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The Façade of Change from the Inside: Ethiopia

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Part III of V

Unfettered “Globalization has reinforced increasingly unequal returns to human capital.”

Gerry Z. Muller, Capitalism and Inequality

The major themes, presentations and dialogue centered around two seemingly contradictory views: on the one hand, the economic and social dividends emanating from peace, stability, national reconciliation, investments, markets and social integration etc. South Africa is a prime example. On the one other hand, the enormous costs to societies that arise from permanent and or spurts of ethnic, religious and other conflicts as well as from elite capture of the state. This capture offers some individuals and communities access to opportunities. This is because they are connected to the political system that makes policies and allocates resources unfairly. This is why the system breeds tensions, fissures and conflicts. Somalia and the Democratic Republic of the Congo illustrate this point. Organizers of the Conference identified Ethiopia as a country that moved from decades of war to “decades of peace and growth” under the current government and single party system.

The perception in the outside world is that Ethiopia is developing rapidly because it has achieved peace and established stability. It is generally true that at the end of the civil war in 1991, a large segment of the Ethiopian people welcomed the TPLF-led ethnic coalition, the EPRDF for a reason. They genuinely felt the new party in town would deliver on its promise to democratize the society and open opportunities for all stakeholders. In large part, the EPRDF developmental state has invested heavily in physical and social infrastructure at an unprecedented levels. I do not dispute these investments; they are real. These physical changes on which foreign observers comment positively are visible. Sources of capital for which we can attribute Ethiopia’s construction and consumer based boom are driven by deficit financing, foreign aid, remittances and increasingly Foreign Direct Investment (FDI) in commercial agriculture and manufacturing. By and large, the extent to which these investments have transformed the structure of the economy is questionable. Nationally oriented and anchored manufacturing and industrialization lag behind and the rural and urban economies have yet to be integrated. They seem to operate in isolation from one another.

Western governments led by the United States rewarded the governing party by pumping billions of dollars in aid. These governments, the donor community and foreign investors are therefore vested in maintaining a status quo that has institutionalized state and single party-led crony capitalism that enriches a few and punishes the vast majority of the population.

Missed opportunities

I start this section with the fundamental premise that only genuine commitment to FREEDOM of choice and unbridled inclusion of all stakeholders assure lasting peace, national reconciliation and offer an institutional and cultural foundation for sustainable and equitable development. In my estimation, these are in tandem the most critical governance gaps that Ethiopia faces today. The development model is not socially based. Why is this important? In this century, durable peace and stability cannot be imposed from the top down by force. It cannot be wished. It must be earned by treating all citizens equitably and justly. These must evolve through dialogue, mutual understanding, participation and genuine equality with regard to access to opportunity. It goes without saying that inclusive governance must involve the country's diverse population. Benefits of growth must be shared and felt by a wide spectrum of people in real terms. Most of all, people must have freedom to establish and possess private property, debate, vote, negotiate contracts, live anywhere in their country and change their leaders. This is not the case in today's Ethiopia. Cruel and repressive governance teaches us that enduring peace emanates solely from a just, inclusive and participatory government and state. A competent modern state is impartial. An elite based state is not. The acid test is whether or not the current government is confident and bold enough to be all inclusive by opening-up social, economic, political and cultural space for everyone. Ethiopia's growth dilemma is that it is limiting rather than empowering and broadening the windows of opportunity for the greatest number of people. I suggest that, growth in GDP and even per capita income alone do not tell us whether ordinary people are able to fulfil their potential and to live meaningful lives. This leads me to a fundamental premise to which I draw your attention.

Briefly stated, Ethiopia has the appearance of peace and stability. However, for those willing to go beyond the semblance of calm imposed through force, social and political fissures are everywhere to see. Hundreds of thousands and perhaps, millions of Ethiopians live and work in this part of the world (the Gulf Region and Saudi Arabia) and suffer the consequences of unfair treatment, discrimination and expulsions. Why do they leave their country in droves? Why do they risk their lives? Three lead reasons: repression and inequitable treatment; lack of job opportunities; and ethnicization of the political, social and economic space. You would agree that a state that does not value its human capital and does not harness this capital to fulfil potential and contribute to the common good is patently unfair and socially dysfunctional. Citizens are harmed and the country's productive potential is curtailed. Ethiopia is a country with enormous natural resources and human diversity. It is therefore a country that should not be poor but is. More than 80 percent of the population is multidimensionally poor: poor sanitation, lack of safe drinking water, lack of access to electricity, poor health, lack of adequate food, lack of proper shelter, lack of jobs, gender inequality, restricted access to the frontiers of knowledge etc. Ethiopia's diversity is mis-used, highly politicized and ethnicized. These are all primary sources of instability. Growth has not addressed these social ills.

In Ethiopia, diversity is used as a wedge rather than as an asset. Evidence shows that government has not tapped fully into the country's immense diversity, natural resources, strategic location as a hub of the African continent and as a bridge to North Africa and the Middle East to advance sustainable and equitable growth. It has not offered its youthful population—64 percent under 24—employment opportunity. It has failed to transform the rural sector in general and agriculture in particular. Donors and the Ethiopian government have not invested heavily into a smallholder agricultural revolution; and in nationally owned commercial agriculture. Instead, millions of hectares of farmlands have been granted to foreign investors to produce and export foods, flowers, oil seeds and the like. Each year, an

estimated 1.4 million people move from rural areas to urban areas in search of work. Unlike East Asia where such exodus was absorbed by manufacturing and industry, the structure of the Ethiopian economy remains predominantly rural. Compared to other Sub-Saharan African countries where the spread of information technology is transforming nations and improving lives of the poor, especially youth, IT technology in Ethiopia is suppressed. Mobile penetration is 25 percent compared to the rest of Africa at 70 percent. Internet penetration in Ethiopia is 2.5 percent compared to neighboring Kenya at 40 percent. The Ethiopian state owns and controls telecommunication technology at an enormous cost to society, especially youth.

In short, Ethiopia has failed to harness modern information technology that is transforming poor societies by tackling debilitating poverty, boosting the middle class and increasing incomes (Bangladesh, Cambodia, Kenya) etc. etc. Females are worse off in Ethiopia compared to Bangladesh. Ethiopia has not initiated a youth employment program. The Ethiopian government is one of the few anywhere in the world to retain state control of the telecommunication sector, a cash cow that generates \$300 million a year. The governing party uses IT to control rather than to liberate natural resource and human capital. "The absence of competition has seen a country of 94 million lag badly behind the rest of the continent in an industry that has generally burgeoned alongside economic growth...with mobile phone penetration of 70 percent in SSA and 25 percent in Ethiopia... a paltry 2.5 percent of Internet penetration in Ethiopia and 40 percent in Kenya." 4/

The Ethiopian private sector is fundamental for sustainability and equity

Modern IT opens windows for private enterprise and employment. It enhances freedom and facilitates knowledge transfer. It strengthens national cohesion and market integration. It serves as an essential tool for youth to better themselves. It is at the heart of the quest for choice and freedom from poverty and oppression. This is the reason why it is virtually impossible to segregate the political process from the economic and social processes. They are linked. Government unwillingness to give space; to be all inclusive; and to unleash the creative potential of the country's youth and to harness the peace, gender (females) and information technology dividend, including freedom of expression, have **diminished national social cohesion**, productivity and the emergence of a robust national private sector. Africa Business quotes Guang Z Chen, World Bank Country Director, Ethiopia, who asked the Ethiopian government "to allow the private sector to play a bigger role in the economy." Chen says, "For the country to continue to grow I strongly believe industry has to take a much bigger role because there is no other country that I am aware of, aside from resource-rich countries, that can grow to middle income status with still 50 percent of GDP on agriculture." The private sector suffers from lack of a favorable pro-Ethiopian private sector regulatory framework that facilitates access to credit, foreign exchange, land, free industrial zones, export markets, partnerships with foreign investors, licenses, permits etc. from which other successful countries benefitted. Unlike more open economies, procurement of goods and services in Ethiopia is not transparent or competitive. The allocation of credit is politicized. "Making credit available for the private sector is certainly one area the government can do more. The trend that worries us is that while the public investment (the biggest source of bribery, favoritism and corruption) as a share of GDP is increasing, the private sector as a share of GDP is decreasing" as are savings. Illicit outflow of scarce capital continues unabated, reducing capital resources. 5/

By all measurements, the developmental state fails to empower and unleash Ethiopia's productive potential. This is among the reasons why the domestic economy is not as productive as peers Ethiopia's

peers in the rest of Africa. The ethnic-federal system counters national cohesion and market integration, the opposite of global trends. This is why trust in government is so low. A 2010 Gallop Poll shows that trust in government and its institutions is among the lowest in Sub-Saharan Africa. Those with wealth are leaving the country in droves and voting against the government by not investing in their homeland. Illicit outflow is, in large part, an indicator of lack of confidence in the future of the economy and the system. The only institutions in which there is a high level of trust are faith institutions: Christianity and Islam. However, both are under constant harassment and threat. From its inception, the TPLF planned to undermine the strong national role of the Ethiopian Orthodox and ethnicized and politicized its governance. It has done the same thing with the Muslim community. These interventions create substantial spiritual and cultural gaps and produce unintended consequences for the country's future.

Human capital loss and exodus

Ethiopia is one of the few countries in the world where social change has always come from within. Its diverse population closed ranks and preserved the country's independence. The 1974 Revolution was a result of the Ethiopian Student's Movement that galvanized the entire society. It was national and not ethnic or religious. It was transformative but not well designed, planned or executed. In this sense, the country has gone backwards: from a national to that of an ethnic political and social culture. This entails risks and unintended consequences. Observers within and outside Ethiopia agree that the Socialist Military Dictatorship that toppled the Haile Selassie government in 1974 and ruled the country with an iron-fist for 17 years was among the most oppressive. Its leaders, leftist groups with different ideologies and motives, foreign sponsors, ethnic-based liberation movements, supporters of the defunct Imperial system and others turned the country into a blood bath. Hundreds of thousands of young people were murdered; and hundreds of thousands fled. Ethiopia lost generations of human capital. The country has not recovered from this loss that weakened it. This period triggered the first wave of human capital flight at a massive scale. A trend was established. Before then, Ethiopians sent overseas for further education returned home. Today, an estimated 6 million Ethiopians—almost all with high school education and 1/3rd with college education—live and work in the two Sudans, Saudi Arabia, the Gulf, Western Europe, North America, Australia, New Zealand and numerous Sub-Saharan African countries. Ninety one percent of domestic workers in the GCC are Ethiopian females aged 20-30. In 2009, more than 50,000 Ethiopians, most of them young, left through Yemen; 30 percent of physicians leave the country each year, etc. Why this level of human exodus? At least two reasons: one, educated people compete and demand a say in policy, resource allocation and treatment. Second, those who leave remit foreign exchange. Ethnic and other elites have adverse reaction to completion. On the other hand, they encourage remittances. In 2011, the World Bank disputed Ethiopian government's lower remittance data and estimated that Ethiopia's growing Diaspora remitted more than \$3 billion per year; a figure that has gone up substantially. The Diaspora and its remittances contribute to Ethiopia's construction boom.

There is no doubt that the TPLF dominated ethnic-coalition offered a promising start toward democratization. Like its predecessor, it failed to seize opportunities to advance genuine democracy. Most people, especially youth, were jubilant when the new government seized power in 1991 for four reasons. First, the repressive regime was removed through collective revolt; second, a new Constitution with democratic content was promulgated; third, ethnic-regions were granted autonomy; and fourth, a new era of growth, justice, peace, inclusion and political pluralism was proclaimed. There is no contest that the new government achieved substantial measurable success in the following critical areas:

- An ethnic-coalition, including the Eritrean Peoples' Liberation Front, the Oromo Liberation Front and the Tigray People's Liberation Front (TPLF) helped to end a costly civil war and ushered in a new form of government of ethnic federalism; and facilitated the secession of Eritrea
- The Transitional Government of Ethiopia (TGE) saved millions of lives
- Cessation of hostilities and transition to a new government reduced human, material and financial costs for Ethiopia, Eritrea, the region and the world
- The new government promulgated a new Constitution institutionalizing human rights, civil liberties, press, political and religious freedom, equality among all nationalities and religions, the right to establish and own property, the right to live and work in any part of the country, etc. etc.
- These rights and the new ethnic-based federal system (Kilil in Amharic) devolved power to regions and gave the illusion of a new era of empowerment, justice and a foundation for durable peace and stability
- The global community, especially Western countries led by the US and the UK, welcomed the new government and offered massive aid
- The selling point was this. The TGE offered a compelling argument that "it stood for human rights, press freedom, political pluralism, the rule of law, equality of all nationalities and religious groups" etc. and asked the donor community to be accountable for the Western world's past ill deeds as "Lords of Poverty" serving themselves and their economies via self-serving aid
- Under the energetic and articulate leadership of the late Prime Minister Meles Zenawi, the new government demanded increased assistance for Ethiopia with the declared intent of reducing debilitating poverty and paving the way for sustainable and equitable development. Donors responded quickly and have not retreated since.
- Ethiopia grew at a significant rate, especially after the 2005 election that was won by the opposition; and reversed by the ruling party. This is an opportunity missed.
- Noticeable is massive public sector led investment in physical and social infrastructure, especially controversial hydroelectric generation mega projects such as the Renaissance Dam on the Blue Nile that some say will cause environmental, social and political risks for the country
- These investments and the growth generated from a small base was lauded by the donor community that often conformed to unverifiable government data. The IMF, the World Bank and others became cheer leaders thereby ignoring social, economic and political ills that breed nepotism, bribery, corruption, illicit outflow and instability.

While donors praise Ethiopia's remarkable growth, albeit from a low base, human rights groups and unattached development experts question the social benefits emanating from growth. "Meles engineered one party rule in effect for the TPLF and his Tigray inner circle, with complicity of other ethnic elites that were coopted into the ruling alliance....Ethiopia's much praised economic development is not as robust or cost-freeas the international community believes...The system was entirely dependent on central authority or command and control." I have often argued that it would have been surprising if there was no growth in the country. It will be impossible to receive aid without showing

some growth. Education opportunities have expanded. The number of colleges and universities has increased. Roads, bridges, hydroelectric dams, etc. have been built. Rails are being built. The IMF, the World Bank and other donor institutions estimate that Ethiopia's GDP grew from a low of \$10 billion in 2005 to \$43 billion at the end of 2012. Yet, the structure of the economy remains relatively the same, with agriculture contributing 46 percent of GDP and employing 85 percent of the labor force. 6/

Sharp criticism of "Ethiopia's renaissance" is buffeted by others. Following the death of Prime Meles in August 2012, Halvorssen and Gladstein of Forbes critiqued donors and the Ethiopian government's Anti-Terrorist Law. "Those in the West heaping praise on Zenawi—all living in societies that suffered so much to achieve individual liberty are engaging in dramatic hypocrisy. In a 2009 UK Department of International Development sponsored study of Ethiopia's agricultural growth, Stefan Dercon and Ruth Vargas suggested that "The magnitude of this growth and the fact that it has been achieved with little change in input use suggests something is not right with the data on agriculture," the leading sector in the country. The double digit growth story is questioned by independent observers as lacking integrity. Donors have contradicted themselves too often. For example, the IMF is inconsistent in its assessment of Ethiopia's growth as it was of Egypt's and Tunisia's growth before the onset of the Arab Spring. In 2012, the IMF questioned Ethiopia's growth sustainability. "The sustainability of Ethiopia's growth model over the medium term is uncertain, given the constraints on private sector development, the absence of savings incentives, lack of financial reform, etc." Despite these policy and structural limitations, the government argues that export-driven growth is possible without the benefit of a robust and strong domestic private sector. Critics argue that mega projects (hydro) to export and generate foreign exchange do not respond to the real need of improving smallholder agricultural productivity, domestic agriculture-based industrialization and employment generation. In other words, state and party-led growth alone cannot create sustainability without competition and participation.

If we accept the thesis that Ethiopia's development story is not "as robust and cost free" as the government and donors claim, what is the root policy cause? It is lack of freedom and predictability that private property is protected by law and cannot be affected by political decisions. Private sector development in Ethiopia is virtually impossible without a favorable investment regulatory system that levels the playing field. The rule of law and the judicial system must be above the party, sacrosanct and predictable. In 2013, the country ranked "49.4 percent, making its economy the 146th freest or among the least free in the world. It has gone down by 2.6 %; lower in 6 of 10 indices: trade, workers' rights, financial movement, investment, etc." It ranks 32nd out of 46 African countries. "Regulatory efficiency remains weak, creating an unfavorable climate for entrepreneurial activity...The foundations of economic freedom are quite fragile, particularly because of pervasive corruption and a deficient judicial system...Corruption further undermines the foundation of economic freedom" for the Ethiopian private sector. It goes without saying that such an environment operates in the "dark" and limits productivity and efficiency severely. Both the country and consumers suffer. 7/

Human Rights Watch has done more than any human rights organization to show the flaws of Ethiopia's authoritarian governance in general and the nexus between massive aid inflow on the one hand, discrimination, nepotism, corruption and repression on the other. "Development aid flows through, and supports a virtual one-party state with a deplorable human rights record. Government practices include jailing and silencing critics and media, enacting laws to undermine human rights activity, and hobbling the political system. Aid is routinely used to punish opponents and reward supporters." Massive amounts of money is siphoned-off for private gain. The effect of this on the population is substantial.

“The Ethiopian population pays a heavy price for this approach in development” in economic, social and political terms. The 2005 elections that the opposition won and then lost through a political decision is a prime example. Similarly, in 2010, “the EPRDF won 99.6 percent of parliamentary seats,” making a mockery of the electoral process. Competition was not allowed. 8/

Hope among Ethiopians that the ruling party would be open to reform has evaporated. “Ethiopian authorities have subjected political detainees to torture and other ill-treatment at the main detention center in Addis Ababa. In a 70 page report, Human Rights Watch “documents serious human rights abuses, unlawful interrogation tactics...beatings, torture and coerced confessions.” Ethiopia is home to one of the largest political prisoner populations in the world. It is also one of the top ten jailers of journalists. The court system caters to the party alone. “Ethiopia’s courts are politicized and lack independence.” Their role is to serve the ruling party and not to administer justice. “Beatings, torture and coerced confession are no way to deal with journalists or the political opposition.” I will show later in this presentation that, in theory, “Ethiopia’s Constitution and international legal commitments require officials to protect all detainees from mistreatment....Real change demands action from the highest levels of government against those responsible to root out the underlying culture of impunity.” Missing from the argument is the fact that it is the system that creates and sustains impunity. This impunity is expansive. Bribery, ethnic-based nepotism, high corruption and illicit outflow of funds stem from the system itself. High officials and top military officers operate above the law and all are vested in the system that enriches them. 9/

Top officials of the governing party do not see anything wrong with their manipulation of the Constitution and with violation of human rights contained in international agreements. Following the aftermath of the 2005 elections in which 200 young and innocent Ethiopians were massacred, Ana Gomes, member of the European Parliament and Head of the EU Election Team to Ethiopia saw the danger of impunity as a political culture. She concluded, “As long as the Meles regime is in power, I will never believe in an election in Ethiopia.”

Meles is gone but his legacy remains intact. Measured in terms of wellbeing for the vast majority, employment opportunities for youth, gender equality, freedom, human rights, transparency, fair and open political and economic competition and rampant and systemic corruption, etc. against which Ethiopia’s “miraculous growth” must be assessed, the country is worse off than it was in 2005 and 2010. To his credit, Prime Minister Hailemariam Dessalegn is fully cognizant of the dangers the country faces in one area of poor-governance, namely, corruption. A few high officials have been arrested. However, the system breeds corruption and must be overhauled. Those at the top of the corruption culture are protected by a system that feeds their wealth. The development strategy of relentless public sector and consumption based investment generates growth for sure. At the same time, it offers a window of opportunity for quick riches, theft, graft, kickbacks, corruption and illicit outflow through procurement, customs etc. This is not news; it has been going on for 23 years.

In sum, the system is infected from the top down. It will not stop until and unless the system is overhauled radically. In turn, this requires political reform; a modern monitoring system; and the establishment of an independent oversight consisting of civil society and prominent individuals with impeccable integrity. Transparency International, UNDP and Global Financial Integrity provided documentary evidence showing systemic corruption that requires real commitment to hold corrupt officials at the top and private individuals accountable, including freezing their assets. “The people of

Ethiopia are being bled dry. No matter how hard they try to fight their way out of absolute destitution and poverty, they will be swimming against the current of illicit capital leakage.” 10/