Ethiopia

Debt summary

Ethiopia had consistently high external debt levels over previous decades up until it reached completion of the **Heavily Indebted Poor Countries** (HIPC) initiative in 2004, and **Multilateral Debt Relief Initiative** in 2005, having over US$1.3 billion cancelled. The cancellation reduced the unpayable debt burden allowing an increased spending of 10% on education and healthcare. However, particularly since the financial crisis, Ethiopia has taken out US$5.6 billion in external loans and the debt burden has expanded to US$8.292 billion. Ethiopia's debt is now larger than before the HIPC cancellation and once more seems unsustainable.

History of Debt

As with many countries in the global south, Ethiopia's debts began in the 1970s. In 1991, the new government of Meles Zenawi moved in line with the **Washington Consensus** policies of liberalisation and privatisation making the country favourable to foreign donors. However, the mounting debt weakened the economy and placed Ethiopia in a vulnerable position. The country remained heavily dependent on aid and war with neighbouring Eritrea and droughts brought further hardships within the country.

As part of **Paris Club** negotiations, Russia cancelled 80% of Ethiopia's debt to the former Soviet Union. This decision was made to compensate for the unfavourable exchange rates with which the debts were measured between the two countries. It was a further 5 years until the country gained a more substantial cancellation of over US$7 billion.

Since the financial crisis, the governments debt has grown dramatically and it is expected to reach US$10 billion by 2014. The amount currently exceeds the pre-HIPC debt stock and places a considerable burden on the vulnerable nation, who have also faced harsh droughts in recent years. However, the IMF and World Bank classify the country as being at a low risk of debt distress due to the economic growth in previous years. This assessment fails to account for the vulnerable nature of the very poor country, and the many problems faced by the people of Ethiopia.

Impacts of debt cancellation

The HIPC cancellation reduced Ethiopia's debt repayments from 10% to 4% of the government revenue. This freed resources for underfunded services including health and education. Ethiopia has made considerable progress towards achieving the Millennium Development Goals and poverty has reduced within the country from just under half of the population to 29.2% in 2010. However, although debt cancellation has brought significant benefits and freed up funds, significant challenges persist. Malnourishment continues to plague poorer sections of society and droughts have continued to threaten food insecurity, causing the country to be at a continued risk of famine into 2013.

IFI's

The World Bank have been implicated in projects which have caused direct harm to indigenous populations in Ethiopia including involuntary relocations and further human rights abuses. Loans have been continually extended and spent on such dodgy dealings. Anuak people from the Gambella region have complained that the bank financed and administered a programme characterised by forced relocations and various other abuses including beatings, arbitrary arrest, torture, rape and even killings. They have been moved from lands they and their ancestors have inhabited for generations to areas without the potential for farming or basic services. Continued lending for such projects calls into question once more the need for greater sustainability, transparency and accountability of the global financial system.

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Factfile

Population
91.19 million

Life expectancy
56 years

42.7%
Total adult literacy rate

1
Doctor for every
100,000
people

29.2%
of the population live below the poverty line

Human Development Index rated
173
out of 187 countries

69 out of 1000
children die before the age of 5

Oxfam

Find out about Oxfam's work in Ethiopia at; www.oxfam.org/en/ethiopia