

Ethiopia

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|---|---------------------------|-----------------------------|-------------|
| Status Index 2.9 (Democracy: 1.2 / Market economy: 1.7) | | Management Index 2.5 | |
| System of government | Autocracy | Population | 67.2 mill. |
| Voter turnout | < 50 % (2000) | GDP p. c. (\$, PPP) | 810 |
| Women in Parliament | n. a. | Unemployment rate | n. a. |
| Population growth^a | 2.7 % | HDI | 0.359 |
| Ethnic fragmentation | High (multi-ethnic state) | UN Education Index | 0.38 |
| | | Gini Index | 57.2 (2000) |
| Data for 2001 – if not indicated otherwise. ^a Annual growth between 1975 and 2001. Source: UN Human Development Report 2003. | | | |

1. Introduction

Since the TPLF national liberation movement overthrew the Mengistu dictatorship in May 1991, the multi-ethnic state of Ethiopia (with more than 70 ethnic groups) has slowly begun a three-fold transition. This includes moving from a military dictatorship to a multi-party democracy, moving from a socialist planned economy to a capitalist market economy and abandoning a centralized war economy for a peaceful civil society free.

A transitional government under the leadership of the victorious guerilla forces from Tigray (TPLF), the northern-most region of Ethiopia, prepared elections and initiated economic and administrative reforms aimed at establishing a market economy, decentralizing power and strengthening nine regional administrations. The goal was and is the establishment of democratic rule of law based on competitive parties and “ethnic federalism,” with broad autonomy for the country’s 14 regions. After a series of manipulated elections, the Federal Democratic Republic of Ethiopia was proclaimed in August 1995.

Contrary to the government’s political rhetoric, the country is ruled to this day by a highly centralized authoritarian state party with hegemonic claims, clearly reflecting a Marxist view of the role of the state and a ruling party. The 1998–2000 border war between Ethiopia and Eritrea, a former region of Ethiopia that gained independence in 1993, threatened everything that had been cautiously achieved in developing a civil and democratic market economy.

In March 2001, open rebellion broke out against the government of President Meles Zenawi, the man in power since 1991, ending in the dismissal of 11 of 30 members of the Central Committee of the TPLF, who were then charged with

corruption. The conflict within the governing coalition revolved around the question of an appropriate response to Eritrea, identified as the new “arch enemy.” Hard-liners demanded the total submission of Eritrea and securing a port on the Red Sea for Ethiopia. The conflict overshadowed the rather hapless attempts by a few opposition political parties (the Amhara and Oromo) to secure more rights and power for oppressed ethnic groups, and for civil society in general.

Through the efforts of diplomats from the UN and the Organization of African Unity (OAU), the UN Mission for Ethiopia and Eritrea (UNMEE) was established in 2001-2002. It is supposed to supervise the withdrawal of troops from, and enforce a 25 km-wide security zone along the contested border between the two fraternal peoples, who speak the same language and had fought for decades against a common foe, the Mengistu dictatorship.

Liberalization and deregulation of the national economy, which was run on a socialist basis until 1991, have proceeded only slowly, as has privatization of numerous plantations, hotels, restaurants and factories. Two actors, in particular, have been the prime beneficiaries of the privatization of state enterprises: a major Saudi Arabian industrialist and private companies very close to the government of the „Ethiopian Peoples’ Revolutionary Democratic Front“ (EPRDF).

Extremely close connections between the banking sector and the ruling party have contributed to endemic corruption in the newly flowering “para-party companies.” Private entrepreneurs were also charged for corruption. Foreign companies still have a difficult time investing in Ethiopia because, as a rule, land cannot be bought and sold. Thus, it is not surprising that the structure of the economy, which depends heavily on the export of coffee, has changed little. As a result, Ethiopia is still one of the poorest countries in the world, regularly needing emergency food aid. Its financial dependence on outside sources is increasing rather than decreasing.

2. History and characteristics of transformation

The economic and political transformation process in Ethiopia has moved slowly, with discontinuities and with only limited positive results, overall. Two phases must be distinguished. First came a promising phase of new beginnings and construction (1991–99), in which the foundations for a liberalized market economy, privatization of state enterprises and the establishment of a democratic federal state were laid. This was followed by a phase of regression (1998 to the present), during which the war with Eritrea was waged (1998–2000), a conflict termed “the most senseless war on earth” by American diplomat Richard Holbrooke. During this time an internal power struggle within the ruling party (2001) also erupted, leading to the arrest of many dissidents, as well as charges of corruption against officials and business people (2002).

Three nationwide elections were held in Ethiopia from 1992 to 1995: regional and district elections in 1992, national elections of delegates to a constitutional convention in 1994 and elections of representatives to regional assemblies and the national Parliament, based on the new constitution in May 1995. International election observers overwhelmingly categorized these elections, as well as with the second parliamentary elections held in 2000, as neither free nor fair. The most recent vote was held during the border war with Eritrea, which, for a short period, unleashed a wave of patriotic unity among otherwise estranged ethnic groups (Tigrean on the one side, Amhara, Oromo, Somali and Afar on the other).

The power struggle and strategic disagreement within the leadership of the TPLF that was ignited in March 2001 by the war with Eritrea served as a second blow to the transformation. The struggle between moderates grouped around Prime Minister Meles Zenawi and his foreign minister, Seyoum Mesfin, on one side, and 11 dissidents on the central committee of the TPLF, on the other, resulted in further centralization of power. The struggle also led to increased repression against critics of the government.

During its first nine years (1991-2000) the ruling coalition, the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), led by the Tigray People's Liberation Front (TPLF) functioned as a bloc; united against opposition groups and parties, especially the Oromo. Originally, in May 1991, the Oromo Liberation Front (OLF) had taken part in the provisional transition government, but after a few months of frustration it withdrew. The OLF returned to fundamental opposition, with its political leadership going into exile while some of the military leadership went underground again. To fill the resulting vacuum, the EPRDF created the Oromo People's Democratic Organization (OPDO), a pseudo-party that used repression and manipulation to win regional elections in the Oromo region in 1992 but which has no genuine support among the population. After centuries of discrimination at the hands of the Amharic and Tigrean peoples (the self-described Abyssinian master), the Oromo people dream of their own state, Oromia, with Finfine (Addis Ababa) as its capital.

The second ethnic group to lose after the change of power in 1991 was the Amhara, large numbers of who were driven from their privileged positions in the ministries in Addis Ababa and the administration in regional cities. They too have now established themselves in opposition with the Coalition of Alternative Forces for Peace and Democracy in Ethiopia (CAFPDE) and the All Amhara People's Organization (AAPO). The strength of the governing coalition, the EPRDF, which is dominated by the Tigreans, is illustrated by its control of 90 % of seats in the Council of People's Representatives, the Parliament. This can hardly be termed a representative democracy.

The basic decision to introduce a market economy was made with surprising speed after the overthrow of the Mengistu dictatorship in May 1991. In contrast, politics were liberalized very slowly and reluctantly. The new government under

Meles Zenawi and his party, the TPLF, feared justifiably that the two largest ethnic groups, the Amhara and Oromo, would win a majority in free and fair parliamentary elections and, thus, could force the TPLF onto the political sidelines. So the transition government formed in 1991 did everything in its power to intimidate the political opposition in the run-up to elections (which Western donors insisted upon) and to prevent them from gaining a majority.

Their efforts were rewarded. In manipulated elections in 1992, 1994, 1995 and 2000 (the second parliamentary elections)—which were largely boycotted by opposition parties—the EPRDF governing coalition and its allies won 80 % to 90 % of the votes. Turnout was low, ranging from 25 % to 40 % of potential voters. It can be said that, since the start of the transition 12 years ago, the government has failed to integrate politically the multi-ethnic state and achieve reconciliation with the new federal regime.

In regard to the economy, some legal steps have been taken along the path of transition from a socialist, planned economy with agricultural collectives toward a free market economy. Some ideologically based reservations have still not been overcome, however. The unrestricted sale and purchase of land is still not allowed; foreign businesses are still not treated like domestic ones; the privatization of state enterprises has achieved few successes and has even precipitated the formation of “para-party companies.”

Administrative corruption appears to be widespread. Foreign investors, with the exception of a major Saudi industrialist, have shown little interest in investing in what remains an agrarian country with poor infrastructure. There has been no change in Ethiopia’s dependence on raw coffee as its primary export product. Interest in modernizing the domestic agricultural sector remains low.

Each year, about 5 million people survive only through deliveries of foreign aid. The war against Eritrea further undermined the country’s already precarious financial situation. Until they were cut in half in 1998, foreign debts averaged \$10 billion. Politicians, officials and business people jailed for corruption in 2001 and 2002 are still waiting for a fair trial, as are most of the functionaries from the Mengistu regime who were jailed after its overthrow in 1991. The courts are overburdened.

In summary, the slow start to the transition process not only came to a standstill economically during the last five years, but also suffered harsh political setbacks. This has been a transition blocked politically by a militarily disposed government. Ethiopia will not emerge from its current institutional regression as long as the question of power at the center is not settled under the rule of law and by consensus among the various ethnic groups. The transition also requires that the country’s political class (organized in the TPLF) accept lawful opposition and criticism of the government as natural and useful elements within a democratic society.

3. Examination of criteria for democracy and a market economy

3.1 Democracy

In regard to the transformation of the political regime, Ethiopia has made some small progress in a few areas of evaluation (elections, formation of parties). Transformation deficits remain in the areas of political representation and the rule of law. Democratic stability remains a distant goal. Several key development indicators have deteriorated. Regressive tendencies apparent since 2001 may very well continue, perhaps even permanently blocking democratization.

3.1.1 Political organization

(1) *Stateness*: The Federal Republic of Ethiopia is a sovereign state with a semi-functional central government that holds a *de facto* monopoly on the use of force—apart from certain zones of insecurity on the borders of its territory. Security issues exist in some areas to the east (the border with Somalia) where the OLF and opposition splinter groups, like the Islamic Liberation Front, occasionally take up arms against the government, as well as in eastern areas along the border with Sudan. These have not yet seriously threatened the unity of the state, however. Most recently, notable evidence has emerged of disintegration and rifts within the army, until now the most robust supporter of the government. In May 2001 the head of the secret service, an opponent of the prime minister, was murdered, and 11 army officers fled the country.

Officially, no value is attached to building an ethnically unified nation. According to the 1995 constitution of this multi-ethnic country, each “nation, nationality or people,” as the subcategories of the state are called, may decide whether to take up membership in the overall state. In fact, however, the regions cannot exercise their formally recognized autonomy, which includes the right to secede. They are financially and in every important political decision dependent upon the central government in Addis Ababa. To that extent, only the central administration is functional; the regional governments have only limited jurisdiction. The entire regional administration of Oromia was recently dismissed on orders from the central government and in violation of the constitution. The state considers itself secular. Half of the population is Muslim, while the Ethiopian Orthodox Church still exercises major influence over the lives of the country’s Christians.

(2) *Political participation*: Universal suffrage generally exists, notwithstanding occasional irregularities in compiling lists of candidates. During the first parliamentary elections in 1995, 19,986,000 voters, out of 21,337,000 registered voters made use of their active right to vote, representing 35.2 % of the population. *De facto*, the right to campaign for office is severely restricted. Government offices subject opposition-minded citizens who wish to run for

parties critical of the government to official harassment, including physical intimidation and imprisonment, to prevent them from running for office.

Some opposition parties have preferred to boycott elections called by the EPRDF. To date, international election commissions have categorized the parliamentary elections as not free and fair. Freedom of speech is not generally respected, though recently the private press, i.e., newspapers, has been free to practice more independent reporting than at the start of the 1990s.

The military holds a position of veto power above elected parliamentary and executive bodies. The regime could not prevent the formation of civil society groups, especially in the area of humanitarian tasks. They must operate very carefully, so as not to come into conflict with the security police. There are regular bans, arrests and, sporadically, murders, especially of university lecturers and students.

Despite economic liberalization, radio and television remain under the control of the government. The first private radio station was supposed to receive a license in 2002. Despite government harassment, a considerable number of critical newspapers and journals have survived since 1991. Almost all of them are read only in the capital. Illiteracy is prevalent in the countryside; almost 80 % of women cannot read or write. Discrimination against women is especially strong in the countryside.

(3) *Rule of law*: Although independent courts exist under the constitution, the rule of law does not generally exist in Ethiopia. The state does not protect human rights; instead, it violates numerous rights, such as freedoms of speech and assembly. Ethiopians do, however, enjoy freedom of religion. It does not really show the government's respect for the rule of law that still today 2,200 representatives of the former regime are in detention since 1991 while awaiting trial.

The worst form of social exclusion is practiced against the Oromo. Civil society is accused time and again of supporting the armed cadre of the Oromo Liberation Front (OLF), a fact that repeatedly leads to mass arrests among civilians. Since 1999 approximately 1,200 people, half without being formally charged, have been imprisoned in Oromiya for alleged support for the OLF. In addition to repression against opposition and the Oromo, basic rights of women are being violated. Women play almost no role in public life. Female circumcision is still practiced throughout the country as a ritual of their oppression and is rarely discussed as a serious human rights violation.

Parliament, where the country's political opposition groups are barely represented and EPRDF politicians hold about 85 % of seats, is almost irrelevant. Elected by Parliament and anointed by the innermost leadership of the TPLF, the prime minister plays a central role. He alone names his cabinet. Since the formal system

of checks and balances among the executive, legislature and judiciary does not function in regard to any politically important issue, corruption of state functionaries is widespread.

Even the central bank is affected. In January 2002, 40 senior central bank employees were arrested and later charged with incorrect issuance of loans to party comrades by the National Ethics and Anti-Corruption Commission, which was established in May 2001 by the prime minister. The arrests, however, may have been politically motivated. The accused were among TPLF dissidents involved in power struggle between Prime Minister Meles and his critics. Of 30 TPLF Central Committee members, 11 had already been arrested in July 2001.

Several incidents of corruption have occurred in the course of privatizing state enterprises, which generally profit party cadres and members of the government. Even the head of the privatization agency lost his position due to these types of charges, which have not yet been proven.

3.1.2 Political patterns of behavior and attitudes

(1) *Institutional stability*: During crisis situations, the governing elite of the TPLF does not respect democratic institutions, to the extent they are established. Political interventions in elections, federal institutions and the courts are frequent. Regional governments and assemblies, especially in Oromia, are not products of free elections. Thus, the political stability of institutions is strictly superficial, the bitter fruit of the central government's repression.

In 2001 the state president, Negassao Gidad, a member of the OPDO, resigned from office after a break with the prime minister. He was then thrown out of the ruling EPRDF. That same year the government jailed more than 400 members of a legal coalition of six opposition parties (the All Amhara People's Organization, founded in 1999), which was accused of supporting student unrest.

(2) *Political and social integration*: Ethiopia is a multi-ethnic state with about 70 different ethnic groups. The close integration, let alone merging, of these ethnic groups and localized sub-cultures is neither propagated by the government—it advocates ethnic federalism, unique in all of Africa—nor desired by the overwhelmingly peasant population, which retains strong traditional superstitions. Furthermore, the various cultural and religious patterns of belief and identification exhibit an enormous breadth, from fundamentally democratic, egalitarian systems of reference (the Oromo) to the “Abyssinian fundamentalism” of the Christian population in the highlands.

The Abyssinian culture, found among the Amhara and Tigreans, is known for its strong social hierarchy, the lack of a public culture of debate and the lack of trust in people of other ethnicities and belief systems. These are the anti-democratic

attitudes of an Amharic martial culture in which military virtues and a permanent willingness to fight are held in high esteem. No overriding ideology or political program has been presented to date that could advance the national integration of the heterogeneous population, notwithstanding the federal constitution of 1995, which at least offers the beginnings of a national consensus on political rules of the game necessary for coexistence.

While the attitudes and values of various ethnic groups (or nations) are overwhelmingly historically determined and only subject to slow change, the formation of political parties and non-governmental organizations (NGOs) is a new phenomenon. These were introduced only with the start of democratization in 1991.

Parties are still financially and organizationally weak—membership dues are rarely charged or collected—and they are not yet institutionally or programmatically consolidated. However, they are now among the potentially most important actors on the path to a pluralistic society. Regional ethnic and cultural interests play the dominant role. Parties representing classes do not yet exist. The low voter turnout for parliamentary elections suggests that the overall national consciousness is still weak, which can also be traced to the low rate of literacy among the population, especially among women.

3.2 Market economy

Ethiopia has made clear progress in the transformation of its economic regime, especially in the construction industry, tourism and agriculture. There has also been movement in the state finance sector, not least due to pressure from the OECD, the World Bank and the IMF, which have subsidized Ethiopia with an annual total of \$1 billion in loans and non-repayable financial transfers.

The hope is that Ethiopia will become an African model, an example of successful democratic transition. Transformation deficiencies remain, however, in the areas of organizing competition, equal treatment of foreigners and market-friendly intervention strategies on the part of the government and administration. Much remains to be done in the realm of modernizing agriculture as well.

3.2.1 Level of socioeconomic development

Ethiopia is still one of the poorest countries in the world. In 2001, it ranked 171 out of 174 on the UNDP human development index. Life expectancy is 43 years and, in all likelihood, it will continue to sink due to the high rate of HIV infection (about 3 million people). About 85 % of the population relies directly or indirectly from agricultural production. Coffee exports account for 50 % to 60 % of the

country's foreign currency income, followed by qat, a shrub whose slightly narcotic leaves are chewed, its second most important export product.

Since 1996-1997, Ethiopia has enjoyed average annual GDP growth of 4.4 % thanks to good harvests. The government's efforts to reverse the collectivization of agriculture under the socialist Derg system, which forced the relocation of hundreds of thousands of peasant families, have shown some initial successes. Much remains to be done to modernize agriculture given the low use of fertilizer and artificial irrigation. About 95 % of peasants still use the traditional tef seed, the principle grain (a type of millet), which, while resistant, prevents larger crop outputs. Even in normal times, approximately 5 million people depend on imported foodstuffs to survive.

3.2.2 Market structures and competition

One year after the TPLF seized power, the government introduced an economic policy it termed "market-oriented." The socialist planned economy model was set aside, not least in response to pressure from the Western donor and creditor community led by the United States government. Directly following the change of government, about one-tenth of Ethiopia's foreign debt (\$371 million) was forgiven. Four years later, about half was waived. The balance of trade is consistently negative. A reconstruction loan of \$672 million was granted at the start of the 1990s, supplemented by several structural adjustment loans of several hundred million dollars from the World Bank and the IMF.

Competition in various markets is desired in principle, but sluggish privatization shows the government lacks trust in potential investors and business people. The heavy-handed bureaucracy remains a serious hindrance and has generated complaints from Ethiopians living in exile as well. Applications are processed slowly. Title to property and private loans are hard to come by. According to information from the Ethiopian Privatization Agency (EPA), which was established in 1994, 195 enterprises had been privatized and transferred to domestic and foreign businesses as of July 2002, including the largest gold mine in the country, which was sold in 1997 to the Alamoudi Group.

The government plans to sell an additional 117 state enterprises in the next three years with the assistance of international consultants. These enterprises are primarily hotel chains, breweries, farms and plantations.

3.2.3 Stability of currency and prices

There has been unambiguous progress toward a free market economy in this area. The powerful Central Bank of Ethiopia, founded under socialism, is the guardian of price and currency stability. It launched and supervised the politically desired

economic liberalization and privatization process, while remaining dependent upon the finance ministry. It has since slowly handed off some functions to the small private banking sector. (In 2002, there were six private and two state banks in addition to the CBE.) Since August 1998, the private banking sector has been responsible for foreign currency transactions up to 500,000 birr (\$71,500). Since October 2001, foreign currency auctions held have been regularly replaced by private inter-bank trading, an IMF condition for additional program loans.

Until the border war with Eritrea affected the budget, government efforts to keep state expenditures in line and internal indebtedness under control, in consultation with the IMF, were successful. Military expenditures as a percentage of GDP rose, however, from 3 % in 1992-1998 to an estimated 10.3 % during 1998-2000. The national currency has been continuously and gradually devalued—from 6.71 birr per \$1 in 1997, to 8.21 birr per \$1 in 2000, to an estimated 8.45 birr per \$1 in 2001.

The rate of inflation has been reduced from the 1992-1995 average of 11 % to 6.5 % in 2000. For 2001-2002, inflation is expected to fall to 5 % if the country has normal grain harvests.

3.2.4 Private property

Deregulation of the economy has energized private economic activity, especially in trade, tourism and construction. Foreigners may not establish or operate any insurance companies or banks in Ethiopia. There is not yet a national stock market, but a committee of private business people is lobbying the government and the CBE to establish one. A bureaucracy socialized in statism only reluctantly approves applications for private ownership of land, factories, commercial enterprises and houses. Officially, the government is making efforts to attract foreign investors, but with little success to date. The political self-interests of the *de facto* state party, the EPRDF, and the central administration in the capital still block the free play of market forces as much as they can.

Two actors dominate the industrial sector: the Saudi Sheik Mohammed Hussein Almoudi, whose mother is Ethiopian, and members of parties within the EPRDF. The latter dominate enterprises in key industrial sectors through “para-party companies” to the frustration of independent private entrepreneurs, who are denied access to some market segments. Private companies also have a tough time in the construction industry against this new form of corporatist enterprise practiced by the political class.

3.2.5 Welfare regime

There is no doubt that introducing a market economy has expanded the income gulf between persons who are well off and the growing mass of poor and insecure. The slums of the capital, Addis Ababa, have absorbed millions of landless, uneducated peasants, including orphans, the disabled and sick, who have fled war and drought in the countryside. The end of the civil war in 1991 meant that about 300,000 soldiers were released from the armed forces, mostly young men without land or any civilian occupational training. Rehabilitation programs led by international developmental organizations have attempted with only limited success to integrate some of this population into civilian life.

While traditional social networks, such as extended families, Orthodox and other churches, and self-help organizations, exist to compensate for poverty and social risks, they are less and less effective in light of AIDS, land scarcity, population growth and chronic famine. The role of humanitarian NGOs has recently grown quite large with financial support from abroad.

3.2.6 Strength of the economy

Ethiopia's considerable land and water resources yet to be commercially exploited; dams on the Nile are still in the planning stages. The country's potential for growth is much larger than the performance of the national economy to date would indicate. Nonetheless, respectable growth rates between 4 % and 7 % have been achieved, though thanks less to domestic performance than favorable weather. Foreign direct investments in the amount of \$600 million have been made in 107 properties as of 2000.

Relatively large foreign currency transfers from the Ethiopian diaspora in the United States, Western Europe and Israel have had a positive impact. If the two-year border war with Eritrea had not broken out in May 1998, market economic reforms in the 1990s would certainly have had a more discernible effect.

Under-capitalization of a stagnant agriculture sector remains a structural weakness, making any reduction of the country's chronic dependence on foreign food and loans impossible given population growth of 2 million annually. Beyond that, the great dependency on one export product—coffee—is and remains a big problem. Only diversification of the national economy (tourism, leather processing, export of other agricultural products, etc.) can halt erratic budget movements by providing more income security.

3.2.7 Sustainability

What passes for economic growth in Ethiopia today is not ecologically sustainable. Erosion of the land is advancing quickly, especially in the northern highlands. The relaxation of state regulation after the overthrow of the Mengistu dictatorship in 1991 has resulted in rapid deforestation of areas previously under state protection. This is driven, as well, by rising energy costs.

As to the future, the low level of literacy (44 % of men and only 33 % of women) remains a concern, combined with the state domination and manipulation of secondary and tertiary education. Only 52 % of children attend elementary school. Only 12 % attend secondary school. Girls in the countryside suffer the most discrimination in this regard. Vocational and occupational institutions are still quite rudimentary, especially outside the capital. Ethiopia has one of the weakest educational systems in Africa. Ethiopia's education index is 0.34; only Niger and Burkina Faso score lower. The country's universities are frequently closed.

4. Trend

(1) *Political regime*: The state's monopoly on the use of force has been, by and large, established since 1991, despite repeated local acts of violence against the government. All three political achievement indicators had moved in a positive direction until the outbreak of the border war in May 1998. The state has acquired a modern constitution that recognizes the principle of checks and balances and the protection of human rights.

But the reality looks different: The executive dominates, drawing its legitimacy from the armed forces' victory in the civil war. Elections take place with multiple competing parties, but credible opposition parties are suppressed. True competition is not permitted by the minority government. The prime minister and his political supporters in the state apparatus do not allow public discussion of the question of power. The most politically active advocates for democracy are students.

(1) *Democracy*: After a promising phase of liberalization, the process of democratization demanded by the West has been in regression since 1998. This should be viewed more as an interruption of a long-term learning process by a society moving toward more tolerance and competition.

Only the next generation of political leaders will be able to enjoy the fruits of this process. The transition process is far from the stage of consolidation. The military, which is connected to the TPLF, is still too dominant for that to occur. Free public discussion and a free press with unrestricted freedom of assembly has yet to materialize, but Ethiopia's ability to manage conflict is increasing. Public corruption has grown, and in 2001 it led to a state crisis.

The multiplicity of political parties, often based on ethnic groups or regions without clear programs, is new. They remain weak institutionally and have achieved limited integration. Ethiopian civil society, especially in the Abyssinian highlands, represents a potentially positive developmental factor. This will depend on the extent to which civil society can maintain itself in the face of an authoritarian state. It is supported by a diaspora and religious groups abroad. In the southern regions, the life of agriculture-oriented ethnic groups is determined largely by the hard realities of the fight to survive.

(2) *Market economy*: Without doubt, the greatest progress has been achieved in regard to socioeconomic development and achievements in economic policy, especially in a qualitative sense. Title to property can be acquired more easily today, private investment capital is welcome and the banking sector is being liberalized and deregulated step by step.

Per capita income is still one of the lowest in the world—less than \$100—but government-directed economic, trade, budgetary and financial policy has improved. The West, particularly international financial institutions, plays a decisive role in this through annual financial aid of \$700 million to \$1 billion. An urban middle class, which will demand more rights of political participation over time, is only slowly coming into being in Addis Ababa and the provincial cities.

The power struggle that broke out in 2001 within the ruling core of the EPRDF also represents a disruptive economic factor that engenders legal uncertainty and temporarily worsens the investment climate.

Table: Development of macroeconomic fundamentals

| | 1998 | 1999 | 2000 | 2001 |
|-----------------------------------|-------|-------|-------|-------|
| Growth of GDP in % | -1.4 | 6.2 | 5.4 | 7.7 |
| Export growth in % | -4.9 | -16.6 | -4.1 | -10.9 |
| Import growth in % | 25.7 | 2.0 | -18.5 | 43.8 |
| Inflation in % (CPI) | 8.3 | 4.8 | 0.0 | -8.1 |
| Budget deficit as % of GDP | -2.88 | -5.48 | -5.14 | n. a. |
| Balance of payments (\$ millions) | -266 | -465 | 16 | -477 |
| Debt service ratio as % of GDP | 11.3 | 16.8 | 17.0 | 16.5 |
| Exchange rate birr - US dollar | 7.12 | 7.94 | 8.21 | 8.45 |

Sources: Economist Intelligence Unit, published by *The Economist: Country Report*, December 2002: Ethiopia, Eritrea, Somalia, Djibuti. London 2000; Economist Intelligence Unit, published by *The Economist: Country Profile 2002*: Ethiopia, London 2002; World Fact Book 2002: Country List (www.cia.gov/cia/publications/factbook/print/et.html): CIA—The World Fact Book 2002—Ethiopia.

5. Transformation management

5.1 Level of difficulty

Ethiopia possesses several unfavorable baseline conditions for a peaceful transition in the direction of democracy and a market economy. These include serious fragmentation of the population along ethnic/cultural and political lines, the traumatic legacy of a 30-year civil war, a low level of economic and social development, massive poverty that is structurally determined, a shortage of domestic institutions that can seed national democratization and the lack of a national entrepreneurial bourgeoisie.

At the start of liberalization in 1995, there was also no basic consensus among the diverse ethnic parties and the liberation movements over the rules of the game for democracy and modern rule of law with checks and balances. The normative conflict between the legitimation principle for political authority based on free and fair elections, on the one hand, and the legitimation principle of successful military exercise of force (TPLF), has still not been resolved. This is understandable to a certain degree, if not acceptable.

Given the general lack of resources and widespread unemployment, control of state power represents access to income from taxes and duties, as well as the quite considerable funds from international developmental organizations. These funds can be used to support an ethnic/cultural clientele and secure loyalty. The fact that elections have been held regularly in recent years represents progress in the direction of internationally recognized standards of civilization. This is also represented by the acceptance of the principles of competition in markets, private ownership, personal pursuit of profit and the protection of human rights.

The major drought of 2002 was also unfavorable for the transition process, along with the dramatic drop in world market prices for coffee. The situation was worsened by the trade war of the landlocked countries (without ports) with neighboring Eritrea (which introduced a new currency) since 1997, the financial black hole of a border war with Eritrea and, finally, the split in the leadership team of the Tigrean liberation movement.

5.2 Reliable pursuit of goals

The government of Prime Minister Meles Zenawi has consistently clung to the political rhetoric of both of the major transition goals—establishing a parliamentary democracy and transforming the country to a private, capitalistic market economy. Later, a third overriding goal was added—the strategic battle against poverty, in close and fruitful cooperation with international financial institutions.

In putting this political goal into practice, however, there have been considerable problems. Maintaining the TPLF's control over all political events, guaranteed by military power holds priority over expanding opportunities for political participation and the rule of law. Competition for power and influence among the parties had to submit to this undemocratic priority of holding onto power. The largest ethnic group in the country, the Oromo, with their numerous and diverse organizations, has suffered especially from systematic discrimination and suppression.

The government has held fast to the goal of devolution, the decentralization of administration and of decision-making jurisdiction. Along with the central government in Addis Ababa, 13 regional administrations have been established along linguistic/cultural divisions. Also, 550 district councils (*Woredas*), which are now supposed to be granted greater jurisdiction, have been established. Widespread corruption at the highest echelons of the state spurred the government to carry out administrative reform and facilitate more transparency.

Problems in the finance and banking sector have not yet been overcome. The creation of opportunities for foreign investors and entrepreneurs has been sluggish. Privatization of state enterprises remains a weak point of implementation, while still a consistent programmatic goal.

5.3 Effective use of resources

The government has invested and utilized the considerable financial resources provided to it by the international donor community, led by the IMF and the World Bank, largely according to agreements. There was a dispute lasting years with the IMF over the role of the finance sector and regulations for privatization and land purchase by foreigners. Corruption (reaching the top ranks of government), corporatism (party cadres helping each other out) and administrative heavy-handedness have considerably impinged upon the state's ability to optimize the use of scarce financial resources.

Positive note should be taken of the government's energetic measures to uncover incidents of corruption within the government and administration. The country's political culture, especially in the northern highlands, is still marked by people's emotional and cognitive fixation on the state as the institution responsible for all vital questions. This constricts the initiative of local communities. With the officially decreed expansion of jurisdiction for the 550 *Woredas* in 2002, the future may bring more effective use of resources through more participation from below, presuming the districts obtain real autonomy to act, including the right to collect taxes and make investment decisions.

Of course, the greatest waste of resources was the war against Eritrea in which both former allies shelling each other's capitals. In addition to costing the lives of

thousands, the war also led to the forced exodus of 70,000 Eritreans, a painful bloodletting of human capital.

5.4 Governance capability

The Meles government must be credited with a certain skill in its handling of state power. For 12 years it has established and defended the state's monopoly on the use of force and has always permitted only as much reform as would not endanger its loss of control over the process of transition. The greatest internal crisis—the arrest of TPLF dissidents, officials, bank employees and business people on suspicion of corruption in 2001—was also resolved without a state crisis, although with considerable loss of legitimacy by the government. The government, however, showed complete lack of understanding in the struggle with students who demonstrated for more human rights, civil liberties and social justice. Unrest in 2001 led to about 40 deaths and injured 400.

The government showed more managerial ability and flexibility in implementing the goal of fighting poverty. The Sustainable Development and Poverty Reduction Program presented in August 2002 finally won the approval of the IMF and World Bank. It must be noted, however, that it was less political acumen and insight into the practical constraints of a market economy that guided the government than its extreme dependence on foreign governments and aid organizations.

5.5 Consensus-building

The government has succeeded in building consensus around political issues only within its coalition, the EPRDF, which also holds governmental responsibility. Public opinion is not mobilized in order to inform and convince the electorate about national projects. The leadership cadres around the prime minister, who do not deny their social origins in the liberation struggle, are more oriented toward a model of integration and obedience devoid of discussion than on a political culture of consensus-building. The fact that 2,200 representatives of the previous regime are still in jail and have waited since 1991 for charges and a proper court proceeding says much about the new rulers' concept of the rule of law. The worst form of social exclusion is practiced against the Oromo. Civilian Oromo are repeatedly accused of providing support to the armed cadre of the Oromo Liberation Front, leading to mass arrests of civilians. In 2001 about 1,200 people remained jailed in Oromia for alleged support of the OLF, half of them without charges.

5.6 International cooperation

Addis Ababa has been the seat of the OAU (or the African Union) since 1963, as well as the seat of the UN's Economic Commission for Africa. This tradition alone has given rise to an interest in good international relations. Since the government of Meles Zenawi placed exaggerated value on autonomy and independence during its first years (to the detriment of reform projects), and since the end of the war with Eritrea in December 2000 (with the stationing of a UN mission to monitor the armistice), it has shown more willingness to cooperate with OECD states. With about \$10 billion in foreign debts, Ethiopia depends on good cooperation in order to have its debts forgiven repeatedly.

The intense drought of 2002 once again reminded the government of its permanent dependence on foreign donors who had suspended their development aid during the war against Eritrea. Today the government is prepared, in principle, to accept political conditions—good governance, deregulation of the economy, liberalization of foreign trade and non-discrimination against foreign investors and business people—attached by the World Bank and the IMF to their aid programs.

Ethiopia has become a member of the Multilateral Investment Guarantee Agency (MIGA), an offshoot of the World Bank, in order to be provide foreign investors with credible guarantees against expropriation. This resulted in an opening of the national economy that has benefited the more mobile segments of the population such as traders, hoteliers and agricultural entrepreneurs.

After the attacks of September 11, 2001, Ethiopia declared its willingness to participate in the international fight against terrorism. Political contacts with the West are nurtured entirely within the spirit of non-alignment. A goodwill treaty was signed with Russia in 2001, after Putin's Russia had supported Ethiopia militarily during the border war against Eritrea. Ethiopia expects this to lead to further debt relief and the modernization of its air force.

While political relations with its former ally Eritrea remain frosty, and Addis Ababa even provides support to the Eritrean opposition in exile, Ethiopia maintains good neighborly relations with Sudan, due to common interests in using the water of the Nile, and with some of the rebel groups in Somalia. Ethiopia does not recognize the transition government of Somalia. Overall, the Ethiopian government can be classified as a reliable trading and cooperation partner, as long as issues involving the regime's security are not affected.

6. Overall evaluation

In regard to baseline conditions, the status and evolution as well as the actors' political managerial achievements, this report comes to an overwhelmingly

critical evaluation of transition achievement. More could have been achieved, especially politically.

(1) *Baseline conditions*: The baseline conditions for transformation, both regarding the derivation of authority and in the economy, were extremely unfavorable. In its present form, Ethiopia—a landlocked country without significant raw material deposits and with leached-out, sparsely irrigated soil subject to chronic drought and famine—is a multi-ethnic state with 70 ethnic groups. This is the product of colonial conquest by the Abyssinian rulers of the 19th Century (Emperor Menelik) held together by an Ethiopian emperor with feudal pretensions (Emperor Haile Selassie) and his power apparatus until 1973.

Prior to the reporting period (1998-2003) neither functioning structures of a market economy nor a functioning multiparty system as the foundation for a true competitive democracy existed. There was no nation held together by a state with a national consciousness encompassing all 70 ethnic groups—and there is still not one. The largest ethnic group, the widely dispersed Oromo, who practice varying religions and lifestyles, has developed only the beginning of group consciousness in the course of democratization. Their organizations, like the OLF, are politically excluded, if not militarily opposed by the central regime in Addis Ababa, which is dominated by the third largest ethnic group in the country.

Market structures had begun to take shape only in the coffee export sector. The misguided land reform policy of the predecessor socialist government—relocation and collectivization on a grand scale—has weighed heavily on the still-distrustful population and was one cause for the agricultural sector's low productivity. There is hardly any industrialization, apart from a few state enterprises for processing raw agricultural products.

(2) *Status and evolution*: The path traversed toward democratic transformation has not been a straight one. Democratic values and the first shoots of civil society came to a standstill during the border war against Eritrea. The Eritreans' border provocations in Badme could have been de-escalated politically and diplomatically by the Meles government.

The issue of war objectives—the complete defeat of the “new arch enemy” Eritrea and conquering a port on the Red Sea, or only moderate humiliation of their neighbor—led to a clash of interests within the executive in 2001. It was not resolved by legal means but rather by the arrest of “dissidents” and charges of corruption. The regime's strongman was able to win out in this internal power struggle, but the new regime's institutions, with its elected representatives, were undermined. The legitimacy of Meles Zenawi's regime has suffered in the Ethiopian highlands as well.

The path traveled in the transformation to a market economy has been longer. There was and still is resistance within the administration and the political class to

individual elements of a market economy, such as the right to buy land, free competition in markets, allowing foreign investors and banks. However, in principle, there is consensus on developing a market economy and on close cooperation with international financial institutions.

Especially in regard to the strategic battle against poverty, the government has grown ambitious and now cooperates intensively and flexibly with the World Bank. Government expenditures are not provided for the social components of a market economy; the military budget consumes too large a share for that. Here people must rely on religious institutions, village and familial solidarity, or they die early from exhaustion and disease. Some progress was discernible in the decentralized educational system.

(3) *Management*: In view of the difficult baseline conditions and unfavorable external factors (collapse of coffee prices, recurrent drought, consequences of civil war, high foreign debt), the government's efforts in regard to introducing structures of a market economy must be evaluated higher than the actual results. In contrast to the ideological ballast of a Marxist-Leninist guerrilla movement from which the most important representatives of the government were recruited, the mental change to a market economy has been relatively rapid and without massive resistance.

There is no denying the ability to learn on the part of the entire leadership team under the direction of Prime Minister Meles Zenawi, who is both intelligent and flexibly pragmatic. But the price of pursuing state purposes and government goals has been unacceptably high.

The government is due understanding, however, in regard to its use of undemocratic means to ensure its position in power at the beginning of its term. It could not be realistically expected that a successful liberation movement, after overthrowing a dictator and conquering the capital (without plundering or major acts of revenge), would submit to a truly competitive election that it could have lost merely due to the ethnic composition of the population.

Because the West routinely insists on democratic elections with competing parties that usually have to be conjured up, the government took refuge in setting up an electoral façade aimed merely at blessing existing power relations. The price for this electoral farce was high. It made genuine political participation based on freely established parties impossible. Political opposition was suppressed by a police state. Important opposition groups boycotted elections, and foreign business partners slowly went back to business as usual.

The government of Meles Zenawi can be criticized for not having done anything to gradually overcome this unnatural situation in which an ethnic minority held political hegemony (and the subservient parties of other ethnic groups dependent upon it) by reforming electoral laws. As long as a system remains that cannot be

legitimized democratically or legally, the excluded Amhara and Oromo will dream of the overthrow of existing political actors, which would only perpetuate the vicious cycle of tyranny in Ethiopia.

7. Outlook

Ethiopia remains at the initial phase of a democratic transition. In that, the correct path in economic policy has been clearer than the successes in political democratization. Unless the country's political power elite (the TPLF plus Amharic organizations and newly established political parties) makes major changes there will be no enduring, prosperous market economy. They must change their attitudes toward power, war and a modern form of government. They must adapt these attitudes to globally competitive standards. In the realm of economic reforms, the chronic food insecurity—stemming from agricultural production using anachronistic processing methods—must be overcome. The agriculture sector must be modernized and supplied with ample capital.

One test of whether the government will begin following legal political practices will center on how and when functionaries driven out of the TPLF will be tried, and whether they will be convicted or released. This will also show if the government is serious in its fight against corruption, which began with a big public campaign in 2001. The tradition of foot dragging on trials must not continue. Worth mentioning are recent disintegration phenomena and split offs in the army, until then the most robust supporter of the government. In May 2001 the head of the secret service has been murdered—an opponent of the prime minister—and eleven army officers fled across the border.

The government's concept of ethnic-regional federalism should be given support from abroad only if the government finally follows words with real action and actually transfers jurisdiction and financial resources to autonomous agencies in the 14 regional and municipal administrations. Then, even a minority regime could earn some real legitimacy through economic and developmental successes throughout the country. With increasing legal guarantees for a market economy and a liberal foreign trade regime, the diaspora, especially Ethiopians living and working in the US and Western Europe, will play a larger role in developing the country.

Conclusion: The political transition process is now uncertain. Only when the government is again united internally and political stability can be guaranteed will the economic process of transformation in the direction of a functional market economy be politically unstoppable. A fundamental condition for further transitional progress is the continuous financial and developmental support from cooperative foreign countries and entities, which have their own interest in the structural stability of countries in the strategically located Horn of Africa.