Legitimizing the GERD* bond

Funding development from within

Bachelor thesis
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* Grand Ethiopian Renaissance Dam
Abstract

A Government is an entity of a society exercising authority over its subjects, preferably with their compliance. It is however not always agreed by the citizens that the government is acting in their interest, this making the relation in-between them lacking in legitimacy. This presents problems not only for the stability of a country, but for the expansion of financial markets, limiting the sources of finding finance to invest in development and infrastructure as it limits financing from within. In this paper I look at Ethiopia where the government is perceived to have a generally low legitimacy, in 2010 they launched the GERD* bond to finance a hydropower station on the Blue Nile. Ethiopia has a small economy thus the government asked its citizens to purchase savings bonds into the project, as international financing was not an option due to geopolitics. As the GERD is a €3.3 billion project many Ethiopians have inverted one full month salary. The question addressed in this paper it that of the willingness in entering in to this scheme, this due to legitimacy concerns within the country. More precisely the research question is formulated: is there a justifiable concern of legitimacy when rapidly intensifying a bond market in a developing country in which freedom is limited? To address this field interviews was conducted in Addis Ababa and analysed via Weber’s three types of pure authority this to indicate the correlation of legitimacy dominations in-between the government and the investors. It is found that the GERD has common legitimacy dominations by both actors and as such the expansion of the bond market through the GERD has the preconditions to increase the trust level in the Ethiopian government. This is needed to increase legitimacy in the government, stabilize the country and expand the financial markets further.

* Grand Ethiopian Renaissance Dam

Key words: Legitimacy, Bond Market, Ethiopia, Financing, Grand Ethiopian Renaissance Dam
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EDB - Ethiopian Development Bank
EEPC - Ethiopian Electrical Power Cooperation
GERD - Grand Ethiopian Renaissance Dam
GII - Governance Indicators Index
IMF - International Monetary Fund
VMP - Victory Merchandise Plan
WB - World Bank
1. Introduction

Development is a key challenge facing the global community today. One and a half century of rapid economic growth has brought with it many benefits, however it has also introduced the world with new problems and a mounting inequality of the living standards enjoyed (Gill, 1973, p.3). In its core, development pertains to the unveiling of existing potential. Applying this to countries, it may be said that there is an expectation of governments by most parties to unleash the potential of its people for the common good; that is to say to develop the state. The expectation is universal, but the path a government should take to accomplish development is not a question of simplicity, rather one of heated debate. A vital component that is common in most solutions for the realization of development is that of investment. Via investment the government can encourage development, whether this is outwards or inwards orientated, within micro or macro projects or pertaining to a private or public sector. Nevertheless to invest there is a need to acquire finance. Within a country of low development the obtaining of finance is of particular concern due to the size of the economy in relation to the capital needed for investment. One source of finance still largely unexplored by many developing states\(^1\) is that of extracting finance from within, this via expanding components of the financial market; being topic of this paper.

1.1. Context and Research Problem

Several ways of finding finance in developing countries are thoroughly researched as to the potential, social changes and consequences occurring from their presence; and recommendations of change are continually made (Najam, 2002; Cassimon, 2001; Raffer & Singer, 1996; Odedokun, 2004). However the expansion of the financial markets within a developing country as a source of finance for development is paid less attention. This is not to say that literature does not address the topic, rather the relation in-between financial markets and development is highly contested. Authors such as Moyo (2009) and De Soto (2000) are avid advocators of utilizing financial markets in a larger extent than currently applied to gain finance. This to strengthen the government as to the choosing of development path, but also to enable an entrance into a market that in 2010 in world total was calculated, only in stocks, to be worth circa €159 trillion (Roxburgh, Lund, & Piotrowski, 2011). Jacoby & Skoufias (1997) raise concerns relating to partial financial markets and their negative impact on school attendance, due to seasonal fluctuation of income resulting in fluctuation in attendance; they press for a holistic implementation of financial markets. King & Levine (1993) goes so far in there avocation of using financial market as a tool for development as to state the existence of evidence supporting Schumpeter’s 1911 assumptions of the strong correlation in-

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\(^{1}\) Developing states are, for the purpose of this paper, defined as low income countries as classified by the World Bank and there World Bank Atlas method i.e. the nations which economy in $1,025 or less measured in Gross National Income per capita. A list of countries included is available in Appendix 1.
between financial markets liberalization and development. Ahmed (2012) contradictory concludes a negative effect on the income growth related to the financial liberalization within Sub-Saharan Africa, in extension hindering development. Reviewing a decade of research on the relation in-between economic growth and financial sector development Wachtel (2003), states that there are evidence of correlation, but guidance of how to best develop the financial sector to benefit development is lacking. This presents an issue to nations today attempting to develop the financial sector as the guidance available is flawed. The authors presented above show a tendency, not only of disagreement but in focusing on the economic concerns of financial markets; how they are to be structured and the effect they have on the economics of the country; this in turn affecting the citizens. They tend not to focus on the citizen’s perception of the process of expanding the financial market; this is of special concern when the expansion of the financial markets is initiated by a government holding little trust form the citizens. I will in this paper take the standpoint that the expansion of financial markets in developing countries is desirable and may provide several vital purposes such as distributing finance and encouraging saving. I do not state that every aspect of expanding the financial markets will lead to development or that total liberalization is desirable, rather than an expansion decided upon from within the country can be a vital component in financing development, and is as such desirable.

Financial markets are complex instruments relying heavily on trust and the free flow of information (Sanders & Cornett, 2012 p.12). This is so as it consists of the exchange of temporary surplus into temporary loans, that is to say lending and indebteding with a presumed settlement (Sanders & Cornett, 2012, pp. 12-14). One component of the financial market is that of government bonds. This is where the population’s savings are loaned to the government, to then be repaid with interest. During the period of the loan the government utilizes the funds available for larger-scale enterprises to then repay with the surplus from said investments. This component was in the 70s mentioned as a potential tool to increase legitimacy in to a developing country (Tun & Hugs, 1973, p.253-255). The argument was that having proven the trustworthiness and proficiency of the government within one form of lending, a developing country expands to other forms of lending slowly expanding there financial market. The need to prove their trustworthiness comes form the difficulty for a developing country to find investors, exempting the World Bank (WB). Naturally there are other investors but not as many as is desired by many governments. The lack of other actors is of concern due to it creating dependence, and as the WB is aiming to be extracted as they are a tool, not a solution. The problems in finding investors have many reasons, only two of which will be examined here. One is that of history indicating that the stock of capital in a previous period result in a increasing level of investment in the present time; therefore history of smaller economies works against them in seeking investment (Yotopoulos & Nuget, 1976, p.183). The other is the perceived risk of investing, Gunning (2009) argues that little of this has to do with reality rather with the perception, this
being is the component that needs addressing and not the risk in its self. Despite considerations circling around the concept of expanding financial markets via bonds in developing countries, the review remains to this day limited.

In 2011 the government of Ethiopia decided to rapidly expand their government bond market with the introduction of the Ethiopian Government Saving Bond. This was done to finance a Hydropower station, the Grand Ethiopian Renaissance Dam (GERD), placed in the Benishangul-Gumuzon region on the Blue Nile and valued at circa €3,3 billion (EGOV). The ambition, brought forth by geopolitics, is to finance the GERD predominately by bonds purchased by the citizens of Ethiopia. Consequently circumstances presented a possible expansion of the financial market and a possibility for the government to improve their trustworthiness. The distinguishing mark of the gathering of bonds for the GERD is the one month salary contribution. This is where the individual gets a deducted salary for the duration of a year; the deduction adds up to a month salary invested as a bond. The rapid expansion of a bond market in a developing country where freedom is limited\(^2\) raises the research problem that this paper seeks to explore the concern of legitimacy of said situation. Legitimacy in the classical sense, within political sociology, is identified as popular acceptance of a political system (Haerpfer, et al, 2009, p. 387) that is the obedience of citizens without coercion but by conviction (Karns & Mingst, 2004, p.31). This conviction cannot be measured but will be identified by looking at perceptions of the events occurring. The research question indicates that without this acceptance of the authority the strength and sustainability of the bonds becomes questioned, also that the government may exercise force. There is a need to examine the application further to identify whether a theoretical concern becomes a reality.

The context presented above results in the following research problem: Is there a reasonable argument for concern relating to legitimacy when rapidly intensifying a bond market in a developing country in which freedom is limited? But it also indicates a secondary research problem: can bonds be utilized as a path to establish trust in the government’s capacity and thus creating circumstances to further expand the financial markets. The latter cannot be answered in this paper but the data collected can be utilized as data for the perception at the time for introduction of the GERD bonds. The data collected in this paper enables a comparison after some time has passed to fully address the secondary research problem.

**1.2. Aim of the Research and Research Questions**

The aim of the paper is to look at a specific situation of a rapidly intensifying bond market in a developing country to then reason as to the legitimacy of said project. This paper will look at the Ethiopian

\(^2\) For more information see Appendix 2
government introducing the GERD bond, to then evaluate the perception of the introduction as to the legitimacy of the authority exercised. The understandings of the investors\(^3\) will be contrasted with the understanding of the government\(^4\); this to identify possible discrepancies or relation to identify the correlation of the perception of legitimization as it relates to the principle players. This is of essence as it will enable an establishing of the coherence of reasoning thus enabling a statement as to the potential trust creation gained form the GERD bond. I am not aiming at stating an actuality or a clear answer to whether or not the legitimacy domination of the two parties correlates. Rather I seek to state the variation or similarities, indicating the strength of correlation and making a suggestion of the legitimacy achieved at the point of introduction of the GERD bond. There is also an aim in seeing the perception of trust in the government’s capacity in regards to the GERD bond. This is to enable, after the five year delaine for the project, a similar study to investigate whether or not bonds worked as a tool to establish trust in the government as an institution. This aim enables a research answering the secondary research problem. The endeavour of the study is further to introduce new data in to the debate regarding financial markets in developing countries by looking at a specific current situation and observing the implications. The specific project that of the GERD is further new in its introduction and as such little data has been collected in relation to it. There is a research gap in the general topic, the specific problem as well as in the particular situation of Ethiopia; this gap is of relevance to fill as similar scenario may be presumed to become more common.

The paper looks to the creation of legitimacy, thus the motivation and understanding of the actors is especially important to study. Based on this the central questions to be asked are the following:

- What is the perception of the government regarding the legitimisation of the GERD bonds?
- What is the perception of the investors regarding the legitimisation of the GERD bonds?
- How do the perceptions of the government and the perceptions of the investors correlate?
- What is the attitude of trust towards the government in relation to the GERD bonds at the point of introduction?

All data gathered is subjective as the purpose is to gain an understanding of the perceived legitimacy and trust creation.

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\(^3\) The Investors is a category that for the purpose of this paper is referring to the Ethiopian citizens that has bought the bonds.

\(^4\) The Government is a category that for the purpose of this paper is referring to the officials of the Ethiopian government echoing the understanding of the government.
1.3. Relevance

There is a reason to question and study the expansion of financial markets in developing states due to inexperience of governments and the lower freedom ratings generally experienced in these countries (see Appendix 2). This not to state that all developing countries are non-free, but the presence of non-free countries is higher within developing countries. In addition, the Government Index Indicators (GII)(see appendix 1) show that this category of countries have a propensity to score lower. This indicates a lower legitimacy in the governments within the category developing countries. This combination that of low freedom and low legitimacy is as stated not general but over represented in the developing countries. And it is within this over representation that the research is relevant as it is here the concerns are introduced. The specific situation to be studied is situated inside Ethiopia, and becomes relevant to the research problem as the county is defined as a developing country with low income, classified as not free and scoring consistently low on the GII, an average of -0.96.

The application of bonds to raise extra finance is not a unique occurrence. Probably the most famous bonds are to be found in the Victory Merchandise Plan (VMP). This was, as the GERD bond, not an introduction of bonds but a supplementary bonds market that was added. The VMP was introduced in the USA during the Second World War. The Bonds where marketed as nationalistic bonds they were to benefit the private person after the war, whiles the money during the war was used to finance the war effort made by the USA (Wheeler, 1948). The concept of the VMPs war bond is similar to that of the GERD bond in Ethiopia. The reasons for not raising concern with the application of the VMP lies mainly in the history of financial stability within the USA and that the legitimacy concern of the government is considered being conscribed as less questioned; exemplified in the government of USA scoring 1.49 on the GII. Bonds as an occurrence relate directly to the relation in-between the citizens and the government as the government in essence extract micro lone form the citizens to finance macro policy, due to this the governments actions are more questioned if the relation in-between the two parties is seen as fragile. This discrepancy of concerns in-between the cases are based on perception of government and warrant an examination of the second party; that of Ethiopia. This to examine the justifiability of the legitimacy concern relating to the GERD bond.

The reasoning above has followed the line of reasoning that legitimacy is a vital source of establishing a trusted rule, that is to say establishing an accepted authority. The question of trusted rule has occupied many authors and different ways of measuring the “value” of a leadership has been devised. The most commonly looked-for source of legitimacy is that of democratic legitimacy, in other words that the legitimacy claimed by authority stems from public election. This definition has led some authors in
dividing the ruling systems in two camps; the democratic and the non-democratic (or authoritarian) states, neglecting the dynamic and differences within the ruling (Universität Bielefeld). By dividing nations into two categories some authors take the standpoint that all non-democracies lack legitimacy due to repression (Acemoglu & Robinson, 2006). However if one goes back in history and look at Tomas Hobbes arguments in his famous book Leviathan (1651), he states that a society without defined authority will collapse into war and that for humans to prosper they gave up freedom for protection. By giving protection the authority gains legitimacy, this reasoning opens up for another source of legitimacy departing from democracy. The reasoning is utilised by other authors arguing for the legitimacy of a regime steaming from the economic performance, especially so in developing nations (Haerpfer, et al, 2009, p. 133). Legal validity and moral justifiability is also sources on which one can argue legitimacy (Beetham, 1991). Going back to Hobbes, and other classical theory such as Jean-Jacques Rousseau and John Rawls one can find an importance of legitimacy in that it relates to free individuals accepting authority and self-sacrifice based on a perceived valid reasoning from said authority. The paper will presume a possibility of legitimacy outside of liberal freedom, as defined by freedom house (Appendix 2) and democracy. Looking at the situation in Ethiopia the reasoning’s of Max Weber’s ideal types of legitimate authorities will be applied. This to contrast the governments perceived legitimacy with the legitimacy perceived by the investors; identifying the strength of legitimacy in a specific expansion of financial markets.

1.4. Limitations and ethical considerations

The research process came into progress during the spring of 2012 in relation to the Ethiopian government’s one year acknowledgment of launching the GERD bond. A limitation that quickly became apparent was that of information deficiency. This was countermanded by a prolonged stay in Ethiopia during the summer presenting an opportunity to collect information inductively. This process was unsynchronized with the research period assigned by the university; nonetheless it presented the opportunity to conduct interviews that were of essence to find data for the research. Based on the data available categories of persons of interest to interview were identified prior to travel and sought out on sight. The data found was then organized and abductaly contained by a theoretical framework developed by Max Weber.

The time spectrum of collecting the data was short and this restricted the gathering of subjects participating in the focus groups and other interviews. To find the subjects snowballing was applied also referral and chance meetings; due to time this was done only within the constraint of the capital. Another limitation was that of the language barrier. Despite me having some knowledge of the local language it is
not sufficient for conducting an advanced conversation thus the interviews are conducted in English this limiting the possibilities of subject further. My connection to Ethiopia as a holder of a Diaspora visa is of need to note as it infers certain prejudices and pre-understanding. However it also simplifies the process by establishing an instant connection despite the language barrier and not appearing as an outside threat. There are no ethical considerations to consider within the topic, and all participants were given full information of the purpose of the paper. However the information was gathered in a country where there is a historical distrust towards the government and other authority. Consequently the possibility of anonymity was presented to all participants acting as private a person that is to say within the category of investors. The data recovered from the sources choosing to utilize anonymity is presented under a pseudonym this is noted next to there name in the references.

The limitation of time and language resulted in the interviews being conducted with employed professionals or business owners, excluding farmers and the rural areas. The interviewed often however steamed from poorer or rural circumstances thus they relayed there understanding of the perceptions healed in different areas and different income levels.

1.5. Structure

The paper starts with expanding on the theory and method applied; that of Max Weber’s grounds of legitimacy that will be utilized as a framework to understand the data. It will also go into the process of data collection and elaborate on the considerations that were applied. Following this is the background chapter that will be divided in to two parts: one expanding on the historic power structure of Ethiopia and one on the geopolitics of the Nile. This to enable an understanding to the references made in the findings, also to place the study in its actual surroundings.

The findings will follow the background consisting of a recapitulation of the data gathered. As the data consists of interviews this section will not be utilized as a platform for analyzing, rather it is a presentation of the argumentation found. The statements maid is divided in to a categorization of topics. In the findings one chapter will be devoted to the reasoning’s of the government and one to the reasoning’s of the investors addressing the first and second research questions. Within the investor’s chapter a subheading will be utilized to present the reasoning’s regarding the attitude of trust towards the government. This is done to answer the forth research question and thus enabling a secondary study expanding on bonds being utilized as a path to establish trust in the government.

Within the analysis a comparison of the views will be contrasted and placed in to a table. The table will then be analyzed as to the indications possible to identify to address the research problem. Within this part
the third research question will be addressed based on the answers on the first and second research question. The conclusion that follows shortly recaptures the analysis and evaluates the implication of the indications as it relates to the topic into which this paper is placed.

2. Theory and Method
The research problem brings with it the need to survey and measure something as complex as legitimacy. One way doing this is, as previously referred to looking at the GII, this index consists of six indicators all regarding aspects of governance, placing a number to each indicator, on a scale from -2.5 to 2.5. The number is determined by surveys of multiple enterprise, citizen and experts. The GII looks as indicators that are commonly used to examine trust and as such indicates legitimacy. The indicators are: voice and accountability, control of corruption, government effectiveness, political stability & absence of violence, rule of law and regulatory quality. When comparing the mean value of the indicators by categorizing state after income level (see Figure 1) it becomes clear that the developing states, identified as low income countries, scores consistently lowest in all indicators. This as stated indicates that the research question has validation in this categorisation. The GII score of Ethiopia indicates that the legitimacy of the Ethiopian government is low; nevertheless the GII is not the equivalent of legitimacy but merely an indicator.

To be able to attain the aim of the paper there is a need to apply a theory that will assist in identifying the sources of legitimacy invoked by the two categories identified. An appropriate theory became Max Webber’s three “ideal types” of legitimate dominations or pure types of authority. This domination’s

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5 For full information see Appendix 1
6 For full information see Appendix 1
represents legitimate sources on which a government can draw upon to gain the willingness of compliance of its population (Weber, 1978, p. 215). The dominations are:

1. Rational Grounds – this legitimate domination is relating to the perception of legality of the actions of authority i.e. the legality of the structure for which decisions are made or application of said decision is carried out.

2. Traditional Grounds – this legitimate domination relates to the perceived legitimacy steaming from and are constrained by the framework of customs, traditions and agreements

3. Charismatic Grounds – this legitimate domination relates to the perceived forcefulness of one leader’s person.

The data will be organized in to the government’s argumentation in the three categories and later into the investors’ argumentation within the three categories to than be contrasted. The end result will be put in to a table to structure the analysis. In addition an option will be added to Weber’s grounds of legitimacy in the shape of Non Legitimacy Grounds encompassing force. For the purpose of this paper Weber’s Traditional Grounds of legitimate dominations will be including history. The following table will be filled to as a Structured Focus Comparison of the government as one case and the investors as a second case identifying the grounds of legitimacy to then compare the two cases for corelation:

<table>
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<tr>
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<th>Governments perception</th>
<th>Investors perception</th>
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<tr>
<td>Rational Grounds</td>
<td>(GR)</td>
<td>(IR)</td>
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<tr>
<td>Traditional Grounds</td>
<td>(GT)</td>
<td>(IT)</td>
</tr>
<tr>
<td>Charismatic Grounds</td>
<td>(GC)</td>
<td>(IC)</td>
</tr>
<tr>
<td>Non legitimacy Grounds</td>
<td>(GN)</td>
<td>(IN)</td>
</tr>
</tbody>
</table>

Max Weber (1864–1920) is one of the founders of sociology; his main definition is that of power as authority and power as coercion. Distinguishing these by identifying power as authority by way of accepted and executed power with a mutual understanding of rightness. Power as coercion is identified as power exercised via force in to action, that is to say illegitimate domination (Weber, 1978, p. 53). By identifying and distinguishing the three “ideal types” of legitimate dominations in to the categories of government and investors, one may apply the theory identifying the grounds for stating legitimacy. Identifying power as authority or power as coercion thus enabling a conclusion stating possible trust creating and by this evaluating the bond market as a step to introduction of financial market. The application of Weber as a theory limits the definition of legitimacy, this as Weber does not include a moral judgement in to his discussion of power and its legitimacy. Power, in his reasoning becomes legitimate when the actors involved perceive and regard is as such. This understanding has been criticized by other
philosophers (Beetham, 1991, pp 6-15) but it enables legitimacy to occur in every exercised power and becomes relevant in this study as it looks to the perception, not to the moral as a source of legitimacy.

The data collection was conducted in the field, consisting of a series of interviews. The division of category’s where that of investors and governmental representatives including persons responsible for distribution. The interviews took the form of individual interviews and focus groups. The research is qualitative focusing on the narrative of the perception expressed within reasoning made to enable a understanding of perception. The motive for choosing to conduct a qualitative research is that a quantitative approach would reveal little in relation to the social consequences and dynamics, undermining the possibility of obtaining the objective. Qualitative research is utilized as it can focus on and identify the meanings people attach to their experiences, that is to say how people make sense of the world and events. It also captures social events from the perspective of persons which is the objective of the paper and because of this becomes relevant.

The information is gathered, as stated, by two types of interviews, these conducted within the capital, Addis Ababa; one-on-one interviews and focus groups. Based on limitation of time a sample group was extracted to grant an observable overview of the project. This was done by isolating prominent groups of the society and ensuring there representation in the selection. Three prominent groupings where identified to be included in the category of investors:

- Private persons working outside of the topic of concern and outside the government structure.
- Religious leaders, this due to the weight placed on religion in the country.
- Private persons working in connection to the topic, this as professors, bank employees etc.

The data pertaining to the category of Investors was collected via one-one-one interviews in addition to two focus groups. The focus groups was divided into one of a younger age group and one of an older generation, this due to cultural practises of respecting the elderly and to create a more open environment; the group each consisted of six persons. Focus groups were utilized as they present a plausibility of mobilizing a group dynamic where responses to once comments creates further explanations and deliberations. It also creates a less artificial environment than one-to-one interviews encouraging openness. The topic is not sensitive as such and there are no hinder in perusing focus groups as might be the case for other topics. The data pertaining to the category of the Government was collected via one-one-one interviews and including ministry employees, members of the expert board of the GERD and employees of the Ethiopian Development Bank (EDB). Despite the different forms of obtaining information within the categories the findings will be presented as a unit, not as separate individuals
but rather perspectives of the grouping of persons allocated for this study. To see details of the persons interviewed see the references.

All forms of interviews took place in cafes or in the office of the interviewed, within a time spectrum of 26 to 64 minutes. For reasons of language all interviews were conducted in English. Of concern was to gain similar distribution between the sexes. In the category of Investors this was achieved, so to in both focus groups. Nonetheless due to time and scarcity of women in the category labelled Government priority was given to finding appropriate sources, this was due to this not achieved. The sexes will not be analysed as separate but as a group, the perspective was none the less of importance to observe in the data collecting process.

There is a risk in interviewing only within the constraints of the capital and via snowballing, this in gaining only one story neglecting criticism and only gaining a genetic view. This was attempted to be countermanded by selecting some subjects at random without connection to the others. The interviews were all anonyms witch enabled several strong statements made in contrast to the governmental reasoning by all participants. It should be noted that the subjects are all in-between the ages of 20 and 60 and professionals. This includes the main actors that are investing but also excluding, elderly, non-employed and low income households which restricts the findings considerably. Further my role as an Ethiopian although helpful does imply certain prejudices as to the role of the government and the development potential of Ethiopia.

4. Background
The GERD is as a project not advocated by all parties. IMF has raised concern as to the amount of domestic financing being absorbed in to a single project, they have expressed a general concern considering the Ethiopian development plan (Davidson, 2012). Further opposition is held by Egypt and Sudan. To fully comprehend the objection by the downstream nations and to gain an understanding of the interviews two backgrounds are needed. One is that of the historic power structure within the nation of Ethiopia. The other is the history of the river Nile. The national history and the geopolitical history form the base on to which argumentations are made. This chapter will be dedicated to outlining these two backgrounds.

4.1. The historic power structure of Ethiopia
Ethiopia has a history of authoritarian power regimes, and to date the power shift in the nation has never been accomplished by a democratic election. Ethiopia has a long history, and is calming the origin of the
human race with the finding of the fossil Lucy dated circa 3.0 million years ago; it is also mentioned as a prominent kingdom in the Bible. Ethiopia has throughout its history remained ruled under the power of its own emperors escaping the scramble for Africa by Emperor Meneliks victory over the Italians in the Battle of Adwa, 1896; however the nation was under the rule of Italy 1936–41. During this period the last and 111th Emperor of Ethiopia, Haile Selassie, managed to plea with the international community to assist not only for independence, but later for entry in to the UN. This long history of self-determination is a source of pride and nationalism for the Ethiopians.

The culture of respect for authority has resulted in a difficulty to express open opposition towards the power in other forms than that of rebellion. This is what happened in Ethiopia in 1975 following a prolonged drought. By tradition the authority of the leader only holds firm in relation to his success in leading the nation, due to this dissatisfaction lead to a military coup, resulting in the killing of the Emperor and the pronouncing of a communist state. This was lead by the Derg regime and their leader Mengistu, the period is also known under the name of the Red Terror. Their ruling was overturned and the Ethiopian People's Revolutionary Democratic Front took control, lead by the then guerrilla fighter Meles Zenawi. Meles later won the 1995 election hailed as a democratic champion in Africa until the 2005 election which was heavily disputed in its legitimacy. During the execution of this papers data collection rumours began to circle as to the health of the Prime Minister and by the end of it he was announced to have diseased in cancer whilst under treatment in Belgium (Collins & Burnes, 2007, p. 64, 272,307,375; Clapham, 1969, pp.1-7; Plaut, 2012).

The importance of relying the history lie not only in showing a history of an authoritarian culture, but also in that many Ethiopians, so to in this study, argue from pride in relating to their history. Manny view Emperor Selassie and Emperor Menelik as leaders fighting for the rights of Africa this is an underling understanding of some of the reasoning’s made and knowledge of the history is because of this important.

4.2. The geopolitics of the Nile

The GERD is being built on the world’s longest river: the Nile. A river of tension and geopolitical struggle, rooted in fear relating to the control over a vital life line for 10 countries and almost 400 million persons. Due to history the upstream countries have had little to no power over its usage.

Under British rule over Egypt a treaty was signed by Mahmoud, M. P., and Lord Lloyds in Cairo May 7th, 1929 stating:

[no irrigation or power works or measures are to be constructed or taken on the River Nile and its branches, or on the lakes from which it flows……which would, in such a manner as to entail any]
prejudice to the interests of Egypt, either reduce the quantity of water arriving in Egypt, or modify the date of its arrival, or lower its level]

This has resulted in that any project on the Nile not sanctioned by Egypt is a project in dispute. The conflict over the validity regarding previous legal document lead to the 1999 creation of the Nile Basin Initiative consisting of all Nile nations, aimed at creating a new treaty. The debate became a 10 year long affair with no new agreement produced. This is accredited to that Egypt waned to include Green Water in the treaty calculation and the upstream nations consider the treaty as a strict Blue Water treaty. The standoff resulted in a document signed by four upstream nations in May of 2010; today encompassing eight countries. This includes a possibility for implementation of irrigation and hydropower projects in the upstream nations without Egypt’s compliance agreeing. This document was a legal opening for Ethiopia to announce, in March 2011, the construction of the GERD aiming to become the largest hydropower, station not only on the Nile, but in Africa. (Mekonnen, 2010; Aljazeera, 2011a; Aljazeera, 2011b; Tvedt, 2011). This is the backdrop onto which the project was lunched to the Ethiopian people under the slogan: We will build it! The information was gathered one and a half years following the announcement and is presented in the following chapter.

5. Findings

During the summer of 2012 the GERD had began its construction and large parts of the population had bought the bond associated with the GERD, thus experienced the process of the one month salary deduction and formed an understanding. The following chapter will present the data collected at that time and structure it in to two parts. Part one will encompass the findings of the government’s perception of legitimization as it relates to the GERD bond; this as presented by there allotted representatives. Part two encompasses the findings of the investor’s perception of legitimization as it relates to the GERD bond. The second part will also encompass a subchapter in which the attitude towards the government at the time of the study will be examined.
5.1. Perception of the government regarding the legitimisation of the GERD bonds

The plausibility of constructing the GERD was noted by an American survey in 1956 of the Blue Nile water. The government of Ethiopia revitalized the plan keeping the intention, surveys and design secret until March of 2011, this a month prior to the beginning of construction (NRi). The launching of the dam was not done under the name of the GERD but rather under the name of the Grand Millennium Dam, according to Dabesa (2012) working at the Ethiopian Electrical Power Cooperation (EEPC) the owners of the GERD. The name change was according to him done in order to become the people’s name, aimed at recalling the Grand Renaissance, starting a new century of success. Consequently the GERD is to stand as a symbol of development equal to the grandeur of the past. The GERD does not stand as a single project but rather is an inherent part of a larger plan to introduce an energy export market hub in the country. This has its origin in the Water Resources Management Policy and the recognizing of water as an economic good (see Appendix 3) (Beyene, 2012; Lemma, 2012; Dabesa, 2012). The GERD is argued to be seen as a symbol of development; it symbolises independence and ownership as it is on the Nile, witch is also known under the name the Abbaya and is the first energy project to be financed through bonds (Beyene, 2012; Reda, 2012).

When presenting the motive for financing through bonds the interviewed presented a threefold answer acting as motivation. The first is that of ownership: due to the amount needed for investment the people, it is argued, need to accept that the GERD is their project; there is a need for ownership (Beyene, 2012; Arsano, 2012). Explicitly stated the government […]knew from the beginning that ownership was needed as this is the peoples right, this cannot be achieved without the contribution of the people] (Reda, 2012). The second motive perceived is that of real politics. To build a dam on the Nile is stated to be an old plan, dating to the 1920s according to Beyene (2012), and the specifics of the GERD was planned for already in 1996. But due to the legal restrictions it could not come to pass until now (Reda, 2012; Beyene, 2012). Arsano (2012) states this clearly referring to the 1929 agreement in between Egypt and Brittan:

[Ethiopians never approved there, the Egypt’s law. Its simple if you chare a river you chare the benefits, this is our standpoint and now we are acting on this inviting them to join.]

The third motivation given is that of encouraging a savings culture (Kebek, 2012). Although it is mentioned by all parties interviewed this motivation is especially clearly stated by Teferra (2012):

[...it teaches saving at banks as reliable. Especially in rural areas where few save at the bank, now they go to the bank and gets interest so we will get a better, a comprehensive banking system as a result]
These three motivations’ for investment: ownership, real politics and savings culture are presented to the population via different formats of communication that are expanded on below. But before going in to the means of communication utilized it is important to look to the perceived source of inspiration for the bonds. According to the sources the original initiative to the GERD bond was not taken by the government but by the people when they heard the news about the project, here narrated by Reda (2012):

[The first thing done was to go out with the news that the government now was determent to build a dam at the Nile. We tell people that we have a project, that is at the heart of the growth and transformation plan which requires the assistance of the population for its success, and they responded to that, that is how it started.]

A cleat point is made in that the initiative of bonds came as a result of the people responding naturally to the GERD project. Following this the government, under the initiative of Meles, utilized the existing mobilization and public mood to start a voluntary participation in a bond market to raise funds (Arsano, 2012) (Kebek, 2012). In praxis this took the form of converting gifts voluntary given in to bonds, then encouraging the remaining population to invest. Here the process is described by Teferra (2012) managing the distribution of the GERD bonds:

[It started with voluntary contributions, so they then got a respite, but the government thought that it would be good to start the sails of bonds so we started giving out interest bond and you can come with your recite and change it to an interest bond.]

The enthusiasm around the GERD is seen as an opportunity to find a new way to collect financial resource acted upon by the government (Lemma, 2012).

The government communicates the motives for investing through normal and specialised channels, this in order to spread the information nation wide. Normal channels are consisting of the media including both the public and private. The specialised channels are introduced only as a part of the GERD and include the creation of committees aiming at the harmonisation of the mobilization of resources, evaluating the work done and suggesting improvements (Arsano, 2012). Much of the information circulated is not concerning the motives for financing through bonds but around the fact that the GERD is built on the Nile and that is being done by a strong independent Ethiopia. This message is especially clear on the posters placed within the capital (see Appendix 4) including pictures of Meles, the GERD and the flags of all 9 Kililoch7. The motivation for investment is credited to that the Nile is involved [....Abbaya is the big father the provider, that is what we feel, the name even come from the word father, you know?.... so for us this is symbolic] (Arsano, 2012).Ethiopian sayings such as ‘How ironic to see the son of the Blue Nile dying of starvation’ is quoted together with children’s song with lyrics about the Abbaya. This public’s relation to the Nile is attributed with creation of a common experience of wrong doing that is now being corrected via the

7 The name of the 9 administrative regions of Ethiopia (singular – kilil) or the Regional States.
GERD. The accomplishment of this is argued to be the legacy of this generation, made possible by the steadfastness of this government (Workie, 2012; Arsano, 2012; Reda, 2012). The common tread of reasoning is the undoubting complains and willingness of the people in investing when having been given the information, several interviewees relate that the population has gone above and beyond expectations.

The GERD is presented as a symbol of nationalism and as a symbol of a strong independent Ethiopia:

["Ethiopians have never backed down we are nationalistic! It is our right. This is just a symbol of our fight for development, The EU and World Bank and the US are too scared to understand. It is or right!, and now out government is exercising that] (Arsano, 2012).

This nationalism expressed is seen as the second motivator driving the bond market. The statement is made that the introduction of the bonds where a good consequence of a nationalistic mood. This due to its possibility of creating revenue and contributing to further income to then be invested further thus developing Ethiopia in to hear potential (Lemma, 2012). This statement is underlined by Reda (2012):

[Patriotism is the highest motive. Even higher than money, this is why we contribute. And this is why we can build a bond market.] To demonstrate the motivation of the people as nationalistic and voluntary the example of schools is brought forth: a diverse group of students in different schools have chosen to contribute through there school with small amount, the school then by bonds in there name. This leading to that the students does not see the any personal economic gain but invest in there nation (Teferra, 2012).

The example of the schools are bought forth as is the example of voluntary gifts prior to the introduction of the bonds as demonstrations of the government acting in accordance to the will of the people. The last section in this part consists of a segment relaying how the government has structured the bonds to enable the execution.

To implement the sail of bonds the Ethiopian government commissioned the EDB as official executers since March 12, 2011. As the EDB only have 30 branches they have in turn used other agents such as the Commercial Bank of Ethiopia and micro finance institutions and given them a commission of 0,5 per cent for their services. The agents are needed to reach the entirety of the nation this is of importance as the GERD is a national project aimed at mobilizing the entirety of Ethiopia not merely the kililloch capitals (Kebele, 2012; Teferra, 2012; Workie, 2012). The bonds were originally sold in the dominations of 500, 1000, 3000, 5000, 10,000, 50,000 and 100,000 birr. The domination of 50 birr was added to enable a smaller amount to be invested by persons with less income seeking to contribute and to enable bonds to be promotional to one month salary (Teferra, 2012). The interest rate on the bond is higher than on a normal savings account at 5,5 per cent per annum for a one to five years period investment and 6 per cent if more than five years. However this is not views as a great motivator for initial investment rather as a promoter

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8 The Ethiopian currency
for investing higher sums (Workie, 2012; Teferra, 2012; Reda, 2012). The EDB is throughout the summer concluding a review of the first year and the interviewed acknowledges the newness of the occurrence of bonds and has implemented changes in its routine since the beginning in March 2011, but withholds that the problems have been minor (Kebek, 2012; Teferra, 2012).

The government argues strongly that the rootedness in there actions are inspired by the wants of the people. Of importance is to state that there is no law forcing compliance. Rather the government perceives the legitimisation of the GERD bond to steam from a want to invest in motherland and a belief in the project and its benefit.

5.2. Perception of the investors regarding the legitimisation of the GERD bonds

To be contrasted with the government’s perceptions is that of the investors; inferring the citizens of Ethiopia having bought the GERD bond. That is the persons upon whose will the government has in the previous chapter claimed to be acting upon. When summarising the reasoning made in this category their was a common element in the experience of how they were introduced to the concept of the GERD bond. This was in all accounts done through the media via government ads or the news, and the message was then further impressed by similar sources. In addition to the media government offices where utilized as a tool for information spreading […] every government agency where advertising and at every government office there where someone who actually promoted the GERD.] (Shower, 2012). This experience was also relied by Geteye (2012), Selam (2012), Sara (2012) and Yohannes (2012) all of witch had been encourage to invest in relation to visiting a varied account of government facilities. The attempt to create a national mobilization of the people through the media and government facilities was stated to be successfully accomplished, enabling the government to reach a large majority of the people (Shower, 2012; Iteffa, 2012). This was the case despite a non-enthusiastic launch in the minds of many interviewed. The project was perceived as unrealistic and a notion of big-headed politicians, this resulted in that little attention was paid to it. The disbelief in its realization is accredited mainly to the geopolitics of the GERDs locations on the Nile. Nevertheless the governments is said to have insistent on its success and many state that they stated believing in the realisation of the GERD (Iteffa, 2012; Shower, 2012). In other aspects the narrative was diverse and it will be presented via a category of thoughts and perceptions circling topics.

In talking about the level of voluntary willingness for investing two lines of reasoning took shape. The first is the one stating a voluntary purchasing of the GERD bond and a entering in to the one month salary scheme after personal deliberation. Some state that they saw the potential and invested (Amra, 2012; Aisha, 2012; Meconnen, 2012; Sara, 2012). Others argue a belief of the government having the people’s
best interests at heart, and thus they chose to invest. (Terekain, 2012; Almaw, 2012; Kaleb, 2012; Gabra, 2012). Shower (2012) states in accordant with this line of reasoning that […]It was a personal choice to give a month salary. The managers told me this has to be done and asked me what do you think? So I decided why not development?]. Her statement refers to another underlying reasoning for wanting to invest: that of developing Ethiopia. This is underlined by Kaleb (2012) stating [This, this is out awakening. Our development!]. The reasoning’s made in this direction showed a tendency found in excluding the government as the initiator and encompassing them as tool for achieving the development of Ethiopia. […]Lets build Ethiopia for Ethiopians by Ethiopians!] (Zerubbabel, 2012), this statement was echoed in many reasoning claiming the GERD to be by, of and for the people and not of the government […]I want to see the completion, that is my want and that is the victory not in the geopolitical struggle but the peoples, not the governments] (Getachew, 2012). There is a suspicion towards the government and a predisposition to distance the GERD from the government [The government is calming the right for something that was surveyed under Haily Selassy] (Gabra, 2012). This reasoning proclaiming the ownership of the people as it relates to the GERD [The government is using Abbay dam for policy but it is the nation that will be the Hero] (Gabra, 2012). The group claiming no force and coercion in purchasing the GERD bonds expressed as alluded to a willingness to pay for the development of Ethiopia: here expressed by Ogaffa (2012):

[We have paid for so many bad things like war so why not pay for development this is good for Ethiopia not bad likes many others. With the GERD there is hope for a better live for all, we need it so we invest]

Further this is underlined by Orga (2012) despite him complaining of the high sacrifice required [For me I am very happy, something for development I have only the problem that the cost is to high but other than that I am Happy]. Yohannes (2012) goes even further doubting the completion of the GERD but still proclaiming his will to purchase the bond […]I don’t know if it will be completed or not. But we are ready to contribute because we want to see a difference in my country]. A general motive for wanting to invest is that of a belief in that the GERD will change the life of the persons […]I want to pay because of the potential It can change Ethiopia so our life will change….. if the country changes my life will be changed] (Shower, 2012). Of the persons stating a voluntary decision to investment only one stated that he voluntary gave a gift prior to the introduction of the bonds or that the deduction of salary was implemented. This was a Taxation officer Ogaffa (2012) calming [I gave a gift when I here, I here of the dam…. and it was transformed to a bond].

The second line of reasoning about the level of voluntary willingness is that of an experienced force. Despite the smaller number of persons relating this perception several persons did mention this emotion in
their narrative. The most striking perception of force was that of Wosene (2012), a lone credit evaluator stating:

[The government forced me I did not want to bye in the GERD but I wanted to keep my job sooo however I bought other bonds voluntarily, the system is so new that it is not guaranteed I will get my money back. Honestly I feel insecure my only security is that the government needs this to work!]

With the exceptions of Wosene, Selam (2012) also made statements as to feeling forced in to the purchasing of the GERD bond stating:

[You know all government employees pay one month salary not by choice this is just what they say they believe it’s all good because it’s what they hear. But the government is very good with propaganda, you know I don’t want to, but I pay because is not individual desertion it is collective.]

This last part of his argument pertaining to the critique of the collective decision is well resonated in several narratives; this including in those who earlier claimed to be entering willingly in to the investment. They claim to have entered willingly but reserving the right to criticise a collective desertion process. All interviewed state that there is no law forcing the investment, but that there is a strong encouragement. This encouragement was stated to be further experienced by distrust for the government

[….there is no law or no person telling us we can’t but we have a culture of suspicion of governments in this nation we have always said say what you like and next day thrown you in to prison. So we do not trust the government.] (Eyob, 2012)

The criticism of a collective desertion within every office and in businesses are brought forth by Yohannes (2012), Amra, (2012), Aisha (2012) and Meconnen (2012) all of which state a want to invest but an annoyance at the collective processes. Their complaint is especially clear in the narrative of the process made by Shower (2012);

[Labour unions gathered at other places, the desertion was not on individual bases it was for a group. In these case they gathered for a meeting and there they decided to make a contribution and they were discussing the amount but not the… whether or not they are contributing it was not about that it was only about the money the amount so they just discussed the amount of money. You didn’t have a choice but they told us that this was our opportunity to put our fingerprint on history…..]

The narratives of the group decision on the amount to be invested were often accompanied by suspicions that the government had sent persons there to suggest higher figures to the investment. This also holds true in relation to narratives of meetings hosted by business unions where decisions on the percentage of profit to be paid to the GERD bond as decided: this depending on income colour ⁹(Geteye, 2012; Orga, 2012; (Eyob, 2012; Aamina, 2012). This reasoning accuses the government of driving up the numbers to be

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⁹ The business federations organises its members into colour depending on turnover.
invested but there was also an accusation of the government implementing the collective decision to offices where there was a unwillingness to invest:

[….I worked at a government office where they started, you know they almost bullied you to enter in to one month salary commitment…. First TV announced it then our bosses then if we say no the government representatives then we have to decide one per cent for all why not just let us decide by out self as individual basis rather than this nagging?] (Eyob, 2012)

The perception of the willingness involved in the process goes, as illustrated above, apart however the reasoning for wanting the GERD to be built is more generally accepted, one motive for this presented is that of the Nile, the Abbaya.

The right of Ethiopia to build on the Abbaya is strongly proclaimed [It is the right day to implement the project! why shall we not utilize the Abbaya?] (Geteye, 2012). Even critics of the bond system agree with the concept of building the GERD:

[….the idée is good especially at it contains the historical Abbaya. I do not know how the government managed it but when Mubarak fell they announced the project (laughs)] (Eyob, 2012).

To build the Abbaya is not only argued to be the right of the people but the element motivating persons to investing, this being utilized by the government. This argument is here narrated by Shower (2012):

[Maybe it’s for the Ethiopians easy because it goes back to Abbaya. Since we were in schools and where children, little girls we were told about Abbay and how it erodes soil and how it is so important and how we should love Abbay…. but Abbay isn’t allowed to be used by the origin. It doesn’t benefit the heart… just we always was told. Now when it comes to but implemented it will not be difficult because it has already been incorporated in your mined from zero. I think this is why it has been a success for them. I think that is the reasons.]

The motivation is not only accredited to the Abbaya but, as stated, as it is perceived as a project to benefit Ethiopia. This is argued to be an understanding simplifying the process for persons generally opposed to the government’s development plans:

[The government however seems to be building more roads than schools so there is some criticisms at their plan for the country, that is they are focusing more on the companies preconidition than the people. But the GERD is going to benefit all so the controversy is minimal.] (Amra, 2012)

The location of the GERD is of great importance in all interviewees perceptions and is a unifying factor for investing. The role of the government and the actions of Meles are more controversial.

Perceptions of the government will be further elaborated in chapter 5.2.1. But for this section the distrust in the actions of the government but also a belief in the need for a strong state, here narrated by Terekain (2012):
[The Government has big flaws, but it develops the country we are now third in the world in economic growth. Meles is like a radical social Democrat; Ethiopia needs a strong state to develop like Sweden did, as do all states. And with strong state comes some sacrifices]

Of more relevance for this section is that of viewing the perception of Meles role, Dabair (2012) expresses a common observation when stating […]Have you seen the posters? is sais the hero of the Abbay Dam showing Meles, not the people… this I do not understand]. Further elaborating this perception is Afework (2012) reasoning on the reality of the power posses by Meles in relation to the government:

[The president is not responsible the party is you see he is now out of town, there are rumours that he is sick but it is not affecting the project, It is a closed party ones you speak the ideology you believe the ideology they stick together it is not a one man but a crowd. If the Kenyan prime minister is gone you see a power struggle not hear you see Meles is gone but it is business as usual.]

The accrediting of the GERD is not given to Meles as the president. He is noted to have stood up to the Egyptians and the Sudanese but the recognizing rather falls to the entirety of his cabinet when it is applied.

Having presented the perception of the motives and willingness to invest the final part will be dedicated the reflections made in relation to bonds as a concept to be expanded in Ethiopia. In general this is a positive understanding of the concept [The government has given a new package whether you like it or not you get the idea, it is done by us] (Afework, 2012). This understanding of possession of the investment is echoed by Shower (2012):

[It will not be good it is another way to find money….You know it’s a kind of belonging you contribute your one thing you feel like you give something to the coming generation and you feel that you are part of it ]

Further the unwillingness of Ethiopians to pay tax is put in contrast with the bond system:

[….we have a tradition of government misusing our funds for their benefit so we avoid Tax ………. Maybe this is a better way if it works to start trusting the government so we might even start to want to pay them (laughs).] (Almaw, 2012)

By buying bonds there is an experienced ownership this is accredited with the possibility improving the relation in between the government and its population […..Ethiopians have not a tradition of seeing results of our taxes, so maybe now we can hold them accountable and learn to trust we can say why does it not get build] (Bekele, 2012).

The perceptions of the investors are not as constant in a conviction as that of the government. Nor is it committed to the conviction of legitimisation of the GERD bond including some non-legitimate grounds for investing. Nonetheless there is a strong belief in the GERD and most proclaim a willingness of participation on the grounds of nationalism, and development. This will be further elaborated in the analysis
5.2.1 Perception of trust towards the government

Before analyzing the findings of the previous two chapters’s this sub-chapter will present the finding relating to the perceived trust of the government at the time of the study; one and a half year after the presentation of the GERD. This is to enable a study to be done in 2017-2018, when the GERD is planed to stand completed, and the bonds are to be repaid. There is both an option to extract the fund earlier and later than this date but a majority of the interviewed operate under the assumption that the funds will be extracted following the compilation of the GERD. That study could then begin to unravel the secondary research problem: can bonds be utilized as a path to establish trust in the government’s capacity and creating circumstances to further expand the financial market. To enable this, the perception of trust at the time of introduction relating to the government and the GERD is of essence. This segment aims to answer the forth research question: What is the attitude of trust towards the government in relation to the GERD bonds at the point of introduction?

[If they will say it is for the government we will not invest, we do not trust them so they cannot say this!] this proclamation by Sara (2012) relate to the distrust in the government that is generally agreed upon. This perception of the government is however understood to have changed over time by Terekani (2012) and Almaw (2012) and Offga (2012) the latter making the claim that the GERD stands as a symbol for a shift of focus of the government stating:

[This people like the government stood up for the development of our nation so we want to support them. Before they didn’t 10, years ago it was bad, it was all political. Everyone in politics wanted power so they turned tribe against tribe, kebele10 against kebele. It was really very bad. But now they saw it’s not working there is a need for development so there focus changed and they started to look at all of the people. And now we see that the Poor can benefit and so we believe that now the government is working for us and not against us on this project]

Despite these arguments there is a deep mistrust express by most interviewees. The questioning of the timing is one line of reasoning in relation to the government frequently mentioned:

[We seem to have a tradition of government’s abusing the money of the people thus the question is why now? There is a joke going around that this government have been in power so long that now there pockets are full so they can start chairing! (Laughs) so you see we do not want a new government because then we don’t get any benefits for another 20 years! We hope our investment will come back to us but we have little evidence to support that fact but even so we all need electricity so it’s good!!] (Amra, 2012)

This questioning of the timing is even more pronounced in the reasoning of Shower (2012) when she wonders if the real motive is not rather related to creating a legacy for Meles as oppose to creating development and awakening for Ethiopia:

[why? why now? It is my actual question my private view why now? Why? Because there has been twenty years and it’s just now he brought this up and after that there was a lot of starvation in]

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10 The smallest entity of the local governments in Ethiopia
the country and still starvation and poor people and I’m just thinking why now? I don’t know…. I’m sorry but I don’t think the government was thinking that this is for the people I don’t think my assumption is that: for instance when you think of the Previous governments like when you think of Thedro brought something when any Ethiopian talks about Thedro you have something to say. You see he was trying to improve Ethiopia. When you think of Menelik he was the man for the modernization of Ethiopia. When you think Haile Selasse you think of something the United Nation ahh the African Union when you think of Meles he did nothing significant to the country but this will put his name on the map]

Another reasoning razed in questioning the timing of the presentation of the GERD is its proximity to the election it is seen to have been presented as a cover for a questionable election [….Look at the 2010 election, the ballast where questioned… so the government said lets now move on en focus on the Dam. the nr.1 dam in Africa. We always hope for change, but there is none.] (Aamina, 2012).

Two other lines of reasoning have emerged during the interviews, shedding light on the trust towards the government in relation to the GERD bonds. The first is the reasoning’s pertaining to the culture of obedience [Ethiopians we are schooled to obey and not ask questions we have decades of practice in this] (Iteffa, 2012). This history is also refereed to by Amara (2012) stating [Ethiopia has a history of obedience to corrupt government let us see if out obedience this time will be for the good] (Amara, 2012). This is only two examples of the interviewed referring towards a history of obedience to the ruling power without conviction. The second line of reasoning, to the GERD, is that of the low trust in the government’s execution capacity […..so we expect to benefit hopefully we will, you know we never know with this government] (Meconnen, 2012). This distrust is also expressed when reasoning as to the reaction expected if the GERD is not completed [If the dam is not completed in five years another five will be added, people expect the government not to finish so the reaction will not be very high] (Aisha, 2012). The phrasing of this drought by Orga (2012): [I am in doubt that it will be completed, you know this government,] is significant. This as the propensity to end a negative statement with the ‘phrase you know this government’ was common. This, and the reasoning’s presented in this segment, indicate that the perceived trust for the government in relation to the GERD is in general low.

6. Analysis

Having identified the perception of the government regarding the legitimisation of the GERD bonds and the perception of the investors regarding the legitimisation of the same bond, this segment will attempt to identify the correlation of the reasoning’s. This is done to see if there is a justifiable concern of legitimacy when rapidly intensifying a bond market in a developing country in which freedom is limited, thus addressing the main research problem.

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<tr>
<th>Figure 3: Analysis</th>
<th>Governments perception</th>
<th>Investors perception</th>
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<td>Rational Grounds</td>
<td>GR</td>
<td>IR</td>
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Utilizing the data presented in the findings chapter the reasoning’s of the government and investors has been placed in to a table (see Figure 3). This is done using Webber’s three “ideal types” of legitimate sources of authority or domination presented in the Theory and Methods chapter. The data is introduced as found when looking to the perceptions of the two actors concerned and than examined. The cells in the table are named with one initial indicating actor and one indicating the legitimacy ground; the content will be analysed below and the cell then referred to by its shortening.

The perception of the legality of the actions undertaken by the authority is the first legitimacy domination to be viewed:

**GR:** The government perceive the legal legitimacy for its action to be drawn from two sources. The first is that of the geopolitical legality of the project. This is argued from the point of view of the natural rights of the source country rather than to the legal documentations pertaining to the GERD. Great weight is placed on the non-legality of the

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<tr>
<th>Traditional Grounds</th>
<th>Charismatic Grounds</th>
<th>Non Legitimate Ground</th>
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<tr>
<td><strong>GT</strong> The Abbaya.</td>
<td><strong>GC</strong> Conducted under the initiative of Meles. Meles is the leader standing up for the nation’s rights steadfastness of this government creating a righting of history.</td>
<td><strong>GN</strong> Fear of repercussions. Experienced peer pressure. Collective desertions.</td>
</tr>
<tr>
<td>Nationalism - The name bringing back historical success as a proud nation.</td>
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<tr>
<td>IT The Abbaya. Nationalism - Developing Ethiopia.</td>
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Defending the legal right of Ethiopia as to the right of utilizing the Nile.

The government responded to an existing want of contribution, and based of this created a bond market.

There is a legal right to implement the project as a government.
superiority of the Sudan and Egypt, referring to Ethiopia as acting within there right as the source nation of the Blue Nile. The second is that of acting in accordance to the will of the people. This is done by transforming an already existing want for contributing in to a system where the population may profit. The source of wanting to contribute and the contributing in it self is voluntary and thus seen as including legal legitimacy. This is argued to be so due to that the right to act in accordance with the will of the people is seen as a base on which to claim legal legitimacy.

**IR:** The investors in the main were positive to the introduction of the bonds and viewed it as occurring within the legal constraints of the government to implement. This as it was not by law forced upon persons (see argumentation in **IN**). However due to the low trust for the government the Rational Grounds was not perceived as genuinely motivated by many.

On this, the first legitimacy ground, the viewpoint is partly departing. This is so not due to a difference in the questioning the legality as such, rather due to the suspicion of the motive driving the government.

The second domination of legitimacy to be examined is that of tradition:

**GT:** The claim of legitimization relating to tradition is from the government’s standpoint dual: the first is that of the Abbaya. Building on the Abbaya, it is stated, encourages the population’s acceptance of the power implemented by the government thus legitimating the bonds. The perception of this is argued based of on customs, sayings and a history of frustration. The second claim is that of nationalism, the name of the GERD is here highlighted as a vital symbol of nationalism. It is aimed at recalling the emperorship of the past and due to this encouraging nationalism as a base for legitimacy.

**IT:** The investor’s pensive similar legitimacy grounds for the GERD as the government, recounting the traditional grounds, with exception only in the reasoning. The placement of the GERD on the Nile is, as within the reasoning of the government, placed in high esteem as to the acceptance of the government’s action. This is done with the same motivation of culture and historic experience of maltreatment in the access to the water of the Nile. As to the nationalist claims it is strong but motivated not by history but by the developing of Ethiopia, not to its former glory but rather as to the access of common necessities.

The second domination is calming the strongest authority in regards to the perceived legitimating of the GERD. This is argued due to the weight placed on these issues in the interviews by both categories and also due to the strong correlation in between the argument of GT and IT. The arguments indicate that the government’s and the investors perceive the legitimacy of the government’s actions to stem form the same
source creating association. This association may be a building block of trust as both the government and the investor’s perceive the resemblance in the other categories argumentation. This resulting in that the Traditional Grounds in this instance acts as a strong motivator

The third legitimacy ground claimed for seeking legitimacy is the referring to the charisma of the leadership:

**GC:** Meles as the leader is argued in the government’s perspective to be the strong leader inspiring a nation into action; he is perceived to inspire nationalism. It is under his name and face the project is being introduced. Meles is viewed as the visionary and facilitator of the GERD, and also of the GERD bond.

**IC:** The investors view, in the main, the attempts to give credit to Meles as an attempt to steel the honour and ownership from the people. And as such the leadership is not a legitimization for the GERD bond.

This contradiction of legitimacy perception is of importance as it indicates a strong disconnecting of perception. This is of concern due to the possibility of it adding mistrust in the perception of government.

In regards to the non-legitimate grounds for the introduction of the GERD bonds the government perceived none but the Investors perceived three indicators as presented below:

**IN:** The investor’s perceived the following non legitimate dominations in relation to the GERD bond. The first being fear of repercussions, one person mentioned this experience and others referred to it by elaborating on a historic mistrust, but excluding the GERD from this. The arguments rather focused of the second indicator that of experienced peer pressure both from workplaces and from the government feeling in this way forced in to action. These two indicators were to certain extent marginalized in favour of the concern relating to the collective desertions making processes as to the amount to be invested.

The non-legitimate grounds perceived for investment is of vitality for the government to correct if the GERD bond is to be viewed as a legitimate path into a financial market, and is a stumbling block for establishing trust.

The project is not viewed as a path to expand the bond market in the wide-ranging understanding. This is however presented as motive by the government. The reasoning of the government concerning this does not say that it was a planed endeavour in strengthening the banking and saving system rather that the bonds were introduced as a must. The opportunity arose from this necessity to gain benefits in regards to financial markets and to establish trust. The trust to be established by showing the capacity of the government to work on behalf of the people’s interest and to utilize funds efficiently. The GERD is also viewed as a possibility to establishing trust in the banking system. Despite not relating the GERD bond to
a bond market as such, the notion of ownership introduced by the bonds is viewed as positive by the investors. The problem based on this disconnection of understanding comes in asking the citizens to purchase bonds that are not linked to a specific project, but rather as a standard government bond. The success of this project may be seen as a pilot upon whom the success or failure will determine the willingness of the citizens to continue in investing in the government. But the success is however not a guarantee for a want to continue placing savings in government bonds.

The GERD appears to have been an ample opportunity to expand a bond market and granting the government an opportunity of gaining trust. The GERD does not in the main call for trust in the government, rather in an investment into the country’s development and in correcting history. Based on this the GERD becomes appealing even for critics that view the government in a negative light. This is seen in IT. The perception of legitimacy is at some Grounds presented contradictory, but in the general the legitimacy dominations perceived by the government have correlation to the legitimacy dominations perceived by the people, this mainly due to the excluding of the government in the introduction of bonds and focusing on a highly sought project. The investors appears not to put much confidence in the government, the trust is not there, but rather hope and nationalism is the motivator. If the government successfully finalizes there promise in completing the GERD and fully repay all of the investors with interest, it will be a step towards establishing trust in the functions of the government. This will be especially so if the project continues as strong after the resent demise of Meles. Nonetheless the distrust towards the government both shown in the reasoning of the investors (see chapter 5.2.) and in World Bank statistics (see figure 1) is deep and will need more reassurance before the establishment of a full finance market. But the GERD is, if completed, indicated in this paper to have the potential of expanding trust.

Little can be concluded as to the positives and negatives of bond markets as a tool for expanding the financial markets within a developing country where trust and acceptance of power is limited. This is so without a secondary study concluded at the end of the GERD construction to then asses the trust in. in relation to the problem asked to this paper I will stipulate that the method in which the Ethiopian Government has introduced the bond possesses legitimacy dominations argued both by the investors and by the government. The objection to legitimacy as the source of investment is that of historic mistrust of unknown consequences and group desertions made. Especially in the critique of group desertion there is a concern that needs addressing. If the government seeks to contradict the historic mistrust there is a need to change this structure. This may be accomplished by not letting workplaces decide upon a common price for purchasing the bond, but leaving this decision to the individual.

By removing themselves as the primary recipient of funds, the Ethiopian government has managed to create a will to invest but not yet a confidence sufficient to establish trust, as is shown in chapter 5.1.2.. If
the GERD bond has the power to change the trust level, can only be concluded after some time has passed. As to this paper it in this concern can only relate to presenting the perception of trust in the beginning of the introduction. The answer to the fourth research question can thus only be that the distrust in the government is not chaired by all but mentioned by a great majority and as such can indicate that there is work to be done before having the precondition for a full financial market. It also indicates that the GERD success can be a tool to increase the trust; this is so as many express a want to see the success of the dam, and also a hope in this project. The bonds connect the success of the government concretely with the benefits of the citizens and as such the GERD may become a symbol on which to start building trust or becoming conformation of the untrustworthiness of the government. But so far, in relation to the third research question, one can state that there is a correlation of perception of legitimacy pertaining to the GERD generally experienced.

7. Conclusion

There is a fine line to walk in between exercising Power as Authority and Power as Coercion, identified by Max Weber. Based on the evidence found the GERD Bond has been introduced on legitimacy dominations mainly perceived as Power exercised as Authority although the processes has included elements of Power perceived as Coercion. Based on the expectation of the opposite result underlying the research problem this is an unexpected finding and can indicate the plausibility of conditions occurring to expand in to other elements of financial market. However the GERD bond is just the start of long-term processes of changing the perception of the government in regards to trustworthiness.

The indication made is that the usage of a specific project that is deeply rooted in the will of the people is of importance as a symbol for the actions of the government with low trust to legitimizing the process of expanding the bond market. The traditions of the people were the strongest legitimisation of the GERD. This encompassed, as was the case in the VMP, nationalistic sentiments. The Ethiopian Government may face problems as to the transferral of the willingness to invest in a nationalistic bond into a willingness to invest in a Government Savings Bonds. However by utilizing the traditions and history of a specific plan in a non-trusted government did make a majority of the investors to invest on a preserved legitimate ground.

The GERD effect on the trust level of the government can only be examined based on a longer timeline. But the implication of the findings is that the GERD bonds have presented an opportunity to raise the trust level. As stated in the introduction the trust and acceptance of power (legitimacy) is vital in the expanding of financial markets. The need for finding finance is present in many developing countries; financial markets may be a tool in finding said finance to invest within the countries boarders and thus unleashing
the potential. Nevertheless it is not a quick answer but rather a slow process. This is point out in the paper but it is also found that the method utilizing one specific project as a pilot for selling bonds as a tool for creating trustworthiness is valid. Further that the placement of the GERD in a developing country with low GII and categorised as not free did not hinder authority from, in the main, being perceived as justly exercised. However the GERD bond has not created enough confidence in the government to expand the establishment of a financial market, rather it can so far be seen as a step in said direction.

This study stipulates that financial markets are a source of finance that is underdeveloped in developing countries. Further that via expanding element of financial markets the investment potential in these countries will increase; this enabling further investment. The GERD is an example of this process in Ethiopia, the outcome in relation to the expansion of the financial market cannot be assets, but findings indicate a possible legitimisation of the process despite the low legitimacy generally experienced by the government.
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Appendix 1: Government Indicators Index

The statistics is calculated from the Worldwide Governance Indicators Index as presented by the World Bank. The data selection is taken from the year of 2011 to indicate a relation.

The Worldwide Governance indicators index refers to six dimensions of Governance and is presented by the World Bank in the following manner:

1. Voice and Accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

2. Control of Corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

3. Government Effectiveness captures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

4. Political Stability and Absence of Violence/Terrorism captures perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

5. Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

6. Regulatory Quality captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

The data is consistent of combined indicators combine the views of a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. The individual data sources underlying the aggregate indicators are drawn from diverse variety of survey institutes, think tanks, non-governmental organizations, and international organizations.

The categorization of nations

**Low income countries**

Lower Middle income countries

Upper Middle Income Countries
Algeria, American Samoa, Angola, Antigua and Barbuda, Argentina, Azerbaijan, Belarus, Bosnia and Herzegovina, Botswana, Brazil, Bulgaria, Chile, China, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, Gabon, Grenada, Iran, Islamic Rep., Jamaica, Jordan, Kazakhstan, Latvia, Lebanon, Libya, Lithuania, Macedonia, FYR, Malaysia, Maldives, Mauritius, Mexico, Montenegro, Namibia, Palau, Panama, Peru, Romania, Russian Federation, Serbia, Seychelles, South Africa, St. Lucia, St. Vincent and the Grenadines, Suriname, Thailand, Tunisia, Turkey, Turkmenistan, Tuvalu, Uruguay, Venezuela

High Income Countries (including OECD countries)
Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Rep., Luxembourg, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States, Andorra, Aruba, Bahamas, Bahrain, Barbados, Bermuda, Brunei Darussalam, Cayman Islands, Croatia, Cyprus, Equatorial Guinea, Greenland, Guam, Hong Kong SAR, China, Kuwait, Liechtenstein, Macao SAR, China, Malta, Monaco, New Caledonia, Oman, Puerto Rico, Qatar, San Marino, Saudi Arabia, Singapore, St. Kitts and Nevis, Trinidad and Tobago, United Arab Emirates, Virgin Islands (U.S.)

The data body is almost complete with only few exceptions of indicators missing:
San Marino lacks indicator 6
New Caledonia lacks indicator 5 and 6
Portugal lacks indicator 2 and 3
Netherlands lacks indicator 2 and 3
Luxembourg lacks indicator 2 and 3

The richness of the data indicates a strong evidence of correlation in-between income category and indicator score.

When classifying the data via the four income levels presented by the World Bank Atlas method the following table can be identified:
Voice and accountability
Control of corruption
Government effectiveness
Political Stability and absence of violence
Rule of law
Regulatory Quality
Appendix 2: Freedom house: Ethiopia

The Freedom house index provides one indicator of the freedom in a country. Evaluating its assessment of freedom on the civil and political rights on a scale from 1 (most free) to 7 (least free) it categorizes countries into not free, partly free and free based on the evidence found. Ethiopia is categorized as not free.

Dividing the categorization of freedom via income level there is a trend emerging in that the low income countries have a higher percentage of not free countries than other income categorisations (as identified by the world bank.)

For the following comparison the following distinction was made in accordance with the 2012 freedom house index:

Countries classified as not free


Countries classified as partly free

Albania, Bangladesh, Bhutan, Bolivia, Bosnia and Herzegovina, Burkina Faso, Burundi, Central African Republic, Colombia, Comoros, Ecuador, Fiji, Georgia, Guatemala, Guinea, Guinea-Bissau, Haiti, Honduras, Kenya, Kosovo, Kuwait, Kyrgyz Republic, Lebanon, Lesotho, Liberia, Macedonia FYR, Madagascar, Malawi, Malaysia, Maldives, Mexico, Moldova, Morocco, Mozambique, Nepal, Nicaragua, Niger, Nigeria, Pakistan, Papua New Guinea, Paraguay, Philippines, Senegal, Seychelles, Sierra Leone, Singapore, Solomon Islands, Sri Lanka, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Turkey, Uganda, Ukraine, Venezuela RB, and Zambia.

Countries classified as free

Antigua and Barbuda, Argentina, Armenia, Australia, Austria, Bahamas, The Barbados, Belgium, Belize, Benin, Botswana, Brazil, Bulgaria, Canada, Cape Verde, Chile, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, El Salvador, Estonia, Finland, France, Germany, Ghana, Greece, Grenada, Guyana, Hungary, Iceland, India, Indonesia, Ireland, Israel, Italy, Jamaica, Japan, Kiribati, Korea, Rep., Latvia, Liechtenstein, Lithuania, Luxembourg, Mali, Marshall Islands, Mauritius, Monaco, Mongolia, Montenegro, Namibia, Netherlands, New Zealand, Norway, Palau, Panama, Peru, Poland, Portugal, Romania, Samoa, San Marino, Sao Tome and Principe, Serbia, Slovak Republic, Slovenia, South Africa, Spain, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines,
Suriname, Sweden, Switzerland, Trinidad and Tobago, Tuvalu, United Kingdom, United States, Uruguay and Vanuatu

**Countries not classified 2012**

American Samoa, Andorra, Aruba, Bermuda, Brunei Darussalam, Cayman Islands, Greenland, Guam, Hong Kong SAR (China), Macao SAR (China), Malta, Mauritania, , Myanmar, New Caledonia, Puerto Rico and the Virgin Islands (U.S.)
Appendix 3: The Water Resources Management Policy of Ethiopia
defining information requirements of users,
- identifying sources of information

2. Recognize the link between properly managed water resources and the availability of viable information systems and to develop a practical, coherent, well designed and smoothly functioning Ethiopian Water Resources Information Systems (EWRIS), by establishing the Ethiopian Water Resources Information Center (EWRIC).

2.2.5 Economics of Water: Water Cost and Pricing

A. Funding for Water Resources

1. Recognize water as an economic good, for its substantive and significant contribution to the country's economy as well as to the annual Gross Domestic Product, through rational development of water resources.

2. Coordinate and promote that all funding in the water sector is based on the country's water resources objectives, policy and strategy.

3. Ensure that the accountability for appropriation and proper utilization of funding and other resources obtained from NGOs for water resources management shall be coordinated, and supervised by communities as well as Federal and Regional agencies as appropriate.

4. Adopt as a principle, that all funding agencies including ESAs, the Government and private sectors, shall include in their funding provisions for water conservation and protection, operation and maintenance, rehabilitation and replacement costs, training and human resources development, adequate information and documentation as well as other means that enhance and ensure sustainability of systems.

5. Promote credit services, by the government, for water resources development undertakings.
Appendix 4: Posters pertaining to the GERD placed in the capital

Translation of text printed on poster located at Haile Gebre Silasse St, Addis Abeba, Ethiopia (by Dawit Olika):

We will build it !!

Using the national harmony (mutual understanding) and revival of development, which is created around the building of the great dam of reformation, we will assure that the youth of our cities are holistic beneficiaries.

The great youth awakening program prepared by Addis Ababa EPRDF’s youth league, Ginbot 20 2004 at Addis Ababa Stadium, from 07:30 AM.

“This fortuned generation will participate in the building of the great dam of reformation”. 
The reformation of our country will be a reality through the full engagement of its people!
Appendix 5: GERD bond information pamphlet issued by the EDB