

# Ethiopia

<b>Status Index</b> (Democracy: 4.17 / Market economy: 4.21) <b>4.19</b>		<b>Management Index</b> <b>4.12</b>	
<b>HDI</b>	0.367	<b>Population</b>	73.8 mn
<b>GDP per capita (\$, PPP)</b>	711	<b>Population growth<sup>1</sup></b>	2.8 %
<b>Unemployment rate</b>	-	<b>Women in Parliament</b>	7.8 %
<b>UN Education Index</b>	0.40	<b>Poverty<sup>2</sup></b>	26.3 %
		<b>Gini Index</b>	30.0 (1999)
Source: UNDP: Human Development Report 2005. Figures for 2003 unless otherwise indicated. <sup>1</sup> Annual growth between 1975 and 2003. <sup>2</sup> Population living below \$ 1 (1990-2003).			

## A. Executive Summary

Ethiopia is a poor landlocked multi-ethnic country, governed by an authoritarian, non-democratic party coalition that has been dominated by an ethnically defined party, the Tigray People's Liberation Front (TPLF) for 14 years (1991-2005). Since the first elections after the civil war in 1996, the state maintained its monopoly on the use of force throughout the country, although some military resistance against the government still exists in the south among militant sections of the Oromo and in other regions. In May 2005, Ethiopia is expected to have its third general elections, and in 2004, civil society and opposition parties hoped to make gains in providing more fair political competition. In reality however, checks and balances of power remain limited, since the government controls the judiciary. Meanwhile, in parliamentary elections, the two opposition parties won 92 of 547 total seats.

On the level of socioeconomic development, Ethiopia has taken some steps toward market-based reforms, such as trade deregulation and an "agricultural development-led industrialization." The growth in GDP for any particular year remains heavily dependent on the performance of the dominant agricultural sector with coffee as the main cash crop. Ethiopia's economy remains dependent on the weather, be it in the realm of food production or hydroelectric generation. Economic progress was hampered by the reluctance of the government to accept the privatization of land and the establishment of foreign investment banks.

The monetary policy has been disciplined and geared to exchange rate stability and low inflation. The inflation rate was maintained at 3%. The budget deficit remains high, although this has improved since the end of the war with Eritrea: the deficit, including grants, fell from 11.5% of the GDP in 1999-2000 to 5.5% in

2000-2001, the Birr rose again to 9.3% of the GDP in the 2001-2002 period. The deficit edged back downwards to 8.5% of the GDP in 2002-2003, but this reflected increased grants only; without foreign support, the shortfall would have risen from 14% of the GDP in 2001-2002 to 17.4% in 2002-2003.

Recently, the framework for the reform effort was provided by the government's five-year development plan and its interim poverty reduction strategy paper (PRSP) in early 2001. After long deliberation with civil society and the donor community and continuing disputes within the ruling party over commercial policy questions, the government is increasingly willing to cooperate with the experts of the World Bank, IMF and the EU governments. Thus, the strength of the economy and its ability to slowly adjust to new challenges has improved, although one must consider that Ethiopia remains heavily dependent on foreign assistance. The World Bank's Country Assistance Strategy for the period including the middle of 2003 to the middle of 2006 promises base level funding of \$1.5 billion, in particular for public sector capacity building, including reform of the judiciary and the civil service, and for the promotion of the private sector and infrastructure development. Thus, the vulnerability of Ethiopia's economy to external factors has yet to be reduced, and remittances from the diaspora still play a key role in income generation.

The educational system continues to improve very slowly. School facilities and enrollment rates remain well below those of other least-developed countries. While primary school enrollment has improved, secondary education is generally only available in urban centers. The provision of health services has fallen.

Ethiopia's relations with the international community have improved since the end of the war with Eritrea in 2000. However, the Addis Ababa government's strict refusal to accept the decision of the neutral Ethiopia Eritrea Boundary Commission in March 2003 that Badme, under Ethiopian administration for decades, belonged to Eritrea on the basis of colonial treaties, is very risky and places the country on a collision course with the international community. Although the imposition of further UN sanctions against the government of Meles Zenawi (except the existing embargo on weapons) is highly unlikely, moves are afoot in the United States and the European Union to make future financial support conditional on compliance with the border ruling by the Ethiopia Eritrea Boundary Commission.

## **B. History and characteristics of transformation**

In May 1991, the army of Colonel Mengistu, leader of the Derg and the country since 1975, was defeated by the so-called liberation movements from Tigray and Eritrea. Colonel Mengistu had come to power by deposing General Andom, the

leader of the 1974 coup d'état in which the army ended the rule of Emperor Haile Selassie. During the seventeen years of military rule under Mengistu, Haile Selassie was imprisoned in September 1974 and died in detention in 1977, 57 senior officials were executed and approximately 100,000 people were killed during the domestic war period, called the "red terror" (1977-1978). Many students and intellectuals were among those killed.

The Derg government extended its control through a series of ambitious reforms. Land was nationalized by force, combined with large resettlements of peasants, and a network of peasant and urban dweller associations, known as kebeles, were established. Following the Soviet model, a Workers' Party of Ethiopia was created in 1984, and in 1987, the People's Democratic Republic of Ethiopia was promulgated under a new constitution. With more than 500,000 soldiers, the Derg army was sub-Saharan's largest army. When it was crushed finally in May 1991, the economy lay in ruins and the demobilization of soldiers in an overpopulated and resource-poor country resulted in many problems for the government.

The bitter legacy of dictatorship for the new government that came to power in 1991 and remains in power under Prime Minister Meles Zenawi made the transition process very difficult. A threefold transition had to be mastered: the transition from civil war to peace, a transition from totalitarian dictatorship to pluralistic multiparty democracy, and a transition from a socialist-planned economy to a capitalist market economy. There have been some remarkable achievements made in certain areas of economic recovery and institutional rebuilding.

Following four years of transitional government (1991-1995), the Federal Democratic Republic of Ethiopia was proclaimed after elections in the middle of 1995. These elections resulted in a stable government under Prime Minister Meles Zenawi, albeit with little legitimacy due to the unfair treatment of opposition parties and a high degree of state oppression. The TPLF is the core of the Ethiopian People's Revolution Democratic Front (EPRDF), which was formed by Marxist Tigrayan students who split from the civilian left during the revolution and launched a rural-based struggle against the state from Tigray. The TPLF supported the struggle of the liberation movements of Eritreans who fought against Haile Selassie and later against the Derg for their independence. After several military victories, the TPLF mobilized non-Tigrayan groups. In early 1990, it announced the creation of a political coalition, the EPRDF. Its junior ally, the Ethiopian Peoples' Democratic Movement (EPDM) was later transformed into an explicitly Amhara group to match the country's new ethno-political template, and in most regions, the EPRDF fostered surrogate people's democratic organizations (PDOs) – the largest of which is the Oromo People's Democratic Organization (OPDO).

The EPRDF hegemony over Ethiopian politics has not been seriously threatened by the opposition, which remains small, fragmented and under-funded. In the middle of 2003, a new coalition of local and overseas-based parties was formed, the United Ethiopian Democratic Forces (UEDF), but a year later two locally based opposition parties have already resigned from the coalition alleging undue influence from overseas-based parties. Thus, opposition politics is highly fragile, flexible and unpredictable.

The government formally recognizes 64 major ethnic groups, whilst academics have identified more than 250 distinct languages and dialects in Ethiopia. Despite the state's traditional association with Orthodox Christianity (the church of Copts), the Ethiopian population is split fairly evenly between Christians and Muslims. According to the constitution, which guarantees "ethnic federalism" and regional autonomy, each "nation" of Ethiopia has the right of independence and secession. However, in practice, the capital has a firm control over all regional governments and their revenues.

The border war with Eritrea from 1998 to 2000 resulted in more than 100,000 dead and halted most development projects and social investments. Since the war's end, there has been little progress toward settling the border dispute between the two neighboring countries, and the situation remains deadlocked. The United Nations has sent a peacekeeping mission of 3,850 troops to the border area, but the government in Addis Ababa still refuses to formally accept the sentence of the international Border Commission.

The structure of the economy remains underdeveloped and fragile. The IMF estimates that the economy grew by 11.6% in fiscal year 2003-2004 as the country recovered from a severe drought in 2002-2003 and the consequences of the war with Eritrea. In 2003, imports (\$ 1.923 billion) were more than three times the exports (\$535 million), resulting in a huge trade deficit. The government remains heavily dependent on high levels of donor support. The current account deficit is expected to narrow from 6% of the GDP in 2004 to 5% by 2006.

Some progress has been achieved in combating corruption and improving the capacity of the administration. Cognizant of the urgent need to address the wide array of capacity constraints that have hindered the performance of public institutions, the government continued with a comprehensive Civil Service Reform, which had started in 1996. Key challenges for the government will be to ensure a regional and district-level focus, maintain strong coordination across line ministries and tiers of government and provide clear incentives for behavioral change among civil servants. However, because of the extent of poverty in the country and the central control over all finances, the policy of decentralization will show limited results.

Citizens' civil liberties have improved to a limited extent, but Ethiopia is still regarded as one of the slower transformation countries with severe shortcomings and deficits. The treatment of women is still a "national disgrace." Despite economic liberalization, television and radio remain under government control; the private press only temporarily enjoyed some liberties. As part of its policy of devolution, the government is encouraging broadcasting in local languages and the formation of regional radio stations. Ethiopia's record on freedom of the press is relatively poor, and the government has harassed and imprisoned scores of independent journalists and editors in recent years.

Ethiopia applied for membership of the WTO, but its negotiations with the WTO are threatened by its refusal to open up the economy to foreign competition in the areas of banking and telecommunications. Another issue of concern is the government's unchanged land policy: as all land is officially owned by the state, the lack of private property denies businesses access to much-needed credit, as well as denying banks the collateral necessary to encourage lending.

## **C. Assessment**

### **1. Democracy**

Ethiopia has a long-standing history, diverse cultural heritage and a reasonably good resource potential for development. Yet, the majority of the 70 million people live in absolute poverty, due to different forms of "bad governance", long devastating civil wars and periodic draughts. Historically, the federation of culturally diverse regions is the outcome of expansionist politics of the Abyssinian kings since the 19<sup>th</sup> century. The emergence of the modern state began during the reign of Menelik II, the Abyssinian ruler who not only repelled an Italian invasion in 1896 and spared his country the experience of colonialism during his reign, but also expanded his domain prodigiously through conquest and gave the state, henceforth called Ethiopia, its present name. There are six main regions, populated by: Oromo with 22 million inhabitants, Amhara with 16 million; Southern Nations, Nationalities and People's Region (SNNPR) (federal region 7 with different ethnic groups in the south) with 12 million; Somalia with 3.6 million; Tigray with 3.59 million; and Addis Ababa, the capital, with 2.424 million inhabitants (2003).

Unlike Abyssinia, Ethiopia was a heterogeneous empire, with many ethnic groups all having diverse traditions, impossible to rule through the feudal Abyssinian political system. Consequently, a process of modernization from above was launched by Haile Selassie, who became regent in 1917, king in 1928, and emperor in 1930 until 1974, interrupted by the Italian invasion (1935-1941),

during which he had to leave the country. Under Selassie, the power of the Abyssinian aristocracy was broken to a large extent, the governmental process was centralized, and the state was reinforced with bureaucratic, military and security apparatuses. Political parties were not allowed, and Selassie ruled as an absolute monarch in a state where conventional political life was suppressed. His greatest failure was to blockade the urgently needed land reform. Dissidence grew among groups that had been forcibly incorporated into the state by Menelik's expansion. Some Oromo still call it "black colonialism". The Oromo Liberation Front (OLF), struggling for its own independent state ("Oromia"), belongs to the main opposition groups. But due to its weak organization, the OLF does not constitute a real challenge to the political authority of the central government.

### **1.1. Stateness**

The constitution reflects the EPRDF's blueprint for ethnic federalism, under which elections for 14 newly created regional assemblies were first held in July 1992. The number of regions or states was subsequently reduced. Currently, there are nine autonomous regional state councils, and a municipal council for Addis Ababa and Dire Dawa, respectively. Although the constitution guarantees every "nation" and "nationality" the right of self-determination, including secession, it is unlikely that any would be allowed to secede.

The present EPRDF government has gained the monopoly of state power in the whole country, besides the resistance in some parts in the south, where the poorly equipped OLF stages a guerrilla war against the government. Most OLF leaders fled into exile, but guerrillas have mounted periodic attacks on government installations, notably in Hararghe, and since 1999 have established bases in neighboring Somalia. Other smaller armed Oromo factions also operate. Similar rivalries over legitimacy exist in the numerically smaller Afar and Somali regions, where the EPRDF has had difficulties promoting its own proxy.

The greatest challenge to peace and development is the unsolved border conflict over Badme with the government of Eritrea, a close ally during their fight against their common enemy, the dictatorship of Mengistu. After the overthrow of the Mengistu regime, Eritrea became an independent state in 1993, but five years later economic and political tensions triggered a savage war between Eritrea and Ethiopia, close war allies from the 1980s. Partly due to tension over monetary and trade relations and partly because of personality differences between the former rebel partners and a border dispute over the small and economically unimportant border town, Badme erupted into full-scale war in May 1998. When the completely senseless "brother war" was finally ended after two years of brutal fighting, a peace agreement was signed in Algiers in December 2000. By April 2001 a multinational military interposition force, the United Nations Mission in

Ethiopia and Eritrea (UNMEE) had secured the withdrawal of troops and established a 25 kilometer wide temporary security zone. At the same time a neutral Ethiopia Eritrea Boundary Commission (EEBC) of the Permanent Court of Arbitration was set up, and in March 2003 the EEBC confirmed that Badme, under Ethiopian administration for decades, belonged to Eritrea based on colonial treaties.

This (reasonable and internationally accepted) decision presented the government of Meles Zenawi with a major quandary: rejecting the ruling risked placing the country on a collision course with the international community, but compliance threatened Meles' survival as prime minister because of widespread opposition to the handover of Badme throughout the ruling coalition and the nascent opposition.

In spite of severe warnings by the international donor community to accept the verdict, the government in Addis Ababa rejected the EEBC's verdict in September 2003, accusing it of making "a totally illegal, unjust, and irresponsible decision" in awarding Badme to Eritrea. This was accompanied by an appeal to the UN Security Council to help resolve the impasse, but Kofi Annan refused the appeal. In September 2004, he extended the mandate of UNMEE for a further six months. However, in a sign of the world body's growing frustration with the recalcitrant protagonists, the size of UNMEE will be trimmed by some 650 peacekeepers to around 3200 in order to cut costs, which are currently estimated at \$17 million per month. Since then there has been no progress toward settling the border dispute between the two countries, and the situation remains deadlocked.

After the war with Eritrea, the EPRDF immediately started the demobilization process; the size of the army was reduced from an estimated 250,000 personnel to 160,000 in 2003. The defense budget was cut from 21% of total spending in 2000 to 2001, compared with 8% in 1996 to 1997. For 2003-2004, the defense bill was capped at 3 billion birr (approximately 15% of the budget).

While the border dispute was not yet settled, Meles' government continued to prepare for the third general elections for federal parliaments and its nine regional equivalents, scheduled for May 15, 2005. The pre-election period will also be marked by a tighter clampdown on the OLF, which became more active in 2004 because of the tension between the federal government and the Oromo community. However, the OLF itself poses little threat to the regime's stability.

## **1.2. Political participation**

Ethiopia can be called a "façade-democracy" or "defective democracy," in other words a democracy by its formal procedures (the right to vote and to form parties); and it can be called a non-democracy or a "corporate dictatorship"

because of opposition groups' limited chances to articulate different opinions. Despite some democratic structures at the surface, there is no fair chance for the many opposition groups to compete with the governing political forces for state power. Any change of the existing power structure is out of the question.

Political participation is only possible for parties, organizations, non-governmental organizations (NGOs) and individuals who accept the rules of the game declared and supervised by the ruling social class - the winners of the liberation war against the Mengistu dictatorship. In the eyes of the government, TPLF representatives gained the legitimacy to rule the country mainly by their weapons, not by votes, at least in the beginning.

Since 1995, all adults over 18 have the right to vote, and although the options for voting are limited by the authoritarian government, the population's interest in voting seems to be remarkable.

During the last national elections in 2000, some 3,200 candidates, among them 10% women, competed for a seat in parliament with 527 members. A National Electoral Board, appointed by the government, was responsible for the organization of the elections. It decided which party would be admitted, which candidate could be allowed to stand for election and who would not. Thirty-five million people were registered as voters, an impressive increase compared with the 19 million voters in 1995, when the elections were held the first time. In 2000, 984 candidates stood for election.

The main victims of the power perception of the ruling class had been the majority of the Oromo people, whose representatives were indirectly expelled from the National Conference in 1995 even before the first elections had taken place. Belonging to a minority ethnic group, the TPLF officers and their allies who together dominated the political scene were afraid of losing control of the country by fair and free elections. Therefore the TPLF formed, together with three other political parties, the new party coalition EPRDF in order to gain a comfortable majority by a mixture of state propaganda, intimidation and force. This calculation proved to be successful: in 2000, the coalition won an absolute majority with 481 seats of 527. The OPDO reached 183 seats, Amhara Nation Democratic Movement 146 seats, Southern Ethiopia People's Democratic Front (SEPDO) 112 seats, and the TPLF gained only 40 seats. The remaining 46 seats were distributed among smaller ethnic groups: 8 seats to the Afar National Democratic Party; 6 seats to the Benshangui Gumuz Peoples' Democratic United Party, 3 seats to Gambela Peoples and 3 seats to Hadiya National Democratic Front. In addition, eight local "parties" won one parliamentary seat each and 13 "non-partisans" stood for election successfully. The only civil society organization that managed to take part in the elections was the Council of



Alternative Forces for Peace and Democracy in Ethiopia (CAFPDE), which gained four seats.

The Federal Parliamentary Assembly has two chambers. The Council of People's Representatives (CPR) has 527 members, elected for a five-year term in single seat constituencies. The Council of the Federation (FC) has 117 members, one each from the 22 minority nationalities and one from each professional sector of its remaining nationalities, designated by the regional councils which may elect them directly or provide their direct elections.

In 2004, the government appears committed to holding a free and fair ballot, having agreed in October 2004 to meet most of the demands put forward by the UEDF – the new coalition of opposition parties. Political participation can be enlarged, as long as political competitive forces do not really challenge the power monopoly of the ruling elite.

Freedom of expression is guaranteed by the constitution, but in reality, it is rather limited. However, it is remarkable that some private press branches exist and can even publish critical reports of governmental activities, the universities or corruption. However, since 2003, the situation regarding freedom of expression has worsened and reached its peak before the parliamentary elections in May 2005.

### **1.3. Rule of law**

In reality, there is no rule of law and no equal treatment of all citizens before the courts, although the federal constitution provides for an independent judiciary. However, most judges serving under the Derg were sacked, and although in theory the regions have extensive judicial powers, devolution has tended to weaken judicial autonomy further. There is a severe lack of well-trained judges in the whole country, and many political prisoners await trial for years. Human rights organizations complain about the violation of human rights by state officials and the high degree of corruption. According to Transparency International figures, Ethiopia is one of the most corrupt countries in Africa today with a Corruption Perception Index of 2.3 (on a scale of 10 to zero) ranked 114 of 146 countries.

Lack of transparency is high because important decisions, notably on economic policy and security, continue to be made by EPRDF officials outside the formal cabinet. Disagreement over accountability and corruption within the party was central to the EPRDF schism of 2001.

Despite economic liberalization, television and radio remain under government control. The government has harassed and imprisoned scores of independent journalists and editors in recent years. The threat to freedom of the press escalated in 2003 with the drafting of a new, restrictive media law, which was due to be implemented in early 2004. It provides for the imprisonment of journalists who make reporting errors, and gives the government much greater control over the independent press.

#### **1.4. Stability of democratic institutions**

Under the 1995 constitution, Ethiopia is a federation of nine states governed by two federal assemblies: the legislature, the CPR or the lower house, and a smaller, supervisory senate, the FC or the upper house. The CPR has 526 members elected for five-year terms in single-seat constituencies. The FC has 117 members, comprised of representatives from the constituent nations, nationalities and peoples of the federation.

In general, Ethiopia can be regarded as a non-democratic but mainly politically stable country, although the degree of stability varies according to the region. While in Tigray and in other northern parts of the country political stability is rather high, due to reliable police forces and economic progress under the present government, in several parts of the south and southwest insecurity and mistrust toward the government prevails. The central government with its monopoly of power controls the whole population and determines all important political decisions.

Each of the nine regional state councils has a chair and an executive bureau, in effect mirroring the federal cabinet structure in the regions. A powerful, central Security Immigration and Refugee Authority (SIRA), and also the domestic security service and the armed forces are controlled by senior EPRDF staff. A Federal Revenue Administration Board supervises regional finances, the head of the board holding the rank of minister. The Disaster Prevention and Preparedness Commission have the task of coordinating food security efforts, including famine early warning, the maintenance of food reserves and distribution of emergency food aid. These three powerful key state agencies are all controlled by senior EPRDF cadres and guarantee the stability of the polity, in spite of the lacking confidence of large sections of the population with the repressive government.

In the most significant crisis to face the government since coming to power in 1991, discontent within the Tigrayan core of the EPRDF erupted into open rebellion in March 2001, when 11 of the 30-strong TPLF central committee were suspended and silenced by means of imprisonment on corruption charges. The “dissidents” included the party’s most senior figures in its home province of

Tigray, and the crisis dangerously undermined the TPLF's reputation among both civilian and military supporters.

In recent years, Ethiopia failed to comply with two structural benchmarks – the reconciliation of fiscal and monetary accounts, and consolidating federal and regional budgets – because of the decentralization of power to regions and districts.

### **1.5. Political and social integration**

The country is home to some 64 major ethnic groups. Ethiopia is formally integrated mainly by the practice of political federalism, state force and by a national policy of economic modernization, although the north-south gap still prevents Ethiopia from becoming a successful example of African nation building. Among the people from the south, ethnic identities are dominant, especially in rural areas, and their consciousness of belonging to a pluralistic nation cannot be developed firmly. In the northern parts of the country however – especially among Tigrynnia and Amharic speaking peoples - Ethiopians have developed a sense of national identity as well as demands for democratic legitimization of power-holders.

The seven regions do not enjoy full autonomy and are dependent on the central government and the national revenues and grants to a very high extent. Under recent decentralization policy, power has been devoted to districts, with budget allocations based on population. However, people are not used to democratic rules yet, which caused interference by the government in Addis Ababa.

In 2003, the federal state of Gambella, for example, was beset by ethno-political conflicts between the two main local ethnic groups, Anyuak (26% of the Gambella population) and the Nuer (40%), who compete with each other for pasture and scarce water, and between locals and incoming settlers, known as “highlanders” from the overpopulated north. In December 2003 when more than 400 Anyuak people were killed in a single day, the local government became paralyzed and external forces from the capital interfered. The EPRDF arrested several leading Anyuak officials and took over the administration, forcing the elected regional government, consisting mainly from Anyuak, to join with a Nuer party, without having reached any compromise over potential representation or power sharing. The army arrested many local opponents, mainly Anyuak, and the regional government became replaced by more obedient people. Anyuak leaders were infuriated by the central government's intervention, saying it had handed control to the Nuer.

This example seems typical for communities in the southern part of Ethiopia, where the central government is not very popular. Doubts are justified as to whether the policy of ethnic federalism really can make institutional devolution work for ethnically heterogeneous populations.

## **2. Market economy**

### **2.1. Level of socioeconomic development**

The turn of the millennium finds Ethiopia as one of the most destitute of nations. At \$100, Ethiopia's per capita GDP is among the lowest in the world – and only about one-fifth of the Sub-Sahara African (SSA) average. Poverty is widespread among Ethiopia's 70 million people and often linked to the degradation of the environment and natural resources. Recent national household surveys find 44% of people fall below the basic needs poverty line and indicate that improvements since 1996 have been marginal. Overall, income inequality is relatively low, though there are notable urban-rural and interregional disparities. For example, by 2000, the Tigray region's poverty rate was 61.4%, while less vulnerable Harari had a poverty rate of only 25.8%.

Approximately 85% of the population gains their livelihood directly or indirectly from agricultural production. Coffee exports accounted for 50% to 60% of foreign exchange earnings in the 1990s, but this figure dropped to an estimated 34.5% in 2002-2003 because of the collapse in world prices.

Real GDP growth averaged just 3.3% per year between 1998-1999 and 2002-2003, but the mean was dragged down by the 3.8% contraction that took place during the 2002-2003 drought: cereal production fell by 26%, overall agricultural output dipped by 12%, and all electricity consumers experienced long blackouts. Due to good rains in 2003, real GDP growth of 6.7% was forecast for 2003-2004. Despite the recovery in output, the local Disaster Prevention and Preparedness Committee (DPPC) estimates that 7.2 million people will require food aid in 2004 and therefore appealed for 842,000 tons of food aid, as well as \$85 million in non-food aid for water and sanitation, seeds and malaria treatment.

Ethiopia's external debt burden, which totaled \$6 billion in 2004, is expected to fall by 47%, due to the reduction of debt service by international donors. This was negotiated with the Paris Club after the end of the war with Eritrea as part of the Heavily Indebted Poor Countries (HIPC) initiative, for which Eritrea was granted eligibility in November 2001. HIPC debt relief will help to reduce the current account deficit and increase funds available for poverty alleviation programs.

Traditionally women's rights are not widely respected in most parts of Ethiopia, especially among the "highlanders," the Amharas and Tigrayans. Gender inequalities are pronounced. Although the constitution guarantees gender equality and support for affirmative action, implementation of the National Policy for Women has been hindered by lack of capacity and varying degrees of commitment in different regions. On average, women are poorer, have fewer years of schooling, lower health status and a far heavier workload than men. Women tend to be excluded from control and inheritance of property and are vulnerable to abuse, domestic violence and deprivation.

## **2.2. Organization of the market and competition**

Ethiopia is poorly integrated with the global economy; it belongs to the category of "low performance, low potential". Despite tariff cuts, exports amount to about \$15 per head annually, compared with \$34 in Tanzania and \$53 in Uganda; manufactured exports account for less than 10% of overseas sales. Only 8% of local firms export, a figure the United Nations Development Program (UNDP) regards as exceptionally low. Local firms struggle to compete with companies from other countries on price, quality and timely delivery. Weak external integration is also reflected in low levels of foreign direct investment (FDI).

Ethiopia reformed its investment code in 2003, opening up all activities to domestic private investors except the supply of electricity via the national grid, postal services, and air transport using planes with more than 20 seats, which remains under government control. However, despite increased foreign investment in mining, manufacturing and agricultural business, a large number of sectors remain closed to foreign involvement, including banking, telecommunications and domestic wholesale and retail. Along with the stalled privatization program and the border stalemate with Eritrea, this is the main constraint on increasing FDI inflows. On the plus side, the revised investment code slashed the minimum capital requirement for foreign investors from \$500,000 to \$100,000 (or \$60,000 in the case of joint ventures).

Due to the autocratic political regimes since the beginning of the modernization process, the banking system in Ethiopia was never well developed. As a poor agricultural country of which 7 million inhabitants gain their livelihood mainly by external food aid each year, Ethiopia had until recently not developed saving and investment banks for private business people and citizens. Only some state-dependent banks have existed for several decades and came under reform pressure recently. The management of the Commercial Bank of Ethiopia (CBE) was a matter of deep concern: under the anti-corruption campaign over 40 senior figures at the CBE had been arrested, and the management of the CBE was handed over to Royal Bank of Scotland, a private bank in May 2003.

According to Transparency International's Corruption Perception Index, Ethiopia ranks 114<sup>th</sup> of 146 countries in the world (2004). Ethiopia's score fell in 2004 for the second year running, to 2.3, from 2.5 in 2003 and 3.5 in 2002 (with zero being the most corrupt and 10 the least). Transparency International particularly blames this ranking on a lack of coherent rules and regulations, red tape and poorly trained staff. High levels of corruption also drive the close and opaque relationship between senior members of the ruling EPRDF and party-owned enterprises, which enjoy special privileges.

### **2.3. Currency and price stability**

Over the past five years, Ethiopia has cautiously devalued the national currency, the birr. It declined from 7.12 birr to the U.S. dollar in 1998 to 8.46 birr to the dollar in 2003, and moved toward a market-determined exchange rate; periodic, part-managed foreign-exchange auctions gave way to an inter-bank exchange market, dominated by the CBE. The government has continued liberalizing the foreign exchange market; restrictions on the purchase of overseas currency for holiday travel and education services were eliminated. However, the IMF advises that the remaining restrictions on the free movement of money should be scrapped. These include the tax certification requirement for the repatriation of investment incomes, restrictions on repayment of external loans that have been legally entered into, and rules for issuance of import permits.

The central government raises 85% of domestic revenue and controls all foreign assistance. The regions are responsible for more than 40% of the expenditure, the bulk of which consists of regional administrators' wages.

Inflation is estimated to have fallen sharply in 2004, and should average 7.5%, compared with nearly 18% in 2003, as the good harvest brought about a decline in food prices. The decline in inflation during 2004 has been slower than expected owing to the spike in world oil prices. The government raised domestic fuel prices by 30% to 60% in 2004.

### **2.4. Private property**

Private land ownership is banned in Ethiopia, although urban commercial land is available for lease. This regulation is the most severe factor preventing FDI from doing business in Ethiopia. Ethiopia's private sector has the following characteristics: a small number of firms, small-sized firms, low labor productivity (50% lower than in China, although local wages are only 30% lower), and a small propensity to export (most private firms produce for the local market). Apart from

the obvious problem of high transport costs, the World Bank identified several constraints to private sector development in 2004: the dominant role of the state, an absence of fair competition, weak institutional support for business, low skill levels in the private sector and a lack of external integration. Despite a measure of deregulation, the state runs all major utilities, dominates the financial sector (foreign banks are barred) and for the bulk of manufacturing uses value added accounting (72%).

Under pressures from the World Bank, IMF and the Organization for Economic Cooperation and Development (OECD), the EPRDF government launched a privatization program with the sale of small retail outlets and medium-sized hotels and restaurants. The gradual shift to private ownership is being overseen by two government agencies. A total of 163 privatization projects were approved by 1998; two-thirds of them were in the Addis Ababa region, thereby reinforcing regional imbalances. However, the disposal of larger state farms and agricultural industrial plants has proved more problematic, mainly for reasons of continued wrangles over the allocation of land titles by regional authorities, and policy disagreements within the ruling party over the sale of “strategic national assets”. The privatization program has also been impeded by the government’s anti-corruption campaign and by the fact that enterprises need to be restored to profitability if a reasonable price is to be obtained. The government has rejected several offers for firms.

## **2.5. Welfare regime**

Viable arrangements to provide adjustments to compensate for the social effects of the capitalist system practically do not exist. More than 50% of the population live under conditions of extreme poverty, caused by poor harvests, degradation of environment and wide spread unemployment.

International aid organizations bring in food aid in order to help the six to 11 million inhabitants to survive, mostly in rural areas in the northern parts of the country.

Rudimentary health care exists in most of the regions, but there is no adequate care for people with serious illnesses unless they have some access to financial support from relatives living abroad.

## **2.6. Economic performance**

Although economically weak and plagued by high unemployment and widespread poverty, Ethiopia’s economy shows moderate growth. It is highly dependent on

foreign assistance. It cannot survive without food aid and foreign investments. The government increasingly cooperates with foreign private investors as well as with the World Bank and IMF in order to launch structural reforms so that the country may become more self-sufficient and less dependent on aid from abroad.

Ethiopia is the one of the largest livestock producers in Africa, with some 35 million cattle, 25 million sheep and 18 million goats. Activity has picked up since the government ended its monopoly on livestock trading in 1999, thereby encouraging local and private investment in ranches, meat processing companies and abattoirs.

## **2.7. Sustainability**

Economic growth and social security are endangered by three main factors: rates of HIV and AIDS infection, droughts and external debt.

One of the biggest problems has been the failure of the country's leadership to publicly acknowledge the seriousness of the HIV and AIDS pandemic, thus compounding the stigma associated with the disease among the wider community. However, in 2002 a strategic national plan was launched as part of the fight against the disease, which had become a serious public concern.

With regard to education, the system of primary and secondary schools is more or less stable, although on a low level compared with other less developed countries in Africa. The total gross primary school enrollment ratio has improved significantly: it stood at 37% in 1980 but rose to 64% by 2000. Secondary education is generally only available in urban centers, but gross enrollment for this level of education improved from 9% in 1980 to 18% in 2000, although this is still very low. The adult literacy rate stands at 52% for males and 68% for females.

Environmental sustainability is still a great challenge for the government as well as for the people. For centuries, Ethiopians have suffered from drought and water scarcity. Ethiopia has abandoned natural resources but much agricultural land is unproductive, water shortages are endemic and major rivers are prone to seasonal flooding. Accelerated deforestation has led to severe soil erosion in regions where people are dependent on marginal rain-fed agriculture. The government has created an Environmental Protection Agency including a National Conservation Action Plan.



### 3. Management

#### 3.1. Level of difficulty

Management performance is limited by extreme poverty, the lack of an active civil society, the small size of its educated labor force, and further by severe infrastructural deficiencies and the schism of the political leadership.

A main structural difficulty to govern the country stems from the fact that the country has never been a coherent political and socioeconomic community with national symbols and common institutions (church, market system, ideology, political parties), encompassing all 64 major ethnic groups. However, although the consciousness to belong to a nation is weak, there is a strong tradition of stateness in Ethiopia. Therefore, civil society traditions could not develop properly outside the capital and urban areas. However, in the long run - with the development of political parties, NGOs and civil society lobbies - the structural constraints on governance may decrease and pluralism in society may flourish.

Up to now, the concept of political decentralization and ethnic federalism does not seem to have helped overcome the many obstacles to a better social integration of the national population. In addition to this, the paucity of resources and revenues minimizes all chances of the government to gain support from the electorate for necessary reforms. Thus, the stability of the regime and the loyalty of the administration depend to a high degree on foreign assistance.

#### Profile of the Political System

Regime type: <i>Autocracy</i>	Constraints to executive authority: 2
	Latest parliamentary election: 14.05./31.08.2000
	Effective number of parties: 1.2
1. Head of Government: <i>Meles Zenawi</i>	Cabinet duration: 1991- 2005
Type of government: <i>single party majority</i>	Parties in government: 1
	Number of ministries: 15
	Number of ministers: 15
<p>Source: BTI team, based upon information by country analysts, situation in July 2005. Constraints to executive authority (1-6 max.) measures the institutional constraints posed by a federal or decentralized state, a second parliamentary chamber, referenda, constitutional and judicial review and the rigidity of the constitution. Effective number of parties denotes the number of parties represented in the legislature, taking into consideration their relative weight (Laakso/Taagepera index) = <math>1 / (\sum p_i^2)</math>; <math>p_i</math> is the share of parliamentary mandates controlled by party <math>i</math>. Number of ministries/ ministers denotes the situation on 1 January 2005.</p>	

### **3.2. Steering capability**

The political leadership has set some strategic priorities regarding the performance of the economy. The government relies more on private business, FDI and on market forces in general, without losing control over the whole process of mobilization of resources to overcome poverty. Government performance in achieving proposed aims remains poor due to structural constraints regarding the implementation of political and institutional reforms, and a rather inexperienced civil service that is not used for democratic checks and balances.

After the internal schism of the ruling party coalition was overcome in 2001, the government has launched a series of economic and social reforms. Tax collection was improved and public spending was redirected from defense to service provision and poverty alleviation, within the overall framework of fiscal consolidation. The government was not so successful in liberalizing the agricultural markets.

Several parastatal institutions and commissions - namely those directed at improving the political and legal climate for private investments - have been created in recent years, but implementation is often slow. It will take time before the mentality of the civil service will have changed.

In terms of poverty reduction, the government convinced the donor community with its strategy papers and thus qualified for debt reduction under the IMF and World Bank's HIPC initiative.

Because regional disparities are large, the steering capacities of the national government and of the nine regional governments vary. The greatest success can be found in Tigray, where the government has achieved structural reforms in agriculture, infrastructure and the service sectors.

### **3.3. Resource efficiency**

The government makes only limited use of available resources: the dismissal of administrative personnel for political reasons is not rare; competitive recruiting procedures that are protected against political influences are developing slowly. On the other hand, the efforts by the government to curtail corruption in offices are existent, but there are still no positive signals for higher resource efficiency. Although a Federal Ethics and Anti-Corruption Commission was established in 2001, which is attached to the prime minister's office, the problem of corruption has worsened, according to Transparency International. Ethiopia's score slid from 3.5 in 2002 to 2.3 in 2004.

Efficient use of budgetary resources became a major concern since foreign investors and international donor communities gave incentives to better resource management.

The government continues to refuse the privatization of land resources, what is condemned by World Bank experts as a waste of good investment chances. The government fears that land would be sold to speculators, fuelling migration to the cities. However, it has recently begun to consider a land registration scheme based on the concept of guaranteed ownership for 99 years, including the right of bequest, although the precise legal framework is unclear.

### **3.4. Consensus-building**

All major political actors agree on a market economy and democracy as strategic long-term aims, insofar as basic consensus exists about the role of development and transformation. However, there is conflict over institutions, the separation of powers and the proper functioning of checks and balances within the system of governance. In addition, the government is rather reluctant to allow civil society activities and strives to control all communication channels in society.

To maintain power, the government pursues a mixed strategy in gaining support of the people. It includes policies to maximize support by offering income opportunities of all kinds, to promise rather free and fair elections, to use force in case of fundamental opposition, and to intimidate by curbing civil liberties. Thus, we face a “hybrid regime” in which non-democratic attitudes prevail. In 2003 and 2004, the government tried to improve its image by gaining more trust from the public by promising reforms and more liberal practices but with the pending elections in 2005, the limitations on civil liberties once again increased.

One can reasonably state that the political leadership failed to gain social capital among citizens and social groups due to the high degree of repression. The fact that all parliamentary seats in the capital of the country, where so many professionals and civil society members live, went to the opposition parties can be regarded as an indicator for lack of trust in the present government.

### **3.5. International cooperation**

The political leadership uses the support of international partners to improve its domestic reform policies. It works with bilateral and multilateral international donors and tries to make use of international assistance, but this does not mean

that the government will lose its autonomy with regard to foreign funding. Therefore, the conditionality of aid is limited.

Receiving approximately \$1 billion (net) per year in the early 1990s, Ethiopia is one of the world's greatest receivers of official development assistance. After the war with Eritrea, international donors under the leadership of the World Bank pledged \$3.6 billion for 2003 to 2005. The foreign aid should assist the government's reform projects, mainly the Sustainable Development and Poverty Reduction Program (SDPRP). The development plan and the SDPRP both focus on four main objectives: macroeconomic adjustments, ongoing structural reforms, long-term poverty reduction and food security, and an agricultural development-led industrialization.

The EPRDF government continued to assume a leading role in regional relations. Diplomatic initiatives were conducted in conjunction with the governments of Eritrea and Sudan, including negotiations over the Sudanese and Somali conflicts, notably within the context of the regional Intergovernmental Authority on Development (IGAD). The loss of access to Eritrea's port of Assab in 1998 made Ethiopia's relationship with tiny Djibouti critically important. All petroleum imports have gone via Djibouti since then.

In recent years, Ethiopia's regional diplomacy has been based on building ties with Sudan and Yemen, in order to isolate Eritrea. In December 2003, a tripartite cooperation treaty was formalized in Addis Ababa. The three countries have promised to work towards a free-trade area. Ethiopia's relations with Egypt, sometimes unsettled by disputes over Ethiopia's use of water from the Blue Nile, have also improved. Ethiopia belongs to the Common Market for Eastern and Southern Africa (COMESA), which is the successor organization to the regional Preferential Trading Area (PTA). Up to the present total, intra-COMESA trade has grown only slightly (the share of COMESA exports as a percentage of intra-regional exports amounts to 10%). As industry and manufacturing are generally poorly developed in all 19 member states of COMESA, many members are unprepared to reduce tariffs further for fear of undermining local industries and fiscal revenue collection.

Given its high degree of dependence on foreign assistance, the government of Ethiopia, although not always united in its attitude toward foreign advisors, has grown increasingly cooperative and responsive. This is also true of NGOs such as Oxfam.

Ethiopia's cooperation on a poverty reduction strategy with the World Bank and IMF's HIPC policy functioned rather well: the weaker part gradually accepted the reform proposals by outsiders who pledged for liberalization, deregulation and privatization. The political elite's belief in the traditional communal land system

made the government immune to advice from abroad regarding controversial land reforms.

The other field of non-cooperation relates to the Badme border dispute with the United Nations: in order not to risk his position as chief of the executive, Prime Minister Meles preferred a collision course with the international community because of widespread opposition to the handover of Badme throughout the ruling coalition and the nascent opposition.

As far as the war against terrorism is concerned, the government has proven to be a reliable partner in international endeavors to fight terrorism.

#### **4. Trend of development**

##### **4.1. Democratic development**

The government appears committed to holding a free and fair ballot in May 2005, when a parliament is due to be elected for the third time since the start of democratic transition. The EPRDF, which holds 481 seats in the 548-member lower house of parliament, agreed in October 2004 to meet most of the demands put forward by the coalition of 15 political opposition parties from inside and outside the country. These include allowing foreign election monitors, ending the harassment of opposition officials, providing fair access to the state-run broadcast media and setting up a joint election committee.

Although it is expected that the opposition parties will gain some more votes than at present as a result of the forth-coming elections in May 2005, the political hegemony of the ruling alliance of forces will not erode. During the last five years, the government has obviously gained some acceptance by the majority of the three most influential ethnic groups (Amhara, Tigray, Oromo), and the opposition remains fragmented. Civilian opponents to the EPRDF are weak, divided and ineffectual, despite several factors in their favor. These include: widespread malaise among the educated urban classes, a fiercely anti-government private press, the government's clumsy repression of opponents, anti-EPRDF sentiments among the diaspora in the United States, and internal schisms within the EPRDF that began in March 2001, when 11 of the 30-strong TPLF central committee members were suspended on charges of corruption and disloyalty to the prime minister.

At a gathering in the United States in August 2003, representatives of 15 political parties formed the UEDF. Its program includes a preference for privatization, land reform and greater freedom of the press, but all political opposition politicians are opposed to the handover of Badme to Eritrea.

In conclusion, there will be no major change in the power balance between the coalition of ruling parties and its opposition parties in the near future. The hegemony of the EPRDF over Ethiopian politics will not be seriously threatened by any formation of opposition parties.

#### 4.2. Market economy development

The country's level of economic development has improved only slightly. Overall, economic growth has increased by an average of 5% annually. The institutional framework, including the legal guarantees for private enterprise, has improved to some extent.

In comparison to the political arena, the economic development of Ethiopia is improving slowly but constantly. This can best be demonstrated with regard to the national initiatives to improve the business climate and to reduce poverty by joint private-public actions. By eliminating the requirement for prospective firms to publish notices in two newspapers, the time taken to establish a business fell from 44 to 32 days, and the cost fell from 84% of the GDP per capita to 77%. This improvement led to a 48% increase in the rate of company formation. Therefore Ethiopia was named by the International Development Agency (IDA) "the top reformer in terms of business start up between 2003 and 2004". Many other structural economic and financial reforms have been launched, mostly with the assistance of foreign firms and advisors.

Only the privatization of land and the refusal to open up the banking and telecommunications sectors to foreign competition mark the limits of the government's willingness to comply with the predominantly liberal philosophy of the economists and politicians of the international donor community.

**Table: Development of macroeconomic basic data (1998-2002)**

	1998	1999	2000	2001	2002	2003	2004
Growth of GDP in%	- 1,9	+ 6,2	+ 5,7	+ 8,9	+ 2,7	-	-
Exports (\$ millions)	1.034	916	984	958	962	-	-
Imports (\$ millions)	1.648	1.877	1.961	1.945	2.073	-	-
Inflation in %	Ø 0,9				1,5	-	-
Debt in \$ millions	-	-	5,5	5,7	6,5	6,6	6,0
Debt service ratio	-	-	13,9	18,0	9,7	9,2	8,0
Budget deficit as % of GDP	-	-	-	-	-	-	-
Current account balance in \$ millions	-	-	16	- 454	- 150	- 359	- 444

Source: Economist Intelligence Unit (2004): *Country Reports*

#### **D. Strategic perspective**

Agricultural land in densely populated areas of the highlands has been deteriorating steadily in recent years. Accelerated deforestation has led to severe soil erosion in regions where people are dependent on marginal, rain-fed agriculture.

Aside from agriculture, livestock and forestry, Ethiopia has underdeveloped mineral resources. Recently, private foreign interest in the mining of gold and other precious metals, and oil and gas exploration, has increased slowly. Prospects for domestic hydrocarbon production moved forward in late 2003 with the signing of an agreement with a Jordanian company for the development of large gas reserves in the Southeast of the country. The plans include the construction of a gas-to-liquids plant at Dire Dawa with a capacity of 34,000 barrels per day of petroleum products.

Ethiopia's capacity to realize its potential future development will depend on the rule of law and good governance. In the near future, the current government will show some improvement in Ethiopia's investment climate that will enhance opportunities and incentives for firms of all types to invest productively and create jobs. Good governance is the key to unleashing growth and reducing poverty, and progress toward better government in Ethiopia is slow.

To improve the business climate further, the government is well advised to continue reforms, as foreign companies still face some severe obstacles and constraints. Key among these is access to land, which 57% of the population cites as their main problem (the highest rate globally, according to the EIU 2004). Moreover, with 15 different procedures, involving seven separate agencies, Ethiopia has the third least efficient property registration system in the world.

Both the transition toward political liberalism and democracy and that of a free-market economy have made some progress in Ethiopia. The prime minister is an autocratic ruler who has learned to listen to civil society occasionally, has at least made the promotion of social and political integration part of his agenda and who has proven to be flexible enough in order to regain the trust of the international donor community. The government under Meles Zenawi was supportive when it came to cooperation with regional and international partners. Only as far as the border conflict with Eritrea over Badme is concerned, the government refused and still refuses to accept the border commission's judgment.

The political dialogue between the governments of Ethiopia and donors, in particular the European Union and its member states should focus on two main issues. First, it should encourage reform-oriented sections of the Ethiopian

government to implement the agenda for democratic transition, with special emphasis on giving the regions more autonomy to handle their own affairs. These should include the right to utilize and manage international funds for regional development projects. Second, the international donor community should provide positive incentives in achieving the key objective of civilian preventive diplomacy, such as settling domestic and regional conflicts without resorting to violence.