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Aid, accountability and institution building in Ethiopia: the self-limiting nature of technocratic aid

Berhanu Abegaz*

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Forty billion dollars of ODA over the past two decades has reduced destitution in post-socialist and post-conflict Ethiopia. It has also boosted the technocratic capacity of exclusionary state institutions, while doubly enfeebling the fledgling private sector and independent political and civic organisations. This aid–institution paradox is a product of an alignment of donor–recipient strategic interests. The five major donors pursued geopolitical and poverty reduction objectives; and the narrowly based ruling elite sought total capture of the state, ownership of the development agenda and use of pro-poor growth to leverage large aid inflows and to seek domestic political legitimacy. By coupling poverty reduction with adequate space for inclusive market, civic and political engagement, a farsighted coalition of donors could have complemented capacity building with the promotion of state resilience. Scaled-up aid can still be delivered, as in Eastern Europe, conditional on meaningful mutual accountability and the rule of law.

Keywords: aid; accountability; institution building; state resilience; Ethiopia

An aid–institutions paradox

Development is ultimately about freedom from want and freedom from fear. The cornerstones of freedom and shared economic growth are capability, opportunity and accountability. The first two are ideally synchronised by the third in a political order that embraces a capable state, mutually binding rule of law and inclusive governance. Well-designed and executed official development aid (ODA) complements domestic efforts in building up bureaucratic capacity in a manner that legitimises its authority in the eyes of all citizens.

This paper examines the effectiveness, besides boosting long-term growth and poverty reduction, of ODA in fostering broad-based state and business institutions in post-socialist Ethiopia between 1991 and 2014. Through a comparative

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analysis of the record on donor–recipient relations on what donors call ‘improved service delivery, empowerment, and accountability’, it seeks to identify where public-sector reforms advanced the narrow interests of the two official partners and where the general interest was served by the strengthening of widely supported public institutions.

More specifically we critically examine the mutual accommodation between the developmental state proclaimed by the Government of Ethiopia (GOE) and the public-institution reform agenda of its top-five development partners (DPs), who contribute some two-thirds of official aid. We do this by scrutinising the professed objectives and actual practices of three multilateral donors (the World Bank, the EU and the African Development Bank) and two bilateral donors (the UK Department for International Development (DFID) and the US Agency for International Development (USAID)). We will also examine how the GOE reacted to donor pressure in managing its relationship with its major DPs.

Generous pro-poor aid to Africa, in addition to supporting patrimonial consumption and a lower tax effort, has suffered moral hazard for heavily committed donors by militating against the project of building legitimate, transparent and accountable public institutions.1 The European Commission characterises this puzzle as follows.

Ethiopia is challenging EU’s paradigm of democratic governance sustaining economic growth by successfully adopting macro-economic and development best practices with EU support, while reducing the scope for a Civil Society voice on governance and human rights, against EU advocacy.2

This ‘aid-institutions paradox,’ whereby aid aimed at institution building ends up providing perverse incentives for governments to invest less in domestically accountable public institutions, raises two questions: what explains the strong preference of the ruling party for supporting poverty reduction but not inclusive state and non-state institutions? And what explains the revealed preference of its five major development partners for building up the technocratic capacity of a state that is manifestly captured by a narrowly-based ruling group?

Our working hypothesis, then, is as follows. The promise of time-bound, subnationally tailored and harmonised official development aid to serve a catalytic role in building up capable and inclusive public institutions in post-Derg Ethiopia has proven rather fanciful. Where the interests of donor and recipient are fully aligned – as in the areas poverty reduction, country ownership of the development agenda and regional political stability – a strong incentive exists for a self-enforcing partnership. Where there is a clash of interests between donor and recipient, as has been the case with legitimising inclusion of all fundamental stakeholders in the areas of party politics, policy deliberation and a competitive market economy, donors wilfully blink, despite their strident rhetoric about the commitment to expand the ever-contested civic, political and economic space.

This paper contributes to the literature on the aid–institutions nexus in two notable ways. First, to our knowledge, it is the first systematic attempt to make sense of the interplay between donor interests and the bewildering institutional architecture of the Ethiopian political economy. Second, it confirms the widely held view that aid rarely buys structural reform if such reform goes against the
grain of donor and recipient interests. Politically conditioned aid which threatens the recipient’s hold on state power will be resisted, and successfully so in this case, in resource-poor countries where donor geostrategic interest is compelling enough to allow the recipient to deliver only on poverty reduction.

The rest of the paper proceeds as follows. A general theoretical framework for thinking about the centrality of effective institutions in supporting pro-poor growth and political accountability is provided in the next section. This is followed by a review of the levels and modalities of ODA, the nature of institutional capture by the political class, and how well the congruence between the fundamental interests of the GOE and those of its biggest DPs has hamstrung aid-funded institution building in overly narrow technocratic dimensions. We conclude with a summary of the arguments.

Theoretical and methodological considerations
Assessing the impact of aid on institutional effectiveness, in terms of both efficiency and inclusiveness, poses a number of challenges for political-economic analysis. The tasks include operationalising institutional robustness and quality, disaggregating the impact of aid from that of domestic resources, identifying the interests of donors and recipients, and employing the right metrics to gauge outcomes. We take up each consideration, albeit briefly.

Of the three pillars of a modern political order (a capable and autonomous state, rule of law that is anchored in societal norms and binding on the powerful, and an acceptable degree of accountability of state and business elites to citizens), Ethiopia barely meets the first criterion. A robust state is clearly one that is capable of defending its international borders, managing distributional conflict fairly and effectively, and delivering basic public services. Such a state also boasts a government that is considered legitimate by a broad cross-section of society.

How much a given state deviates from robustness has to be established on a case-by-case basis since universal measures of state fragility take us only so far. Even where fragility is discernible, the most efficient and feasible mode of aid delivery is not always clear: should donors provide aid that temporally prioritises technocratic state building over democracy building or insist on a simultaneous nurturing of both? In this regard Ethiopian exceptionalism as a country with a pedigreed and resilient non-colonial state provides an intriguing case study.

A long agency chain mediates the effectiveness of aid in diffusing knowledge and relaxing the binding constraints of long-term finance. To maximise pass-through and full implementation of aid-funded programmes, the centrality of efficient public-sector institutions cannot be overestimated. Given the intergovernmental nature of ODA, the inclusiveness and flexibility of institutions matter greatly. Some donors choose to build capacity and upgrade the quality of policies. Others choose just to work with the status quo, or even to bypass it altogether by outsourcing to non-state organisations.

Evaluating the impact of inter-governmental aid on institution building is further bedevilled by methodological complications. One involves disentangling the impacts of the domestic from the foreign when both monies and policies are
tightly coordinated. Another entails controlling for all relevant variables other than official aid that affect institution building. Comparing the programmes of different donors in the same country, the method we adopt in this paper, mitigates the problem of attribution since country characteristics are the same for all donors. However, heterogeneity in donor behaviour has been dented since big donors harmonised their aid programmes in Ethiopia, especially after 2002, and the various internationally comparable indices of governance quality lack adequate time-series depth. The case study approach we employ here, despite its limitations with respect to generalisability, is well suited to the question at hand. It allows for a contextualised analysis of actor incentives and behaviour.

We will, therefore, follow a straightforward procedure in structuring our reading of the evidence. First, we will provide the context for the evolution of state institutions, the rule of law and accountability in the past three decades or so. Then we take a brief look at economic performance in terms of growth rates, poverty reduction and inequality, without making a distinction between the source of funds – domestic or foreign. Using a battery of internationally comparable indicators of poverty and institutional development, we examine whether increased aid flows have contributed to the emergence of capable, meritocratic and inclusive public institutions.

It may be useful at the outset to pin down the typology of aid modalities that link incentives with practice. Let us rule out two options which are least applicable to Ethiopia today. If donors care solely about geopolitics but the recipient regime is secure enough to care about both democracy and poverty reduction, then aid will be doubly effective (aid to India or South Africa come to mind). The other end of the spectrum is the case where donors care about trade and investment but the recipient cares only about its own political survival. In this case mutual self-interest preserves both poverty and tyranny (a case most applicable to resource-rich kleptocracies).

The distinct tracks of the Ethiopian aid-reform envelope can then be reduced to just three:

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

2. Poverty reduction trumps human rights. Donors care about both democracy and poverty reduction, but the recipient cares only about its own survival and poverty reduction. In this case, reflecting perhaps the widely held view that democracy is impractical in the poorest countries, donors pragmatically choose to prioritise short-term poverty reduction over oppression reduction. This fits well the current Western model of aid for Ethiopia.
(3) Respect for human rights (ultimately) trumps poverty reduction. Donors care about both democracy building and poverty reduction, but the recipient cares about its own political longevity and poverty reduction. In this case donors choose to privilege basic freedoms and the rule of law over short-term poverty reduction. Allowing enough political space for the emergence of these pro-poor coalitions, which would enhance employment opportunities and business formation, is likely to have superior growth, distributional and accountability outcomes. A version of this option is a two-pronged and simultaneous promotion of political and economic development.

State-building and the emergence of an étatist regime

Ethiopia is an African country of 95 million with unusual features and myriad contradictions. It has a resilient civilisation-state but has not managed to transition fully into a modern nation-state. It is multi-ethnic (the biggest four ethnolinguistic groups accounting for over three-quarters of the population) and bi-religious (two-thirds being Christian and one-third Muslim). It is a mineral-poor and food-insecure but rich in arable land, water, and abundant but capital-intensive hydro-electric and geothermal resources. It enjoys a strategic location in the Horn of Africa – a ‘bad’ neighbourhood but also close to major sea routes. Its chronically aid-dependent governments have had a history of policy assertiveness in dealing with donors. Finally, its current rulers are repressive but savvy and geostrategically valuable enough to captivate narrowly self-interested donors.

The evolution of Ethiopian living standards since 1950 is depicted in Figures 1 and 2. One striking observation stands out: Ethiopia is not just unbelievably poor (and equally so with a Gini Index of 0.30) but lacks a robust growth engine. The slow but steady gain in real per capita income in the 1960s was lost in the subsequent three decades. The highest real per capita income, attained in 1969, was restored only in 2008. The lack of a diverse economic base is reflected in the high correlation between commodity prices and aid-funded investment, and

the rate of GDP growth. The recent rise in economic growth is driven by demand expansion fuelled largely by public investment, which makes it quite prone to balance-of-payments crises. Furthermore, exclusionary economic and political institutions appear to have the joint effect of enhancing the country’s vulnerability to recurrent political shocks, as shown by the patterns of Policy IV scores since 1946 (Figure 3).

![Figure 2](image-url)

**Figure 2.** Real GDP per person, and real capital stock per worker for Ethiopia, 1960–2011 (in 2005 PPP$; national accounts).
Notes: RGPP = real GDP per worker (bottom line). RKPW = real capital stock per worker (top line).

![Figure 3](image-url)

**Figure 3.** Ethiopia: authority trends, 1946–2013.
Source: Adapted from Systemic Peace database, [http://www.systemicpeace.org/polity/eti2.htm](http://www.systemicpeace.org/polity/eti2.htm).
The first half of the period under review was bookended by major wars. The civil war, spearheaded for two decades by the Eritrean Peoples’ Liberation Front (EPLF) and the Tigray People’s Liberation Front (TPLF), culminated in the replacement of the garrison-socialist regime (known as ‘Derg’) in May 1991 by a TPLF-led coalition of ethnic-based political organisations under the name of the Ethiopian People’s Revolutionary Democratic Front (EPRDF).

During this honeymoon period the EPRDF presided over a post-conflict and post-socialist double transition (Table 1). Black Africa’s largest national army was summarily disbanded and the top echelon of the civil service was replaced by loyalists. Predictably other Derg state institutions were preserved (most notably, the state bureaucracy’s answerability to party commissars, nationalised urban and rural lands and the commanding heights of the economy, and a party-state control apparatus down to the neighbourhood or Kebele level). Tariffs were reduced and restrictions on private sector investment were either lifted or significantly reduced. Prices were progressively decontrolled but inflation remained low. A limited programme of privatisation of state enterprises (largely benefitting political allies) was undertaken. To the delight of donor and citizen alike, a number of independent civic organisations (including a relatively free press) and opposition parties were permitted during this transition period. In the meantime the province of Eritrea seceded and a major war ensued over the division of the spoils and ill-defined borders.

While 1995 witnessed the introduction of a radically new constitution, the high hopes for meaningful power sharing, much less a peaceful power transfer as a result of free and fair elections, ended in 2005. Ethiopia today boasts a government led by a ruling party propounding the ideology of ‘revolutionary–democratic’ developmentalism. Decoded, this means the vanguard party has the obligation to forge a direct ‘coalition with the masses’ to represent (and control) them. Some have charitably reinterpreted this form of crony capitalism as an African developmental neo-patrimonialism – a system of bureaucratic but also personalised rule with a leadership committed to pro-poor growth by centrally mobilising and investing economic rent, including aid money.

Another hallmark of the regime is the melding of statism with political ethnicity as foundational principles. The new constitutional order has reinforced structural fragility in the polity by emphasising the supremacy of primordial group rights and introducing two competing lines of authority – party and state. In a nutshell, this ‘holding together’ and top-down model of federalism has four distinctive features: (1) autonomous status was thrust upon ethnically delimited regional states to be run by the new class of ethnic politicians; (2) each major subnational group was intended to be dominant in one, and only one, regional state regardless of population size; (3) there is a mismatch between the top-down territorial assignment of homeland for each ethnic group and the reality of high geographic mobility and inter-ethnic marriage; and (4) the hegemony of a single party reduces the power of federal units while also providing the glue to hold them together in the absence of viable democratic institutions. The institutionalisation of atavistic ethno-nationalism has introduced, as in Malaysia and apartheid South Africa, the notion of ‘dual citizenship’, which undermines inter-group trust for building a robust pan-Ethiopian state.
Table 1. Time-line of major aid-related developments, 1990–2012.

<table>
<thead>
<tr>
<th>Year</th>
<th>Major events</th>
<th>Donor responses</th>
</tr>
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<tbody>
<tr>
<td>1990–91</td>
<td>• Derg belatedly decollectivises, decontrols prices, and frees inter-regional trade</td>
<td></td>
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<tr>
<td></td>
<td>• EPRDF assumes state power in mid-1991</td>
<td>• Western governments unconditionally support EPRDF takeover</td>
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<tr>
<td></td>
<td>• Liberalisation of prices and Birr</td>
<td>• Emergency and BOP assistance but squeamish about the initially leftist economic policy of EPRDF</td>
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<td></td>
<td>• A liberal Investment Code</td>
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<td>1992–94</td>
<td>• EPRDF rules under Transitional Charter</td>
<td>• Multi-donor conference led by IFIs</td>
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<td></td>
<td>• Macro stabilisation and demobilisation</td>
<td>• Economic recovery and reconstruction programme (structural adjustment credits)</td>
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<td></td>
<td>• Independent CSOs and freer press allowed</td>
<td>• Food security and road rehabilitation</td>
</tr>
<tr>
<td></td>
<td>• Eritrea secedes; Ethiopia is landlocked</td>
<td>• Public expenditure reviews</td>
</tr>
<tr>
<td></td>
<td>• New ethnic-based federal Constitution</td>
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<tr>
<td>1995–97</td>
<td>• Non-competitive parliamentary elections</td>
<td>• Sector investment, public investment and medium-term economic plans</td>
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<td></td>
<td>• Lower and more uniform tariffs</td>
<td>• Extended structural adjustment facility</td>
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<tr>
<td></td>
<td>• Exchange rate liberalisation, inter-bank auctions, and interest rate decontrol</td>
<td>• Investment in roads and public utilities, food security and deeper privatisation</td>
</tr>
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<td></td>
<td>• Privatisation of SMEs</td>
<td>• Jointly developed policy framework papers</td>
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<td></td>
<td>• Civil service reform and retrenchment</td>
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<tr>
<td></td>
<td>• Fiscal federalism with broader tax base</td>
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<tr>
<td>1998–2000</td>
<td>• Ethio-Eritrean conflicts: 100,000 killed</td>
<td>• Worried about instability, bilaterals suspend aid, but not IDA</td>
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<td></td>
<td>• Border delimitation but no demarcation</td>
<td>• Donors urge greater political accommodation of opposition parties</td>
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<td></td>
<td>• Internal split within the TPLF leadership</td>
<td>• Food aid, led by UN and USAID, rises</td>
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<td></td>
<td>• Second non-multiparty elections</td>
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<tr>
<td></td>
<td>• Famine strikes southern and eastern areas</td>
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<tr>
<td>2001–04</td>
<td>• Economy recovers in 2003, despite food shortages</td>
<td>• Conditioned HIPC debt forgiveness</td>
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<td></td>
<td>• First comprehensive PRSP in 2003</td>
<td>• Direct Budget Support is strengthened</td>
</tr>
<tr>
<td></td>
<td>• Ethiopia begins to benefit from rising commodity prices and remittances</td>
<td>• Donor harmonisation and coordination</td>
</tr>
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<td></td>
<td></td>
<td>• Bilaterals increase commitments, focused on emergency aid</td>
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<thead>
<tr>
<th>Year</th>
<th>Major events</th>
<th>Donor responses</th>
</tr>
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<tbody>
<tr>
<td>2005–06</td>
<td>• First free and fair multiparty parliamentary election ends in loss of urban areas</td>
<td>• Donors suspend direct budget support</td>
</tr>
<tr>
<td></td>
<td>• Premature declaration of victory by ruling party leads to public outcry, loss of 200 lives and jailing of opposition leaders</td>
<td>• Donors call for release of jailed leaders and investigation of the killings of peaceful demonstrators</td>
</tr>
<tr>
<td></td>
<td>• Certificates for land-use rights introduced</td>
<td>• Project lending and food aid continued</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Much general budget support recast as Protection of Basic Services (PBS)</td>
</tr>
<tr>
<td>2007–12</td>
<td>• Opposition leaders released but independent CSOs political parties and media virtually annihilated; a surveillance state matures</td>
<td>• Protection of Basic Services expanded</td>
</tr>
<tr>
<td></td>
<td>• Economy records near double-digit growth; inflation rises; mega-farms and mega-hydro projects proliferate</td>
<td>• IDA increases economic and sector work</td>
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<td></td>
<td>• Draconian Charities and Media laws in 2009</td>
<td>• IMF decries unsustainable public spending and inflationary pressure</td>
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<td></td>
<td>• FDI and loans from BRIC accelerate</td>
<td>• The level of ODA increased markedly</td>
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<td></td>
<td>• Prime Minister Meles Zenawi dies in 2012</td>
<td>• Export, FDI and remittance revenues rise significantly to overshadow ODA</td>
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<td></td>
<td></td>
<td>• Political conditionalities abandoned</td>
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Sources: Compiled from Abegaz, “Aid and Reform in Ethiopia”; and GOE (2009); Khan, Faguet, Gaukler and Mekasha (2014); IMF (2014); World Bank (2014).
Accountability and the rule of law: citizen rights and popular legitimacy

Given the absence of effective domestic constraints on the exercise of state power, a strong positive correlation is discernible between the degree of power consolidation by the ruling elite and the willingness to violate the constitutional rights of citizens with impunity. Gross and persistent human rights violations, which underlie Ethiopia’s consistently dismal international rankings, are the stuff of numerous well-researched reports.\textsuperscript{12}

Recent examples highlighted by such organisations include the arrest of 5000 Oromo for their actual or suspected political opposition to the government;\textsuperscript{13} the forcible eviction of 8000 ethnic Amhara residents from Benishangul-Gumuz in 2013 on the heels of another eviction from Gura Farda in SNNP;\textsuperscript{14} the passage of two draconian pieces of legislation – the charities and societies proclamation and the anti-terrorism proclamation – which place sharp restrictions on or criminalisation of constitutionally protected political and civic activities;\textsuperscript{15} the displacement of a number of agro-pastoral communities to make way for hydroelectric and irrigation projects or for mega-land leases in the Omo and Gambella regions;\textsuperscript{16} and the large and growing number of political prisoners whose ranks are augmented by the delisting of multi-ethnic opposition political parties, the latest being the Unity for Democracy and Justice Party (Andnet).

Internationally comparative evidence on the GOE’s capability, policy and performance comes from disparate sources. It is summarised in Table 2. Despite a strong economic performance, reflected in a 25% gain on the Human Development Index (HDI) over the past decade, the country still ranks 173 out of 186 countries in the world on the overall HDI metric. With respect to qualitative


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<tr>
<td>Human Development Index</td>
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<tr>
<td>(HDI):</td>
<td>0.316</td>
<td>0.396</td>
<td>0.080</td>
<td>1.0 – 0.0</td>
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<tr>
<td>• HDI</td>
<td>177</td>
<td>173</td>
<td>-4</td>
<td>1–186</td>
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<tr>
<td>• Rank</td>
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<tr>
<td>Transparency International: CPI</td>
<td>0.23</td>
<td>0.33</td>
<td>0.10</td>
<td>1.0–0.0</td>
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<tr>
<td>• Rank</td>
<td>114</td>
<td>113</td>
<td>-1</td>
<td>1–174</td>
</tr>
<tr>
<td>Freedom House: (total)</td>
<td>(partly free)</td>
<td>(not free)</td>
<td>(worse)</td>
<td>(free/partly/ not)</td>
</tr>
<tr>
<td>• Political Rights</td>
<td>5</td>
<td>6</td>
<td>-1</td>
<td>1–7</td>
</tr>
<tr>
<td>• Civil Liberties</td>
<td>5</td>
<td>6</td>
<td>-1</td>
<td>1–7</td>
</tr>
<tr>
<td>Foreign Policy: Failed State Index</td>
<td>91.1</td>
<td>97.9</td>
<td>-8.8</td>
<td>20.0–114.9</td>
</tr>
<tr>
<td>• Rank</td>
<td>30</td>
<td>17</td>
<td>-13</td>
<td>177–1</td>
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Notes: The Ibrahim Index of African Governance ranked Ethiopia 32 out of the 52 countries in 2014. CPI = corruption perception index.

Evidence on voice and participatory decision making, Ethiopia ranks low on perception of individual corruption (113 out of 176), with low and worsening Freedom House scores on rights (6 out of 7 on the scale). For what it is worth, Foreign Policy’s state fragility index is high and deteriorating, with Ethiopia having fallen among the worst 17 countries out of 177. When the various dimensions of the rule of law index are parsed, the country ranks towards the bottom on all measures except corruption and criminal justice.

The preponderance of the multidimensional evidence also points to the reversal of liberalisation towards an Ethio-centric private-sector-led development. The GOE likes to rationalise aid- and public-investment-driven economic growth, two-thirds of which originated in the public sector, as adequate compensation for the denial of accountable governance by invoking the success of the étatist East Asian model of development. It views state institutions as instruments of party politics rather than as instruments for demand-led public service provision, or as partners with a robust private economic sector and independently organised interest groups.

Alignment of donor and recipient interests

Donors seem to have grudgingly jettisoned their much-touted support for competitive market institutions and subnational ownership of aid programmes. To appreciate the latter’s implicit cost–benefit calculus, we need to take a closer look at aid modality in practice.

In addition to the UN system, five DPs have had deep engagement with the GOE: the African Development Bank (AfDB), the European Commission (EC), the International Development Association (IDA) of the World Bank Group, DFID and USAID. These five DPs provided nearly two-thirds of the ODA received during the period. Over the past 10 years the GOE has presented donors with three Poverty Reduction Strategy Papers (PRSPs). Updated every three years with annual progress reports, the PRSPs contain an assessment of poverty and of the associated macroeconomic, structural and social programmes along with identified external financing. Ethiopia’s PRSPs are consistently praised for being country-owned, pro-poor and collaboratively developed with external partners. Despite the close collaboration with donors (most notably the EU and IDA), the five-year development plans embody the vision of the ruling party emanating from the Prime Minister’s Office. Domestic stakeholders are typically invited only to comment on drafts.

The most comprehensive and best articulated of the GOE development plans were issued in the 2000s. The pillars of SDPRP (2001–04) included pro-poor growth (rural and urban), human development (primarily social services), and resilience for the poor. PASDEP (2005–10) focused on rural development, job creation, expanding public infrastructure, and improving tax collection and the public finance system as well. GTP (2010–15) focuses on productivity-driven growth (commercial agriculture, expanded infrastructure and industrial development), enhancing the quality of social services, building a capable developmental state and restoring macroeconomic stability in the face of the alarming pace of monetisation of the domestic debt. The GOE has recently scaled up its ambitions by undertaking tens of billions of dollars of investments in roads,
railways, power and agro-processing industrial zones which are likely to diversify its export basket and boost higher paying jobs. This may well mean less dependence on foreign aid in the near future.

A discernible division of labour is evident between multilateral donors and bilateral donors. Multilaterals have a comparative advantage in supporting physical infrastructure and better economic governance (civil service, fiscal management, training and decentralisation). Bilaterals have a competitive edge in the social sectors (education, health, water and food security) along with a secondary interest in issues pertaining to political governance (mainly in the form of civic education and gender equity). The level of aid and the focus of donors are reported in Figure 4 and Table 3.

AfDB started operations in Ethiopia in 1975 and has to date committed US $3 billion to finance over 90 operations. It is particularly strong in the areas of multi-donor basic service delivery and energy-related infrastructure.20

IDA is Ethiopia’s largest soft lender and a leader in aid harmonisation and coordination. It has provided aid in the form of soft loans and grants (comprising one-third) to the tune of $10 billion since 1950. Some 70% of this was provided after 1991, and 20% of it has been devoted to public-sector institution building.21 Overall IDA programmes have focused on growth, human development (social spending and economic governance) and food security. The current country partnership programme has two pillars: fostering competitiveness (via macro-stability, gains in productivity, expanded infrastructure and regional integration); and enhancing resilience (through delivery of social services and a better approach to social protection and risk management.22 The bridge between the two is taken to be good technocratic governance (public sector managerial efficiency and transparency) and state-capacity building (by deepening policy dialogue, fostering the use of country systems and increasing the predictability of budget support).

EU official aid to Ethiopia, collectively the largest, has come through two channels.23 The first is the EC, mainly the European Development Fund (EDF).

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R = real, inflation adjusted; N = nominal. AfDF = African Development Bank Fund; GloF = Global Fund. Some numbers may not add up due to rounding up.
EDF has been active since 1975. Like IDA, EDF relies on periodic replenishments by member states rather than on predictably regular budgetary allocations. These monies are supplemented by loans from the European Investment Bank (directed mainly at public utilities) and together account for 40% of total EU aid to Ethiopia. Following the Cotonou agreement of 2000 politically neutral entitlements under the Lomé Convention gave way to performance-based, politically conditioned and sectorally selective aid. The scaled-up aid also had to come primarily in the form of general budget support. EC support, however, shows a marked preference for the developmental end of the development—democracy nexus.

The aid relationship between Ethiopia and the UK is a longstanding one. DFID has in recent years ramped up support, making Ethiopia the largest recipient of British aid in Africa, if not in the world, today. British aid, which totalled $1 billion during 2005–11, is expected to rise by $0.8 billion in 2012–17. DFID is well-known for its eagerness to pool its resources with other donors, especially for promoting sustainable livelihoods, for its reticence about the domestic political implications of its aid, and for a penchant for impact evaluation of its programmes.

The alliance between the USA and Ethiopia was strong between 1950 and 1975. The USA not only resumed both military and economic aid in 1991 but accelerated these as the fight against terrorism made Ethiopia a reliable political ally in the unstable Horn of Africa. The latest country-development cooperation strategy supports US foreign policy priorities, ostensibly mindful of the needs, constraints and opportunities in Ethiopia.

One mantra of the donor-owned country strategy papers is aligning donor objectives and modalities with those of the Ethiopian government. The Donors’ Assistance Group (DAG) was established in 2000, and joint and harmonised programmes have become the hallmark of the aid regime ever since. Ethiopia’s report card on the Paris Principles in 2008 shows a grade of B on ownership and mutual accountability. However, alignment, harmonisation, and managing-for-results garnered only a grade of C. DAG has long recognised that public sector reform is essential for rectifying serious capacity deficits and a dysfunctional managerial culture, all the while maintaining an assiduous silence about the tenets of the underlying political order.

Aside from the dismal record on human, civil and political rights noted earlier, Ethiopia’s business climate for domestic investors has remained sub-par in many important respects, and the volume of aid inflow is largely insensitive to it (Figure 5). The various indicators, absolute indices and relative intercountry rankings alike, point to mostly worsening trends.

While government effectiveness has improved measurably since 2005, voice and accountability, and political stability and non-violence have fallen from unenviable initial levels. This is confirmed by IDA’s country performance on institutional accountability (CPIA) ratings, which show a steep deterioration in the public management score but a significant gain in the economic management score (Figure 6).

It is also worth noting here that, when it comes to petty bureaucratic corruption, Ethiopia has a lower level of corruption than its African peers in basic services. However, it is high and rising in other sectors such as construction, land,
What is often overlooked, however, is that endemic political corruption is reaching kleptocratic proportions, with all the corrosive consequences for trust in public institutions. One disturbing manifestation of economic misgovernance is the systematic conversion of public assets into party assets, and the former’s use in political patronage (especially through a brazen unlocking of economic wealth embedded in urban real estate and commercialisable rural land) by politically linked groups.

Institutions favouring redistributive rent-seeking are supplanting institutions of wealth creation.
Grand corruption at the level of the highest policy circles is also evident in other ways. According to a recent joint study by the AfDB and Global Financial Integrity, illicit financial outflows from Ethiopia (mainly resulting from trade mispricing – under-invoicing of exports and over-invoicing of imports) were estimated at $19 billion (the African total being $1.3 trillion) during 1980–2009. If true, this is equivalent to half the ODA inflows of the past two decades.

And yet, aid is demonstrably contributing to poverty reduction. So donors have faced a dilemma: provide (domestically) apolitical aid with a focus on economic liberalisation and public capacity building or insist on linking aid to robust political and market openness, risking GOE push-back and possible disengagement. This conundrum was brought to sharp relief following the 1998–2000 Ethio-Eritrean war and the post-election public outcry and government violence of 2005. During 2002–05, donors were rapidly moving money to untied general budget support (GBS), since prolonged suspension of aid was viewed as a threat to the government’s targeted spending programme on basic services.

Case study: protection of basic services (PBS)

After jointly voicing their displeasure with the GOE actions, four of the five DPs (USAID being the exception) chose to introduce tailor-made budget support for Ethiopia, later renamed Protection of Basic Support (PBS). Actually support for PBS is broader and includes the EC, Austria, Germany, Ireland (Irish Aid), the Netherlands, DFID, Canada, AfDB and the World Bank (IDA).

The PBS vehicle is worth a closer look since it is emblematic of donor creativity (or evasiveness, to some) in grappling with the aid-institution paradox. PBS was purportedly intended to punish federal officials for their embarrassing political indiscretions by withdrawing permissive GBS from the federal authorities. The PBS instrument was sold as an effective way of strengthening the hands of de jure autonomous (but de facto captive) local governments which, at least in terms of the theory of public finance, are closest to users or citizens.

Dependent on federal block grants to cover 80% of their expenditures, the district-level administrations cared more about predictability and timeliness of fund flows than about their sources – domestic or foreign. The money was to provide predictable budgetary grants which only nominally had to go through the federal fiscal plumbing. In other words, unlike GBS, PBS restricts the use of donor-supplied funds to the district level (vertical restraint) and for pro-poor programmes only (horizontal restraint).

As noted earlier, the country today has three effective levels of state structure: federal (national), killil (regional), and woreda (district). Woreda administrations (district-level units of the government with some 100,000 residents) are constitutionally mandated to provide basic social services (security, education, agriculture, water and health). Woreda Councils are also responsible for providing local oversight of those Kebele and local organisations involved in the implementation of federal mandates, including reviewing and approving annual development plans and budgets, and interfacing with citizens and community organisations.

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

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

Relying on such harmonised block grants and guided by certain core principles (additionality, sustainability, equity, social compact, independent evaluation and the like), PBS concedes full country ownership to the GOE. This modality is touted by proponents as a cure for the perennial problem of fungibility, because the bulk of the funds is contributed by the GOE itself, and donors have a lot of say in how all funds are utilised.33 Several arguments have been made in favour of PBS being more effective than GBS or projectised aid: (1) PBS is superior in terms of harmonisation and predictability; and (2) the major donors have been able to contribute substantially to the decentralisation process, not just in the form of improved public financial management, but by legitimising the district-level authorities. PBS, in other words, works precisely because it relies on the top-down system enforced by strong party discipline and traditional patron–client relationships, rather than on a bottom-up democratic accountability mechanism.

Counter-arguments abound against the PBS modality. First, it takes off the table national-level donor leverage in the dialogue on macro-policy and governance in a country where the Prime Minister’s Office has complete control over the policy agenda. By acceding to the wishes of a recipient which heavily discounts the future, donor influence on inclusive governance, genuine decentralisation and even sector-level implementation has been undermined. Second, by channeling most of the support through various types of budget support (global, sectoral, targeted), donors have managed to ensure aid sustainability to fight poverty while sacrificing promotion of good political governance and deeper structural economic reforms. Third, PBS has increased the transaction costs of monitoring and evaluation by opting for an elaborately expansive intergovernmental fiscal arrangement.34

The first evidence-based study on PBS uses survey data to assess the impact of the programme in the areas of accountability and effectiveness in the delivery
of social services at the subnational level. It finds indirect evidence that increased hiring of health extension workers and teachers, whose salaries absorb 80% of the PBS funds, has produced significant, equitable and pro-poor health and educational outputs and outcomes (rates of net enrolment, vaccination, contraceptive use, etc) in a cost-efficient manner.

Using a principal–agent framework of accountability of service providers to beneficiaries, the report infers from pilot opinion surveys that the indirect route of accountability is discernible. The evidence for this is the recent introduction of government- and donor-sponsored accountability mechanisms such as public posting of budgets, the Ombudsman and citizen feedback.

**Hard options for smarter aid**

The current aid model is in large part based on the idea that ODA buys pro-poor policy reforms and also helps to build more capable public institutions. This development-before-democracy strategy is presumed to pave the way for a robust private sector and sustainably shared economic growth. In reality, however, there is a weak correlation between bad political governance and high economic inequality, and quality economic growth. This is so because authoritarian regimes must necessarily place a high premium on loyalty and exclusion rather than on meritocracy and more diffused power centres. Propponents of PBS cannot credibly ignore the salience of power relations for enduring aid effectiveness.

Are there credible alternatives to technocratic aid which would merit serious consideration? The five biggest donors, should they wish to create a united front for change by linking economic aid to a pro-poor and a progressively inclusive political and economic environment, are left with two sequences of action.

One strategy is to leverage money and technical assistance to push for a deliberate and steady dismantling of the EPRDF’s party-state in order to create a level playing field for all fundamental stakeholders. This can be done by employing time-bound political triggers that are based on internationally recognised governance benchmarks, by invoking international treaties to which the GOE has acceded, and by pushing to honour the myriad rights enshrined in the Constitution. Interestingly, under intense pressure from international civil society organisations, DFID has just announced plans to redirect all PBS funds to other programmes. In response to criticism by the Inspection Panel of the mistreatment of the Annuak people, the management of the World Bank has just accepted the need to mitigate the risks arising from PBS-implicated coercive villagisation and land grabs.

If this strategy fails, aid will then have to be reduced progressively up to the level required for humanitarian assistance – a course of action supported by such notable prisoners of conscience as Eskinder Nega. Given our analysis of the logic of the regime-affirming governance strategy for the recipient and the primacy of geostrategic interests for donors, one can reasonably be sceptical of such a prescription. This is even more the case, given the progressively declining dependence of GOE on donor financing of development projects. However, the major donors still enjoy substantial leverage in terms of finance, market access and policy lock-in should they wish to collectively pursue their
enlightened self-interest by minding the risks of myopic aid for the long-term viability of the Ethiopian state and market economy alike.

**Conclusion**

The central contention of this paper is that self-interested and pro-poor aid to Ethiopia has enhanced the technocratic capacity of public institutions while doing little to bolster political legitimacy by widening space for non-state stakeholders. We argued further that decentralisation is ultimately about the distribution of power and the incentives facing local actors, not just about administrative control or expediency. Given the difficulty of institutionalising effective domestic political bootstraps for restraining power-holders, the habitual resort of donors solely to technocratic approaches often underwrites long-term state de-building in conflict-prone countries. Donors wishing at least to do no institutional harm can and must, therefore, take seriously the professed objective of coupling poverty alleviation with inclusive and resilient institutions in Ethiopia.

**Acknowledgements**

The author is grateful for helpful comments from Rachel Gisselquist and two anonymous referees.

**Notes on contributor**

Berhanu Abegaz is Professor of Economics at the College of William & Mary. His research on Ethiopia has focused on agrarian history, state formation, industrialisation, aid effectiveness and party-owned enterprises.

**Notes**

5. Tarrow, “The Strategy of Paired Comparison.”
16. Oakland Institute, *We say the Land is not Yours*.

20. ADB, Federal Democratic Republic of Ethiopia.
23. EU, Ethiopia; and EU, Partnership Strategy for Ethiopia.
26. DFID, Ethiopia; and DFID, Business Case.
27. Barnett et al., Country Programme Evaluation; and DfID, Country Programme Evaluation.
28. USAID, Ethiopia.
29. DAG, A Profile of Development Partners in Ethiopia.
30. Plummer, Diagnosing Corruption in Ethiopia.
31. Vaughan and Gebremichael, Rethinking Business and Politics in Ethiopia; and Abegaz, Aid, Accountability and Institution-building.
32. ADB and GFI, Illicit Financial Flows from Africa.
34. Barnett et al., Country Programme Evaluation; and EU, Evaluation.
35. Khan et al., Improving Basic Services.
37. There are many methodological and interpretational concerns with Khan et al., Improving Basic Services. With respect to effectiveness, the authors note that 97% of the funds are used to cover the salaries of health workers, agricultural extension workers and teachers. This suggests that there is a problem of inference from intermediate inputs to final outcomes. Many caveats are also noted but not duly reflected in the conclusions. There is, for example, a serious omitted variable bias since the outcomes are also affected by capital spending and non-recurrent expenditures. Furthermore, the claim about the efficacy of the new decentralisation cannot be confidently made without considering the counterfactual of a similarly pro-poor Derg regime without decentralisation or local hiring of staff. The claims regarding the deepening of accountability to citizens are also surprisingly marred by dubious presumptions. First, the evaluation of the direct route of accountability linking citizens with providers (such as transparent budgets, community and citizen report and score cards, grievance procedures, etc.) is being piloted in only half of the woredas. Second, the report bafflingly ignores the fact that the ‘service providers’ themselves are government entities in a subnational environment bereft of independent citizen organizations or providers.
39. “Britain pulls back $4.5bn Development Aid”; and Oakland Institute, We say the Land is not Yours.
41. Ethiopia’s dependence on ODA grants and concessional loans, which comprised half its foreign exchange sources in the 1990s, declined to about a third in the 2000s, as exports and remittances each matched the volume of net aid inflows. Over the past five years FDI and non-concessional loans (mostly from China) have increased substantially – the latter standing at $5.5 billion or half of total external debt in 2013. See World Bank, 3rd Ethiopia Economic Update.

Bibliography


