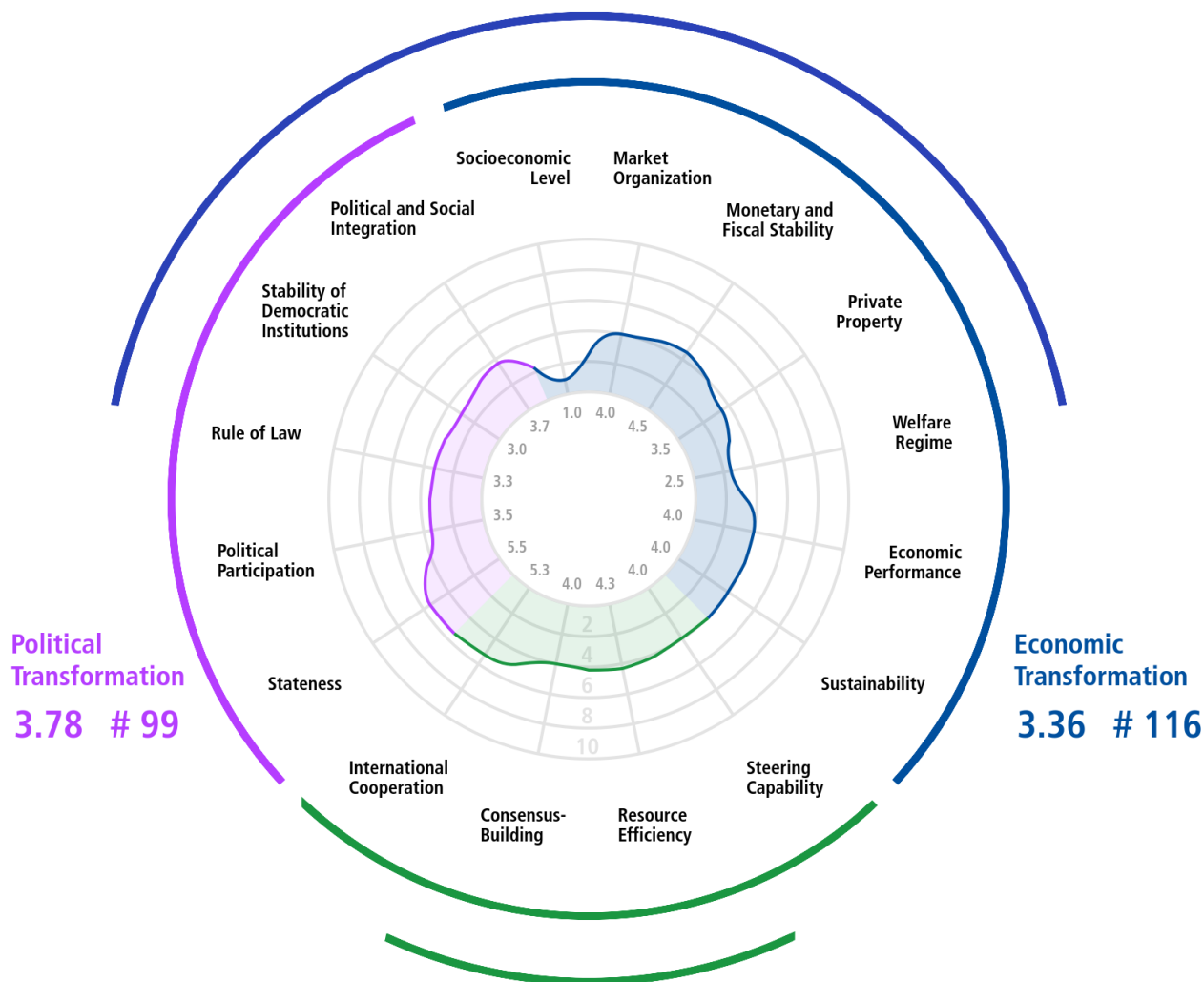


# Ethiopia

## Status Index

**3.57 # 114**

on 1-10 scale out of 137



**Political Transformation**  
**3.78 # 99**

**Economic Transformation**  
**3.36 # 116**

## Governance Index

**4.26 # 89**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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## Contact

Bertelsmann Stiftung  
Carl-Bertelsmann-Strasse 256  
33111 Gütersloh  
Germany

### **Sabine Donner**

Phone +49 5241 81 81501  
[sabine.donner@bertelsmann-stiftung.de](mailto:sabine.donner@bertelsmann-stiftung.de)

### **Hauke Hartmann**

Phone +49 5241 81 81389  
[hauke.hartmann@bertelsmann-stiftung.de](mailto:hauke.hartmann@bertelsmann-stiftung.de)

### **Claudia Härterich**

Phone +49 5241 81 81263  
[claudia.haerterich@bertelsmann-stiftung.de](mailto:claudia.haerterich@bertelsmann-stiftung.de)

### **Sabine Steinkamp**

Phone +49 5241 81 81507  
[sabine.steinkamp@bertelsmann-stiftung.de](mailto:sabine.steinkamp@bertelsmann-stiftung.de)

**Key Indicators**

Population	M	<b>115.0</b>	HDI	<b>0.485</b>	GDP p.c., PPP \$	<b>2423</b>
Pop. growth <sup>1</sup>	% p.a.	<b>2.5</b>	HDI rank of 189	<b>173</b>	Gini Index	<b>35.0</b>
Life expectancy	years	<b>66.6</b>	UN Education Index	<b>0.341</b>	Poverty <sup>3</sup>	% <b>68.9</b>
Urban population	%	<b>21.7</b>	Gender inequality <sup>2</sup>	<b>0.517</b>	Aid per capita \$	<b>42.9</b>

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

## Executive Summary

Over the last two and half years (2019–2021), Ethiopia has undergone dramatic changes that began with a bold political effort to introduce democratic reforms and liberalize the economy, but quickly descended into a fatal conflict between the country’s three major ethnicities: the Oromo (who comprise 34% of the population), the Amhara (27%) and the Tigray (ca. 6%).

Prime Minister Abiy Ahmed Ali’s rushed reform agenda was brought to a sudden halt by the coronavirus pandemic in 2020, which forced an economic slowdown. Drawing on Article 93 of the constitution, the government declared a state of emergency, as the pace of confirmed infections accelerated, peaking at 1,829 new cases per day in August 2020. Thousands of workers and employees lost their jobs and were left dependent on humanitarian organizations for their survival. In addition to closing both schools and land borders, the federal government decided to postpone legislative and regional elections from August 2020 to June 2021. Viewed as a *casus belli* by the country’s Tigray population, because it implied an unconstitutional federal government overreach, the Tigrayan People’s Liberation Front (TPLF) defiantly held its own regional election on September 9, 2020. Addis Ababa responded by designating the Tigray leadership illegitimate, while Tigray declared it would not recognize Abiy’s administration after its original term expired on October 5, 2020.

Prime Minister Abiy – the much-celebrated winner of the Nobel Peace Prize in 2018 – chose to engage in forceful conflict resolution and proved to be a hard-nosed student of counter-insurgency warfare. He sent his army to the Tigray capital of Mekelle, where it bombed TPLF strongholds, arrested officeholders and expelled many citizens. As TPLF leaders increasingly retreated to the Tigray hills, reportedly expanding its own regional army of approximately 170,000 soldiers, thousands of people on both sides lost their lives. Bombing raids and artillery attacks have caused widespread civilian casualties, and over 40,000 refugees have fled into Sudan from western Tigray. This latest confrontation in the Tigray-Sudan border area has also had negative repercussions on another contentious issue in East Africa: the question of how to fairly distribute

and use water from the Blue Nile river, which Ethiopia has been eager to store through the Grand Ethiopian Renaissance Dam (GERD).

During the period under review, Ethiopia has made moderate progress in terms of opening the economy to private business, competition and privatization. The country has also made good progress in education, having established several secondary schools, targeted improvements in education for women and created more than 30 universities since 2000. Ethiopia's economic boom, orchestrated under the so-called developmental state approach, has begun to stagnate as a more liberal, flexible system, reflective of an open economy, has taken hold. Foreign direct private investments fell to about \$2.5 billion in 2019 (the lowest since 2016) as a consequence of political turmoil. The government has announced its intention to "green" the economy and initiated in 2019 a massive campaign to plant four billion trees within one year.

## History and Characteristics of Transformation

With the election of Oromo Abiy Ahmed by EPRDF parliamentary representatives in April 2018 (rather than by a popular vote), a 27-year period of Tigrayan dominance ended (1991–2018). It had been an era of authoritarian rule by Prime Minister Meles Zenawi (1991–2012) and other TPLF army officers, who believed in the Leninist formula of "democratic centralism" in the guise of an "ethno-federalist nation." They had tried to modernize the poor backward country (with 65% of heads of households lacking any formal education) by financing schools, building new universities and health care centers, and supporting state farms and foreign investor land-grabs.

Between 2000 and 2018, Ethiopia's economy grew at an average annual rate of 7–8%, double the average rate of sub-Saharan countries. The de facto one-party state oppressed the democratic ambitions of the country's vibrant civil society (with more than 50 million mobile phone customers) by blocking the fair competition of political parties and manipulating parliamentary elections every four years. As Marxists and experienced leaders of a disciplined liberation movement, they believed in an authoritarian model of modernization from above (the so-called developmental state model). Although the EPRDF government could trigger remarkable economic growth with the assistance of foreign donors and a very active diaspora, the EPRDF government failed to manage the forced resettlement schemes peacefully. All land remained under state ownership, which blocked the initiatives of progressive farmers and undermined agricultural productivity.

This marked a third historic attempt to modernize Ethiopia. The first attempt had taken place under the rule of Emperor Haile Selassie (1930–1973), an enlightened monarch. The second attempt had occurred under the Derg dictatorship, a socialist military regime led by officer Mengistu Haile Mariam (1973–1991). A fourth period of transition began in 2018, with Ethiopia still an underdeveloped country, following Abiy Ahmed's seizure of power. Abiy made peace with Eritrea after a civil war between 1998 and 2000, which had led to the loss of 100,000 lives. Abiy Ahmed held regular meetings with youth groups, civil society delegations and opposition parties. Based

on accusations of corruption, he ordered the arrest of several political leaders of the TPLF, army generals, and presidents of the regional governments of Tigray and Amhara, and of other regional governments.

Today, a political coalition of Amhara (Ethiopia's rather homogenous majority population of smallholder farmers and Orthodox Christians) and Oromo (a diverse heterogeneous population of farmers, pastoralists, professionals, Orthodox Christians, Muslims, Protestants and traditional leaders) have formed a fragile power alliance against the Tigray minority. The structural ethno-political, ethno-cultural conflict between diverse ethnic groups has marked all of Ethiopia's political regimes to date – the historical heritage of imperial Ethiopia since the days of Emperor Menilek II, who had colonized the many Bantu people of the south. But unfortunately, this model, forced upon the population by the victorious Tigray warlords of the EPRDF after 1991, failed in practice. One reason was that the federal government severely limited the political and financial room of maneuver of the nine regional governments. When Prime Minister Abiy dissolved the EPRDF coalition, which comprised four parties, the TPLF did not accept its silent disempowerment.

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

## Transformation Status

### I. Political Transformation

#### 1 | Stateness

The state's monopoly on the use of force is established nationwide in principle. However, it has been challenged by opposition groups, and local and regional rebellions in several parts of the country. In several regions, local militias and regional forces even took over local administrations. Regional security forces are not fully under the control of the administration in Addis. Neither politicians of the federal government nor several regional governments were able to control the many communal clashes. Violent ethnic clashes continued in Ethiopia's southern and eastern regions. Tensions in and between Ethiopia's regional states, vying for more autonomy, continued. In 2020, a new regional state, Sidama, was formed from the Southern Nations, Nationalities and Peoples Region.

When Abiy Ahmed started his democratic reforms and dissolved the party coalition EPRDF, several regional governments and opposition groups all over Ethiopia felt invited to raise their voices, which often led to ethnic clashes.

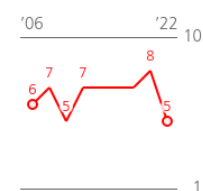
In September 2020, the TPLF held parliamentary elections, which Prime Minister Abiy's government declared illegal. In November 2020, Tigrayan regional security forces attacked the Ethiopian government's Ethiopian National Defense Force (ENDF) Northern Command headquarters. A conflict broke out between the Ethiopian government and the TPLF. One main cause of the civil war in November 2020 was the TPLF's attack on the North Command in Tigray, which was regarded by the central government as an act of rebellion. However, the TPLF also had legitimate complaints, as the prime minister had accused several generals and higher-level civil servants of corruption and acted to defend its interests.

Toward the end of 2020, the Tigray regional government was replaced by the Transitional Government of Tigray. This conflict is severe and ongoing. Eyewitness accounts describe Ethiopian and Eritrean forces summarily executing civilians and looting property. The conflict has been characterized as a civil war.

Question  
Score

Monopoly on the  
use of force

5



The legitimacy of the nation-state is frequently challenged by regional and local groups. After the ascent to power of Prime Minister Abiy in April 2018, Ethiopia experienced three years of turbulent and radical reforms. The main objective of Abiy's reform process has been the transformation of the former ruling-party coalition, the EPRDF, into a more liberal and centralized structure of governance, institutions and laws. This reform process is intended to change the state identity from a decentralized ethnic federal system into a more centralized national republic.

The most intense conflict between the federal government and a regional government has been in Tigray, where the TPLF ignored the decision by Abiy's government to postpone elections to 2021. When the TPLF leaders who opposed the new policy in principle, elected a new regional government in Mekelle, the federal government used military force to restore law and order. In November 2020, Ahmed's army occupied Mekelle and Tigray's regional army of approximately 170,000 soldiers went underground. Ethiopia is facing a civil war.

In Amhara and several other regions, identity politics has led to ethnic violence and the displacement of thousands of people. An individual's identification with the federal government is decreasing as compared to identification with their respective ethnic group or location. Radical youth organizations, mainly in Amhara and Oromia, enforce ethnic identities and do not hesitate to expel marginalized groups of other ethnic origins.

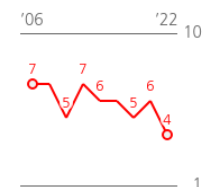
Officially, all "nations" and ethnic groups are handled with respect, and no group is formally excluded from civil rights. Since the outbreak of the civil war, however, the government has declared TPLF leaders and politicians to be "terrorists," and Tigrayan refugees have reported instances of ethnic cleansing at the hands of the national army and extremist youth among the Amhara.

The state is largely secular and tolerant, with Christian and Muslim denominations. While the interference of religious dogma in political decision-making is not documented, it is likely that the Ethiopian Orthodox Church will gain greater influence under the new regime, compared to the old regime, which was dominated by Marxists of the TPLF. The constitution of 1995 had declared that "state and religion are separate," and that there should be no "state religion." Further, it declared that the state should not interfere in religious matters and religion should not interfere in state affairs. In reality, however, the Ethiopian Orthodox Church is a highly respected national institution that offers spiritual and religious orientation to individuals and families.

In general, Prime Minister Abiy Ahmed, a devout Evangelical Pentecostal Christian of the Full Gospel Believers' Church, also enjoys widespread approval among the Muslim community. However, he could not prevent communal-religious tensions between Islamist extremists and Protestant-Evangelical and Orthodox denominations fighting for influence.

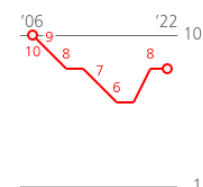
#### State identity

4



#### No interference of religious dogmas

8



The administrative structures of the federal state and the regional states provide the most basic public services throughout the country, but their operations differ from area to area. While basic administrative services existed in Tigray (until 2018), Amhara and most Oromia areas, they are to some extent deficient in southern, western and peripheral areas of the country.

Health care and education services are in general very poor and contribute to poverty and poor living conditions. Over 80% of the population is multidimensional poor and the poverty rate is worse than in neighboring countries, such as Uganda. According to UNICEF, 65% of households have access to improved water sources, but only 6.3% of households have access to improved sanitation. Only 17% of people practice improved personal hygiene and live in healthy environments. Accordingly, 70,000 under-five year-olds die each year due to diarrhea are reported.

Access to social protection in Ethiopia is extremely limited. Social assistance (e.g., support for an individual who is without income or shelter, or requires funds for medical treatment) is usually provided by family and extended family members.

The energy supply for the urban population and the transport sector have improved under Prime Minister Abiy. The capacity to levy local taxes has improved.

The Ethiopian government confirmed in June 2020 that the elections scheduled for August 2020 would be postponed as a result of COVID-19. As of January 2021, the elections are currently scheduled for June 2021. This will extend Abiy's mandate for close to a year, which has led to outrage among opposition parties, and increased fears of widespread conflict and repression.

In relation to COVID-19 health measures, the federal state proved unable to protect Ethiopia's population. Face masks and disinfectants have been scarce, clinics are in poor condition, and doctors and resources are very limited.

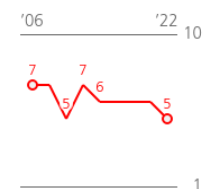
## 2 | Political Participation

Ethiopia confirmed in June 2020 that the elections scheduled for August 2020 would be postponed as a result of the COVID-19 pandemic. In early 2021, the elections were further postponed until June 2021. This will extend Abiy's mandate for close to a year – and potentially longer. This has led to outrage among opposition parties, and increased fears of widespread conflict and repression.

The postponement of the elections has led to what has been described as a constitutional crisis. In relation to Abiy's delay tactics, observers have stated that they are reminiscent of the authoritarian tactics of the past. The OLF has warned that the extension of Abiy's presidency could bring an end to peace and stability in the country.

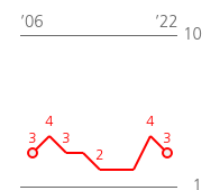
Basic administration

5



Free and fair elections

3





Even before the elections were postponed, there were fears of an escalation in ethnic violence surrounding the elections. Security issues had been escalating, potentially leading to the elections being postponed.

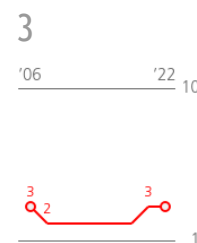
In September 2020, the TPLF held parliamentary elections, which Prime Minister Abiy's government declared illegal. In November 2020, Tigrayan regional security forces attacked the Ethiopian Government's Ethiopian National Defense Force (ENDF) Northern Command headquarters. Conflict broke out between the Ethiopian government and the TPLF. Toward the end of 2020, the Tigray regional government was replaced by the Transitional Government of Tigray.

This conflict, which is severe and ongoing, has been described as "brutal." Eyewitness accounts describe Ethiopian and Eritrean forces summarily executing civilians and looting property. The conflict has been characterized as a civil war.

The new prime minister was not democratically elected. Instead, he was elected by the EPRDF-majority parliament following the resignation of his predecessor in February 2018. In the past, the EPRDF party coalition held 100% of the seats in parliament, and had oppressed the political opposition by imprisoning dissidents, coercing citizens into joining the party and allegedly committing electoral fraud. This kind of autocratic government had considerable power until public discontent, and the many ethnic clashes and border disputes forced a change in government. In 2018 and 2019, the new government abolished many of the old repressive practices and started a radical reform program, allowing for more political participation. Abiy began engaging in dialogue with opposition parties and previously illegal liberation movements such as the OLF. However, as public unrest grew, he increasingly resorted to repressive acts in an effort to restore law and order. In 2020, the TPLF held a de facto veto power and was trying to block all reforms of the federal government. TPLF representatives did not participate in the foundation of the new ruling party, the Ethiopian Prosperity Party (PP), which replaced the EPRDF.

In September 2020, the TPLF held parliamentary elections, which Prime Minister Abiy's government declared illegal. Following this, Tigrayan regional security forces attacked the Ethiopian Government's Ethiopian National Defense Force Northern Command headquarters, setting in motion a conflict between the Ethiopian government and the TPLF. In late 2020, the Tigray regional government was replaced by the Transitional Government of Tigray.

Effective power to govern



The constitution (of 1995) guarantees freedom of assembly, but – as Abiy has started to create a new constitution – the rules of the EPRDF constitution are becoming increasingly irrelevant. His government has invited all groups to build political parties, but – when various groups used this new privilege – the government declared that all parties should register with the Ministry of Interior. Citizens are allowed to associate and assemble, but journalists are not.

Abiy demonstrated an openness to respecting the claims of various ethnic groups for more autonomy and political participation. The Sidama people are one of the largest ethnic groups in southern Ethiopia and successfully campaigned for the creation of the Southern region, separate from other regions in the south. In February 2019, a new law on NGOs was successfully passed, which removed many of the restrictions under the previous law of 2009.

However, the mass arrests of opposition activists ahead of the elections originally scheduled for 2020 have undermined freedom of association. The arbitrary arrest and detention of alleged OLF members have continued to take place. Under the March 2020 state of emergency proclamation, which was effective between April and September 2020, the government restricted and surveilled party assemblies and elections. The state of emergency officially ended in September. However, social distancing measures continued and mass assemblies remained limited. The security apparatus has been empowered by the authorities to arrest anyone that is found not wearing a face mask or breaking social distancing rules.

While there were improvements in freedom of expression in the period immediately following Prime Minister Abiy's election, more recently, he has been accused of following in the footsteps of his predecessors by arbitrarily detaining journalists and shutting down the Internet.

Oromo journalists and members of Qeerroo (also known as the Oromo National Voice of Youth for Freedom) have been arbitrarily arrested and detained without charge.

Protesters have been teargassed and killed.

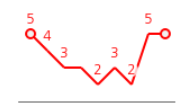
Ethnic tensions and conflicts have drastically escalated in recent months. There has been interference in privacy, censorship and websites have been blocked. The Internet was shut down in 2020 following the killings of over 100 people in June and July. This followed the killing of a popular Oromo protest singer, Hachalu Hundessa.

The conflict in the Tigray region resulted in a media blackout.

#### Association / assembly rights

5

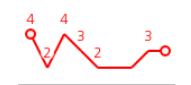
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#### Freedom of expression

3

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### 3 | Rule of Law

The separation of powers is formally established but has always been weak in practice. Since April 2018, the executive and the prime minister's unconstitutional advisers have largely undermined checks and balances. Abiy dissolved the old party of power, the EPRDF, which ruled the country between 1991 and 2018, and formed a new party, the Ethiopian Prosperity Party. Since then, a new Oromo-Amhara alliance led by Abiy has replaced the old federal political order with a centralized government. The parliament is not a political platform where these power conflicts are discussed. Furthermore, the centralized executive is not in practice subject to the law. Instead, the prime minister has dismissed judges who did not support the centralist approach of the new government.

In 2020, the prime minister dissolved the regional government of Tigray, and replaced it without any elections or the participation of the federal parliament. He appointed Mulu Nega, a former deputy minister, temporary head of the new Tigrayan administration – a decision that clearly violated the constitution of 1995. All officers and soldiers from Tigray were arrested and detained. Abiy's intention is to change the policies and personnel of the regional and local administrations, and to replace them with civil servants and politicians loyal to the federal government. Abiy's concentration on his war against the Tigray region has led him to neglect several other interethnic conflicts across the country, which have displaced 1.85 million people. A lot of local administrations in Amhara, Oromia, Western Wollega, Sidama and Somalia regions collapsed and were replaced by appointees of the federal government.

With regard to COVID-19, the government reacted slowly due to differences in opinion. The Ministry of Health declared a national state of emergency in April 2020, initially for a five-month period, although this has since been prolonged up until now. All meetings of more than four persons are forbidden. The government ordered all schools and universities to close, and prison directors had to release thousands of prisoners due to difficulties in imposing order.

Ethiopia confirmed in June 2020 that the elections scheduled for August 2020 would be postponed until at least June 2021 as a result of COVID-19. This will extend Abiy's mandate for close to a year – and possibly longer. This has led to outrage among opposition parties, and increased fears of widespread conflict and repression.

Separation of powers

3

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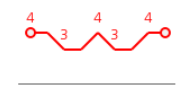


The federal state of Ethiopia has a unique legal pluralistic structure with many secular and religious courts. Courts often have some degree of autonomy in cultural affairs, but less autonomy in political disputes. As the third pillar in a system designed to ensure checks and balances, the judiciary is far from independent and heavily affected by arbitrary decisions made by the Prime Minister's Office. The legal system is to some extent institutionally differentiated, but severely restricted by functional deficits, insufficient territorial operability, scarce resources and nowadays by political interferences. Judicial appointments have been made on the basis of loyalty to the government to ensure that judicial decisions are consistent with government policy, even when that means contravening the rule of law and the constitution. Judges not loyal to the government run the risk of being replaced by a "more suitable" candidate. Abiy detained many of his Oromo critics, including opposition leaders Jawar Mohammed and Bekele Gerba, and placed former Defense Minister Lemma Megersa under house arrest in early 2020. While the recent activities of the judiciary – particularly the cases brought against senior officials in the administration, army and industry – maintain the reform momentum and pleases the public, it also adds to the political tensions in various regions.

Independent judiciary

4

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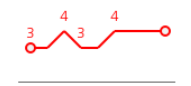


Corruption exists in Ethiopia and takes various forms, including but not limited to clientelism, kleptocracy, rent-seeking by political party elites and state capture. In the past, officeholders loyal to the government who broke the law and engaged in corruption were not systematically or adequately prosecuted.

Prosecution of office abuse

4

'06 '22 10



While anti-corruption laws had existed under the old EPRDF regime, they were never consistently applied in practice. Since Abiy's election, the government started to address the widespread corruption in the army and civil service, and within parastatals. Often, public servants and politicians were accused of corruption in order to penalize an officeholder for his or her political divergence. In 2019 and 2020, the government continued juridical proceedings against former senior officials of the previous government, who have been accused of financial and human misconduct.

Under the new attorney general, Berhanu Tsegaye, a growing number of corruption cases involving high-level personnel in government, diplomacy and state administration were made public. For example, the responsible officers at the Metals and Engineering Corporation were accused of "robbing huge amounts of money from the poor country." In January 2019, a top figure in the former EPRDF regime was arrested together with Tadesse Kassa, the former CEO of Tired Corporate in the Amhara region, on embezzlement charges.

In general, Abiy's government has demonstrated a serious commitment to anti-corruption efforts, although the bulk of people arrested and charged with corruption were officeholders under the former EPRDF regime, among them many people from Tigray. Even though the new government pledged to fight corruption, so far, it is fair to assume that the political core of the federal executive maintains control over the judiciary and the legislature when it comes to cases of political importance.

There continue to be reports of government opponents including OLF members/supporters being mistreated, tortured, arrested and killed under Prime Minister Abiy's government.

Ethnic tensions and conflicts drastically escalated in 2020, with over 100 people (including Oromos) killed between late June and early July 2020. These killings resulted in numerous arrests, the deployment of troops and an Internet shut down. At the same time, many regional detention centers, which are known to use torture, are still in operation. Civil rights and individual liberties are still systematically violated because the judiciary and other national human rights institutions are controlled by the ruling party. Protesters criticized the government for not protecting citizens from forced displacement and ethnically based attacks, particularly with regard to the allegations of rape and killings in Oromia. Ongoing ethnic violence and internal displacement continue to put lives at risk.

Elections scheduled for August 2020 were postponed for almost a year as a result of COVID-19, leading to outrage among opposition parties, and increased fears of widespread conflict and repression.

#### 4 | Stability of Democratic Institutions

Ethiopia is still an authoritarian political regime without institutions of democratic governance. But after years of repression, several positive developments in the direction of transitioning toward a multiparty democracy have emerged since 2018. The split in the political establishment between Amhara and Oromo on the one side, and the Tigray on the other, which in 2020 resulted in a serious conflict, interrupted the democratization process. In 2018, following Abiy's undemocratic election by the EPRDF parliament, the prime minister lifted the state of emergency in June 2018 and released 13,200 political prisoners from detention. Also in June 2018, Abiy announced that the parliament would lift the ban on three opposition groups and members of these groups would be allowed to return from exile.

In February 2019, a new law on NGOs was passed, removing many of the restrictions introduced by the previous 2009 law.

The ruling EPRDF coalition, which comprised four major parties, was dissolved and replaced by the Ethiopian Prosperity Party (PP). The Oromo Democratic Party (ODP), the Amhara Democratic Party (ADP) and the Southern Ethiopian People's Democratic Movement (SEPDM) approved the merger and were joined by the Somali Democratic Party (SDP). Only the TPLF refused to participate in the new party, accusing the prime minister of not respecting the constitution. New political parties with ethno-nationalist programs emerged within the two factions of the power block, which represented the majority of the population against the TPLF minority.

#### Civil rights

2

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#### Performance of democratic institutions

3

'06 '22 10

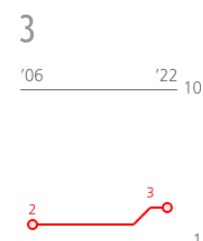


Among the Amhara, the National Movement of Amhara (NAMA) emerged, led by graduates of various universities in the Amhara region and Addis Ababa University.

Elections were postponed from August 2020 for almost a year due to COVID-19.

The newly established Ethiopian Prosperity Party (PP), the Oromo Democratic Party (ODP), the Amhara Democratic Party (ADP), the Southern Ethiopian People's Democratic Movement (SEPDM) and the Somali Democratic Party (SDP), which comprise the government coalition, in principle accept democratic procedures, and free and fair elections. The TPLF refused to participate in the new political and constitutional system, accusing the prime minister of not respecting the (undemocratic) constitution. Thus, one cannot expect an honest commitment to pluralistic, liberal democratic norms by TPLF leaders. This politically and militarily strong actor functions as a veto player in the country's political struggles. As the many demonstrations of civil society groups, students and youth movements in Addis Ababa and other cities during recent years have shown, commitment to democratic values is widespread. It can be interpreted as the result of the failure of the previous regime of a repressive authoritarian regime.

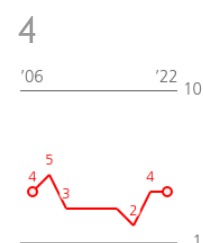
Commitment to democratic institutions



## 5 | Political and Social Integration

The party system is not entirely stable, because Ethiopia is situated in a rapid, although momentarily stagnant, state of transformation from authoritarian rule to a more democratic, liberal system of governance. When the new reform-committed prime minister opened the system up to political participation, 107 “parties” submitted registration requests to the National Electoral Board in August 2019, which was crucial for organizing the parliamentary election scheduled for 2020.

Party system



The former ruling EPRDF coalition was an artificially constructed, ethnically based party formed under the political pressure of the TPLF. Tensions ran deep between the four ethnoregional components (Tigray, Amhara, Oromo and southern Ethiopian) that participated in the EPRDF coalition. As forced members of the EPRDF, the parties – ANDM for Amhara, OPDO for Oromo, SEPDM for southern Ethiopia and five other satellite parties that represented the remaining regions – never truly represented the will of the people. Therefore, the return of previously exiled politicians to Ethiopia allowed for a new political dynamism.

Intended for a highly diverse country with more than 70 ethnic groups and many languages, Abiy's reform agenda led not only to the mobilization and grassroots politicization of people across all parts of the country, but also to the fragmentation of the system of local and regional representation. Abiy's agenda also resulted in the displacement and violent dispossession of thousands of so-called external peasants. Ethnic clashes flared up in many places, most of them driven by border disputes, and requests for the return of land and pastures that the government had given to people

from different areas (Amhara-Tigray, Oromo-Somalia and Sidama-Wolaitta disputes).

Clientelism is politically important, because ethnic parties are based on the loyalty of a special clientele to a patron and political leader. The EPRDF government allocated financial resources according to existing regional clientele networks and, therefore, could control the citizens. As long as the system of ethno-nationalism prevailed (2019/20), voter volatility remained low. Under conditions of free and fair election campaigns (2021), polarization between people, even within ethnic groups like the Oromo and the Tigray, will be intense.

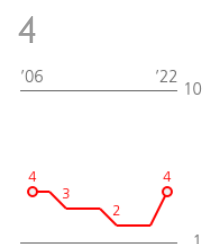
Ethiopia has an average range of interest groups, which reflect most social interests. In general, the quality and representation of economic and social interest groups has been improving since Abiy Ahmed's reform announcements. The three main winners of the government's reform agenda have been: civil society and its various organizations, which had until recently been oppressed by the authoritarian EPRDF government; political parties and protest movements; and the private business sector. Several youth movements (in Oromia, Harar, Amhara and in Southern regions) are now allowed to organize and demonstrate in public. More or less, all professional organizations (not least journalists, academics and teachers) now enjoy more room for maneuver when expressing their demands and expectations. But these new freedoms have not prevented the government from occasionally imprisoning journalists.

The new government's announcement that it would support the privatization of quasi-state monopolies and grant more space to the private sector in general showed initial positive results. Ethiopian Airlines, Ethio-Telecom and others were privatized. When the country received over \$4.1 billion in FDI in 2018, 156 local and foreign companies were established, which made use of several new industrial parks in Nazret, Jimma and Dire Dawa. Abiy's efforts to institute transparency and equality have led to a fundamental overhaul of the system of state-owned/party-controlled enterprises and businesses.

In Tigray, where the TPLF has refused to implement the government's reform agenda, an economic empire based on EPRDF patronage, appropriation and large-scale borrowing, with accountability to no one, has been discovered. In November 2020, after Mekelle had been occupied by the federal army, the federal government started to dissolve these structures, viewing them as remnants of the country's socialist area.

The confederation of Ethiopia trade unions (CETU), with a total membership of 320,000 (134,251 women and 185,749 men), is an umbrella organization of about 520 grassroots trade unions, which are affiliated to nine national industrial federations. Since 2018, the CETU has become more active in protecting workers' rights, especially in the new industrial textile and leather production sectors.

Interest groups



Ethiopia is an authoritarian state. Approval of democracy cannot be assessed because no public opinion polls on democratic performance exist.

Approval of democracy

n/a



The level of trust between citizens, which fosters cooperation and mutual support for purposes of self-help and emergency aid, is quite high due to cultural patterns of interaction, which are characteristic of traditional societies. Social capital can be mobilized among people who share similar food habits and wear similar clothes. Especially in the urban quarters of Addis Ababa, solidarity between neighbors is often strong and sustainable, and is cemented by people sharing the same dialect, common festivals and shared hardship. Agricultural people and nomads have learned to trust families and clans, not to rely on the state.



Social capital

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Therefore, it is reasonable to distinguish between trust and solidarity among people of the same ethnic group or the same religious denomination, and interactions between citizens of different groups and religious beliefs. At least one third of the Ethiopian population are Muslims, and according to the official discourse the relationship between Muslims and Orthodox Christians is peaceful and harmonious. In practice, everyday forms of coexistence oscillate between permanent stress on denominational differences and occasional resolution. With the population growing, and competition for land, water, jobs and credit increasing, tensions and conflicts are increasing between Muslims and Christians, and between different ethnic groups within the same religion or area. Xenophobic sentiments among people in densely populated areas like Addis Ababa, Gondar, Harar, Dire Dawa, Ambo and Hawassa are on the rise, which is leading to ugly instances of ethnic cleansing.



## II. Economic Transformation

### 6 | Level of Socioeconomic Development

The overall level of socioeconomic development is still low: poverty and social inequality, including gender inequality, remain high. According to the HDI, Ethiopia scored 0.485 points and ranked 173 in 2019. Ethiopia is also ranked low in the Gender Inequality Index, with the country scoring 0.517 points in 2019. Gender emancipation was stated as one of the main goals in Prime Minister Abiy's reform agenda.

Between eight and 20 million people are dependent on food aid due to very low levels of technical equipment and innovation in agriculture. It is estimated that for 17.5 million small-scale farms there are no more than 500 tractors and 600 harvesters (Getachew Diriba 2020). Around 80% of the rural population live under subsistence conditions, while around 10% of the workforce are employed in small but booming industrial sectors (e.g., construction, textile and leather processing). As a result of the many land disputes, violent ethnic clashes and expulsion campaigns of previous years, the number of IDPs has remained very high. In 2019, it was estimated that there were 3.1 million displaced citizens. Also in 2019, the government estimated that the total number of unemployed people in the country was 11 million. Meanwhile, youth unemployment has remained high, at an official rate of 25%, although experts calculated with higher figures.

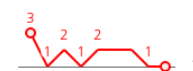
Economic indicators		2017	2018	2019	2020
GDP	\$ M	81770.8	84269.3	95912.6	<b>107645.1</b>
GDP growth	%	9.6	6.8	8.4	<b>6.1</b>
Inflation (CPI)	%	10.7	13.8	15.8	-
Unemployment	%	2.1	2.1	2.0	<b>2.8</b>
Foreign direct investment	% of GDP	4.9	4.0	2.7	-
Export growth	%	7.7	11.8	17.7	<b>-0.5</b>
Import growth	%	-7.5	2.2	18.5	<b>15.6</b>
Current account balance	\$ M	-5928.6	-4611.3	-	-

Question  
Score

Socioeconomic  
barriers

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Economic indicators		2017	2018	2019	2020
Public debt	% of GDP	57.7	61.1	57.9	<b>55.4</b>
External debt	\$ M	26170.0	27842.4	28374.7	<b>30364.4</b>
Total debt service	\$ M	1482.3	1652.9	2165.4	<b>1997.4</b>
Net lending/borrowing	% of GDP	-4.6	-4.0	-2.7	-
Tax revenue	% of GDP	7.6	7.5	6.7	-
Government consumption	% of GDP	11.1	10.3	9.2	<b>9.1</b>
Public education spending	% of GDP	5.6	5.1	-	-
Public health spending	% of GDP	0.9	0.8	-	-
R&D expenditure	% of GDP	0.3	-	-	-
Military expenditure	% of GDP	0.7	0.6	0.6	<b>0.5</b>

Sources (as of December 2021): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

## 7 | Organization of the Market and Competition

Market competition operates under a weak but improving institutional framework. The new framework was adopted in 2020. The new regulations do not represent a fundamental shift in policy or practice compared to what has been in place for the past two decades. Rather, the changes have relaxed restrictions on some categories of investors, such as the Ethiopian diaspora and foreign nationals whose families have lived in Ethiopia for several generations. Moreover, sectors that were restricted to foreign investment in 2012 have now been opened up with the expectation that this will attract more investment into services, IT, tourism, education and health care.

The liberal transition of Ethiopia's economy, which started in 2018, remains ongoing. With respect to existing investors in the country, the changes will offer more opportunities to expand current investments to other sectors. Existing investors will also benefit from new investment dispute rules and grievance handling procedures, which are likely to streamline administrative processes at the federal and regional levels.

According to the World Bank's 2020 Doing Business Report, establishing a business in Ethiopia remains burdensome and requires 11 days (more than neighboring Kenya, which has a more advanced market economy), despite improvements having been made. The new government has encouraged foreign and national private enterprises to invest in Ethiopia. In 2019, the government announced the ambitious Homegrown Economic Reform Program, which aims to develop Ethiopia into a lower-middle-

Market  
organization

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income country by 2030. Poor infrastructure continues to hinder the delivery of goods to markets, and political disturbances and the conflict in the Tigray region are likely to thwart ambitions. The informal sector remains large and accounts for 35–40% of total employment in some areas.

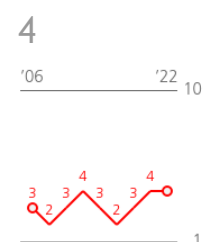
Under the EPRDF government, Ethiopia started a liberalization reform program, with the aim of introducing more competitive elements, when the Growth and Transformation Plan was passed by the parliament in 2015. More recently, the Abiy government implemented a new economic legal and regulatory framework, which included investment and privatization law reforms, with the aim of encouraging investment by foreign and local private companies. Despite the establishment of a stable legal framework, competition laws are not fully enforced due to the close relationship between the state and some of the monopolistic companies. The existing regulatory frameworks against monopolistic and cartelistic structures are not comprehensive, and existing rules continue to be ignored by enforcement agencies.

When Minister Gerd Müller of the German Ministry of Economic Cooperation and Development made an agreement with the Abiy government in 2018 to support the Ethiopian reform agenda, Ethiopia committed to upholding principles of democracy, good governance and rule of law. However, China is the largest source of credit and investment in Ethiopia today. It remains unclear on what business conditions contracts with Beijing were concluded. There are some doubts about the fair distribution of business opportunities. The government's return to a policy of political repression (e.g., military intervention in Tigray) in 2020 blocked the implementation of the new competition regulations.

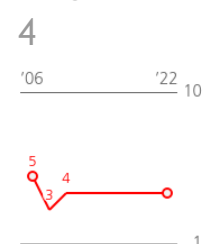
Liberalization of foreign trade is high on the government's reform agenda. Abiy's government has started to abolish trade monopolies, but tariff and non-tariff barriers, and special trade contracts with Chinese business partners still exist. In June 2018, the government of Ethiopia announced its intention to open a number of sectors to foreign investment through the partial privatization of state-owned enterprises that monopolize certain industries, including aerospace, logistics, telecommunications and sugar production. The prospect of opening up telecommunications for foreign investment led in 2019 to a surge of interest among companies such as MTN, Vodacom and Orange, as well as Kenyan Safaricom, and Chinese companies Huawei and ZTE.

In 2019, the government announced that six out of 13 loss-making sugar projects, which have been funded by state money over the past few decades, would be privatized in early 2020. However, it is not yet clear whether this reform has been implemented. The simple average of MFN applied duties was 17.4% in 2015, 11.8% in 2017 and 17.4% in 2018 (latest figure).

#### Competition policy



#### Liberalization of foreign trade



Without modernizing and restructuring the banking sector, it will not be possible to implement the Abiy government's Homegrown Economic Reform Program (HERP). After the new prime minister pledged to address structural problems that inhibit private sector activities and boost domestic revenue mobilization, the IMF declared that it would allow a three-year Extended Credit Facility for Ethiopia worth \$2.9 billion – an extraordinarily high amount of money for a developing country with an enormous foreign debt burden (56% of GDP) and weak financial infrastructure. A recent study of Ethiopia's banking sector by two Ethiopian experts (ACIST), published in June 2020, revealed major deficits: vendor dependency, lack of proper systemic evaluations, lack of clear national regulations, external changes, lack of expertise on new technologies, lack of a clear strategy, lack of strategy implementation experience, customer perceptions on new technologies, and lack of clear policies and procedures.

Until recently, no Islamic banking product to serve the Muslim community existed. This fact prevented Ethiopian Muslims from holding shares in the banking sector. In Ethiopia, interest free banking was first allowed in 2011 as a part of the existing conventional banking system. Full-fledged and independent interest free banking business was allowed in 2019. However, the adoption of Islamic banking in Ethiopia has been accompanied by some legislative challenges. This is primarily because both the Islamic and conventional banking sectors are governed by the same legal framework, which undermines the proper functioning of Islamic banking.

Bonds held by commercial banks totaled ETB 388.6 million in 2018/19, ETB 400.2 million in 2019/20 and ETB 468.3 million in 2020/21, and are projected to total ETB 566.6 million for the fiscal year 2021/2022.

The total commercial bank financing-to-GDP ratio was 32.8% in 2018/2019, 31.3% in 2019/2020 and 31.0% in 2020/21.

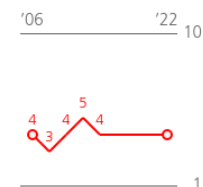
## 8 | Monetary and fiscal stability

Ethiopia's federal government and central bank have for years pursued with modest success policies to control inflation and currency exchange rates. Under the rule of Prime Minister Abiy, monetary policy was tight. Inflation remained in double digits in 2019 and above the 8% central bank target. Ethiopia's managed float exchange rate foresees a 5%–6% annual depreciation in order to adjust inflation differentials with trading partners. Fiscal consolidation has ensured low and stable fiscal deficits, despite a low tax-to-GDP ratio, averaging 11% between 2016 and 2019. Tax reforms are underway to boost revenue mobilization, but deficit financing through central bank advances has fueled inflation and reduced monetary policy effectiveness.

The annual inflation rate (CPI) in Ethiopia rose from 10.7% in 2017 to 15.8% in 2019. Thus, official inflation targets failed several times. Although the government has tried to control inflation and the foreign exchange regime, it lacks the institutional experience to realize this goal, while also managing the COVID-19 crisis.

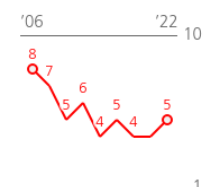
### Banking system

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### Monetary stability

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The economic impact of COVID-19 includes higher prices for basic foods, rising unemployment, slowdown in economic growth and increasing poverty. According to the projections of the National Disaster Risk Management Committee, an estimated 30 million people could experience food consumption gaps. The urban poor are likely to be severely affected. In rural communities, food insecurity will worsen among households that rely on market purchases.

In 2019, the central bank provided ETB 15 billion (0.45% of GDP) of additional liquidity to private banks to facilitate debt restructuring and prevent bankruptcies. It has also provided ETB 33 billion of additional liquidity to the Commercial Bank of Ethiopia. Growth in the financial year 2019/20, while below trend, surprised on the upside as the two largest sectors –agriculture and construction – shrugged off the impact of the pandemic. Growth in the financial year 2020/21 is expected to be four percentage points lower than the pre-crisis baseline. However, as the president of the central bank is appointed by the government, one cannot say that the central bank acts as an independent body.

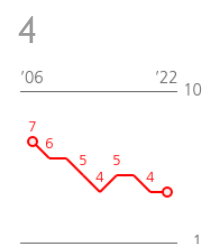
Because monetary stability and greater economic growth are key to reducing poverty, the positive trend will slow down in 2020 due to political turbulence.

The overall financial picture remains precarious due to slow production growth, slack export revenues (stagnant world coffee prices, and decreasing demand for agricultural and manufactured goods), rapid population growth and a heavy debt burden. Ethiopia's real GDP growth decelerated to 7.7% in 2018. A slowdown in industrial growth is mainly driven by lower growth in construction due to foreign exchange shortages and higher prices of imported construction materials, coupled with the weaker performance of the manufacturing and the agriculture sectors.

According to World Bank statistics, annual government consumption (as a percentage of GDP) decreased slowly – from 11.15% in 2017 to 9.2% in 2019. Tax revenues (as a percentage of GDP) did not increase as was expected by the government. As the revenue-earning capacity of the country has not matched the rapid increase in imports and infrastructure investments, public debt has not been reduced (as was announced by the government). Public debt amounted to 57.7% of GDP in 2017 and 57.6% in 2019. Furthermore, the annual debt service places a heavy burden on the state and is the third-largest expenditure allocation in the federal budget. Annual debt service increased from \$1.5 million in 2017 to \$2.2 million in 2019. Meanwhile, the growth in exports, which increased steadily from 7.7% of GDP in 2017 to 17.7% in 2019, could not compensate for this. The government of Ethiopia applied for debt relief, which was granted by the European Union. It is unknown how China as Ethiopia's main creditor will handle the debt issue.

In May 2020, the IMF approved \$411 million in emergency assistance for Ethiopia to help fight the coronavirus pandemic. The IMF also approved Ethiopia's request

Fiscal stability



for a suspension of debt service payments worth about \$12 million under the IMF's Catastrophe Containment and Relief Trust for poor countries.

The service sector, including travel, transport and hospitality, was directly impacted by the pandemic. Both air and land transport were severely affected, and many large hotels have had to close.

In April 2020, the federal government of Ethiopia declared a state of emergency, and measures related to social distancing and city transport were implemented. A number of fiscal, monetary and sectoral measures were introduced. These included a ETB 5 billion (around \$150 million) preliminary stimulus package, the removal of import taxes on COVID-19 related items and faster value-added tax refunds for businesses.

Monetary measures included ETB 21 billion (around \$630 million) in support for banks to address the expected liquidity shortage from lower deposits and loan collection, and to provide working capital for sectors impacted by the COVID-19 pandemic; priority access to foreign exchange importers and producers of COVID-19-related goods; an increase in mobile money transfer limits; and a relaxation of the central bank's non-performing loan directive in order to allow commercial banks to reschedule loan payments for severely affected sectors (e.g., horticulture, hotels and tourism).

It was stated that the emergency funds from the IMF would support two broad areas: the import of essential health supplies (e.g., personal protective equipment such as sanitizers, gloves and masks) and intensive care equipment (e.g., ventilators), and communication on COVID-19 health issues (e.g., advocacy work to ensure that people conform to government health measures and recommendations).

## 9 | Private Property

The Ethiopian constitution of 1995 had recognized private property in general, but the right to acquire, use and transfer land property was restricted. Today, the land tenure system in Ethiopia has retained its own peculiarities.

A major improvement has been the ability to lease land to third parties, which the current system finally allows. Informal arrangements in the form of sharecropping and fixed-rent tenancies, which took place even under the Derg regime, involved a risk of losing land. For nearly 80% of the rural population, land remains the most crucial asset for survival. Despite recent policies to stimulate intensification, land productivity remains low in most parts of Ethiopia. One reason for this is the negative impact that insecure private property rights have had on farmers' decisions to improve and modernize their farming practices. Property rights protect individuals against expropriation by neighbors and other agents, as well as against the state, offering incentives for long-term investment in assets. With all land state owned, the

Property rights

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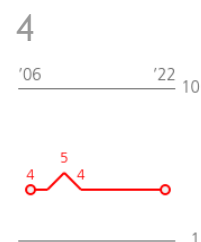
threat of land expropriation never appears far off the agenda. Land rental and leasing have been made legal, but transfer rights remain restricted and the perception that tenures are insecure remains quite strong. Panel data from a World Bank field study suggested that perceived limitations on transfer rights and the threat of expropriation have negatively affected long-term investment in agriculture in Ethiopia, which has contributed to the low returns from land, and persistent low growth and rural poverty.

Over the last 10 years, Ethiopian governments have leased large areas of land to foreign companies. Land-grabbing is practiced extensively in Ethiopia in order to earn foreign currency by the government. In Gambella, for example, huge areas of land have been leased to Sheikh Mohammed Hussein Ali Al Amoudi, a rich oil billionaire from Saudi Arabia and an owner of several plantations in Ethiopia. Tens of thousands of peasants have been expelled from their lands. In 2019, the Abiy government proclaimed that six out of 13 loss-making sugar projects in the Southern region, which had been funded by state money over the past few decades, would be privatized. However, there has been no word about compensation or aid for local people adversely affected by these practices.

Under the leadership of Abiy, investments by private companies have been welcomed. Private companies are viewed by the Abiy government as politically important engines of economic production, and as facilitators of the government's latest economic growth and reform strategy. Until recently, the government had been occupied with implementing the second phase of its Growth and Transformation Plan (GTP II), which ran until 2019/20. GTP II aimed to continue expanding physical infrastructure through public investment and to transform the country into a manufacturing hub with the help of private enterprises. GTP II targeted an 11% annual GDP growth rate and – in line with the government's manufacturing strategy – the industrial sector was set to expand by 20% on average, creating more jobs. But these ambitious aims were not achieved. In September 2019, the government announced the Homegrown Economic Reform Program, which received approval and financial support from the IMF. It is hoped that this ambitious plan can overcome the structural problems of low productivity and low-cost efficiency in order for Ethiopia to become a lower middle-income country by 2030.

In 2020, the government improved the legal safeguards protecting private companies. Due to the coronavirus pandemic and political disturbances, direct foreign investment declined to about \$2.5 billion, the lowest level since 2016 and \$1.6 billion lower than in 2018. To assist the private sector during the coronavirus pandemic, the government monitored 344 firms in Addis Ababa over eight survey rounds. The study found that the average number of fully employed workers decreased from 4.4 in round one (early 2019) to 3.5 in round eight (end of the year), while the decline in employment was highest in firms with higher baseline levels of education. The lifting of the state of emergency in September was accompanied by a temporary increase in layoffs. During round seven of the survey, which was implemented between September 13

Private enterprise



and October 4, 2019, 5% of small, medium and large firms laid off workers, up from less than 1% in round six. In round eight, however, there were few layoffs (1.6% of firms laid off one or more workers in the 21 days prior to round eight).

## 10 | Welfare Regime

The federal government of Ethiopia is unable to provide a comprehensive, state-funded welfare system for all of its citizens. The majority of the population is at risk of poverty. In 2019, before the outbreak of COVID-19, an estimated five to six million people were food insecure and needed humanitarian and food aid. Informal social safety nets are provided by the Orthodox Church, protestant churches and mosques, as well as traditional family, clan and village structures.

With the assistance of the World Bank and EU funds, in 2019 and 2020, the government committed to mitigating the worst consequences of the COVID-19 crisis. In May 2019, a supplementary budget of \$1.43 billion was approved by the parliament for the fiscal year 2019/20. The budget aims to provide humanitarian and medical assistance, and mitigate the economic ramifications of COVID-19 for the estimated 30 million people who are considered to be in need of government assistance. The budget will be funded by a mix of loans from internal and external sources. The prime minister announced that the aid package would be increased to ETB 5 billion (\$154 million or 0.15% of GDP). The \$1.64 billion plan aims to support various economic sectors and population groups and includes \$635 million for the distribution of food to vulnerable population groups who are not covered by the national social protection program. Public expenditure on health care (excluding expenditures to compensate for the damages caused by COVID-19) has stagnated at around 4% of GDP.

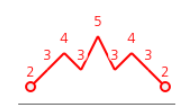
The federal government excluded the Tigray Region from all relief and assistance plans and measures in 2020.

Equal opportunity for the different social and ethnic groups that comprise Ethiopia's multinational federation is far from a reality due to the substantial domestic gap in incomes, standards of living and share in political power. People from Tigray and Amhara enjoyed much better educational facilities than the poorer and less educated people in the south and southeast. Discrimination, subordination and exclusion on the basis of gender, ethnicity and political preferences is widespread. Muslims and southerners are not very visible in the public administration of the capital. Minority groups are often discriminated against based on their ethnicity in both the public and private sectors. Discrimination in the labor market, based on education, as well as political loyalties and ethnic origin, is widespread, not least when it comes to accessing jobs in central government institutions.

### Social safety nets

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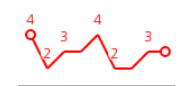
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### Equal opportunity

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Abiy and his government clashed with the regional government of Tigray, bringing an end to the privileges held in the region by Tigrayans. For example, when the Abiy government began privatizing state-owned enterprises, it was discovered that 75% of the management of the highly corrupt state company Metals and Engineering Corporation – which was engaged in the construction of huge sugar plantations and factories for the Ethiopian Sugar Corporation – were from Tigray. Many of these managers were fired, charged with corruption, and replaced by Amhara and Oromo managers.

Although the new government proclaimed that it would support and employ more women, in general, women are still discriminated against in terms of access to education and health care. The majority of Ethiopian women are still mutilated. The official female labor force participation rate is 46.5%, nearly the same as 10 years ago.

## 11 | Economic Performance

With a GDP per capita growth rate of 4.1% in 2018 and 5.5% in 2019, overall economic performance has been rather good, but the CPI for Ethiopia rose steadily to 15.8% in 2019. While agricultural growth has been slow but steady, manufacturing as a proportion of the total economy has increased. Net borrowing of the federal government remained rather high at 7.5% of GDP in 2017 as well as in 2018. The realization of the government's transformation and development plans is highly dependent on foreign direct investment: FDI stood at 4.9% of GDP in 2017 and at 4.0% in 2018. Due to political turbulences in 2019, foreign investors were reluctant to invest in Ethiopia and FDI dropped to 2.6% of GDP.

Public debt reached high levels: 57.7% of GDP in 2017 and 57.6% of GDP in 2019. Debt service was the third-largest federal budget expenditure and worries remain about the large public debt burden (mainly due to credit obligations to China). The government announced that it intended to increase taxes, but to date only moderate tax revenues have been published: 7.5% of GDP for 2017 and 2018 compared to 8.2% of GDP in 2010.

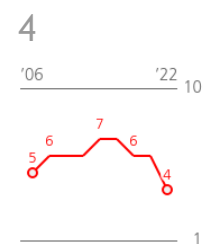
In 2020, the current account balance for Ethiopia was -\$4.3 billion.

Revenues have been extremely low. By late 2020, only 2% of companies expected to be able to hire new workers in the near future. The World Bank predicted that growth in Ethiopia would be four percentage points lower than the pre-COVID-19 forecast.

As a result of COVID-19, unemployment has increased and more than half of households have experienced a decrease in (and some a complete loss of) income. The income of female-headed households, urban dwellers, and self-employed and casual laborers has been most severely affected.

Schools closed, leaving 70% of primary and 60% of secondary students with no learning opportunities. This will disproportionately impact poor children over the long term.

Output strength



## 12 | Sustainability

Under Abiy's government, environmental concerns received substantial consideration. Two reasons for this change have been the alarming rates of soil degradation and deforestation. Ethiopia's forested land has declined from almost a third of the country at the turn of the 20th century to less than 4% today (due to population growth and deforestation). Launched by Abiy, Ethiopia's 2018 national reforestation program ambitiously aimed to plant four billion trees by the end of the rainy season in October, which meant planting 40 seedlings for every person in the country. The goal is to reverse decades of deforestation when logging, land clearances and poorly defined property rights led to a dramatic decline in forest cover.

However, economic growth prevails over environmental concerns, especially export growth and commercial interests are of utmost importance to the government. This is demonstrated by issues in the production of flowers for export in recent years: While the export of flowers boomed, natural water reserves diminished and ground-water levels fell to the detriment of farmers.

In many parts of the country, land scarcity has become more acute due to population growth. As a consequence, people started to cultivate marginal areas, leading to a loss of vegetation and the drying out of land, which can also be attributed to the excessive planting of eucalyptus trees (which need a great deal of water). Efforts to reclaim eroded land were successfully undertaken in some areas of the northern highlands, but in most of the country's regions, soil erosion has continued. In order to rehabilitate the water quality of Abaya Lake and Chamo Lake in the Southern region, the government with the assistance of the German Ministry of Cooperation and Development started an ambitious reforestation program in the surrounding hill lands which were severely affected by deforestation and soil erosion. Clean lake water is important for the preservation of fish farming on which local people – poor subsistence peasants – depend.

Promotion of education has been a priority issue for Ethiopian governments for several years. The number of universities has increased considerably. More than 70% of citizens in Ethiopia are under 30 and nearly 50% are under 15. Following recent social developments, one can see a considerable improvement. For example, as far as school enrollment is concerned: 89% of boys and 82% of girls attend primary schools, and 31% of boys and 30% of girls were accepted to study at a secondary school. The greatest success has been achieved in the field of tertiary education: according to World Bank figures, some 8% of the population attended education institutions beyond secondary schools in 2017/2018.

In spite of several improvements, the system of education and training is still sub-standard, with qualitative deficits in secondary and tertiary education, and insufficient school enrollment. Ethiopia's U.N. Education Index score has increased slightly from

Environmental  
policy

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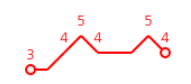
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Education policy /  
R&D

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0.332 in 2017 to 0.341 in 2019. Public expenditure on education has been moderate, compared to Kenya: 4.7% of GDP in 2015 (latest available data) for Ethiopia compared to 5.3% of GDP in 2018 for Kenya. The literacy rate in Ethiopia was 52% in 2017, compared to 82% in Kenya in 2018.

In addition to the literacy rate, research and development in Ethiopia is deficient. Investment in research and development has stagnated at 0.3% of GDP. Girls and women suffer from gender discrimination. According to the Gender Parity Index, the ratio of female to male enrollment is 0.9 for primary education, 1.0 for secondary education and 0.5 for tertiary education. The lack of sanitary facilities for women (only 43% of schools have separate girls' latrines) is among the cultural barriers that keep women from exercising their right to equal education.

Since early 2020, the education and training system has suffered due to the COVID-19 pandemic and delays in the government's reform program. In March 2020, all schools were shut down, with Ethiopia's Ministry of Education announcing that schools across rural areas could reopen in October. Schools must introduce COVID-19 precaution measures, including limiting class sizes to 20–30 students, and providing sanitizers, facemasks and other materials to prevent the spread of COVID-19. Seven months after their closures, Ethiopia's K-12 level schools reopened, and both public and private schools around the country followed stringent public health guidelines, including providing water and soap, enforcing social distancing, and ensuring that face masks are worn by students and teachers. Youth unemployment is a huge challenge for the government.

## Governance

### I. Level of Difficulty

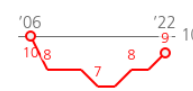
Widespread poverty (PPP per household was \$2,701 per year in 2019), high population growth, the lack of a professional labor force, the lack of adequate infrastructure, periodic droughts, and outbreaks of yellow fever, malaria and cholera have challenged the government's attempts to achieve sustainable structural transformation. In the context of increasing land scarcity and soil erosion, the labor market will become increasingly important as a tool for poverty reduction. Ethiopia is a landlocked country whose imports and exports depend mainly on neighboring countries. The climate and soil conditions in some parts of the country are so unfavorable that six to eight million people regularly need food aid from other countries. Natural disasters often occur and slow the speed of economic and social progress. In 2019/2020, Ethiopia experienced its worst locust invasion for several decades. This locust invasion has undermined development gains and threatens the food security and livelihoods of millions of Ethiopians.

Ethiopia suffered severely from the COVID-19 pandemic. The country is regarded as a high-risk country. Due to the rising cost of foodstuffs because of interruptions to supply chains, more people died from hunger than from the pandemic. The sharpest effects on growth rates were seen in transport (-20% drop in growth), hotels and restaurants (-7%), public administration (-7%), wholesale/retail trade (-5%), and construction (-5%). On April 8, 2020, Prime Minister Abiy proclaimed a national state of emergency, which lasted five months, and postponed the national elections, which were scheduled for August, until May/June 2021. Following the political unrests in June 2020, over 9,000 persons were detained and public spaces (e.g., schools, town halls and warehouses) were converted into detention facilities, raising concerns about spreading the coronavirus. It is expected that economic growth per capita will decrease from 9% in 2019 to 1.9% in 2021.

As of the end of February 2021, there had been 158,000 confirmed cases of COVID-19 and 2,354 confirmed deaths. New case counts are roughly one-third their peak levels, 1,800 new cases per day in August 2020 and roughly 600 new cases per day in March 2021.

Structural  
constraints

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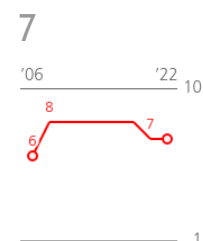
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Ethiopia has a strong tradition of civil society organizations (CSOs), inside and outside the country. Even under the repressive Derg regimes and the authoritarian EPRDF government, several CSOs and action groups actively participated in public discussions. In May 2019, a new party was announced, the Ethiopian Citizens for Social Justice. The new party called for changes to the 1995 constitution because it put too much emphasis on ethnic differences rather than on national unity. A journalist, who was jailed for a long time under the previous government, formed a civil society movement (the Baladera Council) to advocate for the rights of Addis Ababa residents and maintain the capital's independent status from Oromia. In Addis Ababa, a new generation of urbanized youth movements has developed. These movements were active supporters of the anti-EPRDF demonstrations, which paved the way for the reform politics of Abiy. CSOs were heavily regulated and enjoyed very limited political space until Abiy replaced the repressive law, regulating CSO-activities, with a new proclamation that allows CSOs and NGOs more political space to mobilize the public. Since 2019, CSOs have felt encouraged to resuscitate old traditions of civil self-organization. In 2020, CSOs became very active, and publicly pressed their social and cultural demands, including resettlement requests.

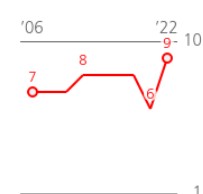
The intensity of conflicts has increased since Abiy was elected by a majority in the EPRDF parliament. Because he immediately invited all political parties, including the parties in exile (e.g., the OLF), to participate in a public debate on the future of the country and its constitution in 2018 without conditions, the identity politics of various groups and ethnic minorities across nearly all regions of the country was laid open. This rare occasion was also used by several marginalized ethnic groups to articulate their demands, which often led to ethnic clashes and the killing of political opponents, as activists fell back on parochial ethnic constituency thinking. In Addis Ababa and other regional towns, there were persistent demonstrations and protests led by students, journalists and other professionals against the government. The main cause of ethnic tensions and communal clashes was the question of land distribution and claims for land to be returned made by those who had been expelled by the government in the wake of its enforced land allocation policies. Tens of thousands were arrested after the state of emergency declaration in 2019.

One severe confrontation took place in April 2019, when violence erupted between Gumuz and Amhara people. This violence claimed many lives and displaced thousands in Metekel Zone and the neighboring Awi Zone in the Amhara region, with hundreds of houses burned and fields abandoned. Tens of thousands were displaced and by the year's end, some 27,000 people had still not returned home. The conflict lasted several more weeks, during which another 18 people were killed. Ethno-political tensions have also occurred across Ethiopia's Southern region, where some 40 ethnic groups, which once coexisted peacefully in one federal state, were demanding cultural autonomy or even the right to form a separate state.

#### Civil society traditions



#### Conflict intensity



The solution to the ongoing political struggles for power and land rights among the three dominant ethno-nations and between several competing political parties will determine the intensity of conflicts for the years to come. No easy solution to the conflicts can be expected because Ethiopian society is deeply divided not only by power and wealth issues, but also by competing identity perceptions: the established idea of a federation of ethnic nations against Abiy's vision of a nationalistic central state with one strong power center in the capital.

Conflict broke out between the Ethiopian government and the TPLF. Toward the end of 2020, the Tigray regional government was replaced by the Transitional Government of Tigray. This conflict, which is severe and ongoing, has been described as "brutal." Eyewitness accounts describe Ethiopian and Eritrean forces summarily executing civilians and looting property. The conflict has been characterized as a civil war.

## II. Governance Performance

### 14 | Steering Capability

Ethiopia recently went through one of its most momentous years in recent decades. Immediately after his election, Abiy proclaimed that his government would pursue democratic reform, be open to respecting the claims of ethnic groups, and address socioeconomic disparities and societal demands. But parallel to this, the government demonstrated its aim of building comprehensive national democratic structures instead of a continuation with the system of ethnic federalism, liberalization of public debate and greater respect for human rights. Privatization of state-owned companies ranked as high on the government's reform agenda as dissolving the old power structure, which was embodied by the coalition EPRDF party. Ethiopia recorded the sixth lowest COVID-19 death rates (relative to population size) worldwide. Therefore, one can conclude that the government used the coronavirus pandemic as a pretext for postponing the general elections for one year in order to give the government more time to implement the new strategy of Medemer, which included the formation of new branches of the Prosperity Party in all the nine regions of the country.

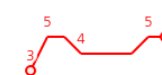
Regarding the next parliamentary elections, which were scheduled for August 2019, a power struggle emerged which over the course of several months reversed the government's promising reform agenda. The newly founded Prosperity Party postponed its strategic priorities for the time being in favor of short-term political aims. Several government opponents believe that the general election scheduled for August 29 had already veered from the fair and democratic process that Prime

Question  
Score

Prioritization

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Minister Abiy promised when he took office. In 2020, the TPLF refused to postpone the regional elections in Tigray, despite the demands of the federal government. As a result, Abiy believed he had no alternative but to start a military law and order operation against Tigray. After two years in office, the new federal government has lost control over its envisaged peaceful national transformation process: the old undemocratic policy of strengthening government power by force and repression has prevailed at the cost of its reform promises and of the fair political participation of its political rivals.

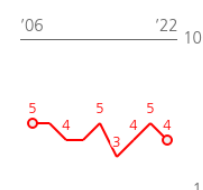
As already reported, the government changed its political priorities in 2020 (in response to the TPLF's "act of treason") and was not willing to implement democratic reforms and distribute political power peacefully. The most important reform was, besides internal dialogue with opposition parties, the declaration of peace and understanding with its "arch-enemy" Eritrea in 2018. This new attitude of openness and reform willingness presented new opportunities for reconciliation in society and across the whole region. However, the government has been overwhelmed by the most urgent challenge facing the country, which has presented an obstacle to the government's capacity to implement its aims: widespread ethnic tensions and violent conflicts on the ground due to ethnic-regional minority demands for land. Nevertheless, the government has invested in education and health care, improved gender representation (in the cabinet and diplomatic service) and encouraged entrepreneurs and foreign firms to take advantage of the new business opportunities presented by the privatization of state-owned companies and the creation of new industrial parks.

Many nationalists had hoped in 2018 and 2019 that Prime Minister Abiy's administration would address their demands after thousands of activists lost their lives in protests that paved the way for his premiership in early 2018. The hope of seeing Abiy address their concerns has all but evaporated. Abiy's government is employing the same methods his predecessors used to silence Ethiopia's most populous ethnic group, which has long complained of being treated as second-class citizens by the state. These methods include Internet blackouts, use of lethal force, the arrest of Oromo leaders and dubious legal measures.

In regard to accepting advice from representatives of other countries and international organizations, Abiy has demonstrated a surprising readiness to refuse to learn. He has been steadfast in rejecting widespread calls for negotiations since fighting broke out with the Tigray in November 2020, ignoring appeals from the United Nations, the African Union and the regional Intergovernmental Authority on Development (IGAD). Instead, he sent a series of delegations to explain Ethiopia's position to surrounding countries. Meanwhile, tensions are high with Egypt and Sudan over the Grand Ethiopian Renaissance Dam (GERD), which risks additional conflict over access to the waters of the Blue Nile.

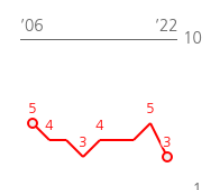
#### Implementation

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#### Policy learning

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### 15 | Resource Efficiency

Abiy’s transformation policy and democratic reforms will mean personal resources will be used more effectively, as public administration will be opened up to professionals from ethno-political groups that were hitherto excluded or marginalized.

Net borrowing amounted to -3.7% of GDP in 2016 and to -4.0% of GDP in 2018. The current account balance deteriorated from -\$635.3 million in 2010 to -\$4,611.3 million in 2018. Public debt remained at a high level: 61.1% of GDP in 2018 and 57.6% of GDP in 2019. Budget planning in 2020 was hardly possible due to the COVID-19 crisis, which led to an increase in government spending and necessitated foreign financial assistance.

The privatization policy of the new regime and the creation of new industrial parks has facilitated the greater realization of national business potential and FDI. Several new industries were established in the textile, leather processing, agricultural products and reforestation sectors. In the near future, following the completion of the Grand Ethiopian Renaissance Dam, the country will likely export electricity to Sudan, Eritrea and possibly to other neighbors. The revenue-generating capacity of the new regime has been improving but remains far from satisfactory. There is still a huge trade deficit and, in general, the country’s economy remains very vulnerable.

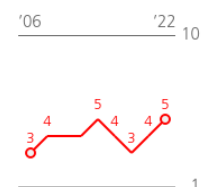
The efficiency of budget allocations improved in 2020 after the government provided a significant endorsement of the direction of macro-political reforms, including the correction of the currency’s alignment. Furthermore, the central bank has adopted a gradualist, more realistic approach to currency adjustment. As a result, private companies are now in a better situation to access bank credits.

With the violent conflicts between the federal government, Amhara regional government and the regional government in Tigray accelerating, police and military forces have gained importance at the cost of civilian ministries. For example, the Amhara regional administration has ordered its police to identify ethnic Tigrayans in all government agencies and NGOs. There have been similar activities in organizations and businesses in Addis Ababa, with reports that hundreds of Tigrayans have been arrested.

Following the dissolution of the EPRDF and its replacement by the Prosperity Party, new administrative structures are still in the process of being progressively restructured. Oromos, Somalis, Afars and others, who had exercised some local autonomy under the old constitution, are afraid of losing power and resources. These reforms of the administrative structures across all levels of decision-making have led to a lot of political tension and social injustice, which contradicts the new government’s Medemer ideology for a harmonious synthesis of all Ethiopian nationalities. Abiy’s pursuit of war against one of Ethiopia’s own federal states is a serious blow to his early image as a champion of peace, and to the African Union’s ambitions for an effective African peace and security architecture.

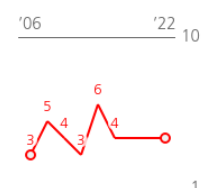
Efficient use of assets

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Policy coordination

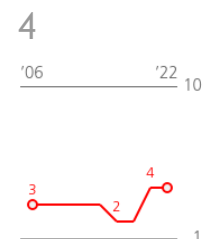
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The current government has arrested several people from different sections of public life, including public administration, the army and parastatals – mainly people of Tigray origin who are regarded as disloyal to the Prosperity Party. It is too early to determine whether corruption has been effectively prosecuted in general due to COVID-19, the postponement of the elections and the declaration of a new constitution. But one can confirm that tackling corruption in the army, public administration and political parties is one of the new government’s political priorities. Already several prosecutions and trials of former officeholders have taken place. In autumn 2018, for example, the former director-general of METEC, a major general and several senior members of the armed forces (with a strong Tigrayan focus) were accused of a host of failures, mismanagement and crimes, including authorizing irregular procurements that lacked competitive tenders and were worth \$1.3 billion over six years. Once the sustained public unrest had hollowed out the EPRDF’s authoritarian apparatus in 2018 and Abiy assumed office, Abiy’s government implicitly admitted past electoral manipulation, amended the laws governing elections and political parties, and restructured the electoral body, the National Electoral Board of Ethiopia (NEBE).

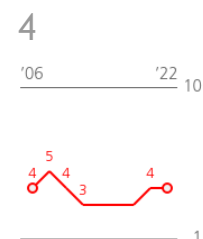
#### Anti-corruption policy



## 16 | Consensus-Building

Ethiopia, under the EPRDF, stylized itself as a “developmental state” in Africa that featured a strong and dominant federal government. Today, citizens and businesspeople have more – though very limited – space for political participation. As soon as the government had opened the space for political participation by forging a democratic multiparty system in 2018, more than 100 “parties” applied for official registration, supported by civil society organizations.

#### Consensus on goals



This positive development was interrupted when the federal government declared its intention to dissolve the order of ethnic federalism. Now more or less all regional governments are afraid of losing regional autonomy under the more centralist nation-state constitution that Abiy obviously intends to create. When Tigray refused to become part of this new constitutional structure and announced that it would hold regional elections against the will of Addis Ababa, the hidden consensus on democracy collapsed with Abiy’s “law and order operation” in autumn 2020. The Tigray leadership responded by withdrawing their troops into the hills and initiating a guerrilla war against the federal government.

It is still the objective of the federal government, supported by civil society organizations, to implement democratic constitutional reforms. The basic conviction that Ethiopia should develop as a democratic, multiethnic and multiparty state is not questioned, although nowadays the perception among the dominant political elites that Ethiopian’s democracy should be directed by a strong elected leader in a hegemonic position seems to prevail. Abiy maintains that he supports federalism, but the political balance in Ethiopia, his own actions and rhetoric, and indeed his own autocratic tendencies are pushing him toward pan-Ethiopian centralism.

The new reform programs of the federal government are intended to support a more spatially inclusive approach to development that leverages national programs to provide quality services to all areas. It will also support greater investment in secondary cities and transport corridors in order to improve access to markets for farmers and employment opportunities. The state will emphasize activities that boost productivity; increase private sector-led growth and job creation (especially for young people); promote gender inclusion (including tackling economic and social gaps between men and women), land administration and resilience; increase service delivery and improve service quality; and strengthen governance, citizen engagement and climate risk management. With the help of the World Bank Group and other donors, the government hopes to overcome Ethiopia's private sector challenges.

Access to land remains a critical constraint at all levels. In order for Ethiopia to sustain the rapid growth trajectory it has enjoyed over the past decade, it must make optimal use of all of its factors of production, particularly through continued reform of land markets and certification. As part of the focus on private sector-led growth, the government is seeking to support the emergence of a vibrant private sector. This latter focus area will entail deeper engagement by the International Finance Cooperation (IFC) and Multilateral Investment Guarantee Agency (MIGA). Within this context, the IFC intends to play a critical role in creating markets and crowding capital to support private sector growth. The World Bank could use all the facilities available (risk mitigation, local currency and blended finance) to potentially support transformational projects in agribusiness, manufacturing, services and infrastructure. The objective is to foster sustainable inclusive growth through job creation and economic transformation.

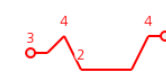
The Abiy government faces a host of opposition groups, which are demanding greater political participation, regional autonomy or economic resources, but one cannot categorize them all as anti-democratic. Most of these groups supported the new regime's announcement of a democratic multiparty system. However, there is one main exception to the rule: the rebellion of the Marxist TPLF.

After Abiy assumed power in April 2018, relations between him and the TPLF quickly soured, as he dismissed senior Tigrayans from federal institutions and blamed the TPLF for hiring proxies to carry out violence. In late 2019, he merged the ruling coalition, of which the TPLF was part, into a single political party, which Tigray leaders declined to join. The TPLF also ignored a federal arrest warrant for a former spy chief who sits on its politburo. Significant segments of the Ethiopian military stationed in Tigray are siding with the TPLF, meaning that the confrontation is likely to be fierce and prolonged. Reformers in the federal government are unable to overcome anti-democratic opposition groups and veto powers in other parts of the country. One reason may be the fact that the Abiy government has lacked legitimacy because it was not elected by the public in a national election, which was compounded by the postponement of elections to June 2021.

Anti-democratic actors

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The federal government tried to prevent cleavage-based conflicts from escalating in some parts of the country. Ahmed's newly adopted reforms lean toward individual and citizenship rights, while the previous ruling party coalition remained fixated on a group-rights agenda. This agenda has always privileged regional division over national unity. Promoting ethnic interests and ethnic politics had been the modus operandi of the old regime, which now presents a challenge for Abiy's government. It was unable to prevent the negative effects of past policies, notably the authoritarian political command structure, fast-growing economic inequality, entrenched corruption and thorough "ethnicization" of local politics. It proved to be powerless vis-à-vis strong nationalist movements in several regions. Divisions along ethnic lines are old and entrenched but flared up with a new intensity in the first half of 2018 when 1.4 million people were forced to flee ethnic conflict in the west of the country. These divisions continued to escalate in 2019 and 2020, with many people killed and with thousands displaced. In the Tigray region, there have been signs of unrest, with many Tigrayans expressing that they feel harassed. Many Tigrayans have lost their jobs, including soldiers and officers of the federal army. Meanwhile, the Sidama people, one of the largest groups in southern Ethiopia and who briefly had their own regional state in 1991–92, resuscitated their campaign for a region separate from other southern regions. After several delays, a referendum on autonomy was finally held on November 20, 2019. Some 98% voted in favor. The Sidama referendum enhanced the feeling of insecurity among non-Sidama (e.g., in the regional capital, Hawassa), and saw the start of a slow exodus of non-Sidama businesspeople and other middle-class groups. Another strong cleavage emerged between the Oromo (split into two main fractions) and the Amhara. The Amhara are also divided between the ruling Amhara Democratic Party (ADP) and a new formation, the National Movement of Amhara (NAMA). Both Amhara parties dislike the expansion of the capital at the cost of non-Oromo residents (in Legetafo town). The country's political leadership did not prevent cleavage-based social conflicts from escalating in many cases.

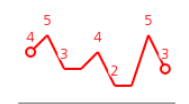
The full conflict has been ongoing in the Tigray region since late 2020.

The new political leadership had to lift its harsh grip on civil society demonstrators and gradually allow greater political participation. The government took into account and accommodated the demands and interests of civil society actors, as long as they did not resist Abiy's plan to open up the political system. In order to secure the support of these protest movements (spearheaded by students from Tigray and Oromia), which brought Abiy to power as the hopeful aspirant of the frustrated masses, Abiy's government changed its attitude toward civil society participation. It was a leap into the dark. In late 2018, the parliament adopted a liberal law, which gave civil society organizations more room for maneuver. This law represented a landmark, as up until then Ethiopian law had radically constrained and frustrated the work and political space of civil society groups. The new law explicitly provides all organizations with the right to engage in any lawful activity to accomplish their objectives. Not only domestic civil society organizations, but also foreign and

Cleavage /  
conflict  
management

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Civil society  
participation

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foreign-funded organizations are no longer prohibited from engaging in advocacy, social and human rights work. After its enactment, there was a notable increase in the activities of rights groups. The National Intelligence and Security Service (NISS) was also reorganized.

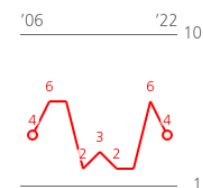
Prime Minister Abiy Ahmed needs a popular legitimation of his position as a radical reformer. The elections currently scheduled for June 2021 will offer him an immediate chance to rebuild his reputation as a young reforming premier and winner of the Nobel Peace Prize, which was almost fatally damaged by his “operations to restore law and order” in Tigray, his refusal to accept mediation, growing fears of ethnic targeting, and major humanitarian concerns. It became clear, however, that true democratic elections cannot be executed without taking into account the fragmented interests of civil society organizations. But up to now no agreement on a minimum shared program across the political and civil spectrum has been reached.

The new political leadership recognized the need to deal with historical acts of injustice, but its reconciliation attempts have run into problems regarding the fair distribution of land and privileges. For example, the government allowed two previously forbidden political parties – Ginbot 7 and the Oromo Liberation Front – to return to the country as legally acknowledged political parties. The government allowed Berhanu Nega, the leader of Ginbot 7 and former mayor-elect of Addis Ababa, and an economics professor and part-time rebel, to return to Ethiopia and hold a mass rally in Addis Ababa stadium. Abiy has also allowed the Amhara militia and special forces to spearhead the move into western Tigray, an area historically under Amhara control but controversially given to Tigray under the 1995 constitution. Tigrayans as well as individuals who had held administrative office were killed in acts of revenge waged by locals. By fostering a renewal of injustice and suffering, these measures will only foment rather than reconcile tensions between the region’s ethnic groups.

It’s important to note that the TPLF regional government, which was dissolved by the federal government and replaced by local individuals, had been very popular among Tigrayans. In the illegal regional elections held in Tigray in September 2020, the TPLF gained 98% of the votes. When the shooting stops, Ethiopia’s feuding political class should initiate a national dialogue aimed at bridging deep divisions within the country, particularly those regarding the country’s disputed federal system.

#### Reconciliation

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## 17 | International Cooperation

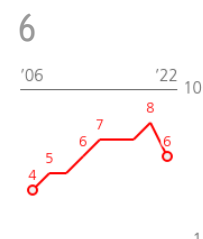
The reformist federal governments enjoyed substantial financial and political assistance from various countries and international organizations (e.g., from the European Union and its member states, the United States, and several Arab countries). Especially the World Bank Group and the IMF helped by providing billions in U.S. dollars to stabilize the economy, balance the huge trade deficit and offer infrastructure credits, which are essential for implementing the Growth and Transformation Plan, and later the Homegrown Economic Reform Program (HERP). The latter program aims to make Ethiopia a lower middle-income country by 2030, based on manufacturing and a strong private sector. The government, supported by NGOs and international creditors, has achieved some progress in regard to the implementation of the HERP. Fertilizer imports increased, land under cultivation and irrigation usage increased, cluster farming expanded, and the use of modern machinery intensified. These positive reforms increased food security in several areas (although locusts destroyed the crop harvest in other areas). Progress in industrial production was also achieved, with a remarkable increase in sugar production and leather manufacturing. The IMF announced in 2019 that it would assist Ethiopia with credit facilities worth \$2.9 billion. Foreign direct investments were registered at \$2.5 billion. It has shocked all foreign donor countries that Abiy has been steadfast in rejecting widespread calls for negotiations since fighting broke out in Tigray on November 4, 2020, ignoring appeals from the United Nations, African Union and IGAD.

For most of its period in government, the Abiy cabinet acted as a credible and reliable partner, and in compliance with most existing international agreements, such as those with the African Union, IGAD, WHO, WTO and European Union. The new government continued with the policy of pursuing closer cooperation with the European Union, which had been inaugurated by Prime Minister Hailemariam. In June 2017, following his trip to Brussels, Hailemariam signed a joint declaration with the European Union, “Toward an EU-Ethiopian Strategic Engagement” on security matters, integration and economic cooperation. The European Union has emphasized its support for Ethiopia’s reform process and committed an additional \$145 million to support job creation.

Abiy Ahmed’s international policies toward reconciliation and the regulation of long-standing regional issues, such as the conflicts with Eritrea and Somalia, gained significant support in Africa and beyond, and the prime minister moved skillfully in a multipolar world. Abiy’s efforts to break the 20-year deadlock and his consistent message of peace in the wider region earned him the Nobel Peace Prize.

However, good relations changed for the worse when Abiy sought to resolve the conflict with the TPLF by military force. As already reported, he showed no willingness to accept international peace mediation, arguing that the fight against the TPLF was an internal affair that would be of short duration.

Effective use of support



Credibility

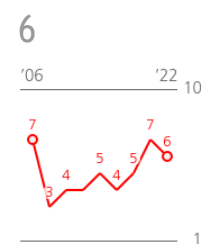


Since 2020, the federal government has refused to allow any independent witnesses into the Tigray Region, which has fueled social media allegations that TPLF leaders are being killed out of hand. Transport has not been available as all transport vehicles were removed during the fighting. In response, the European Union has suspended €88 million in budget support to Ethiopia until Tigray is opened up for humanitarian aid. Another burning issue of non-cooperation on the Ethiopian side is the vexing issue of the Grand Ethiopian Renaissance Dam on the Blue Nile. This escalated from a local to a regional issue, and finally to an international conflict between the three main countries involved: Ethiopia, Egypt and Sudan. The key issue was the filling schedule for the Grand Ethiopian Renaissance Dam reservoir. On October 5, 2020, Egypt, ever fearful of lower Nile water levels, said that negotiations with Ethiopia had reached a deadlock and called for “international mediation.”

After Abiy Ahmed had been elected prime minister, he immediately started to improve diplomatic relations with Ethiopia’s neighbors. His greatest achievement was the peace accord with Eritrea’s President Isaias Afewerki in 2018. But his obstinate handling of the Tigray crisis undermined relations with Sudan and Egypt. Up to 100,000 peasants from Tigray have fled to Sudan in need of food and shelter. The Grand Ethiopian Renaissance Dam (GERD) project was envisaged as a means of strengthening regional cooperation, because it would deliver cheap electric power to Ethiopia’s neighbors, particularly Sudan and Eritrea. Early in 2021, the Grand Ethiopian Renaissance Dam reservoir was nearly completely filled with water from the Blue Nile, which raised fears in Egypt that the country would lack water for its irrigation systems and urban housing in Cairo. But Abiy did not respond to Egypt’s concerns in a constructive way. Now, Ethiopia’s Tigray crisis offers Egypt a chance to exploit Ethiopia’s complex politics and to improve its external negotiating position with respect to the dam. Egypt has made overtures to Somaliland and South Sudan, and improved relations with Sudan. This could help Cairo win support for its calls for a legally binding agreement on the use of the dam during periods of drought.

In summary, the military confrontation between Ethiopia’s federal government and the TPLF in Tigray, which developed from a political power conflict, has caused a host of other ethnic tensions in Ethiopia concerning complicated land claims, and fatal border conflicts between Ethiopia and Sudan. The most alarming regional conflict remains the unresolved question of distributing Nile waters between Ethiopia and Egypt.

#### Regional cooperation



## Strategic Outlook

Ethiopia faces 10 urgent challenges:

1. Ending the civil war. This will require a willingness to compromise among the political elites of the three dominant ethnic groups (“nationalities”). There will be no peace without power-sharing. The federal government must find a peaceful solution that involves consultation in order to end the violent conflict with the regional government of Tigray, which is at this point a low-intensity civil war. Continued development assistance from the European Union and individual EU member states, which amounts to hundreds of millions of euros annually, should be made conditional on national and regional peace talks with moderate representatives of the TPLF. TDF soldiers and officers should be offered the option of being integrated into the army.
2. Consistent constitutional reforms. Resolving the ongoing struggle between two essential state perceptions – ethno-national federalism versus national centralism – will require an inclusive national dialogue that brings all political parties and civil society organizations, inside and outside of the parliament, together.
3. Diversification of education and the creation of jobs. The young generation – among them millions of BA students with no job perspectives – urgently need technical and professional training in order to increase their chances of participating in the modernization of agriculture and the industrialization of the country.
4. Family planning and population growth. The efforts of state and society to reduce the population growth rate should be given greater priority. Ethiopia should accelerate its position as Africa’s pioneer in demographic issues. As long as Ethiopia’s population size continues to exceed the number of people the economy can feed, escaping poverty and achieving sustainable development will not be tenable goals.
5. De-escalate the border conflict with Sudan. The international community (the IGAD, African Union and European Union) should call on the federal government to de-escalate tensions along the Ethiopia-Sudan border, which have risen sharply in the context of the war in Tigray. This will require friendly consultation with the Sudanese government. Addis Ababa should definitely accept the territorial rights of Sudan in regard to the al Fashqa enclave.
6. The Blue Nile water conflict with Egypt. At present, this is Ethiopia’s most dangerous conflict with a neighboring state. Abiy’s snub of the efforts made by the United Nations, European Union and African Union to mediate the Tigray region crisis has meant that Ethiopia will find it difficult to resist Egypt’s call for a legally binding agreement for a minimum outflow of Nile water from the GERD. For Ethiopia, it is essential that a diplomatic compromise is found with Egypt, Sudan, South Sudan and Kenya, all adjoining

owners of the White Nile who have recently engaged in common military maneuvers. On several occasions, Egypt's President Abdel Fattah el Sisi has threatened to support the TPLF and OLF militarily in order to put Abiy under pressure.

7. The postponement of national elections in 2021. The national and regional elections should take place in June 2021, including in Tigray, with observers from the African Union, European Union and North America monitoring procedures. Without a victory in a free and fair election, Abiy Ahmed's Prosperity Party government will continue to suffer from a lack of political legitimacy. EU funding in support of democracy should be used to ensure the trustworthy registration of voters in all regions.
8. Debt reduction and continuation of market-oriented economic reforms. The government should reduce credit financing for productive investments and should instead rely more on private foreign investments and government tax revenues (only 7.5% of GDP).
9. Privatization and increase productivity. Foreign donors should encourage the government to continue with the initiated change in public ownership of land, and to privatize parastatals, state farms, state companies and banks. The essential land rights of peasants should be safeguarded. More private competition and less state intervention (easier access to credit) are essential in order to overcome low productivity in Ethiopia's agricultural sector (which will remain the backbone of the economy). Privatization should not mean the establishment of new neoliberal power blocks. EU member states could support the economic reforms by waiving the contested Economic Partnership Agreement (EPA).
10. The COVID-19 crisis. Ethiopia is a high-risk country (COVID-19, malaria, cholera, yellow fever and locusts), with the urban poor and the six to eight million people who depend on foreign food assistance most affected. The public health care system is overstretched. According to the projections of the National Disaster Risk Management Committee, an estimated 30 million people could experience food consumption gaps. The country needs urgent help from wealthier countries and the WHO in order to start vaccinating its 112 million residents against COVID-19.