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CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

ETHIOPIA: MALARIA CONTROL - PHASE IV AMENDMENT

AID-DLC/P-570/3

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED

AID-DLC/P-570/5

April 26, 1973

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ethiopia: Malaria Control - Phase IV Amendment

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $4,800,000 to the Imperial Ethiopian Government to finance all the foreign exchange costs of the project for FY 1974 and 1975 and a portion of the local costs for FY 1973, 1974 and 1975.

Please advise us as early as possible, but in no event later than close of business on Friday, May 4, 1973, if you have a basic policy issue arising out of this proposal.

Barbara L. Clary
Development Loan Committee

Attachments:
Summary & Recommendations
ANNEXES I - VIII

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AID-DLC/P-570/5
April 26, 1973

ETHIOPIA - MALARIA CONTROL - PHASE IV AMENDMENT

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AID-DLC/P-570/5
April 26, 1973

ETHIOPIA - MALARIA CONTROL - PHASE IV AMENDMENT

SUMMARY AND RECOMMENDATIONS

1. Applicant: Imperial Ethiopian Government (IEG)

2. Amount of Loan Amendment: $4,800,000*

3. Terms:

   A. Maturity: 40 years, including a 10-year grace period

   B. Interest: 2% per annum during the grace period
   3% per annum thereafter

   C. Currency: Interest and principal payable in U.S. dollars

4. Financial Plan for Phase IV:

	Foreign Exchange Costs	Local Costs	Total
A.I.D. Loan	$1,200,000	$ 3,600,000	$4,800,000
IEG Contribution	-	6,500,000	6,500,000
	$1,200,000	$10,100,000	$11,300,000

5. Description of the Project: The project consists of the 7th & 8th years (Phase IV) of the Ethiopian Malaria Control Program. The project will be carried out by the Ethiopian Malaria Eradication Service (MES) with the assistance of A.I.D. and World Health Organization (WHO).

6. Purpose of Loan: To finance (a) all of the Foreign Exchange costs of the project for FY 1974 and FY 1975 and (b) a portion of the local costs for FY 1973, 1974 and 1975.

7. Background of the Project: A.I.D. has provided about $5.1 million in grants and $13.7 million in loans for malaria programs in Ethiopia. The Malaria Eradication Service (MES) is presently working under the Plan of Operations for FY 1972-1977, which incorporates the recommendations of the Strategy Review of May 1970. An Independent Malaria Review Team (IMRT) assessed the program in June 1972 and concluded that the MES

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* All dollar amounts in this paper are expressed in U.S. dollars (U.S. $1.00 = Ethiopian $2.05) except where noted otherwise.

was making good progress in carrying out the recommendations of the 1970 Strategy Review. On this basis A.I.D. agreed to consider further financing for the program. The IEG's formal application was submitted on March 15, 1973.

8. Export-Import Bank Clearance: Received on December 4, 1972.

9. Statutory Criteria: Satisfied; see Annex I.

10. Country Team Views: The CT strongly endorses this project.

11. Issues: None.

12. Recommendation: Authorization of a loan amendment for an amount not to exceed $4,800,000 subject to the terms and conditions contained in the draft authorization attached as Annex VIII.

CAPITAL ASSISTANCE COMMITTEE:

USAID/REDSO:

Loan Officer	J. Westley/L. Marshall
Technical Advisor	A. Steffan
Legal Counsel	R. Meighan
Program Officer	D. Miller

AID/W:

Desk Officer	R. Ellison
Project Designer	S. Whitmer
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Technical Advisor	E. Smith
Legal Counsel	R. Johnson

AID-DLC/P-570/5
April 26, 1973

CAPITAL ASSISTANCE PAPER

ETHIOPIA - MALARIA CONTROL - PHASE IV AMENDMENT

I. INTRODUCTION

A. Background

The Imperial Ethiopian Government (IEG) regards malaria as Ethiopia's leading public health problem, as well as, a significant obstacle to agricultural development. The Malaria Eradication Service (MES) estimates that about half of Ethiopia's population of 25 million are exposed to the risk of contracting malaria, and that malaria is present in about 70% of the land area. The existence of malaria (which is generally not found at elevations above 6,000 feet) has been a major factor in the overcrowding of the highlands and the underpopulation and underutilization of the lowlands. Given the increasing population pressure in the highlands and the need for increased agricultural output, it is important that malaria be suppressed in order to encourage immigration from the highlands and increased exploitation of fertile lowland areas.

Anti-malaria efforts began in Ethiopia in the mid-1950's with pilot projects financed by the U.S. and by the World Health Organization (WHO). These pilot projects suggested that malaria could be eradicated in Ethiopia, using standard techniques which involve 1) interrupting the transmission of the malaria parasite by spraying the inside walls of all human dwellings with DDT, (thus killing any mosquitoes which might be carrying the parasite from one human to another); and 2) eliminating any remaining malaria through identification and treatment of malaria cases ("surveillance activities"). The IEG accepted malaria eradication as a national objective in 1959 and established a semi-autonomous Malaria Eradication Service (MES) to accomplish that objective. The MES, with WHO and U.S. assistance, expanded anti-malaria activities beyond the original pilot areas but did not evolve a comprehensive eradication strategy until 1965, when a joint MES/WHO study led to the formulation of a Plan of Operations for the eradication of malaria over the fourteen-year period 1966-1980. A.I.D. agreed to assist in financing the eradication program primarily on a loan rather than grant basis; the original loan ($5.8 million) was authorized in 1967; the Phase II amendment ($3.0 million) was authorized in 1969; the Phase III amendment ($4.9 million) was authorized in 1971.

The initial Ethiopia Malaria Eradication Program, like most other malaria eradication efforts in developing countries, proved to be too ambitious. By 1969, the program had to be rephased due to budgetary limitations and various operational problems. In early 1970, the IEG and MES requested a reassessment of the program pursuant to the recommendations of the Twenty-Second (22 nd)

World Health Assembly (1969). An IEG/WHO/A.I.D./USPHS Strategy Review Team (SRT) convened in May 1970 and concluded that eradication was not feasible in the short run. The SRT recommended that eradication be retained as a long-run goal, but that in the short run, the MES continue to control malaria in north and central Ethiopia (Area A) while initiating control efforts in southern and western Ethiopia (Area B, C and D). Since the requirements of malaria control are less exacting than those for eradication, annual program costs can be lower, although they will likely be more cumulative since the program will extend for an indefinite period rather than coming to an end at some definite point in the near future, unless radically new technologies become available at reasonable costs. Subsequently, the MES formulated a Plan of Operations for the period 1972-1977, based on the SRT recommendations, with costs running at about half the level originally projected in the Ethiopian Third Five Year Plan (1968-1973). These levels were deemed to be financially sustainable.

In May and June 1972, pursuant to the IEG's request, a three-man WHO/A.I.D.-financed Independent Malaria Review Team (IMRT) visited Ethiopia to review the MES' progress in carrying out the SRT recommendations. The IMRT reported that MES had made excellent progress in carrying out major SRT recommendations regarding the program with one exception: integration of malaria with the basic health services. The IMRT recommended that the IEG, the MES, and the Ministry of Public Health devote particular attention to ways of bringing about this eventual integration of MES activities with other Ministry of Public Health activities.

Following the submission of the IMRT Report in June 1972, the IEG informally requested that A.I.D. consider a Phase IV loan amendment to provide financing for the period FY 1974-1976. However, in December 1972, the IEG expressed concern over committing itself to A.I.D. financing for fiscal years beyond 1975 prior to its making decisions on the future direction of the Malaria program and its relationship to the overall health sector. Until such decisions are made, it was the IEG's wish to maintain the present level of A.I.D. local cost financing in both FY 1974 and FY 1975 at 40 percent.

After further discussions between A.I.D. and the IEG on this subject, A.I.D. agreed to consider the loan amendment on the basis that A.I.D. would finance all of the Foreign Exchange costs, and that the phaseout in A.I.D. local cost financing would be continued under Phase IV using a formula of 40% local cost financing from the loan in FY 1974 and 30% in FY 1975. This agreement represented an accommodation to IEG concerns over the level of local cost financing while maintaining the downward trend in A.I.D. financing of local costs of the program. The IEG formal application was received on March 15, 1973.

For further background information, see the Capital Assistance Papers for Phase I (A.I.D. - DLC/P-570, dated May 22, 1967), Phase II (A.I.D. - DLC/P-570/3 dated June 24, 1969), and Phase III (A.I.D.-DLC/P-570/4, April 22, 1971). The SRT recommendations are listed in Annex IV of the latter.

B. Relationship of Project to U.S. Assistance Strategy in Ethiopia

The major concentration of U.S. assistance in Ethiopia is in rural development, principally agriculture, including small farmers who are moving toward entrance into the monetized economy. Ethiopia's malaria control program contributes to the goal of rural agricultural development by permitting increases in individual agricultural productivity in areas already under cultivation but exposed to endemic or epidemic malaria, and by opening up formerly malarious lowland areas to settlement and cultivation. The Malaria Control Project directly affects the life of 6 million people, and is thus the one single U.S.-supported effort which reaches a large number of Ethiopia's poorer people in a way that is important to them. Through its operations, the program enhances the capabilities of small farmers to produce more, to produce for the market and thus to share more fully in national income distribution.

C. Borrower and Executing Agency

The Borrower is the Imperial Ethiopian Government, acting through the IEG Ministry of Finance. The agency responsible for execution of the project is the Malaria Eradication Service (MES), a semi-autonomous agency of the Ministry of Public Health. Although there have been some recent minor organizational changes to improve efficiency, no major reorganization of MES was called for as a result of the revised anti-malaria strategy, since most functions remained the same. The major changes have been a substantial reduction in expensive surveillance activities and expansion into new high priority development areas not formerly covered (see Section II.A below). MES has also been able to reduce its staff by about 936 (32%) over the past two years; MES now has 1,702 permanent employees and 268 project employees (non-permanent employees who are only hired for the life of the project) and hires up to 4,500 day laborers to assist during the major spray cycle in June-July of each year.

The MES, with the assistance of three on-board WHO advisors and one A.I.D. advisor, continues to be one of the more effective IEG organizations. Both the IMRT report and a recent Area Auditor General (AAG) report (Audit Report #3-663-73-2) found that MES was generally well managed and was making effective use of assistance provided by donor agencies. The USAID Director has certified to the capability of the IEG to carry out Phase IV of the project in accordance with Section 611(e) of the Foreign Assistance Act. The certification is attached as Annex VI.

D. Export- Import Bank Clearance

The Export-Import Bank considered the proposed Loan Amendment on December 4, 1972, and concluded that in view of the need for local cost financing and concessional loan terms, the project was not appropriate for Export-Import Bank financing.

II. TECHNICAL PLAN

A. Plan of Operations for FY 1973-1977

1. Background

Under the original Plan of Operations for the Malaria Eradication Program for 1966-1980, Ethiopia was divided into four areas, (A,B,C and D); each area was divided into 3 to 6 zones and each zone into 5 to 7 sectors, covering 100,000 - 150,000 people each. Each geographic area was to go through a two-year preparatory phase, followed by a four-year attack phase, a three year consolidation phase, and a maintenance phase of indefinite duration (conducted through the Basic Health Services of the Ministry of Public Health). In Area A (central and northern Ethiopia- see map at Annex III), the Preparatory Phase began in 1964 and the Attack phase in 1966; in Area B (western Ethiopia), the Preparatory phase began in 1967 but the Attack phase could not be initiated due to IEG budgetary difficulties. In conjunction with the authorization of the Phase II amendment, the IEG agreed to rephase the program to reduce annual operations to a level within IEG financial capabilities. while maintaining the minimum essentials of an effective program. Based on this agreement, the MES prepared an Interim Plan of Action for the period, March 1970 through June 1971, with the understanding that a revised long-term Plan of Operations for the period FY 1972 and beyond would be prepared, following receipt of the recommendations of the Strategy Review Team.

The Strategy Review Team, with members from the IEG, WHO, A.I.D., and the U.S. Public Health Service, submitted its report in May 1970. Briefly, the SRT noted that malaria transmission had not been interrupted in Area A and concluded that malaria eradication was not feasible in Ethiopia under existing circumstances. Although the MES had succeeded in bringing about a significant decline in the incidence of malaria as measured by the parasite rate (from an Area A average of above 10 percent in 1964 and 1965 to below 1 percent in 1968) the incidence of malaria was still too high to permit the interruption of transmission. On the basis of their review the SRT recommended that the best anti-malaria strategy would be "(1) to retain malaria eradication as a long-term goal; (2) to maintain the gains already achieved and extend anti-malaria activities with the means available as necessary and valid steps toward this long term goal of eradication; and (3) to carry out field research aimed at improved methodology for malaria eradication, adapted to the socio-economic and operational conditions of Ethiopia." As noted above, this implies a shift from an eradication to a control effort, i.e., from an effort to rid Ethiopia of malaria by a certain date (1980) to a more modest effort using the same techniques to 1) suppress malaria sufficiently to permit development activity in malarial areas, and 2) prevent periodic epidemics.

Following a review by the IEG, WHO and A.I.D., the MES prepared a Plan of Operations for the period FY 1972-1977, according to the SRT recommendations. The statement of objectives of the revised MES Plan of Operations is included as Annex IV. Subsequently, the MES prepared annual Plans of Action for FY 1972 and FY 1973. These Plans of Action were reviewed and approved by A.I.D. pursuant to the Conditions Precedent of the Phase III Loan Agreement Amendment.

2. <u>MES Operations under the Plans of Action for FY 1972 and FY 1973</u>

The major changes in approach under the revised Plan of Operations involve continued adjustments in spray operations based on epidemiological findings and the replacement of surveillance activities (active case detection and treatment) in most areas by limited case detection, based on fever and infant parasite surveys (FIPS). Accordingly, the objectives of the 1972 Plan of Action in Area A were (1) to continue spraying as close to the peak of vector density as possible; (2) to continue limited case detection, such as, fever and infant parasite surveys in at least 10% of malarious area; (3) to continue full surveillance activities in three full sectors, and parts of three others to determine if malaria transmission can be interrupted; and (4) to continue to improve geographical reconnaissance, spray operations, surveillance administration, and other activities.

Outside of Area A, malaria activities were to begin or be intensified in selected development locations, including the Debre Marcos, Nekemte, Jimma, Gambella, and Arba Minch, Asosa, Gode, and Kebre Mengist areas. These operational activities may include DDT spraying, drug distribution, and other anti-malaria measures, such as, larviciding. Plans were also formulated for anti-epidemic measures and the collection of base line data on the economic impact of anti-malaria measures in the Arba Minch area.

General objectives, covering all operational areas in Ethiopia, included retraining of personnel, intensification of health education activities, the development of a sound Passive Case Detection System, research on cyclic trends of malaria epidemics and the seeking of ways and means to develop a system of close collaboration between the Malaria Eradication Service and the basic health services provided by the IEG's Ministry of Public Health.

During the period from June 1971 to October 1972, three spray rounds (XI, XII and XIII) were completed. The MES was successful in moving spraying closer to the peak transmission seasons and was also able to reduce over half of the localities from two spray rounds to one spray round per year. In the Round XI (June-July 1971) 12,324 localities and a population of 5.62 million were covered, while under Round XII (Jan-Feb 1972) 5,890 localities and a population of 2.50 million were covered. Under Round XIII MES covered 12,336 localities and a population of 5.64 million.

MES estimates that spraying operations and drug administration now cover a total of approximately six million people. In addition spraying and other anti-malaria activities have been terminated in one sector (Nefas Mewcha in Gojjam Province - population 48,450) and parts of another sector (Asaita in Wello Province). MES is presently evaluating all sectors under regular spraying operations for possible further reductions from two to one round per year, or withdrawal of spraying operations completely. Thus, as MES reduces its scale of operations in Area A, the financial contribution can be diverted into additional new development areas in Areas B, C and D. Since in many cases the MES reduction in spray operations will involve only a portion of a sector covered, the financial saving may not be substantial but it will permit expansion into areas of greater need.

In the absence of data from country-wide surveillance operations it is difficult to evaluate the extent to which overall malaria incidence is being further reduced. For example, the Annual Parasite Incidence (API - annual incidence of malaria is a percentage of population) declined from 26.5 in 1970 to 16.6 in 1971 in Gorgora; in Nazereth the drop of the API in the same period was from 31.4 to 19.7, and in Modjo the API was decreased from 13.5 to 5.3. Only in the Awash and Gondar sectors were there significant increases in the API, and in these areas, the surveillance picture is complicated by a large migratory population which makes it difficult to reach each person. During the past three years, surveillance activities have improved and hence the above figures can be considered accurate in presenting a valid picture.

The Plan of Action for FY 1973 is in most respects similar to that of 1972. The most significant addition involved the establishment of malaria posts attached to rural health units in Asosa, Kebre Mengist, Ginir, Gode, Kebre Dehar, Kelaffo, El Kere and Metu. These malaria post personnel will collect blood smears and administer presumptive treatment, will monitor malaria outbreaks where necessary, give mass drug treatment or conduct spraying operations, will serve as point of contact between MES and other governmental officials and will encourage the cooperation and coordination with local Basic Health Service activities. It is planned that, as money is available, MES activities will eventually cover, either by full-scale operations or by malaria posts, all areas where malaria continues to be a significant problem. Other changes include the initiation of studies on the cyclic trends of malaria epidemics, the expansion of Passive Case Detection activities in Area A and areas where MES is not yet active, and the establishment within MES of a Division of Communications to coordinate all aspects of communications, the movement of men and messages, plan for vehicles or pack animals needed, and insure the proper utilization of all forms of transport.

3. Independent Malaria Review Team

In early 1972, the IEG requested that WHO and A.I.D. assist in providing experts to review the progress of the MES program since the SRT report and to provide guidelines for future MES operations, particularly, with respect to integration of MES with the basic health services. The Independent Malaria Review Team (IMRT), made up of the WHO Regional Malariologist (Alexandria), a WHO Special Consultant and the A.I.D. Regional Malaria Officer (New Delhi), examined the MES program in May and June 1972 and presented their report at the conclusion of their visit.

The IMRT concluded that MES had made excellent progress in carrying out all SRT recommendations, with the exception of the recommendation which stated that the "integration of MES and the Basic Health Service should be done as soon as possible." The MES had placed several MES workers at health stations and had cross-trained about 170 of its personnel in surveillance operations for other communicable diseases. The MOPH, for its part, had appointed a special committee on the subject. However, although the general principal of integration had been accepted by the Ministry of Public Health (MOPH), there had been no active integration and little coordination between the MES and BHS. Consequently, the major recommendations of the IMRT report focused on the problem of integration.

The team recommended 1) the creation of a task force to develop a national health policy setting out long and short term objectives for the development of health activities in Ethiopia, particular the basic health services; 2) the designation of a liaison officer to coordinate MES and basic health service activities; 3) the establishment of a National Preventive Medicine Committee responsible for the gradual integration of various public health program; and 4) the establishment of two pilot projects to test possible modes of integration of MES and basic health services.

The team also made recommendations concerning technical aspects of the program. In particular, the team recommended that MES 1) increase its activities in agricultural areas such as the Humera and Awash Valley areas; 2) further reduce spraying and surveillance operations in Area A; 3) initiate studies on alternative anti-malaria measures. The team's concluding recommendation was that the IEG convene a National Review Team in 1975 to follow up on the IMRT recommendations.

The integration of Malaria with the basic health services provided by the Ministry of Public Health will be considered within the context of the formulation of the health sector section of the Fourth Five Year Plan. A.I.D. will receive assurance that the issue of integration is studied in the context of formulation of the Fourth Five Year Plan through signing a letter of agreement with the IEG to this effect. In addition, MES is considering the IMRT technical recommendations for incorporation as appropriate with the Plan of Action for FY 1974.

B. Technical Assistance

Under the Phase III amendment A.I.D. financed the services of a malaria advisor, supply specialist and equipment specialist, all under a Participating Agency Service Agreement (PASA) with the U.S. Public Health Service. As part of a continuing program to transfer responsibilities to MES, these U.S. technical services were terminated in FY 1972. A.I.D. continues to provide a Malaria Project Officer, who is part of the A.I.D. Mission staff, in order to monitor the A.I.D. assistance to MES. As MES is fully competent to manage its own operational affairs, there is no requirement for A.I.D. to provide technical advisory assistance to MES apart from the periodic short term strategy reviews.

WHO is presently supplying three technicians to the MES and two instructors to the Malaria Eradication Training Center (METC) at Nazareth. WHO plans to continue this assistance.

C. Commodity Procurement

During the period covered by the Phase IV amendment the MES will continue to require imported materials and equipment such as DDT, vehicles, spare parts, sprayers, malaria durgs and laboratory equipment. The requirements in terms of items to be ordered in FY 1974-1975 are listed in Annex V.

Currently MES has a fleet of 300 vehicles in operation, half of which were procured in 1967 and 1968. Under favorable conditions (good roads, readily available spare and replacement parts, adequate preventive maintenance, etc.), normally the number of vehicles that would have been completely destroyed through accidents or retired after six years of service would be: 82 in 1973 and 57 in 1974. Thus, the total number of vehicles that would be a loss to the fleet would be 139 with only 161 vehicles available for an operational requirement of 300.

During 1974 MES planned expansion of the Malaria Control Program in the Gode, Kelafo, Jimma, Bale, Debre Monsko and the Matu areas, requiring ten additional vehicles. Accordingly, the proposed vehicle procurement under the loan amendment would be 92 vehicles in FY 1974, at an estimated CIF Ethiopia cost of $469,000 and 57 vehicles in FY 1975 at a landed cost of $325,000.

USAID has reviewed the MES vehicle records on utilization, maintenance, deployment, prior procurement and age. In addition, USAID has discussed the planned program expansion with the MES General Manager and is convinced of the need for these vehicles. As a result of these discussions and the USAID review, the procurement of 149 vehicles over the next two years appears to be entirely justifiable.

USAID plans to review the vehicle analysis based on actual fleet conditions and utilization at the time each vehicle PIO/C is submitted for REDSO approval.

On January 17, 1969, based on the justification provided by MES, A.I.D. issued a proprietary procurement waiver (No. AFR/CS Dev. 60-3) to permit the purchase of Kaiser jeeps. This waiver will be applicable to the procurement of jeeps under this amendment.

III. ECONOMIC ANALYSIS

The implementation of the MES program in Area A has coincided with a rapid expansion of agricultural output and activity in the lowlands to the east and some expansion in output west of Ethiopia's central highlands. This expansion has been particularly rapid in the Awash Valley to the east and the Sudan border area (Humera, Metema) to the northwest. There has been a causal relationship between malaria suppression and exploitation of the lowland areas, but this relationship is difficult to quantify. Ethiopians generally assume that suppression of endemic malaria and elimination of the threat of malaria epidemics has been a major factor in the settlement of the lowlands, along with population pressures and generally high prices for agricultural commodities. (The availability of improved inputs and roads has, with some exceptions among commercial and corporate farms, become a factor only very recently). Without a much more sophisticated understanding of the nature of the links between the anti-malaria program and incremental marketed agricultural output, there is no way to estimate the magnitude of the national economic benefits attributable to the program and little basis for developing a standard benefit-cost analysis. (For a fuller discussion of the difficulties involved in carrying out a benefit-cost analysis of the Ethiopia malaria program, together with some indications as to what the program's benefits might be, see Section III of the Capital Assistance Paper for the Phase III amendment - AID/DLC/P-570/4, April 22, 1971).

With respect to distribution of the benefits, however, it is clear that MES activities reach more people than any other IEG program and have a very direct impact on the welfare of nearly 6 million people. It would appear that these activities have benefited primarily lower-income groups by providing malaria protection in rural areas having little or no access to health facilities or other government services, and by generating agricultural employment in newly-settled lowland areas. To the extent that malaria control has encouraged commercial and corporate farming in the western lowlands and the Awash Valley, of course, it has benefited higher income groups as well. Of course, the practical effects of the Malaria Eradication Program (MEP) include not only greater human productivity, but enhanced health, well-being, increased food supplies and a popular sense among the people that the IEG "cares".

Given the difficulties in attempting to apply standard benefit-cost analysis to the MES program, it may be more relevant to use a cost-effectiveness approach. This involves either finding the least-cost method achieving a given objective, or maximizing the effectiveness of a program with a given budget. The MES is implicitly using both approaches in carrying out its present program. In Area A, MES has a given objective (maintain the gains already achieved) and is moving toward the least-cost method of achieving this objective (progressive reductions in spray coverage). For the overall program, MES is working with a roughly fixed budget, and is attempting to maximize effectiveness by expanding into as many non-Area A development areas as the budget allows. Thus the MES is in effect doing a cost-effectiveness analysis of its program each time it prepares its annual budget and Plan of Action.

The MES, of course, competes with other health activities, and achievement of its objectives affects the achievement of other health sector objectives, and _vice versa_. Consequently, an adequate cost effectiveness analysis of the MES program can only be carried out within the context of a statement of overall health sector goals, priorities and resources. Present priority is clearly on the MEP (Malaria Eradication Program) as the main vehicle for improving the health and productivity of the public at large. Overall health sector goals and priorities, as well as the magnitude of resources available to the health sector, will be generally determined during 1973-1974 as the Ethiopian Fourth Five-Year Plan is formulated.

It should be noted that MES, pursuant to the recommendations of the SRT report, has undertaken a study of the socio-economic impact of MES activities. A base-line survey was carried out in the Arba Minch area prior to the initiation of MES operations there in April 1972. The objective of the Arba Minch study is to determine quantitatively the economic benefits which can be derived as a result of anti-malaria activities in an area which has a great potential for development and which is also malarious. Based on surveys to be taken annually (socio-economic data) or every three years (mortality and morbidity data), a clearer conceptualization of the nature of the linkage between malaria control and socio-economic changes will become available. The second study is scheduled for 1975, however, it is still not clear whether this study will provide a means of isolating those socio-economic changes which are due to malaria control from those due to other factors.

IV. FINANCIAL ANALYSIS

A. Total Program Costs, FY 1972-1977

The present estimates of the cost of the MES program during the period of the 1972-1977 plan of operations are as follows:

FISCAL YEAR	FOREIGN EXCHANGE COSTS COMMODITIES	TECH ASSISTANCE	LOCAL COSTS	TOTAL
1972 1/	557,000	120,000	2,776,000	3,453,000
1973	570,000	-	3,902,000	4,472,000
1974	1,395,000	-	4,395,000	5,790,000
1975	1,290,000	-	4,556,000	5,846,000
1976	1,858,000	-	5,042,000	6,900,000
1977	1,267,000	-	5,639,000	6,906,000

The details of commodity costs for FY 1974-75 are shown in Annex V.

B. Financial Requirements for Phase IV

The IEG has requested that the Malaria IV Loan continue to cover all foreign exchange costs of the MES program through the end of FY 1975. In addition, the IEG and A.I.D. have agreed to a reduction in A.I.D. financed local costs from 40 percent in FY 1973 and FY 1974 to 30 percent in FY 1975. Because foreign exchange commodity procurement and some technical assistance costs ran below estimates in FY 1971, FY 1972 and in FY 1973, there is a balance of about $1.2 million in the cumulative foreign exchange component of the Malaria I, II and Malaria III Loans (Loans 663-H-013, 663-H-013A and 663-H-013B). MES estimates that this balance is sufficient to finance the remaining foreign exchange commodity requirements in FY 1973 and a substantial portion of the foreign exchange costs in FY 1974. As a result the Malaria IV Loan will only have to finance an estimated $0.3 million of FY 1974 foreign exchange costs and all of these costs for FY 1975 in an amount of about $0.9 million.

With respect to local costs, A.I.D. is proposing that the Malaria IV Loan will finance 40 percent of MES local costs in FY 1974 and 30 percent in FY 1975. In addition, the loan will include

1/ Actual

$441,000 to meet A.I.D.'s current commitment to finance 40 percent of MES local costs for FY 1973. These additional funds for FY 1973 are required due to an underestimation of the amount under the Malaria III Loan to complete the local cost financing for FY 1971. 1/

Based on the above, the Malaria IV Loan will cover the following elements:

FISCAL YEAR	FOREIGN EXCHANGE COSTS COMMODITIES	LOCAL COSTS	TOTAL
1973	$ -	$ 441,000	$ 441,000
1974	278,000	1, 758,000	2,036,000
1975	890,000	1, 367,000	2,257,000
	-		
	$1,168,000	$3, 566,000	$4,734,000

The corresponding IEG local cost contribution will be as follows:

FISCAL YEAR		AMOUNT
1973		$ 662,000
1974		2,637,000
1975		3,189,000
	TOTAL	$6,438,000

C. Financial Plan for Phase IV

The Financial Plan for Phase IV is as follows:

	FOREIGN EXCHANGE COSTS	LOCAL COSTS	TOTAL
A.I.D. Loan	$1,200,000 (100 PC)	3,600,000 (36 PC)	4,800,000 (42.5 PC)
IEG Contr.	-	6,500,000 (64 PC)	6,500,000 (57.5 PC)
	$1,200,000 (10.6 PC)	10,100,000 (89.4PC)	11,300,000 (100 PC)

The loan will finance 36 percent of project local costs and 42.2 percent of total costs. The proposed loan terms are repayment over 40 years including a 10-year grace period, with interest at two percent (2 percent) during the grace period and three percent (3 percent) thereafter.

1/ Whereas MES and USAID estimated that the local cost component of the Malaria II loan would cover 50 percent of MES local currency requirements through January 1971, the Malaria II funds were sufficient to cover 50 percent of MES local costs only through October 1970.

D. IEG Ability to Provide Adequate Local Cost Financing

The implications for the IEG budget of A.I.D. assistance as now planned are set forth in the following table:

IEG AND AID FINANCING OF MES PROGRAM, FY 1972-1975
(MILLION U.S. $)

	1972	1973	1974	1975
A.I.D.	2.1	2.1	2.1	2.3
IEG	1.4	2.3	2.6	3.2
TOTAL	3.5	4.4	4.7	5.5

From the above it is apparent that the annual local cost contributions of the IEG by the end of the Malaria IV Loan will reach \$3.2 million. This compares with an annual level for the self-financed capital budget of almost \$50 million by FY 1975. Patently, \$3 million is a substantial sum and a significant proportion of the Capital Development budget. However, given the IEG's commitment to the program, the great popular interest in the program in all parts of Ethiopia, and the dangers inherent in any significant curtailment of MES activities, there is every good prospect for continued adequate and timely IEG support of the MES program. A.I.D. disbursements for the stipulated share of local costs will be made in the form of reimbursements, thus assuring IEG fulfillment of its obligations.

It continues to be A.I.D.'s intention to seek absorption of all local costs financing of the Malaria program within the IEG budget. Specific arrangements beyond those provided for in this proposal remain to be devised at the time of consideration of additional financing for the program. The decision to be taken at that time will need to take into account, among other things, Ethiopia's status as one of the least developed countries, Ethiopia's general progress in achieving development goals established by the IEG and accorded support by the IBRD and other-donor institutions, the priority given to the Malaria suppression program within plans for the health sector as a whole and the priority in turn given to development expenditures in the health sector within the Fourth Five-Year Plan.

E. Ability of IEG to Repay the Loan

The IEG's outstanding foreign debt in foreign exchange (including private loans guaranteed by IEG financial institutions) increased from U.S. $188 million at the end of CY 1970 to U.S. $228 million at the end of CY 1971, or an increase of about 21 percent. However, the debt in terms of Ethiopian dollars, grew by only 13%, the additional 8% growth being due to devaluation of the U.S. dollar in December 1971. It was distributed by creditors as follows:

OUTSTANDING IEG EXTERNAL DEBT, DECEMBER 31, 1971

	U.S. $ (Millions)
IBRD/IDA	89.7
United States	72.7
Italy	23.8
USSR	12.2
West Germany	8.2
Czechoslovakia	5.7
Sweden	4.9
Netherlands	3.0
Yugoslavia	2.4
United Kingdom	.4
Switzerland	.4
Japan	.1
Belgium	.1
	228.6

It may be noted that loans to the IEG from the U.S. and IBRD/IDA comprise approximately 70 percent of the total debt outstanding.

The external debt servicing situation has improved significantly since 1968 with regard to the loan terms obtained by the IEG. The average terms on new commitments changed from 25 years maturity, 5 years grace, and 4.4% interest in 1968 to 41 years, 9 years, and 2% respectively in 1971.

On the other hand, it is estimated that gross loan disbursements will increase to U.S. $60 million per year by 1974-75 from a level of U.S. $30 million per year in 1969-70. The larger flows tend to offset the improved terms to the extent that the debt service ratio (principal and interest divided by the exports of goods and services) is expected to rise from 12.5% in 1970 to 14.9% by 1979. It is assumed that new debt will have the same terms as have characterized loan commitments to Ethiopia in 1970, 1971, and 1972.

It should be emphasized that an assumption of continued availability and use of concessional loans underlies the debt service projections. Thus A.I.D. concessional term lending (i.e., 40 years maturity, 10 year grace, and 2 percent interest during the grace period and 3 percent thereafter) would appear fully justified and in agreement with the IBRD recommendation in its November 1971 report. The World Bank Group itself has substantially increased the share of IDA lending to over 80 percent of commitments in 1970-72. Another assumption underlying the projections is a successful Ethiopian effort to reduce the historical fluctuations in export earnings and to achieve a steady growth in exports. Given these assumptions Ethiopia should be able to service its debt during the 1970's and A.I.D. believes there are reasonable prospects for repayment.

F. Other Sources of Financing

The Malaria Control Program in Ethiopia was initiated and has received its external support from A.I.D. and WHO. WHO continues to provide support for the program through the services of three technicians and two instructors $5000 in specialized commodities per year and from two to six training fellowships. WHO also supports the Malaria Eradication Training Center (METC) through provision of commodities. Other donors are not expected to initiate contributions to the MEP in view of the historical roles of A.I.D. and WHO. However, other donors, especially the IBRD, are providing substantial assistance to the IEG in other related fields. In the health sector, substantial aid is provided by Sweden, the U.K. and by private groups. The Federal Republic of Germany (FRG), and others, are assisting in financing improved water supplies. In other sectors, the IBRD and IDA have provided about $132 million for assistance to Ethiopia, primarily in the areas of roads, power and telecommunications and agriculture, and the IBRD is cooperating with WHO in health sub-sector studies (water and sewers). The Swedish Government is now involved in two major agriculture development projects, provides educational and transport assistance and is assisting rural health clinics and nutrition improvement. The FRG is providing major assistance for construction of the Dilla-Moyale segment of the road connecting Addis Ababa to Nairobi, and has assisted the Development Bank.

V. SOURCE OF PROCUREMENT

The foreign exchange component of the loan will be available for the purchase of goods and services from countries included in Code 941 of the A.I.D. Geographic Code Book, i.e., from the U.S. and eligible lower income countries. Most, if not all, of the offshores items will actually be purchased from the U.S., however, since the U.S. is the sole Code 941 source for most of these items.

VI. IMPLEMENTATION

Schedule for implementation is as follows:

Execution of Amendment	May 1973
Ratification by Ethiopian Parliament	May 1973
Satisfaction of Amendment CPS	July 1973
First Disbursement	September 1973
Last Disbursement	June 1975

VII. ISSUES

None.

AID-DLC/P-570/5
April 26, 1973

Annex I

CHECKLIST OF STATUTORY CRITERIA
DEVELOPMENT LOAN FUND

Many of the questions require only yes or no answers. Others, however, must be answered more fully. In those cases, a specific reference to explicit discussion of the matter in the loan paper will suffice. But where the loan paper does not deal explicitly with a matter that clearly requires more than a yes or no response, sufficient response must be made to indicate that the matter has been appropriately considered.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended, incorporating amendments effected by the Foreign Assistance Act of 1971.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant and Marine Act of 1936 as amended.

Space for answers is provided in the margin to the right of each question. This form must be made a part of the Capital Assistance Paper.

I. COUNTRY PERFORMANCE

A. Progress Towards Country Goals

1. FAA §§201 (b) (5), 201 (b) (7), 201 (b) (8), 208. Discuss the extent to which the country is:

   (a) Making appropriate efforts to increase food production and improve means for food storage and distribution.

   IEG plans stress increased food production and improved marketing of agricultural products, and the IEG is allocating a considerably higher level of expenditures for agriculture than in the past.

   (b) Creating a favorable climate for foreign and domestic private enterprise and investment.

   Ethiopia provides tax holidays and duty-free entry privileges to foreign entities investing in needed development projects. The government has plans to establish a trade and investment center to assist businessmen and may act to improve further the Investment Proclamation.

(c) Increasing the people's role in the developmental process.	Villagers in certain parts of Ethiopia are building schools, water systems and farm-to-market roads and are modernizing farms with the help of U.S., Sweden, et al. This is on a modest scale so far but is an appreciable start. The IEG is preparing to implement an experimental local government program, embodying county level councils and local administration.
(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.	See I.D, 2 below.
(e) Willing to contribute funds to the project or program	The IEG will contribute $6 ,500,000 to Malaria Eradication - Phase IV.
(f) Making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangements; and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	The traditional monarchial system in Ethiopia is gradually broadening. Although the press is largely government-controlled, there is generally freedom of expression, barring direct attack or criticism of the Government and the Emperor. There is a 18-year old Parliament with some, if limited, effective powers. Entrepreneurs operate fairly freely, and trade unions are beginning to have an independent voice. The government is seeking Western advice in legal matters, taxation, finance, private enterprises. The Ministry of Land Reform and Administration has conducted land tenure surveys and prepared land reform legislation which is presently under consideration by the Parliament and may be promulgated this year.
(g) Responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.	The IEG has strengthened its commitment to development in recent years, and has shown a new willingness to take meaningful self-help measures in order to carry out the Third Five-Year Plan (1968-1973). The development budget increased by 38 % from FY-69 to FY-72.

B. **Relations with the United States**

1. FAA §620(c). Is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, including arbitration, or (b) the debt is not denied or contested by the government, or (c) the indebtedness arises under such government's, or a predecessor's unconditional guarantee?

No such indebtedness is known to exist.

2. FAA §620(d). If the loan is intended for construction or operation of any productive enterprise that will compete with U.S. enterprise, has the country agreed that it will establish appropriate procedures to prevent export to the U.S. of more than 20% of its enterprise's annual production during the life of the loan?

Not applicable.

3. FAA §620(e)(1). Has the country's government, or any agency or subdivision thereof, (a) nationalized or expropriated property owned by U.S. citizens or by any business entity not less than 50% beneficially owned by U.S. citizens, (b) taken steps to repudiate or nullify existing contracts or agreements with such citizens or entity, or (c) imposed or enforced discriminatory taxes or other exactions, or restrictive maintenance or operation conditions? If so, and more than six months has elapsed since such occurrence, identify the document indicating that the government, or appropriate agency or subdivision thereof, has taken appropriate steps to discharge its obligations under international law toward such citizen or entity? If less than six months has elapsed, what steps if any has it taken to discharge its obligations?

No to first question. Second question not applicable.

4. FAA §620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction?

No.

5. FAA §620(l). Has the government instituted an investment guaranty program under FAA 211(b)(1) for the specific risks of inconvertibility and expropriation or confiscation?	Yes.
6. FAA §620(o): Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters? If, as a result of a seizure, the USG has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished.	No.
7. FAA §620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan?	No.
8. FAA §620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed?	No, to first question. Second question not applicable.

C. **Relations with Other Nations and the U.N.**

1. FAA §620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?	No, as far as known.
2. FAA §620(a),620(n). Have the country sold, furnished, or permitted shops or aircraft under its registry to carry to Cuba or North Viet-Nam items of economic, military, of other assistance?	No, as far as known.
3. FAA §620(u); App.§108. What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues or arrearages?	Ethiopia is not in arrears in its obligations to the U.N. The loan agreement will restrict the loan funds to the project.

D. **Military Situation**

1. FAA §620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?	No, as far as known.

2. FAA §620(s). What is (a) the percentage of the country's budget devoted to military purposes, and (b) the amount of the country's foreign exchange resources used to acquire military equipment? Is the country diverting U.S. development assistance or P.L. 480 sales to military expenditures? Is the country diverting its own resources to unnecessary military expenditures? (Findings on each question are to be made for each country at least once each fiscal year and, in addition, material change in relevant circumstances.)

About 20% of the country's budget is devoted to defense purposes. Little foreign exchange is used to acquire military equipment, since most of it is grant financed under U.S. MAP. The November 1968 Report to the Ethiopian Study Team (Bell Report) concluded that "Ethiopia is not diverting United States economic assistance nor its own resources to unnecessary military expenditures." The findings of the Bell Report were reconfirmed in October 1970. The answer to the last three questions are no. The IEG has continued to constrain growth in expenditures for defense in line with general understandings with the IBRD, and desires to continue this policy.

II. CONDITION OF THE LOAN

A. General Soundness

-- Interest and Repayment

1. FAA §§201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?	The loan terms are low and reasonable. There are reasonable prospects for repayment. The grace period interest rate is 2%, followed by an interest rate of 3% for the duration of the loan. The answer to the last question is no.

-- Financing

1. FAA §201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?	Concessional financing not believed available for purposes of this loan from other free world sources. Need for lenient terms, size and purpose of loan exclude consideration of other private or official U.S. sources. See Section IV-F of Capital Assistance Paper.

-- Economic and Technical Soundness

1. FAA §§201(b)(2), 201(e). The activity's economic and technical soundness to undertake loan; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?	Yes, See Sections of Capital Assistance Paper.

2. FAA §611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonably firm estimate of the cost of assistance to the U.S., been completed?

The necessary planning for the project has been completed. (See Sections IIA and IIB Capital Assistance Paper) and reasonably firm cost estimates have been obtained.

3. FAA §611(b); App. §101. If the loan or grant is for a water or related land-resource construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?

No applicable.

4. FAA §611(e). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D. officer in the country certified as to the country's capability effectively to maintain and utilize the project?

Yes, the Mission Director has so certified. See Annex

B. Relation to Achievement of Country and Regional Goals

-- Country Goals

1. FAA §§207, 281(a). Describe this loan's relation to:

a. Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development.

The project does not relate directly to institutions. It does, however, focus on invigorating the rural population and opening up new farming areas to them thereby widening their participation in development.

b. Enabling the country to meet its food needs, both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity.	This project will open to agricultural development many fertile areas formerly little used because they were malarial.
c. Meeting increasing need for trained manpower.	The project includes training of local personnel and advisory assistance.
d. Developing programs to meet public health needs.	This is the express purpose of the project.
e. Assisting other important economic, political, and social development activities, including industrial development; growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administration; urban development and modernization of existing laws.	By invigorating and increasing the mobility of Ethiopians, this project will contribute appreciably to economic, political, and social development.
2. FAA §201(b)(4). Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.	The health improvement resulting from this project is essential to expanding and broadening production.

3. FAA §201 (b) (9). How will the activity to be financed contribute to the achievement of self-sustaining growth?	The project's economic benefits will assist the conomy to grow (see Section III). The MES through an effective training program now bears a major share of project responsibility and will assume more in the future.
4. FAA §201(F). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.	Section III covers much of this topic. In addition the project is essential to development of broad-based Ethiopian agricultural development.
5. FAA §201(b) (3). In what ways does the activity give reasonable promise of contributing to development of economic resources, capacities?	See Section III.
6. FAA §281(b). How does the program under which assistance is provided recognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.	See comment for items II-B-1 (a through e) of this checklist.

7. FAA §601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

By opening up new land the project will promote private farming in areas of high potential productivity. Some of the new production will be for export. (b), (c), (d) and (f) are inapplicable.

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.

The procurement of commodities under the loan will be directly from private enterprise. The loan will finance a public service benefitting individuals directly and the economy indirectly.

9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?

None. The project is administered by a Malaria Eradication Service already operating in the Ministry of Public Health.

-- Regional Goals

1. FAA §619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans.	Not applicable.
2. FAA §209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country.	Although the loan is directed at disease which does not recognize national borders, it is not practicable to establish a regional malaria eradication program. The World Bank Group is providing substantial assistance to Ethiopia and the U.N. is providing technical assistance.

C. Relation to U.S. Economy

-- Employment, balance of Payments, Private Enterprise

1. FAA §§201(b)(6); 102, Fifth. What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.	See Section V. The project will not have special reference to U.S. areas of labor surplus.

2. FAA §§612(b), 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign-owned currencies are utilized in lieu of dollars?	It is deemed inappropriate to attempt to use U.S.-owned foreign currency in lieu of dollars to pay costs of U.S. goods and services. U.S.-owned local currencies are not available. The IBG will contribute about $9.8 million in local currency to the project during Phase IV.
3. FAA §601(d); App.§109. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nations of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained.	Malaria Eradication is a program developed and administered by public health officials. It is not appropriate to use private U.S. firms for this work. Second question not applicable.
4. FAA §608(a). Provide information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.	Excess property is not deemed appropriate for the project.
5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?	The Agency advertising requirements will be complied with.

6. FAA §621. If the loan provides technical assistance, how is private enterprise on a contract basis utilized? If the facilities of other Federal agencies will be utilized, in what ways are they competitive with private enterprise (if so, explain); and how can they be made available without undue interference with domestic programs?

AID (U.S. Public Health Service) is providing technical assistance as explained in Section II B. It is suitable because of past experince in malaria eradication on a world-wide basis. This assistance is not competitive with private enterprise, and work on the program does not interfere with domestic programs.

7. FAA §611 (c). If this loan involves a contract for construction that obligates in excess of $100,000, will it be on a competitive basis? If not, are there factors which make it impracticable?

Not applicable.

-- Procurement

1. FAA §604(a). Will commodity procurement be restricted to U.S. except as otherwise determined by the President.

Yes

2. FAA §604(b). Will any part of this loan be used for bulk commodity procurement at adjusted prices higher than the market price prevailing in the U.S. at time of purchase.

No

3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity? — No.

D. Other Requirements

1. FAA §201(b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year? — Yes.

2. App. §106. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms? — Not applicable

3. FAA §620(k). If the loan is for construction of a productive enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the Congress? — Not applicable.

4. <u>FAA §§620(b), 620(f).</u> Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (including, but not limited to the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) been made and reported to the Congress?	Ethiopia is not a communist or communist-dominated country.
5. <u>FAA §620(h).</u> What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?	The loan agreement contains the standard AID clause in this regard.
6. <u>App. § 110.</u> Will any funds be used to finance procurement of iron and steel products for use in Viet Nam other than as contemplated by §118?	No.
7. <u>FAA §636(i).</u> Will any part of this loan be used in financing non-U.S.-manufactured automobiles? If so, has the required waiver been obtained?	No.

8. FAA §§620(a)(1) and (2), 620(p).

Will any assistance be furnished or funds made available to the government of Cuba or the United Arab Republic?

No.

9. FAA §620(g). Will any part of this loan be used to compensate owners for expropriated or nationalized property? If any assistance has been used for such purpose in the past, has appropriate reimbursement been made to the U.S. for sums diverted?

No.

10. FAA §201(f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?

The loan is being implemented by the Ethiopian Government which is proper for a public health project.

11. App. §104. Does the loan agreement bar any use of funds to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?

The loan agreement will restrict the loan funds to the project.

12. MMA § 901.b. Does the loan agreement provide, for compliance with U.S. shipping requirements, that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels. Does the loan agreement also provide for compliance with U.S. shipping requirements, that at least 50% of the gross freight revenues of goods shipped under this loan must be earned by privately owned U.S.-flag commercial vessels to the extent such vessels are available at fair and reasonable rates for U.S.-flag vessels?

Yes, to both questions.

13. FAA. Section 481. Has the country failed to take adequate steps to prevent narcotic drugs from entering the U.S. unlawfully?

No. Ethiopia is cooperating with U.S. and international organizations in the control of narcotic drugs.

14. FAA. Section 604.e. Has there been compliance with restriction against procuring with AID funds agricultural commodities outside the U.S. when the domestic price of such commodity is less than parity.

No agriculture commodities will be procured with funds from this loan.

ANNEX II
AID-DLC/P-570/5
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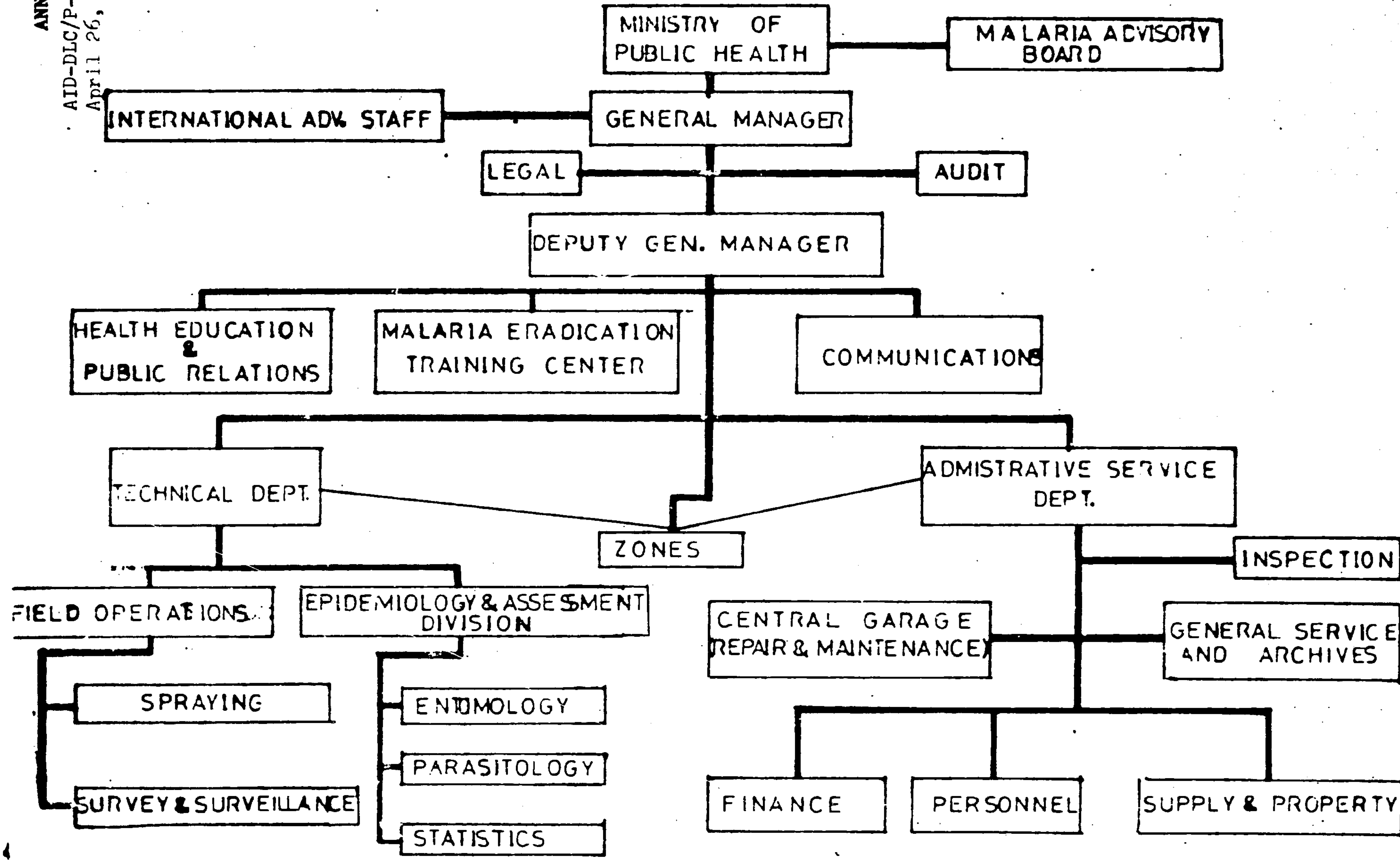
[illegible] GOVERNMENT

MINISTRY OF PUBLIC HEALTH

MALARIA ERADICATION SERVICE
ORGANIZATION CHART



OCT. 30, 72

ETHIOPIA: MALARIA PROGRAM AREAS

ANNEX III
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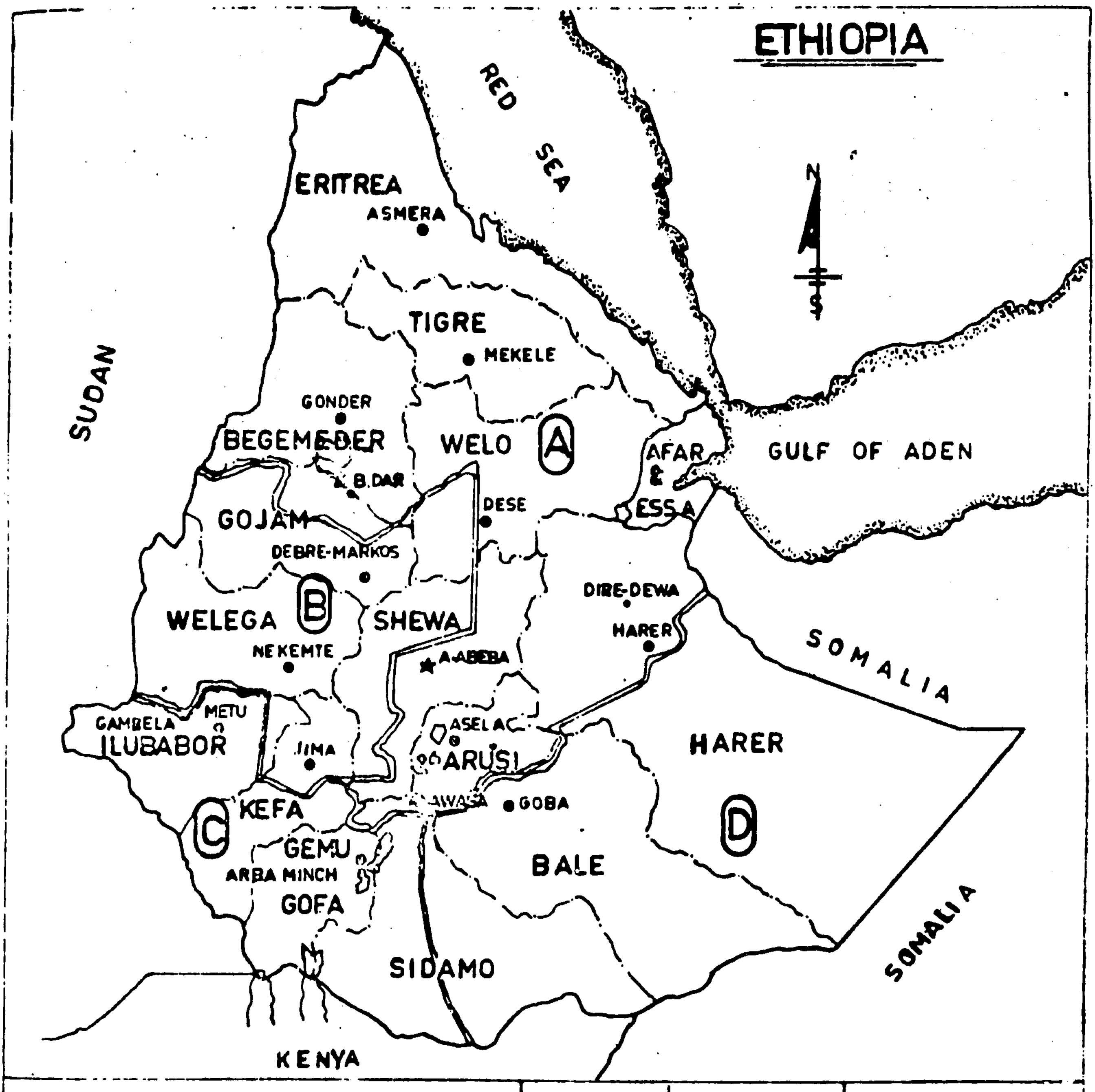

LEGED

- NATIONAL BOUNDARY
- PROVINCE BOUNDARY
- AREA BOUNDARY
- ★ CAPITAL CITY
- ● PROVINCE CAPITAL

REGION	AREA Km²	POPL at RISK
A	470,000	5,545,600
B*	185,000	3,375,070
C	175000	2,080,300
D	392,000	1,670,000
TOTAL	1,222,000	12,670,970

MALARIA ERADICATION SERVICE
PLAN OF OPERATIONS, FY 1972-1977: OBJECTIVES

1. Long Range Objectives

   1.1 The eradication of malaria from the entire country.

   1.2 The prevention of re-establishment of malaria in the country.

   1.3 To encourage the establishment of a network of basic health services in the country by the Ministry of Public Health, to sustain achieved eradication of malaria.

2. Short Range Objectives

   2.1 The continuation of anti-malaria operations in Area A with the aim of maintaining and improving the gains achieved in the suppression of the malaria incidence.

   2.2 Within the scope of activities and resource limitations, efforts will be made to (a) improve geographical reconnaissance (GR), spraying, epidemiological, administrative and other activities, and (b) continue to improve surveillance activities in three (3) selected sectors, in order to demonstrate in Ethiopia the feasibility of interrupting malaria transmission.

   2.3 Conduct country-wide anti-malaria activities in development projects, selected populous centers and tourist centers which are in malarious areas, on the basis of (a) availability of resources after satisfying the requirements for the continuation of anti-malaria work in Area A and (b) epidemiological, economic and other justifications.

   2.4 Retraining as necessary of MES staff in multi-purpose malaria activities.

   2.5 Conduct and improve the health education malaria campaign, to obtain acceptance of anti-malaria measures and active participation of the population in the country.

2.6 Refinement of epidemiological and entomological activities necessary for the assessment of spray operations, and also to delimit the malarious areas which need anti-malaria measures.

2.7 Conduct spray operations in malarious localities of Area A, and in the development projects, population centers and selected tourist centers, in malarious areas, in accordance with the epidemiological findings. The number of rounds of spraying of localities may be increased, reduced or discontinued on basis of epidemiology findings.

2.8 Continued improvement of geographical reconnaissance in Area A, especially sector key maps, and carry out required GR in the program areas.,

2.9 To detect malaria epidemics and take remedial action as soon as possible, and to determine the cyclic trends of malaria epidemics.

2.10 Solicit active participation of all types of general health services, voluntary collaborators, teachers, community leaders, government and private agency employees, etc., in the development of a sound Passive Case Detection (PCD) system in program area.

2.11 Collection of baseline data for the evaluation of the economic impacts of anti-malaria activities in collaboration with other Agencies.

2.12 Seeking ways and means of cooperation and collaboration with Basic Health Services to develop a system for future integration.

February 1973

REVISED ESTIMATED REQUIREMENT OF IMPORTED SUPPLIES, EQUIPMENT AND VEHICLES FOR THE MALARIA ERADICATION SERVICE, ETHIOPIA

FY 1974-1975

In U.S. ($) Dollars

ITEMS REQUIRED	1974	1975	Total
1. DDT 75% W.D.P.	597,759	627,647	1,225,406
2. Spare Parts for Pumps	5,043	5,438	10,481
3. Spray Pumps	4,605	5,526	10,131
4. Vehicles	469,000	325,000	794,000
5. Microslides and Chemicals	11,523	12,066	23,589
6. Lab. Equipment and Supplies	20,552	21,464	42,016
7. Operation Equipment	69,298	70,349	139,692
8. Anti-Malaria Drugs	47,098	48,343	95,441
9. Furniture, Office Supplies & Equipment	28,149	28,646	56,795
10. Tires, Tubes and Batteries	20,394	71,271	91,665
11. Spare Parts for Vehicles	68,859	70,833	139,692
12. Tools & Workshop Equipment	3,399	3,453	6,852
TOTAL	$1,345,679	$1,290,081	$2,635,760

AID-DLC/P-570/5
April 26, 1973

ANNEX VI

Certification Pursuant to Section 611(e) of the Foreign Assistance Act of 1961, as amended

I, Roger Ernst, the Principal Officer of the Agency for International Development in Ethiopia, having taken into account, among other things, the maintenance and utilization of projects in Ethiopia previously financed or assisted by the United States, do hereby certify that in my judgment Ethiopia has both the financial capability and the human resources capability to maintain and utilize effectively the capital assistance project, Malaria Eradication - Phase IV.

This judgment is based in part upon (i) the satisfactory utilization of funds under A.I.D. Loans 663-H-013, 013A and 013B, Malaria Eradication - Phase I, Phase II and Phase III, and (ii) the past performance of the Imperial Ethiopian Government in maintaining and utilizing successfully capital assistance provided under other related A.I.D. projects.

Roger Ernst

Roger Ernst
Director, U.S. A.I.D. to Ethiopia

2-16-73

Date

ENVIRONMENTAL ANNEX - ETHIOPIA

ENVIRONMENTAL IMPACT MALARIA IV PROJECT

Borrower: Imperial Ethiopian Government (IEG)

Amount of Loan Amendment: $4.8 million

Financial Plan for Phase IV:

	Foreign Exchange Costs	Local Costs	Total
A.I.D. Loan	$1,200,000	$3,600,000	$4,800,000
IEG Contribution	-	6,500,000	6,500,000
	$1,200,000	$10,100,000	$11,300,000

Description of the Project:

The project consists of the 7th and 8th years (Phase IV) of the Ethiopian Malaria Control Program. The project will be carried out by the Ethiopian Malaria Eradication Service (MES) with assistance of A.I.D. and World Health Organization (WHO).

Purpose of Loan:

To finance (a) all of the Foreign Exchange cost of the project for FY-1974 and FY-1975 and (b) a portion of the local cost FY-1973, 1974 and 1975.

Background of the Project:

A.I.D. has provided about $5.1 million in grants and $13.7 million in loans for malaria programs in Ethiopia. The Malaria Eradication Service (MES) is presently working under the Plan of Operations for FY 1972-1977, which incorporates the recommendations of the Strategy Review of May 1970. An Independent Malaria Review Team (IMRT) assessed the program in June 1972 and concluded that the MES was making good progress in carrying out the recommendations of the 1970 Strategy Review. On this basis A.I.D. agreed to consider further financing for the program. The IEG's formal application was submitted on March 15, 1973.

Impact of Project on the Environment

From the inception of A.I.D.'s loan assistance to the Malaria Eradication Program (MEP), the environmental impact of using DDT in Ethiopia's Program has been thoroughly considered by the Ethiopian Government, A.I.D., and the World Health Organization (WHO). These agencies all agreed that DDT is the safest and most effective insecticide for use in malaria control when it is applied by the method used in Ethiopia. For several reasons the MEP's use of DDT does not threaten the environment:

1) The DDT is sprayed only on surfaces where it will not wash away, i.e. on the inside of walls of houses and on sheltered areas of adjacent buildings. Thus, it is unlikely that any appreciable amounts of DDT can escape into the soil and subsequently into groundwater or streams.

2) DDT is characterized by low volatility and none of it escapes into the atmosphere.

3) WHO and U.S. Public Health Service advisors are provided to insure proper spraying and storing of the DDT.

Besides the health benefits resulting from malaria control and the agriculture benefits due to increased agriculture production in previously unsettled areas, using DDT offers another great advantage to Ethiopia. That advantage is its low price. The Malaria Eradication Service (MES) presently uses about 1,000 tons of DDT per year for residual spraying of dwellings. The major world source for this insecticide is the United States, where it is cheaply mass-produced. Ethiopia, like many other malarious underveloped countries, can only economically afford DDT in its control program. Although alternative techniques are becoming available, they are too expensive. The HEW report on "Pesticides and their Relationship to Environmental Health" concludes that it is likely that malaria program in underveloped countries will "gradually be discontinued if they are forced to use substitutes for DDT".

In testifying before the Environmental Protection Agency hearing on DDT, Dr. Steinfeld, Surgeon-General of the United States Public Health Service, stated, "The safety record for the use of DDT in the malaria eradication program is nothing short of phenomenal. Although billions of pounds have been used in anti-malaria programs during the past quarter of a century, there is no record of illness attributable to DDT resulting directly from the normal spraying operations among either the hundreds of thousands of spraymen or the hundreds of millions of occupants of DDT treated homes".

In a WHO publication entitled, "The Place of DDT in Operations Against Malaria and Other Vector-Borne Diseases", an assessment of environmental contamination from the use of DDT in anti-malarial operations is given as follows:

The safety record of DDT for man is truly remarkable. At the height of its production over 400,000 tons per year were used for agriculture forestry, public health and other purposes, all involving some human contact. For typhus control, whole populations have had 10% DDT powder blow into their clothing as they wore it. For malaria control, millions of men, women and children have had the interior walls of their homes sprayed year after year; in some places for more than 20 years. For control of yellow fever, DDT has been added directly to drinking water. For food protection, many plants and animals eaten by man have been sprayed with this insecticide.

Yet, in spite of the prolonged exposure of the population of the world and the heavy occupational exposure of a substantial number of people, the only confirmed cases of injury have been the result of massive accidental or suicidal ingestion. In the light of the health record of the people most heavily exposed to DDT, there is no reason to believe that the millions of people protected against vector-borne diseases are at any risk from their small exposure to DDT.

Whereas damage to wildlife has sometimes followed the application of DDT in agricultural and forestry practice, the same risks do not now accompany the use of DDT in anti-malaria operations. Since the vast majority of the DDT used in the control of malaria is applied as a residual spray indoors, only a small fraction of the insecticide is likely to involve any direct contamination of the environment. This, however, may take place during the process of spraying the houses with DDT, when a certain amount of contamination of the floor and immediately surrounding soil outside does take place. Some measurements have indicated that about 6% of the spray is deposited on the floor inside and some 2% on the outside soil around the houses. The deposit outside houses, if calculated for rural areas with an average of 100 inhabitants per square km, as in parts of tropical Africa, would amount to a DDT input of 10 g per hectare; it will be seen that this is 200 times less than a standard DDT application of 2 kg per hectare as employed on cotton crops. Moreover, whereas only one or two applications are made to houses per year, multiple applications are made to cotton during its growing season. The DDT sprayed on the inside walls and falling to the floor is held by those surfaces. Hence, provided the insecticide is used indoors as in the case of anti-malaria operation, it would appear that there is little possibility of the insecticide contaminating the surrounding local vegetation and water sources that would endanger wildlife.

In the Environmental Protection Agency hearings on DDT and in subsequent Environmental Protection Agency recommendations and also in the recently amended Federal Pesticide Act (FIFRA) no actions were taken to interfere with the manufacture and export of DDT for use in public health programs.

Thus, the continued use of DDT in the Ethiopia MEP is a sound decision from a public health, economic, and environmental viewpoint.

AID-DLC/P-570/5/A-draft
April 26, 1973

ANNEX VIII

CAPITAL ASSISTANCE LOAN AUTHORIZATION AMENDMENT

Provided from: Development Loan Funds

Ethiopia - Malaria Eradication - Phase IV

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize an Amendment to A.I.D. Loan 663-H-013 to the Imperial Ethiopian Government by an amount not to exceed Four Million Eight Hundred Thousand dollars ($4,800,000) to provide additional funds to assist in financing the foreign exchange and a portion of the local costs of a malaria control program in Ethiopia, subject to the following terms and conditions:

1. Interest and Terms of Repayment. Borrower shall repay the Loan Amendment to A.I.D. within forty (40) years from the date of the first disbursement under the Loan Amendment, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. interest on the outstanding balance at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Currency of Repayment. Provision shall be made for repayment of the Loan Amendment and payment of the interest in United States dollars.

3. Other Terms and Conditions:

   (a) Equipment, materials and services financed under the Loan Amendment shall be procured from Ethiopia and from countries included in Code 941 of the A.I.D. Geographic Code Book.

   (b) The Loan Amendment shall be subject to such other terms and conditions as A.I.D. may deem advisable.

____
Assistant Administrator for Africa

____
Date

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Department of State TELEGRAM

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SUBJ: MALARIA IV CAPITAL ASSISTANCE PAPER (CAP)

REF: STATE 53346

CDU
New

1. SUMMARY: AID/W AND USAID LOCAL COST BALANCES DIFFER SUBSTANTIALLY. THIS PROBABLY ALSO TRUE FOR FX COST: INCREASED LOCAL CURRENCY COSTS FOR AID ACCOUNT ONLY AND IEG CONTRIBUTION UNAFFECTED BY LARGER FIGURE LATEST CAP: ACTION FOR DISBURSEMENT RESIDUAL FUNDS IN CURRENT LOANS WITH AID/W: LOCAL COST REIMBURSEMENT PROCEDURE AS PREVIOUS WITHOUT INORDINATE LAG: PIPELINE LOCAL COST FUNDS MATERIALLY BELOW AID/W PROJECTIONS.

2. USAID HAS MADE DETAILED REVIEW OF LAON ACCOUNTS AND AFTER ANALYSIS CANNOT CONFIRM AID/W FIGURES. HOWEVER, WILL ATTEMPT CLARIFICATION AND ATTENDANT COMMENT.

3. AS AID/W AWARE, USAID UNABLE, ON OWN, TO DETERMINE EXACT LEVEL OF FX BALANCE AND DEPENDENT ON FIGURES PROVIDED BY AID/W THROUGH SER/FM COMPUTER PRINTS AND W-743/1 REPORTS. CONSEQUENTLY, FX FIGURES OFFERED BELOW BASED ON THESE SOURCES AND SUBJECT TO AID/W CORRECTION WHICH IS HERE REQUESTED IF IN ERROR. REGARDING LC, WE BELIEVE BALANCES PRESENTED HERE CURRENT AND MOST ACCURATE. UNFORTUNATELY AID/W DID NOT PROVIDE IN PARA [illegible] REFTEL MIX OF

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FX/LC OR "AS OF" DATE FOR CUMULATIVE UNDISBURSED BALANCE FIGURES OF $1,987,757. WE ASSUME DATE TO BE FEB 28, 1973, AND OFFER FOLLOWING AS OF THAT DATE. TOTAL LOAN AND AMENDMENTS BALANCE $1,466,224 CONSTITUTED OF THESE LC AND FX ELEMENTS:

	FX	LC
13	$ 90,623	0
13A	306,847	$ 23,183
13B	707,045	338,526
	$1,104,515	$361,709

ON JUNE 7, 1972, TOTAL BALANCE LC, OF WHICH ALL IN 13B WAS:

	US $	211,666
PLUS DBA INCREASE OF	PLUS	1,300,000
LESS OCTOBER 1972 DISBURSEMENT	-	663,988
AND LESS JAN 1973 DISBURSEMENT	-	509,152
BALANCE 2/28/73	$	338,526

CONSEQUENTLY, LC DISBURSEMENT 8-MONTH PERIOD, 7/1/72 TO 2/28/73, US $1,173,140, NOT $483,134. AVERAGE MONTHLY DISBURSEMENT THIS PERIOD THEREFORE $146,642, NOT $60,400. FYI, REVIEW ALL LC INCEPTION TO DATE, REVEALS NO PERIOD IN WHICH AVERAGE MONTHLY LC DISBURSEMENTS FELL TO $60,400 LEVEL OR APPROXIMATE END FYI.

4. AID FINANCED LC ESTIMATES IN PREVIOUS DRAFT CAP AND PRESENT PAPER BASED ON SAME MES BUDGET ESTIMATES. HOWEVER, AID LC CONTRIBUTION ESTIMATE EARLIER CAP MADE ON 30PERCENT/20PERCENT FORMULA FY 74/FY 75. LATEST CAP: 40PERCENT/30PERCENT CORRESPONDING FY'S. FURTHER, PREVIOUS DRAFT CAP CONVERTED MES ETH. $ BUDGET AT $2.30, CURRENT CAP: US $1 EQUALS ETH. $2.05. AS ENTIRE $736,000 INCREASE LC ALL ON AID SIDE DUE DEVALUATION II AND AID/IEG AGREEMENT 40/30 FORMULA, IEG COMMITMENT NOT INCREASED. IN FACT REVERSE IS CASE.

5. PER PARA 1.A.3. REFTEL, $150,000 IN 13B IS FX FOR WHICH DISBURSEMENT AUTHORIZATION NOT REQUESTED AS AUTHORIZED FX IN OLDER LOANS 13, 13A AND ALREADY DISBURSEMENT AUTHORIZED FX IN L/COMM 02, LOAN 13B SUFFICIENT TO COVER JAN 12, 1973 PIO/C PROCUREMENT. IF ADDITIONAL USAID ACTION REQUIRED TO FACILITATE TIMELY DISBURSEMENT, REQUEST AID/W REPLY TO ADDIS 2113.

6. PER PARA 1.A.4. REFTEL, MES NOW AS IN PAST SUBMITS LC REIMBURSEMENT REQUEST EVERY THREE MONTHS APPROXIMATELY. PENULTIMATE REQUEST SUBMITTED OCTOBER '72; LAST IN JANUARY '73.

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ANTICIPATE NEXT REQUEST IN APRIL '73 FOR ESTIMATED US $441,000 WHICH FROM FIGURES PARA 3 ABOVE, IN EXCESS OF LC AVAILABLE IN LOAN 13B. THERE IS NO LC FOR MES REIMBURSEMENT IN LOAN 13 AND 13A AS MAXIMUM LOAN AGREEMENT FIGURE THESE LOANS ALREADY DISBURSED.

7. PER PARA 2 REFTEL; SIGNIFICANCE AID/W ATTACHES TO SIMILAR BUT NOT IDENTICAL FIGURES IN COMMODITY ANNEX ITEMS 7 AND 11 ELUDES USAID. ADVISE, ITEM 7, GSA PROCURED OPERATIONS EQUIPMENT, SAME AS IN MALARIA PHASE III CAP OF WHICH FOLLOWING ITEMS AND PROJECTED EXPENDITURES CONSTITUTE MAJORITY:

TWO-AND FOUR-MAN TENTS	$36,000
STORAGE TENTS	7,500
COOKING KITS	9,500
JERRY CANS	7,500

8. PER PARA 2.C. REFTEL, PIPELINE FOR LC VIRTUALLY NON-EXISTENT AND EXTREMELY LIMITED FOR FX AFTER PIO/C PROCUREMENT OF JAN '73 -- BASED ON SER/FMS FIGURES.

9. ON BASIS ABOVE ANALYSIS AND CLARIFICATION USAID BELIEVE REQUEST FOR LOAN AT $5.2 MILLION INCLUDING 3.6 MILLION LC JUSTIFIED. HOWEVER, IF IN AID/W VIEW LOAN FOR UNDER $5.0 MILLION PRUDENT, USAID WOULD PERCEIVE NO OBJECTION. DECONTROL 3/26/74.
ADAIR

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