

(CPROP) 8/6/68

PROJECT AUTHORIZATION

663-11-750-715 (2) ETHIOPIA
 PD-AAK-407-B1
 ECONOMIC AND FINANCIAL PLANNING
 AUTHORIZATION DATE: June 25, 1970
 APPROVED DATE: August 19, 1970

a. Number of Years of Funding: 9
 Start FY 1965; Terminal FY 1973

b. Estimated Duration of Physical Work: 6 F
 After Last Year of Funding (in months)

FUNDING BY FISCAL YEAR (in \$ 000 or \$ equivalent)	DOLLARS		P.L. 480 CCC + PAYMENT	LOCAL CURRENCY Exchange Rate: \$1 = Birr 20.00			
	GRANT	LOAN		U.S. OWNED		HOST COUNTRY	
				GRANT	LOAN	FOR THE PROJECT	OTHER
1965	200					10	
1966	125					10	
1967	225					10	
1968	210					10	
1969	210					10	
Subsequent FY's							
TOTAL	3,370					80	

8. DESCRIBE SPECIAL FUNDING CONDITIONS OR RECOMMENDATIONS FOR IMPLEMENTATION, AND LIST RISKS AND CLEARANCES OF ANY PROJECT COMMODITIES

None

BEST AVAILABLE DOCUMENT

10. CONDITIONS OF APPROVAL OF PROJECT

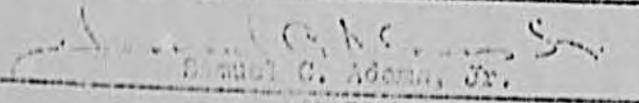
None

(Use continuation sheet if necessary)

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

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

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

AND APPROVAL:  Samuel C. Adams, Jr. ASSISTANT ADMINISTRATOR FOR AFRICA DATE: 8/25/70	CLEARANCES	
	AFR/ESA: JH011	8/25/70
	AFR/DE: DShear	8/25/70
	DAA/AFR: FBirnbaum	8/25/70
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AIRGRAM

DEPARTMENT OF STATE

PRG - 15

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For each address check one ACTION | INFO

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FROM - ADDIS ABABA

SUBJECT - NONCAPITAL PROJECT PAPER (PROP)

DATE SENT
August 12, 1968

REFERENCE -

COUNTRY: ETHIOPIA PROJECT NUMBER 663-11-750-116

Submission Date: August 5, 1968 Original Revision No.

Project Title: ECONOMIC AND FINANCIAL PLANNING

U.S. Obligation Span: FY 1965 through FY 1973

Physical Implementation Span: FY 1966 through FY 1974

Gross life-of-project financial requirements:

U.S. Dollars	1,191,000
U.S.-owned local currency.....	-
Cooperating country cash contribution.....	96,000
Other donor.....	<u>500,000</u>
Total	\$2,090,000

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PAGE 1 OF 21 PAGES

DRAFTED BY <u>NONycoff:mlp</u>	OFFICE <u>Program</u>	PHONE NO.	DATE <u>8/6/68</u>	APPROVED BY: <u>Roger Ernst, Director</u>
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AID AND OTHER CLEARANCES
A/DD:R Gould
PRO:RCohen

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Table 1
Page 1 of 2
COUNTRY: ETHIOPIA

NO CAPITAL PROJECT FUNDING
(Obligations \$000)

PROP Date August 6, 1968
Original _____
Rev. No. _____
Project No. 63-11-750-116

Project Title: Economic & Financial Planning

Fiscal Years	Ap	L/S	Total	Cont ^{1/}	Personnel Serv.			Participants		Commodities		Other Costs	
					AID	PASA	TC E	U.S. Agencies	GOVT	Dir U.S. Ag	GOVT	Dir U.S. Ag	GOVT
Prior through Act.													
FY 1968	TC	G	195	11	13	4	11	167					
Oper. FY 1969	TC	G	337	250	9		175	78					75
Rudg. FY 1970	TC	G	185	90	20		65	75					25
B + 1 FY 1971	TC	G	318	200	20		110	86		10	2		60
B + 2 FY 1972	TC	G	310	200	20		110	90					60
B + 3 FY 1973	TC	G	130	20	20		15	90					5
All Subc.	-	-	-	-	-		-	-					-
Total Life	TC	G	1,475	771	102	4	516	506		10	2		225

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^{1/} Memorandum (non-add) column

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Table 1
Page 2 of 2

Exchange rate: 1 = 100 P.S.

Project No. 669-11-750-116

Fiscal Years	AID-controlled Local Currency		Other Cash Contribution Cooperating Country (US \$000)	Other Honor Funds (\$ Equiv)
	U.S.- owned	Country- owned		
Prior through Act. FY <u>1968</u>			31	50
Oper. FY <u>1969</u>			13	50
Fudg. FY <u>1970</u>			13	100
B + 1 FY <u>1971</u>			13	100
B + 2 FY <u>1972</u>			13	100
B + 3 FY <u>1973</u>			13	100
All Subs.			-	-
Total Life			96	500

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A. Summary Description and Tabulation of Planned Inputs

Ethiopia is well behind most LDC's including those in Africa in economic and social development and has a pathetically low standard of living despite abundant land resources. There is a clear need for better economic and financial planning both to increase the extremely limited amount of resources now available for development and to assure more economic allocation of resources to permit a more rapid rate and appropriate pattern of development.

The future life of the project will correspond with the period of the Third Five-Year Plan (1969-73), and the basic purpose of the project is to support the implementation of the Third Plan. Project goals and targets are summarized below:

1. to train 45 Ethiopians who will fill positions within the IEG closely related to planning;
2. to help adapt the IEG customs tariff and excise tax structures to those of the East Africa Common Market with a minimum loss of revenues to Ethiopia;
3. to formulate programs for expansion of domestic savings and investment and for improvement of financial statistics and planning;
4. to work out plans for government revenue expansion and for making the tax system an instrument for encouraging economic use of land resources and for agricultural development generally;
5. to develop a "program" type budget and help improve coordination between yearly budgeting and annual development plans;
6. to improve accounting and auditing systems within the government complex in order to improve budgetary execution and assure more economic use of scarce resources within the public sector; and
7. to improve coordination among aid donors and enhance the collective influence of donors for achieving necessary reforms within the IEG.

Quantitative targets during the five-year life of the project will include: (a) as indicated above, training of nine Ethiopians each year to fill planning jobs in the IEG; and (b) increasing domestic savings and government revenues at an average rate of at least 10 per cent yearly. Other quantitative targets will be worked out after the project technicians arrive.

Annual funding requirements for the project are shown in the foregoing tables.

B. Setting or Environment

Africa is the least developed of the major LDC areas, and Ethiopia by most indicators of development is in the bottom 25 per cent among African countries. The figures below help bring out Ethiopia's very early stage of development and low rank among developing countries in present level of development.

	<u>LDC's Generally</u>	<u>Africa excl. SA</u>	<u>Ethiopia</u>
Per Capita GNP (1966)	US \$185	US \$130	US \$61
Literacy	39%	20%	5%
Pupils as Per Cent of Population	12%	8%	2%
People Per Physician	3,900	17,900	60,000
Proportion of Population Living in Towns Over 20,000	25	10	5
Proportional Contribution of Agriculture to GNP	35%	40%	60%
Improved Road Mileage Per 1,000 Square Miles	60 (Latin America only)	39	0
Per Capita Electric Power Production (KWH Per Year)	170	00	11
Government Revenues as Per Cent of GNP	NA	16 (est.)	10
Export Earnings as Per Cent of GNP (1967)	NA	25 (est.)	7

It is apparent that Ethiopia needs to get started as quickly as possible with accelerated economic and social development and clear that Ethiopia should make the best possible use of its extremely limited resources. It is evident in other words that Ethiopia requires good resource allocation which implies the need for improved economic and financial planning.

Ethiopia probably ranks in the lowest 15 per cent among LDC's in the amount of domestic resources per capita available for development. With a per capita GNP of less than half the Africa average, savings are understandably ~~standby~~ low. With tax revenues per capita roughly one-third the Africa average and with security expenditures absorbing approximately 35 per cent of total domestic revenues, there is little left for public sector development. Thus in the three fiscal years 1965-67 (latest actual data), combined current and capital expenditures for agriculture and education averaged, respectively, only US \$0.19 and US \$1.10 per capita. The narrowness of the Ethiopian tax base is indicated by the fact that there have been only about 11,000 income taxpayers and 700,000 land taxpayers in a population of 23 million, and more than 90 per cent of total revenues are collected in Addis Ababa. Although Ethiopia's development equipment and services requirements necessarily have a high import component, export earnings are likewise small. Exports in 1967 were only 7 per cent of the GNP, and on a per capita basis were roughly one-fifth the Africa average. Moreover, the external debt service requirements have been growing rapidly and in 1967, interest and amortization payments on the external debt were 74 per cent of total foreign loan and credit disbursements and were 15 per cent as large as total merchandise export earnings. Both foreign exchange from local sources and local currency availabilities for development are thus strikingly restricted.

While Ethiopia badly needs good economic and financial planning, the obstacles to achievement of this are formidable. National and sectoral planning organizations and processes are at an extremely early stage of development. The principal reason for this is the scarcity of qualified people to fill jobs in IDG ministries responsible for development planning as well as jobs in banking institutions and large private firms requiring decisions affecting major resource allocations. While the IDG has shown awareness of the potential importance of central planning in the country's development by raising in May 1966 the status of the Planning Board to that of Ministry of Planning and Development, the Ethiopian staff of the new ministry is small and generally not well qualified. The Third Five-Year Plan has just been prepared principally by a staff of 15 expatriate specialists headed by an American, World Bank employee. Most of these specialists have now departed, leaving the ministry inadequately staffed to prepare and implement the required annual subsidiary development plans. The planning staffs of individual ministries and agencies are perhaps even more in need of qualified people. In particular, the IDG needs qualified specialists to improve demographic, manpower and vital statistics, national income statistics, balance of payments statistics, as well as specialists to plan individual capital projects within the framework of the national plan and to manage mixed private and government-owned enterprises. They also need a number of economic development generalists aware of the political and organizational reforms required for implementation of development plans, as well as specialists to improve fiscal planning and institute better coordination

between yearly budgeting and annual development planning. They also need economists to formulate development strategy and prepare future Five-Year Plans and subsidiary annual plans.

Budgeting at present is rather crude, is not "program" budgeting, and hinders rather than facilitates badly needed coordination of yearly budgets with annual development plans.

Until a much larger number of Ethiopians can be trained, a sizeable number of expatriates must be employed in IEG ministries and offices concerned with economic and financial planning and plan execution. The general shortage of trained manpower is strikingly brought out in the Third Five-Year Plan which estimates that Ethiopia has only about one-third the educated people (defined as nine years or more of schooling) required in the public and private sectors to implement the ambitious Third Five-Year Plan.

C. Strategy

The project will help to narrow the existing wide gap between the trained manpower (a) required and (b) available for economic and financial planning. This will be done principally by financing the training in the U.S. of promising Ethiopians and to a lesser extent by providing the services of U.S. specialists needed to help formulate financial, budgetary, tax, accounting and auditing reform measures and to achieve better coordination between yearly budgets and annual development plans.

Somewhat more specifically, the project will help with plans to increase government revenues, expand the tax base, and make the tax system a better and more equitable tool for encouraging economic use of land resources and for encouraging general agricultural and agro-industrial development. To improve budget execution, and better control expenditures by government enterprises not included under the regular budget, project technicians will develop improved systems of accounting for government ministries, agencies and enterprises as well as improve related auditing systems employed by the IEG Auditor General Department. Effective auditing has been nearly non-existent in Ethiopia. The project will also contribute to development of measures and programs designed to increase progressively the present low levels of saving and investment. Project technicians will also formulate criteria to estimate optimal credit expansion for developmental purposes in Ethiopia.

In short, this project will contribute to economic and social development by planning measures and programs designed to make more resources available for development and to make the allocation of resources more closely aligned with development criteria, thus increasing the rate of development.

1. Possible Resistance

While there is significant support within the IEG for improvement of economic and financial planning, the degree of actual commitment by the government to better planning and plan implementation is uncertain and will become more apparent as the IEG takes or fails to take measures necessary for a serious attempt to implement the Third Plan. Inertia and some resistance to budgetary and auditing reforms are likely to be encountered within the Ministry of Finance. This is because the present budgetary and auditing systems have been in existence a long while and improvements in coordination of budgeting and national planning, as well as improvements in auditing will require some de facto transfer of authority and power from the Ministry of Finance to the Ministry of Planning and Development and to the Auditor General Department of the Prime Minister's Office. It is believed that the necessary changes will be facilitated by the return to jobs in the IEG of participants trained in the U.S. under this project and by the presence of U.S. specialists working within the IEG ~~to~~ to formulate the necessary reform measures.

Plans for expansion of the tax base must be designed to be implemented gradually despite opposition particularly from land owners who in Ethiopia have traditionally paid little or no direct taxes. Strong opposition by land owners to enforcement of the new agricultural income tax enacted in November 1967 has already been encountered in Gojjam Province.

Another obstacle to improvement in economic and financial planning is the tendency of the Minister of Planning and Development and of the Council of Ministers to adopt inspirational but ~~unattainable~~ attainable goals for economic development. This proclivity is apparent in the recently prepared Third Plan. It is hoped that the participants trained and technicians made available under this project can help in some measure to make the future annual development plans, which are subsidiary to the Third Five-Year Plan, more realistic economically and less "political" in nature.

2. Related Activities

Other AID projects closely related in purpose to the Economic and Financial Planning project are the following:

a. The Agro-Industrial Survey, Project 663-11-110-127, which includes preparation of a five-year plan of action for development of commercial agriculture;

b. Agricultural Advisory Services, Project 663-11-190-111, under which the services of an Agricultural Economist are provided to head the statistics and planning unit of the Ministry of Agriculture;

c. Customs Administration, Project 663-11-750-147, under which a team from the U.S. Bureau of Customs will help to plan and implement improvements in the IEG Customs operations and administration;

d. **Census and Demographic Planning, Project 663-11-570-152, under which plans for future census activity will be worked out and Ethiopians will be trained in the U.S. in population problems and demographic statistics.**

Present and prospective non-U.S. activities to which the project is related include the following:

1. **Hoped-for World Bank assistance in providing a nuclear staff for the Ministry of Planning and Development needed to implement the Third Plan and to head a Consultative Group for Ethiopia;**
2. **IMF assistance to the IEG Auditor General Department in providing on-the-job training for its Ethiopian staff in accounting and auditing methods.**

D. Planned Targets and Indicators of Progress

Quantitative targets in most instances will be formulated after the arrival in Ethiopia of the U.S. technicians assigned to the project. Both quantitative and qualitative indicators of progress toward improved economic and financial planning will be closely watched.

The future life of the project will be five years (1969-73). This extension of the originally anticipated termination date of 1971 results from the need for the project to continue throughout the period of the Third Five-Year Plan in order to provide support for implementation of the Plan.

A major target will be the training in the U.S. during the Five-Year period of 45 selected Ethiopians to fill important positions in IEG Ministries and in related government enterprises such as the Ethiopian Investment Corporation. While more than this number of additional trained Ethiopians are needed, the scarcity of qualified people within the IEG makes ~~undesirable~~ undesirable the release for training of more than approximately nine people each year.

Other quantitative indicators of progress toward improved economic and financial planning which will be watched include the following:

1. **The rate at which domestic revenues increase over the five-year period (an average rate of 10 per cent or more will be sought);**
2. **the increase in total number of income taxpayers and increase in proportion of taxes collected outside Addis Ababa (appropriate targets will be worked out after the fiscal planning specialist arrives and has had an opportunity to assess the potential for progress during the next five years);**
3. **the rate of increase in savings and investment (an average rate of 10 per cent per annum is hoped for);**

4. the changes in the absolute and proportionate amounts of budget expenditures for (a) security and (b) development purposes and the corresponding changes in nonsecurity expenditures for (a) development and (b) non-development purposes;

5. the extent to which credit creation is used within the limits of reasonable financial stability, to finance development (it is anticipated that a special study of optimum credit creation for economic development will be undertaken as part of this project).

Major nonquantitative indicators of progress toward improved economic and financial planning processes will include the following:

1. the degree to which the IEG undertakes the political, organizational, and policy steps required for a serious attempt to implement the Third Plan;

2. related to (1) above, the degree to which serious efforts are made toward effective coordination of annual budget preparation by the Ministry of Finance with annual development plan preparation by the Ministry of Planning and Development;

3. IEG willingness to request the World Bank to provide specialists to help staff the Ministry of Planning and Development and to head a Consultative Group for Ethiopia;

4. willingness of the Ethiopian Parliament to enact during the 1968-69 session legislation to tax unused arable land, to authorize cadastral surveying, to provide more security of tenure for tenants, and to limit rents paid by tenants;

5. the degree to which Public Administration Service recommendations for improvements in accounting and auditing systems are approved and actually implemented;

6. the effectiveness of planning and related organizational and policy measures formulated to increase tourism and aggressively seek foreign private investment in large-scale commercial agriculture development.

E. Course of Action

1. FY 1969

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include --

methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U.S. in such fields as statistics, taxation, budgeting, and development economics.

d. The Public Administration Service contract team will commence work on planning improvement of auditing and related accounting systems within the IFG complex.

e. An IMF specialist will arrive early in the fiscal year to assist with on-the-job training of employees of the Auditor General Department in accounting and auditing.

f. A World Bank team will come to Ethiopia in the middle of the fiscal year to review staffing needs of the Ministry of Planning and Development for implementation of the Third Plan and for heading a Consultative Group.

g. A team from the U.S. Bureau of Customs will arrive and commence work on recommendations for improving IFG customs operations and administration.

h. The IFG Parliament is expected to pass laws (1) authorizing cadastral surveying, (2) imposing a tax on unused arable land, (3) increasing security of tenure of farm tenants, and (4) establishing a ceiling on rents to be paid by tenants.

i. The IFG is expected to develop a long range plan for increasing export earnings by, for example, such methods as the washing of Ethiopian coffee before exportation.

2. FY 1970

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include -- methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U. . in such fields as statistics, taxation, budgeting, and development economics.

d. The PAS team will continue its work toward improvement of accounting and related auditing systems employed within the IEO.

e. The U.S. Customs team will continue work toward improving the administration and operations of the IEO Customs Administration.

f. If requested ~~ix~~ by the Ministry of Finance, a fiscal planning specialist, whose salary will be "topped-off" by AID, will work with the Ministry of Finance in formulating plans for expansion of ~~the~~ the tax base, for increasing government revenues, making the tax system more conducive to agricultural development, and improvement of budgeting and coordination of yearly budgeting with annual development planning.

g. It is hoped that a World Bank team will arrive to help staff the Ministry of Planning and Development and implement the Third Plan as well as set up a Consultative Group for Ethiopia.

h. The IIF specialist will continue in-service training in accounting and auditing methods of employees of the Auditor General Department.

i. The IEO is expected to finalize a long range plan for tourism expansion based on a survey and recommendations completed by an American firm in early FY 1970.

3. FY 1971

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include -- methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U.S. in such fields as statistics, taxation, budgeting, and development economics.

d. The PAS team will continue its work toward improvement of accounting and related auditing systems employed within the IEO.

e. The U.S. Customs team will continue work toward improving the administration and operations of the IEO Customs Administration.

f. If requested by the Ministry of Finance, a fiscal planning specialist, whose salary will be "topped-off" by AID, will work with the Ministry of Finance in formulating plans for expansion of ~~the~~ the tax base, for increasing government revenues, making the tax system more conducive to agricultural development, and improvement of budgeting and coordination of yearly budgeting with annual development planning.

h. FY 1972 - 73

(Same activities as shown above for FY 1971).

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For each address check one ACTION | INFO

TO - AmEmbassy Addis Ababa AIDTO A 4 72

FROM - AID/W

SUBJECT - Economic and Financial Planning 663-11-750-116

REFERENCE - (A) PROP Rev. 1; (B) State 058578

DATE SENT

5-27-71

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The Project Authorization signed June 25, 1970, approved funding for the Economic and Financial Planning project through FY 1973 with a life-of-project cost of \$1.1 million. PROP Revision 1 of March 16, 1971, presents a USAID/Ethiopia request to extend the project through FY 1979 with a life-of-project cost of \$4.8 million. Of the proposed cost increase of \$3.7 million, a 6-year extension of the project as presently constituted would cost \$1.2 million, an increase in the number of participants \$0.5 million, and a new university contract \$2.0 million.

An AID/W project committee reviewed PROP Revision 1 and determined that additional information about the proposed expansion and extension was needed before approval could be considered. Meanwhile, the USAID's need to move ahead promptly on arranging participant training (not a new item) was recognized, and separate approval of the participant component for academic year 1971-72 was granted per ref B.

In order to enable AID/W to consider further the proposed expansion of the project, it is requested that USAID/E submit after Ernst review a new PROP Revision 1 covering additional points including the following:

1. Identify the several major economic/financial problems (including related administrative bottlenecks) not addressed by other donors which this project through training, assignment of OPEX specialists, and ~~and other contract work and other contract work and other contract work~~ the problems selected. Describe how the various project elements participants, OPEX contracts, and institutional contract - relate to each other and address themselves to the problems selected.

PAGE 1 OF 3 PAGES

DRAFTED BY A.F. Matthews: ymj	OFFICE AFR/EAF	PHONE NO. 28657	DATE 5-26-71	APPROVED BY Jerry Knoll, Dir., AFR/EAF
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AID AND OTHER CLEARANCES
AFR/EAF: EDConroy(draft)
AFR/EAF: JTurman(draft)
PPC/RC: ECFei(draft)

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AFR/TAC: MBelcher(draft)
AFR/DP: JDBlumgart(draft)

CONTINUATION

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2. Describe the agencies to be assisted - Planning Commission, Ministry of Finance, Imperial Highway Authority, HSIU Economics Department, etc. in terms of their present Ethiopian and expatriate staffing and their need to be upgraded and/or expanded to have a greater capacity to work on the problems you specify per item 1 above. If most of the participants to be trained under the project are presently holding positions in the development agencies, as has been implied, indicate by agency approximately how many such persons are now employed. Even though existing manpower studies are recognized to have limitations, it would be pertinent to cite their estimates of demand for planners, economists, et al. For example, the recent Ministry of National Community Development/ILO study indicates that over 500 Ethiopian economists and statisticians are employed at present and that employers predict a need to hire 60 annually. It also mentions that in the Planning Commission alone (including the Technical Agency and the Central Statistical Office) there are 67 senior Ethiopian experts and 102 junior experts exclusive of administrative, clerical, and foreign personnel.
3. Give your assessment of coordination in the economic/financial area among various Ethiopian agencies, HSIU, and foreign donors. Presumably this would take into account the April 27 meeting between the Planning Commission and the HSIU Economics Department on possible area of research collaboration. Distinguish in particular between the roles of (a) an increasingly more involved IERD, (b) the Harvard DAS team, (c) the some 17 European and UN advisers in the Planning Commission, and (d) the advisers and trainees proposed in the Economic and Financial Planning PROP. Justify appropriateness of U.S. input in fiscal and tax areas which may qualify for IMF and UNDP help. Consider the possibility of project inputs by the Institute of Public Administration and the ECA Public Administration Section, particularly in the area of organization and methods (systems analysis).
4. Describe expectations and plans for counterparts for OPEX positions.
5. AID/W is giving heightened priority to assisting development of research competence in institutions of less developed countries. The proposed institutional contract appears to be pertinent if adequately justified. Describe IEG support for the proposed research element. Consideration should be given to a grant to HSIU as a preferred course of action. The proposed Faculty of Development Administration might appropriately be the grantee. It should be made clear that the American advisers involved in the institutional contract might perform some research but primarily would provide guidance on research methodology and convey the experience of other LDCs in conducting similar research programs. It is understood that some or all of the American advisers may make periodic visits to Ethiopia rather than be stationed there full time; yet a continuous HSIU-contractor relationship is expected during the life of the project.

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CONTINUATION

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6. Discuss the prospective benefits of the project which can be achieved best by U.S. inputs. Mr. Ernst suggests that the major ones are: (a) Helping orient economic and technical research toward solving of development problems, partly by encouraging the Planning Commission and other agencies to submit specific research proposals to HSIU. (b) Encourage the HSIU Economics Department and other departments to modify their curricula along more practical lines, largely by dealing in the classroom with current government-identified development problems, so that students will acquire skills and experience useful in their later jobs. (c) Enlarge the availability of Americans advisers and Ethiopian researchers through salary supplements. (d) Stimulate integration of research and adoption of suitable portions of such planning and research techniques as systems analysis, operations research, and PFB (Planning, Programming and Budgeting).

JOHNSON

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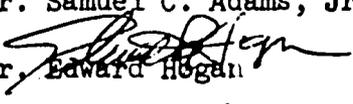
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ACTION MEMORANDUM

TO: AA/AFR, Dr. Samuel C. Adams, Jr.

10 NOV 1971

THRU: AFR/DP, Mr. Edward Hogan 

FROM: AFR/EAF, Jerry Knoll 

SUBJECT: Revised PROP on Economic and Financial Planning
663-11-750-116 - Ethiopia

Problem: To review subject PROP and consider approval.

Discussion: The original PROP (tab B) requested obligations through FY 1973 and a life-of-project cost of \$1.5 million. Your Project Authorization of June 25, 1970 (tab C) approved the time period but reduced the cumulative funding to \$1.1 million to reflect transfer of the greater part of the contract component to a then new project, Government Budgetary Practices.

At the time of requesting approval of the original PROP, I indicated in a memorandum to you (tab D) that Ethiopia will need assistance in economic and financial planning after FY 1973 but that additional analysis was needed. As a reflection of this, USAID/Ethiopia prepared a PROP revision. AID/W did not approve the revision and provided to the USAID some guidelines for resubmission (AIDTO A-72 of 5-27-71).

The second version of PROP Revision 1 requested extension of the project through FY 1979 with a life-of-project cost of \$4.2 million. However we do not feel that we can support that long an extension or that great an increase in cost without further details of requirements. We are satisfied that there is a need for more economists, planners, and financial experts than Ethiopian and other donors can provide, so we are recommending at this time approval for continuing the project only through FY 1974 at a cumulative cost of \$1.9 million (tab A). This permits participant training at the 15-20 participant level annually and an increase in OPEX technicians (to 6 from the present 3).

The future participants and OPEX technicians are generally in the same field as their predecessors, that is, the central economic and financial agencies of the IEG -- the Planning Commission complex, the Ministries of Finance and Commerce, and the IEG development finance and central banking institutions. In the interest of a more specific project scope and a limiting of project objectives, activities involving peripheral agencies such as the Imperial Highway Authority, are being phased out. The time period of the project is extended to cover a year (FY 1974) recently added to the span of Ethiopia's Third Development Plan.

2.

The Economic and Financial Planning project is designed to help remedy problems in financial resources management, A.I.D.'s area of concentration in Ethiopia in addition to agriculture and education. We recognize that regardless of improvements in technical know-how and of other moves toward modernization, a satisfactory rate of development is contingent upon greater mobilization of capital and the channeling of those funds into productive activities. Financial and planning institutions in Ethiopia have improved appreciably during the past decade, but more training of the officials in them is vital to develop better data, more progressive policies, and more efficient allocation of scarce resources.

The FY 1972 CP (tab E) shows plans to extend the Economic and Financial Planning project through FY 1979 at a total cost of \$3.0 million. The approval requested here is thus within the CP.

The submission as attached was rearranged and edited by the Desk so as to include the project logical framework and other requirements of recent M. O. 1025.1.

We intend to advise the USAID that if it wishes to resubmit a proposal to extend the project beyond FY 1974 the justification should include (1) identification of the major economic/financial problems not addressed by other donors which this project is designed to help solve, (2) a breakdown by agency and by professional discipline of the participants and OPEX technicians planned for this project, and (3) consideration of reducing project costs by arranging for part of the participant training (all of which is at the graduate level) at HSIU in Ethiopia or elsewhere in Africa rather than in the U. S. The PROP states that the USAID has requested pertinent Ethiopian agencies to provide some of this information by the end of CY 1971. The forthcoming IBRD Ethiopian manpower survey, the results of which are expected in late CY 1972, will also provide important data on which to consider an extension beyond FY 1974 and/or requirements for additional institutional development aid.

An increase in the number of participants to 18 for academic year 1971-72 was considered and approved by you on April 7, 1971 to permit 1971 summer and fall placement while we were reviewing plans for the long-term future of the project.

A PAR was received in March 1970. A second one is due by the end of December 1971.

Recommendation: That you sign the attached Project Authorization.

I. PROJECT IDENTIFICATION

P.A. NO. 003-1-2

1. PROJECT TITLE
Economic and Financial Planning

A.I.D.
Reference Center
Room 1656 NS

APPENDIX ATTACHED
 YES NO

2. RECIPIENT (specify)
 COUNTRY Ethiopia
 REGIONAL INTERREGIONAL

4. LIFE OF PROJECT
BEGINS FY 1965
ENDS FY 1974

5. SUBMISSION DATE 9-19-65
 ORIGINAL
 REV. NO. 0-1-71
DATE

CONTR./PASA NO.

II. FUNDING (USD) AND MAN MONTHS (MM) REQUIREMENTS

1. FISCAL YEAR	2. TOTAL \$	3. PERSONNEL		4. PARTICIPANTS		5. COMMODITIES \$	6. OTHER COSTS \$	7. PASA CONTR.		8. LOCAL EXCHANGE CURRENCY RATE: \$ US 2.50 (U.S. OANED)			
		11. \$	12. MM	11. \$	12. MM			11. \$	12. MM	11. U.S. GRANT LOAN		12. COOP COUNTRY	
										1A. JOINT	1B. BUDGET		
1. PRIOR YEAR ACTUAL FY	265	246	33	563	576		5	265	83			149	
2. OPBN FY	243	170	12	243	409			135	41			49	
3. BUDGET FY	243	12	4	235	243			12	4			49	
4. BUDGET -1 FY	452	240	72	210	316		2	242	72			51	
5. BUDGET +2 FY													
6. BUDGET +3 FY													
7. ALL SUBG. FY													
8. GRAND TOTAL	1043	648	207	1254	1238		7	654	201			298	

9. OTHER DONOR CONTRIBUTIONS

1A. NAME OF DONOR UNDP-financed Harvard Team plus some Battelle and IBRI	1B. KIND OF GOODS/SERVICES Economic, financial, and technical advisors	1C. AMOUNT \$3,200,000
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III. ORIGINATING OFFICE CLEARANCE

1. DRAFTER W. Wyooff	TITLE Program Economist, USAID	DATE 9-17-71
2. CLEARANCE OFFICER W. E. Reed	TITLE Acting Director, USAID	DATE 9-17-71

IV. PROJECT AUTHORIZATION

1. CONDITIONS OF APPROVAL

Extension beyond FY 1974 dependent on receipt further details on requirements and consideration of African training sites to meet academic training needs.

2. CLEARANCES

BUR OFF.	SIGNATURE	DATE	BUR OFF.	SIGNATURE	DATE
ATR/USA	Jerry Inoll	10/15/71			
ATR/DF	E. Moran	10/15/71			
IAA/ATR	P. Bernbaum	10/15/71			

3. APPROVAL AGENCY OFFICE DIRECTORS

SIGNATURE	DATE	4. APPROVAL AID (Per M.O. 1955.1 V.C.)	DATE

TITLE

ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT

BEST AVAILABLE DOCUMENT

NON-CAPITAL PROJECT PAPER (PROP)
Economic and Financial Planning, 663-11-750-116

1. Project Goal

a. Statement of Goal. - The goal of the Financial Resources Management sector is to mobilize more resources including (1) public domestic, (2) public foreign, and (3) private; (4) to allocate resources more efficiently; and (5) to manage finances more effectively.

b. Measurement of Goal Achievement. - Corresponding measures of goal achievement are (1) Tax revenues and domestic borrowing, (2) foreign grants and loans, (3) private investment and non-profit institutional grants, (4) extent to which government budgets and expenditures reflect development priorities, and (5) debt-service ratio, foreign exchange reserves, and volume of domestic bank loans for development.

c. Assumptions for Goal Achievement. - It is assumed that Ethiopian citizens will not revolt against modest tax increases, that banks will become less conservative in loaning for development, that some donors (IBRD, China, etc.) will increase their aid to Ethiopia, that larger percentages of budget funds will go to agriculture, that government borrowing will be limited to loans that can be serviced on a timely basis, and that a way will be found to increase exports appreciably over the long term.

2. Project Purpose

a. Statement of Purpose. - As a contribution to the stated goal, the project has the specific purpose of expanding the capability of financial, economic, and commercial agencies. These agencies are particularly the Planning Commission, Technical Agency, Central Statistical Office, Ministry of Finance, banks, and the Ministry of Commerce, Industry, and Tourism.

b. Conditions Expected at End of Project. - A recent Ethiopian Government/ILO study estimates the need for 595 additional economists, statisticians, and related technicians in 1969-78. One-fourth to one-third of those will be provided by this project, largely by upgrading present personnel of limited education and experience. They are expected to be on duty at the end of the project in the agencies named above. The project-developed Ethiopian professionals will enhance the reputations of the involved agencies and will be on hand to contribute significantly to implementation of the Third and Fourth Development Plans.

c. Assumptions for Purpose. - It is assumed that the manpower requirements as estimated by the Ethiopian/ILO survey for economists and related technicians are reasonably correct, that other donors will assist with two-thirds to three-fourths of the needed training, and that a Fourth Development Plan will be prepared for a period beginning with FY 1975.

3. Project Outputs

a. Statement of Project Outputs. - The principal output is a substantially increased number of Ethiopian professionals with higher training to serve in financial, economic, and commercial agencies.

b. Output Indicators. - Indicators of output are man-years of of participants trained, number and percentage of Ethiopians (compared with total including expatriates) in involved agencies.

c. Assumptions for Outputs. - It is assumed that counterparts will be provided for OPEX technicians, that trained Ethiopian participants will replace expatriates, and that the trained manpower will be effectively utilized.

4. Project Inputs

a. Statement of Project Inputs. - The project inputs are annually 15-20 participants and about 6 OPEX specialists. They are in the fields of economics (developmental, agricultural, industrial, and marketing), project planning and management, statistics, data processing, finance, taxation, banking, and investment.

b. Budget. - The fiscal data for U. S. funds on the face sheet are self-explanatory. The Ethiopian Government pays international travel costs of participants and base salaries of OPEX technicians.

c. Assumptions for Inputs. - It is assumed that interested and qualified participants can be selected, that they will be placed in suitable courses in the U. S., and that most of them will return to the agencies for which they were trained.

5. Rationale

a. Setting and Salient Features of Project. - Africa is the least developed of the continents, and Ethiopia by most indicators of development is in the bottom 25% among African countries. Ethiopia's per capita GNP, government revenues and export earnings, respectively, are only roughly 45%, 35% and 15% of the Africa average (excluding South Africa). Under these circumstances, better economic and financial planning are clearly needed both to increase resource mobilization for development and to improve the allocation of Ethiopia's scarce resources. The basic obstacle to a more viable planning process continues to be the limited number of appropriately trained Ethiopians and the related early stage of development of Ethiopian institutions in the planning area. As explained in more detail in other parts of this PROP, the Economic and Financial Planning Project seeks to help remedy this situation by the long-run means of training Ethiopians in the U. S. and, to a lesser extent, by the shorter-run method of providing a small number of OPEX Americans to work within selected Ethiopian planning organizations.

The project as herein presented has two important characteristics. First, the linkages of the project with other AID projects and objectives, as well as with the principal recommendations of the World Bank Report of September 1970, are strong. The personnel and training provided under the project help to strengthen and reinforce the efforts being carried out in our other projects, both technical assistance and loan. For example, our Agriculture Sector and AIDB loans and grant Government Budgetary Practices project as well as a proposed project such as Agriculture Sector Planning are or will be served directly by the financial and project planners financed hereunder. The project also contributes, through training of Ethiopians, to attainment of such major World Bank Report recommendations as a better alignment of monetary and fiscal policies with development aims, an expansion and diversification of exports, the increase of public and private savings, and better coordination of budgeting and planning. In short, the project has a multiple tie-in with AID activities and aims in Ethiopia.

A second characteristic of the project is that it fits well with the expanding multilateral framework of our assistance. In almost every case we are a secondary donor to the World Bank or the UNDP. This is true of our assistance to the Planning Commission Office and other institutions potentially covered by this project. For example, within the Planning Commission Office complex, the UNDP and World Bank together provide 13 expatriate specialists, and all non-U.S. donors together provide 18, compared with AID's two. AID assistance under the project helps round out a total effort by all donors with relatively small but critically needed assistance.

b. Coordination of USAID and Other Donor Assistance Inputs in Planning Area. - Coordination of external assistance in Ethiopia has improved on both the IEG and donor sides since the establishment of the IBRD-led Consultative Group and since the Harvard DAS team began to function as a part of the Planning Commission Office (PCO). Technical Assistance is coordinated on the donor side by the UNDP/World Bank and on the IEG side by the PCO with strong assistance from the DAS group.

Development loan assistance is coordinated by the World Bank on the donor side and by the Ministry of Finance and PCO on the IEG side. The PCO is now taking a more active role in reviewing the whole range of project plans and needs with donors on a systematic basis. Coordination of Participant Training will be further improved as a result of the preparation by the PCO/DAS group of the staffing/training plans, mentioned above, for the PCO and other agencies concerned with planning.

The respective roles/inputs of the several donors providing aid to the IEG planning agencies to which AID OPEX specialists are currently assigned are spelled out below in specific terms.

(1). Planning Commission Office. - The UNDP is the chief donor of expert services to the PCO. UNDP assistance includes the eight-man Harvard DAS team (for which the World Bank is the executing agency) plus two other expatriate experts.

The general role of the DAS team is to help create a viable development planning process run by Ethiopians without the need for expatriate assistance. The more specific activities of the team as spelled out in the "plan of Operations (Development Planning Assistance Project)" are as follows: (a) plan the overall economic framework for annual development budgets; (b) develop PCO competence in the fiscal and monetary field; (c) analyze problems of the industrial sector; (d) assist with the planning of the agricultural sector and manpower, water resources and power development; and (e) assist the Ministries of Communications and Education with planning and plan implementation.

The Harvard DAS Team will be comprised, when all members arrive, of the following: (a) Team Leader (analytical, procedural and organizational advisor to the PCO head), Macro-Economic Planner, Education Planner, Industrial Planner, Transportation Economist (not yet on board), Agricultural Economist, Fiscal and Monetary Policy Specialists, and Water Resources Advisor (not yet on board and may be substituted for by a National Income statistician).

In addition to the DAS team, the UNDP also makes available to the PCO the services of one advisor to the Regional and Community Development Division and one to the Social Services Department.

The World Bank, in addition to serving as the executing agency for the DAS group, provides the services of one economist who functions as head of the PCO Department of Development Programming.

The Battelle Institute of Frankfurt provides a four-man team financed by the Federal Republic of Germany comprised of the following members: Team Leader, One Agricultural Economist, and two Industrial Economists. The Battelle group is assigned to the PCO Project Coordination Division of the Department of Development Programming.

In addition to the expatriate services financed by other donors, the PCO finances with its own funds two expatriate specialists - one in development budgeting and one in transportation economics.

There are no AID-financed specialists now working within the PCO. AID's contribution of CREX services to PCO later in FY 1972. will be one micro-economist/engineer to be shifted (per previous agreement with the DAS) from the Technical Agency to the Project Coordination Division of the Department of Development Programming as an associate of the Harvard DAS group. As noted above,

this Department is headed by a World Bank economist.

Seventeen PCO staff members are being sent abroad for training in 1971. The distribution of these participants by financing donors is as follows: British Council 5; UNDP 3; World Bank 1; Canadian Government 1; AID 7 for a total of 17.

(2). Technical Agency. - The Technical Agency (TA) is responsible for project feasibility studies and for helping develop individual project and sector plans for inclusion within the overall national Development Plan.

UNIDO has provided the services of several short-term specialists including one now in Ethiopia, a vegetable marketing specialist here for a stay of two to four months. Two Yugoslavs, recruited by the Yugoslav Government, work within the TA but are fully financed by the IEG. These specialists are a chemical engineer who helps identify and study projects in the chemical sector, and a mechanical engineer who has concentrated on two projects - the tire plant and tannery projects.

AID presently finances the services of two American OPEX specialists assigned to the TA. One is the economist/engineer, mentioned above, who currently heads the Project Studies Division and who will be moving to the Planning Commission shortly. The second is a marketing specialist who conducts studies and investigations of marketing aspects of proposed and on-going projects within the context of the national Development Plan. At least one AID technician should continue at the Technical Agency for the next 2-4 years.

AID financed in FY 1971 the training of one Ethiopian in development project management (Arthur D. Little program in development project management), and will need to sponsor additional training in the future. Other donors currently finance only short term seminar type training in Eastern Europe.

(3). Ministry of Finance. - Six expatriate (OPEX) specialists work within the Ministry of Finance: UN - 1 accounting specialist and 1 general finance expert; IMF - 1 tax administration specialist; and IEG self-financed - 1 audit specialist, 1 budget specialist and 1 electronic computer specialist.

During FY 1971 AID financed academic training in the U. S. for three participants from the Ministry of Finance, one each in accounting, development economics at Williams College, and the international taxation program at Harvard Law School. No long-term training was financed by other donors.

If requested by the Ministry of Finance, AID intends to finance the services of a taxation economist to assist the Ministry in--formulating plans for rationalizing the tax system and increasing IEG revenues through better administration.

In response to the question in AIDTO A-72, there are good reasons justifying a U. S. input in the fiscal and tax area in addition to any assistance which may be made available from the IMF and UNDP. First, is the seriousness of the IEG revenue shortage as a bottleneck to more rapid economic development. Although Ethiopia's revenues have been rising, they are still low in comparison with most countries having a similarly low per capita GNP and low ratio of foreign trade to GNP. Overcoming this problem (coupled with the need to generate new income) is central to the U. S. economic assistance strategy for Ethiopia. Second, there is a strong linkage between U.S. assistance of this type and our other projects and objectives, such as the Agricultural Sector Loan project (which would be unnecessary if IEG fiscal performance was wholly adequate) and indeed our whole program which in the end is dependent directly upon IEG financial support. While the whole of the outside responsibility is not ours, we should help where our assistance, relative to others, is particularly relevant to solution of the problem. Third, the IMF does not usually provide long-term technical assistance in the fiscal area except to cooperating countries on a "Stand-by" basis. Moreover, the U. S. has available well qualified fiscal economists, and the Vice Minister of Finance, who was educated in the U. S., is aware that the U. S. is a good potential source of such assistance.

(4). Central Statistical Office. - The UNDP currently finances two experts -- one Statistical Advisor and one Consumption Survey Advisor. In addition, the Swedish Government (SIDA) provides the services of one demographer. AID does not at present provide OPEX assistance to the CSO, but there are additional critical needs and we may be requested to assist in the future. In participant training, the UN, Economic Commission for Africa and SIDA, as well as AID, provide assistance.

c. Manpower Plans. - The World Bank Manpower/Education survey of Ethiopia, to be conducted in the fall of 1971, should also provide additional useful information on aggregative and specific needs for additional trained manpower in the planning area.

In response to AIDTO A-72, the USAID has requested that the IEG prepare by the end of CY 1971, for each principal planning organization and agency, (a) the present "on board" professional staffing pattern broken down by

Ethiopians and expatriates, (b) the same staffing pattern projected for the end of 1974 (i.e. at the close of the Third Development plan period), and (c) the overseas training required to move from (a) to (b). The Planning Commission Office has agreed to take the lead in preparing this information with help from the Harvard DAS team. When received, these staffing/training plans will be forwarded to AID/W.

The Planning Commission Office (PCO) has already prepared for the PCO and individual Ministry/Agency Programming and Planning Units (PFU's) specific overseas training plans covering 1971 and 1972 for each professional staff. These plans have been used by the USAID and other donors in formulating their 1971/72 Participant Training programs in the planning area. The PCO will now extend these training plans through 1974 augmented, as stated above, by present and projected staffing patterns.

6. Course of Action

The two main project elements of the Economic and Financial Planning Project as now revised are (a) Participant training and (b) OFEX services. (In addition, short-term consultants are provided, on an as needed basis, to study selected problems impeding economic development.)

a. Participant Training (Project Input). - The institutional scope of Participant Training has been reduced from the past coverage of some 13 IEG agencies, and will in the future concentrate on training Ethiopians for the central economic agencies of the Government. Thus, it is proposed to train in the U. S. each year 15-20 selected Ethiopians primarily from the Prime Minister's Office (i.e. the Planning Commission Office, Technical Agency and Central Statistical Office) and the Ministry of Finance, and to a lesser extent from the Ministry of Commerce, Industry and Tourism, and the IEG banking institutions.

Training is expected to continue to be concentrated in the functional areas following: Development Economics, Agricultural and Industrial Economics, Agricultural Finance and Credit, Individual Project Planning and Management, Public Finance, Taxation, Statistics (GNP, Labor and Price, Balance of Payments), Tax Accounting, Budgeting, Electronic Data Processing, and Marketing.

b. OFEX Services (Project Input). - Operational services will also be provided only to IEG agencies of central importance in the planning process to alleviate the problems enumerated ~~and listed~~ above. Such services will not be financed under the project if obtainable from non-U. S. sources.

Operational services currently being made available under this project are as follows: one micro-economist/engineer to assist the Technical Agency and Planning Commission in developing individual project plans; one marketing economist to assist the Technical Agency in studying the

marketing aspects of individual projects; and one transportation economist to assist the Imperial Highway Authority with the planning and evaluation of its road development programs. The specialist for IHA will be phased out after his present tour of duty and no additional inputs are envisioned for IHA in the future under this project.

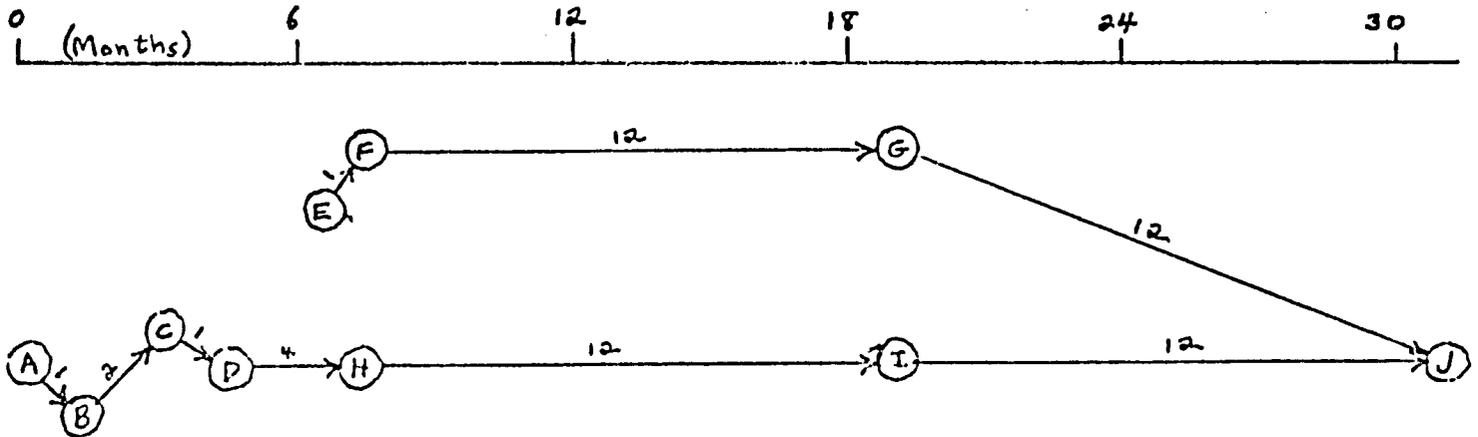
The services of other OPEX specialists, up to a total of six at any one time, will be made available as priority needs are identified and requests are received from the Government in those areas covered by the project purposes. These may include, for example, a tax revenue specialist to work within the Ministry of Finance in helping increase revenues while making the tax system a better tool of economic development, an insurance expert or investment code administrator to help the Ministry of Commerce, Industry and Tourism regulate Ethiopia's insurance industry or more effectively conduct investment promotion activities, an economic statistician/planner/analyst/financier to work with the Central Statistical Office, the Planning Commission Office, the Prime Minister's Office (economic advisory section) or a Government bank.

c. Implementation Plan. - Figure I summarizes the network plan for implementing the project.

b. Narrative. - The initial events shown on the network chart are making available participants, OPEX technicians, and counterparts for the OPEX technicians. The principal activities are participant training in the U. S. and the in-service training of counterparts in Ethiopian agencies by OPEX technicians. The network chart shows that, for those Ethiopians who are to receive U. S. training before becoming counterparts, their selection must be made about 20 months before the OPEX technician is ready to give them subsequent in-service training. After an OPEX technician has provided two or more years of in-service training, he is expected to be replaced by one or more of his trainees.

Figure I
PERT Plan - Major Tasks
Economic and Financial Planning Project

Project Purpose: To expand the capability of financial, economic, and commercial agencies.



<u>Step</u>	<u>Activity</u>	<u>Description</u>	<u>Responsible Agent*</u>	<u>Time (Months)</u>
1	A-B	Nomination of participants	IEG	1
2	B-C	Review of participant applications	USAID	2
3	C-D	Selection of participants	IEG and USAID	1
4	E-F	Appoint OPEK technicians	IEG and USAID	1
5	F-G	OPEK technicians train in-service staff	IEG	12
6	D-H	Orientation of participants	IEG and USAID	4
7	H-I	Participant training overseas	AID/W	12
8	I-J	Returned participants in-service training	IEG	12
9	G-J	OPEK technicians train returned participants	IEG	12

* IEG is Imperial Ethiopian Government

Note: This diagram shows a 2½ -year cycle, which needs to be repeated several times to fulfill the project purpose.

PROJ - 75-(PROP)

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Proj. 750-116

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FROM ADDIS ABABA

DATE SENT August 19, 1968

SUBJECT NONCAPITAL PROJECT PAPER (PROP)

REFERENCE

COUNTRY: ETHIOPIA

PROJECT NUMBER 663-11-750-116

Submission Date: August 5, 1968 Original Revision No.

Project Title: ECONOMIC AND FINANCIAL PLANNING

U.S. Obligation Span: FY 1965 through FY 1973

Physical Implementation Span: FY 1966 through FY 1974

Gross life-of-project financial requirements:

U.S. Dollars 1,494,000

U.S.-owned local currency =

Cooperating country cash contribution 96,000

Other donor 500,000

Total \$2,090,000

PAGE 2 OF 21

APPROVED BY: [Signature] HOWYCOFFICIAL Program DATE: 8/6/68 [Signature] Roger [Signature] Director

BY AND ON BEHALF OF: A/DD: BM Gould PRG: RCohen

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Table 1
Page 1 of 2
COUNTRY: ETHIOPIA

NONRECURRING PROJECT FUNDING
(Obligations \$000)

FISCAL DATE: August 31, 1980
Original
Rev. No.
Project No. 603-11-120-110

Project Title: Economic & Financial Planning

Fiscal Years	Ap	L/G	Total	1/ Cont	Personal Serv.		Participants		Commodities		Other Costs	
					AID	PASA	CONT	U.S. Agencies	CONT	Dir & U.S. Ag	CONT	Dir & U.S. Ag
Prior through Act.												
<u>FY 1968</u>	TC	G	195	11	13	4	11	167				
<u>Oper. FY 1969</u>	TC	G	337	250	9		175	78				75
<u>Budg. FY 1970</u>	TC	G	185	90	20		65	75				25
<u>B + 1 FY 1971</u>	TC	G	318	200	20		110	86		10	2	60
<u>B + 2 FY 1972</u>	TC	G	310	200	20		110	90				60
<u>B + 3 FY 1973</u>	TC	G	130	20	20		15	90				5
All Subs.	-	-	-	-	-	-	-	-	-	-	-	-
Total Life	TC	G	1,475	771	102	4	546	586		10	2	225

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TOADD A 2128

ADDIS ABABA

1/ Memorandum (non-add) column

Fiscal Years	AID-controlled Local Currency		Other Cash Contribution Cooperating Country (US \$000)	Other Donor Funds (\$ Equiv)
	U.S.- owned	Country- owned		
Prior through Act. FY 1968			31	50
Oper. FY 1969			13	50
Budg. FY 1970			13	100
B + 1 FY 1971			13	100
B + 2 FY 1972			13	100
B + 3 FY 1973			13	100
All Subs.			-	-
Total Life			96	500

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A. Summary Description and Tabulation of Planned Inputs

Ethiopia is well behind most IEC's including those in Africa in economic and social development and has a pathetically low standard of living despite abundant land resources. There is a clear need for better economic and financial planning both to increase the extremely limited amount of resources now available for development and to assure more economic allocation of resources to permit a more rapid rate and appropriate pattern of development.

The future life of the project will correspond with the period of the Third Five-Year Plan (1969-73), and the basic purpose of the project is to support the implementation of the Third Plan. Project goals and targets are summarized below:

1. to train 45 Ethiopians who will fill positions within the IEG closely related to planning;
2. to help adapt the IEG customs tariff and excise tax structures to those of the East Africa Common Market with a minimum loss of revenues to Ethiopia;
3. to formulate programs for expansion of domestic savings and investment and for improvement of financial statistics and planning;
4. to work out plans for government revenue expansion and for making the tax system an instrument for encouraging economic use of land resources and for agricultural development generally;
5. to develop a "program" type budget and help improve coordination between yearly budgeting and annual development plans;
6. to improve accounting and auditing systems within the government complex in order to improve budgetary execution and assure more economic use of scarce resources within the public sector; and
7. to improve coordination among aid donors and enhance the collective influence of donors for achieving necessary reforms within the IEG.

Quantitative targets during the five-year life of the project will include: (a) as indicated above, training of nine Ethiopians each year to fill planning jobs in the IEG; and (b) increasing domestic savings and government revenues at an average rate of at least 10 per cent yearly. Other quantitative targets will be worked out after the project technicians arrive.

Annual funding requirements for the project are shown in the foregoing tables.

B. Setting or Environment

Africa is the least developed of the major LDC areas, and Ethiopia by most indicators of development is in the bottom 25 per cent among African countries. The figures below help bring out Ethiopia's very early stage of development and low rank among developing countries in present level of development.

	IDC's Generally	Africa excl. SA	Ethiopia
Per Capita GNP (1966)	US \$185	US \$130	US \$61
Literacy	39%	20%	5%
Pupils as Per Cent of Population	12%	8%	2%
People Per Physician	3,900	17,900	60,000
Proportion of Population Living in Towns Over 20,000	25	10	5
Proportional Contribution of Agriculture to GNP	35%	40%	60%
Improved Road Mileage Per 1,000 Square Miles (Latin America only)	80	39	8
Per Capita Electric Power Production (KWH Per Year)	170	80	13
Government Revenues as Per Cent of GNP	NA	16 (est.)	10
Export Earnings as Per Cent of GNP (1967)	NA	25 (est.)	

It is apparent that Ethiopia needs to get started as quickly as possible with accelerated economic and social development and clear that Ethiopia should make the best possible use of its extremely limited resources. It is evident in other words that Ethiopia requires good resource allocation which implies the need for improved economic and financial planning.

Ethiopia probably ranks in the lowest 15 per cent among LDC's in the amount of domestic resources per capita available for development. With a per capita GNP of less than half the African average, savings are understandably ~~extremely~~ low. With tax revenues per capita roughly one-third the African average and with security expenditures absorbing approximately 35 per cent of total domestic revenues, there is little left for public sector development. Thus in the three fiscal years 1965-67 (latest actual data), combined current and capital expenditures for agriculture and education averaged, respectively, only US \$0.19 and IS \$1.20 per capita. The narrowness of the Ethiopian tax base is indicated by the fact that there have been only about 11,000 income taxpayers and 700,000 land taxpayers in a population of 23 million, and more than 90 per cent of total revenues are collected in Addis Ababa. Although Ethiopia's development equipment and services requirements necessarily have a high import component, export earnings are likewise small. Exports in 1967 were only 7 per cent of the GNP, and on a per capita basis were roughly one-fifth the African average. Moreover, the external debt service requirements have been growing rapidly and in 1967, interest and amortization payments on the external debt were 71 per cent of total foreign loan and credit disbursements and were 15 per cent as large as total merchandise export earnings. Both foreign exchange from local sources and local currency availabilities for development are thus strikingly restricted.

While Ethiopia badly needs good economic and financial planning, the obstacles to achievement of this are formidable. National and sectoral planning organizations and processes are at an extremely early stage of development. The principal reason for this is the scarcity of qualified people to fill jobs in IED ministries responsible for development planning as well as jobs in banking institutions and large private firms requiring decisions affecting major resource allocations. While the IEG has shown awareness of the potential importance of central planning in the country's development by raising in May 1966 the status of the Planning Board to that of Ministry of Planning and Development, the Ethiopian staff of the new ministry is small and generally not well qualified. The Third Five-Year Plan has just been prepared principally by a staff of 15 expatriate specialists headed by an American, World Bank employee. Most of these specialists have now departed, leaving the ministry inadequately staffed to prepare and implement the required annual subsidiary development plans. The planning staffs of individual ministries and agencies are perhaps even more in need of qualified people. In particular, the IED needs qualified specialists to improve demographic, economic and vital statistics, national income statistics, balance of payments statistics, as well as specialists to plan individual capital projects within the framework of the national plan and to manage mixed private and government-owned enterprises. They also need a number of economic development generalists aware of the political and organizational requirements required for implementation of development plans, as well as specialists to improve fiscal planning and institute better coordination

between yearly budgeting and annual development planning. They also need economists to formulate development strategy and prepare future Five-Year Plans and subsidiary annual plans.

Budgeting at present is rather crude, is not "program" budgeting, and hinders rather than facilitates badly needed coordination of yearly budgets with annual development plans.

Until a much larger number of Ethiopians can be trained, a sizeable number of expatriates must be employed in IEI ministries and offices concerned with economic and financial planning and plan execution. The general shortage of trained manpower is strikingly brought out in the Third Five-Year Plan which estimates that Ethiopia has only about one-third the educated people (defined as nine years or more of schooling) required in the public and private sectors to implement the ambitious Third Five-Year Plan.

C. Strategy

The project will help to narrow the existing wide gap between the trained manpower (a) required and (b) available for economic and financial planning. This will be done principally by financing the training in the U.S. of promising Ethiopians and to a lesser extent by providing the services of U.S. specialists needed to help formulate financial, budgetary, tax, accounting and auditing reform measures and to achieve better coordination between yearly budgets and annual development plans.

Somewhat more specifically, the project will help with plans to increase government revenues, expand the tax base, and make the tax system a better and more equitable tool for encouraging economic use of land resources and for encouraging general agricultural and agro-industrial development. To improve budget execution, and better control expenditures by government enterprises not included under the regular budget, project technicians will develop improved systems of accounting for government ministries, agencies and enterprises as well as improve related auditing systems employed by the IEI Auditor General Department. Effective auditing has been nearly non-existent in Ethiopia. The project will also contribute to development of measures and programs designed to increase progressively the present low levels of saving and investment. Project technicians will also formulate criteria to estimate optimal credit expansion for developmental purposes in Ethiopia.

In short, this project will contribute to economic and social development by planning measures and programs designed to make more resources available for development and to make the allocation of resources more closely aligned with development criteria, thus increasing the rate of development.

1. Possible Resistance

While there is significant support within the IEG for improvement of economic and financial planning, the degree of actual commitment by the government to better planning and plan implementation is uncertain and will become more apparent as the IEG takes or fails to take measures necessary for a serious attempt to implement the Third Plan. Inertia and some resistance to budgetary and auditing reforms are likely to be encountered within the Ministry of Finance. This is because the present budgetary and auditing systems have been in existence a long while and improvements in coordination of budgeting and national planning, as well as improvements in auditing will require some de facto transfer of authority and power from the Ministry of Finance to the Ministry of Planning and Development and to the Auditor General Department of the Prime Minister's Office. It is believed that the necessary changes will be facilitated by the return to jobs in the IEG of participants trained in the U.S. under this project and by the presence of U.S. specialists working within the IEG and to formulate the necessary reform measures.

Plans for expansion of the tax base must be designed to be implemented gradually despite opposition particularly from land owners who in Ethiopia have traditionally paid little or no direct taxes. Strong opposition by land owners to enforcement of the new agricultural income tax enacted in November 1967 has already been encountered in Djibouti Province.

Another obstacle to improvement in economic and financial planning is the tendency of the Minister of Planning and Development and of the Council of Ministers to adopt inspirational but ^{not} attainable goals for economic development. This proclivity is apparent in the recently prepared Third Plan. It is hoped that the participants trained and technicians made available under this project can help in some measure to make the future annual development plans, which are subsidiary to the Third Five-Year Plan, more realistic economically and less "political" in nature.

2. Related Activities

Other AID projects closely related in purpose to the Economic and Financial Planning project are the following:

a. The Agro-Industrial Survey, Project 663-11-110-127, which includes preparation of a five-year plan of action for development of commercial agriculture;

b. Agricultural Advisory Services, Project 663-11-190-111, under which the services of an Agricultural Economist are provided to head the statistics and planning unit of the Ministry of Agriculture;

c. Customs Administration, Project 663-11-750-117, under which a team from the U.S. Bureau of Customs will help to plan and implement improvements in the IEG Customs operations and administration;

d. Census and Demographic Planning, Project 663-11-570-152, under which plans for future census activity will be worked out and Ethiopians will be trained in the U.S. in population problems and demographic statistics.

Present and prospective non-U.S. activities to which the project is related include the following:

1. Hoped-for World Bank assistance in providing a nuclear staff for the Ministry of Planning and Development needed to implement the Third Plan and to head a Consultative Group for Ethiopia;

2. IMF assistance to the IEO Auditor General Department in providing on-the-job training for its Ethiopian staff in accounting and auditing methods.

D. Planned Targets and Indicators of Progress

Quantitative targets in most instances will be formulated after the arrival in Ethiopia of the U.S. technicians assigned to the project. Both quantitative and qualitative indicators of progress toward improved economic and financial planning will be closely watched.

The future life of the project will be five years (1969-73). This extension of the originally anticipated termination date of 1972 results from the need for the project to continue throughout the period of the Third Five-Year Plan in order to provide support for implementation of the Plan.

A major target will be the training in the U.S. during the Five-Year period of 45 selected Ethiopians to fill important positions in IEO Ministries and in related government enterprises such as the Ethiopian Investment Corporation. While more than this number of additional trained Ethiopians are needed, the scarcity of qualified people within the IEO makes undesirable the release for training of more than approximately nine people each year.

Other quantitative indicators of progress toward improved economic and financial planning which will be watched include the following:

1. The rate at which domestic revenues increase over the five-year period (an average rate of 10 per cent or more will be sought);

2. the increase in total number of income taxpayers and increase in proportion of taxes collected outside Addis Ababa (appropriate targets will be worked out after the fiscal planning specialist arrives and has had an opportunity to assess the potential for progress during the next five years);

3. the rate of increase in savings and investment (an average rate of 10 per cent per annum is hoped for);

4. the changes in the absolute and proportionate amounts of budget expenditures for (a) security and (b) development purposes and the corresponding changes in nonsecurity expenditures for (a) development and (b) non-development purposes;

5. the extent to which credit creation is used within the limits of reasonable financial stability, to finance development (it is anticipated that a special study of optimum credit creation for economic development will be undertaken as part of this project).

Major nonquantitative indicators of progress toward improved economic and financial planning processes will include the following:

1. the degree to which the IEO undertakes the political, organizational, and policy steps required for a serious attempt to implement the Third Plan;

2. related to (1) above, the degree to which serious efforts are made toward effective coordination of annual budget preparation by the Ministry of Finance with annual development plan preparation by the Ministry of Planning and Development;

3. IEO willingness to request the World Bank to provide specialists to help staff the Ministry of Planning and Development and to head a Consultative Group for Ethiopia;

4. willingness of the Ethiopian Parliament to enact during the 1968-69 session legislation to tax unused arable land, to authorize cadastral surveying, to provide more security of tenure for tenants, and to limit rents paid by tenants;

5. the degree to which Public Administration Service recommendations for improvements in accounting and auditing systems are approved and actually implemented;

6. the effectiveness of planning and related organizational and policy measures formulated to increase tourism and aggressively seek foreign private investment in large-scale commercial agriculture development.

B. Course of Action

1. FY 1969

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include --

methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U.S. in such fields as statistics, taxation, budgeting, and development economics.

d. The Public Administration Service contract team will commence work on planning improvement of auditing and related accounting systems within the IEO complex.

e. An IMF specialist will arrive early in the fiscal year to assist with on-the-job training of employees of the Auditor General Department in accounting and auditing.

f. A World Bank team will come to Ethiopia in the middle of the fiscal year to review staffing needs of the Ministry of Planning and Development for implementation of the Third Plan and for heading a Consultative Group.

g. A team from the U.S. Bureau of Customs will arrive and commence work on recommendations for improving IEO customs operations and administration.

h. The IEO Parliament is expected to pass laws (1) authorizing industrial surveying, (2) imposing a tax on unused arable land, (3) increasing security of tenure of farm tenants, and (4) establishing a ceiling on rents to be paid by tenants.

i. The IEO is expected to develop a long range plan for increasing export earnings by, for example, such methods as the washing of Ethiopian coffee before exportation.

2. FY 1970

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U.S. in such fields as statistics, taxation, budgeting, and development economics.

d. The PAS team will continue its work toward improvement of accounting and related auditing systems employed within the IEG.

e. The U.S. Customs team will continue work toward improving the administration and operations of the IEG Customs Administration.

f. If requested for by the Ministry of Finance, a fiscal planning specialist, whose salary will be "topped-off" by AID, will work with the Ministry of Finance in formulating plans for expansion of the tax base, for increasing government revenues, making the tax system more conducive to agricultural development, and improvement of budgeting and coordination of yearly budgeting with annual development planning.

g. It is hoped that a World Bank team will arrive to help staff the Ministry of Planning and Development and implement the Third Plan as well as set up a Consultative Group for Ethiopia.

h. The IMF specialist will continue in-service training in accounting and auditing methods of employees of the Auditor General Department.

i. The IEG is expected to finalize a long range plan for tourism expansion based on a survey and recommendations completed by an American firm in early FY 1970.

3. FY 1971

a. Professor Schmidt and assistant will conduct studies of the tariff structure and the adaptation of Ethiopian tariffs to the East African Common Market, as well as studies of foreign trade policies and practices.

b. A short-term specialist will make a study of selected special problems related to Third Plan implementation. Possible topics include -- methods of increasing savings and investment, estimation of optimal credit expansion for development purposes, financial policy and statistics, balance of payments analysis and planning, or foreign debt projection and management.

c. Nine Ethiopians holding jobs directly or closely related to economic and financial planning will be trained in the U.S. in such fields as statistics, taxation, budgeting, and development economics.

d. The PAS team will continue its work toward improvement of accounting and related auditing systems employed within the IEG.

e. The U.S. Customs team will continue work toward improving the administration and operations of the IEG Customs Administration.

f. If requested by the Ministry of Finance, a fiscal planning specialist, whose salary will be "topped-off" by AID, will work with the Ministry of Finance in formulating plans for expansion of the tax base, for increasing government revenues, making the tax system more conducive to agricultural development, and improvement of budgeting and coordination of yearly budgeting with annual development planning.

4. FY 1972 - 73

(Same activities as shown above for FY 1971).

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