

BTI 2012 | Ethiopia Country Report

Status Index	1-10	3.82	# 109 of 128	
Political Transformation	1-10	3.68	# 105 of 128	➔
Economic Transformation	1-10	3.96	# 111 of 128	➔
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scale: 1 (lowest) to 10 (highest) score rank trend

This report is part of the Bertelsmann Stiftung’s Transformation Index (BTI) 2012. The BTI is a global assessment of transition processes in which the state of democracy and market economy as well as the quality of political management in 128 transformation and developing countries are evaluated.

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Key Indicators

Population	mn.	82.9	HDI	0.363	GDP p.c.	\$	1041
Pop. growth ¹	% p.a.	2.1	HDI rank of 187	174	Gini Index		29.8
Life expectancy	years	58	UN Education Index	0.237	Poverty ³	%	77.6
Urban population	%	17.6	Gender inequality ²	-	Aid per capita	\$	46.1

Sources: The World Bank, World Development Indicators 2011 | UNDP, Human Development Report 2011. 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 in 2009 and 2010 was characterized by contradiction within the government's politics: While the government under Prime Minister Meles Zenawi successfully launched economic reforms aimed at stimulating economic growth and economic diversification, it brought the country's democratization process nearly to a halt. The bitter results of the 2005 and 2010 elections, indirectly manipulated by the government, and the subsequent authoritarian backlash have frustrated nearly all relevant political actors outside the government camp. Opposition parties have been undermined to the extent that they no longer pose a threat; the media and civil society have been leashed by oppressive laws; and trade unions and professional associations have been forced either to toe the line or, like the Teacher's Union, be dissolved.

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), is expected to remain firmly in control at all levels of government following its emphatic "victory" in the May 2010 parliamentary election, which did not receive the label "free and fair" from the EU Electoral Observation Mission. The EPRDF and its allied parties gained a 99% majority in Ethiopia's parliament, the House of People's Representatives, with opposition candidates winning just two seats. The EPRDF won 499 out of 544 seats and the Somali People's Democratic Party 24 seats, while the three opposition parties together won only two seats, down from 161 five years before. It is widely believed that the scale of the victory resulted from harassment of political opponents and the memory of the violent crackdown on post-election violence in 2005, as well as the passage of restrictive laws governing the media, civil society and political funding.

What happened in Ethiopia after 2005 comes close to a process of politically engineered democratic regression: Although the constitution of 1995 was applauded for its commitment to liberal democracy and respect for political freedoms and human rights, the EPRDF regime

refused to accept democratic rules of the game as a part of its political practice. While promising democracy, the government has not accepted that the legal opposition is qualified to take power via the ballot box. It tends to regard the expression of different views and interests as a form of betrayal. When the EPRDF felt threatened by the opposition's unexpected victory winning all council seats in the capital in 2005, its brutal crackdown against the opposition demonstrated the extent to which the regime is willing to ignore popular protest and foreign criticism in the interest of holding to power.

The government's behavior in the aftermath of the May 2005 elections raised fundamental questions about the legitimacy of its rule. The human and political rights situation has worsened significantly since the balloting was held. An official parliamentary report on post-election violence in 2006 documented 30,000 arrests, 199 deaths resulting in most cases from gunfire, and the use of "excessive force" on the part of the government.

The international community has widely ignored or downplayed these political problems. Some donors appear to consider food security more important than democracy in Ethiopia, but they neglect the increased ethnic awareness and tensions created by the regionalization policy and the potentially explosive consequences.

Instability in the volatile Horn of Africa has tended to cement 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 the foreign policy agenda. The protracted border dispute with Eritrea remains at a dangerous impasse.

In 2009, Ethiopia withdrew all of its military forces from Somalia after two years seeking to assist Somalia's Transitional Federal Government in its struggle against Islamist rebels, the Islamic Courts Union. On the Eritrea-Ethiopian border issue, the ideological and judicial stalemate continued: No talks were held and the U.N Mission in Ethiopia and Eritrea (UNMEE) withdrew its cooperation.

On the level of socioeconomic development, the country has taken steps toward market-based reforms, such as trade regulation and an "agricultural development-led industrialization." In the last five years, GDP growth has attained remarkable rates of 7% to 9% per year. The country remains heavily dependent on the performance of the dominant agricultural sector, with coffee and "chat" as the main cash crops. Economic diversification has been hampered by the reluctance of the government to accept land privatization or allow activity by foreign banks. But the government has recently shown new flexibility toward trade liberalization.

The country still has a huge trade imbalance (imports of \$7.21 billion compared to exports of \$1.56 for the year 2008), and a current-account deficit of 4% of GDP. The threat of famine rose again as a serious problem for Ethiopia in 2008 – 2009.

Despite remarkable GDP growth rates (7% – 9% per year), some 5 million to 6 million people were again in need of food aid. Assistance came from the World Bank, IMF (Exogenous Shocks Facility), the European Union, the United States and China. In total, Ethiopia received almost

\$1.8 billion in development aid and loans in 2009, bringing the total sum received since 1991 to just under \$26 billion.

Relations with China strengthened during the period under review, and were dominated by the economic interests and resource acquisitions of China. Trade between the two nations rose substantially again, reportedly reached a value of \$1.376 billion. China's post-Communist, state-capitalist model and its dominant-party governance system continued to appeal to Ethiopian leaders.

History and Characteristics of Transformation

Ethiopia in its present form – with 82 million inhabitants living in a multicultural federal state consisting of nine culturally diverse regions and two city administrations – is the outcome of the expansionist politics pursued by the Amharic-speaking people of the central highlands since the 19th century. Emperor Menelik II (1889 – 1913) conquered several ethnic groups, tribes and fertile regions south of “Abyssinia” (i.e., the highlands in the north, inhabited by Christian Amharic- and Tigray-speaking highlanders), among them the Oromo- and Somali-speaking peoples. A total of 64 ethnic groups are recognized by the state, with the Oromo, with around 20 million people, the most numerous ethnic group. A forceful nation-building process started rather recently, but has to date failed to bridge the socioeconomic gap between north and south. Ethnic clashes and religious tensions continue primarily in the south, continuing a recurrent pattern of conflict over borders, land and water resources between ethno-linguistic groups. In 2009, for example, this conflict led to hundreds of people being killed and tens of thousands displaced. An Oromo Liberation Front (ORF) remains active against the central government, fighting for political secession of “Oromiya.”

The roots of a modern state were laid by Menelik, who repelled an Italian invasion in 1896 in the battle of Adwa, thus sparing his country the experience of colonialism. The process of Ethiopia's modernization started under 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 under Prime Minister Meles Zenawi, a strong authoritarian leader.

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 that proved devastating to both sides. Eritrea gained its independence as a sovereign state through a referendum in 1993. In 1974, the senile Haile Selassie (who had paid little attention to a severe famine in 1971 – 1974, when more than 1 million peasants starved to death) was overthrown by a coup of army officers and later killed. A Provisional Military Administration Council (Derg in Amharic) under Colonel Mengistu Haile Mariam took power, establishing a brutal regime that lasted until 1991.

More than 100,000 people were killed during the Derg period (the so-called red terror), and many more were driven into exile in the United States and Western Europe. Among the victims were many students and intellectuals who were in favor of a modern democratic state. In 1977, the new leadership proclaimed Ethiopia to be a socialist state, nationalizing land and real estate.

When the Tigray People's Liberation Front (TPLF), under the leadership of Meles Zenawi, won the war of liberation against the Derg government (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; a political transition from totalitarian dictatorship to pluralistic multiparty democracy, which was a *conditio sine qua non* for foreign aid; and finally a transition from a socialist planned economy to a capitalist market economy able to withstand competition within globalized markets. Since that time, some remarkable results with regard to economic recovery and institutional rebuilding have been achieved.

Ethiopia today remains a poor landlocked multiethnic country, which has been dominated for 20 years by a single ethnic minority group, represented by the TPLF. This party has sought remain in power no matter what the cost, increasingly intimidating opponents and harassing opposition politicians. Since the first elections in 1995, the coalition of political parties making up the EPRDF has maintained its monopoly on the use of force across the country. However, some armed resistance against the government still exists in the south and among militant sections of the Oromo and Somali.

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

Transformation Status

I. Political Transformation

1 | Stateness

Question
Score

Ethiopia is a strong and stable state with an authoritarian government under Prime Minister Meles Zenawi, who has radically transformed the hitherto centralized state into the Federal Democratic Republic. Under the terms of the 1995 constitution, the government has created nine ethnic-based regional states and two federally administered city-states. The result is an asymmetrical federation that combines populous regional states such as Oromiya and Amhara in the central highlands with sparsely populated and underdeveloped ones including Gambella and Somalia. However, ethnic federalism has failed to resolve the “national question.” The EPRDF’s ethnic policy has empowered some groups, but has not been accompanied by dialogue and reconciliation. For Amhara and national elites, ethnic federalism impedes progress toward a strong and unitary nation-state. For ethno-national rebel groups such as the Ogaden National Liberation Front (ONLF, made up of Somalis in the Ogaden) and OLF (Oromo Liberation Front), ethnic federalism remains artificial. While the concept has failed to accommodate grievances, it has powerfully promoted ethnic self-awareness among all groups.

Monopoly on the
use of force

7

The main trouble spot remains the Somali-inhabited Ogaden, where the government’s harsh campaign to suppress the ONLF, a violent insurgent movement with a similarly brutal record, has continued. Thousands of residents have fled the area.

During the period under review, there were also sporadic clashes between government forces and Oromo Liberation Front (OLF) units in the east and west of the Oromiya region. The OLF is fighting for the independence of the Oromo people, who make up 40% of the country’s population as a whole. But due to a lack of external support and financial and logistic resources, the OLF cannot be regarded as a serious danger to the stability of the country.

The concept of Ethiopian citizenship is fully accepted by the majority, but questioned by ethnic minorities. At least three ethnic groups – Somalis, Afars and Oromos – do not feel politically loyal to the Ethiopian state ruled by highlanders from the north. Opposition is strongest among the Ogaden people in the Somali region, who feel a greater affinity toward Somalia, and parts of the Oromo people, who provide the Oromo Liberation Front with sufficient support to survive despite its poor organization and lack of progress. As a third ethnic and cultural minority, the Afars also challenge the legitimacy of the federal state.

State identity
7

Ethiopia is a secular state, and there are no religious dogmas which might influence the legal order. The majority of federal government figures is either Christian or has a Christian-dominated background, and many therefore believe that a subtle discrimination against Muslims exists. Roughly one-third of the population is Muslim. Prime Minister Meles Zenawi's government is seriously concerned about the growing influence of fundamentalist Quran schools funded from Saudi Arabia and other Arab states. In 2010, Prime Minister Meles ended a disastrous three-year campaign in Somalia aimed at destroying Islamist rebel groups there. The government is seeking the support of the Orthodox Church and other religions as a tool for political control. Religious leaders (orthodox, Muslim, protestants) are often pressured to issue broadcasted statements and messages of support for major EPRDF actions, with the government seeking support of their religious communities.

No interference of
religious dogmas
8

The country has had a basic modern administrative structure since the times of Emperor Haile Selassie, reaching down to the village level. The Meles government has consolidated this structure with the introduction of regions and city administrations. Each of the country's nine regions consists of a number of zones, which are in turn comprised of districts (woredas) and local councils (kebeles).

Basic
administration
7

Basic administrative services such as security, magistrate courts, health care and public education are delivered in a top-down manner, and reach most of the country. Administration is in general weaker in the south, but since 2008, several bigger towns have been upgraded to the status of semi-autonomous metropolitan councils. In these regions, more than 40 ethnic minorities often face identity-related problems, and there are internal struggles for more administrative freedom and autonomy. Administration is even weaker in the eastern part of the country, particularly in the Somali region, and at the borders between Ethiopia, Somalia and Kenya. Elected representatives (councils) are supposed to control administrative services at each level. However, authorities have banned journalists from the region, preventing the outside world from accurately assessing the situation there.

2 | Political Participation

There have been no free and fair elections in the country since the establishment of the new political regime under the constitution of 1995. Between the parliamentary multiparty elections of 2005 and those of 2010, the situation with regard to political participation has worsened dramatically. During the 2005 elections, the opposition was strongest in Addis Ababa, the capital: The opposition Coalition for Unity and Democracy (CUD) party won a landslide victory, winning 137 of the city's council's 138 seats; however, only three years later during local and by-elections, the EPRDF won all but one seat at the capital's district and sub-city administrative level.

Free and fair
elections

3

Ethiopia is not an "electoral democracy." The National Election Board of Ethiopia (NEBE) is staffed with EPRDF members, and is not autonomous. Though the board is supposed to be neutral, it in fact often aggressively attacks opposition parties and clearly demonstrates support for the EPRDF. The board has lost credibility with the majority of voters.

Members of the lower house are selected in popular elections, while upper chamber members are selected by the state legislatures, with members of both houses serving five-year terms. The ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) is expected to remain firmly in power at all levels of government following its emphatic victory in federal and regional elections in May 2010. The ruling party now has a 99% majority in Ethiopia's House of People's Representatives, with opposition candidates winning just two seats. The scale of the victory resulted from the memory of the violent crackdown on post-election violence in 2005, along with the passage of restrictive laws governing the media, civil society and political funding.

While the government attributed its success to its policies, analysts believe the elections were heavily manipulated. Voters' disappointment with the opposition, fear of losing access to government services and jobs, and continual intimidation and harassment are other possible explanations. Ethnic politics and the fear of potential civil war have led many voters to give up hope for a democratic society. Many citizens have lost belief in the democratic process, considering elections to be merely a ritual.

Opposition parties were permitted and have been represented in parliament since the controversial 2005 elections, but serious irregularities during the voting process and ballot count occurred. Candidates from opposition parties were often harassed, beaten up and even killed, with the result that opposition parties decided to boycott the 2010 elections. The opposition also boycotted local elections in 2008, accusing the EPRDF of harassment. Opposition activities were further restricted in 2009, as

the EPRDF prepared for the 2010 federal and regional elections. In June 2009, 45 members of an unregistered political party were charged with trying to topple the government.

After the 2010 elections, opposition parties stated that 450 of their members and candidates had been jailed by the government. A major opposition leader, Judge Birturkan Mideqsa of the United Democratic Justice Party (UDJ) remained in prison from 2008 through 2010; she was held in solitary confinement until June of that year, with deleterious consequences for her health. She symbolizes the lack of progress in democratization, fair election campaigns and political trust building.

Elected political representatives in parliament and government have considerable power to govern the country, with the exception of the southern districts (Somali region) and the Afar region, in which frustrated minorities challenge the legitimacy of the federal state and the government in the capital Addis Ababa. The political and administrative elites, as well as the leading military officers, are largely from the Tigray region, and believe themselves to have a special mandate to lead the country out of poverty. Political power is organized in such a way that representatives of the small Tigray People's Liberation Front (TPLF) dominate the executive, including the ruling EPRDF party. Top Tigray politicians, as long as they are politically loyal to Prime Minister Meles Zenawi, have veto positions in all strategically important state institutions. A well-organized clientelist system ensures that TPLF influence also reaches into the private economy and civil society organizations.

Effective power to govern

2

Although the constitution guarantees freedom of association and assembly, the government did not allow opposition parties to organize freely or to canvass for new members and voters. Before the parliamentary elections, several opposition party candidates were harassed or put into prison, with the government seeking to intimidate citizens away from siding with the opposition. Oromo opposition parties with an ethnic agenda are in most cases banned or severely harassed. Dubious accusations have been leveled against opposition figures, including a "plot to overthrow the government." Any serious challenges to EPRDF ideas by opposition leaders are equated with attempts to overthrow the government by force or with violating the constitution, and are met with harsh sentences. On the other hand, opposition parties are not effectively managed, and have shown limited ability to inspire their members or society at large to engage in a democratic society-building process.

Association / assembly rights

3

The freedoms of assembly and association are also severely limited for interest groups and civil society. The work of civil society organizations (CSOs) in the areas of democracy, human rights and political participation has been curtailed through intimidation and a tightening of the legal space. On 6 January 2009, parliament passed a highly controversial CSO law that de facto excludes most of them from

engaging in any work pertaining to human rights, conflict resolution, woman's and children's rights, rural development, or HIV/AIDS. The Charities and Societies Proclamation is designed to restrict the ability of foreign non-governmental organizations (NGOs) to bypass government channels when they disburse funds. Foreign NGOs are defined as groups that receive more than 10% of their funding from abroad. All civil society organizations are required to register with the government under the new rules.

The many foreign-funded NGOs in particular have suffered under this new legislation, making it harder for the Ethiopian people to use the human and financial resources potentially offered to them by NGOs.

Although the constitution guarantees freedom of expression, several journalists have been sentenced to prison on the basis of "incorrect reporting." The press and other media have continued to face serious restrictions, with journalists subject to arrest and prosecution for alleged defamation. In 2009, one of the most important independent news magazines, the Addis Neger, was forced to close due to harassment. Its chief editor fled the country. Other journalists practice self-censorship in order to survive as professional workers.

Freedom of
expression
3

Internet access is available to just 1% of the population. Many sites reporting on Ethiopian sociopolitical and economic affairs are blocked. Control of the only Internet server has been a prime means of restricting the free flow of information. Government-sponsored websites propagate EPRDF ideology and justify every EPRDF action as correct and unquestionable. Media outlets controlled by the EPRDF, such as the FANA and WALTA information agencies, dominate the sector.

The lack of professionalism in the private and government media has contributed to the ease with which the government has suppressed the freedom of speech. A 2008 media law has had a further chilling effect on speech. Although it barred direct government censorship of private media, the measure allowed prosecutors to seize material before publication in the name of "national security." It also gave the government broader powers to pursue defamation cases.

3 | Rule of Law

A separation of powers is formally in place, but does not exist de facto. The EPRDF is the source of all power. The relationship between the executive and the legislative is wholly asymmetrical: While the formal legitimacy of the government stems from its parliamentary majority, the executive sets the rules and conditions under which the competition for power can take place. Several times, primarily before and after

Separation of
powers
3

political elections, the government has signaled a readiness to use means both legal and illegal, including the recourse to violence, to crack down on political freedoms and opposition parties.

The legislature consists of the lower house, known as the House of Peoples' Representatives (HPR), and a smaller, supervisory senate, the House of Federation. The HPR has 547 members elected to five-year terms in single-seat constituencies. The upper house has 117 members, comprising representatives from the constituent nations, nationalities and peoples of the federation.

Although the constitution vests all powers not attributed explicitly to the federal government in Addis Ababa in the regional states, these bodies are in fact rather weak. For example, they lack the right to tax their inhabitants or to cooperate with foreign donors in order to develop the provinces (states) according to regional priorities.

In October 2009, the parliament announced a bill that significantly enlarged the powers of the executive, giving the government the power to dismiss, dissolve or reorganize all federal organs and offices in the country without scrutiny by parliament.

The judiciary and the legislative are under the full control of the ruling party. The power to interpret the constitutionality of laws rests not with the judiciary, but rather with a state organ that draws on the legal expertise of the Council of Constitutional Inquiry.

The independence of the judiciary is heavily impaired by political interference and high levels of corruption. Indeed, Ethiopia's judiciary has never had an independent existence as a separate institution. It has been subject to all kinds of pressure from other governmental branches. Thus, external pressure on judiciary has deep roots, a history that is not without some lasting influence on the current federal judiciary.

Appointments of high-level judges are the prerogative of the political leadership, ensuring that government policies and interests are taken into account in judicial decisions. During the period under review, a number of judges and politicians fled the country due to threats, political intimidation and harassment. Suspects are routinely held without warrants, and cases can take a long time to reach court

The judiciary is to some extent institutionally differentiated, but is severely restricted by functional deficits, insufficient operational scope across the country's territory, and scarce resources. The lack of trained professional judges is still a very serious concern for anyone seeking justice. Appointment of judges is often a task delegated systematically to local EPRDF figures. There are no official gazettes in which judicial decisions are published.

Independent
judiciary
3

From August to November 2009, the Federal High Court passed guilty verdicts on 40 members of opposition parties accused of plotting against the government. Among them were several army officers and Berhanu Nega, a famous opposition party leader who won the elections in Addis Ababa in 2005 and subsequently had to flee abroad. The court ignored testimony by some of the accused that they had been abused and tortured in prison.

Ethiopia's Anti-Corruption Commission was founded by and remains dependent on the government. Its efficiency is not regarded as high. Officeholders who break the law and engage in corruption are not prosecuted adequately under the law, but occasionally, in the case of allegedly disloyal civil servants, do attract adverse publicity.

Prosecution of
office abuse
3

Officeholder corruption is not well investigated or prosecuted at any level. Some EPRDF officeholders and their family members have become wealthy as a result of corruption and illegal practices. Harassment of private traders and businesspeople who are not affiliated with the ruling party often makes it difficult for them to compete.

The government has taken a number of steps to limit corruption, including the imposition of asset-disclosure rules for state officials. However, graft remains a significant problem. Former Prime Minister Tamrat Layne and a former defense minister were convicted of corruption in 2007, but both were released by the end of 2008, having already served several years in prison on other corruption charges.

A number of human rights are consistently violated by state authorities, including the rights to life and personal security, privacy, equality before the law, and equal access to justice and due process. Prohibitions of torture and cruel and inhuman treatment or punishment are not adhered to. In general, the government has shown little response to criticism by human rights organizations and Western countries, which have called for national dialogue, cooperation and respect for the constitutional rights of citizens. The independent Ethiopian Human Rights Commission has been thwarted in its fact-finding missions and its researchers have been harassed. Several of its chief officers fled the country during the period under review. According to Jon Abbink in the *Africa Yearbook 2009 – 2010*, the same is true of the well-respected Ethiopian Women Lawyers Association.

Civil rights
2

In July 2009, the parliament passed a new "Anti-Terrorism Proclamation," with an extraordinarily broad definition of terrorism. Under the measure, peaceful political demonstrations, property crimes and the disruption of public services are designated as "terrorism." The law represented a missed opportunity to build confidence and enhance public security. According to Human Rights Watch, the law could be used to prosecute peaceful political protesters and even impose the death penalty for offenses as minor as damaging public property.

Engaging in opposition politics has been generally difficult in a climate of distrust, harassment (especially in rural areas) and complete domination of the state and its resources by the ruling party. Dubious accusations have been leveled against opposition figures, including allegations of a “plot to overthrow the government,” for which 40 people were arrested in April 2010. As in previous similar cases in recent years, no credible evidence was presented, and according to many Ethiopians, spite and intimidation by the government seem to have been the dominant motive in this case.

Formally, civil rights are fully respected, and citizens can bring complaints to the ombudsman’s office. In reality, however, ethnic minorities and groups suspected of being anti-government have few if any opportunity to seek redress if their civil rights and liberties have been violated. This is particularly true in the Somali and Oromiya regions of the country, where increasing numbers of victims of violence by security forces have been denied any opportunity to claim compensation for the loss of property or lives. Opposition parties cannot expect proper protection of their legal rights by the courts. In August 2010, for example, the Federal High Court found 13 of 14 defendants guilty and one not guilty in absentia. In November, the court found another 27 guilty and sought the death penalty for the 40 defendants. The court ignored testimony by some of the accused that they had been abused and tortured in prison, and it was impossible to conclude that justice was done.

Conditions in Ethiopia’s prisons are harsh, and the International Committee of the Red Cross is not permitted to inspect federal facilities and police stations. Detainees frequently report being abused or tortured.

4 | Stability of Democratic Institutions

Despite having a federal constitution with formally democratic institutions, there is tight central fiscal and political control of the regions and the lower levels of administration, the zones and districts (woredas). All institutions are under the control of the central government. Ethiopia can therefore be regarded as a typical case of a “facade democracy” in a de facto neopatrimonial one-party state: Elections take place, but fair competition between political parties and democratic participation by citizens are blocked by police and a civil administration that has attempted with increasing efficiency to monopolize state power. The national parliament has no real ability to check the executive or to represent the hopes, expectations and criticisms of the public. The ensemble of state institutions functions only in regard to one political dimension: To secure the power of the ruling class and the federal government. Members of the TPLF occupy all the highest levels all ministries. The party’s dominance is particularly evident in the armed forces and the National Intelligence and Security Office. The federal security agenda overrides local institutions. In unstable and politically sensitive areas such

Performance of
democratic
institutions

2

as Oromiya, military commanders, federal police and security organs operate largely independently of local authorities. The rule of law is arbitrarily applied, and a culture of fear is again taking root within Ethiopian society. People who do not belong to one of the EPRDF parties find it extremely difficult to secure employment in the public sector.

The National Electoral Board (NEB) is an institution of crucial importance for the democratization process. It is therefore remarkable that after two decades of multiparty elections following the collapse of the Megistu dictatorship in 1991, the NRB has been unable to come to agreement with the opposition parties concerning fair rules of the game and equal competitive opportunities for all candidates. The EPRDF-dominated NEB has prevented any genuine democratic reform, as fair and equal elections would most likely result in a triumph for opposition parties and the people of Oromiya.

Ethiopia is formally a constitutional democracy, founded on a modern constitution with a division of powers, a formally independent judiciary and guarantees of human rights. De facto, Ethiopia is an authoritarian “facade democracy,” in which the ruling party uses legal and illegal means to prevent any possible change of government, let alone a shift of regime. There is no fair competition among political parties for state power. Control of power through institutional checks and balances takes place only to a marginal degree.

Beyond their undemocratic practices, several leading personalities within the EPRDF government seem to regard liberal competitive democracy with suspicion, and are probably behind the legal moves to restrict the media and civil society. One could argue that if free and fair elections were to be held, the ruling ethnic minority (the Tigray people) would be the loser, and that ethnic groups with larger numbers such as the Amharic and Oromo peoples would almost certainly win.

5 | Political and Social Integration

There are more than 60 registered “parties” in Ethiopia, but most of them are artificial, lacking social roots in the population and are therefore unstable. EPRDF, the dominant political party, is an exception. Before 2008, the government was generally viewed as a tool of the TPLF, with little grassroots support outside Tigray. In September 2008, it was announced that the EPRDF had 4.5 million members, compared to 600,000 three years earlier. In 2010, the EPRDF claimed to have 5 million members, following immense government spending on massive membership drives, the development of party cell organizations, propaganda meetings, party and civil service training, and other unproductive government spending.

Commitment to
democratic
institutions
2

Party system
3

Political parties are still a young phenomenon in Ethiopia, which might help explain their volatility and instability. The ruling EPRDF party coalition is highly centralized, stable and socially rooted, while the many opposition parties in the sparsely populated regions of the country, at the peripheries in Somalia, Gambela, Kambatta and in the deep south are not well consolidated. Repression of the Oromo and ethnic Somali peoples, and government attempts to co-opt their parties into subsidiaries of the EPRDF, have helped to fuel nationalism in both Oromiya and the Ogaden.

Opposition parties are often hindered in their attempts to organize, particularly in the rural areas where party members and activists are harassed in a climate of distrust and state control.

The Ethiopian People's Revolutionary Front (EPRDF) won all but two of the seats in parliament in the May 2010 election (i.e., seating 545 out of the body's 547 members), compared to 327 out of 488 total seats in the 2005 elections. This is a clear indication of declining levels of political and social integration within the multiethnic population. According to the government-dependant National Election Board, which announced the results of the 2005 elections in November of that year, after a three-month delay, an opposition led by the Coalition for Unity and Democracy (CUD) and United Ethiopian Democratic Forces (UEDF) won a total of 61 seats in that round of balloting, 12 more than in the previous parliament. The governing coalition also won elections for eight of nine regional parliaments. The exception was the Addis Ababa region where the urban population, including the comparatively well-educated middle classes, opposed the repressive Tigray-dominated government. Since that time, the population has obviously been intimidated by the oppressive government, and has been reluctant to take part in political party organization.

In preparation for the 2010 elections, a new opposition coalition was formed by eight parties, called Medrek, or the Forum for Democratic Dialogue. It gained support by having a broad spectrum of leaders from various backgrounds. However, efforts to build a base of support in rural areas were hindered by the EPRDF, which was afraid of competition.

Internal EPRDF party control has been maintained by evaluation sessions, which in August 2010 led to the arrest and sentencing (to between 10 and 23 years in prison) of six army officers who had allegedly conspired with and collected arms for the CUD opposition party in 2005.

One can therefore conclude that the party system is heavily polarized. An autocratic patronage-based ruling party coalition under the leadership of the TPLF, which has strong roots in the Tigray region's society, dominates the country's political life, while the opposition camp is highly unstable and volatile. Despite the various ethnic

“liberation fronts” which challenge the state’s monopoly of power in the south, the ruling party has been able to maintain its grip on power, keep the liberation movements at bay and control the opposition parties, thus preserving the existing system of repression.

Ethiopia has a rudimentary system of organized interest groups, including professional associations, trade unions and manufacturers’ associations. They enjoy little autonomy, because the government has been successful in recent years in co-opting their support for the state. The trade unions in particular have always been controlled from above, aside from a Teachers Association critical of the government. However, this group was outmaneuvered through the establishment of a new association close to the government. The Manufacturers Association, the farmers union and the cooperative movements are all closely controlled by government.

Interest groups
3

The influential Orthodox Church, as well as other religious institutions, has long sought to align itself with the rulers. It would thus be naive to expect any pressure for the enhancement of democratic liberties in Ethiopia from this source.

Although Afrobarometer and other surveys on political attitudes are not allowed in Ethiopia, it can be supposed that the country’s plurality-loving people, who live within 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, because of the way it has been used by the government.

Approval of
democracy
n/a

There is a fairly low level of trust between government and people, and between the various ethnic groups. In general, representatives of the Tigray population are regarded with mistrust and skepticism by Amhararic and Oromo people, as well as by smaller tribes in the south that have often suffered from the arbitrary actions of the 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 ethno-political system, because 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 agro-pastoralists of Guji and Sidama). Land scarcity and persistent drought are often the real causes of “ethnic clashes.”

Social capital
5

The only tolerated mechanism of mediation between society and the political system are the informal Councils of Elders in rural areas. These are traditional

institutions comprised of local leaders who are trusted by the local population and who in some areas enjoy a good reputation as wise peacemakers seeking justice. The elders often serve as mediators for individual cases within their ethnic group. In cases of emergency, these informal Councils of Elders are the only channels of communication and negotiation open between officers of the government and outlawed sections of society.

In the rural areas, there are also small numbers of autonomous, self-organized groups, associations and organizations, based on deeply rooted cultural traditions. However, these are unevenly distributed, and often spontaneous and temporary. Ethiopia has a long history of self-help organizations and solidarity networks at the communal level. Iddirs (originally burial societies) and equbs (saving clubs) are century-old traditional local neighborhood associations, which discriminate little on the basis of ethnicity, religion, gender or party affiliation. They were brutally repressed under the Derg regime, but bounced back immediately when they were allowed again. However, these traditional self-help groups are local entities, and lack any regional or even national organization. As such, their influence on the formation of social capital is limited.

In general, Ethiopia's society is riddled by distrust and envy, undermining development goals as well as efforts to build a common orientation among citizens that might reach beyond family and iddir. While there is some degree of self-organization in civil society, its impact is limited by cultural, socioeconomic and ethnic barriers.

II. Economic Transformation

6 | Level of Socioeconomic Development

According to the UNDP, Ethiopia was still numbered among the world's least-developed countries in 2010, despite some improvements in the agricultural sector. The country was ranked 157th out of 169 countries on the Human Development Index (HDI). Ethiopia showed some economic growth, but poverty, a rising population and socioeconomic insecurity remain serious problems. In 2010, the country's economic growth rate was less than 2% according to the United Nations, significantly less than the 10% claimed by the government.

Overall, social inequality increased during the period under review, with a top layer of elite-related business people, officials, cadres and civil servants safe in their jobs and income, and the large mass of peasants and workers in vulnerable, dependent conditions, struggling to make ends meet and retain their dignity. Ethiopia's per

Question
Score

Socioeconomic
barriers

1

capita GDP was estimated to be about \$330 in 2010, up slightly compared with 2008. Measured in dollars at purchasing power parity, GDP per head has increased slightly from \$966 to \$1,055 for 2009 and an estimated \$1,118 for 2010. Real GDP growth is forecast by the overoptimistic government to rise to 9% in 2009, owing to positive agricultural performance, and 9.5% in 2010, helped by higher foreign investment and further improvements in the power supply.

Population growth without 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 Gini Index, is not extreme; indeed, with a score of 29.8 % for 2005, Ethiopia was among the world's most equal societies, while the average Gini score for all listed countries was 41.8%. Gender inequality was also moderate, with a score of 0.47 compared to an average of 0.53 on the Gender Empowerment Measure.

Ongoing droughts in parts of the country in 2009 and 2010 led to a warning that 5 million people would be in need of food aid, in addition to the 8 million who already received it. In October 2010, the government officially asked for emergency aid for 6.2 million people. The reason given was again "failure of the rains." While many people died of hunger or hunger-related diseases, a famine disaster was averted by recourse to domestic and foreign food aid supplies.

It is estimated that between 50% and 60% of the country's youth are unemployed. Health conditions are rather poor. A significant brain drain has taken place due to the poor living conditions at home, increasing repression by the government, and the attraction of comparatively higher-paying jobs abroad. It is suspected that about 30,000 migrants from Ethiopia to the industrialized world and to Middle Eastern countries, mostly females seeking work as house maids, have been victims of human trafficking, mainly to Middle Eastern countries. Some 45,000 Ethiopians have entered Yemen through Somali ports.

Economic indicators		2007	2008	2009	2010
GDP	\$ mn.	19552.7	26642.5	31962.3	29717.0
GDP growth	%	11.5	10.8	8.8	10.1
Inflation (CPI)	%	17.2	44.4	8.5	8.1
Unemployment	%	-	-	-	-

Economic indicators		2007	2008	2009	2010
Foreign direct investment	% of GDP	1.1	0.4	0.7	0.6
Export growth	%	10.4	-3.3	6.9	14.4
Import growth	%	31.4	12.6	16.4	15.9
Current account balance	\$ mn.	-828.0	-1805.7	-2190.7	-425.4
Public debt	% of GDP	38.2	33.0	32.2	36.7
External debt	\$ mn.	2620.2	2879.0	5029.5	7147.1
Total debt service	\$ mn.	133.0	111.4	103.2	191.9
Cash surplus or deficit	% of GDP	-	-	-	-
Tax revenue	% of GDP	-	-	-	-
Government consumption	% of GDP	10.4	9.7	8.2	10.2
Public expnd. on edu.	% of GDP	5.5	-	-	-
Public expnd. on health	% of GDP	4.8	4.3	4.3	-
R&D expenditure	% of GDP	0.17	-	-	-
Military expenditure	% of GDP	1.3	1.1	1.0	-

Sources: The World Bank, World Development Indicators 2011 | International Monetary Fund (IMF), World Economic Outlook 2011 | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database 2011.

7 | Organization of the Market and Competition

A competitive market economy exists in only few sectors. Market competition operates under a weak institutional framework, although a Competition Commission was established some years ago. In the construction industry, several companies affiliated with EPRDF member parties, along with Sheikh Mohammed Al-Ahmoudi's MIDROC investment group and the Sunshine and Friendship groups (both close to the government) are the biggest players. The transportation sector is to a large extent in the hands of businesses belonging to the para-party sector.

During the period under review, the government continued to oppose the World Bank, the IMF and European donors concerning the liberalization of the fiscal and monetary sectors, including on the issue of trade deregulation. The philosophy of the so-called Washington Consensus has not yet been accepted fully by the EPRDF government. The government needs to reform its highly protective tariff system.

Market-based
competition

4

While there has been some progress in differentiating tariffs, the existing system is still full of contradictions and impediments to economic growth.

The informal sector is growing, particularly in urban areas. Hawking and street vending have shown a sharp increase, as have brokering services. Small-scale production facilities in carpentry, metalwork or chemical businesses are mostly registered with local authorities.

Competition laws aimed at preventing monopolistic structures and conduct exist within some sectors, but are enforced inconsistently. A Competition Commission was established in 2006, and by the end of 2007 had reviewed some 23 cases. Although informally, the strongest complaints are against the government's preferences for party-affiliated businesses, only trade-related issues were investigated. The transportation sector, for example, is to a large extent in the hands of businesspeople belonging to the para-party sector. There are a number of companies close to the government and the ruling party, which leads to a lack of transparency and corruption.

Anti-monopoly
policy
4

Ethiopia is not yet a member of the World Trade Organization, although the government has applied for membership. However, before Ethiopia can join the WTO, it must reform a highly protective tariff system.

Liberalization of
foreign trade
4

Ethiopia's central bank, the National Bank of Ethiopia (NBE), has a strong influence on the country's commercial community. The national currency, the birr, is closely managed by the NBE, which has maintained a policy of gradual depreciation interspersed with sharper adjustments. During the period under review, the government continued to wield the exchange rate as a policy tool to improve export competitiveness, with a 16.7% devaluation announced in September 2010. The NBE plans to introduce measures to improve liquidity management, including an overhaul of Treasury-bill auctions. Foreign-exchange reserves are expected to remain at around the current level of just over two months of import cover, as the government prefers to spend resources on development rather than build up reserves beyond this level.

The Ethiopian government has promised to adhere to an IMF-style policy framework – although it will continue to bar foreign banks – in order to retain access to donor funding.

The government has maintained a relatively tight fiscal stance because of the risk of macroeconomic imbalances after several years of rapid growth.

Despite some recent reforms, in 2009 and 2010 the World Bank noted no improvement in the areas of property registration, investor protection, credit access, or contract enforcement.

Though reluctant for ideological reasons, it is possible that the government will gradually follow the global trend toward the liberalization and deregulation of foreign trade relations.

Ethiopia's banking system has been open to private banks since 1997, with an increasing number operating today. The private share of the market has risen to nearly 50%. Ethiopia is one of the few countries in Africa that has not yet admitted foreign banks. In 2008, however, an office of the German Commerzbank was allowed to open, a step forward on the road to liberalization.

Banking system
5

In a significant change to monetary policy at the end of 2010, the central bank said it would stop financing public spending, and that it would adopt a low reserve money growth target. This is aimed at tackling the problems of excess liquidity and demonetization. The NBE recently removed limits on bank lending, noting that low inflation levels had been achieved.

8 | Currency and Price Stability

Inflation was at 7% in 2010, resulting in large part from deflation in food prices. The September 2010 devaluation of the local currency, the birr, by 16.7% will exacerbate imported inflation. Rising inflation poses a significant challenge to liquidity management.

Anti-inflation /
forex policy
6

In a significant change to monetary policy at the end of 2010, the National Bank of Ethiopia (the central bank) said it would stop financing public spending and adopt a low reserve money growth target. This is aimed at tackling the problems of excess liquidity and demonetization.

The birr is managed closely by the central bank, which has pursued a policy of gradual depreciation with occasional sharper adjustments. The government wields the exchange rate as a policy tool, devaluing the currency to improve export competitiveness. Foreign exchange reserves have recovered since reaching dangerously low levels during the global financial crisis, and will offer some support to the birr, but reserves remain short of the recommended minimum of three months' import cover. The currency weakened from an average of 9.6 birr to the dollar in 2008 to 14.40 birr to the dollar in 2010. This ratio is expected to rise to 19.6 birr to the dollar in 2012.

The government's fiscal and debt policies do not promote macroeconomic stability. To achieve its ambitious development objectives, the country is very much dependent on foreign aid. In 2009, the government requested a 14-month IMF loan under the Exogenous Shocks Facility, to help the country cope with the adverse effects of the global recession on its balance of payments. In August 2009, a loan of \$240.6 million was granted – 115% of the country's quota. In total, Ethiopia

Macrostability
5

received almost \$1.8 billion in development aid and loans in 2009, bringing the total sum received since 1991 to just under \$26 billion (according to J. Abbink 2010).

The country still has a huge trade imbalance (imports of \$7.21 billion compared to exports of \$1.56 for the year 2008), and a current account deficit of 4% of GDP. In spite of these deficits, the country remains a favorite among donor countries, due to its regional importance as a reliable partner in the struggle against state failure and terrorism in the Horn of Africa and the Middle East.

Domestic revenue collection from taxes and fees has improved to some extent in absolute terms, but has declined as a percentage of GDP from 18.4% in 2006 to 14.3% in 2008 and 15.8% in 2009, climbing again to an estimated 17.7% in 2010. During this time, the central government budget was burdened by the costs of military intervention in Somalia until the withdrawal of Ethiopian troops in January 2009. Government expenditure has long exceeded revenue by 2% to 3% of GDP. Expenditures totaled 22.2 % of GDP in 2006, 16.9% in 2008, 16.7% in 2009 and an estimated 19.4% in 2010.

The central government budget envisioned an outlay of \$4.67 billion for 2009, but actual expenditure was \$5.36 billion. The country's external debt rose to \$4.2 billion, 25% higher than in 2008, perhaps due to increased Chinese borrowing.

During the period under review, Ethiopia ran a budget deficit of 3% to 4% of GDP. The country benefited strongly from the Highly Indebted Poor Countries (HIPC) initiative, as nearly \$4 billion of its debt was forgiven in 2005, but external debt has risen substantially since that time, increasing from \$2.88 billion in 2008 to \$3.60 billion in 2009, with \$4.30 billion estimated for 2010 and current forecasts reaching to \$5.59 billion for 2012. Net public debt was about 35.2% of GDP in 2009 and 39.8% in 2010. It is difficult to see how a country which primarily exports coffee (for a total of \$376 million in 2009) can ever manage to service its debts through its own economic performance.

9 | Private Property

An impatient government has placed the emphasis on public investment rather than private-sector growth. Property rights and regulation of the acquisition of property are defined formally by law, but there are problems with implementation according to the rule of law. Customary land rights and practices are not accorded legal respect. There has been some investment in the rural agricultural sector on the part of private agrarian entrepreneurs and party-linked businessmen who have established commercial farms, but these operations have accounted for only 5% to 10% of the agricultural production in recent years.

Property rights
4

Land remains under public ownership, due to the strong convictions of a political leadership with sympathy for socialist ideas. Small-scale peasants, numbering about 13.3 million people, are forced to eke out a living on tiny farm plots, with the government in legal possession of all land. The power to distribute land is held by the local districts, or “woredas.” Foreign ownership of land is still disallowed in rural areas, but land leasing in urban areas has been allowed for several years.

On the other hand, the government is “generous” when it comes to foreign land acquisitions, or what critics call “land grabs.” In November 2009, the government announced that it would lease out 3 million hectares of (allegedly unused, “empty”) land to domestic and especially foreign investors over the course of three years. As a result, many subsistence farmers will likely lose their rights to use the land, and the new development activities, often run by business people from Saudi Arabia, will also threaten natural reserves and protected areas such as national parks.

The government has focused on a state-led development model, which has prioritized public investment over private enterprise activity.

Private enterprise
4

Foreign direct investment is encouraged by the government in specific areas, and public-private partnerships are promoted by the government as an innovative new device for development. As part of the effort to boost FDI, the government established the national Foreign Investment Advisory Council in October 2006, chaired by the trade and industry minister, while the director of the Ethiopian Investment Agency acted as his deputy. Several private companies, both foreign and local, also played a role in the council. Saudi Arabia’s Sheikh Mohammed Al-Ahmoudi is acknowledged to be Ethiopia’s largest foreign investor, with investments in agriculture, industry, mining, and construction. The export-oriented flower industry (which consumes a substantial amount of ground water, thus diminishing the water level of the great lakes south of Addis Ababa) is one of the most dynamic foreign private business sectors, and according to rumor is allowed to transfer profits freely abroad. In recent years, vast tracts of land have been leased to foreign investors in rural areas to allow for investments in flower farms, agrofuels, and tea and coffee plantations, often displacing local people.

Ethiopia has secured FDI from nontraditional sources such as China, India, Turkey, Iran and Slovakia, as well as from members of the diaspora in the United States of America and Europe. Road construction is one of the preferred sectors for foreign investors. In 2009, Chinese contractors built about 70% of all roads then under construction. China also supplied very substantial loans (over \$1 billion), with about 70% going to state or party-owned companies. About 120 private Chinese companies were active in Ethiopia, alongside over 800 Chinese projects. Only a few of the Chinese investors were willing to engage in joint ventures with Ethiopian companies.

Ethiopia's private sector remains subject to considerable constraint. The World Bank's Doing Business 2011 report ranks 183 countries around the world on issues such as regulatory environment and the ease of doing business. Ethiopia ranks 104th, well ahead of neighbors Eritrea (180th) and Sudan (154th).

While Ethiopia's overall ranking has stagnated, the country did in fact significantly improve the ease of starting a business during the years under review. Reforms have lowered the cost of establishing a business, from 19% of per capita income to 14%, and the minimum capital requirement from 492% of per capita income to 368%. The cost is the biggest constraint; only five procedures and nine days are required to open a business. The country is hamstrung by its landlocked nature, which increases the difficulty and cost of doing business; this fact makes it even more important to improve the policy environment.

In general, privatization processes and market-based competition have started to evolve, but slowly. The biggest obstacles to making the economy more competitive are the inadequate infrastructure, the public ownership of land, and the government's mistrust of free, uncontrolled economic development.

10 | Welfare Regime

The majority of the population is at risk of poverty. More than 10% fall into the category of absolute poverty, and are dependent on food aid from outside. Pension systems exist only for a small elite of civil servants. Employees in the formal economy can voluntarily participate in a provident fund system.

Social safety nets
3

The government has embarked on a strong expansion of basic health services in rural areas. Life expectancy rose to 52.2 years in 2006 from 45.7 years in 2001. Both the Orthodox Church and – more recently – Muslim communities run local self-help welfare networks. International (such as the Bonn-based Welthungerhilfe) and local charities and NGOs (such as Menschen für Menschen) provide basic social services as well. In general, however, there is no welfare system beyond individual efforts.

Remittances from Ethiopian communities overseas (mainly from the United States, Europe and the Middle East) amounted to an officially estimated \$970 million (2008), and provide a lifeline for many impoverished families. Much of this money is used as a means of subsistence, but in some cases serves as start-up capital to form small businesses for people without political connections.

Equality of opportunity is not a reality in Ethiopia. Women and/or members of ethnic or religious groups have limited access to education, public office and employment. There are some regulations against discrimination, but their implementation is highly deficient.

Equal opportunity
3

Donors have contributed to the social aims of the government and the United Nations, primarily the reduction of poverty, in two ways: they have considerably reduced foreign debt, and have mobilized foreign private investment to start business in Ethiopia.

According to published reports, farm workers employed as casual workers on Saudi Arabian farms (in the context of “land grabbing”) receive salaries of \$0.75 – \$ 1.00 a day, hardly enough to remain at an subsistence level.

Women have traditionally had limited right to hold land or property, especially in rural areas. Today, they still have few opportunities for employment beyond agricultural labor. A Ministry for Women’s Affairs has existed since 2006, and legislation has been passed designed to protect women’s rights in a number of different areas. In practice, however, women’s rights are violated on a routine basis mainly due to limited access to education, a lack of economic opportunity, and prevailing religious practices.

11 | Economic Performance

According to IMF estimates from April 2010, Ethiopia’s GDP grew at a rate of 9.9% in 2009; the government claimed 10% – 11% growth for the same period, and more neutral observers some 5% – 6.5%. Whatever the exact figures, one cannot deny the fact of continuous, solid economic performance during the last five years, though the effects of growth have been somewhat vitiated by strong population growth of about 3% per year. Ethiopia’s per capita GDP was estimated to be about \$330, up slightly compared with 2008. According to official government figures, total GDP rose for the fiscal year 2008-2009 to an estimated \$32.3 billion (\$75.9 billion in purchasing power parity terms) as a result of growth in agriculture, infrastructural works and services.

Output strength
6

While there have been remarkable increases in overall economic growth and local and foreign investment, as well as rising employment levels that augur well, foreign trade imbalances, state budget deficits and a difficult debt regime present significant problems. Nominal GDP increased from \$19.1 billion (actual) in 2007 to \$28.8 billion (Economist Intelligence Unit estimate) in 2008, and \$29.3 billion (EIU estimate) in 2009. In 2010, nominal GDP was estimated to reach just \$25.9 billion, with \$24.1 billion forecast for 2011. The structural trade balance is extremely negative, due to a severe disjunction between high levels of imports of goods and

services and stagnating, low levels of exports. In 2008, the country had to pay \$936 million for oil imports alone (13% of all imports), more than double the revenues from Ethiopia's greatest export crop, coffee (a value of \$430 million, representing 34% of all exports). Sudan supplied about 80% of Ethiopia's oil needs.

The trade deficit developed from -\$3.08 billion in 2006, to -\$3.87 billion in 2007, to -\$5.65 in 2008, to -\$5.28 billion in 2009 and to an estimated -\$5.22 billion in 2010. From 2007 to 2010, imports of goods outpaced export growth sharply, increasing in each respective year from \$5.16 billion to \$7.21 billion to \$6.82 billion to \$6.90 billion. Goods exports stagnated in the same period, with the IMF reporting total export values of \$1.23 billion (2007), \$1.56 billion (2008), \$1.54 billion (2009), \$1.67 billion (2010). In 2010, exports received a boost from a more competitive exchange rate; this should also enhance export volumes in the near future, along with an expected rise in the volume of cash crop production (provided that coffee prices do not fall further).

The country depends heavily on current transfers, which during the period under review were twice as high as export earnings. Between 2006 and 2010 the current transfer balance developed from \$1.27 billion (2006) to \$3.39 billion (2007), to \$4.30 billion (2008), to \$3.46 billion (2009), and finally to an estimated \$3.59 billion in 2010. The forecast for 2012 is \$4.15 billion.

Ethiopia is one of the world's most important coffee growing countries, producing between 220,000 and 250,000 tons of coffee annually. Coffee provides 34% of all exports (for a value of \$460 million in 2008) Owing to an excess in supply, world prices for coffee have collapsed in recent years, which has made it a less reliable cash crop, and thus a less useful financial platform from which the Ethiopian economy can be diversified.

Industry, which shows a GDP share of 13%, did show some minimal growth. The Agricultural Development Led Industrialization (ADLI) strategy remained in place, despite its lack of success thus far. The government did make some progress with 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. A total of 14 enterprises were privatized in fiscal year 2009 – 2010, according to the Privatization and Public Enterprises Supervising Authority. The government recently announced its willingness to sell three state-owned breweries to private companies.

All things considered, Ethiopia's economic policy has shown reasonably good success: Macroeconomic performance has been moderately positive, with the exception of rising trade deficits and increasing levels of foreign debt, and the government has shown itself as determined to improve the country's productive potential through the means of government-controlled market development. To be

sure, it is the government that keeps the productive capacity of the country below its potentially higher levels of development, but political leaders are evidently, if gradually, moving toward acceptance of the global economy's mainstream economic practices.

12 | Sustainability

Ethiopia was ranked 141st of 163 states on the Environmental Performance Index, with a score of 43.1 (far below the average of 55.6). Environmental problems remain worrisome. Deforestation and land erosion are serious ongoing problems, and have been addressed only in selected areas through tree planting, bunding or other measures. Population growth has resulted in increasing environmental pressure, as has pollution in urban industrial areas. Plastic bags and batteries from radios, recorders and other devices are strewn across the country, a particularly noticeable problem. Agricultural land in densely populated areas of the highlands has been deteriorating steadily in recent years, leading to soil erosion and deforestation.

Environmentally compatible growth has received only sporadic consideration and has almost no institutional framework, although recently the government has embarked on a series of environmental initiatives, including a National Conservation Action Plan. 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. There has been a steady expansion of cropland at the expense of forest areas and pasture land, and a failure to devise and enforce environmental laws governing industrial waste and sewage. Uncontrolled pollution by actors such as the expanding flower industry has persisted, blighting the local environment and raising local fears over the quality of water supply and long-term land viability.

Expenditure on education accounts for 5.5% of GDP, one of the biggest 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, 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 35.9% (50.0% for men and just 22.8% for women). Research and development accounted for only 0.17% of GDP in 2007. 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. Living

Environmental
policy
3

Education policy /
R&D
5

conditions for students are poor, and the facilities for teaching and research remain on a very 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, at between 50% and 60%, is extremely high.

Ethiopia remains a country with few centers of modernity and a huge backward rural sector.

Transformation Management

I. Level of Difficulty

Most of the problems facing Ethiopians today 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 absence of transportation and service infrastructure in the southern provinces (woredas), 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, and the 1998 – 2000 war with Eritrea, which caused the death of 100,000 people and produced immense economic destruction and popular misery. Ethiopian society is also split into ethnic communities within a federal state dominated by an ethno-cultural minority (the Tigray). The split between the Christians of the Amhara and Tigray highlands and the Muslim population in Ogaden, Oromiya and other provinces (federal states) contribute to the difficulties of nation building and state formation.

Structural
constraints
8

Thus, the extreme poverty of a large proportion of Ethiopia’s 80 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 remaining 25% to 33% of factors responsible for improvement in people’s living conditions must be attributed to the EPRDF government, which has now held power for 20 years.

By a very conservative estimate, several thousand people were killed in inter-ethnic conflicts in Ethiopia between 1991 and 2010. As one of the poorest countries in the world, and with 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 – 90,000. This was due to increased awareness of the disease, better

availability of medication and behavioral changes, notably among the urban population. Ethiopia has experienced an unprecedented demographic increase; the annual population growth rate remained around 2.7% – 3.0%, despite high maternal and disease-related mortality. The infant mortality rate, for instance, is still high at about 93 per 1000 live births.

Civil society traditions, including the NGO sector, are fairly weak. Civic organization 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 (\$2 billion in 2009). 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 8000 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.

Civil society
traditions

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 increasing population pressure and a shortage of agricultural land and pasture. Mobilized groups and protest movements dominate politics. Society and the political elite are deeply divided along lines of social class, ethnicity and religious community.

Conflict intensity

8

The increasing population and recurrence of drought and famine has led to several major ethnic clashes in the north (between members of the Afar, Oromo and Argobba ethnic groups) and south of the country, continuing a recurrent pattern of social conflict between ethno-linguistic groups over borders, land and water resources. In the most severe recent incident, the Garri-Boran conflict in the south, around 300 people were reported killed and more than 70,000 displaced. The cause was a conflict over access to resources necessary for survival, such as fertile land and water.

Religious clashes are unusual. Some tension has been recorded between Orthodox Christians and Muslims, as well as between Orthodox Christians and Pentecostal-Evangelical Christian groups. Mainstream relations have been peaceful

II. Management Performance

14 | Steering Capability

Question
Score

The Chinese post-communist, state-capitalist model and its dominant-party governance system continues to hold appeal for Ethiopia's leaders. The government's overall strategic priority has been state-led stimulation of economic growth. 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. These aims have been much better realized than democratic aims, which have largely been sacrificed on the altar of political stability and the monopolization of power in the hands of the current government. The government is skilled at using the rhetoric of democracy and good governance in order to assure the continuation of support by the international donor community, but such statements rarely lead to tangible reform.

Prioritization
4

Under its ambitious political leader Meles Zenawi, the Ethiopian government is strongly reform-oriented in a general sense. There is a strong and honest commitment to modernization, as long as the autocratic, top-down style of leadership is not threatened. A new five-year economic plan, the Growth and Transformation Plan (GTP), has been drafted and was endorsed by the legislature in December 2010. It will focus on agriculture, infrastructure and industry (including mining, manufacturing and textiles).

Implementation
4

However, the implementation of announced reforms is 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 judiciary and the hierarchical structure of the political system in general prevent it from attaining either legitimacy or socioeconomic efficiency.

The executive's cooperation with the IMF demonstrates a stronger willingness to engage in reform of the financial and economic sectors than, say, the fields of health or environmental protection. The country performed well under the IMF's 14-month exogenous shocks facility, which concluded in November 2010.

The government's efforts to alleviate poverty showed little effect during the period under review.

The government has demonstrated a mixed policy learning ability with respect to international partners. The January 2009 passage of the Charities and Societies Proclamation regulating NGOs, against the strongly expressed reservations of Western governments, has been regarded by several observers as exemplary of the “doggedness of the Meles regime.” The government has in other cases too showed remarkable inflexibility and stubbornness. On November 8th, the EU Election Observer Mission for the May 2010 Ethiopian elections released its final report after a delay of almost three months. The mission blamed the delay on the fact that it was denied entry to Ethiopia in the period following the elections. The government called the final report “trash,” accused the EU mission of being biased against the electoral process in Ethiopia from the beginning, and dismissed the findings in their entirety. The relationship between the European Union and the Ethiopian government was strained from the outset, owing to lingering tensions generated by the fallout from the 2005 elections (200 demonstrators were shot and thousands were thrown into prison).

Policy learning
3

Once the EPRDF’s central leadership group has agreed on a political goal, it hardly ever changes course, regardless of 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 investments.

In conclusion, 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.

15 | Resource Efficiency

The federal government makes efficient use of only some of the human, financial and organizational resources available. Federalism has allowed new ethnic elites to emerge, but has not fundamentally altered the pattern of elite-based paternalistic politics.

Efficient use of
assets
4

In summer 2009, a scandal occurred when Auditor General Assefa Desta presented a critical report on excessive government borrowing in 2006 – a sum of 3.3 billion birr in excess of the amount approved by the legislature. He called the borrowing “unlawful,” and pointed to its important subsequent economic effects, including rising inflation. As could be expected in a dictatorship, the report was unfavorably received by the finance minister and the state-appointed governor of the national bank, who disputed the audit although the auditor general had derived his work from figures supplied by them. In spite of an IMF report that confirmed the analysis

of the auditor general, a new auditor general was appointed. In 2008, the budget deficit was estimated at 4.4% of GDP; however, if the \$1.3 billion in donor grants were excluded, this figure would have been 8.4% of GDP.

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 EPRDF parties, based on their ethnicity. As EPRDF numbers its members in the millions, attaining employment is strongly 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.

Policy
coordination
3

The comparatively less populated regions in the south and east, particularly the Afar and Somalia 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 their inhabitants. Those regarded as politically disloyal or even hostile are “punished” by the government and development planners with intentional negligence.

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.

Anti-corruption
policy
3

Anti-corruption policy has not been very successful. A political system which eliminates all major institutional checks and balances cannot be expected to cultivate a political culture of tolerance and fairness. The mentality of the TPLF and the four EPRDF coalition member parties seems to be locked in old-fashioned war-culture thinking, 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 Zenawi government. The years 2008 to 2010 featured a crackdown on political freedoms in

Consensus on goals
3

advance of the May 2010 elections, which ultimately resulted in a landslide victory for the 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.

Prime Minister Meles Zenawi, who has been in power for nearly 20 years, has become a symbol of commitment to accelerated economic growth and political stability (especially in the eyes of the U.S. administration, in its struggle against “international terrorism”), but at the same time he appears to be the champion of a process of political decay or democratic regression. Political life in 2005 was much more participatory, democratic and vivid than was the case five years later.

The most important anti-democratic actor in Ethiopia is the government itself. Its power is based on coercion.

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 to a marginal extent. 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 has seemed to be 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 has not shown an intention to prevent cleavage-based conflicts from escalating by constructive means (e.g., by arguing and bargaining). The government has demonstrated no intention to solve social cleavages and ethnic conflicts between EPRDF supporters and opponents through dialogue and 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.

Cleavage /
conflict
management

3

In order to stay in power, the government relies more on the functional efficiency of state institutions and on oppressing the militant opposition than on persuading dissenting interest groups by peaceful means. Political repression by the police and

security services and the passage of new restrictive laws has replaced previous efforts to mobilize political support.

The political leadership strongly discourages civil society participation. It frequently ignores civil society actors and formulates its policy autonomously. It sometimes pretends to seek civic society participation, but is not genuinely prepared to listen and learn. The freedoms of assembly and association are very limited, and the many CSOs or NGOs operating in the country are regarded by the government not as useful partners that might assist in solving national issues of great importance for the people, but rather as burdensome rivals.

Civil society
participation
2

The new Civil Society Law passed by the House of Peoples' Representatives in January 2009 is intended to weaken the efficiency and legitimacy of CSO organizations' work. It contains stiff penalties for organizations active in many human rights and social advocacy fields.

In order 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 in order 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.

The political leadership reluctantly addresses historical acts of injustice, but has not initiated a process of reconciliation with previous opponents or accused politicians. 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 33 former ministers of the Mengistu regime, which was toppled in 1991, were still not complete as of the time of writing. The government is obviously more interested in fighting and punishing political opponents who pose a present-day threat to the country's political stability.

Reconciliation
2

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 2009, the government secured foreign aid packages of more than \$1.3 billion, bringing the total sum of development aid received by the country since 1991 to \$24 billion. However, Ethiopia was still ranked only 169th on the UNDP's Human Development Index (out of a total of 179 countries).

Effective use of
support
6

Unsurprisingly, the political leadership has made intensive use of international aid for two purposes: achieving transformation goals and to secure its own power.

However, the extent to which the EPDRF 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 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. China has become Ethiopia's largest trade partner, supplying 20% of the country's imports, followed by Saudi Arabia (11%) and Italy (8%). China has also supplied very substantial loans, over \$1 billion, with about 70% going to state- or party-owned companies.

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.

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 use to the U.S. government, which needs Ethiopia as an ally in its fight against Islamists in Somalia; this fact gives the Meles government substantial political leverage.

In early November 2010, the IMF approved the second and final review under Ethiopia's exogenous shocks facility (ESF). The \$240 million program was approved in August 2009, following deterioration in the country's balance of payments position during the global recession. The final review was largely positive, with the country meeting all quantitative and structural benchmarks. The fund cited Ethiopia's success at reducing inflation, controlling government spending and rebuilding foreign-exchange reserves.

The influence of Western countries, the World Bank and the IMF on the strategic orientation of the government is surprisingly low. The government has gained further political autonomy by establishing strong relations with the People's Republic of China. Relations with Beijing intensified during the period under review, and were dominated by China's economic interests and resource acquisitions. Trade with China reportedly reached a value of \$1.38 billion.

This strengthening relationship has pleased an Ethiopia grateful for a political partner that refrains from criticizing the government on governance and human rights issues.

The government tries to present itself as a credible and reliable partner, but is not trusted by all members of the international community. In regard to relations with the West, there is a clear split between the U.S. attitude toward Addis Ababa and that of EU countries.

Credibility

5

The instability in the volatile Horn of Africa has cemented Ethiopia's position as the United States' key ally in the region, and the critical relationships with Eritrea and Somalia 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 the neighbors remains, although continued deadlock is the most likely scenario. The failed state of Somalia will remain a source of tension; this danger has escalated following bomb attacks carried out by a radical Islamist group called al-Shabab in Uganda in mid-2010.

Since the parliamentary elections of 2005 and 2010 (particularly the latter, with the 99% victory for the ruling coalition), Ethiopia is no longer regarded as a credible or reliable partner by most EU countries. The European Union, with its well-considered concept of good governance as a precondition for sustainable peace and development, has lost influence in Ethiopia.

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 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.

Regional
cooperation
4

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 and Somali opposition groups. Troops had been stationed there for more than two years in support of the Transitional Federal Government, 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 Somalian 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 the 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.

In June 2009, the Nile riparian countries reached agreement on many elements of a new treaty on Nile water utilization and development, despite the persistent refusal of Egypt and Sudan to negotiate any alteration in the status quo. However, no final breakthrough was achieved with the government of Sudan and Egypt on the prominent issue of the future use of the Nile waters. Thus, the overdue decision on how Ethiopia, Sudan, South Sudan and Egypt will allocate the scarce Nile waters in the future was delayed again, thus keeping the creation of a Nile River commission on hold.

Strategic Outlook

Ethnic federalism has failed so far to resolve the challenge of national integration. The Meles Zenawi government has empowered some groups, particularly the Tigray ethnic bloc, but has not engaged in dialogue or reconciliation with others. For ethno-national minorities, including rebel groups such as the Ogaden National Liberation Front, the Oromo Liberation Front and the Somali minority in the Ogaden, the concept of ethnic federalism remains artificial and repressive. On the other hand, there are political “centralists,” mainly among the Amharic political class, who would prefer the restitution of the old unitary nation-state that had held power under Emperor Haile Selassie and the military committee (the Derg, under the Mengistu dictatorship).

The idea of ethnic federalism could serve as an appropriate solution to the country’s ethnic heterogeneity if the government were to associate it with true democracy and the rule of law. However, the nine ethnic-based regional states and the two federally administered city states today lack extensive political, administrative and financial autonomy. There is no deeply rooted political stability in the country. It is advisable to encourage international donors, mainly the member states of the European Union and the European Commission itself, to press persistently for good- and sustainable-governance reforms. Overstaffed and poorly managed public bureaucracies are deadweights on the productive sectors. Ethiopia requires not less governance, but better governance, in other words “governance for development” by a responsible leadership.

If a larger number of political parties took an active role in the governance of the federal states and in the capital, state officials in the ministries would be less likely to serve their own interests, for fear of being called finally to account.

The leadership cadres should be built around a rational, merit-based system, rather than a patronage network designed to retain power for those already at the system’s top. The government should therefore be supported in its efforts to strengthen human capital in its several new universities, so that African experts in all fields of national development can be produced.

The possibility of widespread election-related civil unrest has passed, and the EPRDF hegemony will ensure political stability at least through 2012. Prime Minister Meles Zenawi has agreed to stay on as party leader until 2015, and will most probably tighten his grip on power in the years to come. Indeed, during the years under review, the Meles Zenawi government has already taken additional steps toward authoritarianism, tightening the political space allowed for domestic policy action.

Many segments of the population are excluded from political participation or access to economic benefits. The EPRDF firmly monopolizes political representation, decision-making and public space. The contradiction between its de facto one-party state and its promises to deliver multiparty elections, human rights and self-determination has been a defining characteristic of

policies since 1991. This has produced tensions between the government and the opposition, communal and interethnic animosities, and armed conflict between ethno-national rebels and the government, culminating in the 2005 elections crisis. The opposition boycotted local elections in 2008, accusing the EPRDF of harassment.

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 reduced drastically, as an increasing number of rural districts have declared themselves to be “food-aid-dependent.” This policy has damaged the national production of grains.

The increasing influence of the People’s Republic 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 the usual “good governance” negotiations. The government in Addis Ababa knows that it today has more political options than in the past when dealing with foreign donors and international investors, but that should not be taken as an excuse to abandon all Western convictions regarding the noneconomic prerequisites for successful economic growth and social transformation. Positive incentives should be offered by EU member states in order to convince the Ethiopian government to stick in practice to the common interests and commitments of a “strategic partnership” between Africa and Europe. Therefore, international donors should whenever possible work from the principles of mutually beneficial cooperation in a spirit of critical partnership (as proclaimed in the Lisbon Declaration at the EU-Africa Summit 2007).