The role, impact and approach of the World Bank in post-conflict countries

A case study of Ethiopia and Eritrea

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Program: MA International Studies
July 2016
Word count: 10.085

List of Abbreviations

EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HDI	Human Development Index
IBRD	International Bank for Reconstruction and Development
IDA	International Development Assistance
IFI	International Financial Institution
IMF	International Monetary Fund
NGO	Non-Governmental Organisation
PFDP	People's Front for Democracy and Justice
US	United States

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1. Introduction

Last month, Eritrea celebrated twenty-five years of independence, which it gained from Ethiopia in a conflict that lasted three decades. In those twenty-five years of independence both countries have diverged from each other more than ever. Ethiopia has been applauded in the news for its rapid economic growth and for being one of the fastest movers in the ranks of the Human Development Index. Eritrea on the other hand, is known for the large amount of people that apply for an asylum abroad, more than from any other African country, for its human rights abuses, and extreme poverty. Besides a partly shared history, the countries have another common denominator. One of world's largest financial institutions, the World Bank, has provided large amount of loans and grants to both post-war countries. Still, both countries have depicted very different development paths. Consequently, the research question of this thesis is: *How did the approaches taken by the World Bank play a role in the different development paths of Ethiopia and Eritrea?* The World Bank has not been the only factor influencing development in the countries. Both domestic governance and international relations issues have to be taken into account to be able to place this question in broader context.

While the World Bank has changed its policies from fostering economic development, to providing development in all facets of life, the approaches of the World Bank have been applauded and criticized. Various researchers have argued that the approaches of the World Bank undermine the sovereignty of domestic governments (Williams, 2000) and only enhance the current Western hegemony (Jacoby, 2007; Einhorn, 2006). Yet others argue that it does not influence sovereignty (Arrighi, 2005; Borchgrevink, 2008) and that the World Bank helps countries escape the poverty trap (Collier, et al., 2003). Most of the research on the development of Ethiopia and Eritrea has focused on either Ethiopia-Eritrea relations throughout the years (Villicana & Venkataraman, 2006; Negash & Tronvoll, 2000), or on the history and development of one of the countries (Alemayehu, 2008; Hansson, 2001). Furthermore, the influence of donors to Ethiopia and Eritrea has largely been researched under the umbrella term 'aid'. However, World Bank donations cannot simply be compared to aid provided by NGOs. Therefore, this study aims to research the influence of the approaches of the World Bank on the development path of both countries. To be able to give a comprehensive overview, a case study is conducted, researching not just the approaches of the World Bank but also other domestic and international actors. Looking at two completely different development paths of at first sight relatively similar countries adds a comparative dimension to this research. Exploring these cases is highly relevant because it may shed light on what accounts for success or failure in Wold Bank programmes.

This study is organised as follows. Chapter two comprises a theoretical background and literature review of the development discourse, the World Bank, and post-conflict development. Chapter three accounts for the methodology and the case selection. Chapter four outlines the elements and outcomes of the case study research. Chapter five includes an analysis of the case study, and identifies the three factors that have most influenced the impact of the World Bank. The final chapter provides a conclusion and suggest avenues for further research.

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2. Theoretical background

2.1 The development discourse

Development is a complex and multidimensional issue. This is clearly depicted in the large number of theories, explanations and arguments of development (World Bank, 2000). Until the 1970's, economic growth was considered a decent measure of development, measured by GDP per capita (Todaro & Smith, 2009). This indicator of development is solely concentrated on material wealth. Other improvements in welfare, such as better healthcare and improved education are not included. During the 1950's and 1960's the World Bank found that an increase in GDP per capita not necessarily resulted in improvements for the population (Dong & Pheng, 2015). Defining development only as economic growth, resulted in countries devoting all their energy to the growth of their national income (Todaro & Smith, 2009). Basu (2000, p. 64) summarized this phenomenon follows:

'the standard of living was often allowed to slide; large inequalities between classes, regions, and genders were ignored; and poverty was tolerated more than it should have been in the rush to generate maximum growth'.

From the 1970s onwards, policy-makers and researchers started to realize that growth of GDP per capita did not provide a comprehensive overview of development. Many developing countries showed high growth rates of GDP per capita, but the living conditions of major parts of the population did not change (Dong & Pheng, 2015). Hence, the economist Seers (1969) started arguing that the goal of development should not be limited to economic growth, but should also focus on the reduction of poverty, inequality and unemployment. In line with the expansion of the definition of development, there have been various attempt to come up with new, multidimensional indicators of development. The most well-known indicator is the Human Development Index (HDI) published by the United Nations. The HDI combines the factors 'life expectancy at birth', 'expected years of schooling', 'mean years of schooling', GDP per capita, and since 2010 an adjustment for inequality. In addition to the fact that the HDI does not incorporate all factors of human development, the HDI has been criticized for being biased towards egalitarianism and 'Western models of development' (Nair, 2015). Various scholars have attempted to design other indices to measure development, such as the Quality of Life Index (Dasgupta & Weale, 1992), the Index of Wellbeing (Osberg & Sharpe, 1998) and the Human Well-being Index (Bérenger & Verdier-Chouchane, 2007). However, the data required to calculate those indices are not always available for every country, complicating comparative and longitudinal research.

2.2 The World Bank

One of the global actors within development is the World Bank. The World Bank Group, established in 1944, is an international financial institution (IFI), whose official mission is the reduction of poverty and boosting shared prosperity, in line with the extended definition of development. The World Bank Group consist of five organizations, of which two make up the World Bank: The international Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD 'lends to governments of middle-income and creditworthy low-income countries' for development projects (World Bank, 2016). The IDA 'provides interest-free loans (credits) and grants to governments of the poorest countries', which would rarely qualify for a loan under the IBRD (World Bank, 2016). Financing under the IDA is focused on highly concessional lending (Einhorn, 2006).

Over the years, the World Bank has been a key player in the international institutional architecture. It was established to promote an open and liberal international economy and has helped countries develop and grow, based on those policies (Einhorn, 2006). Initially, the World Bank wanted to establish a neutral conceptualisation of development. This means that the World Bank opted for reforms within the public sector that enhanced economic growth, without making judgements about the level of democracy, human rights record, or so called modus operandi (World Bank, 1994). However, critics were blaming the World Bank for overemphasizing growth over equity and poverty alleviation. Therefore, the World Bank broadened its view and included social sectors, education, health, and empowering the poor, in its agenda (Blyth, 2002).

The World Bank is governed by a 'one dollar, one vote' system, granting the largest decision making power to the largest financial contributors (Pease, 2012). If a country is assigned to a World Bank project, it is granted a loan with the aim to reduce poverty and increase the standard of living. The loans are not always entirely provided upfront, but face conditionality. The latter is defined by Frerks (2006, p. 15) as 'the promise or increase of aid in the case of compliance by a recipient with conditions set by a donor, or its withdrawal or reduction in the case of non-compliance. The argument of the World Bank to impose conditionality on the loans is that those actions prevent the bank from subsidizing bad policies or corrupt governments (World Bank, 2016). Conditions imposed on recipients include liberal policies aimed at establishing free markets, away from state intervention (Easterly, 2005). Hence, it is argued that liberalism constitutes the norms and practises through which the people within the World Bank act, and can thus be seen as the 'working ideology' (Williams & Young, 1994, p. 92).

Nonetheless, the approaches of the World Bank to achieve their mission, enforcing conditionality in particular, have been questioned by various scholars. Two critiques on the approaches of the World Bank dominate. First, various researchers (Kardam, 1993; Gulrajani, 2011) have argued that the imposed conditionality is based on universalized best practises, which do not take local context into account. Notably for post-structural theorists, longer histories of indigenous social relations have to be taken into account, since they determine the current political arena. Also Del Castillo (2008, p. 20) and Paris (1997) accuse the World Bank of taking a 'development as usual approach', giving priority to establishing a liberal democracy and economic liberalization. Others criticize the conditionality of the loans as being imperialistic or neo-colonialist, undermining the sovereignty of the governments (Cruise O'Brien, 1991; Williams, 2000). Paris (2002) calls it a modern version of the 'mission civilisatrice', which was the basis for colonialization practises. Likewise, Jacoby (2007, p. 523) sees reconstruction assistance as a valuable opportunity for the hegemon to contain 'an international order friendly to its principles, its security and its prosperity.

2.3 Post-conflict development

The World Bank has become more and more focused on post-conflict development (Ball & Halevy, 1996), with an upheaval after the Cold War. Money and economic growth were seen as crucial elements of the reconstruction (Einhorn, 2006). Weiss (2004) measured that the money issued to assist post-conflict countries add up to twenty five percent of the World Bank's total current lending.

The importance of providing financial assistance to post-conflict countries has been researched extensively. First, economic recovery is seen as an important factor in the construction of post-conflict countries. Paul Collier (2003) and his Wold Bank team have argued that if economic stagnation in a post-conflict country continues after the end of the conflict, the risk of falling back into a conflict increases. This creates a vicious circle of conflict and economic stagnation. Second, there often is a lack of private investments, both domestic (Collier, 1999) and foreign (Aizenman & Marion, 1999), especially in the direct aftermath of a conflict.

Nonetheless, providing loans and grants to post-conflict countries has received various criticisms. Besides the general criticisms towards the World Bank approaches as outlined in the previous chapter (taking a uniform approach and being neo-colonialist), some criticisms are directed at post-conflict intervention in particular. Coyne (2006, p. 343) states that the reconstruction programmes suffer from a 'nirvana fallacy'. The latter means that the international institutions, such as the World Bank, assume that their imposed policies always lead to better results than what would occur if they would not have intervened. This line of reasoning validates any policy of the World

Bank. Furthermore, it is argued that, even though most post-conflict countries require some economic reforms, the World Bank should be careful to not provoke new hostilities. Especially given the fact that forty to fifty percent of post-conflict countries relapse to a new conflict within a decade, peace building should be given priority (Tzifakis, 2011). Therefore, sub-optimal economic policies should be considered out of political and security considerations (del Castillo, 2008).

3. Methodology

3.1 Research question

As explained in the introduction, this study aims to give a comprehensive overview of the impact of the World Bank in Ethiopia and Eritrea. Therefore, this study will look into (1) the different development paths of two countries, (2) the approaches taken by the World Bank, (3) the other developmental actors such as NGO's and institutions that could have played a role in development, and (4) place it in the broader context. As such, the hypothesis that the approaches of the World Bank have played a role in the different development paths of the countries will function as a basis for this study. Building on this hypothesis, the guiding research question for this thesis is:

How did the approaches taken by the World Bank play a role in the different development paths of Ethiopia and Eritrea?

3.2 Research design

The objective of this study is to gain more insightsin how the approaches of the World Bank have influenced development and to develop a theory or generic knowledge. A qualitative research approach fits this research question best, since , as Bryman and Bell (2007, p. 402) state, 'qualitative research investigates the why and how, not just what, where, when'. A proper methodology for 'developing theory regarding the causes of differences or similarities among instances' is the case study method (George & Bennett, 2005, p. 18). Moreover, Yin (2009) argues that case studies are an appropriate methodology for doing an in-depth analysis about a complex case within its context. Though it is important to keep in mind that even though case studies allow for complex causal mechanisms, their conclusions are narrower (George & Bennett, 2005). As already explained, the existence of various intervening (context) variables is expected, validating the use of a case study method.

3.3 Case selection

The cases were selected on several criteria. First the selected countries have to had been in war, after the World Bank was established (1944). Second, it is required that the World Bank has been active in both counties. Last, George and Bennett (2005) mention that cases should be selected that are rich and/or similar. Based on these criteria, the countries Ethiopia and Eritrea are selected. The countries are relatively similar, since they made up one country before Eritrea got separated after the Eritrean war of independence in 1993. After Eritrea became independent, Ethiopia and Eritrea fought another war from 1998 till 2000, because of border disputes (CIA, 2016). Furthermore, the World Bank has channelled resources to both countries (World Bank, 2016). However, the outcomes of World Bank intervention in both countries have been very different. Whilst Ethiopia, 'the African tiger', is praised for its impressive economic growth (Dori, 2014), Eritrea is seen as one of the most underdeveloped countries of the world (Leshilo, 2016)) Therefore, Ethiopia and Eritrea can serve as a rich case because of the variance in outcome of the dependent variable. Even though the World Bank was involved in both cases, its effort seems to only succeed in one case. Exploring cases with large variances can shed light on what accounts for success or failure in World Bank programmes.

Baxter and Jack (2008) mention in their book that an important issue in case study research is to exactly define what the case is and what not, to avoid the tendency to research too much. Placing boundaries on the cases can prevent the research from getting too broad (Yin, 2009). As such, this research will be focused on the development of Ethiopia and Eritrea from the moment of separation till the year 2010. The year 2010 is chosen, because it takes some time before data or analysis get published. Six years (2016) should provide a large enough time span for most data to be publically available. Although context is extremely important in case study research, this study will be limited to the contextual dimension mentioned in the research question.

4. Case Study

4.1 Development path

In the theoretical background it became clear that development can be interpreted in both a narrow and a broad way. To give a comprehensive overview of the development path of Ethiopia and Eritrea, both indictors will be taken into account. As stated in the methodology, this research is focused on the development of Ethiopia and Eritrea in the time span ranging from after the separation of Eritrea till 2010. However, to give a complete overview of the development path, a brief overview modern developmental history will be covered.

4.1.1 Modern history Ethiopia and Eritrea

Eritrea was part of Ethiopia until the 1880s. After that, Italy controlled the area of Eritrea. In Eritrea, the Italians created a trade and communication centre by building numerous schools and industries and developing the agriculture and infrastructure. Italy openly favoured the Eritreans over the Ethiopians, contributing to a separate Eritrean identity (Trivelli, 1998, p. 267). The economic status of Ethiopia on the other hand, had been more or less the same for centuries. During the short invasion of the Italians (1935-1936) some improvements were made, mainly in the area of building roads . These improvements were only marginal. Only a small proportion of the population participated in the money economy: paid labour was limited, most communities were self-sufficient, the amount of (foreign) trade was negligible, and the market for manufactured good was small (Ofcansky & Laverle Benette, 1993).

After the Italians left, the 'Imperial Regime' of emperor Haile Selassie (1930-1974) was established. In 1950, after the Allied forces defeated the Italians and the following political struggle, Eritrea was federated with Ethiopia by UN decision. Two decades later, Ethiopia abolished the federation and annexed Eritrea. This caused the start of the Eritrean war of independence (International Business Publications, 2013). Haile Selassie attempted to modernize Ethiopia by setting up a modern education system and schools, establishing health facilities, developing an infrastructure, and by focusing on market-based economics (Alemayehu, 2008). His policy was focused on changing Ethiopia's agricultural economy into an agro-industrial economy, increasing its growth rate. During the period 1960-1974, Ethiopia depicted constant economic growth with an annual average growth rate of 4.4 percent and began to develop the service and manufacturing industry. The area of former Eritrea played an important part in this development, because of its established industry. Negash and Tronvoll (2000, p. 43) argue that more than thirty-five percent of Ethiopia's industries were located in Eritrea. Although economic growth was increasing, the quality of life of most Ethiopians was lacking (Ofcansky & Laverle Benette, 1993).

In the revolution of 1974, the Derg came to power. This regime (1974-1991) turned Ethiopia into a socialist economic system which repressed market forces, and joined the Soviet bloc in the cold war (Alemayehu, 2008). The government nationalized the majority of the companies and did not give any opening for privatization to domestic or foreign investors. During this regime, Ethiopia's average growth rate decelerated to 2.3 percent (Alemayehu, 2008). This decline in growth can be attributed to several factors. First, the whole region was heavily affected by droughts, leading the government to commit all resources to famine relief instead of long-term development. Even though Ethiopia received over USD 450 million international assistance, about 1 million people died. Second, the agricultural and manufacturing sector declined. Third, foreign exchange and foreign investments declined heavily. Lastly, the Derg faced various internal and external conflicts, leading to the establishment of a large military apparatus, absorbing forty to fifty percent of the governments expenditure (Ofcansky & Laverle Benette, 1993). This strong military apparatus was needed, since opposition groups, the most well-known the Tigray People's Liberation Front (TPLF) and the Eritrean People's Liberation Front (EPLF), were formed with the purpose to fight the Derg. With the end of the Soviet Bloc, the financial support and supplies got withdrawn and the Ethiopian army lost strength in Eritrea.

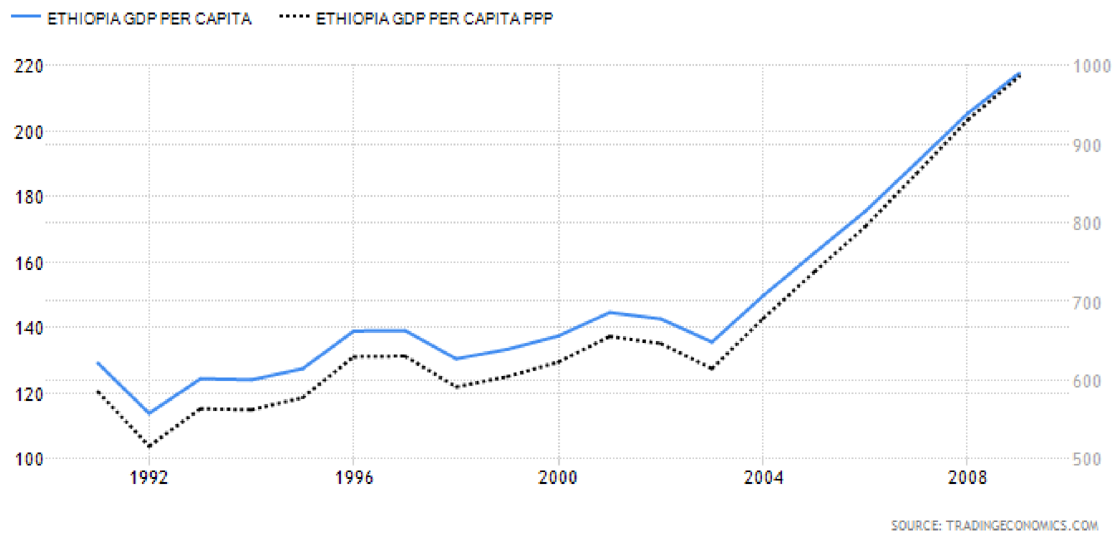
In 1991 the TPLF and the EPLF jointly removed the Derg regime. After the removal of the Derg regime, the TPLF established a government in Ethiopia, whilst the EPLF established a provisional government in Eritrea. Eritrea became legitimized as an independent state after the referendum of 27 April, 1993 (Young, 1996). Those two liberation movements had been close partners during the struggle against the Derg regime, and signed a number of agreements for economic cooperation and to maintain peace (Abbay, 1998). However, after separation, both movements pursued different agendas regarding their national ideology (Gilkes & Barry, 2005) to build up their countries which were devastated by years of liberation war and the Derg's economic policies (Hansson).

4.1.2 Development path Ethiopia 1991-2010

The leader of the TPLF, Meles Zenawi, became president of Ethiopia till his death in 2012. Zenawi promised to set out a programme of political liberalization, economic recovery and development. His government invested heavily in agriculture, education, health, roads and communication. The policies led to an increase in economic growth, reduction of poverty, agricultural exports and improved health conditions. Under his regime, Ethiopia's western-centric foreign policy strategy faced a revival (Sebsebe, 2015). Strategic trade negotiations, aid and foreign direct investments were seen as priority areas (FDRE, 2002). Ethiopia re-established its relation with the U.S. and Europe and has gained substantial aid from Western countries and the World Bank. Zenawi led the new government based on a neo-Leninist ideology called 'revolutionary democracy'. Hagmann and Abbink (2011, p. 582) explain this ideology as a set of 'governance and power techniques marked by vanguard party rule, and dominant role of party-led state in politics, economics and society'. The policies seemed to pay off. The development of Ethiopia from 1991 till 2010 has been characterized by strong economic development, both GDP per capita and GDP per capita PPP have gone through extensive growth as can be seen in table 1.

The border war with Eritrea in 1998-2000 [1] had devastating effects on the economy of Ethiopia. The costs of the war were immense for both countries, because of the resettlement of affected populations, increase in defence spending combined with economic downturn and a decrease in foreign investments and trade (Hansson, 2001). However, the reliability of the statistics provided are doubtful, since both countries have been downplaying the impact of the war for their country. Furthermore, the continuing stalemate weighs heavily on Ethiopia, maintaining a number of troops along the border (Mulugeta, 2011). Nonetheless, Ethiopia's economic development in the narrow sense did suffer much from the war, as can be seen in table 1.

Table 1: GDP per capita and GDP per capita PPP 1991-2010 Ethiopia



Source: Trading economics (2016)

The HDI of Ethiopia and its relative ranking has not moved in line with its economic development during the past decades, even though the government invested largely in social services. Ethiopia is ranked 174 out of 187 countries in the HDI ranking of 2010, with a HDI index of only 0.387 and even less (0.216) when adjusted for inequality (UNDP, 2013) . However, in the Human Development Report of 2010, the efforts of the EPRDF have been applauded. It is mentioned that Ethiopia came in 11th in the top HDI movers, looking at the index, not the relative ranking. Nonetheless, Ethiopia is still ranked as a 'low human development' country, only surpassing thirteen countries in the ranking. This underlines the difference between development in its narrow and broader sense.

[1] In 1998, fighting broke out between Eritrea and Ethiopia in the disputed border area near Badme, resulting in the Eritrean-Ethiopian war. The scope of this thesis is too limited to discuss in detail the course of the war until the cease-fire of June 2000 (Gilkes and Plaut 1999). Instead, this thesis is focused on the war's impact on development.

Although Ethiopia portrays impressive progress in development as described in the previous paragraph, concerns are rising over the democratisation and Human Rights issues (Borchgrevink, 2008). The 2005 elections went hand in hand with mass arrests and restrictions on and even imprisonment of political opposition. Furthermore press freedom became limited (Epstein, 2010). Ethiopia's capacity to allocate fiscal resources and to nominate all key regional players (since their careers need federal approval), results in a continuous ability to keep its population in check (Hagmann & Abbink, 2011).

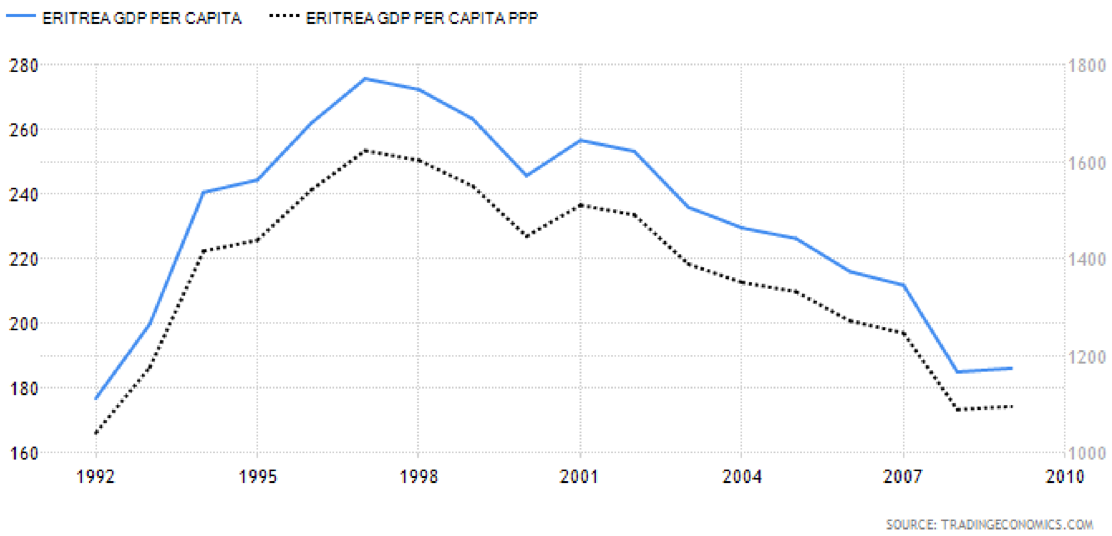
4.1.3 Development path Eritrea 1991-2010

After Eritrea became officially independent, Isaias Afewerki, member of the EPLF, became president. He has governed Eritrea since its independence with his People's Front for Democracy and Justice (PFDP), the sole political party of Eritrea. Eritrea followed a unitary perspective after the war, attempting to balance ethnic, religious and linguistic difference, because of its desire to create a strong state, based on self-reliance (Villicana & Venkataraman, 2006). The Eritrean government aimed to become the trade and industrial centre, the 'Singapore of Africa'. Because of Eritrea's spirit after gaining independence, and strong uniform consensus, the government claimed that this plan would be realised in a few years, without help from foreign aid or financial donations (Villicana & Venkataraman, 2006). At independence, Eritrea had no external debt, because Ethiopia was the owner of all the external debts. Therefore, Eritrea was seen as having a major advantage over Ethiopia (Addison & Ndikumana, 2001). Eritrea's caution towards foreign aid can be attributed to their desire for self-reliance, after years of struggle for independence. The conditionality that comes along with foreign aid was seen as irreconcilable with that aim (Hansson, 2001). Furthermore, Eritrea restricted fee-food distribution, and aid from NGOs and institutions was only allowed for the health and education sector, based on strict requirements (Smith-Simonsen, 2003). Nonetheless, Eritrea's policy was in line with the policies that are usually associated with the IFIs: the civil service was downsized, taxation reformed, and trade and exchange liberalized (Hansson, 2001).

Eritrea's policies led to rapid economic development, which is depicted in table 2. The HDI of Ethiopia has only been published from 1998 onwards by the World Bank, since statistics on previous years were lacking. It can be expected that Eritrea's HDI was growing, although not at the same pace as its economic development, because the other development indictors education and health fell behind. The World Bank reported that Eritrea has increased its spending on education and health, both to three percent of its GDP. However, this still means that absolute spending is low. The facts that adult illiteracy was 80% for males and even 90% for females (World Bank, 1996, p. 31), less than half of all children enrolled in primary school (47.4%) and even less in secondary school (13.7%)

(Ministry of Foreign Affairs, 1995, p. 12), and that Eritrea had a high infant mortality due to water-borne diseases (Hansson, 2001), result in the argument that more resources were needed to be able to tackle these issues. United Nations researcher Hansson, (2001) argues that aid could have helped Eritrea develop these sectors. Even though the improvements in the broadest sense of development might have been marginal, it is argued that life was improving for the majority of the population, overcoming social inequalities (Connell, 2003).

Table 2: GDP per capita and GDP per capita PPP 1991-2010 Eritrea



Source: Trading economics (2016)

The border war with Ethiopia in 1998-2000 provided a tipping point in the development of Eritrea, changing from growth into downfall. Whereas Eritrea first emphasized national pride, the war led to considerable disillusion among Eritreans (Giorgis, 2014). The war and its continuing stalemate have been far more devastating for Eritrea than for Ethiopia. Eritrea spent large sums on retaining the military apparatus, which drew heavily on the government budget (Kifle, 2004) and on the workforce because of military service (Healy & Plaut, 2007). Furthermore, the war presented the opportunity to centralise political power even more. In the name of national security, democratisation was postponed, opposition further banned, and private press closed off (Mulugeta, 2011). This defence strategy also affected its economic policies, stifling the private sector and making it hard for foreign investments and aid to reach Eritrea (Woldemikael, 2011). Four consecutive drought cycles worsened the economic downfall after the war even further (Woldemikael, 2011), which is clearly depicted in table 2.

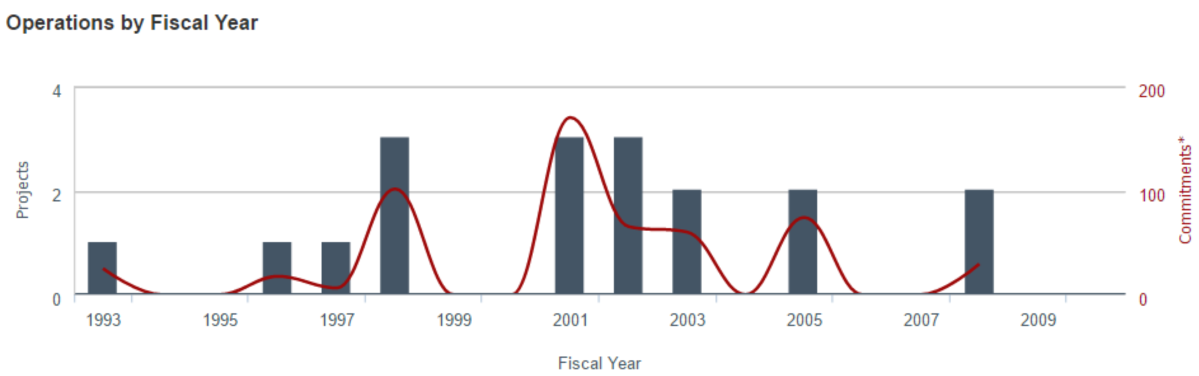
In 2010 the HDI of Eritrea was 0.342, ranking Eritrea 177 out of 187 countries, only slightly beneath Ethiopia (UNDP, 2013). Due to a lack of relevant data, the IHDI could not be calculated. Contrary to Ethiopia, this low HDI was mainly due to its low GDP per capita. Life expectancy and years of schooling were relatively high, compared to Ethiopia. Thus, the development path of Eritrea underlines once again the difference between development in the narrow and broad sense.

4.2 Approaches World Bank

4.2.1 Ethiopia and Eritrea

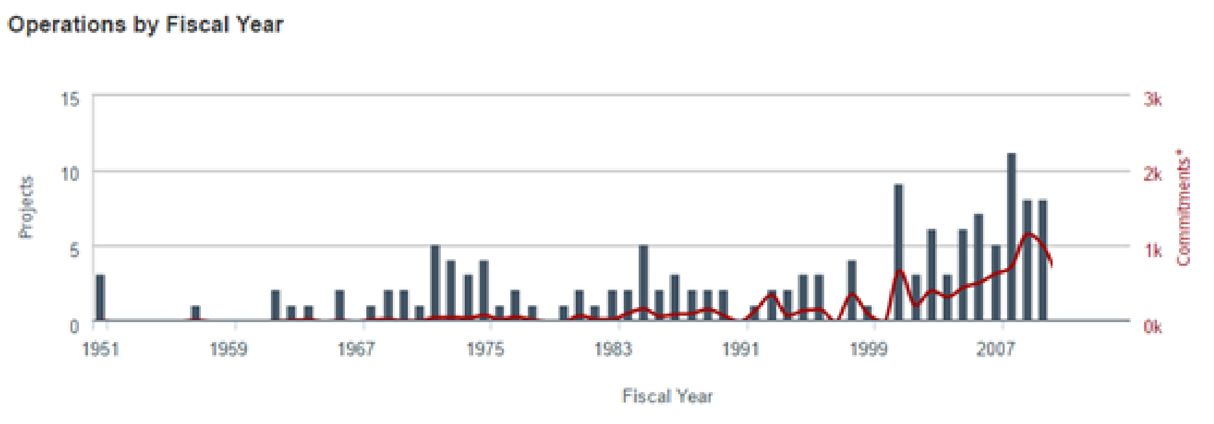
The World Bank has channelled different resources toward Ethiopia, Eritrea and the region as a whole. In the previous chapter it became already clear that both countries had very different development paths. In this chapter the approaches taken by the World Bank will be outlined.
As explained in the previous chapther, both countires pursued completely different strategies towards the reception of foreign aid and investments. This is clearly reflected in the number and magnitude of projects the World Bank implemented in both countries (table 3 and table 4)

Table 3: World Bank operations Eritrea till 2010



Source: World Bank (2016)

Table 4: World Bank operations in Ethiopia till 2010



Source: World Bank (2016)

An important side note when looking at the graphs is that it cannot be concluded that the World Bank has a longer history in Ethiopia than in Eritrea. Eritrea has been part of Ethiopia since the establishment of the World Bank and has only become officially independent since 1993.

The approaches of the World Bank in Ethiopia have changed over time. After the war of independence, the World Bank support to Ethiopia only slightly increased. The World Bank first created an emergency reconstruction programme and a structural adjustment programme. The conditionality implications of these programmes consisted of devaluation of the birr (the national currency of Ethiopia), free exchange rates, reducing tariffs and taxes, removal of price controls and privatisation (Borchgrevink, 2008). The World Bank's evaluation of these programmes was 'highly satisfactory' (World Bank, 2000, p. 3). Ethiopia, however, did not wish to continue these programmes in 1996 if such conditions were attached, because the Ethiopian government aimed for state control and state-governed companies (Furtado & Smith, 2009). Hence, during the 1990s the World Bank's aid to agriculture fell, in favour of developments in health and education. After a short period of limited World Bank support during the border-war, the World Bank's support to Ethiopia increased rapidly. Ethiopia gained an image in the international community as being more willing, although still only moderately, to adhere to international standards than Eritrea. On the other hand, after the 2005 elections, concerns about the regime, just as concerns about the private sector rose (Borchgrevink, 2008). Although the Ethiopian government had made it clear that it was not accepting conditionality not in line with its policies, aid kept flowing towards Ethiopia, even though it received various criticism (Epstein, 2010; Human Rights Watch, 2010). The projects implemented in Ethiopia after the war have been more and more focused on long-term strategies for growth instead of short-term recovery and relief. Projects consists for example of women entrepreneurship development, tourism development and capacity building (World Bank, 2016).

The approaches of the World Bank in Eritrea followed a different path. Immediately after independence, the projects in Eritrea increased, without conditionality. The lack of conditionality, existed because the Eritrean government already had been imposing neo-liberal reforms and would reject conditionality based on its policy of self-determination. Similar to Ethiopia, World Bank support dried up during the border-war. Contradictory to what happened in Ethiopia, World Bank's support did not increase after the border-war, but decreased. As described in the previous paragraph, Eritrea suffered from the image of being the instigator of the war, and being less willing to adhere to international standards (Borchgrevink, 2008). Eritrea's records postponing democratisation, banning opposition and free press, and having , what is said, the worst human-rights in Africa (Mulugeta, 2011) only complemented this view. Therefore, the World Bank projects in Eritrea re limited, the majority consisting of emergency reconstruction. The different themes of Wold Bank projects are depicted in table 5 and 6.

Table 5:

Project themes Ethiopia

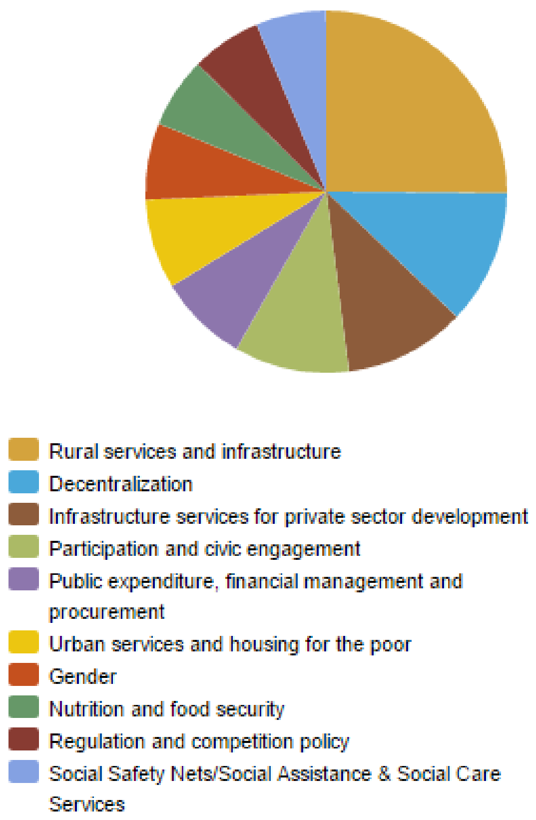
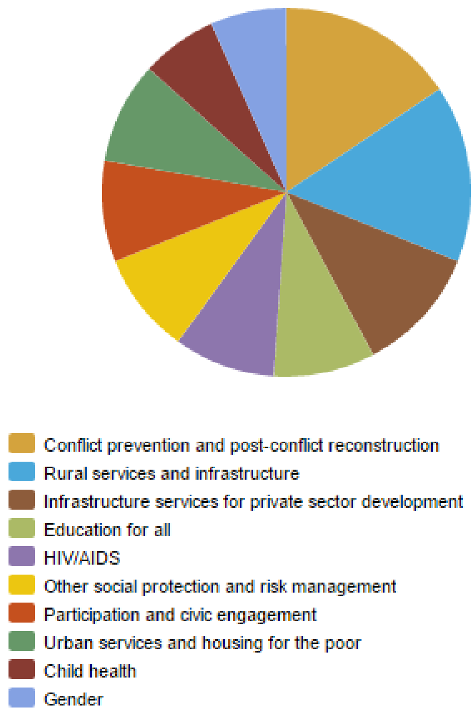


Table 6:

Project themes Eritrea



Source: World Bank (2016)

4.2.2 International context

To completely understand the motives of the World Bank, its approaches need to be placed in a broader context. In the whole Horn of Africa, conflicts arose or continued in the Post-Cold War period. No other region has suffered more death and destruction after the Second World War than the Horn of Africa (Sharamo & Mesfin, 2011). The World Bank, among other instituions has implemented serveral inititatives to foster peace and stability. The latter is important in particular, since the conflicts in the Horn of Africa resulted in multiple fragile states, suffering from corruption and extreme poverty (Lyman & Morrison, 2004) These conditions are seen to serve as an incubator for radicalization (Jones & Gray, 2013). After the 9/11 attacks in 2001 the region became even more considered a breeding ground and safe haven for terrorist (Sharamo & Mesfin, 2011). The U.S. wanted Ethiopia, its close ally under the Imperial regime and probably the most 'stable' state in the Horn of Africa, to become a regional hegemon (Whitfield, 2009). Moreover, Epstein (2010) argued that because Ethiopia was mostly a Christian country, surrounded by large islamic countries, and thus perceived as more 'Western', added to the favorable role of Ethiopia. Ethiopia as a hegemon should be capable to maintain stability and halt the spread of radical Islamism (Whitfield, 2009). Borchgrevink's (2008) research showed that the U.S. and the World Bank were indisputably the two largest donors to post-war Ethiopia. The strategic reasons for the U.S. to increase donations are reasonalby clear. Given the large number of countries that supported the U.S.' led war on terror and the researched influence of the U.S. on World Bank IDA lending (Andersen, et al., 2006), a relationship between the high amount of U.S. and World Bank aid can be exptected.

The large concerns about terrorism among Western states, in particular the U.S., resulted in the fact that the World Bank accepted Ethiopia's status quo and even toning down critisism of the EPRDF regime (Borchgrevink, 2008). However, the World Bank's calls for democratisation and Human Rights are not convincing when it supports an autoritarian regime at the same time, without imposing condionalities. While relations between the U.S and international institutions, and Ethiopia were strenghtened, the relationship with Eritrea worsened after the border-war. After indepence, Eritrea was seen as an example of 'African renaissance' (Wright, 2000). Each time a dispute arose with a neighbouring state, Eritrea used its military force. When diplomats questioned this behaviour, they often got insulted in public (Connell, 2009). This led to the charactarisation of Eritrea's government as a 'band of bunkered guerillas running a liberated zone' (Connell, 2009, p. 137). Eritrea on the other hand felt betrayed in the resolvement of the border-war, and felt that the U.S. was tilting towards Ethiopia. The Eritrean government becoming more authoritative worsened relations even further (Lyons, 2009), and confirmed the view that Ethipia was the stable, hegemonic state.

4.3 Other development actors

In the previous chapters, the dependent variable development in Eritrea and Ethiopia, and the independent variable, approaches of the World Bank, have been described. As outlined in the methodoly section, it can be expected that other development actors also played a role in the development of both countries. This chapter will define the public, private and civil society actors that could have played a role in the development path.

4.3.1 Public Institutions

4.3.1.1 Traditional donors

The U.S. and the European Union (EU) are often seen as traditional donors. The key instrument of EU cooperation with African countries is development assistance. Just like other traditional donors, the European countries expect recipient countries to commit to poverty reduction and to improve their governance system (Whitfield & Fraser, 2009). Ethiopia is among the largest recipients of aid, but also Eritrea has received aid (European Commission, 2016). The EU does not provide loans or grants. Besides traditional development assistance, its economic cooperation with African countries is limited (Hackensch, 2011), making the EU a quite passive development actor. The aim of the U.S. was also mainly to provide development assistance, through its official body US AID. Contrary to the EU, US AID does provide loans and grants besides its traditional aid to Ethiopia. Yet all US AID operations were banned by Eritrea from 2005 (IRIN, 2006). Both US AID and the World Bank have reduced their support to agriculture by ninety percent in the 1990's (favouring health and education). However, after the 9/11 attacks, the U.S. have increased their engagement significantly, increasing trade and investments (Carmody & Owusu, 2007).

4.3.1.2 Non-traditional donors

Both Ethiopia and Eritrea have seen an increase in investments from non-traditional donors. Other major donors operate under the so-called Eastern approach. In contrast to the traditional donors, Asian cooperation is not based on development assistance, but often part of their foreign trade and investment projects (Hackensch, 2011). These eastern approaches are focused on tangible results and concrete projects, rather than formal correctness, and disregards the one-size-fits-all approach. These investments are also providing assistance in areas that Western agencies have long neglected: infrastructure, industry and agriculture. This approach is contrary to that of the Western donors, who are seen to recommend good governance an adaptation of policies and institutions copied from liberal institutions (Ohno & Ohno, 2013). Ethiopia, but also Eritrea are hereby seen as promising economic partners (Iwata, 2012). The largest Eastern investors in Ethiopia are China, India and Turkey. China has grown from contributing virtually zero in 2004 to being the largest contributor of FDI in Ethiopia (Carmody & Owusu, 2007). Investments in Eritrea fall behind those made in Ethiopia, but with the announcement of the new free trade zone several countries have signed up to open business there, including China, Italy, Israel, India, Djibouti, Sudan and Dubai (Cawthorne, 2009). The growing investments of non-traditional donors may give the governments more bargaining power with the traditional IFIs (Moore, 2005).

4.3.2 Private sector

The private sector is becoming a more significant development actor in developing countries (Davies, 2011). Besides the fact that they drive economic growth through investment, employment and business creation, they also tend to contribute to development funding and share experience (Davies, 2011). From 1991 onwards, the transition towards a market economy with increasing private owndership has been part of the policy of Ethiopia, and encouraged by the World Bank. However this reform process has stopped to a large degree and World Bank conditionalities of liberalization were not accepted. Hansson (2004, p. 7) mentions that several individuals have argued that this halt of progress can be attributed to a lack of government will; their policies aiming towards a market economy are said to be 'nothing but words to please the donors'. Hence, Rahmato (2002) has argued that the private sector in Ethiopia is not developed enough to play a role in economic spheres, let alone in social and political change. The large number of state-controlled enterprises slow the growth of the private sector. The non-government business sector besides the agriculture is dominated by small and medium sized companies, whereas the large industrial companies continue to be state-owned (Hansson, 2004). Furthermore, the Ethiopian government seems to favour foreign multinationals over local capital. Ethiopia has e.g. prohibited loans from the African Development Bank (ADB) to private companies (Hansson, 2004). The World Bank has argued that if Ethiopia wants to sustain its economic growth, it needs to shift from public sector led growth, to a stronger role for the private sector (Solomon, 2015).

Although Eritrea started to liberalize its economy after it gained independence, its restrictive government policies and shortages of foreign exchange has severely affected the private-sector and its role as development actor. This is one of the reasons that Eritrea is still very small, underdeveloped and even more marginalized by the growing role of the state in the economy (Nyende & Okumu, 2014). To drive up the stagnating economic development, the Eritrea has established a free trade zone in Mawassa on the Red Sea coast in 2009 (Cawthorne, 2009), which might be an indication that Eritrea is following Ethiopia's path towards favouring foreign investment over local investment.

4.3.3 Civil Society

In both Ethiopia and Eritrea, NGOs have been operating throughout the years. However, their power as development actors has only been marginal. The government of Ethiopia has been hostile towards independent institutions such as NGOs. NGOs, international NGOs in particular, were seen as unnecessary and could be replaced with local, state-controlled organizations. Independent institutions were seen as a possible threat to the regime (Rahmato, 2002). The state sets the rules for civil society organizations, which are extremely time-consuming and subject to free interpretations of authorities (Tjønneland & Tostensen, 2011), discouraging the establishment of new organizations. Every civil organization has to renew its subscription every year, which gives the government a high state of control and stifles independent and critical activities. Simultaneously, the Ethiopian government is actively establishing and promoting their own controlled organizations, such as NGOs and women's organizations (Rahmato, 2008). Finally, the power of civil society is marginalized because the government does not take into account stakeholders opinions in the preparation of new policies (Rahmato, 2002). The oppression of the civil society became even more clear when the Ethiopian government passed a new NGO law in 2009. This law only sees charities that receive no more than ten percent of their funds from foreign resources as 'Ethiopian Charities'. Non-Ethiopian charities are exempted from participation in activities relating to 1) human and democratic rights; 2) equality of genders, religions, and nationalities; 3) the rights of children and the disabled; 4) conflict resolution and reconciliation; and 5) enhancing justice and law enforcement services (Tiwana, 2008). Given the low GDP per capita in Ethiopia, exempting charities that receive more than ten percent from foreign funding, de facto completely prohibits these activities. Hence, civil society organizations in Ethiopia shifted away from human rights advocacy and governance issues toward issues in an apolitical sense, predominantly food distributions and providing development work in the agricultural sector (Tjønneland & Tostensen, 2011).

The power of the civil society may be even narrower restricted in Eritrea. While Ethiopia, was welcoming foreign donations and NGOs in certain areas, Eritrea pursued a policy of self-reliance. After the separation, several NGOs based in Eritrea forcibly had to close down, or voluntarily left because government regulations made it impossible to continue operations (Connell, 2000). In 2005, Eritrea tightened their restrictions, prohibiting both domestic and foreign NGOs, to receive funds from the United Nations and its institutions, other international organizations, or from bilateral agreements. Furthermore, organizations have to dispose one million US dollars or other currency equivalents to the Eritrean government, before they are allowed to operate (Vernon, 2009). Here the same reasoning applies as in Ethiopia; prohibiting NGOs from receiving funds, and imposing them to donate to the government, made it de facto impossible to operate in Eritrea. Immediately after the law was imposed, the number of NGOs fell from 37 to 13 and back to 11 in 2006, leaving no independent NGO's in Eritrea (IRIN, 2006).

5. Analysis

Based on the findings of the case study, there are significant reasons to assume that the effects of the World Bank approaches have been influenced by several factors. These factors can be grouped into three categories, domestic governance, international relations and the global economy.

Ethiopia and Eritrea have both a strong, authoritarian government. Nonetheless, the Eritrean government focused on the strategy of 'self-reliance', while the Ethiopian government focused on trade negotiations, aid and foreign direct investments. This made it easier for the World Bank to channel resources to Ethiopia than to Eritrea, that only marginally accepted help. Furthermore, these governments proved to be strong, not or only partly adjusting to the imposed measures. The fact that the World Bank and other development actors kept channelling resources, marginalised the impact the World Bank could make and strengthened the role of the governments. Lastly, both governance regimes resulted in an underdeveloped private sector and civil society, making the government the most influential domestic development actor, and giving them the opportunity to have a large influence on development, both in the narrow and broad sense.

Furthermore, the approaches of the World Bank were heavily influenced by international relations. One of the criticisms the World Bank receives, is that it undermines the sovereignty of the receiving state (Jacoby, 2007). Even though the World Bank might not have been able to turn Ethiopia and Eritrea into states that follow the principles of democracy and liberalization, it saw Ethiopia as a key player in achieving security in the Horn of Africa. This resulted in a large influx of resources to Ethiopia, creating the prosperous, hegemonic, stable player, while Ethiopia could still pursue its own policies. The development path of Ethiopia and the approaches of the World Bank thus mutually influenced each other. Eritrea's development is characterized by worsening relationships with Western countries and the World Bank. The feeling that Eritrea was not an important ally in the war on terror added to the perception that Eritrea would not 'need' as much resources as Ethiopia, marginalising the approaches taken by the World Bank and thus the effects.

Changes in the global economy are also reflected in the effects of support by the World Bank. The rise of China and other countries in the global economy has given more bargaining power to

African states, such as Ethiopia and Eritrea, and reduces the power of the World Bank (Moore, 2005). The effects of suspension of World Bank loans are not as severe anymore, since others actors can take over that role (what happened e.g. in Chad in 2005 and most likely if traditional donors stopped their resources after the 2005 election turmoil) (Carmody & Owusu, 2007). The structural power the 'West' had over African governments in the past seems to be decreasing, what Arrighi (2005) called 'hegemony unravelling'. Balancing the influence of development actors, with for example China, has become an attractive strategy in many African countries (Krahman, 2005). Empirical results from Hernandez (Hernandez, 2016) have indicated that the loans of the World Bank entail significantly fewer conditions when a country is also assisted by China. During the time span analysed, China has become a major investor in Ethiopia and is also showing larger interest in Eritrea. Hence, it can be argued that the power of the World Bank is decreasing in Ethiopia, and is expected to follow the same path in Eritrea.

6. Conclusion

This thesis aimed to answer the question: *How did the approaches taken by the World Bank play a role in the different development paths of Ethiopia and Eritrea?* As revealed in this present study, the approaches and impact of the World Bank on development have been significantly influenced by other variables: domestic governance, international relations and the global economy. These factors led to the fact that the impact of the World Bank has been marginalized in both countries.

The argument the World Bank uses for post-conflict monetary assistance, that it helps to prevent a country from falling back into conflict, does not seem to hold in the case study of Ethiopia and Eritrea. Even though monetary assistance was given to both Ethiopia and Eritrea after the Eritrean war of independence and economic recovery was depicted, both countries relapsed into conflict in 1998. After the border-war, assistance was mainly focused on Ethiopia. Only Ethiopia has shown economic recovery since the border war, while Eritrea faced an economic downturn. Yet, the situation between the two countries has been relatively stable without a relapse into war.

The shift of the World Bank towards development in the broader sense, as mentioned in the theoretical background, is also not depicted in this case study. In both countries the impact has mainly been restricted to development in the narrow sense. Inequalities are still large and human rights are infringed, limiting development in the broader sense. The other, intervening variables, as just discussed, affected the countries stance towards conditionality. Consequently, both countries did not accept conditionality on the loans, which reduced the impact the World Bank could have made, especially in the broadest sense of development.

Further research is therefore encouraged to look beyond the traditional mechanism of donor actors and recipient governments. Nowadays, non-traditional stakeholders are becoming increasingly important actors for driving development (Geldof, et al., 2011). One of the forms that is gaining more attention is the partnership between public and private actors, called public-private partnerships (PPPs). PPPs aim to foster a desired public policy outcome or public goods. PPPs are seen as being able to solve complex challenges that international organisations have failed to address (Warner & Sullivan, 2004). PPPs and other forms of non-traditional actors might be able to foster development in the broadest sense in Ethiopia and Eritrea. Whether and how this can positively influence Ethiopia and Eritrea however, needs more research.

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