civil protest within the Muslim population was consistently high throughout 2013. The government has attempted to counteract the perceived growth of radical Wahhabist and Salafist versions of Islam. In December 2012, 29 prominent Muslims were charged with terrorism offences and scheduled to stand trial in 2013. Several Muslims were killed by police in the subsequent demonstrations. Weekly demonstrations by Muslims continued throughout the year, and drew support from the Christian, notably Orthodox, community. This also led to a decline in communal clashes between the two communities of faith.

In February 2013, 71-year-old Abuna Matthias, originally from Tigray, was elected by the Synod of the Ethiopian Orthodox Church (EOC) as the church's new patriarch. The fact that after only a few months in office he was placed under house arrest and interrogated after allegedly criticizing the EPRDF is an indication of the limits to this organization's influence despite its 14 million church members.

Outside the Orthodox and Muslim religious communities, a number of other potential interest groups lack representation. Among these are professional groups (lawyers, teachers, etc.), whose civil rights have been curtailed by the Charities and Societies Proclamation and anti-terror legislation. Other groups such as pastoralists (12 million to 15 million people) and people affected by land grabbing lack any organized body able to represent their interests. Women are also severely underrepresented as an interest group with access to political decision-making.

There is some evidence from previous elections (between 1995 and 2005) that the public generally supports the basic ideas of multiparty political competition and democratic government. At that time, people participated in elections and dared to vote in favor of opposition parties. The urban population of Addis Ababa in particular can be regarded as having the courage to vote against the government (in 2005, all of Addis Ababa's regional seats went to the opposition, in a surprise to the EPRDF government.).

Approval of
democracy
n/a

Since that time, the EPRDF has done everything it could to prevent the people from taking part in "free and fair" elections.

One can assume that the great majority of the people would approve of a democratic system.

There is a fairly low level of trust between the different ethnic-regional groups. What autonomous self-organized groups, associations and organizations do exist operate in a rather isolated manner. Traditional self-help organizations at the grassroots level (saving committees and the like) are quite important in this regard. As in previous periods, ethnic conflict remains a source of underlying nationwide tensions and mistrust, and sometimes breaks out into violent incidents. During the period under review, a violent dispute between the Oromo and Somali communities (in the East Haraghe Zone of the Oromiya region) resulted in the displacement of some 90,000 people.

Social capital
3

II. Economic Transformation

6 | Level of Socioeconomic Development

Question
Score

Ethiopia's Human Development Index (HDI) score has improved only slightly over the last decade, from 0.339 in 2005 to 0.429 in 2012 and 0.435 in 2013. Indeed, although investment in health care and education has increased, human development measured on the basis of the HDI has been slow to follow suit. In 2013, the country was ranked 173rd of 187 countries. Moreover, living conditions differ markedly between regions, with the southern and eastern regions among the poorest parts of the country.

Socioeconomic
barriers
2

The proportion of people living in extreme poverty (on less than \$1.25 per day) has declined to about one-third of the population. The share of the population living below the poverty line was estimated at 39% in 2012 and at 29% in 2014. Household incomes are still very much unequally distributed among social classes; the lowest 10% of the population – among this group, rural families with many children – accounts for just 4.1% of the country's total income, while the highest 10% consumes more than a quarter (25.6%). Sharp nationwide inequalities are also reflected in the social gap between a newly emerging but still small state-supported middle-class on the one hand, and the large mass of the population still living at the margins of society on the other. The country's 150,000 street children are among the poorest and most vulnerable groups at the bottom of society. The government's land-grabbing activities have resulted in an increase in the numbers of smallholders and pastoralists who have been displaced to make room for commercial plantation agriculture. During the period under review, several million people required emergency food aid from outside, among them thousands of farmers who had lost their land without adequate compensation.

Only a small minority of perhaps 5% to 10% of the working population is involved in the formal sector.

Economic indicators		2005	2010	2013	2014
GDP	\$ M	12401.1	29933.8	47524.7	54797.7
GDP growth	%	11.8	12.6	10.5	9.9
Inflation (CPI)	%	12.9	8.1	8.1	7.4
Unemployment	%	5.4	5.4	5.7	-
Foreign direct investment	% of GDP	2.1	1.0	2.0	-
Export growth	%	-	-	0.2	3.1
Import growth	%	-	-	0.8	13.9
Current account balance	\$ M	-1567.8	-425.4	-	-
Public debt	% of GDP	75.4	27.4	21.6	22.3
External debt	\$ M	6224.1	7346.5	12556.6	-
Total debt service	\$ M	93.9	183.7	664.2	-
Cash surplus or deficit	% of GDP	-4.5	-2.7	-	-
Tax revenue	% of GDP	8.7	8.2	-	-
Government consumption	% of GDP	15.8	11.0	8.3	8.0
Public expnd. on education	% of GDP	-	4.7	-	-
Public expnd. on health	% of GDP	2.6	2.8	3.1	-
R&D expenditure	% of GDP	0.18	0.25	-	-
Military expenditure	% of GDP	2.8	1.1	0.8	0.7

Sources (as of October 2015): The World Bank, World Development Indicators 2015 | International Monetary Fund (IMF), World Economic Outlook, October 2015 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2015.

7 | Organization of the Market and Competition

Market competition in Ethiopia functions under a weak institutional framework, with uneven and non-transparent rules for market participants. This is one of the reasons why the country still has not managed to fulfill all conditions for membership in the World Trade Organization (WTO). There is considerable state intervention in sectors the government regards as strategically important, primarily in manufacturing industries and financial services. Foreign banks are not allowed to operate within the Ethiopian market. All land is legally owned by the government, a fact that has considerable negative consequences for private entrepreneurs and potential investors in agricultural activities. Because the majority of the working population is engaged

Market-based
competition
4

in subsistence agriculture (as smallholders and pastoralists), the informal sector is significant in both rural and urban areas. Even well-educated people such as university graduates often have no alternative other than to look for employment in the informal sector. In the near future, the government may be forced into a more market-oriented economic policy as it runs out of financing options for its large infrastructure projects.

The government takes no legal or political measures to prevent the emergence of monopolistic structures in the economy. The main driver of economic development is the agricultural sector, in which 80% of the people work. All agrobusiness companies, national and foreign, operate under tight government control, mainly through the Ethiopian Revenue and Customs Authority (ERCA) and the Ethiopian Investment Agency (EIA). The TPLF itself has built a huge economic conglomerate, the Endowment Fund for the Rehabilitation of Tigray (EFFORT), which controls vast parts of Ethiopia's economy. The Saudi-Ethiopian billionaire Sheikh Mohamed al-Amoudi also controls a significant part of the economy.

Anti-monopoly
policy
2

Foreign trade is formally non-discriminatory, but is in practice significantly distorted by state interference, special rules, tariff and non-tariff barriers, and other instruments. Ethiopia, which is not a WTO member state, is economically integrated into the world market through the export of coffee, gold, textiles, leather and some other items. However, foreign companies are subject to considerable red tape, and often complain about the country's unfriendly business climate. When Prime Minister Hailemariam Desalegn came to Berlin in January 2015 and invited foreign companies to establish a presence in his country, Chancellor Angela Merkel cited complaints by German and other companies about the country's business environment.

Liberalization of
foreign trade
4

The banking system and capital market are strongly supervised and regulated by the government along ideological grounds. Regulations and supervisory requirements are defined by the government. International standards are rarely met. As yet, no foreign banks are allowed to operate in the country. Discussions about accession to the WTO have not yet been finalized. Few people have bank accounts, with small classes such as civil servants forming an exception. Because they do not trust state institutions, ordinary people instead make use of communal saving clubs and other private financial institutions.

Banking system
4

8 | Currency and Price Stability

The government has successfully reduced the inflation rate from 32.2% in 2011 to 22.8% in 2012 and only 8.1% in 2013. Controlling inflation is now an important component of economic policy, although it is too early to call this a consistent strategy over time. Nevertheless, it is fair to say that government has undergone a remarkable learning process, after being strongly advised by international financial institutions (the World Bank and IMF) to change its course. Previously, the government had followed a policy of granting credits to state-owned enterprises while at the same time putting restrictions on private banks and on lending to private businesses. The high inflation rates had a negative impact on the earnings of the lower middle and working classes.

Anti-inflation /
forex policy

5

In 2013, the government pursued a less risky policy and fixed the commercial banks' prime lending rate at 14.5%.

The government's fiscal and debt policies are very much directed toward financing a set of large and ambitious development and infrastructure projects, including the Grand Ethiopian Renaissance Dam (GERD), with little regard for prudent principles of macroeconomic stability. Ten years ago, public debt had reached a high percentage of GDP, at 76.8% in 2005 and 106.7% in 2004. Compared with these figures, the current government has achieved a drastic reduction in public debt. However, the fast-increasing level of external debt since 2005 is alarming; this has grown from \$6.2 billion in 2005 to \$8.6 billion in 2011, to \$10.5 billion in 2012 and \$12.6 billion in 2013.

Macrostability

5

In 2013, the gap between budget revenues and expenditures expanded. Government revenues grew as a result of more efficient tax collection, reaching about \$5.8 billion. However, overall state spending in 2013 amounted to \$8.3 billion, of which some 20% was foreign-sourced. This overall expenditure was 10% higher than the previous year. The current account showed a deficit of \$3.5 billion, or 7.5% of GDP.

Total foreign aid amounted to \$3.3 billion, or almost 40% of the national budget.

9 | Private Property

Land in Ethiopia formally belongs to the state, but non-migratory farmers, especially in the highland regions of Tigray and Amhara, have sophisticated customary land laws, and their system of distributing land for usage is usually respected by the state. Those who cannot rely on stable usufruct rights are pastoralists and semi-pastoralists in peripheral regions such as Somali (Ogaden) and Afar, and farming communities in the west (Gambela) and some residents of the SNNPR who have fallen victim to land grabbing in the recent past. Large infrastructure projects have also caused forced

Property rights

3

resettlement without adequate compensation. Property rights and regulations governing the acquisition, benefit, use and sale of land are not clearly defined. International and national companies that intend to grow crops or produce industrial products are allowed to lease land for up to 99 years (as is typical in cases of land grabbing). In only very few cases it is possible to acquire private-property rights.

Private foreign companies are welcomed by the government, which is eager to find foreign partners to help implement its Growth and Transformation Plan and its huge infrastructure-development projects such as the Grand Renaissance Dam (irrigation). The Ethiopian Sugar Corporation plans to establish 10 new sugar factories, financed with the help of a \$250 million World Bank (IDA) loan. Several international companies operate in the country and often accuse state organizations of interference in the market. Large firms often have to pay bribes to state officials in order to do business in the country or to win a contract. Some strategic business sectors (finance, banking, insurance) are dominated by state companies, with private companies excluded. It is likely that the government will run out of resources in the near future, and will come under pressure to liberalize the economy and open up in favor of private businesses. Although private business is allowed by the government today, no market-based privatization process has yet been implemented.

Private enterprise
4

10 | Welfare Regime

Ethiopia does not offer a comprehensive, state-funded welfare system, with the exception of pension funds for civil servants and military officers. The great majority of the population is at risk of poverty, including the 13 million smallholders. Social safety nets that are functionally equivalent to formal compensation for social risks do not exist for the urban middle classes or for smallholders (who make up 80% of the working population). People rely on the solidarity of the extended family, clan and village structures, and on religious practices and traditional customs. Even worse is the situation of the 150,000 children living on the streets. Farmers and families living in the pastoralist sector run the greatest risk of losing their basis of subsistence, as the government is trying hard to bring the land used by this population sector into commercial usage. No consideration has been given to the fact that most pastoralist environments have been effectively utilized to raise livestock. The number of landless peasants, refugees and economic migrants trying to leave the country for economic opportunities elsewhere is increasing. In recent years, the government has slightly increased health expenditures in accordance with the rapid population growth; public health expenditure as a share of GDP increased from 2.4% in 2004 to 2.8% in 2010 and again to 3.1% in 2013. Average life expectancy at birth improved from 61.5 years in 2010 to 63.6 years in 2013.

Social safety nets
3

Equality of opportunity is not a reality in Ethiopia. Access to higher education and to state employment often depends on membership in one of the EPRDF's member parties. The local administrations (Kebeles) control political activity in their local areas, and are in charge of issuing the letters of recommendation necessary for access to higher education or work opportunities. Supporters of opposition parties are often excluded from such opportunities. Members of some ethnic and religious groups (Muslims) have limited access to education, public office and employment, dependent on the region in which they live. Residents of Tigray or Amhara, as well as those who live near the capital Addis Ababa, have the greatest chances of obtaining access to higher education and other public and private services. There are some legal provisions regarding discrimination against women and other ethnicities, but their implementation is highly deficient. The literacy rate among adult males is 49.1%, and just 28.9% among females. A total of 28% of the members of the National Assembly are women. This share nearly meets the government's target of 30%.

Equal opportunity
2

11 | Economic Performance

The government's economic performance shows some bright spots. Moderately positive macroeconomic data include GDP growth rates of 7% (for 2014) and 10.5% for 2013. Inflation rates were reduced from 22.8% in 2012 to 8.1% in 2013. Unemployment rates are rather high, estimated at between 15% and 25% of the labor force, with young people disproportionately affected. Public debt stood at about 22% of GDP in 2013, while the state budget shows strong deficits. The current account deficit increased from \$783 million in 2011 to \$2.99 billion in 2012, and was forecast to widen to 7.3% of GDP in 2014. In 2012, Ethiopia imported oil, machinery, chemicals, iron and steel, food and other commodities at a value of \$11.9 billion, while it exported coffee, gold, leather, textiles and other products for a value of only \$4.29 billion, producing a huge trade deficit of \$9 billion. Tax revenues totaled 9% of GDP in 2012, a slight improvement compared with 8.2% of GDP in 2011.

Output strength
7

Faced with a huge resource gap, the government decided to turn to a more market oriented strategy in 2014, issued its first euro-denominated in December 2014, following an international investor roadshow. The IMF declared the country's default risk to be low, which allowed Prime Minister Hailemariam Desalegn's government to raise funds on the international capital market (a total of \$1 billion, at an interest rate at 6% to 7%, with a 10-year maturity). The foreign loans are intended to finance huge infrastructure projects, mainly irrigation dams, electricity plants, railways and tarred roads. Tensions with Egypt over the Nile water issue were not solved in 2014; the massive \$4.2 billion Blue Nile hydroelectric project, called the Grand Ethiopian Renaissance Dam (GERD), is a national prestige project for Ethiopia, and will definitely lead to a drop in the Nile river water flow after construction is finished in 2017. For Egypt (and Sudan), this is an unacceptable development. However, Sudan

has expressed no general objections to the construction of the GERD, and relations between Egypt and Ethiopia have improved considerably in recent months. Both governments are engaged in active talks to find a solution to Nile-water-related problems.

12 | Sustainability

Environmental concerns receive only sporadic consideration and are often subordinated to growth efforts. Environmental regulation is weak and not strongly enforced.

Environmental
policy
3

In a surprise move during the period under review, the government revoked the land-lease allocations of around 3,000 investors for their alleged “failure to develop the land,” because they had not yet started to invest money and increase production. However, in southern Ethiopia, the government has started to operate 10 sugar-plantation projects, and in the Gambela region, large-scale commercial agricultural ventures have led to the eviction of subsistence farmers from their land, and to forced villagization. Thousands of frustrated smallholders and local villagers protested against the policy of displacement, which has also resulted in a neglect of environmental considerations and regulations. Every top-down policy from the government has thus been shown to put ambitious economic growth efforts above environmental concerns.

Despite some successes, Ethiopia’s educational system is in general substandard, with qualitative shortcomings in secondary and tertiary education and insufficient rates of school enrollment. The literacy rate, at 49.1 % for adult males and 28.9% for adult women, is below the African average. Regional differences between the northern provinces and the more neglected regions in the south, west (Gambela) and east (Afar) are broad. Rates of investment in education and training are rather low, with public expenditure in this area falling below 5% of GDP (between 4.7% and 4.6% in recent years). Investment in research and development amounts to less than 1.5% of GDP. The most remarkable progress has been achieved in the realm of university education; more students have been trained in recent years than ever before (in the new university campuses), but the skills acquired are not of high level, and university graduates often find difficulties in finding employment, as the market cannot today offer attractive jobs for them. About 900,000 young people enter the job market every year. Many students therefore look to emigration as the only way to earn a living.

Education policy /
R&D
4

Transformation Management

I. Level of Difficulty

Ethiopia suffers from a number of structural constraints. For many generations, the people of the country have been extremely poor, while the population is expanding by 2.6% annually (2013). The climate is difficult for agriculture, with challenges that include long-lasting droughts, high temperatures and strong soil erosion. Ethiopia is a huge land-locked country with poor infrastructure and many small ethnic groups, especially in the south. With a literacy rate below 40%, the population consists mainly of uneducated smallholders and pastoralists. There is only a small educated industrial labor force.

Structural
constraints

7

Civil-society traditions are very weak. Ethiopia remains one of the most authoritarian regimes in Africa. The current government controls all sectors of the economy and political life. Political pluralism and civil society organizations are officially tolerated, but any public activities are denied in practice. Therefore, the fragmented and intimidated civil society has been unable to develop and cultivate its own traditions of participation in public life. The Anti-Terrorism Proclamation of 2009 has been used to suppress all regime-critical activities by civil-society organizations. Protestant and Evangelical Christian communities, as well as Muslim organizations, are the only groups that have shown an ability to grow. In general, Ethiopia under the present government lacks a vivid civil society like that found in neighboring Kenya or Tanzania.

Civil society
traditions

8

Ethiopian society and the political elite are deeply split into social classes, and ethnic and religious communities. Many social and ethnic conflicts exist on both the local and regional levels. In 2014, students belonging to the Oromo ethnic group engaged in widespread protest against plans to expand the territory of Addis Ababa municipality into land that belongs to the Oromia national state. These protests were violently put down by security forces, and hundreds were arrested. Violent incidents between ethnic groups also occurred in the periphery regions (Afar, Gambela, the Southern region), often triggered by government land-grabbing and/or gold prospecting. Near Mizan, in the Gurafarda area, local communities of previously resettled people from the drought-stricken Amhara region were violently expelled. Ethnic clashes led to some 100 to 150 deaths and the displacement of thousands in the Gambela region and the Borana-Gabra area. The situation near the two mega-

Conflict intensity

8

dams, the Renaissance dam on the Blue Nile and the Gibe-3 dam on the lower Omo River, is even worse. Here, rural smallholders and farmers have lost their land, and have been asked to move into resettlement villages. Between 2011 and 2014, some 5,000 Oromos have been arrested, according to a recent Amnesty International report. Peace negotiations between the government and the Ogaden National Liberation Front (ONLF) came to a halt in January 2014, following the abduction of two members of the ONLF delegation in Kenya and their alleged deportation to Ethiopia.

In recent years, tensions between the government, supported by the Ethiopian Orthodox Church, and Muslim communities have increased. During the period under review, 29 Muslim leaders were arrested, and in 2013, at least 14 Muslims were killed by security forces in the villages of Kofele and Totolamo during an attempt to arrest a local imam. During religious celebrations in August 2013, over 1,000 Muslims were arrested and detained. The government, whose army is engaged in Somalia to fight against the al-Shabab militias, has kept up steady rhetoric targeted at Islamist extremism.

II. Management Performance

14 | Steering Capability

The government sets strategic priorities and seeks to implement its specific development model, which can be characterized as focusing on economic growth first, while putting off democratic participation until a future date. In January 2015, Human Rights Watch Deputy Africa Director Leslie Lefkow described the Ethiopian development model as one “that prioritizes economic growth and socio-economic rights ahead of liberal luxuries such as democracy, participation and human rights. The theory is that it’s okay to silence opposition and crack down on media as long as the government is improving employment, education, health, etc.”

With regard to the implementation of strategic priorities, the internal battles between rival cliques of the EPDRF coalition since the sudden 2012 death of Prime Minister Meles Zenawi has been difficult, weakening the institutional capacity of many administrative departments. Within the Tigray People’s Liberation Front (TPLF) a split in the leadership ranks divides those who want to revive the TPLF and the government, and the followers of Meles Zenawi’s widow Azeb Mesfin, who as a still-influential leading figure in the camp of status-quo defenders, is eager to continue her late husband’s oppressive policies. These federal-government divisions have resulted in an increasing loss of control over important political areas such as foreign policy, security policy and taxation policy. The new Prime Minister

Question
Score

Prioritization
4

Implementation
3

Hailemariam Desalegn belongs to an ethnic and religious minority (Wolayta/member of Apostolic Church), and cannot depend on support grounded in ethnic or religious criteria, as do the other factions, especially the Tigray and Amhara. However, the late Meles Zenawi may have handpicked him as his successor precisely in order to create a power equilibrium, and to avoid conflicts that could have split the EPRDF if a Tigray, Amhara or Oromo was chosen to fill the country's top political position. Due to the fragile position of the new prime minister, who has not yet managed to impose himself on the regional political leaders from Tigray, Amhara and Oromo, the various factions and regionalist tendencies are increasingly fragmenting federal power. As of the time of writing, just before the May 2015 parliamentary elections, some observers regarded Ethiopia as an embryonic crisis state with weakened decision-making power. Each regional-party faction (TPLF, OPLO, ANDM) is afraid to make a wrong decision and yield any advantage to its rivals.

The current tensions between government departments and parastatal organizations such as the Ethiopian Investment Agency and the Ethiopian Revenue & Customs Authority (ERCA) on the one hand, and private companies and the European Union Business Forum in Ethiopia (EUBFE) on the other, indicate only limited willingness or ability with regard to policy learning. Policies are rigidly enforced, and the routines of policy-making do not enable innovative approaches. It is well known that the state's inability to run the economy efficiently and provide the private business sector with clear and transparent tax regulations hinders the implementation of planned investment and thus slows down the country's economic growth.

Policy learning

4

In recent months, however, the National Bank of Ethiopia (NBE) has showed some willingness to begin a policy of deregulation, something the IMF and the World Bank have advocated for years. The government, driven by the necessity of mobilizing investment capital for its large infrastructure projects, appears ready to adjust its long-standing policy of denying private business access to the finance sector. In May 2014, a directive from the NBE promised to open the lease-financing and hire-purchasing sector to local and foreign companies, and the governor of the NBE signed a directive authorizing foreign nationals to engage in this activity in the country. This was the first time that a finance-related activity has been open to foreign companies in Ethiopia. Until this time, the banking and insurance sectors have been strictly reserved to Ethiopians.

15 | Resource Efficiency

The government makes efficient use of only some of the country's available human, financial and organizational resources. In 2014, the government for the first time issued bonds worth \$1 billion with the aim of raising funds to expand industrial investments, including the construction of 10 new sugar factories and agro-processing plants. The Ministry of Finance declared in December 2014 that its first bond was 260% oversubscribed, and that the coupon rate was 6.625% – well below initial price projections of 6.750%. This private money is additionally expected to be used to develop the country's sparse rail network and to finance the Grand Renaissance Dam. The government has long stated that the dam would be financed by local sources, including through a special diaspora bond issue. However, the substantial cost of the scheme – construction costs are estimated at a minimum of \$4.8 billion – has meant that this original plan was not sustainable in the long run. The huge investment costs totaled more than 10% of the country's nominal GDP in 2013. This makes it likely that the government will need to return to the IMF for financing soon, and in turn will have policy-adjustment implications with regard to reducing the number of state employees, a standard requirement associated with IMF assistance.

The 2013 state budget amounted to almost \$8.3 billion, 10% higher than the previous year, of which some 20% was foreign-sourced. Critics contended that the budget was not properly balanced, as defense spending was increased to almost 15% of the whole, while agriculture-related expenditure accounted for only 10%. Millions of people are still in need of food relief, and the Ethiopian government counted on Western donor countries to pay for most of the food aid, as usual. For the year 2013, nearly \$484 million was committed by donor countries to humanitarian relief operations.

Improvements to the tax-collection system during the review period enabled the government to increase its revenues. However, state revenues for 2013 remained below target, totaling \$5.8 billion. A budget deficit of some \$3.5 billion makes it rather unlikely that the government will be in a position to realize all of the developmental aims contained in its 2010 Growth and Transformation Plan (GTP), even with all the external funding.

Foreign direct investment (FDI) inflow was estimated at \$970 million in 2013, a significantly higher level than in 2012. Remittances made by Ethiopian migrant communities abroad were estimated at \$1.3 billion US-dollars the same year. These serve as an essential lifeline for many families, and provide start-up capital for small private businesses.

Efficient use of
assets

4

Personnel at the top of the state administrative services are often well educated. However, middle- and lower-rank civil servants are often poorly qualified for their positions. Therefore, the quality of the services provided by the overstuffed bureaucracy (particularly in comparison to their costs) is low, often leading to complaints by customers.

Prime Minister Hailemariam is relatively weak, as he belongs to an ethnic and religious minority (Wolayta/member of Apostolic Church) and thus cannot depend on support grounded in ethnic or religious criteria, as can other factions such as the Tigray and Amhara. However, the late Meles Zenawi may have handpicked him as his successor precisely in order to create a power equilibrium, and to avoid conflicts that could have split the EPRDF if a Tigray, Amhara or Oromo was chosen to fill the country's top political position.

Policy
coordination
4

Nevertheless, this arrangement does not serve to minimize daily conflict. While the government seeks to coordinate conflicting objectives, friction, redundancies and gaps in task assignment are significant. For example, in 2014, a conflict occurred within the government on the issue of the state's policy on migrants looking for work in Saudi Arabia. At least 140,000 Ethiopian workers and domestic servants had been expelled from Saudi Arabia after a number of violent incidents in which Ethiopians were humiliated or killed by Saudis in the streets. When the Ethiopian consul general in Jeddah (Zenebe Kebede Korchu) privately criticized the Ethiopian ambassador to Saudi Arabia and the government in Addis Ababa, he was relieved of his functions and replaced by one of his deputies.

The late-2013 decision by the state-owned Ethiopian Investment Agency (EIA) to withdraw 3,000 investment permits previously granted to Ethiopian and foreign companies caused anger and a lack of understanding. This unwise decision counteracted the government's overall efforts to gain trust and confidence among the business community. The EIA justified its policy by asserting that the entrepreneurs, among them Saudi Arab, Chinese, Turkish and Israeli investors, had not begun their investment projects within the agreed-upon time frames. Contradictory government policies of this kind hinder investment.

Ethiopia is de facto a one-party state with very few institutional checks and balances. Although an anti-corruption unit exists, corruption remains a very serious problem, and contributes to a waste of scarce resources in such a way that ruling elites and their cronies benefit. There are no regulations governing political-party financing. The media has no access to information about state spending or the behavior of officeholders, which hinders the fight against corruption. From time to time, the government announces that some military officers or civil servants have been arrested on charges of corruption or bribery, but these arrests are often in fact politically motivated. In 2013, a number of businessmen and state officials were arrested on corruption charges, including the head and deputy head of Ethiopian

Anti-corruption
policy
2

Revenue and Customs Authority (ERCA). The Ethiopian Telecommunications Authority is also regarded as host to considerable corruption. During the period under review, the regional government of Oromia dismissed 82 employees for corruption in connection with land grabbing operations.

One can surmise that a significant proportion of the funds gained through corruption is channeled out of the country, thereby further impeding growth and development. Within Africa, Ethiopia falls into top-10 list in terms of the largest volumes of illicit financial flows (IFFs).

16 | Consensus-Building

There is considerable conflict between the federal government's primary political actors over the desirability of both democracy and the market economy as strategic, long-term transformation goals. In the years since 2012, leading politicians of the EPRDF have cracked down severely on opposition parties and independent media in such a way that Ethiopia today is among the most authoritarian countries in Africa. The federal system, with its nine elected regional governments, is little more than a facade, as the TPLF – the center of power of the governing EPRDF coalition of four regional parties – dominates political life in the country. The federal government's 2014 ouster of the president of the Somali regional state, Abdi Mahmud Omar, serves as illustration of the country's undemocratic procedures of governance. This episode was carefully orchestrated, with the state president summoned twice in a week to Addis Ababa by the leaders of the EPRDF, who pushed for him to resign. This was bolstered by criticisms from the national-level chief of staff, General Samora Yunus, due to his ostensible failure to cooperate in resolving ethnic conflicts between Afar and Issa in his region, while the head of the National Intelligence and Security Service (NISS), Getachew Assefa, simultaneously withdrew his support and accused him of corruption. The year 2014 was marked by preparation for the country's fifth general election, slated to be held in May 2015. As of the time of writing, opposition parties appeared weakened by internal struggles as the election approached. The opposition is underfunded, lacks a strong leader (several candidates have been jailed or exiled), and its members are consistently harassed and threatened by the government's security services. In spite of the great majority of voters who would likely vote in favor of a truly democratic government – as was indicated during previous elections – there appeared no doubt that the ruling EPRDF (in spite of its severe internal tensions) would be successful in manipulating the elections, thus sustaining its hegemony.

During the period under review, it became clear that market-economic principles have lost support within high government and administrative circles in Ethiopia. Officially, the government is advocating a state-led development strategy prioritizing economic growth ahead of democratic mechanisms such as popular participation,

Consensus on goals

3

human rights and economic freedom. Attempting to emulate the authoritarian development model of the People's Republic of China, the EPRDF is seeking to establish output legitimacy (a higher standard of living for the middle classes) rather than input legitimacy in the form of free and fair elections.

As the government will likely have to reenter discussions with the IMF on new loans in the new future, the National Bank of Ethiopia will in turn have to agree to some concessions in favor of the market system. The first opening of the finance and credit market to private investors and the Ministry of Finance's issuance of the country's first bond in 2014 point in this direction.

The government, the ministries, the Bank of Ethiopia, the military and more or less all government-controlled parastatal organizations belong to the camp of anti-democratic veto actors that actively hinder democratic initiatives from taking shape within civil society or opposition groups. There are no reformers advocating liberal democracy within the government or its allied groups.

Anti-democratic
actors

2

It is difficult to say whether the opposition is always democratic. Opposition parties refused to take their seats in the National Assembly after the 2005 elections as a protest against fraud during the voting process. In the ensuing years, the EPRDF government has systematically weakened the unionist opposition, the Coalition for Unity and Democracy (CUD) and its successor organizations by arresting and imprisoning members and through the application of divide-and-rule strategies.

For decades, the government has been unable to depolarize social conflicts and power struggles between the country's various ethnic groups. Racial and political discrimination against more than a third of the population has contributed to the development of a secessionist movement, the primary actor of which is the Oromo Liberation Front (OLF), a group designated by the government as a terrorist organization and banned since 2011. However, the federal government, as a coalition of regional parties, is not interested in letting cleavage-based conflicts escalate. Civil war could be prevented. The government's first priority is maintaining political stability and its own its political hegemony. It is interested in control of the population, and repressing all social and political forces that dare to articulate criticism of the government or its interests. The relationship between the EPDRF and the people living in the south (Afar, Issa, Somalis), particularly in Gambela and other regions where ethnic groups were conquered and colonized by the Amhara highlanders under Emperor Menelik, was and is inimical, or at least unfriendly. An October 2014 Amnesty International report accuses the government of ruthlessly targeting the Oromo, who perceive themselves to be politically colonized and economically marginalized despite their numerical superiority within the country's borders.

Cleavage /
conflict
management

2

The existing ethnic cleavages were not created by the EPRDF government; most have roots in events that occurred in the past (Meneliks's colonization, the continuous power struggle between the Tigray and Amhara, marginalization of peripheral pastoral groups, etc.). The introduction of ethnic federalism by the EPRDF in 1995 has certainly not solved these problems, but compared to its predecessor governments, the EPRDF has been better able to prevent civil wars, which were widespread in different regions during the rule of the Derg.

The government, which prefers a top-down approach, has little interest in allowing civil-society organizations (CSOs) to participate in legal or political decision-making processes. CSOs thus serve no agenda setting, policy-formulation, deliberation or decision-making, policy-implementation, or performance-monitoring functions. To the contrary, the government has used the power granted by the sweeping Antiterrorism Proclamation of 2009 to suppress CSOs and even foreign-financed political foundations. Since 2010, the EPRDF has developed robust and sophisticated Internet and mobile-phone technology enabling it to monitor journalists and opposition groups, block access to unwanted web sites, and collect evidence for prosecution of opponents in terrorism and other trials.

Civil society
participation
2

The current political leadership no longer seeks to address the historical acts of injustice and oppression perpetrated by the military regime under Mengistu Haile Mariam, who was forced to leave the country in 1991 and is still living in exile in Zimbabwe. There has been no process of reconciliation initiated in recent years. Nor has the government pursued any policy national reconciliation toward other ethnic groups or organizations considered to engage in secessionist or even terrorist activities, such as the OLF. History is often interpreted by the government in a manipulative way. In the case of the Eritrean-Ethiopian border conflict (1998 – 2000), which led to the death of approximately 70,000 soldiers on both sides total, the Ethiopian government manipulates history to justify the military offensive (as does the Eritrean).

Reconciliation
2

17 | International Cooperation

Ethiopia's government makes considerable use of international assistance. During the period under review, foreign donors contributed more than \$3 billion annually, including loans and grants. The United States (which contributed more than \$600 million in 2012) and the United Kingdom (close to \$400 million in 2012) have been among the greatest supporters of a country known for its massive violations of human rights. Among the many other donors supporting Ethiopia's ambitious development plans are China, India, some smaller EU countries, the World Bank and various U.N. organizations.

Effective use of
support
7

Policymakers use international assistance for their own development agenda, and are capable of integrating this support effectively. However, a share of these external resources is diverted to rent-seeking. International know-how and external advice are increasingly – if still slowly – being tapped for adaptation to domestic realities.

The government tries to present itself as a credible and reliable partner, but it is not trusted by most of the international community, with the possible exception of the United States. From the U.S. perspective, Ethiopia is regarded as a major regional player in the volatile Horn of Africa region. In this view, Ethiopia is an inevitable part of any effort to stabilize the region, despite its negative record with regard to democracy and civil liberties.

Credibility

5

The EPRDF has consistently acted according to its conviction that the market economy does not produce the results desired with regard to economic growth and social justice. It prefers state control of the economy, and to the extent possible seeks to ignore IMF advice and good-governance standards advocated by EU countries and the World Bank. For this reason, states and foreign companies dealing with the EPRDF government are exposed to the risk that a state ministry or parastatal organization will change tax or other economic regulations.

The government cooperates selectively with individual neighboring states. With regard to its relationship to Eritrea, it has shown itself unwilling to accept rules set by regional and international organizations, such as Intergovernmental Authority on Development (IGAD). The border dispute with Eritrea over Badme, the original flashpoint of the war between the two countries in 1998 – 2000, has not been officially settled, as Addis Ababa does not accept the 2002 ruling by the United-Nations-backed Eritrea-Ethiopia Boundary Commission, established after Eritrea and Ethiopia signed a peace agreement in Algiers in 2000. Tensions with Egypt over the Nile water issue have not been permanently solved. The EPRDF has continued with construction of the massive \$4.2 billion hydroelectric Grand Ethiopian Renaissance Dam (GERD) on the Blue Nile without taking into account Egypt's justified fears that the dam will lead to a decrease in the Nile's flow, with severe consequences for Cairo's water supply and the Egyptian population generally. However, Ethiopian-Egyptian relations had improved as of the time of writing.

Regional
cooperation

4

Relations with Saudi Arabia were superficially amicable during the period under review, but tensions remained below the surface. The Saudis have been critical of the Renaissance Dam, and there were also regular cases of Ethiopian maids and migrant laborers being abused in Saudi Arabia, as well as apprehensions about the export of radical Islamism. When the Saudi government suddenly and brutally expelled thousands of Ethiopian maids and migrant workers in 2014, bilateral relations worsened drastically.

Ethiopia has maintained and cultivated good neighborly relations with Kenya, South Sudan, Somaliland, Puntland and the Somali federal government. The latter is supported by the Ethiopian army in its fight against the al-Shabaab terrorists, and Ethiopia has also participated in multinational entities such as the African Union Mission in Somalia (Amisom) and in peacekeeping forces in Darfur/Sudan. During the period under review, it had more than 5,000 troops in various African trouble spots. There were some tensions with Kenya over Somalia, where both countries have troops and are supporting opposing clan-group militia leaders for the regional presidency.

Djibouti remained a stable partner; it lives mainly on Ethiopian port-fee charges and transit trade. Ethiopia was also deeply involved diplomatically in the Sudanese peace processes, hosting several peace conferences under IGAD auspices. A mediation team led by Seyoum Mesfin, Ethiopia's ambassador to China, failed to persuade the combatants in South Sudan (SPLM and SPLM-In-Opposition) to accept a minimum compromise when peace talks ended in early 2015.

Strategic Outlook

Given Ethiopia's current state of transformation, a number of recommendations can be made:

The country should seek to utilize its human resources more effectively. Although the government has established a Federal Ethics and Anti-Corruption Commission (FEACC) to fight corruption and bribery, it should not use this as a vehicle to weaken its political opponents. In order to prevent government departments from using the FEACC as a political instrument, an institutional reform should be implemented ensuring that the commission's heads are neutral and independent. Following significant public discussion, the parliament should be given the right to appoint the commission's members. An annual report should be prepared by the commission and debated in Parliament.

The role of the parliament should be strengthened. In order to make progress in this direction, the opposition parties (those that still have the ability to articulate their grievances and demands publicly) should be encouraged to take part in elections, even if it is unlikely that elections will be free and fair. The past boycott of parliament by opposition parties was not in the end a demonstration of veto power, but was instead a self-destructive move that made it easier for the government to establish an undemocratic and authoritarian one-party state.

State ownership of land has been promoted by the government as a means of keeping small farmers from selling their land in times of need, and therefore as a protection against landlessness and migration from rural areas to the cities. However, in many parts of the country, population growth has rendered plots too small to guarantee sustainable subsistence. The land rights of pastoralists and indigenous people in the peripheral regions need stronger protection against expropriation in favor of large foreign- and locally owned commercial plantations.

In order to increase agricultural output and reduce poverty by boosting household incomes, the central government should be encouraged to allow regional governments to implement a more flexible land policy. This should include the acquisition of private property, at least in some overpopulated areas. Development experts have long stressed the importance of clear judicial regulations governing farmers and smallholders' land property rights; in the absence of such legal guarantees, which would prevent claims expropriating the land titles of peasant families who have cultivated the soil for generations, farmers will hesitate to invest their farms. As it is today, even when basic property rights exist on a formal level, they are not respected in practice due to conflicting legal provisions regarding investment promotion and customary rights. In a number of cases, this has led to the expulsion of indigenous people in favor of large foreign investors. It is thus critical to strengthen the judiciary at the local level through the establishment of land registers, making local people more capable of protecting themselves against political pressures and economic lobbies. The fact that the government decided to withdraw hundreds of land-lease contracts with potential foreign investors who had failed to use the land for production could be

taken as a good opportunity to reallocate land and resources in favor of encouraging young unemployed people to serve as self-employed farmers. Ethiopia is home to some 3 million unemployed people, with ever more frustrated Ethiopians seeking to leave the country – this under a government that takes pride in its “growth economy.”

During annual aid consultations with the Ethiopian government, the German government and the European Commission should try to convince the EPRDF to review its Anti-Terror Proclamation of 2009, which has increasingly served as an instrument criminalizing peaceful opposition, as well as the Charities and Societies Proclamation, which hinders NGOs and prevents them from engaging in civil-society-related activities.

The Berlin government and the European Commission should intensify negotiations with Addis Ababa to find common solutions to the regional refugee problem that is disrupting friendly relations between the European Union member states and Ethiopia. Because the governments of Eritrea and Sudan are currently neither willing to address nor indeed capable of settling these humanitarian tragedies, Ethiopia is an indispensable diplomatic partner for Europe.

Finally, the Ethiopian government should be encouraged to closely monitor the land-grabbing activities of large foreign companies that threaten the land rights of small farmers and local tenants, as this increases the inequality gap between the few rich people and the mass of impoverished rural and urban people.