

BTI 2014 | Ethiopia Country Report

Status Index	1-10	3.72	# 111 of 129	
Political Transformation	1-10	3.37	# 112 of 129	➔
Economic Transformation	1-10	4.07	# 107 of 129	➔
Management Index	1-10	4.19	# 89 of 129	
	scale	score	rank	trend

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2014. It covers the period from 31 January 2011 to 31 January 2013. The BTI assesses the transformation toward democracy and a market economy as well as the quality of political management in 129 countries. More on the BTI at <http://www.bti-project.org>.

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Key Indicators

Population	M	91.7	HDI	0.396	GDP p.c.	\$	1138.7
Pop. growth ¹	% p.a.	2.6	HDI rank of 187	173	Gini Index		33.6
Life expectancy	years	62.3	UN Education Index	0.289	Poverty ³	%	66.0
Urban population	%	17.3	Gender inequality ²	-	Aid per capita	\$	24.3

Sources: The World Bank, World Development Indicators 2013 | UNDP, Human Development Report 2013. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$2 a day.

Executive Summary

Ethiopia's political performance during the review period was characterized by contradictions within the government's policies. While the government under Prime Minister Meles Zenawi (until August 2012) successfully launched economic reforms aimed at stimulating economic growth and economic diversification, the regime brought the country's democratization process nearly to a halt. Since 2010, the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF), a coalition of five political parties under the leadership of the Tigray People's Liberation Front (TPLF), has held 546 out of 547 seats in the House of People's Representatives and thus faces no parliamentary opposition. The ruling party's virtual monopoly on power resulted in little serious political debate and a lack of control on the part of the populace over government decisions.

Opposition parties have been undermined to the extent that they no longer pose a threat to the ruling party; several attempts to form a united opposition front failed, due to rivalries among personalities and politicians' ethnicity. The once-popular opposition leader Birtukan Mideksa remained in prison during the 2010 elections, but was eventually released. Thoroughly intimidated by her solitary confinement and disappointed by the divided opposition, she announced later that she would not return to politics. The political opposition, largely forced into exile, is expected to remain too fragmented and feeble to play a considerable role in the political process unless brought on board as part of an internationally brokered process. Exile groups will continue to influence local parties and civil organizations.

The media and civil society organizations have been stymied by oppressive laws; trade unions and professional associations too have been forced either to toe the government line or, like the teachers' union, be dissolved.

On the level of socioeconomic development, the country has taken remarkable steps toward market-based reforms, such as trade regulation, privatization and an "agricultural development-led industrialization." Because this approach was not very successful in increasing industrial

output and food productivity, the government introduced in 2010 a five-year Growth and Transformation Plan (GTP) aimed at building large road and railway systems and several new mega-dams for energy production and export. From 2010 to 2013, GDP growth attained remarkable rates of 7% to 9% per year, while at the same time inflation rates rose rapidly and trade imbalances and foreign debts accrued. The country remained heavily dependent on the performance of its dominant agricultural sector, with coffee and flowers as Ethiopia's main cash crops. Economic diversification has been hampered still by the reluctance of the government to accept the privatization of land or allow private foreign banks. One form of diversification, however, is a policy of allowing foreign companies to lease huge tracts of land in southeastern parts of the country.

Ethiopia still maintains a huge trade imbalance and a current-account deficit of 4% of GDP. From 2010 to 2011, the country suffered a serious drought and subsequent food shortages in its southern and eastern regions.

Political instability and the U.S.-led war on terror in the Horn of Africa have cemented Ethiopia's position as the United States' key ally in the region, while strained relations with Eritrea and the failing Somali state will continue to dominate foreign policy. New tensions during the review period emerged with Egypt, when five riparian countries, led by Ethiopia, signed a Nile Common Framework Agreement in May 2010, which aims at replacing the old agreements that ignored the claims and interests of Ethiopia.

Contrary to what was feared by Western observers, the death of Prime Minister Meles Zenawi did not lead to a power struggle within the ruling group or to political and social upheaval. Hailemariam Desalegn, a politician from the south who held the positions of deputy prime minister and minister of foreign affairs, was appointed prime minister unanimously by the EPRDF's 180-member council. This vote could be interpreted as the party's wish to keep him in the post at least until the next elections, due in 2015. In September 2012, Hailemariam became acting prime minister and immediately reshuffled his cabinet, appointing two additional deputy prime ministers – thus the government now has three. These measures marked a clear rebalancing of the ruling EPRDF, an alliance that has traditionally been dominated by Tigray leaders. Prime Minister Hailemariam led the Southern Ethiopia People's Democratic Movement, considered the least influential member of the EPRDF alliance, during Meles's rule. The two appointed deputy prime ministers are also from the south, one a member of the Oromo People's Democratic Organization (Mukdar Kedir), the other from the Amhara National Democratic Movement (Demeke Mekonnen). This new policy appears a change from the centralizing tendencies under Meles Zenawi toward a broader representation of various ethnic groups at the center of power. The real new power center will develop after the elections, scheduled for 2014.

History and Characteristics of Transformation

Ethiopia, with nearly 88 million inhabitants, is Africa's second-largest land area on the continent. Regardless of its agricultural, mineral (gold) and hydrological resources, Ethiopia is still one of the poorest countries in the world. Some 70% of the population suffers from poverty or periodic famines, due to unstable rain-fed agriculture and a government which controls land property, thus giving little incentive to farmers to improve production techniques. Endemic social misery is also partly the result of various periods of bad governance. Although the country's modernization process was begun by Emperor Haile Selassie, the military rulers who succeeded him relied heavily on state-led modernization. It was a difficult task to stimulate economic growth and improve the living conditions of a backward and illiterate society, which was ethnically and culturally fragmented.

Since the early 1990s, the federal state of Ethiopia consists of nine, culturally diverse regions and two city administrations. The country is characterized by a clear north-south gap, which is the outcome of expansionist politics pursued by the Amharic-speaking people of the central highlands since the 19th century. It was Emperor Menelik II (1889 – 1913) who conquered several ethnic groups, tribes and fertile regions south of Abyssinia, the name for the highlands in the north inhabited by Christian Amharic- and Tigray-speaking highlanders. Menelik, with his "highlanders," conquered the southern population, a total of 64 ethnic groups living mostly as part of a subsistence economy. The largest ethnic group was the Oromiyya-speaking people (who later called themselves "Oromos"). This group, some 27 million strong, is the largest ethnic group in the Oromia region; there is 17.2 million people living in the Amhara region and 4.3 million living in the Tigray region. The war however did not instill a sense of national identity among the newly combined regions; Ethiopia's ethnic groups are varied in their culture, education, language and stage of economic development.

The roots of a modern state, with a strong army and central administration, were laid by Emperor Menelik, who repelled an Italian invasion in 1896 in the battle of Adwa, thus sparing his country the experience of colonialism and early modernization by foreigners. The process of Ethiopia's modernization was then orchestrated by Emperor Haile Selassie (1930 – 1974) and continued under the successive regimes of socialist dictator Mengistu Haile Mariam (1974 – 1991) and the current multiparty EPRDF government. The party was directed by Prime Minister Meles Zenawi, a strong authoritarian leader, until his death in August 2012. After the toppling of Mengistu in 1991, Meles soon became the uncontested leader of the Tigray People's Liberation Front (TPLF), which was guided by Marxist-Leninist political practices. Its ideological methods led to a small, highly centralized leadership under one "big man." With a new constitution that outlined the ethnically federal state, the government of Meles Zenawi and the EPRDF party coalition started in the early 1990s a forceful nation-building process but has yet failed to bridge the socioeconomic

gap between highlanders and the many small “nations” in the south that live in the periphery areas such as Somali, Afar, Gambela, Harari and Benishangul-Gumuz.

The civil war against Eritrea was a major event in Ethiopia’s history. Emperor Haile Selassie annexed Eritrea in 1962, triggering the formation of an Eritrean liberation movement that won the struggle against Ethiopia after 30 years of war. It delayed severely the development of the country and proved devastating to both sides. A Provisional Military Administration Council (Derg in Amharic) under Colonel Mengistu Haile Mariam took power and established a brutal regime of repression and socialist “development”.

After the TPLF had won the war of liberation in 1991 (while Derg leader Mengistu fled into exile in Zimbabwe), the new government had to cope with a threefold transition: the transition from civil war to a lasting, comprehensive peace (including the rapid demobilization of some 300,000 troops); a political transition from totalitarian dictatorship to pluralistic multiparty democracy, which was a *conditio sine qua non* for Western foreign aid; and finally a transition from a socialist-planned economy to a capitalist market economy able to withstand competition within globalized markets.

The Ethiopian People’s Revolutionary Democratic Front (EPRDF), which has held power since the first elections in 1995, is formally committed to the existence of a stable multiparty democratic system, a free market economy and ethnic federalism, that is, to devolve power from the center to the country’s nine provinces. The regime, dominated for 20 years by the Tigray ethnic minority under Meles Zenawi, tried to gain political stability not through input-legitimacy (such as the rule of law or free and fair elections), but through output legitimacy in line with the Asian model of successful “tiger states.” The regime intimidated opponents and harassed the opposition, especially following the 2010 elections (in which the EPRDF achieved 99% “victory”), and started an ambitious and state-driven economic development strategy.

Prime Minister Meles died in August 2012. Immediately after his death, the government appointed Hailemariam Desalegn, a southerner, as prime minister. Thus political stability was assured at least until the next parliamentary elections, scheduled for 2015.

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

Transformation Status

I. Political Transformation

1 | Stateness

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 (the lower house), and a smaller supervisory senate, the House of Federation (the upper house). The state's monopoly on the use of force is established nationwide in principle by an authoritarian government, but it is challenged by guerrillas, mafias or clans in territorial enclaves in the southern and southeastern regions. In May 2011 the ruling party, the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF), led for 20 years by Prime Minister Meles Zenawi (who died in 2012), marked its twentieth year in power with public celebrations. But there was a high level of distrust and dissatisfaction felt toward the government by the general population.

The concept of Ethiopian citizenship is accepted by a majority of the people, but questioned by ethnic minorities such as the Ogaden clans in the Somali region and parts of the Oromo, which provides the oppositional Oromo Liberation Front (OLF) with sufficient support to survive. Thus, the legitimacy of the nation-state is frequently challenged. Significant aspects of citizenship are withheld from such population groups and their leaders, who are regarded as disloyal to the ruling EPRDF coalition.

The state is secular. Religious dogmas have no noteworthy influence on legal order or political institutions. Informally, however, there is subtle discrimination against Muslims by the still Christian-dominated central government apparatus. The cabinet consists of Marxists and Christians belonging to the Orthodox Church, which still holds a strong influence on people. It is estimated that a third of the population is Muslim. In October 2011, the minister of federal affairs issued credible warnings about illegal underground activities of Wahhabis, but Ethiopian Muslims were, on principle, loath to accept any government imposition in matters of faith.

Question
Score

Monopoly on the
use of force

7

State identity

6

No interference of
religious dogmas

7

Clashes between religious groups increased during the period under review. Evangelical Christians were harassed after a group of Muslims apparently posted notices on the doors of Christian homes, saying they should convert, leave the city or face death. Several Christian churches were burnt by Muslim radicals in the Goda district of Jimma. In several other places in the south, Evangelical or Pentecostal Christians were reported to have destroyed places of worship belonging to traditional religions. There have also been a few clashes between Orthodox Christians and Sufi Muslims. In general, religious clashes appear to be caused by fundamentalists, regardless of their creed.

The state's administrative structures provide most basic public services throughout the country, but their operation is to some extent deficient. Each of the nine regions and the major cities consist of districts (woredas) and local councils (kebeles) with elected representatives, whom are supposed to control administration services at each level. Since 2011, a process of increased politicization has taken place; the ruling party seems to fear divergent opinion and hidden opposition among bureaucrats, and has therefore increased its grip on the country by implementing close surveillance and widespread party recruitment drives. A continued process of fusing state administration with the EPRDF party and its cadres has occurred at the national, regional and local levels. Any distinction between the state administration system and the ruling party has become blurred. The combined police, army and security services have backed up this authority structure with surveillance and selective coercion. Deviation from the party line is the usual cause of dismissals and demotions. For example, in February 2011, the chairman of the local administration in the Gambela region was fired for protesting against foreign land acquisition schemes in his area. Other administrators were sacked or dismissed. Because of this sort of organization, the general quality of public services is low.

Access to sanitation improved only slightly during the review period, from 20% of the population in 2009 to 21% in 2010. Some 44% of the population has access to clean water, a statistic that has shown no improvement in recent years.

2 | Political Participation

General elections are regularly conducted on the national level, with universal suffrage, secret ballots and multiple parties participating. But in reality, the May 2010 elections were neither free nor fair. The elections for parliament and the regional assemblies led to an unprecedented "victory" for the ruling party, the EPRDF. Campaigning was marred by harassment, intimidation and arrests. Opposition candidates and supporters were reported killed in Harar, Ambo, Dire Dawa, Jijiga and Shire. At the same time, the ruling coalition succeeded in mobilizing millions of

Basic
administration
6

Free and fair
elections
2

supporters through an efficient reward system; that is, the possibility of getting a job for a vote. The Ethiopian Electoral Code thus did not have much effect in the field.

The ruling party coalition won nearly all parliamentary seats in 2010; at the time of writing, the government has the support of 546 out of 547 total members of parliament in the House of People's Representatives. Thus there is no parliamentary opposition: the virtual political monopoly of the EPRDF means that there could be no public discussion over bills. Virtually all executive proposals are unanimously approved.

Elections on regional level present the same picture. The ruling EPRDF and its allied parties took 1,900 seats in regional state councils, out of a total of 1,904 seats. This trend of monopolization of politics by the ruling party has continued since 2008. The next general elections are scheduled to take place in 2014.

Due to the monopolization of political power by the ruling party, elected representatives at the national and regional level have the effective power to govern only so far as they do not deviate from the ruling party line. All important political decisions are taken by just a few individuals at the top of the party's hierarchical power structure. After the Meles government experienced strong opposition during the 2005 elections, when all available seats for the capital Addis Ababa were won by opposition parties, the government has feared free political participation. Since then, the political climate became harsher and more repressive. Political participation through a free press was also severely limited, as several journalists were arrested and several newspapers closed by the government. There were no public protests, however, apart from the occasional university student demonstration and several clashes over land questions in various regions of the country.

Effective power to govern

2

The constitution guarantees freedom of association and assembly, but these rights exist on paper only. Political participation suffers from severe restrictions on practical attempts to assemble and build associations. The government has used intimidation, harassment or threats of retaliation to prevent citizens from exercising their rights, for example by arbitrarily arresting, detaining and imprisoning peaceful demonstrators or using excessive force.

Association / assembly rights

2

Local human rights organizations are no longer able to operate as accounts have been frozen and field investigators harassed. The only organization that was tolerated was a government-instituted human rights council, but it has not produced any reports. Thus, "independent" civic groups can operate and assemble only if they support the regime, or are not outspokenly critical of it.

There is no freedom of information in Ethiopia. During the review period, the government even attempted to block information relating to the Arab Spring revolutions. During 2011 and 2012, several publications and newspapers were shut and reporters harassed, among them the weekly publications Addis Neger and

Freedom of expression

2

Awramba Times. A shrinking number of governmental journals still remain. The state practices censorship while some journalists practice self-censorship; others leave the country altogether, alleging intimidation and threats to their safety.

In July 2011, two Swedish journalists were arrested in the Ogaden area and charged with “illegal entry” and of supporting a terrorist organization on which they were reporting. They were sentenced to 11 years of prison, but pardoned in September 2012 by Prime Minister Hailemariam Desalegn.

The country’s so-called brain drain can be seen as an indicator of Ethiopia’s harsh and repressive climate. Professionals, intellectuals, journalists and political dissidents are leaving the country in high numbers, totaling several thousand annually. Ethiopia ranks among the top-20 countries in the world affected by brain drain, according to a source.

3 | Rule of Law

Ethiopia is in essence a one-party state, as all political power resides with the Ethiopian People’s Revolutionary Democratic Front (EPRDF) and its inner circle, the council of ministers. Since 1991, the entire political system revolved around the party leader and prime minister. Parliament is fully dependent on the party, under the control of the government. The judiciary is officially an independent institution, but in reality the executive branch has effectively undermined the system of checks and balances. The appointment of high-level officers, ministers and judges are the prerogative of the political leadership to ensure that government policies and its interests are taken care of.

Separation of powers

3

During the review period little changed after the death of Prime Minister Meles. A separation of powers is, according to official documents, a goal of the government but the powers of Ethiopian leaders are too pervasive.

According to the constitution, the judicial branch is established as a distinct and independently working pillar of the political system. In reality, the courts operate under close orders from the executive branch. Judicial matters are heavily impaired by the political authorities and high levels of corruption. The judiciary is to some extent institutionally differentiated, but severely restricted by functional deficits and insufficient territorial operability in the three regions of the south and southeast (Ogaden, Gambela and Benishangul-Gumuz).

Independent judiciary

4

In 2010, the Federal High Court sentenced 103 people (with six people receiving the death penalty) on charges of genocide in a case of so-called ethnic clashes in 2008 between various groups in the border areas, where hundreds of people were killed. The rule of law has been also severely hindered in regions with armed resistance movements, such as in the east, where the Ogaden National Liberation Front (ONLF)

operates among Ethiopia's ethnic Somali population, and in the south, where the Oromo Liberation Movement (OLF) is fighting for autonomy. All this occurs in line with the political objectives of the central government.

One can conclude that the judiciary has never been able to review legislative or executive acts.

Corruption by public officeholders is high. Several cases of alleged fraud and corruption at the Ethiopia Commodity Exchange were reported during the review period. In a 2012 survey, 48% of Ethiopians report having paid a bribe to a service provider in the last 12 months. Such practices can be qualified as "petty corruption." Corruption is also widespread at the top levels of government, regional governments and parastatal entities. The government was engaged in some efforts to bring to court offenders, but those engaged in corruption were seldom prosecuted under the law adequately. Anticorruption drives by the government have increased in number (mostly likely for the benefit of potential foreign investors and donors), but were selective and often appeared politically motivated.

Prosecution of
office abuse

3

Civil rights are not guaranteed and are systematically violated in Ethiopia. There are no mechanisms or institutions to protect citizens against violations of their rights. The annual reports of Amnesty International, Human Rights Watch and the International Crisis Group all agree on the highly critical state of the government's performance regarding the protection of human rights. Civil rights regarding the protection of personal liberty against state and non-state actors, including the right of free information and assembly, the protection against torture, and guaranteeing equal access to justice and public education, are often violated. For example, schools are under direct control of the ruling political party, with educational and career opportunities connected to loyalty to the government.

Civil rights

2

A new law named the Urban Lands Lease Holding Proclamation allows public authorities to nationalize urban lands and to expropriate at will all remaining forms of transferable and inheritable urban private property. During the review period there was some internal political controversy over the nature and scope of a series of large land acquisitions made by foreign and domestic investors, a practice that has been called "land grabbing," that has caused alarm especially among local farmers. In the Gambela region people have mounted violent resistance toward this government policy, in which more than 70,000 Anyuaks were forcibly removed from their ancestral land and placed in 18 different camps to make way for investors' plans for the land. Those who refused to leave were either killed or imprisoned. The government leased the land to investors for 99 years without compensation.

4 | Stability of Democratic Institutions

Parliaments are elected, although elections are neither free nor fair. The state is composed of a number of democratic institutions such as law courts, political party organizations, trade unions and civil society organizations, yet many of these bodies are unstable and do not function as effectively as they would in a truly democratic society. Local, regional and national parliaments and councils have limited tasks and can operate as long as they maintain the dominant party line of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF).

Stability varies from region to region. Whereas in the north (where Amharic- and Tigrinya-speaking people live) formally democratic institutions mainly function properly, regions with security issues (such as in Ogaden, Gambela and Afar) are less stable, with the population struggling from political harassment, police torture in custody and foreign land grabs.

In 2011, the government identified 3 million hectares available for the large-scale production of food or other crops, with nearly 1 million hectares of marginal land for biofuel crops such as jatropha or palm oil. When a chairman of the local administration in the Gambela region protested against a land acquisition scheme by foreign buyers, he was fired by the central government. Thus an elected local government official was punished, in essence, in protecting regional peasants from getting marginalized. Deviation from the party line is the usual cause of such dismissals and demotions. Political indoctrination has prevented decision-making councils throughout the country from operating properly.

One journal called the idea behind this practice of state paternalism, "development over democracy."

One might say that democracy as a value is highly respected among a majority of people in Ethiopia, and among representative institutions, such as political parties and NGOs. Within the upper echelons of the army (with its political veto power) and political ministries, however, this does not seem to be the case. Political developments in Ethiopia during the review period and previously have demonstrated a trend toward the monopolization of political power in the hands of the central government, dominated by a prime minister who does not believe democracy is a useful vehicle in achieving development. When Prime Minister Meles was invited by Columbia University in 2011 to give a speech on his "developmental state model," he confessed his beliefs in development by authoritarian, non-democratic means; that political stability is more important than political participation, and that rapid economic growth is essential for gaining legitimacy to rule a country.

Performance of
democratic
institutions

2

Commitment to
democratic
institutions

2

In short, Prime Minister Meles believed in output legitimacy (high economic growth rates) instead of input legitimacy (free and fair elections, democratic institutions and political participation). The development path of Asian “tiger states,” such as newly industrializing countries like China and Singapore, had served him as role models for Ethiopia.

After Meles died in August 2012, the political system remained stable and did not undergo a risky transition period as observers feared. A day after Meles’ death, his successor, Hailemariam Desalegn, was appointed by the Ethiopian People’s Revolutionary Democratic Front’s 180-member council. This quick appointment suggested that the ruling party intended him to remain in his post at least until the next elections, due in 2015. Most likely, the new prime minister – the first political leader without a military background – will be a less overwhelmingly influential figure than his experienced predecessor.

5 | Political and Social Integration

The party system is unstable, with shallow roots in society: high fragmentation, high voter volatility and high polarization. There are more than 60 registered “parties” in Ethiopia and most of them are artificial, socially not rooted in the population and therefore instable, with the exception of the Ethiopian People’s Revolutionary Democratic Front (EPRDF), the dominant political party coalition. The EPRDF is an alliance of four political organizations created in 1989: the Tigray People’s Liberation Front (TPLF), the Oromo People’s Democratic Organization (OPDO), the Amhara National Democratic Movement (ANDM) and the Southern Ethiopian People’s Democratic Movement (SEPDM). The concept of ethnicity was ideologically grounded in Marxist-Leninist tradition, and led to the creation of five regional states dominated by a single minority, for example, the Tigray, Afar, Amhara, Oromia and Somali. Four further states were created without a dominant ethnic group: Benishangul-Gumuz, Southern Nations, Gambela and Harar. Despite overstated economic growth and promised federalism and democratization, discontent is growing with the EPRDF’s ethnic politics, rigid grip on power and perceived corruption. With the death of Prime Minister Meles Zenawi in August 2012, the autocratic chairman of both the EPRDF and TPLF and a strong, although repressive, political leader supported by the United States, a power vacuum appeared. The political system had revolved around Meles; without its center of gravity, the federal democratic republic risks growing instability. Roots of instability however are far more complex than the death of a powerful leader; demography and dwindling job opportunities as crucial pull factors are also important.

Although mechanisms for succession were not clear, Deputy Prime Minister Hailemariam was appointed acting prime minister. He led the SEPDM, considered the least influential member of the EPRD alliance, during Meles’ rule. A month after

Party system
3

his official appointment, Hailemariam reshuffled the cabinet by appointing two additional deputy prime ministers, to counterbalance the strong influence of the Tigray in the political system. This move seemed to indicate a change from the centralizing tendencies seen under Meles to a more participatory approach toward decision-making. It is questionable whether this transitional period (until the next elections) will stabilize the country, due to the lack of support within the EPRDF for the new prime minister.

Political parties are still essentially a new phenomenon in Ethiopia, which may help to explain their volatility and instability. Before 2008, the government was mostly seen as a tool of the TPLF, with little grassroots support outside of the Tigray. In September 2008, it was announced that the EPRDF had 4.5 million members, compared to just 600,000 three years earlier. In 2010, the EPRDF claimed to have 5 million members, after immense government spending on massive membership drives, party cell organizations, propaganda meetings, party and civil service trainings and other unproductive government spending. The ruling EPRDF, led by Prime Minister Meles for 21 years, governed with the support of 546 of 547 members of parliament in the legislature. Government in essence faced virtually no opposition.

Ethiopia's many opposition parties are recognized in law but exist only outside parliament and are under constant pressure. They have been thus marginalized and have no impact on policy formulation. Some weak opposition parties are based on political grievances and the interests of ethnic nations at the peripheries of the country. They include the sparsely populated regions of Ogaden, Gambela, and Kambaata and in the deep south; these groups are not very consolidated. Repression of the Oromo and of ethnic Somalis and the government's attempts to co-opt their parties into subsidiaries of the EPRDF has helped to fuel nationalism in both Oromia and Ogaden.

Until 2005, the EPRDF controlled the political process and debate in the country and thus kept the opposition in disarray. Respected personalities tried to unite the more than 30 existing political opposition parties in 1998, forming the Coalition of Ethiopian Opposition Political Organizations (CEO); after it failed to gain sufficient support, a new coalition was launched in 2003, called the United Ethiopian Democratic Forces (UEDF). In preparation for the 2005 parliamentary elections, other opposition parties merged to build the Coalition for Unity and Development (CUD). Opposition parties ran into organizational problems, especially in rural areas, where party members and activists are often harassed amid a climate of distrust and overall state control. The Ogaden National Liberation Front (ONLF) and the Oromo Liberation Front (OLF) belong to the most active and ethnically based interest groups that are fighting the government.

Several diaspora groups are also politically active, mainly in support of the opposition against the EPRDF. But these groups have been weak and often divided, so thus

incapable of producing a common platform or posing a meaningful challenge to the Meles regime.

Ethiopia has a rudimentary system of organized interest groups which were, however, not able to build up an effective lobbying capacity, due to government repression and a policy of cooptation. Many professional associations, trade unions, teachers' associations, human rights groups and environmentally based lobbying groups reflect a wide range of interest groups, but their political influence is weak. The growing restrictions on doing business in Ethiopia have hindered potential entrepreneurs from starting private businesses. Growth in manufacturing, especially textiles, leather, and sugar production, was observed during the review period but was still limited by bureaucratic regulations. Parastatals still hold a dominant position, although the government has privatized two large breweries recently, Dashen and St. George.

Interest groups
3

All trade unions and civil society organizations (CSO) are closely controlled by the government. A new press law, a new NGO law and a new anti-terrorism law were adopted by the government and often used to curb the autonomy of non-governmental institutions. The effects of the restrictive CSO law (Charities and Societies Proclamation) passed in 2009 and effective as of January 2010 were such that many local and foreign-supported or civic organizations saw their work thwarted and had to close. In 2013, the Berlin-based Heinrich Böll Foundation gave up its work with civil society groups in Ethiopia as it was no longer prepared to accept the permanent interference from the state over its work. Therefore the scope for participation is left only for religious organizations, community-level savings clubs and burial societies. This neutral civic space was again seriously limited when elections took place in May 2010. The number of civil society organizations was reduced from about 4,500 in early 2009 to about 1,400 in 2010. Some 90% of staff in such organizations lost their jobs. Today CSOs and NGOs are not allowed to receive more than 20% of their budget from foreign sources what makes it nearly impossible for them to continue with their social activities.

Although Afrobarometer and other surveys on political attitudes are not allowed in Ethiopia, it can be drawn from observation that Ethiopia's population, living under a federal political system (with more than 60 parties), appreciate political competition, free and fair elections and democratic institutions. The majority support given to opposition parties in the 2005 Addis Ababa council elections shows clear proof of a democratic attitude among the urban electorate. Shortly afterward, the government acted with unprecedented brutality to suppress this political electorate, which had dared to make use of its civil rights. One can assume that few citizens have trust in the current constitution, primarily because of the way it has been used by the government.

Approval of
democracy
n/a

As of the review period, it is most likely that democratic norms have lost credibility among the population. Since 2010, the "democratically" elected government has

launched so many restrictive laws regarding NGO activities, civic political activity and media freedoms that people are afraid of speaking up; instead, they tend to either leave the country or withdraw from public activities altogether.

Traditionally, there is a fairly low level of trust between the government and the people, and between various ethnic groups. In general, representatives of the Tigray population are regarded with mistrust and skepticism by Amharic and Oromo people, as well as by smaller tribes in the south that have often suffered from the arbitrary actions of rulers from the “highlands.” Ethnic tension has been common during the period under review, mainly in the poorer regions of the west and south. Clashes seem to be endemic in the Ethiopian ethnopolitical system, as it has politicized the group identities of all ethnic and linguistic groups, pitting them against one other (for example, breeding tension between the pastoralists of Issas and Somalis, or between the agropastoralists of Guji and Sidama). Land scarcity and persistent drought are often the real causes of “ethnic clashes.” Tensions between communities have grown with ill-planned resettlement schemes, supported by the government, to “empty” land earmarked for lease to foreign investors. In Gambela, the Anywa people were hard-hit by displacement due to externally driven land-lease schemes and the expansion of neighboring groups, and suffered with substandard living conditions. According to some observers, some Anywa youth had taken up arms in 2012.

State villagization programs increased the distrust between “old” settlers and new settlers. Ethiopia hosted some 290,000 refugees from neighboring Eritrea, Sudan and Somalia, which under conditions of draught, famine and land scarcity, only increased clashes between the various ethnic groups.

The only tolerated mechanism of mediation between society and the political system are the informal councils of elders in rural areas. Not often however were they successful as mediators in conflicts regarding water and land usage.

Social capital
4

II. Economic Transformation

6 | Level of Socioeconomic Development

Ethiopia is still numbered among the world’s least-developed countries, despite improvements in agriculture and services. The country is ranked 173 out of 186 countries on the Human Development Index (HDI 2012). Ethiopia during the review period has shown remarkable economic growth, but poverty, a growing population and socioeconomic insecurity remained serious problems. Some 77.6% of the population lived in relative poverty (below the \$2 per day threshold, as of 2005). In 2012, an estimated 29% of the population remained below the poverty line, which

Question
Score

Socioeconomic
barriers
2

was nevertheless a reduction of 5%. On this as well as indicators for health, child mortality and education enrollment, Ethiopia has performed comparatively well according to U.N. Millennium Development Goals.

Under the new Growth and Transformation Plan, launched after the 2010 elections, the government indicated its intention to reduce poverty from 29% to 22%. Some 7 million people are dependent on food aid, especially in the south, where in 2011 3 million people suffered under draught conditions, considered some of the worst in decades.

In 2011 and 2012, economic growth was substantial (7.3% in 2011) which has led to continued high GDP growth and advances in health and education coverage; substantial infrastructure projects grew in intensity, yet all the while their social and environmental costs were denied by the government. Ethiopia suffers from a huge budget deficit, excessive government spending and high inflation. A serious draught in the south and the east caused pockets of famine and malnutrition, which led to the deaths of several thousand people. The government in response demanded extra food assistance for some 4.5 million people.

Overall, social inequality increased during the period under review, with a top layer of elite, including business people, government officials and civil servants, safe in their jobs and income, and a large mass of peasants and workers remaining in vulnerable, dependent conditions, struggling to make ends meet. Ethiopia's GDP per head (purchase power parity) has increased slightly from \$884 in 2008, \$949 in 2009, \$1,035 in 2010 and \$1,110 in 2011, and is estimated at \$1,194 in 2012 (according to the Economist Intelligent Unit country report, December 2012). Real GDP growth was forecast by the overoptimistic government to rise to 9% in 2009, owing to the country's positive agricultural performance, and to 9.5% in 2010, helped by higher foreign investment and further improvements in the power supply.

Population growth without an equivalent growth in wealth and production has contributed to the decline in socioeconomic well-being. Rural poverty and social inequality are extensive and structurally ingrained, due to ecological (poor soils), cultural (discrimination against women) and economic (low productivity) factors.

Social inequality, according to the Gender Inequality Index, is extreme (estimated above 0.8%). Ethiopia is among the world's most illiterate people: the literacy rate was 29.8% (total), 18% for females and 41.9% for males. Unemployment was 20.5% in 2011 and life expectancy at birth 58.7 years, far lower than the average (67 years).

It is estimated that between 50% and 60% of the country's youth are unemployed. Health conditions are poor. A significant out-migration (seeking work in neighboring countries) and brain drain has taken place due to poor living conditions at home, increasing repression by the government, and the attraction of comparatively higher-

paying jobs abroad. Remittances from Ethiopians abroad to relatives and friends in the country were only partly registered, but reached an estimated \$1.5 billion.

The living conditions of the people, including the middle classes, have deteriorated mainly due to an extraordinary increase in the inflation rate from 8.1% in 2010 to 33.2% in 2011; with food inflation reaching 46%, the highest rate in Africa.

Economic indicators		2009	2010	2011	2012
GDP	\$ M	32189.0	29706.2	31708.8	43133.1
GDP growth	%	8.8	9.9	7.3	8.5
Inflation (CPI)	%	8.5	8.1	33.2	22.8
Unemployment	%	-	-	-	-
Foreign direct investment	% of GDP	0.7	1.0	2.0	-
Export growth	%	6.9	0.3	2.7	-
Import growth	%	16.4	1.9	-5.5	-
Current account balance	\$ M	-2190.7	-425.4	-783.1	-
Public debt	% of GDP	25.1	27.6	25.9	21.6
External debt	\$ M	5232.5	7346.5	8596.6	-
Total debt service	\$ M	103.2	183.7	353.2	-
Cash surplus or deficit	% of GDP	-2.2	-2.8	-1.4	-
Tax revenue	% of GDP	6.6	8.2	9.3	-
Government consumption	% of GDP	8.2	8.6	8.1	-
Public expnd. on edu.	% of GDP	4.6	4.7	-	-
Public expnd. on health	% of GDP	2.4	2.6	2.7	-
R&D expenditure	% of GDP	-	0.24	-	-
Military expenditure	% of GDP	1.2	1.1	1.1	0.9

Sources: The World Bank, World Development Indicators 2013 | International Monetary Fund (IMF), World Economic Outlook 2013 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2013.

7 | Organization of the Market and Competition

The government under Prime Minister Meles has pursued a policy which can be best named as “state-driven capitalism.” Market competition operates under a weak framework, with uneven rules for market participants. This was the government’s strategy to modernize the economy from above, by relying mostly on state intervention. On the one hand, private farmers were encouraged to use more frequently fertilizers and take part in irrigation schemes, yet on the other hand, potential private investors were deterred by too many regulations. Selling and buying land is difficult as private property is restricted, and banks are not allowed to operate under free-market conditions. It is feared that macroeconomic imbalances will deepen.

Market-based
competition
3

There is considerable state intervention in sectors the government regards as strategically important, such as sugar production. The government is heavily engaged in building irrigation dams with Nile water (three huge irrigation dams; the most recent is the Grand Renaissance Dam on the Blue Nile, near the border with Sudan), necessary projects to come closer to the objective of removing the country’s reliance on food assistance from outside.

The ambitious five-year Growth and Transformation Plan, launched after the 2010 elections, was meant to realize the government’s widely claimed growth targets. In an effort to attract foreign investment, over 4 million fertile hectares were leased at low prices, accompanied by the reported forceful eviction of indigenous inhabitants, to international companies and foreigners to produce food, flowers and biofuel for export. Human rights groups condemned these acts as inconsistent with the government’s stated aim of achieving food security. The Gambelan Democratic Movement (GDM) claimed that government forces had attacked its military wing in April 2012 because the GDM is striving to stop the sale of Anyuk land to foreigners.

In conclusion, the free market competition is hindered by massive interventionist action with some detrimental economic consequences. The great majority of the population still lives in rural areas under the poor conditions of a subsistence economy.

Effective safeguards against the development of monopolies do not exist, although the establishment of a Competition Commission in 2006 attempted to prevent the emergence of monopolies. There is the case of Sheikh al-Amoudi, a billionaire with Saudi-Arabian and Ethiopian roots, who owns dozens of commercial enterprises in the country, yet it never came to light whether his activities in Ethiopia were ever investigated by state authorities. As far as the banking sector is concerned, one can argue that although the number of local private banks has increased remarkably, the sector at large is characterized by an oligopolistic structure, and is protected by the

Anti-monopoly
policy
3

government. The banking sector consists of a dozen banks, among which the state-owned Commercial Bank, the Dashen Bank of Sheikh al-Amoudi, the Wegagen Bank (controlled by the Tigray People's Liberation Front) and the private Abyssinia Bank are the dominant players. The state has maintained its ban on foreign banks entering the domestic market, a move widely supported by the population.

Despite long negotiations with WTO representatives, Ethiopia is still not a member state of the World Trade Organization (WTO). After four years of discussions, a Working Party on the Accession of Ethiopia to examine the country's membership application came up with some reservations in regard to its foreign trade regime. Critics were concerned that Ethiopia would not meet WTO entry requirements and that further openings to the world economy, especially in the service sector, would worsen poverty in the country. Since then the government announced the launching of reforms to strengthen Ethiopia's competitiveness in foreign trade.

The country's current account deteriorated in the first half of 2011 to 2012; while exports remained reasonably robust, import volumes surged by almost 30%, reflecting a recovery in capital goods imports and an increase in consumer goods imports. Due to the high inflation rate and the increasing foreign trade deficit, one can expect that the government has to change its arbitrary economic policy and will be forced to seek IMF funding for its ambitious development plans. This would require it to alter its existing economic policy approach toward more liberalization of foreign trade.

Ethiopia's government taxes imports and exports heavily and efficiently. In 2010 and 2011, the government collected revenues from import duties of ETB 23.059 billion (\$1 = ETB 13.403 in 2010), in addition to direct taxes of ETB 17.969 billion and domestic indirect taxes of ETB 12.707 billion. The country suffered from a huge trade gap: imports totaled \$9.692 billion and exports \$2.580 billion. Foreign trade has followed public principles and was significantly distorted by state interference, special rules, tariff and non-tariff barriers, and so on. The economy is integrated selectively into the world market, having been a beneficiary of the trade and development cooperation treaty between the European Union and the African, Caribbean and Pacific Group of States (ACP countries), called the Cotonou Agreement (previously the Lomé Convention). But the Meles government previously articulated reservations over the EU-proposed Economic Partnership Agreement, which intends to accelerate the liberalization of Ethiopia's foreign trade.

The country's banking system and capital market are poorly differentiated; regulation and supervision requirements are inadequate. The government is refinancing its expenditures to a large extent through domestic borrowing. The banking system is open to private banking since 1997, but foreign banks are not allowed to conduct business freely in Ethiopia.

Liberalization of
foreign trade

4

Banking system

4

Inflation escalated significantly in 2011 and 2012 (33.2%) and will remain the main challenge for monetary policy. Since the end of 2010, the National Bank of Ethiopia, the country's central bank, has said that it is adopting a new reserve-capital growth target. This strategy is designed to address the problem of excess liquidity and demonetization. There have been two main barriers to the efficiency of monetary policy: the negative real interest rate, which limits demand for government bonds and T-bills; and direct central bank financing of the government deficit, which is inflationary.

The business climate deteriorated during the review period, dropping seven places on the World Bank's Doing Business Index, mainly due to additional restrictive regulations, bureaucratic complexity, a lack of trust in the government, judicial insecurity and corruption.

It is expected that the government will return to the IMF for balance-of-payments support. Nevertheless, the government is likely to continue to bar foreign banks while maintaining its monopolies in the energy and telecommunication sectors. The sometimes-conflicting agendas of maintaining a strong government influence in the private sector while attracting foreign investment will persist, according to the Economic Intelligence Unit in December 2012.

8 | Currency and Price Stability

The government has pursued ambitious investment programs under its 2010 Growth and Transformation Plan, which was accompanied by warnings from the World Bank as overambitious and beyond Ethiopia's means. Inflation increased from 8.1% in 2010 to 33.2% in 2011, while food inflation reached 46%, the highest rate in Africa. The increase in food prices affected the poor classes the most, while high inflation rates and increasing consumer prices also affected the middle classes.

While controlling inflation is a component of the economic system in principle, it is institutionally and politically subordinated to other goals, especially stimulating economic growth via huge infrastructure investments. Foreign exchange policy is essentially used for political purposes.

Another worrying factor is the rise in foreign debt. Although Ethiopia significantly had reduced its debt in 2008 under the Heavily Indebted Poor Countries (HIPC) initiative, with debt levels falling to \$2.7 billion, foreign debt rose again to \$12 billion or ETB 200 billion in December 2012. Most of this was due to huge loans and investments in infrastructure schemes, including the large Renaissance Dam. Some 47% of foreign debt is owed to China. China and Saudi Arabia are the country's principal trading partners. In 2010, China exported goods worth \$2.323 billion to

Anti-inflation /
forex policy

4

Ethiopia (of \$9.69 billion of total imports in 2010); exports from Saudi Arabia total \$1.153 billion.

The national budget for 2011/2012 was \$6.8 billion, representing a 39% rise when compared with 2010. Some 59% of government spending was on capital expenditures, for example on infrastructure, energy supplies, state housing complexes, state companies, education, health facilities and so on. About 39% of the budget was allocated to regional governments.

The government's fiscal and debt policies are inconsistent and insufficient to promote macroeconomic stability. In 2010, the total debt service reached \$119.8 billion and public debt totaled 36.7% of GDP, compared with 32.2 % in 2009 and 66.8% in 2006. In 2012 reserves were trending toward zero.

In April 2012, gross official reserves had decreased to 1.8 months of projected imports for 2012 and 2013. Reserves are unlikely to exceed three months of imports during the forecast period, as the government prefers to spend resources on development rather than build reserves beyond this level (Economist Intelligence Unit, December 2012).

9 | Private Property

Property rights and regulations on the acquisition, benefits, use and sale of property are defined formally in law, but in practice citizens suffer from the unpredictability of state authorities. In cases of conflict of interest between public development projects and private property entitlements, the government's interests enjoy priority. In 2011 the government planned to turn the capital center of Addis Ababa into a massive business district, removing any "slum neighborhoods." Many of those who were displaced complained of the new yet substandard facilities, the delays in delivery, the disruption of solid social networks and the loss of employment and income.

In November 2011, a controversial new Urban Lands Lease Holding Proclamation was made public. In effect the proclamation nationalized urban land and eliminated all remaining forms of transferable and inherited urban private property. According to the assessment of one close observer of the Ethiopian policy, this new regulation would mean that such property would have to be held on lease, so that any land could eventually be redistributed and expropriated at will by the authorities.

In the south, the government has ordered the expulsion and resettlement of tens of thousands of people. Land allocation to foreign investors, and resettlement schemes to "clean" the land for investors, are among the most often noticed complains by smallholders and rural people. In Gambela, Benishangul-Gumuz and Somali regions,

Macrostability

4

Property rights

3

125,000 households have been resettled, according to Africa Confidential, from May 2012.

The ruling party exploits resources without local consent. The rights of the people (in the peripheries such as Ogaden, Gambela and Benishangul-Gumuz) are not safeguarded adequately by law against arbitrary state intervention or illegal infringement.

The government under the leadership of Prime Minister Meles tried to accelerate economic growth through state-driven capitalism. This policy resulted in rapidly increasing debts and high inflation, which discouraged private investment. Private companies, local or foreign, are not forbidden, however; they are, under special conditions, legal and even welcome, but they do face economic, political and social barriers to development.

Private enterprise

4

The “agricultural development-led industrialization” strategy is aimed to promote medium-scale industries based on agricultural processing in larger regional capitals. It envisages the integration of such agro-processing plants with programs to improve productivity in smallholder agriculture as well as larger-scale commercial farms. Despite deregulation and the ability of regional governments to grant licenses for commercial farming, large-scale commercial agriculture remains beset with problems of infrastructure, land tenure and licensing. Although several hundred small state-owned retail outlets were quickly sold, the privatization of larger companies has been piecemeal and slow. Overall private sector fixed capital formation amounted to 1.7% of GDP in 2000 – 2005. Net foreign direct investment (FDI) totaled \$4.108 billion in 2008, a decline of more than 50% compared with the previous year. However, FDI increased to around \$2 billion in 2010 (according to the ADB’s African Yearbook 2012: Africa South of Sahara: Ethiopia). This amounted to 1% of Ethiopia’s GDP.

10 | Welfare Regime

Welfare institutions are organized by the state, as well as by faith communities and private charities, yet efforts are not sufficient to cover the whole country and address all needs. Both the Orthodox Church and – more recently – Muslim communities run local self-help welfare networks. International (such as the Bonn, Germany-based Welthungerhilfe) and local charities and NGOs (such as Menschen für Menschen) provide basic social services as well.

Social safety nets

5

The budget allocation for poverty reduction and infrastructure development programs for the 2010 – 2011 fiscal year represented 70% of total spending, demonstrating the government’s commitment to lowering further the prevailing rate of poverty. But the results so far are meager: for example, only 21% of the population has access to sanitation.

One major problem is deficient technical infrastructure in rural areas. Large parts of the country are not connected to the road system and have no access to clean water or electricity.

Social safety nets are rudimentary and cover only few risks for a limited number of beneficiaries. The majority of the population is at risk of poverty.

More than 10% of the population falls into the category of absolute poverty, and some 30% fall under the category of relative poverty. More than 3 million people are permanently dependent on food aid from outside; in 2010 – 2011 the number increased to more than 7 million. Pension systems exist only for a small elite group of civil servants. Employees in the formal economy can voluntarily participate in a provident fund system.

The government has embarked on a robust expansion of basic health services in rural areas. Life expectancy rose to 58.7 years in 2010, from just 45.7 years in 2001.

In general, living conditions improved slightly in health and education during the review period; however, there is no reliable welfare system for the majority beyond individual and communal efforts.

Traditionally, Ethiopia is a country with extreme inequality as far as education, public services and political as well as professional careers are concerned. Inequality exists between urban and rural areas, in terms of gender and ethnicity, and in some extent in religion (between Orthodox Christians and Muslims). Especially citizens in the peripheral regions of the south and east do not have equal access to public services. Women and members of ethnic or religious groups have limited access to education, public office and employment. This situation has been reinforced by the patronage system maintained by the ruling party.

The official policy of ethnic federalism failed to achieve a better representation of all ethnic groups (often called “nations” in Ethiopia). The result has been greater political centralization, with a concomitant ethnicization of grievances.

There are some legal provisions against discrimination, but their implementation is highly deficient. In recent years governments have made some progress in coming closer to achieving the Millennium Development Goals, especially in the field of female education. Gender inequality Index was above 0.800% (= very unequal), according to UNDP figures for 2011, but some improvements were recorded in education: the ratio of female-to-male enrollment was 91.2% in primary education, 81.7% in secondary education and 36.1% in tertiary education.

Equal opportunity

4

11 | Economic Performance

Ethiopia is one of the world's most important coffee growing countries, producing between 220,000 and 300,000 tons of coffee annually. Coffee represents 34% of all exports (totaling \$774.2 million in 2010). Owing to an excess in supply, world coffee prices have collapsed in recent years (according to 2009 figures, exports totaled \$369.8 million). This has made coffee a less reliable cash crop, and thus a less useful financial platform from which the Ethiopian economy can be diversified. The four other important export items are as of 2010: vegetables, roots and tubers, \$452.7 million; oil seeds, \$375.2 million; gold, \$201.9 million and flowers, \$159.3 million.

The economy overall maintained a high rate of growth (10.8% in 2008; 8.8% in 2009; 9.9% in 2010; 7.3% in 2011), although this was skewed toward donor-funded infrastructure outlay and a growth in services, rather than in productive capacity. At the same time, Ethiopia suffered from a huge budget deficit, excessive government spending and high inflation. Inflation increased again from 8.5% in 2009, 8.1% in 2010 to an alarming high of 33.2% in 2011, due to massive government spending on infrastructure (mainly the Blue Nile dam projects).

Ethiopia's per capita GDP was estimated to be about \$1,100, based on purchase power parity (for 2011), up slightly compared with \$1,000 in 2010. According to official government figures, total GDP rose for the fiscal year 2010 – 2011 to \$30.2 billion, from \$26.6 billion in 2009 – 2010, as a result of growth in agriculture, infrastructural works and services.

The structural trade balance is negative, due to a severe disjunction between high levels of imports of goods and services and stagnating, low levels of exports. In 2011 – 2012, the country paid \$9.391 billion for imports, while exports did not even reach one-third of that amount, or \$3.011 billion. Refined petroleum oils, mainly imported from Sudan, are Ethiopia's greatest import item, valued at \$1.74 billion.

The country's trade deficit has grown from -\$3.08 billion in 2006, -\$3.87 billion in 2007, -\$5.65 billion in 2008, -\$5.28 billion in 2009, -\$4.97 billion in 2010, -\$5.30 billion in 2011 and to an estimated -\$6.38 billion in 2012. From 2009 to 2012, imports of goods outpaced exports growth sharply. Since 2010, exports received a boost from a more competitive exchange rate.

The country depends heavily on current transfers, which during the review period were twice as high as export earnings.

Industry, which made up 9.2% of GDP in 2012, did show some minimal growth during the review period. The Agricultural Development Led Industrialization (ADLI) strategy was replaced by the Growth and Transformation Plan (GTP), launched after the 2010 elections, because of the previous plan's lack of success. The

Output strength

7

government did make some progress in the privatization of state enterprises. A steady stream of privatization in recent years has resulted in the sale of companies across a wide range of sectors, from sugar and dairy farms to leather factories and textile plants.

Foreign debts amounted to \$7.102 billion in 2012 from \$2.620 billion in 2007; increasing to 48.5 % of GDP in 2010, 41.0% of GDP in 2011 and finally, to a forecast of 44.5% for 2013.

All considered, Ethiopia's economic policy has shown reasonably good success, as macroeconomic performance has been moderately positive, with the exception of rising trade deficits and increasing levels of foreign debt, and inflation.

12 | Sustainability

Ethiopia has established an Environmental Protection Agency (EPA) and passed a number of environmental protection laws, including one requiring the completion of an environmental impact assessment for each major investment. In practice, however, these laws are widely ignored and the EPA is often unable to enforce them. When the government decided on a policy of allowing massive land acquisitions by foreign and domestic investors, the EPA supported the local and regional concerns of Majangir protestors, who pleaded for a halt to the process of leasing a large part of their land to an Indian company. But its intervention did not produce any positive results so far. Another case deals with the large amount of water used by foreign companies in growing and exporting flowers, to the detriment of local people living near the lakes in middle and southern Ethiopia.

The country's environmental performance index (EPI) figures are not plausible. Ethiopia ranks 70 out of 132 countries, a middle position as measured by the Yale Center for Environmental Law and Policy. During the previous period, Ethiopia was ranked 141 of 163 countries, with a score of 43.1 (far below the average of 55.6). But it is questionable whether real progress could be achieved in light of the government's plan to build a second mega-dam ("Gibe-3") at the Blue Nile. The environmental implications of irrigation policy would harm water-dependent neighboring Egypt, essentially. But Prime Minister Meles proclaimed in April 2011 that Ethiopia should build a defense capacity to repel any "Egyptian threat." In June 2011, the UNESCO World Heritage Committee called on Ethiopia to halt immediately all construction of the second mega-dam due to the potential damage to world heritage sites and to Lake Turkana.

Other environmental problems remain worrisome. Deforestation and land erosion are serious ongoing problems, and have been addressed only in selected areas through tree planting, building containment walls or other measures. Population growth has

Environmental
policy
4

resulted in increasing environmental pressure, as has pollution in urban industrial areas. Plastic bags and batteries from radios, recorders and other devices are still strewn across the country. Agricultural land in densely populated areas of the highlands has been deteriorating steadily in recent years, leading to soil erosion and deforestation.

Recently environmentally compatible growth has received some more formal attention, when the government embarked on a series of environmental initiatives, including a National Conservation Action Plan. Environmental awareness has grown somewhat, driven in large part by NGO reports, government information and academic research, but has not resulted in a parallel increase in policies so far.

The government's gospel of quantitative economic growth, based on ambitious investment programs in agriculture, forestry and irrigation, was put above all other objectives – to the detriment of the environment.

Ethiopia is a highly socially fragmented and unequal society, with a huge underdeveloped rural sector with small modernized centers, which the government intends to broaden and deepen. Expenditure on education accounted for 4.7% of GDP in 2010 (compared with 4.6% in 2009 and 5.4% in 2008), which is one of the largest budget outlays in Ethiopia. This relatively high level of spending on education for a poor African country is a reaction to decades of neglect and low literacy rates during military rule (until 1991), and reflects a government strategy to make substantial improvements in the country's human capital. However, education and training is substandard, with relatively low quality at the primary, secondary and tertiary levels, and insufficient but improving school enrollment. The overall literacy rate is 29.8%.

Research and development accounted for only 0.17% of GDP in 2008, which is the latest number available. Investment in education and training is regarded by the government as a high priority, with an increasing number of pupils enrolled in school, and a rising number of schools being built in rural areas.

The construction of rural universities has continued, adding 13 new campuses in addition to the existing 22. However, older universities, as in Addis Ababa, have been weakened. In November 2012, students at Gondar University protested against spoiled food that had caused health problems for many students. This triggered wider demonstrations for academic rights and freedom in general. One student was killed by the federal police, and others were arrested.

Conditions for students are generally poor, and facilities for teaching and research remain on a low level. In addition, the high number of bachelors' and masters' degree holders has led to massive unemployment among graduates. This problem is also widespread among high-school graduates. Youth unemployment, between 50% and 60%, is extremely high.

Education policy /
R&D
4

Yet Ethiopia remains a country with a high potential of human capital. It is educating more than 300,000 students on secondary, technical and vocational levels, but it is also a country with few centers of modernity. Its level of technology is predominantly low which is also felt in low food productivity. Although the government is emphasizing a rapid expansion of the physical infrastructure to accommodate the increasing number of students, the quality of education gives reason for concern.

Transformation Management

I. Level of Difficulty

Most of the problems facing Ethiopians are not a consequence of governmental failures or “bad governance,” but result rather from structural constraints. Ethiopia is a landlocked country that relies on its neighbors when importing oil or industrial equipment and exporting coffee and other crops. Key constraints include the fragility of the soil in the densely populated highlands, the lack of service infrastructure in the southern provinces, and poor health conditions, including high infection rates of HIV/AIDS. In addition to these natural constraints, one must point to the legacy of previous political regimes, the consequences of a long civil war, a brutal military regime under the socialist-inclined dictator Mengistu Haile Mariam. The war with Eritrea from 1998 – 2000, which caused the death of 100,000 people and produced immense economic destruction and popular misery, however, could have been prevented by a less nationalistic policy of the ruling Ethiopian People’s Revolutionary Democratic Front (EPRDF).

Structural
constraints

7

Ethiopian society is also split into ethnic communities within a federal state, dominated to a large extent by an ethnocultural minority (the Tigray). The split between Christians of the Amhara and Tigray highlands and the Muslim population in some areas of Ogaden, Oromiya and other provinces (federal states) contribute to the difficulties of nation-building and state formation. But in general one can say that the various religious communities live rather peacefully together, compared with Egypt, Syria or Sudan.

As one of the poorest countries in the world, and with up to 15% of the population living on food aid delivered from outside, Ethiopia is very much dependent on foreign assistance in seeking to reduce mass poverty.

Though the HIV/AIDS epidemic remains a significant public health problem, the number of people dying from the disease dropped by about 20%, to an estimated 80,000 to 90,000. This was due to an increased awareness of the disease.

Thus, the extreme poverty of a large proportion of Ethiopia’s 85 million people stems from various causes. It is fair to say that Ethiopia ranks high worldwide in terms of the difficulties facing democratic transformation and economic development. But the

factors responsible for improvement in people's living conditions must be attributed to the EPRDF government, which sometimes has launched unrealistic and harmful "development" programs.

Civil society traditions, including the NGO sector, are fairly weak, not in numbers but as far as autonomy and influence are concerned. Civic organization (other than religious) has arisen only comparatively recently as Ethiopia has modernized, partially in response to the gap left by insufficient and ineffective state institutions in service delivery, and partially spurred by the rise in development aid, up to \$3 billion in 2011, including loans and grants, which is the largest in Africa.

Civil society
traditions
8

Most NGOs work in humanitarian and developmental fields; a smaller number is trying to provide civic education or address good governance, human rights or environmental issues. Until recently, about 8,000 NGOs were working in Ethiopia, but due to the new Charities and Societies Law of January 2009, which barred civic organizations from receiving more than 10% of their budget from overseas sources, many NGOs were forced to scale down or close.

The growing population and recurrence of drought and famine have led to several major so-called ethnic clashes in the north (between members of the Afar, Oromo and Argobba ethnic groups) and in the south (between ethnic groups in Ogaden, Gambella and Benishangul-Gumuz), continuing a recurrent pattern of social conflict between ethnolinguistic groups over borders, land and water resources. Land grabbing has caused much conflict between people who do not know how to survive following the government's decision to intensify commercial farming and resettlement programs. Several dozen people were reported killed and more than 120,000 displaced in 2010 – 2011. Conflicts over access to resources necessary for survival, such as fertile land and water, are the main reasons.

Conflict intensity
8

Ethnic tensions and violent incidents within Ethiopia's heterogeneous society are common. Several mobilized ethnic groups are waging rebellions and militant protests against the government due to population pressures and a shortage of agricultural land and pasture. Mobilized groups and protest movements dominate politics. Although society and the political elites are often divided along lines of social class, ethnicity and religious community, the conflicts between them result not so much from cultural diversity than from competition for scarce resources.

Religious clashes have also increased. Some violent conflicts have been recorded between Orthodox Christians and Muslims, as well as between Orthodox Christians and Pentecostal-Evangelical Christian groups. Informal Muslim committees have protested against perceived interference in religious affairs by the government.

One can generalize that the policy of exclusion and disfranchisement of a highly centralized government has provided fertile ground for ethnic and religious

radicalization, already evident in some lowland regions, where the ruling party exploits resources without local consent.

II. Management Performance

14 | Steering Capability

Question
Score

Under Prime Minister Meles Zenawi, the normative framework in terms of striving for democracy and a market economy was not attractive for the political elite. The government regarded the Western model of governance largely irrelevant, and pursued instead what is called a “developmental state approach.” This means that the state not only sets the strategic priorities of investments but also decides what the private sector has to do to achieve the economic goals of the government. The Chinese post-communist, state-capitalist model and its dominant-party governance system continue to hold appeal for Ethiopia’s leaders. The government’s overall strategic priority has been the state-led stimulation of economic growth, as it is envisaged in the five-year Growth and Transformation Plan (GTP). It is aiming to improve the economy, increase income and social indicators. A culture of state ownership and state control continues to dominate government thinking and the administration’s decisions. The executive has also pursued strategic priorities such as stimulating export growth, promoting the education and health sectors, and improving highways and other infrastructure.

Prioritization
4

The governments has ignored the advice of the World Bank and the IMF in matters of economic and financial policy, obviously relying on the experience with the United States and other Western countries that Ethiopia is seen as an indispensable partner in fighting Islamic fundamentalism at the Horn of Africa. Thus democratic aims have largely been sacrificed on the altar of political stability.

Under its ambitious political leader Meles Zenawi, the Ethiopian government was strongly reform-oriented, in a general sense. There was an honest commitment to modernization, as long as the autocratic, top-down style of leadership was not threatened. The five-year development plan (GTP) which emphasizes public and private investments in agriculture, infrastructure and industry (including mining, manufacturing and textiles), is the official compass for all economic activities. However, the implementation of announced reforms are often deficient, a fact linked to structural weaknesses associated with the nondemocratic regime and shortages of experience in various components of the administration. The limited autonomy possessed by parliament and the judiciary and the hierarchical structure of the political system in general prevent it from attaining either legitimacy or sustainable

Implementation
5

socioeconomic efficiency. But it cannot be denied that the undemocratic government, spending some 20% of GDP, has achieved high growth rates in some sectors of the economy (mainly in infrastructure and energy supply), and thus achieved presentable results according to the “developmental state approach.” But the reverse side of the coin is the paralysis of the private sector. The private business sector remains weak, with state- and party-affiliated business taking the lion’s share of economic activity.

The executive branch’s reluctant cooperation with the IMF and the World Bank since 2010 demonstrates the greater self-conscious attitude of a government not keen learning from the experience of Western countries. Since China became Ethiopia’s strongest trade partner, the willingness of the government decreased in matters of developmental cooperation with Western countries (such as the push toward privatization). There is a strong willingness to engage in reforms of the financial and economic sectors than, say, the field of environmental protection, but the government believes that a great leap forward can be achieved by its own strategies and with foreign money.

Once the Ethiopian People’s Revolutionary Democratic Front’s central leadership has agreed on a political goal, it hardly ever changes course, regardless of the political and economic costs. A good example of this attitude is the persistent refusal to alter the law barring private land ownership, though the protection of property rights is essential for long-term capital investment.

The government has shown limited willingness or ability to learn from past decisions regarded as errors or failures by Western diplomats. This inflexible political attitude clearly hinders the acceleration of societal development.

Most probably the sharply increasing fiscal deficit and high inflation rates will convince the new government at the time of writing in due course that it might be advisable to seek cooperation with Western donor countries and international finance institutions.

15 | Resource Efficiency

The government makes efficient use of only some of the country’s available human, financial and organizational resources, dependent on the political loyalty of the individuals involved. The civil service in its entirety can be regarded as highly politicized. Administrative personnel are recruited not on the basis of professional standards and personal merit but mainly through patrimonial networks. Membership in the ruling party is a practical necessity for appointment to any public sector job. Even higher education graduates need to be a member of one of the Ethiopian People’s Revolutionary Democratic Front (EPRDF) parties, based on their ethnicity. As EPRDF numbers its members in the millions, attaining employment is strongly

Policy learning

4

Efficient use of assets

5

linked with membership. At the lower administrative level (woreda and kebele), ownership of micro- and small businesses, as well as access to financial grants and loans, requires demonstration of loyalty to the EPRDF.

For the most part, the federal government fails to coordinate between conflicting objectives and between activities of administrative departments in the capital and provinces. Some policies directly conflict with each other (seeking to enhance productivity in agriculture while neglecting population planning, for example). Different components of the government tend to compete with or ignore each other. Regions vary widely in terms of resource allocation and coherence in coordination.

The comparatively less populated regions in the south and east, particularly the Afar and Somali regions, and highly populated areas in Oromia (which share an opposition to the government and the presence of local rebellions) remained key political battlegrounds, often to the detriment of inhabitants. Those regarded as politically disloyal or even hostile are “punished” by the government and development planners with intentional negligence.

While there is substantial national consensus around the creation of a strong competitive market economy under the supervision of the state, any desire to develop a genuine multiparty democratic system based on free and fair elections had clearly been abandoned by the Meles government. From 2010 until the end of the review period, the government sought to stymie most political freedoms and nearly all human rights. The divided nature of the political opposition and its inability to raise significant funds will make it easy for the government to keep it marginalized.

Prime Minister Meles, who had been in power for nearly 20 years, had become a symbol of commitment to accelerated economic growth and political stability (especially in the eyes of the U.S. administration amid a struggle against “international terrorism”), but at the same time he appears to be a champion of a process of political decay or democratic regression.

The government has taken a number of steps to limit corruption, including the imposition of asset-disclosure rules for state officials. However, corruption at all levels remains a significant problem, yet incidences are still lower than the African average. An anti-corruption policy has been implemented, but observers report that efforts have not been successful. One challenging case is as follows. The Endowment Fund for the Rehabilitation of Tigray (EFFORT) is an Tigrayan holding company set up to invest money raised by the Tigray People’s Liberation Front (TPLF) during the guerrilla war and afterwards. At the time of writing, EFFORT controls companies valued at some \$125 million. Azeb Mesfin, the wife of Prime Minister Meles, became a member of the executive committee of the party and also a deputy head of EFFORT. While corruption allegations have been leveled against the First Lady, she has denied the allegations.

Policy
coordination
6

Anti-corruption
policy
3

A political system which eliminates all major institutional checks and balances cannot be expected to cultivate a political culture of fair play, or be able to combat corruption effectively. To the contrary, corruption is an integral part of the paternalistic political system serving as the cement of solidarity, a means of political stability; this attitude is supported by values of neopatrimonial loyalty.

16 | Consensus-Building

While there is substantial national consensus around the creation of a strong competitive market economy, any desire to develop a multiparty democratic system based on free and fair elections has clearly been abandoned by the Meles government. The review period featured a further crackdown on political freedoms in consensus on goals and procedures.

Consensus on goals
3

With the May 2010 elections, which ultimately resulted in a landslide victory for the Ethiopian People's Revolutionary Democratic Front (EPRDF), the opposition was in effect removed from parliamentary politics by its landslide election defeat, after being harassed and discriminated against by government forces in the run-up to the elections. Its divided nature and inability to raise significant funds will make it easy for the government to keep it marginalized.

Opposition and civil society actors are, at least in theory, in favor of democracy with a clear separation of powers, adherence to human rights and the rule of law as well as increased transparency. How much of that from opposition parties such as the Forum (in Amharic, Medrek) is mere rhetoric, is difficult to assess.

The most important anti-democratic actor in Ethiopia is the Tigray People's Liberation Front (TPLF) as the core of the Ethiopian People's Revolutionary Democratic Front (EPRDF) government itself. Its power is based mainly on coercion against opposition groups and on support from foreign donors.

Anti-democratic
actors
2

The government has substantial control over major democratic opposition actors, who are able to use their influence to disrupt the official political agenda only marginally. Critical reformers from opposition groups and from academia are excluded from the public debate. The freedoms of assembly and association were curtailed during the period under review. In the field of higher education, the government has sought to establish a more loyal academic community by creating 13 new state universities. Growing intolerance of dissent has dampened private discussion in the country, as even ordinary citizens face harassment or arrest for speaking out against the government. All student, politician and NGO representative activities are closely monitored, and many of these figures have been arrested.

The government has successfully managed to co-opt some potential veto groups from the business community, which appears impressed by the country's economic growth

and the remarkable amount of foreign aid given to the Meles government without strict conditionality.

The political leadership under Prime Minister Meles had not shown a clear intention to prevent cleavage-based conflicts from escalating through constructive means (e.g., by arguing and bargaining). After 2010, the government demonstrated no intention to solve social cleavages and ethnic conflicts between Ethiopian People's Revolutionary Democratic Front (EPRDF) supporters and opponents through dialogue or concessions. There is no open debate on crucial national issues, such as how to solve the structural problem of supporting a growing population when land and water resources are becoming increasingly scarce, a dilemma that underlies many of the so-called ethnic tensions. On the other hand, the government was able to mobilize the people to spend more than ETB 7 billion to help finance the construction of the Renaissance Dam, a "patriotic" development project which is designed to solve the country's energy problems. Also, the interaction between government and citizens in urban housing in the capital is remarkable.

Cleavage /
conflict
management

4

As long as citizens are politically loyal, the government is more interested in solving problems peacefully. Control of problems is the guiding principle, not the use of force, as it was often applied to students who had dared to demonstrate against social miseries or challenge public authorities. One should keep in mind the difficult political situation of a minority government, as far as its ethnic foundation is concerned: to stay in power as an ethnic minority with a share of 7% of the population, the Tigray are obliged to rely more on the functional efficiency of state institutions and on oppressing the militant opposition than on persuading dissenting interest groups by peaceful means. As has been demonstrated in all elections since 1995, people's voting behavior is still strongly determined by ethnic loyalties.

The political leadership permits civil society participation, but as the Tigray People's Liberation Front (TPLF) has been guided by Marxist-Leninist political practices from its start, it is understandable that autonomous civil society organizations are not welcomed by the government. The leading party does what it can to control all sectors of society and the economy, including education on all levels and cash crop production. Civil society participation is not encouraged to solve problems of fair land distribution or access to clean water and health care. The government frequently ignores civil society actors and formulates its policy autonomously, trying to diminish their influence. The government propagates a development strategy from above – called state-led industrialization by agricultural development. The People's Republic of China since Deng Xiaoping's economic reforms serves as a role model. The freedoms of assembly and association are rather limited, and the many civil society organizations (CSOs) or NGOs operating in the country are regarded by the government skeptically, not as potentially useful partners that might assist in solving

Civil society
participation

2

national issues such as youth unemployment or soil erosion, but rather as burdensome rivals beyond state control.

The Civil Society Law passed by the House of People's Representatives in January 2009 was intended to weaken the efficiency and legitimacy of the work of CSOs. It contains stiff penalties for organizations active in human rights and social advocacy fields.

To weaken civil society organizations further, the government has launched a party member recruiting campaign. Its strategists finally understood that the party needed to widen its constituency to lure larger numbers of educated and urban people from the opposition. The mass recruitment drive was aided by reminders that membership was a precondition for a career in the public sector or for obtaining government services equally. There are signs that Ethiopia may become a de facto one-party system, which will continue to protect its hegemony using restrictive legislation and periodic crackdowns by the security services on civil society organizations.

The political leadership reluctantly addresses historical acts of injustice, but has not initiated a process of reconciliation with previous opponents or politicians accused of misdeeds. It recognizes the need to deal with historical acts of injustice during the Derg regime, and has started to take the political leaders bearing the most responsibility to court (that is, those that have not fled the country). The trials of 69 former senior officials of the Mengistu regime on charges of crimes against humanity and war crimes began in December 1994, although proceedings were adjourned on numerous occasions and were never completed. The government is obviously more interested in fighting and punishing political opponents who pose a present-day threat to the country's political stability.

Relations with Eritrea remain as tense as ever. There are no signs of a solution to the border dispute, and the government has kept a large military force in place near the border. A parliamentary report announced a more assertive policy toward Eritrea, abandoning the so-called defensive attitude. The political leadership showed no interest in achieving reconciliation between the victims of the Eritrean-Ethiopian war of 1998 – 2000, which cost the country \$29 billion. The arbitrary expulsion of more than 50,000 largely urban Ethiopians with family ties to Eritrea undermined both the government's legal commitment to property rights and general investor confidence. The apparently arbitrary criteria and rationale behind the expulsions exacerbated economic uncertainty.

In June 2011, invoking the anti-terrorism law, the government designated the Oromo Liberation Front, the Ogaden National Liberation Front and the militant Islamist Somali group al-Shabaab as terrorist groups. Ethiopia continued to be perceived as an indispensable partner of Western countries in the fight against terrorism in

Somalia and in the wider Horn of Africa, what largely immunized it from serious criticism over its domestic politics.

17 | International Cooperation

As one of the world's poorest countries, Ethiopia is highly dependent on foreign assistance in many ways. Over half of the state budget is financed by international donors. In 2010, the country received an estimated \$3 billion in foreign aid, bringing the total received by the government since 1991 to some \$26 billion. The largest donors were the United States, the European Union, the United Kingdom and several other European countries, with China gaining in influence as well. However, Ethiopia was still ranked 174 on the UNDP's Human Development Index 2011 (out of a total of 174 countries).

Unsurprisingly, the political leadership has made intensive use of international aid for two purposes: first, achieving transformation goals according to the priorities of the government of centralizing economic and political resources; and second, to secure its own power and prestige in Africa.

However, the extent to which the Ethiopian People's Revolutionary Democratic Front (EPRDF) ignores foreign advice is surprising. The government shows little interest in cooperating with bilateral or multilateral international donors on issues of democratization, trade liberalization or privatization. It has sought to avoid becoming too dependent on the political advice of foreign countries. Negotiations with the World Bank, the IMF and the European Union's Development Commission are usually tense.

The regime has drawn increasing levels of support from China and from India.

About 120 private Chinese companies are active in Ethiopia today, mainly in the construction sector, and are responsible for about 70% of all road construction. China has also built the new headquarters of the African Union, which was opened in January 2012 with a speech by Prime Minister Meles in which he praised the economic successes of Asia's newly industrializing countries.

In general, donor support for Ethiopia is strong, and it is likely to continue at this level in coming years. The regime is aware of its position as a politically rather stable and reliable regional power with a large, experienced army and of its use to the U.S. government, which needs Ethiopia as an efficient ally in its fight against Islamists in Somalia and the Horn of Africa. This fact gives the government in Addis Ababa substantial political leverage, but at the same time also causes suspicion with pan-Africanist groups. If the national tolerance or support of the EPRDF wanes in the

Effective use of
support

7

future, the military may become more influential and the support from foreign countries might become even more useful.

On several big issues, the Prime Minister Meles had become “the voice of Africa” and de facto leader of the New Partnership for African Development (NEPAD). Meles had attended Group of Eight and G-20 meetings and articulated the attitude of developing countries about climate change.

Credibility
5

The government tried to present itself as a credible and reliable partner, but was not trusted by all members of the international community. In regard to relations with the West, there is a clear split between the more positive U.S. attitude toward Addis Ababa and that of EU countries that complain that the relatively large amounts of foreign aid given to Ethiopia are not received with a friendlier atmosphere of cooperation. The government is regarded by some Westerners as a “partner” resistant to advice in economic and developmental affairs.

The instability in the volatile Horn of Africa has cemented Ethiopia’s position as the United States’ key ally in the region. Ethiopia under Prime Minister Meles was seen as a reliable player in the war on terror in the wider region of the Horn of Africa and the Middle East, where threats from Islamist terrorism were seen in Yemen and Somalia.

The country’s critical relationships with Eritrea, Somalia and Egypt will continue to dominate the foreign policy agenda. The protracted border dispute with Eritrea remains at an impasse, and attempts at a diplomatic solution have failed. The risk of further violent conflict between neighbors remains, although continued deadlock is the most likely scenario. The failed state of Somalia will remain a source of tension. In December 2011 Ethiopia continued to support Somalia’s transitional federal government (TFG) in Mogadishu against the radical insurgency of the Islamist al-Shabaab movement and cooperated with some local Somalia militias allied with the TFG and with the African Union Mission in Somalia (AMISOM) to combat al-Shabaab.

Since the parliamentary elections of 2010 (with a 99% victory for the ruling coalition, achieved through massive fraud and repression), Ethiopia is no longer regarded as a credible or reliable partner by most EU countries. At least for the moment, the European Union, with its well-considered concept of good governance as a precondition for sustainable peace and development, has lost influence in Ethiopia. The Meles government favored an alternative state-led model of “development over democracy” that is inspired by the economic successes in China, Vietnam and other Asian tiger states.

Ethiopia has been a member of the United Nations since 1945, and is a part of the Non-Aligned Movement (NAM). Its capital, Addis Ababa, has been the seat of the African Union (AU) since 1963, as well as of United Nations’ Economic

Regional
cooperation

Commission of Africa (ECA). The country is a member of the U.N. Food and Agricultural Organization (FAO), the International Labor Organization (ILO), the UNDP, the U.N. Environmental Program (UNEP), UNESCO, and the World Health Organization (WHO), the IMF and the World Bank. As a member of the ACP group (African, Caribbean and Pacific countries), it is tied to the European Union through the Lomé and Cotonou Agreements.

5

The political leadership cooperates selectively and sporadically with individual neighboring states, but is reluctant to accept the rules set by regional and international organizations.

The conflict with Eritrea has been marked by an almost total lack of progress, and even gradual deterioration. The government still refuses to accept the 2002 decision of the Permanent Court of Arbitration concerning the demarcation of the border between the two countries as defined by the United Nations Mission for Ethiopia and Eritrea (UNMEE) after the 1998 – 2000 interstate war.

In January 2009, Ethiopia withdrew all its military forces from Somalia, under an agreement negotiated between Somalia's transitional federal government (TGF) and Somali opposition groups. Troops had been stationed there for more than two years in support of the TGF, fighting against the militant Islamist insurgent fronts. Eritrea, which seeks to destabilize Ethiopia, supported the Union of Islamic Courts (UIC), which is seen as a threat to Ethiopia's security interests. The UIC rebels have issued a declaration in favor of an ethnic Somali state, which would include the Somali region of Ethiopia.

Though Ethiopian forces were strong enough to overcome the UIC in Somalia, a bitter and costly guerrilla war and continued regional instability will be the likely consequence. The UIC was defeated in December 2009, and Ethiopian troops withdrew from Somalia.

A landlocked country, Ethiopia has maintained relatively stable and friendly relations with its other neighbors, Sudan, Kenya, Djibouti and Somaliland. Sudan supplies about 80% of Ethiopia's oil needs. Ethiopia also remained active in the Intergovernmental Authority on Development (IGAD), a subregional organization of northeastern African countries. Ethiopia will continue to support the fragile government of Somalia, and it will retain its position as the key U.S. ally in the volatile Horn of Africa.

The government planned to increase the number of big hydroelectric projects on the Omo River from four, which are already in operation, to eight. It has agreed to work with Kenya on conservation and exploitation of shared water resources.

New tensions emerged with Egypt when in May 2010, five Nile riparian countries led by Ethiopia signed a Nile Common Framework Agreement which should replace

old agreements from 1929 and 1959 that favored Egypt and ignored Ethiopia's interests. Some 82% of Nile River water originates from the Blue Nile (or Abbay), the sources of which are in Ethiopia. In 2011, Ethiopia started building the Grand Ethiopian Renaissance Dam on the Abbay River. In the following year, shortly before he died, Prime Minister Meles visited Egypt to reach an understanding with the neighboring country, which had always refused to discuss the justified claims of Ethiopia concerning fair Nile water utilization. The new government in Egypt under President Mohammed Morsi, however, did not cooperate; the result is that this dangerous regional conflict over Nile resources will continue.

Strategic Outlook

Concerns of a power struggle following the death of Prime Minister Meles Zenawi, in power for 22 years, in August 2012 did not materialize at the end of the review period. Hailemariam Desalegn – a politician from the south, not a highlander – took over as acting prime minister only one day after Meles' death. Meles Zenawi was seen as part of a new “African renaissance,” of leaders who represented a break from the post-colonial order. His political rhetoric concerning democratization, the rule of law and ethnic federalism was welcomed by the West, at least from the start. Despite his authoritarian, impersonal rule and his poor human rights records, Meles became a reliable Western ally in organizing counterterrorism activities in the Horn of Africa. Ethiopia became, in consequence, Africa's biggest aid recipient. As his greatest achievement, regarding internal policy, Meles played a pivotal role in holding together the multiethnic federal state run by the Ethiopian People's Revolutionary Democratic Front (EPRDF), which still faces violent opposition and secessionist movements in the country's periphery, in the Ogaden and Afar regions.

In the line with the constitution, the former deputy prime minister and foreign minister, Hailemariam Desalegn, was endorsed by the 180 members of the ruling EPRDF council. Hailemariam represents the Southern Nations, Nationalities, and Peoples region, the most populous of the country's nine ethnic divisions. When he came to power he was not considered a political heavyweight. To install Hailemariam without delay and by avoiding any public power struggles within the EPRDF can be regarded as a good indicator of the government's pragmatic orientation. When Hailemariam reshuffled his cabinet in November 2012, he did not touch key ministries including defense, justice and agriculture. But it is remarkable that he created two new deputy prime ministers, one representing the Oromo section of the EPRDF, the other representing the Amhara section, which had been marginalized under Meles. This would appear to mark a clear change from the centralizing tendencies seen under Prime Minister Meles. But it is more likely that this policy of broader ethnic and regional representation will not find sufficient support within the party coalition. It is doubtful that the Tigray People's Liberation Front (TPLF), a party that can rightly claim to be the country's true liberator from the dictatorial rule of the Derg, will voluntarily tolerate a power shift toward other ethnic groups. Instead, it will strive to replicate the hegemony of the Tigray and to maintain the dominant position of the TPLF in government.

Another possible, but less likely scenario might emerge from an examination of the special constitutional form of governance in Ethiopia, ethnic federalism, as a legacy of the Meles era. It is not unfair to say that this ambitious concept has failed in resolving the challenge of national integration. The previous government had empowered some groups, particularly the Tigray, but had not engaged successfully in open dialogue with other main ethnicities, called “nations” in the constitution. The government in Addis Ababa sought the support of loyal representatives from all regions and “nations” and was able to build regional party organizations as part of the EPRDF

coalition government, but dissent was not tolerated and political opposition was harassed by government security forces.

On the level of socioeconomic development, Ethiopia has taken already some steps toward market-based reforms, such as trade regulation and an agricultural development-led industrialization plan. These government initiatives deserve further foreign attention and financial support, though with mutually agreed-upon conditionality intact. Foreign food aid should be given with due consideration of the real needs of rural people, since it has happened in recent years that rural district administrators have declared their district suddenly as “food-aid-dependent,” with the expectation of receiving more assistance, cars and personnel. This counter-productive policy runs contra the intentions of the government to shrink food dependency.

The increasing influence of China, which exhibits little concern for human rights while dealing with African politicians, will weaken the amount of pressure which Western countries can exert in the context of usual “good governance” negotiations. The government in Addis Ababa has used the opportunity of expressing more political options than it has in the past when dealing with foreign donors and international investors, but this should not be taken as an excuse to abandon all Western convictions regarding noneconomic prerequisites for successful economic growth and social transformation. Positive incentives should be offered by EU member states to convince the Ethiopian government to stick in practice to the common interests and commitments of a “strategic partnership” between Africa and Europe.

Following the death of Prime Minister Meles and the inauguration of his successor, Prime Minister Hailemariam, Ethiopia can expect to undergo a two-year transition phase until a new system of institutionalized stability can be fully established by a newly elected government. Most probably the government will cultivate a more consensual approach when solving questions of the fair distribution of power, wealth and investment. At the same time, the EPRDF regime will probably continue to protect its political hegemony, called “democratic centralism.” But one should not exclude the possibility that a new generation of civilian politicians (who have not actively participated in the liberation struggle until 1991) might broaden political participation to regain more democratic legitimacy and economic efficiency. Further, one may optimistically foresee that a newly elected EPRDF government will try to solve the inherent contradiction of the current political system: that a hegemonic party advocates democracy, capitalism and free market but at the same time retains an iron grip through five-year development plans and rigid control of all civil society activities.

In the Economist Intelligence Unit’s Democracy Index of 2012, Ethiopia fell from a ranking of 105 to 118, out of 167 countries – a move that changed its classification from a “hybrid regime” to “authoritarian.” Ethiopia is a long way behind the top African performers of Mauritius, Namibia, South Africa and Botswana.