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Executive Summary

During the period under review, Ethiopia experienced challenges to democracy amidst continuous and substantial economic growth. While the economic transformation process continued to some extent, democratic transformation came first to a halt and then went into reverse. The Ethiopian government has been systematically closing down any opportunity for political opposition and independent stakeholders to develop another threat to the power of the ruling Ethiopian People Revolutionary Democratic Front (EPRDF). A mix of oppressive laws, targeted violence and selective political co-optation ensured that the test run for the 2010 elections – the by-elections and local government elections of April 2008 – ended in an overwhelming victory for the EPRDF. From the government’s perspective, the last avenue of opposition was closed in January 2009 with the passing of a restrictive “NGO law.”

In the region, Ethiopia has ended its intervention in Somalia but has offered to extend its alliance to the United States in the war on terror. The standoff with Eritrea has continued since the end of the United Nations Mission in Ethiopia and Eritrea (UNMEE) mandate, and could lead to an unintended war because of the close proximity of massive troop contingents on both sides. The volatile regional situation has reinforced the resolve of the ruling class to keep close control of the internal political situation, thereby diminishing the potential for a democratic transformation.

Economically, Ethiopia continued to have strong growth rates of more than 10%, although a gradual slowing down was discernible in 2008. The world economic crisis started to affect the country towards the end of 2008 with lower remittances from abroad, reduced demand for Ethiopia’s main export goods, such as coffee and flowers, and tightened short-term credit availability. At least partly due to unmanageable financial costs, Ethiopia withdrew her troops from Somalia in January 2009. In addition to the financial aspects of the deployment, the unpopularity of the intervention in Ethiopia, even within the army, and the poor performance of the Somali Transitional Government are also reasons for the withdrawal. The speed of the
government’s comprehensive reform package, undertaken in the framework of Plan for Accelerated and Sustained Development to End Poverty (PASDEP), slowed down because of capacity problems in the Ethiopian civil service, an increasing politicization of providing access to public services and goods, and a high level of corruption. Indian and Chinese companies encouraged by the Ethiopian government have increased their investment in the agricultural, construction and communication sectors, but have not been able to compensate for deficiencies on the Ethiopian side. The further transformation towards a market economy has been slow due to ideological reservations in the political class and the fear that private investment could be used to bolster the political opposition.

History and Characteristics of Transformation

Ethiopia’s history reaches back more than 2000 years. The country has a diverse cultural heritage and some potential for development. Yet, the majority of her nearly 75 million people live in absolute poverty. This situation is largely the result of bad governance, long periods of internal unrest, war and devastating periodic droughts. Ethiopia’s current political form – a federation of culturally diverse regions – is the outcome of expansionist politics of the Amharic-speaking people of the central highlands since the 19th century. Menelik II (1889-1913) laid the roots of a modern state after repelling an Italian invasion in 1896 in the battle of Adwa and thus sparing his country the experience of colonialism. His conquest of the Oromo and southern tribes gave modern Ethiopia its present borders. The emerging modern Ethiopia proved to be too heterogeneous an empire to be ruled through an aristocratic political system based on landlord-tenant relations. Emperor Haile Selassie (1930-1974) instituted a process of modernization from above, which was continued by the successive regimes of the socialist dictator Mengistu Haile Mariam (1974-1991) and the current Tigray-based government under Meles Zenawi (since 1991).

Since 1994, Ethiopia has been a federal state consisting of nine regions and two chartered cities (Addis Ababa, Afar, Amhara, Benishangul-Gumuz, Dire Dawe, Gambela, Harari, Oromia, the Somali, Southern Nations, Nationalities and People’s Region (SNNPR), and Tigray). According to the highly controversial 2007 census, Oromiya has 27 million inhabitants, Amhara 17.1 million, SNNPR (different ethnic groups) 15 million, Somali region 4.4 million, Tigray 3.5 million, Afar 1.4 million, Haraari 0.2 million, Benishangul-Gumuz 0.7 million and Gambella 0.3 million. Addis Ababa, the capital, is supposed to have 2.7 million inhabitants and Dire Dawa 0.3 million. Both cities are under separate administrations. Ethiopia’s total official population figure stands at 73.9 million inhabitants, a figure substantially lower than all calculations had predicted. Nonetheless, the country is still Africa’s second most populous state (after Nigeria). There is strong suspicion in Ethiopia that the census figures were tampered with in order to lower the population figures for the Amhara Region and Addis Ababa, where the ruling party faced the stiffest opposition during the 2005 elections. Ethiopia recognizes 64 ethnic groups and tries to reflect the multiethnic character of its population through a constitution (1994) based on the
principles of ethnic federalism and regional autonomy. Each nation within Ethiopia even possesses the right to secede, although in reality the central state exerts firm control over all regions. Officially, Ethiopia is still predominantly a Christian state. Muslims account for about 33% of the population.

Ethiopia is amongst the top three recipients of official development assistance worldwide. It has always been regarded as critical for the stability of the volatile Horn of Africa. From the end of 2006 to the end of 2008, Ethiopia provided military support to the elected but powerless Transitional National Government in Somalia. In January 2009, it withdrew this support because of the financial costs and the increasingly obvious failure to achieve the envisaged objectives of the operation. As an ally of the Bush administration in its fight against international terrorism, Ethiopia committed several violations of human rights and democracy and even ignored a U.N. verdict on the border conflict with Eritrea. The country’s Western donors condoned all of these actions.

Ethiopia is in the lowest quartile of all indices measuring democracy, transparency, good governance and development. The Freedom House Index (2007) rated the country as only partly free; the Corruption Perception Index put it at 2.6 (2008) on a scale between 10 (totally transparent) and 1(totally corrupt); according to the Committee to Protect Journalists (CPJ) Ethiopia was the top backslider worldwide in 2007. The UNDP’s Human Development Index ranked Ethiopia among the 10 least developed countries in the world in 2006.

The government of Prime Minister Meles Zenawi has entrenched itself in power. It displays the typical traits of a liberation movement in power, including black and white thinking, absolute confidence in its political mission, and a claim to absolute legitimacy. Under these circumstances, democratic change appears highly unlikely in the foreseeable future despite the encouraging signs of the 2005 elections. The ruling EPRDF has learned from its near loss of power in 2005 and has prepared the legal, administrative and psychological ground for an undisputed win in the upcoming 2010 elections.

Ethiopia’s economy depends largely on agriculture; only a small manufacturing sector exists. The Meles Zenawi government is pursuing an agricultural development and industrialization strategy aimed at modernizing a very traditional peasant economy, which remains highly vulnerable to external shocks, and improving Ethiopia’s grossly underdeveloped physical and social infrastructure. These priorities form the basis of the government’s Plan for Accelerated and Sustained Development (PASDEP; 2007-2011), through which Ethiopia hopes to realize most of its Millennium Development Goals. Benefiting from good rains, a construction boom and generous donor funding, Ethiopia’s economy grew on average by 10% from 2003 to 2008. Having only a narrow export base, Ethiopia shows chronic and substantial deficits in its trade and current account balances. Large inflows of official development assistance ($1.8 billion in 2006), transfers from the diaspora ($1.7 billion in 2007) and recently of foreign direct investments are needed to balance the accounts. The current international financial crisis might reduce Ethiopia’s financial latitude for further rapid modernization.
Several progressive laws regarding women, the environment, education and decentralization have not been implemented due to the prevalence of traditional socioeconomic and cultural conditions and an oppressive, control-oriented political culture. Economic liberalization goes only as far as to not endanger the government’s monopoly on power. This means that no meaningful free media is allowed, hardly any competition in strategic sectors of the economy exists and land remains in the hands of the state, thus preventing the development of a much needed property market. These restrictions have slowed Ethiopia’s accession to the WTO.

Modern Ethiopia emerged in the second half of the 19th century when a succession of highland kings started to reunify the country. Emperor Menelik II consolidated modern Ethiopia through conquests in the east and south but particularly through the defeat of an Italian invasion army in 1896 at Adwa, which prevented Ethiopia’s colonization. He also founded Addis Ababa as the country’s permanent capital. With the support of the Orthodox Church, his successor Haile Selassie established an aristocracy based on landlord-tenant relations, which lasted until 1974 despite the invasion of fascist Italy from 1936 to 1941. Haile Selassie became one of the architects of the Organization of African Unity (OAU), the headquarters of which he steered to Addis Abeba in 1963.

Haile Selassie annexed Eritrea in 1962 and in the process triggered the formation of an Eritrean liberation movement. In a bloody and countries devastating war (for both countries), Eritrea won its independence in 1991. In 1974, a group of army officers ousted and later executed Haile Selassie in retribution for his government’s indifference towards the 1971-1974 famine. A Provisional Military Administrative Council (Derg in Amharic) under Col. Mengistu Haile Mariam took power and established a brutal regime that lasted until 1991.

During the Derg Period, the authorities killed more than 100,000 people (the red terror) and drove many more into exile in the U.S. and Europe. In 1977, the new leadership proclaimed Ethiopia a socialist state and enforced the nationalization of land and real estate combined with large resettlements of peasants. The leadership went on to establish a network of peasant and urban dweller associations known as kebeles.

Following the Soviet model, the country’s leadership created the Workers’ Party of Ethiopia in 1984. 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 the largest army in Sub-Saharan Africa. Its main purpose was to defeat the Eritrean separatist movement (EPLF). This proved to be a national disaster. The Derg became increasingly incapable of managing the evolving socioeconomic crisis and lost external support after the end of the Cold War. When the Eritrean and Tigrayan liberation movements finally crushed the Derg in May 1991, Ethiopia’s underdeveloped economy lay completely ruined. The necessary demobilization of hundreds of thousands of soldiers in an overpopulated and resource-poor country caused many problems for the new government and its foreign partners in North America and Europe. The legacy of the Derg’s military dictatorship posed a severe challenge for the new rulers under the leadership of Meles Zenawi, the head of the Tigrean People’s Liberation Front (TPLF). The TPLF is the core of the EPRDF, which was formed 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 the 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 Organisation (OPDO).

After the Derg were defeated, 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 multiparty democracy, which was a condition sine qua non for foreign aid; and finally a transition from a socialist planned economy to a capitalist market economy, which could participate in globalized markets. Since 1991, Ethiopia has made some remarkable progress with regard to economic recovery and institution building.

Following four years of transitional government (1991 – 1995), a federal republic was proclaimed after elections in mid-1995. The elections resulted in the formation of a stable government under Prime Minister Meles Zenawi, Zenawi’s government, however, enjoyed only limited legitimacy because of its unfair treatment of opposition parties.

In 2004, the government, pushed by western donors who promised a substantial increase in official development assistance, opened up some limited political space for opposition and civil society. The Zenawi government underestimated the potential for a dynamic popular to the opportunity to engage in public life. While the government intended to control a slow movement toward democratic transformation, growing opposition quickly threatened its hold on power. In the 2005 elections, EPRDF won only after elections in several constituencies were repeated. In protest against the official election results, violence erupted twice in the capital Addis Ababa and other major cities. According to official numbers, 193 people were killed. The security forces put large numbers of opposition supporters into jails and rural reeducation camps. Those leaders of the opposition party Coalition for Unity and Democracy (CUD) who refused to take their parliamentary seats were imprisoned with charges of sedition in November 2005. EPRDF aborted the democratic transformation process immediately after the elections.

Eritrea gained independence from Ethiopia in May 1993. Although the separation went smoothly at first, relations between the two countries deteriorated because of disputes over border delineation and tension over monetary and trade relations. These tensions erupted into a full-scale war in May 1998, which resulted in more than 100,000 dead and brought to a halt most of Ethiopia’s development projects and social investments. 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. A deployment of 3,500 U.N. peacekeepers in the border area between Ethiopia and Eritrea (UNMEE) established a 25km temporary
security zone in April 2001. The government in Addis Ababa, however, still refuses to accept the verdict of the neutral 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 decision proved unacceptable to Addis Ababa, partly for domestic political reasons. The Zenawi government accused the EEBC of having made a “totally illegal, unjust, and irresponsible decision” and refuses to implement the ruling until today. In November 2004, under great international political pressure, Meles Zenawi finally accepted the EEBC border ruling “in principle” but also called for further dialogue with Eritrea. When this proposal was ignored by Eritrea, international frustration increased. The United Nations first downscaled the UNMEE troops to 2,000 in 2006 and terminated its mandate in July 2008. This has increased the risk of war.
Transformation Status

I. Democracy

Ethiopia’s cautious political transformation was abandoned after the 2005 elections when the ruling EPRDF party (a coalition of four regional parties from Tigray, Amhara, Oromiya and the Southern Nations, Nationalities, and People’s Region or SNNPR) narrowly escaped defeat (through manipulations of the rural vote). Nearly 200 people died in post-election violence. The political leadership under Prime Minister Meles Zenawi responded to this popular challenge by systematically closing down the public political space. The opposition made the ruling party’s job easier by fracturing into rival factions and making tactical mistakes. By 2009, revised or new laws regarding elections, the media and the participation of civil society in public life have created a political arena tightly controlled by the government. The main political opposition (CUD) split several times after their leaders were jailed and sentenced to life-long imprisonment on charges of sedition (although pardoned in July 2007). These smaller factions now pose little challenge to EPRDF’s rule. How strongly EPRDF is back in the driving seat was demonstrated during the by-elections and local government elections in April 2008. EPRDF won nearly 100% of the mandates at the local level and swept the by-elections for the Addis Abeba and Dire Dawa city councils and parliament. The scene for an undisputed victory in the forthcoming 2010 national elections is set.

1 | Stateness

While the state is firmly in control in the central parts of the country, several liberation movements operate in marginal regions and undermine the government’s monopoly on the use of force. The Oromo Liberation Front (OLF) in some parts of Oromiya, the Ogaden National Liberation Front (ONLF) in the southeastern parts of the Somali region, the Afar National Liberation Front (ANLF) and smaller groups operating in Gambella and Benishangul-Gumuz have effectively eroded the government’s control over remote rural areas. This is emphasized by regular bloody tribal clashes over access to land, water and other natural resources in the southern parts of Ethiopia. Between 2006 and 2008 several bombs exploded in Addis Abeba and some regional towns claiming more than 20 lives. It remains unclear who detonated the bombs.
The concept of Ethiopian citizenship is fully accepted by the majority of the population but questioned by ethnic minorities such as the Ogaden in Somali region (ca. 50% of the region’s population), which feels a greater affinity towards Somalia than Ethiopia. Likewise, parts of the Oromo, which provides the OLF with sufficient support to survive despite poor organization and hardly any progress, the Afar, which are attracted to Djibouti, and several of the small ethnic groups in the south, in which identity is purely ethnic and tribal, also challenge the hegemony of Ethiopian identity. Because of their cultural differences and unclear political loyalties, members of these groups are to some extent discriminated against and their civil and human rights are violated.

Religion and their dogmas have no official role in the functioning of the Ethiopian state. Informally, however, the Christian-dominated central government perpetrates a subtle discrimination against Muslims. The cabinet consists predominantly of Christians and the government is perceived as seeking the support of the Orthodox Church as a tool for political control. The results of the 2007 census published in November 2008 put the Muslims at only 33% of the population and thus reinforced the notion that Ethiopia is a Christian state. The government is seriously concerned about the growing influence of fundamentalist Muslim schools, which are funded from Arab states. Repeated clashes between Christian and Muslim students in cities like Jimma are indications that the importance of religion for self-identification is growing.

Because Ethiopia was spared colonization, it did not inherit the basic administrative structures and facilities most African colonies were left with at independence. A modern infrastructure and administration had to be created by the Ethiopian state itself. The first attempts at administration building by Emperor Haile Selassie were radically reformed by the Derg regime, which provided Ethiopia for the first time with a local government structure reaching down to the village level. The Meles government consolidated this administrative reform by introducing regional and city administrations. Each of the country’s nine regions consists of a number of zones, which are in turn comprised of woredas (districts) and kebeles (local councils). In the two independent city administrations, a similar system exists. In 2008, the administrative apparatuses of several bigger towns such as Bahir Dar, Gondar and Dessie were upgraded to the status of semi-autonomous metropolitan councils. Elected representatives (councils) are supposed to control the administrative services at each governmental level.

Basic administrative services (health, schools, security and magistrate courts) are delivered top-down and reach most areas of Ethiopia. The quality is often not very high but the attempt to provide such services seems genuine. Under the current PASDEP program, a cautious de-concentration process has begun with the support of the donor funded Protection of Basic Services (PBS) program. Local budgets have now to be made public and the first attempts of participatory planning at the village level are under way.
2 | Political Participation

Ethiopians have so far not been able to change government through elections and will probably not be allowed to do so in the foreseeable future. The close result of the 2005 elections on the one hand has convinced the leadership of EPRDF not to allow even such a partially free election again and on the other hand has disillusioned the Ethiopian electorate about the leadership qualities of the opposition.

The Meles government destroyed the main opposition party, the Coalition for Unity and Democracy (CUD), which won 109 out of 546 seats in parliament in 2005. The government did this with a shrewd combination of oppression (the imprisonment of the CUD leaders and scores of their supporters on charges of treason), divide-and-rule tactics, and procedural manipulations (limiting the opposition’s possibilities for parliamentary work). Bitter leadership rivalries within CUD also contributed to the fragmentation of its power.

Reform of the election law in 2007 ensured that independent election monitoring even by Ethiopian organizations is no longer possible. The EPRDF-dominated National Election Board of Ethiopia (NEBE) maintains nearly absolute powers with regard to the administration of elections. The by-elections and local government elections in April 2008 turned out to be more an acclamation than an election. NEBE awarded the CUD party name to a tame splinter group of CUD in the House of Peoples’ Representatives (HPR) and prevented the genuine and much larger CUD faction from participating in the elections. Other opposition parties such as UEDF and OFDM boycotted the by- and local elections in protest against NEBE’s refusal to register several of their candidates. To prevent any opposition party from gaining influence in the local government elections, the government increased the number of contested mandates to 3.5 million, a number none of the parties other than EPRDF was able to mobilize. In the end, free and fair elections did not take place and EPRDF and their regional allies won around 99.5% of all mandates. Special care was given to the elections for the Addis Ababa city council. In a total reversal of the 2005 results, EPRDF won 137 out of 138 seats. The one seat won by the opposition was delivered to it by a last minute withdrawal of the EPRDF candidate.

The 2008 by- and local elections should be seen as a test run for the 2010 general elections. Judging by the way the 2008 elections were conducted, there is little hope that the 2010 elections will be free and fair. Leaders at all levels are determined by the government and not by the people. Elections only provide a charade necessary to appease the donors.
Ethiopia is ruled by an elite, which won its position by the gun in a long and bloody liberation war. This elite is predominantly from the northern region of Tigray; it believes itself to possess a special mandate to lead the country and is not willing to relinquish power even in democratic elections. Political power is organized in such a way that representatives of the small Tigray Peoples Liberation Front (TPLF) dominate the executive of the ruling EPRDF party and have veto positions in all strategically important state institutions. A well-organized clientele system ensures that the influence of the TPLF also reaches into the private economy and to some extent into civil society. Leadership positions are decided in the politburo of the EPRDF, which is led by the dominant prime minister. The politburo is important mainly as a matter of form. On important issues, the prime minister’s views prevail at the end of the day regardless of what the rest of the politburo’s members think or would like to happen. Parliament and regional and lower councils lack the power to influence decisions taken at politburo level.

The autocratic backlash after 2005 has severely reduced the possibilities for political parties other than those aligned with EPRDF to assemble and organize freely. Party meetings and activities of the opposition in the run up to the 2008 local elections were often interrupted. The government harassed the opposition’s supporters and even economically sanctioned them by excluding them from government services and subsidies. The opposition’s national party leaders briefly imprisoned when visiting the countryside. Although the main successor party to CUD, the Union for Democracy and Justice (UDJ), claims to have opened branch offices in many parts of the Amhara, Oromiya and SNNP regions, it has no effective party organization outside Addis Ababa.

Opposition parties with an explicit ethnic or secessionist agenda are in most cases banned or severely harassed, as is the case with the OLF and the Oromo Federal Democratic Movement (OFDM) of Bulcha Demeksa, whose deputy was blamed for terrorist attacks in November 2008 and imprisoned during a government crackdown.

The work of civil society organizations (CSOs) with regard to democracy, human rights and good governance has been curtailed through intimidation (e.g., imprisonment of two outspoken human rights activists together with the CUD leadership) and a tightening of the legal space. On 6 January 2009, parliament passed a highly controversial law regarding the work of CSOs, which de facto excludes them from engaging in any issues pertaining to advocacy, human rights, conflict resolution, women’s and children’s rights, HIV/AIDS, and legal issues. Although it will take a year before the law is fully implemented, authorities at lower levels have already started to apply it.
According to the Committee to Protect Journalists (CPJ), Ethiopia was the worst backslider in 2007 as far as freedom of the press is concerned. The government arrested several journalists sued others for politically incorrect reporting and blocked critical websites. In 2008, the editor of one of the few privately owned and mildly critical newspapers, The Reporter, was first sued over a report on labor disputes at a brewery in which high-ranking politicians have a personal interest, then put briefly in jail and lastly assaulted and severely injured by hired thugs. As a result, none of the remaining private newspapers dares to openly criticize the government; self-censorship has replaced official controls.

In December 2008, parliament passed a restrictive media law that limited media activities to Ethiopians and criminalized transgressions of the law. TV and radio stations are predominantly government-controlled; the few newly registered private radio stations avoid political topics and are owned by people close to the government. The print media only has relevance in the capital; circulation of newspapers does not exceed 20,000 a day; weekly papers have a circulation of an additional 20,000. The government uses its virtual monopoly on information dissemination for propagandistic purposes.

3 | Rule of Law

Under the 1995 constitution, Ethiopia is a federation of nine states and two independent city administrations governed by two federal assemblies: the legislature, known as the House of Peoples’ Representatives (HPR, the lower house), and a smaller, supervisory senate, the House of Federation (HF, the upper house). The HPR has 547 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.

Though the judiciary is officially independent, appointments of high-level judges are the prerogative of the political leadership. This ensures that government policies and interests backed by the force of the judicial establishment. Until 2007, a number of judges and politicians fled the country because of threats, political pressure and harassment. The political leadership has created an atmosphere in which judges comply out of fear. The judiciary lacks any power to check the executive. Such is also the case with the legislature. Bills presented to parliament by the executive go through the formal process of debate (to a limited extent even open to public stakeholders) in committees, hearings and readings, but there is not a single case in which such a bill was not passed. The government’s lack of checks and balances has to some extent also to do with the limited competencies and resources of the legislators.
On the rare occasions when parliamentary commissions of inquiry were established few of their members were parliamentarians; the commissions consisted mostly of externally drafted “experts.” The results of the inquiry into the post-election violence in June and November 2005, for example, confirmed the death of 193 civilians but exonerated the police and the government of having used excessive and unnecessary force. According to the deputy chairman of the commission (who later sought political asylum in the United Kingdom) the original findings were considerably watered down. In another such inquiry provoked by the findings by the auditor-general that the government’s level of borrowing had been unconstitutionally high in 2005-2006, the commission discovered a technicality that allowed it to assert that the government was still within its constitutional limits. Beforehand, the prime minister had publicly derided the (acting) auditor-general as somebody who did not understand his job.

At the local level, the separation of powers is virtually nonexistent. The highest ranking official is always a member of the party cadre and his or her directives are followed without questioning. These officials often misuse this power for personal gain. Such actions have resulted in several cases of ill-advised investments, a disregard for the law and a general distrust among citizens regarding the impartiality of police, magistrate courts and the administration in general.

The judiciary is established as a distinct profession but operates under close orders from the executive. It is prone to corruption and does not cover the entire Ethiopian territory. Despite some improvements with regard to competencies and coverage, the judicial system is still very weak. At lower levels, corruption and incompetence are rife, while at higher levels political interference is the rule. In the highly publicized treason case against the leaders of CUD, journalists and CSO representatives, 16 months passed before the government brought the case to court. In July 2007, the court found the accused guilty of treason and sentenced them to life imprisonment, only for most of them to be pardoned by President Girma Woldegiorgis a few days later. In 2008, a popular musician and self-confessed supporter of the opposition, Teddy Afro, was sentenced to six years in prison for an alleged hit-and-run accident at which a man was killed. The investigation was so full of technical faults (e.g., wrong date for the official delivery of the body to the morgue) and the judge so partisan that the court hearing was a legal farce. The message to the public from these two cases is clear: whoever dares to challenge the political elite publicly will face consequences.
While the prime minister is regarded as “clean,” several of his ministers and high officials have a dubious reputation. Nonetheless, few of them have ever been prosecuted and if those who have faced legal challenges were those who either stepped out of the political line or were perceived as political threats. The top leadership uses the tolerance of corruption as a political tool to uphold the loyalty and discipline within the party and the government.

However, in a number of cases lesser officials have been prosecuted and sentenced to jail for corruption. These cases either involve embarrassing incidents of corruption (e.g., the sale of fake gold to the Central Bank) or were driven by the necessity to present scapegoats in an act of public appeasement, as in the in the case of the Addis Ababa Housing Authority (which had allegedly allocated plots in return for “gratification”).

In theory, civil rights are fully respected and the office of an ombudsman exists to receive and act on citizens’ complaints. In reality, however, ethnic minorities, and groups suspected of being anti-government or having terrorist links have little chance to seek redress for violations of their civil rights and liberties. This is especially true for the Somali and Oromiya regions of the country where growing numbers of victims of violence by security forces have been denied any chance of claiming compensation for the loss of property and/or lives. It is a widespread practice of the security forces to release the bodies of those who have been killed only if their families pay for the bullet(s). So called social courts, operated by EPRDF-appointees, are in many places the only legal institutions; they hardly act according to the law but rather back up the interests of the ruling party. Cases in these courts drag on for an average of four years.

The security forces violate human rights with impunity (illegal detentions, torture and disappearances) because nobody dares to investigate such cases further. Reports issued by Human Rights Watch and Amnesty International point to a state of lawlessness in the Somali region and in parts of Oromiya, where the military has embarked on a counter insurgency program that has left several civilians dead and properties destroyed. In addition, the Ethiopian military put a curfew on half of the Ogaden region, where it undertook house-to-house searches in many villages. The military has also been accused of severe human rights violations against civilians in the Somali region. Reprisals against Oromos suspected to be engaged in anti-government activities in late 2008 have stirred Oromo nationalism more effectively than 15 years of resistance by the OLF. Members of the NGO Ethiopian Human Rights Council (EHRCO) are regularly harassed, imprisoned without charge and mistreated.
4 | Stability of Democratic Institutions

Ethiopia is an autocratic system with formally democratic institutions, which are, however, subjugated by the regime and incorporated into the system. Despite having a federal constitution, the central government exercises tight fiscal and political control of the regions and lower levels (zones and woredas). Elections in 2008 were not free or fair. The electoral system does not provide for a level playing field. Parliament and regional councils as well as the judiciary are under the control of the executive. The rule of law is arbitrarily applied and a culture of fear is taking root again in Ethiopian society. Formally democratic institutions are not performing well because the increasingly authoritarian government misuses them.

The results of the 2005 elections and the subsequent authoritarian backlash have frustrated nearly all relevant political actors outside the government camp. The government has brought into line or curtailed all potentially independent relevant actors in society. Opposition parties have been undermined to such an extent that they do not pose a threat anymore. The media and civil society have been leashed by oppressive laws. Trade unions and professional associations have either been forced to tow the line or dissolved. The main economic actors in the country are keen to receive government protection or support. The influential Orthodox Church has always been trying to align itself with the rulers. The government even facilitated the establishment of the Muslim council. The various regional liberation movements and the diaspora are too weak to have any decisive influence on the acceptance of democratic institutions.

Resistance against democratic institutions can, however, be found in the ranks of the ruling party, the military and police. Some of the functionaries of the regime regard democracy with suspicion and are probably behind some of the recent legal moves to restrict the media and civil society.

5 | Political and Social Integration

Political parties are still a very young phenomenon in Ethiopia, which might explain their volatility and instability. They were only allowed after the current government took power in 1991. The first political parties were either liberation movements that turned into parties or parties connected to the victorious TPLF/EPRDF in other parts of the country. The first opposition parties appeared during the 2000 elections and combined to win about 12.5% of the seats. Not until 2005 did Ethiopia see the emergence of a broad spectrum of parties participating in the elections. CUD – anchored amongst the Amhara – became the biggest opposition party, the ethnic coalition of the South and Southern Oromo – UEDF – second biggest, followed by two Oromo parties (OFDM and OPC) and several splinter parties. In the aftermath
of the 2005 elections, the party spectrum became more fragmented and polarized. The 2008 by- and local elections resembled the pre-2000 political terrain with a highly dominant but shallowly rooted ruling party and marginalized opposition parties with a predominantly ethnic appeal.

The existing party system is to a large extent artificial and thus unstable. All registered parties remain at the mercy of the ruling EPRDF party. Parties that oppose the government on fundamental issues such as the right to secede have been declared illegal and driven into the underground. All the major liberation movements, such as the OLF in parts of Oromiya and the ONLF in the Somali-Region, are former political parties, which have returned to armed struggle after falling out with the EPRDF. The EPRDF has thwarted all attempts by the opposition to form a party with a national appeal. EPRDF systematically destroyed their strongest challenger, CUD, by imprisoning most of its politically naïve leaders and actively facilitating party factionalism. When the politically most relevant fragments of the former CUD crystallized in the new UDJ party in 2008 under the leadership of Birtukan Medeksa, who was among the CUD leaders pardoned in July 2007, the government pounced on the first chance to put her back into jail in late December 2008, claiming she had violated the conditions of the pardon.

Apart from a brief interlude in 2005 when CUD criticized the ruling EPRDF for its policies on land tenure, Eritrea and issues of privatization have not played a role in party politics. The opposition parties mostly try to mobilize followers and voters through ethnic appeals and general criticism of EPRDF policies; the ruling party increasingly relies on its far-reaching and well-woven patronage network. EPRDF is a party based on patronage and intimidation. Of its four regional member parties, only the TPLF has strong (though increasingly eroding) roots in the society of the Tigray region. Beginning in 2007, the ruling party embarked on a massive membership drive, which has increased party membership by late 2008 to about 4.5 million. This was achieved through indirect force and the provision of social benefits, such as access to government-build flats in all major towns, agricultural inputs and food aid in the rural areas. EPRDF has become a mass party but one without a stable and dedicated following.

Ethiopia has a rudimentary system of organized interest groups, which are often ignored or undermined by the autocratic government. Many professional associations, trade unions and other socioeconomic interest groups have been brought into line with the government over the past years. The Teachers Association, which was critical of the government, was effectively replaced by a new association close to the government. The government also disbanded the Manufacturers Association and replaced the leadership of the Chamber of Commerce. The trade unions have always been closely controlled by the government and hardly ever take an independent stance. In the absence of a farmers union, the cooperative movement to some extent came to represent the market-
oriented farming community, especially those producing coffee. Like with the other interest groups, the government closely controls the cooperative movement. During the intensive consultations in 2008 on the so-called CSO Law, the Christian Relief and Development Association (CRDA) emerged once more as one of the few remaining independent interest groups in Ethiopian society. However, its objections to the new law were noted but totally ignored; the consultations were just a ploy to placate Western donors.

The only accepted mechanism of mediation between society and the political system are some councils of elders, informal groups of respected local leaders without political affiliation. One such council of elders was highly instrumental in the pardoning in July 2007 of the more than 100 political prisoners. An Oromo council of elders is currently trying to broker fresh negotiations between the OLF and the government amidst the renewed crackdown on suspected OLF supporters.

Surveys on political attitudes are not allowed in Ethiopia. Afrobarometer has not conducted any polls in Ethiopia. Ethiopia is formally a democratic state with separation of power, regular general elections and established democratic norms and principles to be enforced by the rule of law, but the actions of the government have undermined the citizenry’s faith in the power of the constitution. Any hope for democratic development disappeared in the aftermath of the 2005 elections.

In the current political environment of a hardening authoritarian regime, Ethiopia’s citizens hope for democratic norms and values, though in a rather unspecified way as few people have a clear idea of what democracy means.

Ethiopia has a long history of self-help organizations and networks at the communal level. Iddirs (originally burial societies) and Equbs (saving clubs) are centuries-old traditional local neighborhood associations, which are highly indiscriminative when it comes to ethnicity, religion, gender and party affiliation. They were brutally oppressed under the Derg regime but bounced back immediately when permitted again. These traditional self-help groups are local entities and lack any regional or national organization. As such, their influence on the formation of social capital is limited. In general, Ethiopian society is riddled by distrust and envy, both of which undermine communal efforts and hamper development. While there is some degree of self-organization in civil society, its impact is limited by cultural, socio-economic and ethnic barriers.

In January 2009, the government passed its draconian Proclamation for the Registration and Regulation of Charities and Societies in order to combat the influence of NGOs working in the fields of good governance, human rights and democracy issues. The new law, which threatens to criminalize even small transgressions of the law, is set to take effect early 2010 and will force many local and international NGOs out of business. The remainder will remain under strict government control.
II. Market Economy

Ethiopia’s economic upswing since 2002 – 2003 was driven to a large extent by favorable external conditions (average to good rainfall, a steady high inflow of official development assistance, and increasing levels of FDI). The government built on these positive conditions with solid macroeconomic management. The government’s long-term development strategy, its Agricultural Development Led Industrialization (ADLI), attempts to make use of agricultural resources for a phased industrial expansion. Since 2003, foreign direct investment, particularly from India and China into the agricultural sector, has increased significantly. In 2007-2008, investment agreements with India alone reached close to $1 billion.

Despite promising macroeconomic developments, Ethiopia’s economy faces many obstacles. The country remains heavily regulated, it has a small private sector and a weak banking system, it is bogged down by a land tenure system in which the state owns all land, and its utilities are inefficient and monopolistic. The failure of the electricity company EEPCO to develop the country’s electricity generation capacity led to widespread power cuts in spring 2008, which cost the country as much as 2% of GDP growth due to production stops. In general, Ethiopia’s private sector is dominated by a small number of companies with close connections to the ruling party. In some cases, the ruling party even owns private sector business, such as EFFORT (Endowment Fund for the Rehabilitation of Tigray) which is officially an NGO but in reality a business conglomerate under the control of TPLF. EFFORT employs over 20,000 workers and had a turnover of close to $300 million in 2004. The World Bank and major donors have supported reform, but the government is reluctant to relinquish control.

6 | Level of Socioeconomic Development

According to the UNDP, Ethiopia, despite some improvements, still belonged in 2006 (latest data available; HDI 2008) to the 10 least developed countries in the world. Particularly worrying is the fact that the country, according to the Human Poverty Index, is the fourth poorest country amongst the 108 surveyed. At the same time, the proportion of people living below the poverty line of $1 per day decreased from 45.5% in 1996 to 37% in 2006 and then again to about 33% in 2007. This was due to continuously high economic growth rates, which averaged more than 10% in the period between 2002 – 2003 and 2007 – 2008. The estimates for 2008-2009 are lower as the world economic crisis is also starting to affect Ethiopia.
Levels of poverty are higher in rural than in urban areas and have been enhanced in the Somali region by a volatile security situation and droughts. Ethiopia relies on regular food aid to support the drought-prone areas of east and southeast. In 2008, the failure of the belg rains in spring caused in the number of people requiring emergency feeding to reach close to seven million. The vulnerability to droughts is one of the major factors driving an increasing number of people into the cities and especially to Addis Ababa, where they swell the numbers of the unemployed, beggars, street children and prostitutes.

Ethiopia’s economy, predominantly based on rain-fed agriculture, has always been extremely dependent on annual rainfall. Agriculture still accounts for about 46% of GDP (2006 – 2007), 80% of exports and 85% of employment. Subsistence farmers, using technologies hardly changed over the last 2000 years, cultivate approximately 90% of the country’s land. The fertile but drought sensitive highlands produce grains while in the east amongst the Somali and Afar people pastoralism predominates. Although in recent years the share of industry in GDP has steadily improved to 13% (manufacturing stood at 5.1% of GDP in 2006 – 2007) it is still low compared to other developing countries. The service sector accounts for about 41% of GDP.

<table>
<thead>
<tr>
<th>Economic indicators</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP $ mn.</td>
<td>10052.2</td>
<td>12304.8</td>
<td>15165.9</td>
<td>19394.7</td>
</tr>
<tr>
<td>Growth of GDP %</td>
<td>13.6</td>
<td>11.8</td>
<td>10.9</td>
<td>11.1</td>
</tr>
<tr>
<td>Inflation (CPI) %</td>
<td>3.3</td>
<td>11.6</td>
<td>12.3</td>
<td>17.2</td>
</tr>
<tr>
<td>Unemployment %</td>
<td>-</td>
<td>5.0</td>
<td>16.7</td>
<td>-</td>
</tr>
<tr>
<td>Foreign direct investment % of GDP</td>
<td>5.4</td>
<td>2.2</td>
<td>3.6</td>
<td>1.1</td>
</tr>
<tr>
<td>Export growth %</td>
<td>36.3</td>
<td>3.4</td>
<td>0.2</td>
<td>10.2</td>
</tr>
<tr>
<td>Import growth %</td>
<td>20.0</td>
<td>23.8</td>
<td>18.0</td>
<td>3.8</td>
</tr>
<tr>
<td>Current account balance $ mn.</td>
<td>-667.8</td>
<td>-1567.8</td>
<td>-1785.9</td>
<td>-827.9</td>
</tr>
<tr>
<td>Public debt $ mn.</td>
<td>6332.0</td>
<td>5898.0</td>
<td>2166.8</td>
<td>2543.8</td>
</tr>
<tr>
<td>External debt $ mn.</td>
<td>6644.0</td>
<td>6260.1</td>
<td>2280.9</td>
<td>2633.9</td>
</tr>
<tr>
<td>Total debt service % of GNI</td>
<td>1.0</td>
<td>0.7</td>
<td>1.1</td>
<td>0.7</td>
</tr>
</tbody>
</table>


### 7 | Organization of the Market and Competition

A competitive market economy exists only in a few sectors, although cautious reforms are under way to open up the economy to more competition. Prices for the main commodities are basically free, though the government tends to intervene when, as in 2008, prices for basic food items increase sharply. To stabilize bread prices – one major staple food for the urban population – the government imported 300,000 tons of wheat and sold it to the market at discounted prices. Also in 2008, the government established a commodity stock exchange in an attempt to reduce the inflationary impact of middlemen. However, the stock exchange had problems getting started because few farmers wanted to entrust their commodities to the exchange’s warehouses.

Ethiopia’s currency is not freely convertible and is kept tied to the U.S. dollar. In January 2009, the government allowed the nation’s currency to depreciate about 15% in order to keep Ethiopian exports competitive. As international reserves have hit a new low in late 2008 (ca. 5 weeks export cover) foreign currencies became reserved for strategic imports. The black market for foreign currencies, which was tolerated for more than a decade, was suddenly raided in March and June 2008 in an attempt to stabilize the Ethiopian birr.

Ethiopia made considerable progress in liberalizing and simplifying the setting up of businesses since 2003. According to the World Bank, the time to establish a business decreased from 44 days at a cost of $400 in 2003 to 16 days and a cost of $70 in 2006. With regard to the externalization of profits from FDI, the government maintains an opaque position, but rumors circulate that profits can be freely transferred, especially in the booming flower industry.

### Table: Economic Indicators

<table>
<thead>
<tr>
<th>Economic Indicator</th>
<th>% of GDP</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash surplus or deficit</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax Revenue</td>
<td></td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Government consumption</td>
<td></td>
<td>13.1</td>
<td>12.3</td>
<td>12.1</td>
<td>10.6</td>
</tr>
<tr>
<td>Public expnd. on edu.</td>
<td></td>
<td>4.8</td>
<td>4.6</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Public expnd. on health</td>
<td></td>
<td>2.5</td>
<td>2.5</td>
<td>2.3</td>
<td>-</td>
</tr>
<tr>
<td>Military expenditure</td>
<td></td>
<td>3.1</td>
<td>2.8</td>
<td>2.3</td>
<td>1.9</td>
</tr>
</tbody>
</table>

The informal sector is growing, particularly in urban areas. Hawking, street vending and brokering services are strongly on the increase. Small-scale production in carpentry, blacksmithing or chemicals is mostly registered with local authorities.

Land continues to be held in public ownership with the districts (woredas) tasked to distribute it. Individuals are allowed to inherit and rent rural land but still not to own it. Over the last two years, vast tracks of land have been leased to foreign investors in rural areas to allow for investments in flower farms, agrofuels, and tea and coffee plantations. These projects often displace local people.

Market-based competition has only started to evolve in Ethiopia. The biggest obstacles for a more competitive economy are the inadequate infrastructure, the public ownership of land and the government’s mistrust of uncontrolled economic development.

Effective safeguards against the development of monopolies do not exist. In 2006, the Ethiopian government established a Competition Commission, which by the end of 2007 had reviewed some 23 cases. Although informally the strongest complaints are leveled against the government’s preference for party-affiliated businesses such as Sheik Al-Ahmoudi’s MIDROC or EFFORT, the commission has investigated only trade related issues and has not challenged the oligopolistic structure of the Ethiopian economy. In the construction industry, for example, several companies affiliated with member parties of the EPRDF, MIDROC and the Sunshine and Friendship groups (both of which are close to the government) are the biggest players. The transport sector is to a large extent in the hands of businesses belonging to the para-party sector.

Ethiopia is not yet a member of the WTO, although the government has applied for membership and has started the accession process. Before Ethiopia can be admitted to the WTO, it needs to reform its highly protective tariff system. While there has been some progress in differentiating tariffs, the existing system is still full of contradictions and impediments for economic growth.

Highly dependent on imports of fuels, capital and consumer goods but with few goods of its own to sell on the world market, Ethiopia runs a high structural trade deficit, which reached $4 billion in 2008. In spring 2008, during the peak of oil prices Ethiopia’s oil bill exceeded for the first time its total export earnings. Ethiopia’s main exports are coffee (36% of all export earnings in 2007), oilseeds (16%), gold (8%), khat (8%) and leather products (7.5%).

Ethiopia takes part in the U.S. African Growth and Opportunity Act (AGOA) scheme and is a member of the EU-affiliated African, Caribbean and Pacific Group of States. It has not yet signed the EU-proposed Economic Partnership Agreement (EPA).
Ethiopia’s export destinations are balanced with close to 40% destined for Asia, 30% to the European Union and 17% to Africa. Imports originate predominantly from Asia and the Middle East (60% in 2007), followed by the European Union (23%). China is the biggest importer to Ethiopia with about 17% of all imports.

The banking sector consists of a dozen banks amongst which the state-owned Commercial Bank, Dashen Bank (Al-Ahmoudi), Wegagen Bank (controlled by TPLF) and the Abyssinia Bank (private) are the dominant players. Ethiopia’s government opened up the banking system to private banking in 1997 and so far eight private banks are operational. Foreign banks are not allowed to conduct business in Ethiopia. The opening of an office of the German Commerzbank in 2008 may indicate a trend toward lifting this restriction in the foreseeable future.

The private banks have steadily increased their share of the market to 43% in 2007-2008. Non-performing loans decreased to 5% on average and to below 10% for the state-owned Commercial Bank. However, the international financial crisis also reached the Ethiopian banking sector and while the Ethiopian banks had not speculated internationally their profits fell nevertheless sharply.

A capital market is non-existent in Ethiopia.

The government is refinancing its expenditure to a large extent through domestic borrowing. In his 2005-2006 report (issued in spring 2008), the acting auditor general accused the government of excessive borrowing of nearly 80% beyond the constitutional limit and not accounting properly for more than 25% of expenditure. He was openly accused of incompetence by the prime minister, who had, however, to establish an independent inquiry commission. The commission concluded that formally the auditor general was correct but that the government had done nothing unconstitutional because it had held a large cash balance with the Central Bank, which did not appear in the auditor general’s calculations.

8 | Currency and Price Stability

The National (Central) Bank of Ethiopia remains under the government’s tight control. The government prioritizes inflation control and adequate foreign exchange policy management and has handled these issues with varying degrees of success and competence. Its monetary discipline, however, is limited when political motives come into play.

Inflation was moderate at rates between 6.8% (2005) and 17% (2007). In 2008, however, inflation rose to more than 60% in August before it started to decrease again. It still stood at more than 30% in October. This sudden inflationary burst can be attributed to the rise in international oil and domestic food prices as well as increased borrowing from parastatals such as the Road Authority. The sudden rise in food price indicates that the government lost, at least for the moment, its previously tight control over the prices of sensitive commodities.
The exchange rate – pegged to the U.S. dollar – has remained relatively stable for several years. In 2007-2008 it was allowed to depreciate slowly from around ETB 8.8:1 U.S. dollar to 9.6:1 before being allowed to slide further in January 2009 to 11:1. The depreciation had become necessary because of the pegging of the ETB to the U.S. dollar, which had lost against the euro. Ethiopia’s exports into the euro zone became increasingly uncompetitive.

While the government has the competence to manage the exchange rate it is less professional and open to political considerations with regard to inflation control.

Ethiopia is following a long-term development strategy (ADLI), which requires substantial support from the international donor community. Official development assistance reached nearly $2 billion a year beginning in 2007. Domestic revenue collection from taxes and fees improved to some extent in absolute terms but declined as a percentage of GDP from 16.1% in 2004 to 12.8% in 2007. As a consequence, the government moved in July 2008 to unify three discrete fiscal agencies into the Revenue and Customs Authority.

Ethiopia’s military intervention in Somalia created burdensome costs for the country; the withdrawal of the Ethiopian troops in January 2009 was to some extent also forced by declining foreign reserves and unsustainable costs. No institutional safeguards exist to prevent politically motivated public spending decisions as in the case of the Somalia intervention.

Ethiopia benefited strongly from the HIPC initiative when it was forgiven nearly $4 billion in 2005. Since then the external debt stock rose again from $2.3 billion to an estimated $3.2 billion as Ethiopia started to borrow from China and India.

9 | Private Property

Formally, basic property rights are defined but in practice often not respected and lacking adequate and consistent application. Conflicting legal provisions regarding investment promotion and customary rights have led to several cases of expulsion of indigenous people in favor of large-scale foreign investors. At the local level, the judiciary is often not conversant with the existing laws and subject to political pressure.

Despite promising macroeconomic developments, Ethiopia’s economy is still heavily regulated. Its private sector remains small and its weak banking system is bogged down by a land tenure system in which the state owns all land. Inefficient monopolistic utilities pose a continued barrier to development. The failure of the electricity company EEPCO to develop the countries electricity generation capacity led to widespread power cuts in spring 2008, which cost the country as much as 2% of GDP growth due to production stops. In addition, the private sector is dominated
by a small number of companies most of which have close connections to the ruling party or are even indirectly owned by it. One example of the latter is EFFORT (Endowment Fund for the Rehabilitation of Tigray). EFFORT is officially an NGO, but in reality it is a business conglomerate under the control of TPLF with more than 20,000 employees and a turnover of close to $300 million in 2004. The World Bank and major donors are actively supporting reforms, but the Ethiopian government is stalling them in order to maintain its tight control of the country’s economy.

Officially, the government pursues a policy of privatization of parastatals and government-owned companies. So far, however, most privatized businesses have been allocated to companies owned by the four member parties of EPRDF, individuals close to the government or to companies owned by Sheik Al-Ahmoudi.

The government has successfully encouraged Foreign Direct Investment (FDI) over the last few years. FDI inflows in 2007 stood at $482 million. Foreign banks are still not allowed to operate in Ethiopia.

Private companies are in principle free to act; in practice it helps if the company has the protection and support of the ruling elite. All the utilities are still state companies and the state also holds a strong position in the financial sector.

10 | Welfare Regime

The state, faith-based communities and private charities run welfare institutions, but even when combined they do not sufficiently cover the whole country. One major problem is deficient infrastructure in rural areas. Large parts of the country are not connected to the road system and have no access to communication and electricity. These communities must fend for themselves. Since 2005-2006, the government has embarked on a strong expansion of basic health services in rural areas under the Plan for Accelerated and Sustained Development to End Poverty (PASDEP) and the Protection of Basic Services program. The number of rural health posts increased to more than 9,900 by the end of 2007, up from a mere 1,432 in 2003. The number of health workers likewise rose from 2,700 to 17,600 in the same period. The life expectancy rose to 52.2 years in 2006 from 45.7 years in 2001; infant mortality sunk from 97 per 1000 births in 2003 to 77 in 2006.

Both the Orthodox Church and more recently also Muslim communities run local self-help and welfare networks. International and local charities and NGOs such as Menschen für Menschen provide basic social services as well. In general, however, no system of welfare provision exists; the effective services are mostly based on individual efforts and not systematic provision.
A special feature of welfare provision in Ethiopia is drought relief and food aid. This is organized through the Disaster Prevention and Preparedness Commission, which became a department of the Ministry of Agriculture and Land Development in July 2008. The commission is supported by international donors such as the World Food Program. Though this food aid usually reaches its target groups, allegations have been made that in the Somali region it was misused for political reasons.

A basic pension system exists in the modern formal section of the economy and for civil servants. At the end of January 2009, the government announced that it intends to introduce a basic health insurance system for all employees in the formal sector.

In 2005-2006, PASDEP, following the conclusions of an initial Poverty Reduction Strategy Paper emphasized development as the chief strategy to eradicate poverty. In this way, Ethiopia hopes to achieve its Millennium Development Goals (MDG). According to the World Bank, Ethiopia is on the right track to achieve at least some of these goals.

Ethiopia is a country with extreme inequality with regard to education and public services. Inequality exists between urban and rural areas, in terms of gender, ethnicity and to some extent religion and is reinforced by the patronage system operated by the ruling party.

In 2006, adult literacy had reached only 64.1% with a strong bias towards the urban areas and the male part of the population. Women’s literacy stood at only about 45% of male literacy in 2006. In a more subtle way, ethnic and religious discrimination is directed at the smaller ethnic groups from the south, the pastoralist communities of the Somali and Afar, the Oromos, and Muslims. Officially, the government is committed to equality of opportunity for all ethnic and religious groups, but in practice citizens from such communities have often to be a party member to gain (equal) access to education, civil service positions, basic public services such as health, agricultural extension and even food aid.

Women are a particularly discriminated group within Ethiopian society despite the existence of a rather modern legal framework for women. Traditional values and beliefs both amongst the Christian Orthodox highlanders and the Muslims regard women as secondary citizens with few rights. The illegal kidnapping of women and girls for (early) marriage is still a widespread practice in rural areas. The 2007 National Action Plan for Gender Equality has not yet improved the discrepancy between the legal provisions and social reality.
11 | Economic Performance

Both the World Bank and the IMF have praised Ethiopia for being one of the best economic performers of the last five years. With average GDP growth rates from 2003 to 2008 of above 10% and a steady rise in per capita income from around $630 (PPP) in 2005 to $880 in 2008, the country stands out as one of the fastest developing nations in Africa. These good economic fortunes have been based on favorable weather conditions, a boom in construction (roads, hydro-power dams, buildings), growth in the flower and agrofuel industries, and high world market prices for coffee. In 2008, the Ethiopian economy started to overheat. Inflation rate shot up to an average of 46%, the budget deficit rose to 4.4% of GDP, the trade balance deficit widened to $4.9 billion and the current account deficit reached 6.2% of GDP.

While the overheating of the economy is to some extent due to rapidly escalating fuel prices, is also a product of increasing shortages of crucial inputs such as cement and power (electricity) in the construction industry and foreign exchange for the importation of crucial capital goods and spare parts. The particularly embarrassing shortage of electricity, which was the result of the EEPCO’s inadequate planning and mismanagement, cost the country between 1 and 2% of growth in 2008.

Ethiopia’s economic expansion strategy has been financed with sustained and substantial inflows of official development assistance, rising FDI, and regular remittances of the Ethiopian diaspora in the United States and Europe. While these capital sources were already becoming insufficient, the impact of the world economic crisis and the government’s disregard for the principles of democracy will reduce the capital inflows, at least in 2009, and will thus threaten the Ethiopian growth model. The problem is that the country has nowhere near enough resources to finance its development program and remains dependent on external support.

The donor community, including the World Bank, China and India remain convinced that Ethiopia’s economic growth potential is high despite the temporary political instability after the election crisis of 2005, the intervention in Somalia and the threat of a new war with Eritrea. The world recession and Ethiopia’s over-dependency on external resources will slow down the economic growth rates, reverse the trend of poverty reduction and might lead to social unrest.

After decades of conflict and mismanagement, Ethiopia has at last embarked upon an economic growth strategy which – if sustained – can reduce poverty and integrate the country into the world economy. The strategy, which partially follows the autocratic development model of China and is at the same time dependent on substantial capital inflows from western donors – is risky and needs to prove its durability in the current world economic crisis.
12 | Sustainability

Ethiopia has established an Environmental Protection Authority (EPA) and passed a number of environmental protection laws, including one requiring conducting an environmental impact assessment for each major investment. In practice, these laws are widely ignored and the EPA is unable to enforce them. The government’s primary concern is poverty reduction through economic growth. It regards environmental concerns as obstacles and has made no attempt to reconcile environmental sustainability with economic growth. The flower industry is a prime example of the government’s disregard of environmental concerns. Located predominantly in the vicinity of the Rift Valley lakes, the flower farms have in the past few years contributed to the disappearance of Lake Shala, polluted the water of other lakes and reduced ground water levels. No environmental impact assessment has been done for any of the flower farms. Instead, the government formed a special task force within the Ministry of Trade and Industry to clear away any obstacles for the investors.

Ethiopia has significant environmental problems, including extreme deforestation (less than 2.5% of the country is still covered with original forests), immense soil erosion (Ethiopia is supposed to be responsible for 8% of all soil erosion worldwide) and increasing incidents of severe flooding. The negative economic impact of the environmental damage is caused by decreasing soil fertility, destruction through floods, dwindling water resources and, more recently, alarmingly high contamination rates in the Akaki river system, which supplies Addis Ababa’s vegetable farms with water.

The government’s externalization of costs for natural resource consumption is to some extent matched by the public’s attitude toward the environment. Traditional protection strategies in the rural areas seem forgotten or subjugated to the satisfaction of immediate needs.

Expenditure for education is the single biggest budget position in Ethiopia. In 2006 – 2007, it accounted for 23.6% of total government expenditure or 4.9% of GDP. This relatively high spending on education for an African country is a reaction to decades of neglect and low literacy rates. The bulk of education expenditure goes to the primary school sector; however, since 2006 an ambitious University Capacity Building Program (UCPB) is under way, which foresees the construction of 13 universities in all regions of the country at a cost of $400 million.

The emphasis in education development is on the expansion of the physical infrastructure in order to accommodate the increasing number of students. Quality of teaching and adequate availability of equipment have been ongoing concerns of parents and donors alike. The government has not addressed these issues. The situation is unlikely to improve as staff shortages for secondary and the new tertiary structures will increase.
Ethiopia has a number of highly regarded scientists working in research institutions in various sectors. The International Livestock Research Institute (ILRI) and the International Food Policy Research Institute (IFPRI) run campuses and research institutions in Ethiopia. The government itself runs, among others, the Biodiversity Institute, the Institute for Agricultural Research and the National Meteorological Agency. Existing universities also house several research-oriented departments. Financial data on R&D are not available.

The level of technology is predominantly low, which is particularly felt in agriculture. With the exception of export-oriented plantations, the overwhelming rest of agricultural production is still based on centuries-old and highly unproductive technologies. In the small manufacturing industry, technology standards also lag behind international levels; the construction industry shows an odd mixture of primitive labor-intensive and modern technologies.
Transformation Management

I. Level of Difficulty

Ethiopia is faced with massive constraints on the governance capacity of the current leadership. With regard to Ethiopia’s geography, the country is landlocked and has only one functioning outlet to the world market via Djibouti. Ethiopia is faced with high levels of extreme poverty, a degrading environment in the fertile and densely populated highlands, volatile weather conditions, the increasing impact of climate change, a predominantly uneducated labor force, rudimentary infrastructure, and high incidences of diseases (HIV/AIDS, malaria, dysentery etc.). Furthermore, the country has an undemocratic political culture based on decades of autocratic governance and oppression, which has resulted in deep-rooted mistrust by the people of the state and its respective agents or representatives. Lastly, the religious dichotomy in a country located in a predominantly Islamic region and neighboring a failed state (Somalia) on the verge of being taken over by Islamists poses a structural threat to its internal stability.

If only the number of NGOs (allegedly close to 8,000) is considered, Ethiopia is a country with a lively civil society. It is a civil society, however, without much tradition and that mostly developed in the last decade in response to the gap left by insufficient and ineffective state institutions in service delivery. These organizations have benefited from increasing levels of development aid. Traditional forms of civic engagement, like the iddirs (burial societies) and equbs (saving clubs) or religious self-help schemes, have remained detached from the modern NGOs and professional associations.

Most NGOs are working in humanitarian and developmental fields. Only a small number are trying to provide civic education or tackle good governance, human rights and democracy issues.

The Ethiopian society is divided into ethnic and religious communities. These divisions have led to splits among the political elite and ongoing violent confrontations throughout the country. Several mobilized ethnic groups are waging liberation wars of varying intensity against the government. A substantial part of the oppositional political elite has either gone into the diaspora or the underground. The previously dominating Amharic elite is being subdued by the ruling ethnic
minority from Tigray. Furthermore, the divide between Christians, who had formed the ruling elite for centuries, and Muslims is widening along with the potential of violent manifestations. Ethiopia’s intervention into Somalia and the brutal oppression of the Ogaden clan in the Ethiopian Somali region have a mobilizing impact on parts of the Muslim population. A reinforced Somali identity and potential support from radical Islamist groups like al-shabab from Somalia make it probable that the localized conflict in the Somali region will spill over into the center of Ethiopia. A rise in the number of bomb explosions in the capital is the first indication of that.

Changing climatic conditions, increasing population pressure and shortage of agricultural land have in the past two years resulted in a number of violent clashes between different ethnic groups and between pastoralists and peasant farmers in the south and the southwest of the country. The intensity of such simmering conflicts will increase as conditions worsen.

II. Management Performance

The brief “democratic spring” in Ethiopia in 2004 – 2005 revealed the potential and dynamics of urban Ethiopian society. The government’s brutal oppression of political dissent in the aftermath has driven Ethiopian society back into the Derg mode – dissociation from public life and a fear-driven recourse to privacy. Ethiopia is under the rule of a party that wants to modernize state institutions and the economy but in a top-down manner and without meaningful public participation. This strategy is alienating large sections of the social sector that supports modernization and democratic reform. Instead, the government relies even more heavily on its highly conservative and traditionally-oriented rural support base. The inherent political and socioeconomic tensions threaten to express themselves in social unrest, ethnic strife and religious conflicts.

14 | Steering Capability

What differentiates Ethiopia’s leadership from that of many other African countries in the eyes of Western donors is its clear development orientation, which it has maintained in periods of crisis and uncertainty. The Ethiopian leadership is committed to long-term economic development and poverty alleviation – which is one of the reasons it reacts rather violently against an opposition it regards as opportunist and unstable. The ruling elite’s strategic aims are clearly pronounced in economics but weak when it comes to democracy. The economic strategic aims were initially developed with the help of the World Bank and Western donors but
have now – after some modifications – been adopted by the leadership in form of PASDEP. A clear commitment to the development of a market economy, however, must be doubted as important sections of the political leadership have an in-built distrust of free market forces and an affinity to state-run enterprises and controls. From this ideological perspective, the government considers the democratic components of PASDEP as externally enforced baggage, which it must carry in order to obtain the required funding.

The Ethiopian government is strongly reform-oriented in a general sense as far as the modernization of society and economy is concerned. It is by no means committed, however, to the development of a market economy and democracy. Its capacity to implement the envisaged socioeconomic reforms – laid down in PASDEP – is severely limited by a number of factors. One major obstacle is Ethiopia’s poor infrastructure (communication, transport, etc.) which delays and in some cases prohibits reforms. Another crucial factor is the inefficient and often corrupt administration. The most important impediments for sustainable economic reforms, however, are the low degree of legitimacy the government has in the eyes of important agents of change (local leaders, the intelligentsia, various ethnic groups) and the perseverance of the traditional society. The latter has contributed to the paradoxical situation that modern and progressive laws exist but hardly anybody – the legal system included – applies them.

The inefficiencies in administration have resulted in coordination problems between reform and implementation. One example is the failure to increase revenue collection. It took the government several years to realize that the parallel existence of three authorities did not increase but rather decreased the efficiency of collecting revenue. Another example has to do with the attempt for more transparency in administration. Under the Protection of Basic Service (PBS) program, the woreda councils are supposed to publicize their budgets, but hardly any of them has done so.

The absence of an independent parliament, regional councils or legal system hinders the executive’s ability to ensure quality and timeliness of reform implementation. The often incompetent and unmotivated administration thus assumes an independent position and has become a reform impediment.

Ethiopia’s political leadership has demonstrated a certain learning capacity as far as power preservation is concerned. After the near loss in the 2005 elections, the ruling elite started to systematically eliminate real and potential political threats. This process included facilitating the fragmentation of the opposition and introducing restrictive election, media and NGO laws. On the other hand, the ruling elite also began to consult local stakeholders (business people, elders, religious authorities) to determine what they could do better. This process helped accelerate reforms in the rural areas including an improvement of agricultural extension services and producer prices, an extension of rural electrification and road
construction, and massive investments into the development of urban infrastructure, predominantly in regional centers such as Bahir Dar, Awassa, Dessie, Nazret and Jimma.

In contrast to its learning capacity in the political domain, the regime showed remarkable and unnecessary stubbornness in relation to the passing of new legislation (media and NGO laws) and the implementation of its overall economic development strategy. The passing of the NGO law in early January 2009 exemplifies the doggedness of the Meles regime. The regime presented a first draft of the new law in May 2008 and received strong but constructive criticisms from both Ethiopian civil society and the donor community. Meles himself defended the law as necessary to regulate an alleged unruly civil society and was not prepared to accept any substantial changes to the draft law. While this can be regarded as the right of a sovereign government, the move was politically unwise in a situation of economic uncertainty (world economic crisis), growing donor impatience with the human rights and democracy record of the regime, and a critical position with regards to international reserves. Several international NGOs, whose operations will be severely curtailed once the law is applied, and some donors have already indicated their plans to either leave the country or reduce their commitments. The passing of this law, which many regard as overkill for the intended purpose, may cost Ethiopia not only political capital but urgently needed foreign currency.

With regard to its relationship with the international community, the Ethiopian learned from the reaction of donors to its oppression of civil discontent in 2005-2006 that it would not lose their support if some form of legality was preserved in the crackdown on the opposition. In addition, the Meles government widened its internal political space with the intervention into Somalia in December 2006, which was very much in the interests of the Bush administration and the European Union. After the intervention, the United States and the European Union only mildly criticized Ethiopia for human rights abuses in the Somali region, undemocratic local government elections and a restrictive media law. The fact that the German government signed a new and extended bilateral cooperation agreement with the Ethiopian government one month after the NGO law was presented might have been interpreted by the Meles administration that the consequences for internal oppression are negligible.

The political leadership in Ethiopia has a limited ability to learn from past errors. This trait is more pronounced when issues of power preservation are concerned. Furthermore, it has been good at assessing how much anti-democratic activity western donors are prepared to tolerate as long as economic development objectives are pursued. The regime has a rather low willingness to accept criticism or even advice from within Ethiopia. In this respect, it behaves like a typical liberation movement in power: arrogant and steadfast in its political mandate and vision. The growing personality cult surrounding Prime Minister Meles Zenawi is indicative of this.
15 | Resource Efficiency

The government makes efficient use of some of the available resources but handles the majority of natural, administrative and financial resources with low efficiency.

The government’s insistence on state ownership of land is highly inefficient. It prevents the capitalization of considerable assets and perpetuates the extremely low productivity of the agricultural sector. The existing land tenure system is also one of the main reasons for the rapid environmental degradation of the fertile highlands.

The government is by far the biggest employer in Ethiopia, but government employees often face appalling work conditions and earn low salaries. The relatively high number of corruption cases and the frequent change of high-level personnel are indications of low efficiency throughout the public service. Although Ethiopia has improved its ranking in the Doing Business index over the last few years, it still does not possess an effective civil service to promote business. Wages and salaries as a percentage of government expenditure show a sharp increase from 2002-2003 and attribute for 54.5% in 2006-2007. Ethiopia has a large number of reasonably well-educated professionals, but they are not attracted by the civil service and instead opt to join the private sector, civil society organizations or even to leave the country. The government substantially underutilizes the available administrative resources.

The budget has shown a substantial deficit over the last decade of between 3.1% and 4.8% of GDP; if donor contributions are deducted, the deficit is at least double the percentage. In 2007-2008, the deficit was 4.4% of GDP and about 8.4% of GDP, excluding grants. The debt burden was lowered considerably in 2005 in the context of the HIPC debt relief but has started to increase again as the government turns to China and India for additional finance. At the current level, the debt service stands at about 2% and is easily bearable for the country. Little budgetary oversight exists. The only time an auditor general was bold enough to criticize the government, he was publicly humiliated and his findings were dismissed. Another indicator of low efficiency is the increasing need for supplementary budgets. During the period of observation, the government had to table twice a supplementary budget because the regular one was insufficient to cover costs.

The country’s federal system of organization is also inefficient. This is caused by the government’s lack of commitment to its decentralization program. Finances are still controlled fully at national level, the inner circle around Prime Minister Meles makes all major personnel decisions, and the Federal Police has supreme power at all levels.
In the business sector, resource utilization is also far from optimal. The predominance of state- or party-owned or party-affiliated companies and the government’s practice of allocating lucrative public contracts to select businesses restrict the private sector from developing.

The government has severe problems coordinating conflicting objectives into coherent strategies. Competition between different sections of government (ministries, regional governments, local administrative units) and between policies can often only be solved by a judgment from the Prime Minister. One example is the unresolved conflict between investment promotion and sustainable use of natural resources. According to the law, each larger investment must be accompanied by an environmental impact assessment (EIA); since the law was passed in 2002 only one EIA has been conducted. In practice, investments are much higher valued than natural resources and cultural diversity, even though according to the law the latter should receive some degree of protection.

With some reluctance, the government realized that it had created several overlaps in authority and responsibility. The existence of three revenue collection bodies, which eventually were unified in the Revenue and Customs Authority in October 2008, is one example. Another pertains to investment promotion, which has pitched the national investment bureau against regional and even woreda promotion agencies. A cohesive policy on standards, procedures and concepts between these three levels does not exist and has resulted in investment licenses that gravely violate human rights and existing laws and promote corruption. One example is the investment of the German-Israeli company Flora EcoPower, which tried to establish a large-scale agrofuel plantation in the middle of the Babille Elephant sanctuary. The company had obtained an investment license from the Oromiya Investment Bureau and was supported by the authorities at woreda level. Neither group was aware of or concerned about the fact that Babille is national land and thus not for them to give to an investor. The investor – after considerable media interest and negative publicity – was eventually allocated land in an area outside the park.

The sustained high level of corruption is a consequence of the economic boom and at the same time undermines it. Corruption is a daily reality for citizens who require public services as well as for investors and government officials who negotiate about the conditions of large-scale investments. Ethiopian society’s deeply ingrained clientelism does not foster a culture of accountability and transparency.

Ethiopia’s government uses corruption as a tool for political control. Although Transparency International noted some gradual improvements in the level of corruption from 2006 to 2008, it remains rampant. Corruption is widespread at all levels of government administration, including parastatals and the cabinet. The Federal Ethics and Anti-Corruption Commission (FEACC) investigates and prosecutes corruption cases but has so far not touched anybody of real importance.
The cases it has brought to court leave the impression that the government wants to promote the idea that corruption is predominantly perpetrated by a greedy private sector. The infamous “fake gold” scandal – a group of businessmen and officials sold gold-painted lead to the National Bank of Ethiopia – and the case against the management of a private insurance company which allegedly defrauded the government of several million birr through false insurance certificates have been captured the headlines.

The office of the auditor general regularly carries out an audit of government finances, but as the 2005 – 206 report (released 2008) shows, the government reacts very harshly when criticized. Party funding is only regulated in the sense that funding from external sources is prohibited. This mainly affects the opposition parties. Officeholders are not required to declare their assets and their business interests as this would reveal the extent to which ministers and other high officials form a network of political control in many private and public enterprises. The public procurement system has become more transparent since 2006 but is still far from being free from government manipulation. For example, the government makes sure that companies owned by or closely affiliated to the ruling party are awarded the contracts to transport food aid to needy areas. A recent study shows that the notorious construction sector in Ethiopia has reduced corruption levels.

The integrity mechanisms put in place such as FEACC and the annual audit of government finances are insufficient to curb corruption because they are not independent of political influence. Tolerance of corruption has to some extent become an instrument of the top leadership to ensure political loyalty.

16 | Consensus-Building

A limited consensus about the goals of development exists between the ruling party and its allies on the one side and the opposition camp and civil society on the other side. Hardly any consensus exists with regard to the course of political transformation.

The limited development consensus refers to a basic commitment towards poverty eradication and infrastructural development (roads, electrification, education and health) but ends where the role of the private sector vis-à-vis the public sector, privatization of parastatals and the land tenure system are concerned. The government is in favor of a Chinese-style autocratic top-down approach with a strong role for the public sector while the opposition camp advocates a much stronger role for the private sector and a change in the land tenure system, which would allow for private ownership of rural land.
Opposition and civil society actors are in favor of democracy with a clear separation of powers, adherence to human rights and the rule of law, and increased transparency. Just how much of this reformist agenda is mere rhetoric would only be tested if the opposition, particularly such parties as UDJ, had a chance to govern the country. Judging from the opposition’s past statements and bitter infighting, its democratic pedigree appears doubtful. The ruling party officially advocates democracy and good governance but practices a highly autocratic style of governance with little room for democracy. Its advocacy of democratic reforms is to a large extent a smokescreen for the donors.

Anti-democratic veto powers are predominant in the top leadership of the ruling party. While Prime Minister Meles portrays himself as a moderator between various camps in the party, his closest advisors such as Bereket Simon (minister of information) are perceived as architects of the oppressive course against opposition, media and civil society. In reality, there are probably no differences in the top leadership; the consensus is power preservation at all costs.

Regular purges – the latest one in October 2008 – ensure that the members of the ruling elite are kept in line and do not develop individual or critical agendas. The military is no longer a threat to the regime because their interests have been accommodated.

The Ethiopian society has a number of social, religious, political and ethnic cleavages. The government possesses limited consensus-building capacity to overcome these cleavages. It prevents most cleavages from turning into violent conflicts either through intimidation or military force. The most volatile cleavages are of ethnic character and have been addressed only to a limited degree. There is strong resentment amongst the Amhara but also other ethnic groups against being ruled by the Tigrean minority. Some Oromos, Somalis and Afaris are even pushing for independence. Religious cleavages between Orthodox Christians and Muslims have been rare in the past but are increasing. This is mainly because of a radicalization of younger people. The treatment of the Somali population in the Ogaden, the (now aborted) intervention of the Ethiopian army in Somalia and the probably manipulated results of the latest census, which puts the Muslim part of the population at only 34% as compared to the 64% of the Orthodox (when everybody was expecting the Muslims to have overtaken the Orthodox as the biggest religious group), have intensified the feelings of many Muslims in Ethiopia that they are second class citizens. Ethiopia’s major socioeconomic rift is between a small relatively wealthy urban middle class and the impoverished majority of rural dwellers. This cleavage expresses itself in attacks on cars and travelers in many rural areas. The political cleavage, which dominates all other potential conflicts, is that between the ruling party and the majority of the population. The ruling party is unpopular, oppressive and thus resented by the majority of the population. The government is unable to reduce the intensity of cleavages and the conflicts emanating from them; it can only use its security forces to suppress them.
Ethiopia’s political leadership actively suppresses and excludes civil society from participating in the political process. After 2005, it imprisoned some politically vocal NGO leaders and harassed NGOs active in good governance, human rights and advocacy issues with the result that the number of NGOs still operating in these fields shrunk to less than 50 (out of probably more than 5,000). In order to prevent civil society from playing a role during the forthcoming elections in 2010 and to harness one of the last independent sectors of society, the government pushed through the Proclamation for the Registration and Regulation of Charities and Societies – the so-called NGO law – in early January 2009. Under this law, international NGOs are barred from working on human rights, democracy, children’s and women’s rights, law enforcement, federal issues, conflict prevention and peace-building; local NGOs are also barred from these activities if they receive more than 10% of their income from external sources. The new law severely cuts down on the political space for civil society participation and will probably force many NGOs out of business when it enters into force in early 2010. In the process of passing the new NGO law, the government made no real attempt to listen to civil society representatives and has thus destroyed the last remnant of social trust among urban society.

The government perceives civil society as part of the opposition and thus as an enemy. It therefore excludes and suppresses civil society from political participation and engagement beyond relief efforts and certain aspects of development work. At the same time, it continues its attempt to create a government and ruling party-affiliated network of pseudo-NGOs operating at the provincial level.

The political leadership recognizes the need to deal with historical acts of injustice committed during the Derg regime (1974 – 1991) and has taken the Derg political leaders it could apprehend to court. The former dictator Mengistu Hailemariam was sentenced in absentia (he enjoys political asylum in Zimbabwe) to life imprisonment. Other officers and ministers responsible for crimes were in the last two years also sentenced to life imprisonment.

The fact that these court cases took more than 17 years to be concluded, during which the accused were in prison and denied basic human rights, did not help the idea of reconciliation to take root in society.
17 | International Cooperation

Ethiopia is one of the biggest recipients of official development assistance (ODA) in the world. After a short dent in 2005-2006, the amount reached nearly $2 billion in 2007-2008. This excludes the substantial support the country has so far received on an annual basis from international NGOs (estimated at $500 million) and the soft loans obtained from China and India. Ethiopia started to become a darling of the international donor community in the late 1990s and since has received more than $10 billion in ODA. The current level of ODA ($2 billion) is projected to continue over the next two years – if the world economic crisis does not lead to cuts and if Ethiopia’s deteriorating governance record does not result in a reassessment of major donors. The World Bank extended its country assistance strategy officially in November 2008 to cover the period until June 2011. In the first year 2008-2009, Ethiopia will receive up to $635 million; the disbursements in the following years depend on the bank’s own refinancing and the performance of the Ethiopian government in implementing the agreed strategy. The European Union agreed on an extension of its support program under the Cotonou Agreement for the period from 2008 to 2013.

With some exceptions, Ethiopia’s political leadership uses available funds reasonably well for the rapid extension of the transport, energy and communication infrastructure and for investments in the social sector (education and health) in the framework of PASDEP. The concept of an agricultural-led industrialization has been pursued with some vigorousness over the past decade but has not yet borne much fruit. With the exception of some large new investments into the production of agrofuels, tea and coffee, only the cut-flower sector has taken off in the last five years. The willingness to make the most of the funds made available by international partners is as evident as are the problems to utilize them effectively. The latter is due to the low capacity of the civil service, the ineffective private sector and the low mobilization rate of the rural population as far as development initiatives are concerned. In other words, the country’s inefficient use of international funds is an indirect result of its autocratic system of governance.

External influence on the strategic orientations of the Ethiopian leadership is surprisingly low as several incidents in the past years have shown. Given the relatively high amount of ODA, which in 2006-2007 amounted to 28% of the total budget, the Ethiopian government is maintaining a pronounced position of independence. It resisted devaluing the birr when the IMF and World Bank advised this already in 2007 and it paid no heed to international concerns over human rights violations, oppression of the opposition or restrictive laws such as the NGO law. The World Bank, European Union and bilateral donors, having made substantial investments in Ethiopia’s economic development strategy, are hesitant if
not afraid to exert too much pressure on the Ethiopian government. The latter understands this very well and also plays the China card whenever necessary. These tactics have enabled Ethiopia to maintain a rather high degree of political independence.

For many years, the international community regarded the Ethiopian government as a reliable and credible partner. The violent suppression of discontent in the aftermath of the 2005 elections raised the first doubts about this; the government’s latest moves against opposition, media and civil society have strongly reinforced these doubts. However, many donors including the World Bank and the European Union have invested heavily into Ethiopia’s development efforts and are very hesitant to pull out; the often-cited development-orientation of the government still bolsters some confidence. As long as the Bush administration was in power, Ethiopia was able to deflect some doubts about its reliability by taking an active role in the so-called war on terror (intervention in Somalia); with the inauguration of President Obama this might change.

In international business risks ratings, Ethiopia’s position has declined slightly. The International Country Risk Guide (ICRG) sees Ethiopia’s risk ratings since 1998 improving in the area of financial risk but declining on both economic and political risk.

The increased presence of Chinese and Indian investors over the last two years has expanded the Ethiopian government’s foreign policy options. More external partners not only translate into a broader policy space but also into a tighter incorporation into international responsibilities. On the whole, the government tries to balance its interests of regime stabilization with maintaining its reputation as a reliable partner in its relations with the international community. This is becoming increasingly difficult.

Since 2006, Ethiopia has engaged in an undeclared war against Islamists in Somalia. Since 2001, Ethiopia has maintained an uneasy truce with its northern neighbor Eritrea. The way the Ethiopian government handled the Eritrea question at the international level casts serious doubts about its willingness to cooperate with neighboring countries and to accept rules set by the United Nations. The dissolution of the United Nations Mission for Eritrea and Ethiopia (UNMEE) in January 2008 was as much the result of the restrictive measures imposed by Eritrea as the Ethiopian unwillingness to adhere to the ruling of the Permanent Court of Arbitration from 2002, which demarcated the borderline between the two countries. Although no side has an interest in restarting the war, it might happen by accident as around 100,000 soldiers are stationed in the border area. Often the two armies are only some few hundred meters apart.
Ethiopia’s relations with Sudan improved in the last two years as both countries started to link their communication, transport and electricity systems. Sudan has become a major supplier of oil to Ethiopia. The relations with Kenya have been friendly despite occasional cross-border raids by – mostly Ethiopian – local pastoralist ethnic groups. Both countries have also agreed to interlink their electricity grids and road systems with the assistance of the World Bank. Ethiopia hopes to be able to export electricity to Kenya once the planned Gilgel Gibe III dam is operational. Djibouti remains Ethiopia’s most important neighbor as nearly all its trade is handled by Djibouti harbor. The relations with the internally unrecognized Somaliland remain cordial despite the devastating bombing of the Ethiopian mission building in Hargeisa in October 2008.

Ethiopia and Egypt have still not improved their relationship, which is strained by divergent ideas about the use of the Nile’s water. The Blue Nile, which originates in Ethiopia, provides around 70% of the total Nile water. Egypt is thus concerned about Ethiopian plans to dam the Blue Nile for both electricity production and irrigation purposes. East Africa’s Intergovernmental Authority on Development (IGAD) remained mainly inactive during the reporting period.
Strategic Outlook

In summary, the political leadership pursues long-term economic goals that are not necessarily pointing towards a market economy. It also tries to manipulate donor-enforced democratic goals in order to sustain its autocratic style of leadership. Although the donor community provides substantial economic support, it is unable to influence the political leadership. As Ethiopia enters a decisive phase of its development, it is encountering four crucial bottlenecks. The first one is the diminishing common ground between donors and the Ethiopian political leadership. The second challenge refers to the capacity limitations of Ethiopian society to keep up with the speed of development. The third challenge pertains to the limited space allowed for the private sector. The last and most immediate problem area is the potential impact of the current world economic crisis.

The Ethiopian government’s biggest asset in attracting donor support has always been its development orientation. The latest moves to close down the political space for opposition and civil society have put the donors’ faith in the government’s development commitment under considerable strain. If the 2010 elections produce a democratically unacceptable result, several donors will have to reconsider their engagement in Ethiopia. Any major withdrawal of donor support would mean the end of Ethiopia’s ambitious development strategy. Intensive negotiations between the donor community and the Ethiopian government are thus likely to occur in the next year to ensure the protection of basic democratic rights.

The modernization of the Ethiopian society and economy has been rapid over the last decade and is increasingly overtaxing the capacity and willingness of the population to change. Especially in the civil service, the competence, skills and flexibility required to further modernize is lacking. This lack of professional competence has had some disastrous consequences such as the planning disaster in electricity production and wildly unchecked soil erosion. Lack of support among society and parts of the executive has blocked the implementation of the government’s newly enacted progressive laws and regulations on issues like gender, the environment and land use. Reform of the legal system and the police is also stalling. These examples point to a general deceleration of development, which in turn may undermine the government’s already weak legitimacy.

Ethiopia’s political leadership, prioritizing political power over all else, has established a broad patronage system in order to ensure political loyalty. Unlike in China where the politically suppressed society has a valve in engaging relatively freely in economic activities, this avenue is mostly closed in Ethiopia. Lucrative business opportunities are mainly reserved for members of the ruling class or their close allies like Sheik Al-Ahmoudi. As a result, Ethiopia’s economic growth is so far mainly based on state investments and only to a limited degree on private activities.
The current world economic crisis has started to hit Ethiopia as the substantial transfers of the Ethiopian diaspora in the United States, the European Union and the Middle East have started to shrink strongly. The demand for export goods has fallen and prices for Ethiopia’s main exports have gone down considerably. Ethiopia’s foreign exchange reserves are at an all-time low and the Ethiopian birr has come under heavy devaluation pressure. This is reducing investments by the state and the private sector. If official development assistance falls in the coming year (the World Bank may face problems to refinance its lending facilities) then the main funding pillars of Ethiopia’s economic progress over the last five years will have crumbled and the country will face a severe economic crisis.

In the short to medium term, the political stability of the country will not be challenged, but once the economic problems mount the Ethiopian government’s will find it increasingly more difficult to deal with social unrest and perhaps even insurrection. The country’s promising economic transformation will probably come to a halt and will reinforce the already existing autocratic tendencies in the political class.

The donor community should use the opportunity of Ethiopia’s current financial vulnerability to impress onto the Meles administration that its increasingly autocratic course has to be reversed. It will not be sufficient to hold democratic elections in 2010 because the outcome of these elections is already predetermined through the host of repressive and limiting laws, the oppression of the opposition, and the intensified use of patronage. The donor community should push for a revision of the media law, the charities and societies (CSO) law and the electoral law and engage the Meles administration in a substantive dialogue about human rights and democracy. Pledges of further financial and technical support should be clearly linked to an improvement of the political and human rights situation in Ethiopia.

Ethiopia’s progress toward democracy is in the best interest of the West, especially as mounting social, political and ethnic tensions increasingly challenge the country’s fragile political stability. A more transparent and participatory regime would be in better position to defuse these conflicts than the increasingly autocratic rule of the EPRDF.