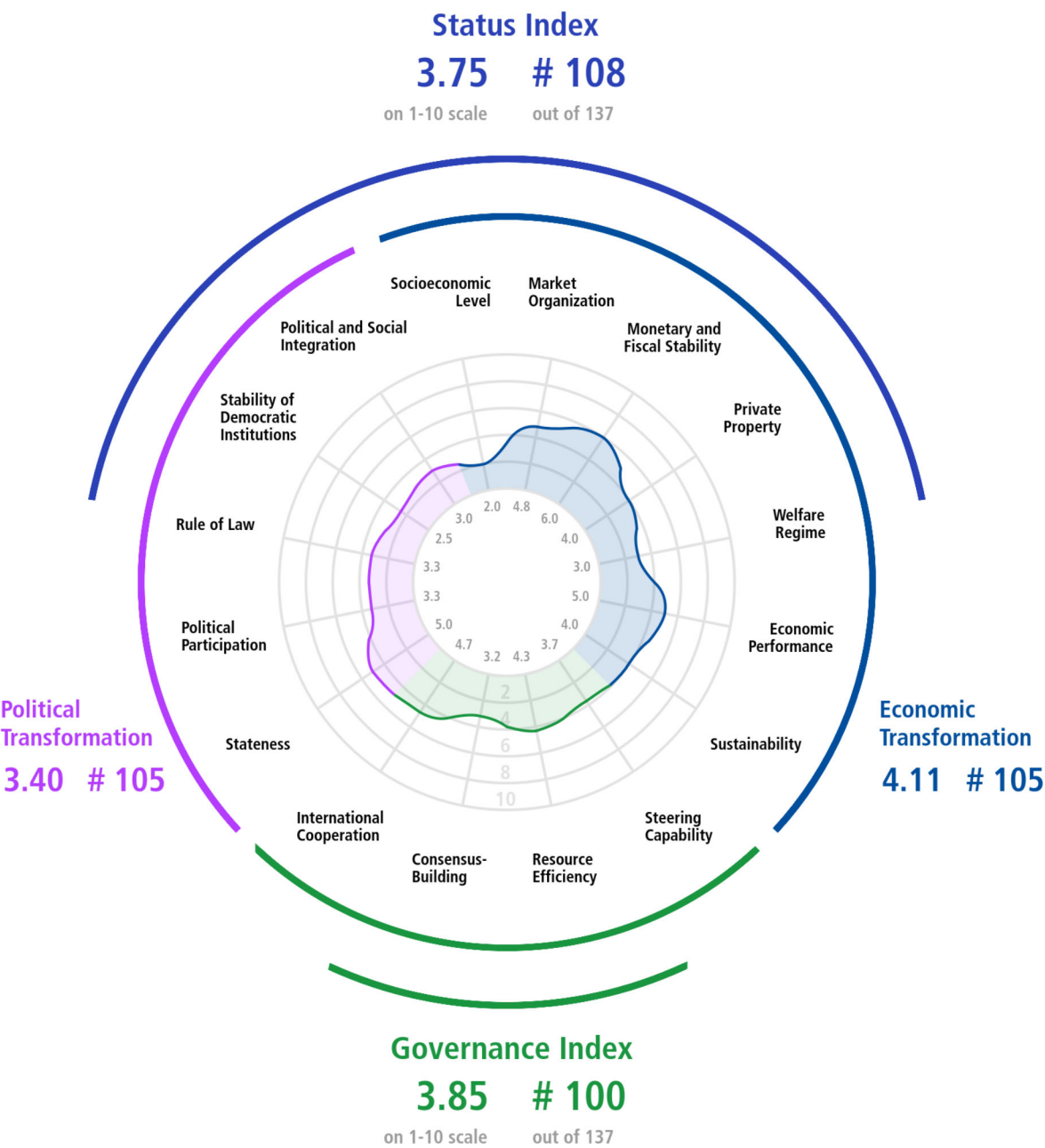


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Ethiopia



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Key Indicators

Population	M	132.1	HDI	0.497	GDP p.c., PPP \$	3278
Pop. growth ¹	% p.a.	2.6	HDI rank of 193	180	Gini Index	31.1
Life expectancy	years	67.3	UN Education Index	0.336	Poverty ³	% 65.0
Urban population	%	23.7	Gender inequality ²	0.497	Aid per capita \$	42.0

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

Ethiopia's government under Prime Minister Abiy Ahmed has weathered enormous challenges over the past two years (2023 – 2025). A peace agreement ending the Northern Ethiopia conflict in the Tigray, Amhara and Afar regions, signed in November 2022, prevented a return to widespread conflict despite some resurgent clashes. The conflict related to insurgencies in the Oromia and Amhara regions has fluctuated over the past two years, resulting in widespread destruction and loss of life. However, the government has ultimately maintained the upper hand, and neither the Fano in the Amhara region nor the Oromo Liberation Army in the Oromia region has been able to establish control over a significant amount of territory. Ethnic strife and general instability in the country have worsened over the past two years.

Amid continuing security challenges and civil unrest, the government has closed the country's political space, further eroding progress made early in Abiy's term. Over the past two years, political opponents have faced arrest and intimidation; media outlets with views critical of the government have been forcibly shut down; and government soldiers have been accused of serious human rights abuses. Mass detentions, disappearances, extrajudicial executions and forced displacement of civilians sympathetic to anti-government groups have been reported by credible human rights organizations. Civil society organizations have also faced pressure, with some arbitrarily closed for a time after being accused of political bias.

Mounting financial pressure forced the government to engage with multilateral institutions such as the International Monetary Fund (IMF) and the World Bank, as well as with bilateral creditors, to renegotiate the terms of its loans. In December 2023, Ethiopia failed to make a payment on its international government bond. In July, as part of a debt restructuring deal, the government floated the country's currency. By 2025, Ethiopia had negotiated an extended payment schedule with creditors, securing about \$2.5 billion in debt relief and giving the government a foothold for financial recovery.

Despite insecurity and financial difficulties, the government has forged ahead with its plan to encourage private sector growth. In December 2024, Ethiopia's parliament approved legislation allowing foreign banks to operate in order to attract additional foreign investment, bringing decades of government control over the banking sector to an end. The sixth turbine on the Grand Ethiopian Renaissance Dam (GERD) became operational in February 2025, promising additional electrical capacity for the country and potential support for the manufacturing sector that the government hopes to build.

Political instability has hampered economic progress, with ongoing anti-government insurgencies in the Amhara and Oromia regions fueling conflict. Efforts to achieve a peaceful resolution to these conflicts have thus far failed. Likewise, the fragile peace deal signed to end conflict in northern Ethiopia threatens to unravel as new tensions mount between political factions in the Tigray region. Restoring Ethiopia's political stability will require the development of an inclusive consensus on the country's historical grievances, political direction and relationship with ethnofederalism, which the government has attempted through the National Dialogue process. However, over the last two years, the National Dialogue process has produced minimal results, having been mired in accusations of exclusion and government domination.

History and Characteristics of Transformation

Ethiopia's political history includes the rule of Emperor Haile Selassie from 1930 to 1973, followed by a socialist military government led by Mengistu Haile Mariam between 1973 and 1991. In 2018, Ethiopia embarked on a new phase of democratization when Prime Minister Abiy Ahmed took office after being selected by the then-governing Ethiopian People's Revolutionary Democratic Front (EPRDF).

Prior to Ahmed, the EPRDF had followed a state-led developmental model that included government ownership and steering of the telecommunications, banking, energy, transportation and utility sectors. Following the fall of Mengistu Haile Mariam, the EPRDF maintained the principle of state land ownership, with citizens having only usage rights.

In 2019, Abiy dissolved the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF) coalition and created the Prosperity Party – a merger of ethnically based parties. Long-standing political and ethnic tensions were exacerbated following Prime Minister Abiy's political reforms, and conflict erupted between the Ethiopian federal government and the Tigray People's Liberation Front (TPLF) – then the administration of the Tigray region – in November 2020.

Concurrently, an active insurgency was underway in the Oromia region between members of the Oromo Liberation Army (OLA) – who sought greater autonomy for ethnic Oromos – and the government. The OLA's fractured nature and ethnic base led to widespread insecurity in the Oromia region, and amid a breakdown of security, ethnically targeted killings occurred, resulting in thousands of deaths and millions of displaced people. In 2023, the OLA held two rounds of unsuccessful peace negotiations with the government.

The Ethiopian government and the TPLF forces, known as the Tigray Defense Forces (TDF), signed the African Union-led Agreement for Lasting Peace through a Permanent Cessation of Hostilities in Pretoria, South Africa, on November 2, 2022, ending the Northern Ethiopia conflict. However, the peace agreement sidelined militias from the Amhara region that had fought on the government's side and had an interest in the contested territory of the Western and Southern Tigray zones. Attempts to demobilize the Amhara militias, known as "Fano," led to localized clashes. Fighting between Fano and forces from the regional and federal governments spread in March 2022 and intensified after the Ethiopian government began a crackdown on Amhara ethnonational institutions, including hundreds of arrests in the Amhara region and the capital, Addis Ababa, in May 2022.

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

Transformation Status

I. Political Transformation

1 | Stateness

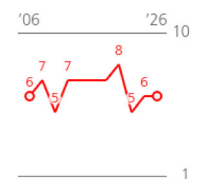
The state's monopoly on the use of force is established nationwide in principle but is challenged by opposition groups and rebellions in many parts of the country. During the reporting period, armed anti-government groups challenged the Ethiopian state's monopoly on the use of force, and large areas of the country were under the control of forces not aligned with the government. While the federal government strengthened its monopoly on the use of force in the Tigray region following the signing of a peace agreement in November 2022, significant territory was lost in the Amhara and Oromia regions because of intensified insurgent activity in those areas.

Starting in August 2023, Fano militias expanded insurgent operations against the federal government, gaining control of many rural areas in the Amhara region. While the federal army in conjunction with the Amhara regional government forces were able to maintain control of urban areas and all major transport routes, they did not maintain a monopoly on the use of force in these areas, and Fano militias conducted many operations against military and nonmilitary targets. As of January 2025, Fano militias were active in a majority of zones within the Amhara regional state. In the Oromia region, the OLA persisted in challenging the state's monopoly on the use of force. That group is active in a majority of the Oromia region's zones and, like Fano militias in the Amhara region, controls many rural areas within the region. Moreover, since November 2022, Amhara ethnic militias residing in western Oromia, who are also locally identified as Fano, have started to challenge the state's monopoly on the use of force in that area. Regional authorities claim that these militias came from the neighboring Amhara region, while Amhara refuted this claim and insisted that the militias were established locally to defend fellow residents from OLA attacks, which have been frequent in these areas since 2018. Fighting between Fano militias and OLA militants is common in areas of the Oromia region with large Amhara populations, for example, in the North Shewa zone, Horo Guduro Wollega zone and East Wollega zone.

Question
Score

Monopoly on the
use of force

6



Both the OLA and Fano militias challenge the state's monopoly on the use of force in areas controlled by the groups and in areas within their influence. In these areas, non-governmental forces use force to pursue specific goals – controlling strategic locations, collecting taxes on agricultural products and coercing support from local populations.

Ethiopia employs a system of governance known as ethnic federalism. As a result, the country is divided into ethnically based administrative levels: federal, regional, zonal, woreda and kebele. At the end of 2024, there were two federal states and 12 regional states. The federal states and some regional states are heterogeneous, while other regions (e.g., Afar, Amhara, Harari, Oromia, Sidama, Somali and Tigray) are dominated by a single ethnic group. The Federal Democratic Republic of Ethiopia (FDRE) constitution grants each ethnic group (referred to variously as “nations,” “nationalities” and “peoples”) the right to self-determination, up to and including secession. Consequently, the country's political arena is based on ethnic identity. This, in turn, creates various citizenship narratives. Some ethnonationalists, especially in Oromia, Tigray and Somali, and increasingly in Amhara, identify first with their ethnicity rather than their nationality (Ethiopian). There are different narratives about what it means to be Ethiopian. However, legally, all ethnic groups are granted full citizenship rights.

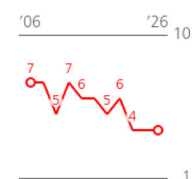
Parties to the conflict in the country often use ethnic-driven narratives to mobilize support and fighters. For example, both the government and the OLA claim to be protecting and advocating for the rights of ethnic Oromos. Other insurgent groups in the country, including Fano militias, use similar identity-based mobilization methods.

In Ethiopia, most of the population practices Orthodox Christianity, while Islam is the second-largest religion. The Federal Democratic Republic of Ethiopia (FDRE) constitution states that “state and religion are separate, there shall be no state religion, and the state shall not interfere in religious matters, nor shall religion interfere in state affairs.” However, some political institutions and legal frameworks, such as those on abortion and sexual orientation, are in practice influenced by religious beliefs, because the population is predominantly religious. Additionally, some religious groups have sought to pressure the government to change various decisions, such as those involving land transfers for government projects or for other religious organizations.

Ethiopia's constitution mandates the separation of state and religion, yet in recent years, governments have interfered with the Ethiopian Orthodox Church and the Islamic Affairs Council. In 2023, involvement by Oromia regional security forces in an Orthodox church dispute risked escalating ethno-political tensions nationwide.

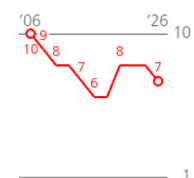
State identity

4



No interference of religious dogmas

7



In 2023/24, there were armed conflicts in various parts of the country, especially in the Oromia and Amhara regions. Basic administrative structures were non-operational in areas controlled by rebel groups and were weak in areas under the influence of rebel groups. Most administrators and civil servants fled these areas after being threatened, and public infrastructure was damaged. Basic administrative structures failed or were severely restricted in rural areas across many zones of the Amhara region and the western and northern parts of the Oromia region. Government agents also failed to collect taxes and enforce the rule of law in these areas. As of the close of the review period, basic services (such as schooling, health care, electricity and communications) were either limited or completely shut down.

In addition to the difficulties in conflict-affected areas, other rural areas in Ethiopia lack access to water, electricity, health care, education, communications and roads. According to UNICEF, 51.5% of households in Ethiopia have access to improved water sources, and 9.3% have access to improved sanitation. The World Bank estimates that 94% of the urban population and 43% of the rural population have access to electricity. However, in many rural and urban areas, access to electricity and water is intermittent, as services are regularly shut down. Similarly, closures of public services that leave government employees' salaries unpaid are common in the newly created regions of Central and South West Ethiopia.

Basic administration

3

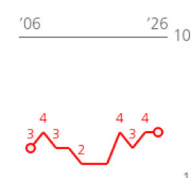


2 | Political Participation

Ethiopia's most recent national elections were held in two phases, with the first round on June 21, 2021, and the second on September 30, 2021. Elections held in Tigray by the TPLF on September 9, 2020, in defiance of the federal government, were declared invalid. Voting in some regions was delayed, and as of May 2022, 66 of 95 seats in Benishangul-Gumuz remained unfilled. The election for these seats was finally held in June 2024, with the ruling Prosperity Party securing most of them. No elections have been announced in the Tigray region due to ongoing governance disputes following the conflict.

Free and fair elections

4



The 2021 elections featured numerous opposition parties and 125 independent candidates. However, major opposition groups including the Oromo Liberation Front (OLF), Oromo Federalist Congress (OFC) and Ogaden National Liberation Front (ONLF) boycotted the vote. The Prosperity Party, led by Abiy Ahmed, won 410 of 436 seats in the House of Peoples' Representatives. Among opposition parties, the National Movement of Amhara (NaMA) secured five seats, Ethiopian Citizens for Social Justice (EZEMA) won four and the Gedio People Democratic Organization took two, while independent candidates won four seats.

On October 5, 2021, Prime Minister Abiy formed a 22-ministry government, appointing some opposition figures to key positions. Importantly, many of Abiy's appointees were selected according to criteria other than ethnic quotas – a first since the country's formation under the principles of ethnofederalism.

Despite intensified conflict, the elections remained relatively peaceful. However, key opposition figures were arrested, and voting was canceled in some areas because of conflict, thus excluding major political groups. The National Election Board of Ethiopia (NEBE) addressed electoral irregularities but received so many complaints that it could not resolve them all. Issues included ballot and registration irregularities and biased media coverage. Rural areas, especially in Oromia, saw heightened levels of political harassment. The OLF and OFC withdrew before voting, citing harassment by the ruling party and the imprisonment of their leaders. EZEMA also reported intimidation, including the killing of a party chairperson in Bishoftu before the election.

The ruling party's clear desire to move away from ethnic-based politics – coupled with its inability to do so without disrupting the political elite at the regional level – has resulted in enclaves within Ethiopia. Specifically, amid multiple crises in 2023 and 2024, Prime Minister Abiy Ahmed was unable to demonstrate a clear transitional framework with concrete steps for the country's future relationship with ethnic federalism. The ruling party, for example, is often viewed as maintaining ethnic enclaves within its own structures.

When Abiy established the Prosperity Party and dissolved the former ruling party, the EPRDF, he made clear that the federal government was attempting to move away from the ethnofederalism established by the TPLF. Despite this attempt, the prime minister has been unable to disentangle his own administration from the grip of ethnic politics, which are formalized in the Ethiopian constitution. Ethiopia is extreme in its application of both ethnofederalism and territorial organizing principles. Ethiopia's constitution not only privileges majority ethnic/endogenous groups within regions, but also gives ethnic representatives of majority groups priority over the central government with regard to administering and controlling regions.

In this context, political enclaves exist within the ethnonationalist political forces of each region in Ethiopia, although many have been removed or weakened through sustained efforts by the federal government and the ruling party. Despite this weakening, ethnically based elites remained able to leverage both the provisions of the constitution and charged political sentiment to undermine attempts by the government to deethnicize the governance structure. This issue is especially salient in the administration of disputed territory.

Article 30 of the Ethiopian constitution states that “Everyone has the right to assemble and to participate in peaceful demonstrations and to petition. Appropriate regulations may be made in the interest of public safety, public order and the general welfare of the people.” Similarly, Article 31 of the constitution guarantees the right to the freedom of association, stating that “Every person has the right to freedom of association for any lawful purpose.” However, in practice, these rights have been restricted in Ethiopia, and the restrictions have grown increasingly stringent over time. In 2023 and 2024, legal protests were regularly disrupted by security forces; this included protests and rallies responding to the disbanding of regional special

Effective power to govern

3

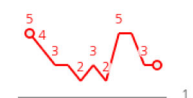
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Association / assembly rights

3

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forces, the demolition of houses and religious institutions, governance zoning decisions, and the lack of services. As in previous years under the same administration, permits for gatherings not sponsored by the government are often revoked, and, if approved, the gatherings are often later dispersed by police.

Civil society groups and individuals alike are regularly arrested, intimidated and accused of supporting anti-government groups or agendas. In November 2024, the Authority for Civil Society Organizations (ACSO) suspended the Center for Advancement of Rights and Democracy, Lawyers for Human Rights, and the Association for Human Rights in Ethiopia. According to letters sent by the ACSO, the organizations showed political bias, an accusation all three denied.

Ethiopia has opened some locations to media access, including the Tigray region and parts of Oromia, which were previously restricted by the government. Despite this positive development, Ethiopia's media environment has become increasingly polarized, and pressure on journalists critical of the federal government, as well as on anti-government groups, means opinions are not expressed freely. Journalists are frequently arrested for publishing criticism of the government or support for anti-government groups. The government often shuts off internet access in parts of the country in an attempt to restrict information and reporting.

Freedom of expression

3

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3 | Rule of Law

The separation of powers and associated checks and balances exist in principle in Ethiopia, but face significant challenges in practice. Ethiopia is a federal parliamentary republic with a legal framework that specifies the separation of powers among the executive, legislative and judicial branches. In Ethiopia, each level of government (that is, the federal and regional governments) has its own judiciary and associated court system. The Federal Supreme Court has ultimate judicial authority over federal matters, while the State Supreme Court has the same authority over state matters.

Separation of powers

3

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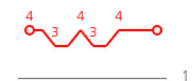
In reality, the system is often dominated by the ruling party and the prime minister's office, thereby limiting the effectiveness of checks and balances.

Ethiopia's judiciary operates at both the federal and regional levels, each with its own courts. The federal system includes the Federal Supreme Court, the federal high courts and first-instance courts, while regional states have equivalent courts. Shariah courts, which are limited to handling family law cases, exist at the three federal levels, requiring mutual consent from disputing parties. The Federal Supreme Court holds ultimate authority over federal cases, and state supreme courts oversee regional matters.

Independent judiciary

4

'06 '26 10



Judicial appointments are subject to political influence: The House of Peoples' Representatives appoints federal judges based on recommendations from the prime minister, while state councils appoint regional judges. Despite reforms since 2018 aimed at enhancing judicial independence, the realities of political interference, corruption and weak law enforcement continue to undermine the judiciary, especially at the regional level.

In Ethiopia, most public officeholders are linked to the ruling party. Corruption exists in various forms, including, but not limited to, clientelism, kleptocracy, rent-seeking and state capture. While anti-corruption laws remain strong in principle, they are not adequately implemented. In 2022, a National Anti-Corruption Committee was established by the prime minister, and many public officials accused of corruption were arrested in 2023 and 2024. Some regional governments also established similar committees following the committee's establishment at the federal level. However, some actions taken against public officeholders for abuse of office appear to have been politically motivated.

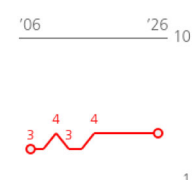
At lower levels, woreda judges are often accused of taking bribes from wealthy individuals in exchange for favorable rulings, a problem most visible in the newly created regions of the former Southern Nations, Nationalities and Peoples' Region. Public officials at lower levels (woreda, kebele) are often accused of blocking government-provided resources such as fertilizer and water to further their political aims. The public has responded positively to anti-corruption efforts by the government but has expressed reservations, fearing that officials loyal to the government will not be held accountable for abuses of power.

Civil rights are often not upheld, particularly in conflict-affected areas. In recent years, respect for civil rights in the country has deteriorated, mainly because of growing polarization in Ethiopian society amid ongoing conflicts in the Amhara and Oromia regions. Government forces have carried out extrajudicial killings, as have rebel groups, including Fano and the OLA, in areas under their control.

In many regions, people are often arrested without due process and are not brought before a court within the legally required time frame. Security forces sometimes ignore court orders to release prisoners. Numerous reports indicate that security forces have detained activists and government critics, leaving their whereabouts unknown for days or longer.

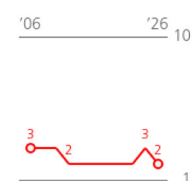
Prosecution of office abuse

4



Civil rights

2



4 | Stability of Democratic Institutions

Governance experts characterize Ethiopia's current political system as a "competitive autocracy," marking a departure from the electoral authoritarianism of the TPLF-led EPRDF era. In national elections held in June and September 2021, citizens voted for House of Peoples' Representatives candidates as well as local government officials. Prime Minister Abiy Ahmed's Prosperity Party secured an overwhelming victory, though the legitimacy of the elections was questioned due to the exclusion of key political groups. The ruling Prosperity Party's increased domination in most regions at the subnational level and the marginalization – and even arrest – of elected individuals who were not members of the Prosperity Party mark a degradation of democratic institutions in recent years.

A competitive autocracy is a system in which limited political competition exists, but the ruling party retains significant control over governance and decision-making. While democratic institutions are officially recognized as the primary means of exercising authority, they are often constrained or manipulated by those in power. Following its electoral victory, the Prosperity Party has exercised extensive influence over Ethiopia's democratic institutions, ensuring their continuity while primarily advancing its own policies. Increasingly, the Prosperity Party has used tactics that are counterproductive to democratic progress, for instance by leveraging segmented political rhetoric and reframing historical narratives to garner public support. Law enforcement forces have frequently disregarded court rulings, particularly in cases of extended political detentions. Figures detained for political reasons are often ordered released by court rulings, only to be rearrested upon release. The political system under the Prosperity Party has created a greater possibility of democratization than existed under the EPRDF, with institutions like the National Election Board of Ethiopia and the Ethiopian Human Rights Commission serving as a foundation for future progress. Nonetheless, serious obstacles persist, as ongoing violent conflicts and deepening political divisions threaten to undo any advancements made.

In most of Ethiopia, the elected officials of the ruling Prosperity Party are recognized as legitimate. The Tigray region is an exception, where the ruling Interim Regional Administration was not elected but appointed by the federal government after the signing of an agreement aimed at permanently halting hostilities between the government and the TPLF. Since its inception, the Interim Regional Administration of Tigray has struggled with several issues, including corruption, security problems and internal divisions. Throughout 2023 and 2024, a faction of the former TPLF opposed the legitimacy of the interim government, an issue that is likely to continue.

Performance of
democratic
institutions

2

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Commitment to
democratic
institutions

3

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5 | Political and Social Integration

Although the political environment is more open compared with previous periods, parties have only shallow roots in communities and are poorly organized. Opposition parties lack the resources and stability to articulate and aggregate societal interests effectively, and they struggle to manage internal disputes. Voter volatility is low, as the ruling party – the Prosperity Party – possesses resources to motivate support that vastly outweigh those of any other party. Some parties, such as the OLA and Amhara ethnonationalist parties, have taken up arms to resolve their differences with the government.

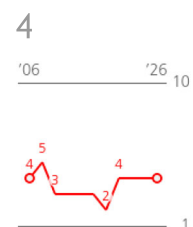
Opposition parties in Ethiopia struggle to find common ground amid an uneven playing field dominated by the ruling Prosperity Party. Interparty discussions about the country's future relationship with ethnofederalism – held during the National Dialogue in 2024 – have to date failed to reach a point of consensus. In February 2022, as the dialogue commissioners were being selected, the Ethiopian Political Parties Joint Council – a coalition of more than 50 registered political parties in Ethiopia – issued a statement requesting that the House of Peoples' Representatives halt the selection process, saying it lacked inclusiveness and trust. Armed opposition groups, including Fano militias and the OLA, have either been excluded or have refused to participate.

Ethiopia has a long tradition of informal community-based organizations that mediate between society and the government. These traditional organizations continue to exist, providing critical economic safety nets and outlets for communal disagreements. In the Amhara and Oromia regions, some leaders of traditional organizations are viewed as agents of the government tasked with organizing the disarmament of aggrieved youth associated with anti-government rebellions, lessening their effectiveness in resolving disputes.

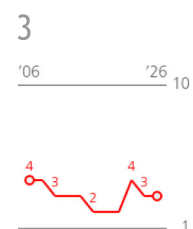
Many internationally and locally based NGOs operate in the country, providing economic and social benefits to communities. Civil society groups working on thematic issues tend to form consortiums (e.g., the Consortium for Ethiopian Human Rights Organizations, the Population Health and Environment Ethiopia Consortium, and the Consortium for Climate Change Ethiopia).

Throughout 2023 and 2024, it has become increasingly challenging for civil society organizations that advocate for human rights due to worsening political polarization and intensifying government pressure amid the state's ongoing conflict with anti-government insurgencies. In November 2024, the Authority for Civil Society Organizations (ACSO) suspended the Center for Advancement of Rights and Democracy, Lawyers for Human Rights, and the Association for Human Rights in Ethiopia, accusing all three groups of political bias. Government pressure on civil society organizations (CSOs) in 2023 and 2024 helped to perpetuate a trend of decreased activity that began in 2009 with the Charities and Societies Proclamation, which placed funding restrictions on foreign and local CSOs.

Party system



Interest groups



Many in the country were content with the opening of political space following the appointment of Prime Minister Abiy in 2018. Compared with previous elections, the June 2021 election was viewed positively, despite being mired in electoral irregularities. The Abiy government is guided by a desire to establish a pan-Ethiopian democracy, tailor-made to Ethiopian culture, conscious of its unique ethnic makeup and respectful of culture. In 2018 and during the 2021 elections, citizens of Ethiopia voiced support for Prime Minister Abiy’s vision for Ethiopia’s political future.

Years of conflict and political strife under Abiy’s governance have dulled enthusiasm for Ethiopia’s political transformation and hopes for the development of inclusive democratic systems. Although census data on attitudes toward democracy are not available, public views as expressed in opinion pieces and political discussions indicate serious fragmentation, with many citizens holding differing understandings of democratic norms and continuing to advocate for political systems that base governing rights on ethnicity.

Worsening armed conflict among various ethnic groups and the polarized political environment have eroded the country’s social capital. Ethnic fighting has intensified along regional borders, and targeting of ethnic minorities is commonplace, breaking down previously existing mutual trust. The country’s internal displacement issues during 2023 and 2024 resulted from degraded social capital, heightened political tensions and conflict. Millions of ethnic Amhara civilians remain displaced from areas of the Oromia region, as do other ethnic or political minorities from their homes across the country.

Approval of democracy



Social capital



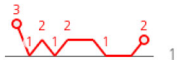
II. Economic Transformation

6 | Level of Socioeconomic Development

According to the African Development Bank, Ethiopia’s economy grew by 7.1% in 2022/23, a marked improvement from 6.4% in 2021/22. Key to the improvement were growth rates of 7.9% in the services sector, 6.9% in the industrial sector and 6.3% in the agricultural sector. Positive growth in many sectors was driven by the end of the Northern Ethiopia conflict in November 2022, the resumption of normalcy in the Tigray region and the growth of urban areas throughout the country. In late July 2024, the government announced major macroeconomic reforms, which included an immediate shift to market-determined exchange rates. Government officials reported in 2025 that these reforms had successfully addressed challenges hindering economic growth, including key bottlenecks in the manufacturing sector. Inflation was projected to be 17.2% as of August 2024, marking a slight decrease from previous months and a five-year low after peaking at 35.1% in November 2022.

Question
Score

Socioeconomic
barriers



Ethiopia has remained one of Africa's fastest-growing economies over the past 15 years. This has helped reduce poverty rates in rural and urban areas, despite ongoing conflict. Ethiopia's GDP per capita has grown relatively fast, but remains low compared with other countries. According to World Bank data, it was about \$1,293.78 in 2023. Ethiopia's Human Development Index (HDI) score was 0.492 in 2022.

The Global Multidimensional Poverty Index (MPI) report, released in October 2024, assigned Ethiopia an MPI score of 0.367. Notably, 79.7% of the rural population was classified as MPI poor, compared with 39.2% in urban settings. This underscores the fact that poverty in Ethiopia encompasses various deprivations relative to education, health and living standards. Government budget allocations have shifted, with UNICEF estimating that about 33% of the federal budget was allocated to pro-poor sectors (education, health, road construction, water and energy, and agriculture) in 2024 – a significant decline from 59% in 2020.

While conditions have improved in the Tigray region, some populations in the Amhara and Oromia regions lost access to government services such as banking, telecommunications and electricity because of the ongoing conflict. The education sector has been particularly hard hit, with a drop in enrollment seen especially in conflict-affected areas. According to the education minister, only half of eligible students in the Amhara region took the national exam in 2024. In Ethiopia, only 3% to 5% of students passed grade 12 exams with scores of 50% or higher over the past three years.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	111261.9	126772.7	-	-
GDP growth	%	5.6	5.3	6.6	7.3
Inflation (CPI)	%	26.8	33.9	30.2	21.0
Unemployment	%	3.9	3.4	3.4	3.4
Foreign direct investment	% of GDP	3.8	2.9	-	-
Export growth	%	19.0	11.0	-0.8	15.0
Import growth	%	13.3	10.4	-4.1	26.0
Current account balance	\$ M	-4507.3	-5160.4	-4787.7	-
Public debt	% of GDP	53.8	46.9	38.7	32.7
External debt	\$ M	32000.1	30636.9	33290.3	-
Total debt service	\$ M	2016.1	2010.4	1568.2	-

Economic indicators		2021	2022	2023	2024
Net lending/borrowing	% of GDP	-2.7	-4.0	-2.3	-1.9
Tax revenue	% of GDP	5.3	4.5	3.9	3.4
Government consumption	% of GDP	8.8	7.4	6.3	5.5
Public education spending	% of GDP	4.1	3.7	2.9	2.3
Public health spending	% of GDP	1.0	0.7	-	-
R&D expenditure	% of GDP	-	-	-	-
Military expenditure	% of GDP	0.5	0.9	0.8	-

Sources (as of December 2025): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

According to the Index of Economic Freedom, Ethiopia's market remains repressed. Despite recent reforms aimed at expanding economic freedom, the government still controls parts of the economy, limiting normal competition. Competition operates within a weak institutional framework, and corruption is rampant.

The government has made promising strides with regard to prioritizing private sector activity so as to spur competition and innovation. In 2023 and 2024, the government opened parts of the economy to foreign competition and sought to develop local capital markets, in part by allowing foreign banks to operate in the country by opening branches and acquiring stakes in existing Ethiopian banks.

The Ethiopian government welcomes foreign investors, but the bureaucratic licensing process is complex. Corruption is common and often forces investors to pay bribes to obtain licenses.

The primary framework governing anti-competitive processes is the Trade Competition and Consumer Protection Proclamation No. 813/2013. The law identifies abuse of dominance, anti-competitive agreements, mergers that have a significant adverse impact on competition, and acts of unfair competition as anti-competitive practices. The Ministry of Trade and Regional Integration is the main regulatory body in Ethiopia. The ministry has the power to investigate competition or consumer protection cases, either upon receipt of complaints or on its own initiative. The law also includes various provisions to protect consumers, such as warranties, the requirement to provide accurate and sufficient information, and the right to obtain a replacement for defective goods.

Market organization

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Competition policy

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The Trade Competition and Consumer Protection Authority is responsible for implementing the proclamation. The authority includes a judicial body with jurisdiction over disputes involving traders, consumers, the authority itself and individuals accused of violating the proclamation. The judicial body has the power to issue administrative measures, levy fines, and provide compensation to victims of anti-competitive behavior and consumers, as applicable.

Ethiopia is a member of the International Competition Network (ICN) and the Common Market of Eastern and Southern Africa (COMESA). As part of an effort to promote economic integration, COMESA has adopted a competition law regime and established the joint Competition Commission in Malawi to address anti-competitive business practices and exercise control over mergers.

Despite the presence of a legal framework for competition, there are strong anti-competitive practices in the country. The government has blamed middlemen and brokers for market irregularities. The law is not implemented effectively. Regional governments lack a clear mandate to enforce anti-competitive trade laws due to the lack of decentralization. Additionally, the authority lacks representation from the private sector or other stakeholders, including consumers.

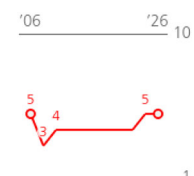
In 2018, the prime minister pledged to open the economy to foreigners. Although some reforms are being implemented, the Ethiopian market has not yet been fully liberalized for foreign trade. Some areas of the market have tariff limits and access restrictions. The government is reforming the trade system to open the market to foreign investors and expedite exports. According to the World Bank, Ethiopia's trade-to-GDP ratio, which is the sum of exports and imports of goods and services measured as a share of GDP, was 24.3% in 2021. Ethiopia's main exports are coffee and oilseeds, while its biggest imports are refined petroleum, wheat and medicines.

Ethiopia is a member of the Intergovernmental Authority on Development (IGAD) and the Common Market for Eastern and Southern Africa (COMESA). In March 2019, Ethiopia signed and ratified the African Continental Free Trade Area (AfCFTA). To attract investment, the country has established special economic zones offering tax incentives and customs duty exemptions. In August 2022, Ethiopia launched its first free trade zone in Dire Dawa, aiming to enhance trade competitiveness, reduce logistics costs, attract foreign direct investment, and promote industrialization and urbanization. The Ministry of Transport and Logistics has proposed expanding free trade zones across the country. The Council of Ministers ratified Ethiopia's first national special economic zone policy during its 11th extraordinary meeting. By the end of 2022, the Ministry of Finance finalized regulations for free trade zone incentives. These initiatives align with Ethiopia's 10-year development plan to boost economic growth and trade efficiency.

Abiy Ahmed's strategic shift toward more market-driven reforms and an open investment environment is reflected in Ethiopia's effort to join the World Trade Organization (WTO), which is expected to be completed in 2026. A recent move

Liberalization of
foreign trade

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allowing foreign banks to establish subsidiaries, open branches or acquire shares in domestic banks signals Ethiopia's commitment to trade liberalization and cooperation with major international economic institutions.

Ethiopia's banking sector has undergone significant changes in recent years, with additional changes expected in the near future. In December 2024, Ethiopia's parliament passed legislation opening the country to foreign investment in banking, a major step toward market liberalization and a break from previous policies that disallowed foreign influence in the country's banking sector.

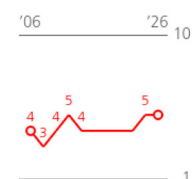
While Prime Minister Abiy and his administration indicated as early as 2018 that they intended to move toward an open market, the push to liberalize the banking sector through legislation was a condition set by the World Bank and the International Monetary Fund in exchange for debt restructuring aimed at stabilizing the Ethiopian economy in 2024. As part of the deal, the Ethiopian central bank agreed to float the birr (ETB), the country's currency.

The Ethiopian Capital Market Authority (ECMA) is the primary government agency responsible for regulating Ethiopia's capital markets.

According to the World Bank, the bank capital-to-assets ratio in Ethiopia is 7.5%. The bank non-performing loans ratio was 4.3% in 2022.

Banking system

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8 | Monetary and fiscal stability

Ethiopia's inflation rate has been steadily declining over the past two years, falling from 29.4% in January 2024 to 15.5% in January 2025. The decline in inflation can be attributed to a series of monetary policies implemented by the country's central bank, including raising interest rates and floating the Ethiopian birr. These aggressive measures – taken in the context of extreme inflation, internal conflict and a lack of foreign currency reserves – have so far been successful in addressing some of Ethiopia's most pressing macroeconomic problems. Importantly, the moves have allowed Ethiopia to restructure its debt and secure funding from international lenders. However, they have come at the cost of higher prices for household items, causing difficulty for low-income families and wage earners. This has been exacerbated by the fact that Ethiopia's government has been forced to reduce fuel and wheat subsidies, among other measures.

The end of the Northern Ethiopia Conflict, which pitted the Ethiopian federal government against the ruling party of the Tigray region – the Tigray People's Liberation Front (TPLF) – has been the most influential factor in returning the country's financial sector to a more stable position. While some insecurity remains in the Amhara and Oromia regions, the country is now generally much more politically stable than in previous years, which should attract foreign investors.

Monetary stability

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According to figures released by the International Monetary Fund (IMF), Ethiopia's real effective exchange rate (REER) was 198.03 in 2023, marking an increase from 2021 (140.75) and 2022 (156.89). An increased REER indicates that a country's currency is becoming more expensive relative to other countries', meaning its exports become more expensive and imports become cheaper.

The central bank – the authority responsible for ensuring the soundness of financial institutions – implemented the floating of the birr in July 2024, easing some foreign currency shortages but also causing a 30% drop in valuation.

The end of the conflict in the Tigray region, along with the government's restructuring of national debt and success in addressing foreign currency shortages, eased Ethiopia's financial woes in 2024 compared with previous years. In fiscal 2023, the country's budget deficit reached a historic high of ETB 308 billion. Given the relatively difficult situation in 2022 and 2023, the government has taken steps to improve Ethiopia's debt position. Yet despite these improvements, the cost of servicing Ethiopia's debt remains a significant burden. In 2024, the ratio between external debt service and exports was 11.3%. Total debt service payments (both internal and external) for 2023/24 amounted to \$2.2 billion, with \$1.7 billion of this total designated for external debt. Ethiopia's public debt fell to 38.7% of GDP in 2023 from 46.9% in 2022.

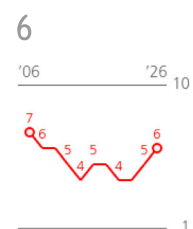
Ethiopia's fiscal deficit declined to 2.0% of GDP in 2023/24, down from 2.6% in 2022/23, reflecting the government's efforts to restructure debt, including through the IMF's Extended Credit Facility.

The country remains highly vulnerable to debt because of its limited export diversity and heavy reliance on imports. Some of its debt stems from Chinese-financed infrastructure projects, a common trend in the region that heightens debt risk. The ongoing conditions of conflict have worsened economic pressures in recent years, hindering export diversification and increasing financial strain due to elevated military spending.

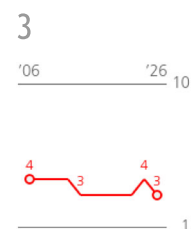
9 | Private Property

Article 40 of the Ethiopian constitution guarantees every citizen the right to own property alone or in association with others. However, land is defined as government property and is considered “a common property of the nations, nationalities and peoples of Ethiopia.” In principle, citizens own only what they have built on the land, a circumstance that has been a source of controversy among Ethiopia's political decision-makers in recent years. In 2024, the Addis Ababa City Corridor Project was launched to upgrade key routes and improve connectivity within the capital. As part of the project, thousands of homes were demolished and their occupants were displaced. Violence was reported in many instances as residents opposed the

Fiscal stability



Property rights



demolitions. While federal law requires that those inhabitants be compensated for the loss of their homes, some have complained of unfair treatment and have accused the government of targeting specific areas based on political motives. The Ethiopian Human Rights Commission has determined that the demolitions and forced evictions in some locations (specifically the newly established Sheger City) were illegal and violated international human rights law.

In March 2024, Prime Minister Abiy proposed a further amendment to Ethiopia's land laws that would permit foreigners to purchase real estate in order to attract additional foreign investment.

Prime Minister Abiy has made growth of the private sector a priority for his government, and his government's official position is that private company growth will be a critical part of strengthening Ethiopia's economy. With budget support and guidance from the International Monetary Fund, the current regime has made major strides in fostering private sector-led growth, notably in the telecom and banking sectors.

The Ethiopian government has declared it wishes to transform its economy from a state-dominated model to one that is driven by the private sector. To do so, the government has stated it will reduce regulations and liberalize key sectors (previously state-run), such as telecommunications and banking. The privatization of Ethio Telecom, the decision to allow foreign banks to operate within Ethiopia, and the recent launch of a stock exchange are major strides that illustrate the government's commitment to shifting toward a private sector-driven economy.

According to the World Bank, private sector gross fixed capital formation as a share of GDP in Ethiopia was 15.94% in 2023. Most private sector activity is in services, which contribute about 37% of the country's GDP. Other significant sectors include agriculture (35.8%) and industry (24.5%).

In January 2025, the Ethiopian government launched the national securities exchange. Although only one company was listed, authorities expect as many as 90 companies to be added in the near future. Among those expected to be listed on the securities exchange is Ethio Telecom, which was recently privatized.

Despite these improvements, several challenges remain. Poor administrative systems, high tax rates, conflict and corruption continue to hinder private sector growth. Access to land is another major barrier for private companies, because all land in Ethiopia remains government-controlled and leaseholder rights are restricted. Finally, Ethiopia's judiciary suffers heavy interference from the ruling party, creating an uncertain regulatory environment for private companies. Private businesses and ordinary citizens alike face a confusing and seemingly endless number of hurdles when registering businesses, securing investment approvals or obtaining necessary government approvals for projects. Some of this stems from poor organization,

Private enterprise

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although much of it is designed to facilitate corruption. Bribes and the awarding of licenses based on political affiliation make licensing processes in the country unfair. Other challenges include problems with land rights, inconsistent interpretations of regulations and an unpredictable tax regime.

Additional challenges include logistical bottlenecks, such as difficulties in receiving imported products because of Ethiopia's lack of a seaport and the extensive land transport required to reach the capital, Addis Ababa.

10 | Welfare Regime

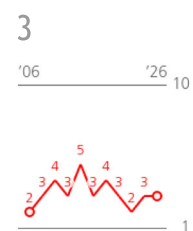
Ethiopia's social safety net programs are funded by a combination of domestic and international sources, including the World Bank and various foreign governments. Despite a heavy debt repayment schedule, federal expenditure on food security and safety nets has increased in recent years, rising from ETB 22.4 billion in 2023/24 to ETB 23.3 billion in 2024/25, a 4.1% increase. According to UNICEF, the increase in the nominal budget allocation for social protection was to be financed mainly via external assistance. Recent examples of active safety net projects include the World Bank-supported Urban Productive Safety Net and Jobs Project, which operates in 88 cities, supporting 1.7 million people with short-term employment opportunities.

The government's heavy reliance on external support for its safety net programs makes it vulnerable to budget cuts and fluctuations. USAID program cancellations and funding cuts by the United Kingdom, the European Union and other governments will likely reduce the reach of existing social support programs. Furthermore, high inflation rates in Ethiopia have diminished the real value of these transfers, even though their nominal amounts have increased.

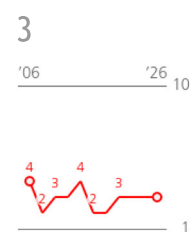
The scope of opportunity varies widely across Ethiopia's regional states, with populations in the south and southeast of the country excluded from many government-funded education and work programs. In addition, because Ethiopia's ethnofederalist system provides political representation based on ethnicity, minorities are often discriminated against at the regional level. Local governments at the subregional level regularly face accusations of ignoring or participating in violence against minority residents and neglecting the needs of impoverished individuals within such groups. Recent conflict in the Oromia, Amhara, Tigray and Benishangul-Gumuz regions has exacerbated the issue by further dividing ethnic communities.

While more recent data is unavailable, the latest available data (2017) indicates that literacy rates were higher for men (51%) than for women (44.4%). As of February 2024, women held 41.3% of seats in parliament, a positive trend.

Social safety nets



Equal opportunity



11 | Economic Performance

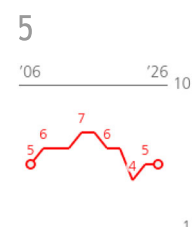
Over the past two years, Ethiopia has rebounded from several internal and external shocks. Economic indicators suggest cautious optimism, though recent gains could be temporary. Ethiopia's gross domestic product (GDP) growth rate rose to 6.3% in 2023, ending a downward trend that began in 2019 and reached as low as 5.3% in 2022. Achieving an end to the Northern Ethiopia Conflict, stabilizing governance and securing a debt restructuring deal have all been key to reversing the slide in Ethiopia's economic performance. In 2023, Ethiopia secured \$3.3 billion in foreign direct investment, leading East Africa on this measure and outpacing neighbors such as Kenya and Uganda.

Yet many of Ethiopia's political problems have been addressed with temporary measures, and the country's various stakeholders have not yet agreed on lasting solutions to political instability. Conflict in Ethiopia's northern Tigray region was responsible for much of the country's economic decline during the period from 2019 to 2022, and although a peace agreement has been signed, the situation remains fluid and volatile. Similarly, the conflict with insurgent groups in the Oromia and Amhara regions remains unresolved, posing a significant threat to doing business in the country, as reflected in cautious levels of foreign direct investment.

If the government maintains a stable political environment in the coming years and continues to address inflation and prioritize the growth of private enterprise, the country's economic performance should improve.

The unemployment rate in the country was 3.5% in 2023, a slight increase from 3.49% in 2022.

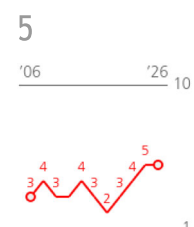
Output strength



12 | Sustainability

Since coming to power, Ethiopian Prime Minister Abiy Ahmed has placed environmental issues at the forefront of his government's policies. The prime minister's Green Legacy Campaign has continued, with millions of trees planted in the country in recent years in the service of combating deforestation and soil erosion. In February 2025, the sixth turbine of Ethiopia's Grand Ethiopian Renaissance Dam (GERD) became fully active, marking a major milestone. Ethiopia aims to use the dam's electrical output to power a range of applications, including modern, more efficient agricultural practices. In February 2024, Ethiopia became the first country in the world to ban the import of non-electric vehicles in a bid to transition to a more environmentally friendly transportation system, especially for residents of the capital city, Addis Ababa. In July 2024, Ethiopia launched its NDC Implementation Plan (2024 – 2030), outlining strategies to achieve a 69% reduction in greenhouse gas emissions by 2030 compared to business-as-usual scenarios.

Environmental policy



As of 2024, Ethiopia's climate strategy continues to be guided by the government's 10-year development plan (2020/21 – 2029/30). Pillar 6 of the development plan outlines Ethiopia's intention of building a climate-resilient green economy. Specifically, the state has identified large arable land bases that can be used in climate-sensitive ways. The government has further identified irrigation and agricultural technology development through rural financing as priority investment areas that are also environmentally friendly. In the plan, the government lists sustainable environmental protection as a focus area.

Compared with other countries, Ethiopia has prioritized environmental goals in its laws and government investment. Ethiopia's power grid is almost entirely decarbonized, with most electricity today generated by hydropower along with a growing share from wind power. Ethiopia advanced its climate policy by publishing a Long-Term Low Emissions Development Strategy (LT-LEDS) in 2023.

Yet Ethiopia faces several challenges to its environmental policies. First, because relatively few households are currently connected to the electric power grid, increased electricity demand will strain existing infrastructure as additional households seek to connect and use electricity. Similar issues exist with vehicles – the relative number of drivers is low today, but as the country reaches its economic goals, charging infrastructure and overall power availability may not be sufficient.

Despite significant improvements in access to education in Ethiopia over the past decade, conflict, displacement and natural disasters have eroded progress, and education quality and access declined in 2023 and 2024. In 2024, the government acknowledged that 7.8 million children nationwide were out of school because of conflicts and man-made and natural disasters. As of November 2024, about 10,000 schools had been damaged (more than 18% of all schools) and more than 6,000 were closed due to conflict. The Amhara region was hit particularly hard, as it experienced conflict during both the Northern Ethiopia Conflict and, more recently, as part of the Fano insurgency.

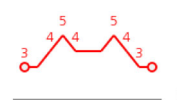
In 2018, Abiy Ahmed's government implemented several educational reforms, including a competency-based curriculum and stricter test-taking procedures. The new curriculum, efforts to eliminate cheating through stricter testing measures, and the closure of schools throughout the country due to conflict led to dismal test results. In many schools, none of the students passed the national exams. The government has made significant efforts to improve the situation, but these efforts have been hindered by other issues occurring simultaneously in the country.

Efforts to improve education in Ethiopia include World Bank-funded programs such as the General Education Quality Improvement Program for Equity (GEQIP-E), which aims to improve early education. As of 2022, Ethiopia was spending 3.7% of its GDP on education.

Education policy /
R&D

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Governance

I. Level of Difficulty

Poverty is widespread, and the workforce is poorly educated. Education levels have worsened in recent years because of conflict and school closures. Ethiopia has been a landlocked country since Eritrea gained independence in 1993. Ethiopia's lack of access to a seaport is compounded by difficulty accessing regional ports in politically sensitive locations. Strained relations with Eritrea to Ethiopia's north and political complications with Somaliland and Somalia to the east make Ethiopia's access to ports more difficult than that of other landlocked countries.

Ethiopia's infrastructure is inadequate, a problem compounded by further destruction during the conflicts with insurgent groups in 2023 and 2024. The displacement of local populations has strained government resources in many regions of the country, and ongoing conflict hampers local officials' ability to make and enact decisions.

Some aspects of civil society remain very important to everyday life in Ethiopia, especially in rural areas. Traditions such as neighborhood associations that form joint savings accounts (edir), as well as respect for traditional elders in resolving disputes, demonstrate a robust civic culture. However, these traditions are becoming less important and are threatened by political polarization. Traditional elders were targeted and killed by militants and government forces during insurgent conflicts in 2023 and 2024 as a result of perceived political bias. Young people regularly reject decisions made by traditional leaders because of their perceived alignment with the government.

Most civil society institutions in Ethiopia today are heavily dependent on foreign funding. Many of these civil society organizations were created after Ethiopia passed a new law in March 2019 that removed a previous cap on funding received from foreign sources. The same law expanded protections and rights for civil society organizations seeking to engage in lawful activities.

Positive steps taken by the government early in Abiy Ahmed's term have since been retracted. In November 2024, Ethiopia's Authority for Civil Society Organizations suspended three prominent human rights-focused civil society organizations after accusing them of political bias, an accusation all three denied. Although the suspensions were later lifted, the move marked a critical departure from tolerance and promotion in Ethiopia's civil society environment and a reversion to a more restricted space marked by government interference.

Structural constraints

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Civil society traditions

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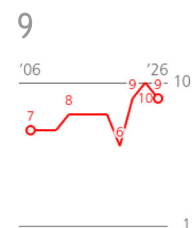


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Conflict intensity in Ethiopia remains very high. The country's approach to ethnofederalism and governance, struggles over the rights of ethnic groups, and failures to reach a consensus on how to address previous wrongs continue to fuel anti-government insurgencies and localized conflicts. Insurgent groups mobilize large numbers of youths by promoting violence as the only viable means of changing the existing government, while the government likewise uses violence to counter insurgencies. Society in Ethiopia is split along many cleavages – most significantly along ethnic lines, although religious and other political divides also play a role in the ongoing conflicts. Attacks on civilians are commonplace.

Despite this relatively negative outlook, conflict levels have declined in recent years, most dramatically after the signing of a peace agreement that ended the Northern Ethiopia Conflict between the federal government and the governing Tigray People's Liberation Front in the Tigray region. Additionally, a commander of the Oromo Liberation Army responded to a government call for peaceful surrender, leading to a major decline in violence after fighters loyal to his command agreed to disarm in December 2024. The Fano insurgency in the Amhara region has continued unabated, although the intensity of conflict lessened in 2024 compared with previous years.

Conflict intensity



II. Governance Performance

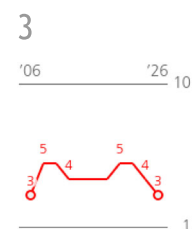
14 | Steering Capability

Ethiopia's current government has faced numerous crises and conflicts since it came to power in 2018. Widely praised reforms proposed by incoming Prime Minister Abiy Ahmed – including an expansion of political space and press freedoms – have since been reversed amid struggles to suppress dissent. Governance at the federal level is reactionary, constrained by the need to address security threats and political upheaval. Governance at the local level is transactional at best and is nonexistent in areas controlled by militant groups. In many parts of the country, local government officials are forced to reside in Addis Ababa, the capital, because of security threats in their home districts.

The Ethiopian government has been unable to address the country's core political issues, which include the constitution's strongly ethnofederalist character, questions over the rights to succession and historical injustices. A National Dialogue process designed to address these issues began in 2022 and has had some impact, but has fallen far short of providing meaningful solutions. The dialogue was extended for another year in February 2025, although heavy criticism of the government-led process has led to doubts about its efficacy.

Question Score

Prioritization



The end of the Northern Ethiopia Conflict in 2022 and a decrease in conflict in the Amhara and Oromia regions in 2024 have provided some relief compared with previous years. The government secured a major gain when it reached an agreement with the International Monetary Fund to restructure the country's debt in July 2024. Debt restructuring in Ethiopia has enabled the government to direct more resources toward economic growth and development.

Prime Minister Abiy Ahmed's government has remained in power in Ethiopia, weathering one of the most difficult periods in the country's history. Conflicts across multiple regions, conditions of severe drought and one of the world's largest displaced populations are among the government's most recent challenges. During the review period, the government implemented many of its goals – most of which focused on preserving Ethiopia's territorial integrity by preventing fragmentation amid the civil turmoil that threatened to tear the country apart. In a way, Ethiopia's goals in recent years have been realized; the country still exists, and multiple insurgencies have been addressed and no longer threaten the government.

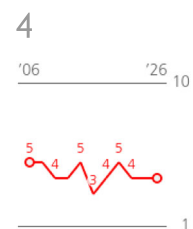
Goals for social progress have taken a lower priority amid the government's struggle for survival. However, important progress has been made and must be acknowledged. The government has continued to implement a growth strategy, including keeping structural reforms on track aimed at strengthening the private sector, boosting competition and increasing investment. Although the state has used a heavy hand in repressing independent journalism, some institutions, such as the Ethiopian Human Rights Commission, continue to champion goals set forth early in Abiy's tenure, including heightening accountability for wrongdoing, taking action against corruption and prosecuting some civil rights abuses. These examples are relatively few in number and have not been uniformly implemented, but they mark progress as compared to previous governments.

Other goals have fallen by the wayside. Ethiopia's political space has narrowed in recent years, and independent investigations into government abuses are not tolerated. Ethiopia's armed forces have been accused of committing thousands of extrajudicial killings – certainly detracting from a goal of greater human rights accountability.

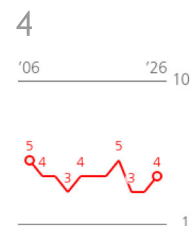
Ethiopia's government ministries regularly participate in learning and evaluation efforts, including one in November 2024 with the Independent Office of Evaluation. The National Planning Commission is responsible for planning, monitoring, evaluation and policymaking in the country. It is heavily involved in the country's Green Legacy initiative, which addresses climate change. The Homegrown Economic Reform Program focuses on building a resilient economy.

Ethiopia's Ministry of Planning and Development meets twice each year to ensure ongoing activities align with national development goals. Despite an outward dedication to learning through monitoring and evaluation, the government is

Implementation



Policy learning



regularly accused of disregarding the opinions of experts critical of the government, especially those who are independent or not members of the ruling party. Comments on policymaking regarding the issues of national security, political direction or negotiations with armed groups are generally unwelcome to the Ethiopian government.

15 | Resource Efficiency

Appointments of public officials are often influenced by political ties. After the 2021 election, Prime Minister Abiy Ahmed's cabinet appointments – including key ministers – were largely based on the candidates' experience. While some efforts, such as sharing hiring processes on social media, aim to increase transparency, many civil service hires still depend on political connections and personal relationships. This has increasingly become the case as the prime minister has struggled to maintain support in the face of detractors.

The Office of the Federal Auditor-General of Ethiopia audits the financial activities of the federal government, public institutions and state-owned enterprises. In a report released in June 2024, the head of the auditor-general's office exposed financial mismanagement and irregularities in accounting documentation across various federal government institutions. In the report, overdue accounts receivable totaled ETB 14.1 billion, the majority of which was attributed to the Ministry of Health.

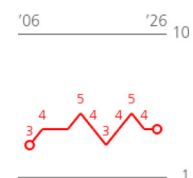
Budget mismanagement has seriously affected the Ethiopian government's ability to provide services. The health care and education sectors have been hardest hit, with non-payment of salaries contributing to school and hospital closures. Budget management is especially poor in the newly formed regions of the former Southern Nations, Nationalities and Peoples' Region. School and hospital closures are common in some areas, with staff regularly protesting against the failure to pay their salaries.

Policies in Ethiopia are shaped based on the goals of the ruling party. As the ruling Prosperity Party dominates Ethiopia's political arena, with hardly any opposition representation, policy interests rarely conflict, and the party structure contributes to the policy design process. In addition, the Ministry of Planning and Development helps various ministries coordinate plan implementation and ensure that activities are in sync with party goals.

Policy in Ethiopia is highly formal and bureaucratic, often provoking complaints from foreign and domestic citizens who find Ethiopia's array of rules difficult to navigate. Among the chief subjects of complaint from foreigners attempting to navigate Ethiopia's systems are a lack of coordination, inefficiency in government agencies and systems, and frequent changes in high-level decision-makers. In addition, there are coordination difficulties between Ethiopia's federal and regional governments, which do not always align. This misalignment can range from being a minor inconvenience to serving as a deliberate tool for control and corruption.

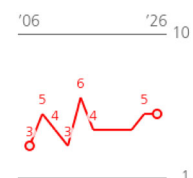
Efficient use of assets

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Policy coordination

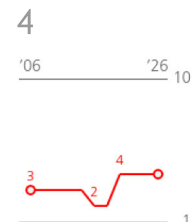
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To address Ethiopia's significant corruption problems, the government established an anti-corruption committee in November 2022. Several regions in the country have also established similar committees, although they have generally been inactive since their inception. According to a report drafted by the Ethics and Anti-Corruption Commission, land-related services, government procurement procedures and humanitarian food distribution operations were the areas most prone to corruption. In 2024, 37 people, including some high-ranking government officials, were arrested and prosecuted for their alleged involvement in the embezzlement of ETB 1.1 billion. Those charged included officials from the Addis Ababa Roads Authority, the Ethiopian Roads Authority, the Ethiopian Sugar Corporation, and the Ministry of Finance and Economic Cooperation.

The current regime's attempt to modernize the capital city and its surrounding communities poses a high risk of facilitating corrupt practices. The anti-corruption committee has been criticized for being directly tied to the prime minister (through the appointment of its commissioner), and its budget is determined by the Council of Ministers. This poses the risk of undermining its effectiveness in holding public officials accountable, allowing those officials to use it as a tool against other public officials who may not support existing plans.

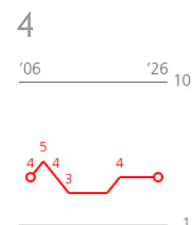
Anti-corruption policy



16 | Consensus-Building

Ethiopia's relationship with ethnofederalism – that is, the need to balance the rights of Ethiopia's ethnic groups while simultaneously constructing a unitary national identity with a consensus on political direction – continues to be the main political issue for Ethiopia's political elite. Ethiopia is extreme in its application of ethnofederalism. The Ethiopian constitution not only privileges majority ethnic/endogenous groups within regions, but also grants priority to ethnic representatives of majority groups over the central government with regard to the power to administer and control regions. Political elites, decision-makers and those with influence often disagree vehemently on the future of ethnic federalism in Ethiopia. The ruling party, the Prosperity Party, depicts itself as a pan-Ethiopian government, having dissolved the old regional components of the former Ethiopian People's Revolutionary Democratic Front coalition. Yet even within the Prosperity Party, ethnically based regional factions compete for influence and disagree on political issues involving their own ethnic groups. Ethnic issues in Ethiopia are so polarizing that Abiy Ahmed's government is simultaneously accused of favoring an ethnonationalist, pro-Oromo agenda and, by those advocating Oromo autocracy, of promoting an anti-Oromo agenda. The government's heavy-handed approach toward anti-government forces – which represent an extreme opposition to a centralist government approach – has exacerbated the problem. Peace agreements between armed insurgents and the government are unlikely to produce lasting peace, as the fundamental political disagreements, especially the rights of ethnic groups to govern

Consensus on goals



land, remain unresolved. For example, these unsolved issues come to a head every time there are questions about the land surrounding the capital city, with ongoing questions about the rights of ethnic minorities and majorities to administer cities settled by a diverse population.

A lack of consensus among Ethiopia's political elite can be found with respect to many aspects of government, including the appropriate economic model, the appropriate distribution of wealth, the character of education and the way in which resources should be allocated in a market economy. In theory, most political actors support the government's move toward a liberalized market economy. Disagreement arises when economic decisions are seen to favor one ethnic group over another, or when an ethnic group's land ownership rights are seen as threatened. Until these issues are addressed and prosperity for Ethiopia is achieved through inclusive consensus-building and dialogue, even small disagreements will continue to be ethnicized, and government officials will be incentivized to take up positions on opposing sides.

All factions in Ethiopia's political landscape agree that the country's leadership should be democratically elected, but disagree on how power should be distributed among the country's ethnic groups. Ethiopia's ethnonationalist constitution awards political superiority to the dominant ethnic group in each of its regions, and grants each ethnic group the right to secede in order to engage in self-government.

In seeking to preserve Ethiopia's territorial integrity, the central government faces a dilemma over democracy. In recent years, the government has suppressed ethnic groups seeking to establish their own administrative zones or exercise greater autonomy, while groups calling for the complete elimination of ethnonationalism have also been sidelined. Prime Minister Abiy Ahmed's centrist position within this spectrum of debate has accentuated his autocratic tendencies, and the ruling party loyal to the prime minister dominates the country's political arena with little or no opposition. Opposition parties, democratic reformers and democratic institutions (such as the National Election Board of Ethiopia) are limited in their ability to compete with the ruling Prosperity Party.

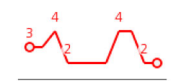
Divisions within Ethiopian society have been widening over time, erupting in recent years into recurrent violence. Ethiopia's political leadership is not only unable to mitigate these violent clashes, but is also an active participant. Moreover, cleavages within the government encourage further divisions.

Active insurgencies in the Oromia, Amhara and Tigray regions over the past few years have further divided Ethiopia's communities, drawing in political authorities and polarizing Ethiopian society. Violence in Oromia targeting ethnic Amhara occurs at regular intervals, with little mitigating action by local officials. Contests over resources and population governance within the contested territory of the Tigray region pit officials from the Amhara and Tigray ethnic groups against one another,

Anti-democratic actors

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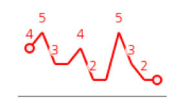
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Cleavage / conflict management

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with the federal government unable to fully control the situation and prevent violence. Violent battles were fought in these areas throughout spring 2024, resulting in many fatalities.

State-civil society dialogue in Ethiopia is led by the Ethiopian National Dialogue Commission, which took over the responsibilities of the Administrative Boundary and Identity Issues Commission and Reconciliation. Ethiopia's National Dialogue has been a source of hope for many invested in the country's future. Despite initial optimism from many sections of Ethiopian society, the commission has since faced heavy criticism for government dominance and a lack of inclusivity. At its outset, the exclusion of key actors and management by the ruling party led to doubts about its effectiveness.

In February 2025, following a request to extend its mandate, the Dialogue Commission vowed to complete its activities within a year. In a positive step, the commission declared it would prioritize inclusivity, including armed groups, in future rounds of dialogue. The lengthy dialogue process has meant that real policy outputs have yet to be realized, and are anxiously awaited by those who see the dialogue as the best path forward for inclusive policymaking.

One of the National Dialogue's most pressing agenda items will be to address the country's official historical narrative, which includes wrongs committed by those previously in power. As of the end of 2024, agenda items have been selected, but no reconciliation for previous injustices had been attempted. Currently, historical narratives are used to mobilize and motivate acts of violence – especially by invoking narratives of oppression and oppressors throughout the country's history. The government lacks the capacity or willingness to accurately document acts of violence, including those inflicted on civilians in Amhara and Tigray during the Northern Ethiopia Conflict and in Oromia in the course of the Oromo Liberation Army insurgency. Ethiopia's judicial system is likewise ineffective at achieving justice for wrongs committed either by pro- or anti-government troops.

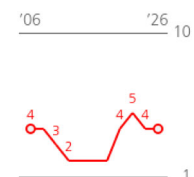
17 | International Cooperation

The Ethiopian government works with international partners to implement development plans. Various partners approve Ethiopia's development goals and support its efforts to strengthen the private sector economy through the Ten-Year Development Plan of Ethiopia (2021 – 2030). The government's international partners have included the European Union, World Bank, IMF, United Nations, USAID, the U.K. Department for International Development (DFID) and Germany's Gesellschaft für Internationale Zusammenarbeit (GIZ).

Ethiopia's Ten-Year Development Plan serves as a central document for the country's long-term development trajectory, laying out partnerships with 35 bilateral and multilateral entities that have pledged various forms of thematic support in the areas

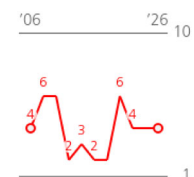
Public consultation

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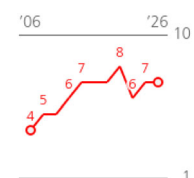
Reconciliation

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Effective use of support

7



of infrastructure, agribusiness, the private sector, governance, youth and gender inclusion and climate resilience. For example, Ethiopia recently (June 2024) signed a \$1 billion deal with South Korea for infrastructure, science and technology, health and urban development, all to be implemented within the framework of the Ten-Year Development Plan. The plan includes strong requirements for monitoring and evaluation. A number of countries have modified existing aid funding structures to better fit within the Ten-Year Development Plan, helping the country meet its specific goals.

Support from some of these partners, withdrawn over concerns about human rights abuses during the Northern Ethiopia Conflict, has resumed. However, Ethiopia has not regained its former duty-free trade status with the United States under the African Growth and Opportunity Act, which has negatively affected the leather and textile industry.

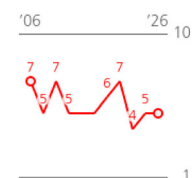
In 2020, Abiy Ahmed's government faced a series of escalating actions by the European Union and the United States over accusations of human rights abuses committed during the conflict in the Tigray region. The elimination of budget support and removal from trade agreements were among the actions taken by the international community in an attempt to pressure the government into a peace agreement. Ethiopia's international relations hit an all-time low in October 2021 when the government expelled seven United Nations officials, accusing them of interfering in the country's internal affairs. Following the signing of a peace agreement that ended the Northern Ethiopia Conflict, Ethiopia's international relations have improved significantly, and budget support and project financing have resumed in tandem.

Much to the dismay of some international partners, Ethiopia signed a memorandum of understanding (MOU) with Somaliland in 2024 to lease a 20-kilometer stretch of coastline, threatening a delicate diplomatic balance and inviting concern from regional players along the Red Sea. Somalia immediately recalled its ambassador to Ethiopia, and Egypt accused Ethiopia of instigating regional instability.

The signing of the MOU and other actions taken by the Ethiopian government during Abiy's tenure have given Ethiopia a volatile reputation among partner countries. Internally, Abiy's government has pushed narratives of autonomy to defend against external criticism, including brief stints of demonstrative anti-Western sentiment. Ethiopia's international relations since 2018 have been a reflection of Abiy's personal efforts to bring Ethiopia under the control of the federal government. At the outset of the Northern Ethiopia Conflict, Abiy used foreign relations to further his standing within the country by partnering with Eritrea against the Tigray People's Liberation Front. Now, years later, foreign partners are again cautiously proving willing to provide financing and technical assistance to the country as a means of fostering stability in the Horn region. Over the past two years, Abiy has grown closer to allies in the Gulf region – especially the United Arab Emirates – which have provided financial and military assistance.

Credibility

5



The political leadership usually cooperates with neighboring countries and complies with the rules set by regional and international organizations, as long as those actions benefit the country. However, Prime Minister Abiy Ahmed's government is often accused of acting unilaterally, a tendency that has raised regional tensions in recent years. Ethiopia is a founding member of the Intergovernmental Authority on Development (IGAD) and has facilitated peace discussions between warring factions in neighboring countries. However, Abiy has used Ethiopia's position in East Africa as leverage and has threatened to upset neighboring states in his effort to advance projects such as the Grand Ethiopian Renaissance Dam (GERD) and the effort to gain port access on the Red Sea.

Ethiopia's interest in port access through Somaliland is driven by the need for more trade options. However, it has created tension with Somalia's central government, which opposes recognition of Somaliland's autonomy and any direct foreign engagement with the breakaway region. Eritrea is likewise wary of Ethiopia's drive to establish maritime access, and remarks concerning a Red Sea port threatened to provoke military action between Eritrea and Ethiopia in spring 2025. Similarly, Sudan's relationship with Ethiopia over the GERD project has been marked by a mix of support, concern and caution. In reaction to a filling of the GERD reservoir, Egypt accused Ethiopia of acting unilaterally and violating a 2015 agreement.

Regional cooperation

2



Strategic Outlook

Ethiopia's government under Prime Minister Abiy Ahmed has retained power despite significant challenges over the past two years by narrowing the country's political space and using heavy-handed tactics against anyone who has opposed the government's policies. As conflict levels have now fallen, it is time for the government to restart its previous democratic progress by prioritizing an inclusive dialogue aimed at resolving problems peacefully. Government officials and anti-government insurgent leaders alike must compromise in order to define Ethiopia's future relationship with the ethnofederalism in the constitution. However, any such efforts are likely to face challenges including the following:

- Continued violence: Violence in the Oromia and Amhara regions continues to undermine efforts to hold peace talks. In many rural areas, violence has become self-sustaining, with armed groups controlling resources and funding further conflict, which could make achieving peace even more difficult.
- Threats of renewed conflict: Internal fissures among the political elites of the Tigray region threaten to reignite conflict. This could set the region and country on a catastrophic trajectory if new solutions are not found. Government leaders and TPLF officials alike must recognize the devastating consequences of renewed conflict and act to avoid future escalation.
- Flawed transitional justice and reconciliation: Ethiopia's National Dialogue Commission is the country's best hope for transitional justice and reconciliation, despite accurate criticism that the process has not been inclusive and has been marred by government domination. Ethiopia's National Dialogue must prioritize inclusivity, and the government must play only an appropriate role as facilitator in the discussions if the dialogue is to reach real conclusions.
- Weak institutions: Ethiopia's institutions are fragile, and citizens do not turn to government institutions to resolve grievances. Most important is Ethiopia's judiciary, which must address ongoing problems with corruption, favoritism and inaccessibility.
- A lack of economic inclusivity: Salaried workers have been squeezed by the devaluation of the national currency, and rising prices mean many Ethiopians are struggling to make ends meet. Government megaprojects in the capital will mean little if the population's economic status does not improve. As Ethiopia meets its private sector growth goals, the government should ensure that these gains translate into tangible benefits for the populace.
- • Cuts in global support: Cuts in aid provided by the United States and other countries mean that the government will need to strengthen its ability to provide for the country's most vulnerable populations. Amid a heavy debt load and widespread poverty, this will be a significant challenge.