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6630161 (2)

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TO - AID/W TOAID A- 319

1969 AUG 13 PM 3 12

PD-AAC-734-B1

16p.  
C & A -  
DATE SENT  
August 13, 1969

DISTRIBUTION  
ACTION  
INFO.

FROM - ADDIS ABABA

SUBJECT - NONCAPITAL PROJECT PAPER (PROP)  
Investment and Export Promotion Center

REFERENCE -

**NONCAPITAL PROJECT PAPER (PROP)**

Country: Ethiopia Project No.: 663-15-910-161

Submission Date: August 13, 1969 Original: \_\_\_\_\_ Revision No.: \_\_\_\_\_

Project Title: Investment and Export Promotion Center

U.S. Obligation Span: FY 1970 through FY 1978

Physical Implementation Span: FY 1970 through FY 1978

**Gross Life-of-Project Financial Requirements:**

U.S. Dollars	\$1,234,000
U.S. Owned Local Currency	--
Cooperating Country Cash Contribution	1,250,000
Other Donors	<u>680,000</u>
<b>Total:</b>	<b>\$3,164,000</b>

OTHER AGENCY

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DRAFTED BY SP: Sullivan:mi	OFFICE PS	PHONE NO. X27	DATE Aug 13, 1969	APPROVED BY: A/D: WEReed
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AID AND OTHER CLEARANCES  
PRG: JWithers  
PRG: RCohen

**UNCLASSIFIED**  
CLASSIFICATION

A. Setting or Environment

Industrial production in Ethiopia constitutes less than 5% of the GNP, which is relatively low even in comparison with other African countries. This industrial output is limited to about 8500 small and medium-scale manufacturing enterprises engaged in food and beverage processing, and the production of cement, petroleum products (from imported crude oil), textiles, shoes, cigarettes, soap, alcohol, matches, leather goods, furniture, reinforcing bars and rods, galvanized sheets, aluminum and plastic consumer goods. Additional factories to manufacture paper products, bottles, motor tires, metal tools, construction bricks, tiles, hollow blocks and ceramic products are now being established.

In 1967, the IEG Central Statistical Office surveyed a total of 489 commercial firms operating in Ethiopia with a paid-in capital of at least Eth. \$10,000. This survey revealed that only 104 of these firms are owned or managed by Ethiopians. The remaining 385 firms are controlled primarily by expatriate Italians, Greeks, Armenians, Indians and Arab nationals, some of whom have become Ethiopian citizens. However, in recent years, many Ethiopians have graduated from Haile Sellassie I University (HSIU) and HSIU School of Business Administration, or have returned from study abroad to accept middle-management positions in banks, factories, trading and insurance companies and general commercial firms. In addition, some educated top and middle-level IEG leaders have transferred to positions in the private business sector and have invested heavily in private enterprise activities. Some are providing advisory services on a part-time basis to selected enterprises. There has also been an increase in the replacement of expatriate management in local business firms by Ethiopians. This change is in part due to the improvement and expansion of on-the-job training programs. A good example of this training is the current Ethiopian Air Lines program being conducted through a management contract with TWA, whereby 400 Ethiopian top and middle management, line supervisory, foremen and skilled technician personnel are currently participating in a multi-year career development and training program. Other firms with similar training programs are IEG, National Cash Register, Singer Sewing, Kalamazoo Office, Commercial Bank of Ethiopia and the Addis Ababa Bank.

Major contributors to this upgrading of Ethiopian business management skills have been the HSIU Business School and the Center for Ethiopian Management (ILO and UNDP project) which conduct seminars, short-term training courses, and in-company training programs for Ethiopian enterprises on a continuing basis. Consequently, as economic opportunities become more apparent and monetary incentives take greater hold on the Ethiopian society, Ethiopians will be better able in the future to respond and participate more actively, effectively and in ever increasing numbers in financing and managing their own industrial development.

In order to create a favorable environment and motivation for attracting more Ethiopian and foreign participation and investment in Ethiopia's industrialization programs, the IEG has adopted a free enterprise development policy. Encouragement is being given to the private enterprise sector by IEG monetary and fiscal policies and the establishment of credit facilities and technical agencies for assisting prospective investors. In the recently prepared Third Five Year Plan, the IEG estimated that approximately Eth. 5940 million of new foreign private capital investment and Eth. 51.8 billion of local private savings will be required to finance the investment needs in the period 1968-72. Even if only a part of these needs were to be met, capital investments would have to be greatly in excess of recent levels of investment and would call for significant private sector equity participation. (See Appendix II) The IEG recognizes that additional investment incentives will have to be provided to create the proper climate to encourage and attract both foreign and domestic investors since hitherto there has been no single institution, agency or organization to interpret adequately previous IEG investment policies or to implement previous IEG investment incentives on behalf of all prospective investors. In fact, the Ethiopian entrepreneurial sector is of such recent origin that there has been no precedent for, nor understanding of, this type of institution or agency. There has also been little progress in creating a cooperative private enterprise spirit which is best exemplified in the form of industrial trade and business associations. Those institutions which have had the greatest influence in this respect are the Ethiopian Chamber of Commerce, Federation of Ethiopian Employers, the Center for Ethiopian Management, and the Confederation of Ethiopian Labor Unions, all of which are relatively new organizations (less than ten years old) and are primarily under new, imaginative and aggressive Ethiopian management.

In the field of foreign trade, Ethiopia continues to be classified as a one crop economy. Almost 90% of the total value of Ethiopian exports is from agricultural products, with over one-half of the export earnings derived from coffee. Ethiopia has already experienced financial repercussions in the past few years as a result of her continued dependency on the export of primary commodities and now is anxious, if not compelled, to diversify and upgrade her exports. One of the factors preventing Ethiopia ~~from achieving this goal~~ from achieving this goal<sup>is</sup> the lack of an institutional organization set up to assist, encourage and coordinate the export plans and operations of all institutions and companies either involved in or hoping to enter the export marketing field.]

The USG has been requested by the IEG to assist the Ethiopian business sector and those government institutions concerned with investment promotion and export marketing to set up, organize and operate an Investment and Export Promotion Center, which will be the focal point for assisting all potential investors and exporters. It is planned that the major emphasis of this Center initially will be placed on organizing and improving all phases of export marketing since it is imperative that Ethiopia's prevailing adverse balance of trade be reversed as soon as possible. To achieve this reversal, it is essential that the Center's efforts be concentrated on: 1) attracting and assisting new investment in export and export-supporting industries; 2) assisting local companies that are able and willing to upgrade their products for the export market; 3) encouraging the production of those import substitutes which require a minimum of government tariff protection, and are foreign exchange saving.

Investment promotion and export expansion are two critical areas in which extensive improvements are required since they represent the backbone of Ethiopia's strategy for future industrialization. Heretofore, the USG has provided only minimal assistance in these areas. This activity will offer a unique opportunity for the USG to focus its developmental assistance in the establishment of an institution, which will be operated with the mutual cooperation and support of both the IEG and private business sectors.

## B. Strategy

Basic steps have already been taken to assist the IEG and the local private business sector to gain a fuller understanding and appreciation of the need for an Investment and Export Promotion Center. A four-man team was sent to the 10th Annual Session of the International Marketing Institute (IMI) at Harvard Business School in Cambridge, Massachusetts, from June 24 to September 5, 1969. The team is composed of key representatives from the Ethiopian Chamber of Commerce, Live-stock and Meat Board, Commercial Bank of Ethiopia and the Addis Ababa Bank (Amara Branch). A fifth team member from the Coffee Board was not able to attend the IMI course.

The two USAID/E Private Enterprise Advisors have discussed with key Ethiopian business and financial leaders regarding the objectives of the proposed Center. All are convinced of its need and have offered their full support and cooperation in making it a success. As a direct result of these discussions, the President of the Ethiopian Chamber of Commerce has pledged the Chamber's full support, including: 1) financing most of the local costs incurred by the IMI contract team; 2) providing adequate office space for the proposed Center in the new seven-story Chamber of Commerce building; 3) integrating the Chamber's marketing and investment promotion staff with that of the Center's staff; 4) providing adequate clerical support; and 5) integrating the Chamber's existing commercial library with the Center's proposed international marketing library.

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The Commercial Bank of Ethiopia, the Addis Ababa Bank and the Federation of Ethiopian Employers have offered staff assistance, at least on a part-time basis, to work in the Center. They have also offered the services of their branch facilities in Asmara and Dire Dawa, both of which cities are primarily engaged in export activities.

The Livestock and Meat Board and the Coffee Board have also offered the services of at least one technician to work in the Center. They both requested that the Center set up appropriate export marketing courses for their respective institutions.

The leader of the team selected for the IMI training is the Secretary-General of the Ethiopian Chamber of Commerce. After completion of this training at IMI, it is proposed and the Board of Directors of the Chamber of Commerce has agreed, that the Secretary-General of the Chamber should be the General Manager in charge of operating the Center, which would function under the guidelines and directives issued by the Center's Council and Secretariat. The Council will be composed of representatives from those government and private organizations concerned with investment and export promotion and will be under the chairmanship of the Minister of Commerce, Industry and Tourism. The Secretariat will be under the direction of a Secretary-General, who will be appointed by the Council and will be the senior executive staff member of the Center as well as the central communicating link between the private and government sectors of the economy. He will be assisted by the General Manager of the Center, who will be in charge of the day-to-day Center operations and by a Liaison Officer who will be in direct contact with all national and international donor agencies and institutions interested in assisting the development of Ethiopian investments and exports. The Ministry of Commerce, Industry and Tourism has agreed to finance the cost of operating the Center's Secretariat and the staffing of overseas commercial offices, which will be set up in selected overseas market centers and operated by the Center.

Two USAID/E Private Enterprise Advisors will work closely with the General Manager and the Secretariat in persuading and encouraging the local business community to participate and cooperate fully in establishing the Center. One USAID/E Advisor will be responsible for assisting the Center in maintaining contacts with all agro-industrial processing, marketing and exporting institutions, agencies and factories which require the Center's services. The other Advisor will work directly with the General Manager of the Center and will be responsible for assisting the Center in identifying and promoting various types of industrial investment opportunities, particularly those that are export oriented and export supporting. Both Advisors will also assist in implementing various aspects of the national export expansion program which will be prepared and promoted by the Center.

The Investment and Export Promotion Center project will provide the financing of a 4 year contract starting in FY 71 with the IMI, whereby the latter will provide: 1) the full time services, in Ethiopia, of two IMI representatives, one for supervising the organizing and managing of the Center's investment and export promotion offices, the other for supervising the establishment and operations of an international marketing library and commodity trade inquiry service; and 2) other IMI staff members on short-term assignments as required. This technical assistance will be provided to the Center with the approval of and in coordination with the IEG Ministry of Commerce, Industry and Tourism. These IMI representatives will assist and advise: 1) in organizing, establishing and managing the investment and export promotion offices of the Center, so that the latter will be the focal point in Ethiopia for providing potential investors and exporters with appropriate information, advice and technical assistance; 2) in collecting, analyzing and filing current world market information; 3) in setting up an international marketing library; 4) in establishing and operating a commodity trade inquiry service; 5) in planning and preparing a cohesive national export expansion program; 6) in assisting local exporters to develop company export programs; 7) in preparing an inventory of all existing export service organizations in Ethiopia; 8) in preparing an inventory and index of all manufacturing firms in Ethiopia which are or could be exporting; 9) in locating and identifying overseas markets and distributors for Ethiopian exports; 10) in preparing Ethiopian manuals on "how to export" and "how to invest"; 11) in encouraging and organizing local participation in trade missions and international trade fairs, expositions and exhibits; 12) in representing the business community in recommending changes in existing IEG regulations, policies and administrative procedures regarding exports and investments; 13) in conducting a continuing study of export expansion systems in other countries; 14) in identifying potential export-oriented and export-supporting industries and import-substitutive industries for which the Center will prepare appropriate promotional studies and brochures; and 15) in conducting local seminars and short-term training courses in export marketing and investment promotion as well as the training of overseas commercial officers to be appointed by the Secretariat for staffing the foreign branch offices of the Center.

In addition, this contract will provide the returning Ethiopian IMI participants both the continuity and momentum of export marketing guidance and expertise originally developed in the IMI course at Harvard. (e.g. An afternoon export marketing seminar was specially designed to fit the needs of the Ethiopian team, and was conducted by these IMI faculty members who it is expected later will come to Ethiopia to assist in setting up the proposed Investment and Export Promotion Center.)

This project will be closely related to and ~~subordinate~~ in support of USAID/E projects and activities in the fields of livestock development and in the processing of meats, hides, skins, other animal by-products, as well as grains, oil seeds, spices, cotton, coffee, sugar, timber and paper products, to the extent that their exportability can be improved or developed. It will also be in support of USAID/E's objectives in improving the operations and activities of such IEG institutions as the Grain Corporation, Coffee Board, and the Livestock and Meat Board. It will also help the Ethiopian Chamber of Commerce provide the type and quality of services needed to encourage and attract the active participation of the local business community and thereby create a more favorable environment for further institution building in the field of commerce, trade and investment. This project will also welcome, encourage and coordinate additional technical assistance and support from other national and international donor agencies and institutions in the fields of investment promotion and export expansion.

#### C. Planned Targets

1. By FY 1974, the Investment and Export Promotion Center will be established as the primary innovative force for planning, promoting and spearheading the implementation of Ethiopia's national export expansion programs to achieve in the short run a favorable balance of payments and an eventual favorable balance of trade.

2. By FY 1974, the Center's international marketing information center will be firmly established and linked closely with marketing centers in other countries to expedite the exchange of marketing data.

3. By FY 1974, the Center will have established its reputation in the local private business community as the focal point for: a) introducing, promoting and disseminating the latest export marketing data, techniques and guidelines covering all aspects of modern international marketing operations; and b) assisting potential investors in all phases of investment implementation until the enterprise is established.

4. By FY 1974, the Center will be the focal point for promoting, coordinating and assisting all private and foreign investments in enterprises primarily concerned with promoting Ethiopian export and saving foreign exchange.

#### D. Course of Action

##### I. FY 1970

1. Ethiopian participant team returns from IMI training in mid-September 1969.

2. IMI staff representative will arrive before the end of CY 1969 on TDY to negotiate the IMI contract with the Ministry of Commerce, Industry and Tourism and the Ethiopian Chamber of Commerce.

3. IMI staff representative <sup>will</sup> work with recently returned participant team and the two USAID/E Advisors in: a) preparation of the Center's management and staffing plans, operating procedures and selection of personnel; b) setting up the Center's major departments; c) starting the collection and filing of pertinent international marketing information including the inventory and cataloging of existing foreign trade directories, bulletins, reports, etc.; d) starting the inventory and indexing of all export servicing organizations, including banks, insurance companies, freight agents, brokers, packers and forwarders, carriers, advertising agencies, importers, exporters, distributors and miscellaneous trading companies; e) starting the inventory and indexing of all local manufacturers and their products; and f) developing and improving the working relationships between the private business sector, the government sector and the Chamber.

4. The Center will select and send two candidates to the 11th Annual Session of the IMI (as financed by IMI contract).

5. IMI contract <sup>will be</sup> finalized in May or June 1970 and the two-man IMI team arrives in Ethiopia in August or September 1970.

#### II. FY 1971

1. The Investment and Export Promotion Center is formally opened.

2. IMI short-term experts will conduct seminars and training courses in all phases of export marketing and investment promotion, as well as training overseas commercial officers to staff the Center's foreign branch offices.

3. IMI staff will assist in setting up a modern international marketing library which is funded in the IMI contract, and which will be integrated with the existing Chamber of Commerce library.

4. Center will begin operating a Commodity Trade Inquiry Service which will answer both domestic and foreign inquiries regarding all aspects of Ethiopia's import/export trade.

5. IMI staff will begin preparation of a comprehensive export expansion program for Ethiopia, and will work with selected local exporters to develop appropriate company export programs.

6. Center will select and send two candidates to the 12th Annual Session of the IMI (as financed by IMI contract).

#### III. FY 1972

1. The Center will expand its Commodity Trade Inquiry Service in order to assist local businessmen: a) to determine the exportability of their products; and b) to locate and identify overseas markets and distributors for their products.

2. The Center will encourage and assist the IEG and the private business sector in organizing trade missions and delegations and participation in international trade fairs, expositions and exhibits and in establishing Ethiopian product display centers abroad.

3. The IMI staff will prepare appropriate pamphlets, manuals, brochures and reports on investment opportunities and export marketing in Ethiopia, and initiate and maintain contact with all potential investors and marketers.

4. The Center will recommend to the IEG proposed changes in existing export promotion legislation, as well as import controls and tariff legislation on raw material and semi-finished products used in processing exports.

5. The Center will undertake a continuing study of export expansion systems in other selected countries in order that appropriate policy or operational changes may be incorporated into Ethiopia's export program.

6. The Center will advise and consult with the HSIU Business School faculty regarding suitable undergraduate export market research projects to be undertaken.

7. The IMI staff will assist the Center's Investment Office in planning and preparing a program for promoting investments primarily in export-oriented or related supporting industries, and in assisting and encouraging all potential local and foreign investors interested in such areas of activity.

8. IMI short-term experts will conduct seminars and training courses in all phases of export marketing and investment opportunity promotion. At least one series of seminars will be held on export packaging. Special seminars will also be held in Asmara and Dire Dawa.

9. The Center will select and send two participants to attend the 13th Annual Session of the IMI.

#### IV. FY 1973

1. The IMI staff will develop methods and procedures for improving existing international market research methods and techniques, with special emphasis on developing market survey guidelines for long-range export commodity trends in specific overseas markets.

2. The IMI staff will assist the Center in designing and using a flexible system of overseas market data sheets on a country and commodity basis to permit quick, frequent and inexpensive updating and publication.

3. The Center will assist local entrepreneurs in all preliminary aspects of investment surveys, documentation, government registration and clearance procedures.

4. IMI short-term experts will continue to conduct seminars and training courses in all phases of export marketing and investment promotion. They will also assist the local IMI alumni and other private businessmen to establish an Ethiopian International Marketing Institute, which will be sponsored by the Center and financed primarily by the private business sector and the Chamber of Commerce. It will be affiliated with the IMI in Cambridge, Massachusetts, and the other regional IMI Centers in Pakistan, Korea and New Zealand, and will be operated primarily on a cost basis (tuition and membership costs) covering the services of short-term IMI faculty advisors from Harvard.

5. The Center will select and send one candidate to the 14th Annual Session of the IMI (to be financed by the local private business community).

V. FY 1974 - 1978

1. The Center will no longer require full time IMI advisory assistance.

2. Short-term IMI experts will be required to conduct special export marketing courses at the proposed Ethiopian IMI. These expenses will be borne by the private business community in the form of tuition costs for participation in the courses and by the Chamber of Commerce.

3. The Center will continue to improve, promote and implement cohesive national export expansion programs.

4. The Center will encourage and assist local entrepreneurs in establishing private trading companies, export/import brokers, export trade, credit, financing and factoring companies in Ethiopia.

5. The Center's commercial data retrieval system will be linked with those in other countries to provide speedy interchange of marketing and other commercial data, to permit the Center to conduct rapid research and testing of foreign markets for local products.

6. The Center will provide Ethiopian exporters with display facilities as well as export packaging and design expertise.

BALL

APPENDIX IIEG BALANCE OF TRADE (1960 - 1972)  
(E \$ million)

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Balance of Trade</u>
1960	192.6	219.3	- 26.7
1961	188.7	235.6	- 46.9
1962	190.5	257.3	- 57.8
1963	223.4	276.1	- 52.7
1964	262.5	307.6	- 45.1
1965	269.6	375.7	- 85.9
1966	277.5	404.3	-126.8
1967	252.7	357.8	-105.1
1968	312*	440*	-128.*
1969	333*	485*	-150.*
1970	370*	503*	-133.*
1971	450*	620*	-170.*
1972	483*	697*	-214.*

\* IEG Planned Targets

Source: Central Statistics Office and Third Five Year Plan

Eth. \$2.50 = US \$1.00

APPENDIX IIPrivate Foreign Capital Inflow  
(E \$ million)

<u>Year</u>	<u>Actual (Net)</u>	<u>IGG Plan</u>
1966	26.3	-
1967	11.1	-
1968	15.0	43*
1969	-	66*
1970	-	82*
1971	-	80*
1972	-	<u>60*</u> \$340*

\* IGG Third Five Year Plan Target

Eth. \$2.50 = US \$1.00

HOSPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)  
 Project Title: Investment and Report Production Center

Fiscal Years	Ap	L/C	Total	Cont	Personnel Serv.			Participants	Commodities		Other Costs		
					AKD	PASL	CONT	U.S. Agencies	Dir. U.S.A.	Dir. U.S.A.	CONT		
Prior through Act. FY__													
Oper. FY__													
Budg. FY 70	TC/DG	G	270	160	100	-200	133	8	-	-	25	2	-
B + 1 FY 71	TC/DR	G	240	130	100	-	130	8	-	-	-	2	-
B + 2 FY 72	TC/DG	G	241	130	100	-	130	8	-	-	-	3	-
B + 3 FY 73	TC/DG	G	173	70	100	-	70	-	-	-	-	3	-
All subs 74-76	TC/DG	G	310	-	300	-	-	-	-	-	-	10	-
Total life	TC/DG	G	1234	490	700		465	24	-	-	25	20	-

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APPENDIX III

APPENDIX III (cont'd.)NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000) cont'd.

Fiscal Years	AID-Controlled <u>Local Currency</u>		Other Cash* Contribution Cooperating Country	Other** Donor Funds (\$ Equip.)
	U.S. owned	Country- owned		
Prior through Act. FY <u>1969</u>	-	-	-	-
Oper. FY <u>1970</u>	-	-	-	-
Budg. FY <u>70</u>	-	-	100	80
B + 1 FY <u>71</u>	-	-	150	100
B + 2 FY <u>72</u>	-	-	200	100
B + 3 FY <u>73</u>	-	-	200	100
All subb. 74-78	-	-	600	300
Total 1970	-	-	1,250	680

\* Contributed by Ministry of Commerce, Industry & Tourism and member agencies represented on the Center's Council.

\*\* About 90% from Chamber of Commerce and the rest from national and international donor agencies and institutions.