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PD-AAB-942-A1

A.T.D.
Reference Center
Room 1656 NS

14p

NON-CAPITAL PROJECT PAPER (PROP)

Country: ETHIOPIA

Project Number: 663-55-150-162

Submission Date: April 23, 1971

Project Title: ADA AGRICULTURAL DEVELOPMENT PROJECT

U.S. Obligation Span: FY 1971 through FY 1975 - 1977 CP

Gross Life-of-Project Financial Requirements:

U.S. Dollars (000).....	3,411,000
Grant.....	1,711,000
Loan.....	1,700,000
U.S.-Owned Local Currency	
Cooperating Country Cash Contribution	2,117,000
(Ev. rate: 182.48125 = \$1.00)	
Other Donor	
TOTALS	<u>5,528,000</u>

Best Available Document

A. SUMMARY DESCRIPTION

1. Necessity and Justification for the Project

One of the objectives of the Third Five Year Development Plan of the Imperial Ethiopian Government is to increase productivity on small peasant farms through the application of technology and innovations to bring the subsistence agriculture sector into the monetary economy. Most of the small farms are found in the highland areas. The Ada District was selected for a project site because it was identified in the Third Five Year Plan and by the Stanford Research Institute in its study of agricultural development in Ethiopia. Other reasons for selection include: (1) it is representative of Ethiopia's highlands; (2) it is close to markets; (3) transportation facilities are good; (4) considerable knowledge of the area and its people is available; and (5) agronomic information is available and crop responses are known with some degree of certainty.

The Ada Agricultural Development Project is justified on the grounds that through the project the knowledge and experience necessary to develop the essential institutions to change the subsistence agriculture sector from subsistence to market orientation and to substantially increase agricultural production in Ethiopia's highlands will have been developed to the point of ready transference to other highland areas.

2. Project Goals

Project objectives are to (1) increase net farm income; (2) assist in improving the rights of tenants; (3) develop the necessary institutions to change the economy of the area from subsistence to market orientation; and (4) develop the knowledge and experience necessary for replication in other areas that will substantially increase agricultural production in Ethiopia's highlands.

3. General Approach

These goals will be met through the development of a multi-purpose institution to provide credit, supplies, marketing and technical services to small farmers. The services will be provided through a project headquarters at Debre Zeit and ten multi-purpose farm centers in the project area. Other components of the project will be the construction and improvement of penetration roads into the area, the development of water supplies, and the development of an equitable land tenure system.

TABLE 1

NON-CAPITAL PROJECT FUNDING (OBLIGATIONS IN \$1000)

COUNTRY: ETHIOPIA

PROJECT TITLE: AIA AGRICULTURAL DEVELOPMENT

PROJECT NUMBER: 663-55-130-162

FISCAL YEARS	AP	L/G	TOTAL	CONT.	PERSONAL SERVICES			PARTICIPANTS		COMMODITIES		OTHER COS'S	
					AID	PASA	CONT	DIRECT	CONT	DIRECT	CONT	DIRECT	CONT
BY FY 1971	TC DL	G L	425 1,700	425			425 ^{a/}						1,700
BY FY 1972	TC	G	67					32		25			10
BY +1 FY 1973	TC	G	355	305			305 ^{b/}	35		10			5
BY +2 FY 1974	TC	G	332	288			288	39		-			5
BY +3 FY 1975	TC	G	332	302			302	30		-			-
BY +4 FY 1976	TC	G	160	160			160	-		-			-
BY +5 FY 1977	TC	G	40	40			40 ^{c/}	-		-			-
TOTALS	TC DL	G L	1,711 1,700	1,520			1,520	136		35			20 1,700

^{a/} Includes one-man year of funding
(\$50,000) for short-term consultants.

^{b/} Includes one-man year of
funding for short-term con-
sultants, plus 10% inflation.

^{c/} For short-term consultants.

3

TABLE II

OTHER FINANCING FOR ADA AGRICULTURAL DEVELOPMENT PROJECT

(Obligations in U.S. \$000)

FISCAL YEAR	AID-CONTROLLED LOCAL CURRENCY	OTHER CASH CONTRIBUTION COOPERATING COUNTRY ^{a/}	OTHER DONOR CONTRIBUTION
Oper. Yr. FY 1971	-	-	-
Budget FY 1972	-	405 ^{b/}	-
Proposed FY 1973	-	328	-
Projected FY 1974	-	378	-
Projected FY 1975	-	452	-
Projected FY 1976	-	554	-
Projected FY 1977	-	<u>c/</u>	-
TOTAL FY 72-76		2,117	

^{a/} A portion of these costs may be financed with AID agricultural sector loan proceeds.

^{b/} U.S. \$252,000 has already been budgeted for FY 1972.

^{c/} See Annex C of the Project Application, dated October 1970 for IEG costs beyond the fifth year.

B. SETTING

Ethiopian agriculture encompasses more than four million households. Although some of these are nomadic or semi-nomadic pastoralists, the bulk are sedentary farmers confined largely to the highlands from which about 90 percent of the total production of grains, pulses and oilseeds is realized. The size structure of the highlands farms is very unfavorable for efficient production. About 90 percent have less than five hectares in cultivated area and about two-thirds have less than 1.5 hectares of cultivated land. Fixed assets, except for the value of land, are very low per farm. Capital investment largely of only a few very simple implements, oxen and tools, and working capital for purchasing modern inputs is definitely lacking. The low productivity of labor on most farms using very primitive implements or doing many time-consuming operations by hand without implements (e.g., weeding), coupled with seasonal time limitations, explains why many operations needed for higher yields are not done properly or at all. This goes a long way toward explaining the relatively low yields per hectare and the very small cultivated area per peasant family.

The existing agrarian relationships need considerable improvement for accelerated development of agriculture. In the northern highlands the traditional system of communal ownership (with its attendant redistribution of land from time to time) has given rise to dwarf holdings. In most of the central, western and southern highlands the widespread share-cropping system of tenancy stifles incentives for tenants to make investments, particularly monetary inputs, in production-increasing innovations and technology. Regulations and legislation have yet to be enacted to protect tenants from unjust eviction or to provide them security of tenure. However, tenancy legislation has been approved by the Council of Ministers and is presently being considered by Parliament.

The success of economic development in Ethiopia will depend on sustained growth in agriculture, more particularly in the peasant sector which accounts for the bulk of production for domestic use. The development of the highlands subsistence sector of the agricultural economy is essential to the economic, social and cultural efforts of all the people of Ethiopia.

In emphasizing the need to modernize peasant subsistence agriculture, the Third Five Year Plan indicates that strategically selected areas should be identified so that maximum results may be obtained from the input investment. The Plan also emphasizes that the "package program" should be utilized so that all inputs, both material and human, may be concentrated to achieve modernization of traditional subsistence agriculture. The Ada Agricultural Development Project meets these two major requisites and affords an opportunity to demonstrate how to significantly accelerate agricultural production on small peasant farms.

The modernization of small farms is in direct keeping with country objectives of increasing food production at least sufficiently to keep pace with population growth and to accelerate the rate of growth of the agricultural sector. The Ada Agricultural Development Project will increase unit yields of staple crops and at the same time increase per capita income in the project area.

C. STRATEGY

The objective of the project is to demonstrate an approach to increase the productivity and net income of small farmers, while developing the Ethiopian capability for replication of this approach in other highland areas of Ethiopia.

The project objective will be achieved through the application of a "package" which will include all the necessary inputs; viz. credit, fertilizer, improved seeds, a modest amount of mechanization consisting of equipment of various types and sizes, extension services, and marketing. A necessary condition for attaining the project objective is the building of institutions and improvement in the system of land tenure. More security must be provided for tenants and they must be protected from unreasonable share rents demanded by landowners.

The strategy will be as follows:

1. The use of, and as a condition for participation in the project, written leases between landowners and tenants which specify rent. This will be carried out cooperatively between the project and the Ministry of Land Reform and Administration.
2. The development of farmers' associations which are controlled by farmers and which will eventually evolve into sound multi-purpose cooperatives.
3. The establishment of a sound supervised credit institution that will provide credit to small farmers.
4. The creation of a strong market organization.
5. Establish close relationships with the MLRA on land tenure problems and with the Ministry of National Community Development and Social Affairs in establishing farmers' associations and cooperatives.

The strategy will also include the provision of credit for the purchase of necessary inputs and for the rental of machinery services from the project. Furthermore, close supervision of the use of all inputs and assistance in the application of improved farming practices, technology and innovations will be provided through technical assistance from U.S. and Ethiopian technicians.

1. Alternative Approaches

Alternative approaches to achieve project objectives were considered by the Interministerial Committee but were rejected. Some of the alternatives considered (discussed below) could have attained the same objectives at the same monetary cost but possibly higher social costs in the way of increased unemployment and accelerated tenancy displacement. The approach adopted by the Committee makes the machinery, credit and technical services available through the project only to tenants and small owner operators. This approach more fully guarantees the retainment of tenants on the land because it is only through the tenants that landowners can realize the benefits (through increased production) from the project. It should also encourage landowners to enter into written lease agreements with their tenants.

- a. Large type farm equipment for all farm operations could have been made available to all farmers regardless of farm size. However, this could have encouraged large landowners and large farmers to evict tenants and to diminish the use of hired labor. Furthermore, large type equipment, because of its relatively high cost, would preclude the possibility of purchase by individual small farmers.
2. Row crop planting equipment, inter-row tillage equipment, and harvesting (cutting) equipment were dropped because weeding and cutting are the most labor intensive farm operations and the use of such equipment would probably displace labor.

2. Cooperating Country Leadership

Evidence of leadership in the Ada Project has been demonstrated by the active interest taken by responsible members of the IEG Interministerial Committee. The survey made of the tenancy situation in the Ada District by the Ministry of Land Reform and Administration, the intense interest of the Ministry of Community Development and Social Affairs in the establishment of cooperatives in the area, and the leadership exhibited by the Ministry of Agriculture in planning and developing the project proposal are all indications of good project leadership. Also the Ada Woreda Governor has taken a very active interest in the project. He has directed lesser officials to cooperate in investigations being made in the area.

3. Cross Relationships

The Ada Agricultural Development Project is the only project in the Empire which deals exclusively with highlands small farm agriculture. The CADU project financed by the Swedish Government which lies south of Ada deals with large farms (which are primarily wheat farms) as well as small holdings. There is a good deal of complementarity between the Ada and CADU projects. The CADU project has a seed reproduction capability to supply at least a part of the improved seed requirement for the Ada project. The two areas are sufficiently similar climatically that crop research results can be exchanged.

There is also a cross relationship between the project and Haile Sellassie I University's Debre Zeit Experiment Station. The Station will be a source of improved seed for the project. Further, agronomic research developed by the Experiment Station is readily adaptable to the Ada Project Area. Close cooperation between the Station and the Project is anticipated.

The Extension Service in the Ada District will be folded into the project. It is anticipated that the Extension Service personnel in the area will work closely with farm credit supervisors in the application of improved practices on participant farms. The project will also cooperate with cooperative personnel and village-level workers of the Ministry of Community Development and Social Affairs.

The OMA (British Aid) team studying on-farm storage will be working in the Ada District. The project will cooperate closely with this team in developing an on-farm storage project.

D. PLANNED TARGETS, RESULTS AND OUTPUTS

The project land area will cover approximately 47,100 hectares. The first year a total of 256 farms encompassing 1,178 hectares will be brought in, expanding gradually as more centers are brought in and as the capability of each center is increased to handle more farms. The target for increased production is an increase of 100 percent on 80 percent of the farms in the Ada District at the end of 10 years. This increase in production should increase net per family income by 130 percent at present prices.

Improvement in the marketing structure through the use of central storage and orderly marketing should provide for greater price stabilization. Central storage facilities will be installed during the first year of project operation of a capacity such that 93 percent, 96 percent and 100 percent of capacity will be utilized during the first three years of the project respectively. Additional central storage will have to be provided in the 4th, 7th and 9th years of the project.

Security of tenure (allowing a sufficient length of time for tenants to recoup their investment in technical inputs) will be more assured through written landlord-tenant lease agreements. Since these lease agreements will be a prerequisite to participation in the project a target of 100 percent of the farmers having such agreement has been set.

Farmers' associations under the direct control of participating farmers will be established in each of the centers. These associations will lead to viable sound multi-purpose cooperatives as more farmers are brought into each association. A total of 10 cooperatives handling credit, input supplies, and marketing has been targeted over the 10 year period.

The targets established for the project are predicated upon the number of farmers participating in the project. The following table shows targets by years.

Year	No. of Farmers Participating	No. of Farmers Associations	No. of Coops	Loans Made to Farmers (E \$1000)
1	256	2	0	152.9
2	512	4	0	305.8
3	1280	7	0	637.1
4	2304	10	0	1036.5
5	3328	8	2	1457.0
6	4352	6	4	1929.5
7	5760	3	7	2573.9
8	7168	0	10	3313.0
9	8704	0	10	4214.0
10	10240	0	10	5286.9

As a result of 10 years of project operation net farm revenue will have increased by E \$3,776,000, increasing net income per farm by 130 percent. Ten farm cooperatives with a capability of handling input supplies, product marketing and credit; and an improved marketing system will have been established. In addition the land tenure pattern will have been improved and net income per family increased, resulting in improved economic and social status of small farmers.

E. COURSE OF ACTION

1. Summary of Project Requirements

The project will make available to 10,240 small farmers a package of inputs including (1) technicians; (2) commodities (fertilizer, seed and equipment); (3) provision of production credit; (4) establishment of facilities

(farm centers, storage); (5) participant training; (6) extension services; (7) organizational structure - Debre Zeit headquarters and local centers; (8) institutional arrangements - land reform, credit, cooperatives; (9) road and water supply construction/improvement; and (10) employment of written leases.

Centers will be phased in as follows: year 1, two centers; year 2, two centers; year 3, three centers; and year 4, three centers, making a total of ten centers by the end of the fourth year.

Credit supervision will be provided by credit supervisors stationed in each center. These supervisors, trained by a U.S. credit supervisor specialist assisted by his counterpart in the Debre Zeit headquarters, will be extension-type personnel. They will supervise all farming operations performed by participating farmers to assure that all inputs are properly used and that improved practices are used in order to obtain the highest production possible. Because the use of supervised credit is new to Ethiopia, the first year the ratio of credit supervisors to participating farmers will be one to fifty. As farmers gain experience this ratio will be increased, being one to one hundred the second year, each supervisor overseeing 50 new farmers plus 50 experienced farmers. The ratio will be gradually increased until by the 10th year a ratio of one to 200 will be attained.

As each center is brought into the project, a farmers' association will be formed. These associations will be under the general supervision of the Coops and Marketing Specialist located in the headquarters and under the direct supervision of the Purchasing and Sales Agent located in each center. Each farmers association will have a loan committee selected by community leaders in each area. This committee will screen loan applicants and will select from the applicants creditworthy farmers to participate in the project. The association will handle all input supplies, will have charge of warehousing and grain storage, and will assist in orderly marketing of farm produce. As the number of participating farmers increases each year and as the volume of business handled by the association increases, it will eventually be transformed into a financially sound multi-purpose cooperative.

Each U.S. technician on the project will have an Ethiopian counterpart in the Debre Zeit headquarters. The U.S. and Ethiopian technicians will back-stop personnel in each of the centers and will provide technical assistance to the centers. In addition to participant training in the U.S. for the Ethiopian staff, on-the-job training will be provided by U.S. and Ethiopian technicians.

The project will involve nine professional-level Ethiopians in the Debre Zeit headquarters and a total of 20 professionals in the 10 local centers. These professionals will be phased in as shown in Tables 8 and 9, pages 26 and 27 of the Project Application.

It is proposed that commodities consisting of fertilizer for the first three years, farm equipment, central grain storage and vehicles will be procured off-shore under a development loan.

In addition to the personnel, material and financial resources essential for project implementation, it will also be highly desirable for the IEG to pass enabling legislation for tenancy reform. Proposed legislation is now being prepared that will give some guarantee of permanency of tenure and that will put ceilings on amounts of rent paid.

The Ministry of Community Development and Social Affairs will need to take an active part in establishing farmer associations which will eventually lead to sound multi-purpose cooperatives. The Ministry of Land Reform and Administration will be actively involved in reforms of landlord-tenant relationships of the project. They will also assist in getting written lease agreements signed. The IHA will be involved in road construction within the project area. The Ministry of Agriculture will be engaged in the operation of the project, and the Water Resources Department of the Ministry of Public Works, will be concerned with the development of water supplies. It is anticipated that at least part of the roads and, where possible, part of the wells will be constructed by hand labor on a self-help basis. This would reduce local costs for construction. Because all of these ministries will be involved in implementation and operation of the project it will be necessary for the IEG to formulate a policy making body to give guidance and direction to the development of the Ada Project area. This body should take the form of an interministerial committee composed of high level government officials of the concerned ministries. It will be the responsibility of this committee to see that the project financial requirements and other inputs of the IEG are made available on a timely basis.

2. Proposed AID Assistance

In addition to the proposed Development Loan for off-shore procurement of project commodities and a portion of project local costs, it is proposed that the following technical assistance be provided with grant funds.

A. Advisory Services

The services of an AID direct hire Agricultural Economist, who will serve as Project Manager, will be made available to the Ada project under Agricultural Advisory Services project in FY 1972 and under Technical Support project in FY 1973. In addition, AID and the IEG's Ministry of Agriculture will agree to assign an Agricultural Agronomist to the project on a part-time basis. These services will be made available through an AID-funded host-country contract under Agricultural Advisory Services.

B. Contract Services

It is proposed that AID fully-fund an IEG host country contract with a US firm or institution to provide a five man team of agricultural specialists for the first five project years. The team would be composed of a team leader, supply and marketing specialist, soils and crops specialist, credit supervisor specialist and an agricultural engineer. The team would be administratively responsible to the project organization, described above, and would be independent of the USAID Mission for logistic support.

In addition, it is proposed that AID salary supplement two IEG host country contracts with an Agricultural Economist and a specialist in legal institutions for one man year each in FY 1972. The Agricultural Economist would continue the collection of data which was previously started under a research grant funded under Agriculture Advisory Services. The specialist in legal institutions would work on land tenancy problems and lease arrangements in cooperation with the Ministry of Land Reform and Administration.

It is also proposed that the costs for six months of services for evaluation be included to follow both the first year of project operation and the fifth year of project operation.

C. Participant Training

It is proposed that a total of fifteen Ethiopians be sent to the U.S. or third countries for up to one year of training.

D. Commodities

While the requirement for off-shore procurement of project commodities will be met by a development loan, there is a limited requirement for grant financed commodities to support the activities of an agronomist as he conducts varietal and fertilizer trials in the project area.

E. Other Costs

It is proposed that a small amount of grant funds be made available in the first years of the project for the limited procurement of local goods and services.

3. Project Evaluation

The Ada Agricultural Development Project will be evaluated at the end of each crop year as the project progresses. Some of the evaluation will consist of purely physical features which will require no research. Other aspects will require research and the accumulation of data for evaluation. For example, evaluation of the number of farms participating in the project, the number of farmers having written lease agreements, number of hectares in the project,

tenant displacement and amount of unemployment during the crop year can all be measured more or less directly without research. On the other hand, the level of crop yields, farm prices received for products by farmers, costs of production, gross and net farm incomes, etc., will require some agricultural economic research. This research will be provided by a U.S. part time agricultural economist furnished through short-term contract services to the project in cooperation with the Ministry of Agriculture. The number of kilometers of road constructed or improved in each of the areas (centers), number of wells constructed, and amount of soil conservation and reforestation practices implemented will be evaluated for each year. Evaluations will be made of each of the goals or targets established in the Project Implementation Plan. Insofar as possible evaluation will also be made of the economic and social impact of the project on the project area. It is anticipated that the evaluation will carry through from the PROP to the PIP to the actual implementation of the project.

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Proj. No. 6630162
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AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.)

PROJECT AUTHORIZATION

Refer

1. PROJECT NUMBER 663-55-130-162	3. COUNTRY Ethiopia	4. AID ROUTING SLIP NUMBER 0194
2. PROJECT TITLE Ada Agricultural Development		5. AUTHORIZATION DATE June 18, 1971
		6. PROP DATED April 23, 1971

7. LIFE OF PROJECT

a. Number of Years of Funding: 7
Starting FY 19 71; Terminal FY 19 77

b. Estimated Duration of Physical Work
After Last Year of Funding (in Months): 12

FUNDING BY FISCAL YEAR (in U.S. \$ or \$ equivalent)	DOLLARS (000)		P.L. 480 CCC + FREIGHT	LOCAL CURRENCY (US \$000 equiv.) Exchange Rate: \$1 = Eth. \$2.50			
	GRANT	LOAN		U.S. OWNED		HOST COUNTRY	
				GRANT	LOAN	JOINTLY PROGRAMMED	OTHER
Prior through Actual FY 1970	-	-				-	
Operational FY 1971	425	1,300				-	
Budget FY 1972	67					396	
B + 1 FY 1973	355					215	
B + 2 FY 1974	332					351	
B + 3 FY 1975	332					411	
All Subsequent FY's	200					514	
TOTAL	1,711	1,300				1,887	

9. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST KINDS AND QUANTITIES OF ANY P.L. 480 COMMODITIES

Funding is conditional on the project agreement specifying that, prior to initiation of the project, there will be prepared a work plan jointly approved by the Ethiopian government and by A.I.D.

10. CONDITIONS OF APPROVAL OF PROJECT

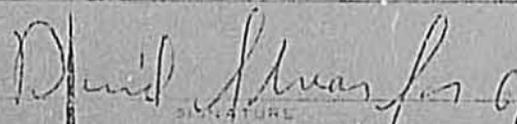
None

(Use continuation sheet if necessary)

11. Approved in substance for the life of the project as described in the PROP, subject to the conditions cited in Block 10 above, and the availability of funds. Detailed planning with cooperating country and drafting of implementation documents is authorized.

This authorization is contingent upon timely completion of the self-help and other conditions listed in the PROP or attached thereto.

This authorization will be reviewed at such time as the objectives, scope and nature of the project and/or the magnitudes and scheduling of any inputs or outputs deviate so significantly from the project as originally authorized as to warrant submission of a new or revised PROP.

A.I.D. APPROVAL  DAVID STEWART AA ASSISTANT ADMINISTRATOR FOR AFRICA	CLEARANCES	DATE
	AFR/EAF: J. Knoll <i>JK</i>	6/16/71
	AFR/DP: D. Shear <i>DS</i>	6/18/71
	A CONT: C. Flinner <i>CF</i>	1/10/71