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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

ETHIOPIA - AGRICLUTURAL SECTOR LOAN IV

AID-DLC/P-2045

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AID-DLC/P-2045

June 7, 1974

ETHIOPIA

AGRICULTURAL SECTOR LOAN IV

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June 7, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Ethiopia - Agricultural Sector Loan IV

Attached for review are recommendations for authorization of a loan to Imperial Ethiopian Government in an amount not to exceed fifteen million dollars ($15,000,000) to provide local currency funds for the development of the Agricultural Sector..

This loan proposal is scheduled for consideration by the Development Loan Staff Committee onThursday, June 13, 1974. Also please note your concurrence or objection is due by close of business Tuesday, June 18, 1974. If you are a voting member a poll sheet has been enclosed for your presence.

Development Loan Committee
Office of Development
Program Review

Attachments:

Summary and Recommendations
Project Analysis
ANNEXES I - V

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June 7, 1974

ETHIOPIA - AGRICULTURAL SECTOR LOAN IV

SUMMARY AND RECOMMENDATIONS

1. Borrower: Imperial Ethiopian Government (IEG)

2. Amount of Loan: $15,000,000

3. Terms:

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

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

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

4. Financial Plan: The U.S. funds made available under the loan will finance $15.0 million of the projected Ethiopian agricultural sector requirements for approximately the first two fiscal years (FY 1975 and FY 1976) of the IEG Fourth Five Year Plan.

5. Purpose of the Loan: To assist in increasing the flow of local resources to the agricultural sector and in achieving the equity goals of the IEG Fourth Five Year Plan. This will be accomplished by making the local currency equivalent of U.S. $15.0 million available in FY 1975 and FY 1976 as needed, to be utilized for Borrower's Agricultural Sector development budget.

6. Background of the Project: The first, second, and third Agricultural Sector Loans (ASL I, II and III) in the amounts of U.S. $5.0 million each (ASL I and II) and U.S. $15.0 million (ASL III) were designed to provide development budget support (in the form of local currency) to the agriculture sector during FY 1971, FY 1972, FY 1973 and FY 1974. A review of IEG performance in regard to the loans shows that IEG self-help efforts to increase overall development allocations, to increase self-financed expenditures on the agricultural sector, and to expand the absorptive capacity of the agricultural sector were satisfactory. A.I.D. strategy in Ethiopia lays major emphasis on the development of the agricultural sector as this sector represents the greatest potential for equity, export growth and increase in per capita income. The IEG, in its policy statement to the IBRD-sponsored Consultative Group for Ethiopia (July 1973), identified agriculture

as its priority development concern. However, there is insufficient generation of government revenues to provide the local currency needed for the IEG's agricultural sector development budget. ASL IV will continue to assist in providing these local currency funds while requiring the IEG to (a) allocate additional domestic resources to the agricultural sector and (b) make continued progress in overcoming constraints to increased output and greater equity in the agricultural sector.

7. Export-Import Bank Clearances:

8. Statutory Criteria: Satisfied: see ANNEX IV.

9. Embassy View: The Charge d'Affaires has reviewed and endorsed this project.

10. Issues: None

11. Recommendations: Authorization of a loan to the Imperial Ethiopian Government for an amount not to exceed $15,000,000 subject to the terms and conditions contained in the draft authorization.

NOTE: Rate of Exchange - Eth. $2.05447 = U.S. $1.00

ETHIOPIA - AGRICULTURAL SECTOR LOAN IV

I. BACKGROUND

A. Socio-Economic Setting

Ethiopia is one of the least developed countries in the world. Within the group of the 25 least developed, Ethiopia has by far the largest population numbered at about 26 million in 1972, with a net population growth rate of about 2.4% per annum. About 90% of the people derive their livelihood from agriculture. Some 85% of the population are peasant farmers living at the subsistence level; 10% are engaged in other traditional activities; and 5% are in the modern sector. The urban population is growing at about 6.5% per annum and is concentrated, along with most of the industrial capital, in the two rapidly growing urban zones around Addis Ababa and Asmara. Only about 10% of the population has access to health services, and only about 3% to clean drinking water. Among the 25 least developed, Ethiopia ranks among the lowest in literacy rate (about 7%), primary school enrollment rate (about 15%), number of inhabitants per physician (about 70,000), GNP per capita (U.S. $88 - urban about $383 and rural about $58), official aid receipts per capita (about U.S. $2). The life expectancy of about 40 years is near the median of the least developed.

Because Ethiopia has only in the mid-20th Dentury begun to emerge from a long period of isolation and stagnation, its development is still strongly influenced by factors such as geography and its cultural, social and political traditions and institutions.

The numerous soil mixtures and climates of Ethiopia have created a multiplicity of ecological zones which place great demands on agricultural research and extension. In some areas, inappropriate agricultural practices in poor soils, coupled with drought conditions, have created famine situations. The topography of the country is very rugged and there are resulting high costs for transportation and communication. Local transportation is still done largely on foot via trails and tracks and inaccessibility remains an important constraint to the exploitation of much of the potentially productive agricultural land not now in use. The traditional system of patronage which grants the social rewards of titles, land and jobs in return for allegiance to the patron rather than for productive work has tended to divert attention from national development. The relative insecure secondary land rights of the vast majority of peasants tend to discourage long-term investments in agriculture by farmers. Those on top of the traditional hierarchy possess power and wealth on the basis of their primary land rights and hence tend to be conservative and resistant to change, especially to agrarian reform. The social and political system is very hierarchical, resulting in a decision-making bottleneck at the top, and the overriding concern of the government is national security. Hence the process of approval and introduction of developmental changes tends to be slow.

On the other hand, there is a small but growing group of western-educated elite who place value on modern qualifications and on more rapid development of the country. Also, the recent political and social pressures from outside the traditional system have elicited government policy statements which promise to change the system of granting government lands and to decentralize more power to the Parliament, of which the Chamber of Deputies is elected by popular vote.

The economy is heavily influenced by external fluctuations in export prices, primarily coffee, and by domestic agricultural price fluctuations caused largely by weather conditions. The country relies heavily on foreign aid to finance important parts of its development programs, and private foreign investment plays a key role in modern industry, mineral exploration, and commercial agriculture.

During the 1960's and early 1970's the Ethiopian economy grew rather slowly. The average annual real GDP growth rate between FY 1961 and FY 1973 was 4.4%, with a per capita GDP growth of about 2.4%. The main factors underlying this sluggish growth performance have been slow export growth, a low rate of investment due partly to inadequate domestic resource mobilization, public and private, and insufficient capacity to prepare and execute development programs and projects. While Imperial Ethiopian Government (IEG) efforts have resulted in improvements in all of these areas, particularly recently, these efforts have not been adequate to increase the rate of growth to a more acceptable level.

In spite of the low growth of exports, until 1972 when they increased by 22% due to high prices for all major exports, Ethiopia's balance of payments has been in deficit in only 4 years since 1960. This is largely a result of conservative monetary and fiscal policies which, among other reasons, have tended to hold down demand for imports. At present, Ethiopia's foreign exchange reserves stand at about U.S. $200 million, equivalent to about 12 months' imports. Higher oil prices, which will add U.S. $35 million to Ethiopia's import bill in 1974, may restrain exchange growth even though export prices are expected to remain firm through the remainder of 1974. The conservative policies of the National Bank of Ethiopia (NBE) are also evident in Ethiopia's decision not to follow the U.S. dollar devaluations of December 1971 and February 1973. The NBE has preferred to partially shield the domestic price level from higher import costs in order to maintain confidence in the Ethiopian dollar which was established only in 1945.

The low rates of private investment and savings reflect limited investment opportunities in the small and slowly growing Ethiopian market, the low rate of monetization of the economy, and low incomes. Although overall savings is low, the banking system has grown rapidly since 1964. The low savings rate may be due to some extent to the low interest rate structure, although the IEG has held that further expansion of branch banking will have a greater effect on savings than an increase in interest rates. In the public sector, the IEG has been able to double the current budget savings for capital expenditure over the last decade, despite a relatively poor tax effort, through holding down the growth of current expenditures. However, IEG capital expenditures have tripled with the result that the portion covered by current budget savings has fallen from 60% to 40%. Unless offset by vigorous tax measures, the recently incurred military and other current expenditure increases will reduce the current budget surplus and force the IEG to resort more heavily to domestic borrowing to finance the capital budget.

The other constraint on the growth of the IEG capital budget has been an insufficient expansion of the government's capacity to prepare and implement development programs. Nevertheless, significant progress in this direction has been made during the last decade, through strengthening the planning and monitoring staffs of the Ministry of Planning and the Ministry of Finance, establishment of planning and programming units in the major ministries and agencies, continuing the expansion of the University and specialized training schools, and establishment of the Ministry of Land Reform and Administration, the Institute of Agricultural Research, the Livestock and Meat Board, and the Agricultural and Industrial Development Bank.

B. AID Strategy and Its Relationship to IEG Development Objectives

The rationale for continued substantial U.S. economic assistance to Ethiopia in the period FY 1975-1979 rests on Ethiopia's excellent development potential and the IEG's commitment to a development strategy intended to accelerate the rate of growth while assuring a more equitable distribution of the benefits of growth. If successful, this strategy -- with its emphasis on increased food production and broader access to social services -- will bring about a perceptible improvement in the welfare of the lower-income rural population, and will prepare the base for more employment-intensive patterns of growth in succeeding plan periods. U.S. economic assistance for the successful implementation of the Ethiopian 4th Five Year Plan (FFYP) strategy is consistent with the U.S. interest in: (1) making special efforts to assist the "least developed" countries, (2) providing assistance to countries moving toward patterns of growth which enhance employment opportunities and favorably influence the distribution of income and wealth, and (3) assisting poor countries in increasing food production, improving nutrition and improving access to basic social services such as health and education, A continued high AID level for Ethiopia would also serve other U.S. interests, such as improving the prospects for U.S. access to Ethiopian natural resources (copper, natural gas, and possibly petroleum, and potash and others).

In its strategy AID emphasizes rural development as the first priority in agreement with the conclusion of the IEG and other major donors at the July 1973 meeting of the Consultative Group for Ethiopia. In AID's contribution to the IEG's broad rural development objectives, emphasis is placed on agricultural production, employment and more equitable distribution of income. AID is especially interested in helping the IEG achieve joint production-equity goals by helping stimulate production increases among the target socio-economic group of farmers with less than 20 hectares. This is the same target group adopted by the IEG for its national small farmer oriented Minimum Package Program (MPP). It is estimated that up to 90% of MPP farmers are small holders with less than ten hectares, and insofar as possible and increasingly over time, AID will focus its assistance on this group.

Based on IBRD, IEG and USAID analysis -- described in Annex I -- the critical constraints to achieving these goals are: land tenure structure and land use; accessibility; delivery systems with local participation; central development policy execution; production techniques, research and experimentation; domestic financial resources; trained manpower; population growth relative to resources; and endemic diseases. The proposed Agricultural Sector Loan would help to both overcome the domestic resource constraint and to further Ethiopian policy and program execution directed at other key constraints.

C. <u>Role and Outlook for the Agricultural Sector</u>

Agricultural land is the country's principal natural resource, producing 50% of GDP and most of the country's exports. There are about 7 acres of agricultural land per capita, equal to the Africa average which is high worldwide; and properly farmed the fertile highlands are capable of producing many times the current output levels.

On the other hand about 85% of the people are peasant farmers living at the subsistence level. Thus agriculture is at once the source of wealth and characterized by poverty.

Ethiopia's domestic staple food requirements are apparently rising slightly faster than food production. Virtually all of Ethiopia's present exports are agriculturally based, with coffee accounting for almost 60% of total commodity exports. From an economic point of view, Ethiopia's progress over the medium term with respect to both output and equity goals will be determined by its success in increasing agricultural production generally.

From another point of view, the alternative which rural development provides to urban in-migration cannot be ignored. The city of Addis Ababa has already attained a population level of over 800,000 and the annual net in-migration rate is estimated at 6%. The impact of larger money wages and land scarcity are evident in the substantial rural migrations to areas such as Kaffa and Sidamo during the coffee season, to the Awash Valley and Setit Humera during the cotton harvest, and to the highlands of Shoa and Arussi during the grain harvesting seasons. Unless a substantial momentum in agricultural development is maintained, this labor mobility will be directed increasingly toward the urban centers, and Ethiopia will encounter the familiar increase in social, political and economic problems observed in other countries.

In the IEG's 4th Five Year Plan the target growth rate for agricultural output is 3.1%, as compared to a rate of 2.3% during the 1960's. In addition the IEG estimates that exports will have to grow at 8.5% annually, or about twice the growth rate during the previous decade. Major elements of the growth strategy are expansion and intensification of the Minimum Package Program for small farmers and support for settlement schemes and commercial agriculture. With regard to equity, the IEG has set a goal of "instituting reforms in the land tenure system such that tenants get a fair share of the benefits of agricultural development." Major elements of the equity-oriented strategy are promotion of low-cost settlement and greater emphasis on rural areas in the fields of education, health, roads and water supply. These goals are very ambitious and their achievement will require a strong IEG commitment.

Taking all factors into account, the FFYP result could be fairly adequate output performance, although likely below the target, due to a relatively strong balance of payments position, combined with less adequate performance relative to the equity goals due to budget problems and delays in the implementation of equity-oriented programs. The outcome could be partially mitigated by donor assistance particularly at improving domestic resource mobilization and overcoming the absorptive capacity problems affecting equity-oriented programs.

D. Export-Import Bank Clearance

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

II. EXPERIENCE WITH AGRICULTURAL SECTOR LOANS I, II AND III AND IEG PERFORMANCE.

A. Nature and Purpose of Loans

AID has extended three local currency Agricultural Sector Loans (ASL) to Ethiopia in the amount of U.S. $5 million each for ASL I and ASL II and U.S. $15 million for ASL III. The first, for which the Loan Agreement was signed in March 1970, was designed to (1) provide development budget support to the agricultural sector during a period of severe budgetary constrictions and (2) to encourage the IEG to devote proportionately greater resources to development and to undertake financial and management reforms essential to sustained agricultural and overall development. The second, for which the Loan Agreement was signed in July 1971, focused more directly on increasing the flow of local resources to the agricultural sector -- as well as to the capital budget as a whole -- and at increasing the sector's absorptive capacity. The third, for which the Loan Agreement was signed in June 1972, had the same purpose as the ASL II. Based on the ASL II experience, ASL III continued the focus on sustaining Ministry of Finance funding of projects and put added emphasis on project preparation and implementation and on reducing bottlenecks to progress by the implementing ministries and agencies.

In Ethiopia, as in many less developed countries, domestic savings and foreign exchange constitute major constraints on development. The ASLs are designed to alleviate these constraints by providing local currency financing. The foreign exchange element of the ASLs serve to finance the indirect foreign exchange requirements created by additional domestic investment. All ASL funds are allocated through the capital expenditures budget and to activities lying within the IEG/AID definition of "agricultural sector." As can be seen by Table I, the agricultural sector has defined rather broadly in the past to cover areas of activity in which IEG self-financed expenditures must be increased if rural transformation is to take place.

TABLE I - IEG LOCAL CURRENCY CAPITAL BUDGET EXPENDITURES ON THE AGRICULTURAL SECTOR 1/ (Eth. $Million)

Project Title	FY 1970	FY 1971	FY 1972	FY 1973	Budget FY 1974
Agri. Roads	3.0	3.6	8.3	7.3	13.5
Agro-Industry	0.2	2.6	4.2	5.5	7.1
Water Resource Devt.	2.2	1.8	2.6	3.0	4.3
Agri. Agencies	6.7	9.5	13.3	14.7	18.0
Alemaya Campus - HSIU	-	-	0.3	1.2	0.3
Ag Credit & Marketing	4.0	10.1	7.1	9.4	8.0
Community Development	0.9	0.4	0.4	0.2	0.3
Malaria Service	4.2	3.2	3.2	3.6	5.4
Total	21.3	31.2	39.4	44.9	56.9

1/ As defined by IEG/USAID and including ASL-financed expenditures starting in FY 1971.

B. IEG Performance Relative to Undertakings of Loans

IEG undertakings in connection with ASL I were of a general nature and involved the achievement of (1) fiscal and monetary reform; (2) improvements in agricultural planning, organization and administration; and (3) target goals in developmental expenditures. A review of IEG performance relative to these undertakings was made in Annex IV of the ASL II loan paper. On the whole, IEG performance was considered to be acceptable.

IEG undertakings in connection with ASL II were substantially different. These undertakings focused more directly on the development of the agricultural sector. Section 4.07 of the ASL II loan agreement is quoted below:

"SECTION 4.07. Undertakings. Borrower shall, except as A.I.D. may otherwise agree in writing:

(a) Assure that actual I.E.G. self-financed capital expenditures on the agricultural sector (as mutually defined by the I.E.G. and A.I.D.) in Ethiopian FY 1964 (U.S. FY 1972) increase significantly over those of Ethiopian FY 1963 (U.S. FY 1971), and at least by more than an amount proportional to the increase in domestic revenues;

(b) Assure that actual total I.E.G. self-financed capital expenditures in Ethiopian FY 1964 (U.S. FY 1972) increase significantly over those of Ethiopian FY 1963 (U.S. FY 1971), and at least by an amount proportional to the increase in domestic revenues; and

(c) Make continued progress in agricultural development through improvement of the sector's absorptive capacity."

Undertaking 4.07C was further defined in para. II.C of the Implementation Letter dated July 22, 1971:

"In connection with the undertaking in 4.07(c), improvements in the agricultural sector's 'absorptive capacity' are understood to include such elements as improving the organization and efficiency of government agencies serving the agricultural sector, furthering agricultural development planning and execution at the policy and project levels, increasing the level of credit to agriculture, expanding the training and use of skilled manpower for agricultural development, and alleviating impediments to agricultural development caused by the existing systems of land tenure."

During a series of IEG/USAID meetings which were held during February 1972, IEG achievements in the above undertakings were reviewed and judged to have been satisfactory. Details of the IEG performance were reported in Chapter II of the ASL III loan paper.

An AID team made up of AID/W and field members conducted a thorough evaluation in June 1973 of the experience with ASL I and ASL II and concluded that the IEG's performance relative to both quantitative and qualitative undertakings was excellent. During the period FY 1970 - FY 1972, IEG domestic revenues increased at about 8% per annum, while IEG self-financed total capital expenditures and capital expenditures in the agricultural sector grew at 14 and 20 percent per annum, respectively. The team also noted that the IEG had made significant progress in expanding absorptive capacity, particularly in the fields of agricultural training and project preparation and evaluation.

With respect to ASL III, USAID has just completed its review with the Ministry of Finance of the IEG's FY 1973 performance based on the submissions required for release of the second ASL III trauche of $7.5 million. The review confirmed the continued good performance of IEG budgetary revenues and expenditures during U.S. FY 1973. While domestic revenues increased by 12.5%, IEG self-financed capital expenditures on the agricultural sector (excluding ASL) increased by 22.6%; and total IEG self-financed capital expenditures (excluding ASL) increased by 7.8%. Therefore, the increase in self-financed expenditures on the agricultural sector satisfied undertaking 4.07(a) with excellent performance. Although the IEG was unable to achieve more than 7.8% increase in total self-financed capital expenditures under its 4.07(b) undertaking, its performance, nevertheless, matched budgetary plans and fell short only in comparison to the unforeseen growth of domestic revenues which were abnormally high in U.S. FY 1973.

In the FY 1973 budget, the IEG projected revenues on the basis of a 6.8% growth over the amount budgeted in FY 1972 since the FY 1972 budgetary actuals were not then available. It later turned out that the actual FY 1972 revenues were lower than budgeted, but the unexpected general upturn in commodity export prices and the consequent unexpected growth of IEG revenues enabled the IEG to achieve its budgeted FY 1973 revenue target. However, these changes in the revenue performance left the size and basis of the 1973 IEG budget, including its original investment plans, unchanged and thus IEG achievement, in fact a slight overachievement, of its original capital budget was judged satisfactory performance.

Regarding satisfaction of undertaking 4.07(c), the IEG has submitted its commentary in the IBRD Agricultural Sector Survey. Although the commentary contains a minimum of hard information on the IEG's specific program plans and budgeting which would be necessary to implement the IBRD recommendations, it would have been difficult for the Ministry of Finance to be more definitive in the absence of final IEG approval of the 4th Five Year Plan and the FY 1975 budget. Nonetheless, the commentary submitted to us appears, with respect to those areas covered, to go beyond the IEG's written response of November 1972 to the IBRD in the sense of being considerably more positive on the IEG commitment to certain courses of action, for example, in land reform, rural roads and marketing.

The basic financial or quantitative undertakings of the IEG in all three ASL's have been to increase total self-financed IEG capital expenditures and self-financed capital expenditures in the agricultural sector (as mutually defined by the IEG and AID) at a rate greater than the rate of growth of domestic revenues. (These undertakings are designed to prevent the substitution of ASL resources for IEG resources, or assure that the ASL resources represent a real addition to IEG resources.) The qualitative undertakings of the IEG have been to make continued efforts to improve the agricultural sector's absorptive capacity. Table II shows the increases in IEG self-financed expenditures on the agricultural sector specifically, and the capital budget generally, for the years 1970-74. It can be noted that over the four-year average, FY 1970 - FY 1974, total domestic revenues are projected to increase by 8.7%, self-financed capital expenditures on the agricultural sector 19.9% and total self-financed capital expenditures 15.9%, confirming the continuing good performance of the IEG budgetary revenues and expenditures over time.

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TABLE II

IEG LOCAL CURRENCY REVENUES AND CAPITAL EXPENDITURES

(Eth.$ Million)

	FY 1970	FY 1971	FY 1972	FY 1973	Projected FY 1974[1]	Percent Increase Projected FY 74 Over FY 1970
A. Total Domestic Revenues	429.2	465.9	494.7	556.8	598.7	8.7
B. Capital Expenditures						
1) Total IEG local currency capital expenditures (i.e. including ASL funds)	43.7	60.5	76.9	81.0	93.8	
2) Total IEG self-financed capital expenditures (i.e. excluding ASL funds)	43.7	51.4	66.2	71.4	78.8	15.9
3) Local currency capital expenditures on agricultural sector[2]	21.3	31.2	39.4	44.9	59.1	
MINUS						
4) ASL-financed expenditures on agricultural sector	-	9.1	10.7	9.6	15.0	
EQUALS						
5) Self-financed capital expenditures on the agricultural sector	21.3	22.1	28.7	35.3	44.1	19.9

1/ These budget figures exclude intragovernmental tax receipts and payments resulting from repeal of tax and customs exemptions for IEG agencies. Figures include anticipated Supplemental Budget of Eth.$2 million for the agricultural sector.

2/ As defined for ASL I, II and III.

TABLE III: ATTRIBUTION OF ASL I, II AND III FUNDS

	FY 1971 ASL I	FY 1972 ASL I & II	FY 1973 ASL II & III	FY 1974 ASL III
1. Agricultural Ministries and Agencies	40.7	54.3	59.2	57.1
a) Project Identification & Agricultural Services	6.3	8.1	5.4	9.1
b) Agricultural Research	21.2	16.6	13.4	15.0
c) Extension and Regional Development Project	13.2	28.9	37.6	29.7
d) Land Reform	-	0.7	2.8	3.4
2. Agro-Industry				1.3
3. Water Resources Development	2.2	-	17.9	21.8
4. Agricultural Roads	28.6	34.1	21.0	18.1
5. Agricultural Credit and Marketing	25.4	7.8		
6. HSIU-Faculty of Agriculture		2.0		
7. Community Development	3.1	1.8	1.9	1.6
TOTAL ASL FUNDS (%)	100.0	100.0	100.0	100.0
(Eth.$ 000)	(9,114)	(10,660)	(9,644)	(15,000)

TABLE IV

AGRICULTURAL SECTOR LOAN ATTRIBUTION FY 1971 - FY 1974

(Eth.$ 000)

	FY 1971	FY 1972	FY 1973 1/	Projected 1/ FY 1974
TOTAL	9,114	10,659	9,645	15,000
1. Agricultural Agencies	3,708	5,786	5,707	8,576
a) Agricultural Services	579	860	516	1,368
Agricultural Education		148		-
Planning and Progs. Unit	200	166		
Plant Production and Protection	110	71		
Animal Husbandry and Veterinary Services	18	19		
Forestry	251	456		
b) Agricultural Research	1,929	1,774	1,292	2,246
c) Extension and Regional Development Projects	1,200	3,079	3,625	4,446
Regional Package Projects		1,485		
Minimum Package Program		307		
Awash Valley Authority	800	659		
Dairy and Livestock	400	628		
d) Land Reform		73	274	516

1 / Under ASL III, attribution of ASL funds made only at budget sub-head level in FY 1973 and FY 1974.

In addition to this direct support, AID-assisted agricultural activities have received significant indirect support from other ASL-supported programs such as agricultural services, agricultural research, agricultural roads, etc.

E. Relation to Other Donor Activities

As shown in Table VI below, ASL expenditures for other donor loan-supported projects have declined from about 21% of total ASL funds in FY 1971 to almost 11% in FY 1974.

TABLE VI

USE OF ASL FUNDS ON OTHER DONOR LOAN-SUPPORTED PROJECTS
(Eth. $000)

Project	FY 1971	FY 1972	FY 1973	Projected FY 1974
Agr. Institutes (IBRD/UK)	-	80	13	-
Wolamo Agr. Devt. Unit (IBRD)	-	181	110	160
Humera Agr. Devt. Unit (IBRD)	-	57	77	127
Addis Dairy (IBRD)	-	62	-	-
Livestock Devt. & Mktg. (IBRD/IDA)	-	-	-	22
Melki Sedi Amibara Irrig. (IBRD/IDA)	-	-	-	575
Anghele Bolhamo Feas. (IDA)	-	-	-	85
Coffee Processing (IDA)	-	-	-	116
Tessenei-Humera Rd. (IDA)	-	80	154	123
Bedele-Metu Rd. (SIDA/IBRD)	1,900	588	449	-
Jimma-Suntu Rd. (FRG)	-	645	-	-
Yabello-Moyale Rd. (FRG)	-	-	356	491
Total	1,900	1,693	1,159	1,699
% of Total ASL Funds	(20.8%)	(15.9%)	(12.0%)	(11.3%)

III. PROPOSED AGRICULTURAL SECTOR LOAN IV

A. Purpose and Rationale

Although the IEG has not yet acted on the draft Fourth Five Year Plan (1974/75 - 1978/79), it will probably adopt the proposed overall FFYP goals of accelerated output growth (6.0 percent) and more equitable distribution of the benefits of social and economic development. Because agriculture dominates the economy, the achievement of the output and equity goals will depend primarily on a higher rate of growth of agricultural output (3.0 percent versus the past growth rate of 2.2 percent) and on higher small farmer incomes based on land tenure improvements and a reorientation of development toward rural areas. The core of the IEG's strategy for assuring that agriculture will contribute to meeting the overall output and equity goals involves improvement of agriculture in already settled areas (primarily through intensification of credit and extension programs for small farmers) and greater emphasis on land development and settlement. Support of this strategy will require that the IEG focus on overcoming constraints in the areas of land tenure, rural infrastructure, research, credit and cooperatives, marketing and program design and administration. This strategy and its supporting programs is in agreement with the IBRD Agricultural Sector Survey (January 1973) and was generally endorsed by the second meeting of the Consultative Group for Ethiopia (July 1973).

The proposed Agricultural Sector Loan IV will provide local currency resources for the first two years (FY 1975 and FY 1976) of the FFYP period and is addressed at constraints to achievement of the IEG goals at three levels. At the "macro" level it addresses the overall domestic resources gap, which the IEG estimated at U.S. $570 million for the FFYP period. (The estimate was made prior to the recent granting of military and civil service pay increases; calculation of the new estimate has not been completed.) The ASL IV will help assure that the local resource constraint does not impinge on the IEG's strategy for the agricultural sector, which has traditionally been underfunded in Ethiopia. This is particularly important now in view of the increased pressure on the development budget generated by the military and civilian pay increases. At the "policy and program" level the loan is addressed at supporting IEG efforts to deal with some of the agricultural sector constraints listed above. Through inclusion of selected problem areas in the undertakings section of the loan agreement, and through review of these problem areas with the IEG prior to AID approval of releases, the loan will assure that policies and programs aimed at overcoming certain constraints receive the necessary impetus through the provision of ASL IV and continued high-level IEG attention. At the "project" level, the availability of the additional resources provided by the loan will affect the timing and rate of implementation of activities in the agricultural sector. Since this effect will be more pronounced with respect to new projects than other well-established projects, and since most of the projects aimed at assisting small farmers are relatively new, the overall impact on equity at the project level should be favorable. In general, of course, the major impact at the project level derives from the technical and financial assistance provided by AID and other donors for individual activities. The ASLs complement project activities in agriculture by supporting the overall agricultural sector budget and encouraging positive policy and program directions.

The ASL IV is directed primarily at increased small farmer production and incomes. In general, these are the activities which will make the greatest contribution to achieving both the IEG output and equity goals. Small farmers produce the bulk of Ethiopia's agricultural outputs and account for the bulk of the low-income population. Moreover, the fact that land and labor is abundant in Ethiopia, while capital is scarce, dictates that most new employment creation will take place in agriculture, presumably through the expansion of the number of small farmers. Also, increased small farmer production and incomes will have to provide most of the resources for programs directly affecting the quality of life of Ethiopia's poor, such as improved nutrition and expanded access to water, health services and education.

It should be noted that small farmers and herders as a target group make up about 80 percent of Ethiopia's population and probably comprise the lowest 80 percent in terms of the distribution of wealth and income in Ethiopia. Because only about one-fourth of this group can be reached now or in the near future via the existing road system, the effective target group in the near term (that group now susceptible of being reached) consists of this 20 percent of the people, or about one million farm families, who are accessible by vehicle and thus have potential access to markets and modern inputs. This group is likely to be better off than the groups without physical access, and would make up roughly the 60th to 80th percentiles of the income distribution. Reaching the "lower 40 percent" with modern inputs will require decades of concerted IEG efforts to expand Ethiopia's rudimentary rural road system, although some social services can be made available more quickly because access is less dependent on vehicular access and the associated low transport costs.

The emphasis on the equity goal through the focus on small farmer production and incomes is what primarily distinguishes the proposed Agricultural Sector Loan IV from its predecessors. Proposed changes in the qualitative undertakings, the reporting, monitoring and evaluation procedures, and in the attribution process are all designed to support this shift of emphasis, as is discussed further below.

The rationale for major assistance to Ethiopia through a loan providing budget support to the agricultural sector is straightforward. Agriculture is the sector most critical to rapid, broadly based development in Ethiopia; its rate of expansion is affected by a domestic resource constraint as well as a series of serious absorptive capacity constraints. An agricultural sector loan of the budget support type permits AID to address both the agricultural sector budget constraint and absorptive capacity problems in one assistance instrument, complementing project-specific assistance efforts in the agricultural sector. A program loan could address the budget constraint issue but would not be well adapted to addressing the policy and program aspects of the agricultural sector absorptive capacity problems, since by definition a program loan is designed to provide general balance of payments and budget support for a stabilization or general development program. Also, the timing of the local currency generation under a program loan would depend on rate of drawdown of the import financing provided by the loan, which could be a problem in the small Ethiopian market. Likewise, an agricultural sector loan of the project support type could address the budget and absorptive capacity constraints to some extent, but the degree of budget support in any one period would be conditioned by the pace of project implementation, and the influence on absorptive capacity issues would be confined to areas in which the IEG had already developed projects, i.e., to the less critical areas. A series of direct project loans would suffer from the same defects. The factors making the ASL mechanism the most attractive will, of course, change over time, and will be reviewed prior to considering agricultural sector assistance for the period FY 1977 and beyond.

There are several macroeconomic policy issues which affect the agricultural sector but which AID will not attempt to influence using the ASL. For example, an increased tax effort combined with devaluation would make additional resources available to the agricultural sector due to both additional revenues and to the increased number of Ethiopian dollars generated by the U.S. dollar proceeds of the ASLs. Policy measures aimed at modifying factor and output prices in favor of land- and labor-intensive production -- devaluation, increased interest rates, increased tariffs on capital goods, etc. -- would presumably improve the position of small farmers by discouraging extreme forms of mechanization by larger farmers and improving export prospects for crops which small farmers can produce (e.g., pulses, oilseeds, horticulture crops). While both of these policy packages would reinforce the impact of the ASLs, the ASL by itself does not provide enough "leverage" to effect policy changes in these areas. In conformance with AID policy, AID will support the IMF and IBRD in encouraging IEG policy changes in these areas, but will rely on these institutions to take the lead.

B. Qualitative Undertakings

The qualitative undertakings proposed for ASL IV emphasize the IEG's equity goals by focusing on three policy and program areas which are critical to increasing small farmer employment and incomes in Ethiopia: land reform, local rural road development, and increased production by small farmers. The undertakings are limited to substantive equity-related policy and program problems, and thus omit absorptive capacity in the sense of improved capabilities for program and project design and execution (which is in any case addressed directly by the AID Agricultural Sector Planning technical assistance project). Qualitative undertakings concerning other equity-oriented programs, such as village water development and general health and education, have not been included because these sub-sectors are not included in the definition of the agricultural sector for ASL purposes.

The purpose of the qualitative undertakings is to support the IEG in making necessary decisions in the three areas mentioned. The qualitative undertakings are not intended to "pressure" the IEG into reaching decisions which the IEG would not have reached in the absence of the ASLs. Rather, by focusing high-level attention on certain issues and providing an incentive to make decisions within a definite time period, the existence of the qualitative undertakings should help to accelerate the process of IEG decision making. Moreover, the association of the qualitative undertakings with AID's decision to provide the ASL IV financing will encourage the IEG to give relatively greater emphasis to programs in land reform, rural road development, and small farmer production, both with respect to pace of execution and level of funding.

The qualitative undertakings will be stated in the Loan Agreement as follows:

> "Adopt and execute those policy and program measures which will help overcome the constraints to increased output and greater equity in the agricultural sector in the following areas:
>
> 1. Equitable land ownership and tenure
>
> 2. Rural roads
>
> 3. Expansion of small farmer production."

The Loan Agreement will also include a condition precedent to disbursement requiring the IEG to submit a statement of the present status of policies and programs in the above areas, and the progress expected over the next five years by planned stages of intended progress. The implementation letter will specify the policies and programs which should be discussed in the IEG statement. Under the heading of "Equitable Land Ownership and Tenure" these will include formulation and implementation of policies governing distribution of government land; legislation, policies and programs for redistribution of land holdings; expanded programs in land mapping and registration and legislation; and policies and programs concerning landlord-tenant relationships. The "local rural roads" undertaking will cover the expansion of ongoing rural road construction programs (such as those for the drought-affected areas) and initiation and implementation of a national rural road development program. The "small farmer production" undertaking will focus on research related to problems of the small farmer (particularly research on pulses, oilseeds, sorghum, high-nutrition crops and small farmer technology), introduction of new crops and improved production techniques to small farmers, and establishment of appropriate institutional arrangements, policies and facilities for marketing by small farmers.

The IEG is in a good position to make significant progress in all of the above areas during the next five years, given a continued commitment to the FFYP growth and equity goals, continued expansion of IEG administrative capabilities, and strong support from aid donors. With respect to land reform, which is both the most important and historically the most intractable of the constraints to increased small farmer production and incomes, the new IEG has already announced that it will grant government land only to Ethiopians who will actually farm their holdings (a radical departure from past practice); will introduce legislation limiting the size of land holdings and providing for redistribution of excessive holdings and landlord compensation, and will re-introduce legislation regulating landlord/tenant relationships. In the present situation, the prospects appear good that the government will be more aggressive in pressing for land reform measures, and that Parliament will be more receptive to proposals for reform.

The prospects for positive action on rural roads also seem to have improved. Although an IEG working group recommended in February 1973 that a local Rural Roads Administration be established to carry out a rural roads program, intra-governmental differences concerning optimum administrative arrangements prevented the Council of Ministers from acting. With the recent appointment of a new General Manager for the Imperial Highway Authority (IHA), the issue could be resolved relatively quickly by the establishment of the rural roads unit within the IHA, permitting the launching of a national program for rural road construction.

As for the constraints listed under "small farmer production" -- research, introduction of innovations and new crops, and marketing -- the main policy problems recently have involved marketing, since improved marketing arrangements for small farmers will involve some degree of reorganization of existing IEG institutions. The likelihood of resolution of the organizational questions has improved recently with the completion of a detailed report which proposes a particular institutional structure for marketing within the context of a comprehensive marketing project to be assisted by the IBRD.

C. Quantitative Undertakings

The quantitative undertakings of the ASL III Loan Agreement were as follows:

> "Assure that actual Borrower self-financed capital expenditures on the agricultural sector (as mutually defined by the Borrow and AID) in Ethiopian FY-1965 and FY-1966 (U.S. FY-1973 and FY-1974) increase reasonably over those of Ethiopian FY-1964 and FY-1965 (U.S. FY-1972 and FY-1973), respectively, and at least by a percentage greater than the percentage increase in domestic revenues;" and
>
> "Assure that actual total Borrower self-financed capital expenditures in Ethiopian FY-1965 and FY-1966 (U.S. FY-1973 and FY-1974) increase reasonably over those of Ethiopian FY-1964 and FY-1965 (U.S. FY-1972 and FY-1973), respectively, and at least by a percentage greater than the percentage increase in domestic revenues."

These undertakings have two defects:

First, the undertakings cover only the capital side of IEG development efforts and ignore the equally important operating activities in the IEG recurrent budget which often effect the true developmental impact of many of the previously created capital budget outputs. To the extent that operations are now as important as capital activities, the present undertakings understate the actual IEG development effort. Another related problem is that the ASL capital budget emphasis places an irritating pressure on the normal IEG budgetary practices to classify activities into the capital budget which would not be otherwise.

The second defect concerns the measuring of development performance with respect to the growth of domestic revenues. In years of poor revenue growth, the resultant lowering of the minimum acceptable performance standard for self-financing does not give the IEG an incentive to increase domestic borrowing in order to maintain the originally budgeted level of agricultural expenditure. On the other hand in years of high revenue growth, usually caused by very favorable world market prices that are almost impossible to predict, the IEG is unable to prepare and implement additional projects in order to utilize the funds, and this consequently involves both governments in a waiver-of-the-undertaking procedure.

Another desirable change would be modification of the "agricultural sector" as defined for ASL III so that it is more in line with the concept used in the IBRD's Agricultural Sector Assessment of January 1973.

To overcome the first defect it is proposed that the "capital expenditures" wording of the undertakings be replaced with "development expenditures." Definitionally, total development expenditures would equal total capital budget expenditures plus the ordinary budget expenditures on "economic and social" services, except welfare, as defined in the IEG budget -- i.e., agriculture, mining, industry, commerce, tourism, public works, roads, communications, financial agencies, education, public health, and community development.

To deal with the second defect it is proposed that the fluctuating revenue growth standard of ASL II and III be replaced by a constant growth standard approximately equal to the average annual growth rate of domestic revenues during the past three years (FY-1971-1974) -- i.e., 8.7%. The IEG has indeed recommended such a change in the undertaking, as the type of undertaking most helpful to maintain the increase in government programs, and consequently expenditures necessary for steady progress in agricultural development. In view of the recent substantial new claims on government resources, continued AID emphasis on expenditures seems very appropriate. It is proposed, however, that the standard be **changed** slightly from that of ASL II and III (8.7%) to **7%** for the total development expenditure undertaking. In addition, since it is an objective of both the IEG and AID to concentrate increasingly on agriculture, it is proposed that the standard for the agricultural sector expenditure be **8** percent.

In order to bring about greater agreement between AID and the IBRD on the definition of "agricultural sector" the ASL IV definition would include all the programs listed in the indicative investment plan of the IBRD Agricultural Sector Survey. In addition, the ASL IV definition would include the malaria control program and the Imperial Highway Authority's (IHA) non-primary roads on the basis of AID's long-standing position that these programs provide significant support to agricultural development. The effect of this modification would be to reduce the scope of the agricultural sector as defined by ASL III by excluding village water supply, the now-terminated IEG financial contribution to coffee diversification fund under the old international coffee agreement, the industrial studies, the tannery, and community development.

On the other hand, in order to correct for the first defect the ASL III definition would be enlarged somewhat to include the recurrent budget expenditures of the agricultural agencies and the cooperatives program, and 13% of the recurrent budget expenditures of the IHA. The allocation of IHA recurrent expenditures to the agricultural sector is based on the USAID/Ethiopia calculation that 13% of the FY-1973 maintenance expenditures recommended to IHA in the AID-supported "Ethiopia Road Maintenance Study" were for the type of agricultural non-primary roads already included in the agricultural sector on the capital budget side. The net effect of these two modifications would be to increase the size of the self-financed agriculture sector in FY-1974 from about Eth. $44 million under the ASL III definition to about Eth. $57 million under the proposed ASL IV definition.

The proposed new quantitative undertakings for ASL IV are as follows:

> "Assure that actual Borrower self-financed development expenditures on the agricultural sector (as mutually defined by the Borrower and AID) in Ethiopian FY-1967 and FY-1968 (U.S. FY-1975 and FY-1976) increase over those of Ethiopian FY-1966 and FY-1967 (U.S. FY-1974 and FY-1975), respectively, by at least 8%;" and
>
> "Assure that actual total Borrower self-financed development expenditures in Ethiopian FY-1967 and FY-1968 (U.S. FY-1975 and FY-1976) increase over those of Ethiopian FY-1966 and FY-1967 (U.S. FY-1974 and FY-1975), respectively, by at least 7%."

Table VII gives a summary of actual and projected IEG self-financed development expenditures on the agricultural sector, as well as of total IEG self-financed development expenditures, and show the relationship of ASL funds to these expenditures. The table also presents past and projected IEG performance with regard to the ASL IV undertakings. While the projected performance for FY-1975 and FY-1976 is below that achieved in the preceding several years, it is still adequate with regard to the standard; furthermore it must be remembered that government resources will be under heavy pressures during the next two years and achievement of the projected performance will require a substantial effort on the part of the IEG.

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TABLE VII

IEG LOCAL CURRENCY REVENUES
and
DEVELOPMENT EXPENDITURES
(Eth.$ Millions)

	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974 Estimated	FY 1975 Budget	FY 1976 Projected
A. Total Domestic Revenues	429.2	465.9	494.7	556.8	610.1	660.5	720
Annual growth rate (%)		8.6	6.2	12.6	7.5 1/	8.3	9
B. Development Expenditures							
1. Total local currency capital expenditures (i.e., including ASL)	43.7	60.5	76.9	81.0	103.0	109.5	115
2. Total self-financed capital expenditures (i.e., excluding ASL)	43.7	51.4	66.2	71.4	88.0	89.5	93
PLUS							
3. Total recurrent expenditures on economic and social services except welfare	137.4	151.8	162.8	188.3	224.5	256.0	285
EQUALS							
4. Total self-financed development expenditures	181.1	203.2	229.0	259.7	312.5	345.5	378
Annual growth rate (%)		12.2	12.7	13.4	16.7 1/	10.6	9.4

1/ Growth rate computed after reduction of the FY 1974 budget figure to exclude intra-governmental transactions to make it comparable with the FY 1973 figure. See minutes of January 1974 ASL consultations for details.

	FY 1970	FY 1971	FY 1972	FY 1973	FY 1974 Estimated	FY 1975 Budget	FY 1976 Projected
C. Agricultural Sector Expend.							
1. Total local currency capital expenditure on agricultural sector	20.0	27.7	34.9	37.9	50.5 1/	59.3	66
MINUS							
2. ASL-financed capital expenditures	-	9.1	10.7	9.6	15.0	20.0	22
EQUALS							
3. Self-financed capital expenditure on agricultural sector	20.0	18.6	24.2	28.3	35.5	39.3	44
PLUS							
4. Recurrent expenditure on agriculture, cooperatives, and 13% road maintenance	13.1	14.6	15.5	17.5	21.3	24.6	27
EQUALS							
5. Self-financed expenditures on agricultural development	33.1	33.2	39.7	45.8	56.8	63.9	71
Annual growth rate (%)		-	19.6	15.4	24.0	12.5	11.1

1 / Includes anticipated FY 1974 Supplemental Budget of Eth$2 million.

D. Financial Plan

The proceeds of the loan together with the undisbursed balance of ASL III will be used to purchase Ethiopian currency to finance U.S. $20.3 million equivalent of the projected IEG agricultural sector requirements for the first two years of the IEG Fourth Five Year Plan, i.e., FY-1975 and FY-1976. The funds will be released on the basis of the IEG budgets for FY-1975 and FY-1976, subject to quantitative and qualitative undertakings set out in the Loan Agreement and restrictions stated in the Implementation Letter. The loan will not be tranched, i.e., there will not be a second tier of Loan Agreement conditions precedent to be satisfied prior to disbursement for FY-1976.

The anticipated utilization by fiscal year of the proposed loan, as well as the utilization of the previous ASLs, are as follows (U.S. $ millions):

	ASL I	ASL II	ASL III	ASL IV	Total
FY-1971	3.65	-	-	-	3.65
FY-1972	1.35	3.18	-	-	4.53
FY-1973	-	1.82	2.62	-	4.44
FY-1974 (Est.)	-	-	7.07	-	7.07
FY-1975 (Est.)	-	-	5.31	4.42	9.73
FY-1976 (Est.)	-	-	-	10.58	10.58
TOTAL	5.00	5.00	15.00	15.00	40.00

E. Implementation

1. Funding Attribution Procedures

The ASL III Sector Loan Paper restricted the use of ASL funds to 75 percent of total IEG costs for any activities or 50 percent in the case of activities funded by other donor loans; it also restricted the use of the funds to actual local costs, excluding imported items.

The IEG has informally requested several times that AID drop the existing restrictions on funding attribution and generally simplify the attribution and reporting procedures, since these represent a heavy burden on the IEG high and middle level staff involved. The restrictions on attribution have no sound rationale, and take up time and effort which should be devoted to substantive questions of IEG agricultural sector strategies and performance. The "self help" restriction (ASL may not fund more than 75% of the IEG costs of any eligible activity, or 50% for activities financed by other donor loans) is simply redundant, since the IEG has met the basic financial self-help requirement by complying with its quantitative undertakings of the overall loan. The self-help requirement at the individual activity level makes no additional IEG resources available to the agricultural sector, but merely results in a longer list of eligible line items to accommodate the restriction on ASL funding.

The import cost restriction also accomplishes nothing in terms of the ASL purposes. Since the ASL local currency has already been purchased with the U.S. dollar proceeds of the ASL's, thus making the dollars available to the National Bank of Ethiopia (NBE) as free foreign exchange, the attribution of ASL funds to import costs of activities can obviously not make any additional U.S. dollars available to the IEG--the NBE merely allocates its own free foreign exchange to the various agencies for their import requirements against the local currency countervalue. The full U.S. balance of payments impact of the ASL's is felt at the time of purchase of the local currency; the use of those local currencies can have no further impact on the U.S. balance of payments. Moreover, since the availability of funding for import as well as local cost budget elements from ASL can affect the level and timing of IEG support of proposed development activities (particularly those new or expanded activities included in supplemental budgets), the elimination of the import cost restriction would considerably enhance the ability of IEG operating agencies to undertake such activities in high priority areas.

Thus as discussed above, these restrictions are non-functional and serve to distract attention and effort from the critical agricultural sector strategy issues at which the ASL's should be addressed. Consequently, we propose that the restrictions be dropped, and that the fund attribution process be based only on that degree of budget detail necessary to determine that the funds are attributed to budget heads or sub-heads which fall under the agreed definition of the "agricultural sector". Table VIII shows the list of eligible agricultural sector budget subhead activities eligible for attribution of ASL funds. The funding and progress of individual activities would be reported on and reviewed only as they relate to the selected absorptive capacity problems included in the IEG's qualitative undertakings.

TABLE VIII

ACTIVITIES INCLUDED IN FY 1975 DRAFT BUDGET
AND
PROPOSED FOR ATTRIBUTION WITH AGRICULTURAL SECTOR LOAN IV FUNDS

(Eth.$ 000)

	Total Domestic Sources
Head 81 Agriculture	26,950
Sub-head 1 - Agricultural Services	4,006
Planning and Programming Unit	
Project Identification and Preparation	
Plant Production and Protection	
Quarantine Services	
Crop Development Study	
Animal Husbandry	
Menz Sheep Farm	
Southern Livestock Project	
Second Livestock Development Project	
Livestock Project Preparation	
Amibara Pilot Farm	
Allideghi Livestock Trial Project	
Allideghi Grazing Project	
Lowland Grazing Project	
Highland Grazing Farm	
Amibara Grazing Farm	
Addis Ababa Dairy	
Veterinary Field Services	
Debre Zeit Veterinary Laboratory	
Disease Prevention	
Soil & Water Conservation	
Forestry	
Management of State Forests	
Raising of Seedlings	
Forest Seed Center	
Registration of Forest Lands	
Forestry Industry	
Species Suitability Trial	
Care of Seedlings	
Implementation of Gov't Forest Services	
Seedlings for Private Forestry	
Afforestation	

	Total Domestic Sources
Agricultural Education	
Ambo Agr. Institute	
Jimma Agr. Institute	
Holeta Farm Training Center	
Mekele Farm Training Center	
Kombolcha Farm Training Center	
Sub-head 3 - Agricultural Research	4,679
Institute of Agricultural Research	
Bako Agr. Station	
Awassa Agr. Station	
Gode Agr. Station	
Holeta Agr. Research Station	
Melka Wera Research Station	
Nazaret Horticultural Station	
Jimma Agr. Research Station	
Mekele Agr. Research Sub-Station	
Coffee Sub-Station	
Other Research Stations	
Sub-head 3 - Regional Agricultural Dev. Project	11,416
Chilalo Agr. Dev. Project	
Ada Agricultural Dev. Project	
Wollamo Agr. Dev. Project	
Minimum Package Program & Ext. Services	
Humera Agr. Dev. Project	
Lower Adiabo Agr. Dev. Project (Shire)	
Southern Agr. Dev. Project	
Strengthening of Awash Valley Authority	
Amibara Irrigation	
Lower Plains Multipurpose Project	
Ambibara Settlement	
Dubti Settlement	
Lower Plains Extension Service	
Tibila Feasibility Study	
Lamaro Galla Feasibility Study	
Sub-head 4 - Rehabilitation of Drought Areas	4,000

	Total Domestic Sources
Sub-head 5 - Land Reform	1,899
Government Land Registration	
Adjudication and Cadastral Survey	
Land Classification	
Training and Research Institute	
Map Preparation and Production	
Nomadic Areas	
Low Cost Settlement Program	
Sub-head 6 - Prison Farms (Billati)	450
Sub-head 7 - Agricultural Credit to Small Farmers	500
Head 82 (Part) - Hydrological Investigations	300
Head 84 - Water Resources Development	2,150
Sub-head 1 - Strengthening of National Water Resources Commission	150
Sub-head 3 - River Basin Studies	1,600
Blue Nile Observation	
Gibe-Omo River Basin Study	
Genale-Dawa River Basin Study	
Wabi Shebelli Observation	
Rift Valley Lake Study	
Baro-Akabo River Basin Study	
Sub-head 4 - Northern River Valley Studies	300
Sub-head 5 - Feasibility Study	100
Head 85 - Road Construction	11,900
Sub-head 1 - Direct Labour Projects	
Feeder Roads	1,940
Tesseni Humera	
Hossana-Soddo	
Goba-Gore-Ghinir	

	Total Domestic Sources
Service-to-Traffic	865
Ghimbi-Kurmuk	
Azezo-Metema	
Areza-Barentu	
Bitata-Meslo-Goba	
Bailey Bridges	540
Sub-head 2 - Contract Projects	
Secondary	1,895
Yabelo-Moyale	
Feeder	6,160
Metu-Gore-Gumero	
5th Highway Program	
Sub-head 4 - Rural Road Program	500
Head 88 - HSIU	
Sub-head 6 - Alemaya Campus	99
Teacher Residences	
Administrative Building	
Supplemental Budget	2,000
TOTAL	43,399
ASL Financed	20,000
IEG Self-financed	23,399

2. Environmental Considerations

Since the ASLs focus on budget support and policy improvements and not on individual project activities, MO 1214.1 is not relevant to the consideration of ASL IV.

3. The anticipated implementation schedule of the fourth ASL is as follows:

a. Loan Authorization	June 1974
b. Signing of the Loan	July 1974
c. Satisfaction of Conditions Precedent	October 1974
d. IEG-USAID mutual agreement on initial release of ASL IV funds for agricultural sector development budget	October 1974
e. Direct purchase of local currency for deposit into the Special Account	February 1975
f. Release of additional ASL funds. Review by IEG-USAID of IEG performance regarding the undertakings of the loan	May 1975 and releases as needed
g. Final Loan Disbursement	July 7, 1977

F. Monitoring and Evaluation

As noted above, the IEG will submit (as a condition precedent) a statement of expected policy and program developments related to the qualitative undertakings of the loan. This will provide the basis for the IEG's annual reporting. The IEG reports will be due within three months following the end of the budget year (July 7). The IEG annual report appropriately updated and combined with budget figures provided by the Ministry of Finance would furnish most of the information needed for joint IEG/AID reviews of IEG performance prior to each release of ASL funds. The major joint review would normally take place in the third quarter of the fiscal year.

In addition to its normal monitoring of loan implementation, the AID Mission to Ethiopia will prepare a comprehensive annual report following the major IEG/AID joint review. The report will review IEG performance relative to the quantitative and qualitative undertakings, and assess overall agricultural sector performance with emphasis on small farmer production and incomes. For the latter purpose USAID will develop a series of indicators focused on the IEG qualitative undertakings (land tenure, rural road development, research, introduction of innovations, marketing) but also including the rate of growth and composition of overall agricultural output; agricultural sector budget trends, small farmer production and incomes using data from the package programs (CADU, WADU, MPP, Ada, etc.); and progress in the provision of rural services.

The proposed ASL IV will be evaluated by an outside team in FY 1976, prior to consideration of further agricultural sector lending. The loan will also be audited periodically by the AID Area Auditor General's Office, Nairobi.

G. Relation to Other A.I.D. Activities

1. Relationship with Agricultural Sector Planning Project

The primary purpose of the expansion of the Agricultural Sector Planning Project is to provide technical assistance to the IEG in those selected areas included in the IEG's qualitative undertaking under ASL IV. It is through this technical assistance that USAID will maximize its impact on the project design process.

2. Other A.I.D. Activities Related to the Qualitative Undertaking.

The Ada Project is A.I.D.'s most significant project oriented toward direct assistance to small farmers. The Ada Project is focusing on the experimental development of low cost integrated input packages and low cost infrastructure for wide scale replication in other parts of Ethiopia. The Pulses Diversification and Improvement Project will provide the necessary research and extension development for introduction of pulses production within the IEG's Minimum Package Project for small farmers. The Rural Agricultural Development Project currently provides technical assistance to the Minimum Package Project, and in the future will be expanded to provide assistance to rural non-formal education. The Food-for-Work program provides significant rural employment for small farmers.

In the future AID will probably be involved in intermediate and long range development assistance for the drought affected portions of Ethiopia, and this assistance will be substantially oriented toward small farmers. Assistance to the Southwest Development program of the Ministry of Agriculture may evolve from the AID-financed feasibility study of the Southwest undertaken in 1974-75. AID may also provide an assistance component to the IBRD/IDA national grain marketing project which should greatly enhance the small farmer's opportunity to more equitably market his products.

3. Other A.I.D. Agricultural Sector Projects

AID is currently involved in providing project and policy planning assistance to the Ministry of Agriculture, in providing agricultural training in the U.S. for project related government employees, and in supporting the multi-donor Rinderpest Eradication Program.

H. Relation to Other Donor Activities

ASL IV funds will continue to support activities funded in part by other international or bilateral donors. In implementing ASL IV, USAID will consult particularly closely with other donors involved in activities affecting the IEG's qualitative undertakings.

I. Terms of Lending and IEG Ability to Repay

The IEG's outstanding foreign debt (including private loans guaranteed by IEG financial institutions) increased from U.S. $204 million at the end of FY 1971 to U.S. $289 million at the end of FY 1973, or by about 42 percent. It was distributed by creditors as follows:

TABLE IX

OUTSTANDING IEG EXTERNAL DEBT, JUNE 30, 1973

	U.S. $ (Millions)
IBRD/IDA	126.9
United States	84.1
Italy	28.1
West Germany	16.9
USSR	11.7
Sweden	9.0
Czechoslovakia	8.9
United Kingdom	1.6
Yugoslavia	1.4
Netherlands	.5
Total	289.2

It may be noted that loans to the IEG from the U.S. and IBRD/IDA comprise approximately 73 percent of the total external debt outstanding.

The external debt servicing situation has been reassessed since the preparation of the ASL III Loan Paper of April 1972 and the following is a summary of that study which was previously reported in TOAID A-154 of 12/10/73.

TABLE X PROJECTIONS OF ETHIOPIA'S EXTERNAL PUBLIC DEBT SERVICE RATIO TO 1985

	1965	1971	1975	1980	1985
A. Total Debt Service (Eth. $ million)					
1. Based on IBRD	24.6	55.9	58.0	65.3	96.3
2. Based on FFYP	-	-	61.7	81.1	152.1
B. Exports of Good and Services (Eth. $ million)					
1. Based on IBRD	400	488	626	734	888
2. Based on FFYP	-	-	650	908	1249
C. Debt Service Ratio (A ÷ B) (%)					
Most Probable	6.2	11.5	8.9	7.2	7.7
IBRD (A.1 ÷ B.1)			9.3	8.9	10.8
FFYP (A.2 ÷ B.2)			9.5	8.9	12.2
High (A.2 ÷ B.1)			9.9	11.0	17.1

Table X shows four projections of the debt service ratio computed from alternative projections, also shown in the table, of debt service outlays (principal and interest) and exports of goods and services. These projections were derived from the macroeconomic projections made by the IBRD in its 1973 general economic report and by the IEG for its preliminary draft of the Fourth Five Year Plan (FFYP).

The IBRD report projects gross foreign loan disbursements to reach U.S. $96.5 million by 1985 while the draft FFYP projections indicate that U.S. $259 million will be required by 1985 to close the balance of payments gap. To estimate the debt service for these two projections of future new debt, it was assumed that all new debt will have the same concessional borrowing terms (average grace period of 9 years, average repayment period of 33.5 years and average interest rate of 2.2%) obtained by Ethiopia on new commitments during 1971-72. The grant element of these terms is about 70% which is less than the grant element of current AID/DL, IDA, and U.K. commitments.

The debt service ratio judged "most probable" was computed from the debt service projection based on the IBRD report and the FFYP projection of exports. The former was chosen because the underlying IBRD projections of loan disbursements were presumably based on discussions with the donors while, on the contrary, the FFYP projection is basically the projected requirement for achieving a target GDP growth target. The FFYP projection of exports was chosen because it was closest to the historical trend, while the IBRD projection seemed unjustifiably low. Using this estimate, the debt service ratio is projected to fall below the World Bank's 10 percent warning level 1/ throughout the projection period ending in 1985. On this basis, it is concluded that Ethiopia has the debt-carrying capacity to undertake borrowing up to its absorptive capacity limit provided it has continued access to the highly concessional borrowing terms obtained during 1971-1972, and maintains at least the historical trend growth of its export earnings.

Thus A.I.D. concessional term lending (i.e. 40 years maturity, 10 years grace, and 2 percent interest during the grace period and 3 percent thereafter) would appear fully justified and in agreement with the IBRD recommendation in its June 1973 general economic report.

1/ An IBRD study of debt service ratios of 79 countries during 1965-69 emphasized that only 19 had an average debt service ratio of over 10%, and that these 19 countries include all the countries which experienced debt crises and multilateral debt renegotiations and reschedulings. See World Bank/IDA Annual Report 1971, page 54.

AID-DLC/P-2045

June 7, 1974

ANNEX I: REVIEW OF AGRICULTURE SECTOR

A. Recent Studies of Agricultural Sector

Since preparation of the ASL III Loan Paper, there have been several important IBRD, IEG, and AID assessments of the agricultural sector which have helped to provide a firm basis for future agricultural progress in Ethiopia. In January 1973 the IBRD published its "Agricultural Sector Survey" based on the findings of a seventeen man mission which visited Ethiopia in the Fall of 1971. In July 1973 the IEG presented at the second meeting of the Consultative Group for Ethiopia "A General Framework for the Fourth Five-Year Development Plan" which was based on the government's detailed assessment of the agricultural sector. Finally, in December 1973 an "Assessment of the Ethiopian Agricultural Sector" was prepared for AID. The following is a review of the above works which highlight sector objectives, the key constraints, the strategies for agricultural development, the resource requirements, other donor programs and areas of concentration, and the AID program in agriculture.

B. IEG's Overall Sector Objectives

Ethiopian economic development for the indefinite future will be overwhelmingly dependent upon increased production in, and monetary returns from, agriculture. The sector contributes approximately 50 percent of GDP, is the principal source of savings, produces nearly all exports, and provides the livelihood for nearly 90 percent of Ethiopia's population.

The IEG has long recognized the importance of agriculture in the government's overall economic planning efforts. But in the preliminary Fourth Five-Year Plan strategy, the government has made some important changes in the objectives of IEG agriculture sector strategy. The Third Five-Year Plan tended to place the emphasis on programs in the commercial farming sector and on maximizing foreign exchange earnings from agricultural exports. The Fourth Five-Year Plan will emphasize increasing the income of the rural population and expanding employment in the rural areas. In order to achieve income and employment objectives, major emphasis will be placed on programs to expand the production and productivity of small and medium-sized farms. Over the course of the FFYP the IEG will expand the scope of its agriculture programs to encompass and involve several hundred thousand primarily subsistence level farm families now untouched by government agriculture programs.

Since the employment and income distribution benefits derive from increased growth in the agriculture sector, the IEG will seek to achieve an overall rate of growth in the sector of 3.1% per annum vs. an estimated growth rate of 2.2% over the past decade, and an 8.5% annual rate of growth in commodity export earnings which would more than double the rate of growth of the past ten years.

C. The Key Constraints

The impediments to agriculture sector growth and development in a country as relatively little developed as Ethiopia are numerous, overlapping, and mutually reinforcing. There is a general consensus among most donors, largely shared by the IEG, that the following represent the most critical constraints impeding growth in the agriculture sector:

1. Land Tenure

More than half of Ethiopia's cultivated lands are farmed by tenants who make up more than half of Ethiopia's rural population. There are numerous forms of land tenure arrangements, many of which are extremely complex. In some areas of the North right to tenure is based on kinship, lineage or tribal ties rather than individual ownership. In other areas, large -- often absentee -- landowners have holdings worked by poor tenant farmers who usually pay from one-third to one-half of their annual production in rent, and who must often provide other services to the landlord as well. These tenants normally have little, if any, security of tenure and may be evicted with little advance notice. Since the landlord normally will not reimburse the tenant for any capital improvements, or for expenditures for such inputs as fertilizer and improved seed, the tenant has little incentive to make such improvements or to increase productivity.

In addition, population pressures and traditional landholding practices lead to fragmentation of land holdings into increasingly smaller plots. It is common for a tenant farmer to have several non-contiguous plots several kilometers apart, each of which is less than one hectare.

Finally, Ethiopia has no proper system of land registration. The boundaries of holdings are not recorded, there is no good basis for determining the incidence of land tax. There is not even a very clear picture of the extent of, or boundaries to, Ethiopian government land.

All of these tenure problems taken together act as a severe constraint on the modernization or development of agriculture. They serve as a disincentive to investment and to increasing productivity.

2. Lack of Rural Roads

The vast majority of Ethiopia's farmers are not served by the present road system. It has been estimated that only 25% of Ethiopia's rural population is within a half-day's walk of a road. Development in the transport sector during the first three Plan periods was focused upon arterial - primary and secondary - road construction, with little having been done to provide the interconnecting capillary or local rural roads.

Without some form of farm-to-market and feeder/access roads, IEG agriculture programs cannot reach the farmer. He cannot obtain improved inputs, or extension services, nor does he have adequate access to markets for his product. The lack of these roads was instrumental in the decision to locate the first group of Minimum Package areas along already existing primary and secondary roads and thus, by necessity, denying their benefits to vast numbers of farmers unlucky enough to live more than a few kilometers from a trunk road. As MPP and other government programs expand, the development of low cost rural roads must, by necessity, precede them.

3. Administrative and Manpower Problems

There are numerous autonomous and semi-autonomous agencies operating in agriculture, many of which do not publish their budgets or related financial information. Budgets of the ministries (other than MinAg) are not organized in a manner to make possible identification of spending in the agriculture sector. In general, planning and implementation by these various agencies has been fragmented, uncoordinated and occasionally contradictory.

There has been criticism, both within the IEG and by donor agencies, over the slowness with which program and project planning proceeds and, while there has been some improvement in the Planning and Programming Department (PPD) of the Ministry of Agriculture, there is still much to be done. Similarly there have been problems with project implementation. The ministry hopes to strengthen the Extension and Project Implementation Department (EPID) as a partial response to this problem.

There is a continuing need for trained manpower in the agriculture sector. The IBRD Survey states that "... the present staff of manpower, plus planned output levels, are too low to meet the requirements of a meaningful development program for agriculture, particularly for personnel at the middle and lower levels." Many of the improvements needed may be produced by educational changes recommended in the Education Sector Review (assuming that the ESR recommendations are implemented in more or less their present form). A strengthened education program in agriculture is also included as part of the IDA III Loan for education, and additional programs in this area would also, presumably, be included within IDA IV in 1975-76.

Lastly, there is need for clarification of policy guidelines and a much stronger sense of policy direction. Many ongoing projects now suffer from poor policy coordination. If there are to be increased numbers of expanded activities in agriculture the management system through which policy is effectuated must be made more effective.

4. Availability of Modern Inputs

Few Ethiopian farmers are now able to obtain modern agricultural inputs from any source. In most of rural Ethiopia, credit is available only from private money lenders at usurious rates. There are few banks in Ethiopia and most are located in urban centers. IEG credit programs for peasant farmers are limited to the MPP and other package projects. The Agricultural and Industrial Development Bank (AIDB) which provides funds for the MPP program through EPID is fairly new and is not staffed to make loans directly to small farmers.

Thus, very few farmers have access to packages of improved seeds, fertilizer, pesticides and animal pharmeceuticals. The MPP is designed to make available packages of improved inputs to farmers only in MPP areas. By 1980, roughly 500,000 of Ethiopia's more than 4,000,000 farm families will be covered by the Minimum and Comprehensive Package Programs.

5. Agriculture Marketing

A responsive and reliable agriculture marketing system for Ethiopia simpley does not exist. The small quantities typically sold by the individual farmer are handled by a complex system of small traders and merchants who typically have high costs and high margins because they deal in small lots. There is a minimum of competition at the local level and the

		FY 1971	FY 1972	FY 1973	Projected FY 1974
2.	Agro-Industry: Coffee Processing				200
3.	Water Resources Development	200	-	1,733	3,264
	Hydrological Investigation			73	94
	Water Resources Commission				173
	Rural Water Wells			587	1,500
	River Basin Studios	200		1,073	1,497
4.	Agricultural Roads	2,607	3,630	2,025	2,720
	Bedele-Metu Road	1,900	588	449	-
	Secondary Roads	225	579	717	576
	Feeder Roads	342	1,417	369	1,260
	Service-to-Traffic	140	1,046	490	884
5.	Agricultural Credit and Marketing	2,320	834	-	-
	Agro-Industry Development Bank	2,320			
	Credit to Small Farmers		834		
6.	HSIU--Alemaya College of Agri.		218		
7.	Community Development Centers and Coops	279	192	179	240

C. Attribution of Funds

Attribution of ASL I, II and III funds by type of activity is shown in Table III. The table shows that the trend in ASL expenditures has been to increasingly concentrate on the agricultural agencies such as the Ministry of Agriculture, the Ministry of Land Reform and Administration, the Awash Valley Authority, and the Institute of Agricultural Research. Table IV shows the ASL expenditures in more detail.

All three loans contained restrictions on the use of funds for other donor loan-supported activities (see para. E below), and the implementation letters for ASL II and III contained restrictions on the use of funds to finance off-the-shelf imported items. The latter restriction was effected by limiting the use of ASL funds on any given activities to 75% (or less where equipment categories which were presumably imported constituted major items) of total domestic financing.

D. Relation to Other AID Activities

Table V below shows that between FY 1971 and FY 1973 an increasing fraction of ASL expenditures have been in direct support of other AID activities. The projected decline in FY 1974 results primarily from the planned slowdown of the Southern Livestock Project pending completion of a large IBRD study of the region, and a reduction of IEG expenditures on the Minimum Package Project as a much more than compensating increase in donor resources is being utilized to more than double the size of total expenditure over that in FY 1973.

TABLE V

ASL FUNDS USED IN SUPPORT OF AID-ASSISTED PROJECTS
(Eth. $000)

Project	FY 1971	FY 1972	FY 1973	Projected FY 1974
Southern Livestock	400	525	158	150
Agricultural Advisory Services	200	166	71	164
PL 480 Title II FFW Reforestation	236	283	259	397
JP 15 Rinderpest Campaign	-	13	42	80
Ada	-	49	264	467
Minimum Package (since FY 72)	-	307	1320	328
HSIU-Alemaya Campus	-	218	-	-
Total	836	1,561	2,114	1,586
% of Total ASL Funds	(9.2%)	(17.1%)	(21.9%)	(10.6%)

small farmer has little bargaining power vis-a-vis the local odd lot trader. The Ethiopian Grain Corporation, as currently set up, deals principally with large scale commercial producers.

Market information is not widely disseminated and wide margins, market spread, and seasonal price variation tend to go unchecked. In the absence of relative price stability, neither the farmer nor the potential lender are overly willing to take risks, to invest heavily or to expand production on a long-term basis. The development of a rationalized marketing system involving better dissemination of price information, increased competition, the eventual development of marketing cooperatives and price stabilization is a necessary ingredient in any meaningful agriculture development plan.

6. Research and Information

Only a bare beginning has been made in applied and adaptive agriculture research in Ethiopia. Many important agriculture products including pulses, oilseeds, coffee, livestock, forestry and fisheries, require considerably expanded research. Research data which has been developed on cereal crops needs to be augmented. Ties between Ethiopian researchers and their colleegues in relevant research programs elsewhere in the world need to be strengthened.

The principal agriculture research organization in Ethiopia - the Institute of Agriculture Research (IAR) - has only been in existence since 1966. Since its outset it has been hampered by inadequate budgets, difficulty in timely recruitment of expatriate staff and in the limited supply of trained Ethiopian researchers available to work with IAR.

There needs to be considerable emphasis placed upon expanding and upgrading IAR's overall research capability over the FFYP period. According to the IBRD Ag Sector Survey the research program should concentrate on the development of input mixes which will have a high impact on production, a good economic return and which can be easily integrated into the major farming systems. In addition long range research should be undertaken in crops which could be better adapted to the Ethiopian environment in order to speed efforts at diversification. Also, research is required in such basic areas as irrigation techniques, cropping practices, improved tools and farm implements, in forestry, and in erosion control (approximately $300 million worth of nitrogen alone is lost annually via erosion, not to mention considerable quantities of phosphorous, calcium and other elements plus the loss of the soil itself). Lastly, Ethiopia needs to be more closely tied into the worldwide agriculture research networks for crops such as cereals, pulses, fruits, vegetables and fibre crops.

D. IEG Planning for Agriculture Development

During the 1950's the IEG commitment to agricultural development was very modest. Agriculture received less than 5% of total public investment which was otherwise largely committed to improvements in the transportation system, to defense and to urban education.

The period of the First (1957-61) and Second (1962-66) Five Year Plans saw some increasing government concern with, and investment in, the agriculture sector. Emphasis was on large-scale farm activities and the establishment of agriculture service institutions such as the Awash Valley Authority, and modest levels of agriculture research. There was increasing attention devoted to technical training, extension cooperatives and community development.

In the Third Five Year Plan period (1968-1973) major emphasis in the agriculture sector was placed on accelerating the growth rate through development of both large and small scale agriculture. But, by 1973 only about 5% of the 4 million rural families in Ethiopia had been even minimally exposed to modern agriculture technology.

The agriculture strategy to be employed during the FFYP period will focus increasingly upon improvements in small holder production in settled areas (using the Minimum and Comprehensive Package programs as the principal vehicles) and upon land development and settlement programs in less populated or unpopulated areas. In addition, the IEG will continue to encourage commercial agriculture through gradually expanded programs in commercial irrigated agriculture and efforts in research, marketing and credit.

1. The Small Farmer Strategy

a. Minimum Package Program

The IEG Minimum Package Program (MPP) is the backbone of the IEG's small farmer strategy and will be expanded considerably during the FFYP period. This program, which focuses exclusively on small and medium-sized farmers with holdings of 20 ha. or less (an estimated 80-85% have less than 10 ha.) is to be the largest single effort of the IEG directed at increasing the production and income earnings of Ethiopia's poorest people. Assisted principally via a series of proposed IDA loans, the MPP will continue to feature delivery of a minimum-cost package of inputs to interested farmers in MPP areas. The number of these areas, each containing approximately 10,000 farm families, will be expanded from approximately 48 at the end of 1974 to 90 or more by 1980. In addition, many of the new areas will be in more remote sections of the country which will be opened up to trade and transport by penetration road construction to be undertaken under the new MP programs. During the FFYP, the MP program will develop local marketing structures, which would eventually develop into farmer cooperatives, and more diversified input packages, as well as an increasingly strengthened extension service.

The MP program does not address the land tenure constraint directly, but relies on the "model lease" concept in some areas to attempt to secure a modicum of security from eviction for tenant farmer participants in the program. It is, however, unclear to what extent model lease arrangements have served to reduce the rate of, or deter, eviction in MP areas.

One important new project component to be added to the MP program is the development of pulse production on small and medium-sized farms. This program will probably be initiated in FY 1975, and will be composed of three phased stages: research, implementation/extension and marketing. Over the five year lifespan of the project, as currently envisioned, 12,000 small and medium-sized MPP farmers will benefit from the program.

b. <u>The Package Program</u>

The comprehensive packages programs: CADU (Chilalo Agriculture Development Unit), WADU (Walamo Agriculture Development Unit), and ADDP (Ada District Development Project) established during the TFYP period are designed to test experimental packages of inputs in a variety of infrastructure settings. As pieces of these experimental projects are proved successful they are grafted onto the MP program either as improvements in the basic package of inputs, improvements in administrative procedures, or as a more sophisticated second or third phase input package for those MP farmers who have demonstrated their ability to graduate from the simple first phase package.

c. Land Tenure Programs

The IEG appears to recognize that changes in land tenure arrangements are critical to agricultural development generally and to improving the lot of Ethiopia's rural poor specifically. However, there is general acknowledgement that there are limits to what the government can hope to accomplish in the short and medium term to substantially ameliorate the land tenure constraint to development.

A package of proposed legislation has been developed, and the first piece of this legislation - designed to increase security of tenure - has been approved by the government and has been in Parliament for consideration during the last three sessions. Thus far, Parliament has failed to approve the proposal due to opposition by both vested land holding interests who feel the legislation goes too far and by liberal elements who feel the legislation does not go far enough.

In the absence of legislation, government programs to resolve the tenure constraint are obviously hampered. Nevertheless, the FFYP outlines several initiatives to be taken by the government over the Plan period which will address some aspects of the overall land tenure problem. There are to be expanded programs in land survey and registration in order to clearly delimit the extent and nature of government lands and eventually to improve the land tax system. In addition, the IEG recognizes the need to improve the government's capacity to implement legislative and executive decisions in this area, as they are taken, in order to avoid problems of inertia and lack of momentum.

The Ministry of Land Reform Administration (MLRA), organized in 1966 to implement land reform initiatives, will continue to require strengthening in its middle and senior level manpower ranks. To this end UNDP has agreed to provide assistance through FAO to help the IEG establish a Land Reform Training Institute in CY 1974. The institute, under the auspices of MLRA, would train Ethiopian technicians in the various specialities required over the coming years to implement land reform initiatives.

The government has considered two separate but compatible programs for settlement of landless farmers and evicted tenants from the Ethiopian highlands in the four west and southwestern provinces of Wolega, Illubabor, Keffa and Gemu Gofa.

The first program - "accommodation settlement" - would be managed by MLRA and assisted by IBRD, would focus on removing major constraints which now prohibit or deter settler movement into underdeveloped areas. Government activities might include mosquito and tsetse fly control, construction of access roads, provision of village water supplies, and an outline plan for the overall development of the accommodation areas.

The other program - "agriculture development settlement" - would be administered by the Ministry of Agriculture and might contain all the facets of the accommodation settlement program plus the development, and provision to the farmers, of a package of improved inputs for assisting agriculture production.

These alternative approaches would be reconciled by the IEG early in the Plan period. During the course of the Plan many thousands of otherwise landless small farmers will be settled in high potential areas of west and southwestern Ethiopia. Success in these initial programs will eventually lead to additional settlement programs in other parts of the country.

d. Agriculture Research

Agriculture research, especially as it relates to both the MP and comprehensive package program, is to receive a substantial increase in resources allocations during the FFYP period. The Institute of Agriculture Research (IAR) will receive a large share of the U.S. $17 million which the IEG is tentatively earmarking for capital expenditures in research related to agriculture. This will be divided between agronomic and animal husbandry research and research on cultural technique and production methods which are better suited to Ethiopia's needs than are those presently employed. A major emphasis will be placed on finding methods of improving production efficiency for those agriculture commodities which have the best prospects for diversifying highland agriculture and for increasing export volume and/or value.

e. Marketing

As indicated above, the small producer is unable to maximize his returns because the marketing system, as it is now constituted, constrains him to sell his product to private buyers immediately after the harvest when prices are at their lowest levels. The development of a more equitable marketing structure initially for grain crops, but eventually for other products as well, is to be given high priority during the FFYP period.

The IEG is now in the process of planning a major revision of the government's current grain marketing activities. The Ethiopian Grain Corporation would be reorganized into a new organization perhaps to be called the Agriculture Marketing Corporation. The AMC would expand activities at a fairly rapid rate to cover all of the important agriculture areas of the country by 1980. The program would establish government buying stations in the principal grain areas, develop increased storage capacity at the regional and provincial level, and would attempt to reduce transport and other intermediate costs. The AMC would also improve central administration, especially financial management, of the IEG's marketing mechanism.

The overall objectives of the new organization will be (1) to reduce intra-year and inter-year fluctuations in prices for the major agriculture products; (2) reduce the costs of performing normal market functions - transportation, storage, grading, processing, etc. - and so reduce consumer prices and/or increase returns to the producer; (3) increase product quality; and (4) enforce a standardized system of weights and measures throughout the country.

f. Rural Roads

An IEG working group on rural roads development was established in 1972 to study the problems and constraints impeding the development of low-cost penetration and farm-to-market roads in Ethiopia, and to make recommendations "for breaking the impasse, which constitutes one of the greatest bottlenecks in the development of the country." The working group submitted a lengthy report to the government in 1973 calling for development of a national local rural roads program as quickly as practicable. Inter alia the group concluded that:

1. There must be a coordinated program of rural roads development in Ethiopia;

2. The standards and costs of such roads must be adjusted substantially downwards from the present IHA service-to-traffic standard;

3. The increased boost to the economy from an expanded rural road system would provide (after a substantial lag) the incremental revenue base to finance total maintenance costs of an enlarged road network; and

4. The rural roads system would: improve access to markets and help accelerate rural development, create construction and maintenance jobs in rural areas, and foster increased local participation in development.

The Working Group indicated that the IEG would have an initial capacity to construct about 1,000 km. of these low cost rural roads per year, but that, as experience was gained over time, this capacity might expand to 3,000-3,500 km./yr. by 1980. At first local rural road construction would be tied principally to MPP expansion, and minimum standard roads for the comprehensive package projects.

Once the pilot awraja program is underway and the local awraja administrations are functioning, it is envisioned that these organizations would serve as the focii for determining priorities for local rural construction and would assume responsibility for maintenance of roads once constructed. The recommendations of the Working Group have not yet been approved by the Council of Ministers. Most observers both within and without the government feel that IEG action is of utmost importance because of the urgent need to move into the implementation stage as soon as possible.

2. <u>The Export Strategy</u>

The second principal objective of FFYP planning in the agriculture sector is to markedly increase Ethiopia's export earnings. This objective is not entirely unrelated to the small farmer strategy, since, as in the case of pulses and coffee a large portion of increased small farmer production would flow directly into the export market.

The IBRD report "Recent Economic Performance and Future Prospects in Ethiopia" (June 1973) looks at needed export growth in the larger macro-economic context and notes that the overall rate of growth in exports of something like 8% will be required if the economic growth rate is to reach 6% and per capita growth is to reach 2-2½%. Given the limited growth potential for coffee, export expansion will have to come in large part through diversification efforts in agriculture, and possibly mineral exports such as copper and, if current exploration efforts are successful, natural gas or petroleum. Significant levels of export of manufacturers will not be achieved during the FFYP period.

In addition, according to the IBRD, the export strategy depends heavily upon the requisite pricing, monetary exchange rate, and other incentive factors which IEG financial and monetary authorities must address.

<u>Coffee</u> will undoubtedly remain Ethiopia's leading export and foreign exchange earner for the foreseeable future and, as such, will be a major area of program emphasis. Drought and coffee disease are currently hampering production and are likely to continue to do so in the near term. Offsetting this, to some degree, is the likelihood of the current high world prices continuing for the next 2-3 years and possibly beyond. The emphasis in Ethiopia's coffee-related programs will be upon improving quality and in increasing the percentage of improved to unimproved coffee within total coffee exports.

<u>Livestock</u>. Even though livestock and related activities have increased in value from U.S. $16 million in 1968 to $35 million in 1973, the Agriculture Sector Survey concluded that, in terms of its <u>potential</u> contribution to the economy, the livestock sub-sector was contributing less than any other agriculture sub-sector. Thus, the improvement potential is very great and as a result, the FFYP gives a high priority to development in this sector. The major components of the proposed program would include: infrastructure improvements relating to animal health, production research, educational and marketing services, and projects which would channel technical and financial assistance directly to livestock owners.

<u>Commercial-scale agricultural projects</u> - primarily irrigated projects under the aegis of the Awash Valley Authority (AVA) -- will also continue to receive government resources. The relative priority of these projects compared to small farmer programs will not be as high as in the TFYP.

The AVA has thus far developed 55,000 ha. for irrigated agriculture (primarily cotton, sugar and tobacco) of an estimated 175,000 ha. suitable for such development. During the FFYP the AVA will continue to develop commercial irrigated agriculture projects oriented primarily for export, but it is anticipated that some planned settlement of small farmers and nomads will take place along certain portions of the Awash during the FFYP period.

E. Resource Requirements

In the absence of an IEG approved indicative funding level for projects and programs in the agriculture sector budget, the IBRD Agriculture Sector Survey projections serve as the best available indication of resource requirements in the sector. The survey sets out a 10-year "Indicative Development Program" for the sector (including a modest amount of rural road construction). The projected cost of the first five years of this illustrative program in agriculture is approximately U.S. $240 million (of which $20 million is for roads).

In FY-1972 and FY-1973 IEG self-financed expenditures in agriculture averaged 3.6% of total self-financed expenditures or about U.S. $9 million per year. The best estimate for FY-1974, the last year before the FFYP goes into effect, is that agriculture will account for 3.8% of total self-financed expenditures of approximately U.S. $310 million or $11.8 million. Given the rate of increase of 10.7% annually over the past 5 years, the IEG self-financed total expenditures in the agriculture sector during the FFYP period should be in the range of $80 to $100 million. The remainder, or about $130 million, would have to be met by external donor assistance. Given what is known about donor plans and assistance projections, this level of $130 million per year should be reached. Much depends, however, on the ability of IDA to secure sufficient replenishment funding to engage in the level of lending which it desires to undertake in Ethiopia during the 1975-79 period.

F. Other Donor Programs and Areas of Concentration

There are a number of bilateral and multi-lateral donors which have been, and will remain, active in the agriculture sector. The most important in terms of total resource transfers are the IBRD/IDA, UNDP and Sweden, with the Federal Republic of Germany, Italy, France Japan and the UK also being substantial donors. The USSR, Yugoslavia, the People's Republic of China have in recent years provided substantial, multi-purpose credit agreements totalling more than $200 million. These latter credits have been drawn down very slowly.

Total capital aid to Ethiopia has been increasing due principally to expanded lending by IDA. Current forecasts see IBRD/IDA heavily involved in MPP expansion, comprehensive package projects, livestock, accommodation settlement, irrigated agriculture, agriculture-related education, long-range drought rehabilitation and local rural road construction, among other things, over the next five years.

The UNDP also plans an expansion in its program in Ethiopia during the 1975-80 period. During 1972-76, UNDP has projected a technical assistance program totalling $20 million. For 1976-81, UNDP is tentatively projecting a technical assistance level of $39 million -- almost double the current level.

The UNDP technical assistance program is to be further rationalized and "tightened" in the Country Program Paper now being prepared. Based on present plans, the following are to be the major FFYP efforts of the UNDP and related organizations in agriculture: planning assistance to the Ministry of Agriculture and the Ministry of Planning & Development (in conjunction with IBRD), research assistance to IAR, assistance in developing and staffing the Land Reform Institute, plus other land reform assistance, assistance to MPP and the comprehensive package projects through FAO, assistance to the Awash Valley Authority, technical assistance to the AID Bank, assistance to livestock development (including veterinary medicine and rinderpest), a small amount of technical assistance to the Dairy Development Agency, and, potentially, considerable short, medium and long term assistance for drought and famine relief. In addition, WFP is planning reforestation projects in Eritrea, Tigre and Wollo using Food-for-Work commodities to be supplied by the U.S.

Swedish technical assistance currently running at $6-7 million per year will not show a downturn during the FFYP period, and may show an increase to something like $10 million per year. An increase above this level, however, would depend upon the Ethiopian government's undertaking a substantial effort to improve the land tenure relationships between tenants and landlords. Sweden will continue to support the MP Program, CADU and IAR. In addition, Sweden may be willing to support the local rural roads program.

The U.K. will continue to assist the Ministry of Agriculture with trained expatriate manpower, but will attempt to be more selective in agreeing to the slots which U.K. technicians are to fill in order to maximize their development impact. The U.K. is to be heavily engaged in livestock through continued assistance to the Livestock and Meat Board, in the training of Livestock assistants and assistance to the JP 15 Rinderpest campaign. Another important UK-financed program is the joint Ethiopian/UK aerial mapping mission due to be completed in 1976.

The principal West German program in agriculture is their regional agriculture development effort in Wollega which will help develop improved seed and agriculture production in parts of that province over a twelve-year period.

The Netherlands, Norway, Denmark, France, Finland, Canada, Japan and the PRC also are expected to provide assistance in the agriculture sector during the FFYP period.

G. The AID Program in Agriculture

Within the agriculture sector AID bilateral and regional resources will be increasingly focused on key constraints which serve to impede growth in production and productive capacity of the small farmer. AID will reinforce the IEG's own efforts to bring development to the poorest segment of Ethiopia's rural population.

Given the limited amount of AID's resources likely to be available for this task during the FFYP period, AID assistance will be coordinated closely with assistance from other donors, as well as with the IEG's own resources. It will be directed only into projects and programs where the IEG and AID mutually agree upon their high priority ranking, and upon the high degree of likelihood that the project/program will substantially contribute to overcoming constraints hindering achievement of growth and equity targets in the sector.

The subsectors which now appear to offer the best opportunity for AID assistance in agriculture are:

1. Continuation of our Ada Project as the central element of the IEG's Ada District Development Project (ADDP). This project serves as one of the IEG's comprehensive package projects which, in this case, tests low cost integrated input packages together with the development of minimum standard low cost infrastructure. This is seen as a possible low cost alternative to CADU. Successful experiments at Ada will be fed into the Minimum Package Program for wide scale replication in other parts of the country.

2. Expansion of our current Rural Agricultural Development project from its current emphasis on assisting the agricultural production aspects of the MPP to include assistance to rural non-formal education (described in the education sector section of this DAP), and limited assistance to the awraja local self-government program. The structure of this project would then parallel that of the IEG's own integrated rural development initiatives.

3. Restructuring of our Agriculture Sector Planning project to become the technical assistance adjunct to the Agriculture Sector Loan (ASL). The two assistance tools would become two inter-related facets of the same AID assistance effort directed specifically at improving the IEG's own capability to overcome key constraints to development.

4. Redesign of ASL to direct it more precisely at the policy and program objectives of the AID rural development strategy supporting major FFYP goals.

5. Continuation of the new pulses production project initiated in late 1974 or early 1975 which helps develop and expand research, and production by small farmers of a set of crops for which there are projections of a healthy internal and external market demand for the future and for which there is a demonstrated capacity of small farmers to produce profitably.

6. Assistance for local, rural road construction if sufficient financing is not available from other sources.

7. Assistance to the Southwest Development program of the Ministry of Agriculture which would evolve from the AID-financed pre-feasibility/feasibility study of the Southwest underteken in 1974-1975.

8. Contribution of an assistance component to the IBRD/IDA-financed national grain marketing project. This project would rationalize the marketing of all grain crops, extend the scope of the IEG's grain buying to include new areas of the country and greatly enhance the small farmer's ability to get a more equitable return for his product.

9. Assistance as politically feasible for a national land (cadastral) survey which would survey all land holdings. In a country where there are virtually no land records this is an indispensable step toward eventual land reform programs and provides a better basis for determining land tax liability.

In addition, intermediate and long range developments assistance is foreseen for drought affected portions of Ethiopia to develop their capacity to withstand future drought conditions and to increase the capacity of those areas to support their present and projected populations. This assistance would be substantially oriented toward small farmers. It may also include livestock stabilization and range management as important components of a drought rehabilitation effort.

Each of the above projects/programs share the objective of overcoming key constraints to bringing development to Ethiopian rural poor. The target groups are, without exception, subgroups of the poorest segment of the population. These programs are of high priority to the IEG as evidenced by preliminary FFYP planning documents. They are in harmony with what other donors are doing and planning in these and related subsectors. Finally, they are among those things which American technical and capital assistance resources can do well. These programs do not provide assistance across-the-board; there is no assistance for among other things commercial agriculture (such as the AVA) or for coffee improvement. In these latter cases, and others, either other donors' resources are deemed adequate, the IEG itself has sufficient resources, there are private resources available, or, in some cases, the U.S. does not have the competence qualitatively comparable to that available for activities we have chosen.

ANNEX II. IEG FISCAL POLICY AND FINANCIAL PERFORMANCE

A. The Budgetary Process

In recent years there has been steady improvement in the budgetary process. Improvement in administrative operations began in 1969 with the publication of the first detailed capital expenditures budget, and the introduction by the Ministry of Finance of procedures to monitor current expenditures and project implementation more closely in order to better control and account for funds. This accountability procedure, however, had the effect of imposing a new set of administrative demands on the operating ministries to justify their need of Treasury disbursements which in turn added delays to the timely funding of projects. In FY 1972, the Ministry of Finance succeeded in streamling its procedures to accelerate releases to the ministries and ensure an uninterrupted pace of project implementation as necessary. Second, IEG planning has become more effective in the operational sense in that the Ministry of Planning and Development now produces for the Budget Committee of the Council of Ministers an annual "economic framework analysis" which includes revenue forecasts based on alternative projections of economic policy and performance of the general economy. This is producing a rational, economic underpinning of the budget preparation exercise. Finally, there has been visible progress in the financial planning-budgeting process for development due to the continuously expanding positive and dynamic interaction of the Ministry of Planning and Development and the Ministry of Finance. This interaction is producing a good balance in the support given to heightened development and prudent monetary and fiscal policies.

B. Domestic Resource Mobilization

Domestic Revenues

The ratio of total domestic revenues to total GDP is low (about 11%) even by developing country standards; yet the government has achieved significant successes in increasing revenues over the past two years. Current revenues increased at 8.0% a year during the first four years of the revised 3rd Five Year Plan (TFYP, FY1969 - FY1974). This is above the 7.2% rate of increase in the previous four years FY1964 - FY1968, but falls short of the TFYP target of 12% per annum. Of the four revenue categories, namely, direct taxes, indirect taxes on domestic products, taxes on foreign trade, and non-tax revenues - direct taxes (which account for 26% of total revenue) have achieved the highest growth rate - 14.8%. The main contributors to this achievement have been the introduction of the Agricultural Income Tax in 1967, the Education Tax on Urban Land and Personal Incomes in 1970, and, more recently, the marked improvement in the administration of direct taxes with assistance from the I.M.F. The growth rate of 14.8% is almost double the rate in the previous four years

TABLE I: CENTRAL GOVERNMENT CURRENT DOMESTIC REVENUES

(Eth.$ Million)

	FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	Budget FY 1974
1. Direct taxes	97.7	102.3	121.8	133.1	142.1	158.1
2. Excise taxes on domestic products	36.9	96.3	101.9	113.8	127.9	143.3
3. General sales taxes on domestic products	24.4	25.5	29.6	32.0	32.8	39.5
4. Taxes on exports	23.5	39.4	36.4	32.0	51.4	35.6
5. Taxes on imports	104.7	113.3	118.7	121.1	132.9	150.9
Total tax revenues	337.2	376.8	408.4	432.0	487.1	527.4
6. Revenue from state property[1/]	26.0	19.6	23.9	21.7	27.5	30.9
7. Other non-tax revenue[2/]	23.5	27.2[3/]	27.6	29.6	32.9	40.2
8. Government employee pension contribution	5.5	5.3	6.0	6.4	7.4	8.0
Total non-tax revenues	55.0	52.1	56.4	57.7	67.8	79.1
Total DOMESTIC REVENUES	392.2	428.9	465.9	489.7	555.2	606.5
Ratio of Revenue to Monetary GDP	19.1	N.A				
Ratio of Revenue to Total GDP	10.3	10.3	10.6	11.3	11.5	11.6

1/ Mostly revenues from capital investment.
2/ Does not include Ethiopian Air Lines reimbursements.
3/ Does not include Post Office revenues. The P.O. is now self-accounting.

and above the 12.1% TFYP target for direct taxes.

However, the 5.8% annual growth of indirect taxes, which account for 29% of total domestic revenues, has fallen short of the TFYP growth target of 16% due to a reduction in the growth of import-substitution industries, lower increases in the rates of excise duties than was envisaged, and the effect of the recent sluggishness of the economy on the yield of the turnover tax. The taxes on foreign trade have continued to grow at a lower rate than the other revenue categories but the recent growth rate of 2.6% per annum is an improvement on the 1.0% rate of increase from FY 1964 to FY 1968. Although the performance of the non-tax revenues (6.6% growth rate) fell below the planned 9.1% increase, it still shows an improvement over the 5.3% growth rate during FY 1964 - FY 1968 due largely to higher returns from government investments in various concerns.

With respect to future 4th Five Year Plan intentions, "a major effort will be made by the IEG to keep the tax system under continuous review in order to achieve a greater elasticity of revenue to development and in accordance with the following order of priorities: a) effective administration of existing tax laws; b) plugging loopholes and damming revenue leakages due to diverse forms of exemptions and ambiguous legal provisions; c) streamlining the progressive brackets of tax schedules and rationalizing tariff rates; and new taxes."

Because of difficulties in obtaining Parliamentary approval of tax legislation, the Ministry of Finance prefers to concentrate on improving revenues through better assessment and collection procedures, and other types of administrative reform. An estimated 40 to 50 percent of inland taxes theoretically due is not collected, so the scope for improvement is considerable. For the past four and one-half years an IMF tax administration expert has been working in the Department of Inland Revenue to help identify and install reforms and to prepare a syllabus for in-house training of revenue department auditors and provincial tax personnel. AID is also providing assistance in the Customs Department to improve administrative procedures.

Domestic Borrowing

Net domestic borrowing as a source of budgetary financing is expected to increase in FY 1974 and FY 1975. In spite of the large accumulation of foreign exchange holdings and the 24 percent increase in the money supply during 1973, the slack in the economy that started in 1971 still continues, and increased government expenditure has been recommended by the 1973 IMF mission. In addition, the recent pressures for increased military and other current expenditures will place a

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TABLE II: CENTRAL GOVERNMENT: BUDGETARY EXPENDITURES, THEIR COMPOSITION AND FINANCING INCLUDING EXTERNAL ASSISTANCE FY 1969 - FY 1974

(Eth.$ Million) a/

	FY 1969	FY 1970	FY 1971	FY 1972	FY 1973	Budget FY 1974
EXPENDITURE						
1. Dev. Expenditure						
a. Recurrent	171	200	199	202	229	261
b. Capital	76	106	124	150	153	236
Total:	247	306	323	352	382	497
2. Admin & Unallocated Expenditure	289	279	308	320	335	361
3. Total Expenditure	536	585	631	672	717	858
FINANCING OF CAPITAL EXPENDITURE						
1. Current Revenue	471	503	546	563	625	676
Less Recurrent Expenditure	436	458	486	503	545	602
2. Current Surplus	35	45	60	60	80	74
3. Domestic Borrowing	30	20	15	22	10	25
4. Total Domestic Financing	65	65	75	82	90	99
5. Net External Loans & Grants b/	11	41	53	68	63	137
Total Financing of Cap. Expenditure	76	106	128	150	153	236

Source: Ministry of Finance, Ministry of Planning and Development, AID staff

a/ All figures are rounded to the nearest $1 million.
b/ Includes the U.S.-AID Agricultural Sector Loan

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considerable burden on government revenue resources just by themselves. The present slack in demand for private credit, however, should allow the government to borrow substantial amounts without incurring unreasonable credit costs.

Table III. IEG NET DOMESTIC BORROWING
(Eth.$ Million)

	FY 69	FY 70	FY 71	FY 72	FY 73	FY 74	FY 75
IEG budget	40	29	38	18	25	25	37
IEG budgetary actuals	30	20	11	22	10		

At present, public borrowing is almost entirely short-term borrowing and the possibilities for long-term borrowing from the non-banking sector are small unless the terms of lending are drastically improved. In fact a general problem in the financial sector is its inability to attract long-term funds from the private sector. The World Bank has recommended a general increase in interest rates to serve dual purposes of attracting savings and discouraging demand for speculative credit. However, the IEG has resisted this with the argument that expansion of branch banking is the better approach to increased savings.

C. Allocation of Resources

As can be seen from Table II, total expenditures on development surpassed administrative (including defense) expenditures for the first time in FY 1970. In FY 1973 development expenditures were 14 percent higher than administrative expenditure, and reached 53 percent of the total budget. Through FY 1974, the most significant aspect of this allocation of resources toward development has been the government's determination to increase the current surplus for the financing of the capital budget. As a consequence the share of the surplus in capital budget financing remained at about 50% between FY 1969 and FY 1973. This increase in the current surplus has been created primarily through restraint in the growth of administrative expenditure. However, the recent pressures for increased military and other expenditures will almost surely dampen the growth of the current surplus and force the government to increased domestic borrowing if it is to maintain the growth of development expenditures.

Table IV gives a more detailed breakdown of government expenditures for the period FY 1971 to FY 1974. As can be seen, defense and security expenditures have been held to a very modest increase over the last few years. On the other hand, current expenditures on education and infrastructure have recorded large increases.

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Table IV. SECTORAL BREAKDOWN OF BUDGETARY EXPENDITURES FY 1971-74

(Eth.$ Million)

	FY 1971	FY 1972	FY 1973	Budget FY 1974
1. Ordinary Expenditures	507.1	521.5	563.1	620.9
General Services	251.8	260.8	271.6	281.5
General Government	25.9	28.1	28.7	29.3
Defence & Security	193.6	198.3	205.4	207.3
Econ. Services	51.1	63.7	70.9	77.9
Agriculture	14.6	25.0	26.3	24.1
Mining, Industry, Commerce and Tourism	5.9	6.7	7.5	10.0
Public Works, Infrastructure and Communications	30.7	32.0	37.8	43.8
Social Services	148.2	138.7	156.1	182.6
Education and Culture	110.1	100.2	111.8	129.9
Public Health	31.1	30.1	35.1	43.3
Unallocated	56.0	58.4	63.8	78.9
Interest on Public Debt	14.2	16.0	17.3	23.6
2. Capital Expenditures	124.3	150.0	153.1	236.3
Econ. Development	103.9	116.0	117.7	188.6
Public Works, Infrastructure & Communications	57.3	56.4	54.1	96.7
Agriculture	20.0	33.1	32.8	48.8
Mining, Commerce, Industry and Tourism	13.2	19.2	16.8	23.6
Social Development	19.0	27.1	33.5	42.5
Education	7.7	13.6	24.1	25.9
Public Health	9.8	12.2	8.8	14.6
Total Expenditures	631.4	671.5	716.3	857.2

Source: IEG publication of budgetary revenues and expenditures.

Expenditure on physical infrastructure will continue to receive a large share of the capital budget until the large needs for transportation, communication and power have been satisfied. However, the IEG is now placing high priority on the production and social infrastructure sectors of agriculture and education, respectively, and their shares of the capital budget are increasing substantially.

ANNEX III. BALANCE OF PAYMENTS AND FOREIGN EXCHANGE POSITION AND USE

The period of high growth in the early 1960's, followed by lower growth during the late 1960's and early 1970's, reflects the behavior of export receipts. Export receipts here in turn have been dominated by coffee export earnings, which account for 50-60% of Ethiopia's exports. In the first half of the 1960's (1961-1965), total export receipts increased at over 9% per year as a result of rising coffee exports. Coffee prices fell in 1966, and the value of coffee exports was still below the 1965 level in 1971. Non-coffee exports increased only slowly in the second half of the 1960's, thanks partly to the closure of the Suez Canal in 1967, but also to the absence of a vigorous export diversification program, with the result that overall exports grew at a rate of 2% per year from 1965 to 1971.

In 1972 exports increased by 22% due to high prices for all major exports, particularly oilseeds and livestock products. Ethiopia continued to benefit from strong world commodity demand in 1973. Although the 1973 trade figures are not available, foreign exchange reserves rose from $100 at the end of 1972 to over $200 million (equivalent to about 12 months' imports) at the end of 1973. Higher oil prices may restrain exchange growth even though export prices are expected to remain firm through the remainder of 1974. Since crude petroleum and petroleum products account for roughly 10% of imports, or about US $20 million, recent oil price increases will add US $35 million to Ethiopia's import bill in 1974. The most recent balance of payments statistics are shown in Table I.

In spite of the low growth of exports until recently Ethiopia's balance of payments since 1960 has been in deficit only in 1966 and 1967, and 1970 and 1971. This is largely a result of conservative monetary and fiscal policies which, among other reasons, have tended to hold down demand for imports. The conservative policies of the National Bank of Ethiopia (NBE) were also evident in Ethiopia's decision not to follow the US dollar devaluations of December 1971 and February 1973. The NBE has preferred to partially shield the domestic price level from higher import costs in order to maintain confidence in the Ethiopian dollar which was established only in 1945 after failures dating back to 1894 to supplant the Austrian Maria Theresa thaler with a national currency.

Table II presents a breakdown of the use made of the free foreign exchange held by the National Bank of Ethiopia (NBE). Although the NBE issues import licenses and controls other conversions to foreign exchange as well, the IMF regards Ethiopia as generally following a liberal trade and payments policy.

TABLE I: BALANCE OF PAYMENTS
(Eth.$ million)

		CY 1966	CY 1967	CY 1968	CY 1969	CY 1970	CY 1971	CY 1972
A.	GOODS & SERVICES	-111.5	- 93.8	-107.2	- 50.4	- 98.9	-134.1	- 20.9
	Exports (f.o.b.) 1/	280.7	257.3	274.9	300.8	307.3	315.1	385.3
	Coffee	(156.0)	(139.5)	(153.3)	(174.0)	(181.3)	(175.2)	(182.5)
	Others	(124.7)	(117.8)	(121.6)	(127.5)	(126.0)	(139.9)	(202.8)
	Imports (c.i.f.)	-404.4	-357.8	-432.4	-388.2	-429.1	-469.7	-435.6
	Trade Balance	-123.7	-100.5	-157.5	- 87.4	-121.8	-154.6	- 50.3
	Net Travel & Trans.	8.2	18.5	36.1	34.2	32.9	34.5	44.6
	Investment Income (net)	- 12.7	- 17.1	- 22.5	- 20.2	- 17.2	- 29.2	- 44.2
	Gov't n.i.e. (net)	13.2	10.0	9.6	14.4	16.3	24.1	29.8
	Other Services (net)	2.5	- 6.2	24.6	5.6	- 10.8	- 12.9	- 4.4
	Net Services	11.2	5.2	47.8	34.0	21.2	16.5	25.8
B.	TRANSFER PAYMENTS	29.7	15.8	29.4	27.9	20.0	22.5	40.6
	Private (net)	0.3	- 10.1	- 6.0	- 7.5	- 6.6	- 4.4	6.4
	Public (net)	29.4	23.9	35.4	35.4	26.6	26.9	34.2
C.	BALANCE ON CURRENT ACCT	- 81.8	- 78.0	- 77.8	- 22.5	- 78.9	-111.6	19.7
D.	NON-MONETARY CAPITAL	72.3	33.2	75.3	31.7	45.0	102.6	75.7
	Private (net)	16.0	6.8	16.1	- 5.0	28.1	36.6	30.4
	Public (net)	56.3	26.4	59.2	36.7	16.9	66.0	45.3
E.	NET ERRORS & OMMISSIONS	1.6	1.4	10.3	1.9	- 8.4	- 7.6	- 9.4
F.	MONETARY SECTORS (INCREASE -)	7.9	43.4	- 7.8	- 11.1	42.3	16.7	- 86.0

Sources: National Bank of Ethiopia and IMF, Balance of Payments Yearbook

1/ Includes non-monetary gold

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Table II. USE OF ETHIOPIAN FREE FOREIGN EXCHANGE HELD BY THE NATIONAL BANK OF ETHIOPIA

		1971	1972	1973
I.	Commodity Imports	411,926	370,386	422,637
	1. Food	29,629	16,635	16,543
	2. Beverages & Tobacco	6,762	8,858	9,173
	3. Textile Fibre	14,785	11,679	14,443
	4. Textile Products	35,710	32,616	36,246
	5. Machinery	79,278	74,082	76,312
	a) Industrial	45,043	45,677	48,787
	b) Agricultural	14,933	10,584	8,896
	c) Electrical Appliances	12,414	10,878	9,904
	6. Transport Equipment	50,836	49,168	53,548
	Road Motor Vehicles	40,767	37,870	44,903
	7. Petroleum & Petroleum Products	32,481	31,848	34,643
	8. Other Imports	162,445	145,500	181,729
	a) Metal & Manufactures	38,173	29,965	39,354
	b) Chem.Prods & Fertilizers	25,992	22,299	38,504
	c) Rubber & Products	17,080	18,538	16,876
	d) Medical & Pharmaceutical	13,059	11,121	13,853
	e) Paper & Paper Products	11,809	10,846	16,876
	f) Others	56,332	52,031	56,266
II.	Invisible Payments	150,804	140,665	162,977
	1. Travel	16,011	15,696	17,823
	2. Investment & Interest	36,532	36,570	42,592
	a) Dividends & Profits	10,564	17,816	17,964
	b) Interests on Gov. Loans	18,910	16,494	22,374
	3. Diplomatic	4,450	5,764	6,448
	4. Services	13,159	10,771	12,589
	5. Transfers	52,056	47,065	53,520
	a) Migrants	37,663	33,391	40,085
	b) Salary	7,374	6,582	6,238
	c) Educational	4,395	4,666	4,949
	6. Loan Repayments	28,596	24,799	30,005
	Gov. Loans	22,218	19,322	24,203
	TOTAL	562,730	511,051	585,614

Source: National Bank of Ethiopia

CHECKLIST OF STATUTORY CRITERIA

In the right-hand margin, for each item, write answer or, as appropriate, a summary of required discussion. As necessary, reference the section of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed.

The following abbreviations are used in the checklist:

FAA - Foreign Assistance Act of 1961, as amended

FAA, 1973 - Foreign Assistance Act of 1973

App. - Foreign Assistance and Related Program Appropriation Act, 1974

MMA - Merchant Marine Act of 1936, as amended.

I. FULFILLMENT OF STATUTORY OBJECTIVES

A. Needs Which the Loan is Addressing

1. FAA Section 103. Discuss the extent to which the loan will alleviate starvation, hunger and malnutrition, and will provide basic services to poor people enhancing their capacity for self-help.

This loan, as a macro tool, will help assure adequate funding for the Agricultural Sector. Inclusion of selected problem areas in the undertaking section will assure attention to policies and programs to increase small farmer production and incomes which in turn will affect the quality of their lives. (See Section III A of CAP).

2. FAA Section 104. Discuss the extent to which the loan will increase the opportunities and motivation for family planning, will reduce the rate of population growth, will prevent and combat disease, and will help provide health services for the great majority of the population.

Not Applicable.

3. FAA Section 105. Discuss the extent to which the loan will reduce illiteracy, extend basic education, and increase manpower training in skills related to development.

Not Applicable.

4. FAA Section 106. Discuss the extent to which the loan will help solve economic and social development problems in fields such as transportation, power, industry, urban development and export development.	Not applicable
5. FAA Section 107. Discuss the extent to which the loan will support the general economy of the recipient country or will support development programs conducted by private or international organizations.	Not applicable

B. Use of Loan Funds

1. FAA Section 110. What assurances have been or will be made that the recipient country will provide at least 25% of the costs of the entire program, project or activity with respect to which such assistance is to be furnished under Sections 103-107 of the FAA?	The IEG will contribute sums greatly exceeding 25% of the total project activity. See table VIII of the CAP. The total IEG FY 1975 Published Budget is E $43 million of which E $23 million will be provided by the IEG.
2. FAA Section 111. Discuss the extent to which the loan will strengthen the participation of the urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.	Not applicable

3. FAA Section 112. Will any part of the loan be used to conduct any policy training or related program (other than assistance rendered under Section 515 (c) of the Omnibus Crime Control and Safe Streets Act of 1968 or with respect to any authority of the Drug Enforcement Administration of the FBI) in a foreign country?

No.

4. FAA Section 113. Describe the extent to which the programs, projects or activities to be financed under the loan give particular attention to the integration of women into the national economy of the recipient country.

Not applicable

5. FAA Section 114. Will any part of the loan be used to pay for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?

No.

II. COUNTRY PERFORMANCE

A. Progress Toward Country Goals

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

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

The forthcoming Fourth Five-Year Plan puts major stress on increased food production and improved marketing of agricultural products, and allocates a considerably higher level of projected expenditures for agriculture than in the past.

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

Ethiopia provides tax holidays and duty-free entry privileges to foreigners investing in needed development projects.

(c) Increasing the people's role in the developmental process	The IEG is now embarking on a pilot rural education program and an experimental local government improvement program which will provide educational opportunities to an increasing number of rural inhabitants and give a greater role in the decision-making that effects their lives.
(d) Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs	About 23% of the country's FY 1974 budget has been devoted to defense and security purposes. Such expenditures are considered reasonable and necessary.
(e) Willing to contribute funds	See Section III and table VIII of the CAP.
(f) Making economic, social and political reforms such as tax collection improvements and changes in land tenure arrangement, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.	Recent events in Ethiopia signal that a CROSS roads has been reached. The new government is apparently taking a more serious view of the view held by the majority of the people that changes toward equality are overdue. Total domestic revenues, while low at about 11% of GDP, has been improving. Increases over the past 4 years have averaged about 8%. (see CAP Annex II p.1). There is more freedom of expression now than ever before, both via radio and TV as well as the press. **(See CAP Section III, p. 21 regarding land tenure).**

(g) Responding to the vital economic, political and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

The IEG has strengthened its commitment to development in recent years and has shown a new willingness to take meaningful self-help measures in order to carry out the forthcoming Fourth Five-Year Plan.

B. Relations with the United States

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

No such indebtedness is known to exist.

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

Not applicable

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

(a) No

(b) No

(c) No

six months have elapsed, what steps, if any, has it taken to discharge its obligations?

4. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S.property, and failed to take appropriate measures to prevent a recurrence and to provide adequate compensation for such damage or destruction? — No

5. FAA Sec. 620(l). Has the government instituted an investment guaranty program under FAA Sec. 221(b)(1) and 234(a)(1) for the specific risks of inconvertibility and expropriation or confiscation? — Yes

6. FAA Sec. 620(o). Fisherman's Protective Act of 1954, as amended, Section 5. Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters? If, as a result of a seizure, the USG has made reimbursement under the provisions of the Fisherman's Protective Act and such amount has not been paid in full by the seizing country, identify the documentation which describes how the withholding of assistance under the FAA has been or will be accomplished. — No

7. FAA Sec. 620(q). Has the country been in default, during a period in excess of six months, in payment to the U.S. on any FAA loan? — No

8. FAA Sec. 620(t). Have diplomatic relations between the country and the U.S. been severed? If so, have they been renewed? — No, to the first question. Second question not applicable.

C. Relations with Others Nations and the UN

1. FAA Sec. 620(i). Has the country been officially represented at any international conference when that representation included planning activities involving insurrection or subversion directed against the U.S. or countries receiving U.S. assistance?

No

2. FAA Secs. 620(a), 620(n). Has the country sold, furnished or permitted ships or aircraft under its registry to carry to Cuba or North Vietnam items of economic, military or other assistance?

No

3. FAA Sec. 620(u); App. Sec. 107. What is the status of the country's U.N. dues, assessments, or other obligations? Does the loan agreement bar any use of funds to pay U.N. assessments, dues or arrearages?

Ethiopia is not in arrears in its obligations to the UN. The loan agreement will restrict the loan funds to the development of Ethiopia's agricultural sector.

D. Military Situation

1. FAA Sec. 620(i). Has the country engaged in or prepared for aggressive military efforts directed against the U.S. or countries receiving U.S. assistance?

No

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

About 23% of the country's FY 1974 budget is devoted to defense and security purposes. Little foreign exchange has been used to acquire military equipments since most has been grant financed under U.S. MAP. Ethiopia is not diverting United States economic assistance nor its own resources to unnecessary military expenditures," and has not been spending its funds on sophisticated weapons systems.

(2) Is the country diverting U.S. development assistance or PL 480 sales to military expenditures?

No

(3) Is the country diverting its own resources to unnecessary military expenditures. (Findings on these questions are to be made for each country at least once each fiscal year and, in addition, as often as may be required by a material change in relevant information).

No

III. CONDITION OF THE LOAN

A. General Soundness

Interest and Repayment

1. FAA Secs. 201(d), 201(b)(2). Is the rate of interest excessive or unreasonable for the borrower? Are there reasonable prospects for repayment? What is the grace period interest rate; the following period interest rate? Is the rate of interest higher than the country's applicable legal rate of interest?

The loan terms are low and reasonable. There are reasonable prospects for repayment. The grace period interest rate is 2% followed by an interest rate of 3% for the duration of the loan. The answer to the last question is no.

Financing

1. FAA Sec. 201(b)(1). To what extent can financing on reasonable terms be obtained from other free-world sources, including private sources within the U.S.?

Concessional financing not believed available for purposes of this loan from other free world sources. Need for concessional terms, size and purpose of loan preclude consideration of other private or official U.S. sources.

Economic and Technical Soundness

1. FAA Secs. 201(b)(2), 201(e). The activity economicly and technically sound; does the loan application, together with information and assurances, indicate that funds will be used in an economically and technically sound manner?	Yes, See Sections II and III of the CAP.
2. FAA s611(a)(1). Have engineering, financial, and other plans necessary to carry out assistance, and a reasonable firm estimate of the cost of assistance to the U.S., been completed?	Yes, as applicable See Section III D of the CAP for financial plan.
3. FAA s611(b); App. §101. If the loan or grant is for a water or related land-resources construction project or program, do plans include a cost-benefit computation? Does the project or program meet the relevant U.S. construction standards and criteria used in determining feasibility?	Not applicable
4. FAA s611(c). If this is a Capital Assistance Project with U.S. financing in excess of $1 million, has the principal A.I.D officer in the country certified as to the country's capability effectively to maintain and utilize the project?	Not applicable

B. Relation to Achievement of Country and Regional Goals

Country Goals

1. FAAs207, 281(a). What is this loan's relation to:

(a) Institutions needed for a democratic society and to assure maximum participation on the part of the people in the task of economic development?	The main purpose of the Loan is to stimulate agricultural development. This should contribute to a closer relationship between the Government and farmers and to greater popular interest in development.

(b) Enabling the country to meet its food needs both from its own resources and through development, with U.S. help, of infrastructure to support increased agricultural productivity?	This is the primary purpose of the loan. See Section III A and Annex I of Sector Loan Paper.
(c) Meeting increasing need for trained manpower?	Training will be an important aspect of many of the projects financed with the local currency loan proceeds.
(d) Developing programs to meet public health needs?	Increased food production resulting from the loan should decrease malnutrition.
(e) Assisting other important economic, political, and social development activities, including industrial development, growth of free labor unions; cooperatives and voluntary agencies; improvement of transportation and communication systems; capabilities for planning and public administrator; urban development; and modernization of existing laws?	**The IEG forthcoming five-year plan includes provisions for construction of rural feeder roads; rural credit and increased agricultural production.**
2. <u>FAA s201(b)(4)</u>. Describe the activity's consistency with and relationship to other development activities, and its contribution to realizable long-range objectives.	**The activity is essential in providing budgetary support to capital and other agricultural development activities in the forthcoming Five Year Plan. See Sections: II D and E of CAP.**
3. <u>FAA s201(b)(9)</u>. How will the activity to be financed contribute to the achievement of self-sustaining growth?	**The activity is designed to support the fourth five year plan and help to overcome constraints to sustained key Ethiopian growth and development. See Annex Ic of CAP.**

4. FAA s201(f). If this is a project loan, describe how such project will promote the country's economic development, taking into account the country's human and material resource requirements and the relationship between ultimate objectives of the project and overall economic development.

This activity assures an increasing share of IEG resources being devoted to agricultural development, the sector which dominates Ethiopia's economy.

5. FAA s201(b)(3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

See Section III of CAP.

6. FAA s281(b). How does the program under which assistance is provided redognize the particular needs, desires, and capacities of the country's people; utilize the country's intellectual resources to encourage institutional development; and support civic education and training in skills required for effective participation in political processes.

See comment for item III-B-1 (a through e) of this checklist.

7. FAA s601(a). How will this loan encourage the country's efforts to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions?

This loan will accelerate economic growth and thus enlarge the country's trading capabilities. The IEG has agreed to undertake certain qualitative undertakings which will help overcome constraints to increased outputs and promote greater equity in the agricultural sector. See Section III B of CAP.

8. FAA §202(a). Indicate the amount of money under the loan which is: going directly to private enterprise; going to intermediate credit institutions or other borrowers for use by private enterprise; being used to finance imports from private sources; or otherwise being used to finance procurements from private sources.	**Not Applicable.**
9. FAA §611(a)(2). What legislative action is required within the recipient country? What is the basis for a reasonable anticipation that such action will be completed in time to permit orderly accomplishment of purposes of loan?	**This loan must be approved by the IEG parliament. This action is anticipated within a reasonable time.**

Regional Goals

1. FAA §619. If this loan is assisting a newly independent country, to what extent do the circumstances permit such assistance to be furnished through multilateral organizations or plans?	**Not Applicable.**
2. FAA §209. If this loan is directed at a problem or an opportunity that is regional in nature, how does assistance under this loan encourage a regional development program? What multilateral assistance is presently being furnished to the country?	**First question not applicable. Multilateral assistance is being furnished to Ethiopia by the IBRD and the UN (WHO, UNESCO, UNICEF, UNDP, FAO). See Section II-E and Annex I-F of CAP.**

C. Relation to U.S. Economy

Employment, Balance of Payments, Private Enterprise.

1. FAA §§201(b)(6); 102. What are the possible effects of this loan on U.S. economy, with special reference to areas of substantial labor surplus? Describe the extent to which assistance is constituted of U.S. commodities and services, furnished in a manner consistent with improving the U.S. balance of payments position.

Not applicable, loan consists of direct local currency purchase.

2. FAA §§612(b); 636(h). What steps have been taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. and local currencies contributed by the country are utilized to meet the cost of contractual and other services, and that U.S. foreign owned currencies are utilized in lieu of dollars?

U.S.-owned local currencies are not available. IEG planned budgetary provisions for FY 1974 include 23.4 million Eth $ local currency.

3. FAA §601(d); App. §108. If this loan is for a capital project, to what extent has the Agency encouraged utilization of engineering and professional services of U.S. firms and their affiliates? If the loan is to be used to finance direct costs for construction, will any of the contractors be persons other than qualified nationals of the country or qualified citizens of the U.S.? If so, has the required waiver been obtained?

Not Applicable.

4. FAA §608(a). Provide information measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.

Excess property is not deemed appropriate for the project.

5. FAA §602. What efforts have been made to assist U.S. small business to participate equitably in the furnishing of commodities and services financed by this loan?

Not applicable. There will be no U.S. procurement under the loan.

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

Not applicable. The loan does not provide technical assistance.

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

Not Applicable.

8. FAA §601(b). Describe the efforts made in connection with this loan to encourage and facilitate participation of private enterprise in achieving the purposes of the Act.

Not Applicable.

Procurement

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

Not Applicable.

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

Not Applicable.

3. FAA §604(e). Will any part of this loan be used for procurement of any agricultural commodity or product thereof outside the U.S. when the domestic price of such commodity is less than parity?

No.

4. FAA §604(f). Will the agency receive the necessary pre-payment certification from suppliers under a commodity import program agreement as to description and condition of commodoties, and on the basis of such, determine eligibility and suitability for financing?

Not Applicable.

D. Other Requirements

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

Yes.

2. App. §105. Does the loan agreement provide, with respect to capital projects, for U.S. approval of contract terms and firms?

Not Applicable.

3. FAA §620(k). If the loan is for construction of a production enterprise, with respect to which the aggregate value of assistance to be furnished will exceed $100 million, what preparation has been made to obtain the express approval of the congress?

Not Applicable.

4. FAA §620(b), 620(f); Has the President determined that the country is not dominated or controlled by the international Communist movement? If the country is a Communist country (includin but not limited to, the countries listed in FAA §620(f)) and the loan is intended for economic assistance, have the findings required by FAA §620(f) and App. §109(b) been made and reported to the Congress?

Ethiopia is not a communist or communist-dominated country.

5. FAA Section 620(h). What steps have been taken to insure that the loan will not be used in a manner which, contrary to the best interest of the United States, promotes or assists the foreign aid projects of the Communist-bloc countries?

The loan agreement will include a clause against comingling.

6 FAA Section 636(i). Will any part of this loan be used in financing non-U.S. manufactured automobiles? If so, has the required waiver been obtained?

No.

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

No.

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

Not Applicable.

9. App. Section 103. Will any funds under the loan be used to pay pensions, etc., for persons who are serving or who have served in the recipient country's armed forces?

No.

10. MMA Section 901.b. Does the loan agreement provide for compliance with U.S. shipping requirements that at least 50% of the gross tonnage of all commodities financed with funds made available under this loan (computed separately by geographic area for dry bulk carriers, dry cargo liners, and tankers) be transported on privately-owned U.S. flag commercial vesseles to the extent such vessels are available at fair and reasonable rates for U.S. flag vessels and that at least 50% of the gross freight revenue generated by all shipments financed with funds made available under this loan and transported on dry cargo liners be paid to or for the benefit of privately-owned U.S. flag commercial vessels?

Not Applicable.

11. FAA Section 481. Has the President determined that the recipient country has failed to take adequate steps to prevent narcotic drugs produced or procured in, or transported through, such country from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents or from entering the United States unlawfully?

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

12. App. Section 110. Is the loan being used to transfer funds to world lending institutions under FAA Sec. 209(d) and Sec. 251(h)?

No.

13 App. Section 601. Are any of these funds being used for publicity or propaganda within the United States?

No.

14. FAA Section 612(d) and Section 40 of PL 93 189 (FAA of 1973). Does the United States own host country excess foreign currency and, if so, what arrangements have been made for its release in compliance with Section 40 (FAA of 1973)?

No.

15. FAA Section 604(d). Will provisions be made for placing marine insurance in the U.S. if the recipient country discriminates against any marine insurance company authorized to do business in the U.S.?

Not Applicable.

16. Section 29 of PL 93 - 189 (FAA of 1973). Is there a military base located in the recipient country which base was constructed or is being maintained or operated with funds furnished by the U.S., and in which U.S. personnel carry our military operations? If so, has a determination been made that the government of such recipient country has, consistent with security, authorized access to such military base on a regular basis to bona fide news media correspondents of the U.S.

(A). Yes.

(B). IEG places no restrictions on access to such U.S. Military base.

17. FAA Section 640(c). Will a grant be made to the recipient country to pay all or part of such shipping differential as is determined by the Secretary of Commerce to exist between U.S. foreign flag vessel charter or freight rates?

Not Applicable.

18. App. Section 113. Will any of the loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?	No.
19. App. Section 114. Have the House and Senate Committees on Appropriations been notified five days in advance of the availability for obligation of funds for the purposes of this project?	Yes.

DEVELOPMENT ASSISTANCE LOAN AUTHORIZATION

Provided from: Development Loan Funds
Ethiopia-Agricultural Sector Loan IV

Pursuant to the authority vested in the Administrator of the Agency for International Development ("A.I.D.") by the Foreign Assistance Act of 1961, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title I, the Development Loan Fund to the Imperial Ethiopian Government by an amount not to exceed fifteen million dollars ($15,000,000) to provide local currency funds for the development of the Agricultural Sector subject to the following terms and conditions:

1. Interest and Terms of Repayment. The interest on the amount of this loan shall be three percent (3%) per annum on the disbursed balance of such amount, except during the grace period when the interest shall be two percent (2%) per annum. The loan shall be repaid within forty (40) years from the date of the first disbursement under the loan including a grace period of not to exceed ten (10) years.

2. Currency of Repayment. Payments of principal and interest with respect to the amount of the loan shall be made in United States dollars.

3. Other Terms and Conditions.

(a) The I.E.G. shall adopt and execute those policy and program measures which will help overcome the constraints to increased output and greater equity in the agricultural sector in the following areas:

Equitable land ownership and tenure.

Rural roads.

Expansion of small farmer production.

(b) The I.E.G. shall assure that its self-financed development expenditures on the agricultural sector (as mutually defined by the I.E.G. and A.I.D.) in Ethiopian FY-1967 and FY-1968 (U.S.

FY-1975 and FY-1976) increase over those of Ethiopian FY-1966 and FY-1967 (U.S. FY-1974 and FY-1975), respectively, at least by eight percent.

(c) The I.E.G. shall assure that its self-financed development expenditures in Ethiopia FY-1967 and FY-1968 (U.S. FY-1975 and FY-1976) increase over those of Ethiopian FY-1966 and FY-1967 (U.S. FY-1974 and FY-1975), respectively, at least by seven percent.

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

Administrator

Date