

ETHIOPIA

Proposal for Preparation
of a
Development Assistance Program

June 1972

USAID/ETHIOPIA DEVELOPMENT ASSISTANCE PLANNING SUBMISSION

FOR FY 1973 AND 1974

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June 26, 1972

USAID ETHIOPIA FY 1974 PROGRAM NARRATIVE

PART I - GENERAL PRESENTATION

A. Description of the Present Program. The AID economic assistance program in Ethiopia cannot be characterized as being wholly "concentrated" with all needed supporting analytical work in hand. It is concentrated in the sense that activities are already effectively clustered in the predominant sector of agriculture and the two sub-sectors of higher-education and financial resources management, areas which will continue to receive attention by us and other donors in FY 1974 and beyond.

Our program also falls into the category grouping of countries in which there is not yet a full focus within the core problem programming framework. Achievement of such full focus is dependent upon the completion of additional IEG and external analytical work in FY's 1973-1974 (see section G below). In a sense we are in an intermediate position and view the FY 1973-1974 biennium as one during which we will have opportunities to (1) sharpen the relationships of our present sector and sub-sector efforts to the overall core problem, and (2) plan some new initiatives within the larger IEG and multilateral plan related thereto.

Most present activities which do not adequately address the core problem and which do not meet the criteria of our new assistance posture (see C below) will be dropped during FY 1973-1974. Our objectives during this period will be to reduce further the number of project management units and to achieve the greatest possible interrelationship of our activities with respect to the core problem and to other donor efforts within a growing IEG planning and leadership capability.

Activities not clearly fitting our core problem which will be continued are:

- Support for the University: Here we will attempt to mold our program to aid those aspects of University growth which should and can contribute to rural development--our core area.

- Opportunities Industrialization Centres/Ethiopia: Here again, rural employment (off-farm) possibilities can provide a tie to our core area. See also Section H below.

- MCH/Family Planning: Here AID is providing from central grants small amounts for training and research, and through ECA support of the IEG 1974 census. We will leave the door open to support, through intermediary AID grantees, for such other MCH/FP activities as may be indicated by competent IEG authorities, even though first initiatives are more than likely to occur in urban rather than rural areas.

- Export Development Planning: Here AID can provide from central grants amounts for training and consultants as IEG thinking crystalizes in the to-be-activated Export Development Council. In time there can, of course, be a direct relationship of work in this area to our core problem.

B. Priority Development Problems - Core Problem Description. Ethiopia's one central core problem is rural development. It must become the focal point of our aid program in Ethiopia. Given the inadequacy of public/social services outside the urban concentrations and the fact that less than one-third of the population participates to any marked degree in the monetized economy, there is little question that rural change, and improvement of the life of the 90%

of Ethiopia's population living on the land is the key to Ethiopian development. Rural change can occur, of course, through individualized efforts sector-by-sector. However, this is a slow and fragmented approach which lacks the cohesion of a central purpose. Meaningful change will come about only to the extent there is an integrated and unified programming of the various sectoral efforts focused rationally on rural development. This will probably involve work in four different "traditional" sectors: agriculture, education, public health, and transportation. The breadth of our involvement in these sectors will be a function of the coordinated multilateral programming done within the next two years and of our capacities. The depth of our involvement in any one sector will be a function of the pace of the Ethiopian Government's own policy and decision-making, as well as our managerial and financial capacities.

The thread which will bind the various efforts of rural development together and influence the pace of change, and by definition the prospects for external assistance, will be local administration. The more imaginative the Ethiopian approaches to the administration of rural development locally, the more substantial the overall effort will be. We believe that the prospects for a breakthrough in this regard are approaching and the level of the U. S. and other external donor assistance should be gauged accordingly. However, regardless of how quickly and effectively the Ethiopians move, we do not envision AID becoming equally involved in all of the four sectors mentioned; we will plan to sustain our major participation in the agricultural sector with lesser or possibly no new sub-sector participation in the others.

As elaborated below, we will adopt a new set of tests for AID financing of activities in the various sectors/sub-sectors related to the core problem. We will have a distribution of benefits criterion by which we assess the relevance of our activities to the direct improvement of the well-being of the rural population. Each activity will also have to meet the test of reinforcing IEG initiatives for structural change of the system as regards a social and economic strengthening of rural society. We will, for example, participate with others, as appropriate, in the important areas of land reform and creation of local administration capabilities--whether in training related to the land tenancy program, a cadastral survey, land use and settlement programs, or in various forms of support for local governmental activity--as IEG policy decisions are made to move ahead in these areas.

Conversely, and perhaps in any event, by not moving ahead the IEG's inaction will serve as an automatic brake on our other efforts related to rural development. (Additionally, the rural development effort cannot reach its potential without continued improvement--and in some cases a rationalization--of Ethiopian economic and financial policy. The assistance of others, principally, will be addressed to these needs.) Lastly, all of our activities must meet the test of integrality with Ethiopia's own national programs to assure the necessary degree of IEG priority and support. (Supporting analysis is contained in Part II.A, Rural Development Sector Presentation.)

C. Criteria for Aid. Ethiopian intent to proceed with the activity or project which the United States is to support is fundamental. Although prepared within our capacities to consider assistance proposals in areas of concentration, we run little risk of being over-burdened due to the operation of the basic con-

straints mentioned in E below. We must avoid the pitfalls of being more interested in Ethiopian development than ^{is} the Ethiopian Government. We must be careful not to provide assistance in such manner or quantity as to relieve the IEG of responsibility for mounting its development programs and supporting them to the limits of its capacity.

Without setting artificial standards or conditions precedent, we should provide assistance in individual areas when the preconditions for effective action exist. We cannot cause, for example, a revision in the landlord/tenant relationships. We can encourage it. When it occurs we can, however, assist the IEG in its land development, land registration/cadastre, and other related programs. We cannot cause the emergence of any new political thesis which would allow the creation of local governmental institutions. But, when it occurs, we can provide assistance.

To be eligible for U. S. support programs will also need to deal with the question of income distribution. While the potential for redistribution is not great in the near term, the possibilities for bringing large numbers of Ethiopian small holder farmers into the monetary economy, i.e. into the market as buyers and sellers, are strong. In the design of projects we must be attentive to the employment function since merely to absorb the present annual number of entrants into the urbanized industrial-commercial sub-sector would in itself call for GNP growth in that sub-sector of around one-and-a-half times the present level of growth. Jobs, mostly self-created in the rural areas, must be a prime design objective of every activity. But Ethiopians, not Americans, have to want to create rural jobs and to create them they may have to confront the key constraints head on. In rural public works

programs (roads and simple structure), for example, they will need to deal with the problem of group self-discipline.

From the analysis so far presented, and contained in Part III (Status of the Economy), one can see the trinity of criteria for aid support--equity, employment, and exports.

Exports from the land are possible. Their achievement can be realized so as to improve both the equity and employment opportunities. Here again, Ethiopian commitment to export programs remains to be achieved.

A final criterion, in addition to imposing a serious self-help concept which demands that the IEG take the first significant steps in any pursuit, we must continue to reduce the span of our operations, and hold down the number of discreet projects and activities which we support and in which we are involved managerially or operationally, as opposed to financial involvement in IEG/other donor projects. We cannot do well in too wide a range of activities. Moreover many other donors stand ready to provide assistance where we do not.

We seek the transformation of our AID Mission by 1975 toward one with minimal resident superstructure or organic understructure. These are our management objectives. Staffing levels should not be arbitrary, however. They should relate to our undertakings, not limit them. In any event the actual number should not exceed 20 AID direct-hire personnel by 1975. 2
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D. Multidonor Context. The United States is no longer the principal source of foreign financing for Ethiopian development. We are "number two". The IBRD is now taking the lead. Together with other donors such as the Swedes, the U.K., the Germans, the U. S. can expect to provide a declining share of the

foreign resources flowing to Ethiopia, although the absolute amount could well remain at present levels (\$15-25 million per year) for an indefinite period. Many small donors are ready to undertake individual small projects. We should avoid getting into the "one-expert, one-trainee" activity as a matter of policy and self-discipline.

Major IBRD sponsored studies (macro-economic, aviation and tourism, agricultural sector, and educational sector) will be available to serve as bases for mid and longer range planning and project development. Considerable agreement can be expected among the major donors and with the IEG on the basis of these reports.

Such agreements and understandings can be expected to emerge from the second meeting of the Ethiopian Consultative Group to be held in March/April 1973. The major burdens in the area of policy on such vital subjects as land reform, tax and fiscal reform, local government organization, export development policy and employment should rest with the IEG, relying upon technical support provided by the IBRD, the U.N. specialized agencies and the Harvard DAS.

A well functioning multidonor framework is now in place. It includes a formal IBRD-led consultative group composed of 13 members, a regularly scheduled monthly donors working meeting in Addis, sectoral groups in Education and Agriculture, special groups concerned with the University and health, and numerous bi-, tri-, and quadrilateral linkages, particularly among the big six (IBRD, UNDP, FRG, UK, Sweden, and USA) on a sub-sector, project, or functional level.

On the overall level the IEG has generally declined to participate in these multidonor coordinative efforts. It has not objected to them however and may later want to involve itself. In any event, to the extent that the IEG has a thought-out program, and within the limits of donor administrative capacity, the donors are materially in step--in thought and operationally.

Increasingly projects or action on a sub-sector level are involving two or more donors: IBRD-Sweden, IBRD-UK, U.S.-Sweden, U.S.-Sweden-IBRD, U.S.-IBRD, etc. And this pattern seems to fit the situation well.

In considering the multidonor context, some thought needs to be given to the emerging horizon--both of requirements for development and of possibilities. Were the IEG absorptive capacity to double in the next few years, as it could, and the external flow, matched by IEG resources, is no greater than the targeted level of U. S. \$75 million (net), this would still mean an actual per capita investment level of only U. S. \$6 per year total. Such a structure of flows would need to assume a U. S. readiness to finance development needs on an annual level of \$15-25 million for the remainder of the decade--this together with the IBRD and other donor flows could then have significant effects on the stage of development achieved in Ethiopia by the year 2000.

E. Host Country Capabilities and Constraints: Capabilities: The Ethiopian Government has shown a marked increase in capability over the past three years in identifying its own problems and needs and in performing the related analytical studies. Through their increased exposure of late to the theories

and ideas of development from the outside world, the Ethiopians have now begun wanting to identify for themselves what is necessary in Ethiopia and the means by which this should be accomplished. This is a healthy trend which will grow stronger.

The assistance strategy in this paper reflects, we believe, current Ethiopian preoccupation and internal policy deliberations. The main themes and proposals of this paper have been reviewed in detail by the Planning Commission Office and the Ministry of Finance and has been broadly endorsed by both groups although they recognize that the directions in which we propose moving could in the short run lead to a reduction in assistance should their own policy planning and absorptive capacity fall short. We have also canvassed our presentation with the IBRD Macro-Economic Team, the IBRD and the UNDP Resident Representatives, the U.K., German, and Swedish representatives, and believe our assessment is consistent with theirs. Special discussions have also been held with senior officials of the Ministries of Agriculture and Education who fully accept our thesis and selection of core problem.

At the technical level of analytical studies, the IEG is and will continue to be dependent upon expatriate employees for an important portion of the work to be done. For example, the studies on employment and industrialization policy, as well as the exchange rate question, have been assisted materially by the resident Harvard DAS Group in the Planning Commission Office. In other cases--the technical studies which will arise out of the Ethiopian formulations of the Education Sector Review this summer, further work on relating employment to savings and output within the context of specific public investment decisions, preparation of a national rural health

plan, and studies on marketing, credit and rural roads organization--the assistance of external groups will be required. Even in these cases, however, the IEG will insist that the outside groups work closely with Ethiopians to insure the proper compatibility of external formulations with the realities of the Ethiopian institutional and policy environment. This is particularly critical in the area of rural development: as the Ethiopians draw upon outside technical help in turning toward an experimental program in local administration and related rural programs, the external role must be one of participation in rather than leadership of the micro-planning process.

Major attention will also need to be given also to ensuring compatibility of projects (to result from analyses as suggested above) with downstream administrative-fiscal capabilities. In that context timeframes for accomplishments need to allow adequately for "start up time", "training lead time" and "mobilization" elements typically underestimated in most project planning.

Constraints. There are three key constraints. First is administrative capacity to plan and mount multiple developmental projects and activities and to achieve the necessary social coercion or self-discipline requisite adequately to finance such activities through both central and local financing mechanisms.

Budgeted Investment levels are a constraint to development almost axiomatically with per capita self-financed capital investment having reached only a little more than Eth. \$3.00 per capita per year. Direction of investment and low private sector investment also inhibit growth.

Mid-term impingement on development plans arises from a deteriorating balance of payments situation in which over the past three years imports have been increasing at more than twice the rate of increase of exports.

Subordinate constraints of pervasive impact are the need for relevant education, and modernized arrangements for land use-land reform and an increasing rate of population growth, in short. Inaccessibility of rural areas presents a natural constraint. (See also Part III - "Status of the Economy" - for discussion of investment and balance of payments constraints.)

F. Strategy. Surveying the possibilities before Ethiopia the first choice is whether to seek a consistent development policy or not. Major steps have been initiated by the IEG in the direction of a consistent and viable development strategy. But major lags by the traditional hierarchy exist in the other direction, lags which either implicitly propose immobility as an alternate to change or minimal measures only grudgingly carried along. Our position must line up with those groups who want to effect change consistent with our criteria. In applying this strategem we must, however, be ever mindful of not wanting change more than the Ethiopians want it and we must not be so related to the total societal structure or to any one of its competing groups that we become a protagonist or participant in the debate on the Ethiopian internal issues at hand.

What does Ethiopia have to work with if it wants to develop: (a) minerals of undefined value and developmental capacity, (b) tourism potentials, and (c) the vast rural sector. We have elected to concentrate on rural development as the core problem. So has the IEG. Minerals properly

are the province of the UNDP and private enterprise. Tourism has been identified by the IBRD as a sector eligible for Bank support insofar as infrastructure is concerned; UNESCO has indicated interest in the preservation of antiquities, and the operation of revenue producing facilities, hotels and the like fall correctly to the private sector. In any event, major forward motion in tourism will require major organizational effort and governmental shifts which we fear are still in the future. Furthermore, neither tourism nor minerals development would provide opportunities to address the fundamental problems of development in line with our criteria.

The rural development core problem comprises four traditional sectors: agriculture, education, transportation, and health. Our approach in agriculture will focus on traditional small holder agriculture and on agricultural export diversification and development. (Attention will also need to be given by other donors and the private sector to agro-industrial potentials.) The rural development theme will admirably permit an assistance strategy to address the three E's--equity, employment, and exports.

While education is normally a sector unto itself our approach will emphasize those parts of education which lead to improved rural development.

This will include focus on both experimental community education and selected aspects of the higher education apparatus of the University where they directly contribute to rural development, especially in training personnel for staffing rural service organizations. (See Section II.B for supporting sectoral presentation.)

The health sector also could be seen as a major field. We approach it, however, in terms of priority attention to those aspects inextricably related

to the basic functioning of agriculture--of rural life. Thus attention would be given to health services aimed at disease prevention, including malaria control, and the provision to villages of potable water. If feasible, under the leadership of the World Bank or other international auspices, attention will be given to the development of general health services reaching into every community within the context of emerging local government structures. Early starts in pilot models to provide rural maternal and child health programs and services, including family guidance components may also be considered.

In transportation the criticality of rural roads is undisputed. More than 75% of the people of Ethiopia live more than 10 kilometers or perhaps six hours from other than a foot trail. Penetration tracks need to be constructed and this in turn is closely related to the problems of local administration referred to in earlier sections.

From an operational point of view this strategy can be applied so as to increase or decrease the volume and intensity of activity depending on how quickly the IEG moves on the structural issues of rural development, and on our own capacities. Our particular level and role will vary from year to year, depend upon the preconditions for assistance which Ethiopia must create, on the availability of well-founded, well-organized, and adequately staffed projects and activities. Attention in project design will of course focus on known and anticipated bottlenecks and will be done in consonance with the major role of the IBRD/UNDP and other donors. We would seek to play only a part in most activities and perhaps even in some discreet projects, a point agreed upon among major donors.

Education Sector. Apart from our rural development oriented education, a minor continuing independent sectoral focus lies in the education field. Continuing commitments and relationships with the University enjoin a sustaining relationship to that institution in our common interest. To some extent these relationships are at the heart of our work, reflecting the main role of HSIU and the educational system in training men and women in all manner of skills toward the goal of a better rural life. To the extent they are not so, it is still necessary in the short run that existing approved projects and funding be carried forward in an orderly manner to their conclusion in Academic Year 1976-77. Our post-1977 relationship with HSIU is a matter for definition in the next two or three years.

Related to education are activities in urban vocational training conducted by the Afro-American Labor Center and the Opportunities Industrialization Centre/Ethiopia (OIC/E). These non-core activities (the first centrally funded) can potentially make contributions to rural development, especially

OIC/E if it can work in the new rural-urban areas to create non-farm jobs for farm youth.

G. Timetable of Actions. Over the next nine months, prior to the convening of the Second Consultative Group in March/April 1973:

1. The IBRD/IEG/IMF will have completed the following major studies:

- Comprehensive Agricultural Sector Review (IBRD)
- Comprehensive Education Sector Study (IEG-IDA)
- Aviation and Tourism Development Study (IBRD)
- Revenue Policy and Fiscal Reform (IMF)
- Macro-Economic Review of 1972 (IBRD)

2. The ECA will have completed for the IEG a study on:

- Export Development Policy and Institutional Requirements

3. The IEG should have completed most of the following internal policy studies, several of which it currently has under active review:

- Land Reform Policy
- Land Tenancy Legislation
- Reform of Crown Land Grant System and Adoption of Settlement Program
- Organization for Rural Roads Program
- Employment Policy
- Experimental Local Administration (Awraja Program)
- Proposals for Rural Education (for IDA consideration)
- Agricultural Market Structure and Organization Analysis
- Rural Ag Credit Structure

4. AID will have available in September/October 1972 a study by Messrs. Clark, Pearson, and Barnett in which AID strategy and development priorities will be assessed from the viewpoint of defining our mid-range goals and targets (1978-9), thus providing AID with a sighting tube through which we can look back at the postulates in the studies enumerated above-- and forward from the FY 73 and FY 74 proposals in Section 10 below.

It should not be overlooked that intensive work in the IEG will commence in the fall-winter of 1972 on the Fourth Five-Year Plan (July 1974 - June 1979) and that all the studies enumerated above, and decisions on them will form an important element of the Plan.

We expect the IEG to attempt to take decisions on many of the matters raised in the studies listed above. This is especially true of the local administration study on which action may well be a precondition to other steps--e.g. rural roads. IEG actions and decisions may be viewed as a continuum running through the CG in the spring of 1973, the FY 1974 and 1975 budget cycles and incorporating the FFYP approval process late in FY 1974. Ancillary studies will be needed and detailed project and activity plans will be developed even beyond this period.

In summary, although we can anticipate to some extent what additional analyses and studies will be required over the next 12-18 months, we cannot predict with certainty their precise timing, the specific manner in which they will be done or who will perform them. This will be determined by the IEG's own decisional processes and the details to be worked out within the multilateral framework. What is important to note in this connection is that there is plenty of policy and broad planning already "cooking" and that there is very little reliance on AID for this with the external burden having been shifted primarily to the IBRD and Harvard DAS.

As these broader level determinations evolve, AID will want to stand prepared to participate in their execution. Our own AID/W and USAID reviews of the various studies, especially the comprehensive Agricultural and Education Sector Reviews, will tip us off as to possible discrete USAID financed analyses which may be in order. The AID studies now specifically foreseen are touched upon below.

H. Proposed U. S. Assistance Program for the Biennium FY 1973-1974.

Pending the outcome of the AID Strategy and Priorities Assessment, we are proceeding within a programming framework which will provide a great deal of elasticity as regards the volume of assistance that AID may choose to provide. However, since levels are not irrelevant, and must be specified within a month's time, we have assumed that there is no valid reason why, if projects fitting our criteria come forward in time and if multidonor considerations are fulfilled, we should not project FY 73 and FY 74 programs at the same range of the past 2-3 years--U.S. \$15-25 million.

Excluding three projects scheduled for termination in FY's 1973 and 1974 (Government Budgetary Practices, Customs Administration, Economic and Financial Planning), we are currently committed to seven continuing projects or efforts within our core problem area during FY 1973-74 (and beyond in some cases). 1/

1. Ada District Development (DG and DL)
2. Borana Pilot Range Project (DG)
3. RAD - Minimum Package Program (DG)
4. Food for Work in Eritrea and Tigre (P.L. 480)
5. Agricultural Advisory Services/Agricultural Sector Planning and Finance (ASL and DG)
6. Malaria Control (DL)
7. Highway Equipment Repair Facilities and 5th Highway (DL)

Two other projects will continue through FY 74 (and beyond) as follows:

1. University General Support (DG)
2. Opportunities Industrialization Centres (Ethiopia) (DG)

1/ Excluding Rinderpest Control

The latter two are in a special category, not wholly related to our rural development core problem area; both are subject to special considerations set forth elsewhere; both potentially can make very material contributions to rural development through addressing two basic constraints--relevant education and employment in the rural areas.

In the case of HSIU, our support for the Institute of Development Research, for Alemaya College (agriculture), and the Gondar Public Health College reflects the rural development bias of these organs. In addition, since we have a long standing commitment to HSIU in terms of the development of the institution per se, we will be undertaking in October 1972 an extensive evaluation of HSIU jointly with HSIU and the Ford Foundation as regards our roles in HSIU's future development. The very importance of this institution to Ethiopian development generally is reason enough why the U. S. and AID cannot walk away from HSIU in this decade.

The case of OIC/E is different. There AID/W has encouraged OIC to venture into Africa; project development will take a year, organization of a "going concern" another year or two--thus, financial support will be needed certainly through FY 74. Also, OIC can hopefully turn to the need for non-farm employment in rural areas and address our core problem in a modest way.

We also will be prepared, as indicated in Section A above to support MCH/FP activities--whether urban or rural--in a wide range of possibilities including training, study and research, demography, expansion of MCH/FP activities within the general health service context, (see also 12 below.) Likewise we will assist in promoting an Ethiopian export development capability through the multiple opportunities available from AID/W as warranted.

The new activities proposed for consideration in FY 1973 and FY 1974 are arranged in likely order of readiness for action. Of the twelve entries only possibly two would be exclusive U. S. projects, all others would present opportunities for multidonor arrangements. Some of those listed may not materialize as projects or as projects which the IEG would want the U. S. to support. However, the range of possibilities may be large as the various planning studies and policy recommendations mentioned above culminate in action programs. Thus, our reference to elasticity at the outset of this section. Wherever we have shown "slashes" between funding symbols, this is intended to infer one source or another or a combination; obviously the type of funding will follow from the IEG design of the program and the specific U.S. role to be played.

1. Malaria IV (DL) - AID foreign exchange and reduced local cost financing to be provided in FY 1973 to cover MES operations for the succeeding two or three year period FY 1974-FY 1976. WHO technical assistance to continue.

2. Pulses/Seeds Production (DL/ASL, and DG) - The pulses component of the Project (DL), in up to five geographic areas involving both peasant and commercial farmers, is to increase the production and export of haricot beans from 20,000 to 200,000 tons over the next 10 years using labor intensive methods. The seed component (DG) is aimed at overcoming one of the major bottlenecks to increased grain production by small holder farmers through the selection and multiplication of improved varieties of cereal and pulse seeds. The project could be ready for financing late in FY 73, or early in FY 74.

3. RAD - Awraja Program (DL/ASL/DG) - This experimental local government administration program may well be approved within the IEG in FY 1973. As perhaps the primary mechanism for the execution of other rural programs, it will require some technical and capital inputs of its own to develop the necessary administrative structure over the next several years.

4. Rural Penetration Roads (DL/ASL) - Preliminary IEG planning on the rural roads program, now under way, will be intensified during FY 1973 and will most likely be hooked into the Awraja Program for the packaging of a financing proposal in FY 1974. Other donor assistance e.g., IBRD, U.K., and PRC may be appropriately involved.

5. Settlement Program (DL/ASL) - The IEG will probably adopt a policy to set aside some portion of the 10 million hectares of public land for planned settlement purposes. The Ministry of Land Reform will develop broad plans for two or three low-cost settlement schemes per year for which surveying has already begun, with the actual settlement programs to be carried out by the operating ministries. A financial package covering settlement operations over a two-year period could be put together for DL financing sometime in FY 1974 depending on how quickly IEG policy decisions are made.

6. Grain Marketing/Storage and Handling Facilities (DL) - Major requirements in this area are likely to be identified in the IBRD Agricultural Sector Survey and in the IEG internal marketing structure study now under way; they could be packaged for joint IBRD-AID financing in FY 1974.

7. Agricultural Sector Loan IV (DL) - ASL IV in FY 74 will further strengthen the local financial support and absorptive capacity of the agricultural sector in fiscal years 1975-1976. Consideration may be given to altering its scope to incorporate both rural area local costs now excluded from ASL financing (e.g., rural education, rural health) and an import component to cover foreign exchange needs for agricultural and other inputs, (e.g., water supplies.)

8. Southern Range Lands (DL) - This project will grow out of our Borana Pilot Project and an IBRD financed study just getting under way. It could be ready for joint IBRD/AID financing in FY 74 or FY 75.

9. Southwest Development (DL/ASL/DG) - The Ethiopian reconnaissance survey of the three provinces of Ilubabor, Kaffa, and Gema Gofa will be completed by the fall of 1972 leading to possible identification of IEG development priorities for the area. One or more pre-feasibility or feasibility studies will be undertaken in FY 1973 with AID assistance; specific project proposals could be ready for financing by AID late in FY 1974 or FY 1975. Land development, water resources, roads, disease suppression, and settlement are all possible project features.

10. Cadastral Survey (DL/ASL and DG) - Legislation on land registration and cadastral surveying will be presented to Parliament after approval of the landlord tenancy legislation to be acted upon in the next session of Parliament; an essential piece of the total land reform program, this long term effort might be ready for combined UNDP-AID financing in FY 1974.

11. Rural Education (DL and DG) - Following completion and review by the IBRD-led Consultative Group of the IEG Education Sector Review, AID in

FY 1973 and FY 1974 could provide strong support for new policy departures in rural education through grants for experimental community education and an Education Sector Loan designed to permit earlier expansion of educational/learning opportunities in the rural areas.

12. Rural Health (Title X Grant) - Population and Family Planning activities which may be initiated in FY 1973-1974 are outside of our core problem framework since possible starts in this area will probably take place in the urban areas. However, if a health sector survey is undertaken in Ethiopia by IBRD/WHO and there is a resulting rationalized and expanded IEG effort related to rural health, AID could consider providing assistance conceivably as early as FY 1974 for expanded basic rural public health services incorporating MCH/Family Guidance. Water supply for the rural population might also be programmed.

I. Impact on AID Management of Proposed FY 73-74 Programs. Overall Mission management has been streamlined in the past few years--Direct Hire employment down from 90 to 30, FSL from 120 to 40. We anticipate a minimal superstructure by FY 1975--with ready access by the Mission to AID/W and regionally based personnel for design and evaluation functions and for trouble-shooting efforts. We plan on the use of intermediaries and contractors, capable of supporting themselves, in all major undertakings.

Thus, a review of the proposed and possible new projects listed in Section H suggests the following categorization in terms of management impact.

1. Project Extensions/Amendments with Staff on Board
 - Malaria IV
 - ASL IV and Ag Sector Planning

2. Principal Management by Other Sponsor or IEG with USAID Contributory Role Filled through AID-financed Contract Teams or Exclusively Financing

- Rural Roads
- the Awraja Program
- Grain Marketing/Storage
- Cadastral Survey
- Southern Rangelands
- Settlement Program
- Rural Health (MCH/FG and EWS)

3. New Projects of AID Sponsorship and Management Responsibility with Necessary Staff on Board

- Seeds/Pulses
- SW Development
- Rural Education (ECE and ESL)

Some staff shifts might be needed were all items listed to materialize, but this would probably involve no interruption toward the planned reduction in total number of staff to 20 by 1975.

For FY 1973 we see, however, only Malaria IV (DL) and Ag Sector Planning and Finance (DG) as certainties with prospects for SW Development pre-feasibility or feasibility study and for definition of the Pulses/Seeds Project at the end of the year.

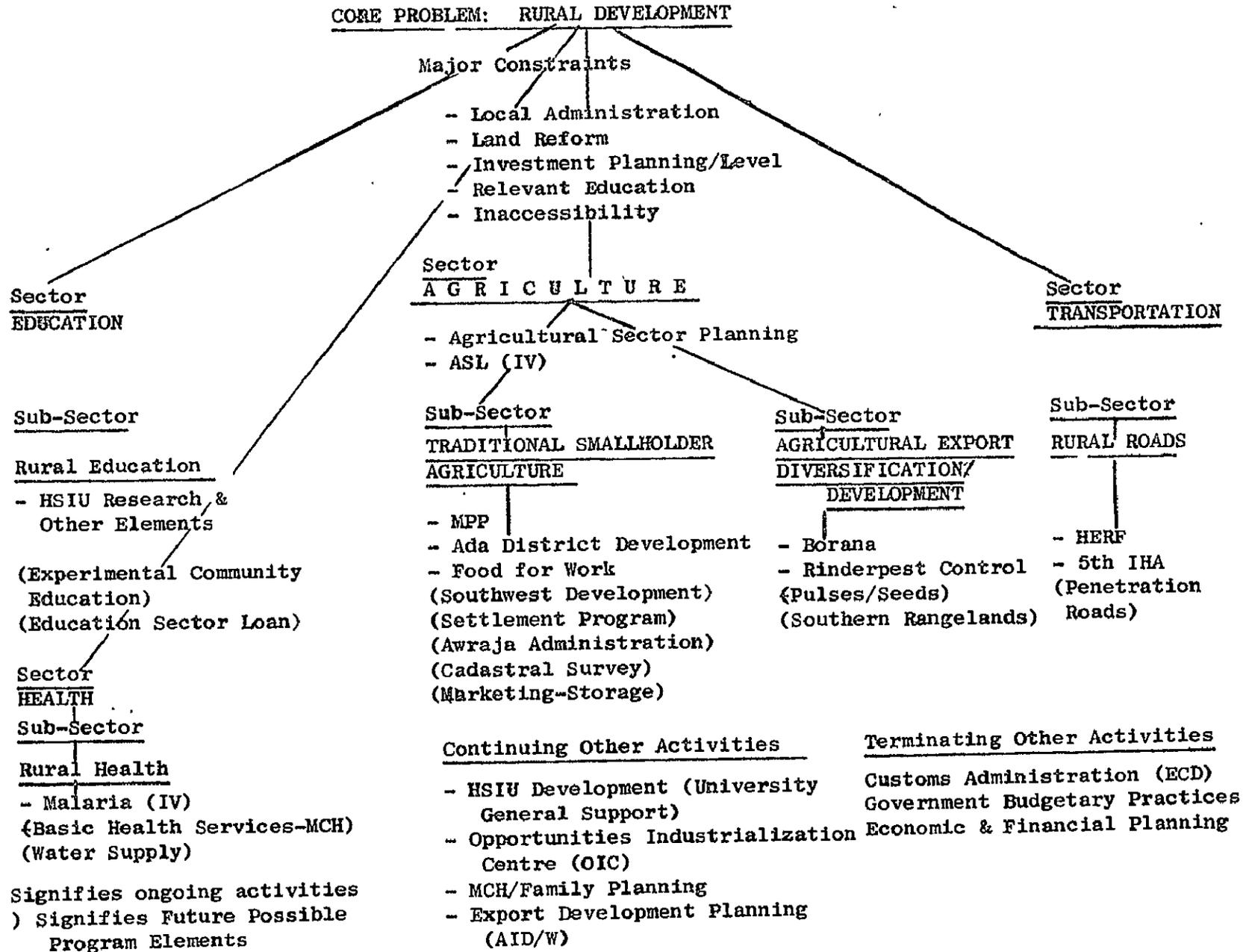
In FY 1974, ASL IV is sure and it seems likely the IEG would make specific project requests for Grain Marketing/Storage, Rural Education Financing and possibly Southern Rangelands. IEG action on the Awraja

Program could energize if not incorporate support for rural roads and perhaps settlement in some combination or they might, at least at the outset, be integrated in FY 73 and FY 74 into our ASL. Rural health and cadastre starts in FY 1974 will probably involve initiation of the basic planning work.

Our manning estimates for FY 73 and FY 74 will reflect these assumptions plus the decision to move the University General Support Project to a block grant basis during FY 73. In the event that support is requested in MCH, we propose to use an intermediary AID grantee as the action agent.

Precise staffing requirements, within the overall limitation cited, would depend on the mix of our portfolio, the stage of IEG planning and implementation reached in FY 74 for those programs which are national in character, the activity of other donors in the case of all the Group B projects and, no less importantly, the progress made by AID in organizing substantive/technical expertise centrally and in regional offices to help accomplish the necessary work in project design and evaluation.

J. SCHEMATIC PRESENTATION OF CORE PROBLEM AND USAID PROGRAM FOR
 FY 1973 - FY 1974 - EFY 1965 - 1966



- 25 -

Legend | - Signifies ongoing activities
 () Signifies Future Possible Program Elements

II. A. RURAL DEVELOPMENT

1. DESCRIPTION AND CONSTRAINTS

The priority task of rural development in Ethiopia cuts across traditional sectoral lines to include all of the agricultural sector and rural programs in the education, health and transportation sectors.

The key constraints identified in Part I were administrative capacity, investment levels, balance of payments, and the subordinate constraints of relevant education, land use - land reform, and population growth. The constraints of investment and balance of payments are discussed in Part III while the relevant education constraint is discussed in Part II.B.

Within the key constraint of "administrative capacity" is the problem of the existing system of local administration. There is a need to pay more attention to program and project design which encourages the buildup of local government capacity to assume responsibility for the leadership and administrative tasks inherent in rural development. The common approach in developing countries toward development is planning "from above." If a rural development program is to succeed in the long run, some planning must be done at the grass roots. On the other hand while local development initiatives are important, they lead to frustration if not supported by national programs which can ensure the provision of key trained personnel and of key material inputs needed from the various sectors.

Present IEG plans call for local administration to be centered at the Awraja level for the reason that: "The Awraja administrative structure reflects the structure of the Central Government Administration. Its functions include the Awraja and Woreda Courts, the Awraja and Woreda Treasuries, the police, community development personnel, agriculture extension personnel, public health center, school administration, the post and telephone, the electric and power authority, and the Ethiopian News Agency." Each agency performs specific duties assigned to it by the respective National Ministries.

For local administration to be meaningful and effective certain requirements must be met, among them are an appropriate organization, adequate funding, trained personnel, transportation facilities, communication facilities, and support from the national level.

Perhaps the most pervasive constraint in moving the rural sector forward, especially in the highlands, are the numerous traditional systems of land tenure and the share cropping systems derived therefrom.

In the southern half of Ethiopia, individual freehold is one common form of tenure. It is characterized by large holdings, frequent absentee landlordism, and cultivation by tenants on a share-cropping basis. The tenancy relationship is one prime manifestation of the feudalistic stratification of Ethiopian society; it is not simply an economic arrangement. Rents are at least one-fourth of the crop, and often go as high as one-half of the crop or more, depending primarily upon whether the tenant farmer has his own plow oxen. While tenants

have always been insecure in their holdings, the advent of commercial farming in the highlands promises to lead to their eviction in large numbers if preventive measures are not taken.

In the northern half of the highlands, however, communal tenure is common. In some areas access to the use of land is based on residence in a village; in others on membership in an ambilineal descent group; and in yet others, on some combinations of the two principles. The problems posed by communal ownership have yet to be adequately formulated. It is not clear to what extent it is the tenure system itself which is defective, or if the problem is more the lack of adaptation of development programs and marketing structures evolved in individual freehold areas to the particular needs of the communal areas.

The Ministry of Land Reform and Administration was created six years ago and spent the first few years engaged in field research on tenure problems. As a result, there now exists for each Governorate-General in the Empire a superficial land tenure survey based on approximately two months of interviews in the Governorate-General carried out by survey teams from the Ministry.

The Government has given priority to the problem of tenancy in the south. In 1971 it presented to Parliament a proclamation to regulate tenancy relationships which would, had it been enacted, substantially alleviate the difficult situation of tenants by providing greater security of tenure, fixing rents in cash terms, reallocating income from tenant farms in favor of tenants, and giving

tenants a right of preemption in case of sale of their holdings. Disputes under the proclamation would be removed from the regular courts and handled by special tribunals under the Ministry of Land Reform and Administration. The legislative proposal was hotly debated in Parliament whereupon it was referred back to the Government for further study. The Government has, since that session, revised the proposal in some particulars to enhance its chances of passage. The revised version has been approved by the Council of Ministers and was presented to Parliament this month (June 1972), but will not be reviewed and acted upon by that body until sometime during the November 1972-June 1973 session. Other proposals by the Ministry of Land Reform and Administration which are under consideration by the Council of Ministers include (1) a draft proclamation to impose either a penalty tax on large holdings of undeveloped or underdeveloped land or a ceiling on the holding of such land with a compensation feature - both intended to force either development or divestiture and thus redistribution of such land, and (2) a draft proclamation to create a modern system of registration of titles in land, a measure with important implications for the administrative feasibility of future reforms.

In the long run, the increasing rate of population growth will pose a significant restraint to the development of rural Ethiopia, particularly in the highlands where land holdings are already highly fragmented and where population densities must either decline through

a nationwide family planning program or through a large program of resettlement. Unless and until such a settlement program is undertaken and begins to take effect the rate of population growth will continue to increase as disease suppression programs reach larger and larger numbers of people and as the rudimentary health services "cure" more people of common illnesses. Certain quarters of the IEG are not unmindful that the impact of current and future health programs are likely to undo the gains which are expected to be derived from the comprehensive and minimum package programs, but there is as yet no agreed course of action through which the feasibility of delivery family planning services can be discussed and investigated - given the religious and political implications of such a program. This requires a concerted educational effort by all major donors and perhaps some low-key professional economic analysis of the implications of present population growth trends on future development prospects.

2. SECTOR - AGRICULTURE

a. Description

Agriculture is the mainstay of the Ethiopian economy. It employs about 90% of the labor force, contributes 58% of GDP, and accounts for almost all exports. Technologically the sector is backward. It is estimated that 85% of those dependent on agriculture are subsistence farmers operating on very small holdings using outdated methods. The main export is coffee, accounting for 60% of export earnings.

Growth during the 1960's was slow. Commercial agriculture grew at about 2.8%, subsistence farming at no more than 1.8% and the total agriculture sector at about 2% per annum from 1961 to 1969 (compared with 4.5% increase in total GDP). This compares unfavorably with estimated per annum population growth rate of 2.2% during the same period. Since 1969, domestic food prices have risen sharply until recently when prices declined as a result of last year's bumper harvest. Export growth, moreover, has continued to be slow. ✓

Because of limited resources and limited markets outside agriculture, raising the rate of growth of per capita income above the low 2.0% of the past decade can only be achieved by significantly raising agricultural production particularly in the rural subsistence sector. There is considerable potential for doing so, since there are some 18.3 million hectares of potential agricultural land, and land under cultivation can be made more productive through better use. Ethiopia also has 26 million cattle and 22 million sheep, goats, and other livestock, the offtake from which is only a small fraction of the potential. The outlook for expansion of the main export, coffee, is unfavorable but there is potential both for substantial growth of other agricultural exports and substitution for imports of foodstuffs and raw materials such as cotton. Overall, therefore, the market prospects are good, but it will undoubtedly take considerable time to organize production to realize the potential. This will require overcoming a number of core problems discussed elsewhere in this paper.

The IEG's agricultural strategy reflects the need to improve the lot of the vast majority of the population engaged in subsistence agriculture while at the same time encouraging commercial agriculture, particularly in underpopulated areas, in order to avoid a potentially severe foreign exchange shortage (by diversifying export earnings and reducing agricultural imports). Until the Third Five-Year Plan was launched in 1968, the IEG largely confined itself to creating the environment for private investment in commercial agriculture. This was in keeping with a situation in which research, extension, and other infrastructure were negligible. In subsistence agriculture Ethiopia initially concentrated its efforts on a few intensive projects in limited high potential areas. In commercial agriculture the progress in Humera and Awash Valley indicates a new and encouraging willingness of private entrepreneurs to invest in agriculture.

b. Sector and Subsector Analyses - FY 1973-74

The IBRD is presently drafting the most comprehensive study of the rural sector undertaken to date in Ethiopia. This study is based upon approximately 50 man-months of field study carried out in the fall of 1971. The draft report and its recommendations on a strategy, policy alternatives and studies and projects required will be discussed by the IBRD team leader with the IEG in July 1972 and then reviewed within the IEG during the fall-winter before its final issuance prior to the March-April CG meeting.

The IEG is hopeful that this report - as finally approved by the IEG - will provide a framework and guidelines for development of

the Fourth Five-Year Plan (FFYP). The FFYP is to be prepared during FY 1973 and early FY 1974. Under the direction of the Planning Commission Office, the Ministry of Agriculture is charged with primary responsibility for formulation of the FFYP's agricultural presentation.

It is anticipated that the IBRD sectoral study's recommendations will be based primarily on a narrative description of the sector, and subsectors analyzed from a historical perspective. The small data base in Ethiopia (particularly production data) will probably preclude the kind of in-depth quantitative analyses which the IEG and IBRD expect to employ as the data base is improved. The timing of studies and projects identified in the sectoral report will not be known until after the IBRD-IEG discussions and internal IEG review. However, continuing and planned USAID-assisted projects in FY 1973-74 are consistent with the IEG's present strategy and anticipated IBRD sectoral study recommendations.

It is expected that the IBRD will continue to take the lead in providing external assistance to the IEG in sectoral and sub-sectoral analysis, whereas USAID will provide technical expertise and training, through the Agricultural Sector Planning Project, to assist the IEG in developing its data base and capacity to carry out quantitative analyses related to core problems and project preparation.

The Ministry of Agriculture is currently planning a project to gather selected data in FY 1973 in order to evaluate progress made during the Third Five-Year Plan period and serve as basis for

evaluation of progress during the Fourth Five-Year Plan period. Also under serious consideration is a proposal that the first national agricultural census be undertaken in FY 1974.

c. Constraints

The constraints (both sectoral and subsectoral) discussed in this document have been identified by the IEG, USAID and other donors, including the IBRD, as being the major constraints to developing Ethiopia's rural economy. As indicated elsewhere in this paper, currently approved, as well as planned USAID-assisted projects, address these constraints within the sector.

The priority and timing with which USAID and other donors address those constraints which to date have received inadequate attention will be to a large measure dependent upon the IEG-IBRD sectoral discussions this summer and will be refined as the IEG commences preparation of its Fourth Five-Year Plan this fall-winter.

(1) Agricultural Sector Planning Programming

The IEG Third Five-Year Plan (TFYP) states, "Because the Ministry of Agriculture bears the main responsibility for carrying out national policy, the administrative strengthening starts in that Ministry. It will be government policy to institute at once a review of the work and capabilities of the Ministry so that it may be improved in efficiency and effectiveness." A Task-Force commissioned by the Minister of Agriculture prepared a report, dated September 3, 1969, titled: "Re-Organization and Strengthening of the Ministry of

Agriculture." Among the recommendations made by the Task-Force were:

- (a) the establishment of a salary scale embracing all key personnel in the proposed structure;
- (b) reorganization of the departments;
- (c) establishment of a Planning and Programming Unit; and
- (d) that external assistance be sought to study and recommend proper modern management, and proper budgetary and financial procedures.

As a further followup of the need to strengthen the Ministry of Agriculture, in early 1970, the Rockefeller Foundation was requested by the Imperial Ethiopian Government to provide the services of a team of three or four senior specialists to carry out a study leading to a reorganization of the Ministry of Agriculture and related organizations and agencies serving agriculture and agricultural development. The first major recommendation made by the Rockefeller team was the "Development of a strong Planning, Programming, and Advisory Unit as a staff office attached to the Office of the Minister of Agriculture..."

In October 1970, the Planning Commission Office (PCO) developed a paper entitled "Planning Machinery of The Imperial Ethiopian Government" which describes the planning philosophy of Ethiopia, the relationships between the Awraja Development Committees - Regional Planning Offices - Ministries' Planning and Programming Units - PCO - Planning Commission,

d. U.S. Projects and Linkages with Other Donors

The Agricultural Advisory Services Project is designed to increase the capability of the Planning and Programming Department of the Ministry of Agriculture which will identify, plan and evaluate agricultural programs. To reach this objective, U.S. inputs have included: technical assistance in the areas of agricultural economics (marketing, evaluation, project preparation), an agronomist, legal institutions specialist, and a mechanic supervisor; participant training to develop professional competence; and commodities which include office machines and transportation units.

There also has been limited direct assistance from other donors in support of efforts to strengthen the Planning and Programming Department. Two foreign advisors, one funded by FAO and one on direct contract with the Ministry, have worked in the areas of project identification with budgeting respectively.

The IBRD is considering the provision of technical assistance to strengthen the data collection and analysis capability of the PPD beginning in FY 1973, while the UK/ODA provides the services of an economist to assist the Livestock and Meat Board in livestock project identification and preparation. FAO provides some twenty experts to the Institute of Agricultural Research to assist in implementation of agricultural research activities. These specialists and their Ethiopian colleagues also serve as the resource persons in project planning and preparation.

A sequel project to the Agricultural Advisory Services Project, entitled Agricultural Sector Planning Project (to be initiated in FY 1973) will focus specifically on assisting the Planning and Programming Department, Ministry of Agriculture, as well as other agencies involved in agricultural planning and provincial agricultural planning. The purposes of the proposed project are: 1) to continue to assist the MOA to attain the capability to identify, plan and evaluate agricultural development activities; 2) to assist the MOA to improve the capabilities of the Provincial Agricultural Offices to plan and implement local project activities; and 3) to assist the IEG to develop a national agricultural planning capacity in MLRA, MNCD, MCIT, MDI and AIDB, including the establishment of operational linkages among them and with the Ministry of Agriculture. The purposes of this proposed project directly relate to the efficient implementation and continuing evaluation of other approved and proposed joint AID and IEG agricultural production projects. The purposes are also related to multilateral efforts to improve the capabilities and capacities of the IEG in the areas of national, regional and sectoral planning.

e. Specific Program Issues

(1) Existing land tenure systems are a primary constraint in the agricultural sector. Adequate numbers of trained technicians and

experienced managers effectively to staff programs and projects being implemented and planned is of increasing concern.

With regard to proposed U.S. assisted agricultural projects in FY 73-74, the large pipeline of potential donor-assisted projects in the sector will strain the IEG's capacity to mount them without a major bottleneck-breaking effort by the IEG as a whole. This is a subject which will be covered by the IBRD in its Agricultural Survey and 1972 Economic Reports and will be a major focus of attention in our work on ASL III.

(2) Equity

Based on the experiences of CADU, the IEG is increasingly conscious of the need for employment and income distribution considerations in its development strategy. Considerable work must now be done by the IEG in translating these concerns into workable employment/income distribution policies and their application at the senior project planning level.

(3) USAID Management Capability

Management capability of the Mission should be adequate to sustain on-going and planned AID projects and activities in the sector, particularly since the IEG will be expected to play a more active role in the planning and management of traditional projects and because of our new emphasis on AID support of national programs to which we are merely a contributor to the IEG effort.

3. SUBSECTOR - TRADITIONAL SMALL-HOLDER AGRICULTURE

a. Descriptive Analysis and Constraints

Less than 10% of Ethiopia's agriculture is commercialized. Developmental infrastructure such as transportation, communication, marketing facilities, credit, health, research, extension, and educational facilities are largely nonexistent. While national man/land pressures are not burdensome, most farmers subsist as tenants crowded into the highlands area where average holdings are extremely small and fragmented. Capital investments are limited to oxen and a few simple tools/implements. Operating capital, research and extension activities are extremely limited. The effects of small holdings and unfavorable tenancy arrangements combine to stifle initiative. This situation has led to grossly skewed income distribution, inefficient and underutilization of manpower and a need for resettlement into the lowland areas.

Constraints:

(1) Land Tenure

The existing land tenure patterns impede the development of small-holder agriculture. Farmers with no security of tenure or clear title to land would be reluctant (even if credit were available) to venture into capital investments whose return is spread over several years. Unstable tenure arrangements increase the risk of using credit necessary for annual production inputs. Because of small, often non-contiguous fields, the adaptation of technology is impeded and production inefficiencies are "locked-in."

(2) Research Base

Agricultural research in Ethiopia is relatively new. The College of Agriculture, and its research station at Debre Zeit established in 1952 with USAID assistance, conducts an active but limited research program in collaboration with the Institute of Agricultural Research (IAR) (overall national research coordinating body) and its four regional stations. The IAR has been assisted by FAO and the Federal Republic of Germany. It is anticipated that other external donors will provide increasing assistance towards strengthening the research base. Progress is hampered by limited funds for equipment, land, trained manpower, and an unawareness of the vital necessity for research as a developmental tool. In addition, there is the lack of an effective mechanism to transfer results to farmers and to refer farmers' problems back to the researchers. Most research to date has been concentrated on crops, soils, and some livestock with limited activities in agricultural engineering, economics (including marketing and input/output pricing) and human relations. Research and extension must be more carefully coordinated in order to narrow the gap between knowledge and its application.

(3) Agricultural Extension

While over 170 workers have been trained through Ambo and Jimma Agricultural Schools (70% receiving an additional year at American University, Beirut), only about 120 are still in active extension service. Ethiopia, thus, has only one extension worker per 35,000 farm families

compared to a ratio of perhaps 1-600 in a typical U.S. or Western European setting or between 1-2,000 to 1-10,000 for most other developing countries. Additional problems limiting effective extension work are: 1) less than 2% coverage due to difficult access to farmers, i.e. few vehicles, poor roads and communications; 2) limited opportunities for in-service training; 3) inadequate funds for salaries, per diem, teaching aids and demonstration materials; 4) poor organizational structure resulting in confusion as to authority and responsibilities; and 5) limited specialist support. This latter factor is tied to poor research/extension coordination.

Given the above conditions, the IEG is wisely moving in the direction of concentrating extension activity in package programs such as Ada, Minimum Package, CADU, WADU, etc.

(4) Agricultural Credit is largely unavailable to the subsistence farmer, and there is little or no capital formation in the agricultural sector due to its mainly subsistence nature. Despite the availability of local government credits for "bankable" activities, no adequate credit mechanism has been developed to serve the traditional farmer subsector outside the project organization and minimum package program. Since available timely credit is a necessity for the introduction of improved technology, a system must be developed which takes into account Ethiopia's development problems; i.e. tenancy, limited transport, limited technology, imperfect markets, etc. Traditional

farmers are not educated in credit programs. A successful system will need to be highly supervised and keyed to "proof of use" demonstrations.

(5) Availability of Inputs

No adequate infrastructure exists for input supply to the traditional sector, and thus use of inputs is extremely limited. Wise input utilization must be tied to a sound research and extension system, tenancy legislation, available credit, storage and marketing facilities, seed improvement program and adequate price incentives.

(6) Trained Manpower

Trained manpower to provide rural services may be Ethiopia's greatest shortcoming. The critical needs for a developing agriculture are loan supervisors, cooperative workers, inspectors, production technologists and marketing assistants, and secretaries. These skills training can be provided through pre-service and in-service training programs at relatively low cost similar to methods used to train extension workers in many countries. Academic training for professional agriculturists can be obtained through HSIU; graduate academic training is available only through foreign scholarships.

(7) Transportation

Ethiopia's transportation system is extremely limited. Two railroads serve the country (Djibouti to Addis and Massawa to Asmara and beyond) and there are only 8,000 kilometers of all-weather roads. It has been estimated that between 80-85% of the rural people live ten or more kilometers from even a dry weather road. One-third

of the 102 awrajas in Ethiopia have no all-weather roads and less than 50 percent of the others are within 15 kilometers of an all-weather road. Most of the commodities marketed from farms, as well as consumer purchases, are carried from farm to market by camels, donkeys, or on human shoulders.

The ultimate development of an efficient grain marketing system in Ethiopia will depend, to a very large extent, on the construction of a "farm-to-market" road network together with substantial improvement in the existing main roads. The poor road quality results in very high transportation charges between the rural markets and the "regional" markets and in most cases limits the transport of grain to the dry season.

(8) Grain Marketing Systems

The traditional grain marketing structure in Ethiopia has accomplished little to stimulate production or to increase consumption. There are large numbers of grain assemblers, dealers and intermediaries in the rural markets due to the distance from production areas to the points of ultimate consumption. These merchants have very small capital investments, low inventory turnover and add little to the value of the commodity.

The influence of price competition in rural markets is questionable. Competition is often limited to weight differentials. In a given transaction the cost of transportation is a significant element.

The grain marketing system works with a low degree of efficiency particularly during the postharvest season. The lack of "up-country" storage and a dearth of dealer working capital accounts for much of the inefficiency. The Ethiopian Grain Corporation (EGC) could with adequate financial and management resources improve the performance of the System. The EGC should be "in the market" throughout the postharvest season to absorb temporary surpluses. Most producers are in a very weak bargaining position when dealing with the grain merchants.

The IEG must institute national price policy and define the areas of authority and responsibility. The reorganization of the Ethiopian Grain Corporation and Ethiopian Grain Board for the purpose of efficient administration of national policy is a prerequisite to a national marketing program assisted by foreign donors. The scope and terms of reference for a study of marketing organization is now under IEG review.

b. Listing of Studies

(1) Recently Completed

(a) Agricultural Development Strategies 1950-70, Ethiopia,
Dale W. Adams, Ohio State University, 1970.

(b) Economic Growth and Prospects in Ethiopia, Volume II,
International Bank for Reconstruction and Development-International
Development Associated, September 22, 1970.

(c) Marketing of Grains and Pulses in Ethiopia: Report
No. 16 Stanford Research Institute; prepared for the Technical Agency,
IEG: April 1969.

(d) An Analysis of the Past and Present Operations with Recommendations for Future Operations: prepared for the Ethiopian Grain Corporation; Experience, Incorporated: 1969.

(2) Proposed

In addition to those IEG studies mentioned in Section I.G., the following analysis will be undertaken or completed during FY 1973:

(a). "Implementation Plan for Multiplication of Cereal and Grain Seed in Ethiopia," Experience, Inc., scheduled for publication by July 1972.

(b) "A Market Structure Analysis of those Commodities that Provide the Basic Subsistence for the People of Ethiopia," conducted jointly by USAID and the Planning and Programming Department of the Ministry of Agriculture. Report expected second half of 1972.

(c) "Ethiopia's Agricultural Credit Requirements," IBRD-financed, scheduled for completion by June 1973.

c. U.S. Projects and Linkages with Other Donors

During FY 1973 AID will be supporting three programs which attempt to ameliorate problems of the traditional small farmer subsector. The IEG has informally suggested that AID consider supporting three additional programs in FY 73-74.

Present AID programs in this subsector are:

(1) Ada District Development

The Ada District Development Project seeks to improve the socio-economic status of nearly 13,000 traditional farmers who, under poor

tenancy conditions, are cultivating fragmented holdings of under five hectares in size. The project seeks to develop an infrastructure and institutional framework which will facilitate the replication of project methodology to other highland areas. Major inputs will be improved seeds, fertilizers, closely supervised credit and implements (including machinery if proven economic). Other components included the introduction of model lease agreements, farm-to-market roads, improved domestic water supplies and farm supply/marketing centers.

The Swedish Government launched the initial comprehensive project with its Chilalo Agricultural Development Unit (CADU) program. CADU is a large package program, from which much of the organization and methodology of the minimum package has been drawn.

The Wollamo Agricultural Development Unit (WADU), financed by IDA, is similar to both Ada and CADU but serves a different ecological area. It features a resettlement scheme for 1700 families in the adjacent lowlands.

The Federal Republic of Germany is also considering support for a comprehensive project in Wollega Province of Western Ethiopia.

(2) Minimum Package Program

USAID, a minority contributor in the Ministry of Agriculture's Minimum Package Program, has obligated funds for two years of services of three U.S. technicians (3 agronomists). Major inputs for this project are coming from IBRD, \$22 million for foreign exchange and local capital costs; Swedish International Development Agency (SIDA), \$2.4 million for personnel, commodities and training; and IEG, \$5.1 million for personnel,

operating costs and training. The Minimum Package program represents the primary IEG, and multidonor, effort to help traditional farmers nationwide. The program attacks the fundamental problems of this subsector. Net farm incomes and production should be increased with the introduction of improved inputs made available to the farmers through a supervised credit system. Research data will be formulated and information disseminated to farmers by a network of agricultural extension services. The rural labor force, now underemployed or unemployed, will be optimally utilized. Attempts will be made to improve the security of tenure for the small holders.

(3) Food-For-Work

Through PL 480 Title II Food-For-Work programs, approximately 7,500 metric tons of food grain will be used as payment for up to 25,000 typical small farmers in two northern provinces who participate in reforestation, road construction and repair, and soil and water conservation projects. The Food-For-Work labor intensive activities are designed to utilize the labor of peasant farmers who would otherwise have no employment alternatives for eight months of the year. An additional 15,000 metric tons of grain will be provided by World Food Program over a five-year period, FY 1973-78, for similar Food-For-Work projects that will complement the USAID inputs.

Proposed AID programs in this subsector in FY 1973-1974 are:

(1) Seed Multiplication

The IEG has informally suggested that USAID and other donors support, beginning perhaps in FY 1973, a national seed improvement program which will emphasize research, production, and processing of high yielding seed varieties. The program proposes to involve farmers in the technology of seed multiplication for increased yields and resulting increased net incomes. Commercial private seed growers with African experience are also being asked to participate in commercial production of seed.

(2) Marketing/Storage

The present market structure (grain) analysis that is being conducted jointly by USAID and the Planning and Programming Department of the Ministry of Agriculture will result in the recommendation for one or more marketing and/or storage projects to be launched in FY 74. The IBRD's Permanent Mission to Eastern Africa (PMEA) has indicated that the PMEA is interested in financing a marketing and/or storage project in Ethiopia and has sent representatives to Ethiopia to participate -- briefly -- in the study and to discuss with the Ministry of Agriculture possible means of cooperation. The Ministry is presently discussing alternative sources of financing marketing and storage project(s), including IDA, AID or joint IDA-AID development loans.

The marketing and storage projects must be designed -- from their inception -- so as to facilitate linkage with the Minimum Package Project. Time may become of the essence if the Minimum Package Project is only reasonably successful -- for the domestic market for cereals may well be a thin one, thereby requiring early facilities of the type to be provided under this program.

(3) South West Region - Prefeasibility

The undeveloped South West Region is an area suitable for a number of development projects involving settlement in these lowlands. The IEG South West Regional Development Interagency Committee's serial and ground reconnaissance survey of the lowlands of Gemu Gofa, Kefa and Illubabor has been completed and their reports, which focus on the identification of potential development projects, are to be finalized by mid-June 1972. By August 1972, the terms of reference for a prefeasibility study (which may include a request for services of selected U.S. consultants - probably a development economist, agronomist/land use specialist, hydrologist and livestock specialist) should be finalized. A joint US-IEG team would then carry out the study in FY 1973.

(4) Rural Roads

AID will continue to provide loan financing to the Imperial Highway Authority (IHA) in support of the road construction and maintenance program, and together with other donors, may help finance the construction of rural-penetration roads perhaps linked to the IEG 27 awraja program.

(d) Specific Program Issues Related to These Projects

(1) Major Constraints

(a) The limited number of qualified Ethiopian personnel to supervise and manage rural development projects in the traditional small-farmer subsector is a major factor in determining the scope of programs. Manpower demands to implement the expansion of Minimum

Package throughout Ethiopia over the next five years largely precludes the existence of any other development activity which depends on substantial IEG personnel inputs.

(b) Legislation has yet to be enacted to provide tenants with security of tenure. The expansion of World Food Program and continuation of Food-For-Work activities and the ultimate success of Minimum Package and the Ada and other comprehensive agriculture programs depend heavily on action by the IEG to provide smallholder farmers with equitable conditions of tenure.

(c) Severely eroded soils in Minimum Package areas and in Ada District result in depletion of highly fertile topsoils, decreased value from chemical fertilizers and improved seeds, deterioration of tracks and roads and inefficient cultivation techniques.

(d) Procedures for action, decision-making and cooperation as practiced among and within IEG agencies and ministries often impede project planning, processing and implementation. This factor and the relatively large number of projects proposed for implementation in FY 1973-74 may result in delays in the planning, processing and implementation of the seed improvement, crop/livestock, and marketing/storage projects.

(e) Even with the use of the Model Farmers, illiteracy among small holders is a major constraint to the successful introduction of improved inputs.

(f) To date there has been a lack of cooperation between the several agencies involved in marketing policy development, i.e.,

the Ministry of Agriculture, Ethiopia Grain Corporation, the Ministry of Commerce, Industry and Tourism, Ethiopian Grain Board, the Ministry of Finance, and the Planning Commission Office. Unless this diverse group can and will cooperate it will be difficult to develop a modern grain marketing system in Ethiopia.

(2) Equity

The Food-For-Work program, with its labor intensive nature, has the income distribution effect of providing food to enhance sub-standard nutrition levels, as well as contributing to the economic welfare of village communities through new road construction, establishment of timber resources and introduction of soil and water conservation techniques. Ada, Minimum Package, CADU, WADU, and Seed Multiplication programs provide sources of production inputs for traditional farmers that previously were available only to commercial farming enterprises.

The marketing and storage projects should cause income redistribution in terms of higher incomes for the traditional producers and concomitantly reduce grain prices to the consumers. These benefits are derived from the reduction of marketing margins and, of course, the "middleman" in some cases stands at a disadvantage. Overall employment levels should not change to any important degree.

4. SUBSECTOR - AGRICULTURAL EXPORT/DIVERSIFICATION AND DEVELOPMENT

a. Descriptive Analysis

The following statistical evidence presents a prima facie case for agricultural export diversification and development and further indicates that priority should be assigned to this subsector. In 1970, Ethiopia's adverse balance of payments resulting from commodity import-export differentials amounted to Eth \$139,458,000, which reflects an increase of Eth \$38,759,000 over 1969 or a change of approximately 28 percent. Agricultural commodity exports amounted to Eth \$270,623,000 in 1970 or 98 percent of total exports and one commodity - coffee - accounted for earnings in the magnitude of Eth \$181,269,000 or approximately 62 percent of the total. The United States purchased Eth \$142,318,457 or 78 percent of total coffee exported. This dependence on one market could place Ethiopia in a precarious position.

Oilseeds and cake follow coffee in order of importance with export earnings amounting to Eth \$31,747,000 or 10.9 percent of total agricultural exports. Within this commodity group, sesame seed exports in the magnitude of Eth \$23,294,000 account for 73 percent of total earnings. Hides and skins earned Eth \$25,024,000 in 1970 or 8.6 percent of total agricultural export earning and sheep skin exports accounted for 41.0 percent of this total. All pulse exports combined earned Eth \$10,724,000 or only 5.4 percent of total agricultural exports. Haricot beans were the leading pulse exports and earned Eth \$6,783,000 or 43.1 percent of all pulse sales. Lentils followed haricot beans earning Eth \$4,915,000. ^{1/}

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1/ All calculations based on statistics taken from "Annual External Trade Statistics, 1970" issued jointly by Customs Head Office and Central Statistical Office.

Therefore, this subsector must be developed as rapidly as possible if major balance of payments problems are to be avoided. For the foreseeable future export earnings will depend almost exclusively on agricultural commodities.

Constraints:

(1) Policy

The IEG should develop policies and programs that will serve as a catalyst to increase agricultural exports. The IEG could, inter alia, repeal the two percent transaction tax that is imposed on all exports; eliminate the special duties that are levied on certain animal skins; review the practices of the Ethiopian Grain Board and the National Bank of Ethiopia and thereafter establish policy and practices that will, in fact, encourage export trade; activate the Export Development Council and establish commercial attache offices in selected countries; promote the development of "export" credit facilities and encourage dependable business policies and practices.

(2) Institutional factors and relationships have been unnecessarily discouraging vis-a-vis Ethiopia's pressing need to earn foreign exchange. For example, the National Bank of Ethiopia, in attempting to curtail alleged under-invoicing, has actually discouraged exports. The Bank has not understood that there are many valid reasons why the prices received by Ethiopian exporters can be significantly different from "posted" world prices.

The Ethiopian Grain Board is empowered to issue export certificates and the purpose of these certificates is to certify the percentage of impurities. The Board has in the past refused to issue these export certificates when, in their opinion, the transaction price was believed to be below the current world price. In at least one case, the Board's price information was "behind" the market. Price fluctuations in the world commodity market are sometimes most rapid and neither the Bank nor the Board seems totally aware of this. The role of the Bank and the Board should be analyzed to determine which practices and/or policies expedite and which retard export transactions.

(3) Credit

Recent investigations have shown that to some degree export opportunities have been missed because of the difficulty in obtaining credit. Generally, the Ethiopian exporters have limited working capital and with short-term interest rates at approximately 10 percent, many export opportunities are marginal at best. If agricultural exports are to expand significantly a new export credit arrangement must be established or an existing financial institution encouraged to make "export loans" to all exporters.

(4) Supply

Export marketing problems vary somewhat depending on the commodity in question, therefore, the frame of reference will be narrowed to pulses. The first problem that appears is the lack of a reliable supply of pulses. This supply uncertainty makes it all but

impossible to develop long-term future contract marketing. Even short-term delivery dates are not always met and some Ethiopian exporters are alleged to have failed to deliver when price changes work to their disadvantage.

(5) Standards

The lack of grading standards, including uniformity of size and percentage of impurities, remains a major problem. Depending on the market area, the problem of quality remains to be solved and quality must be improved if pulse exports into the European and other sophisticated markets are to increase. Market development could increase total pulse exports to the Middle East, Asia, Europe and United States provided these impediments are removed.

(6) Inputs

There has been a dearth of production inputs such as improved seed, fertilizer, proper seed bed preparation and modern production techniques. With the possible exception of the small haricot bean, considerable basic research will be required before improved pulse varieties are available.

(7) Livestock

Livestock products are potentially a most important export and are presently third after coffee and oil crops in the generation of foreign exchange. There are 26 million head of cattle, 12 million sheep, 11 million goats and 6 million other stock, thus Ethiopia has the largest livestock population in Africa. Much of Ethiopia's land area is suited only for livestock production.

Endemic diseases are the major obstacle to development of the livestock industry. Until the principle diseases are brought under control, the industry cannot begin to realize its potential. Not only do diseases cause death and debilitation (and adversely affect the cattle owners), but those such as foot and mouth and rinderpest deny Ethiopia access to the profitable international trade. It is estimated that disease mortality and morbidity cause an annual loss of ten percent or U.S. \$80 million of the total value of Ethiopian livestock.

Only three percent of the total cattle population finds its way into commercial trade channels. Marketing systems are cumbersome, involving movements over long distances by foot during which owners may change several times and death and weight losses are high. While trucking would lower marketing costs (SRI suggests by 30 percent), the lack of roads limits this alternative. Diseases preclude the rapid growth of export markets for fresh meat.

Nearly 40 percent of the cattle of Ethiopia are grazed on "government lands" by nomadic tribesmen. The remaining 60 percent are owned by cultivator-pastoralists who farm communal lands or are share-croppers. Thus, the lack of security of tenure militates against the development of water sources, controlled grazing and other desirable land use improvements. The absence of markets, social custom, and periodic high mortality rates from disease and drought further encourage overstocking which aggravates the already serious soil erosion problems.

b. Listing of Major Studies

(1) Recently Completed

(a) Ethiopia's Export Trade in Major Agricultural Commodities:

Report No. 6, Stanford Research Institute; prepared for the Technical Agency, IEG: January 1969.

(b) The Feasibility of Producing Cereals Grain Crops for

Export Markets: Report No. 11, Experience, Incorporated; prepared for the Ministry of Agriculture, IEG: May 1972.

(c) The Feasibility of Producing Pulse Crops for Export

Markets: Report No. 1, Experience, Incorporated; prepared for the IEG Ministry of Agriculture; May 1972.

(d) Production, Processing and Marketing of Meat in

Ethiopia. Thomas H. Miner & Assoc; February 1965.

(e) Development of the Ethiopian Livestock Industry, SRI;

January 1969.

(f) Ethiopia: Development of the Livestock Industry, IBRD:

November 1970.

(g) A Review of Animal Health and Livestock Productivity

Factors in Ethiopia - 1965-1971, IEG Ministry of Agriculture, 1972.

(2) Proposed (or Underway)

The following studies have been undertaken and will be completed in FY 1973 and FY 1974:

(a) The Shire Lowlands Development Project

(b) The Jijigga Livestock Project

- (c) The Southern Rangelands Development Project
- (d) The Highlands Sheep Project
- (e) The Livestock (and products) Marketing Project
- (f) The Dermatu Livestock Development Project

c. U.S. Projects and Linkages with Other Donors

Although the Humera Agricultural Development Project is IDA-financed (U.S. \$3.1 million), an American firm is conducting the agricultural studies needed in order to formulate a detailed long-range development proposal. The crops produced in the Humera area have special significance as export and/or import substitution commodities. The three major crops under production are cotton, an import substitution item, sesame seed, which accounts for 73 percent of the total oilseed and cake export earnings, and sorghum, which eventually may become an export commodity. This past production season yielded 400,000 quintals of sorghum which were "exported" from Humera to Asmara to await final sale.

Another IDA-financed project is the "Coffee Processing Project" with project areas in both Kaffa and Sidamo provinces. The objective of this project is to improve the quality of Ethiopian coffee and thereby increase export earnings. A Commonwealth Development Corporation-financed project is also planned to develop tea production for international markets.

Several joint ventures (private Ethiopian and foreign firms) directed at export markets are underway in Ethiopia. Among these are

a spice extraction company, a gum arabic processing facility, a meat concentrate enterprise and a number of firms exporting fresh fruit and vegetables to Europe.

A pulses production and export marketing project is planned for FY 1973, which will probably be financed by AID. This project is the result of a feasibility study conducted by Experience, Incorporated, for the Ministry of Agriculture, financed by USAID. The study determined that it is economically feasible to expand significantly the production and export marketing of several pulses.

Major USAID livestock project contributions have included the Adamitulu and Arbernosa ranches, Borana Pilot Range Development Project, and assistance, along with other donors, in the OAU/STRC JP-15 (rinderpest control) project. Both the Adamitulu and Arbernosa ranches are operated by the Ministry of Agriculture and are devoted to production of improved breeding stock. The Borana Pilot Range Development project is an 800 square mile rangeland development and management scheme in southern Ethiopia. USAID is cooperating with the IEG and IBRD in an IBRD-financed study in FY 1973 which will result in a comprehensive project for development of the southern rangelands. It is expected that AID and the IBRD may jointly finance this project in FY 1974 although AID would provide only limited DL financing.

An International Livestock Production and Health Research Institute for Africa is well into the planning stage and may develop new breakthroughs in disease control and improved methods of production.

Interest in supporting the Institute comes from the Foundations, IBRD, FAO/UNDP, Britain, France and AID.

d. Specific Program Issues

As planned the pulses production for export marketing project will initially concentrate on commercial farms. This notwithstanding, overall farm employment is expected to increase as a result of the increased demand for labor during harvest time. Hand labor has a number of special advantages over mechanical methods in the harvesting of pulses. The project does include increasing numbers of traditional farmers and, as they are brought into the project, a favorable income distribution effect is expected.

II. B. HUMAN DEVELOPMENT

Human development, to be realistic and effective in Ethiopia, must be an integral part of rural development which is at the hub of nation building. This means that the major thrust for the development of education and health services must be within the rural development area of concentration. Success will depend in large measure upon inter-ministerial cooperation in planning and program implementation. USAID is prepared to join with the IEG and other donors in considering carefully designed programs in education and health which will be directly responsive to the needs of the rural masses.

1. Education

The decade of the 1970's promises to be the moment in history when Ethiopia turned from neglect to attention to the needs of the rural masses. The comprehensive reports of the Ethiopian Sector Review in Education will be issued in August/September 1972. Although USAID will await a thorough review of the priorities and proposals presented in the forthcoming reports from the Sector Review, advanced planning in broad outline is in order now. The IEG plans to concentrate on development of education for the rural masses which is low cost, practical, and production oriented. The limited, under-developed elementary school education will be reconstituted and reinforced by "non-formal education" which will be flexible and client oriented to meet the needs of father-son and mother-daughter. This new approach to learning via experimental community education will provide a powerful vehicle for rural development - which will help to propel Ethiopia into modernity perhaps early in the 21st century.

By FY 74 research resources should be available from the AID/W sponsored programs at Michigan State University in "non-formal education" and at Florida State University in "educational technology". In other words, the natural laboratories of rural Ethiopia may provide the ideal testing ground for the modern educational planning and technology which AID/W is sponsoring in American universities. USAID will consider providing financial support for this nation-wide educational venture through both agriculture and education sector loans each mutually supporting the various IEG programs concerned respecting rural development. Nation building is certain to be quickened by a program of rural development which focuses on man and his environment simultaneously.

In addition to concentrating directly on education for the rural masses, USAID will provide support to Ethiopia's National University, Haile Sellassie I University (HSIU) with a special rural development focus. Attention will be directed to extending the boundaries of the campus to the boundaries of the nation through University extension. Research will be focused on the critical problems in the rural society including the important areas of agricultural production and health. The research planning and programming will be coordinated for the entire University through the recently established office of the Associate Vice President for Research and Publication. The newly created Institute for Development Research (IDR) which is launching its first research projects in 1972, with assistance from the Ford Foundation and from USAID, will concentrate in the social sciences. Faculty and student service teams will move into the hinterland in the dual role of teaching and learning. Higher education will unite with the forces

guiding the development of education for the masses at the grass roots of society to promote rural development. HSIU's Agricultural College at Alemaya will contribute materially to rural leadership training in accordance with IEG-wide long range planning for the rural society.

In addition to the major education sector focus on rural development, USAID will continue to support the following significant education commitments not immediately within our core problem:

(a) Haile Sellassie I University General Support project which is grant funded is centered on the single most important element in university institution building, namely, faculty development. The project commitment extends through the 1976-77 academic year and consists of (1) participant training for HSIU faculty members; (2) salary topping for American professors who serve in key teaching and advisory posts while Ethiopian staff members are in training; and (3) modest financial support for research and seminars. By means of DL funding HSIU is being assisted in physical plant expansion and in securing library collections and laboratory equipment. In October 1972 the HSIU, in cooperation with the Ford Foundation and USAID, will conduct an evaluation of the University. This will be a strategic moment for the HSIU authorities to consider the advisability of establishing an international consortium to coordinate and guide the HSIU-foreign donor partnership for the next quarter century. From these efforts will arise the baselines for AID support of HSIU after AY 1976-77.

(b) Opportunities Industrialization Center International (OICI) is a program which will operate in the private sector with financial

assistance from AID. The purpose of the program is to provide training opportunities for unskilled workers to acquire saleable skills and be gainfully employed. The fields of training finally offered will depend upon the range of employment opportunity and prospects for job creation in Ethiopia. Possibilities will be explored for rural employment off the farm. The detailed project proposal for Ethiopia will be submitted in FY 73.

(c) The African-American Labor Center (AALC) Regional Contract

The AALC is primarily concerned with assisting the various national labor movements in Africa so that they may become strong, stable and responsible organizations capable of making positive and constructive contributions to the economic and social welfare of each nation.

Two major projects are being conducted in Ethiopia under this contract:

(1) A program of in-service vocational training in several critical trades for the employed semi-skilled worker of Ethiopia utilizing existing school facilities in Addis Ababa and Asmara, demonstrating that training and upgrading the already employed, partially educated semi-skilled worker will produce quality output at the cost of a modest input.

(2) A program to establish a national labor education and development program for industrial and agricultural workers through the Confederation of Ethiopian Labor Unions with the aim of extending CELU's influence in and throughout industrial and agricultural employment centers in Ethiopia.

2. Health

The magnitude of Ethiopia's problems in the field of health emphasize the urgent need for a comprehensive sector review at an early

date. It is difficult to plan and program in special areas including MCH and family planning without having in hand a reliable assessment of present health services with attention to strengths on which to build. Further, from a sector review will come priorities and carefully designed schemes for program development which relate to an overall national plan for long term growth in which the IEG (and foreign donors) can invest with confidence.

A major problem confronting Ethiopia is that of developing a delivery system capable of providing health, MCH and family planning services to the rural masses. Inter-ministerial cooperation including Health, Agriculture, Education and Community Development together with carefully coordinated assistance from multilateral and bilateral donors could make impressive inroads on Ethiopia's giant task in the health sector within the 20th century.

USAID will continue through its Human Development and Rural Development Groups to explore ways and means of assisting the IEG in the field of health beyond the very effective assistance now being provided to the Malaria Program. Health education, MCH services, family planning and water supply are all critical fields but it would be unwise to attempt to force growth in anyone of these areas outside the context of a national health services plan - or out of context of what other donors are also prepared to support. In low profile and working mainly through intermediaries, including American educational institutions with special resources such as Meharry College and Johns Hopkins University, USAID will promote

exploratory research via HSIU, if not possible through the Planning Commission Office directly, and urge the execution of a health sector review with major support from the IBRD and UN agencies.

In the realm of MCH/Family Planning operational programs, USAID is making known its readiness to assist and will await the signals for action from appropriate IEG authorities. First initiatives are likely to occur in urban centers with developments coming very slowly in rural areas. At any rate, an essential foundation is being constructed for MCH and Family Planning program development by means of the ECA/AID supported IEG 1974 census.

3. Policy Guidelines

In summary, the following policy guidelines will direct program development in the Human Development area. These guidelines grow naturally out of Ethiopian and AID purposes for the 1970's. The IEG, through comprehensive sector reviews in agriculture and education, is striving to establish priorities and in turn develop programs focused directly on rural development - AID intends to support programs which are host country planned and executed, with a focus on benefits for the masses.

a- (1) Promote conjoint planning via inter-ministerial cooperation, e.g. Agriculture, Education, Community Development, Health.

(2) Encourage multi-agency donor involvement, e.g. multilateral, bilateral, both public and private.

b- Acknowledge Ethiopian priorities. This is feasible now with the findings of thorough sector reviews to rely on as foundations for programming.

c- Emphasize balanced development of man and his environment.

After all, development is for people.

d- Promote originality in planning. Reject plans to transplant development programs employed in highly affluent societies.

e- Combine the formal and non-formal schemes for human development. Encourage innovation by experimentation in the non-formal area with cross-overs or linkages which dissolve the rigid and traditional lines of Western education systems.

f- In program development, start where the people are. Let them learn where they will earn - on the farm, in the workshop, in the home. Help people to do better what they are now doing and motivate them to do more.

g- Encourage applied research on high priority Ethiopian problems which are directly related to economic development.

PART III. STATUS OF THE ECONOMY

A. General

Ethiopia, with over 25 million people, the second largest country in Africa, is one of the 25 least developed countries in the world. (For all comparisons in Part III, Africa refers to the continent excluding Egypt and South Africa.) The literacy rate is only about 7 percent (33 percent in urban areas and 4 percent in rural areas) compared with the Africa average of about 18 percent. There are 72,000 persons per physician as compared with a figure of 16,000 for Africa as a whole. It is estimated that 70-80 percent of all Ethiopians live more than 6 hours from even the lowest standard dry weather road. There are only 10 miles of improved roads per 1,000 square miles of area, as compared with a figure of 40 for Africa as a whole. The population exists on an average annual per capita income of about U. S. \$75, or about one-half the average level for Africa. The average income of the largely subsistence farmers in the highlands is only about U. S. \$38 as contrasted to U.S. \$75 in other agricultural areas and U.S. \$300 in non-agricultural activities. Although the monetized economy constitutes about 55 percent of GDP, only about 10 percent of the population participates substantially in it, and another 30 percent to a very limited extent. The annual rate of monetization appears to be about 1% per annum and the achievement of 50% of the population participating substantially in the monetized sector is a "goal" for the year 2000. This in itself would represent a major achievement in the distribution of income and create vast forces for the development of markets. The situation is further complicated, adversely, by population growth which is estimated now at 2.5% and has been

increasing by as much as 0.05% per year since 1960. Thus, direct programs and indirect policies to cause employment-creation (e.g., rural public works, labor intensive agriculture, non-farm rural industries) will be a priority need for the IEG.

B. Production and Investment

The Ethiopian economy is dominated by agriculture. It employs about 88 percent of the labor force, and is the source of virtually all commodity exports, and produces about 59 percent of the country's total U. S. \$1.9 billion GNP. For comparison, agriculture in Africa as a whole employs 79 percent of the labor force and accounts for only 32 percent of total GNP. Agricultural production in Ethiopia is about 73 percent subsistence, 19 percent peasant commercial, and 8 percent large-scale commercial. Roughly 60-70 percent of the farm population is located on small peasant farms in the high-land regions and they form the large, impoverished mass of the population with an average annual income amounting to only one-eighth of that enjoyed by Ethiopians engaged in non-agricultural pursuits. Despite the importance and underdeveloped state of agriculture, in 1967-9 (the most recent data available) it received only about 9 percent of total gross national investment which itself is low at about 14 percent of GNP. Thus national investment in agriculture is only about 1.3 percent of GNP. The central government budget reflects a higher and increasing priority for agriculture. In 1970-71 IEG agricultural capital expenditure amounted to 11.4 percent of total IEG capital expenditure, 3.4 percent of total IEG expenditure, and 0.5 percent of total GNP, as compared with 1967-68 when the respective figures were 9.5 percent, 2.4 percent, and 0.3 percent.

The weak performance on the non-governmental side (e.g., low private sector investment in agriculture) points to the need for rationalizing fiscal, and monetary policies to induce investment in that direction. These figures for Ethiopia, compared with those for Kenya's central government, are revealing. In 1968-70, Kenya's capital expenditure on agriculture amounted to over 23 percent of its total capital expenditure, 5.8 percent of its total expenditure, and over 1 percent of GNP. To finance investment, in 1969-70 Ethiopia saved only about 11 percent of GNP, as compared to Kenya's rate of over 15 percent, and 25 percent in Zaire.

C. Foreign Sector

The foreign trade sector is a relatively small part of the Ethiopian economy, but vitally important for government revenue. Merchandise imports and exports account for about 10 percent and 7 percent of GDP, respectively, and about 45 percent of Central Government domestic revenues are derived from import and export taxes. This sector is very dependent on coffee which constitutes almost 60 percent of commodity exports. In addition, coffee export prices fluctuate leading to large swings in export income which in turn significantly influence the monetized economy. The deficit on the trade account is balanced by increasing international air transport and tourism earnings, and by a surplus on the capital account that depends importantly on public sector foreign borrowings. Outstanding IEG external debt as of June 30, 1971, was U. S. \$204 million, and the debt service burden (principal and interest) amounted to about 12.5 percent of exports of goods and services. Thus, the debt service burden has risen over 10 points from 2 percent in

1962, and is projected to reach over 13 percent in 1980 assuming the availability and use of only the most concessional loans.

Over the period 1961-69 the economy grew at a real GDP growth rate of about 4.5 percent compared with the population growth rate of about 2.5 percent. During the past two years, however, the economy has stagnated due primarily to poor and mediocre crops in 1969/70 and 1970/71 respectively, and to a drop in coffee prices near the end of 1970 which caused coffee export earnings to drop in 1971. In addition the government decided not to devalue with the U.S., Ethiopia's primary coffee market, in December 1971, thus portending a further decline in the local currency earnings of Ethiopian coffee exporters in 1972. The increasing stagnation of the monetized economy is evidenced by the slowing changes in the volume of money from increases of 12 and 14 percent in 1968 and 1969 respectively, to increases of only 6 and 1 percent in 1970 and 1971 respectively. Private sector credit increased only 8 percent in 1971 after increases of 14 and 26 percent in 1969 and 1970, respectively. Net government borrowing dropped 10 percent in 1970 and stayed at about the same level in 1971, thus, accentuating the problem of falling demand.

The foreign sector has also deteriorated during the past two years as imports have increased against stagnating coffee earnings. From 1969 to 1971, total imports of goods and services increased slightly more than 11 percent whereas total exports increased less than 5 percent. Since the import level is larger than that of exports, the size of the increasing deficit is putting increased pressure on the balance of payments. Net foreign exchange reserves fell by about U. S. \$17 million and U. S. \$9 million in 1970 and 1971, respectively, to a level of less than 4 months of imports, thus providing

an "alert"--cause to look at more fundamental remedies.

D. Short Term Outlook

The outlook for 1972 is slightly better due to an unusually good 1971/1972 crop and a leveling off in imports. However, the bumper crop will probably cause lower prices for farmers and produce little improvement in farm income. It is clear that new approaches and larger efforts with respect to rural employment and development will be required to raise rural incomes. There is no anticipation of improved coffee earnings, so the balance of payments could show another deficit with a modest reduction in reserves this year. Were the economy stimulated by some other factor like increased government spending on its development programs, then the import level would probably rise (barring import controls of some nature) causing a more serious balance of payments situation. In any event, export diversification is a must, and policies to ensure its occurrence are needed.

E. Conclusions

The aforementioned problems in the past performance of the overall economy can be summarized as: (1) "stability and stagnation" stemming from an unwillingness of the administrative apparatus to formulate effective domestic monetary and financial plans to implement a larger development program, especially in the rural sector; (2) a large non-monetized subsistence rural population; and (3) instability in the monetized economy.

With regard to the first problem, there is a need for government policy and commitments to act soon in several areas of importance for development, e.g., government land use, rural roads, export development, local administration.

This will require difficult decisions at the top of government and increased skill and management capacity in several ministries. A complementary problem which will arise immediately after formulation of the above policies and programs is a lack of financing. Substantial improvement in the government's current surplus and in private foreign investment, as well as in private saving, will be needed. In this connection, pricing policies generally, including the cost of money (interest rates, exchange rates) and utility and transport prices, will need early study and rationalization in terms of development imperatives. Greater government revenues for development expenditures will also require improved tax administration. The rising level of bank savings indicates a healthy trend in private savings, and this trend should increase with monetization of the economy. Monetization will also increase the tax base for the important indirect taxes on money transactions. Increased foreign private investment will depend largely on the government's development programs and policies, together with creation of an investment climate, which must make Ethiopia competitive with alternative investments elsewhere.

Development of subsistence rural Ethiopia will be a large undertaking involving activities in almost all the traditional sectors, e.g., education, health, transportation, agriculture. Development capacity will depend strategically on the abilities of local government and local entrepreneurs to formulate, finance, and implement the necessary projects.

Significant increases in entrepreneurial activity will depend on its social acceptability and financial feasibility. Increased availability of

of credit for numerous small and experimental enterprises, mostly agriculturally related, will likely be one of the requirements for financial feasibility.

The reduction of instability, the third problem mentioned, will require export diversification and development of the rural domestic economy in order to minimize the adverse impact of coffee's dominance.

Note: Extensive materials on IEG balance of payments, investment levels and direction, and central government finance will be included in the IBRD Macro-Economic Survey Report now being compiled.

June 26, 1972