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Ethiopia's Sovereign Bond or Sovereign Bondage

A position paper from the Ethiopian People's Congress for United Struggle (SHENGO)

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"The Ethiopian people 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." Global Financial Integrity

Introduction

This position paper on Ethiopia's Sovereign Bond, whose modified title reflects our concerns, is sponsored by the Ethiopian People's Congress for United Struggle (SHENGO). For ease of reference and to provide the reader with the context and implications of the Bond, the paper contains four parts.

Part I presents the political and socioeconomic context, including unprecedented ruling party sponsored and condoned corruption and illicit outflow of capital against which the pros and cons of the Bond must be gauged. We suggest that Ethiopia's problem is not the lack of foreign exchange. It is the lack of accountable, representative and responsible governance. Ethiopia's growth model is based on creating unprecedented wealth for a few who wield political power. This means, more foreign exchange would mean more wealth for the privileged few and deepening poverty for the majority. On January 13, 2015, Ethiopia this Week quoted the Reporter, a government controlled media, that in 2014, the Commercial Bank of Ethiopia collected $5.5 billion from foreign exchange dealers. "The lead firms which collected more than $1 million each were commended for their contributions." One single firm, "Western Union alone collected $450 million." The bulk of collections come from commodity exports. "Oil seeds and related accounting for 17.1 percent, coffee for 11.5 percent, meat products for 12.6 percent, fruits and vegetables for 8.7 percent." Despite billions in foreign exchange earnings, people in urban areas are unable to buy staples at reasonable prices. The rural population is unable to buy manufactured goods. In short, the urban and rural population is in the same boat, "bleeding" and wondering if there is "light at the end of the tunnel." A lot of Birr whose purchasing power has been diminished through continuous devaluation is chasing limited supplies. The structure of the economy remains almost the same. Earnings from exports show that Ethiopia has not diversified its economy. Manufactured and industrial exports are almost nil.

A UN University study, WIDER Working Paper 2013 entitled Aid, Accountability, and Institution Building in Ethiopia 2013/083 confirms that between 1991 and 2012, the Ethiopian government received $40 billion in Official Development Assistance (ODA) alone. ODA has risen to $4 billion a year since 2014. ODA has contributed significantly to poverty reduction; but has not changed the fundamental structure of the Ethiopian economy. A great deal of the money has also been either misused or pilfered out of the country in the form of illicit outflow. Ethiopia today is the largest ODA recipient in Africa and the largest humanitarian aid, especially food, in the world. In addition, Ethiopia receives billions in Foreign Direct Investment (FDI) and billions more in remittances (both official and unofficial) and billions in humanitarian aid each year. No one really knows the exact amount of the inflow or outflow. The sum total of this is a staggering amount of foreign exchange that has not made a dent in alleviating endemic poverty, generating employment and transforming the structure of the economy. We are cognizant that each year, Ethiopia loses at least $3 billion in illicit outflow of capital that "bleeds" the society perpetually.

Part II discusses the meaning and roles of Developmental States contrasting Ethiopia's with others, especially those that created some of the most prosperous countries in 25-30 years.

Part III presents a comprehensive review of practice of Sovereign Bonds. It presents a compelling argument why Ethiopia's Sovereign Bond serves as an additional resource for the ruling party and poses enormous risks for the country, successive governments and generations.

Part IV concludes only rights based approach to development offers the Ethiopian people a better alternative in overcoming debilitating poverty and paving the way for sustainable and equitable growth.

Shengo suggests in the strongest terms possible that the world community and especially the Ethiopian people must not consider the Sovereign Bond in isolation from the political, social, human rights, rule of law, structural, policy and income distribution conditions that affect the entire society and shape the future of the country.

Part I

The political and socioeconomic setting

1. The critical policy question we pose is not that the government cannot issue a Sovereign Bond to raise capital on behalf of the Ethiopian people. All governments that are starved for liquidity issue bonds. This is especially the case for the Least Developed Countries (LDCs) that do not have savings. Our argument is that the Tigray People's Liberation Front (TPLF) and its ethnic-elite coalition the Ethiopian Peoples' Revolutionary Democratic Front (EPRDF) that has been in power for the past 24 years and intends to prolong its rule by any means necessary has squandered national resources without substantial improvements in the structure of the economy and advancement of welfare for the vast majority. The TPLF core group and the allies it has created is a rent-seeking club that enriched itself shamelessly while marginalizing the Ethiopian people. By all measurements, it is, **discriminatory, exclusionary and disempowering.** Pumping more money into a bankrupt and corrupt system is not the solution. The TPLF is not trusted by the vast majority of the population. Therefore, it cannot possibly be a responsible custodian of Ethiopia's national resources.

2. As its Manifesto of 1976 shows, the TPLF was determined to use political power and divert Ethiopia's resources, enrich a few TPFL members and allies and build a regional economy in the Tigray region in disproportion to the rest of the country without necessarily changing the lives of the majority of Tigreans. State of the art colleges and universities such as the Mekelle Institute of Technology, hospitals that are ill staffed, a showcase International Airport that has no justifiable commercial value, Cement and textile factories, skyscrapers and other buildings that are left empty, etc. etc. have been constructed by using Ethiopian national resources. The social benefits to the larger population of Tigreans is questionable. On the other hand, this massive diversion that created instant millionaires while leaving millions in abject poverty has created unjustified animosity and ill-will towards Tigreans. The TPLF core leadership is not only unfair, unjust and corrupt; it is also patently exclusionary and discriminatory.

3. It is true that per capita income in Ethiopia has quadrupled since the TPLF/EPRDF took power in 1991, from around $120 to $470-$480 today. Some experts say it is higher. Others say it is lower. We know for sure that it one-third of the Sub-Saharan African average. What is more important is this. The purchasing power of the Birr has declined by that much or more. Per capita income is not spread fairly and equitably across the board. Most of the gains of growth have gone to a narrow band of ethnic-elites aligned to the governing party. **The central thesis here is regardless of growth, sustainable and equitable development in Ethiopia is inconceivable without freedom, human rights, the rule of law and representative government**. More aid, Foreign Direct Investment (FDI) and borrowing is not the answer to Ethiopia's

intractable problems. Ethiopia needs rights and not more aid, FDI, borrowing or remittances. In fact, the more foreign aid, FDI, remittances and borrowing, the more likely the dictatorship will have the means to rule the country with an iron fist perpetually. At least it will try to prolong its grip unless people rise up and defend their rights. In our estimation, the Ethiopian people, especially youth, will rise up and demand rights.

4. Similar to other patriotic and democratic-leaning Ethiopian organizations, SHENGO embraces the fundamental principle that sustainable and equitable development is essential in tackling the country's intractable poverty and in paving the way for broad-based prosperity for Ethiopia's 100 million people. Ethiopia's Central Statistical Office estimates that, in 2015, the country's population is **between 104 million and 115 million.** In any case, the no exceeds 100 million. Size is not the problem. We genuinely believe the country and its hardworking people possess the requisite natural and human endowments to make poverty history and achieve prosperity. What prevents Ethiopians from overcoming debilitating poverty is not nature or people or lack of resources. It is the imposition of suffocating governance and a development architecture premised on a "zero-sum game" model of rent-seeking. Under this system of the political 'winner takes all,' the desire and hope of democratic and accountable government that comes from the opening up of political and social space has proven illusory. In turn, this affects equitable access to opportunities and fair distribution of the benefits of growth. Under the current system, gains from investments accrue to those in power and to their allies. The TPLF and the ethnic coalition, the EPRDF government it dominates follows a fundamentally flawed and socially corrosive and dangerous model of "zero-sum" growth that has failed in terms of its social value. Simply put, political strangulation has resulted in the strangulation of the development process.

5. The current 'winner take all' model failed because it extracts rent and diverts resources from the public to private hands—the ruling party, family, friends and loyal supporters. The system is designed to serve the interests of the few while leaving millions out of the political and growth process. What is indisputable is this. This "zero-sum" game model of 'winner take all' undermines the long-term interests and security of the country, encourages Ethiopia's traditional enemies to subvert the society, and prevents millions from overcoming debilitating poverty. This dire situation won't change by borrowing and pumping billions of dollars more into a system that is corrupt, ineffective, inefficient, unjust, burdensome, debt-ridden and wasteful. Pouring good money after bad won't solve Ethiopia's intractable and system driven problems. Ethiopia deserves a different national vision and an accountable government.

An Alternative Vision

6. SHENGO's vision is the opposite of the TPLF/EPRDF. Ours is the formation of an Ethiopian society that overcomes unbearable poverty, creates prosperity for the vast majority and

ensures political, press, religious and social freedom and genuine equality under the law, establishes accountable and representative governance, preserves and protects the country's territorial integrity, long-term interests, security and independence, and cements the cohesion and sovereignty of its diverse population. **The TPLF/EPRDF model of elite-run, rent-seeking and top-down growth is a command and control model. By all measurements, it is against all-inclusive development and the eradication of poverty.** The ruling party keeps the rural population poor and under wraps for a good reason. It is easier to control and manipulate.

7. We are pro-poor, pro-growth and inclusive development in which Ethiopians enjoy ownership of real property including land. Nothing will please us more than to see the Ethiopian poor and the country's youth become proud of their country and government and self-sufficient and secure in their lives. Unfortunately, this won't occur without the rule of law that ensures human rights, popular participation, empowerment and democratic institutions. As Human Rights Watch put it rightly, "Sustainable and inclusive development is possible only where human rights of all individuals, particularly young women and girls are respected, protected, promoted and fulfilled." For inclusive growth to take roots, the political and social environment must be favorable and empowering. This is not the case in Ethiopia today. The current model of development is not only undemocratic and unjust; it is suffocating. It is producing the opposite effects—ethnic and religious polarization, social friction, unrest, jealousy and rivalry, greed, plunder, exclusion and instability. It is tragic to us that a country of 100 million people and the only continuously independent country in Africa is unable to produce a political culture in which stakeholders are able to learn from one another and debate important policies and programs that will advance the interests of the country and the welfare of its people.

8. The TPLF's/EPRDF's draconian Anti-Terrorism and Charities and Societies Proclamations of 2009 decimated independent civil society and press and unrestricted political space that will allow competitive elections. In fact, peaceful dissent of any kind that challenges the ruling party is criminalized. The Constitution has been subverted. It is no longer worth the paper it is written on. The country is ruled by fiat and by strong elites rather than by strong and independent democratic institutions that advance the common good. **Power is unrestrained and incontestable.** As the renowned economist William Easterly put it in his latest book, **The Tyranny of Experts: economists, dictators and the forgotten rights of the poor, "Unrestrained power will always be the enemy of development. Whenever people lack rights, and when oppression pays off for the rulers, the rulers will oppress their subject" even more. "Unchecked power is abusive power." This assessment confirms our thesis that the TPLF/EPRDF is the "enemy" of peace and justice as well as sustainable and equitable development. An unjust government cannot create a just and fair society.**

The de-Institutionalization of the Ethiopian state

9. The current state is radically different from any other in Ethiopian history. Independent institutions are decimated systematically and replaced by a Surveillance state dedicated to serve the governing party. The Federal Police, Security and Judicial system are controlled and manipulated by this state. Under this system, integrity, truth and justice have become rare commodities. If you stand for any or all of these, you end up in jail and you are tortured. The institutions set up by the new state have a political, social and economic reason. They are there to service the crony form of capitalism of unrestrained greed, nepotism, bribery and corruption. These are endemic in all Federal, Regional and local institutions. At every level of adjudication, forced confessions are the backbone of police, security and judicial work. Put differently, censorship, forced confessions, forced expulsions, bribery and corruption are all intertwined to serve the developmental state, ultimately a commercial type of state rather than a state of freedom, justice, fair play, empowerment and self-fulfillment. Everything in the country that can earn money and profits—babies, girls, land, mines, waters, church treasures etc. etc. are considered commodities. Nothing is sacred. Because of this, there is no single institution we can find that operates within the law. In most countries, even the state media stands for truth and integrity in journalism and reporting. Not in Ethiopia. The State media is as corrupt as any institution in the country. Those charged with the responsibility of reporting the truth are as interested in power and profit as others. Their incentive is to serve the corrupt and repressive state. So, they are quick to report the faults of independent journalists whenever the state accuses them of crimes they never committed.

10. The TPLF/EPRDF state is scared of youth, independent and free media, the Internet, Mobiles and all other forms of social media as much as it is afraid of political competition, free and fair elections. For this reason, Ethiopia is behind the rest of Africa in modern telecommunications. For example, the rest of Africa enjoys Mobile use of 70 percent compared to Ethiopia's at 25 percent, one of the lowest in the world. Internet penetration is 2.5 percent in Ethiopia compared to 40 percent in next door Kenya. The failed state of Somalia does better in modern electronic media than Ethiopia. The social and economic cost of this gap is huge.

11. When we think of the current Ethiopian state we are reminded of the old adage 'The quickest way to riches in Africa is to capture political power,' extract rents and riches using growth as the rationale, and maintain gains and the status quo at any cost. For this reason, we cannot expect the TPLF/EPRDF to give up power and ill-gained wealth without relentless and coordinated demand for rights; and sustained struggle by the people of Ethiopia. Easterly, Human Rights Watch and others confirm relentless assault on peaceful dissidents and opposition parties. In Easterly's words, "Not even shooting and jailing the opposition, manipulating aid to starve the opposition, seizing the lands of villagers and relocating them against their will" to make way for **agribusiness** and not "perpetrating violence against villagers who protested has been enough to shake the technocratic faith that autocrats can be trusted to

be benevolent implementers of technical solutions" in overcoming abject poverty in Ethiopia. He is talking about the "good Samaritans" such as World Bank, IMF and other experts, consultants and the likes of Bill Gates. These "good Samaritans" have failed to see that their long-term interests are undermined by the TPLF/EPRDF dictatorship. In our view, their interests will be best served by a democratic and prosperous Ethiopia; and not by an ethnic-elite dictatorship that governs through fear, fraud, bribery, greed and corruption.

Structural social inequality

12. Ethiopia epitomizes the affliction and devastating effects emanating from poor and oppressive governance more prominently than most African countries. Over the past 24 years, the TPLF core group that dominates the state and elite members of the EPRDF have not only strengthened the one party state; but have also captured the pillars of the national economy and other sources of riches including foreign development and humanitarian aid. Instead of boosting the capabilities and productive capacities of Ethiopians, they have turned over strategic resources such as fertile farmlands and waters and key industries to foreign investors and a selected group of domestic allies. These investors operate in collusion with one another. They have enriched themselves unabashedly and see no shame in making profits while millions go hungry each day. All natural resources are owned by the State. The State allocates natural resources as it sees fit. Alienation and dispossession of ordinary Ethiopians from their means of livelihood have reached an alarming level.

Social and income inequity is inevitable under crony capitalism

13. **If the world laments the fact that one percent of the richest people on this planet owns more than 50 percent of the wealth; and in racially charged America, the average net worth or asset of an African-American** is less than $1,000, Ethiopia's growing inequality shows a worst case scenario that will become much worse over the decades to come. Those who have made a killing under the current regime have taken out billions from Ethiopia. Almost all with power and wealth have educated and trained their children and their successors. A tiny group will continue to amass more wealth while the vast majority will toil in abject poverty. Sadly, each year, almost two hundred thousand Ethiopian youth move out of the country in search of opportunities. These refugees send billions of dollars in remittances each year. The TPLF/EPRDF will encourage more people to leave the country and send billions of dollars to meet foreign exchange needs of the state. If they stay home, they would not only create enterprises and employ their compatriots; they will also advance the democratization process. Ethiopians would serve their home country.

14. The governing party likes to see more and more productive Ethiopians leave the country. They send remittances that help the governing party. In this rent-seeking society where riches

are made overnight, bribery, insider deals and kick-backs, mis-procurement, mispricing, under and over-invoicing etc. constitute part of the corruption and fraud culture that diminishes human worth and reduces capital for investment. Corruption, illicit outflow of capital and the concentration of wealth in a few ethnic elites and their families will have multigenerational effects. This is structural and not easy to fix. The only way this can be fixed is through democratic change. What we are obliged to state is this. Unaddressed, this condition created by the Ethiopian government will contribute to civil conflict, increased migration out of the country and instability. This will undermine the productive capacity of the society. In other words, unless there is a transition towards a representative form of government, Ethiopia will remain poor, dependent and backward.

Part II

What is the Ethiopian "Developmental Democratic State?"

1 (a) In our view, the TPLF/EPRDF has outlived its concocted propagation that its developmental state is the panacea for hunger and dependency on food aid, unemployment, lack of diversification of the economy, devastating high prices, income inequality etc. Simply put, this type of state is conceived and implemented to serve the TPLF core and its craftily recruited ethnic-elite and other allies, including foreign investors. Regardless of name changes, this "Developmental State" is void of any semblance of fairness and inclusion. On the contrary, it is designed to maintain the single party government and state and to create wealth for a few.

1 (b) We accept the fundamental principle that the state and government have a crucial role in the pursuit of development goals. All governments play developmental roles of one form or another. The American Federal government played a crucial role in investing and constructing the country's major infrastructure, for example, dams and in facilitating the construction of interstate highways and rails. Most recently, the Federal government saved capitalism from total collapse during the financial crisis of 2008 by pumping billions of dollars into the financial market and the economy. The lesson we draw is this. "There is no such thing as a free market system anywhere in the world." The state is a major facilitator of modernization and innovation.

1 (c) However, whether developed or underdeveloped, not all developmental states are the same. Some play constructive roles to advance the common good. Countries leaning towards social democracy give premium to the welfare of all their citizens by taxing the rich. Scandinavian countries are the best example of this model. Others pretend to do to stand up for citizens but advance the wealth of the few. The "Lost Decade" in Africa was characterized by military and other forms of dictatorships that extracted rent from citizens and impoverished their societies. It is hard to recover from this trauma in a short time.

1 (d) For the purpose of this policy document, we use Chalmers Johnson's definition of the concept of developmental state. In a comprehensive study sponsored by the Institute for Development and Peace (101/2010), Peter Meyns and Charity Musamba (editors) used Johnson's pioneering work on Japan and related it to the African situation. "Johnson juxtaposes Japan's plan-rational system to a **market-rational system** on the one hand, as well as, although to a lesser extent, to a **command central planning system** on the other (Johnson 1982:18-26). Based on this distinction, Johnson advances **three main arguments** with regard to the developmental state in Japan.

First, he contends that markets do not exist in isolation but that they are a creation of the state and politics. He notes that "observers coming from a market-rational system often misunderstand the plan-rational system because they fail to appreciate that it has **a political** and not an economic basis" (Johnson 1982: 24).

Second, Johnson argues that in this approach the creation of a developmental state comes first before development priorities are put in place.

Third, the most crucial element of the developmental state is not its economic policy, but "its **ability to mobilize the nation** around economic development within a capitalist system."

2. We contend the "Ethiopian Developmental State" that adopted the new label of "Developmental Democratic State" fails to meet the above definition, especially, the commitment and ability to "mobilize" all or the majority of the Ethiopian people around "economic development within a capitalist system." Although we accept the preponderance and longevity of single parties (Japan, Korea, Taiwan etc.) these parties were largely patriotic and nationalist and were committed to the common good.

3. Ethiopia's is substantially different from other developmental states such as Japan—the pacesetter-, Botswana and Mauritius in Africa, the East Asian Tigers Hong Kong, Korea, Malaysia, Singapore, Taiwan, Thailand and the late comers China, India and Vietnam. All embraced the fundamental principle of lifting millions out of poverty, strengthening the private sector and boosting manufacturing and industrialization that is uniquely their own. Nevertheless, the TPLF/EPRDF model shares similarity with a number of left-leaning countries such as China and Vietnam in two critical areas: a) the foundation is political and not economic and social. The state is pervasive; and b) its ideological roots are Marxist-Leninist. Similarities end there. The TPLF/EPRDF has not achieved the transformation of these countries.

4. China and Vietnam are patriotic and economic nationalists. So was South Korea in the age of its transformation from an agrarian society to an industrial powerhouse. Such states are committed to national interest and the purist of the common good first. In Ethiopia command and control based on central planning and ownership of the pillars of the economy are incontestable. The problem is that policies and programs preclude substantial inputs from independent national experts, civil society, opposition parties and the domestic private sector. Unlike China or Vietnam, in Ethiopia, it is not the invisible hand of the market that operates. It is the overwhelming hand of the party and its endowments such as EFFORT, state and government that dominate life. These are all intertwined. They account for 80 percent of investments and for more than 50 percent of the ownership of incomes and wealth assets. Other developmental states that followed a democratic political system and market economy have also fared well. This is not surprising. There is correlation between the rule of law, participation, empowerment and development. Even dictatorships observe the rule of law and a regulatory system that is more open and transparent than Ethiopia's.

5. According to the latest assessments by Freedom House and the World Forum on Democracy, **120 of 192** countries in the world are electoral democracies. The late Prime Minister Meles Zenawi, the ideological champion and architect of Ethiopia's so-called developmental state had stated wrongly "There is no connection between democracy and development." The result is structural inequality and poverty that will take generations to correct. Obviously, for those who become instant millionaires relying heavily on the developmental state, dictatorship is lucrative. For this reason, beneficiaries defend it the same way as party cadres and bureaucrats. At the time of the Socialist Military Dictatorship the TPLF/EPRDF overthrew, there were no millionaires to speak of. Contrast this with the current situation. It defies logic and conscience. On April 28, 2014, the Guardian reported that the number of millionaires rose from 1,300 in 2007 to 2,700 in 2013. It more than doubled in 7 years. The rise in the number of millionaires corresponds to the rise in state led investments especially in infrastructure and so-called double digit growth fueled by foreign aid, remittances, FDI and government borrowing. We can deduct and generalize the following inescapable social fact. Structural social and income inequality is strengthened by the developmental state. This occurrence takes place in a country where millions of people go hungry each day and millions depend of international emergency food aid to survive. Where is the justice in this developmental state then?

6. In a July 5, 2014 article, "**Ethiopia: a leadership in disarray,"** Rene' Lefort reported that the Ethiopian state "economy is no longer adequate for driving growth; the private sector should have the scope to take the slack." Instead of boosting the domestic private sector, the government invited Chinese, Indian, Sudanese and Turkish private investors to fill the gap by investing in the textiles sector over which Ethiopians have a comparative advantage and can be dominant. Lefort noted rightly that "inflation has reduced purchasing power of ordinary Ethiopians by at least 1/3rd" and that ethnic "tensions are rising" instead of subsiding. Most hurt by this phenomenon are 2/3 of the population who are below the age of 25. Sadly and according to her survey, this group identifies itself as Amhara, Gurage, Oromo and Tigray etc. and not as Ethiopian. The TPLF has succeeded in decimating Ethiopian institutions and Ethiopian identity. It will be an uphill multigenerational battle to restore identity as an Ethiopian.

7. It is true the TPLF/EPRDF has expanded all forms of education. At the same time, it has instituted an Apartheid system of education of separateness. It established 30 colleges and universities and reinforced this ethnic identity that erodes national cohesion. Greed and individual wealth are taught as virtues. Quality has suffered enormously. Education does not lead to productive lives within the country. Lefort confirmed another critical factor that is often overlooked by the rest of the world. This is the deliberate imbalance in the distribution of policy and decision-making positions in Ethiopia. The TPLF represents an ethnic group that comprises less than 6 percent of the population but commands above 90 percent of top level positions in key institutions such as Federal Police, State Security and Defense. It has made the state and

government impenetrable. The TPLF has established a military-industrial complex that strengthens the role of the military in politics and the distribution of national wealth. The military is a subcontractor in the construction of the Renaissance Dam. It pays no taxes and its imports are duty free. The top echelon is therefore vested in the economy.

8. Those with vested interests who have made a killing under the new state won't really care how the rest of the population lives. Lefort interviewed a number of people about glitz in infrastructure and the building of more colleges etc. etc. Among respondents one summed up his feelings as follows. **"You can't eat buildings, villas, roads, bridges, dams. You can't sleep in them. You can only look"** at these investments with astonishment and ask why priorities are lopsided. They are lopsided for a reason. The model is not based on rights and justice.

9. There is very little correlation between development and political democracy in the case of Ethiopia in contrast to Botswana or Mauritius, for example. In these two countries free and fair elections are guaranteed by law even if a dominant party has a track record of winning. People are not sent to jail for demanding their rights. Natural resources are not doled out for profit without corresponding social value. Botswana uses its diamond and other riches to advance the common good. These countries have achieved development success and eliminated abject poverty and no longer rely on foreign aid.

10. The literature on the developmental state informs us that each country's model and the role of government in development is different. Most, including dictatorships share commonalities. Mobilization of domestic and foreign resources such as aid and FDI to achieve priorities that serve the common good is among them. China would not have grown at an amazing pace if was not led by patriotic and nationalist leaders. The best of them guard against government waste, rent-seeking, bribery, nepotism, graft, corruption and illicit outflow. They believe in meritocracy of the civil service (Japan), rule of law and a regulatory regime that levels the economic and social playing field (Korea, Taiwan etc.), fair distribution of incomes and access to opportunities that enhance the welfare of the population, participation of females especially girls in the development process (Scandinavian and Tiger countries, Chile, increasingly Brazil), a competitive market in which the rules of the game are transparent and predictable (most), special attention and custodianship for the domestic private sector (most), FDI based on shared prosperity (Botswana, Korea and others), private ownership of property (most), good and competent governance (most), conflict resolution mechanisms (most) and popular participation in the development process (most), singular attention to the transformation of the rural economy (pioneering Japan, Korea, Taiwan and other Tiger countries.)

11. Regardless of their zeal for transformation, developmental states that do not respect human rights and the rule of law are fearful of being overthrown in the event of free and fair elections. They and do not strengthen broad participation because they are afraid of losing legitimacy.

Because of this, dictatorships such as Ethiopia's reduce productive capacity and advancement of welfare. They prefer poverty rather than radical reform. All developmental states that have overcome poverty and created large middle classes show undeterred commitment to the common good even when their political governance is repressive and is challenged (China). Even in instances such as this, it is rare to see singular commitment to political and ethnic loyalty and the enrichment of a few under the purview of the developmental state. This is not to say there is no corruption. There is. Even under these conditions, the developmental state is justified because it expands opportunities for millions. This is why these patriotic and economic nationalist states succeeded transforming their backward economies into prosperous ones. Who would have thought China would replace Japan in GDP and challenge the US for leadership of the coveted club of being the largest economy in the world?

12. How did successful development states do it? Among other things by removing policy and structural hurdles through relentless reform, generating savings, modernizing their rural sectors, leveling the playing field, opening opportunities for youth and women, linking education to jobs, expanding manufacturing and industry for the domestic market and for exports and creating millions of jobs for their youth, opening up alternatives for the rural population and absorbing surplus labor etc. Social cohesion among different groups and exploiting the wealth creating power of modern telecommunications technology proved key.

13. After 24 years in power, the TPLF/EPRDF "Developmental Democratic State" has achieved neither broad-based **public welfare nor representative democracy.** Nor has it protected Ethiopian society from the ravages of undemocratic, opaque and unfair globalization and Foreign Direct Investment. Nor has it freed Ethiopia from dependency on foreign aid including food. Nor has it managed to mitigate social and environmental degradation. Nor has created millions of jobs for Ethiopian youth. In all cases, Ethiopians are not in the picture. All these and more serve as key parameters in assessing the effectiveness of any developmental state including Ethiopia's. We believe past performance of the TPLF/EPRDF state is a predictor of the future. The future looks bleak.

14. Ironically, the TPLF/EPRDF justifies its longevity on the developmental rationale of commitment to complete Ethiopia's transformation from a subsistence agriculture based economy to industrialization that Japan and others achieved in 30 years or less. In other words, it wants to maintain a broken and socially damaging system. We admit the past 24 years show progress in physical and social infrastructure investments: roads, bridges, dams, buildings, towns, education, health, sanitation. This is hardly surprising in that the ruling party received the largest foreign aid in the country's history and continues to be the leading recipient of all forms of aid in Africa. Over the period 1991-2012 alone, Ethiopia received a **staggering $40** billion in ODA and billions more in humanitarian aid. ODA inflow now **exceeds $4 billion per**

annum. Nevertheless and at the rate the development process is going, it is unlikely Ethiopia will be the next Japan, South Korea, Taiwan, Botswana or Mauritius any time soon regardless of how much borrowing takes place.

15. In fact, more debt entails more risks for the country and a successive government or governments. Why is this so? For the TPLF/EPRDF **retention of politics and political power and not the advancement of social and economic transformation that will boost the welfare of the vast majority of the population is the dominant variable.** Mobilizing more resources including borrowing strengths the governing party and prolongs its rule. The past 24 years show that the governing party is essentially a rent-seeking party satisfied with continuation of economic extraction and rent that creates more wealth for the few while controlling the majority and maintaining peace and stability at any cost. The ruling party does not want the Ethiopian people or experts to evaluate it on the basis of real achievements in improving the welfare for the majority. It uses an over hyped argument that it is better than the regime it replaced with the help of foreign powers and disgruntled Ethiopian groups.

16. What concerns us is the fact that ordinary Ethiopian including professionals and small business people are squeezed. What is indisputable is this. The poor cannot eat the road, rail, building or dam. The rural population that constitutes the majority is forced to accept their punishment in the name of development. Inputs are provided on the basis of loyalty to the party. The command and control economy has practically failed to eliminate abject poverty.

A command economy under a repressive state

17. At the heart of Ethiopia's multifaceted problems including grotesque plunder, ill-gotten riches and diversions of resources for private use, income inequality and massive youth flight out of the country is a governance model that is based on marginalization and exclusion of the vast majority of the population. More than any other social group, Ethiopia's youth bears the costs of this suffocating system. This social group is beginning to appreciate the notion that its dilemma is caused by the merger of party, government and state that serves those with wealth and commands the instruments of power and wealth without an end in sight. The economy is run by a Mafia-like system of family and friends. Ethnic-elite based nepotism and exclusion is rampant and institutionalized. There is no rule of law that levels the playing field. Neither the party nor the government is accountable to the population. High party and government officials are above the law and get away with "murder." The tightly knit group of Tigrean elites that dominate the TPLF choose winners and losers at will. They allocate resources as they wish. They appoint their own like to staff the civil service.

Replacing Public Service with Party Cadres

18. Ethiopia was known for its competent national civil service. This has been decimated by the TPLF deliberately and systematically. Although the Amhara and Oromo nationalities constitute more than 60 percent of the population, all policy and decision-making positions including defense, national security and federal police are held by Tigreans. The few Amhara and Oromo with privileged jobs are monitored and scrutinized by members of the TPLF who serve as the real policy and decision makers. The sole criteria for appointments in high positions is loyalty to the TPLF and not competence or commitment to serve the public. The outlandish and openly inimical nature of these appointments are best illustrated by the services and favors Tigrean and allied officials grant to family and friends. If you are loyal to the TPLF you can ship goods via Ethiopian Airlines free of charge; can use the first class lounge free of charge; bring in goods without inspection and paying import duties and so on. In many instances, you can get away without paying taxes, etc. etc. etc. Abuse of power is widespread and is done in public view to send a message. "We are in control and there is nothing you can do about it. Be loyal to the TPLF and you will have a chance to succeed and to get services. If you don't your property will be taken away from you." This is why the system is akin to a Mafia outfit.

19. On October 22, 2014, the Guardian's David Smith identified a widely held view among Ethiopians that we highlight under paragraph 16 below. The statement serves as a prelude to our argument that the ruling party's **Sovereign Bond** won't be used to overcome endemic poverty and to create a large middle class that represents Ethiopia's diversity. Rather, it will be used as a tool to prolong the regime and to divert more resources to the gang that milks the country' resources. For this reason like any other public borrowing and investment the Bond must be subjected to public, civil society, Diaspora and opposition party scrutiny.

20. Smith's statement puts the nature of the **omnipotent and omnipresent** state the donor and diplomatic community and global capital helped create starkly. "Activists and journalists describe an **Orwellian surveillance state**, **breathtaking in scale and scope**, in which phone conversations are recorded and emails monitored by thousands of bureaucrats reminiscent of the **Stasi in Berlin**. The few who dare to take to the streets in protest are crushed with deadly force." The party hires and pays tens of thousands of cadres and "bureaucrats" to spy and suppress citizens rather than serve them. The TPLF/EPRDF state has no peer. It differs radically from Japan's and Botswana's. As we have shown earlier, these nations groomed and deployed competent civil servants to serve the government and society and not the party.

21. The TPLF/EPRDF spends billions of Birr to propagate its ideology with fictitious data. In contrast to other successful and merit based states, development and humanitarian aid performs within this suffocating and fictitious data based environment in Ethiopia. Anyone opposed to the party is considered a threat; and often jailed or forced to flee the country.

Ethiopia is the fourth largest jailer of journalists in the world and the second in Africa. Like everything else, all aid is above public and expert scrutiny. It is controlled by the party. There is no independent institutional or civic oversight. In its pioneering research, "Development without Freedom," Human Rights Watch provides ample data that aid is used to "reward loyalty and punish opposition." Despite this, donors and Ethiopian government diplomatic allies have turned a blind eye to the sufferings of millions and the misuse and abuse of public funds. For this reason, most fair minded experts including Easterly agree the ruling party, donors, investors and the diplomatic community operate in collusion. There is a sound reason behind this short-sighted policy. As the Guardian's Smith pointed out "**Ethiopia is seen as a reliable political officer (clientele state) in the region, hosting a US military base and sending troops to fight the Islamist militant group al-Shabaab in neighboring Somalia.**"

22. Botswana, China, Japan, Taiwan and others did not serve as "police states." This doesn't mean they did not have allies and investors behind them. But mostly on their own terms. Even under dictatorial regimes, in these and similar countries, economic nationalism and patriotism triumphed. These were not incompatible with the needs of global capital. In these patriotic and nationalist developmental states, people encouraged, mobilized and empowered to create, participate, set up private businesses and succeed. The rapid spread of modern telecommunications technology including the Internet, Mobile Phones Facebook and others in Vietnam and others attests to this. In all cases, the public and private sectors with an unprecedented level of synergy. The private sector boomed and millions of jobs were created. People became millionaires by creating, innovating and producing for both the domestic and global markets.

Females as social engines of growth

23. Access to primary, tertiary and higher education was instrumental. It was not just quantity; it was quality that mattered. Girls were deemed as partners and fair access for their education was a deliberate government policy. The other half of the population that consists of females participated in large numbers in the modern economy for the first time. Education and training of girls was part and parcel of the development agenda. The state protected local industries, invested heavily in incubating new ones and transformed the rural economy and made it an integral part of the transformation process. The state did not control the rural population. It freed them to own and produce. Korea and Taiwan are prime examples of empowering developmental states.

24. Development literature teaches us in the 1950s and early 1960s, South Korea was poorer than many Sub-Saharan African countries. Dani Rodrick of Columbia University, an Economist who has studied the subject meticulously tells us that "Taiwan was not richer either." In 1953 Korea had a per capita income of $67, lower than Ghana and Ivory Coast. The county was

devastated by the Korean War where Ethiopian soldiers fought and many sacrificed their lives. This devastated country transformed itself into an industrial and economic powerhouse in 25 years. This about the same amount of time the TPLF/EPRDF has been in power. This is the reason why it belongs to a group of countries the World Bank named as the "East Asian Miracle." So, patriotic and nationalist developmental states can do miracles; in contrast to countries in Sub-Saharan Africa that experimented with State Capitalism, Socialism, economic liberalism (Ivory Coast is the best example) and Military dictatorships. Isms are not the same as wisdom.

What are the success factors that propelled South Korea?

25 (a) This position paper is not about South Korea. We sample this nation to illustrate a point. Following the Korean War, the country was aid dependent and the vast majority of Koreans were poor and had very little to eat. They depended on American generosity to survive. The Miracle is that this aid dependent and technologically backward country lifted itself through its own bootstraps and succeeded. Successive patriotic and nationalist governments, albeit dictatorships, conceptualized, designed and implemented a succession of **industrial and rural transformation plans** that was Korean and intended to serve Koreans. Government leaders had a vision for their country, a vision of sustainable and equitable development. South Korea's transformation was mostly homegrown. It was and is Korean. Despite the War, institutions were kept as intact as possible and those destroyed were restored.

25 (b) Korea did not just focus on rapid manufacturing and industrialization by inviting foreign investors in a haphazard manner. Partnership and shared prosperity drove Korean FDI. Development was integrated and not opportunistic. Rural development was equally key. Scholars tell us the state initiated and sponsored movement called "SAEMAUL or new village" was pivotal in the country's export boom of the 1970s. This is not the same as forced "villagization" the TPLF/EPRDF is pursuing in Ethiopia. History recalls that the same method of forced "villagization" without alternative employment and the requisite infrastructure had failed under the Military/Socialist Dictatorship. We do not oppose well planned and empowered resettlement of citizens in their own self-interest.

How did it take roots?

25 (c) The rural population was motivated and wanted change and support from the government. The state intervened and provided incentives. At the time President Park Chung-hee ruled South Korea in 1971, his government decided that rural transformation cannot be left to chance. The rural economy must be transformed if South Korea were to succeed. Controlling the rural population for political purposes did not make sense to South Korean technocrats and leaders. What inputs influenced transformation? According to the Economist, the government

produced and gave “nearly every one of South Korea’s villages **335 bags of cement**.” These villages built “bridges and paved roads.” Others chose to replace their “thatch roofed homes with tiles” they produced locally. This indigenous innovation proved successful. In its report, **“Rural Development in South Korea: pastures new”** dated December 6, 2014, the Economist reported the government of South Korea decided to beef up the experiment. This same model can be adopted to Ethiopian varied conditions. For example, the government can encourage construction of brick or other alternative homes and demonstrate to communities how to build and use them. Small and suitable mini-factories that take advantage of local materials and indigenous knowledge would make sense.

25 (d) In the case of Korea indigenous knowledge proved vital in the transformation process. “Those considered successful (more than 50 percent) received more cement and plus steel rods. In return, villagers were required to pool their savings into local banks. The aim was to gather” internally generated savings “for money making projects such as farming ginseng, chilies or oysters,” staples in South Korea. It is like incentivizing beehives and honey making, coffee or Teff production etc. in Ethiopia. Korean farming families used profits to purchase other inputs such as better seeds, machinery and credits. Rural families begun to modernize their farms. They had the means to support their children’s education. Increasingly, they became an integral part of the modern economy. Almost all experts who have studied South Korea’s success agree incomes of rural families increased dramatically. Government support and encouragement of the rural sector played a decisive role similar to the rest of the national economy.

25 (e) All told, the South Korean developmental state helped to create a self-sustaining and equitable economy with a large middle class. South Korea exceeds its Western peers in social indicators such as education and the use of modern communications technology.

The myth of neo-liberalism and globalization

25 (f) Unchecked and non-directed neo-liberalism that gives blind faith to the free market and undemocratic globalization that favors foreign investors over domestic entrepreneurs are harmful. Korea did not open its wombs for unfettered globalization. It is true that the global community benefits from science, technology, meritocracy, education, peace and the rule of law associated mostly with Western countries. These too have to be adopted to suit each country’s unique case. Korea is not America or England. It is a unique country with history, culture and indigenous knowledge. So is Ethiopia. Development cannot be manufactured like shoes or textile. No one can speak better about South Korea’s Miracle than a Korean development economist. And no one knows better about the interplay between a nationally led and home grown development model and global capital than Ha-Jung Chang. In his marvelous book “**The Bad Samaritans: the myth of free trade and the secret history of capitalism**,” he tells us of an internal assessment of South Korea’s conditions by USAID, the main bilateral

player at the time. It called Korea a "basket case, a bottomless pit" with no hope for transformation. The country was devastated by one of the "bloodiest wars in human history…At the time, its exports were primary commodities such as fish and tungsten. Samsung, one of the world's leading "exporters of mobile phones, semiconductors, television sets and computers today started as an exporter of fish, vegetables and fruits in 1938." It diversified into "textiles and sugar refining in the 1950s" and entered "the semiconductor business in 1974," as Ethiopia was entering its tumultuous Socialist Revolution. "When it declared its intentions, in 1983, to take on the big boys of the semiconductor industry from the US and Japan by designing its own chips, few were convinced." The same is true for Hyundai and before it for Toyota. Some still believe Samsung relied on foreign experts and technology. That is to say, South Korea entered the industrial age by inviting global technology and capital. We need to think differently from the conventional wisdom that industrialization and other forms of development must be imported. East Asians including Koreans and Japanese have shown indigenous development is possible and doable.

25 (g) It is true that technological innovations in Europe and the US contributed to the transformation of Japan, South Korea and others. But technologies were adopted and or invented locally. Mr. Toyoda Jidosha Kabushika Gaisha, the founder and father of Toyota begun manufacturing automotive locomotives and other products first. In 1933, his son, Kiichiro Toyoda decided to build cars. He had encouragement from the Japanese government. He visited Europe and learned about gas-powered engines. In the same year, Toyota Motor Company—toady the largest car manufacturer in the world—invented or created its first indigenous engine and began building trucks for the Japanese market. The rest is history. Similarly, the Korean Chung Ju Yang whose parents were poor rural farmers in post-war Korea, established a construction business in 1947. He had a vision to build the first indigenous cars and entered into a technical agreement with the Ford Motor Company in 1968. This gave him access to resources, especially technology. He raised enough capital from his construction business and established Hyundai. His firm designed and built the first Korean made car, the Pony, in 1975. Today, Hyundai is one the fast growing companies in the world. In both Japan and South Korea, nationals had a hard time accepting that locally made cars and other products were as good as Western products. This cultural lag tends to discourage indigenous designs and inventions. The Japanese and Koreans overcame this hurdle because they had patriotic and nationalist governments and entrepreneurs.

25 (h) Economic nationalism for the right cause works. "President Park launched the ambitious Heavy and Chemical Industrialization programme in 1973..the first steel mill and the first modern shipyard went into production, and the first locally designed cars rolled of the production lines," etc. etc. The ambition to achieve per capita income of $1,000 by 1981 "was achieved four years ahead of schedule." How? By boosting employment, increasing incomes and

expanding the middle class. Education became compulsory. "The country's obsession with economic development was fully reflected in our education. We learned that it was our patriotic duty to report anyone seen smoking foreign cigarettes." Imagine compulsory cessation of smoking foreign cigarettes and other delusion-inducing substances and importing indigenous culture transforming habits and practices in Ethiopia. Imagine asking the rich to buy domestic products instead of imports. Would citizens, the new rich and especially youth consider this as a patriotic duty with relevance to development? We do not certainly think this can be done under the current developmental state. In fact, the ruling party is interested in promoting diversions and alien practices that undermine indigenous culture and creativity.

25 (i) South Korea's development is not limited to mobiles, cars etc. Equally impressive is the quality of human life. Education and training led to jobs and jobs to better incomes. It is a virtuous cycle. "Better nutrition and health care mean that a child born in Korea today can expect to live 24 years longer than someone born in the early 1960s (77 years instead of 53 years. Instead of 78 babies out of 1,000 (almost the same as today's Ethiopia), only five babies will die within a year of birth. Korea has succeeded because it has followed the dictates of the free market… and embraced the principle of sound money (monetary policy) such as low inflation, small government, private enterprise, free trade and friendliness towards foreign investment" that embraces shared prosperity and does not crowd out domestic enterprises. It helps to have a competent, patriotic and nationalist government and civil service that ensures that Korea benefits the most. In this sense, Dr. Chang does not subscribe to the unbridled neoliberalism and globalization that journalists and experts such as Thomas L. Friedman (**The Lexus and the Olive Tree: understanding globalization, Hot, Flat and Crowded**, for example. If you subscribe to his prescriptions and are not careful, they will "**eat you up and leave you dry**." The Slave Trade, Colonialism and today's version of the slave trade called human trafficking and unguided and uncontrolled globalization create havoc and poverty. Can you imagine Karuturi of India or Saudi Star of Saudi Arabia developing Ethiopia and ending poverty? At least Karuturi's General Manager is honest enough to say that his company is in Ethiopia for "commercial purposes." Their agenda and motive are different.

25 (j) "The neoliberal agenda has been pushed by an alliance of rich countries led by the US and mediated by the "Unholy Trinity" of international economic organizations that they largely control—**the International Monetary Fund (IMF), the World Bank and the World Trade Organization (WTO).** The rich governments use their aid budgets and access to their home markets as carrots to induce the developing countries to adopt neo-liberal policies." This is typically done "to create an environment that is friendly to foreign goods and investments in general." In Ethiopia's case, Saudi sponsored Al Amoudi is justified to own and develop large-scale commercial farms and export the produce to Saudi Arabia while Ethiopians go hungry because of this neo-liberal policy prescription adopted by Meles' TPLF/EPRDF developmental

state. "The IMF and the World Bank play their part by attaching to their loans the condition that the recipient countries (such as Ethiopia) adopt neo-liberal policies." They do not really care whether the recipient government maims, kills, tortures, jails or expels citizens for demanding justice. They do not seem to care if the domestic private sector is crowded out and dwarfed by party and state owned and endowment monopolies and foreign companies. They do not care if aid money is stolen and taken out of the country. What matters most is the developmental state has declared itself to be a state capitalist follower of neo-liberalism and a sponsor of foreign direct investment that will ultimately be as successful as South Korea and others. This is sheer fantasy. It won't happen.

25 (k) It is the strongest countries and their experts who lead and enforce policies that the least developed of the developing countries follow. "These governments and international organizations are supported by an army of ideologues. Some of these people are highly trained academics who should know the limits of their free-market economics but tend to ignore them when it comes to giving policy advice. Together, these various bodies and individuals (including financial market corporations and experts) form a powerful propaganda machine, a financial-intellectual complex backed by money and power." They encourage, create and support allies including governments in developing countries. The Ethiopian Surveillance state fits this description. It is an ally. We deduct from this that the poorest and least developed are the most vulnerable unless they have patriotic and nationalist governments and a competent bureaucracy that adopts economic nationalism as a guide.

25 (l) "The reality in the case of Korea's transformation" is far from the wholesale adoption of the neo-liberal development model. "What Korea actually did during these decades was to nurture certain new industries , selected by the government in consultation with the private sector, through tariff protection, subsidies and other forms of government support (e.g. overseas marketing information services provided by the state export agency) until they 'grew up enough' to withstand foreign competition. The government owned all the banks, so that it could direct the life blood of business—credit. Some big projects were undertaken directly by state-owned enterprises—the steel maker POSCO. The government had absolute control over foreign exchange (violation of foreign exchange controls could be punished with the death penalty." Illicit outflow of funds was considered a crime and subject to the death penalty. Chang concludes "The Korean economic miracle was the result of a clever and pragmatic mixture of market incentives and state direction. The Korean government did not vanquish the market" and it did not have "blind faith in the free market either. While it took the market seriously, the Korean strategy recognized that they often need to be corrected through policy intervention."

25 (m) Contrary to the above and other best practices, Meles Zenawi caved in to the Washington Consensus and in the early 1990s, he privatized hundreds of state-owned

enterprises and doled them out to individuals loyal to the party and to endowments such as EFFORT. Al Amoudi was one of the largest beneficiaries of privatization, including acquisition of profitable gold mines. Today, Ethiopia's colleges and universities teach economic and development courses that reinforce "blind faith" in neo-liberalism and non-competitive state capitalism. Self-interest and greed and not economic nationalism, patriotism, innovation, creativity, private and public partnership and broad-based participation are propagated, critical thinking discouraged or banned. The governing party's model cannot be debated or questioned.

25 (n) Students and government cadres are rarely told that Ethiopia's rural population, especially farming families possess enormous potential to contribute to the modernization process and should be empowered and encouraged. When students and cadres think of Ethiopia's development they do not often think of "cement or iron rods" as transformers. They are not allowed to think how important it is for the Ethiopian government to build fertilizer factories--instead of armament industries—that are suitable for the country's environment and avail fertilizer to smallholders at the lowest cost possible. They are not permitted to think or debate the notion that Ethiopia's rural transformation does not depend on foreign owned large-scale commercial farms but on well-organized and modernized smallholders and Ethiopian private entrepreneurs. They are not allowed to think that humanitarian and development aid must have an end and that people must be in a position to own, produce and save. They are not permitted to question the value of continuous devaluation of the Birr. Devaluation and inflation have diminished purchasing power and deepening poverty. They are not permitted to recommend that inputs such as adult literacy, affordable fertilizers, seeds, machinery, credits etc. etc. are fundamental in transforming the rural sector. As the first country in Africa to introduce farming, Ethiopia has potential to produce enough and feed its hungry millions and generate surplus for export. This is not taught in school. Anything Ethiopian and indigenous is discouraged.

Removing impediments and implanting sustainability with equity

25 (n) In Ethiopia, the "Developmental State" is an impediment and not a facilitator. The South Korean developmental state created a **transparent and empowering investment climate** and **regulatory framework** encouraging public and private sector participation and partnerships. It provided subsidies to domestic investors and used public enterprises solely for productive purposes the private sector could not afford. According to Dani Rodrick, the South Korean developmental state encouraged "labor intensive manufacturing" as a matter of national policy. Exports were exempted from paying taxes and imports of luxury goods were discouraged. Capital goods imports were geared towards accelerated production. Savings, social mobility and national integration, mass communications, specialization and constant learning and innovation were encouraged. The government established numerous national enterprises, most of them in

manufacturing and strategic industries. Samsung, Hyundai and others are a result of this deliberate state capitalism-led development.

25 (o) One of the most critical distinguishing features of the South Korean developmental state is the formation of a competent, dedicated and nationalist group of technical, professional and managerial cadre of people who coordinated and encouraged private and public sector partnership. This created and sustained synergy while reducing administrative costs to the society. Even the military and police establishment was required to support the development process and contribute to productivity outcomes. Good industrial and rural development policy was owned by a broad spectrum of people. None of the economic actors operated outside the mainstream of economic and social transformation. There was no parallel market or state or government. In short, this type of patriotic and nationalist development is markedly different from Ethiopia's.

26. This is why we suggest that the Ethiopian "Developmental Democratic State" is neither nationalist nor patriotic. It is established to serve ethnic elites rather than the nation. It is not designed to embrace the larger society and boost national productive capacities and capabilities. This is why fair-minded Ethiopians and the world community should examine the nature and evolution of the Ethiopian "developmental democratic state." A state that strangulates politically and diminishes human worth and potential cannot advance balanced, sustainable and equitable development. We are not alone in expressing this widely held view.

27. In a review of the World Bank initiated multi-donor and multibillion dollar Provision of Basic Services (PBS) program in 2005, a Senior Bank official who remains anonymous queried why the donor community would fund a program over which it will have no control? "Which state are we building and how? It could be that we are building the capacity of the state to control and repress." His prediction was right. The donor community and global capital helped to build the "Orwellian" State whose "scale and scope" in punishing those who seek fairness and justice is beyond description; and whose commitment to plunder defies the imagination. The donor and governing party argument the state is investing heavily in infrastructure at a level never seen in Ethiopian history with the purpose of creating sustainable and equitable development is equally disputed by another Senior World Bank official with conscience, albeit anonymously. "I like to compare the current donors to Italians who built roads for Haile Selassie. Without the Italian roads, the Emperor could not have controlled the state. Without donors' money, Zenawi could not hold it together---PBS is a donor funded bureaucracy" that strengthens the Party's grip on the society while keeping the country poor and its people largely hungry. Dictatorships are well known for building grandiose projects such as rails, highways, dams, stadiums, hotels, airports etc. etc. Argentina, Brazil, Chile, Ivory Coast, the Democratic Republic of the Congo and others.

These are admirable to the extent they open up employments and business opportunities for ordinary people.

The imperative of rights based aid

28. **Aid without respect for human rights and** dignity won't overcome debilitating poverty. On the contrary, it strengthens Ethiopia's dictatorship. The ultimate goal of aid is to strengthen human freedom and to make aid unnecessary. Korea and others proved this in less than 30 years. Unfortunately, the lead actor in the aid business, the World Bank avoids human rights entirely. In "**What the World Bank won't utter,"** the Washington Post, September 9, 2014, Philip Alston surfaced what the donor community avoids almost all the time. "Does it matter that the lead source of funding for, and thinking about world development won't go near human rights with a 10-foot pole?" The Bank's argument is that it's Articles of Agreement bar it from discussing human rights and from taking sides. This argument is not tenable. It goes completely against its own vision and mission of "**A World Free of Poverty."**

29. The UN's Millennium Development Goals (MDGS) to which the World Bank subscribes is grounded on the fundamental principles of advancing gender equality, "access for the poor to food, shelter, clean water, sanitation, health care, education and jobs." All these are core human rights embraced by the global community. The World Bank and other donors who care about the poor and sustainable and equitable development cannot ignore them even if they want to. Otherwise there won't be peace, sustainability or shared growth. Dealing with and giving checks to dictatorships carte blanche and without measurable accountability diminishes the value added of their aid. In Ethiopia today, unconditional aid is used as an instrument to punish opponents regardless of social and income status and reward those in power and their allies. Ethiopia is the best example of the diminished role of aid in an oppressive and abusive environment. The poor cannot bargain with their own government without the right to speak, protest, assemble, choose their representatives etc. etc.

30. As William Easterly illustrates in his latest book **The Tyranny of Experts: economists, dictators and the forgotten rights of the poor, Ethiopia is a prime example of a "Blank state upon which the experts are writing new technical solutions to solve poverty and its health consequence.** The problem is not analytical data. The World Bank has written numerous pieces on poverty, governance, capacity building, the role of the private sector, corruption, agricultural development etc. etc. These have no teeth with regard to the core issue that keeps poor people poor. "Another view of bad government" buttressed by oppressive institutions, "is that wherever people lack rights, and when oppression pays off for the rulers (dictators), the rulers will oppress their subjects." In other words, in the absence of rights, more aid, including food would mean more oppression and not less. "Every tool at their disposal—fertilizers, loans and credits, safety net payments is being used to crush the opposition" and in the process the poor.

The correlation is this. The oppressors have more at their disposal to do exactly what they like to keep people in check. This is the reason why Easterly feels strongly, based on research findings, that "Unchecked power is abusive power." A 2013 research piece by Human Rights Watch, **Abuse Free Development**: **how the World Bank should safeguard against human rights abuses arrives at a similar conclusion.**

31. The World Bank is not immune from taking political sides when its primary shareholders dictate. As Alston points out, "Activists and governments, not to mention the U.S. Congress, were keen for the Bank to wield its lending power and gate-keeper function against countries they didn't like. The Bank saw this approach would leave it with remarkably few customers." The position it took of not lending to governments powerful shareholders such as the U.S. and the U.K. did not like is a political decision. Kenya under Moi and Zimbabwe under Mugabe come to mind. The donor community including the World Bank were not heavily involved in lending to the Military Socialist Dictatorship headed by Mengistu Haile Mariam. So, aid is a political tool. The World Bank's highly acclaimed "Safeguard policies" dealing with indigenous people, girls' education, the environment etc. etc. are prime examples of commitment to human rights. The Bank keeps telling the world that states and governments have legal and moral obligations to their citizens. The question is "What if they don't?" This is the case in Ethiopia.

32. We agree with Alston and Easterly that the World Bank is a critical institution in alleviating poverty to the extent it accepts the fundamental principle that development is about human rights and human dignity. "Having no human rights policy, or remaining neutral, sends a clear message to the world. It is time for the World Bank to rethink its self-defeating stance on human rights." Regardless of how much money it lends to the Ethiopian government, eradication of hunger and diseases, lack of sanitation, safe drinking water and shelter, access to universal education that lead to jobs, the empowerment of the poor, emergence of the domestic private sector etc. etc. won't happen without the rule of law and respect for human rights and freedoms. We find it unfortunate for the Ethiopian poor that the current President of the World Bank, Dr. Jim Kim doesn't see anything wrong with Ethiopia's Crony capitalism. We disagree vigorously with his statement that "Ethiopia's transformation is due to a 'stable' government that pursues prudent economic policies and takes a long-term perspective." Ethiopia is home to one of the largest political prisoner populations in the world. It is the second largest jailer of journalists in the world. It is the largest recipient of food aid on the planet. TPLF's/EPRDF's tyrannical rule has become the "enemy of development." At minimum, the donor community and especially the World Bank should no longer do harm. They need to condition their aid on government commitment to human rights and the rule of law.

33. Under normal conditions, physical and social infrastructure investment to which the donor community contributed immensely is essential in building sustainable and equitable

development in any country. World Bank loans contributed to investments in infrastructure, especially the social sector. Bank loans to Ethiopia have been rising at an astounding pace, from **$640 million in 2011 to $974 million in 2012, $1.5 billion in 2013 and $1.64 billion in 2014**, the largest in Africa. The portfolio of 150 projects exceeds $6 billion. The Bank argues that its loans are intended to overcome destitution and to put Ethiopia on a competitive footing. However, the Bank has never come to grips with the reality that sustainability and competiveness depend on a regulatory framework in which the domestic private sector takes center stage, the public and private sectors work in partnership to advance the development process, the party and state give way to the domestic private sector and government and officials are held accountable for waste, bribery, misappropriation, corruption and illicit outflow. Construction, infrastructural investment, land transactions and export/imports are among the major sieves through which money is transferred from Ethiopian society to private interests illegitimately and illegally. It is this same state that issued a Sovereign Bond that we characterize as "Bondage." Why? Every additional money will be used by the Surveillance or "Orwellian" state to control and suppress and not to liberate, generate employment opportunities for millions, boost domestic productivity and incomes.

Infrastructure with social meaning and economic value

34. SHENGO recognizes that Ethiopia needs to invest heavily in physical and social infrastructure in a socially, environmentally, financially, politically and economically responsible manner taking into account the needs of indigenous people and social and environmental sustainability. In the most successful economies of East Asia and the Pacific including South Korea experts found infrastructural investment is much more broadly defined than is the case in Ethiopia. Sector investments that contributed to rapid growth and income equality include safe drinking water, sanitation, shelter, information technology including the Internet and Mobile phones, electrification, adult literacy and education of girls, private ownership of assets, modernization of family owned farms and deliberate links between the rural and urban sectors. In 2006, the World Bank conducted a major study of these essential linkages and concluded that integrated infrastructural investments contribute to sustainable growth while reducing inequality. A review of similar research shows "that social infrastructure such as education, adult literacy, health, and housing are essential in promoting better utilization of physical infrastructure and human resources, thereby leading to higher economic growth," better health, incomes and a better life for those who are poor. Whether through savings, deficit financing, aid, commercial loans, Sovereign Bonds, the Ethiopian government must address policy and structural hurdles and face squarely the need for rapid reform the society is asking. Another 5 or 10 or 15 years of the same won't do it. We have seen that education without employment leads nowhere. Rapid labor intensive industrialization and agriculture based manufacturing owned by Ethiopians or in partnership with foreign investors are critical. Infrastructure is meaningless unless it harnesses

and advances human potential. This occurs when infrastructural investments go hand in hand with investments to boost meaningful employment, enhance capabilities and capacities of those left out from the growth process. The test against which the Ethiopian developmental state should be assessed is whether it is advancing sustainable and equitable growth that expands the middle class and strengthens social welfare for a broad spectrum of people. If people, especially youth, leave their country in droves, the Ethiopian developmental state has failed.

Human exodus

35 (a) Government commitment to retain, harness and advance the capabilities and capacities of the entire society especially youth is not a priority in Ethiopia. The priority is to encourage and receive remittances and to entice and persuade the growing Diaspora to be part of the development process without questioning policy. In October 2014, the World Bank reported that "39 percent of Ethiopians had a close relative abroad, 18 percent remitted an average of $120 to relatives 5 times per year…two million Ethiopians lived abroad…In 2010, remittances constituted two percent of GDP" etc. The government affiliated Reporter quoted the National Bank that "in the first quarter of 2013/2014, it received $622 million in the first quarter and $703 million in the first quarter of 2014/2015." This exceeds all export earnings. It is plausible to conclude from the data that Ethiopian society and the government depend on remittances. The amount of remittances is underreported by several fold. We estimate remittances to Ethiopia in the billions. Most Ethiopians do not trust the government and its institutions. The National Bank of Ethiopia (NBE) is not the only conduit for remittances. People remit monies through other non-legal and non-transparent means. Can you imagine a Somali in the Ogaden or Gondarie in the Amhara region or Annuak in Gambella or Oromo in Oromia sending monies through the NBE? Most refugees abroad do not use the formal system. This is why we say that remittances are always underreported and the World Bank has no way to arrive at an accurate picture. Equally, we do not subscribe to the number of Ethiopian immigrants abroad. It is at least twice the two million the World Bank reports. There are at least one million Ethiopians and people of Ethiopian descent who live and work in North America, two million in the Sudan and South Sudan, another million in the Middle East, the Gulf Region, Saudi Arabia, North Africa and Sub-Saharan Africa and hundreds of thousands in the rest of the world including the Far East. The World Bank and others need to do more in-depth research to arrive at a more accurate figure than two million. Numbers matter. Ethiopia's unstoppable exodus has multiple adverse impacts that affect policy. So, we ask the legitimate question "What about the rest?" One can't find a country to which Ethiopians have not immigrated. South Korea and Alaska are prime examples.

35 (b) Ethiopia's brain drain is a huge cost for the country. It diminishes available educated and trained human capital that could boost domestic creativity, innovation and enterprises. It creates irreplaceable social capital to demand rights, build national civic, professional and

political organizations. It perpetuates a culture of dependency etc. etc. Ethiopia's immigrant population cannot expect sustainable and equitable development and the formation of a democratic state by living and working abroad and by remitting money to a repressive regime. It is true that remitters reduce poverty. Almost 40 percent of Ethiopians have a close relative who lives and works abroad and remits regularly. It means between 30 and 40 million Ethiopians depend on remittances or at least receive some money to supplement their incomes. Accordingly, this group contributes to the reduction of poverty that the World Bank attributes to government intervention. In fact, by remitting real money regularly, the so called Diaspora is contributing more to the reduction of poverty than the Ethiopian government. Here is the paradox though. No amount of remittances would replace the direct impact of educated and trained people if they stayed in their home country and advanced the modernization process. Even if we accept the current reality that Ethiopia is not hospitable for youth, educated talent and independent people who stand for justice, the least the Diaspora can do is to become an advocate of democratic change and to assist those who are fighting for justice, equality under the law and fairness in Ethiopia.

36. The ruling party gets away with the untenable notion that Ethiopia can grow by shipping away its human capital and securing remittances instead of creating the means by which they can prosper and propel the country into prosperity. We challenge this TPLF instigated premise of robbing Ethiopia of talent that can compete against it and suggest in the strongest terms that Ethiopian youth deserve a government that encourages them to stay and create opportunities at home. This won't happen unless people rise up and demand justice and unless people trade short term individual and family economic interest for the common interest of all Ethiopians. We know that the Ethiopian government is more efficient in facilitating human exodus and extracting rent through remittances than creating favorable conditions for youth and others to succeed at home as South Korea has done. We find it tragic that the preferred destination of Ethiopian youth and most others is not to stay at home and develop the country but to leave it. No country develops without its own social capital. The Ethiopian developmental democratic state is a disempowering one. This is why Ethiopians leave their country in droves. The consequences are disastrous. We will use one example to illustrate this point.

37. Human Trafficking shows the plight of millions of Ethiopian youth, especially females, in a country that the TPLF/EPRDF calls one of the fastest growing economies in the world. This is simply a joke. The US Department of State's 2014 report on the subject paints a dire picture that the ruling party cannot deny or solve. "Ethiopia is a source and destination for men, women and children subjected to forced labor and sex-trafficking. The central market in Addis Ababa is home to the largest collection of brothels in Africa." Foreign tourists made Ethiopia a destination in part because of the "sex trade." Girls suffer both at home and abroad. "Young women are subjected to domestic servitude throughout the Middle East, as well as in the Sudan

and South Sudan." Human trafficking is a big money maker, with 400 government licensed brokers selling their own people for profit. If you believe the data; we don't, the government says **1,500** Ethiopians leave the country each day. This is easily one-third of the outflow or exodus. Another 70 percent or 3,500 are smuggled out illegally or leave on their own. By the government's reckoning, **183,000** youth leave the country each year. They leave because there are no employment opportunities or the means such as credit and lands and other critical support to establish their own businesses. Only those loyal to the party have access. What is incontestable is this. The government has failed to respond to hopes and needs of Ethiopia's youth, especially females. Their predicament alone calls for the overhaul of the system. The US Department of State's survey of human trafficking that we **call "21st century slavery"** shows that the Ethiopian government does not comply with minimum international standards of human trafficking and abusive laws. It does not protect migrant workers abroad. In short, Ethiopia's youth is being wasted at a massive scale.

38. The TPLF/EPRDF government spends hundreds of millions of dollars or billions of Ethiopian Birr to spy and control Ethiopians instead of investing in the country's youth. Ethiopia has one of the largest bureaucracies in Africa, most of them employed to spy and control. Unlike East Asia and the Pacific, Botswana, Mauritius and increasingly Ghana, Ethiopia is losing the social and economic benefits that would accrue from its youth population. The administrative cost to support the State's network of spies and lobbyists abroad is enormous and morally reprehensible. This is why "the scale and scope" of TPLF/EPRDF state power defies the imagination of fair minded foreign observers and the majority of Ethiopians. The reader does not need more evidence than the condition of the country's youth. It is a shame for all Ethiopians and people of Ethiopian origin. It is critical to keep in mind that Ethiopia is still food aid dependent. Many of those who leave the country do not have enough food to eat or to support their families. Meles had vowed to achieve food self-sufficiency and security. The developmental state has not overcome the recurrent problem of hunger and famine. It continues to rely on food aid to feed millions. Those who are hungry have rights too. They are not allowed to speak or protest.

39. The TPLF that dominates and commands the EPRDF government is rooted in the Marxist-Leninist ideology of command and control. It is called Revolutionary Democracy (RD). The essence is party, government and state control of politics and economics. It does this by decimating independent newspapers, civil society organizations and political competition, a competitive domestic private sector, transparent regulations and a beneficial FDI that transfers capital, management and technology.

40. Either knowingly or unknowingly, donors, the diplomatic community and foreign investors have bought the merits of the 'Developmental State' without scrutiny. In part, this is because of

massive lobbying and propaganda the TPLF carries out; and in part because of private and or national interest. What is incontestable is this. In order to give confidence to the West and entice Foreign Direct Investment (FDI), the 'Developmental State' masquerades as an adherent of neoliberal economic and market policies. This serves its strategic purpose. Ethiopia "serves as a police state in the region" and invites foreign investors without requiring them to serve the Ethiopian people, for instance, in transferring technology, modernizing agriculture etc. etc.

41 (a) The donor and investment community is not oblivious to the notion the Ethiopian government has embraced a **predatory form of crony capitalism** in which only a privileged few ethnic-elites, primarily a small core group of Tigreans aligned to the TPLF get rich extracting rent and appropriating public funds including foreign aid and earnings from exports for private gain and wealth. This does not mean that the vast majority of Tigreans are beneficiaries; they are not.

41 (b) Human rights groups have expressed outrage that the donor community has abandoned its own values of human rights, the rule of law, transparency, accountability, fairness and justice for political expediency. On January 19, 2015, Harry Davies and James Ball of the Guardian quoted a recently completed World Bank Inspection Panel report on World Bank and UK Department for International Development (DFID) funding of forced villagization in Gambella that shows that these donors "may have contributed to the violent resettlement of a minority ethnic group" in the name of development. A "scathing report of the World Bank's internal watchdog said that due to inadequate oversight, bad audit practices and a failure to follow its own rules, the Bank has allowed operational links between its programs (for example, the Promotion of Basic Services) and the Ethiopian government's controversial resettlement program." The World Bank and other donors work closely and directly with the Ethiopian government. The government is the client; not the people. Therefore, the Bank had direct knowledge of the government's intentions to resettle hundreds of thousands of Ethiopians including those in Gambella in new villages. The leaked Inspection Panel report fails to make the Bank accountable and responsible for human rights violations. The founder and president of Oakland Institute, Anuradha Mittal is right when she said to the Guardian that, "Along the World Bank and other donors, DFID support constitutes not only **financial support but a nod of** approval for the Ethiopian regime to bring about **economic development for the very few at the** expense of basic human rights and livelihoods of its economically and politically marginalized ethnic groups."

41 (c) Human Rights Watch has released numerous reports concerning World Bank aid and human rights violations by the Ethiopian government. Its assessments are identical to that of David Pred of Inclusive Development International the Guardian also quoted. "The Bank has enabled the forcible transfer of tens of thousands of indigenous people from their own ancestral lands. **The Bank today just does not want to see human rights violations,** much less

accept that it bears some responsibility when it finances those violations." It says human rights are political. We say that the World Bank's lending is political. It chose the repressive Ethiopian government over human rights, justice and the eradication of poverty for all Ethiopians etc. etc. The tragedy of not exercising due diligence such as proper audit, environmental and social viability etc. is that the poorest of the poor enter into a cycle of poverty from which they may never recover. Ironically, on January 20, 2015 the World Bank released a press statement, "Poverty in Ethiopia down 33 percent since 2000" praising the Ethiopian government for its success.

41 (d) At the same time, the Bank acknowledged that "37 million Ethiopians remain either poor or vulnerable to falling to poverty… The very poorest of the poor in Ethiopia have become even poorer." This is what happens when the government takes away ancestral lands from poor farmers and hands them to foreign investors and TPLF loyal domestic investors. The poor cannot migrate to urban areas because there are no alternative employment options. Unlike East Asia, the Ethiopian government has missed the opportunity to create non-agricultural employment alternatives to absorb millions. So, why are donors including the World Bank still lending? What guarantee is there that the **37 million** people who do not depend on remittances or other subsidies or are not well endowed with ample fertile farmlands to produce marketable commodities would escape poverty? Is the donor community ready to entertain that Ethiopia deserves a rights based development that will broaden access to opportunities; and abandon the developmental state by the few and for the few?

41 (e) In its press release, the World Bank remarked that Ethiopian society is more "equal" than others. We acknowledge that manifestations of abject poverty throughout the country suggest equality of impoverishment. In terms of income and wealth concentration, Ethiopia is more unequal today than under previous governments. The TPLF core group is among the most arrogant, discriminatory, partial, selective and exclusive in the world. Almost all policy and decision-making positions are held by Tigrean speakers. From its inception, the TPLF core has made the Tigray region the single most important priority of the government. Preferential treatment in social, physical and economic infrastructure is evident throughout the Tigray Region. State of the art hospitals and universities, international airports, factories, roads that connect the rural population, a dedicated hydroelectric power plant, etc. all paid by Federal Government funds attest to preferential treatment. In Addis Ababa, the new rich have built palatial homes that are heavily fenced and in some instances barbed-wired to make them safe from the outside world. This is not a fair, just and equal society. It is therefore unfortunate that a major donor such as the World Bank finds virtue in riches for a few using public resources.

41 (f) Donors and Ethiopian government allies must acknowledge the precept this highly integrated and networked State they helped create has proven itself to be competent in the art

of organized plunder, extracting rent from the larger society and creating instant millionaires within and outside the party. This massive diversion of public resources is a tax on the society. It deprives the poor of resources that would improve their lives. It demoralizes hardworking Ethiopians, etc. etc.

42. Donors, foreign investors and government allies have a moral obligation to recognize this fact too. The "Developmental State" that is competent in suppressing and plundering is equally incompetent in creating jobs for the two million youth who enter the labor market each year and an equal number who move from rural to urban areas in search of jobs, in expanding the middle class, in securing safety and humanity for the majority and in meeting the basic needs of more than 90 percent of the population. Based on performance over the past 24 years, there is no assurance this state is capable of or committed to meeting the future needs of a growing population. For this reason, we believe the TPLF/EPRDF government has no legitimacy to issue a Sovereign Bond that binds the Ethiopian people to more debt.

The TPLF/EPRDF has lost legitimacy to govern

43. Developmental States that advance the common good and serve the welfare of their citizens are trusted. Ethiopia's dictatorship is not trusted by the vast majority of Ethiopians. Because it is not trusted by the public, the TPLF/EPRDF does not trust the general public let alone opposition groups. Legitimacy is a function of government commitment to abide by the rule of law, the Constitution and regulations that govern the society. More specifically,

44 (a) People who are expected to obey the authority of the state and government must feel that their voices matter and are always heard. If they demand justice, their government will respond; and people won't go to jail for demanding justice and service

44 (b) The Constitution and regulations of the land are trustworthy, cannot be manipulated for political use and are predictable and reliable. For example, the government and institutions guarantee non-interference by the party and state with regard to private property, personal safety and security, religion etc. etc.

44 (c) In all cases, the actions of the state and government are deemed fair and the regulatory and judicial system are impartial and just for all citizens

45. The TPLF/EPRDF state and government fails in all three facets of legitimacy to govern. Since it took political power almost a quarter of a century ago, the ruling party has undermined Ethiopia's long-term national security and interests, decimated national institutions and replaced them with ethnic and party serving organizations, undermined the social fabric and cohesion of the country's diverse population, implanted a culture of hate and revenge and

subordinated ethnic-elite interests over the common good. As the list below illustrates, the TPLF/EPRDF state and government:

45 (a) Abandoned Ethiopia's legitimate access to the sea and made it land locked

45 (b) Failed to achieve food self-sufficiency and security

45 (c) Failed to address the policy, cultural and structural roots of hunger, malnourishment, environmental degradation, job insecurity and ownership of land and other assets by Ethiopians

45 (d) Redefined and reconfigured Ethiopia's regional arrangements forcibly taking away large tracts of land from the Afar, Gondar and Wollo sub-regions and incorporating them into the Tigray region thereby creating permanent animosity between Tigreans and the rest of Ethiopia

45 (e) Ceded vast tracts of fertile lands and waters to Sudan creating permanent animosity

45 (f) Polarized Ethiopian society by pitying one ethnic and religious group against another and caused ethnic cleansing and episodes of genocide, ingredients for Ethiopia's disintegration

45 (g) Propagated inexcusable and dangerous propaganda of ethnic hatred and animosity between Tigreans and the rest deliberately

45 (h) Transferred millions of hectares of farmlands and waters to foreign investors (Karuturi, Saudi Star and others) in an opaque manner, dispossessed hundreds of thousands of Ethiopians and made the country more vulnerable and conflict prone

45 (i) Closed all political, social and economic space, made a mockery of its own Constitution and assured itself again that it will win the 2015 election in a landslide by competing against itself

45 (j) Caused the largest human capital exodus in the country's history and undermined culture and social capital

45 (k) Plundered and squandered the country's resources

45 (xii) Monopolized the pillars of the economy and crowded out deserving Ethiopians from competing fairly

45 (l) Initiated a program of industrialization and agricultural modernization by invitation, transferring manufacturing and industrialization to foreign investors without corresponding shared benefit for the country and domestic for entrepreneurs and alienated Ethiopians from ownership of assets in their own country

45 (m) Created unprecedented income inequality through deliberate and selective party intervention in procurement, credit, access to land, permits, foreign exchange allocation etc. etc. etc.

45 (n) Strangulated and crowded out the nascent domestic private sector through party, state, endowment and foreign monopolies

45 (o) Opened up Ethiopia's wombs by selling or transferring or facilitating ownership of the pillars of the economy, mines and urban and rural lands by foreign investors and selected ethnic elites

45 (p) Burdened future governments and generations with foreign debt that reached $20 billion last year and is growing; and domestic borrowing and debt in excess of 60 billion Birr

45 (q) Whether directly or indirectly, sponsored or facilitated or colluded in the illicit outflow of capital in excess of $30 billion to-date and more than $3 billion each year. Global Financial Integrity characterized this massive capital flight equivalent to the "bleeding" of Ethiopian society especially the poor

45 (r) Criminalized freedom of dissent, press, assembly, civil society, political opposition and other rights and subjected opponents to torture, jailing and expulsions. The Anti-Terrorism and Charities and Societies Proclamations of 2009 are now used to terrorize peaceful dissidents and democrats

45 (s) Institutionalized a police state of spying by placing one person to monitor and spy on five people and implanted a culture of fear and mutual suspicion among ordinary Ethiopians

45 (t) Created conditions for further disintegration of the country by refusing to resolve conflicts through dialogue, consultation and negotiation among all stakeholders

45 (u) Decimated all Ethiopian national institutions and historical, cultural and other icons that distinguish Ethiopia from the rest of the world deliberately and systematically. Ethiopia is no longer one country. Ethiopia today is a collection of separate and distinct geopolitical and economic entities based on language and not Ethiopian citizenship. The country is on the verge of Balkanization like the former Yugoslavia. This condition invites permanent suspense and civil conflict.

46. SHENGO believes these transgressions and crimes against the country and its diverse population are an affront to all Ethiopians. Suppression of rights gives a sense of temporary and ephemeral peace and stability and a misconceived notion of growth benefitting most Ethiopians. This false sense of calm masks social tensions that are brewing throughout the country that the TPLF/EPRDF cannot control once things fall apart. The glitz in growth that benefits the few

masks the reality that millions of Ethiopians are left out of the growth process. Twenty four years of massive aid later, millions rely on emergency food handouts. All these entail enormous risks for the country and its people.

47. The reader does not need to take our word only. The facts are out there for anyone to see. In a spellbinding assessment of the growth performance and wellbeing of citizens covering the world's 48 Least Developed Countries (LDCs), UNCTAD lamented these nations failed to reform the structure of their economies and establish a solid foundation of sustainable and equitable development for their respective societies. Quoting from UNCTAD's latest report, AFP reported on December 1, 2014 "The planet's poorest nations like **Ethiopia, Malawi and Angola** have failed to cash in on strong economic growth due to a lack of structural reforms that left them staggering in poverty." Over the past decade, the vast majority of Ethiopians and leading independent experts had disputed Ethiopian government and donor data and assessments of the social benefits of single party, government and state-led double digit growth. They provided a plethora of evidence showing "double-digit growth" had created a few millionaires, caused intolerable income inequality and regional disparities, squeezed the middle class, deepened poverty, exacerbated environmental degradation and ethnic conflicts, induced dispossession of millions and prompted massive brain drain of educated and trained human capital, especially youth.

48. SHENGO agrees with UNCTAD "The LDC paradox arises from the failures of LDC economies to achieve structural changes despite having grown vigorously as a result of strong export prices (in the case of commodity exporting nations such as Angola) and rising aid flows (in the case of Ethiopia and Malawi)." Ethiopia is the largest development aid recipient in Africa; and perpetually the largest food and other humanitarian aid recipient in the world. Ethiopia's growth is fueled by massive aid that **constitutes 50 to 60 percent** of the government budget. Most aid is fungible. It means the government allocates it the way it chooses. There are no independent institutions to contest the voracity of double digit growth and the ultimate use and effectiveness of foreign aid. What we know is the government uses aid to punish opponents and to reward friends and family. Donors and the diplomatic community have literally failed to leverage their influence by asking government accountability for outcomes and for pilferages. They turn a "blind eye" to atrocities while giving accolades to the dictatorship.

49. The critical point is this. Ethiopia's growth history propelled by massive foreign aid to the tune of **$4** billion last year, remittances, Diaspora and Foreign Direct Investments, deficit financing and heavy domestic and foreign borrowing has little to show in expanding the middle class and in creating millions of jobs each year. The TPLF/EPRDF has nothing to show in overcoming hunger. Similar to other poor LDCs, more than 50 percent of Ethiopians live in extreme poverty. Fifty to sixty percent are hungry and malnourished and fifty to sixty percent of

children are nutritionally deficient and stunted. One in twelve children die before the age of 5. According to the Oxford Multidimensional Poverty Index, close to 90 percent of Ethiopians survive on one dollar per day. This is the ugly face of "double digit growth" for a few and deepening poverty for the vast majority. What could be worse than this?

A flawed and rent-seeking development model

50. The TPLF's/EPRDF's top-down and elite-led development model is fundamentally flawed. The massive World Bank led Provision of Public Services (PBS) Program has done little to make the poor self-reliant and self-sufficient. **The donor community's unreserved support to the Ethiopian dictatorship puts them squarely against human rights and social justice without which Ethiopia will remain aid dependent and poor.** Donor money is critical factor in sustaining and perpetuating the current single party dictatorship. It won't last or gain undeserved wealth without aid, remittances and borrowing. We showed that Ethiopia's Developmental State model is devoid of popular participation in policy and decision-making and in the allocation of resources for a reason. The poor, marginalized and suppressed are easier to rule than those who are better-off. Those who have made it accept and tolerate human rights abuses because they have no choice. Whether the governing party calls it Developmental State or Developmental Democratic State or something else, the fact is as follows. It is not anchored in the welfare of the vast majority of the population. Citizens have no voice at all.

51. It is universally accepted that **food is a human right**. The Ethiopian government has failed to meet this basic obligation. Hunger is widespread in both rural and urban areas. Those who are hungry live unhealthy lives and thus cannot produce. Productivity is diminished by hunger and famine to the tune of billions of dollars each year. The South Korean example shows positive correlations between good health, shelter, sanitation, safe drinking water and quality education and sustainable and equitable development. One reinforces the other.

52. SHENGO contends that nothing explains the "paradox" of double digit growth in Ethiopia that has created "heaven on earth" for the few better than the condition of hunger. It afflicts millions of Ethiopians. Upon assuming power, the late Ethiopian Prime Minister Meles Zenawi vowed that hunger and famine will be "history." This is not the case. The former President of Brazil, Lula da Silva, calls the hunger epidemic that persists in Ethiopia and other poor countries but has been overcome successfully by governments in East Asia and the Pacific, China, India and others as "**the worst of all weapons of mass destruction**….Fighting hunger and poverty and promoting development are the truly sustainable way to achieve world peace." During the height of land grab in Africa, Kofi Anan, former Secretary General of the UN advised African governments to make food security and agricultural productivity their priority. He warned them of another scramble for African fertile farmlands and waters. Ethiopian government priority is different. It is to grow the economy for a privileged few while leaving more than 90 percent of

the population poor or even poorer. The structure of the economy remains almost the same as it was under previous regimes, mostly subsistence agriculture-based and primary commodity based exports.

53. SHENGO embraces the development principle that government responsibility is to modernize the rural sector including agriculture and to push agriculture based industrialization vigorously. The penultimate measurement of growth is wellbeing including the provision of adequate food. Accordingly we ask "Why has the TPLF dominated EPRDF government in power for the past 24 years proved incapable in achieving food self-sufficiency and security for the vast majority of the Ethiopian people?" We also ask "Why the ruling party leased and sold Ethiopian farmlands and waters to the highest bidders; and dispossessed millions in the process?" Instead of boosting the capabilities of smallholders and boosting agricultural productivity, the ruling party continues to rely heavily on humanitarian emergency food aid and handouts to feed the hungry and famine stricken. In 2011, Oxfam reported "**91 percent of humanitarian** aid to Ethiopia was food" to feed the hungry. "**Only 0.14 percent** was used to avert future food shortages." OXFAM also reported Ethiopia is 123rd among the "hungriest nations on the planet." Only two countries are hungrier. Food aid is not providing tools to raise capabilities so that Ethiopian food recipients escape the shameful and degrading cycle of relying on handouts. Additional borrowing won't solve this chronic problem. We presented one best example, South Korea, that transformed itself from one of the poorest and hungriest countries on the planet to one of the most prosperous and developed in less than 25 years---almost the same amount of time the TPLF/EPRDF has been in power.

54. In **"Band Aids and beyond: 25 years after the Ethiopian famine, what have we learned**?" Oxfam reported that not much had changed since. Recurring drought costs Ethiopia "$1.1 billion per year, almost eclipsing total net overseas assistance" in 2009. We find no indication thirty years after the Great Famine of 1984 at which global celebrities like Bob Geldof sang "**<u>A country where nothing ever grow/No Rains or rivers flow. Do they know it is Christmas at all?"</u>** that Ethiopia is less hunger-stricken today than it was then. Nature, the environment, lack of rain, rivers and hardworking people are not the reason why Ethiopia is still poor and hungry. Ethiopia is "Africa's water tower." It is the first African country to develop farming and agriculture in Africa. It has potential to feed itself and produce surplus for export. If it is not nature or people, "What might be the problem then?" Does it make sense for Ethiopia to lease or giveaway its most fertile farmlands and waters to Saudi Arabia to produce one million tons of rice each year to feed Saudis while Ethiopian rely on food handouts? Of course not.

55. The primary cause of hunger and other social ills is poor, disempowering, corrupt and repressive governance. This recurring problem exists whether the Ethiopian government and its supporters say otherwise. Prominent institutions such as FAO, WFP, Oxfam, the International

Food Research Institute (IFPRI) and others report that "Ethiopia receives more food aid than almost any country in the world." Over the past thirty years, food aid accounted for 5 to 15 percent of production and or domestic demand. Over the past decade alone, Ethiopia received an average of **700,000 metric** tons of food aid per year. The US is the largest donor. The primary role of the World Bank's Provision of Public Services (PBS) program initiated in the aftermath of the 2005 elections is the provision of food to the poor year after year. Independent experts agree that perpetual food aid deters reform and productivity. Food aid year after year is not the solution. In fact, it has become a constraint or hurdle.

56. The most well researched book on the subject of food aid and its disastrous effects in Africa is Michael Chossudovsky's **The Globalization of Poverty.** "Africa is treated as the dustbin of the world. To donate untested food and seed to Africa is not an act of kindness but an attempt to lure Africa into further dependency on foreign aid." Among other things, food aid for work discourages domestic production. "The emergency programs" to Ethiopia "are not the solution but the cause of recurrent famine." If weather or the people were constraints, China and India with more people than Ethiopia would not have achieved food self-sufficiency and security. Vietnam, a net rice importer, would not be one of the largest exporters of rice and coffee in the world. Ethiopia's case shows that food aid is often used to "capture new markets" at the expense of domestic production. Further, the TPLF/EPRDF controls the distribution of food to achieve political objectives. Food self-sufficiency and security is therefore inseparable from the guiding principle of sustainable and inclusive development. We argue that sustainable and equitable development including food **self-sufficiency and security is possible only where and when human rights of individuals including the rights of smallholders and indigenous people are "respected, protected, promoted and fulfilled,** (Human Rights Watch).

57. In the long run, the structure of the Ethiopian economy must change dramatically to accommodate the changing needs of a growing and youth population. TPLF/EPRDF policy of keeping millions of people tied to subsistence agriculture is counterproductive. The average family depends on less than one hectare. This is not socially, economically or environmentally sustainable. Agricultural efficiency and modernization is a must. So is a well-planned, integrated and aggressive promotion of alternative employment, especially manufacturing. Ownership of modern agriculture, industry and services must reflect Ethiopia's diversity. At the moment, 80 percent of the private business is controlled by the TPLF, its endowments and allies. This too is unsustainable. It is unfair and unjust.

58. Ironically, the government that is emergency food aid dependent has outsourced or better yet, prostituted Ethiopia's food sources and production to foreign investors and ethnic elites. Their priority is profit and not shared prosperity. Millions of Ethiopians are literally marginalized and dispossessed. The carte blanche transfer of millions of hectares of the most fertile

farmlands and waters to foreign investors and loyal supporters is one of the most damaging policy decisions by the TPLF/EPRDF. This government does not care one bit for the country or its 100 million people, most of them poor. It sells anything including cultural treasures for profit and to gain more foreign exchange. The essence of crony capitalism in Ethiopia is greed. In a critical piece issued on August 20, 2014, **"The man who stole the Nile**," the Guardian reported as follows. "Al Amoudi is getting his hands on as much land as possible flying over the heads of hungry countrymen and selling the treasures to Saudi Arabia." In 2013, the Sheikh harvested and **exported one million tons of rice to Saudi Arabia**. In the same year, Ethiopia imported $1.1 billion worth of wheat and other cereals mostly from Canada and the USA. It is ironic that one Ethiopian observer said, "It is not lack of rains in Ethiopia we should worry about. It is weather adversities in Canada and the US that worry us. We depend on them."

59. "**The man who stole the Nile"** grabs Ethiopian lands, dispossess indigenous people, degrades the environment, causes civil conflict, produces rice and other commodities to feed Saudis while "his countrymen go hungry" each day. This investor is as **heartless** as anyone who stole lands and wrecked lives in Africa, the Caribbean and Central America. He pays daily workers peanuts and says that he is generating employment for the people he uprooted. The power behind this shameful transfer of Ethiopia's treasures is the TPLF. Al Amoudi is the beneficiary of gold mines that were privatized by the TPLF under orders from Meles. He is free to export gold without inspection, paying almost no taxes. Ironically, "the man" did not bring billions of dollars of Arab capital. In most instances, he used the Ethiopian banking system gratis of the ruling party. Ethiopians owe it to themselves and to future generations to reinstate the lands and waters and what is on them. We remind the reader that the fight in the 21st century revolves around farmlands and waters. Controlling and harnessing them for Ethiopians is a matter of life and death. Waters and fertile farmlands are strategic resources.

60. The TPLF/EPRDF gets away with this paradoxical model of growth because it does not allow dissenters and opponents to demand accountability. Those who care are silenced. This situation is unlikely to change as long as the current dictatorship that thrives on foreign aid is in power. This is another reason why we oppose the ruling party's Sovereign Bond. We know from past experience that proceeds won't be used to modernize agriculture by building fertilizer industries, providing modern tools to farmers, constructing manufacturing industries that will take advantage of domestic inputs, employ millions and boost domestic enterprises owned by Ethiopian nationals etc. etc. etc. Unfortunately, a governing party that has proven to be the biggest obstacle to broad based participation won't deal with its own retarding policies let alone remove the structural hurdles Ethiopians face in every sphere of life. The system is the problem. The ruling party won't solve the problem it created willingly.

61. TPLF/EPRDF economic and social development policy is marginalizing the vast majority of the Ethiopian people. This model is therefore not sustainable and must be debated openly. Issuing a Sovereign Bond will do little to nothing to fix this broken system.

Part lll

Sovereign Bond or Sovereign Bondage?

What is a Sovereign Bond?

1. Governments sell debt to investors with a guarantee by a state's government to investors they will be paid periodic interest and the initial investment capital value on the maturity of the bond. Typically, sovereign bonds are sold to or bought by institutions such as Wall Street corporations and governments and a minority of well to do individual investors. Differently put, a sovereign bond is a debt guaranteed by a government on behalf of the nation that it or a future government shall repay the debt in full. It is part and parcel of external debt that binds not only the current government but also future governments. If the TPLF/EPRDF goes, a future government is obliged to pay the debt.

How does it work? What is required to initiate it?

2. The government prepares a project document providing the rationale for the bond, indicating both benefits and risks for the investor. The bond is issued in a currency other than its own, for example Birr. Most often, bonds are denominated or expressed in dollars, Euros, Japanese Yen and other major currencies. The issuing government goes to the financial market and sells the bond to foreign investors—governments, corporations and a limited number of wealthy individuals who want to make profits. No investor buys such bonds because he or she wants to alleviate poverty or generate employment etc.

3. The Ethiopian government issued its Sovereign Bond valued at **$1 billion** in the Eurobond market, with a **10 year term and a yield of 6.625 percent.** This yield is high and has attracted substantial interest in the financial market. There is a reason. If the investor puts his or her money in the form of a certificate of deposit in an American bank, the money will not earn more than 1.5 percent in interest. If he or she puts it in the stock market, the value may go down depending on the market. Bonds are therefore lucrative. Reuters reported the Ethiopian government raised **$2.6 billion** or more than twice it expected. Ratings of BI by Moody's and Standard and Poor's of B, meaning below investment grade, did not deter investors from taking risk. Marketing helped. Deutsche Bank (German) and JP Morgan (American), the lead bankers for the Ethiopian government were paid handsomely upfront to promote the Bond.

4. Surprised by the response in the financial market, Reuters reported on December 5, 2014 as follows. "Ethiopia is among the poorest African nations to launch such a bond. Gross Domestic per capita was $631.50 in fiscal 2013/2014. In 2014, the IMF had reported Ethiopia's debt at 44.5 percent of GDP. In the same year, the IMF and the World Bank had expressed concern that

Ethiopia's foreign reserves would cover only 2.2 months of imports. Foreign exchange would have to be rationed and the burden will fall on the private sector. By comparison, next door Kenya had reserves to cover 4 months of imports, a good position to be in.

5. On September 20, 2014, Sri Mulgani Indrawati, Managing Director for Operational Policy at the World Bank visited Ethiopia and expressed deep concern that increased borrowing and debt by the Ethiopian government posed substantial risks for Ethiopia. Why the concern? Ethiopia's debt had risen from $12 billion in 2013 to $20 billion at the time of her visit, a debt to GDP ratio of 44 percent. The World Bank's indirect message was that the TPLF/ EPRDF government is not a responsible steward of Ethiopia's monetary and fiscal policies. It lacks discipline and transparency. The country is replete with endemic nepotism, favoritism, bribery and corruption at the highest level of government. She noted rightly that "A good and sound financial report, transparency and consistency and credible information are important." The Ethiopian government does not recognize these attributes are critical in managing the economy and in serving as a custodian of public resources. Lack of transparency serves the TPLF/EPRDF in manipulating the allocation of resources and investing opportunistically. In all instances, the current amount of debt already incurred is too high based on the productivity of the economy, export earnings and savings. This is compounded by illicit foreign exchange outflow. In net terms, more money is stolen and taken out of the country than is left for investment. The Sovereign Bond exacerbates the debt phenomenon and poses major risks for Ethiopian society.

Why is a specific currency used?

6. The value of the dollar, Euro, Yen and other hard currencies is perceived to be strong or high and credible.

How are proceeds from the sale of the Bond used?

7. The most substantive problem resides on how and for what proceeds are used and for whose advantage? A key and distinguishing feature of proceeds from Sovereign Bond sales is that it is fungible. The issuing government can use the funds for any purpose. It can use it to build infrastructure such as roads, rails and dams. It can use it to spur employment or strengthen the private sector. It can use it to transform subsistence agriculture. It can use it to build manufacturing industries etc. etc. Equally important government officials can use it to buy arms or divert it for private use. There is no independent oversight to mitigate abuse and misuse.

Is the Ethiopian public responsible for the debt?

8. In theory, Sovereign bond debt is not directly owned by the public but by the government. In other words. In reality, it is. The TPLF/EPRDF does not have a special account to pay the debt. It relies exclusively on the country's capacity to pay. It won't force Ethiopian millionaires and

billionaires who have stashed away money in foreign bank to pay the debt. There are no independent national institutions to demand accountability. Opposition parties are crippled by the dictatorship. The party, government, state, institutions and public officials are indistinguishable. They operate as one. The Ethiopian government claims that it borrows to serve the public good of development. We reinforce the fact that Ethiopia's growth is not fare, just or equitable. The bulk of the benefits have gone to a privileged few. We showed earlier the public is not well served by this Mafia-like group that collects billions in rent for private gain while borrowing billions more without any accountability to the public. The public does not have the right to voice its views; but is forced to assume risks. Sadly, the TPLF/EPRDF core group and its allies have insatiable need and demand for profits and wealth. Greed is pervasive.

9. Ultimately, the government must come up with the foreign currency in which it holds the bond to pay the debt. If not, it will have no choice but to default. It has other options.

9 (a) The TPLF/EPRDF government can borrow to pay the debt entering a cycle of more debt.

9 (b) The government can ask for debt forgiveness as it has done in the past.

9 (c) The government can ask investors to restructure the debt. In 1981, Poland restricted its debt seven times. Brazil restricted its debt six times over an 11-year period. When Greece faced a major economic crisis in 2010, the country's debt was downgraded to "junk status." No investor would lend and bail it out. Instead, as a member of the EURO zone, it borrowed heavily from the IMF, the European Commission and European Central Bank, a luxury African countries do not enjoy. It helps to be a member of the European club that Greece was bailed out by the same three institutions in 2012. Experts believe that Greece will negotiate to restructure its debt. It has defaulted 6 times and may default again and again. Developed and rich countries can afford to borrow and default. They have more scope to negotiate.

9 (d) There are other countries that have defaulted but are not pariahs in the financial market. This is because their economic foundation is strong. Spain defaulted 6 times. Russia defaulted in 1998. Argentina defaulted in 2002, Jamaica in 2010. African countries are new to the Sovereign Bond market and they have begun to default. Ivory Coast defaulted in 2014. Ethiopia's economic foundation is nowhere near developed and rich European countries that have the capacity to absorb periodic shocks. This is why experts are skeptical about poor countries entering the Sovereign Bond market. Their productive capacity is weak, their savings rate very low and their exports are not diversified. Most depend on commodity exports.

10. Ethiopia's entry into the Sovereign Bond market entails risks for the following reasons:

10 (a) As a recent **UNCTAD** study shows, Ethiopia is among 48 least developed nations that suffers from poor and exclusionary governance, **especially in policies and programs designed to**

change the structure of the economy by investing heavily into smallholder based agricultural modernization and productivity, manufacturing and industrialization, food self-sufficiency and security rather than reliance on emergency food aid year after year, employment programs for millions of youth, private sector development that reflects Ethiopia's diversity etc. etc.

10 (b) As the World Bank's senior official suggested last year, the TPLF/EPRDF government does not follow a **sound monetary and fiscal policy.** The Ethiopian Birr has been devalued more than a dozen times since the new government took power in 1991. In the past three years alone, the Birr has been devalued by 40 percent. The negative impact on the population is massive. Purchasing power has been reduced severely reduced to the point of absurdity. Incomes have barely edged up. College graduates are forced to live with their parents.

10 (c) UNCTAD and other UN specialized agencies, the World Bank and IMF warn that Ethiopia's debt level is unsustainable, meaning, the country does not have the capacity to pay its debts. Most Ethiopians live a "hand to mouth existence." The middle class is squeezed by inflation and devaluation of the Birr. Production of necessities such as staple foods has not kept up with demand. The government claims that agricultural productivity 5 to 6 percent per year. This is sheer fantasy. The World Bank, Oxfam, IFPRI and others dispute this exaggerated figure. They claim that the growth rate is close to 2 percent per year, well below the population growth of **4.5 percent per year. In other words, agricultural productivity has not kept up with population growth. It is unlikely that production will be equal to or exceed population growth unless there is a dramatic policy shift in land and agriculture policy.**

10 (d) When incomes are depressed, costs are high, employment is low and wealth is concentrated in a few individuals and families, the society will not be in a position to save and invest. It can barely keep up with today to think for tomorrow. Ethiopia has one of the lowest savings rates in the world. The well-to-do are among the highest consumers of foreign goods and services in the world. There is little indication that they invest their wealth in the manufacturing industry, mining and commercial agriculture or other permanent employment and income generating activities. This too is a structural problem Ethiopia faces.

"Social unrest" is a consequence of repression and oppression

10 (e) In its 108-page prospectus the Ethiopian government presented to investors, the TPLF/EPRDF was abundantly clear that investors should be weary of "**social unrest, famine and another Ethio-Eritrean war." Why such extraordinary admission that Sovereign Bond holders may not be paid?** Who would be insane enough to buy the Bond if the country is going to face "social unrest, famine and war?" The admission on "social unrest" during or following the 2015 Parliamentary Elections does not surprise us at all. The TPLF/EPRDF has closed all political and social space. Leaders and members of opposition parties are harassed constantly, jailed and

released and jailed again in a war of "cat and mouse." Political prisoners are still in jail and others join them on a regular basis. Ethiopia is now the "second largest jailer of journalists in the world." If "social unrest" ensues, it is not the opposition that is to blame. It is the TPLF/EPRDF dictatorship that makes free and fair election virtually impossible. The ruling party's Election Board concocts different excuses to bar multiethnic national parties from operating freely and fairly. It does everything in its power to plant agents and divide these parties. These conditions are intended to facilitate the re-election of the TPLF/EPRDF unchallenged. Simply put, the next election has been predetermined.

10 (f) The government acknowledges that Ethiopia's credit line from Chinese entities has been rising fast, accounting for 42 percent of all external loan disbursements in 2013/2014 from 0.9 percent the previous fiscal year. The scale of Chinese involvement is huge. So, the Ethiopian government uses this preponderance to entice Western institutions, government and others to buy the Bond. This way, they become competitors to the Chinese. The projection of famine instead of averting it through policies and meaningful inputs is intended to seek empathy. It is to send the false signal that the ruling party is not only transparent but caring. Western investors are being told that they should ignore human rights, open completion in the domestic economy and the rule of law. Investors are lured of course attracted by profit. We remind the Ethiopian public that behind these investors are powerful governments such as the US and the UK that give investors' confidence by pumping more aid despite human rights abuses and corruption.

10 (g) Ethiopia is the "policeman in the Horn" serving Western interests while assuring those in power the backing they need to capture more wealth. It is clear that, Sovereign Bond or not, the TPLF/EPRDF is determined to squash rights and remain in power. It has to capture the imagination of the world by showcasing massive infrastructure projects, some of them "dead capital cases." Its five-year **Growth and Transformation Plan** proposes investing $5.1 billion per year over ten years, primarily in mega hydroelectric power generating dams, most of it for the lucrative export market. This is what Egyptian experts call "Hydropower Hegemony." An additional $6 billion is planned for the construction of a railway system spanning 2.4 million kilometers, mostly linking the Tigray Regional State to the Sudan and Djibouti. We support Ethiopia's right to use its water resources to reduce poverty, create employment, achieve food self-sufficiency and security and electrify the rural area and emerging industries. We do not know how investing massive amounts of capital to generate hydroelectric city with the primary goal of exporting earning foreign exchange would do these. The TPLF/EPRDF must be challenged to explain to the Ethiopian people its development focus.

11. By all accounts, Ethiopia is not producing goods to meet local demand and for exports or investing heavily into manufacturing industry that would create millions of jobs for young

people or providing meaningful and politically impartial inputs to smallholders so that they can produce and feed a hungry population. Massive investments in showcase infrastructure alone won't solve the country's myriad of problems that are mostly system generated or condoned. We highlight some:

11 (a) Massive imports of consumer goods and a commodity and non-diversified export sector

11 (b) Unrealistic investments in physical infrastructure that are not directly linked to production of essential goods that the domestic market needs

11 (c) Each year, billions of dollars is siphoned from Ethiopia through kickbacks, bribery, corruption, export and import under-invoicing, over-invoicing, underreporting etc. and channeled to foreign banks, individuals and bogus corporations in the form of illicit transactions. Illicit outflow reduces the amount of capital left from aid, remittances and exports. This "bleeding" won't stop until and unless the dictatorship is replaced by an accountable and representative government.

11 (d) Domestically, the TPLF/EPRDF government has been totally free to borrow from the banking system limiting credit to the private sector and making the banking system vulnerable and to write-off debts.

11 (e) The sum total of this none-rights based development model in Ethiopia is that the vast majority of the population is marginalized. Before Prime Minister Meles passed in August 2012 the Economist asked a pertinent question about sustainability. Its query was based on the dominance of the ruling party, its endowments and the State over the national economy and the fiscal and monetary policy the ruling party followed. This has direct relevance to the Sovereign Bond and how proceeds would be used. "Just how sustainable is Ethiopia's advance out of poverty? This is a vexed topic among bankers and others in Ethiopia who hold large wads (portions) of Birr, the often devalued currency. Despite hard work by the World Bank, oversight by the IMF, and studies by economists from donor countries, it is not clear how factual Ethiopia's economic data are." We do not believe they are factual. The lack of a better life or wellbeing of the majority of the population speaks volumes. "Life is intolerable, expensive in Addis Ababa, the capital and its outlying towns. Some think Ethiopia's inflation figures are fiddled with even more than those in Argentina. Even if the data are deemed usable, the double-digit growth rates predicated by the government of Prime Minister Meles Zenawi fanciful." The situation has not changed since then. It is a growth myth that more than 90 percent of the population does not identify with or share. So, borrowing by selling a Sovereign Bond will not change this reality of misery for most and "heaven" for the privileged few.

11 (f) UNCTAD concludes that Ethiopia's poverty is much deeper and more extensive than the ruling party and its global sponsors admit. The IMF had argued that the government was

reckless in its investments. "The accumulation of public sector debt to finance major investments in dams, factories and housing construction deserve closer attention" and scrutiny. The World Bank concluded that "Ethiopia's debt is unsustainable." Horn Affairs reported that "Ethiopia's public sector debt grew three-fold in past 5 years, from $5 billion in 2009/2010, to $14 billion in 2012/2013 and a staggering $20 billion in 2013/2014." The IMF projects that debt to GDP ratio will climb to 48 percent or more in 5 years. Ethiopia's Sovereign Bond debt adds fuel to this fire and burdens future governments and generations. It is imposed by the ruling party without any say on the part of the public or opposition groups. In 2010, the NATO Parliamentary Report on Ethiopia put the problem squarely. "The Ethiopian government rules in a kind of command fashion rather than building strong governance institutions. " Its economic development model is equally command, control and extract rents. Ethiopians are expected to bear the burden but not share the benefits of growth.

11 (g) Therefore, we do not see the Sovereign Bond as an opportunity but as a burden. The TPLF/EPRDF has an obligation to the Ethiopian people to explain how, for what and for whose benefit it has used and uses precious foreign exchange it receives on behalf of the Ethiopian people.

What do foreign experts tell us about this foray?

12. We are not alone in questioning the social and economic value of the Sovereign Bond. The implications of Sub-Saharan Africa countries entering the Sovereign Bond market are assessed and documented by well-known economists. The well-known Nobel Laureate, Joseph C. Stieglitz and his colleague Hamid Rashid of Columbia have done an outstanding job in this regard. In 2007, Ghana became the first Sub-Saharan African County to issue a Sovereign Bond in the amount of $750 million, with 8.5 coupon rate in Eurobonds. It was followed by Gabon, the Democratic Republic of the Congo, Ivory Coast, Senegal, Angola, Nigeria, Namibia, Zambia and Tanzania. All told, 10 countries raised $8.1 billion, with average maturity of 11.2 years and an average of 6.2 percent in interest, higher than the existing rate of 1.6 percent over 29 years. In general African countries are forced to accept higher rates and shorter period to pay them because of lack of confidence in their economies. In their commentary, Stieglitz and Rashid opined as follows:

12 (a) "Sovereign Bonds carry significantly higher borrowing costs than concessional debt does." Investors are attracted by the higher rate. The question is why do African countries borrow at higher rates? The straightforward answer is political freedom. There are no conditions attached. "What politician would not prefer money that gives him more freedom what he likes?" The TPLF/EPRDF borrows through the bond scheme in order to leverage the proceeds in accordance with its own priorities. Forget Ethiopia's development and the welfare of the population is the motive. It is not. "It will be years before any problems (change in government, sustained social

unrest, famine and war) become manifest—and, then, some future politician will have to resolve them." In other words, a successor government would have to deal with the mess. By then, some of the money may have been taken out for private benefit.

12 (b) The authors find the scheme disingenuous. "Short-sighted financial markets working with short-sighted governments, laying the groundwork for the world's next debt crisis," they conclude. We have suggested in this policy options paper that there is collusion between global capital and ethnic elites who rule Ethiopia. The IMF, World Bank and the World Trade Organization act as spring boards and facilitators. They often fail to anticipate problems before they happen. Collusion with ethnic and other elites has become the new way of facilitating dominance. One supports the other directly. The tragedy of the scheme is that those who are penalized most are ordinary Ethiopian citizens who work hard each day to earn a living.

Which African country is likely to meet its obligations?

13 (a) "Except for Namibia, all of these Sub-Saharan Sovereign Bonds issuers have "speculative" credit ratings, putting their issues in the "junk bond" category and signaling significant default risk." Ethiopia belongs in this "junk bond and default category. Ethiopia does not have a transparent and well-planned debt management plan for the $20 billion it has already incurred. Some experts believe that it may have to borrow to serve its massive debt unless it becomes a major oil exporter over the coming years. In any case, the beneficiaries are "vulture" investors and top officials of the ruling party and government. They are not bound by the rule of law or accountability to the Ethiopian people. The experts believe that governments such as Ethiopia's have calculated wrongly that there is an easy or risk-free path to advance the development process while at the same time making it rich by collecting more rent. Rent-seeking is an incurable disease.

Part IV

Recommends policy themes and options for public debate

1. We have offered compelling evidence that the TPLF/EPRDF developmental state has failed to advance the desirable goal of creating a firm foundation for sustainable and equitable development. Respect for human rights and equitable treatment of all citizens under the law, freedom of speech, assembly, movement, protest and press, accountable government and constitutional democracy are prerequisites for sustainable and equitable development in Ethiopia.

2. The absence of these prerequisites has resulted in unimaginable human suffering and debilitating income inequality. TPLF/EPRDF preferential treatment of winners and continues to transfer wealth from the society to a limited number of individuals, families, endowments and other firms. Income inequality is now embedded and has taken a structural form that will be hard to overcome over generations. It is unlikely that the TPLF/EPRDF would redistribute wealth from the rich to the middle class and the poor. In fact, the TPLF/EPRDF developmental state is exacerbating income inequality through preferential treatments using the public purse—through public infrastructural work, import and export trade, land allocation, housing and building construction for rent etc. etc. Marginalization of millions of people has reached a dangerous level. Some speculate that if nothing else, hunger, unemployment, lack of shelter in urban areas, dispossession, conflict over resources and income inequality will bring down the dictatorship.

3. Transformative and innovative policies will remain a dream unless and until political and social space is open and opposition parties and independent individuals are in a position to offer and debate alternatives. To have a chance of success, opposition parties must set aside their differences and speak with one voice. The TPLF/EPRDF must be confident enough in its own vision for the country and its 100 million people to welcome debate on good governance and rights based development alternatives.

4. The Sovereign Bond won't solve poverty, hunger, unemployment, hyperinflation and other social ills. Measured against social indicators more than 90 percent of Ethiopians have not benefitted from the country's acclaimed growth. UNDP's Development Index for 2013 ranked Ethiopia 173rd of 187 countries. The Oxford Multidimensional Poverty Index identifies Ethiopia and Niger as the poorest countries in Africa. Eighty seven percent of Ethiopians earn less than $1 a day. This condition is aggravated by uneven and unfair distribution of incomes and assets. The income gap and wellbeing between the few individuals and families who have become wealthy, and the vast majority who find it hard to live a wholesome and meaningful life is

staggering and borders on the shameful. This poses risks for the entire society and diminishes the productivity of the country. You can't produce if you are hungry or sick or unemployed.

5. Imagine a poor and hardworking mother in Gambella or Tigray or the Afar Region or other region. She has 6 children to support. Her husband gets up early morning and farms less one hectare of land to support the family until late hours. The mother tends to her children, walks several miles a day to fetch water. She gathers fire wood to cook food, helps her husband on the farm carrying a small child on her back, cooks for the family and tends to her elderly mother or father. Let us assume that her family income is two dollars a day. How does this family manage? What if her husband dies? Would this family have money to spare and support disabled parents? What happens if a child becomes ill? Is there money to take the child to a clinic or hospital that may be miles away? The same is generally true for millions of mothers in towns and cities across the country. What about sanitation, safe drinking water and better shelter for this hypothetical family that represents current reality in Ethiopia. This example represents life for families in villages, towns and cities throughout Ethiopia. The Sovereign Bond will do nothing to alleviate the sufferings of millions of Ethiopians crushed by poverty, inflation and low incomes. The tragedy is that this structural problem may prove to be multigenerational.

6. Ethiopia **deserves a fair, just, inclusive and representative government**. We are confident that its intractable poverty can be overcome by **adopting a rights-based development model in which all Ethiopians would have a stake.**

7. The policy and structural hurdles Ethiopians face is linked directly to oppressive and exclusionary governance. The only way out of this vicious cycle of hunger, destitution, massive unemployment and underemployment, brain drain, dependency on food aid to feed the hungry, civil conflict etc. etc. is to initiate a regulatory system that strengthens domestic market competition, boost private sector participation and specialization.

8. Ethiopia deserves a better and well managed fiscal and monetary policy. Massive borrowing from the banking system by the party and government is not sustainable and prudent. Nor is continuous devaluation of the Birr. This policy has reduced the purchasing power of ordinary Ethiopians who live on fixed incomes. There must be a halt to both interventions. Productivity in the economy has not shot up dramatically through deficit financing and borrowing. The devaluation of the Birr has not boosted exports.

9. Ethiopia needs to launch a well-planned, spatially and sectorally diversified, financed and managed manufacturing and other industry that takes advantage of the country's indigenous knowledge, practices and natural and human capital resources. There must be synergy between infrastructural investments and manufacturing, finance and credit, agriculture and services.

10. Ethiopia will remain poor and backward unless its middle class expands rapidly and unless this class reflects Ethiopia's rich diversity. Those marginalized by the current party, government and state must be given special attention. Indigenous people and females are among them.

11. Ethiopia must invest heavily into safe drinking water, better health and sanitation, quality education and adult literacy, access to information technology, improved shelter, including social media. Incomes must rise considerably to sustain them.

12. The educational system must be overhauled and de-politicized. National cohesion cannot be created by an ethnically and politically oriented education model that polarizes the young generation. Colleges and universities must serve as hubs for creative thinking, creativity and innovation, science and technology. Teachers must be encouraged to do applied research that helps the economy to innovate and grow.

13. **Corruption is a cancer that has reached epidemic proportions**. Bribery, kickbacks, corruption and the illicit transfer of foreign exchange and other national resources should be **criminalized.** An independent national commission consisting of a cross section of Ethiopian experts should be established to investigate corruption and illicit outflow; and to recoup some of the billions stolen from the Ethiopian people.

14. Agriculture is the foundation of Ethiopia's economy. Production has not kept up with demand. Ethiopia deserves a food self-sufficiency and security policy. Food aid should be curtailed; it reduces domestic productivity. The country needs to initiate its own smallholder-based "green revolution" by providing critical inputs such as better seeds, credit, modern tools and fertilizers at affordable prices. The government can take the initiative to help be reforming land ownership titles and security for those whose primary occupation is farming. Both the government and the private sector should be encouraged to build fertilizer factories suitable for Ethiopia's environment. A massive program of nation-wide reforestation and environmental restoration by hiring and deploying thousands of job seekers is an option whose time has come.

15. Dissemination of modern information technology will expand employment and increase incomes. Kenya is a prime example. The Ethiopian government is among the least friendly to the spread of information technology. This policy must be lifted. It is inconceivable to promote the private sector, knowledge and best practices without access to IT. Mobile phones, social media, the Internet have revolutionized productivity and innovation in other countries. Farmers need this technology as much as professionals, bureaucrats and youth. Restriction of IT is costing Ethiopia billions in potential income each and every year. It can't compete with its peers if this restrictive policy continues.

16. Farm and other land and water resources giveaways to foreign investors must cease immediately and the dispossession of indigenous people from their ancestral land must stop.

17. Ethiopian entrepreneurs must be encouraged to participate in commercial agriculture either as individuals or groups. Small and medium size enterprises must be shielded from sophisticated foreign investors that have well developed markets, technology, financing and management. Subsidies in the form of tax breaks and import duties and export support to indigenous enterprises should be considered. The damping of cheap foreign consumer goods that could be produced by ingenious enterprises should be curtailed etc. etc.

18. The Ethiopian government has responsibility for creating favorable conditions for Ethiopia's youth in the development process. It can do this by empowering youth to set up private businesses and partnerships with domestic and foreign investors. The banking system should be encouraged to offer credits on the merit of a specific project rather than on traditional collateral. A special government initiative targeting Ethiopia's youth as a core social capital asset for development must be a priority now.

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