

3.5.2021

Department for Africa
and the Middle East



Finland's country strategy for Ethiopia

2021–2024

Ministry for Foreign Affairs of Finland

EXECUTIVE SUMMARY

Finland and Ethiopia have a good and long-standing bilateral relationship. Decades of cooperation have evolved into broader and more comprehensive partnerships between Finland and Ethiopia, which now, in addition to development cooperation, encompass political relations, trade as well as civil society activities. There is a growing interest to consolidate, deepen and further diversify relations between the two countries.

Ethiopia is currently in the midst of a transition led by the Prime Minister Abiy Ahmed. The transition provides opportunities for major reforms, but at the same time, it has brought tensions to the fore, increasing the volatility of the country. Despite the challenges remaining, Ethiopia has been one of the fastest growing economies in the world, and it has seen important social and political developments. This offers prospects to strengthen and further diversify relations between Finland and Ethiopia.

Finland's partnership with Ethiopia in 2021-2024 will focus on the following four strategic goals:

1. **Mutually beneficial partnership between Finland and Ethiopia is more diverse and profound.** Finland seeks to maintain and strengthen the close bilateral relations with Ethiopia, based on transparency and trust, that allow for open dialogue on various issues, such as human rights, gender and climate change. Finland also aims to diversify the bilateral relations, by increasing, for example, economic and research cooperation. Finland seeks to strengthen its cooperation with Ethiopia also in multilateral forums.
2. **Inclusive political and social transition of Ethiopia continues, having a positive impact on the region.** Finland supports Ethiopia's democratic and social reforms to strengthen peace, rule of law, human rights, tolerance and equality. The stable development of Ethiopia is crucial for the stability of the entire Horn of Africa .
3. **More inclusive, sustainable and environment friendly private sector led economic growth.** Finland supports Ethiopia in the implementation of economic reforms, so that the private sector led economic growth is inclusive and environmentally sustainable as well as alleviates poverty and creates decent jobs.
4. **Institutional transformation in Ethiopia advances reforms and provision of services.** Finland supports Ethiopia in building strong and accountable institutions in order to deliver accessible, inclusive and climate-resilient services of good quality to all.

Key means of achieving the strategic goals are active political dialogue both at bilateral and multilateral level, including sector policy dialogue, development cooperation, increased economic cooperation, Team Finland work and private sector instruments as well as institutional cooperation and capacity building of institutions and civil society actors. Finland's Country Strategy for the years 2021-2024 promotes, as cross-cutting themes, human rights as well as participation of women, persons with disabilities and other persons in vulnerable positions and situations. A separate Country Programme guides and monitors the delivery of specific Impact Areas of development cooperation, which feed into the larger strategic objectives identified in the Country Strategy.

The Country Strategy is supported by Finland's comprehensive Africa strategy and EU-Africa strategy, which guide the development of Finland's ties with African countries.

1 COUNTRY CONTEXT

Ethiopia today is a country in transition. After a prolonged period of public protests, Prime Minister Abiy Ahmed took office in April 2018. The civic space was opened up, political prisoners were released and previously exiled groups were welcomed back. The political reform process has been accompanied by new laws regarding civil society organizations, elections, anti-terrorism and hate speech.

The widening political space has allowed ethnic and political tensions to come to the fore. The increased polarization of politics is causing division and violence, as clashes with an ethnic, and sometimes religious, dimension take place. A growing divide between those who promote pan-ethiopianism – embodied by Prime Minister Abiy's vision of *medemer* (togetherness or synergy) – and those who favor ethno-nationalism increases the instability in the country. The current military conflict between the federal government and the Tigray regional government is a poignant example of the political division within the country. In the 2020 Fragile State Index Ethiopia ranks 21st out of 178 countries.

The COVID-19 pandemic has heightened political tensions, as the highly anticipated elections were postponed, causing the parliament to resolve the ensuing constitutional crisis by extending the incumbent's term. In June 2020, the assassination of a popular Oromo singer and activist caused large-scale unrest and violence followed by mass arrests. These tensions highlight the complexity and volatility of the transition process and risk increasing the political division. The postponed elections are to take place latest by early September 2021. The international community, including Finland, is providing support to the election process.

Although the human rights situation has improved, major challenges remain. Human rights violations are often related to (ethnic) clashes and the breakdown of law and order. There are also reports of arbitrary arrests, excessive use of force, intimidation of opposition groups as well as ethnically targeted measures and even mass killings.

In the transition process, women have been promoted to high-ranking positions in society. For the first time, Ethiopia has a female president, and at the outset half of Abiy's cabinet was female. Nevertheless, women continue to be underrepresented in the political sphere and much remains to be done to improve women's social, political and economic rights.

Ethiopia today is a young country – over 70 percent of the population is below 30 years old. Already the second largest country in Africa with a population of more than

110 million people, the population is expected to double by 2050. Every year, about three million young people enter the labor market, putting pressure on the government to create jobs. Although there is a constant influx of people to the capital, almost 80 percent of the population lives in the countryside. With more than 80 ethnic groups, huge geographical variations and diverse economic and social development, regional disparity is a critical issue.

During the past decade, Ethiopia has been among the fastest growing economies in the world, with an average annual GDP growth of about 10 percent. Due to Covid-19, however, the latest IMF projection for real GDP growth for 2020 is only 1.9 percent. The country's target is to become a lower middle-income country by 2025. That said, however, the Ethiopian economy faces challenges such as increasing debt, minimal exports and a shortage of foreign exchange, lack of financing for companies and poor infrastructure. In the past year, inflation rates hit records, and particularly the high food inflation burdened households.

Whilst previously growth was largely due to public investment, the government now seeks to increase the role of the private sector. In order to deal with the macroeconomic and structural challenges, as well as to revitalise the most important sectors of the economy, the government launched its Homegrown Economic Reform Plan in September 2019. In January 2020, Ethiopia resumed discussions to join the WTO.

Ethiopia has also seen social development, as exemplified by a significant reduction in poverty, improved life expectancy and more than halved child mortality. The national poverty rate (1.95 USD per day) has declined from 30% of the population in 2011 to 24% in 2016. The World Poverty Clock estimates that the rate is 22% in 2020. At the same time, many Ethiopians do not fully enjoy their social and economic rights. In the latest Human Development Index, Ethiopia ranks 173rd out of 189 countries.

Ethiopia is vulnerable to the effects of climate change. The COVID-19 pandemic exacerbates the humanitarian and socio-economic challenges and weakens the economic growth. Combined with recent crises such as the desert locust infestations and floods, food insecurity is on the rise. Ethiopia has suffered frequent humanitarian crises and is a large recipient of humanitarian assistance. In total, it is estimated that some 26 million Ethiopians could be in need of some form of assistance in 2021.

The combination of climate change and conflict has resulted in a large amount of internally displaced people. Although the number is contested, the UN currently puts the number at around 1.9 million. Ethiopia also hosts more than 700.000 refugees from its neighbors. Ethiopia is a country of origin, transit and destination for migration flows.

The Horn of Africa is a region of strong geopolitical interests. There is a global competition for ports, military bases and economic influence in the region. Access to the Red Sea and its ports is essential to Ethiopia. As a traditionally stabilizing force in the Horn of Africa, the internal development of Ethiopia affects the whole region. The Prime Minister has taken an active role in the region, as exemplified by the peace treaty with Eritrea, which won him the Nobel Peace Prize in 2019. Currently, one of the most pressing regional diplomatic challenges is the dispute around the Grand Ethiopian Renaissance Dam (GERD).

Ethiopia has played a central role in supporting regional integration and is currently holding the position of the Executive Secretary of the Intergovernmental Authority of Development (IGAD). Addis Ababa is the diplomatic capital of Africa, with the headquarters of the African Union and the United Nations Economic Commission for Africa based in the city. Ethiopia has acceded to the African Continental Free Trade Agreement.

EU has a strategic engagement with Ethiopia and its development cooperation in Ethiopia is one of the largest in the world, 815 MEUR for 2014-2020 in the fields of sustainable agriculture and food security, climate change, health care and infrastructure as well as support to reform processes. China is an important actor in Ethiopia as approximately half of Ethiopia's external debt is to China, and it has invested some 1.1 billion USD in Ethiopia. Other important partners are the US, UK, Turkey and the Gulf states.

The development of Ethiopia is uncertain. Given the current level of volatility and division within the society, increasing instability, threat of fragmentation and weakening of the federal state cannot be ignored. The current conflict in Tigray could potentially have serious ramifications for the country and the region. In the best of scenarios, the political and economic reforms will continue, accompanied by strong investments in human development and a conscious effort to include all ethnic and political groupings in shaping the future of the country. Political dialogue and willingness to reach consensus is essential.

2 FINLAND'S RELATIONS WITH ETHIOPIA

Long-standing relations between Finland and Ethiopia are good and based on mutual trust and respect. Diplomatic relations between the two countries were established in 1959. Ethiopia is one of Finland's long-term partners in development cooperation as bilateral development cooperation was initiated already in 1967.

In 2019, Ethiopia was the biggest recipient of Finland's development funding in Africa. Finland's support to Ethiopia is focused on three sectors fundamental to sustainable development: rural economic development, water, sanitation and hygiene (WASH) as well as inclusive basic education. Finland's development cooperation, especially in the WASH sector, made it possible for Finland to quickly react and support the fight against the COVID-19 pandemic in Ethiopia. New instruments, such as the Public Sector Investment Facility (PIF), bring more opportunities for private sector cooperation.

Decades of development cooperation have evolved into broader and more comprehensive partnerships encompassing political relations, trade, civil society activities as well as cooperation between universities and research institutions. There is a growing interest to consolidate, deepen and further diversify relations between the two countries.

Trade and economic cooperation between Finland and Ethiopia has remained modest but the countries are willing to expand their current commercial relations. Economic relations are fostered through the Team Finland network. There is an untapped potential in bilateral trade and investments. In Ethiopia, Finland is well known for its high-tech innovative systems as well as expertise, and there is a considerable interest in cooperating with Finnish companies. Similarly, Ethiopia is interested in bringing, for instance, coffee and flowers to the Finnish market.

There is a great number of Finnish faith-based and other non-governmental organizations who have a long history in operating in Ethiopia. They work in different fields, such as peacebuilding and reconciliation, rights of all women and girls and persons with disabilities. Moreover, Finland fosters institutional cooperation, supports the development of civil society and provides humanitarian assistance. Finland also uses Funds for Local Cooperation (FLCs) to support local civil society organizations.

Finland's humanitarian assistance is channelled through UN organisations, Finnish NGOs and the International Red Cross and Red Crescent Movement. Humanitarian

assistance is always needs-based and, by nature, it is not a component of Finland's long-term cooperation programming. Finland also contributes to the budget of the European Union humanitarian assistance and provides unearmarked core funding to UN humanitarian organizations and the Central Emergency Response Fund. This flexible funding allows the organizations to plan strategically their activities and respond without delay to sudden onset disasters.

In Ethiopia, Finland is working closely with diverse partners and stakeholders. As a member of the European Union and as part of the Nordics, Finland participates in joint EU and Nordic efforts on various issues, in Ethiopia and in the region. Finland is also an active member of the UN family and cooperates with various UN organizations, such as the UNDP, in Ethiopia.

3 FINLAND'S STRATEGIC GOALS

Strategic goal I:

Mutually beneficial partnership between Finland and Ethiopia is closer and more diverse

Finland wants to maintain and strengthen close bilateral political relations with Ethiopia, allowing open dialogue on issues, such as human rights, gender or climate change. The means include bilateral political consultations, in-country bilateral discussions and visits of official delegations.

Finland aims to partner with Ethiopia on common challenges, such as climate change, COVID-19 and migration, both bilaterally and at international forums. Cooperation in multilateral forums provides also an opportunity to promote joint objectives, such as gender, equality and green transition. Ethiopia has an active role internationally; at the African Union, the United Nations as well as regionally. Finland supports international dialogue at such forums, focusing on themes, such as peace and security in the Horn of Africa.

The cornerstone of the partnership is the long-standing bilateral development cooperation, which is based on the SDGs, the national strategies and plans of Ethiopia, and Finnish development policies. Finland also contributes to the international response to the humanitarian crises, and promotes the triple nexus between peacebuilding, development cooperation and humanitarian access.

Additionally, Finland supports non-governmental forms of cooperation. Finnish faith-based and other non-governmental organizations (NGOs), continue to pursue their long-term cooperation with their Ethiopian counterparts. Through the FLC, Finland supports Ethiopian NGOs' work, for instance, to strengthen the rights of all women and girls and persons with disabilities.

Finland seeks to diversify bilateral relations with Ethiopia and strengthen for example, commercial ties and cooperation between universities and research institutions. The cooperation will be supported by e.g. Finnish private sector and institutional cooperation instruments which complement bilateral governmental programmes. Team Finland, in collaboration with Business Finland, promotes trade and investment between Ethiopia and Finland. Finnish and Ethiopian companies are encouraged to cooperate on commercial terms.

Strategic goal II:

Inclusive political and social transition of Ethiopia continues, having positive impact on the region

Finland supports Ethiopia's political and social reforms and aims to contribute to the reform processes, so that ultimately peace, rule of law, human rights, tolerance and equality would prevail in all parts of the country. Profound changes require support by the international community.

Finland actively engages in political dialogue between Ethiopia and the EU. Through the EU-Ethiopia Strategic Engagement and the Article 8 discussions, common ground has been established for the EU Member States to support the democratization process. Finland is a member of the Development Partners Group (DPG) and takes an active stance in the UN system and in the international financing institutions (IFIs) by maintaining regular dialogue both at Headquarters and in-country level. Where necessary, Finland jointly with Ethiopian counterparts, takes a leading role at DPG sector- and sub-committees.

Through active participation in the Education, Water, Sanitation and Hygiene (WASH) and Rural Economic Development (RED) sector policy dialogues, Finland contributes to the sector policies becoming more equitable and inclusive, resilient and based on human rights. Development cooperation responds to basic service provision and improved livelihoods for all, contributing to economically and environmentally sustainable and peaceful co-existence of different groups. Community participation is key to ensure that the needs and provisions match, and the solutions are sustainable and manageable by the beneficiaries. Empowering the people at the community level is part of the political and social transition process.

Credible elections anchor the political transition and provide the basis for future progress. Finland provides elections support through the Supporting Elections for Ethiopia's Democracy Strengthening (SEEDS) project headed by the UNDP, activities of Demo Finland, a co-operative organization of all the Finnish parliamentary parties, and through financing of civic and voters' education by local NGOs. Finland also provides financial support to international NGOs which, for example, support peace reconciliation and human rights defenders.

A stable Ethiopia is an important condition for peace and stability in the wider Horn of Africa region. If the democratic and economic transition succeeds, Ethiopia can act as a role model to neighboring countries. Ethiopia's constructive role in regional cooperation and integration as well as in bilateral relations is of importance. Finland

supports peaceful solutions to internal and regional disputes bilaterally as well as through the EU and the international community.

Strategic goal III:

More inclusive and sustainable private sector led economic growth

The private sector should become the engine of economic growth. At present, private sector development is stymied by, for example, macro-economic imbalances, debt and shortage of skilled labor. Finland supports the Government of Ethiopia in the implementation of the economic reforms, including opening of key enabling sectors such as telecommunications and energy. These sectors have the potential to increase private investment and trade, including with Finland.

Finland deems indispensable that economic growth is inclusive and environmentally sustainable, enhances climate resilience and low emission development. Equally important, it alleviates poverty and creates decent jobs particularly in the rural areas for the young people and women. Safeguards, such as improved access to land and credit especially in the rural areas, are needed to protect the poor from the effects of the liberalization.

Finland promotes these goals through the EU dialogue with Ethiopia, the EU Business Forum for Ethiopia (EUBFE), and through discussions in International Financing Institutions (IFIs), which seek to develop an enabling environment for economic cooperation. In political dialogues, Finland promotes issues pertaining to the improvement of the business environment in Ethiopia.

Finland's development cooperation with Ethiopia includes elements of private sector development. Finland has two on-going programmes, in agribusiness and in land administration, which support smallholder farmers' access to livelihood and quality jobs. Moreover, Finland utilizes private sector support instruments, such as Finnfund, Finnpartnership, the Public Sector Investment Facility (PIF) and the Developing Markets Platform (DevPlat).

Contacts between Finnish and Ethiopian private sector operators should not be limited to Finnish private sector support instruments; trade and investment should increasingly take place on commercial terms. In addition to telecommunication and energy, themes of particular interest to Finland include green economy and digitalization, as well as WASH, agriculture and education, where synergies are sought between development cooperation and economic cooperation.

Strategic goal IV:

Institutional transformation in Ethiopia advances reforms and provision of services.

The Government of Ethiopia is committed to build strong and accountable institutions to advance the democratic and economic reforms as well as to deliver accessible, inclusive and climate-resilient services of good quality to all. Progress has been made, but there is room for improvement both at institutions in charge of the democratic reforms and in equity, inclusiveness and accessibility of the services.

COVID-19 causes additional challenges for the provision of services, as does the rapid demographic growth and climate change. Finland seeks to support Ethiopia to Build Back Better and Greener (BBBG) with institutional and technical capacity building. The division of responsibilities between the public and private sector and the civil society is evolving in Ethiopia. Thus, capacity building is not limited to public sector but encompasses different types of organizations, including private sector entities and community-based organizations.

Issues related to institutional capacity are discussed in multilateral, bilateral and sector policy dialogues. Finland participates in these dialogues providing experience and knowledge in political, economic or social domains. Finland's expertise is applied to institutional capacity building activities in bilateral development cooperation, for example, in the joint efforts of the Ethiopian authorities and the donor community to develop a quality public education system. Finland promotes the integration of Finnish approaches and models in the sector policies and programmes. Expertise and technical knowledge has been Finland's niche in success stories, such the development of the rural land management and registration system. Finland has also been successful in leveraging financial and technical resources from the Government of Ethiopia and other donors to upscale the application of the systems and methodologies, which have been initially developed with Finnish assistance. This continues to be one of the key features in the cooperation between Finland and Ethiopia.

In all political and policy dialogues, Finland emphasizes the empowerment of all women and girls and persons with disabilities, as well as the inclusion of their specific needs in the policies and service provision. In development cooperation, this is pursued both through mainstreaming and by implementing targeted projects.

Finland supports local CSOs through the FLC and through NGO cooperation. Finland may also use twinning programmes, such as the Institutional Cooperation Instrument (ICI) and the Higher-Education Institutional Cooperation Instrument (HEI-ICI), for institutional capacity building. The PIF instrument may be utilized to support

investment in Ethiopian public sector institutions. The DevPlat is a new tool to finance joint projects of Finnish and Ethiopian companies, research institutions and NGOs.

4 IMPLEMENTATION AND MONITORING

The country team in the Department for Africa and the Middle East of the MFA and the Embassy are in charge of the implementation of the Country Strategy. This is done in close collaboration with Departments/Units in charge of different instruments and activities identified under each strategic objective. While the country team is responsible for coordinating country level activities, other Departments/Units keep country teams informed and involve them in discussions as well as activities relevant to the strategic goals. Country team will hold regular country dialogues with relevant Departments/Units within MFA and with stakeholders outside the MFA that are active in the country to discuss the implementation of the Country Strategy. Other stakeholders outside the MFA are encouraged to have dialogues with the country teams on the ways they can contribute to the strategic goals in each country.

The Embassy and the team as a whole are providing analysis on the implementation of the strategy as part of their regular reporting. The implementation of the Country Strategy is reviewed in the annual discussions with the Ambassador. Possible updates are agreed based on the annual discussions by the leadership of the Regional Department.