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Aid, accountability, and institution-building in Ethiopia
A comparative analysis of donor practice

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Abstract

Forty billion dollars of official development assistance during 1991-2012 reduced Ethiopian absolute poverty while underwriting more efficient but exclusionary public institutions. This aid-institutions paradox reflects a strong interest-alignment between major donors pursuing geostrategic objectives and poverty reduction, and a ruling-party seeking total institutional capture, fully-owned development programmes, and a developmental state with legitimizing poverty reduction. Disagreement on democratization predictably produced lackluster progress. By prioritizing adequate space for fundamental non-state stakeholders, a coalition of major donors can and must institutionalize accountability by conditioning scaled-up aid at least with respect for human rights and the rule of law.

Keywords: aid, accountability, institution-building, Ethiopia
JEL classification: H77, O23, O43, P33
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GTP  Growth and Transformation Plan
HDI  Human Development Index
HRW  Human Rights Watch
IBRD  International Bank for Reconstruction and Development
IDA  International Development Association
MDGs  Millennium Development Goals
MOFED  Ministry of Finance and Economic Development (Federal)
ODA  Official Development Assistance
PANE  Poverty Action Network in Ethiopia
PASDEP  Plan for Accelerated Sustainable Development to End Poverty
PBS  Protection of Basic Services
PRSP  Poverty Reduction Strategy Paper
PSCAP  Public Sector Capacity-building Program
SDPRP  Sustainable Development and Poverty Reduction Program
USAID  United States Agency for International Development
1 Question, hypothesis, and methodology

Development, construed broadly, is about freedom—freedom from want and freedom from fear. The post-2015 agenda rightly includes open and accountable institutions along with the eradication of extreme poverty among the five transformational shifts it recommends (UN 2013). The cornerstones of freedom and good economic performance are capability, opportunity, and accountability. The first two are ideally synchronized by the third through effective, inclusive, and accountable institutions. A well-designed and executed official development aid (ODA) complements domestic efforts in building up state capability and the agency of the poor, to be gainfully employed, to express voice, and to be enterprising in a highly uncertain environment.

This paper examines the effectiveness, besides boosting growth and short-term poverty reduction, of ODA in fostering good governance and rebuilding state institutions in post-socialist Ethiopia during 1991-2012. Through a comparative analysis of the record on what donors like to call ‘improved service delivery, empowerment, and accountability’, it seeks to identify where public-sector reforms have been manipulative signals designed to obtain aid with few positive results and where institutional reforms have been functional because they were aligned across the board with the interests of the ruling elite, donors agencies, and the poor.

More specifically, we critically examine the mutual accommodation between the developmental-state proclaimed by the Government of Ethiopia (GOE) and the public-institutional reform agenda of its top-five development partners (DPs). We will do this by scrutinizing, at the macro and meso levels, the professed objectives and actual practices of three multilateral donors (the World Bank, the European Union, and the African Development Bank) and two bilateral donors (the UK Department for International Development and the US Agency for International Development).

Ethiopia is an unusual country of myriad contradictions: it is potentially rich in resources and labour force and yet among the poorest and the largest recipients of food aid; it has experienced fast economic growth in recent years but has made little headway toward industrialization; its government boasts an enviable policy assertiveness and yet remains aid dependent; its current rulers are repressive but savvy enough and geo-strategically valuable to captivate donors; and its development strategy is officially centered on the small-scale producer and yet actual economic policy has recently focused on large-scale infrastructure and commercial agriculture.

1 We use the term ‘institution’ to refer, as appropriate, to either rules and norms, or organizations (which additionally operate around a common mission). According to the operational definition of the World Bank’s governance indicators project, ‘governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them’. http://info.worldbank.org/governance/wgi/index.asp. Unfortunately, some 60 per cent of the world’s population still lives in countries where civil liberties and political rights are severely curtailed (CIVICUS 2013).
In terms of North et al. (2009), Ethiopia is a stable but limited-access society\(^2\) that fulfils only the first of the two doorstep conditions for the transition from *natural access* to *open access* societies—i.e., sustainably positive growth rates, and significance of impersonal relationships via third-party-enforced, rule-based contractual organizations. The country has found it too elusive to honor citizen rights to form organizations which are central to the creation of open, accountable, and high-trust coalitions of elites to tame the endemic scourge of violence over rent creation and appropriation. In lieu of the second condition, we have what some call an ‘architecture of state capture’ taking the form of an extensive network of political and economic control by a hegemonic ruling party with a penchant for violent repression of opponents (Epstein 2010; Vaughan 2011; Abegaz 2013).

Ethiopia is the highest recipient of Western development aid in Africa—having attracted some US$40 billion over the past 20 years. By the mid-1990s, the leading bilateral and multilateral aid agencies devoted much of their advisory, grant and lending mechanisms to public-sector institutional reform and social-sector spending both of which were peddled as the pre-requisites for the emergence of a robust private sector. Projects which incorporated some form of public sector reform actually comprised 65 per cent of all operations of the World Bank between 2000 and 2010 (Andrews 2013).

Moss et al. (2006) and Bräutigam and Knack (2004) show in this vein that those African states which benefitted from scaled-up ODA were less likely to have the incentive to nurture inclusive public institutions. Aside from potentially negative macroeconomic consequences (such as Dutch Disease and budgetary instability), aid tended to support patrimonial consumption, and a lower tax effort. Generous aid also poses a moral hazard for heavily committed donors by militating against the professed project of building legitimate, transparent and accountable public institutions (Addison 2001; World Bank 2011d).

The most recent evaluation of the aid programmes of the European Commission (EC) characterizes this puzzle as follows (EU 2012: 65): ‘Ethiopia is challenging EU’s paradigm of democratic governance sustaining economic growth by successfully adopting macro-economic and development best practices with EU support, while reducing the scope for a Civil Society voice on governance and human rights, against EU advocacy’. This and the broader ‘aid-institutions paradox’ in Africa, whereby aid aimed at institution-building can end up providing perverse incentives for governments to invest less in effective and domestically accountable or legitimate public institutions, motivates our working hypothesis:

The promise of a time-bound, locally-tailored and harmonized official development aid to play a catalytic role in building up capable and inclusive public institutions is rather fanciful in the light of the history of Ethiopian state institutions, and the nature of donor-recipient interest alignments. Where the interests of donor and recipient are fully aligned—as in the areas poverty reduction, country ownership of the development agenda, and regional political stability—a strong incentive exists for a self-enforcing partnership. Where there is a clash of interests, as in the case of a level

\(2\) The resiliency of the Ethiopian state, among the oldest in the world and representing a culturally diverse population with a deeply shared sense of statehood, is evident from the long list of political shocks it withstood successfully. The 1974 revolution tipped the ‘strong society/viable state’ mix by weakening the former as a vital intermediary between the two; the local elites with traditional sources of authority and legitimacy were liquidated (Clapham 2004). The two socialist regimes since 1975 have also failed in their professed goal of mounting a successful industrialization drive. Nonetheless, all three post-war Ethiopian governments have demonstratively viewed their dealings with donors as a partnership of equals.
playing field for all stakeholders in the areas of party politics and the market economy, the professed commitments of donors to good governance and deepening democratization are marginalized.

Evaluating the impact of aid on modern institution building is surely bedevilled by several methodological complications. First, we do not know with confidence how to build ‘good institutions’ that embody local norms while being broadly consistent with the imperatives of rapid, sustainable, and equitable development. Second, it is hard to establish the counterfactual, that is, what institutional capacity and inclusiveness would have looked like in the absence of aid. One can, of course compare (preferably at the micro level), the impact of similar programmes in different countries or different programmes in the same country or in comparable countries. It is also possible to do a ‘before’ versus ‘after’ comparison of programme outcomes which conveys what happened but not always why it happened. Third, one has to confront the problem of endogeneity for a causal interpretation of the positive relationship that is generally observed in cross-country econometric studies among aid, institutional quality, and growth. It is not always clear whether aid is an important input in successful institution-building, a facilitator of elite subversion of fledgling democratic institutions, or an ex post reward for observed gains in institutional capacity and accountability.

Comparing the programmes of different donors in the same country, the method we adopt in this paper, mitigates the problem of attribution since country characteristics are the same for all donors (Tarrow 2010). To complicate things, however, most big donors harmonized their aid programmes in Ethiopia since 2002, and the various internationally-comparable indices of rights lack sufficient variations for statistically significant regressions. To uncover the complexities of the donor-recipient relationships and the implications for the ultimate principals (rich taxpayers and poor intended beneficiaries), we have chosen to examine the historical contexts, institutional processes, the country’s political culture, and the drivers of donor and recipient behaviour.

We hope to show that, by embracing credible pro-poor policies, for ideological and instrumental reasons, the political party that has ruled Ethiopia over the past two decades has managed to attract a substantial amount of official development aid from a diversity of donors who are also keen on promoting poverty reduction and technocratic capacity. The overall result of this public-sector-led, pro-poor development strategy is the likely achievement of most of the MDGs, an impressive expansion of public infrastructure, and a complete capture of state and significant non-state organizations.

And yet, the democracy deficit has intensified. Flawed elections, a poor and worsening human rights record, and the ongoing civil strife raise a number of questions about the role of smart aid in incentivizing good-enough governance in countries like Ethiopia. This Ethiopian version of the aid-institution paradox suggests that donors can deliver on the promise of building up state capacity while ignoring the enfeebling of state accountability to civil society as well as economic society. One implication we will note is that responsible donors will have to find aid modalities that preserve short-term growth and poverty reduction while nurturing an enabling environment for the emergence of a competitive political system and private-sector-led development. The last two are widely considered the foundations of enduring peace and prosperity.
This paper contributes to the aid-institutions literature in two ways. First, to our knowledge, it is the first systematic attempt to make sense of the interplay between donor interests and the bewildering institutional architecture of the Ethiopian political economy. Second, it confirms the widely-held view that aid rarely buys structural reforms that goes against the grain of elite interests. Politically-conditioned aid that threatens the recipient’s hold on state power will be resisted and successfully so in resource-poor country when donor geostrategic interest is compelling and the recipient delivers on poverty reduction. It appears that even willing donors need far more than money to shape key political and economic institutions in another country—direct politico-military control as in the postwar rebuilding of Japan and Europe, or impending institutional lock-ins as in the case of the European regional and accession funds.

The rest of the paper proceeds as follows. A general theoretical framework for thinking about the role of effective institutions in supporting pro-poor growth and political accountability is provided in section 2. Section 3 explores the levels and the modalities of on-budget ODA, the nature of institutional capture by the political class, and how the congruence between the fundamental interests of the GOE and those of its biggest DPs has hamstrung aid-funded institution building to technocratic dimensions. Section 4 concludes with a summary and the implications for further research.

2 Theoretical framework

The most defining characteristic of Ethiopian poverty is the debilitatingly limited choice set open to the poor with respect to the sources of income, consumption, or voice. Extremely poor households rationally discount the future very heavily by underinvesting in activities that require patient capital accumulation and by rationally preferring low-risk, low-return activities (World Bank 2007; GOE 2006, 2009; Dercon et al. 2012).

Sustained economic growth holds the key to the eradication of poverty, especially if polarizing inequality is low as is the case with Ethiopia which has an OECD-level Gini coefficient of 0.30. Rapid and equitable growth, which entails efficient reallocation of existing resources followed by sustained gains in multifactor productivity, is also built on certain institutional and policy pillars. A consensus of sorts has emerging around five ingredients of rapid and shared growth: macroeconomic stability, openness, high investment rates, good governance, and market-directed resource allocation (Spence 2011). Donors, especially the development banks, enjoy comparative advantage in supporting medium-term growth through investments in different types of capital (physical, natural, physical, social, and institutional). To maximize pass-through and effective implementation, the centrality of efficient public sector institutions is often taken for granted (Andrews 2013).

The challenge then is to identify the pathways of escape from growth traps. Figure 1 provides a general framework for incorporating the three key building blocks of inclusive growth mentioned above: capability, opportunity, and performance (COP). Capability without opportunity is wasted; opportunity is unrealizable without the requisite capability. The transmission mechanism among the three involves appropriate institutional and policy frameworks. Escape from such interlocking economic and political traps is certainly possible, and it is historically associated with economic activity that progressively favours norms and instruments of commitment, co-ordination and trust which are provided by inclusive political institutions (Acemoglu and Robinson 2012; North et al. 2009).
Figure 1: A capability-opportunity-performance (COP) perspective on development aid

EXTERNAL ACTORS:
- Development Partners
- Trade partners
- Global regulators

(Aid)          (Trade)

Capability
- Economic fundamentals
- Political fundamentals
- The almost givens:
  - Geography
  - Demography
  - Historical legacies
- Public sector management:
  - Technocratic
  - Meritocratic
  - Accountable
- Capital stock:
  - Physical
  - Human
  - Institutional

Opportunity

REFORMS: INSTITUTIONAL & POLICY (competition and contests)
- Supply-side:
  - Factor reallocation
  - Factor accumulation
  - Diffusion of technology
- Demand-side:
  - Domestic and foreign
  - Formal and informal
- Both sides:
  - Natives versus Expatriates
  - Ethiopian diaspora
  - Public and private

Performance
- LT growth: high and sustainable
- Equity: horizontal and vertical
- Freedoms: economic, social, and political
- Livelihood security

FEEDBACK EFFECTS

EFFICIENCY AND RESILIENCY

Source: Author.
In terms of the transmission mechanism from aid to growth, ODA can play an important role in this framework by providing expertise and financial resources to supplement public investment which ideally crowds-in private investment and builds up international competitiveness. Higher investment, in turn, boosts wage employment as well as self-employment thereby reducing poverty and boosting long-term growth. Economic freedom and a rights-based rule of law reinforce this mechanism by facilitating inter-regional labour mobility, reducing political risk and rent-seeking, and thereby promoting self-discovery of new products or markets (Booth 2011).

The COP framework is, for sure, too coarse to serve as a concrete guide for setting sensible policy priorities. A complementary exercise calls for the identification of the most binding resource and institutional constraints and the deployment of appropriate instruments to remove them successively (Hausmann et al. 2005). Similar considerations apply to political traps, too. Grindle’s (2005) idea of ‘good enough governance’ is also relevant here since not all governance deficits need to be (or can be) tackled simultaneously. Just as importantly, interventions should be contextually prioritized with a focus on the minimum conditions of governance necessary for effective anti-poverty programmes to be implemented.

Since public institutions tend to have slow and persistent dynamics, elements of the ‘transition’ from state fragility to state viability must be specified as should the myriad measures of institutional performance. We do, for sure nonetheless have a clearer idea about the end point: a robust state is one that defends its international boundaries effectively, mobilizes domestic non-condiscatory tax and non-tax revenues to finance core public goods and services, and earns legitimacy by respecting the rule of law and universally recognized citizen rights (OECD 2008; Herbst 2000; Grindle 2005; North et al. 2009; Baland et al. 2010). The rub here is that, institutional development being an outcome of purposeful design by power-holders, one has to identify the incentives to switch to inclusivity (North et al. 2009; Bold and Svensson 2013).

Whether one emphasizes the cumulative power of many small incremental institutional changes or big-bang institutional reform at the right historical conjuncture, the transition from state fragility to robustness is likely to involve distinct stages of evolution. The sequence and speed will have to be properly identified for a given society in the light of the trajectory of the history of its state formation. Ethiopia constitutes an ill-understood but intriguing case study in this regard.

3 Development partnership in an étatist environment

A brief historical digression would be helpful for appreciating this point. The evolution of Ethiopian living standards since 1950 is depicted in Figures 2 and 3. One striking observation stands out: Ethiopia is not just unbelievably poor but still lacks a robust growth engine. The slow but steady gain in real per capita income in the 1960s was lost in the subsequent three decades. The highest real per capita, attained in 1989 was restored only in 2008. Furthermore, there is a high correlation between commodity prices, aid-funded investment flows and the rate of growth.

The first half of the period under review, 1991-2012, was bookended by major wars (see Table 1 for major donor-provoking events). The civil war, spearheaded for two decades by the Eritrean Peoples’ Liberation Front (EPLF) and the Tigrean Peoples’ Liberation Front
Figure 2: Growth of real GDP for Ethiopia, 1950-2011 (in 2005 PPP$; output-based; log scale)

Source: Penn World Tables 8.0.

Figure 3: Real GDP per person, and real capital stock per worker for Ethiopia, 1960-2011 (in 2005 PPP$; national accounts)

Source: Penn World Tables 8.0.
RGPP = real GDP per worker. RKPW = real capital stock per worker.
Table 1: The primary interests of donors in Ethiopia, 1990-2011

<table>
<thead>
<tr>
<th>Donor</th>
<th>Objectives</th>
<th>Priority areas</th>
<th>Commitments (mm$, 1990-2011)</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Development Bank (AfDB)</td>
<td>Poverty reduction through growth</td>
<td>Infrastructure (energy) development, agriculture, governance, and regional integration</td>
<td>1903</td>
</tr>
<tr>
<td>Canadian International Development Agency (CIDA)</td>
<td>Poverty reduction and sustainable development</td>
<td>Food security, agriculture, and development of children and youth</td>
<td>1162</td>
</tr>
<tr>
<td>European Union (EU)</td>
<td>Co-ordinated support for broad-based development</td>
<td>Transport and regional integration, rural development and food security, macro stability, and governance</td>
<td>3747</td>
</tr>
<tr>
<td>German Development Co-operation (GTZ, KfW, DED)</td>
<td>Poverty reduction through growth</td>
<td>Urban development, regional decentralization, land management, and sustainable development</td>
<td>1227</td>
</tr>
<tr>
<td>Netherlands</td>
<td>Poverty reduction via inclusive growth, and good governance</td>
<td>Governance and human rights, sustainable growth, and health</td>
<td>1067</td>
</tr>
<tr>
<td>UK Department of International Development (DfID)</td>
<td>Poverty reduction thru livelihoods building, donor harmonization, and technical assistance</td>
<td>Agriculture and food security, governance, health, education, environment, capacity building, and civic organizations</td>
<td>2180</td>
</tr>
<tr>
<td>US Agency for International Development (USAID)</td>
<td>State capacity to deal with shocks, social resiliency of the poor, good governance, and market-led growth</td>
<td>Agriculture and food security, conflict prevention and mitigation, competitiveness, private sector development, good governance, education, and health</td>
<td>7034</td>
</tr>
<tr>
<td>World Bank Group—International Development Association (IDA)</td>
<td>Poverty reduction via growth and building institutional and policy capacity</td>
<td>Public sector capacity-building, infrastructure and basic social services, food security, competitiveness, and governance</td>
<td>8335</td>
</tr>
</tbody>
</table>

Note: We abstract here from what is commonly shared goals among donors: the desire for peace and stability within Ethiopia, and the need to shore up Ethiopia’s ability and willingness to serve as an anchor state for a volatile Horn of Africa.

Sources: DAG (2010); OECD/DAC Creditor Reporting System (CRS) Database, 2013; various country strategy documents.

(TPLF), intensified in 1989-1991. It culminated in the replacement of the garrison-socialist regime (known as Derg) in May 1991 by a TPLF-led coalition of ethnic-based political organizations under the name of the Ethiopian Peoples Revolutionary Democratic Front (EPRDF).

During this honeymoon period, the EPRDF presided over a half-hearted post-conflict and post-socialist double transition. The national army was disbanded and the top echelon of the civil service was replaced by loyalists. Predictably, other Derg state institutions were preserved (most notably, the state bureaucracy’s answerability to party commissars, nationalized land, the commanding heights of the economy, a party-state control apparatus down to the neighbourhood or Kebele level). Tariffs were reduced, and restrictions on private
sector investment were either lifted or significantly reduced. Prices were progressively
decontrolled but inflation remained low. A limited programme of privatization of state
terprises (largely benefitting political allies) was undertaken. To the delight of donor and
citizen alike, a number of independent civic organizations (including a relatively free press)
and opposition parties were permitted during this honeymoon period (Abegaz 2001; Clapham
2004).

Unfortunately, the province of Eritrea seceded in 1993 without all the necessary agreements
of divorce in place (such as border demarcation, arrangements for economic exchange, and
access to the sea by a now landlocked Ethiopia). This triggered two rounds of mechanized
war in 1998 and 2000. As we will see below, most donors responded by temporally reducing
or suspending aid which, along with the diversion of domestic resources to the war effort,
induced a recession through 2002 (see Figures 4 and 5).

Despite its non-colonial status, Ethiopia received sizeable non-food aid making it the highest
recipient of aid in sub-Saharan Africa and the third highest in the world. During 1991-2011,
despite being one of the lowest recipients in Africa in per capita terms, Ethiopia was an aid-
dependent country in terms of the share of aid in total public sector expenditure. Bilateral and
multilateral aid is almost equally important with a slight edge for the latter. Since 2002 alone,
Ethiopia attracted over US$28 billion in ODA, a third of which came from the International
Development Association (IDA). The US Agency for International Development (USAID),
which has scaled up its support in recent years to the tune of US$1 billion annually, has

In addition to the UN system, five DPs have played prominent roles: the African
Development Bank (AfDB), the European Commission (EC), the International Development
Association (IDA) of the World Bank Group, the UK Department for International
Development (DfID) and USAID. The profiles and commitments of major DPs are provided
in Table 2. The four DPs provided nearly two-thirds of the ODA received during the period.

While the year 1995 witnessed the introduction of a radically new constitution, the year 2005
ended the illusion about the possibility of meaningful power sharing, much less a peaceful
power transfer, as a result of free and fair elections (see Table 3 for major developments).
Ethiopia today boasts a government led by a hegemonic ruling party propounding a
‘revolutionary-democratic’ developmentalism. Decoded, it means the vanguard Party has the
obligation to forge a direct ‘coalition with the masses’ to represent (and control) them. Some
reinterpret this populist ideology as an African version of developmental neo-
patrimonialism—a system of personalized rule under a pseudo-Weberian bureaucracy with a
paternalistic predisposition for promoting broad-based growth by centrally mobilizing
economic rent, including aid (Vaughan 2011; Vaughan and Gebremichael 2011; Zenawi
2012).

As can be gleaned from his writings, statements and policy stances, the late PM Meles
Zenawi held a number of strong beliefs about the roots of Ethiopia’s underdevelopment as
well as the proper role of aid. Foremost is the notion that Ethiopia’s development failure is
ultimately traceable to the systematic exclusion of most ethnic groups from power, especially
by the Amhara political elite, which made it imperative to institute ethnic self-rule as the
surest way to preserve national unity. Another is the idea that a benevolent dictatorship and a
governed market economy of the type presumed to be practiced in northeast Asia constitute
the right model of development for Africa. Finally, aid should be welcomed only if it is
Figure 4: ODA intensity for Ethiopia

Source: World Bank, African Development Indicators 2013; World Development Indicators 2013.

Figure 5: Total ODA received by Ethiopia (US$2010 prices)

Source: World Bank, African Development Indicators 2013; World Development Indicators 2013.
Table 2: Net ODA flows by major donor for Ethiopia, 1990-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Germany</th>
<th>Italy</th>
<th>Netherlands</th>
<th>Norway</th>
<th>Sweden</th>
<th>UK</th>
<th>Ireland</th>
<th>Canada</th>
<th>USA</th>
<th>Japan</th>
<th>IDA</th>
<th>AfDF</th>
<th>EU</th>
<th>GloF</th>
<th>TotN</th>
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<td>35</td>
<td>9</td>
<td>33</td>
<td>96</td>
<td>21</td>
<td>75</td>
<td>75</td>
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<td>60</td>
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<td>1991</td>
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Note: data for EU refers to community-wide aid administered by the European Commission.

Table 3: Time line of major aid-related developments, 1990-2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Major events</th>
<th>Donor responses</th>
</tr>
</thead>
</table>
| 1990-1991  | • Derg belatedly decollectivizes, decontrols prices, and frees inter-regional trade  
• EPRDF assumes state power in mid-1991  
• Liberalization of prices and Birr  
• A liberal Investment Code | • Western governments unconditionally support EPRDF takeover  
• Emergency and BOP assistance but squeamish about the initially leftist economic policy of EPRDF |
| 1992-1994  | • EPRDF rules under Transitional Charter  
• Macro stabilization and demobilization  
• Independent CSOs and freer press allowed  
• Eritrea secedes; Ethiopia is landlocked  
• New ethnic-based federal Constitution | • Multi-donor conference led by IFIs  
• Economic recovery and reconstruction programme (structural adjustment credits)  
• Food security and road rehabilitation  
• Public expenditure reviews |
| 1995-1997  | • Non-competitive parliamentary elections  
• Lower and more uniform tariffs  
• Exchange rate liberalization, inter-bank auctions, and interest rate decontrol  
• Privatization of SMEs  
• Civil service reform and retrenchment  
• Fiscal federalism with broader tax base | • Sector investment, public investment, and medium-term economic plans  
• Extended structural adjustment facility  
• Investment in roads and public utilities, food security and deeper privatization  
• Jointly developed policy framework papers |
| 1998-2000  | • Ethio-Eritrean conflicts: 100,000 killed  
• Border delimitation but no demarcation  
• Internal split within the TPLF leadership  
• Second non-multiparty elections  
• Famine strikes southern and eastern areas | • Worried about instability, bilaterals suspend aid, but not IDA  
• Donors urge greater political accommodation of opposition parties  
• Food aid, led by UN and USAID, rises |
| 2001-2004  | • Economy recovers in 2003, despite food shortages  
• First comprehensive PRSP in 2003  
• Ethiopia begins to benefit from rising commodity prices and remittances | • Conditioned HIPC debt forgiveness  
• Direct Budget Support is beefed up  
• Donor harmonization and co-ordination  
• Bilaterals increase commitments, focused on emergency aid |
| 2005-2006  | • First free and fair multiparty parliamentary election ends in loss of urban areas  
• Premature declaration of victory by ruling party leads to public outcry, loss of 200 lives, and jailing of opposition leaders  
• Certificates for land-use rights introduced | • Donors suspend direct budget support  
• Donors called for release of jailed leaders and investigation of the killings of peaceful demonstrators  
• Project lending and food aid continued  
• Much general budget support recast as Protection of Basic Services (PBS) |
| 2007-2012  | • Opposition leaders released but independent CSOs political parties, and media were virtually annihilated  
• Economy records near double-digit growth; inflation rises; mega farms and mega hydro projects proliferate  
• Draconian Charities and Media laws in 2009  
• FDI and loans from BRIC accelerates  
• Prime Minister Meles Zenawi dies in 2012 | • Protection of Basic Services expanded  
• IDA increases economic and sector work  
• IMF decries unsustainable public spending and inflationary pressure  
• The level of ODA increased markedly  
• Export, FDI and remittance revenues rise significantly to overshadow ODA  
• Political dialog virtually abandoned |

Sources: Compiled by the author from the various sources cited in this paper.

aligned with the government’s development strategy, preferably in the form of general (direct) budget support (Young 2007; Berhe 2009; Zenawi 2006; 2012; de Waal 2012).
To appreciate the radical nature of the Melesian idea of building a revolutionary-democratic society around the principle of political ethnicity, it bears noting that Ethiopia lacks a discernible tradition of ethnic-based leaderships at the national state level. The current Ethiopian Constitution (GOE 1995), however, categorically dispenses with the liberal idea of the individual citizen as the ultimate holder of political sovereignty. According to the preamble of the constitution, ‘We, the nation, nationalities and peoples of Ethiopia’, are the sovereign founders of the constitutional state (Article 8). Federal units, which hold the right to secede (Article 39), were defined by the EPRDF itself on the basis of mother tongue, level of political development, and current patterns of territorial settlement (Article 47).3

In a nutshell, this ‘holding together’ model of Ethiopian federalism has three distinctive features (Turton 2006: 8-14): (a) autonomous status was thrust upon ethnically defined regional subunits by the new class of ethnic politicians, (b) each major subnational group was intended to be dominant in one, and only one, regional state, (c) there is a mismatch between the territorial home-landing of each ethnic group and the reality of high geographic mobility and longstanding traditions of inter-ethnic marriage, and (d) the hegemony of a single party reduces the power of federal units while also providing the glue to hold them together in the absence of strong institutions that reconcile local interests with national interests. Although it does provide a measure of local self-rule, ethnocentric decentralization in Ethiopia is more administrative than devolutionary in nature. As if by design, it sets up groups for endemic contests over the definition of citizenship, territory, and other sources of regional power. This form of political ethnicity has also introduced, much like Malaysia and Apartheid South Africa, the notion of ‘dual citizenship’ whereby the presumed sons of the soil are first-class citizens thereby undermining the inter-group trust necessary for building a robust pan-Ethiopian state (Selassie 2003; Turton 2006). The impact of political and property-right insecurity must also be considerable on long-term interregional mobility of skill and capital.

We are now ready to take a closer look at the travails of public institution-building with a focus on the post-2001 decade. Aside from two-thirds of the aid having come during this period, elaborate strategy documents issued by both the GOE and its DPs are both more elaborate and more readily available. These ten years have also witnessed remarkable economic growth rates for a non-mineral producing economy. Finally, the rule of Meles Zenawi, the masterful strategist and strongman, ended with his death in summer of 2012.

### 3.1 Citizen rights and popular legitimacy

Gross and persistent human rights violations, which underlie Ethiopia’s consistently dismal international rankings, are the stuff of numerous credible reports, including those of Amnesty

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3 The 1995 Constitution divides the 90 million-strong citizens of the country territorially into nine federal units (called regional states) based on the patterns of spatial distribution of predominant linguistic groups or ‘nations’ with mother states (Tigray, Amhara, Oromo, Afar, Somali), some as bewildering amalgamation of myriad ‘nationalities and peoples’ (SNNP, Benishangul-Gumuz, Harari, and Gambella), and two economically important and multiethnic federal cities (Addis Ababa and Dire Dawa). The ruling party kept its ‘liberation front’ title purporting to represent Tigreans only—about 6 per cent of the population. Based on census data, Ethiopia is a nation of ethnic and religious minorities: two linguistic groups of equal size (Amhara and Oromo) account for two-thirds of the population; and the religious distribution is just as interesting—Ethiopian Orthodox (45 per cent), Sunni Muslim (35 per cent) and Protestant (20 per cent). Just as bafflingly, it imitates the defunct Soviet Constitution by granting the right to secession for any ethnic-based regional state (Article 39.4). Other notable features include, no independent constitutional court (Article 62 and 83), incorporation of the full gamut of universally declared rights (Articles 14-38), and state ownership of all land (Article 40.3).
International (AI 2013), CIVICUS (2013), Human Rights Watch (HRW 2010), the US State Department (USDOS 2012), and the European Union (EUEOM 2005; 2010), and the particularly detailed reports of the (Ethiopian) Human Rights Council (www.ehrco.org). The baffling propensity of GOE to antagonize nearly every sector of the population, using the so-called ‘managed conflict’ strategy of governance, is evident in the worsening human rights situation (Epstein 2010). Let us briefly review the more notable developments in the area of human, civic, and political rights.

The Amhara (more appropriately, Amharic speakers) have been especially targeted for collective punishment, including ethnic cleansing. Forty-two highly respected professors were summarily fired from Addis Ababa University in 1993 presumably for expressing anti-government views; over 22,000 ethnic Amhara were expelled in 2012 from the Guraferda district of the SNNP Regional State; and over 80,000 ethnic Amhara residents were also summarily expelled in 2013 from the Benishangul-Gumuz Regional State.

Professional trade associations, especially the many independent-minded leaders of the Ethiopian Teachers Association and the Confederation of Ethiopian Trade Unions, were subjected to long pre-trial detention, imprisonment, and assassination (Bersoufekad 2003). The organizational integrity of both civic and religious organizations (Church and Mosque alike) has also been compromised through myriad government interferences, including infiltration of the leadership by party agents, and delisting of resistant organizations and their subsequent replacement by pro-government ones.

Dislocations of communities have also been going on in the Ogaden of the Somali Regional State where a low-intensity irredentist conflict is longstanding. A number of small tribal communities in the borderlands, especially in the Omo Valley and Gambella regions have been dispossessed of their ancestral lands and displaced to hastily villagized communities on marginal lands. This is done primarily to make way for large hydroelectric projects, mining concessions, or mega commercial farms leased to foreign investors (Oakland Institute 2013).

The Committee to Protect Journalists (CPJ) has also decried the sweeping media law and the routine anti-terrorism charges against critics. CPJ judges the country’s record the second worst in Africa (independent journalists are among the hundreds of political prisoners and prisoners of conscience, some 70 independent newspapers have been forced to close, and some 50 journalists were forced into exile abroad). Compared with its neighbours, including the failed state of Somalia, Ethiopia characteristically lacks independent TV and radio stations, and boasts arguably the lowest cell phone and internet penetration rates in Africa.

The last example comes from the first genuinely multiparty parliamentary elections of 2005, which resulted in significant gains for a coalition of opposition parties (called Kinijit), were violently suppressed. The regime reacted to peaceful protests against the rigged electoral results by killing 193 protestors, injuring 800, imprisoning the entire leadership of Kinijit, and arresting over 20,000 demonstrators. The EPRDF then proceeded to mount an aggressive campaign to expand party membership of the youth to over 6 million (this being the primary access to educational and employment opportunities in the public sector), and to emasculate new coalitions of opposition parties (such as Medrek which formed in 2008). Stage-managed elections enabled the ruling party to win an embarrassing 99.6 per cent of the parliamentary seats in 2010 (EUEOM 2005; 2010), and to take nearly all the seats in the latest regional and local elections. Little or no change is expected from the 2015 parliamentary elections.
It is quite revealing that the EC offered the following prognostication on the heels of the massive government crackdown on the opposition (EU 2008: 7): '[A]fter the difficult period following the elections in 2005, the Government continued to take steps to achieve progress towards the development of a democratic and pluralistic society... [T]he political situation in Ethiopia in the coming years offers a real chance for the establishment of a real democratic political culture’. The folly of this donor mindset came only a year later in February 2009, when parliament passed the Government adopted the infamous Proclamation to Provide for the Registration and Regulation of Charities and Societies, Ethiopia’s first comprehensive law governing the registration and regulation of non-state entities, restricting NGOs which receive more than 10 per cent of their financing from foreign sources from engaging in human rights and advocacy activities. Given the scarcity of domestically generated resources, most apparently migrated to social service delivery to remain registered. This was followed in July 2009 by the even more draconian Anti-terrorism Law which continues to meet open and widespread resistance from opposition parties, Muslim activists, and human rights organizations at home and abroad. Among other things, its sweeping language includes such proscriptions: ‘Whosoever writes, edits, prints, publishes, publicises, disseminates, shows, makes to be heard any promotional statements encouraging... terrorist acts is punishable with rigorous imprisonment from 10 to 20 years’.

Additional and internationally comparative evidence on GOE political performance comes from disparate sources and it is presented in Table 4. If we just restrict our focus to the past ten years, the strong growth performance is captured by a 25 per cent gain in HDI. And yet, the country ranks 173 out 186 countries in the world on the HDI metric.

With respect to qualitative evidence on voice and participatory decision-making, Ethiopia ranks on perception of individual corruption (113 out 176), and low and worsening Freedom House scores on rights (6 out of 7 on the scale). Foreign Policy’s state fragility index is high and deteriorating having fallen from the worst 17 countries out of 177. When the various dimensions of the rule of law index are parsed (see Table 5), the country ranks toward the bottom on all measures except for corruption and criminal justice. The latter two indicators

Table 4: Ethiopia: trends in respect for citizen rights, 2004-2011

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<td>173</td>
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<td>1 – 7</td>
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<td>• Civil Liberties</td>
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<td>17</td>
<td>-13</td>
<td>177 - 1</td>
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Sources: Websites of the various organizations listed above.
do not fully account for political corruption (party companies, the packing of public sector by party members, crony companies, etc.) and lack of independent and well-resourced judiciary (HRW 2010; EU 2008; AI 2013).

Donors seem to have grudgingly accepted these alarming litany of human rights abuses thus abandon support for democratic ownership of aid programmes by civil society. To appreciate their implicit benefit-cost calculus, we need to take a closer look at the economic dimension of the donor-recipient relationship in practice.

### 3.2 Alignment GOE and donor strategies and practices

Over the past ten years, the GOE has presented donors (including the International Monetary Fund) three Poverty Reduction Strategy Papers (PRSPs): SDPRP, PASDEP, and GTP (see Table 6). Updated every three years with annual progress reports, the PRSPs contain an assessment of poverty and the associated macroeconomic, structural, and social programmes along with identified external financing. Ethiopia’s PRSPs are consistently praised for being country-owned, pro-poor, and collaboratively developed with external partners. Despite the close collaboration with donors (most notably with EU and IDA), the central tents of the five-year development plans embody the vision of the ruling party as dictated by the Prime Minister’s Office. Domestic stakeholders are typically invited only to comment on drafts (Furtado and Smith 2007; PANE 2008; World Bank 2008a; EU 2012).

**GOE’s development strategy**

The most comprehensive and best articulated of the GOE development plans came in the 2000s (GOE 2002, 2006, 2010). The pillars of SDPRP (2001-04) included pro-poor growth (rural and urban), human development (primarily social services), and resiliency for the poor.
PASDEP (2005-2010) focused on rural development, job creation, expanding public infrastructure, and improving tax collection and the public finance system as well. GTP (2010-2015) focuses on productivity-driven growth (commercial agriculture, expanded infrastructure, and industrial development), enhancing the quality of social services, building a capable developmentalist state, and restoring macroeconomic stability in the face of an alarming pace of monetization of the domestic debt (World Bank 2011b). GTP proposes to make Ethiopia a middle-income country—defined by the World Bank at the rather low threshold of a per capita income of US$1000.

The development strategy that informs Ethiopian PRSPS is called the agricultural development-led industrialization (ADLI). Introduced by MOFED in 1993, ADLI reflects the populist idea that industrial development must be centered on the livelihoods of the rural poor. It is far from a product of deliberation on all credible alternatives—such as urban-led or commercial-farm-led industrialization. What gives Ethiopia’s ADLI a distinctive face is that agricultural transformation is to be led not just by surplus-producing households with a good market connectivity but also by subsistence farmers who reside in cellular villages. The elusiveness of an industrial engine of growth for ADLI is, therefore, attributable to the neglect intersectoral linkages and robust market connectivity between the rural and the urban economies (World Bank 2007; Abegaz 2012).

The GOE has recently been unusually ambitious in meeting its great infrastructural needs (World Bank 2011a) and also rather modernist in deviating from some of the tenets of ADLI (GOE 2010). Although some of the numbers are not firm, it is worth mentioning some of the more intriguing initiatives. One plan, well underway, is to invest US$12 billion in irrigation and hydroelectric projects for both domestic agro-industrial use and for regional exports. As part of the politically sensitive multi-riparian Nile Basin Initiative, Ethiopia is also building Africa’s largest Grand Renaissance Dam whose total cost of US$4.5 billion is being domestically financed. China has just granted a loan of US$1 billion for electricity transmission lines to neighbouring countries when it is completed. The extensive road

### Table 6: Alignment of GOE strategy matrix with those of donors, 2001-15

<table>
<thead>
<tr>
<th>GOE PRSPs</th>
<th>WBG-IDA PRSPs</th>
<th>EC PRSPs</th>
<th>AfDB PRSPs</th>
<th>USAID PRSPs</th>
<th>DFID PRSPs</th>
</tr>
</thead>
</table>

SDPRP = sustainable development and poverty reduction programme  
PASDEP = plan for accelerated and sustained development to end poverty  
WBG-IDA = World Bank group/international development association  
GTP = growth and transformation plan  
EC = European Commission  
CSP = country strategy paper  
CAS = country assistance strategy  
CAP = country assistance paper  
OP = operational plan  
CDCS = country development co-operation strategy  
ISP = integrated strategic plan  
GOE = government of Ethiopia  
PRSP = poverty reduction strategy paper  

Source: Compiled by the author.
construction programme underway is to be supplemented by an electrified national rail network of nearly 3000 miles in length. The estimated US$6 billion cost will be financed mostly by the respective Export-Import and development banks of China, India, Brazil, Russia, and Turkey. Companies from each country will carve out the construction contracts for one or more of the eight corridors.

Ethiopia is also diversifying its agricultural exports away from overreliance on coffee and khat to include pulses, sesame seeds, and sugar. It is poised to become the fifth largest flower exporter in the world by 2016 with projected annual earnings of US$500 million. Marketing and quality control of key agricultural exportables have been facilitated by the Ethiopian Commodity Exchange (ECX) which includes a central trading system for price discovery, warehouse delivery centers, product grade certification, clearing banks, and a market information system for members who have purchased a seat in the exchange (http://www.ecx.com.et/Home.aspx). ECX was established in 2008 as a public-private enterprise, but it is largely government owned. Finally, in the period 2007-15, undergraduate enrollment is expected to rise by a factor of 2.5 to 500,000 mainly in the 30-odd underequipped and understaffed public universities scattered around the country—all in the face of donor consternation about priority, quality, youth unemployment, and absorptive capacity.

And yet, the domestic private sector remains enfeebled. There are 250,000 registered small and medium-size enterprises in the urban areas (USAID 2012), and the formal private sector accounts for just 4 per cent of GDP and employs about 6 per cent of the workforce (World Bank 2012). Furthermore, formal sector is thoroughly dominated by state enterprises (with dominant presence in finance, domestic air route, and telecom), party-owned companies, and a handful of multinationals (Saudi, Indian, Chinese, and Turkish).

One consequence of these developments is that, even in the face of such an ambitious development plan, dependency on Western aid (both on-budget and off-budget) is likely to diminish to as low as one-third of total forex inflows. In 2013 alone, Brazil and China have provided soft loans and grants which together equal half of the average annual net ODA inflows. In 2012-13, the financial press reported that exports brought US$3.0 billion (of which US$0.7 billion interestingly came from service exports), development aid brought in some US$4 billion, FDI about US$1.2 billion, and remittances ranging from US$0.5 billion to US$2.8 billion (when informal channels are considered).

**GOE’s development partners**

There appears to have emerged a discernible division of labour between multilateral donors (mainly AfDB, IDA, and EC) and bilateral donors (mainly US, UK, Germany, Canada, Italy, Netherlands, and Japan). Multilaterals have a revealed comparative advantage in supporting physical infrastructure and better economic governance (civil service, fiscal management, training and decentralization). Bilaterals have competence in the social sectors (education, health, water, and food security) along with secondary interest in issues pertaining to political governance (mainly in the form of civic education and gender equity).

AfDB started operations in Ethiopia in 1975 and has to date committed US$3 billion to finance over 90 operations. It is particularly strong in the areas of multi-donor basic service delivery and energy-related infrastructure (AfDB 2011).
IDA is Ethiopia’s largest soft lender, and a leader in aid harmonization and co-ordination. It has provided aid in the form of soft loans and grants (comprising one-third) to the tune of US$10 billion since 1950. Some 70 per cent of it was provided after 1991, and 20 per cent of it has been devoted to public-sector institution building (World Bank 2008b). Overall, IDA programmes focused on growth, human development (social spending and economic governance), and food security. The current country partnership programme (World Bank 2012) has two pillars: fostering competitiveness (via macro stability, gains in productivity, expanded infrastructure, and regional integration), and enhancing resilience (through delivery of social services, and better approach to social protection and risk management. The bridge between the two is taken to be good technocratic governance (public sector managerial efficiency, and transparency) and state building (by deepening policy dialog, fostering the use of country systems, and increasing the predictability of budget support).

European Union’s (EU) official aid to Ethiopia, collectively the largest, has come through two channels (EU 2008; 2012). The first channel is the EC, mainly the European Development Fund (EDF). EDF has been active since 1975. Like IDA, EDF relies on periodic replenishments by member states rather than on predictably regular budgetary allocations. These monies are supplemented by loans from the European Investment Bank (directed mainly at public utilities) and together account for 40 per cent of total EU aid to Ethiopia. During the last four phases of EDF, the level of commitment more than doubled in real terms (in 2010 prices) rising from €35 million for EDF 7 (1991-1996), €83 million under EDF 8 (1997-2001), €172 million under EDF 9 (2002-07), and €394 million under EDF 10 (2008-13). The second, bigger, channel is bilateral aid from 17 EU member states (led by the UK and Germany). Though broadly consistent with community-wide objectives, it comes in non-harmonized budget cycles and a heterogeneous but complementary focus.

Following the Cotonou agreement of 2000, politically neutral entitlements under the Lomé Convention gave way to performance-based, politically-conditioned, and sectorally selective aid. The scaled-up aid also had to come primarily in the form of general budget support (CFA 2005; Carbone 2008; EU 2012). The EC was a pioneer in introducing the multi-donor Productive Safety Net Programme (PSNP) for a development-oriented rather than a relief-oriented safety net, and in insisting that the good governance agenda be built into the GOE’s five-year development plans (as was done in the ill-fated PASDEP).

The relationship between Ethiopia and the United Kingdom is a longstanding one. DfID became progressively engaged in Ethiopia to make it the largest recipient of British aid in Africa today. British aid, which totalled US$1 billion during 2005-11, is expected to rise by US$0.8 billion in 2012-2017 (DfID 2011, 2012). DfID is well-known for an eagerness to pool its resources with other donors especially for promoting sustainable livelihoods, for its reticence about the domestic political implications of its aid, and for a penchant for impact evaluation of its programmes. Following the longstanding recommendation of the UN and the Commission for Africa (CFA 2005; Barnett et al. 2009; DfID, 2010), the UK is now approaching the 0.7 per cent of GDP target for ODA.

The political alliance between the United States and Ethiopia was strong between 1950 and 1975. The US not only resumed both military and economic aid in 1991 but accelerated them as the fight against terrorism made Ethiopia a reliable ally in the unstable Horn of Africa. The latest country development co-operation strategy (USAID 2012) predictably supports US foreign policy priorities fully mindful of the needs, constraints and opportunities in Ethiopia. In 2011, USAID devoted its investment to three areas: health, humanitarian assistance, and
economic growth—of which one-third came in the form of food aid. The Agency channels its resources through NGOs (but also with line ministries), and entering into a mix of implementation contracts with private delivery partners. Ethiopia has not met the more rigorous aid effectiveness requirements of the Millennium Challenge Corporation to benefit from this segment of the US aid programme.

As noted earlier, one of the mantras of the donor-owned country strategy papers has been the alignment of donor objectives and modalities with those of the Ethiopian government. The Donors’ Assistance Group (DAG) was established in 2000, and joint and harmonized programmes have become the hallmark of the aid regime ever since. Ethiopia’s report card on the Paris Principles in 2008, in fact, shows a grade of B on ownership and mutual accountably. However, alignment, harmonization, and managing-for-results garnered only a grade of C (DAG 2010).

DAG has long recognized that public sector reform was essential for rectifying serious capacity deficits and a dysfunctional managerial culture. The most notable multi-donor-sponsored programmes are the protection of basic services (PBS), sector-specific programmes with the various line ministries, the public sector capacity building programme (PSCAP), and the productive safety net programme (PSNP). The major concerns include outdated legislation and management practices in the civil service, poor skills and non-competitive compensation, ineffective financial management, inadequate tax system, inadequate data, a poor legal system, and poor planning and execution across government levels.

The dilemma facing donors

From the vantage point of accountability to all domestic stakeholders, aid-financed institution-building has yet to transcend technocratic capability for state institutions into broad-based empowerment of organizations which belong to citizens and private businesses. And yet, aid is demonstrably contributing to poverty reduction. So, donors have faced a dilemma: provide apolitical aid with a focus on economic liberalization and public capacity building or insist on linking aid to political liberalization and thereby risk disengagement.

Aside from the dismal record on violations of human, civil and political rights noted earlier, the business climate for domestic investors has remained sub-par in many important respects, and the volume of aid seems largely insensitive to it (Figure 6). The various indicators, absolute indices and relative intercountry rankings alike, from the latest World Bank Doing Business Survey for the years 2004-12 point to mostly worsening trends. There was improvement, but from a low base (ranked 125), in the area of starting business with significant gains in the cost of registering and the minimum size of paid-in capital (as percentage of per capita income). Deterioration is discernible in the areas of trading across borders—ranked 160 (high and rising cost per container and over 40 days to trade), and in tax payment—ranked 103 (rising time to pay but stable rates). Finally, there are no detectable changes in resolving insolvency—ranked 117 (high and stagnant time delay and recovery rates), in protecting investors—ranked 124 (rather poor in disclosure, director liability, or investor protection), and in getting credit (ranked 152), construction permits (ranked 57 despite a fall in cost), getting electricity (ranked 94 with waiting time rising at 95 days but cost falling), registering property (116 with cost falling), and enforcing contracts.
While government effectiveness has improved measurably since 2005, voice/accountability and political stability/non-violence have fallen from unenviable initial levels. This is confirmed by IDA’s country performance on institutional accountability (CPIA) ratings which show steep deterioration in the public management score but a significant gain in the

Figure 6: World governance ratings for Ethiopia (best to worst: +2.5 to -2.5)

Source: World Bank, African Development Indicators 2013; World Development Indicators 2013.

Figure 7: CPIA ratings for Ethiopia

Sources: World Bank, African Development Indicators 2013; World Development Indicators 2013. IRAI = IDA resource allocation index.
economic management score (see Figure 7). This and the anecdotal evidence discussed earlier make it clear that government power has yet to be sufficiently constrained by a dense network of polycentric CSOs and independent business organizations.

It is also worth noting here that, when it comes to petty bureaucratic corruption, Ethiopia has a lower level of corruption than its African peers in basic services but a high and rising level in other sectors such as construction, land, mining, telecommunication, and pharmaceuticals (Plummer 2012). What is often overlooked, though, is that endemic political corruption is reaching kleptocratic proportions with all the corrosive consequences for trust in public institutions. One disturbing manifestation of misgovernance is the systematic conversion of public assets into Party assets (Abegaz 2013) and for political patronage (especially through a brazen unlocking of economic wealth embedded in urban real estate and high-value rural land by expropriating the user rights of long-established communities). Grand corruption at the level of the highest policy circles, which occasionally flares up in anti-corruption campaigns designed to punish recalcitrant or disfavoured clients, is also evident in other ways. According to a recent joint study by the African Development Bank and Global Financial Integrity (AfDB and GFI 2013), illicit financial outflows from Ethiopia (mainly due to trade mispricing), were estimated at US$19 billion (the African total being US$1.3 trillion) during 1980-2009. If true, this level is equivalent to almost half of the ODA inflows in the past two decades.

In the face of the coupling of economic progress and political regression, major donors have taken one of two paths in order to limit political distortion of aid. Though not necessarily speaking with one voice, IDA, EC, AfDB and DfID have answered the “how bad is bad?” question by concentrating on co-ordinated support for pro-poor services, limiting governance-related issues to informal dialog with GOE and selected NGOs, and resolving to live with mutual incomprehension regarding the remaining structural reform agenda (which includes citizen rights and private sector development).

Others seem have chosen to go apolitical (DfID and USAID) or disengage progressively (Sweden and Norway). In terms of governance, USAID has traditionally emphasized electoral democracy and respect for private property. It is quite blunt in acknowledging the failure of formal engagement of GOE on democratic governance (USAID 2012: 66): ‘Perhaps USAID/Ethiopia’s greatest dilemma with directly funding the GOE is the EPRDF’s total dominance over the entire political and economic arena, making it virtually indistinguishable from the government. So, if USAID was to provide directly funding to GOE institutions, the United States could be accused of funding the ruling party’. The cost here is that, by channeling aid mainly through international NGOs, the project of helping build inclusive and capable public institutions is effectively abandoned.

3.3 Case study: protection of basic services (PBS)

The conundrum involved in Ethiopia aid was brought to sharp relief following the 1998-2000 Ethio-Eritrean war and the post-election public outbursts and government violence of 2005. During 2002-2005, donors were rapidly moving money to untied DBS since prolonged suspension of aid was viewed as a threat to the government’s targeted spending programme on basic services. After jointly voicing their displeasure with the GOE actions, four of the five DPs (USAID being the exception) chose to introduce a tailor-made budget support for
Ethiopia, known as Protection of Basic Services (PBS). Actually, support for PBS is broader and includes the EC, Austria, Germany, Ireland (Irish Aid), the Netherlands, DfID, Canada, AfDB, and the World Bank (IDA).

The PBS story is worth a closer look since it is apocryphal in capturing the extent of donor creativity in dealing with the aid-institution paradox. PBS was purportedly intended to punish federal officials for the embarrassing political indiscretions by moving away from permissive direct budget support at the federal level. At the same time, the PBS instrument was thought to strengthen the hands of autonomous local governments which, at least in theory, are closest to citizens. Dependent on federal block grants to cover 80 per cent of their expenditures, the districts traditionally cared more about predictability and timeliness of fund flows than about their sources—domestic or foreign. The money was to provide predictable budgetary grants that only nominally had to go through the federal fiscal plumbing. In other words, unlike general budget support, PBS restricts the use of donor-supplied funds to the district level (vertical constraint) and for pro-poor programmes only (horizontal restraint).

The country today has three effective levels of state administrative structure: federal (national), killil (regional), and woreda (district). Woreda administrations (district-level units of the government with some 100,000 residents) are constitutionally mandated to provide basic social services (security, education, agriculture, water, and health). Woreda Councils are also responsible for providing local oversight of those Kebele and local organizations involved in the implementation of central mandates, including reviewing and approving annual development plans and budgets, and interfacing with citizens and community organizations. Since the 2002 reform, Woreda-level administrations effectively displaced multi-Woreda zonal administrations (which also coincides with distinct ethnic settlements in much of the South). In reality, this elimination of one tier of government gave the federal level greater de facto power—a process to which PBS was apparently oblivious (Turton 2006).

PBS is a multi-sourced (pooled GOE and multi-donor funds), multi-sector and multi-level block grant that provides fast-disbursing funds to implement mutually agreed programmes. Funds for basic services and for the procurement of scarce health-related commodities comprise the bulk of the trust funds which are overseen by IDA. They are funnelled through the federal Ministry of Finance and Economic Development (MOFED), the designated managing agency responsible for planning, reporting and disbursing funds to lower-level governments. MOFED transfers PBS funds down the chain of the federal revenue-sharing mechanism (using a recently revised formula that is based largely on need rather than efficiency) to some 800 Woreda bureaus of finance. Smaller funds are channelled down a separate chain via sector ministries to fund sector-specific projects or programmes.

PBS has gone through three phases: phase 1 (2006-09), phase 2 (2010-12), and phase 3 (2013-17). The Basic Services Block Grant (Programme A) funds the core social service expenditures and claimed US$6 billion in the first two phases and another US$6.2 planned for the third phase. The smaller, Programme B has three components: a local public financial management component to handle the funds on the supply side, a citizens engagement component...
(transparency and accountability) component that provides budgetary information to the public, solicits feedbacks (report cards from citizens and local community organizations) and handles grievances on the demand side; and a donor audit component. Programme B has been expanded in phase 3 with an allocation of US$115 million.

Relying on such harmonized block grants and guided by certain core principles (additionality, sustainability, equity, social compact, independent evaluation, and the like), PBS concedes full country ownership to GOE. This modality is touted by proponents as a cure for the perennial problem of fungibility because the bulk of the funds are contributed by the GOE itself and donors have a lot of say in how all funds are utilized (Barnett et al. 2009; AfDB 2011; EU 2012).

Fungibility, of course, has another dimension that the proponents of PBS tend to overlook: this modality still permits the GOE from contributing as much as it can to PBS thereby freeing up resources for potentially white elephant capital projects which may not necessarily be a priority for donors. A case in point if the Grand Renaissance Dam on the Nile, one of five mega dams intended to generate much needed electricity.

A number of arguments can be made for the case that PBS is more effective than non-targeted GBS or projectized aid: (1) PBS is superior in terms of harmonization and predictability; (2) The major donors were able to contribute substantially to the decentralization process, not just in the form of improved public financial management, but by legitimizing the district-level authorities; and (3) PBS also uncovered the negative but instructive lesson that decentralized accountability and broader governance improvements do not originate in donor-financed non-state entities. PBS, in fact, seems to work precisely because it relies on the top-down system enforced by strong party discipline and traditional patron-client relationships.

The other arguments have also been made for the case that PBS is less effective than non-targeted general budget support or sector-wide budget support. First, it takes off the table national-level donor leverage in the dialog on macro policy and governance in a country where the Prime Minister’s Office has complete control over the policy agenda. By acceding to this thoroughly top-down policy dialog framework, donor influence on inclusive governance, genuine decentralization, and even sector-level implementation was undermined. Second, by channelling most of the support for government policies and programmes through various types of budget support (global, sectoral, targeted), the EU and other major donors were particularly effective in ensuring aid sustainability to fight poverty, but at the cost of denting the incentive for GOE to seriously consider much-needed structural reforms (Barnett, et al. 2009; EU 2012). Third, PBS increased the transaction costs of monitoring and evaluation of the expanded and elaborate intergovernmental fiscal arrangement.

As a response to growing public criticism, and with little regard for reasonable attribution, DPs consistently claim much of the credit for the 10 per cent average annual growth rate of GDP and significant decline in poverty rates during 2004-12.5 Serving over 80 million people

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5 The double-digit GDP growth rates claimed by GOE are generally viewed with skepticism and render the implied growth elasticity of poverty rather odd. We know (using US$1.25) that the poverty rate was around 60 per cent in 1990 (versus 40 per cent for all low-income countries) and that it fell to around 30 per cent in 2012 (versus 20 per cent for low-income countries). If we conservatively assume a growth rate of real per capita income of 4.5 per cent for 1990-2012 (based on GDP growth rates of 5.5 per cent for 1990-2012, 8.0 per cent for 2003-2012, and a population growth rate of 2.5 per cent), then halving the poverty rate in 22 years implies a
in all areas except Addis Ababa, donor documents highlight many PBS-generated intermediate outputs. They include salaries for 100,000 additional primary school teachers, 38,000 health extension workers, and 45,000 agricultural extension workers. At the end of PBS 3, primary completion rate will increase to 64 per cent; maternal mortality will fall to 367; child mortality will fall by a quarter to 88 per 1000 births; average time to the nearest all-weather roads will fall by three-fourths to 1.6 hours; access to potable water will double to 92 per cent; external audit coverage at the Woreda level will triple to 40 per cent; citizens who are informed about Woreda budget will increase to 23 per cent; and citizens who report that Woreda officials have sought the views of people on improving quality of basic services will rise to 50 per cent (AfDB 2012; DfID 2012; World Bank 2012).

All things considered, despite the impressive intermediate technocratic outputs claimed for PBS, there is little credible evidence for a genuine devolution of authority in the form of local control of resources or for significant accountability of Woreda-level administrations to independent civil society organizations or individual citizens.

3.4 Accommodating the greedy to protect the needy

One obviously needs to provide explanations for donor treatment of the Ethiopian aid-democracy paradox in terms of systemic factors for donor and recipient alike. Using the COP framework, it is clear that the universe of players has expanded to includes hungry investors from emerging economies who typically do not share the socio-political goals of traditional donors. Aid for trade and private remittances now figure more prominently. A ruling party with a narrow political base has much to fear from a genuinely democratic order and understandably welcomes aid-funded public services without a political baggage.

A NATO Parliamentary Assembly delegation, which visited the country briefly in 2010 and managed to canvass a broad spectrum of opinion, perceptively identified the Achilles Heel of the current mode of state governance (NATO PA 2010, para. 12): ‘Ethiopia’s leadership is compact, coherent and effective—more so than many other African countries. Yet its willingness to suppress dissent, ingrained suspicions of private markets, and an insistence on controlling economic processes creates real vulnerabilities, which could have serious consequences over the long term. Time and again, the term ‘brittle’ was used to describe the regime. It has few fallback positions and has alienated opposition figures as to create a climate of suspicion and potential unrest’ (emphasis ours).

This environment has led most donors to quietly abandon Western assumptions about citizen-centered organizational engagement in a progressively competitive political and economic space, or to downplay the mounting evidence of criminalization of all dissent or to resort to a bureaucratic notion of accountability to home constituencies. The last, ‘follow my dollar’, attitude has produced myriad rationalizations. The DAG resorted to desk-based investigations to deny the well-founded and field-investigation-based allegations of political abuse of aid by HRW (2010); the EC and DfID fondly recall government assurances that their funds will not be adversely affected by the recently enacted anti-rights legislations (EU 2012; Barnett et al. 2009); and IDA is fond of pointing out that its funds are not prone to corruption or misuse all
the while defending direct budget support where funds are by design supposed to lose donor flags.\textsuperscript{6}

It should be clear by now that the ominous operative word for Ethiopia’s political economy is \textit{capture}—capture by one party of all state institutions and capture by the ruling political elite of major business institutions. As claimed in the maintained hypothesis, there is an inverse correlation between aid intensity and freedom (political as well as economic) in this nominally democratic market economy. Self-interested donors reinforced GOE’s public-investment-led, poverty-intensive growth strategy while looking the other way as a repressive state obliterated civic and political space with impunity. True to form, the fledgling politically-unaffiliated domestic private sector (which contributes a third of national investment and receives a quarter of bank credit) continues to be marginalized thereby risking sustained growth.

What remain to be addressed are some enigmatic questions without clear-cut answers. Is there an inescapable tradeoff between poverty-focused development and the rule of law and respect for human rights for countries like Ethiopia that have not yet attained middle-income status? Besides, do donors have a right to aid the poor in a myopic manner that contributes to the consolidation of authoritarian institutions?

To pin down the possible choices open to donors, let us rule out two possibilities for donor-recipient alignment which are least applicable to Ethiopia today. If donors care solely about geopolitics but the recipient regime is secure enough to care about both democracy and poverty reduction, then aid will be doubly effective (aid to India and South Africa come to mind). The other end of the spectrum is the case where donors care about trade and investment but the recipient cares only about own political survival. In this case, mutual self-interest preserves both poverty and tyranny (a case most applicable to resource-rich kleptocracies).

The more realistic options for the Ethiopian aid-reform envelope are the following:

1. \textit{Unabashedly apolitical aid}: Donors care about trade and investment access along with pragmatic support for poverty reduction (to promote political stability), but the recipient regime cares about its own survival plus poverty reduction (which has the virtues of being donor-financed and legitimizing). In this case, poverty may be reduced while repressive politics endures or even intensifies (this fits a charitable reading of Chinese aid to Ethiopia which, at least, cannot be accused of hypocrisy).

2. \textit{Poverty reduction trumps human rights}: Donors care about both democracy and poverty reduction, but the recipient cares about own survival and poverty reduction. In this case, reflecting perhaps the notion that democracy is infeasible in poor countries (say, with

\textsuperscript{6} The World Bank’s Independent Evaluation Group (IEG), for example, has this to about the 1998-2006 CAS regarding the reluctance to address governance issues head-on, even if it means reducing lending operations substantially (World Bank 2008a: xi-xii): ‘Given the importance of governance and accountability, as well as private sector development, to sustained long-term growth and poverty reduction in Ethiopia, these outcomes received somewhat higher weighting in the overall evaluation, resulting in a rating of moderately unsatisfactory for the outcome of IDA’s country programme as a whole…Understanding the power structure at local levels, including the sources of the administrators’ authority and the incentives they have for serving local residents, is very important, as the roles and actions of sub-district administrators can have a decisive influence on the economic behaviour of rural residents, as well as on their access to public services’.\textsuperscript{6}
lower than US$10,000 in per capita income), donors pragmatically choose to prioritize poverty reduction over oppression reduction. This fits the current Western model of aid for Ethiopia.

3. **Human rights (ultimately) trumps poverty reduction:** Donors care about both democracy-building and poverty reduction, but recipient care about own political longevity and poverty reduction. In this case, donors choose to privilege human rights and the rule of law over short-term poverty reduction. This they can do by imposing credible but realistic political conditionalities which the Ethiopian regime will certainly resist, if only initially. Parenthetically, the UK had exercised this option with Malawi in 2011 and Western donors did so with the Derg despite its pro-poor policies.

The five biggest donors, should they wish to create a united front for change by linking economic aid to a pro-poor and pro-democratic political environment, are left with two sequences of action. One is to leverage money and technical assistance to push for a deliberate and steady dismantling of the party-state. This can be done by employing time-bound political triggers that are based on internationally recognized governance benchmarks and by invoking international treaties to which the GOE has acceded. If this fails, aid will then have to be reduced progressively up to the level required for humanitarian assistance—a course of action also supported by such notable prisoners of conscience as Eskinder Nega (Nega 2013). For this politico-economic strategy to be effective, a counterfactual analysis will have to be undertaken to identify which pro-poor programmes and projects will not be undertaken by GOE for self-preservation in the absence of conditional ODA.

The gold standard for politically-sensitive aid by a multilateral development bank is probably set by the European Bank for Reconstruction and Development (EBRD) which, unlike IDA and AfDB, has the mandate to directly invest equity capital in projects by private enterprises as well as by public enterprises in transition economies. EBRD’s investment is also undertaken under a mandate that client states commit to making tangible parallel progress toward a market-directed economy, multiparty democracy, and the rule of law (EBRD 2013). EU accession funds and the European Regional Development Fund (ERDF), both administered by the same EC, provide another model of smarter aid since they embrace certain political conditions and do have built-in requirements of genuine partnership among the EC bureaucracy, the recipient government, and private companies involved in EC-funded projects (Abegaz 2005; EU 2008). It turns out, then, that donors do know how to do aid right by twinning the goals of development and democracy—at least outside the tropics.

4 **Conclusions**

The central contention of this paper is that self-interested aid has contributed to the technocratic robustness of public institutions while doing little to bolster political legitimacy. We argued further that decentralization is ultimately about the distribution of power and the incentives facing local actors, and cannot, therefore, be satisfactorily enhanced solely within a technical or administrative framework. In the absence of domestic political bootstraps to restrain power-holders, donors can certainly use their not inconsiderable leverage to pry open a progressively competitive political and economic playing field.

Idealism must, of course, be tempered by realism. For incompletely institutionalized and electorally non-competitive states like Ethiopia, Grindle (2005), for example, recommends
the following types of governance interventions: availability of systems for basic conflict resolution, agreement over the rules for power succession, availability and access to basic service for all, open decision-making and implementation processes, and government responsiveness to inputs from non-state actors.

In the final analysis, developing effective and accountable state building and lasting enfranchisement are the responsibilities of citizens, not external actors. The debate on how much enlightened external actors can do to avoid doing political harm in Africa does remain open. Some have urged donors to act more affirmatively to create an environment for ‘the good struggle’ by the disempowered themselves (Pritchett 2013).

Future research will benefit from clearer theory and systematic evidence at the micro level. The latter includes scrutinizing the portfolio of completion reports of aid-funded projects devoted to institution building, looking at the incentives of aid bureaucracies at both ends, and analyzing the accumulating survey data on citizen perspectives regarding their civic and political values including how well the formal public institutions embrace them in practice.

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