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ASSISTANCE STRATEGY FOR ETHIOPIA FY 77-78:
Supplement to the Annual Budget Submission for FY 78

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I. U.S. Concern with Development in Ethiopia

Ethiopia is one of the poorest countries of the world. In this and in nearly every category of concern, Ethiopia qualifies for AID assistance under the current mandate and legislation covering AID priorities. At the same time, the present Government of Ethiopia -- the Provisional Military Government of Socialist Ethiopia (EPMG) -- is reassessing the relevance of Western models of development to its modernization concepts and strategy, and seems determined to attempt greater self-reliance and to diversify its external sources of economic assistance. As a consequence, the role of Western, particularly U.S., economic assistance may be reduced relatively and possibly absolutely.

Under these circumstances, as the first step in the preparation of this strategy statement, we have reviewed the basic U.S. concern with development in Ethiopia. Our conclusion is that the United States along with its other long-standing interests in Ethiopia has a continuing concern for the development of Ethiopia. We respect the Government's concern for the role of external assistance and would not want to take an aggressive attitude toward developing a major program, per se, in the FY 77-78 period. But we do wish to communicate to the government the nature of the U.S. aid program today and the areas in which it is prepared to operate.

Second, the recent changes in Ethiopia present a special challenge and opportunity for the U.S. The Ethiopian Government is committed to a socialist model of development, as are many other countries in Africa today. Indeed, the radical philosophy being enunciated by this government is not dissimilar from that which is growing in a number of African countries, and it may be a greater part of the general African scene in the next decade than we have known it in the past. Despite some differences in philosophy, however, we are finding that we also share many mutual interests regarding development with such governments. For example, the Ethiopian Government's emphasis on self-reliance, mass participation, equity, benefits for the rural majority, and a more service-oriented government are clearly consistent with AID's own analysis of development needs in recent years and are consistent with AID's current legislative emphasis. This is demonstrated in detail in Section II.B. below. If we cannot develop a working relationship with governments that profess this kind of ideology, we may therefore not have a very significant future in the development of Africa. We think such a future is possible in Ethiopia, but we recognize it will be a difficult one to fashion under the present climate, indeed the major challenge to be overcome during the period of this strategy.

A third vital concern of the U.S. is humanitarian. Our economic assistance program in Ethiopia today is largely concentrated on the drought prone areas where there was much suffering in recent years. We plan to continue and broaden this assistance to help Ethiopia develop programs over a longer term in the more marginal, disaster-prone areas in a way that will guard against large-scale loss of life or suffering as took place in the last drought. In all our other programs, we will be focusing on the poorest elements in Ethiopia and helping them become more productive, more protected from disease and more accessible to education and other social development activities. This approach is consistent with U.S. concern world-wide with problems of hunger, disease and development and in line with the specific emphases on these problems in the AID legislation.

These considerations all outweigh the difficulties in developing a program in the next year and justify the strategy proposed below.

II. Development Program Prospects in Ethiopia

This section does not attempt to repeat the more complete country and sectoral analyses of the DAP and ABS. Rather it is a summing up of the conclusions of those documents and, where appropriate, an updating of them in terms of general trends and conclusions. For more complete background, economic and sectoral analyses, the reader is referred to those documents.

A. Development Potential

Although presently one of the least developed countries in the world, the natural and human resources which exist in Ethiopia provide excellent potential for development. Untapped agriculturally oriented resources, land and water, exist and can be drawn upon with "reasonable" technology. Large amounts of relatively fertile land still exist for farming and grazing. Ethiopia has some of the most fertile land in Africa although removal of the ancient tree cover, improper cultivation techniques and large scale overgrazing are leading to an accelerating rate of erosion. The introduction of animal husbandry and improved range management techniques would add considerably to Ethiopia's economic potential, given that Ethiopia already has the largest livestock population of any African nation.

Aside from normally sufficient yearly rainfall (even in drought-prone areas), rivers and lakes abound which could be tapped, not only for irrigation but in support of a vastly expanded hydroelectric power system which could assist in the development of an expanded industrial sector. Geo-thermal energy is also being tested as a potential source of power under a UN program. Potential for small scale industry is supported, not only by an already existing excess capacity of electrical power but by the availability of urban labor

(there is a 4% yearly increase in the urban areas due to the rural-urban migration) and the existence of an internal market of 28 million people for consumer goods. Aside from mere numbers of people, the Ethiopian population exhibits a basic ability to function and work effectively. Whether this aptitude is a result of culture, adaptation to the harsh terrain, or the necessity historically to depend on its own human resources due to non-colonization is unknown. However, the development potential of its human resources is strongly exhibited by the abilities of those who have received training.

Two other areas of natural resources with potential for development include mineral deposits and tourism. The indigenous wildlife and geographic areas rich in culture and history provide potential for expanding tourism. The rugged mountainous terrain, which beneficial from the tourism viewpoint, has a net constraining effect on the rapid development of transportation infrastructure and is hence a detriment to overall development.

B. EPMG Commitment to Economic Development

The official declaration on the Ethiopian commitment to development is contained in "Objectives and Priorities of the Ethiopian Development Policy": "Ethiopia is embarking on a new era of building socialism and construction of the national economy with the objective of increasing production to satisfy the basic needs of the population, eliminating exploitation and poverty and achieving a more equitable distribution of the benefits of development."

To achieve these objectives and foster development the EPMG has:

1) Instituted an effective land reform, in which large landholdings by absentee landlords have been totally abolished and most peasants given rights to the land they till.

2) Attempted decentralization of the government by establishing provincial administrative units, peasant associations and urban dwellers (kebele) associations, and by taking steps to give these units real authority in terms of education, land administration, health and other matters.

3) Reorganized the central government by establishing new Ministries and Departments geared towards equity and development (Ministry of Agriculture and Settlement, Development Through Cooperation Campaign Headquarters, etc.)

4) Started new initiatives in the fields of rural preventative health and non-formal education which are geared to the masses of the people.

5) Formulated plans to integrate EPID agricultural extension services with the peasant associations.

6) Expended the largest portion of the FY 1975 capital budget for agricultural and land reform activities. This E$80 million (35% of the total capital budget) is an increase of 105% over the previous year.

There are other indications of the Ethiopian commitment to development, particularly rural development. Agricultural tax reform to make a more progressive income tax system has been instituted. Pricing policies for agricultural commodities have been established to allow higher profit for farmers. Indeed the combination of land reform, higher prices, and lower taxes have given the peasantry a privileged position and, unless rectified through local action responsibilities, given them probably less than a fair share of the responsibility for contributing revenue for development. A less publicized effort towards development exists in the low-key population efforts being made by the EPMG. While not formally promulgating a population policy, family planning activities have been allowed to expand (see TOAID A-18). Recently family planning has been introduced into the school curriculum (see Section II.C. for more details).

It is not yet clear what will happen in cases where ideology and pragmatism are at odds. Instances have occurred of the EPMG favoring development results (one might say "pragmatism") over ideological predispositions. A retreat from communal back to individual farming has occurred in some areas due to dissatisfaction expressed by farmers. The reopening of certain departments within the University after its closure, and the rescinding of the nationalization of oil companies are other examples. However, there are not sufficient cases to have established a certain trend in this direction.

For the most part indications are that the EPMG is issuing policy statements, reorganizing, and acting in a manner that is consistent with a strong commitment to economic development and equity. Commitment to development, while sincere, is still nevertheless hampered in execution by numerous factors: frequent changes in senior and middle level personnel, competition for government attention (and budget) from internal security and political stabilization efforts, insecurity and uncertainty among the civil service, and difficulties in extending new programs over the whole country. It is thus early in the revolution and much remains to be done to make these new policies operable and institutionalized.

C. Consistency of Development Program Objectives in Ethiopia with the New Directions of AID

Development program objectives in Ethiopia, as shown by the EPMG instruments and actions of socialistic policy, are consistent with the views of Congress concerning AID's role in development as interpreted by AID (AIDTO CIRC A-263 dated 4/30/75). These new directions of AID constitute on the one hand far-reaching reforms in the U.S. bilateral development assistance programs which aim at improving and strengthening the impact of development assistance programs on poor people in poor countries. The EPMG has, on the other hand, made major policy reforms and taken actions to institute fundamental structural changes in the social and economic life in order to break through the barriers of extreme stagnation in a backward country.

The degree of correspondence between AID's new emphasis and the EPMG policy statements outlining the foci for its on-going reforms can be assessed from the following comparisons in the areas of general development strategy, rural development, nutrition, population, health, education, and human rights.

General Development Strategy

New Directions of AID - As a general strategy for ameliorating the lives of the poor majority, it is asserted that "Programs most likely to succeed, and which receive highest priority emphasis under the Congressional Mandate and AID policy, are those involving the active and effective participation of the poor in all facets of the development process."

EPMG Policy - On participation of the poor, the EPMG has said: "In the domain of economic policy, giving priority to the interests of the majority means curing its basic disease. The basic economic disease of the majority is at present poverty. The primary element of economic policy is consequently the abolition of poverty."

"The people will have the right to administer themselves. The structure of the government will be based on this principle... Judicial and executive functions, as well as collective decision-making will be exercised at the village, district and other higher levels in accordance with the will and aspirations of the people."

Note: Sources used for the EPMG policy instruments are: (1) official translation from the Amharic of the Declaration ETHIOPIA TIKDEM: Section V, Fundamental Policies, (a) The Structure of Government, (c) Economic Policy, (d) Social Policy; Ethiopian Herald, Jan. 9, 1975; (2) Negarit Gazetta, Proclamation No. 31 of 1975; (3) Ethiopian Nutrition Institute; (4) Country Statement: Ethiopia. Paper presented at the Regional Post-World Population Conference Consultation, Lusaka, Apr. 1975; Briefing document for the Ethiopian delegation to the UNESCO meeting of senior officials of the Ministries of Education of the 25 Least Developed Countries, Paris, September 1975.

EPMG Actions - The EPMG has moved to decentralize its administration and development activities through the delegation of authority to lower level and better trained administrators and development workers. It has actively encouraged the formation of new integrating and coordinating bodies which has resulted in some 21,000 peasant associations being established out of a potential target of 40,000; in cities, neighborhood associations have been formed to promote the betterment of urban groups. These associations are functioning in many parts of the country as administrative agencies, cooperatives, marketing agents and taxing authorities. Most recently it was announced that these associations would have a major responsibility for administering education programs at the local level.

Rural Development

New Directions of AID - The Congressional Mandate stresses the need for "a package of rural development programs involving agriculture, services and industries, infrastructure and institutions designed to improve home consumption, nutrition and the health of the poor....by providing greater access to better technology, improved inputs, credit, transportation and other goods and services."

EPMG Policy - The EPMG policy states that "in order to increase agricultural production and to make the tiller the owner of the fruits of his labor, it is necessary to release the productive forces of the rural economy." .... "Land tenure and agricultural policy will consequently be changed in a manner which will make it possible to abolish poverty and narrow the gap in the level of living...in a manner that promotes productivity."

EPMG Actions - The EPMG has:

1) Embarked upon a far reaching land reform program;

2) Introduced agricultural income tax;

3) Applied a new farm products price structure which promises a reasonable return to the small farmer;

4) Actively encouraged the formation of different farmer groups to protect their interests and facilitate government interaction with small farmers; and

5) Plans to implement shortly the second phase of the Minimum Package Program (MPP) which will continue to assist small farmers increase their incomes by raising agricultural production through the provision of extension services and improved farm inputs and credits.

Nutrition

New Directions of AID - The Congressional Mandate encourages the use of "programs involving...education on better nutrition practices...; agricultural and rural development programs that increase and diversify the supply of food available...; and health and sanitation programs that improve the efficiency of food utilization."

EPMG Policy - There is no policy formulated in the area of nutrition proper. Ethiopian Nutrition Institute (ENI) activities are based on its annual plan of operations.

EPMG Actions - The current ENI plan of operations includes:

1) Training of nutrition agents;

2) Expansion of its nutrition education program and dissemination of information through public media, integrating nutrition activities with basic health services, and cooperation with the Ministry of Education to include nutrition teaching in the school curriculum;

3) Practical demonstrations;

4) Research into new diets; and

5) Helping establish an "early warning" system for detecting areas of severe food shortage in advance of widespread famine.

Population

New Directions of AID - The Mandate stresses that "providing more food and health services is essential to improving per capita living standards" but "will only be possible if population growth abates. Thus, reasonable access to safe and effective family planning services and information is essential and is a primary purpose of AID population program funding." The Mandate further recognizes that "people may be content with fewer children only if changes in economic structure remove the advantages many parents now see in large families."

EPMG Policy - At the Regional Post-World Population Conference Consultation, the Ethiopian Country Statement said: "It is only when massive development takes place in the villages and hamlets all over Africa and the burden of poverty lifted that average life expectancy will increase and infant mortality, in particular, will be reduced, and population will stabilize."

EPMG Actions - In the recent past the following actions have occurred:

1) The Family Guidance Association (FGA) was the first private voluntary organization to receive legal registration/recognition under the EPMG;

2) Mother and child health services were expanded in 168 government and private clinics to include family guidance information and services under FGA auspices;

3) The FGA trained 80 government and private health personnel to deliver family planning services and plan training an additional 100 next year.

Health

New Directions of AID - The Congressional Mandate proposes "an effective package.../of/ inexpensive ways (such as upgrading traditional practioners) of encouraging the poor to modify their practices now conducive to ill-health.../as the/ means of modifying the whole system of policies and conditions that may account for the common threats to health among the poor."

EPMG Policy - The EPMG policy focuses on preventive health care with lower level health assistants and lower overhead costs, thereby expanding the percentage of the population which can be reached with available resources.

EPMG Actions - EPMG actions in this regard include:

1) The creation of a new department of preventive health care within the Ministry of Public Health;

2) Decentralization of health administration;

3) The establishment of about 75 new rural health stations;

4) The training of over 400 health assistants (7-9 months training for curative/preventive services); and

5) Concentrated efforts to complete the eradication of smallpox.

Education

New Directions of AID - The Congressional Mandate stresses the need for practical education defining "'minimum practical education' as that body of knowledge, attitudes and skills necessary to effectively contribute and participate in a developing society and economy by enabling citizens to cope with their most pressing problems." This is considered to be the optimum education policy in "a world of want."

EPMG Policy - The EPMG is taking drastic steps to link methods and content of the education system to development in order to "increase the productivity of the individual worker and groups of workers"... which will, in turn, enable the country to develop or "break through the UNDER-PRODUCTIVITY BARRIER."... (and) agriculture will be given prominence in education"... "Individuals will be rewarded...by the immediate application of the knowledge and skill acquired."

EPMG Actions - The following actions are being taken:

1) A work-oriented adult education department has been created equal to formal education department;

2) The EPMG is in the process of selecting the sites for the construction of 25 "Woreda" Training Centers (or Community Skills Training Centers). Objective is to construct 500 of these training centers throughout the country;

3) 45,000 students and teachers are deployed in the rural areas to provide practical training for the population;

4) Peasant associations and urban community associations are being given responsibility for establishing priorities and administering local education efforts;

5) Education in the local language is being promoted for the first time in non-Amharic speaking areas;

6) Several new junior colleges, with emphasis on agriculture, health and intermediate technology are being planned around the country to break down the isolation of higher education from community problems.

Human Rights

New Directions of AID - Legislation has recently passed Congress which bars development assistance to any country which engages in "a consistent pattern of gross violations" of internationally recognized human rights unless the aid will directly benefit the needy in the country. USAID's policy, consistent with the Agency's "New Directions" and AID's Human Rights Policy, is to assure where aid is extended that it reaches and benefits the poor majority and does not contribute to any practices which deny human rights. AID is also prepared to help in national or international efforts which promote human rights.

EPMG Policy - When the Constitution of 1955 was suspended by Proclamation No. 1 of 1974, which provided for the establishment of a Provisional Military Government of Ethiopia, that proclamation stated that the promulgation of a new constitution which adequately provides safeguards for the human rights of the people should be treated as a matter of urgency. While that document has never been issued, the new government has taken actions, as indicated below, which have favorably impacted upon individual human rights in terms particularly of large classes of heretofore deprived groups.

EPMG Actions - For many, perhaps the majority of the population, land reform, recognition of local languages and customs, and other social and economic reforms have brought a higher degree of human rights. At the same time, in a period of revolution and instability, there are frequent and sometimes flagrant violation of individual human rights. In general, these have been directed against the formerly privileged groups -- confiscation of land and urban rental property from landlords, confiscation of businesses, jailing of former officials. But, especially in times of acute political unrest, there have also been widespread arrests, long detention without charges or trial, and reportedly killing of persons suspected of anti-Government activities. Beyond the effects of these acts on the victims, they have created a climate of fear that affects increasing numbers of people. Even recognizing the special circumstances of revolution and the turmoil it creates, and recognizing too the gain in human rights brought to heretofore under-privileged peasants and ethnic groups, the total effect of these actions is to cast a shadow on the broader and more equitable development picture described above in this section.

The USAID staff pondered the Human Rights issue for many hours when developing this strategy statement. The concensus was that AID programs could reach and benefit the poor majority in Ethiopia today, perhaps more than ever before, and thus should continue. But the instances of human rights violation were a justifiable cause of continuing concern.

D. Interest of the Ethiopian Government in U.S. Assistance

It is a truism to say that we are operating in Ethiopia under difficult circumstances and a great uncertainty. The government professes and appears quite sincere about implementing radical socialist philosophy. The full implications of that philosophy for U.S. assistance are still unclear because it is still being translated into and amalgamated with the day-to-day administration of development programs. Nevertheless, we know that the government emphasizes the concept of mass mobilization and political re-education and that its overriding concern to bring about a radical transformation of the society to eliminate the extreme stratification which previously existed will play a large part in its determination of development priorities and style. Mixed with the new socialist philosophy is a strong suspicion of, and sometimes antagonism toward, the West.

Within various parts and levels of the government, therefore, there is deep suspicion that traditional western donors like the IBRD and the U.S. cannot and will not be supportive of the government's basic development philosophy. Even where there is not outright suspicion of motives, there is a questioning of our ability to be relevant. This situation has presented a particular problem for us within the Planning Commission which has historically been a major point of contact and which is assuming increased importance both in approving the development plans of other ministries and in determining the allocation of funds from both domestic and foreign sources to support such plans. This attitude is expressed more at the policy than the working level, but this obviously means that there will be limitations on both the scope and pace of program development.

Washington is also aware of the turmoil and confusion which has inevitably accompanied post-revolution efforts to restructure the civilian bureaucracy. There is some belief that this is beginning to settle down and that ministers are now taking office who enjoy stronger support from the Provisional Military Advisory Council (PMAC) and who will therefore be able to exercise more effective and long-term leadership. The recent reorganization of the government seems to be bringing about, at least on paper, a rationalization of some functions, such as the combination of the former Ministries of Land Settlement and Agriculture into one new ministry. In some areas of implementation, moreover, the bureaucracies have been energized by the revolution and are functioning with great effectiveness; this is uneven but in some instances quite evident. Nevertheless, even if this optimism is justified, it will be some months and indeed perhaps longer before the development oriented bureaucracies, particularly at the planning and

programming level, are able to reach a high level of efficiency. As one official at the new Ministry of Agriculture and Settlement expressed it, the government's felt need to thoroughly restructure basic development programs will mean a limited program and limited ability to accept and utilize outside assistance for at least the next year.

As directly affects the U.S. program, the situation varies considerably, both among and within ministries. At certain levels, primarily the technical level but also frequently at the Ministerial level, there is expressed interest in continued U.S. economic assistance. This is most apparent in the Relief and Rehabilitation Commission and the Ethiopian Roads Authority. In addition, it appears we may be able to work constructively with the Institute for Management and Training, which has been given important responsibilities in relation to the structural reform of the government and improvement of its performance through a series of nation-wide training activities, and with the Institute for Development Research at Addis Ababa University, which is interested in increasing its capacity to do socially oriented action research in support of government programs. Parts of the Ministry of Education, particularly those concerned with non-formal education, have also expressed interest in near-term U.S. assistance. And meetings are now getting under way with the new Ministry of Agriculture and Settlement on a range of possibilities.

Thus as elaborated in Part III, we anticipate that it will be possible over the next two years to maintain a viable relationship with the government and carry out a relatively smaller program than formerly anticipated, but a still significant development assistance program, although the program will have to be shaped and operated within the context of a difficult working situation. This program should also lay the foundation, in cooperation and project experience, for a longer-term strategy in the years that follow.

E. Economic Situation

Since 1974 the economic situation in Ethiopia has changed dramatically in certain aspects and has changed hardly at all in others. The paucity of data and the delays in tabulating what data are collected, makes an uptodate analysis of the economic circumstances in which Ethiopia finds itself, rather difficult and often speculative. The analysis here is organized into three sections: International Trade and Foreign Exchange, Production, Employment and Prices, and the Monetary and Fiscal Situation.

1. International Trade and Foreign Exchange

The foreign exchange reserves of Ethiopia have continued to expand, growing by almost E$100 million during the second quarter of 1976 and reaching E$736 million as of the end of June. In June 1975 and 1974 respectively, the figures stood at E$650 million and E$635 million. The current reserves amount to the equivalent of 13 months imports at 1975 levels.

This apparently advantageous position is the result of several factors, including highly favorable export prices coupled with restrained import demand, which had significantly improved the trade balance during the period 1972-1974. (In 1975 the deficit was significantly higher). Additionally, net transfer payments over the past four years have been two to four times greater than traditional levels, reaching a high of E$108 million in CY 1974. Finally the EPMG attracted loans totalling E$151 million in 1975, a figure which is double traditional levels.

Export prices, particularly for coffee, have risen dramatically, the wholesale price index for exports having increased by 60 percent between February 1975 and February 1976. Coffee prices have continued to rise since then, as have the prices for hides and skins. In contrast, the wholesale price index for imports rose by only four percent during the same period (this index is highly suspect, however, owing to technical imperfections). The gross terms of trade for Ethiopia rose from 79 (1968=100) to 121 during this period.

These high export prices have helped overcome a reduction in the volume of exports (pulses and oilseeds primarily). However, the volume of coffee exports has been spurred by the rapid rise in prices and improved weather conditions. The 1975-76 (Oct-Sept) coffee export crop will be close to 70,000 tons compared to 59,000 tons in the 1974-75 crop year.

The value of total exports for the first four months of 1976 amounted to E$226.5 million compared with E$212.8 million for the same period of 1975. The value of coffee exports during this 1976 period amounted to E$149 million compared to E$46.2 million for the January-April 1975 period. The value of other exports is thus off by E$90 million from the previous year.

The volume of imports has fallen below traditional levels, with the 1972-75 average attaining only 85% of the 1968 level. This reduction has occurred almost exclusively in the capital goods category with metals, machinery and electrical material imports showing the greatest reduction. There has been a virtual cessation of industrial capital formation and a partial failure to maintain adequately the present capital stock.

The value of capital goods imports has declined from the E$160 million levels of 1970-71 to E$98 million in 1974 and E$90 million in 1975. This reduction has occurred wholly in the industrial goods category, the value of these imports falling from the E$100 million level of 1970-72 to E$39 million in 1974 and E$24 million in 1975. During the first four months of 1976 capital goods imports amounted to E$94 million versus E$31 million in 1975. Of this amount, approximately E$48 million was in categories comparable to the 1975 figures. It is not clear whether or not this recent upsurge in capital goods imports represents the beginning of a sustained increase.

The value of consumer goods imports has increased from the $150 million level of 1970-72 to E$225 million in 1974 and E$229 million in 1975. Consumer goods imports during the first four months of 1976 are virtually unchanged from the 1975 level but raw material and semi-finished product imports have dropped from E$75 million to E$53 million over this period. While these consumer imports increases over the past few years are sizeable, they are somewhat less than would be predicted given the large increase in money supply (and in money income) which has occurred in the past two years. There will be a continued high demand for consumer imports during the coming few years as a lagged response to this monetary expansion.

Imports for the first four months of 1976 were valued at E$261.3 million, compared to E$253.4 million during the same 1975 period.

The Ethiopian reserve position is the result of both positive (increased export prices and public capital inflows)

and negative (reduction in capital goods imports) factors. The maintenance of high reserve levels over the past few years is more a sign of difficulties in the Ethiopian economy rather than any fundamental structural changes in Ethiopia's trade balance. Capital goods imports will eventually have to rise to more reasonable levels, if industrial activity is not to be crippled. The increased flow of long term public capital, if it is maintained will, in part, be needed to substitute for reduced private long-term capital inflows.

Prices are too volatile for one to assume that the improvement in Ethiopia's term of trade will be a long-run phenomenon, even though the prospects for continued high coffee prices over the next two three years will certainly retard Foreign Exchange drawdowns.

In light of this, the present fortuitous reserve position of Ethiopia should be considered a transitory phenomenon with built-in claims against it.

2. Production, Employment and Prices

a. Production

(1) Agriculture: It is assumed that overall agricultural production was rather good this past season, perhaps 8-12% above the previous year's crop, but this is believed to be due to fortuitous climatic conditions more than to the changes in agricultural organization. Agricultural productivity in Ethiopia is abysmal and massive efforts to make available a better and appropriate technology to farmers and provide the necessary incentives to entice adoption will be required to increase production.

Even so, since approximately 85% of its population is engaged in agriculture, in average years Ethiopia is approximately self-sufficient in cereals production and is a small net exporter of meat, pulses, oil crops and horticultural crops, as well as coffee. In the past year, most observers believe (though hard data are not available), that consumption by the peasantry rose. Shortages of grain for the cities, occasioning imports of approximately 70,000 tons of wheat in 1976, were due to problems in the specialized areas of wheat production (state farms, etc.) and to disruptions of the previous marketing system for other domestic grains. The situation has obvious implications for Ethiopia's agricultural development strategy. Heavy reliance on increasing cereals' output will create surpluses which must either

be exported (quality control and transport problems) or fed to livestock to expand meat production for export. Horticultural crop expansion and related agribusiness development, again primarily for export, is an obvious complementary possibility. In any event, because Ethiopia is already a net exporter of foodstuffs, any strategy for rapid expansion of agricultural output must look for an export market. The only alternative is rapid expansion of non-farm employment combined with increased productivity for the remaining farmers. Limitations in Ethiopia's medium term ability to create many productive non-farm employment opportunities make this a very long term alternative.

The major short-run difficulty which will be encountered, will be the development of a marketing structure which can mobilize surplus production to supply urban and other deficit areas. The reduced importance of the private sector and EPID plans to eliminate marketing from its list of activities, implies that the Agricultural Marketing Corporation will have to expand its efforts even more rapidly than in the past year.

(2) Industry (excluding Eritrea): Industrial production has probably declined marginally overall, the increased demand for substitutes for Eritrean products being slightly outweighed by a general slump in construction activity. Cement, wood and metals production at the end of the first quarter of 1976 was below 1970 levels, with cement production falling to approximately half the earlier levels. With the announcement of large scale government involvement in housing construction beginning this year, the hiatus is construction may be soon ended.

Present industrial production is apparently close to capacity. Expansion will require heavy new investment and closer attention to depreciation of the present capital stock (cf. discussion of imports).

(3) Service Sector (banking, wholesale/retail trade, transportation, etc.). In general, the service sector has operated reasonably well. The banking system is slowly retrieving lost demand, savings and time deposits as confidence returns; demand deposits rose 64% between June 1975 and June 1976. The liquidity of the banking system is increasing as credit to the private sector lags (down 5.3 percent between March 1975 and March 1976) with the exception of credit for trade, the sector perhaps least affected by nationalization. This increased liquidity could be utilized as a somewhat less inflationary source of EPMG finance than NBE borrowing.

The wholesale and retail trade picture is a mixed one. Retail sales of most commodities continue to be brisk. Shortages have developed and the trader/middleman has had to bear much of the blame. How the trader responds to this increased pressure is crucial to continuing smooth operation of the distribution system, especially the food distribution network. (The creation of consumer cooperatives through Kebeles may fill the expected void left by the middleman.) If, as a result of unfavorable politics and conditions the food wholesaler abandons the business, a severe dislocation in the system could develop and have adverse on-farm repercussions.

The capacity of the transportation system has shown some signs of being over-extended during peak seasons requirements, but it, in general, has been able to handle the normal flow of goods. Two factors have execerbated the transportation sector's operations -- security problems and the need to convoy, and a reduction in the level of new truck purchases, due primarily to uncertainty about nationalization. The total capacity of the trucking network has probably declined in the past two years, and this will continue until truck purchases resume, at least at former levels.

b. Employment

Unemployment problems are not abnormally serious with the exception of construction workers, and the housing program will reemploy a large proportion of these. Public service employment by the EPMG has absorbed some of the urban unemployed and the civil service has been absorbing returning students, albeit often on a parttime basis. The attraction of having a piece of land to cultivate as one's own (if collectivisation is not pursued) should stem to an extent the traditional rural-urban migration. If the EMPG's efforts to tilt the terms of trade in favor of the rural areas are successful, this will also act to brake the flow of rural population to urban centers. (This will only be a temporary phenomenon as population pressure on rural lands grows.) Thus, the urban labor force will probably not expand as rapidly as in the past.

c. Prices

Retail prices have risen at an uncharacteristically rapid pace in the past few years. July 1976 prices (excluding rents) stood 27 percent above July 1975 prices; this is compared with a simple percentage increase of 4.7 percent from 1963-1973. (Actual inflation rates would be less than the recorded ones if rents which have been reduced were included in the index.) Food prices exhibited the most rapid increase, a rise of 45 percent. The basic causes of the inflation can be characterized simply as a rapid expansion in demand, coupled with inelastic supply. Demand has in-

creased, primarily as the EPMG has engaged in unprecedented levels of deficit finance in the past two years. These have also been good export years, thus raising income and increasing demand. In addition, there has been a redistribution of income away from "savers," higher income groups, to "consumers," the poor. For any given national income level then, aggregate demand will have expanded. The banning of certain types of imports and the restrictions on home and land ownership, have helped to focus demand on a narrower range of items and increase the pressure on prices. One could argue that the reduction of wealth of the rich, primarily through nationalization of housing and land, has reduced aggregate demand, but this factor is probably netted out by the reduced incentive to save created by the nationalization, and other restrictions on purchases of certain luxury goods.

Matched with the expansion of demand is a short-run inelastic supply of goods. An expansion of agricultural production is contingent upon technological changes for the most part. As mentioned above, industrial production is occurring at near capacity and new capital goods purchases have been very low in the last few years. The increase in government spending has not stimulated an expansion of productive capacity for the most part.

Imports do provide one source of supply which is highly elastic but even here there is a time lag involved in finding a source of supply and taking delivery. Moreover, in the present Ethiopian setting importers are reluctant to have a large inventory on hand because of the threat of nationalization, real or imagined. The supply/demand situation leaves the EPMG with several options for controlling the economy, and in particular onerously high inflation. One possibility is a big push in agriculture next year to increase the marketing supplies and reduce food prices. The emphasis would have to be on increased production rather than continued organizational and social service activities. How rapidly any such effort would succeed is debatable, given transportation, security, marketing and technological problems which would hamper such an effort. The EPMG would have policy problems to solve as well. The terms of trade would, by definition, move against the rural area - those very people the EPMG is most committed to assist. Secondly, there appears to be a view in the EPMG that better organization will result in increased agricultural production. This is only marginally true and "over organization" may well reduce output if individual incentives are subjugated, or if demands for social services outstrip emphasis on production.

The second option open to the EPMG would be to increase imports of foodstuffs and other consumer goods to absorb excess demand. While this is possible and would dampen inflation as it has this year, it can only be a short run measure while foreign exchange reserves are abundant. More importantly, it does little or nothing for basic development, and in using foreign exchange for consumption needs, the EPMG reduces its ability to expand the productive capacity of the economy through the purchase of investment goods.

The third EPMG option is a partial return to the old days of fiscal conservation. As of June 1974, total government internal debt stood at E$221.6 million. This has increased by 166% to E$389.8 million as of June 1976, and the overwhelming portion of this increase has been through that most inflationary of all processes, the printing press. The EPMG could reduce the level of spending, particularly in the less directly productive areas such as defense and social services. This will be an extremely difficult decision given its socialist ideology and the increased commitment to provide a better life for the masses.

In lieu of reducing government spending, a increase in taxes would help reduce aggregate demand. Studies indicated that Ethiopia's tax effort was weak relative to other similar countries. Current agricultural taxes are very mild and could be increased (again this involves political problems). Currently, the EPMG has been trying to increase revenue through a melange of procedures such as export surtaxes and relief taxes. A strong effort to establish simple progressive taxes at reasonable rates relative to services rendered would be a useful approach to reducing the deficit. A related approach would be to ask new decentralized administrative units to raise local resources to help pay for new social services, an approach which may be consistent with current government emphasis on decentralized responsibility.

Another possibility is for the EPMG to alter the way in which it finances deficits. It is less inflationary to borrow from the public than from the banking system. This would involve an increase in interest rates to attract savings and probably a new style low denomination bond which could be bought by individuals and associations. There is, perhaps, an ideological snag here as high interest rates are considered a vestige of an onerous system.

The fourth option the Government could employ is to use the foreign exchange reserves to spur industrial expansion. The difficulty here is that one needs people capable of planning and undertaking such expansion, a resource in short supply.

Obviously, the options discussed here are not mutually exclusive and should be used in combination. Also, while the context in which the discussion has taken place was the problem of inflation, the way out of the inflationary problem is an expansion of productive capacity; that is, economic growth. The necessity for expanding productive capacity should be kept in the foreground. The provision of things not directly productive, such as defense and social services, are not free. Even where social services do increase productivity, as with education and health, there is often a considerable lag. Unless society has the capacity to pay, the services will not be forthcoming. Moreover, a second area of concern that should be watched is that of incentives. The need for farmer's price incentives has been recognized, but the incentive problems caused by the nationalization of housing, etc., have put a damper on urban entrepreneurship. The growth of a welfare state with a concommitant fall in productivity is a serious danger and can undermine almost any development effort.

3. Fiscal and Monetary Situation

The latest year for which actual EPMG expenditures exist is FY 1975, and even these are still unpublished and therefore provisional. Actual budget expenditures in 1975 were E$1,044 million comprised of E$811 million in ordinary budget expenditures and E$231 million in capital expenditures. The ordinary budget increased by 35% over the 1974 level and capital expenditures grew by 30%.

Financing of the budget included E$711 million from domestic revenues (up 15%), E$127 million from domestic deficit finance (compared to an E$2 million surplus in 1974), E$108 million from external borrowing (up 71%), and E$96 million from external grant assistance (down 2%).

Of the ordinary budget, 48% went for general services (49% of the 1974 budget), of which national defense and security expenditures amounted to E$279 million or 37% of the 1975 budget compared with 34% of the 1974 budget. Economic and social services comprised 36% of the 1975 ordinary expenditures (39% in 1974).

Agriculture and land reform activities received the largest portion of the capital budget, E$80 million (35%). Road construction was the only other major component of capital expenditures, with E$55 million (24%) spent on this sector.

In FY 1976 only two figures are available, Inland Revenue Department collections and domestic deficit financing. Inland Revenue Department collections, basically income and sales taxes, amounted to E$235 million in FY 1976, up E$6.4 million (3%) from 1975. In real terms this equates to a significant decline. Domestic deficit financing of the 1976 budget amounted to E$202 million (end of June to end of June figures) raising the total EPMG domestic debt level to E$590 million. Borrowing from the National Bank of Ethiopia accounted for over 90 percent of this financing.

In summary, the following points should be highlighted, remembering that the time span considered is too short to suggest that certain trends will continue. Since defense and security expenditures share of ordinary expenditures increased greatly in FY 1975, these expenditures bear close watching. The fiscal policies of the EPMG are also an area of concern. Continued deficits of the FY 75 and 76 order of magnitude cannot be continued for many more years. This is especially so since much of the increased spending is for general services and other activities which do not directly increase productive capacity and the tax base and hence do not have a built-in mechanism for eventually financing these expanded budgets. The financing of the deficits, through the printing press, is the most inflationary of alternatives. From June 1974 to June 1976 the money supply has increased from E$660 million to E$1,093 million or by 65%. Virtually the entire amount of the increase can be traced to deficit spending. This has occurred at a time when real GNP has probably not increased. The resultant rates of inflation are all the more serious because Ethiopia has not had a history of rapid inflation and hence institutional arrangements to eliminate the worst effects of inflation are of a rudimentary nature.

4. Summary

a. Foreign exchange and domestic currency are not perfect substitutes. While the foreign exchange position of Ethiopia is strong, local finance problems are acute.

b. The relative emphasis that is placed on the provision of social goods and services as opposed to more directly productive goods, must be watched carefully. In a mixed economy, social goods

production is primarily the responsibility of government and the more directly productive activities are undertaken primarily by the private sector. In the switch to a system of far more state involvement as is occurring in Ethiopia, the government must also be responsible for undertaking the more directly productive activities or for fashioning more incentives for investment by either the private or public sector. It cannot merely expand its production of social services. Directly productive activity must be of a sufficient level to sustain the provision of social services.

The potential for reasonably rapid economic development exists. The path followed by the EPMG will determine the success in its development efforts. Greater fiscal and monetary responsibility and more attention to expanding the productive capacity of the country are required if its efforts are not to be thwarted.

F. Security Problems

The security situation in Ethiopia has made operating an effective development assistance program a major problem. It has affected not only the planning and monitoring of new projects, but in some cases it has hindered existing project implementation. The problem is not simply one for AID, but for the EPMG. It inhibits planning and administration of every one of the government's development objectives. In some areas, especially parts of the north, security problems are so great as to exclude reasonable hope for broad-scale development efforts for some time to come. In many other areas, intermittent problems defeat government morale, create higher costs and extend the time needed for operations.

One option for AID under these conditions would be to concentrate, and perhaps encourage the EPMG to concentrate, on short-term (two years or less) accelerated impact programs. These would reduce the length of time of U.S. exposure, and would avoid efforts at long-term institutional development which might be particularly difficult under these circumstances. The problems in this approach, however, are: (1) it further limits an already sparse field of available participation in Ethiopian development, (2) it does not necessarily reduce exposure to physical danger since outbreak of violence is sporadic and can occur just as likely on a short-term project site as a long-term one, and (3) such projects, by themselves, have a marginal impact on national development. Some accelerated impact projects may be desirable, especially in disaster-prone areas, as rehabilitation efforts, as examples of innovative approaches, and as vehicles for PVO participation. But our conclusion is that as a major focus of AID effort, they are at best a last resort.

A second option would be to concentrate on budgetary support. However, the EPMG has not undertaken the kind of long-term development or program planning upon which this type of support must be based. Budgetary support may be called for in some programs. But the Mission would still have to be assured that the funds were having an impact on the target population. The monitoring, and indeed the substantive, problems would be the same.

Our conclusion therefore, as amplified in Section III below, is to continue to concentrate on programs of national and long-term significance, but to recognize that in the period of this interim strategy, actual projects will have to be focused on limited geographical areas. Furthermore, we will have to take special account of security problems in both design and implementation of programs. The following principles will have to be observed:

1. Accepting the idea that in carrying out a USAID program in Ethiopia, a certain amount of "risk" must be accepted;

2. Focusing on projects which will operate in geographically "secure" areas. While it is relatively easy to identify habitually unsafe areas, secure areas are in a state of flux. The safe nature of the area will be defined by the extent to which the EPMG feels and demonstrates it can successfully carry out programs;

3. Efforts will be made to design projects with minimum (or no) full-time, resident technical assistance, thereby alleviating the problem of personal safety of Americans to a great extent; and

4. Including as part of its design of the project a security analysis of the area. In addition, all areas where AID projects are being implemented will be watched closely in terms of security in order for Mission management to discern what impact a possible changed security scenario is having on project implementation and to assess alternatives. This will include what effects a change in the status of an area would produce on the project and what alternatives would be available to the Mission at such a time, such as deobligation of funds, reduction of project scope, etc.

III. Proposed Program Strategy FY 77-78

A. Introduction and Summary

As the previous sections demonstrate, there is a basic contradiction in the situation in Ethiopia today. On the one hand, Ethiopia qualifies in need and in its policy commitments for priority in AID programs. On the other hand, political suspicion, insecurity, continued turnover and inertia in the bureaucracy, and uncertainty over the exact nature of government plans place limitations on any significant program development. AID therefore has to develop an interim strategy for the coming two fiscal years that is coldly realistic on the one hand but which at the same time is sensitive to the long term development interests of Ethiopia. As noted in Section I, it is desirable not only that Ethiopia continue to have access to the technology and resources of the U.S. to speed its development but that the United States learn to live and work cooperatively with self-determined socialist regimes in Africa like Ethiopia.

Our interim strategy will therefore be focused along two main lines. One is to maintain the readiness of the U.S. to participate in key long-term programs of national development significance. We cannot be sure how rapidly such programs will or can come to fruition. But in three areas -- arid lands, rural roads, and agriculture (minimum package) we propose to indicate to the EPMG our readiness to participate with both technical and capital resources. The second line of strategy, that which may well occupy a considerable portion of our working time and that of the consultants requested over the next 12-24 months, will be to reestablish with the EPMG a sense of mutual trust and respect with regard to AID's development objectives. This objective will be pursued by offering our assistance to a number of key development ministries and agencies in largely unstructured ways, and in many cases with less of the trappings of formal projects. This assistance will be focused on exchange of ideas, sharpening of concepts, training of trainers, and analysis of problems and possible program directions. Our efforts in this regard will, hopefully, be measured less by the number or size of new projects than by the effectiveness in developing a meaningful relationship with the forces that are now operating in Ethiopia -- on the basis of which we will be able to participate in a profitable long-term development effort in the years thereafter.

This strategy is by definition an interim approach to furthering development in Ethiopia in ways that seem most appropriate and possible today. It is not a definitive definition of a long-term development strategy. That has to come out of a much fuller discussion with the EPMG and a more thorough understanding on our part

of the EPMG's plans and programs and its priorities for U.S. assistance. What may emerge from that process may therefore modify what is said here, even concerning the three areas of long-term program significance in which we have some grounding and experience.

Programs of Long-Term National Significance. The three major development areas mentioned above -- arid lands, rural roads and agriculture -- are ones in which we are already involved to some extent, and on which we continue to receive signals, however muted, from the EPMG that both technical and capital assistance from the U.S. will be desired when these programs reach the point of wide-scale implementation.

In the area of arid lands development, we have become involved primarily through the drought relief program and our activities with the Relief and Rehabilitation Commission. However, we are at the point where immediate relief is nearly over, and when programs of rehabilitation -- resettlement and roads -- are raising questions of long-term development policy. We are acutely aware of the dangers involved in any major approach to "marginal" and semi-arid lands: allocation of scarce resources to relatively less productive and populated areas, high-cost and sociologically questionable (and sometimes politically motivated) programs of sedentarization and resettlement; misuse of fragile or scarce land and water resources leading to further degradation and irreversible loss; and problems of transport, communications and general accessibility to development agencies both domestic and foreign.

For Ethiopia, however, these issues cannot be avoided. With a population of 28 million, more than all the countries of the Sahel combined, it cannot avoid any more than the Sahel the question of its more marginal but threatened and disaster-prone areas. The government moreover has made a political commitment to avoid further disasters among the people in these areas. At the same time, unlike some of the countries of the Sahel, Ethiopia's marginal lands compete with much larger areas of greater productivity making the political, economic and moral choices more acute. Our involvement, as we move from rehabilitation to a longer-term approach, will thus be directed to helping Ethiopia avoid the dangers cited above. With the political momentum behind some existing programs, this task might well be enormous. But we do not see how we can refuse to try, bringing to bear all we have learned not only in the arid lands of the U.S. but in our intensive involvement in the Sahel these past five years.

In rural roads, we are confident that we are working an an area of highest priority. No one questions that, in a country where most persons live more than a day's walk from the nearest all-weather road, rural roads are critical to nearly every long-term development objective. It is an area where we anticipate less

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policy issues that would impede assistance agreements. It is also an area through which we believe we may be able to help in coordinating rural development programs, e.g., helping coordinate roads planning with agricultural development efforts.

In agriculture, as far as we can tell, the revised minimum package program may be the closest thing to a national agricultural development program for the next few years. The revisions of this program are proceeding, hopefully to be concluded before the end of 1976. We do not expect to play a significant part in that stage of the planning. But we have indicated to the EPMG and to the IBRD that AID has reserved funds to participate in this program in FY 77 and that we are prepared to discuss our participation as soon as the EPMG is ready to do so. We cannot see backing away from this program. Nothing will touch the rural poor, the large majority, more directly and profoundly.

Certainly if all three of these programs, plus possibly some from other sectors, develop into significant areas of involvement during the next two years, AID may be faced with a question of priorities. But from today's prospective, that would be a happy dilemma. And we do not perceive it to be a problem in the near future. In arid lands, we plan to encourage much discussion, research and a few pilot projects as a prelude to any major program thrust, so as to avoid serious errors in working in these areas. In roads, the development of the program will hopefully proceed rapidly but the project not be unduly complex to administer. In agriculture, much of the planning will be done by the EPMG itself, much of the donor effort by the IBRD, and AID might concentrate its input on a few selective areas where U.S. expertise is particularly useful.

Building a broader degree of confidence. In the above three areas we already have some basis of experience and involvement for building a greater sense of confidence and mutuality, though much more will have to be done. In the other sectors, we intend to open a much broader dialogue than heretofore, and much of our

from REDSO and AID/W; and from a judicious use of consultants. For financial and more extended assistance, we plan to draw heavily on various non-bilateral projects mechanisms -- e.g., the Africa Bureau's regional projects in manpower training, women in development, and rural education; TAB projects and programs; PVO's where appropriate; and in broadening the concept of design so that the design process becomes in itself a form of assistance that is as significant or more so than any formal project which results.

We have begun this style of assistance, particularly the broader use of the design process, in our work with the Institute of Management and Training, the Institute of Development Research, and the Adult Education Division of the Ministry of Education. The projects which emerge in these areas will be structured to continue this process, providing highly selective and few if any full-time advisors, and concentrating on support to the Ethiopian institutions' ability to plan, program and implement its own program in a self-reliant way.

We will be prepared to extend this process of discussion and relatively unstructured assistance to other key development Ministries and government agencies as they desire, such as Health and Housing and Urban Development. On a non-project basis, or as part of other projects, we also intend to help the various development Ministries of the EPMG draw upon a wide variety of tools available from the U.S. today for development, e.g., the use of advanced technology to help in resource analysis, early warning systems and faster communications to the rural areas; scientific breakthroughs in the control of diseases like schistosomiasis; new concepts of management that enable bureaucracies to be both more efficient and more sensitive to people's needs; the use of law to support revolutionary development while institutionalizing and protecting the rights of citizens.

This may seem a scattered and unstructured approach. But in practice it won't be. We do not anticipate large capital programs in any of the areas outside rural roads, arid lands, and agriculture over the next two years. Outside these areas, we do anticipate that new projects will likely emerge in the fields of civil service training, adult education and development research, growing out of and, as noted, continuing the process now underway. All of these, however, reenforce the capacity of the Government to carry out its rural development program and are largely tied to the basic objectives of our three main capital efforts.

In the other areas in which we open dialogue, we expect the EPMG to be highly selective and critical. In any case, for

FY 77-78 we will be drawing on our own staff, TDY experts and consultants on a largely non-project basis. The one new area in which a possible capital and technical assistance program could develop is in housing (sites and services) for the urban poor. This is an area of possible critical importance to the EPMG and one in which we have begun discussions along the program lines suggested in AID/W's message on new programs being offered in this area.

In sum, during the process of consultation and interaction over the coming months, we should obtain a more complete view of what areas the EPMG perceives as appropriate for U.S. assistance. This might lead to revised or expanded priorities, e.g., the urban poor, and perhaps even additional program requests for FY 78. But most likely the results of this process will become elements in a more complete and structured program strategy for FY 79 and beyond, when not only a more fully cooperative relationship should have been developed but also when capital resources may be even more important for the EPMG program.

B. Programs in Drought and Disaster Prone Areas

Vast lowland areas, river valleys and deserts in Ethiopia are prone to periodic droughts and floods and other natural disaster. For the most part these areas tend to be marginal and are cut-off from the mainstream of socio-economic activities by a lack of roads and other forms of communication and virtually no government infrastructure. The four southern provinces of Harrarge, Bale, Sidamo and Gemu Gofa are typical examples of this marginal area with a total population of one and a half million. These locations are not well served by regular government services making the problems of assistance during a time of need difficult.

Since 1974 the Relief and Rehabilitation Commission has been assisting victims in drought areas, initially through its relief programs and, subsequently, in the rehabilitation of the drought affected people in the area stricken by the prolonged drought in Ethiopia over the past three to four years.

USAID has been able to assist the RRC in variety of drought programs, and, more recently, in rehabilitation efforts throughout the affected areas. Working through the RRC, AID has been able directly and indirectly to help provide assistance for some of the "poorest of poor" through a wide range of projects that include relief, well drilling, food production, insect control, small farmer assistance, range water development, and drought access roads. From its inception there has been a willingness on the part of the government through RRC to work and cooperate with USAID in the process of project identification, development and execution. In response, AID has pursued its commitment to assist less fortunate peoples with this wide range of activities.

The Provisional Military Government of Ethiopia, through the RRC, has demonstrated that it is strongly committed to a program of assistance to drought and other disaster victims. Maintenance of these programs however runs into millions of dollars each year; a continuing drain on the country's resources as well as on foreign donor development resources. Since the country cannot pull back from its commitment in the disaster areas, it must assist the populations to resist future disaster and make better use of their own resources in order to keep a proper balance of resources going into the country's long term national development.

While RRC is doing a great deal in the area of health, education, communication, range management, conservation, water management and agriculture in the drought recovery area, there are still a range of management and planning problems caused by rapid expansion, inexperience, insufficient manpower, etc. that need to be addressed by the RRC. These management weaknesses create risks for participating donors. Other risks affecting success are created by the conflict between government objectives and the traditional objectives of the people in these areas. An example is in the programs for settling of nomads. Security is another risk created by anti-government elements who frequently cause difficulty in getting to or operating in project areas. Finally, the costs to both the EPMG and the donor community of doing projects in these areas are great, especially when computed on a per capita basis.

Our current involvement in the southern area consists of six projects funded from the original $8,000,000 rehabilitation grant programmed in FY75. The road position of this program was the largest amount and, with security problems, it will likely extend beyond the original deadline of 24 months. The Small Farmer Crop Protection Project, Accelerated Crop Production, VolAgency Wells, Sidamo Water Development and Small Farmer Settlement are largely completed efforts. From the $5,000,000 additional received for rehabilitation in FY76, two additional projects, the three year Early Warning System to alert the EPMG to future potentially serious pre-disaster situation and the five year Gemu Gofa Rural Road Project have been funded.

We are now at a point where any further efforts in these areas will raise questions of long-term strategy for the so-called "marginal" lands. Indeed the roads program and the current resettlement efforts (the latest of these not supported by AID) already raise these questions. In the planning stage, with approved PIDs, are three new projects which clearly mark a transition in AID programming from relief to involvement in these issues of longer-term strategy development, i.e., the Southern Gemu Gofa Integrated Rural Development Project, the Southern Strategy Development Project, and the Development Techniques Project. Teams to prepare PRPs for these projects are expected before the end of 1976. In addition, in our discussions with the RRC on the proposed Ethiopian Conference on disaster planning, we are developing a dialogue on the whole question of the transition from relief and rehabilitation to longer-term development programming.

Gemu Gofa and the Southern Strategy Projects particularly are watersheds in this process. The RRC is becoming increasingly sensitive to the problems facing it in the southern provinces and aware it is engaged in a long-term effort. How much other ministries are interested and committed to these areas is another question. In the Gemu Gofa project we hope to test the development possibilities and to elaborate the special demands on government services that long-term programs in these areas create. In the Southern Strategy Project, we will help develop agricultural, ecological, sociological and economic information on a broad expanse of these lands in which the French are doing an updated study of the water development potential and the IBRD work on livestock. Out of this should thus come the basis for a joint effort by the EPMG and the donor community to assess the choices, the costs, the risks, and the potential for major further work in these areas. At that point we can judge whether the time is right to proceed with the development of more comprehensive efforts, or to step back until there is more commitment and coordination, more information, and more confidence in the proposed solutions.

In sum, the new projects with the RRC must be looked upon and judged in two ways: to help the people in these areas resist more effectively the threat of famine and natural disaster, and to help establish the basis for a rational, cost effective, and ecologically sound approach to the long-term development of the more arid lands of Ethiopia.

C. Rural Roads

The development of rural roads is an important component of AID's core program strategy because Ethiopia's rural population is still largely without access to district, regional and national markets. Networks of penetration roads and accompanying farm-to-market, and market-to-town roads are required to increase the goods and services available to the rural farmers and provide them with the opportunity to sell surplus production for money necessary to purchase increases of goods and services.

Construction of rural roads creates change in areas previously without access. In and of themselves, without any other development programs going into a given geographic region, roads can convey substantial benefit to target rural populations given even moderately favorable economic conditions in the country. Incentives to produce more and market more are intensified. A serious impediment to increased income

in rural area is removed when a road comes into a rural area where none had existed before. All of these possibilities are enhanced in Ethiopia today because land reform has given the small farmers the opportunity to reap the benefits described. When forming part of integrated development programs, the benefits derived from rural road construction and maintenance activities are multiplied.

The EPMG has long recognized the need for more rural roads. It understands that without a greatly expanded road network, agriculture and related projects can only reach a small majority of the population. The need is first, to develop a national rural roads plan, second to constitute an organization to manage the implementation of the plan, third to organize and undertake construction and fourth to establish a maintenance system.

A proposal to establish a Rural Roads Organization as a semi-autonomous unit of the Ethiopian Road Authority has been submitted to the Council of Ministers. In addition, the British Government has provided the services of the Crown Agents to develop a national Rural Roads Plan, a first draft of which was submitted to ERA in October 1975. The final draft is now due.

Currently, it looks as though the national rural roads plan will focus on minimum standard, minimum cost roads with construction methods being a mixture of capital and labor, depending upon local terrain and other conditions. Maintenance will be the responsibility of the local administrations. Selection of roads for construction will be based upon a formula which weighs population density, development potential, geographic spread and local desires.

It is still uncertain whether the program would start in a few of the administrative regions and spread gradually to all fourteen or would commence in all the regions simultaneously. There is considerable local political pressure for the latter approach, but there is not likely to be sufficient capability in terms of site management, machinery or budget to handle such a large program initially.

The problems with which the Rural Roads Organization will have to contend are enormous, including: a shortage of skilled manpower, shortages of certain categories of equipment and/or spares, and a lack of sufficient equipment for maintenance capability. AID, in conjunction with the World Bank, SIDA and one or two other possible donors, will provide assistance to: 1) increase and improve ERA's internal training capability,

2) systematize its present equipment and spare parts holdings, 3) provide additional equipment, 4) develop an experimental rural roads program testing labor-intensive construction and maintenance techniques, 5) maximize management efficiency and effectiveness within the real world operating constraints faced by ERA, and 6) cover an agreed-to portion of road construction local costs utilizing the FAR methodology. A team from Louis Berger Associates will arrive in Ethiopia in January and assist in the development of a Project Paper for FY77 financing.

In addition, to the extent possible, AID will seek to have the individual, local construction projects form part of integrated rural development programs. The possibilities of doing this will become clearer once the revised Minimum Package Program is presented.

Given the magnitude of the rural road development task for the next several years, and the likely levels of support from other donors, US assistance of approximately $10 million in loan funds and $1.0 million in grant funds will be required for the three year period FY1977-FY1979. Since a sizeable portion of the loan money will be required for equipment purchases, and given the long lead time required for procurement and shipping, we would prefer to obligate the full $10 million in FY77. If this proves impossible, the second option would be to prepare a single project paper for the full $11.0 million but with authorization of not less than $5 million in loan funds and $260,000 in grant funds in FY77 with the remaining $5 million loan tranche in 1978.

D. Agriculture and Rural Development

1. Background

a. Agricultural Production by Peasant Farmers

Agricultural production from the last crop season 1975/76 did not fall during the transition of the land reform and the creation of peasant associations. It is believed that overall food crop production was from 8 to 12 percent greater than the crop of 1974/75. However, the current crop 1976/77, harvesting of which should begin in October, is still in question as fewer field observations have been made. Hence, no expert contacted on this subject is willing to estimate or for the main part even willing to express a judgment on this year's crop situation, other than to state that the weather has been excellent and it appears that most fields have been planted. A good crop should be expected. The Ministry of Agriculture and Settlement's 1976/77 crop estimate activities, based on sample crop cutting, should begin in November or December after which more accurate date may be available.

b. Agricultural Production by State Farms

Due to the confusion during the "transition period" of taking over the operation of large nationalized farms by the Government for the 1975/76 crop year some land either was not planted, did not receive improved seed and/or fertilizer, adequate weeding, or in general was not managed as well as in previous years. Nevertheless, except for wheat, production on these farms (sugar, cotton) has been maintained or increased over previous years. Wheat production has dropped largely due to the breakup of some of these farms and the transition to small-scale production.

However, production from state farms for this upcoming crop (1976/77) is expected to be slightly larger than in recent years due to excellent weather, and, as is believed by some observers, better managed production efforts than last year.

c. Marketing

Traditional marketing channels have been disrupted. Due to uncertainties, with respect to the venturesomeness of private traders, their access to credit, to the price expectations and consumption plans of farmers, an inadequate quantity of production was supplied to towns and other market-dependent segments of the population. It is widely assumed that former tenant farmers, freed of heavy rents, keep a larger part of their crops for their families' consumption, reducing the market surplus. There is little evidence one way or another on farmers' consumption, though it is safe to assume that there has been a substantial increase in rural consumption.

Also, a shift in the traditional marketing channels if taking place resulting in the marketing of good grains, as well as other commod-

ities, through the newly established urban associations (Kebeles). As no studies have as yet been made of these shifts no empirical data are available for analysis. However, from USAID weekly observation of the central market in Addis Ababa it is evident that a much smaller volume of grains is being traded there.

The EPMG grain purchase program, initiated last year, did not meet its purchasing quotas; however, it is expected that now that it has one year of experience its food grain purchasing program will go better next year.

d. EPMG Personnel

Since the Spring of 1974, there have been six different ministers or acting ministers of Agriculture. Other personnel changes, no so easily observed, have taken place at all levels throughout all agricultural agencies. Number of shifts are not known; however, it is felt that over 50 percent of the department heads and up, i.e., Head of Planning and Programming Department (PPD), and General Managers of Extension and Project Implementation Department (EPID) and Institute of Agricultural Research (IAR) or other equivalent positions have been shifted, replaced or otherwise separated from their post.

Also, significant changes of agricultural personnel have taken placed throughout the country. A conservative estimate of something like 30 percent of the district supervisors or agricultural coordinators have been shifted or displaced. Beyond these changes in personnel, the larger question of manpower for the agricultural sector remains a critical matter. Once the new structures and systems of rural development have been more completely established by the Government, a thorough study of this question and of appropriate assistance would be warranted, though the Government may not look to a donor agency to make such a study in the near future.

2. EPMG Agricultural Programs and Projects

There is, to our knowledge, little effort currently underway to develop an overall agricultural strategy outside of the efforts to revise the Minimum Package Proposal II. The Council of Ministers rejected the original MMP II proposal in May, 1976. The Head of EPID estimates that the MMP II revision will be completed by mid-November. A few of the features of this revised proposal include: (a) redefinition of MPP boundaries to coincide with peasant association and other local government boundaries; (b) an expanded program of coverage with a target of 65 percent of the nation's farmers to be reached in four years; (c) a reduction in direct EPID activities in areas other than extension; (d) the organization/strengthening of peasant associations to undertake certain agriculturally related functions such as running cooperatives. Other required activities will be done through contracts with outside agencies, or by outside agencies directly following Planning Commission directives (we think). This, of course, raises questions

of other agencies' capabilities, especially the Agricultural Marketing Corporation (AMC) which apparently will be expected to deal directly with peasant associations in the selling of inputs and buying of outputs; and (e) each development agent (extension agent) will serve 10-15 peasant associations which will be requested to form an agricultural committee to interface with the extension agent. Agents will be backstopped by mobile teams of agricultural experts (college graduates). Since the revision of MPP II is not completed the points mentioned above should be considered as indicative only.

3. AID's Approach

At present, with the exception of the Pulses Project, our program in agriculture is winding down with most projects scheduled to end in FY 1977. The situation is thus ripe for a fresh approach. We anticipate however, that our assistance will be much different in form and style than in the past. We see great difficulties, and little EPMG interest in the use of many OPEX technicians, long-term training in the U.S., or deep U.S. involvement in policy formulation---all three of which were prominent features of our programs in the past. Instead we see capital assistance being tied largely to positive steps already enunciated and being carried forward by the EPMG; technical assistance being keyed to specific project or program operations and involving more regularized TDY than resident experts; and in-country and third-country training emphasized more than long-term training in the U.S.

All of these seem to us compatible and appropriate for support of the revised MPP. The EPMG has taken impressive strides in the last two years to bring about a more equitable and dynamic rural development program in Ethiopia. Steps have been taken which have changed entirely the land tenure situation, the pricing arrangements for farmers, the role of farmers in determining their own future, and the prospects for improved quality of life throughout the countryside. The recent merger of the Ministry of Lands and Settlement and the Ministry of Agriculture and Forestry augurs well for a more coordinated approach to the development of peasant associations, government programs and agricultural groups under the new system of land tenure. The active assumption of responsibility for rural roads by ERA, of adult education by MOE, and of marketing by the Agricultural Marketing Corporation relieve EPID of many functions that could have overloaded and distorted its primary function if it had had to continue to carry the load in these areas.

For these reasons, we do not anticipate major policy differences with the revised MPP when it emerges. Rather, we see possible problems in the scope, pace and general administration of the program on which problems we hope we can be of help. Some of these will reflect problems of manpower at the national and local level, and there will be a tendency perhaps to try to respond to this problem by the offer of expatriate help. Whatever the merit of long-term expatriate advisors or OPEX in overcoming such problems, they will not be relevant to the scene in Ethiopia. We anticipate that the Government's concern with self-reliance will lead it to reject such assistance from the U.S. on any large scale. We feel however that this is not an obstacle to our intention to assist. In many ways, informal exchanges with our own staff, selective and regularized use of TDY assistance, and in-country training can be more effective in assisting the EPMG achieve both self-reliance and the realization of its program goals.

It is too early to define the precise focus of U.S. assistance to the MPP. We may well wish to provide central budget support to help speed the pace of implementation. At the same time, we may wish to focus the evaluation of efforts in the countryside on a specific geographic region. AID already has pending with the EPMG a project in Upper Didesa; we may be asked to focus on rural roads input in a specific area, perhaps also the southwest. It would fit with this involvement, and reduce problems of security, if U.S. assistance to the MPP were similarly defined geographically. In one or two regions we may also be able to help pinpoint and overcome more specifically the problems of implementing the overall program.

Another approach, not entirely exclusive of the above, would be to focus U.S. assistance on specific aspects of the MPP, e.g., research, training extension, marketing. It is too early to make judgements on the possibilities here, since we need to know more not only of the program but of the respective interests of other donors. But we see in this approach another way of avoiding unnecessary U.S. involvement in broad policy matters of the EPMG while focusing U.S. assistance on key bottlenecks to progress.

Perhaps this is an optimistic assessment of the possibilities. But we have no reason to conclude otherwise at this time. On the other hand, the importance of the MPP to every goal of assisting the rural poor is so great that we cannot see any reason to change the position of the USAID up to now, i.e., to continue to indicate to the EPMG our readiness to participate in this program on a substantial basis. In the FY 1977 presentation to Congress, AID requested $15 million for

this program in FY 77 and indicated the possiblity of programming $15 million more in FY 78, which figures were recently repeated to the EPMG. We understand that AID/W, in its recent submission to OMB, revised these figures to $5 million for FY 77 and $10 million for FY 78. We are not overly concerned with the new figures; $15 million initially programmed over FY 77-78 may be sufficient to help get the new program started in an effective way. The important thing is that AID continue to indicate to Congress our intention to participate in a substantial way. If the capital requirements for FY 77-78 do appear larger, we will then ask for a notification to that effect. This can be judged best in early CY 1977 and perhaps determined before the actual hearings.

4. The Changing Style of Assistance
Future of the Pulse Project

We have included here a rather extended statement, drawn from the recent PAR, on the current status of the Pulse Project. The purpose is not to flag the problems of this Project. Indeed at a recent meeting with the Head of EPID and other Ministry officials to discuss these problems, we posed at the outset the question of whether this Project still was of priority concern to the Ministry given all the changes that have occurred in Ethiopia since its inception. The reply was very strongly in the affirmative, with Ministry officials emphasizing the need (and the demand they had experienced) from the farmers for research on a wide variety of pulses, not just haricot beans, and the Government's interest in both domestic consumption and export possibilities, e.g., they had had a recent inquiry from Egypt regarding the need for 80,000 tons of horse beans, more than all of Ethiopia's current production. In this spirit, we are moving ahead with the Ministry to solve the various problems as much as possible.

Nevertheless, the problems experienced by this Project illustrate the difficulties of projects conceived in a different era. With the best will in the world, Ministry of Agriculture officials may not be in a position to solve the problem of exit visas for participants, shortage of housing, handling the administrative requirements of OPEX, or---a problem not mentioned below--- the changing status of medical facilities such as Filwoha (Seventh Day Adventist) Hospital on which OPEX rely. These are the realities to which future project design must be addressed.

Status of the Pulse Project

Since the arrival of the expatriate team during the last three months of 1975, the Pulse Project has moved forward in some areas in spite of obstacles.

The major problem concerning the Pulse Project since the arrival of the expatriates in Ethiopia has been the lack of staff and administrative support from the EPMG, as provided for in the Project Agreement. For example:

a. During the first few months after the arrival of the Pulse team members the majority of their time was spent in getting themselves settled in, i.e., locating living quarters, clearing customs and taking care of other personal matters. Although the Project Agreement stated that the EPMG would assist in these matters no assistance was forthcoming from this source. An Ethiopian administrative assistant (expediter) was therefore hired early in 1976 and many of the problems concerning in house activities were alleviated and the team members were able to focus their efforts more directly to their project work. (However, the expediter may now be drawn off to other work for several months.)

b. The recruitment of a Plant/Pathologist has been extremely difficult but this fifth team member has finally been located and should be at post after the first of 1977. However, the finding of housing at Nazareth poses a major problem for which no solution has been found.

c. The required number of Ethiopian staff has not been provided or assigned to the Project. The IAR Chief of Research at Nazareth and programmed as counterpart to the expatriate Plant/Breeder is overburdened with administrative work and is unable to spend sufficient time in pulse research. The EPID Activity Manager of the Pulse Project has recently been given the duties of head of Agronomy Section of EPID and is able to spend only a small part of his time with the Pulse Project. Mid-level staff in research (IAR), extension (EPID) and Marketing (EPID) are under strength and secretarial staff and drivers have not been assigned to the Project.

d. Office and laboratory space is inadequate and frequent requests to provide necessary space and office equipment for the Pulse Team in Addis Ababa has not had any positive results. EPID is hopeful this can be solved in the near future.

e. Project vehicles have not been properly maintained. Excessive down time occurs because EPID and IAR have no funds available for needed maintenance and parts to keep the vehicles in operation. Proper storage facilities are not available for the vehicles and unauthorized use of the vehicles by other Ministry programs is a continuous problem. Lastly, considerable time and effort is spent by the team with problems related to acquiring sufficient fuel for the vehicles to make necessary trips.

f. Planned construction of office laboratory and seed clearing facilities at the research site during FY 1976 by the EPMG was not undertaken and it is not yet known what, if any, funds EPID will provide in FY 1977 for construction. IAR has provided a small budget (Eth.$16,000) which will be insufficient to take care of required needs. When the FY 1977 EPID budget is published we will be better able to analyze construction capability related to needs.

g. Land promised for research work at Nazareth (Melkasa farm and Sodere farm) was held up for months while IAR personnel tried to negotiate for release of the land with the Peasant Associations and the Zemetcha. IAR has at present obtained 80 hectares of land at Melkasa and EPID has 15 hectares of land at Sodere for use in seed multiplication. Planting and testing has began on the 80 hectares at Melkasa thus a part of the project has been kept on schedule with relation to the planting season.

h. The marketing component of the Pulse Project has had almost no input from the EPMG. Without having a counterpart assigned, the expatriate marketing specialist has, working with the Grain Board and other agencies on his own initiative prepared a situation report, a report on export marketing of Pulses in Europe and is now in process of preparing a report on pulse activities in certain Asian and Mid-East countries.

The proposed marketing component is intended to be tied to the scheme for MPP marketing through cooperative societies. Even though such a marketing scheme may not develop, the existing marketing methods now present in Ethiopia are sufficient to handle domestic marketing of pulses.

Export marketing of pulses is an entirely different matter and if such a market is to be re-established the Grain Board, or whatever agency is finally established to handle exports, will have to gear up to re-establish lost export contacts, make an assessment of the export market and be prepared to respond to foreign demands in an efficient and businesslike manner. As of this time, EPID has not involved itself in Pulse Marketing nor has it shown the capability to do so with efficiency.

Despite this difficulties we ascertain that we can overcome those deficiencies in the progress of the program which have involved land acquisition, delays in construction and even to some extent the lack of some middle and lower level personnel. EPID is still in the process of finalizing its budget for FY 1977 and we are in hopes that funds will be provided which will alleviate the financial problems that we were faced with in FY 1976. Commodities have presented no particular problems since they were ordered early after the signing of the Project Agreement. This and the fact that the project was a year late getting underway because of recruitment difficulties enabled the majority of the commodities to be in country prior to their needs. Since the arrival of the expatriate team it has been found that additional commodities are needed and they are programmed for purchase in FY 1977. These deficiencies have and no doubt will further delay the schedule of the five year plan and we have advised the EPMG of this and of the necessity of meeting its obligations if the project is to succeed.

Of immediate and major continuing concern to the project however, is the scheduling of participants for training. Participant training planned for the Pulse Project has incurred almost fatal set backs. The key to continuation of the Project as currently designed, upon departure of the expatriates, depends on having trained qualified Ethiopians to replace the expertise provided by expatriates.

During FY 1976 two short term and two long term participants were scheduled to depart for training in the U.S. EPMG restrictions on exit visas necessitated the cancellation of the two short term and one of the long term participants. After a number of months of discussion and effort one long term participant has been allowed an exit visa and is now departing for the University of Florida on October 6, 1976. He will be late beginning classes but the University of Florida has been notified and we expect no significant problems.

The visa problem this year has been a significant blow to the project and if further visa problems are encountered in FY 1977 the schedule of our program will not reach project objectives. The remaining six long term participants are scheduled for departure in FY 1977 and we must obtain a clear commitment from the EPMG that visas will be issued and the participants allowed to depart for training on schedule. If they are not allowed to leave for training, the project will be in great jeopardy and the Mission, in conjunction with the EPMG, will have to make a decision on whether to redesign substantially the activity or terminate it.

Some of these problems are beyond the scope of the immediate counterparts in the Government to solve, as they relate to overall policy decisions of the EPMG (e.g., on participant training, budget) or to the delays occasioned by change of personnel, reorganization and new government priorities. Because the Pulse Project, however, is a continuing priority for the EPMG, and involves a substantial commitment from both Ethiopia and the U.S. solutions must be found for these problems if the project is to succeed.

E. Education Training and Research

1. Education

The EPMG is seeking to create a new environment for education and training which will permit the full participation of all the people in development and will encourage the full utilization of human resources and knowledge for the benefit of the people as a whole. The intention is to have education for all rather than the few, and the absorption of the products of the educational system into effective employment and creative activity.

In recent years there has been enormous geographic and demographic mal-distribution of education. Of Ethiopia's 28 million population, the 10% living in the urbanized areas have utilized fully 50% of the national educational services. Further breakout of the data indicates that at the primary level, the four provinces of Wollega, Eritrea, Arussi and Addis Ababa have had student participation rates of 33%, 29%, 29%, and 78% respectively. All the other provinces have ranged between 13% and 22%.

At the secondary level, the disparities have been even greater with three provinces having accounted for 55% of total secondary enrollment. Over 62% of the entrants to the University in recent years have been from three provinces.

The EPMG has realized that the formal educational system simply is not geared to help solve problems currently facing the country and is not in a position to assist the vast rural population. As they have stated, "The curriculum is too academic; teaching is examination-centered; and the system is elitist." The present Ethiopian assessment is that the curriculum at each level is oriented to preparing students for the next level of studies while students who drop out, or do not reach higher education are ill-suited for absorption by the labor market. The technical schools have not developed adequate communication with industry, such as there is, and their curricula have been inappropriate as indicated by unemployment and misplacement of graduates.

Essentially, this kind of education is foreign-oriented and culturally irrelevant to the current needs of the Ethiopian people. It is not linked to the specific requirements of the rural production process for raising the

If one takes into consideration Ethiopia's major thrust as that of revolutionary rural development and one also takes account of the special problems imposed by the demands of relief and rehabilitation as well as grinding, on-going poverty, it becomes clear that the educational system must restructure and redirect its activities to provide education relevant to the daily lives of the rural farmers and their families and to provide it relatively quickly to vastly increased numbers.

The Ministry of Education has accordingly begun the process of reforming the entire educational system with the major aim of enabling all Ethiopian citizens to begin to cope more effectively with their own environment through rapid expansion of basic knowledge and skills. To this end the Ministry is initiating programs and projects which:

- Give priority to the rural and deprived areas of country.

- Provide relevant basic education equitably distributed to the population in the shortest possible time.

- Provide education both in-school and out-of-school, having both formal and non-formal elements.

- Decentralize the administration of education so that the people are in control of their local education programs. The education system can thus serve the community as a whole through cooperative efforts.

- Provide middle and higher level education to meet the growing economic, social and political needs of the country.

- Provide immediate assistance in the form of skill training and basic education in the drought-affected areas which form part of the total rehabilitation program.

<u>AID Assistance to Education</u>

AID development assistance will aim at assisting the MOE to create new educational models designed to offer the poor majority an opportunity to acquire those skills which will improve their productivity within an acceptable time span. The

central purpose will be to apply assistance to a rapidly expanding system of action-oriented education related in all its aspects to the needs of a developing community and nation wanting to achieve a self-reliant pattern of growth.

Non-Formal Education

While the reform of education is sweeping, and the demands for resources may be great, the EPMG has inquired of AID only for assistance in the area of non-formal education. This is an area in which AID had begun work as part of the Rural Agricultural Development Project and in which some continuity of effect exists.

Non-formal education in Ethiopia is characterized by the following assumptions:

- That the program will make an essential contribution to the total process of decentralization, providing skills in localities appropriate to the needs of those localities. Skills will be viewed broadly as including technical, practical, managerial, organizational, leadership, communication, numerical and other skills necessary for the broad spectrum of development.

- That existing activities in adult education and non-formal education in the government and non-government systems will be reviewed and integrated into a common program. This would include such important components as priests' training.

- That the program must be integrated with other activities especially the construction of Awraja Development centers, newly established cooperatives, Peasant Associations and local representative institutions which will have to be served by the non-formal education system.

- To permit these developments to take place, the program now being defined is viewed as a unified operation covering the whole country and incorporating financial inputs from:

  (a) U.S.$1.8 million, previously allocated to the Priests' Training Center at Menagesha, through IDA.

  (b) U.S.$1.0 million, available for non-formal education Community Skill Training Center (CSTCs), through IDA.

- The program will have as a major objective, the creation of at least 500 CSTCs appropriately distributed over the country and incorporating the resources available in:

  (a) Current "Zemetcha" operation for the creation of 25 CSTCs (AID funding, see attached revised PID).

  (b) Proposals through IDA for 24 Awraja Rural Development Centers.

  (c) Resources available through IDA for 100 CSTCs.

  (d) Resources available through IDA for skill training for priests.

  (e) Operations in other government department and non-government agencies.

All the above will be brought within a common integrated framework.

Basic Aspects of the Community Skill Training Centers

A CSTC is defined as a delivery point for appropriate knowledge and skills related to (a) productivity, (b) cooperative living, (c) individual and family living and incorporating necessary changes in attitudes. It is best viewed as a series of activities, conducted by community leaders and specialized instructors, rather than a physical entity. It is a 'center' also in the sense that these activities should become one of the focal points in rural community life. The working space constructed provided in an existing structure for the CSTC can be used by the primary students when adult classes are not being held.

The problem of location of all types of educational operations, including CSTCs has been simplified by land reform. The Peasant Association, on 20 gasha units of land (1 gasha = 40 hectares), will provide a focal point for social services and training facilities. 20 gasha land units will support a population of approximately 100 farming families together with families engaged in non-farm activities. Various sources may indicate some discrepancies as to the "exact" number of families to be located in a Peasant Association area but, whatever that range may be, it should provide quite an adequate population base for educational operations. Schools, CSTCs, etc., can be managed by the Peasant Association and, in serving the direct needs of the Association, the school programs can be made directly relevant to local needs.

There are approximately 4 million farming families, which at the rate of 100 families per Peasant Association, would with full implementation create 40,000 Peasant Associations each of which would require a basic educational system and access to skill training. This underlines the urgent need to keep unit costs for both capital and recurrent expenditures at a minimum.

Major areas of training at CSTCs will include:

- Upgrading Traditional Rural Skills

  Potters, tanners, weavers, crafts (basketry, etc.), blacksmith, jewellers, house-builders, carpenters, etc. Two further sub-categories are: (i) cottage industry (i.e., a large group of artisans with output for export beyond the local area); and (ii) individual artisans.

- Introduction of New Rural Crafts and Trades

  For example, plumbing; electircal installation; vehicle maintenance; pumping machinery repair; etc.

- Community Living Skills

  For example, sanitation; water supply; pest and disease; first aid; basic agricultural production skills; organizational skills of a managerial type, office technology such as filing, accounting, etc.

Many of these skill and knowledge areas will, in practice be strongly linked to other development projects and activities in the area. It is particularly important that community organizational and managerial skills be developed parallel to programs which introduce new forms of organization (Peasant Associations, cooperatives, etc.) and that community technical knowledge, practices and customs keep pace with other developments (e.g., provision of new potable water supply must be accompanied by community understanding of the use of water, protection of water sources, sanitation, etc.).

Finally, the main categories of personnel who can be brought within the project as instructors include the following:

- Community resource people -- the leaders or 'animateurs' already in the community, artisans who are able to communicate skills, etc.

- Development agents -- those who come from other agencies such as EPID, Forestry, Veterinary, Public Health, RRC, PVOs, etc.

- Education personnel -- school teachers, primary and secondary to engage in literacy and numeracy classes to industrial arts, home economics, etc.

- Secondary school students -- who will have training programs for the practical application of skills and knowledge in the rural areas;

- Trained priests -- they play a key leadership role in the communities; they are very trainable in a variety of skill activities as trainers; and can provide the church with a positive development role.

- Trained instructors -- supplementary, trained supervisors for programming, assistance to less trained instructors, in-service training, and providing T.A. of higher level where requested.

AID has been in discussion with the Adult Education Division of the Ministry of Education on possible assistance to this major, integrated, rural development program embodied in the CSTCs. Our discussions to date, and the process of design that will continue over the next several months, will identify those ways in which AID can provide meaningful and significant assistance to the EPMG's own concept and program. We hope to make available to the EPMG not only relevant experience from the U.S,, but that of Senegal, Tanzania and that embodied in the African Rural Education Steering Committee chaired by Ben Mady Cisse of Senegal.

2. Training

The Institute of Management and Training (IMT) is responsible for expanding the planning and management capacities and related training needs of not only all government agencies from the local to the national level, but also those of the rural and urban associations. It has the mandate to perform the research necessary to determine the strategy for reforming the Ethiopian bureaucracy.

The Institute has identified four interrelated areas of concern in the development of its research and training program. The first concern is developing a strong central planning system. The second is reforming the current bureaucracy through the introduction and spread of modern management techniques, decentralized government operational decision making and management, and involvement of the people in decision making with respect to plan implementation. The third is to plan an administrative system at the regional and local levels and how the organizational capabilities at these levels can be strengthened and related to the national administrative apparatus. Finally, it is concerned about how to develop a system whereby government officials at all levels are accountable to urban workers and the rural population.

These areas of concern or priorities of the Institute are perceived by senior Ethiopian officials as critical requirements for successful implementation of policies and programs aimed at improving the quality of life and productivity of the rural and urban masses. Currently, as already noted, there are serious problems in the planning, management and coordination of government programs. The government has taken some actions to reform and revitalize the national bureaucracy and to promote local autonomy and self-government but it has not as yet been able to develop the technical and management skills necessary to see that these initiatives are effectively carried out.

Over the next several years IMT plans to undertake, in collaboration with the various government organizations concerned, a number of training projects. The designations and broad objectives of these projects are (1) Provincial Personnel: improve operational skills and managerial capabilities of heads of personnel, archives, finance, and property at various ministerial branch offices of the 14 provinces; (2) Training of Trainers: train trainers within civil organizations and agencies to develop their respective organizational competence to meet needs; (3) Financial

Officers: train core finance personnel in order to create a capability to implement a new standardized accounting and management system throughout the government; (4) Personnel Directors: train personnel chiefs of civil organizations throughout the country as a prerequisite to decentralizing personnel activities which are at present totally centralized in the Civil Service Commission; (5) Rural and Urban Associations: train local officers of grassroots associations to develop rudimentary skills in managing associations, handling records and correspondence, and dealing with the government; (6) Top Executives: seminars for top government officials focused on crisis management; and (7) Secretaries and Records Clerks: basic skills up-grading.

USAID has developed a revised PIO providing FY 78 funding for continued support to IMT Training activities following on that already provided through the Africa Regional Manpower Project. A logical framework for the entire IMT program has been developed through a collaborative two-day process involving seven top IMT officials and four USAID staff members. Follow-on short term consultant assistance being arranged by AFR/DR should result in a project which will enable us to enlarge upon a confidence which now appears to be quite sound in its beginning, substantive dialogues and which will enable USAID to assist directly, or through IMT the implementing ability of most development elements of the government, as well as the new popular organizations.

The Mission finds the IMT program an exciting and unusually innovative approach to the task of training and retraining civil servants. The program developed by IMT is directly responsive to the new development goals of the EPMG. Moreover, the attention to training of rural and urban association workers simultaneously with civil servants reflects the desire to create a dynamic and positive relationship between the people and the bureaucracy. Technical and management skills are being applied to these ends, not as separate things in themselves.

3. Research

Ethiopia lacks an indigenous research institution capable of carrying out basic social science research needed to plan and implement the EPMG's new rural and urban development programs. The need for an indigenous institutional capacity is heightened by the government's self-reliance policy, and security and political sensitivity problems which will effectively preclude much externally based or expatriate run research during the interim strategy period.

We believe there is considerable indigenous talent which might be mobilized to meet this need through the Institute for Development Research at Addis Ababa University. In pursuit of the second line of the strategy outlined in the introduction to this section, we will seek to assist the IDR in defining an appropriate research role for itself and in enhancing its capability to fulfill that role in a collaborative relationship with other elements of the university and the various development agencies of the government.

The following are some "user" and "needs" oriented functions which we would see IDR assuming as, over time, it builds both its own capacity and the confidence of potential clients within the government and the local society in that capacity.

a. A Contract Research Function for the Government

There is an urgent need in Ethiopia to produce considerable local research derived data necessary to underpin the EPMG's new development policies and programs.

While various Ministries or other agencies have had research and evaluation units of their own to accomplish the above, actual performance has not been good. An expanded IDR will be able to associate closely with these units to provide them with consultative technical assistance in social research related to their specific program needs. In instances where research capacity does not exist in a given agency, IDR research can be undertaken as an action research component of the operational projects of the agencies concerned.

b. A Research Depository and Distribution Point

There is presently little communication among Ministries and other government agencies regarding data needs and avail-

ability. The absence of a government archive further aggravates the problem. With the creation of its documentation center, IDR hopes to play the role of depository for government research, information and reports. In lieu of a government mechanism for identifying information and reports for general release and circulation, IDR can fill a de facto coordination role.

In addition, there is at present a dearth of up-to-date information within Ethiopia on the recent experiences of other developing countries. Ethiopia is in danger of failing to profit, both from the successes and the failures which these countries have experienced in their own recent development experience in areas which are currently highly relevant to the EPMG program, e.g. collective vs. individual small holder agricultural production, most effective techniques of mass mobilization , and factors critical to the effective introduction of new technology into a highly traditional economic and cultural pattern and social relationship. The IDR, through its documentation center and sponsorship of workshops and seminars, can play an important role as an intermediary in the acquisition and dissemination of the lessons of experience from other countries for taking into account in the current EPMG development program.

c. Interdisciplinary Research Center

IDR is effectively placed to facilitate interdisciplinary collaboration and methodology development among various faculties of the university and specialized research units of the government. We hope to see it become a spearhead in the university's effort to respond to the mandate of social relevance, in both teaching and research activity, which has been placed upon it by the government.

d. An Outreach Facilitator for Addis Ababa University

It is clear from our recent conversations with university leadership that the university is being heavily influenced by the revolution. It is presently subjected to pressures from both the government and the students returning from the first "Development through Cooperation" (Zematch) campaign. Both are demanding movement by the university away from the more isolated academic environment of the past and into a more active participatory role in the ongoing revolution in which the country is involved. It is likely that returning students, influenced by their experience in rural areas, will be less inclined towards foreign based theoretical learning, irrespective of its ideological connotations, and more interested in practical applications useful in the Ethiopian context. The IDR can help strengthen university liaison with government and improve the dialogue between the academic community and public authorities. The government, should

it be so disposed, can turn to IDR for mobilization of the university's social science capabilities and utilization of advanced undergraduate and graduate students for indepth studies of the Ethiopian society and economy.

At present IDR has very limited physical and human resources. It also has the task of building contact, support and cooperation outside the university community where its role has been limited in the past and where, therefore, its potential role is not yet accepted. However, it has a potential claim on the larger resources of the university and enjoys a supportive attitude towards its goals and aspirations by university leadership. It is our intention, through a project now being developed for FY 78 initiation and the judicious use of broader AID resources (e.g. TAB, PPC, and Africa Bureau contacts and support for research network building, materials acquisition and consultant access) to support IDR research faculty and facility development. The Project will fund technical assistance, some local costs, and third-country training, incountry short-term training, seminars and workshops on research topics and methodologies, graduate research assistantships, local construction of an expanded IDR facility, and an expanded research library. Details of the project, however, still must be worked out, and this scope of support should be considered tentative until the PRP is completed. We also intend to explore utilization of IDR to the maximum extent feasible as a principal source of Ethiopian leadership and coordination in AID funded research undertakings, i.e. the southern development strategy and more short-term project-related research and evaluation work.

F. Private Voluntary Organizations (PVO's)

External PVO's*, specifically sectarian oriented agencies, have long been associated with Ethiopia. Such agencies have offered a large portion of educational and health services made available to the rural population. They also contributed heavily to quality services offered urban elites as well as others. It is easy to accept that in the past proselytization was secondary only to expressed humanitarian concern for the least fortunate. Over the years these sectarian organizations, totally western, became well established. Their communities grew and secular influence in the areas of education and health was recognized and accepted by a government that was willing to relegate this responsibility to those apparently willing to fund and undertake such activities.

International humanitarian response to drought conditions in the early 1970's brought a greater focus upon Ethiopia by the PVO's. The traditional sectarian agencies linked their humanitarian assistance with the governmental effort mounted by the emerging revolutionary government out of necessity to reach the victims who were geographically spread beyond the areas of existing agency operations. PVO's previously unassociated with Ethiopia responded. Humanitarian assistance was channeled through a governmental agency established to facilitate coordinate foreign donations, the Relief and Rehabilitation Commission (RRC). The experience of most PVO's which stepped into assistance roles during this crisis was good. Many of these same agencies have recognized that an opportunity exists for their continued services and are anxious to participate in the development of Ethiopia. As a result there is a proliferation of external PVO's which are interested in establishing or expanding their roles within Ethiopia.

The Role of the External PVO

Those PVO's, sectarian and non-sectarian, who have expressed a willingness to make supplies and services available to the RRC have generally been accepted. These agencies have been success-

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* External PVO's are defined here as non-Ethiopian in their organization structure although they may have established an indigenous organization as a "subsidiary" or counterpart which is primarily dependent upon the PVO and its external funds. These external PVO's are not necessarily U.S. in origin but usually have a linkage with U.S. counterpart, e.g. Save the Children Federation. On the other hand, indigenous PVO's would be exemplified by the Ethiopian Red Cross, YMCA, Family Guidance Association and sectarian organizations like the Ethiopian Church of the Mekane Yesus.

ful in reaching agreements with the RRC to administer community action programs that provide services in areas under the jurisdiction of the RRC. The door has thus been opened. The RRC may also be effective in supporting the PVO link with other governmental entities, though we would not want to overstate this possibility.

Elsewhere, sectarian organizations with expatriate personnel having only missionary skills have been encouraged actively to reduce their expatriate staff. However, these same organizations which have expatriate staff with proven credentials in health and other needed social services and little connection with proselytizing activities have for the most part been accepted at least temporarily.

The existing PVO's have in most cases been highly successful in identifying community needs and reaching workable, usually tacit, understandings with local officials to provide needed services in a defined sector most often rural. Local officials, being uncertain as to their authority and without policy directions, are reluctant to formalize a PVO arrangement which provides the assurance required by the PVO to make significant commitments or develop anything but the most temporary of developmental plans.

The lack of any present centralized government channel, with the exception of the RRC, to which PVO's interested in aspects of rural development can present their plans and receive the necessary sanctions required to implement programs continues as the major constraint to their effective entry into the general development mainstream.

Indigenous PVO's.

These PVO's, established under the previous government, have been effectively constrained by the collapse of their funding base through voluntary contributions. Emerging emphasis upon self-reliance and community based organization structures have effectively forced the established PVO's to fold or redefine their roles. The traditional PVO's to include the Ethiopian Family Guidance Association are almost exclusively dependent upon "foreign" resources. Services offered by most of these PVO's are not geared to income generation for self-sufficiency. There are no present indications of governmental financial support for the bulk of these PVO's.

The use of the indigenous PVO's as a means for improving the role of development assistance continues, at this time, to be realistic albeit with a cautious approach. Most of these PVO's are evaluating their roles vis-a-vis government policy. Their cautious approach and acceptance of "western" assistance should be recognized and treated with considerable sensitivity. Their ability to absorb outside funds effectively will be limited in the immediate future as these PVO's, too, are experiencing the constraints of inadequate planning and implementation capability due to manpower and infrastructure limitations.

AID Support

In the area of Title X funding U.S. PVO's, Pathfinder and FPIA, have been active in developing projects with several indigenous PVO's such as the Ethiopian Family Guidance Association (FGA), Woman's Welfare Association, YMCA, Red Cross, etc. It is expected that these U.S. PVO's will continue to develop additional funding opportunities. Mission support to FGA through intermediaries will continue.

The Southern Baptist Conference and ORT have expressed considerable interest in obtaining OPG support for their proposed micro-level, integrated rural development projects. Both proposals are in the preparatory stage. Both agencies are pursuing the appropriate GOE acceptance and approval. One problem for both of these agencies is that formal support from the Government is difficult to obtain above the provincial level. Foster Parents Plan (FPP) already closely allied with the Relief and Rehabilitation Commission is already involved in a rural community development project under the guidance of the RRC in its rehabilitation efforts. FPP is interested in expanding its program in the same area under an OPG. FPP has developed and is in the process of articulating a new organizational approach which has been initiated in Ethiopia.

The International Eye Foundation has developed a regional ophthalmological care/prevention program involving training and field work. The proposal is presently in the discussion stage with USAID and will be presented to the GOE within the next month. USAID anticipates interest on the part of the MOPH. This PVO may just be an appropriate response to a ministry that has maintained a comparatively closed door attitude to bi-lateral dialogue.

Summary

As EPMG policy and programs solidify, and as individual governmental entities finalize their areas of responsibilities and articulate their implementation plans, the opportunities for PVO's, external and indigenous, will undoubtedly widen. Acting with what often appears as extraordinary authority, the RRC has successfully obtained and utilized the non-threatening assistance of the PVO's. As other entities of the government emerge with developmental authority in specific areas of interest to the PVO's, it is reasonable to believe that PVO assistance will be acceptable on certain terms. The unanswered question remains regarding the acceptability of these terms to the individual PVO.

The Mission believes that the PVO contact should be maintained and fostered. USAID will continue to facilitate PVO exploration of EPMG interest as possible. However, the PVO must be identified to the government; their programs and projects collaborative to central as well as local planning efforts. It must be obvious that their activities are not only non-threatening to EPMG programs and priorities but supportive of government objectives and policies. Finally, the source of PVO funding should be well identified to the central government and any PVO activities be effectively integrated into existing or planned government programs.

If PVO's are prepared to accept such terms and conditions, assistance should be limited only by the PVO capacity to plan, implement, monitor and evaluate proposed programs.

The Mission will continue to dialogue with indigenous PVO's and may propose new programs with these organizations, either directly or through external PVO's if it is consistent with their objectives and those of the EPMG.

G. Health

The Ethiopian Government is confronted by enormous problems in attempting to improve the health of 85% of the population in rural areas. While a considerable structure to deliver services to rural people has been built in recent years it has been extremely difficult to equip and staff these health centers and stations. The lack of roads and communications severely limits the area in which they are effective. As a result it is estimated that 80% of the rural population still depend almost entirely on traditional medical practices. Malaria, skin diseases, parasites, eye diseases, cholera, leprosy, venereal diseases, tuberculosis and intestinal disorders are common. Malnutrition, especially in children, is widespread. Only one birth in a thousand is assisted by trained medical personnel. (Smallpox appears largely contained and may be eradicated in Ethiopia - and therefore the world - within the next 12 months.)

The EPMG has stated that the health situation inherited from the Haile Selassie Government emphasized urban, curative, hospital-oriented medicine. The new government has made it plain that it intends to provide better health services to the rural populatinn and the Ministry of Public Health is currently preparing the training and manpower development plans for staffing the existing and planned rural health facilities.

MOPH pronouncements reflect the EPMG credo of maximum self-reliance but indicate that outside assistance will be necessary and welcome so long as it helps Ethiopia achieve its own objectives in health and does not reduce the impetus toward self-reliance or attempt to impose conflicting goals.

The Government's objectives in the health field are quite similar to AID's. Even the methods likely to be chosen - greatly increased training of existing and to-be-recruited rural health personnel in hygiene, nutrition, better diagnosis and treatment of the most widespread diseases and in more effective use of medicaments are quite consistent with AID's own views.

Nevertheless, there will likely be considerable difficulty in developing assistance activities in health. The MOPH is apparently among those agencies of the Ethiopian Government most suspicious of American economic assistance motives and attempts by the USAID staff to communicate our view that there might be areas where mutually satisfactory assistance activities could be worked out have failed thus far to elicit any meaningful interest or response from the MOPH. We would hope that eventually the mutuality of our common interests will become evident to Ethiopian health planners and administrators but it does not look to us at this time as if there is much chance to develop a full-scale rural health project for FY 1977 or 1978. There may well be opportunities during staff discussions, by use of short-term consultants and eventual joint sessions for development of a Project Review Paper during the course of FY 1977.

We will pursue activities along these lines as the situation permits.

H. PL 480

1. Food Need

Historically Ethiopia has been nearly self-sufficient in cereal production. In the past imports amounted to less than one percent of production with these imports generally being specialized millable wheat not produced locally for an urban specialized market. Recent adverse weather conditions created a large relief requirement occasioning a WFP input of 35,500 MT in 1975-76 and 18,000 MT of PL 480 Title II. These calamities appear over, although WFP continues to support resettlement efforts among the drought-stricken population, i.e., by provision of food until the first crop is harvested by the settlers.

Ethiopia's current shortfall in millable wheat has arisen primarily from the fundamental changes in the agricultural system, i,e., land reform and its ramification and the shift from an entrepreneurial marketing structure to a centralized, governmental structure. Another factor, operating over a longer period of time, is the shift in urban consumers preference which helps account for an estimated 10% annual increase in demand. Dislocations and uncertainties arising from governmental transition have thus been manifested largely in urban grain shortages.

Although the EPMG's primary focus is the poor rural majority, there is increasing pressure upon the government to reduce the pressures on the urban poor and urban population generally through improved efficiency in the urban food supply. Wheat based processed foods, i.e., bread, are rapidly becoming an urban staple whereas previously the urban centers were the major market for the traditional grain, teff, which has been significantly absent from the visible market within the previous year. The Government has responded to this pressure by (1) giving kebeles a larger share of the marketing responsibility in the urban areas creating a more decentralized community-run service, and (2) importing 72,000 MT of wheat this year of which 45,000 MT was commercially purchased and 27,000 MT from PL 480 Title I.

2. Balance of Payments

As pointed out in Section II. E. above, Ethiopia has reached a record high in FX reserves, achieved through the combination of high coffee prices and a decline in capital expenditures in the past two years. The fortuitous foreign exchange position must be considered a transitory phenomenon due primarily to unprecedented high coffee prices, and the future claims on FX in terms of investment needs. Nevertheless, Ethiopia may be in this fortuitous position for 2 or 3 more years. It is thus in a position to meet a large portion of the wheat shortfall next year, as this year, by commercial purchases.

3. Projected PL 480 Requirements

We have received expressions of interest from the EPMG for another PL 480 Title I Agreement to supplement commercial purchases. We feel the U.S. should respond favorably to such a request, if justified by crop and market analysis, even in light of the current FX position. Not only does PL 480 imports allow the US to help the EPMG through easing shortages to carry through more effectively its rural transformation program, as noted above, it also allows -- through the self-help provisions and potential "forgiveness" of FX repayment -- further assistance in agricultural planning and programming and in broadening the small but promising programs of family planning. We have preliminary indications that the EPMG is interested in the "forgiveness" clause and in its use for these purposes.

The Agricultural Marketing Corporation (AMC), in recent meetings with USAID, the Regional Agricultural Attache, and a representative from USDA, predicted a shortfall in the 1976/77 crop (harvest Nov-Jan) due to several factors. Millable wheat demands were estimated by to be approximately 300,000 MT, which is considerably higher than previously stated level of 180-200,000 MT. AMC estimates that 60-70% of millable wheat is supplied from state farms, thus there will be a significant reliance this year on small farms.

It is still too early to get good estimates on the crop. AMC reports unfavorable weather in some areas. There is also continuing transition in the state farm areas from large-scale to some small farmer production. Managerial and spare parts problems may also exist. On the other hand, Ministry of Agriculture officials indicated to USAID that many of the principal wheat growing areas were well planted and that the crop may be good. USAID will be visiting some of these areas shortly to get a first-hand impression. Crop-cutting forecasts from the Ministry of Agriculture will also begin in the near future, thus allowing for more reliable predictions. AMC and Ministry of Finance officials indicated that an official request for PL 480 Title I will be forthcoming in December when the magnitude of shortfall can be better perceived.

USAID believes that in any case demand for imported wheat could equal if not exceed 1976 levels. The Government is sensitive to urban shortages which drive up prices and cause urban discontent. In July 1976, the Government was forced to decree that corn flour be blended with wheat flour at a 40% minimu until imported wheat became available (now arriving). Consumer reaction was not very favorable, though there was general compliance. AMC believes relaxation of this requirement may well result in additional demand for imported wheat.

USAID proposed to continue to plan for 25,000 MT of PL 480 Title I, as previously proposed for 1977. We will look closely in December at production, marketing, relative urban and rural demand, and the principal effects of imports in making a final recommendation. Part of our consideration will be our interest in urban problems as described in Section III.I. below.

We see no demand for Title II, except that programmed for existing PVO child-feeding and maternal and child health programs.

4. Programming of Proceeds

As noted in Section III. D. above, EPMG agricultural policies have been geared to equity considerations and to the small farmer's capability to produce more for home consumption as well as marketing. In this milieu, we see little difficulty in programming Title I local currency proceeds to the objectives stated in the legislation. The exact programs to which sales proceeds will be assigned is still unclear, however, and depends largely on the same uncertainties and decisions as described earlier with regard to our proposed support for the Minimum Package Program. There are also early indications of the EPMG's interest in the "forgiveness" aspects of Title I repayment, as an encouragement to move more into the areas of family planning and maternal and child health.

I. Urban Development and Housing

This is a new sector for USAID in Ethiopia and we are looking into it with care and selectivity. The problems of urban development are complex in a country which is predominantly rural, and in which the urban areas have been considered to have been unduly privileged in the recent past, i.e. before the revolution. Even accounting for the obvious existence of truly poor people in the urban area, one has to be conscious of the sensitive link between the urban and rural areas and that increases particularly in social and welfare services in the urban centers could trigger increased migration that would once again swamp urban administrative, economic and employment possibilities.

At the same time, the urban areas present a particular challenge for the development objectives of the government. Urban areas are sensitive to price changes, supply of services, educational opportunities, and other aspects of a changing situation, and are, therefore, often quick and sometimes volatile sources of discontent. The success of the revolutionary goals of the EPMG may, therefore, depend upon success in carrying out its priority objectives in the countryside, while at the same time maintaining a reasonably satisfactory supply of basic commodities, services and opportunities to the urban community. This point was made in John Mellor's analysis last year in Ethiopia and it seems still valid today.

AID's role in this situation is, however, limited. First of all, AID's focus in any urban program would, of necessity, be on the urban poor, and it is not necessarily the poorest elements of the population that would be sources of organized discontent, even if they were suffering most from shortages, etc. Focusing on the problems, real as they may be, of the other parts of the urban population, the organized labor force, students, and other relatively more middle class and perhaps more vocal elements, could not be justified under AID's mandate and in today's Ethiopia i.e. when the great majority of the poor and the priorities of the government are in the rural areas. One matter in which AID can play a role, one which directly helps the urban poor and at the same time meets a need of all urban citizens, is in helping assure a sufficient and steady (both in quantity and price) supply of food to the cities. Our work in agriculture and rural development should help in the long run. PL480 Title I shipments clearly help in the short run. For this reason, we consider

Title I to be an important, integral part of our total development program in Ethiopia, consistent with our priorities and development objectives.

Beyond this involvement, AID could consider other areas of urban assistance. Housing poses a critical problem for Ethiopia. During the process of nationalization of extra houses the expectation of the masses for better housing was raised. The Government has committed itself to a large-scale housing program to construct 25,000 houses each year for the next five years and to upgrade 23,000 houses. Methods of financing are to include "soft foreign loans and foreign assistance." Kebeles and private owners will also be involved in additional housing construction.

The Mission has had some discussions with the Ministry of Housing and Urban Development on the concept proposed by AID/W of combining Housing Investment Guaranty funds and grant technical assistance to support low-cost housing for the urban poor. Neither the EPMG nor we see investment guarantees as an appropriate assistance instrument for support of the government's current ultra-low cost housing plans. But it is clear that external financial support and concessional terms will be required to support these plan, even though the plans have not yet progressed to the stage that the EPMG is prepared to identify magnitudes of foreign assistance need, or apparently even to explore potential external donor sources. However, we have been advised we can expect to have these plans revealed to us within the next few months. Since we presently have such limited information on the EPMG plans and cannot determine whether those plans, when available, would be in a satisfactory form to permit us to proceed rapidly with our own project documentation, we are not listing a project in this area for FY 78. But we may find that project possibilities will develop rapidly and would want then to pose more sharply to AID/W the possibility of such a project.

Another factor to be studied is the growing role and responsibility of the urban community associations, the Kebeles. Kebeles are being given new roles steadily -- in marketing of basic commodities, in control of education, in land management, in housing. Their growth may allow the urban poor to have a greater voice and influence. They also may form an important link with the surrounding rural areas, especially if they engage directly in buying from peasant associations, as some evidently do now. It is perhaps through assisting the Kebele Associations, in helping them develop their capacity to undertake their development functions and perhaps local employment-creating activities, that AID can best help the EPMG realize a consistency between its urban and rural development objectives. We hasten to add that this idea is a new one and has not yet been explored with the appropriate government agencies or by sufficient staff analysis to represent a definitive proposal. We plan to carry on such explorations in the coming months in order to determine whether this is an appropriate area for AID assistance.

Looking at longer term urban development, it is clear that the EPMG will have to redouble its efforts to maintain its present capital stock and to expand its industrial capacity if urban employment is not to suffer. Most urban employment efforts in the recent past have been in Public Works areas such as street improvement, rather than in productive capacity expanding areas.

A significant increase in directly productive employment opportunities requires much planning and analysis which considers, among other things, the potential extent of the domestic market for consumer terms which could be produced, agribusiness potential based on the existing agricultural development strategy, industries which are heavily dependent on resources in relative abundance in Ethiopia, such as power, water and labor.

The relationship of such a strategy to rural development is obvious. As rural demands for manufactured goods grows and as continued rapid population growth places increasing pressure on the capacity of agricultural employment to absorb greater numbers of people, there must be an industrial base capable of responding.

Since the implementation of such a strategy is a long run proposition, in the interim AID could conceivably be prepared to assist where feasible in training and technical assistance to develop an appropriate strategy and in management training for the present industrial establishments. If such opportunities arise in the near future, however, we would propose to include them in the Africa Bureau's regional manpower development project.

J. Science and Technology

This is an areas in which we feel the United States can make a most useful contribution to the development of Ethiopia. Unfortunately, at present, Ethiopia is not able to make use of satellite imagery in its disaster planning and early warning system as are some countries in the Sahel; to computerize its more than 120,000 spare parts items in its highway and rural roads program; to communicate rapidly from village to higher administrative centers so that para-professionals can work more effectively by getting quick guidance and help from technical experts.

The EPMG has recognized the importance of science and technology and taken some first steps toward developing a national policy and set of priorities. In December 1975, the EPMG established the National Science and Technology Commission and the National Science and Technology Council.

The functions of the Science and Technology Commission are not new. The mobilization of individual research and the coordination of their efforts originally was performed by different organizations with UNESCO's assistance. However, these organizations' (possibly in each Ministry) efforts were neither effective nor successful. As a result, the present Commission was established and legalized in December 1975 through the efforts of individual Ethiopian scientists who were interested in institutionalizing and accelerating the development of scientific research. Since its establishment, the Commission has encountered financial problems and other obstacles normal for a new institution, mainly because the Commission started in the middle of the budget year. To date, there are only two staff members, the Commissioner and the Deputy Commissioner. Consequently, there is presently little or no activity being conducted. However, the Commission has drafted by-laws for specific priority projects such as education, health, construction and housing, etc. In addition, the Commission is now engaged in redefining the powers of the National Science and Technology Council, comprised of: Ministry of Agriculture and Settlement, Ministry of Public Health, Ministry of Mines, Energy and Water Resources, Ministry of Education, Ministry of Industry and Commerce, the Addis Ababa University, etc. The Council has not yet met, but hopefully will soon. In this context, each Ministry will define the major areas of research subject to the Council's approval.

The Commission aims to generate some modest and relevant production technology, i.e., that which gives higher yields and improved quality at a lower per unit cost of production. The concern is

with utilizing scarce research resources on highest priority and potential areas. Research in Ethiopia has received only a minute portion of the national budget in the past. For example, agricultural research received only one percent of the Ministry's budget, of which one-half percent is from domestic resources and one-half percent from external assistance. In addition to the agricultural priority, the Commission sees importance in energy research, i.e.,

1. Bio-thermal research.

2. Bio-gas research to be undertaken within agricultural sector.

3. The establishment already of the Ethiopian National Committee within the Ministry of Mines, Energy and Water Resources, which is undertaking research on firewood as a substitute for other fuel.

4. Windmill research conducted by the Mechanical Engineering Department of the Faculty of Technology.

In addition, the Commission is getting solar energy pumps from the French Government to be installed in the Wabe Shabelle River basin or Afar areas.

USAID has promised to provide the Commission information on similar coordinating efforts of Ghana and Zaire, assisted by the National Academy of Sciences, from which Ethiopia can draw comparative experience. The results in Ghana seem particularly relevant to Ethiopia's present plans. USAID will also provide information on energy research, appropriate technology and other scientific material developed from TAB's or Africa Bureau's regional programs. Provision of information and material and occasional visits of NAS or other scientific and technological planners should be a regular, non-project part of our program.

We also hope to work with interested agencies of the EPMG in helping Ethiopia take full advantage of the inter-African plan for use of LANSAT technology, being coordinated by ECA. We may work with the RRC on introducing this into the early warning system if this is possible. Essentially, however, we want to facilitate Ethiopia's access to and utilization of existing or planned regional programs, such as those planned by ECA, rather than begin bilateral AID projects for this purpose.

We will also seek to utilize the Africa Bureau's regional manpower training program to help in specific sector or project related problems for which technological solutions exist, e.g., as we

recently proposed regarding assistance to the Ethiopian Roads Authority on computerization of the spare parts system. In sum, we see many ways during this coming two years to assist Ethiopia incorporate modern and adaptive technology into its development efforts, but these will be largely through facilitating Ethiopia's access to programs organized internationally or otherwise on a non-project basis. In those bilateral projects that are planned for FY 77-78, we will of course also analyze the appropriate technological aspects and incorporate them into the project, e.g., we anticipate a major emphasis on appropriate technology development in both the Upper Didessa and Gemu Gofa projects.

IV. Summary Budget FY 1977, 1978 [1]

Bilateral Program

		'77	'78
1.	Pulses Diversification & Improvement (166)	500(G)	430(G)
2.	Rural Agriculture Development (167)[2]	200(G)	
3.	Upper Didesa Development (0179)	1500(L)	1000(L)
		280(G)[3]	400(G)
4.	Agriculture Sector Development (0180)	5000(L)	10000(L)
			1000(G)
5.	Rural Roads (0182)	5000(L)	5000(L)[4]
		260(G)	310(G)[5]
6.	Southern Gema Gofa Rehabilitation (0193)		1500(G)
7.	Development Research (0190)[6]		400(G)
8.	Institute of Management & Training (0188)[6]		400(G)
9.	Non-Formal Education (0189(		410(G)
10.	Population Planning Development (0194)		470(G)
	Sub-total (Grants)	(1240)	(5320)
	(Loans)	(11500)	(16000)

Private Voluntary Organizations (OPGs)

11.	International Eye Foundation	350(G)	400(G)
12.	Southern Baptist Convention		350(G)
13.	World ORT	400(G)	550(G)
	Sub-total (Grants)	(750)	(1300)

PL 480

14.	Title I	6000(L)	4000(L)
	Totals Grants	1990	6620
	Loans	17500	20000

NOTES:

1/ The following figures represent some modification of those which we understand were submitted by AID/W to OMB on Oct. 1, 1976. The figures below for the FY 1977 bilateral program represent shifts between projects.

2/ $110 for MPP spare parts and training and $90 for NFE.

3/ The $280 is an AID/W figure and is not nearly sufficient for starting the project, since required forward funding of contract services alone would require more than this amount. As we approach the point of signing obligating documents with the EPMG, the Mission will request approximately $700,000 in grant funds for FY 1977 and Africa Bureau shall begin now to find sufficient funds to cover this requirement. Tranching the loan portion of the project over two years presents less of a problem.

4/ A two year loan component of not less than $10 million will be required, not the $7.5 million apparently contained in the OMB submission.

5/ An additional grant price of approximately $350,000 will be required in FY 1979.

6/ As design of these two activities progresses it is now clearly apparent that they are two separate projects with completely different focus and objectives, and cannot be included in a single functional grouping as desired in State 195044.