

1974 DEVELOPMENT ASSISTANCE PROGRAM

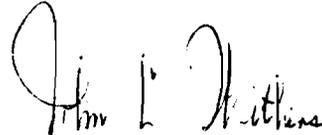
(DAP)

April, 1974

INTRODUCTION

This is AID's 1974 Development Assistance Program (DAP) for Ethiopia. All of the final work on preparing the document was done in Addis Ababa. However, it is based on full and detailed consultation between representatives of Washington and the field and reflects mutual agreement on AID strategy and goals. It has been reviewed in its entirety by the Charge d'Affaires of the U.S. Embassy in Ethiopia who has indicated the assistance strategy and directions therein are in accord with U.S. policy for Ethiopia. The program content of the DAP has been reviewed by the central ministries of the Ethiopian government which have indicated that it is both acceptable and consistent with current IEG plans.

As preparation of this DAP was begun, political unrest broke out in Ethiopia. The extent of economic and social change that this will lead to cannot, of course, be known by us now. However, we believe the IEG's basic development objectives and strategy lines reflected in the DAP will remain valid, and that the DAP will continue to serve its intended purpose of a multi-year framework for future AID assistance. In the event the IEG subsequently makes any important adjustments in its priorities or programs relative to the broader objectives, we will submit an amendment to the DAP at that time.



John L. Withers
Director

April, 1974

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A. Development Overview

1. Setting - The Ethiopian Context

a. History and Tradition

Comprising an area of 1.2 million km.² on the Horn of Africa about the combined size of Texas, New Mexico, and Oklahoma, Ethiopia lies just north of the equator and is bounded by the Sudan on the north and west, by Kenya on the south, and on the east by Somalia, the Red Sea, and the small French Territory of the Afars and Issas.

Present-day Ethiopia is a product of its unique geography and history to which it yet remains closely linked. The central portion of Ethiopia is comprised of rugged highland plateau bisected by the Great Rift Valley and set apart from the surrounding desert-like lowlands by steep slopes and escarpments rising up to 3,200 meters in altitude. They served as a nearly impregnable mountain barrier to the incursions of Islam which swept the rest of northeast Africa after the 6th Century, and have continued to isolate the mountain kingdom from the tides of history until comparatively recent times. Ethiopia's geography has worked both to its advantage and disadvantage. The tableland itself is divided by the cuts of innumerable river gorges which act not only as barriers to invading armies, but also to local communications. They have worked for centuries to the advantage of isolated lords and long hindered the unification of the country. Even today most of the peasants living on this massive tableland have had little or no contact with the outside world, often not even with the people on the next plateau.

Historically, perhaps the most important single sociological event occurred in the 4th Century A.D. when the rulers of the Kingdom of Axum, and gradually all the peoples of the highlands, were converted to Christianity. The religion, linked to the belief in the divinely ordained position of the Emperor as the direct descendant of Solomon and Sheba, gave a common sense of purpose to the people of Axum and their descendants -- the still dominant Amhara-Tigre people -- in the face of repeated incursions of Muslims from the north and east and animists from the south. As a result, by the 10th Century, there had been created a Christian island in a Muslim sea that has lasted to the present day.

In their highland fortress between the 10th Century A.D. and expansion of the Empire under Menelik II in the latter 19th

Century, the Christian Amhara-Tigre peoples stood isolated from the remainder of the world. They successfully withstood first the invasions of the surrounding Muslim peoples, then internal religious dissention induced by Portuguese Roman Catholics, then expansion of the Galla peoples into the highlands from the south, and finally European colonial threats.

The history of external invasions helps explain the current diversity of the approximately 26 million people in Ethiopia. The dominant Amhara people constitute about 25% of the population, and it has been estimated that over half the population speaks the official Amharic language. Half are Christian, including the closely related Tigre people, rulers of the ancient Kingdom of Axum, who constitute another 8% of the population. The Galla constitute about 40% of the population but are divided politically and religiously, being comprised of Christian agriculturalists, Islamic cultivators and pastoral nomads. Estimates of the number of Muslims range between 20% and 40% of the population. The Somalis are the largest Muslim group and are politically important because of their association with the Somali Republic. Also of political importance are groups of Eritreans seeking independence for Eritrea.

As a result of its long history of warfare and isolation, Ethiopia today is still largely a proud, conservative, self-proclaimed Christian empire in which most political, military and religious power remains concentrated in the person of the Emperor. Events of February-March, 1974, may have altered this situation, but it is yet too soon to judge the full effects of this development. The Amhara-Tigre have traditionally assigned central importance to the military organization and the social rewards -- land and titles of nobility -- were awarded in regard to one's place in the military hierarchy. A title gave one the right to deference from those below him. Land, conquered or given as a gift by a regional king or the Emperor has provided not only a source of livelihood but also control over those who worked the land and an opportunity to build a local power base. The structure of Amhara-Tigre communities has thus been dominated by personalized patron-client relationships between the local lord, who possessed primary land rights, and his peasants, who possessed secondary land rights. Because of the significance of personalized ties and the relative autonomy of each isolated rural area, a collection of strong localized hierarchies has developed rather than a national class system.

Although Emperor Menelik II, in the early 1900's, opened the first government school, built the railroad between Addis and Djibouti and introduced telephones, a substantive effort toward modernization did not begin until after World War II under the direction of Emperor Haile Selassie I. Progress during the last three decades has been slow and cautious. A number of political and economic changes have been instituted and a small group of educated persons has emerged, but there has been little apparent change in the social order.

Government modernization began essentially when the original 1931 Constitution was revised in 1955 to provide for a Chamber of Deputies to be elected by universal adult suffrage every four years, and a Senate appointed by the Emperor. Further government advance was made in 1966 when the Emperor made a step toward decentralization by giving greater powers to the Council of Ministers, specifically the Prime Minister. Legislation may be initiated by the Emperor, Ministers or Parliament and must be approved by both Houses and the Emperor before becoming law. Nevertheless, by law and fact, ultimate power of decision has traditionally been in the hands of the Emperor. Since perhaps 1960, a small but growing educated minority has begun to create a pressure for more rapid modernization. The February-March, 1974, governmental crisis may have set in train a new set of pressures for modernization.

b. The Natural Resource Base

Agricultural land is the country's principal natural resource producing 50% of GDP and most of the country's exports. About 65% of the total land area is agricultural land, with permanent pasture constituting 56-58% and cultivated land only 7-9%. On the other hand, crops contribute about 70% of the value of agricultural output, and livestock, another significant resource, 25%. Forest land constitutes an additional 7% of total land contributing about 5% to agricultural GDP.

Most of the cropland lies in the highlands or in the lowland river valleys. In the western portions of the highland plateau are found the country's most productive reddish-brown soils and the most abundant rainfall. In the central and north-west portions, the rainfall is highly seasonal which has the effect of decreasing the productivity of the soils. The greatest underdeveloped agricultural potential lies somewhat lower in elevation in the southwestern section where the rainfall is

abundant and evenly distributed but where malaria and tsetse infestation have prevented any significant settlement. Nearly all the pasture land is located in the Great Rift Valley, the plains of the northeast, and the vast lowlands of the southeast where in general soils are poor, rainfall is small, and temperatures are high.

River water resources are important for the development of irrigation in such areas such as the lower Awash and Omo and Takaze river valleys, and for hydroelectric power as in the case of the dams on the Blue Nile tributary of Finchaa and the upper Awash.

The extent of the country's mineral wealth is as yet undetermined, but geological conditions suggest the presence of valuable mineral deposits especially in the lowlands. Minerals known to exist in some quantity include potash, salt, gold, platinum, iron ore, copper, manganese, nickel, asbestos, and natural gas. U.S. firms are now engaged in petroleum and natural gas exploration, and the Japanese have begun copper exploitation in Eritrea.

c. Level of Development

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, (US\$38 - urban about \$383 and rural about \$58), official aid receipts per capita (about US \$2). The life expectancy of about 40 years is near the median of the least developed.

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.

On the other hand, Ethiopia has about 7 acres of agricultural land per capita, equal to the Africa average which is high worldwide; properly farmed the fertile highlands are capable of producing many times the current output levels. During the 1960's Ethiopia achieved one of the highest GDP growth rates of the 25 least developed. Thus, although Ethiopia is at the bottom of the development scale, there is a basis for an expectation of further economic development.

2. Principal Non-Economic Factors Affecting Ethiopian Development

Because Ethiopia has only in the mid-20th Century 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 following discusses some of the most important aspects of these non-economic influences on development.

a. Environmental and Geographic

The different soil mixtures and climates of Ethiopia have created a multiplicity of ecological zones which place great demands on agricultural research and extension. For example, grains such as wheat, teff and barley grow in the cool highland zone. In the temperate highland zone, which is lower in elevation, are found corn, sorghum and millet, as well as the grains. Coffee and ensete do well in the southern portion of the temperate highland zone where the rainfall is greater. Cultivation in the hot lowlands is severely limited to tropical and semi-tropical produce grown in river valleys or with irrigation. In the northern highlands population pressure and poor cropping and grazing practices, coupled with stony soils, have led to serious erosion. These conditions have recently been exacerbated by a drought which has created a famine situation in Wollo and southern Tigre provinces. Drought has also been severe in southern Ethiopia. The problem requires not only immediate relief measures but also long term improvement of agricultural practices.

As has already been mentioned, the topography of the country is very rugged and there are resultant high costs for transportation and communication. Air transportation is virtually the only means of travel to and from foreign countries, and it still plays an important role in domestic transportation. The presently expanding system of trunk roads is providing improved regional links, however, 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

b. Cultural and Social

Some traditional cultural traits widespread in Ethiopian leadership tend to affect the pace of development. The highland social and political structure is very hierarchical with the Emperor at the top, and is characterized by patron-client relationships. This 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.

There are also several other consequences. First, the time between program identification and implementation is lengthened by the process that requires approval and authority to be obtained first from the top with directives passed down through the hierarchy step by step to the point of final action. This results in delay and inertia throughout the system. Second, the relatively insecure secondary land rights of the vast majority of peasants tend to discourage long-term investments in agriculture by farmers. Finally, those on top of the traditional hierarchy, the local elites, possess power and wealth on the basis of their primary land rights and hence tend to be conservative and resistant to social change, especially to agrarian reform.

The Ethiopian Orthodox Church is the official state-supported church and, historically, has always had a strong unifying and conservative influence on highland society. Although the Church once held rights to revenue from land estimated at between 25% and 40% of all land, it now holds rights to only a very small portion of this land, much of it belonging to self-supporting monasteries. The present income of the Church is mainly from rents on its various holdings.

While there is a significant liberalizing element in the Church, its conservatism continues to dominate, and since most Ethiopians appear strongly religious (both Christian and Moslem) religious dietary prohibitions are extremely influential. For example, more than 130 days each year are fasting days for devout Coptic adults -- contributing to poor nutrition.

The military has traditionally held a prominent place in Amhara-Tigre society. The present military organization, however, is based on modern concepts and is not a traditional institution. Personnel recruitment depends largely on voluntary enlistments which have been rather easily maintained at desired levels through provision of a higher than average standard of living, coupled with the continuing belief that military achievement is a way to higher social advantage. As an important element in the existing power base, the armed forces traditionally have not been a leading political influence. However, the coup attempt of 1960 and the recent military protests indicate that the military may be seeking a more active role.

One measure of the slow social change now occurring is the growth of the new but small group of western-educated, urban based elite. This group tends to place value on modern qualifications of competence and on more rapid development of the country. It tends to criticize the traditional conservatism of the Church and landed nobility. The new group measures wealth in terms of money rather than the traditional measures of land and cattle. Finally, the political power of this group is being increasingly derived from the new civil and administrative positions granted by the Emperor on the basis of modern qualifications rather than traditional patronage.

c. Government Institutions and Decision-Making Processes

The traditional government was the Emperor's court, and the loyal opposition of the nobles was based as much on their personal political and military power as on their hereditary landholdings. Such powerful men now sit on the Crown Council, and their informal, personal influence is still strong. Paralleling this traditional institution is the modern central government managed largely by persons loyal to the Emperor and based on the Constitution which the Emperor first handed down in 1931 and substantially revised in 1955 to create a Chamber of Deputies elected by popular vote.

The modern government, however, has continued the traditional concentration of authority in the Emperor, resulting in a decision-making bottleneck at the top. The most recent institutional reforms in this respect occurred in 1966 when the Emperor explicitly defined the powers of the central government ministries and delegated some power to the Council of Ministers headed by the Prime Minister, and in 1973 with the beginnings of a decentralized local administration program.

As a consequence of the recent political unrest and dissatisfaction with the Council of Ministers then in power, the Emperor has now authorized a constitutional commission to propose major revisions including among other things, making the Prime Minister responsible to Parliament. Parliament may gain power as a result, but since Parliament is now grounded in the landed aristocracy it is difficult to predict the impact of this on the political will to modernize. It is reasonably clear however, that the military, after being suppressed during the past 5 years by the previous Council, will assume an increased degree of political ascendancy vis-a-vis other elements in the society, in terms of articulating military interests within the political arena. A significant increase in the defense budget might well occur. How these changes will collectively affect the pace toward modernization is difficult to foresee.

d. Security

As a consequence of its long history of war and isolation, an overriding concern of the government is national security.

The tenuous relationship with the Somali Republic continues to be strained owing to border disputes which are of greater significance now because of natural gas discoveries and possible oil reserves in the disputed territory. There is also a long-standing tension between the two countries because of the Somali Republic's territorial claims to the French territory of Afars and Issas (FTAI) with its important port of Djibouti, a major outlet for Ethiopian trade, which is linked to Addis Ababa by the Franco-Ethiopian Railway. This tension exists even though in March 1967 the FTAI decided by referendum to continue its present status as a dependent territory of France.

The recent Arab-Israeli conflict created strained relations between Ethiopia and both combatants as the IEG maintained a neutral position until 1973 when it broke off diplomatic

relations with Israel. Friction between the Arabs and Ethiopia has been historical, and Arab support of the Eritrean Liberation Front has been a major problem during the past decade.

As a result of the recent Somali confrontation, the Arab support to Eritrean insurgents, the present political unrest and the obsolescence of IEG military equipment, Ethiopia now appears embarked over the next several years on a defense improvement program which might be financed at some expense to further rapid expansion of the government's various development programs. Because the new government is still in the process of formulating policies, which even then will be untested in the new political climate, it is too soon to predict what impact the expanded defense program will have on development. Whatever the result, it will be closely monitored by AID.

Within the diversified range of international affiliations created by the Emperor, Ethiopia has a very warm relationship with the U.S. However, the focus of Ethiopia's foreign policy is on Africa and the government has become increasingly active in recent years in African affairs. The headquarters of the UN Economic Commission for Africa and the Organization of African Unity are located in Addis Ababa in buildings donated by the Ethiopian government. The Charter of the Organization of African Unity was signed in Addis Ababa in 1963 largely as a result of Ethiopian efforts, and Emperor Haile Selassie has earned a place as one of the foremost leaders in the cause of African unity. On the other side of the coin, Ethiopia has become increasingly influenced by the rest of Africa, a group to which it has not historically been strongly attached. This influence is likely to grow stronger in the immediate years ahead.

3. Economic Development Since 1960

a. Growth Trends^{1/}

The Ethiopian economy has grown rather slowly during the 1960's and early 1970's. According to figures recently released by the IEG, the average annual growth rate (Gross Domestic Product at constant factor prices) during the period 1960/61 to 1972/73 was 4.4% (with a sectoral breakdown of agriculture: 2.3%; other commodities: 7.2%; trade and transportation: 8.8%; and services: 6.6%), although the growth rate during the second half of the period (3.9%) was significantly lower than the growth rate during the first half (4.8%). Given the estimated average annual population growth rate for the period of about 2.0%, per capita, GDP grew at about 2.4%

^{1/} This section draws heavily upon the IBRD's most recent economic report on Ethiopia (IBRD, "Recent Economic Performance and Future Prospects in Ethiopia, June 16, 1973).

per annum. At current prices, GDP in 1972/73 was Eth. \$4.8 billion (US \$2.3 billion), and per capita GDP was Eth. \$180 (US \$88). The economy underwent a gradual structural change as non-monetary GDP dropped from 55% of total GDP in 1960/61 to about \$40 in 1973/74, and agriculture's share of GDP declined from 68% to 50%, reflecting a low rate of growth of agricultural output averaging 2.3% per annum. The population growth rate has accelerated gradually to an estimated 2.4% per annum so that by the early 1970's agricultural production was not keeping up with population increases, and per capita GDP growth was less than 2.0% per annum.

The main factors underlying Ethiopia's 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 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.

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. (See table on Page 11) 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.

Ethiopia's Foreign Trade, 1961-1972
(Millions of Ethiopian Dollars)^{1/}

	<u>1961</u>	<u>1965</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
<u>Coffee Exports</u>	94	188	181	175	183
<u>Non-Coffee Exports</u>	95	102	125	139	201
Pulses	18	14	16	22	26
Oilseeds	15	25	32	38	55
Livestock Products	26	34	34	38	70
Other	36	29	43	41	50
<u>Total Exports</u>	189	290	306	314	384
<u>Imports</u>	236	376	429	470	436
<u>Deficit</u>	47	86	123	156	52

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.^{2/} 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.

Ethiopia's low growth rate is also related to a relatively low rate of savings and investment during the 1960's and early 1970's. Total fixed investment as a percentage of GDP has fluctuated in the 12-14% range since 1960 with no clear trend. Monetary fixed investment as a percentage of monetary GDP has

^{1/}Tables stated in Ethiopian dollars to avoid distortion due to changes in US dollar-Ethiopian dollar exchange rate.

^{2/}The exchange rate was Eth.\$2.50=US\$1.00 until December 1970; Eth.\$2.30=US\$1.00 until February 1973; and Eth.\$2.07=US\$1.00 subsequently.

ranged from 16 to 21 percent. The overall savings rate has been in the 10-12% range, and the monetary savings rate has been 13 to 17%. With respect to the private sector, the low rate of investment and savings reflects limited investment opportunities in the small, 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. For example, the number of commercial bank branches increased from 23 to 109 by 1972, and private deposits increased from Eth. \$156 million to \$414 million by the end of 1972 for an average annual growth rate of 13%. For comparison, gross domestic savings only grew at about 5% per annum during 1964-72. Despite this rapid growth, the banking system has not yet reached the bulk of the rural population. Although the banking habit has increased as indicated by the decline in the ratio of currency to total money supply, the ratio is still one of the highest in the world. The low savings rates 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.

IEG capital expenditures account for about one-fourth of total investment. While capital expenditures have tripled since the early 1960's, they have generally been well below five year plan targets. Capital expenditures are financed primarily by current budget savings (the difference between current revenue and current expenditures) and external assistance (with the exception of the "recession years" of 1967/68 and 1968/69, when both the current budget surplus and foreign borrowing dropped and the IEG had to resort to heavy domestic borrowing).

IEG Capital Expenditures and Their Financing, FY 1964-1974
(Millions of Ethiopian Dollars)

	<u>1964</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u> ^{1/}
Current Revenue	273	466	495	557	610
Current Expenditures	<u>235</u>	<u>406</u>	<u>434</u>	<u>477</u>	<u>536</u>
Current Budget Savings	38	60	60	80	74
Capital Expenditures	<u>61</u>	<u>112</u>	<u>126</u>	<u>130</u>	<u>204</u>
Deficit	23	51	66	50	130
Financing:					
Net Foreign Borrowing	18	40	44	40	105
Other Domestic Sources	5	11	22	10	25

^{1/} Preliminary budget to be revised after political developments of February-March, 1974.

Although revenues have increased more rapidly than GDP growth, the increase has only been from about 10% of GDP in the early 1960's to 12% at present, representing a relatively poor tax effort. Although IEG performance has been good with respect to direct taxes (one of the few Third Five-Year Plan objectives reached was the 12% annual increase in direct taxes), the big failure in taxation has been the large share and low growth of indirect taxes, much of which are derived from the uncontrollable and erratic foreign sector and which have been reduced because of the establishment of import substitution industries. In spite of this, the IEG has been able to double current budget savings since the early 1960's through increasing revenues and holding down the growth of current expenditures. However, capital expenditures have tripled with the result that the percentage of the capital budget financed by current budget savings has fallen from 60% to about 40% in the past decade. Unless offset by vigorous tax measures, military and other current expenditure increases will reduce this percentage further in fiscal years 1974 and 1975, forcing the IEG to resort more heavily to domestic borrowing to finance the capital budget.

The other important constraint on the growth of the IEG capital budget has been inadequate absorptive capacity, specifically an insufficiently rapid expansion in the IEG's project preparation and implementation capabilities. Nevertheless, in the last decade the IEG made significant progress in this respect through strengthening the planning and project monitoring staffs of the Ministry of Planning and Ministry of Finance, establishing planning and programming units in major ministries and agencies, continuing to expand the University and specialized training schools, re-organizing the Ministry of Agriculture, and establishing 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. Priorities and Progress during the Previous Three Development Planning Periods

Ethiopia has so far produced three five-year development plans. The first five-year development plan covered the period FY 1957-1961 but was later extended to include FY 1962. This plan gave high priority to the development of infrastructure and education. The total investment target was over-fulfilled, due almost entirely to over-fulfillment of the infrastructure

investment targets. The investment targets for the production sectors such as agriculture, mining and manufacturing were not met, however, and GDP growth during the plan averaged 3.2% per year as compared to the target of 3.7%.

The second five-year plan covered the period 1963-67 and was extended to cover the first half of 1968. It put greater emphasis on investment in directly productive sectors (manufacturing, mining, power development, etc.) and less on infrastructure. The total investment target was fulfilled and the annual growth rate was 4.6%, close to the targeted 4.7%. However, investment in agriculture and social services were less than half of the plan targets, whereas the investments in housing, industry, power and transportation exceeded their respective targets.

The third five-year development plan (TFYP) was formulated to cover the period FY 1968-1973 and was later extended to cover FY 1974. The TFYP had 4 major goals: a GDP growth rate of 6% per year (at constant prices); per capita income growth of over 3% annually; the building of a stronger foundation for development through increased education, increased knowledge of the national resources, and improved government administration; and, gradual improvement in income distribution among the population and the regions. Although there was reasonably good progress in the fields of education and government administration, it is doubtful whether there has been any significant improvement in personal or regional income distribution. As noted above, the overall growth rate during the TFYP has been slightly below 4%, and per capita GDP has grown at slightly over 1.5% per annum. Performance was adversely affected by several exogenous factors, particularly the closure of the Suez Canal in June 1967, the failure of large-scale potash exploitation to materialize due to low world market prices, and too low coffee prices.

Estimated actual investment during the first five years of the TFYP period was about 60 percent of planned investment, although this ratio for the extended period through mid-1974 should reach about 80%. With respect to individual sectors, estimated investment for the extended plan period should substantially exceed targets in agriculture and mining, roughly meet targets in education, transport and communications, and tourism, and fall short in manufacturing and health.

The TFYP period was particularly notable for the implementation of package agricultural development projects for small farmers with the assistance of Sweden (CADU - Chilalo Agricultural Development Unit) and the World Bank (WADU - Wolamo Agricultural Development Unit). These projects demonstrated the responsiveness of small farmers to the seed-fertilizer package and provided the basis for the design and initiation in 1972 of the Minimum Package Program (MPP). This program will embody the main thrust of the IEG's efforts to assist the small farmer throughout the remainder of the century.

4. IEG Development Policy - The 4th Five-Year Plan (FFYP)

a. Main Features of the FFYP

The IEG Fourth Five Year Plan (FFYP) was originally scheduled to cover the period July 1974 to July 1979 and to be published in June 1974; this will now be changed somewhat because of the political events of February-March, 1974. While the major lines of the FFYP are now under review by the new government, the IEG did provide a general statement of its planning goals to the Ethiopian Consultative Group (CG) in July 1973.^{1/} The overall plan objective stated at that time was to achieve a perceptible and steady increase in the well being of the people through rapid output growth ("attainment of the fastest possible rate of overall growth of the economy, consistent with efficient utilization of the Nation's human and natural resources") and improved equity ("ensuring that the benefits of social and economic development are even more equitably distributed among the population".)

Regarding the output goal, the target GDP growth rate for the FFYP period is 6.0% per annum, made up of a growth rate for agricultural output (which will account for 50% of GDP in 1974 and is expected to decline to 43.5% for GDP by 1979) of 3.1% and a growth rate for non-agricultural output of 8.5%.^{2/} To support these growth rates, the IEG estimates that exports will have to grow at 8.5% per annum during the FFYP period (or twice the growth rate of the previous decade), and domestic savings (private and public) at 9.2% per annum.

^{1/} IEG, "A General Framework for the Fourth Five Year Development Plan (1974/75 - 1978/79), June 1973.

^{2/} The target growth rates as stated in the IEG "General Framework" were 6.0-6.5%, 3.3% and 8.8%, respectively; these have been revised downward slightly based on subsequent analyses.

The IEG has not presented quantified targets for the equity goal. The "General Framework" however, specifies the most important subsidiary goals as "(i) creation of greater employment opportunities; (ii) instituting reforms in the land tenure system such that tenants get a fair share of the benefits of agricultural development; and (iii) in general, re-orienting development toward rural areas so that the majority of the Ethiopian people will begin to participate in overall development, and thereby also enhance their share in the fruits of development."

The major elements of the IEG strategy for achieving the output growth goals are stepped-up domestic resource mobilization, particularly through increased tax revenues, expansion of the IEG's capacity to identify, prepare and implement projects, expansion and intensification of the Minimum Package Program for small farmers, support for settlement schemes and commercial agriculture, and more vigorous export promotion. The major elements of the IEG strategy related to the equity goals are promotion of low-cost settlement, changes in monetary and fiscal policies to correct factor-price distortions and encourage labor-intensive techniques, land tenure improvement, and greater emphasis on rural areas in the fields of education, health, roads, water supply, etc. The framework for rural development efforts would be provided by the "awraja" (sub-province) self-administration program which would encourage broader participation in development through decentralizing a delimited amount of government decision-making to the awraja level.^{1/}

b. Preliminary Donor Assessments of the FFYP

The "General Framework" presented to the CG represents a significant shift in IEG policy toward greater concern with employment generation and improved income distribution based on rural development and export-led growth in contrast to commercial agriculture and import-substitution. The donor reaction to this policy shift has been highly favorable, although the degree of actual IEG commitment is, of course, difficult to judge in the absence of the final FFYP documents. The preliminary donor assessment, as reflected in comments at the CG meeting, was that the emphasis on investments in agriculture, education and export growth was appropriate and sound, but that the Plan's output and equity goals are very ambitious,

^{1/} See the monograph prepared by AID consultant, Cohen, John M., "Local Government Reform in Ethiopia", U.S.A.I.D., Washington, D.C., 1974, for a complete analysis of this program.

(e.g., the growth target for agriculture represents at least a 40% improvement in the 2.2% growth rate achieved over the past decade), and that their achievement will require a strong IEG commitment to the FFYP goals and strategies and adequate technical and financial assistance inputs from aid donors.

There are of course differences among the IEG and donors on some matters. With respect to the output goals, the donors stressed the need for new and increased taxes and higher interest rates for the sufficient mobilization of internal resources, improved coordination of fiscal and monetary policies including the expanded use of domestic deficit financing, better foreign assistance coordination, substantial increases in trained manpower at all levels, the use of a flexible exchange rate policy or a combination of export subsidies and import charges as a means of spurring export growth, a larger role for small-scale industry, inclusion of a population program, and improved IEG capacity to identify, prepare and implement projects.

With respect to the equity goals, donors emphasized the importance of early action on tenancy reform, that assistance be directed primarily to small farmers, and that the FFYP should give even greater emphasis to a labor-intensive approach to development due to the relative scarcity of capital and abundance of labor.

Although there have been these differences between the IEG and major donors, they are primarily differences of emphasis within the framework of a general consensus on the direction, goals and major strategies of the FFYP. Furthermore, these differences could narrow substantially under the new government.

c. FFYP Assistance Requirements and Prospects

The "General Framework" projects required gross foreign loan disbursements increasing from about US \$70 million to US \$125 million over the FFYP period and totalling about US \$500 million gross, or about US \$425 million net of repayments. The IEG hopes to secure such loans on the most concessional terms possible.

The prospects for foreign assistance of the required magnitude appear good. In its June 1973 report, the World Bank

projected, presumably on the basis of discussions with the major donors, gross public loan disbursements to increase from about US \$50 million in 1972 to about \$70 million by 1976. The Bank itself thinks an increase is possible in its loan commitments to Ethiopia from the present level of US \$50 million per year to \$75 or conceivably \$100 million per year by 1979, provided that the IEG can develop a sufficient number of acceptable projects. In any case, disbursements levels will undoubtedly lag somewhat behind the commitment levels.

At and following the second CG meeting in July 1973, most of the other major donors including the US, the Federal Republic of Germany (FRG), Japan, Italy, UNDP, the United Kingdom and France indicated that they are prepared to increase assistance as available IEG projects allow. Italy, currently providing about \$4 million in grant assistance annually, mostly to education, announced at the CG meeting that a combination financial and supplies credit of about \$50 million would be provided over the FFYP period. The FRG, currently the third largest donor after the IBRD and the US, provides about \$31 million in active loan and grant assistance, mostly in roads and to a lesser extent to water supplies for provincial towns, financial agencies, education and police. FRG capital assistance is untied, carries IDA terms, and in the future will cover a considerable share of local costs. The fourth largest donor, Sweden, expects to increase its annual grant assistance during the next two years from about \$7 million to \$10 million. Since, however, two active Swedish loans are expected to end during this period, the level of resource transfer will not increase as much. The grant assistance is untied and finances substantial amounts of local costs. The Swedish program is concentrated in education and rural development, and to a lesser extent in health.

The United Kingdom recently increased its assistance and became the fifth largest donor when it approved a new \$12 million credit with terms yielding an 86 percent grant element, equal to that of IDA terms. The previous \$7 million level of UK grant and loan assistance was utilized primarily for agricultural and transportation facility equipment.

Japan, the sixth largest donor, has provided two new loans totalling \$12 million for agricultural-industrial credit and airports. The seventh largest donor is Czechoslovakia, the sole public contributor to industry, with \$12 million in active loans. Future Czech assistance plans are not known.

The UN group, which ranks eighth, provides about \$5 million annually in grant assistance. The UNDP which accounts for about 80% of the group's assistance, is planning to increase its level from \$4 million to \$7 million by around 1976. France provides annually about \$3 million of grant assistance, mostly in education.

About \$90 million out of a total credit of \$110 million provided by the USSR in 1959 is still uncommitted. In recent years, drawdowns from the credit have declined to only small amounts for technical assistance to the Assab refinery. Similarly, disbursements from the outstanding \$3 million uncommitted Yugoslav government credit have ceased since FY 1972, but representatives at the CG stated that the government hopes to provide important technical assistance in the future. The PRC initiated assistance to Ethiopia in 1971 with an \$89 million credit, a portion of which has been tentatively allocated for roads and rural water. Despite some prospective acceleration in use of the USSR credit, it is expected that the PRC credit will be drawn down more rapidly of the two.

5. FFYP Targets and Prospects

a. FFYP Targets and Their Implications

As noted above, the FFYP goals are an accelerated rate of output growth (6.0% per annum as compared with 4.0% during the TFYP period) coupled with more equitable distribution of the benefits of growth. Given Ethiopia's estimated population growth rate of 2.4% per annum, the FFYP target growth rate implies a growth rate in per capita GDP of 3.6% per annum as compared with a growth rate of 2.4% over the last decade. If achieved, this would permit an increase in the per capita GDP of almost 20% from Eth. \$185 (US \$90) to Eth. \$221 (US \$104) over the FFYP period. This would be more than double the percentage increase in per capita GDP of the TFYP period.

The distribution of the benefits of growth depends primarily on the composition of GDP growth, the impact of GDP growth on employment, and the distribution of government services. In simplified terms, the intent of the FFYP is to bring about a relative improvement in the wellbeing of rural Ethiopians through the encouragement of small holder agricultural production, generation of employment in rural areas, and the improvement of rural services. If the rate of growth in agricultural output can be increased to 3.1% per annum (versus an

estimated 2.2% during the last decade), while the rate of growth of non-agricultural output increases at 8.5% per annum (the same rate as previously), the gap between the rates of increases in per capita GDP for Ethiopians in the agricultural and non-agricultural sectors will be narrowed. Furthermore, an increase in the growth rate of agricultural output from 2.2% to 3.1%, or from -0.2% to 0.7% in per capita terms, should help to bring about improved nutrition. (The few studies undertaken thusfar suggest that the Ethiopian diet is generally adequate in quality but not in quantity). The major programs affecting agricultural output by rural Ethiopians during the FFYP will be the existing area package programs (CADU, WADU, ADDU) and the Minimum Package Program (MPP). During the FFYP period the coverage of these programs will expand from about 2% of Ethiopia's four million farm families to 12%, and the initial settlement programs will affect an additional 35,000 families, or about 1%. Families reached by these programs should be able to double crop yields and more than double their cash income.

Employment trends during the FFYP are difficult to predict in the absence of the detailed projections of the final FFYP documentation. Ethiopia, like many other less developed countries, will have great difficulty in absorbing all the entrants to the labor force during coming years. However, the programs undertaken under the FFYP should provide adequately remunerative employment for a large percentage of the estimated 200,000 people entering the agricultural labor force each year. MPP should provide employment for about 10% of the incremental labor force, settlement programs for 5-10%, and rural public works programs for an additional 10%. (If the local self-administration program is successful, this latter figure could be higher.) The remainder will be absorbed as agricultural laborers in commercial agriculture (northwest lowlands, Rift Valley, Awash River Valley), by spontaneous settlement and, to the extent the above programs fall short of absorbing total entrants, through an increase in the rate of agricultural under-employment.

Some rural groups will also benefit significantly from the expansion of rural services. The proposed educational reforms would provide access to formal and non-formal learning for a vastly increased number of rural Ethiopians. By the end of the FFYP period, the percentage of the relevant age group in primary school would increase to 44% (as compared with 17% in 1973), and non-formal education would be available to roughly 6% of Ethiopia's rural population. The network of health stations

would be expanded to cover all 103 awrajas, increasing the percentage of the population with access to health facilities from about 15-20% in 1973 to 30-35% in 1979. Rural roads development should increase the percentage of the population within a half-day's walk of motorable roads (now about 25%) and thus improve rural access to the social and economic services available in the rural population centers. Accelerated rural water development will increase the number of Ethiopians having access to wholesome water (currently 3% of the population).

The IEG's development strategy has implications reaching beyond the FFYP period. If continued successfully, the IEG strategy will permit a more rapid expansion of small farmer production and rural infrastructure and services. By the year 2000, per capita GDP might be Eth. \$400-450 (US \$195-220) and 40-50% of farm families could be reached directly by the MPP and settlement projects (and many more indirectly). A majority of the population would be near a road, and nearly all would have access to primary education and health services. Increased small farmer participation in development would be facilitated by the proposed multipurpose co-ops to be formed initially in the MPP areas, and would be supplemented by continued government decentralization within the Awraja Self-Administration Program.

b. The Prospects

The overall GDP growth target is very ambitious; however, even though achievement will probably be lower than the target rate of 6.0%, it should be higher than the 4.0% growth rate of the TFYP period. Both domestic resource mobilization (in the absence of the discovery of large hydrocarbon resources) and institutional incapacities are likely to be constraints on the rates of growth of agricultural and non-agricultural GDP, particularly in view of the budgetary implications of the recent demands by the military and others. Ethiopia's balance of payments prospects over the FFYP period will depend on the world market prices for Ethiopia's export commodities, which cannot be expected to remain at current high levels beyond the next year or two, and on oil prices. Based on the present outlook, the balance of payments may be a less binding constraint over the next few years than absorptive capacity or domestic resource mobilization, given: 1) Ethiopia's level of foreign exchange reserves, 2) the good prospects for continued high prices for coffee in particular, and 3) the likelihood that

concessional external financing will be available for any good IEG programs or projects. The balance of payments could come under increasing pressure due to the IEG's budget situation, but would probably still remain a less serious constraint than absorptive capacity or domestic resources.

Inadequate domestic resource mobilization and continued limitations in the IEG's capacity to prepare and implement projects could particularly affect the newer programs directed at improved equity, such as the Minimum Package Program, settlement programs, educational reform, rural public works, and the awraja self-administration program. The equity goal will also be affected by likely lags in the implementation of economic policy measures (higher land taxes, higher interest rates, proper investment incentives, devaluation, tariffs on capital goods, etc.) designed to provide cost and price signals which would encourage labor-intensive development.

Tenancy reform or broader level reform measures, even if approved, will pose difficult problems. The benefits from land reform would probably not be felt for some time until the pre-requisite land cadastre and registration has been accomplished and until the legislation and leases and deeds, etc., can be adequately understood by all concerned and enforced by the thinly deployed legal, judicial and police forces now existing in rural areas. Much more than simple Parliamentary approval will be required for land reform to work and its actual impact as a result would probably be relatively small during the FFYP period itself. However, in the meantime production programs for small farmers can proceed as can educational reform, expansion of the health system and rural public works -- none of which are dependent upon land reform at this stage.

Taking all the above factors into account, the FFYP result could be a fairly adequate output performance due to a relatively strong balance of payments position, combined with less adequate performance relative to the equity goal due to budget problems and delays in the implementation of equity-oriented programs. This outcome could of course be partially mitigated by donor assistance directed particularly at improving domestic resource mobilization and overcoming the absorptive capacity problems affecting equity-oriented programs. It will also depend on the quality of the new government's commitment to the equity goals of the FFYP, which is not yet clear.

Obviously, the political events of February-March 1974 and any sequel to follow will have a major bearing on the emphasis to be given one development priority vis-a-vis another and the resulting allocation of Ethiopian funds and effort. The drought and the accompanying rehabilitation program to be undertaken, for example, is one of those unforeseen factors which could have a significant impact on the IEG's overall investment decisions. There are other possible examples, as well. The net of changes of this type will be assessed within the context of the government's final FFYP pronouncements and the IEG's annual budget programs.

B. Rationale and Strategy for AID Assistance to Ethiopia

1. The Rationale for AID Assistance

The US began a major assistance program to Ethiopia in the early 1950's. Throughout the 1950's the US was the largest source of grant assistance and in the 1960's was the largest donor in both grant and loan aid. The US has remained a major donor in the 1970's, although AID grant assistance levels are now at least equalled by the UNDP and Sweden, and the World Bank has become the leading loan assistance donor with the UK perhaps equalling US loan assistance. AID assistance to Ethiopia during the past three years (FY 1971-1973) has averaged \$20 million per year, although the annual level has fluctuated somewhat due to the "lumpiness" of loan assistance commitments.

During the 1950's and 1960's the rationale for US economic assistance to Ethiopia was based to a major extent on US political and military interests, including maintenance of Kagnew Station, the US communications facility at Asmara. During the past several years this aspect of the rationale for assistance has receded due to the USG's decision to phase down Kagnew Station and to the IEG's steadily increasing commitment to development and improved performance. The rationale for continued substantial US 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.

Successful implementation of the Ethiopian's 4th Five-Year Plan (FFYP) strategy will require an increasing level of technical and capital assistance to help the IEG expand absorptive capacity and overcome external and domestic resource gaps. To the extent that the IEG sustains its commitment to rapid growth with a more equitable distribution of the benefits, the US should be prepared to contribute to the implementation of the FFYP through maintaining or gradually increasing the AID assistance level of the last few years. This is consistent with the US 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 US interests, such as improving the prospects for US access to Ethiopian natural resources (copper, natural gas, and possibly petroleum, and potash and others).

2. Background to the AID Strategy

AID's approach to formulating an appropriate assistance framework or strategy for Ethiopia has involved the consideration of a number of different options within the context of US development policy for the country. Each is briefly examined here in terms of its likely implications for AID decision-making and action.

One approach considered was a concentration on one or two sectors or sub-sectors of the economy, for example, agriculture and higher education. AID has been concentrated along these lines in Ethiopia since the mid-1960's and, from the standpoint of technical sectors, they continue to have high claim on IEG attention and resources. However, this kind of approach lacks sufficient focus as a basis for strategy. The resulting assistance framework can be too open-ended, and complicates the task of achieving impact on the most urgent needs or problems of the country's development.

Another approach considered was to concentrate on one or two major problem areas or objectives of a general nature. This was the approach adopted from the beginnings of the AID program in Ethiopia in the early 1950's up through the early 1960's when AID alternately concentrated on manpower training, institutional development and infrastructure in a number of different technical sectors. This approach is subject to the same limitations as the first but, in addition, ignores the inter-relatedness of these kinds of needs in all underdeveloped countries. Thus, while the cumulative effects of all these AID efforts were substantial, during any one period they tended to be highly fragmented and therefore both isolated and narrow in their results. Other, currently more relevant, possibilities of specific problem areas or objectives -- such as mass education or land reform -- were also considered but rejected for these reasons (see also Sections B3 and 4, below).

A third approach considered was a strategy based on AID's new world-wide policy thrusts. This could involve, for example, an emphasis on small farmer production or the improved wellbeing of the poorer 40% of Ethiopia's population. The problem with the first is that without stretching the definition of production beyond the point of credibility, AID would be unable to assist through arrangements

with the IEG and other donors in those other activities or elements of activities on which expanded production is dependent. These other activities include malaria, rural roads and water, marketing, etc. With respect to a strategy to assist the poorest -- difficult to define in any event in a country which is one of the 25 least developed -- AID would be confronted with requests for an enormous amount of assistance in virtually every sector of the economy in both rural and urban Ethiopia.

There are, of course, still other possible approaches to the formulation of an assistance strategy, including responding to whatever the IEG may request, or the establishing of a set budgetary ceiling, advance commitment or line of credit within which all assistance would be programmed and drawn down by mutual AID-IEG decisions. These have been ruled out automatically as being non-constructive or in opposition to AID policy.

In the end, AID has approached the selection of its assistance strategy by turning to the Ethiopian's own 4th Five-Year Plan (covering the same period as this DAP) and by attempting to adapt the AID strategy to the priorities which the IEG has itself postulated. Since the IEG strategy and priorities in general are remarkably consistent with AID's overall interests, working within the IEG's planning framework appears to offer the best likelihood of success for those efforts to be undertaken by AID, and AID has formulated its strategy accordingly.

3. The AID Strategy Statement

a. Rural Development

AID will emphasize rural development as the first priority of its economic assistance program strategy for Ethiopia. This priority is based on the conclusion of both the IEG, as reflected in its 4th Five-Year Plan, and the major donors that rural development is of the highest priority for achieving both the overall growth objectives of the country and the national objectives for a more equitable distribution of the benefits of growth among the population.

In AID's contribution to the IEG's broad rural development objectives, emphasis will be placed on growth of income (production), employment, and more equitable distribution of income. These goals are chosen because they appear to represent the most feasible and immediate means toward general improvement desired

in the lives of Ethiopia's rural population. Their achievement should thus have spill-over effects on the spread of education, nutrition and health. To some degree, improvements in education and, to a lesser extent health, are themselves critical to achieving goals of income and employment and as such they are part of the program which AID will support. But recognizing Ethiopia's current limited capacity for delivery of inputs to the rural areas, such activities will be selected for AID support during this planning period where they contribute to the capacity of Ethiopians to reach the primary goals more rapidly, rather than as ends in themselves.

The goals to be emphasized by AID are closely inter-related. While the IEG has increasingly stressed equity concerns in recent years, its ability to put these concerns into practice over wide areas will require increases in national income. In turn, the IBRD has concluded that without greater security of tenure and other equity-oriented land reform, growth in agriculture (the priority sector for growth) will be sharply limited. Yet these goals are not in every case mutually supportive. Agricultural production can be increased in some areas in the short run by programs which would reduce employment and/or the net income of poorer people in the area. The relative priority, or weight, that will be given to these goals will therefore be a matter of continual choice by the IEG. The choices it makes may in turn depend upon the ability of the IEG, and donors, to develop programs which promote both production and equity goals in some optimum fashion.

To assist the IEG in making these choices, AID strategy will seek to help the IEG promote joint production-equity goals by helping stimulate production increases among those target groups whose socio-economic improvement would alter the country's equity profile (e.g. in distribution of income and/or services). These groups cannot be targeted with absolute precision -- e.g., the lowest 40%, all tenant farmers or farmers at a given income level, etc. -- because the detailed data do not exist to judge which particular groups are both in the lower economic stratum and also possess the potential to reach, within a reasonable period, a certain degree of entrepreneurial and commercial self-sufficiency through access to knowledge, technical inputs and markets. For these reasons, AID will use the same target group as has been adopted by the IEG for its national small farmer oriented agricultural program (MPP) which encompasses all farmers with less than 20 hectares. However, it is estimated that up to 90% of the MPP farmers are small holders with less than 10 hectares

and AID, insofar as possible and increasingly over time, will focus its assistance on the smaller farmers within this under-10-hectare group.

AID strategy in this regard must also recognize that Ethiopia is proceeding toward its goals of rural development from a point far back. Extending minimum benefits to most of Ethiopia's rural population will take decades. AID strategy for the next few years must concentrate therefore on developing the will, capacity, and the instruments for the IEG to be able to succeed.

Based on IBRD, IEG and USAID analysis--and as described more fully elsewhere in the DAP--the critical constraints to achieving the goals stated above which others as well as AID must address are:

- Land tenure structure and land use
- Accessibility
- Delivery systems with local participation
- Central development policy execution
- Production and production techniques research and experimentation
- Domestic financial resources
- Trained manpower (relevant education)
- Population growth relative to resources
- Endemic diseases (malaria).

In selecting, and limiting AID support for activities to address some of these constraints, AID will be guided by the following criteria, all of which must be met:

- Does the activity contribute to overcoming one or more of the critical constraints to the goals of income growth, employment creation and equitable distribution?
- Is it consistent with AID posture on other critical constraints (e.g., consistent with AID's posture on land reform)?
- Is it part of the IEG's priorities in rural development so that it will receive both policy and general administrative support from the IEG?
- Will the IEG have the financial and human resources to administer the activity not only on a pilot or experimental basis, but in a reasonable period, as part of a nationwide rural development program?

- Is it within the specialized competence and the management capacity of the US?

Using these criteria, AID may support the following kinds of activities in support of Ethiopian rural development:

- Opening up of lands to national settlement and development with provision for security of tenure.
- Undertaking area development projects which demonstrate means of accomplishing production increases with increased employment and better income distribution at costs feasible to the IEG.
- Expanding absorptive capacity for rural development through improvements in mass education, penetration roads construction, water conservation and supply and the administrative structure of local administration.
- Encouraging adoption of the necessary policy and program approaches related to AID's strategy through the infusion of AID resources in direct support of Ethiopia's agricultural or rural development capital budget, including technical assistance for this purpose.
- Helping extend the work of EPID and the minimum package program through the introduction of additional economic crops, insect control and improved marketing.
- Supporting IEG and private efforts in family planning at the rural level supplementing the present malaria suppression effort in the health sector.

b. Higher Education

AID will emphasize higher education as the second priority of its assistance strategy. This priority is based on the fact that HSI University, Ethiopia's single national institution for higher learning with the major responsibility for training the nation's leadership, is still in the process of developing the fundamentals of institutional capacity and will remain in that position for perhaps another five years. Since the university was created a little over 10 years ago, the US has been in the firmly established position of the major external supporter of HSIU's development, financing construction, teaching equipment

and materials, American teaching and administrative staff and the post-graduate training of Ethiopians for staff positions -- all as generalized support of HSIU's institutional development.

The first phase of HSIU's development, establishment of the basic institution, is now reaching an end. HSIU's "second generation" development will be based increasingly on the central government's plans and objectives for national development rather than on HSIU's own plans for internal growth. In this regard, HSIU will play a supportive role in rural development, and a small but significant portion of its planned programs will be directly related to rural development, paralleling the IEG's rural development strategy. However, it would be impossible to show that all of HSIU's efforts over the next few years were oriented singularly to that strategy or to AID's more limited assistance approach to rural development (income, employment, income distribution). This might well be an impossible task for any university anywhere. At the same time, AID by means of its support can help to reinforce and expand those initiatives that HSIU now appears ready to take in contributing a significant portion of its capability to the operational needs of the nation.

AID's specific goal in higher education, therefore, will be to further HSIU's institutional development in ways both related and limited to strengthening the university's capacity to support the IEG's objectives for national development. Much of AID's work in this connection will consist of helping to create those conditions which will permit HSIU over the next few years to provide new and expanded services to the nation beyond the mere teaching function. While the institutional development of HSIU will no longer, as in the past, be an end in itself, for purposes of AID support, a certain amount of institutional development (including provision of selected staff) will still be required to support HSIU's outreach programs of, for example, research and problem solving, and this type of institutional development will warrant continued AID support. Ethiopianization of materials and course content will need to be stepped up to enable HSIU effectively to accomplish this goal and these efforts will also be assisted by AID. As a general practice, AID will not restrict its assistance to any specific faculties so long as the program to be financed contributes to the goal of HSIU outreach and service to the country.

The result of this qualitative change in AID strategy for higher education, as described above, will be to alter the mix of AID inputs with probably a larger proportion of AID assistance going into the financing of local programs and operations. This is also likely to have the effect of reducing the overall level of AID support of HSIU from that in previous years.

4. Specific Aspects of the AID Strategy

Perhaps only implicitly suggested by the above strategy statement are the positions AID has taken on a number of aspects of that strategy on which some elaboration is necessary. These specific points, and the reasoning behind the positions thereon, are as follows.

a. Land Reform

As emphasized in the DAP consultant study (Assessment of the Ethiopian Agricultural Sector of December 1973), Ethiopia's antiquated tenure structure has for some years been considered the dominant constraint to the agricultural development of Ethiopia. The question inevitably arises as to what AID's position is or should be with respect to its assistance program. From most quarters -- the World Bank (Economic Report and Agricultural Sector Survey, both of 1973), AID consultants (Barnett-Clark-Pearson Economic Review of 1972) and most recently the Swedish government through SIDA -- the view has evolved that the Ethiopian government should either be urged, encouraged or supported in its efforts to adapt new and more liberal landlord-tenant relationships in order to provide greater tenant security on the land. Not one of these groups is now proposing -- or threatening -- to terminate its assistance if the necessary legislation is not passed. All have become convinced that, even in the absence of such legislation, good reasons remain to continue assisting agricultural development in rural Ethiopia. All have somewhat similar goals: the growth of production and employment and a more equitable distribution of income. All have believed that for some indeterminate period in the future it will be possible to achieve useful progress respecting these goals without land tenure legislation. Presently unresolved are (a) when will that time be reached when progress diminishes to the point no longer warranting developmental investments, and (b) what developmental activities should be avoided now because of their marginal returns and, conversely, which should be stimulated because of some positive impact they are likely to have on the movement toward tenant security.

AID's position on the first question is that neither AID nor any other party has the answer now, and that all that can reasonably be done is to assess progress year by year. The best place for assessing this progress is the Minimum Package Program (MPP) since it is the MPP that is probably the major vehicle of rural change and modernization of Ethiopia's small,

tenant farmers and it is through the MPP that the bottlenecks to further change and progress have and will become most clearly visible. Because of the primary role of the World Bank and the Swedes in the MPP, it is they on whom greatest reliance should be placed for appraisals of progress. AID, however, as a major donor rightfully concerned with this question, should also take advantage of every opportunity for appraisal and to take whatever resulting positions which are deemed proper with the IEG. Efforts, for example, in pulses production and marketing, to be undertaken in large part as an essential element of MPP diversification, will provide AID that opportunity directly.

Turning to the second question, it may be impossible to reach a consensus on those activities which should be avoided because of their conflict with land reform (see our consultant's Agricultural Sector Assessment for an indication of the difficulties involved). Furthermore, we think it unlikely the Ministry of Planning will request any donor to assist it and the IEG in a program which promises dubious returns, especially one suggesting adverse political repercussions. Of greater usefulness for AID's purposes is the effort to determine whether any activities can have a positive effect on the land tenure situation in Ethiopia. One of the best opportunities is in the area of new settlement, or re-settlement, of Ethiopia's relatively thinly populated but fertile lowlands. Through the design of specific settlement programs, AID intends, as a stipulation to the required external inputs, to incorporate provisions in the aid agreements with the IEG which will condition the manner in which people will be settled throughout the entire settlement area. Rights concerning the acquisition and disposition of land can be established at the very outset avoiding for the most part the conflicts that can arise in the already heavily settled areas of the highlands. National policy can begin to be created in this way that would be (has been) very difficult to accomplish by formal legislation. This is the kind of effort that is integral to AID's strategy.

In addition, it is recognized that even if national land reform programs are enacted, they are not likely to achieve the desired effect in the short run or until considerable progress has been made on overcoming the key constraints to rural development. This will require improvements in rural access, relevant delivery systems and expansion of programs to modernize small farmer attitudes and capabilities. Thus, much

of AID's work during this short run period will emphasize the creation of these conditions that will contribute to the success of land reform when it comes.

In summary, AID's program strategy in Ethiopia is oriented positively toward land reform: it will help promote tenant security outside of legislation (project assistance in settlement areas); it will contribute to development of the necessary institutional capacity (technical assistance to the Ministry of Land Reform, if requested); it will support land surveying and registration (ASL support with respect to public lands and project support of a national cadastral survey, when and if the legislation is passed, with respect to private lands); it will help create the necessary conditions for success of agrarian reform as a whole, as discussed above. In other words, most of AID's program will be designed to contribute, in varying degrees of directness, to overcoming the constraint of land reform.

AID disagrees with the DAP consultant study (Assessment of Ethiopian Agricultural Sector of December 1973) that land reform should be the primary focus of the AID strategy to the extent that the entire program is developed in some relationship to that alone. Instead, as has been said, AID's proposed primary focus is on the income and equity aspects of rural development wherein AID hopes to influence the kind of constructive policy change that will overcome the tenure and other key constraints impeding accomplishment of those goals. That difference aside, AID believes that its approach, as outlined in the preceding paragraphs, is wholly consistent with the objectives of the consultant in terms of the importance that AID attaches to land reform and AID's sensitivity in designing an assistance program properly, responsive to the needs of the situation.

b. The Social Component of Rural Development

The IEG's FFYP strategy is broader than the AID assistance strategy in that, while the IEG's emphasis on rural development will encompass, in varying degrees, the whole range of economic and social services, AID's efforts will be limited to those activities which contribute to the goals of increased production, employment and more equitable income distribution. The issue that arises is the extent to which any of these social services contribute to the AID goals and whether it is therefore appropriate to include a social component within the AID rural development program. Of particular importance to AID in this regard are rural education and health.

From the standpoint of the Ethiopian context, the extension of education and health into the rural areas will be possible only to the extent they are integrated into the IEG's planned administrative and economic framework for over-all operations at the rural level. The extension of such public services must be so limited since the available IEG financial resources will not permit proceeding on the basis of need alone. Thus, the effects of this principle will be to impose considerations of both space and scale on the IEG's own efforts. Both considerations are likely to operate within the context of the awraja self-administration program under which the planning and execution of local programs, initially those in education and health, will be increasingly devolved upon awraja elected councils. In other words, irrespective of how AID might otherwise want to assist, the real opportunities in education and health will arise only as such capabilities and authorities are expanded at the local level under central IEG auspices.

In terms of AID strategy, the opportunities in rural education offer the more promising prospects of the two for contributing to rural development. An expansion of education in rural areas will be necessary to achieve further literacy and, through non-formal education in particular, to develop the aptitudes for applying the modern agricultural inputs and techniques being extended by the MPP and other agricultural programs. Indeed, the lack of these relevant skills and attitudes is a major impediment to the achievement of the production, income and other AID goals. As such, education will operate directly on those conditions creating the capacity for rural development.

Of critical importance to AID in this regard will be the necessary assessment made at the time of each major rural education initiative. It will identify how and in what context each initiative can or must be linked to an Ethiopian production effort. Linkage there must be, but the nature of the linkage may vary from case to case. It may vary in terms of the specific production effort involved: an MPP area will usually be sought first, but not all of the self-administration awrajas will initially be in MPP areas and the existence of an MPP effort does not in and of itself guarantee the existence or development of the necessary production or income generating capacity. Thus, each area will need to be examined in relation to the experience and results in earlier areas. The sequence in undertaking the social and production efforts is another aspect

of the linkage, and this, too, will be subject to some variation in practice. The educational effort might normally be expected to follow the income generating activities or, when the latter are new, at least to be initiated simultaneously with them. There is also the possibility, however, of the educational effort serving as the "carrier" of the production related skills or technology and thereby performing the role of a preparatory force for change. A situation such as this would be acceptable if it were demonstrated that there was clearly an existing capacity to increase production and that the bottlenecks to realization of that capacity were ones which could be overcome through education and training. In both of the above aspects of linkage AID will be guided heavily by the IEG which will be deliberate in extending social services from one area to another until assured of reasonable viability and financial self-support locally.

More generally, the IEG is well along in having satisfied itself on the need to effect changes in education if the educational system is to be responsive to the needs of rural development. These changes will pose difficulties, as evidenced by the outcries against implementation of the Educational Sector Review voiced during the political unrest in Ethiopia during February-March, 1974. As a result, change may be less comprehensive and come more slowly than originally planned, but certainly not all of the momentum for educational reform will be lost. Those reforms that are approved by the IEG will warrant AID support during the present DAPS planning period. This support will emphasize non-formal education, but is not necessarily limited to that. AID is prepared to join with the World Bank and bilateral sources as a minority partner in financing other selected aspects of the total rural education program as this may be desired by the Bank, the education donor community and the Ethiopians.

In solidly documenting the needs in rural health and the conceptual soundness of much of the IEG's planning, AID's DAP consultant study in health (Review of the Health Sector of December, 1973) concludes that AID ought to support expansion of Ethiopia's basic health services. This conclusion is not accepted for two reasons: one, there is considerable doubt within AID of the IEG's short-run capacity, per the considerations above, to extend its health services at the levels planned without a serious slow-down in initiating other rural

programs that are of greater importance to rural development. Moreover, support of general health services cannot be shown to contribute directly to the AID goals in rural development.

It can be expected that the Ministry of Health will look to AID for substantial help in financing the planned expansion of its rural health services. The position taken will be that AID's interest in rural health, apart from malaria, is limited to family planning (as an element of maternal and child health). This is predicated on the reasoning that only family planning is adequately supportive of AID's rural development goals in view of the role it can play in the long run in helping achieve an equilibrium or at least a better balance between the growth of population and the resources available to support it. However, before considering provision of an MCH/FP piece for the whole or any part of the rural health system, the basic health infrastructure and necessary technical and financial support will have to be established and operating or at least firmly committed in the aid agreements of those others who will be assisting in this broader development.

Some external support of the general rural health system is likely to be forthcoming from Sweden and UNICEF augmenting the IEG's own financing. As these resulting efforts demonstrate success and the other conditions are met, AID may, towards the end of the DAPS planning period, consider re-orienting its urban MCH/FP program toward the rural areas within the framework of those health services decentralized through the awraja administrative structure. In the meantime, AID independently will begin examining the prospects of initiating some rural MCH/FP services within either the existing Ada project area or the new settlement areas of Southwest Ethiopia as a possible alternative to any generalized MCH/FP support of the entire system.

In summarizing AID's position on education and health, greater importance and therefore higher priority is placed on the former than on the latter. There are also far greater chances of success in education. The educational system as a whole has a much better developed capacity to carry out its programs: the system of local taxation in support of education and health is biased in favor of education; the managerial and technical skill level is higher in education. These, coupled with the financing impetus to be given by the World Bank through its planned IDA Education Loans, gives education the stronger foundation for progress in the immediate years ahead.

Beyond the more distant possibilities noted in rural health, AID's immediate role is presently confined to assistance to MES in support of the IEG's malaria control program. This assistance will continue through FY 1979, or the end of the DAP planning period. It is realized, of course, that the decision on terminating AID assistance in malaria at that time must be made earlier, within the DAP period, but AID will defer making that decision for the timebeing. First, it will be necessary to assess the strength of feelings of the new IEG government as opposed to the old one and to see how AID's negotiations go on the next Malaria V Loan in FY 1975. The question of continuing or phasing out of malaria up to now has been affected by a host of factors -- political, technical and emotional -- all bearing on the Ethiopian view of the sincerity of AID's intentions in helping resolve one of this country's most troublesome and pervasive problems touching the lives of the majority of the rural population. This complex of factors cannot be turned aside and reduced simply to an AID resource transfer issue.

There are, of course, other alternatives to AID continuation and IEG assumption of the full responsibility for malaria financing. One would be for AID to negotiate for transfer of the whole of the malaria program to UNDP/WHO. Another would be for AID, in full consultation with the IEG and other donors, to agree that the malaria costs of each donor project area would be built into the total costs of that project and financed by the donor and the IEG accordingly. Obviously, there are problems with either of these alternatives and the AID role in malaria will therefore be made a subject of intensive review over the next couple of years in an effort to develop the optimum solution.

c. Rehabilitation

As a necessary follow-up to AID relief assistance for the victims of the Ethiopian drought in 1973, AID during the early years of the DAP period will be providing substantial support of the IEG's rehabilitation program, particularly in the hardest hit northern provinces of Wollo and Tigre but also in the southern region of the country. The World Bank will undertake along with the IEG the essential economic and program planning for rehabilitation and also provide a substantial share of the capital financing required. AID will coordinate closely with the Bank in determining those specific activities or portions of

activities which it will finance preferably through joint financing arrangements with the Bank and perhaps others.

AID's programming for rehabilitation will be guided by two principles. First, rehabilitation will be subject to AID's overall assistance strategy considerations and, to this extent, will be integrated into AID's regular economic development program for Ethiopia. Rehabilitation in this case will come within the rural development area of emphasis of the AID program and precisely the same goals, constraints, activities scheme of programming will be applied to rehabilitation assistance as it is to all other assistance in rural development. This is as it should be since the requirements for economic recovery in Ethiopia's drought affected areas are essentially long-range in nature and are concerned with the fundamental aspects of rural development. The approach to rehabilitation now being considered by the World Bank and the IEG would involve creation of the conditions for realization of the agricultural production potential of the various catchment areas in the region, with successive development work being undertaken from one catchment area to the next. The kinds of activities being considered in these areas -- crop protection, penetration roads construction and water conservation and spreading, for example -- are clearly the kinds of things that address the constraints included in AID's rural development strategy and are therefore deserving of support under normal AID criteria.

Second, AID's rehabilitation efforts will be directed, both as a matter of highest priority and to the maximum extent possible, to those activities which contribute to significant reform of the economic and social structure of the areas concerned. The urgency of the needs in the drought affected areas and the priority attached by the IEG to achieving and demonstrating some results will hopefully produce an environment conducive to Ethiopian approval of innovative, experimental reform-oriented programs previously not possible to get started because of policy deadlocks centrally within the IEG. Rural penetration roads is a case in point. Another is re-settlement of excess population with accompanying security of tenure. Still another is establishment of the necessary watering and grazing rights of livestock owners. A major reason for supporting programs of this type is the possibility of the spill-over effects they can have beyond those immediate areas concerned. By demonstrating what can be done (the technology and techniques by which rural roads can be maintained and how that maintenance cost can be locally financed), may then also make it easier for

the IEG to promulgate the appropriate policy nationally. Helping the IEG to bring about important changes of this type is thus a major objective of AID's rehabilitation assistance.

d. Relating AID Assistance to the Strategy

Having reviewed a few of the more important aspects of the AID strategy, the question may reasonably be asked whether AID has satisfied itself that it will be able, in practice, to provide the kind of assistance that properly fits the strategy adopted. The answer, and therefore the validity of the strategy, will depend on the extent to which: the government is sufficiently committed to AID's goals; the appropriate techniques are available and the necessary discipline will be applied in designing the assistance in ways that contribute to the goals; AID's resources combined with those of others will be enough to achieve the required impact; AID's assistance instruments are adequate to the job called for. Each of these factors are examined briefly below.

Commitment to the Goals

Ethiopia's 4th Five-Year Plan will incorporate within its strategy framework the same overall objectives and priority goals as AID has adopted for its assistance program. Thus, there is no apparent issue with respect to stated intentions. However, there is a question as to how the Ethiopian will and capacity will be exerted in the real world of action in the wake of the counteracting pressures for and against significant rural change. Compromises would have been necessary and still will be, although perhaps fewer now than earlier as a result of the political forces unleashed in February-March, 1974. While AID believes the equity aspects of the IEG's present development strategy would have been devoid of meaning if adopted in any of the previous five-year plan periods and could even have been questioned when formulated a year ago (1973) for the new, upcoming Plan, AID now tends to believe there are reasonably good prospects for making this kind of strategy an operative one. Yet it is important to remember that, national desire or will aside, the effective capacity for rural change at the local level in Ethiopia is extremely low, not above 5-10 on a scale from 1 to 100. Thus, while AID believes the present IEG strategy is the right one for Ethiopia at this time, it is right because it is the direction in which the trend of development must be accelerated. However, given the low starting base, and the numbers of rural Ethiopians who would be encompassed in

in any definition of the "poorest" (closer to 80% than 40%), the application of an equity-oriented strategy means that much if not all of the next five years will be devoted to creating the conditions for rural change rather than registering change itself in income generated and distributed terms. Absolute accomplishment in these terms could be little; the objective will be to keep the development which occurs in reasonable balance and as compatible with the AID strategy goals as possible.

Designing the Assistance

As AID, in cooperation with the IEG, begins the process of project development for those assistance activities forecast by the AID strategy, project planners will strive for the maximum complementarity between production and equity. The absence of suitably detailed hard data for assessing the impact of what can be done for the poor relative to the comparatively better off will be a continuing problem. However, while AID may have difficulty in pinpointing the specific farm families included in any target group of the poorest, there is probably little risk in missing the 80% of Ethiopia's population which is poor with any rural oriented assistance. At the same time, many functional programs, such as the MPP and ADDU and CADU do, of course, have their own built-in evaluation efforts which will provide useful information in the project design for IEG-AID rural activities. AID will tap all of the information existing locally to help in this regard and perhaps such accumulated experience will be the best guide. The degree of success achieved in actual assistance efforts ultimately will be dependent on how far in the direction of equity the Ethiopian planners and decision-makers are prepared to go which, in major part, will be a function of their ability to break down those increasing bottlenecks inherent to local capacity that will emerge with each successive production effort that is initiated.

Ostensibly, the move to decentralize planning and executing authority for local programs to the local level should help overcome the problem of reaching the poor. However, as indicated in the DAP consultant study (Local Government Reform in Ethiopia of January, 1974), this development could just as easily be used to enrich the provincial elites both economically and politically at the expense of those groups AID seeks to help. This possibility will require that AID, before undertaking any extensive effort through the awraja structures, will attempt to arrange

with the IEG for sufficient popular participation to help ensure that the target group is in fact the one benefitted. AID will have the opportunity to assess and later influence these developments at the awraja level through its initial pilot efforts in the area of rural, non-formal education.

The need of discipline arises in applying AID's strategy goals to AID's internal decisions on those activities it will and will not assist. In all cases the relationship of proposal to strategy must be proven to be direct for the proposal to be eligible for AID assistance. If it is not, AID either will avoid providing the assistance or attach to the provision of AID assistance those conditions that will achieve sufficient directness and clarity in that relationship and otherwise meet the criteria in Section B3 above.

Adequacy of the Resources

Despite the magnitude and complexity of the problems and constraints involved in working toward AID's goals, there are reasons to believe that a reasonable impact can be made with the totality of resources potentially available from AID and others. AID's proposed assistance, irrespective of the form it takes, will fit within a larger Ethiopian framework of effort. At one extreme, AID may make a minority contribution to a substantial Ethiopian national program, as with the MPP; at the other extreme, AID may on its own, but under Ethiopian direction, undertake a pilot, experimental program, as with initial assistance in non-formal education. Where the inputs AID could conceivably make would be insufficiently relative to the problem, AID would join forces with another donor, such as might be done with the World Bank for a national marketing program. Other examples along these lines could be cited. The point is that AID would not undertake anything on which it could not envision having a significant impact in terms of the particular constraint being addressed.

The only major difficulty that AID could experience in this connection would be the adequacy of IEG financial support. Because of the events of 1974, the IEG will have mortgaged a certain proportion of its future resources for increased recurrent budget costs which will, to some degree, eat into those domestic source funds (revenues and borrowings) available for capital expenditures. The full implications of this will have to be assessed later.

Appropriateness of the AID Instruments

Last is the question of whether there are the assistance approaches and instruments available to AID appropriate to the results sought. The varying nature of the rural development constraints which need to be dealt with, together with the operative Ethiopian conditions, will complicate the task of selection. Some examples of approaches that come to mind may be outlined now, but even these may have to be somewhat revised later as AID gets closer to the design stage.

Financial assistance will be needed to overcome the domestic resource constraint and certainly a continued agricultural sector loan is the best possible tool for that purpose. Indeed, as AID begins to see just how well the Ethiopians are proceeding on their own 4th Five-Year Plan targets in rural development, the agricultural sector loan may be modified to a rural sector loan in the event the IEG and AID determine that local financing has become a major hinderance to execution of otherwise sound rural education and health programs. The sector loan should also serve as a key policy instrument and will be so modified to enable AID to further Ethiopian policy and program execution either in direct support of AID's own activities or in support of those efforts of the IEG or others which AID has identified as key constraints to achieving its rural development goals. Examples of this latter case are perhaps rural roads and water where the need for AID operational involvement may not arise (except as noted in B4c above) because of the prospective contributions from other donors.

Financial and technical assistance will probably need to be combined for settlement/re-settlement programs, for a national cadastral survey, for crop production, for HSIU, for rural education and for area development schemes such as the one at Ada (ADDU). The ADDU project offers AID a unique opportunity in Ethiopia as a laboratory for developmental experimentation with smallholders. During the next five years ADDU can be expected to reach the point of creating a demand for new employment opportunities and the necessary social services to support that growth in employment; this will warrant AID's support.

There will be a heavy policy content in all of AID's assistance since AID is convinced that rural change will come about through its program efforts only as new policy is adopted

by the Ethiopian government. Thus, settlement programs can offer AID with the IEG the means of effecting favorable land tenure policy in the area, and ultimately beyond. AID's involvement in rural education, building on the earlier experimental period, can help bring about the necessary policy change from academic to rural relevant education. What these examples also indicate, however, is that often the kind of improvement AID seeks will best--if not only--be accomplished through involvement in program execution, and that AID cannot limit itself either to a policy approach alone or to pilot, experimental phases. This wider involvement also has the advantage of providing the US with at least the minimum visibility that is important for demonstrating to the Ethiopian population at large the interest AID has in their self improvement.

5. The Assistance Requirements.

a. Financial

As indicated in the section of FFYP Assistance Requirements and Prospects (A.4.c) and in the Rationale for AID Assistance sections (B.1) above, the overall IEG assistance requirements for the FFYP period will be significantly larger than during the previous plan period.

Successful implementation of the Plan will require that there be a steadily increasing level of technical and capital assistance to expand IEG absorptive capacity and overcome external and domestic resource gaps. AID resource transfers during this period are expected to be an important component, both quantitatively and qualitatively, of all donor resource flows supporting the FFYP.

The prospective content of the AID program is outlined in Section C below. To cost out the AID program for the period 1975-79 would be exceedingly difficult in view of the numerous exogenous variables--economic, social and political; external and internal; short run and long run--which will affect the assistance equation. At this point in time, it is possible only to discuss gross magnitudes.

Over the past three years, the total AID program has averaged \$20 million per year. It is anticipated that during the FFYP period, this total will remain relatively constant or will rise somewhat (excluding emergency and long-term rehabilitation assistance requirements occasioned by the current drought/famine situation). Whether the level remains constant or rises, the initiation of new AID assistance activities will

depend upon the speed with which the IEG is able to plan and implement FFYP programs and upon its financial capability. It also depends, of course, upon the level of overall AID appropriations over the next five years.

In general, it is anticipated that most of the programs which AID will be assisting will be initiated during the first two years of the FFYP period and that the bulk of financing for these programs will come during the first three years of the period. It is also anticipated, however, that in years four and five, new initiatives within AID's strategy may well emerge which will require financing. For example, there is a good possibility of a Phase II program for the Ada project areas which would broaden the current program to bring additional AID resources to bear on rural employment, family planning and other equity considerations growing out of a successful Phase I small farmer production effort. In addition, the Southwest Comprehensive Settlement project might be implemented as a phased activity with a Phase I clearing and opening operation, and a Phase II and perhaps III for production, malaria control, non-formal education, family planning and a small-scale rural industries program. A national cadastral survey is another possible late start.

Thus, even with the bulk of assistance for currently planned programs coming in years one through three of the FFYP, there is considerable justification for projecting both new and expanded initiatives in the latter years which will keep AID resource requirements (not including immediate relief and long-term rehabilitation assistance) at about the same levels in years four and five, or higher. In general, the annual grant program will be in the \$5 to 6 million range and the loan program in the \$10-20 million range or higher. Due to the unevenness of loan project development, the annual levels will, of course, vary from year to year.

To the extent that AID policies allow, consideration should be given to maximizing the grant element of the program by utilizing grant rather than loan assistance wherever possible. This would be in response to the UNDP-led initiative to provide as much concessional assistance as possible to the specially identified 25 "least developed" or poorest countries, of which Ethiopia is the most populous. Thus, on the basis of a \$20 million level, the grant element should increase to \$7 or \$8 million.

Along these same lines, should the interest rate, terms and conditions of AID loans be softened or gradated in some way, Ethiopia should be among those countries granted the most concessional terms.

Given the rural development and employment generation emphasis of the IEG's development program, the foreign exchange component of external resource requirements is likely to be considerably reduced from the levels of recent years, and the local cost element, as a percentage of total project costs, will increase. AID has had a reasonably liberal policy toward providing assistance on local costs. This policy should continue and, to the extent the IEG domestic resource situation worsens, AID should have the flexibility to increase its local cost support on a case-by-case basis.

The PL-480 Food for Work Program in Tigre and Eritrea provinces has been averaging \$1.8 million per year in recent years (not including emergency programs associated with the famine relief effort). Over the next five years AID might well anticipate a reduction and gradual phase-down of AID's involvement in this program. Such a possibility is related to the objective of stimulating additional food production capacity in the drought areas through the efforts of the rehabilitation program to be initiated in FY 1975. The rate with which AID disengagement can proceed will, of course, be determined by the success of these efforts, the avoidance of any re-occurrence of the drought and other factors, such as the possibilities of re-settlement.

It is AID's objective to increase the utilization of Title X population/family planning funds above the level of recent years as FP/MCH activities in Ethiopia can be initiated or expanded.

b. Manpower

Consistent with the anticipated financial requirements discussed above, AID manpower requirements -- in terms of American personnel required to manage and implement the program -- will remain during the 1975-1979 period at about the 1974 level of 60-70 project implementing personnel and 20-25 planning and support personnel.

1) Direct Hire

There are currently 23 Direct Hire positions authorized to manage the bilateral program (plus an additional ten personnel stationed in Addis Ababa who have regional responsibilities). This compares with 59 authorized (and 45 on-board) positions in April 1970. It is anticipated that approximately this personnel level will be sufficient to manage the program as currently projected. The one significant variable which might require additional direct hire personnel is the current drought/famine situation and its magnitude, severity and duration. The Mission currently has one full-time officer and two consistently working parttime on drought related activities. The workload is, as of this writing, still increasing however, and the assignment of additional personnel may be required.

2) PASA

The two PASA positions now authorized in Ethiopia will be terminated in 1974. Although there are no currently planned manpower positions which would necessarily require PASA technicians in the future, cases may arise -- most notably in the agriculture and land reform areas -- where US Government agencies may prove to be the most suitable recruitment source. To the extent this occurs, the manpower supplied would constitute a substitution for those contract positions projected below.

3) Contract

As of April 1974 there were 61 contract technicians engaged in implementing the AID program in Ethiopia -- the majority at Haile Sellassie I University. While the mix will change, due to the changed project composition over the next 2-3 years, the overall requirement during the DAP period is estimated at about the same or slightly larger level. There are, of course, several unknowns most significantly in those project areas which would be the large users of technical personnel, as for example a national cadastral survey or major rural road and water rehabilitation efforts. Nevertheless, on balance it is anticipated that an average 60 to 70 -- mostly OPEX -- contract technicians will be required during the FFYP period.

C. Sectoral Discussions

1. Agriculture Sector Assessment 1/

a. 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. 2/

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.

b. 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:

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- 1/ See the report prepared by AID consultant: Blase, Melvin G. and AID economist Marcus Winter: "Assessment of Ethiopian Agricultural Sector" USAID, Addis Ababa, December 1973
- 2/ IBRD "Recent Economic Performance and Future Prospects in Ethiopia" June 15, 1973

1) Land Tenure ^{1/}

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 - land owners 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 improvement 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.

^{1/} See IBRD "Agriculture Sector Survey - Ethiopia" January 15, 1973, Vol. III, Annex 12, for a more detailed presentation of Ethiopian land tenure arrangements

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." ^{1/} 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.

^{1/} See "Agriculture Sector Survey" Op. Cit., Vol. III, Annex 19, for a discussion of agriculture manpower requirements.

Lastly there is need for clarification of policy guidelines and a much stronger sense of policy direction. Many on-going 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 pharmaceuticals. 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 simply 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 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, oilweeds, 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 colleagues 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, fruit, vegetables and fibre crops.

c. 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 (1962-1966) 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. ^{1/} 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.

i) 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

^{1/} IEG "A General Framework for the Fourth Five Year Development Plan" June 1973.

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) The Package Program

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. This 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 Welega, 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. ^{1/}

f) Rural Roads

An IEG working group on rural roads development was established in 1972 to study the problems and constraints impeding

^{1/} "A General Framework..." Op. Cit., Para. 17

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." ^{1/} 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 1000 km. of these low cost rural roads per year, but that, as experience was gained over time, this capacity might expand to 3000-3500 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.

^{1/} IEG Planning Commission Office "Local Rural Roads Program in Ethiopia," Addis Ababa, February 1973, Vol. I, Page 1

2) The Export Strategy

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.

Coffee 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.

Livestock. 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 potential contribution to the economy, the livestock subsector was contributing less than any other agriculture subsector. 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.

Commercial-scale agricultural projects - 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.

d. 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 for the first five years of this illustrative program in agriculture is approximately U.S. \$240 million (of which \$20 million is for roads). ^{1/}

In FY 1972 and FY 1973 IEG self-financed expenditures in agriculture ^{2/} 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. ^{3/} 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

^{1/} "Ag Sector Survey..." Op. Cit., Vol I, Pages 42-51.

^{2/} As defined by the IEG in its Budget.

^{3/} With the drought situation persisting throughout the year, and with the resignation of the government, and increases in recurrent costs for military and teacher salaries taken together with decreased revenues from petroleum products, it now seems virtually impossible for the government to reach this investment level.

sufficient replenishment funding to engage in the level of lending which it desires to undertake in Ethiopia during the 1975-79 period.

e. 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 totaling 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 totaling \$20 million.^{1/} 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 PCO (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

^{1/} This figure may have to be increased in order to prevent a downturn in the annual level in 1975 and 1976. Considerably more than 3/5ths of the \$20 million was expended during the first three years of the Indicative Planning Figure (IPF) period.

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.

f. 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 undertaken 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 development 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 shares the objective of overcoming key constraints to bringing development to Ethiopian rural poor. The target groups are, without exceptions, 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.

2. Education Sector Assessment

a. Objectives and Educational Reform Proposals

Ethiopia, even by African standards clearly lacks an adequate, relevant system of education. Of the country's adult population, estimated at 13.6 million in 1972, 12.8 million had never been to school. Among school age children, only 17% of potential primary school age were actually in school,^{1/} and of secondary school age the corresponding figure was 4%.

Yet, even at these low levels of educational opportunity, school graduates have been finding it increasingly difficult to secure employment. In recent years secondary school enrollment has been expanding at a rate of 20% per year while the annual GDP growth rate has averaged 5%. This imbalance has created a situation of rapidly increasing urban unemployment among school leavers. Even graduates of higher non-university institutions, like polytechnics, now exceeds demand.^{2/}

Given the pace and dimensions of recent economic development in Ethiopia, and projections of the rate and directions of growth during the FFYP period, it is clear that the current education system in Ethiopia is not attuned to turning out the mix of manpower skills appropriate within the Ethiopian development context over the next decade and beyond.

In recognition of this, the IEG in 1971-72 carried out an extensive review of the education sector^{3/} in order to determine the educational objectives, set targets and alternative strategies for achieving objectives. The Education Sector Review (ESR) was a comprehensive evaluation of all aspects of Ethiopia's education system carried out under the aegis of the Ethiopian National Commission for Education by a staff of 150 Ethiopians from all parts of the education spectrum.^{4/} Its major findings were

- 1/ Excluding the undetermined number of Ethiopian children who attend rudimentary church schools in rural areas.
- 2/ International Labor Office, "Report of the Exploratory Employment Policy Mission to Ethiopia", February 1973, Page 15.
- 3/ Ministry of Education, Education Sector Review. "Education: Challenge to the Nation", Addis Ababa, August 1972.
- 4/ The ESR was supported by loans from IBRD and there was participation by IBRD, UNDP, UNESCO and UNICEF representatives. AID provided the services of two consultants for eight weeks on one of the task forces.

endorsed by the Council of Ministers in September, 1973, and the official order to proceed with the implementation was issued by the Prime Minister's Office in January, 1974. In February, both teachers and students began demonstrating against some of the provisions of the ESR within the context of increasing general public unrest and on February 21, 1974, the government made the decision to "suspend" implementation of the ESR pending a thorough review and until the general public could be better informed of its objectives and the nature and effects of its implementation.

The educational reforms proposed as the sector development plan for the FFYP, confirm certain directions in education policy initiated during the FFYP period. The overall objective is to help improve the quality of life, especially rural life, to make it more meaningful and more productive. The principal focus of educational development during the FFYP period is to be upon primary and adult education in rural Ethiopia within the context of an integrated rural development strategy. The educational reforms call for increased equity in the distribution of these facilities and for efforts to make the curriculum more relevant to the realities of rural life. The current curriculum is seen as too rigid and formal, reflecting a desire to prepare all primary students for secondary school; all secondary school students for university admission; and all university students for middle and high-level manpower positions.

1) The Projected Education System

a) Primary, Middle, Secondary

The new education strategy recommendations which had been adopted by the IEG call for a "4-4-4" primary, middle and senior secondary school structure. The first four years (Minimum Formation Education - MFE) would be more practically oriented -- providing living skills basic to the rural environment, and experience useful for farming, cottage industries, crafts and local trades. This recognizes that 50% of those now enrolled drop out of school by the fourth year, having learned relatively little applicable to the realities of the agricultural life which they will lead. The MFE program would be for children aged 7-10 and would be expanded across rural Ethiopia as rapidly as government and other resources would allow. The objective would be to give every child access to limited free primary education by the end of the century.

Middle school training (grades 5-8) would contain more academic subjects but would still be regarded as "applied" rather than "academic" in its total content. The numbers of these "middle" schools would not be expanding at anywhere near the same rate as primary schools but the ultimate objective would be to have at least one per woreda (sub-district) - a goal not likely to be achieved during the FFYP period.

The senior secondary school (grades 9-12) curriculum would be more academic than the lower schools but would be made more relevant to the Ethiopian context. The rate of expansion of enrollment would be held to 2.6% per year as a long-range target - considerably below the present 20% rate.

b) Basic Formation Education^{1/}

In addition to the formal "4-4-4" system, a special two-year education would be provided to youths between the ages 13-16 who, for a variety of reasons, had been by-passed by the formal system. The Basic Formation Education (BFE) stream would consist of late afternoon and evening classes in literacy, numeracy, basic citizenship and health, supplemented by vocation and environment-oriented studies. By the end of the FFYP period (FY 1980) it is estimated that 650,000 mostly rural students would be enrolled in the BFE stream. A very small percentage of the brightest BFE students would be allowed entry into middle school after completing a special 6-month intensive preparatory course. Thus, BFE would not necessarily be looked upon as a "dead end" by prospective BFE students.

c) The Non-Formal Education System

During the FFYP period considerable emphasis will be given to non-formal education (NFE) programs which will be one of the key components of the IEG's rural development strategy. NFE would be institutionalized and programmed within the so-called "community practicums" which are defined as low-cost training facilities, the objective of which is to provide the means of upgrading old skills and introducing new skills relevant to rural life.

A wide variety of these community practicums are scheduled to be started during the FFYP period. They will offer job-related training in which there were actual or potential employment opportunities within the area. In addition to work-related programs

^{1/} See "Education Sector Review", Page v-12 and Exhibit V-D-2.

there would also be training in such fields as adult literacy, health education, home economics, and agriculture development.

NFE enrollment would come from adults without formal education, MFE-leavers and BFE and middle school leavers. To the extent possible the NFE training would use the facilities of the formal-education system during after-school hours. The number of anticipated NFE participants by 1980 is approximately 900,000. Twenty years later, by the year 2000, participation will have more than doubled to 2 million plus.

d) The University

Haile Sellassie I University, founded in 1961, is the only university in Ethiopia and, as such, bears the primary responsibility for producing the nation's continuing leadership and high-level manpower requirements. The ILO manpower study noted that the annual rate of growth of the university's enrollment has averaged 20% in recent years. Although the economy has thus far been able to absorb the increasing output from the university, the study suggests that soon even university graduates will find it difficult or impossible to find employment.

The proposed educational reforms call for a reduction in the expansion rate from the current 20% to an eventual long-range expansion rate of 5.5% and adds that there should also be a closer link between the supply of highly education manpower and the demands of the labor market.

The university's own five-year plan, to be implemented during the national FFYP period, envisions educational developments relating higher education more closely to national development than was possible under the FFYP. These developments would include speeded up Ethiopianization of curriculum and programs, and more "outreach" - service/research - programs in the real world of Ethiopian development. The HSIU plan also proposes broadening the curriculum at the regional campuses (Gondar and Alemaya), initiation of select graduate studies, and a new integrated social science development administration program.

2) Relationship of Educational Reform to the Awraja Local Self-Administration Program

The MFE, BFE, and NFE programs are to be the responsibility of the awraja (local government) administrations and decisions on the precise form these programs will be made at the awraja

level by the relevant awraja councils -- following broad guidelines to be laid down by the Ministry of Education. In order to promote adjustments of education programs to local requirements, and to further the integration of education with other aspects of development, educational staff working within the awraja will be placed under the direct jurisdiction of the awraja administrations. The District Education Officer will become the technical specialist for education on the staff of the Administration.

National examinations, as they are now administered, will not be continued at the primary level. Instead, the awraja administration will be responsible for determining how primary students under its jurisdiction are to be selected for middle school. (Administration of middle schools and senior secondary education will remain the direct responsibility of the Ministry of Education.)

b. Constraints to Educational Development

The implementation of the Education Sector Review recommendations in the FFYP period and beyond faces several formidable hurdles. Among them the most important are:

1) Acceptability of the Goals and Implementation Plan

Opposition - possibly due to misunderstanding or lack of information - to some of the principal ESR goals, and the means apparently selected to reach those goals, has recently been evidenced among university and secondary school students, some parents, and among teachers. While the ESR was only one among many factors which contributed to the general unrest leading to the resignation of the Council of Ministers in March, 1974, the Emperor found it necessary to suspend implementation of the ESR until such time as the government was able, through a large scale information effort, to gain popular acceptance for it.

The students argued, among other things, that the ESR, by focusing on MFE, BFE and NFE, was acting to limit entrance into the modern sector, and into the higher levels of both private and public life to those fortunate few who were able to gain acceptance to senior secondary and university training. They argued that it was a thinly disguised continuation of elitism. They were particularly opposed to cutting back the rate of growth of senior secondary and university education from 20% each to 2.6 and 5.5% respectively.

The teachers opposed the teacher salary scales recommended by the ESR, the method chosen to expand the teacher corps, and, in addition, demanded general salary increases.

The net effect of the protests has been to bring the ESR goals, recommendations, and proposed implementation at least temporarily into the political arena. Thus implementation may be somewhat delayed until after the public information effort has been put into effect.

2) Availability of IEG Resources

Assuming that the FFYP sector strategy will eventually more or less reflect those ESR recommendations which were previously accepted by the IEG, the government is going to have to commit considerable amounts of financial and manpower resources to the task. Implementing the ESR requires a massive overhaul of the country's education system and a rapid expansion into areas of the nation as yet untouched by the education system. There will have to be a set of coordinated efforts by central government planners as well as by provincial and awraja-level officials in planning and supervision of the implementation of the program. New low-cost education facilities are going to have to be constructed throughout the country.

Although a start has already been made on the necessary changes, improvements and expansion, much still needs to be done. Teachers and teacher trainers will have to be recruited and trained. The teacher training institutions will have to thoroughly revise the content and methodology of their instruction. Curricula of the primary and middle schools will have to be thoroughly redesigned; books, visual aids, teaching materials will likewise require considerable redesign. The incorporation of such areas of training as hygiene, agriculture, health, rural trades and others in both the MFE and BFE streams and the need to develop the appropriately relevant non-formal education system must also be accomplished.

The total effort will require a considerable allocation of scarce financial and manpower resources. Currently, education absorbs almost 20% of the IEG's recurrent budget (up from an average of 15% over the past 5 years) even at the very low current rates of enrollment of school age children. In order not to rise above that level of expenditures while at the same time expanding education to reach double, triple, and more, the numbers presently reached, will require a dramatic reduction in the cost per student reached. In order to accomplish this,

one of the requirements was to have been to hire less educated teachers in order to keep salary levels down. This objective has already been offset in part by recent salary increases offered to striking teachers.

On the high level manpower side, the Ministry of Education will be hard pressed to come up with the planning, organizing and coordinating effort required by this vast education reform. The IEG will be extremely sensitive to the number of expatriate advisors which could be recruited to work on these educational reforms and as a result the government may have to rely even more than would otherwise be the case on scarce Ethiopian high level manpower.

Finally, in shifting responsibility for local implementation of the key BFE, MFE and NFE streams of education reforms to the traditionally weak awraja government structures, the IEG is forced to rely on the Ministry of Interior's awraja development program for developing local capability and competence to develop successful local education. The rate at which the pilot awrajas will develop their abilities to understand and implement the philosophy behind the ESR recommendations is, now, a virtual unknown. One must continue to keep in mind that the proposed educational reforms entail a commitment for the very longrun -- at least through the end of this century and possibly well beyond. What will be accomplished during the FFYP period may well be not much more than the "turn-around," with no dramatic increase in numbers. It will, however, lay the groundwork for educational changes which will occur over the next 30 to 40 years.

c. Resource Requirements

The ESR makes estimates of available IEG resources for education through the year 2000. During the period FY 1975-80 these resources remain constant at 20% of government domestic revenues rising from US \$51 million in FY 1975 to US \$70 million in FY 1980^{1/} as government domestic revenues increase from US \$270 million to US \$371 million.

In addition, Ethiopia has a history of voluntary contributions from the localities themselves which have in the past helped pay the costs of local construction and in some

^{1/} ESR. Exhibit IV-D-1. Calculated at constant 1969 Ethiopian dollars and converted to US dollars at U.S. \$1 = Eth.\$2.07.

localities, to pay portions of teachers' salaries and supplies costs. In FY 1971 this was estimated to be 3% of the IEG funds. The ESR projects that, over the FFYP period, this percentage will grow from 4.5% in FY 1975 to 6.6% in FY 1980 and that these local contributions will generate US \$2.5 million in 1975 and US \$5 million in 1980.

When anticipated external grants and loans and student fee collections are added, the ESR projects that total resources available for education will rise from US \$70 million in FY 1975 to US \$92 million in 1980. By 2000 the projected figure is US \$403 million. The ESR program proposals are based on these projections of funding availabilities.

d. Other Donor Programs

Considerable donor involvement in the education sector over the FFYP is anticipated which would help alleviate the internal resources constraint. IBRD/IDA has already committed US \$10 million in the Education III credit, and IDA IV, which will support the new educational reforms is already on the drawing boards.

UNDP/UNESCO is currently providing assistance in the fields of education planning, administration and teacher training. The latter effort is of special interest in that it seeks to train teacher educators in finding new, innovative and economical primary education methods in Ethiopia. In addition, the project will train teacher educators to contribute to government efforts to reform curricula, develop new materials and teaching aids and to improve in-service training techniques.

UNICEF has provided considerable material support to primary and teacher training activities through the Teacher Training Institutes and anticipates further assistance amounting to US \$4 million in the education sector during the FFYP period.

SIDA through its continuing assistance to the Elementary School Building Unit (ESBU) has been, and will continue to be, active in primary school construction throughout Ethiopia. The SIDA effort also includes training of building engineers, architects, foremen and the testing of building materials in order to

1/ Under the first three credits, IDA provided \$26.7 million over a seven year period.

develop even lower cost construction methods. The Federal Republic of Germany is also involved in construction programs, as is the USSR which is allowing the IEG to use a portion of its multi-purpose credit for Teacher Training Institute construction.

France, Italy, the UK, the FRG, the Netherlands, Sweden and Action/Peace Corps are providing teachers at all levels. In addition, numerous countries provide scholarships for advanced training in education and related fields.

Finally, mention should be made of educational opportunities offered by the Ethiopian Orthodox Church and several other foreign religious and non-religious voluntary organizations. In certain rural areas, the EOC remains the principal source of traditional education.

e. The AID Assistance Program

1) Rural Non-Formal Education

Over the FFYP period, priority attention will be given to those aspects of the education sector which are clearly related to AID's rural development strategy of the FFYP. In particular, US assistance will focus on the non-formal education system in rural Ethiopia. NFE, through the development of community practicums and related programs of instruction ranging from adult literacy to job-related agriculture improvement and the development of cottage industries, offers the best, low-cost avenue of reaching the Ethiopian peasant farmer and his family with training that can effectively improve the conduct of their daily life.

AID is currently providing assistance to the Ministry of Education in its efforts to test NFE experiments within the model awraja framework during 1974-75. As the pilot phase is developed into a national NFE program, AID assistance will gradually expand until NFE becomes the principal subsector of AID education assistance within the rural development strategy. Major assistance would be considered to help the IEG expand NFE at a reasonable pace through the FFYP period.

Assistance to rural, non-formal education would not be limited to assisting only the Ministry of Education. Increasingly, as IEG programs come to involve several ministries and agencies in combined efforts to attack constraints impeding

development, AID assistance will be channeled into problem-solving efforts supporting the integrated IEG effort in NFE. In light of the role of the awraja administration in planning and administering MFE, BFE, and NFE, the awraja structures assume considerable importance in achieving the overall objectives of rural education and, as such, warrant consideration for AID assistance in helping them carry out their pivotal role in implementing these broad-based educational reforms.

In addition there may be other aspects of rural education development coming out of the ESR reforms which AID will want to assist to the extent that they are clearly related to achieving AID's rural development objectives.

2) Higher Education - HSIU

AID will continue to assist the University during the FFYP as a special case outside the rural development strategy. The assistance program will be increasingly oriented toward strengthening the University's institutional capability to plan and work directly on problems of national importance, as defined by the IEG, and toward expanding its capacity to provide needed services to Ethiopia in the context of the University's own "outreach" and "downreach" Five Year Plan objectives.

Currently, AID provides teaching and administrative staff, participant training, funds for construction, and support for institutional development initiatives on the part of the Ethiopian faculty. Over the course of the FFYP period general faculty and staff support will be gradually phased out, as Ethiopianization of the staff is gradually realized, and a more selective recruitment program phased in at a reduced level within the recently established institutional strengthening linkage arrangements between HSIU and Mid-Western Consortium for International Activities (MUCIA). Maturation of this linkage will contribute significantly to development of an ultimate private university-to-university relationship with increasingly less dependence on AID. U.S. source faculty recruited during the FFYP period will be selected on the basis of their potential inputs into agreed institutional strengthening programs, and thus, not only for their classroom teaching skills, but also for what they can contribute in the way of research and experience to the University's service and development goals.

A certain portion of AID's assistance to the University can be viewed as supportive of the IEG's rural development objectives. This would include assistance to research programs in the science and social science faculties directed at finding solutions to rural development problems. Additionally, it would also include assisting University programs in public health, education and agriculture aimed specifically at rural development problems. The Institute of Development Research and the Institute of Science Technology Research and Development would also be candidates for increased AID assistance in order to help Ethiopian faculty and graduate students conduct research in rural development fields.

The design of the total AID assistance effort to the University within the framework outlined in the AID assistance strategy section of this DAP is to be worked out in late FY 1974 and early FY 1975 by an Overseas Liaison Council Team in coordination with AID and the University.

3. Health Sector Assessment^{1/}

a. IEG Objectives and FFYP Proposals

The FFYP strategy for public health is related to achieving the overall FFYP objectives of improving general welfare and achieving greater equity. Public health services in Ethiopia are very thinly distributed especially outside the two principal urban areas. The population/physician ratio is 1:69,000 and the population hospital bed ratio is 1:3,000. Seventy-five percent of the incidence of disease is preventable but is not being prevented. The combination of: general poverty, lack of access roads, lack of water, prevalence of numerous endemic diseases, virtual lack of knowledge of basic hygiene on the part of most of the population, and shortage of trained manpower and of funds all serve to create a situation where general improvement of public health in Ethiopia becomes an enormous and difficult task. The task is made more difficult by long standing organization and management problems in the Ministry of Public Health and is further complicated by the multiplicity of organizations engaged in health activities in Ethiopia. For example, the armed forces, the municipalities of Addis Ababa and Asmara, the Ministries of Public Health, Education, National Community Development and numerous private organizations have health and health-related programs scattered throughout the country. Coordination of these various health activities appears to have been a virtually impossible task for the MOPH.

The basic thrust of the FFYP will be to expand preventive (as opposed to curative) medicine in the rural areas. The principal preventive programs required include:

- 1) environmental sanitation, especially provision of safe drinking water,
- 2) immunization,
- 3) health education, especially in hygiene, environment sanitation and childhood nutrition,
- 4) early treatment and case finding of certain diseases: VD, TB, leprosy,
- 5) selected special programs such as Malaria control through insecticide sprayings.

^{1/} See the report prepared by AID consultants: Edward B. Cross and Norman E. Holly, "Review of the Health Sector of the Ethiopian Fourth Five Year Plan", U.S.A.I.D., December, 1973.

The Basic Health Services (BHS) now reach perhaps 10-15% of the rural population. The goal is to expand those services to reach 30-35% of the population by 1979. Provincial hospitals are to be upgraded and their links with health centers and health stations are to be strengthened. In addition the number of rural health stations is to be doubled from 500 to 1,000 and the number of health centers increased from 114 to 134. The health stations are increasingly to be staffed by a new cadre of health workers (health assistants) of whom 1,000 are to be trained in preventive health over the next five years. Decentralization of authority to the provincial and awraja level initiated under the TFYP is to be speeded up. The central ministry in Addis will retain responsibility for coordination and broad planning. Efforts will also be undertaken to study integration of the Special Services Programs (principally the Malaria Eradication Service) with the Basic Health Services.

Other important components of the FFYP strategy in public health include:

- 1) Programs to improve maternal and child health through malnutrition prevention, better immunization programs, better ante-natal care, training of traditional birth attendants and more extensive provision of basic health services.
- 2) Establishing a health education program in which the ministries of Health and Education cooperate to train school teachers in the principles of basic health so that health education can become a more important part of the school curriculum.
- 3) Programs to improve nutrition by expanding the activities of the Ethiopian Nutrition Institute.
- 4) Programs to improve environmental health conditions through demonstrations in rural areas of how to maintain safe water supplies and of proper sewage disposal.
- 5) Programs aimed at better control of communicable diseases through improved sanitation, better immunization system, health education and more extensive early diagnosis programs for VD, leprosy, malaria and trachoma.

- 6) Continuance of an anti-malarial (control) program and expanding the capability of Malaria Eradication Service (MES) field personnel to detect and report other major communicable diseases.
- 7) Programs to improve the collection and analysis of health and vital statistics.

b. Constraints to Achieving the IEG Proposals

(1) Administration and Manpower

The IEG and, in particular, the MOPH will have considerable difficulty in managing the implementation of a substantially enlarged effort. The lack of administrative capability is largely due to a continuing dearth of high level trained manpower as "managers" of the health system, and is a principal constraint in effecting improvements in the health sector. It will undoubtedly be an even greater constraint during a period of attempted rapid expansion of basic health services. Until there are more qualified planners and managers the current ineffective management and administrative system will continue to utilize resource inefficiently.

Considerable emphasis will be placed upon increasing the capacity of health training institutions to turn out the numbers of trained personnel required to staff the expanded facilities. Currently these training institutions are as follows:

Faculty of Medicine, HSIU, Gondar Public Health College, eight schools of nursing, fifteen schools for dressers, one school for assistant pharmacists and two midwifery schools.

HSIU has a current annual output of 18 doctors which will grow during the FFYP period to 40, and eventually to 65-75 per year. The other institutions, during the 1973-75 period will turn out an estimated 17 pharmacists, 43 health officers, 35 community nurses, 25 sanitarians, 116 nurses, 230 dressers (80 advanced and 150 elementary) and 20 laboratory technicians. In addition to these personnel being trained in-country, about 80 doctors will return from training abroad during the FFYP period. A new category of health personnel is also to be

developed during the Plan period to help staff the health stations. About 1,000 of these "Health Assistants" will receive training in preventive medicine and sanitation at the Gondar Public Health College or at one or more of three new training facilities to be built during the FFYP period.^{1/}

(2) Infrastructure

If the majority of the population of Ethiopia is to be reached by even the most basic health benefits the basic health delivery system is going to have to be rigorously designed to deliver these benefits at the lowest possible cost. The system will have to be reinforced at the center to provide better overall planning and coordination, and will have to be bolstered at the provincial and awraja levels in order to improve implementation.

There is a general consensus that the current 500 health stations and 110 health centers have not been properly supported or utilized, and consequently have not provided adequate health services to the communities they now serve. Without a considerable improvement in the delivery system itself in order to optimize its function within the severe budgetary limits in which it will operate, the health goals of the FFYP have little hope of success. In addition, the public will probably continue to demand increased curative as opposed to preventive health services, and thus an educative component is a prerequisite for a successful preventive health program.

The type of improvements required would include better vertical and horizontal integration among the central and field units of the BHS and between the BHS and the specialized health services such as the proposed Communicable Disease control service,^{2/} the Ethiopian Nutrition Institute, and the Division of Statistics and resolution of the preventive/curative dilemma.

(3) Environmental

To reach significantly more of the rural poor, the BHS must reach out from the health stations since even these most elementary extensions of the MOPH are, by necessity, located in the larger towns and villages of the nation's 103 awrajas--those which are serviced by some form of road.

^{1/} In addition a number of private missionary health facilities provide training primarily for their own staff needs.

^{2/} To be composed of a Communicable Disease Control Board and a CDC department to be established during the FFYP.

Three-fourths of all rural Ethiopians live more than a half-day walk from a road. In Ethiopia, perhaps more than in any other African country, the rugged topography acts as a severe constraint on the development of a low-cost health delivery system which can effectively bring preventive medicine to significant numbers of the people. During the heavy rains, even what limited access now exists is considerably curtailed.

c. The Role of Family Planning in the FFYP

There is no official government family planning policy in Ethiopia. In part, this is because the IEG is not convinced that investments in population control would yield substantial results at this stage of Ethiopian health education and communications development. There is no widely held conviction in the society that the current population growth presents a real problem. There also has been a social and political reluctance to discuss FP concepts openly or make them a public issue.

There is no interference, however, in FP activities (either by the IEG or the Coptic Church) that are commercial or privately supported, health or research oriented, conducted primarily in urban areas, and are not too highly publicized. The "private support" criteria has significantly changed in the last two years with more and more government facilities and workers unobtrusively taking part in FP services and education.

Under the rubrics of "Family Guidance" and "Maternal and Child Health" a limited but significant start has been made in disseminating family planning information in various parts of the country. This is slowly being institutionalized in the curricula of numerous training institutions (education, health, social) in the country. The number of health clinics offering family planning services on a regular basis has now reached 107, up from 65 in 1973 and 47 in 1972. Most of these are still in urban areas. There is a growing number of urban educated women and men regulating their fertility through "modern techniques", and a larger number of women terminating unwanted pregnancies by means of abortions (complications arising from abortions is the fourth leading cause of hospitalization in Ethiopia), but the vast majority still lack either the motivation or the information necessary to regulate their fertility. The Ethiopian Family Guidance Association (FGA) (affiliated with the Haile Selassie I Foundation) is the only Ethiopian organization devoted specifically to FP/POP. It provides FP services through private and government urban hospitals and clinics and is planning with MOPH to expand these services to

include more of the government's rural clinics over the next three to five years. While other non-government organizations such as the Ethiopian Women's Welfare Association and the YWCA have undertaken useful studies leading to improved data, the overriding need in the FP/POP sector will be for trained manpower in the building process. There are at present fewer than 10 Ethiopians trained in any aspect of FP/POP.

The MOPH has recently been providing (unofficially) family planning services on a small scale as part of the Maternal and Child Health program (MCH) of the BHS. Should the decision be made to do so officially and on a wider scale, it might presage inclusion of FP in an effective national program.

d. Other Donor Assistance

Numerous donors, public and private, currently provide manpower assistance to Ethiopia in health. UNDP/WHO will continue to provide health planners in the MOPH and will also provide technical assistance in communicable disease control, research, and in strengthening the central laboratories. In-country training of medical personnel is assisted not only by UNDP/WHO but also by UNICEF, France, the FRG, the Netherlands, Sweden and the UK. In addition, the smallpox eradication program has been assisted by the US Action/Peace Corps and by Japanese volunteers. The UK, UNICEF and the FRG have been providing personnel and commodities for leprosy programs and Switzerland is assisting in yellow fever control.

During the FFYP period, UNICEF, the FRG, Italy, Sweden and Action/Peace Corps are all expected to provide considerable assistance in the expansion of the Basic Health Services to the rural areas.

More than 28 foreign religious and other non-government organizations operate health facilities primarily in the rural areas. These groups administer 33 hospitals and 139 health stations, serving an estimated 1.5 million rural Ethiopians. In addition these groups staff and administer many other MOPH facilities in the rural areas. There is not expected to be any major expansion of mission or NGO health facilities during the FFYP period, except for the Project Hope program at the former Kagnev Base in Asmara.

e. The AID Assistance Program

Certain key sub-sectors within the overall health sector warrant AID support to the extent that they might otherwise serve to impede achievement of the IEG's and AID's broad rural development objectives: increased and more equitably distributed income, and increased employment in the rural areas.

Family planning and maternal and child health programs which might eventually help reduce Ethiopia's very high rate of population growth (estimated at 2.4%) will be supported to the extent that the IEG requests assistance or accedes to requests of AID assistance from or through non-governmental organizations. Malaria, which continues to be the number one health threat in rural Ethiopia and which clearly affects agricultural productivity, will continue to receive US assistance during the FFYP period. In addition AID will help link Ethiopia into the international research efforts in health now underway in several developing countries.

(1) Family Planning

USAID will continue to link Ethiopian institutions and individuals interested in FP/POP with sources of experience and funds which can respond to and develop these interest. This is important for two reasons; first, it is imperative to the legitimization of FP/POP in Ethiopia that as many interest groups as possible, in every segment of society, be developed; secondly, even small investments at this stage will build the experience and factual data which can change official policy over time, and develop the human resources and institutions necessary for a national program.

First, AID will continue support to IPPF to enable full funding for the Ethiopian Family Guidance Association's activities. Continued AID support for a variety of FP/POP programs is also essential in linking Ethiopian interests with international experience and resources. These range from supporting the UNFPA (African/Ethiopian Census), the UN specialized agencies, to private US organizations. (FPIA, Johns Hopkins University, Pathfinder, World Education, Population Council, Down State New York, and Meharry College are a few of the AID-assisted resources presently being used in Ethiopia.)

Second, AID has expressed willingness to consider providing appropriate assistance to enable the IEG to add family planning to the MCH component of the Basic Health Services. The IEG has thusfar been unwilling to accept FP/POP as a major program in its own right. AID has been unwilling to link it to generalized BHS expansion for purpose of AID support. Although MOPH has frequently stated informally to AID its interest in AID assistance in FP/POP, there has been no formal IEG request to AID because it has thus far been linked to generalized expansion in BHS which, for different reasons, has been unacceptable to the IEG Central Ministry and to AID.

Third, it may well be possible to add an FP/POP component to several of AID's on-going projects which, because of the specific nature of the area or vehicle involved (ADA, Malaria, HSIU, NFE), would enable AID to properly delimit resource requirements for purposes of selective AID support.

Lastly, the time has come in Ethiopia to utilize the established Special Population Activities Fund to selectively respond to small requests for FP/POP assistance. The decrease in RPO/Accra funds for this purpose, the large project orientation of most intermediaries, the increasing opportunities to implement AID strategy with very small grants, the increasing amount of time required to help process these small requests through U.S. intermediaries and the IEG's willingness to allow Ethiopian organizations to quietly study and experiment with medical/social/educational programs in this field, all point to this need. The SPA Fund will be used to supplement the primary intermediary strategy where flexibility, time and political acceptance allow. Research, studies and small Ethiopian operational programs will be considered for SPA Fund support, along with training for longer-term human resources development in FP/POP.

(2) Malaria Control

AID's principal resource transfers to the health sector over the Plan period will continue (as they have in recent years) to support the IEG's malaria control program being conducted by the Malaria Eradication Service. Malaria continues to be the most serious disease problem in Ethiopia and as such still serves as a critical impediment to the expansion and development of agriculture within the country. About 50% of the total population is exposed to malaria and 70% of the land area is malarious. With the upcoming IEG programs to resettle large numbers of people in relatively unpopulated, fertile lands which are now malarious (programs which AID will be assisting through the agriculture sector) and with population growing at 2.4%, the percentage of all Ethiopians who are at risk from malaria will grow from the current 50% level to 60% by 1980. The Malaria Eradication Service plans to provide services to cover approximately 11 million people by 1979 out of an estimated 18-20 million who, by then, will be residing in malarious and potentially malarious zones.

In view of the fact that AID's assistance to the malaria program is possibly more closely related to AID's overall objective of reaching out to the rural poor than any other single program in Ethiopia, AID will continue supporting the program through 1979. To date AID has committed \$23 million to the malaria control effort. Recent loans have covered 100% of foreign exchange costs and a decreasing

share of local costs. From the 1969 level of 50% of local cost financing, the percentage decreased to 40% in FY 1973 and will drop to 30% in FY 1975. AID currently plans to provide gradually reduced local cost financing through the FFYP period.

AID's objectives in malaria assistance will increasingly be to:

- assist the MES to maintain its current high level of capability to control malaria in its current and planned geographical coverage areas;
- assist the MES, acknowledged as one of the IEG's most efficient field organizations, to explore ways of expanding its contribution to Ethiopia's rural people through provision of preventive health, sanitation and hygiene as part of its package of inputs. Eventually, the MES would likely be able to provide diagnostic and preventative services for diseases other than malaria. This process would pave the way for eventual integration of MES into the BHS program, probably in the next plan period.
- assist in the research or applied research effort to permit achievement of eradication in Ethiopia -- an objective now unachievable given the level of resources and technology available.

Total AID resource flows into malaria over the period would average about US\$3 million per year.

(3) Research

There is currently considerable research underway in many parts of the world on health problems and alternative methods of dealing with these health problems which might prove of considerable benefit to Ethiopia. An excellent example is the Delivery and Evaluation of Integrated Delivery Services for health/nutrition/family planning (DEIDS) project now underway in Nigeria and several other countries. AID's objective will be to tie Ethiopia more closely into these international research efforts and networks in order to increase Ethiopian awareness of and receptivity to new approaches in health delivery systems.