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Executive Summary

During the review period, there has been no decisive breakthrough in democratization at the national level in Ethiopia despite a relatively promising election campaign, televised debates, improved press reporting, and the opposition parties’ substantial gains. To the contrary, an authoritarian government incapable of dealing with dissent has reasserted itself. The National Electoral Board of Ethiopia, the police, the army and the judiciary’s response to election-related unrest and disputes lacked professionalism and led to an escalation of violence. Despite its show of force and brutality, the regime has been weakened and lost much of its legitimacy. Democratic norms and human rights have not been accepted by the ruling elite.

Ethiopia’s performance during the review period was characterized by the contradictory nature of the ruling elite’s policies. While the autocratic political leadership under Prime Minister Meles Zenawi showed some flexibility and learning capability with regard to market reforms, it refrained from implementing democratic reforms. His behavior in the aftermath of the May 2005 elections raised fundamental questions about the legitimacy of his rule. The situation of civil human rights and political rights has worsened since May 2005. An official parliamentary report on post-election violence in 2006 documented 30,000 arrests, 199 deaths resulting primarily from gunfire and the use of “excessive force” on the part of the government. Three judges who were responsible for the inquiry report chose self-exile in the United Kingdom after receiving death threats. A culture of state ownership and management still dominates the government’s thinking, which has yet to embrace fully free-market reforms in many areas of the economy. On the other hand, the government is eager to attract foreign investment and has encouraged some public-private partnership activities in various fields. In November 2006, the World Bank’s Africa Development Indicators 2006 singled out Ethiopia for praise in key areas and gave it a high rating in
areas such as annual GDP growth, structural policies, economic management, and public sector management and institutions.

Ethiopia’s defining political event during the review period was the May 2005 elections for the lower house of parliament, the House of People’s Representatives, which resulted in a major increase in representation by opposition candidates. The ruling Ethiopian People’s Revolutionary Democratic Front (EPRDF) and its allies won 327 seats, while the two main opposition parties took 161 seats, up from 12 seats in the previous parliament. The EPRDF maintained its hold on power, and the strong “big man” of the regime since 1991, Meles Zenawi, was re-elected by the House of Representatives as prime minister.

A prolonged military conflict with Somalia, where the Union of Islamic Courts (UIC) has declared a “holy war” on Ethiopian forces in its territory, could devastate the region by creating floods of refugees, and perhaps spark a wider problem by re-igniting the Ethiopia-Eritrea conflict. Though Ethiopian forces were strong enough to overcome the UIC in Somalia, a bitter and costly guerrilla war and continued regional instability will be the likely consequence. The UIC was defeated in December 2006 and the internationally recognized Transitional Federal Government of Somalia has since then started to assert its control over most of southern Somalia. However, the delayed arrival of peacekeeping troops from the AU and internal clan-animosities began to destabilize the situation in Mogadishu toward the end of January 2007.

The Ethiopian government’s violent response to demonstrations in November 2005 was a clear case of political regression during the process of democratic transition, as political participation was seriously impeded and the rule of law was ignored during this incident. The government had few, if any, answers to the frequent reports and questions by national and international organizations about human rights abuses, including killings, disappearances, summary executions, torture, abduction, destruction of property, humiliation and unjustified imprisonment of citizens during the course of 2006. The government justified its actions as defending the “rule of law,” and pursued a time-consuming and highly “legalistic” approach. The reasons were quite evident: to justify the prosecution of the opposition vis-à-vis the international community on the one hand and to extend the period of imprisonment of the opposition leaders as long as possible without having to prove the allegations on the other hand.

The violent reactions toward the demonstrations in November 2005 angered international donors, who announced that direct budgetary assistance would be redirected to project-based programs, so that such aid would not support the government. One must differentiate between such donors: while most of the EU member states and the European Commission stopped the disbursement of direct budget support, the World Bank and the United Kingdom redirected their committed budget support into a hastily-invented new scheme called “Protection of Basic Services,” which caters to health, education and agriculture. The goal here is to prevent
the general population from bearing the costs of the government’s “misbehavior.” But the new scheme was also motivated by budget deadlines and procedures, as, in the cases of the World Bank and the British Department for International Development (DFID), committed funds not disbursed in a given fiscal year cannot be transferred into the next year. In general, the gesture of freezing and redirecting intended budget support funds was more of a symbolic gesture than an act of real substance. This can also be seen from the continued high level of Official Development Assistance (ODA) Ethiopia is currently receiving and will be receiving for the next seven years. Although the projections are somewhat conservative, the prognosis is that Ethiopia will receive up to $2.5 billion in ODA annually by 2013.

History and Characteristics of Transformation

Ethiopia has a diverse cultural heritage and reasonably good resource potential for development. Yet, the majority of its nearly 80 million inhabitants live in absolute poverty, which is a result of different forms of “bad governance,” long, devastating civil wars and periodic droughts.

In its present form – as a federation of culturally diverse regions – Ethiopia is the outcome of expansionist politics that have been underway since the nineteenth century. The emergence of the modern state began during the reign of Menelik II (1889 – 1913), the Abyssinian ruler who fended off an Italian invasion in the battle of Adwa in 1896 and spared his country the experience of colonialism. He expanded his domain prodigiously by conquering the Oromo and southern tribes, defining the borders of the state now known Ethiopia, which has six main regions. In order of population as of 1999, they include Oromo, which has 22 million inhabitants, Amhara (16 million), SNNPR (today: Federal Region 7 with different ethnic groups in the south) with 12 million, Somalia with 3.6 million, Tigray with 3.59 million and Addis Ababa, the capital, with 2.424 million inhabitants. Unlike Abyssinia, Ethiopia is an ethnically heterogeneous empire that cannot be ruled through the feudal Abyssinian political system. Consequently, a process of modernization from above was launched by Emperor Haile Selassie, who ruled from 1930 to 1974.

With a population of nearly 80 million people and a relatively strong state with a long history as a sovereign Christian entity, Ethiopia remains for Western governments one of Africa’s most important countries. Its position, however, remains weak due to incessant ethnic-political conflicts, a chronic lack of food security, massive poverty, the lack of productive capacity beyond agriculture and a high degree of political repression. According to official tallies, 199 people were killed (mostly as a result of police gunfire) in post-election violence in June and November 2005, and about 30,000 alleged supporters of the opposition parties were arrested. Ethiopia is characterized as
“partly free” on the Freedom in the World index compiled by Freedom House, having earned a rating of 5 for political rights and 5 for civil liberties (on a scale between one and six, with six being the worst). Ethiopia was ranked 130th out of 167 countries surveyed in Transparency International’s 2006 Corruption Perceptions Index. The press is dominated by state-owned broadcast media and government-oriented newspapers.

There are 64 major ethnic groups in Ethiopia, although scholars have identified more than 250 distinct languages in Ethiopia. Despite the state’s traditional association with Orthodox Christianity (the Coptic Church), the Ethiopian population is split fairly evenly between Christians and Muslims. The 1995 constitution guarantees “ethnic federalisms” and regional autonomy, such that each “nation” of Ethiopia has the right of independence and secession. In reality, however, the capital maintains firm control over all the regional governments and their revenues.

Civil liberties for average citizens have improved to some limited extent, but Ethiopia is still regarded as one of the slower transformation countries with severe shortcomings and deficits. Ethiopians cannot change their government democratically, although the 2005 elections were a potential step forward in the development of the country’s democratic political culture. Confirming widespread internal dissent, the European Union and other observers state that these elections did not meet international standards. This verdict triggered rude statements by Prime Minister Meles, who declared EU observers to be incompetent and racist. The treatment of women is still a national disgrace. Despite economic liberalization, television and radio remain under government control. As part of its policy of devolution, the government is encouraging broadcasting in local languages and the formation of regional radio stations. Ethiopia’s record on press freedom is relatively poor, and the government has harassed and imprisoned scores of independent journalists and editors in recent years. Ethiopia applied for membership in the WTO, but her negotiations with the WTO is threatened by its reluctance to open up the economy to foreign competition in the areas of banking and telecommunications. Another issue of concern is the government’s unchanged land policy. As all land is owned by the state, the lack of private property denies businesses access to much-needed credit, as well as denying banks the collateral necessary to encourage lending.

The modern Ethiopian state was created by highland rulers in the latter half of the nineteenth century. Ras Tafari Mekonnen became the effective ruler as crown prince in 1916, established authority over regional feudal lords and was enthroned as Emperor Haile Selassie in 1930. Supported by the Orthodox Church and the feudal class of land owners, Haile Selassie launched some political reforms, mainly regarding the enlargement of education, health and infrastructures. When the army of fascist Italy launched an invasion from its colony Eritrea and occupied Ethiopia between 1936 and 1941, the emperor was driven into exile. Following Ethiopia’s liberation by allied forces and internal resistance in 1941, Haile Selassie returned from Britain and ruled as absolute monarch until his overthrow in 1974. Ethiopia’s status as an independent
African state allowed him to secure Addis Ababa as the headquarters for the newly created “Organization of African Unity” (OAU) in 1963 – which was renamed “African Union” (AU) in 2001. Haile Selassie’s most severe failure was in 1962, when he abrogated the federation between Ethiopia and Eritrea, which had been proclaimed in 1952 by the United Nations. He unilaterally annexed Eritrean territory, which provoked Eritrean separatists to launch a protracted 30-year guerrilla war that devastated the economy in both countries. Emperor Haile Selassie was brought down by a coup of army officers in 1974, after the government’s indifference toward the famine from 1972 to 1974, which cost an estimated 200,000 lives, was revealed. An embryonic “Provisional Military Administrative Council” (PMAC, or “Derg” in Amharic) filled the power vacuum in 1974, marking the beginning of 17 years of brutal military rule.

These 17 years of military rule witnessed Haile Selassie’s murder in September 1974, the execution of 57 senior officials and the killing of some 100,000 people during the period of civil war in 1977 and 1978, called the “red terror.” Among the victims were many students and intellectuals who favored the creation of a modern democratic state. The Derg government extended its control through a series of ambitious reforms. Several hundred thousand Ethiopians fled to the United States and to Western Europe, establishing a trend of youth emigration and brain drain. After three years of conflict between 1974 and 1977, both within the military and throughout the country, the military government under Colonel Mengistu Haile Mariam proclaimed Ethiopia a socialist state. Land was nationalized by force, peasants were resettled en masse, and a network of peasant and urban dweller associations, known as kebeles, were established.

Following the Soviet model, a Workers’ Party of Ethiopia was created in 1984, and in 1987 the “People’s Democratic Republic of Ethiopia” was promulgated under a new constitution. With more than 500,000 soldiers the Derg army was sub-Saharan Africa’s largest army. Its main raison d’etre of defeating the Eritrean separatist movement (EPLF) - proved to be a national disaster. When the Derg itself had been crushed finally in May 1991 by the liberation movements of the Eritrean and the Tigrayen people, the underdeveloped economy of Ethiopia was completely ruined. The necessary demobilization of hundred thousands of soldiers in an overpopulated and resource-poor country caused many problems for the new government and to its foreign partners in North America and Europe who were ready to help with the transformation of the country. However, the legacy of the Derg’s military dictatorship constituted a severe challenge for the new rulers under the leadership of Meles Zenawi, the head of the Tigrean People’s Liberation Front (TPLF). The new leaders had to cope with a threefold transition: the transition from civil war to a lasting comprehensive peace; a political transition from totalitarian dictatorship to pluralistic multi-party democracy, which was a condition sine qua non for foreign aid; and a transition from socialist plan economy to a capitalist market economy which could stand competition of globalized markets. Since that time there have been some remarkable results with
regard to economic recovery and institutional rebuilding of the society. Following four
years of transitional government between 1991 and 1995, a federal republic was
proclaimed after elections in mid-1995, which resulted in a stable government under
Prime Minister Meles Zenawi albeit one with limited legitimacy because of unfair
treatment of opposition parties. The TPLF formed the core of the EPRDF, having been
founded by Marxist Tigrean students who split from the civilian left during the
revolution and launched a rural-based struggle against the state from Tigray. The TPLF
was in an alliance with the Eritrean People’s Liberation Front (EPLF) who also fought
against the Derg for the independence of Eritrea. After several military victories the
TPLF and the Derg’s military defeat in Eritrea, Col. Mengistu fled the country in 1991.
The resulting political vacuum was swiftly occupied by the EPRDF which had been
formed in 1989 by the TPLF leadership as an Ethiopian party dominated by TPLF
when victory over the Derg became a possibility. Its junior ally, the Ethiopian Peoples’
Democratic Movement (EPDM) was later transformed into an explicitly Amhara group
to match the country’s new ethno-political template, and in most regions the EPRDF
fostered surrogate people’s democratic organizations (PDOs) – the largest of which is
the Oromo People’s Democratic Organization (OPDO.)

Ethiopia is a poor, landlocked, multi-ethnic country, governed by an authoritarian party
coalition that has been dominated by an ethnic minority group, the TPLF, for the last
16 years. Since the first elections in 1995 the state maintained its monopoly on the use
of force all over the country, although some military resistance against the government
still exists in the south and among militant sections of the Oromo. Eritrea was granted
independence in May 1993, but although the separation went smoothly at first,
relations between the two countries’ leaderships (both of which are Tigrinya-speaking)
deteriorated owing to disagreement over border delineation and tension over monetary
and trade relations. The dispute erupted into a full-scale war in May 1998, killing more
than 100,000 and bringing most of the development projects and social investments to
a halt. Local and foreign endeavors to rebuild the country were thrown back several
years. A formal peace agreement between Ethiopia and Eritrea was signed in Algiers
on 12 December 2000. The 3,500-strong UN Mission in Ethiopia and Eritrea
(UNMEE) established a 25-km temporary security zone in April 2001 in the border
area. But the government in Addis Ababa still refuses to accept the decision of the
Eritrea-Ethiopia Boundary Commission (EEBC), which confirmed in March 2003 that
the town of Badme, a flashpoint for the 1998-2000 war, which had been under
Ethiopian administration for decades, belongs to Eritrea. This proved unacceptable to
Addis Ababa, partly for domestic political reasons. The government of Meles Zenawi
accused the EEBC of having made a “totally illegal, unjust, and irresponsible decision”
and has refused to implement the ruling. In October 2005, Eritrea increased the tension
by ordering UNMEE to stop all helicopter patrols in the contested border area. Under
great international political pressure Mr. Meles finally accepted the EEBC border
ruling “in principle” in November 2004, but also called for further dialogue with
Eritrea. When this proposal was ignored by Eritrea, international frustration increased,
and the UN eventually downscaled the UNMEE troops to 2,000 in 2006. Further downgrading to simple observer mission status or complete withdrawal are further options. This could increase the risk of war by miscalculation of the protagonists especially given Eritrean support to the UIC.

On the level of socioeconomic development, Ethiopia has taken steps toward market-based reforms, such as trade deregulation and an “agricultural development-led industrialization.” GDP growth in any particular year remains heavily dependent on the performance of the dominant agricultural sector with coffee and “chat” as the main cash crops. Ethiopia remains a weather-dependent economy, be it in the realm of good production or hydroelectric generation. Economic progress was hampered by the government’s reluctance to accept privatization of land and the accreditation of foreign investment banks. The structure of the economy remains underdeveloped and fragile. The IMF estimates that the economy grew by 8.5% in fiscal year 2005/06 - a third consecutive year of rapid expansion, mainly reflecting another bumper harvest due to favorable rainfall. In 2005, imports totaled $3,700.8 million, four times the volume of exports, which totaled $917.3 million resulting in a traditionally huge trade deficit. As the current account deficit remains substantial, at 16.1% of GDP in 2005 and 16.3% of GDP in 2006, the government continues to be heavily dependent on high levels of donor support. In this respect, Ethiopia continues to be a darling of the international community despite its worsening human rights record. ODA stood at approximately $1.94 billion in 2005. Although the projections for the period from 2007 to 2013 have been scaled down they still will reach close to $2.5 billion in 2013 - even excluding the substantial inflows from NGOs which amount to $500 million annually and soft or concessional loans from China and India.
Transformation Status

I. Democracy

1 | Stateness

Under the 1995 constitution, Ethiopia is a federation of nine states governed by two federal assemblies: the legislature, which is the lower house and is known officially as the House of Peoples’ Representatives (HPR), and the upper house a smaller, supervisory senate, the House of Federation (HF). The HPR has 526 members elected for five-year terms in single-seat constituencies. The upper house has 117 members, comprising representatives from the constituent nations, nationalities and peoples of the federation. The constitution reflects the EPRDF’s blueprint for ethnic federalism, under which elections for 14 newly created regional assemblies were first held in July 1992. The number of regions or “states” was subsequently reduced. Now there are nine autonomous regional state councils or municipal councils for Addis Ababa and Dire Dawa. Although the constitution guarantees every “nation” and “nationality” the right of self-determination, including secession, it is unlikely that any would be allowed to secede in practice. Opposition groups that opted for regional secession and advocated armed struggle were declared illegal and were persecuted. Such groups include the Oromo Liberation Front (OLF), whose goal is the secession of an Oromo state; the Ogaden National Liberation Front (ONLF), a movement claiming autonomy for Somali-inhabited eastern Ethiopia, and various smaller groups.

Power in Ethiopia has always been highly centralized and in this sense nothing has changed. Prime Minister Meles Zenawi appears to be willing to sacrifice his reputation as a modernizing democrat in order to keep an unchallenged grip on power. The situation in 2006 and 2007 remains very tense and prospects for a political accommodation with the opposition bleak. The regime clearly hopes that its high profile stance in the U.S.-led “war on terror” will have a greater impact in Western capitals than its domestic repression. Two other factors seem to bolster the regime’s bargaining position: the high level of social and developmental investment into the country, which would be endangered in the case of the reduction or cessation of donor inflows, and the emergence of “alternative”
funding sources in the shape of China and India. In at least five regions of the federal state the government is confronted with periodic attacks and resistance (Somalia, Afar, Gambella, Ogaden, Oromo Region). The main regions of the country are (with inhabitants; official estimates 1999): Oromiya (21.694 mn), Amhara (15.850 mn), Sidama and others (12.132 mn), Somali (3.602 mn), Tigray (3.593 mn), Addis Ababa (capital) (2.424 mn), Afar (1.188 Mio), Benshangul-Gumaz (523.000), Dire Dawa (306.000), Gambella Peoples (206.000), Harari Peoples (154,000)

The present EPRDF government has gained the monopoly of state power throughout the country, notwithstanding pockets of resistance in the South, where the poorly-equipped OLF stages a low-level guerrilla war against the government. Most OLF leaders fled into exile, but guerrillas have mounted periodic attacks on government installations, notably in Hararghe. Since 1999, they have established bases in neighboring Somalia. Other smaller armed Oromo factions also wage a spurious guerrilla war. OLF-linked groups have conducted periodic attacks on government installations. Disaffection increased in 2003 when the regional state capital was transferred from its traditional base in Addis Ababa to Nazreth. Oromo activists were further angered by the expulsion of several hundred Oromo students from Addis Ababa University in 2004, following unrest there.

Although in theory all citizens have civic rights, in practice minorities are discriminated against. Some rebel groups question the legitimacy of the Ethiopian nation-state. Rivalries over legitimacy exist in the numerically smaller Afar and Somali regions, where the ruling party has had difficulties promoting its own local leaders. The main problem in both regions is that numerically larger populations of Afaris and Somalis live in the neighboring countries of Djibouti and Somalia, providing havens for rebel groups. Addis Ababa also faces bouts of inter-ethnic strife. Clashes in 2003 and 2004 in the southwestern state of Gambella, near the Sudanese border, left several hundred people dead, and led to federal intervention to restore order. Human rights observers blamed the government’s policies for increasing ethnic tensions by linking political and economic rights with ethnic identity.

Religious dogmas do not influence the government’s policy. Religious freedom, guaranteed by the constitution, is generally respected, although religious tensions have risen in recent years. One example of this was the occurrence of bloody clashes between Muslims and Christians during a celebration of the Meskel festival in September 2006, when ten people were killed and 800 homes, two churches, and one mosque destroyed. The police arrested alleged ringleaders. Opposition groups claimed that the clashes had been instigated by government security agents in a deliberate attempt to set Christians and Muslims against each other, though such accusations could not be proven.
Basic administrative structures exist and function relatively well. Although in various regions of the country communal conflicts relating to access to political power and control over scarce resources remained unresolved, the ruling party and its administration network consolidated its control of the political process in the country. Even after a purge of the army of members “disloyal to the constitution or professionally deficient” in 2006, the army functioned effectively as a political instrument of the government.

2 | Political Participation

Ethiopians have not been able to change their government democratically, although the elections in May 2005 marked a potential step forward in the development of the country’s democratic political culture. These elections were the third to be held since 1991. In 2004, some 55 political parties were registered, among them the four parties in the EPRDF coalition. The EPRDF maintained its satellite ethnic parties in rural minority areas all across Ethiopia. The political opposition remained enormously fragmented, but gained public voice. The major opposition coalition, the UEDF, is made up of 15 parties, the most important of which being the Coalition of Alternative Forces for Peace and Democracy in Ethiopia (CAFPDE) and the Oromo national Congress (ONC). CAFPE, led by Dr. Beyene Petros, an MP and university lecturer in biology, represents the southerners, and the ONC, led by political scientist Dr. Merera Gudina, has its main support in western Oromo. The other important opposition party “Coalition for Unity and Democracy” (CUD) was formed only in February 2004 when three smaller parties agreed to come together on a platform for economic liberalization and democratic reform. The CUD was supported by a number of influential intellectuals and opinion makers in Addis Ababa.

The ruling EPRDF won a comfortable majority in the May 2005 elections, but the party lost more than 150 seats to the new opposition alliances, the Coalition for Unity and Democracy (CUD) and the United Ethiopian Democratic Forces (UEDF). The opposition swept to victory in the capital, winning 137 out of 139 seats on the Addis Ababa city council. The regime adopted a hard line toward the opposition following a series of protests and riots in June and November 2005. Many of the political leaders of CUD have been jailed on charges of treason since November 2005. According to the official report of the parliamentary commission into the post 2005 election violence 199 people had been killed by the police. The final election results for 2005 in number of seats (compared with 2000) are as follows: Ethiopian People’s Revolutionary Democratic Front (EPRDF): 327 (481); Coalition for Unity and Democracy (CUD): 109 (3); United Ethiopian Democratic Forces (UEDF): 52 (9); Somali People’s Democratic Party (SPDP): 24 (19); Oromo Federalist Democratic Movement (OFDM): 11 (0);
Benishangul-Gumuz People’s Democratic Unity Front: 8 (6); Afar National Democratic Party (ANDP): 8 (8); Others: 7 (21); Total: 546 (547). In spite of all unfair treatment during election campaigning by the administration, the two main opposition parties - the CUD and UEDF – together won 161 seats (29%) while the ruling EPRDF – even after some significant irregularities during the vote-counting – acquired 60% of the seats. The outcome indicated that for the first time many (often urban) people had dared to vote for the opposition. In locations where international observers were present during vote-casting and counting, the opposition often won. The opposition also took virtually all urban areas. The Addis Ababa region was a clean sweep for them, and the CUD leader Berhanu Nega, an economist of repute, was chosen by his party as future mayor.

The fact that the election results were not announced until September – four months after voting - caused some doubts concerning the honesty and integrity of the National Election Board of Ethiopia (NEBE). The NEBE declined to follow up on most of the opposition’s complaints regarding disputed elections results but where it ordered new elections (in more than 30 constituencies) EPRDF won. When street violence erupted in June, a harsh clampdown by security forces was the answer, which left 42 people dead.

Tension continued to escalate after the official results were announced in September 2005, with the opposition still crying foul. An attempt by the EU delegate to mediate between the EPRDF and the opposition led nowhere, and following grassroots consultations, the CUD opted to boycott parliament when it reconvened in October. The CUD drew much of its support from the Amhara ethnic group. The other major opposition party UEDF, which performed best in the Oromia region, decided to participate in parliamentary work in spite of all discrimination. In response to the boycott of the CUD, the EPRDF majority in parliament stripped boycotting members of parliament of their parliamentary immunity and threatened to hold by-elections in their constituencies. The playing field for opposition parties had already been compromised before the 2005 elections, when the old government imposed new rules and procedures in parliament, requiring, for instance, an absolute majority to initiate legislation (up from just 20 members of parliament previously), in a pre-emptive attempt to curb the expected opposition.

A second round of demonstrations took place in November 2005 to which the government once again responded with violent suppression. Another 40 to 50 people were killed, including several policemen, and many thousands of opposition sympathizers from all over the country were put in detention camps. At the end of the year, a total of 18,000 people were being held in camps. By this time, a large group of opposition leaders (including the entire CUD leadership, among them Berhanu Nega and Mesfin Wolde-Mariam), civil society activists and journalists had been put in jail, accused of having incited the violence. They
were later charged with “treason” and even “genocide,” – charges for which, so far, no credible evidence was brought forward by the prosecution. Bail has been repeatedly denied for those charged.

There are no democratically elected rulers in the country. The government has the effective power to govern, mainly through a mixture of threats and concessions to the legal opposition that was willing to work within the political system as set-up and controlled by the EPRDF.

Freedom of assembly and association is limited, although a large and increasing number of NGOs are active. In 2005, the government threatened to ban the Christian Relief and Development Association (CRDA), an umbrella body representing more than 250 international and local charities, because of alleged “political bias” expressed in CRDA criticism of the government’s response to post-election protests. The director of Action Aid, another vocal NGO, is amongst the political prisoners waiting to be tried.

Mass media run a risk when criticizing the government’s policy. Thus freedom of expression is rather limited in Ethiopia. The organizations Reporters Without Borders and the Committee to Protect Journalists (CPJ) have criticized the Ethiopian government’s repression of the press in 2005 and 2006, citing harassment, arrests and the revocation of press credentials. Since the elections in 2005, the situation has deteriorated. According to the press freedom rankings from Reporters Sans Frontiers, Ethiopia’s ranking dropped from 111th in 2004 to 160th in 2006 (out of 168 countries). It has become the worst-ranked country in Africa in terms of the number of journalists in prison.

3 | Rule of Law

The judiciary is officially independent, although there are no significant examples of decisions at variance with government policy. Thus the separation of powers exists in theory but not in practice. Officers who stray from the policy of the government risk losing their job. Numerous high-ranking judges, politicians and intellectuals, including from the military and the diplomatic service, have fled the country, citing threats and harassment. Police, judicial and administrative responsibilities at the local level are non-uniform and vary widely. The discrimination and repression against Oromo and other groups is widespread. During elections even the registered opposition parties were hampered in their attempts to build a support base in the countryside. In the Amhara districts, three politicians from the opposition All-Ethiopian Unity Party (AEUP) party who were campaigning for a seat in parliament were shot dead. The rule of law was violated once again following the elections in fall 2005 when the government sought to foment internal dissent within the two main opposition parties, the CUD
and UEDF, by planting moles within each. The government also refused to acknowledge the legal status of the CUD, which tried in vain to register with the NEBE as CUDP after one of the four constituent parties left the coalition. While the aforementioned dissent clearly played a role in the party’s troubles, the fact that the CUD(P)’s leadership was being held in prison was a more decisive factor. Those leaders, such as Lidetu, who took up their parliamentary seats despite the party’s decision, have lost much of their credibility and no longer play a significant role in politics. The second tier of CUD(P) leaders who then tried to fill the power vacuum left behind were either harassed by the security forces and thus left the country, or sought to reconcile themselves with the government by taking their seats in parliament. The net result of all of this has been a fundamentally weakened CUD(P) and a rather tame parliamentary opposition comprised of the remnants of the CUD(P), UEDF, OFDM as well as one independent parliamentarian, the former president, Negusso Gidada.

The government often interferes in judicial matters and does not respect the independence of the judiciary. In addition, the judicial system remains weak and overburdened, especially at the lower levels, though slow progress toward autonomy can be discerned. Some progress has been made in reducing a significant backlog of court cases. In October 2006 the official commission of inquiry into post-election violence in June and November 2005 reported to parliament that 199 people were killed, many as a result of gunfire, and that about 30,000 people were arrested. In a controversial judgment, however, the report absolves the security forces of using “excessive force,” describing their actions as broadly appropriate to the needs of defending national security. The report nevertheless conceded that some human rights abuses took place and recommended that security forces receive proper riot training.

According to the former deputy chairman of the inquiry, Judge Wolde-Michael Meshesha, the inquiry’s final report was a watered-down version of the original draft. The jurist fled to the UK in October 2006 and leaked an alleged copy of the draft version to the press, citing pressure to amend the draft, including death threats, as his reason for fleeing. The death toll was the same in both reports, but the draft accused the security forces of using excessive force, whereas the final version did not. The original chairman of the inquiry, Firehiwot Samuel, has also left the country, and a third member of the inquiry may have followed. Only five of the original ten-strong team were present at the unveiling of the official report. There are several other high judges and administration managers who fled the country. A senior judge, Teshale Aberra, the president of the Oromo Supreme Court, fled to the UK in late October 2006, seeking political asylum citing threats and harassment. He also accused the government of being responsible for killing “thousands” since coming to power in 1991, especially in Oromia. The judge further claimed that illegal detention and torture were commonplace, and that the
government was currently engaged in appointing a cadre judges liable to cooperate with the regime.

Legal or political penalties for officeholders who abuse their positions are rare. Political loyalty to the EPRDF government counts more than acting in office according to the rule of law. The government’s proclaimed intentions to fight corruption of officers are more propaganda than a roadmap for purging the civil service.

As mentioned above, civil rights of ordinary citizens are not very much protected by the government. Academic freedom is restricted. Demonstrating students have often been arrested, and sometimes killed. Severe restrictions on the rights of trade unions and press and television workers exist. There were credible reports of abuse of human rights, disappearances, torture and executions (planned or “by mistake”) by police and army, and usually carried out in an unpredictable manner and with impunity. Thousands of people were also forced out of a job for non-economic reasons, evicted from homes or land without compensation and illegally detained without charge. In southern Ethiopia (in Konso, Sidama, Wolayta) arbitrary arrests, beatings and humiliating treatment were reported. The trial of about 100 people, including several key leaders of the opposition CUD and members of civil society, resumed in October 2006. They are still charged with a range of serious offences relating to the post-election violence 2005/2006, including treason, which carries the death penalty. Over 70 witnesses had testified by December 2006, entirely in the government’s favor, out of a list of 380, before the case was adjourned until February 2007 and further until March 26th, 2007.

4 | Stability of Democratic Institutions

Governance in Ethiopia, especially at the regional level, remains marred by a lack of trained and qualified personnel, by a lack of transparency, a focus on personalities rather than institutions, and the tendency to abuse public funds for personal gains. Federalism has not been improved upon much, which is due on the one hand to the central government’s tendency to intervene in local affairs and to intimidate opposition party members, and on the other hand to its tight fiscal control over regions and districts (“woredas”). The performance of the country’s political institutions has not really improved. The government maintained its power by competitive elections in May 2005 that were declared “not free and fair” by international election observers. The rigged elections prompted several protests and demonstrations organized by angry students and members of the opposition groups. It is evident that this has not strengthened, but rather weakened the rule of law. Parliament and the judiciary do not perform according to the democratic constitution. Neither body demonstrated any genuine independence from the executive branch that was led by a prime minister who
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cultivates an authoritarian style of politics. The few checks and balances in place to monitor the executive have suffered erosion. Some observers fear that the country is moving toward blatant dictatorship, as the opposition forces are increasingly harassed and threatened, some of them even murdered. Other observers argue that Ethiopia’s autocracy is “intelligent,” that is, it has grown increasingly sophisticated as it entrenches itself further. Incidents of overt oppression are infrequent; they are calculated to have a deterrent effect. The government exercises real control through its power to determine access to economic resources such as jobs, credits, or justice in urban areas and fertilizer, seed, markets etc. in rural areas. The economic “para-party” system and the various regional development associations play an important role when it comes to co-opting potential counter elites. The brain drain of well-educated people to the United States and Europe is increasing. After the 2005 elections, the government curtailed press freedoms significantly. The country’s few remaining independent news magazines were harassed, indirectly censored and some journalists arrested for articles that voiced criticisms of the government and the dominant party. As dozens of journalists fled the country or were legally prosecuted, self-censorship increased.

Democratic values and democratic institutions are accepted by the electorate. Hundreds of political associations, including political parties, testify to the public’s demand for political participation. During the election campaign period in 2004 and 2005, several religious and humanitarian groups actively sought to broaden the social basis of pluralist democracy. In the aftermath of the elections and the violent clampdown of the protest, most of these initiatives were either stopped or withdrew themselves fearing a harsh reaction from the government and its allied forces. Currently, only a handful NGOs – often with an international base – are still trying to promote democratic governance. Anti-democratic veto powers in Ethiopia include some factions within the military, the police (particularly the Federal Police), and the hardliners within the TPLF, who remained loyal to Prime Minister Meles Zenawi following the party’s purging in 2003. At the regional and local (“woreda” and “kebele”) levels, officials of the ruling party coalition and beneficiaries of patronage are the stabilizing factors of the top-down autocratic system of governance. Pseudo-democratic institutions (such as most of the regional councils, the “woreda” and “kebele” governing structures) are part of the authoritarian regime. The Christian Orthodox clergy has always nurtured a close relationship with the center of power and this has not changed much. While not taking an active part in politics, the clergy has a vested interest in an autocratic political culture. The Orthodox Church in Ethiopia is built on obedience and respect for authority.
5 | Political and Social Integration

Although more than 60 legally recognized political parties are currently active, their ability to function properly is impeded by government control and sometimes government harassment. The number of political parties and the interest of the public in political affairs are amazing, taking into account the dominance of the EPRDF government that came to power by force and that defends its position of power monopoly by all legal and illegal means. After a decade of multiparty politics, a somewhat stable party system has now developed, with shallow social roots and high polarization between the winners (TPLF) in the north and the losers in the south and in the west, which are composed of the political parties which, respectively, claim to represent the true interests of the Oromo and Amharic peoples. The party system as a whole is artificial and fragile, due to the fact that free and fair voting is blocked by government.

Civil society organizations, as far as they dare to express their political beliefs and priorities, have difficulties in allying themselves with opposition parties as they tend to be rather chauvinistic (in case of the CUDP) or ethnically particularistic (in the case of the UEDF). Potentially important social interest groups such as trade unions, farmers’ cooperatives, and teachers’ associations are subdued by the direct pressure from the security forces or the threat of the establishment of government-sponsored counter associations; social interests are underrepresented in the media and in parliament. Interest groups and civil society organizations are split along ethnic and regional lines.

The politicization of ethnic interests and ethnic-political differences remains a major impediment to long-term prospects of nation-building and state-building. Numerous unresolved disputes persisted regarding border demarcation, and, by implication, “ethnic belonging” which has become the idiom through which resources – particularly property rights and budgetary control – are secured. From the Amharic viewpoint, the ethnic-political decentralization is just a political ploy to ensure the hegemony of the TPLF and is vehemently resented.

The absence of empirical data makes it impossible to judge the extent of support for democracy. Strong interest in public affairs, high turnout rates and the existence of many critical civil society groups indicates that considerable support for democratic values can be supposed.

One often overlooked and perhaps rather promising social force are the “iddirs” – century-old traditional local neighborhood associations, which are indiscriminative when it comes to ethnicity, religion, gender and party affiliation. In recent years the urban iddirs in particular have grown increasingly focused on development issues, forming regional networks and beginning to promote...
concepts of good governance internally. So far the iddirs have not been subjected to government pressure and control as they are regarded as a politically harmless but socially stabilizing force.

II. Market Economy

6 | Level of Socioeconomic Development

Significant parts of the population are still very poor despite some improvements over the past four years: the proportion of people living below the poverty line of $1 a day decreased from 44% in 2000 to 39% in 2005. Annual income per capita remained around $180 (in 2005-2006). The number of street children increased, as did that of prostitutes. Only 60% of eligible children went to primary school, but thirteen new universities are being constructed in various federal states. The Ethiopian economy experienced strong growth after a slump caused by the drought in 2002 and 2003 with an average growth rate of 11.4% during the period between 2003 and 2006. The government announced its intention to change Ethiopia through a structural reform strategy called “agricultural development-led industrialization.” The economy is still highly dependent on agriculture, which accounted for 48% of GDP in fiscal year 2004/05. Large parts of the rural population live in a subsistence economy. Thanks to good weather and sufficient rains that led to three bumper harvests in the last three years (2003 – 2006), the number of individuals in need of emergency foodstuff relief fell from 8.8 million in 2005 to about 3 million in 2006. In an innovative development that was backed by donors, the government transferred 5 million people from emergency relief to the new productive safety nets program in 2005, which is part of a long-term strategy to end reliance on food aid. This left 3.8 million needing emergency aid. This reasonable government strategy involves a switch from direct food aid to a combination of food and cash aid, and will cost about $200 million a year over five years. It is intended to stimulate the development of local markets and enable internal trading between surplus and deficit localities, facilitated by an expanding road network.

Agricultural activity is not geographically uniform. A grain surplus is produced largely in the central and western regions. The northern highlands are far more vulnerable to variations in rainfall. Pastoralism predominates in the eastern and southeastern lowlands, notably among the Afar and Somali peoples. Geographical barriers to inter-regional trade are accentuated by the fact that all main roads converge on Addis Ababa, where agricultural distribution and marketing are
concentrated. The EPRDF provided a framework for reforms aimed at coping with the demands of the poverty reduction strategy paper approach that is favored by the IMF and the World Bank since the end of the 1990s. It is known locally as the “Sustainable Development and Poverty Reduction Program” and has four main objectives: macroeconomic adjustment, structural reforms, poverty reduction and food security. Ethiopia’s restrictive land tenure system is a major point of controversy. All land is owned by the state, giving farmers little incentive to invest in vital productivity improvements. In the government’s view, liberalizing the land market would generate great inequality, drive many people off the land to the cities and create land-based power groups. At the same time, the government moved to make the “registration” of land rights possible, in terms of which parents can transfer their use of land to their children. Customary land rights and practices were not legally respected, although in certain areas they made a comeback in practice. There was investment in the rural sector by private agrarian entrepreneurs and also by party-linked business people, who started commercial farms, producing flowers, vegetables for export, dairy productions etc. Over the last few years, the business empire of the half Ethiopian, half Saudi business tycoon Sheik Al-Ahmoudi expanded strongly into the agricultural sector. Through government patronage and protection, he was able to acquire huge tracts of land in the fertile Amhara highland and in the Rift Valley. This has displaced a large number of families and fueled resentment against government.

### Economic indicators

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP $ mn.</td>
<td>7,336</td>
<td>7,942</td>
<td>9,733</td>
<td>11,174</td>
</tr>
<tr>
<td>Growth of GDP %</td>
<td>0.0</td>
<td>-3.1</td>
<td>12.3</td>
<td>8.7</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>1.7</td>
<td>17.8</td>
<td>3.3</td>
<td>11.6</td>
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<tr>
<td>Unemployment %</td>
<td>-</td>
<td>-</td>
<td>23.1</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment % of GDP</td>
<td>3.5</td>
<td>5.9</td>
<td>5.6</td>
<td>2.4</td>
</tr>
<tr>
<td>Export growth %</td>
<td>13.5</td>
<td>15.3</td>
<td>36.4</td>
<td>-2.5</td>
</tr>
<tr>
<td>Import growth %</td>
<td>8.8</td>
<td>5.2</td>
<td>19.5</td>
<td>23.4</td>
</tr>
<tr>
<td>Current account balance $ mn.</td>
<td>-136.6</td>
<td>-136.4</td>
<td>-667.8</td>
<td>-1567.8</td>
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<tr>
<td>Public debt $ mn.</td>
<td>6,318.7</td>
<td>7,031.3</td>
<td>6,332.0</td>
<td>5,897.3</td>
</tr>
<tr>
<td>External debt $ mn.</td>
<td>6,525.9</td>
<td>7,271.8</td>
<td>6,644.0</td>
<td>6,259.4</td>
</tr>
<tr>
<td>External debt service % of GNI</td>
<td>1.2</td>
<td>1.2</td>
<td>1</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>2002</td>
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<tr>
<td>Cash surplus or deficit % of GDP</td>
<td>-8.0</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax Revenue % of GDP</td>
<td>10.8</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption % of GDP</td>
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<td>16.0</td>
<td>14.0</td>
<td>14.2</td>
</tr>
<tr>
<td>Public expnd. on edu. % of GDP</td>
<td>3.8</td>
<td>4.8</td>
<td>5.0</td>
<td>5.0</td>
</tr>
<tr>
<td>Public expnd. on health % of GDP</td>
<td>3.2</td>
<td>3.1</td>
<td>2.7</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;D expenditure % of GDP</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure % of GDP</td>
<td>5.5</td>
<td>4.4</td>
<td>-</td>
<td>2.6</td>
</tr>
</tbody>
</table>


7 | Organization of the Market and Competition

Market competition operates under a weak institutional framework. Land remains in public ownership and the powers to distribute it have been devoted to the local districts, the woredas. Foreign ownership is still barred from the market in rural areas, while the leasing of land in urban areas is now allowed. Thus “local ownership” of the reform process remained a key tenet of economic policy, and the government continued to disagree with the World Bank and the IMF and European donors concerning the liberalization of the fiscal and monetary sectors, including trade deregulation.

The formation of monopolies and oligopolies is neither regulated nor curbed. There are several oligopolies of institutions and companies close to the government and the ruling party. The National Bank of Ethiopia (the central bank) and the state-owned Commercial Bank of Ethiopia are together with the private Dashen Bank (owned by Al-Ahmoudi) the dominant players in the financial sector, giving room for intransparency and corruption. Similar patterns can be found in the construction industry (dominated by the “Friendship Group,” a company close to government), the beverage industry (dominated by Al-Ahmoudi subsidiaries) or the transport sector (dominance of “para-party” businesses).

Ethiopia is not yet a member of the World Trade Organization, although the government has applied for membership and makes a concerted effort to gain access to the world market on favorable terms. A sharp rise in imports widened the trade and current-account deficits substantially in 2005 and 2006 to $2.8 billion and $3.4 billion respectively. Foreign direct investment fell from fiscal...
year 2004/05 to 2005/06, because investors expected a sustained period of political uncertainty after the May 2005 elections. In December 2006, the Ethiopian government submitted a “Memorandum on the Foreign Trade Regime” to the WTO fulfilling the procedural requirements for WTO accession.

The government has opened up banking to the local private sector, and appointed foreign, private managers to state banks, but continued to bar foreign ownership or the introduction to foreign banks. Ethiopia is one of the few countries in sub-Saharan Africa that has not admitted foreign banks. Therefore an important requirement for admission to the WTO is not yet met. Six local private banks have been established since liberalization in the mid-1990s. They have taken an increasing share of business and accounted for 26% of deposits in 2005, compared with about 10% in 1999. Private banks are still concentrated in Addis Ababa, but are expanding to rural areas and supporting the growing web of micro-finance. Private banks posted record profits in the 2005/06 fiscal year.

8 | Currency and Price Stability

No independent central bank exists in Ethiopia. Controlling inflation and an appropriate foreign exchange policy are recognized goals of economic policy in principle, and the performance of the government has improved remarkably in these areas. In the past, monetary discipline of the public sector had not been highly-developed, but has improved as exchange rate stability and low inflation policies have become accepted financial policy concepts. In pursuing these aims, the authorities initially achieved considerable success, by moderating the rate of depreciation of the birr (local currency) against the U.S. dollar and by keeping core inflation around 3% in 2005, compared with 5.5% in 2004. The large and increasing fiscal deficit, which has been caused by a sharp decrease in external grants after the 2005 elections, however, put pressure on the National Bank of Ethiopia (NBE) to increase credit to the government in the 2005/06 fiscal year which led to a rise in inflation to 12.3% in the same period and then to more than 13% by November 2006. Furthermore, foreign exchange reserves remained under heavy pressure due to the strong import demand (driven by high oil prices and rapid economic growth) and decreasing grants, which dipped below the IMF’s recommended level of three months of import cover in 2006. In response to subdued economic activity and low levels of inflation, the NBE lowered the rate on savings deposits to 3.08% (from 6% in 2002). All banks adjusted their deposit and lending rates in line with the NBE’s move. The minimum savings rate is legally determined, but others are fixed by the market.

Ethiopia has made progress in boosting domestic revenues and redirecting expenditures since the end of the 1998 – 2000 war, but headline deficits remain high, even with the inclusion of donor grants. There is a form of fiscal stability
policy “culture,” but it lacks institutional safeguards to balance the government’s unpredictable decisions in public spending, such as military expenditures. There has been a marked shift in resource allocation toward poverty alleviation, and a related shift from recurrent to capital spending. Expenditures targeted at reducing poverty rose from 12.5% of GDP in 2002/03 to 15.8% in 2005/06. Ethiopia’s total stock of external debt rose by 10% year on year, to $7.15 billion (108% of GDP) in 2003 but was reduced to $5.7 billion in 2004 and further to $2.8 billion in 2006 in the context of the HIPC initiative and the G8. Ethiopia had been declared eligible for the HIPC program in 2001 and reached completion point in April 2004. Due to the new multilateral debt relief initiatives launched by the G8 in mid-2005 external debts fell to estimated $2.8 billion in 2006 but increased again to an estimated $3.1 billion at the beginning of 2007. In spite of strong growth in exports and remittances, the low level of foreign exchange reserves remained a cause of concern. They were under pressure, and ended June 2006 at $1.1 billion, 26% lower than a year earlier, and equivalent to less than three months of import cover.

9 | Private Property

Property rights and the regulation of the acquisition of property are defined formally by law, but there are problems with implementation under the rule of law. Customary land rights and practices are not respected legally. There has been some investment in the rural agricultural sector on the part of private agrarian entrepreneurs as well as party-linked businessmen establishing commercial farms, but these operations accounted for only 5% of agricultural production in 2004.

Private companies are permitted in various fields of economic activities. As part of the effort to boost foreign direct investment (FDI), the government established the national Foreign Investment Advisory Council in October 2006, which was chaired by the trade and industry minister, while the director of the Ethiopian Investment Agency acted as his deputy. The council, which includes representatives from other ministries but also private companies, both foreign and local, is an example of the new strategy of public-private partnership, and it is designed to offer expertise and facilitate practical arrangements in several key areas including land acquisition, financing and the provision of infrastructure. Recently Ethiopia became a key recipient of FDI from the category of “developing and transition economies” (according the UNCTAD), which accounted for 51% of FDI into Ethiopia in 2002-2004. This illustrates the prominent role played by Saudi Arabia’s Sheikh Mohamed Al-Ahmoudi, who is acknowledged to be Ethiopia’s largest foreign investor. Ethiopia has also secured FDI from non-traditional sources such as China, India, Turkey, Iran and Slovakia. In recent years, investments from the diaspora in the United States and Europe
have stimulated the economy. Investment was common in several fields, including office buildings, luxury imports, and manufacturing.

10 | Welfare Regime

The poor level of health and education services is reflected in the low life expectancy at birth, which stood at just 50 years in 2004. Malaria and HIV/AIDS are the main killers. Pension systems exist for a small elite of civil servants only. Employees in the official part of the economy can voluntarily participate in a provident fund system. With accelerated industrialization the security nets for industrial workers will improve gradually. Remittances from migrants and members of the diaspora in Europe, North America and other developed countries play a great role for many families. It is estimated that between $600 and $700 million in remittances reach the country annually. The government is determined to reduce poverty as fast as possible, therefore it generally sticks to an IMF-style policy framework in order to win donor backing for its plan for accelerated and sustained development to end poverty by 2010/11. Donors have contributed to these social aims in two ways: they have reduced foreign debts considerably, and they have mobilized foreign direct investment to start business in Ethiopia. The Ethiopian Investment Agency granted permits for 672 projects, with a net worth of $2.25 billion. The projects are most prominent in the sectors of manufacturing and agriculture, but also are also present in construction, power, education and health. Together, these projects stand to create some 59,000 permanent and 75,000 casual jobs. For the majority of the Ethiopians, the aforementioned “iddirs” are important institutions offering social security at an essential level. These are old traditional local neighborhood associations, which function as social networks, offering material and psychological assistance in case of an emergency.

Women and members of specific ethnic groups do not have equal access to higher education, public office, health facilities or credit institutions. Sometimes religion is also a factor in such discrimination. Among the adult population, 34% of women are literate, compared with 49% of the male population. Women are subjected to systemic discrimination that is rooted in the the traditional culture of the highlanders. Traditionally women had few land or property rights, especially in rural areas. Still today, they have few opportunities for employment beyond agricultural labor. Societal norms and limited infrastructure prevent many women from seeking legal redress, particularly in rural areas. While illegal, the kidnapping of women and girls for marriage purposes continues in some parts of the country. In October 2006, the government announced the establishment of a women’s affairs ministry, and in recent years legislation has been passed designed to protecting women’s rights in a number of different areas. In practice,
however, women’s rights are violated on a routine basis. Among the minority ethnic groups, the Oromo are subjected to the most discrimination by public authorities. State repression of Oromo students and lecturers is widespread, as illustrated by the fact that hundreds of students from Oromia were barred from university after the post-election demonstrations in 2005.

11 | Economic Performance

The output strength of the economy is contradictory: while there have been remarkable increases in economic growth, local and foreign investment and rising employment levels that augur well, imbalances of foreign trade, state budget and debt regime present significant problems, as does corruption. The GDP increased from $7.9 billion in 2004 to $9.7 billion in 2005 to $11.9 billion in 2006, according to UNCTAD/WTO estimates January 2007. These numbers entailed growth rates of 13.1% in 2004, 8.9% in 2005, and 8.5% in 2006. (Note: The Annual Report on the Implementation of the ACP-EU Conventions for 2006 from 6 March 2007 cites growth rates for 2003/04 at 13.1%, for 2004/05 at 13.4%, and 2005/06 at 10.3%.)

Ethiopia is one of the world’s most important coffee growing countries, producing between 220,000 to 250,000 tons of coffee annually. Rising world market prices and increased output pushed coffee export earnings to an all-time high of $420 million in 1997/98, equivalent to 70% of total export receipts. World prices collapsed in succeeding years, owing to an excess in supply. But coffee export earnings made a strong recovery in 2003/04 (up 35% year on year to $223 million) and in 2004/05 (up 50% year on year to $335 million). The global oversupply of coffee makes it a less than reliable cash crop for building a sound financial basis to help diversify the Ethiopian economy. Exports of goods increased from $600 million (2003/04) to $847 million (2004/05) and to $1 billion (2005/06), but imports grew even faster: increasing from $2.584 billion (2003/04) to $3.633 billion (2004/05), and to $4.284 billion (2005/06), thus indicating a huge foreign trade deficit for 2005/06 of $3.383 billion. Ethiopia ran a budget deficit of 5.2% of GDP (11.5% of GDP excluding external grants) during fiscal year 2005/06. Revenue failed to hit initial targets due to a confluence of great shortfalls and inefficiencies in tax collection and higher-than-anticipated spending, as the government sought to cut the overall deficit. A positive development within fiscal policy relates to the fact that higher spending has been allocated to the priority sectors of health, education, agriculture and infrastructure. Donor support for Ethiopia is high, and it is likely to continue the following years. Compared with the expectations from two years ago, the projections for Official Development Assistance (ODA) to Ethiopia for the coming years is somewhat lower but still increasing up to a level of
projected $2.5 billion in 2013. Both China and India entered the scene as important investors and donor countries. According to UNCTAD statistics (which are considerably higher than IMF figures) FDI into Ethiopia fell by more than one-half in 2005. The decline undoubtedly reflects the political turbulence that followed the disputed elections in May 2005.

Corruption remained a serious deterrent to business, with the country’s score on Transparency International’s Perception Index dropping for the third consecutive year, to 2.2 in 2005 and 2.4 in 2006, corresponding to rankings of 137 and 130, respectively. The gradual opening up of the economy to market forces and commercialization has created more opportunities for graft, which the unscrupulous are exploiting. Ethiopia does not have a reputation for routine bureaucratic corruption, but the existence of close links between the officials of the ruling party and firms owned by members of the party does not foster a culture of accountability and transparency. All things considered, Ethiopia’s economic policy has performed rather well: macroeconomic data are moderately positive, and the government does seem to be working to improve of the country’s productive potential via government-controlled market development.

12 | Sustainability

Environmentally compatible growth received only sporadic consideration and has almost no institutional framework, although recently the government has embarked on a series of environmental initiatives, including a National Conservation Action Plan. Agricultural land in densely populated areas of the highlands has been deteriorating steadily in recent decades. An acceleration of deforestation has led to severe soil erosion in regions where people are dependent on marginal, rain-fed agriculture. The country’s natural forest coverage has decreased from approximately 40% in the 1960s to less than 4% today. Although Ethiopia has abundant natural resources, including water resources found in Lake Tana, much agricultural land is unproductive, water shortages remain endemic and major rivers are prone to season flooding. Despite Ethiopia’s association with severe drought, the country is well endowed with water resources, but mostly unused. Ethiopia has been named as one of the world’s crucial centers for bio-diversity.

Under the government’s anti-poverty program, the education budget recovered from the neglect it experienced during wartime with Eritrea in 1998-2000, rising from 9.5% of total spending in 2000/01 to 11.5% in 2003/04. Investment in higher education and science has been a major priority area of the government, and primary school coverage reached about 60-65% during the period under review. However, concerns about declining quality have been repeatedly voiced by parents and education experts, and the dropout rate is at approximately 18%. 
Secondary education coverage reportedly reached 30%. Universities saw a 14% jump in enrolment during the review period, and 13 more regional universities are under construction. To cope with the alarming staff shortages, the government announced in late 2005 that more than 600 Nigerian teachers were to be hired by higher education institutions. The fact that most of the graduates from Ethiopian universities cannot find work, means that the newly emerging human capital created by education is unlikely to be able to find adequate employment.
Transformation Management

I. Level of Difficulty

Structural constraints on governance are high and massive in some areas. Key constraints include the persistence of extreme poverty for centuries, (which, in turn, has come mainly as a result of soil erosion), the fragility of the soil in the densely populated highlands, the absence of transport and extension service infrastructure, military dictatorship and long-lasting wars (1963-1991; 1998-2000) and high infection rates of HIV/AIDS. As a land-locked country Ethiopia, relies on Djibouti port for about 98% of its international trade. Such heavy dependence leaves it vulnerable to factors beyond its control.

There are no long-standing traditions of civil society, because the population suffered from military rule and imperial dictatorship for generations. A civic culture of political participation has developed only since the overthrow of the Mengistu regime in 1991 by the current EPRDF government. However, there is a tradition of religious and humanitarian organizations offering some assistance to the public in times of emergency.

As a consequence of the history of the 19th century when people living in the southern regions were conquered by the Amharic and Tigray highlanders from “Abyssinia,” Ethiopian society is deeply split into ethnic communities within a federal state that is dominated by an ethnic-cultural Tigray minority. The split between Christians – who have constituted the ruling elite for centuries – and Muslim communities is increasing. There were a series of local inter-ethnic conflicts from 2005 to 2006 in Borana, Gambella, and other regions. The Gambella conflict was the most serious, as more than 44,600 people were displaced by inter-ethnic conflicts that included the Nuer, Anuak and Majengir. The Nuer, who have been forced out of their homes by other groups, have recently established 17 new villages. Despite the state’s traditional association with Orthodox Christianity, the Ethiopian population is split fairly evenly among Christians and Muslims. The post-1991 administration made progress in establishing official parity of esteem and recognition between Christian and Muslims. But the number of religious conflicts increased in 2006. Starting on September 15 of this year, violent clashes between Muslims and Christians
during the celebration of the Meskel festival in Dembi Town in Jimma Zone of Oromia triggered four days of bloody clashes in which 10 people were killed, while 800 homes, two churches, and a mosque were destroyed. In October 2006, a renewed round of clashes between Muslim and Christians resulted in five deaths. Opposition groups claim that the clashes were instigated by government security agents in a deliberate attempt to set Christians and Muslims against each other. There is a continuing risk that militant Islamic circles will try to exploit local, national and even international issues to expand their membership and organizational foothold within the Ethiopian Muslim communities. This risk has likely considerably increased as a consequence of Ethiopia’s military intervention in Somalia. The government is concerned about the level of funding from Saudi Arabian and Iranian sources for the construction of mosques and training centers in Ethiopia and uses this as one argument to introduce tighter controls of all kind of voluntary organizations and NGOs.

II. Management Performance

14 | Steering Capability

The political leadership under Prime Minister Meles Zenawi has managed to achieve basic objectives of the transformation process. Economic targets were much better realized than democratic aims during the review period. A culture of state ownership and state management still dominates government thinking, which has yet to embrace fully free-market reforms in many areas of the economy. Although the political leadership was not very committed to constitutional democracy, it maintained as a strategic economic priority the goal to establish and foster a market economy which is able to attract foreign investment, albeit under the restrictive laws of the government. The government seems likely continue to implement the economic policy against its general condemnation by the opposition and the selective criticism of the international donor community and to try as much as possible to retain ownership and control of the economic reforms and to implement these according to its own vision and time-table. In general, one can maintain that the government will continue to consolidate its internal political position and its relations with the donor community. Both need each other, if for different reasons.

The government seeks to achieve political and economic reforms, but had only limited success in implementing its announced reforms. Deficits exist
concerning the limited independence of parliament and judiciary, and in the relationship between the federal government in Addis Ababa and the elected governments in the nine regions of the country. Though otherwise stipulated in the constitution, the authority of regional governments is marginal, as is their capacity to meet the most urgent needs of the local and regional population. Although Ethiopia has acquired a federal structure for its political system, the central government has control over all primary forms of revenue and investment, which is particularly notable in Oromia and Ogaden.

Prime Minister Meles Zenawi has kept a firm grip on the TPLF through periodic purges, and seeks to maintain a balance between parties and ethnic groups in the cabinet: Oromo, Amhara, Tigreans, southerners. He has improved his tactics in maintaining his power and winning opponents’ loyalty, although he resorts to repressing and/or excluding ministers or key civil servants who disobey. Though they do not necessarily fill the top positions, Tigreans have positions of influence and control in all institutions and organizations under government control. In the second half of 2006, the ruling party further consolidated its control of the political process in the country through a judicious mixture of threats and concessions to the legal opposition that was willing to work within the political system as set up and controlled by the EPRDF. In September 2006, the EPRDF and its four member parties held their congresses and re-elected their leaderships with no major changes in their composition. In terms of political tolerance, the rule of law, democratic values and respect for human rights, the government showed little willingness or ability to engage in policy learning. The mentality of the political leaders seems to be locked in old-fashioned thinking of a war-culture. A marked increase of defections of high-ranking members of the civil and diplomatic service as well as the judiciary in 2006 indicates the repressive political climate; but these defections have yet to exhibit a discernable negative impact on the stability of the system. In one respect, however, the government showed great learning capabilities: how to improve the political control mechanisms. The Chinese example of a state-controlled market economy is often cited as a role model for Ethiopia. Contrary to the partly blocked political learning of the elite in power, the government has achieved some major improvements concerning economic and social reforms. Although the restrictive land tenure system remains a major point of controversy, monetary policy stayed disciplined and the policy of privatization and deregulation made some progress.

15 | Resource Efficiency

The government uses only some of the available resources efficiently. Land and water resources are not used as effectively as they could be in the political context of a more liberal business climate. Revenue failed to hit initial targets
because of a grant shortfall and inefficiencies in tax collection, as did spending. As private industry is often dominated by leading politicians from the EPRDF camp, available resources and market opportunities are not used properly. The predominance of party-owned companies in key sectors (such as manufacturing, gold mining, tourism, transport, road construction) is bitterly resented by independent private entrepreneurs. They accuse the government of unfair treatment of the private businesspeople, pointing to the fact that party-owned enterprises enjoy preferential access to contracts, physical infrastructure and administrative service.

Concerning the efficient use of resources a federal system offers great challenges to the political and administrative elites. For example, one needs a clear financial concept of who is getting what, when, with regard to the federal constitution and the economic policy of the various levels of governance. Under the EPRDF the old tradition of centralized, hierarchic-bureaucratic decision making continued, although a decentralization program appears to have initiated change. A coherent policy concerning administration and development could not yet be achieved, due to the “ politicization” of administration work and the widespread lack of integrity among civil servants. Regarding coherence in coordination by government there are great differences between regions. In addition less populous Afar and Somalia regions (where the central government has for many years been confronted with local rebellions), Oromia, the most populous province, remained a key political battleground, often to the detriment of its inhabitants. Although the region is governed by the OPDO, which is a key member of the EPRDF OPDO’s legitimacy is challenged by a number of groups, including the OLF. Disaffection increased in 2003 when the regional state capital was transferred from its traditional base in Addis Ababa to Nazareth. Oromo students were further angered by the expulsion of several hundred Oromo activists from Addis Ababa University in 2004, following unrest there. The OPDO suffered a significant loss of support in the May 2005 election (although it stayed in power) because of a belief that EPRDF policies were marginalizing Oromia. In response to the political repercussions of that election results, the federal government transferred the state capital back to Addis Ababa.

Ethiopia remains in the category of “rampant” corruption, although small improvements were recognized by Transparency International (TI) in 2006. Out of 167 countries surveyed, Ethiopia ranked 130th on TI’s Corruption Perceptions Index, placing it on a par with Burundi, the Central African Republic, Togo and Zimbabwe. Among African countries, only Kenya and Nigeria rank lower than Ethiopia. The government has established a “Federal Ethics and Anti-Corruption Commission (FEACC) to fight this evil, but only a small decline can be perceived in the period under observation. In one of the major cases of 2006, 12 senior officials of the Development Bank of Ethiopia (DBE) were arrested and
subsequently charged with advancing loans in violation of bank policy. Some people believe that the FEACC is sometimes used by Meles Zenawi as a vehicle to weaken his political opponents. The Prime Minister sacked the long-standing federal auditor-general Lema Argaw in November 2006. The fact that he failed to follow proper constitutional procedures (only parliament is allowed to make this decision) has raised concerns about transparency and good governance.

16 | Consensus-Building

The coalition government (EPRDF) pursues democratic reforms to a limited extent and more strongly policies geared toward the establishment of a market economy, notwithstanding some reservations concerning state control over basic assets of the economy such as land ownership, credit banks and taxes. The opposition parties, trade unions, civil society organizations in principle can be regarded as pro-democratic players; there is no fundamental conflict over both a market economy and liberal democracy as goals, but over the space and degree with which the needed reforms should be implemented. Amongst the opposition forces, the CUD’s commitment to democracy is most doubtful. Parts of its political platform for the 2005 elections – such as a desire for access to the sea and a proposal to revoke the federalist structure of the country – sounded blatantly chauvinistic and its boycott of the parliament did not improve the political climate in the country.

Veto actors exist both among the ruling elites as well as among the opposition groups, although the reformers have been successful in convincing more and more people from the advantages of the new government policy, which is in line with the expectations of the international donor community. If one defines veto actors as those who actually have the power to prevent things from happening in the public political arena, than the opposition is excluded because their sphere of influence does not stretch beyond their own camp. The boycott of parliament by parts of the CUD leadership was not a demonstration of veto power but in the end a self-destructive move as far as the opposition was concerned. Furthermore, it should be noted that those actors labeled “reformer” are more accurately described as “modernizers,” in the sense that they are politicians who aim at making the existing system of political control and virtual monopoly more efficient and fit for new challenges. Among the military are some generals and colonels who obviously are not in line with the policy of the government, and disagree with the Meles government vis-à-vis its attitude toward the still-unsettled border dispute with Eritrea. Furthermore there are people within the military and among the various opposition movements inside and outside the country who oppose Ethiopia’s military intervention in the civil war in Somalia. They alleged that the fighting capacity of the Ethiopian military had been
severely sapped by purges and speculated that the rule of the EPRDF could be threatened by an impeding loss of control over the military. The government acknowledged that it had carried out a purge of the army of members “disloyal to the constitution or professionally deficient.” These purges obviously did not negatively impact upon the fighting will and capacity of the Ethiopian military, as demonstrated by its rapid campaign in Somalia in December 2006. In conclusion, “modernizers” within the multiparty coalition-government can at least control political opponents and groups with veto-power, and after the power consolidation of the EPRDF-regime as consequence of the May 2005 elections, alternative political options have lost credibility. The government managed successfully to co-opt also potential veto groups from the business community which is impressed by the amount of assistance (more than $100 million annually) which the government could mobilize among donors in order to make the national reforms a success. They are no veto groups but there are critics of the government, who are generally powerless when it comes to challenging any policy decisions. These critics lack the resources and influence to offer alternatives.

It is not the recognizable intention of the government to solve social, religious or political cleavages and ethnic conflicts by peaceful means. Cleavages between rural and urban people, between farmers and industrial workers, between Christians and Muslims exist, but the consensus-building capacity of the government is rather limited. There is no open public debate on national issues of great importance, in which representatives of the government could try to convince the people of the rightness of its strategy. Also it could not prevent the increasing tensions and even violent conflicts between Muslims and Christians which have considerably increased as a consequence of the growing influence of external Islamic groups. Ethiopia remains a socially fragmented and politically polarized society that is kept together by a strong powerful government. In order to stay in power, it counts more on military strength and functional efficiency of the state institutions than on democratic legitimacy and the consensus among all powerful interest groups.

Freedom of assembly and association are constrained, although a large and increasing number of NGOs are active. However, NGOs are generally reluctant to energetically discuss issues and advocate policies that may bring them into conflict with the government. The government prefers civil society groups to engage in development work and relief efforts and regards those which try to promote good governance and democracy more as a political adversary which should be controlled closely rather than a useful partner who could help to win the minds and hearts of the people. In 2005, the government threatened to ban the Christian Relief and Development Association (CRDA), an umbrella body representing more than 250 international and local charities, because of alleged
“public bias” expressed in CRDA criticisms of the government’s response to post-election protests. A draft NGO law that could provide for tighter financial control over NGOs is being held up in parliament. Communal relations between the three major religious blocs continued to be outwardly peaceful in general, but tensions under the surface remained. There were growing rivalries and in some areas violent clashes between Muslims, Orthodox and Pentecostals. The Ethiopian Orthodox Church (EOC) is influential, particularly among the Amhara people of the in the north. About 40% of the population adheres to Orthodox Christianity, 38%-40% to Islam, and 10-12% to Protestant-Evangelical Christianity, and the remainder to traditional religions. The country’s large Muslim community is concentrated in the south, and made up mainly of Arabs, Somalis, and Oromos. They are all socially and culturally active, helping their believers to improve their lives but usually do not intervene in political matters openly. For instance, hardly any statements or appeals about the election crisis, the insecurity, the ethnic tensions or the deadly violence were heard during the year. Fearing political repression, religious leaders rarely exerted themselves by calling for mediation or restraint. The position of the incumbent pro-government EOC patriarch continued to be contested within and without the church. Christians and Christian evangelists were repeatedly harassed by Muslims. Students are among the most active groups within civil society, although academic freedom is restricted. In recent years, student strikes to protest various government policies and to seek an end to police brutality have resulted in scores of deaths and injuries and in hundreds of attest, including arrests of prominent human rights leaders.

The political leadership recognizes the need to deal with historical acts of injustice committed during the Derg regime and has started to take the political leaders bearing the greatest responsibility to court, provided they have not fled the country. The trials of 33 former Derg officials from the Mengistu regime dragged on into their 15th year, thereby protracting the denial of justice to the accused. Reconciliation with the jailed opposition and civil society leaders is not really attempted by either side. The outcome of the adjourned trial against the opposition leaders might open a new avenue for talks between the two camps. Thus, a process of honest reconciliation with the past and the present has yet to begin.

17 | International Cooperation

As one of the poorest countries of the world, Ethiopia is highly dependent on foreign assistance in many ways. Over half of the state budget is financed by international donors. The government was granted a debt cancellation in 2005. Over the past 15 years, Ethiopia has benefited from a total of $9.2 billion in debt
relief. It is not surprising that the political leadership has made intensive use of international aid for two purposes: achieving transformation goals and to secure its position of power. At the same time, the extent to which the EPDRF ignores foreign advice concerning political and financial reforms is surprising. Unwilling to loosen its grip on political power, the government shows little interest in cooperating with bilateral or multilateral international donors on issues of democratization or human rights. In 2005, relations with the Western donor community deteriorated sharply in the aftermath of the government’s harsh suppression of post-election demonstrations, and because of its treatment of the opposition as well as a deteriorating human rights situation. Though some donor countries announced a freeze or cutbacks in development aid and the re-channeling of funding, no radical measures were taken for several months. In August 2006, however, Ethiopia and the United States signed a grant agreement amounting to $57.6 million in support in the form of ongoing USAID partnership programs. Three months later, the European Union signed a similar grant agreement of €155 million with Addis Ababa, which also received $150 million loan from the British government. The World Bank also instituted a “Protection of Basic Services” program (including education, health and water) that amounted to a total of $420.2 million and replaced the previously pledged balance-of-payment support. The British government joined this scheme as well to ensure that already-commited funding would not be canceled. At the same time, the regime also enjoyed increasing support from China. There are currently 40 Chinese firms with a capital of $40 million operating in Ethiopia and further engagement is likely. In 2006, China extended its credit lines and soft loans to Ethiopia to $3.5 billion. It is estimated that India has provided Ethiopia with trade credits of up to $500 million.

Since the elections of May 2005, Ethiopia is no longer regarded by EU countries as a credible and reliable partner. Driven by concerns with its “war on terror,” the Bush administration in the United States views Addis Ababa as a useful partner. Nevertheless, EU development cooperation continues. There is a trend within the Ethiopian leadership to re-orient itself toward Asian countries, notably China. Peking, which is not concerned with human rights but rather with oil and other resources needed for its own economic expansion, is seen as an ideal partner, if not a suitable model of development with its success in realizing quick economic development while retaining authoritarian one-party rule. Addis Ababa has announced closer military cooperation with China.

The continued and far-from-resolved conflict with Eritrea was marked by an almost-total lack of progress and gradual deterioration, mainly as a result of additional restrictive measures imposed by the Eritreans on the “United Nations Mission for Ethiopia and Eritrea” (UNMEE) forces. The government under Meles Zenawi still refused to accept the decision of the Permanent Court of
Arbitration from April 2002 concerning the demarcation of the borderline between the two countries. Rather, it has stayed with its November 2004 “Five Point Peace Plan” calling for a wider discussion of normalization and border demarcation issues—a proposal that was categorically rejected by Eritrea and supported by the international community. This conflict is unlikely to be resolved as long as the two current regimes remain in power. There has been suspicion amongst political observers that the intervention in Somalia might have been a test-run for a new military confrontation with Eritrea. In late October 2006 the Ethiopian parliament voted (311 in favor of and 99 opposed) to grant the government the legal authority to defend Ethiopian interests in neighboring Somalia. In late December 2006, Ethiopian troops quickly beat the rag-tag army of Union of Islamic Courts (UIC) in Somalia and took over Mogadishu. Somalia’s weak, but internationally recognized Transitional Federal Government followed the Ethiopian troops from Baidoa to the old capital Mogadishu. Ethiopia invaded Somalia because it perceived the UIC’s rise, which was backed by a several countries including Eritrea (which seeks to destabilize Ethiopia), as a threat to its interests. Paradoxically, the war in Somalia has to some extent contributed to national coherence in Ethiopia, because of the UIC’s declaration in favor of an ethnic Somalian state, including the Somali region of Ethiopia, and the interference of Eritrea is helping to unite Ethiopians across the spectrum. Ethiopia maintained relatively good and stable relations with its other neighbors, including Sudan, Kenya and Djibouti. It undertook negotiations over future oil supplies from Sudan to Ethiopia. It also remained active in the Intergovernmental Authority on Development (IGAD), the sub-regional organization of Northeastern African countries. However, no breakthrough was achieved with the government of Sudan on the prominent issue of the future use of the Nile waters.
Strategic Outlook

While domestic actors, including opposition parties and civil society groups should try to maintain a dialogue with the authoritarian government on political reforms, international actors should demonstrate more integrity and push harder for rule of law standards and good governance criteria, as decided upon in the political framework of the EU-APC treaties. At the same time, the donor community should continue efforts to improve coherence in Official Development Assistance while signaling to the government that it cannot continue to engage militarily in neighboring countries, namely Somalia. The increasing influence of the People’s Republic of China, which exhibits little concern for human rights while dealing with African governments, provides the Ethiopian government with new means of evading Western pressure. This emergent scramble among competing powers for influence in Africa is regrettable as it will undermine the interests of the urban middle class and civil society groups struggling for freedom of expression and expanded democratic participation. One should avoid a political strategy that frustrates them, as they constitute the human capital for a better, more democratic future. The conditionality of foreign assistance is inevitable and should be aimed at encouraging the government to develop national production, primarily in the agricultural sector. The strategy of agriculture-led-industrial growth deserves foreign attention and financial support. Foreign food aid, which has damaged the national production of grains, should be reduced drastically. Empowering peasants should become a top priority.