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McNamara Papers

*Country
Ethiopia (1968-1972)*

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Contacts with member countries: Ethiopia - Correspondence 01

ETHIOPIA

ETHIOPIA

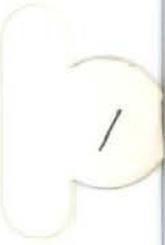
1. 10/4/68 Yilma Deressa, Minister of Finance
Menasse Lemma, Governor of the National Bank
2. 7/9/69 Emperor of Ethiopia
Mammo Tadesse, Minister of Finance
Belai Abai, Minister of State for Planning
Minasse Haile, Ambassador of Ethiopia
3. 7/11/69 Mammo Tadesse, Minister of Finance
Belai Abel, Minister of State for Planning
Wolde Mariam, Director-General, Ministry of Finance
Asfaw Damte, Financial and Economic Attache, Embassy
4. 9/30/69 Mammo Tadesse, Minister of Finance
Wolde Mariam Girma, Director-General, Ministry of Finance
Menasse Lemma, Governor, National Bank of Ethiopia
Yawaud-Wossen Mangasha, Vice-Governor, National Bank of Ethiopia
Asfaw Damte, Financial and Economic Attache, Embassy
5. 9/23/70 Mammo Tadesse, Minister of Finance
(Copen.) Menasse Lemma, Governor, National Bank of Ethiopia
Asfaw Damte, Financial and Economic Attache, Embassy

ALL TRIP MEMCONS EXCEPT TAB 6 ARE CONTAINED IN ONE COMPOSITE MEMO UNDER TAB 7

- 10/18/70 Chilalo Agricultural Development Unit (CADU)
(Chilalo) Carl Bergenstrahle, Swedish Ambassador to Ethiopia
Tesfa Bushen, Vice Minister of Agriculture
Paulos Abraham, CADU Executive Director
And others
- 10/19/70 Fitawrari Wolde Semayat, Deputy Governor General of Sidamo and
(Wolamo Sodo Governor of Wolamo
& Abela)
- 10/19/70 Wolamo Agricultural Development Unit (WADU)
(Wolamo) Tilahun Gidey, A/Project Engineer
T.H. Bosse, Chief Training and Trials Officer
N.M. Walsh, Planning Officer
J. Kana, Settlement Officer
V.E.M. Burke, Project Director
- 10/19/70 Mammo Tadesse, Minister of Finance
(Addis)
6. 10/19/70 Emperor Haile Selassie
(Addis) Prime Minister Tsehafi Tiezaz Aklilu Habte Wold
Mammo Tadesse, Minister of Finance
Keteme Abebe, Minister of Foreign Affairs
- " Minassie Lemma, Governor, National Bank of Ethiopia

- 10/19/70 (Addis) Lij Endalkachew Makonnen, Minister of Communications, Post Telegraph and Telecommunications
- " Rene Gachot, Resident Representative, UNDP
- 10/20/70 (Addis) Abebe Retta, Minister of Agriculture
Fitawarari Abebe Gebre, Minister of Land Reform
Eshete Makonnen, Vice Minister of Agriculture
Testa Bushen, Vice Minister of Agriculture
- " Million Neqniq, Vice Minister of Education
- " Dr. Akilu Habte, President, Haile Selassie I University
- " Taffara Deguefa, General Manager, Commercial Bank of Ethiopia
Debebe Hapte Yohanes, General Manager, Addis Ababa Bank
Brian Oliver, General Manager, Ethiopia Investment Corp.
- " Belay Abai, Minister of State and Head of the Planning Commission
- " Dr. Frank Bowles
- " H.B. Musa, Assistant Secretary General, Organization of African Unity
And others
- 10/21/70 (Addis) His Grace Abuna Teophilos, Acting Patriarch of Ethiopian churches
Nibured Dimitros Lique Siltanat Abba Habte-Mariam, Director General, Ecclesiastical Affairs
- " Prime Minister Tsehafi Tiezaz Akilu Habte World
Mammo Tadesse, Minister of Finance
- " Getahun Tessema, Minister of Community Development and Social Affairs
- " Seife Tadesse, President of the Chamber of Deputies
Lt. General Abiye Abebe, President of the Senate
- " Dr. Haile Chiorgis Workeneh, Lord Mayor of Addis Ababa
? Malugueta Sine Chiorgis, Vice Mayor
? Bekele Haile, Vice Minister of Municipalities
? Nega Fanta, General Manager, Water Supply Administration
7. COMPOSITE MEMCON OF ETHIOPIA TRIP
8. MR. McNAMARA'S IMPRESSIONS OF ETHIOPIA *(Filed in McN office)*.
- 8a. 5/3-5/72 (Bellagio) Aklilu Habte, President, Haile Selassie I Univ., Addis Ababa
- 5/30/72 Salah Hinet, Minister of Public Utilities
9. 6/26/72 Ambassador Ato Kifle Wodajo
10. 9/26/72 Ato Mammo Tadesse, Minister of Finance

11. 10/26/72 Ato Belai Abai, Minister of Land Reform
12. 4/9/73 Dejazmatch Kassa Woldemariam, Min of Agriculture
Teferra Wolde-Semait, Financial and Economic Counselor, Ethiopian Emb.
13. 5/1/73 Ato Seifu, Minister of Education
14. 5/25/73 His Holiness Abuna Theophilos, Patriarch of the Ethiopian Orthodox
His Excellency Ato Blutton-Getta Mahteme-Selassie Wolde Meska, Church
Crown Counselor
Ato Getaneh Bogale, Interpreter
9/27/73 Delegation to the Annual Meeting (no memcon)
Nairobi Possibly included:
Mammo Tadesse, Minister of Finance
Menasse Lemma, Governor, National Bank of Ethiopia
Wolde Mariam Girma, Assistant Minister for Finance, Credit,
and Investment
15. 10/3/74 Negash Desta, Minister of Finance
Abdul Jelil Mohammed, General Manager, Ethiopian Tourism and
Hotels Investment Corporation
Teferra Wolde-Semait, Head of Finance, Credit and Investment,
Ministry of Finance
Asfaw Damte, Assistant Minister, Ministry of Finance
Legesse Tickeher, Financial and Economic Counselor, Embassy of
Ethiopia
16. 11/4/74 Zewdie Gabre-Selassie, Foreign Minister
17. 6/27/77 Mr. Dante, Permanent Secretary, Ministry of Finance
18. 9/24/77 Ato Teferra Wolde-Semait, Minister of Finance
(Annual Meeting) Kebede Temesgen, Head, Finance and Credit Investment Department,
Ministry of Finance
Lemma Argaw, Head, Bueget Department, Ministry of Finance
19. 9/22/78 Teferra Wolde-Semait, Minister of Finance
Annual Meeting Mr. Lemma Argaw
Mr. Kebede Shoandagh
20. 10/4/79 Finance Minister Teferra
(Annual Meeting) Mr. Kebede
Mr. Yembere
21. 10/3/80 Ato Teferra Wolde Semait, Minister of Finance
Annual Meeting Ato Mituku Jembere, Head of Credit and Investment Dept, Min.Finance
Ato Lemma Argaw, Head of Finance & Budget, Central Planning
Supreme Council
Ato Kebede Shoandagn, Economic & Financial Counselor, Embassy



OFFICE MEMORANDUM

TO: The Record

DATE: October 5, 1968

FROM: M. A. Burney *maB*SUBJECT: Meeting of Minister of Finance of Ethiopia with
Mr. McNamara - Relations with Ethiopia

1. Mr. McNamara met with the Minister of Finance, Ato Yilma Deressa, and the Governor of the National Bank, Ato Menasse Lemma, on October 4 at 4:00 o'clock for 20 minutes. Messrs. Knapp, El Emary and I were also present.

2. The Minister of Finance raised the following matters:

(1) Finchaa Power Project. The Minister explained the difficult situation in which the Government finds itself in going ahead with this project. The civil works and generating equipment were to be financed by a tied U.S. AID loan (US \$21.7 million, 2 $\frac{1}{2}$ %, 40-year repayment and 10-year grace). Although the bid prices for generating equipment were reasonable for U.S. suppliers, the lowest bid for civil works was 78% higher than the estimates prepared by a U.S.A. consulting firm (Harza). The need for expansion of power facilities is crucial and urgent. The U.S. AID cannot provide additional funds and even if they could, the Government would not be willing to finance the project at such high cost. The increased cost, he said, was due to the tied nature of bidding. He would therefore like the Bank to consider a loan for civil works for the dam and for transmission lines (about US \$11.0 million) while the U.S. AID would finance the equipment and Ethiopia the entire local currency cost of the project. Mr. McNamara said that the Bank is opposed in principle to providing funds for a project, part of which is financed with tied money. He would therefore not favor the Bank's involvement unless it is possible for Ethiopia and the Bank to finance the entire project. He added that the speed with which we could process the loan would depend on staff availability. He asked Mr. El Emary to inform him of the time schedule possible for us for appraising the project and to let the Minister know before he leaves for Ethiopia (on Monday, October 7). The Minister could then decide whether his Government would want us to pursue this matter further on an untied basis.

(2) Addis Ababa and Asmara Airports. The Minister said that he had this project on the list to discuss the possibility of a Bank loan for airport facilities but in view of the possibility that the U.S. AID loan for the Finchaa Project might now be available for other use (airport project) he would wish not to raise the matter with the Bank now.

(3) Bank Office in Addis Ababa. The Minister said that the Bank office in Addis Ababa was serving a useful purpose but was closed by the Bank (in 1967) against the wishes of the Government.

President has seen

It was impractical for the Nairobi Office to "be a substitute for one in Addis Ababa." He reiterated the Government's request for the re-opening of the office, especially "now that the Government is anxious--more than ever before--to make serious effort to implement the Plan." Mr. McNamara said that he was not in favor of opening too many offices but was reviewing the need for, and the problems involved with, field offices. The problems and needs of Africa are unique and therefore "we have two regional offices and we might open another one." In exceptional cases he might agree to establish smaller offices. For instance we have agreed to establish a mission in Indonesia, because it has substantial economic potential, the Government is anxious to seek the Bank's assistance and we expect that the office will enable us to know the country and to be able to assist the Government in solving economic problems. Ethiopia also seems to have a good case; it is a large country with substantial human and other resources, the Government is anxious to develop the resources and is interested to use a Bank office. He therefore was inclined to respond positively to the Minister's request. He, however, asked the Minister to wait for 2-3 months until he has thoroughly reviewed the overall question of field offices.

(4) Addis Ababa Water and Sewage Project
Fourth Telecommunications Project

The Minister in passing mentioned these projects and Mr. El Emary said that they were receiving our attention. (The field appraisal of the telecommunications project is just completed, and we are waiting for additional information from the Government on the water and sewage proposal.)

3. The Minister concluded by saying that the Emperor "has commanded me to invite you to Ethiopia." Mr. McNamara asked the Minister to thank the Emperor for the invitation which, he said, he was delighted to accept. He has been an "admirer of the Emperor" and was interested to meet him again and to come to know the country and its problems. Some time next year a suitable time could be found for him to visit Ethiopia.

cc: Messrs. McNamara ✓
Knapp
El Emary

Mr McNamara:
to see please
lec 7/10

OFFICE MEMORANDUM

TO: The Record

DATE: July 10, 1969

FROM: A. G. El Emary *agrees*SUBJECT: Visit with the Emperor of Ethiopia

Mr. McNamara accompanied by Messrs. Knapp and El Emary called on the Emperor of Ethiopia on July 9, 1969 at Blair House. The Ambassador of Ethiopia to the United States, the Ethiopian Minister of Finance, Ato Mammo Tadesse, and Minister of State for Planning, Ato Belai Abai were present.

The Emperor thanked Mr. McNamara for his visit. He said that he has always considered him a friend of Ethiopia. He added that in his capacity as President of the World Bank he is showing a good deal of interest in the development of the less developed countries. He said that he was appreciative of the assistance given to Ethiopia so far by the Bank including Fincha power and telecommunications. He expressed the hope that more assistance would be forthcoming from the Bank. The developing countries for many years to come would need both the Bank's financial assistance and its advice.

Mr. McNamara thanked the Emperor for his kind words and said that the Bank was processing two agricultural projects: Wolamo and Settit Humera. He said that in a letter that he had lately sent to the Prime Minister he advised him that the Bank would process the education project after being revised by the Government. He added that Ethiopia had lately passed through some financial crisis but he understood that measures have and are being taken to redress the situation. He expressed the hope that the Bank economic mission that is now going in January 1970 will find that the Ethiopian Government have taken the necessary measures to overcome these difficulties. Mr. McNamara added that he knew that going back to normal situation would take time, but he would like to be assured, before going ahead with the Bank's program for financing projects in Ethiopia, that all the necessary measures are being taken to redress the situation.

The Emperor replied that the Prime Minister kept him informed of the correspondence between Mr. McNamara and the Prime Minister and that he appreciated the good advice given by the Bank.

The Emperor invited Mr. McNamara to visit Ethiopia and Mr. McNamara thanked him for the invitation and added that he is looking forward to visiting Ethiopia.

Mr. McNamara took the opportunity of the Emperor's presence in Washington and asked him, as the most experienced statesman in Africa, to give his views on the developments in Africa in general, and on the events in Nigeria and Kenya in particular.

President has seen

The Emperor started by giving an account of what the Organization of African Unity was doing. He said that though the Organization was young and though it did not achieve so far spectacular results it is nevertheless, doing its best to tackle the basic causes of dissent in Africa. The O.A.U. is established with the purpose of helping the member countries to solve their problems in a peaceful manner. Its other main purpose is to bring about closer cooperation among its member countries, most of which are small, and unless they cooperate in formulating their policies both in the field of economics and foreign politics they would not have any impact in the international gatherings.

He said that the long time during which many of the African countries were colonized had an impact on the behaviour of the African people. Colonialism tended towards dividing the people in Africa and nursed the tribal concept. This is still today the major cause for disputes within one country. Nigeria is the one flagrant example. He said, however, that he does not believe in dividing any of the African countries into smaller units. In every country in the world there are minorities and they have certain rights of their own within each country; but this does not mean that each minority is acquiring or should be encouraged to acquire its independent status and be a state by itself.

He said that O.A.U. so far has not succeeded in Nigeria. But they did help to alleviate part of the miseries felt by the Nigerians on both sides.

He said that he was sad to know of Mr. Mboya's assassination but he believes that no serious consequences would happen to Kenya.

Mr. McNamara thanked the Emperor.

At the time when Mr. McNamara was departing the Emperor repeated his invitation for him to visit Ethiopia and again Mr. McNamara thanked him and promised to go there as soon as his other commitments permitted him to do so.

AGELEmary:mk

c.c. Mr. Knapp/Mr. Cope
Mr. Williams
Mr. Burney/Mr. Gassner



Mr. McNamara:
to see please
Lec 7/22

OFFICE MEMORANDUM

TO: The Record

DATE: July 18, 1969

FROM: A. G. El Emary *ay el E*SUBJECT: Ethiopia

His Excellency Ato Mammo Tadesse, the Minister of Finance, His Excellency Ato Belai Abai, the Minister of State for Planning, Ato Woldemarian Girme and Ato Asfaw Damte, Financial and Economic Attaché at the Embassy, met with Mr. McNamara on Friday, July 11, 1969. Messrs. Knapp and El Emary were present.

No new major issues were raised in the meeting, but it may be worth noting here that the Minister of Finance mentioned that the Government, recognizing the financial difficulties they experienced, are cutting the expenditures for this year and are planning to do the same for the year after.

He added, however, that the raising of funds through treasury bills was very successful. For the first time it was over-subscribed.

He said that the Government are giving priority to agriculture and education.

Mr. McNamara told him that the two agricultural projects, Wolamo and Settit Humera, are going ahead and we would not await the findings of the economic mission before we present them to the Board.

But as for education, Mr. McNamara said that he was not clear whether the Government would like us to proceed with the project we had had but which was later withdrawn, or that the Government would be putting to us a revised project. In any case, Mr. McNamara said that we were waiting to hear from the Government on this point, but meanwhile we were making the arrangements for an appraisal mission to be in Ethiopia around November of this year. He added that by the time we would be ready to go to the Board with that project, the economic mission which is now going in January 1970 would have reported to us on the situation and the different measures and the policy actions that the Government have taken, or contemplate taking, and implemented.

At the end of the meeting the Minister of Finance expressed his gratitude for the attention given by the Bank to the projects and problems of Ethiopia. He particularly mentioned the technical assistance given by the Bank in preparing the Awash Valley irrigation scheme. He added that when he would meet with Mr. McNamara during the Annual Meetings he expected to have more to say on what they had done and contemplate doing for the development of the Ethiopian economy.

cc: Mr. Knapp, Mr. Ballantine, Mr. Evans

Mr. Burney/Mr. Gassner

President has seen

OFFICE MEMORANDUM

TO: The Record

DATE: October 6, 1969

FROM: M.A. Burney *hab*SUBJECT: Ethiopian Delegation Meeting with Mr. McNamara

1. On Tuesday, September 30, between 2:30 and 3:00 p.m., Mr. McNamara met with the Minister of Finance, Ato Mammo Tadesse (Governor, World Bank Group). The Minister was accompanied by Ato Wolde Mariam Girma, Director-General, Ministry of Finance (Alternate Governor, World Bank Group), Ato Menasse Lemma, Governor, National Bank of Ethiopia (Governor, IMF), Ato Yawaud-Wossen Mangasha, Vice-Governor, National Bank of Ethiopia (Alternate Governor, IMF) and Ato Asfaw Damte, Financial and Economic Attache, Ethiopian Embassy in Washington (Adviser). Messrs. Knapp, El Emary, Brakel and Burney were also present.
2. The Minister briefly reviewed recent developments in Ethiopia, including some Bank/IDA operations, and then requested Mr. McNamara for the Bank's review and financial assistance for the Awasa Farm Project, prepared by a French consulting firm, SATEC.
3. The Minister assured Mr. McNamara that the Government was moving ahead in tackling short-term financial difficulties, and was seriously studying how to solve long-term economic problems. To solve the short-term financial difficulties, the Government's Treasury bills, issued in the first half of 1969 for the first time, were a success. Following the advice of IMF experts, the Banking law had been modified (by decree) to provide for more flexibility for Government borrowing. At the same time severe budget limitations have been imposed. The 1969/70 budget was substantially reduced and the administrative and defense budget were at about the same level as for the previous year. 1970/71 budget will have similar restrictions. The entire Government machinery is being studied with a view to improving efficiency and to cutting expenses. The above measures have, to some extent, helped to improve the current financial situation somewhat, but long-term problems still remain.
4. The Minister said that Mr. McNamara's remarks on education in his speech to the Governors reflected the dilemma in Ethiopia. The Government fully recognized the need for expanding education, but as costly as the education was, it was not meeting the real needs for economic development of the country. The Government has established a National Educational Council to study this problem, especially to examine school/college curricula, to make education more attuned to providing manpower for development.
5. Mobilization of resources, the Minister said, was another serious problem. Ethiopia has an extremely small monetary base and although development was gradually contributing to the expansion of the monetary sector, Ethiopia is a country where modernization of the subsistence sector was essential to achieve desired rate of economic growth. His Government, he said, was encouraged that the Bank was giving increasing emphasis to modernize subsistence sector.

6. To increase revenues, the Government was reviewing, with the assistance of IMF experts, its tax structure. He was hopeful that with 1970/71 budget proposal the Government will present to the Parliament new taxes.

7. When asked by Mr. McNamara, the Minister said that the new Government in the Sudan sent a ministerial delegation to discuss outstanding issues between the two countries. The Minister said his Government was anxious to improve relations with its neighbors and hoped that the discussions will be completed successfully in the near future. He went on to say that relations with Somalia, since Prime Minister Egal took office in 1967, have improved. In fact they have never been as good as they are at present. The Prime Minister of Somalia has visited Addis Ababa twice and has had discussions with Ethiopian authorities, including the Emperor and the Prime Minister.

8. Talking about the status of various Bank/IDA operations in Ethiopia which he had discussed with Mr. El Emary earlier on September 30, the Minister said that Ethiopia's relations with the Bank are excellent and he was hopeful that Bank activities in Ethiopia will increase. He was grateful to the Bank for financing Finchaa Hydro Electric Project so expeditiously, submitted only last October, after it became obvious that the USAID tied financing would make that project uneconomic. The Minister said that the savings on the entire project to Ethiopia as a result of international competitive bidding was enormous (\$12 million). Mr. McNamara said that he was delighted to hear that and that the Bank was able to help.

9. The Minister informed Mr. McNamara that after a great deal of hesitation the Government has finally decided to merge the two existing development banks (Development Bank of Ethiopia and Ethiopian Investment Corporation). This decision was made in spite of internal opposition and on the basis that it was the most effective way of organizing development finance in Ethiopia. The Bank has advised the Government in the past to follow this course and the Minister hoped that now the Bank will be able to assist the proposed unified institution, in staffing and in providing funds. Mr. McNamara was pleased to hear that and said that the Bank would give whatever assistance it can in this matter.

10. The Minister requested Mr. McNamara that the Bank review a regional agricultural project near Lake Awasa. The project had been prepared by a French firm, SATEC, and the Government believes that it was a viable project.

11. Mr. McNamara concluded the meeting by saying how delighted he was that things were better than earlier this year and that the Government was handling matters firmly. The Minister replied that the Government was determined to seek solutions and implement them. He however realized that solutions of the problems will take time.

MABurney:ad

cc: Mr. McNamara, Mr. Knapp, Mr. Evans, Mr. Diamond, Mr. El Emary, Mr. Hansen, Messrs. Tolley/Gassner, Mr. Brakel, Mr. Finsaas, Mr. Bailey.



File with the M.N. has seen

Boards of Governors · 1970 Annual Meetings · Copenhagen

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IMF - IBRD AND AFFILIATES
19TH AND H STREETS, N.W.
WASHINGTON, D.C. 20431

CABLE ADDRESS:
INTERMEET, WASHINGTONDC (USA)
From August 24, 1970:
COPINTERMEET, COPENHAGEN (DENMARK)

September 22, 1970

MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA

I met with the Minister of Finance of Ethiopia yesterday and covered a number of subjects, only two of which are likely to be broached at your meeting with him at 8:00 a.m. Wednesday.

The first is the proposed Consultative Group. He gave me a copy of a letter to you from the Prime Minister dispatched from Addis Ababa on September 12, which as far as I know had not been received in the Bank when I left. I attach a copy herewith. As you can see, they accept the idea in principle but have some procedural points to raise. I understand from the Minister that these procedural points are:

- a) Would the existence of a Consultative Group mean that individual items of bilateral aid would have to be cleared with the whole Group before they could be negotiated? I assured him that this would not be the case and that Ethiopia's bilateral relations would be unimpeded, though of course it would be expected that information on bilateral aid agreed would be made available to the members of the Group.
- b) Would bilateral aid from countries which were not members of the Bank be subject to any review or control by the Consultative Group? On this one, I assured him there would be no control and the only review would consist of the normal review of sources of aid conducted by the Bank's economic missions. We would expect of course to continue to get full information on international indebtedness, including debt owed to non-member countries.

President has seen

The Minister said he saw no problem on either score but had been specifically asked by the Prime Minister to raise these points.

The second subject was the question of a possible visit by you to Ethiopia. The Minister said he had received the message sent last week saying you would probably be unable to go to Ethiopia November 2. He claimed that there must have been some misunderstanding about timing. Because the Prime Minister would be away during October, November had seemed to the Finance Minister to be slightly more satisfactory from the Ethiopian's point of view, but October was by no means ruled out. In fact if October was the only time you could come, they would be very happy to receive you then. I said I did not know what your commitments were.

cc: Mr. Knapp





Ref. No. 10/63

IMPERIAL ETHIOPIAN GOVERNMENT
PRIME MINISTER'S OFFICE

September 12, 1970

Dear Mr. McNamara,

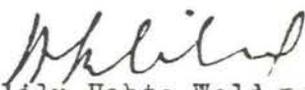
Thank you for your letter of 31 July 1970 seeking my views and those of my government, on the possibility of the formation of a Consultative Group for Ethiopia, composed of the Bank, other international financial agencies and certain multilateral and bilateral financial and technical assistance donors, to co-ordinate external assistance to Ethiopia, with a view to achieving the maximum advantage.

May I, at the outset, ask of you your indulgence for the delay in not having replied to your letter earlier, as this has been caused by the pressure of work at this time.

We, here in Ethiopia, have always admired the dynamic leadership that you personally have brought to the activities of the Bank, and we do accept in principle the establishment of a Consultative Group for Ethiopia. However, with respect to certain clarifications of a procedural nature, H.E. Ato Mammo Tadesse, the Minister of Finance, will be getting in touch with you at the Annual Meeting in Copenhagen. I shall then be in a position to give you the final decision regarding the establishment of a Consultative Group for Ethiopia.

I should like to take this opportunity of thanking you for the initiative you have taken in this regard, and I welcome your continued interest in Ethiopia.

Yours sincerely,


Akilu Habte Wold
Prime Minister

Mr. Robert S. McNamara
President
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
Washington, D.C. 20433

October 8, 1970

fiscal effort was needed to play an important part in carrying out economic development. The Minister said that he and his associates were well aware of the importance of this problem and were making strenuous efforts, and he mentioned, among other things, that they had already instituted income tax for military officers, which in the Ethiopian context was an important step in the right direction.

3. The Minister thanked Mr. McNamara for the Bank's interest in Ethiopia and its help.

cc: Mr. McNamara (2)
Mr. Knapp



MLLejeune:neb

MR. MCNAMARA'S VISIT TO ETHIOPIA

OCTOBER 18-21, 1970

SUMMARY RECORD OF MEETINGS

Sunday, October 18: Meeting at CADU head office with H.E. Mr. Carl Bergenstrahle, the Swedish Ambassador, H.E. Ato Tesfa Bushen, Vice Minister of Agriculture, Ato Paulos Abraham, CADU Executive Director, and others.

The Swedish Ambassador explained that at present the Swedish aid program was employing some 200 expatriates in Ethiopia. Total annual expenditures were about U.S.\$6 million equivalent, of which about U.S.\$2 million were for the CADU project. The Swedish Government had been consistently pressing for measures towards land reform, and had indeed been given some definite promises by the Government quite some time ago. In the meantime no definite action had been forthcoming, and unless there was an early move, present implications were that the Swedish Government would reduce its aid to Ethiopia. He did however have some hopes that the Government would introduce the modified bill for approval by Parliament towards the end of this year. Regarding the Chilalo project, he thought the total cost to Sweden had so far been about U.S. \$6 million equivalent. The cost sharing formula with the Ethiopian Government was a 67% contribution by Sweden versus a 33% contribution by the Government.

H.E. Tesfa Bushen had some doubts whether projects like CADU could be repeated widely due to the high cost involved. A great number of personnel had been trained under the CADU project, valuable experience had been gained, and new methods and crop types had been developed which were now spreading to other areas. However, in his opinion it would not be possible to duplicate the CADU project extensively, and the Ministry of Agriculture was therefore exploring the possible development of small agricultural package projects so as to reach a great number of areas on a countrywide basis. Such projects would involve the provision of extension service, seed, fertilizer, credits, cooperative arrangements, etc.

The CADU Executive Director, Ato Paulos Abraham, said that all phases of the CADU project would help to support the small agricultural package projects. He particularly emphasized the success they had had in training various types of personnel who could be used to promote small agricultural package projects, but even so this program would quite obviously suffer from shortages of professional staff. In respect of the CADU project, and apart from development of the CADU area itself and from training of personnel, he emphasized the importance of participation by the local farming community. Most of the initial suspicion had soon been overcome, and they had had some success with farmers' committees, which had proved particularly useful since they promoted a good understanding of local sentiments and opinions. They had also tried to set up Awraja

committees with both tenant farmers, landlords and officials as participants, but this had unfortunately not proved effective. There had, however, been some success in setting up cooperatives of various types, and they were now intensifying their efforts in that direction.

In response to Mr. McNamara's query whether the proposed minimum agricultural package projects could be introduced at lower cost than the CADU project, H.E. Tesfa Bushen said that the objective was to take maximum advantage of existing resources, in particular with regard to the Government's extension services throughout the country which at present suffered from lack of incentives and new ideas. By utilizing the many experiences which had been derived from the CADU project, and provided new approaches were initiated, such as fertilizer, credit, better seed, etc., then he was certain that farmers would respond.

Finally, regarding the proposed Land Reform Bill, H.E. Tesfa Bushen said he thought the proposed bill would probably be passed by Parliament, but the main problem would be the actual implementation of the new measures.

Monday October 19: Meeting with H.E. Mammo Tadesse,
Minister of Finance

The Minister of Finance said that particular emphasis would have to be given to agricultural development, and he also thought that industrial development was important for Ethiopia at this point.

The new budget was introduced only three months ago, and projected an 8.5% increase in gross revenues. The recent Bank Economic Mission had pointed out the need for mobilization of local resources, and the Ministry of Finance was now exploring ways and means to mobilize additional savings. One particular measure was the introduction of 7% - 7 year government bonds. Simultaneously, special efforts were being made to keep non-development expenditures down. In turn, appropriations for development expenditures had been increased materially last year, and were increased further during the current year. However, he hoped it was understood by the Bank that the Ministry of Finance was invariably "in a difficult position" in pursuing progressive and modern fiscal budgetary policies.

At present the Ministry of Finance was reconsidering its revenue policies with assistance from the IMF. It was also trying to introduce measures to promote a more efficient cadre of civil service personnel. As an example of the latter, he mentioned that a great number of personnel had no professional background and were nearing the retirement age. Such people could be replaced by candidates from universities who had a sufficient proficient professional background, i.e. provided the pension laws were modified so that early retirement of unskilled people became possible.

Finally the Minister of Finance stressed that they were exploring measures for new taxation to boost government revenues, but there were many problems which would have to be tackled one by one. Meanwhile, he hoped

that the Bank would continue to back them up in their efforts, both with regard to technical assistance and financial contributions.

Mr. McNamara explained that, although he thought that they needed substantial additional external resources, it would be most important in the case of the Bank that Ethiopia make a determined effort to mobilize additional resources of her own, particularly since Ethiopia was not doing as well as most other developing countries in this respect. He explained the implications with regard to IDA credits, and pointed out that under present conditions it would be difficult to justify any additional financing of local currency cost. However, the Ministry of Finance had demonstrated some promising progress, and provided these trends were continued, he hoped that lending could be increased substantially. This would require the preparation of more projects for consideration by the Bank Group. In any case the Government's ability to mobilize an increasingly large proportion of its own resources and to keep down expenditures for non-development purposes would be decisive.

In response, the Minister of Finance stressed once again that there were "many real problems". Ethiopia had been isolated for centuries, and the concept of economic development was a new one, hence many senior officials had to be educated and prepared for the new departures they were trying to introduce. Furthermore, 3/4 of the population lived in a subsistence economy, and only 1/4 participated in the monetary economy, and the basis for taxation was therefore an exceptionally narrow one. Income tax had been introduced only 11 years ago, and there were very wide demands on the Treasury, also from the large segment of the population that did not make any contribution. As an example, he mentioned that the Government paid Eth. \$80-90 million per year towards primary education whereas local contributions amounted to only Eth. \$5 million per year. To improve on this situation they were planning to strengthen rural administration - also with a view to increased revenue collection for education.

With regard to the new financial intermediary, the Minister recalled the discussions in Copenhagen, and said that he would keep in close touch with the Bank's Resident Representative. His intention was to have the new intermediary legalized by decree within the next week or two, and once it had been established he would ask for a line of credit from the Bank. Further, he hoped the Bank would be prepared to extend additional assistance for project identification and preparation (Mr. Lejeune said he would keep this matter in mind, and in the first instance discuss it with the Nairobi Office during his forthcoming visit there). The Minister thought that the proposed Land Reform Bill would be approved by Parliament in the course of its next session. He emphasized the need for a study of the marketing possibilities for agricultural produce and for livestock. He hoped that the Bank would consider the financing of the proposed five domestic airports (Mr. McNamara explained that this was a matter which would have to be considered in relation to its priority, i.e. bearing in mind that projects in such fields as agriculture, education and feeder roads construction would have to be given top priority). Finally, the Minister of Finance expressed the hope that some IFC projects would be possible, even though the amounts required might be low in relation to the minimum limits fixed by IFC.

Monday, October 19: Meeting with H.E. Minassie Lemma,
Governor of the National Bank of Ethiopia.

The Governor emphasized that with the former depressed export prices for coffee, Ethiopia had gone through a couple of difficult years of economic stagnation. Following the strengthening of the international coffee market over the last year or so, it was now becoming increasingly evident that economic conditions in Ethiopia were improving, and he expected these trends to continue for some time. He understood Mr. McNamara had stressed development of agriculture, and in his opinion there were several factors which constrained further progress in this sector. As examples he mentioned land reform, and he hoped that ownership of land would be established once and for all; marketing and storage facilities for agricultural produce left much to be desired, and any improvements in this field would facilitate the extension of short term credit to farmers; transportation services for the agricultural sector were inadequate both in terms of roads and road transport vehicles; the local administration in rural areas was greatly insufficient and needed strengthening; a better education system for the rural areas was a pre-requisite to further development in the agricultural sector; within the agricultural sector livestock ownership was important but unproductive, due to a variety of complex factors; with the closure of the Suez Canal, exports of various vegetables and fruit had become much less competitive and were in fact possible only during the short off-season for the traditional exporters to Europe. Ethiopia had not yet joined any international "groupings". It had applied for membership in the East African Community, but so far it had not been possible to reach agreement on the terms for such membership. In conjunction with the Governor's remark regarding the inadequate administration in rural areas, Col. Solomon explained that Germany, as part of its technical assistance program, had arranged courses both in Ethiopia and in Germany for local Awraja Governors. Even so their salaries, averaging only about Eth.\$200 per month, were largely insufficient to promote incentive and integrity.

The Governor went on to say that the government had succeeded in providing a reasonably effective banking and monetary system, and in his opinion there was a basis for a more intensive development effort from this point of view. However, identification of suitable projects was a problem, and he hoped that the Bank Group would be willing to help Ethiopia in such matters. (Mr. McNamara confirmed that this was the case. He added that in many instances technical assistance was more important than financial contributions, and he mentioned Bank experiences in Thailand as an example).

The Governor also emphasized the potential importance to Ethiopia of mining and tourism.

The Governor explained that public sector savings were in his opinion insufficient, not the least because the government was always pressed to go beyond its approved budget. The interest rate on private savings paid by commercial banks was 6%. Interest among the public in the stock market was very limited since - apart from three companies -

the dividends were generally not sufficiently appealing. Income Tax was introduced only a few years ago, and evasion from Income Tax was still a major problem. Regarding taxes on land, the title was converted to cash some time ago, and hence it became a burden for those possessing unused land. The result was that a lot of land was sold. Finally the Governor mentioned the complexities and drawbacks of communal land ownership which was particularly prevalent in the northern provinces, and he thought this would have to be changed before any further progress could be achieved in these areas.

Monday, October 19: Meeting with H.E.Lij. Endalkatechew Makonnen, Minister of Communications, Telecommunications and Posts.

The General Manager of Telecommunications, Ato Betru Admassie, gave a resume of the Fourth I.B.R.D. Telecommunication Project. He explained that at the time the First Telecommunication loan was made to Ethiopia in 1952, there were only 4,600 telephones installed in the country; today there were 46,000 and on completion of the Fourth Telecommunication Project there would be 63,000. In urban areas the waiting lists for telephones were not significant. However there was a substantial unfilled demand for installations in rural areas. Even though the Telecommunications Authority gave priority to rapidly developing areas, many other areas had accumulated excessive waiting lists since installations were expensive and unprofitable.

The Administrator of the Civil Aviation Authority, Ato Hailu Alemayehu, explained that most airport development in Ethiopia had been financed by U.S. AID, and notably the airports at Addis Ababa and Asmara. A number of strips had been built by the local population. Unfortunately most of the local airports could not be used during the rainy season, and they were now developing an overall plan for improvement of local airports. They had approached the Bank for financing of five such airports, of which four were located along the so-called "Historic Route"; the fifth airport was at Setit-Humera where the Bank had recently started the first phase of an agricultural development project. The rough approximate cost would be Eth.\$3 million for each of these airports, and a large proportion would be local currency cost.

Mr. McNamara pointed out that only 7,000 trucks had been registered in Ethiopia so far, and queried whether such a small fleet was sufficient. The Minister replied that even though many major highways had been built on a country-wide basis, demand for road transport was severely restricted in as much as farmers had a major problem in getting their produce lifted from the farm to the nearest roadside. Very substantial distances were frequently involved in such cases, and this was one principal reason why it was now important to concentrate on construction of feeder roads. These problems were further enhanced by the almost complete lack of storage facilities in all areas for agricultural produce. He added that a fairly substantial number of truckers had organized themselves in associations, and the two largest associations controlled 1,200 and 800 trucks respectively.

Tuesday, October 20: Meeting with H.E. Ato Abebe Retta,
Minister of Agriculture and H.E. Fitawrari Abebe Gebre,
Minister of Land Reform and Administration

The Minister of Agriculture said that quite a number of problems in the agricultural sector had been demonstrated by recent Bank missions. So far Ethiopia had received financing from two agricultural projects from the Bank Group, but other loans and credits had benefited the agricultural sector-particularly in the case of infrastructure investments. In the Third Plan agriculture had been emphasized as the spring-board for further economic development, particularly since it was realized that a large proportion of the farming community was oriented towards subsistence farming. In any case principal officials, and the Emperor in particular, wanted to direct major attention to the agricultural sector. Present thinking was that the most appropriate method might be to develop so-called minimum package programs rather than more comprehensive and high-cost agricultural development projects such as CADU and WADU which might become too expensive on a country-wide basis. Minimum package projects might be possible since they only contained extension services, the provision of credit to farmers for procurement of fertilizers, insecticides, etc. Resettlement of people from the densely populated highlands to the lowlands might also constitute an element in some cases.

It was concluded that the difference between the minimum package project approach and the WADU approach had not yet been defined clearly enough, and that Mr. Finsaas would discuss this matter further with the Ministry of Agriculture at a later date and report to the Bank.

The Minister of Agriculture said that the quality of extension services in Ethiopia was improving slowly even though the standard of individual agents varied considerably. They now had about 130 agents throughout the country, and given some external assistance he hoped they could increase this number by roughly 50% per year. Regarding further development of the agricultural sector, he thought that commercial type farming combined with irrigation could be developed in the Awash Valley, and the government was willing to take up some equity capital for this purpose. The livestock sector was very important, but so far very poorly developed and organized for commercial purposes. In fact most livestock in Ethiopia was kept as a source of wealth in the local sense, and could undoubtedly be put to much better use. It was important to improve veterinary services, and in the meantime certain projects were being prepared in the livestock sector on the basis of the recommendations put forward by the recent Bank sector review mission.

In the Minister's opinion the main constraints in the agricultural sector were inadequate organization and lack of financial resources. He hoped that the proposed new financial intermediary would be backed up by a line of credit from the Bank Group. He thought that improvement in the land tenure system was of secondary importance.

He also mentioned the Grain Board, the Grain Corporation and the Livestock and Meat Board; these entities could fulfill their function much better provided some financing was made available to them. In the case of the Grain Board and the Grain Corporation, additional

financial resources could be used for seasonal procurement and storage of crops.

The Minister mentioned he had been concerned by the fact that projects were identified and prepared up to a certain stage, at which Bank missions appeared and concluded occasionally that the projects were "worth-while but not bankable." He mentioned the Awash project as an example. Mr. McNamara explained that in all phases of industry, commerce and economic development some projects would always fall out at earlier or later stages of identification and appraisal. He mentioned several examples, and concluded that to achieve X number of projects it would always be necessary to identify $X + \frac{1}{2} X$ number of projects or more in the first instance. The Minister responded by saying that the requirement of an additional $\frac{1}{2} X$ number of projects could undoubtedly be reduced if the Bank Group was willing to come in and help at an early stage.

The Minister of Land Reform explained that his Ministry was established only three years ago. It would shortly introduce a Bill to Parliament proposing revisions in the Land Tenure system, a cadastral survey and land title registration, and progressive taxation on unutilized land. He thought that all three measures would be approved by the Parliament before its recess in June 1971, even though he had some fears of opposition in the Upper House which had a strong representation of landlords. He further explained that of the government owned land in Ethiopia which had not yet been distributed, a large proportion, or more than 75%, was occupied by nomads, hence there was a real problem of settling these people. The present system of allocating up to 40 hectares to government employees and patriots on request was being abolished. Such land would rarely be cultivated, and the Ministry of Land Reform intended to present a Bill in the near future to end such allocations. Regarding settlement and use of lowland areas he mentioned that malaria had been largely eradicated in many instances, and hence additional large tracts of government land had become usable. In areas which were readily accessible, demand was quite strong, and as much as Eth.\$80,000 had been paid per gasha in private transactions.

In the case of communal tenure systems he thought much could be done to improve present conditions through the introduction of co-operatives. He explained there was no difference between sexes in connection with inheritance of land, and farmers' sons and daughters had equal rights. Therefore in the case of a family with four children which produced four children each in the following generation, there would be a split up in the family property into sixteen shares over a relatively short time.

H.E. Tesfa Bushen mentioned the perpetual problems they had in connection with project identification and preparation, and he much appreciated the help which had been extended so far by the Nairobi Office. He stressed that the Ministry of Agriculture would have to get more projects in the pipeline, and he hoped that the Nairobi Office would be able to assign a sufficient number of people to assist them.

Mr. McNamara pointed out that there were limitations on the number of staff the Bank Group could provide. He agreed however that Ethiopia was very dependent on development of the agricultural sector, and he requested Mr. Finsaas to keep in touch with the Ministry of Agriculture on a continuous basis to explore the extent to which the Bank Group could help.

H. E. Eshete Makonnen, Vice Minister of Agriculture, recalled the Bank's recent interest in various international research centres, and he hoped that the Bank would take an active part in agricultural research in the future. He stressed that Ethiopia was very interested in research activities, and oil seeds and pulses were particularly suitable for Ethiopian conditions, let alone that Ethiopia was one of the most important producers in Africa of such crops. If and when an opportunity arose, therefore, Ethiopia would be most interested in providing facilities for any relevant research centres which might be established.

The Minister of Agriculture referred to the report on organization and administration of the agricultural sector which was recently completed by representatives of the Rockefeller Foundation, and said that the report had put forward some very helpful and appropriate recommendations. He handed over copies of a chart setting out the proposed organization of the Ministry of Agriculture. Finally he expressed his appreciation for the interest Mr. McNamara had shown in the course of his discussions for further development of agriculture in Ethiopia.

Tuesday, October 20: Meeting with H.E. Ato Million Neqniq,
Vice Minister of Education

The Vice-Minister pointed out that the first and proposed second IDA Credits for education provided a most important contribution to secondary education, and to technical as well as agricultural institutes. In the case of primary education the government had close co-operation with SIDA in a joint program which aimed at the provision of 1,000 classrooms per year, with an ultimate objective of 7,000 classrooms by the completion of this program.

Mr. McNamara raised some basic policy issues regarding education, such as the relative proportion of G.N.P. which should be expended on education; the relative proportion of overall expenditures to be used for respectively primary, secondary and university education; the shaping of curricula to fit in with Ethiopia's special requirements; and the distribution of educational institutes among the different regions of the country. He stressed that entries, particularly in the case of secondary schools, would have to be restricted in favor of quality rather than quantity, even though he could well understand that this involved some delicate policy problems. He added he had been shocked to learn that only 1% or less of the children in rural areas attended primary schools. He was also surprised by the fact that the central government provided almost all financial resources for primary education, and that the administration of school system in rural areas was centered on Addis Ababa.

In reply the Vice-Minister said that the government was aware of these problems. In the case of school administration in rural areas they were at present developing some proposals to improve the situation. Regarding financing of schools in rural areas, it might be possible to increase local contributions through the Awraja administrations, even though these were weak in most instances. However, there were many cases in which the local population cooperated to promote additional educational facilities. In fact local contributions under the SIDA program totalled as much as 50% of the cost in some instances. In any case the government was focusing its attention to the possibilities of expanding local contributions and administration through the Awraja system.

The Vice Minister said that 800 classrooms had been completed annually over the last three years under the SIDA program, with SIDA and the government each contributing half of the cost. In secondary schools there were many foreign teachers, but even so they had to depend on a large number of teachers who were not qualified. He also mentioned that a functional literacy program had been launched in four regions, of which one was the Soddu-Wolamo Awraja. These were attended mainly by adults, and 128,000 students had completed such courses over the last three years. The principal subject was Amharic, and the length of the courses 15 months.

In primary schools repetition of classes averaged 15%, and was as high as 20% in rural areas. Drop-outs were about 30%. In secondary schools, the rates of repetition and drop-outs were somewhat lower. He was encouraged by the fact that these rates had decreased over the last three or four years due to improved classroom and other teaching facilities, particularly books. On employment possibilities he said that a small number of arts graduates were presently unemployed, and unfortunately the number was increasing. In the comprehensive schools, approximately 25% of the students were attending academic streams.

Following a brief discussion of the curricula for primary schools in rural areas, Mr. McNamara promised to consider whether the Bank could provide one or two people to assist the Ministry in developing more suitable curricula adapted to rural conditions.

After the meeting Mr. McNamara was shown various maps on which individual schools of different categories had been marked. From these maps it became evident that unless construction of new secondary schools was included under the second IDA Education Project, the entire south-eastern part of Ethiopia would not have any such schools in the foreseeable future. Mr. McNamara subsequently said that he would like to discuss the details of the second Education Project with Messrs. Lejeune and Ballantine after his return to Washington.

Tuesday October 20: Meeting with Dr. Aklilu Habte
President of Haile Selassie I University.

The President of the University opened the meeting saying that the University was "a young and modern institution serving an ancient country". It was established only 9 years ago, and had subsequently had much help

from various directions, such as the Oklahoma University, WHO and Sweden. Its main objective was the production of trained manpower for Ethiopia, and it was already fulfilling some of these objectives, for example in the field of arts. It was now shifting gears towards technical faculties. Such changes had been initiated as a result of a variety of considerations, and they had frequently been assisted by ex-patriate advisors. Some time ago a presidential commission had been set up, including about 50 persons of 20 nationalities, to consider Ethiopia's special requirements for university education. One main conclusion had been for improvement of planning, and much work had subsequently been completed in this field. For example over the next four to five years the number of students at the university would be increased from 4,500 to 6,000. Further it had been agreed that the university should concentrate on such subjects as teacher training, sciences and technology, and presently the eventual aim was to have 60% of the students in sciences and 40% in arts. To serve economic development the university had also mounted a strong extension program, which at present had 2,500 students in evening classes, studying e.g. accountancy and law. These programs were particularly centered at Asmara, Jimma, and Harrar and Addis Ababa.

Further it had been concluded that it was important to give graduates a feeling of purposeful service to their community and country. To this end arrangements had been made for graduates to serve one year in the countryside, well removed from the largest towns, and last year 500 students had been placed in different positions in as many as 130 communities throughout the country. As a result they had become completely different people, and this was the more important since the main body of the students originated from secondary schools located in urban areas.

The Academic Vice President of the University, Dr. Frank Bowles, stressed that it was important to get university graduates placed in the local administration of rural areas where positions were presently dished out to unqualified candidates. There were 13-14 provinces in Ethiopia, with 7-8 Awrajas each. For this purpose the university would have to start the training of development officers, and it was quite possible that the Ford Foundation might make some contributions. They hoped that about 100 graduates could be turned out annually over 3-4 years, each of them passing through a three year program of studies. Further they were proposing to develop a second faculty of education in Alemaya to spread university education as widely as possible. He hoped that such regionalization of the university would make an important contribution towards development of rural areas.

Regarding the agricultural sector most of the principal officials in Ethiopia came from the College of Agriculture, at which some 400 students had graduated so far. They were now considering additional measures to associate the students from this College more closely with the rural areas.

In the past they had found that many students tended to choose wrong faculties. To ameliorate this situation they had introduced a one year freshman program so that students could choose their faculty at the end of this course.

The President explained that the total budget of the university was about U.S.\$7 million equivalent. The government provided about U.S. \$5 million, and the remaining U.S.\$2 million were contributed by U.S.AID, the Ford Foundation, Sweden and other sources. The average annual cost per student was about U.S.\$3,000 equivalent.

The contemplated increase in enrollment to 6,000 students would require investments totalling about U.S.\$10 million equivalent, and U.S. \$3-4 million had already been secured, mainly through U.S.AID. In the past the Present had discussed their remaining requirements with Bank representatives, i.e. for a classroom and a dormitory building in Addis Ababa and for a science building in Alemaya, but without any concrete results. It had been estimated that about 50% of the U.S.\$6 million equivalent still to be raised would be foreign exchange cost.

Mr. McNamara explained that it would be difficult to include financing for the university under the second IDA Education Credit at this late stage. He would however discuss the university's requirements with Messrs. Lejeune and Ballantine after his return to Washington, but he made it quite clear that he could not give any firm promises on behalf of the Bank Group.

Tuesday, October 20: Meeting with the Heads of the Commercial Bank, The Addis Ababa Bank, The Ethiopian Investment Corporation, and the Development Bank. (Ato Teffera Degueffe, Ato Debebe Yohannes; Mr.H.B.B.Oliver, and Ato Tekalign Gedamu

The General Manager of the Commercial Bank explained that its primary aim was to add branches to step up savings, and to increase commercial lending. In the case of the agricultural sector, the credit facilities were highly inadequate. Most lending for agriculture was at present made to traders and agents, and to cooperatives of which there were some 23 in active operation. It was difficult to lend to small farmers, but possibilities to that end were being explored. The Commercial Bank was at present paying 6% on savings deposits, and charging 7½-9% on its loans.

The General Manager of the Addis Ababa Bank said that his Bank had started some lending to individual farmers, mostly in cotton and coffee growing areas, and they were also helping them with the marketing of their products in some cases. For loans exceeding Eth.\$500, security was normally extended by the local administration, by pledges to sell the products through the Addis Ababa Bank, or by lien on the land. The all inclusive cost to the farmer of such loans ranged between 9% and 11% per year. In many cases such loans had replaced money lenders whose charges were 11-15% per quarter, or 44-60% per year. Generally the Addis Ababa Bank had been successful with their loans, apart from a few cases involving crop failures. Total deposits of the Addis Ababa Bank were Eth.\$44 million. The overall annual growth in deposits was 20%, with the fastest growth in urban areas.

The General Manager of the Commercial Bank said there was a general shortage of finance in Ethiopia, particularly for commercial building

construction. The favored areas of lending for the Commercial Bank were firstly industry, for which about Eth.\$40-50 million was extended annually, and secondly local trading companies.

The General Manager of the Development Bank said they had experienced some overlapping with the Investment Corporation, and there was not really enough business for the two institutions. The upcoming merger would be realized only 4-5 years after it was first proposed by the Bank Group, and he hoped that on completion of the merger, it would be possible to get some assistance from the Bank Group both as regards staffing and financial resources. One problem was that the employees in the two institutions, totalling 180, would be way beyond the requirements of the new institution.

At present the Development Bank was extending loans totalling about Eth.\$4 million per year, mostly with 5-10 years maturity. Their current interest rates were 7 $\frac{1}{2}$ % for agricultural loans, 8% for industrial loans, and 8 $\frac{1}{2}$ % for working capital requirements of industrial companies. A subsidiary Ceres had specialized in loans to cooperatives, including the cooperative at Setit Humera where the Bank Group had recently launched a project.

With regard to the new intermediary he hoped that it could extend long term financing, perhaps with 15-20 years maturities, to promote both industry and agriculture. He further hoped that industrial loans could be interpreted widely enough to include such activities as mining and commercial building construction.

In the past the Development Bank had only been able to lend to "those who could afford it", such as absentee and wealthy landlords. He thought there was also a definite need for credit to small farmers, even though under present conditions they would normally not be able to provide acceptable security. It would therefore be necessary for the new intermediary to devise ways and means for credits in these cases, and one possibility might be the formation of cooperatives. At present the Ministry of Community Development was giving technical assistance to a number of cooperatives. As an example he mentioned the cooperative formed at Setit Humera, in which case Eth.\$3 million had been lent last year and subsequently repaid on time. Even though the field section managers of the Development Bank were professionally weak in some instances, he thought their field staff were generally competent to evaluate loans to farmers, also in areas where there were no cooperatives.

The General Manager of the Commercial Bank stressed the importance of a good nucleus of staff for the new intermediary from the moment it had been established. He would expect that less than half of its lending would be for industry and more than half for agriculture, particularly for crop loans. He would also expect the new intermediary to cooperate with commercial entities such as the Addis Ababa Bank and the Commercial Bank, especially in those areas where the latter institutions were already established. There would always be many eager borrowers among those who could afford it, but the problem would be to reach those who were not in a position to borrow under present conditions. However, if a banking rather than a legal approach was followed, then it would be possible to reach such clientele somehow. One

possibility might be to solicit cooperation from land owners with regard to guarantees for loans to their tenant farmers.

Tuesday, October 20th: Meeting with H.E. Ato Belay Abay,
Minister of State and Head of the Planning Commission

H.E. Ato Belay Abay recalled the establishment of the Planning Commission a year or two ago, at which time there were extensive discussions as to what the priorities should be for economic development in Ethiopia. It was concluded that the highest priority should be given to the agricultural sector, and that this sector should be supported by extensive road construction, including feeder roads. Secondly, human resources should be given the next highest priority since there was a shortage of trained people; it was stressed that education had so far been too heavily concentrated on the urban centres and that it was, therefore, necessary to extend education to rural areas. Thirdly, health services were given priority, particularly in the case of eradication of malaria, which at all times was immobilizing a great number of people.

Next the Planning Commission faced up to the problem of the overall strategy to be followed for the agricultural sector, and extensive discussions ensued on such basic issues as the relative importance of peasant agriculture in relation to large scale commercial agricultural units, agro-industries, mechanization and irrigation. One principal conclusion was that development of the lowlands was important, and that much could be done towards this objective by transfer of people from the crowded highlands. Further it was felt that the Government should promote improvements of agricultural practices in the highlands, and that comprehensive agricultural development projects like CADU and WADU would be helpful for that purpose. However, due to the high cost of such projects, the Government would probably have to be content with a number of minimum package programs. The latter could be propagated by Agricultural Extension Officers in the first place, followed by further propagation and innovation through cooperatives as soon as they could be formed.

The Planning Commissioner stressed that crop yields in Ethiopia were generally very low, and it would, therefore, be important to extend and strengthen agricultural research. He mentioned the Bank's interest in international research institutions, and he expressed the hope that it might be possible to place an international research institute in Ethiopia, for example for pulses, which formed an important cash and export crop in Ethiopia. Regarding road construction, he said that the provision of main highways had so far been in the forefront, but there was now an increasing understanding of the need for feeder roads. The Planning Commission was at present identifying a project for feeder roads, largely based on the U.N.D.P. road sector survey. He hoped that the Bank would back up this project, since otherwise the Ministry of Finance might well refuse to provide the necessary local currency financing.

In respect of the education sector, the Planning Commissioner stressed the importance of the proposed manpower survey and the sector review under the second I.D.A. Education Project, which he fully endorsed.

He considered the industry sector to be a very difficult one, involving a wide complexity of problems, and it was quite possible that Ethiopia would have to ask for some assistance from the Bank to sort them out. In the field of mining, he was depressed about the delays with regard to the planned development of the potash deposits in the Danakil area. However, he considered the Ministry of Mines to be a competent organization, and they were now carrying out extensive mineral surveys on a countrywide basis which he hoped would one day lead to other major discoveries. He mentioned the report completed recently by representatives of the Rockefeller Foundation regarding administration and organization of the agricultural sector, and he endorsed the suggestion that major responsibilities should be transferred from the Ministry of Community Development to the Ministry of Agriculture. He would preserve the Ministry of Land Reform, and he thought it should from now on be given the responsibility of identifying promising areas for agricultural development.

He was concerned by the fact that Ethiopia had virtually no local government in rural areas, so that all problems in these areas had to be handled from Addis Ababa. He emphasized that there was a pressing need to educate Governors at all levels in the provinces, also with a view to organizing substantially higher local contributions towards education. He said that Parliament is now debating what the balance of authority should be between the Central Government and the Provincial Administrations. He did not know what the outcome would be, but he felt that the Awraja Governors should in any case be guided on matters of economic development. Regarding the proposed new financial intermediary, he was holding great hopes for the contribution it could make, and as soon as it had been established it was important that it be given the necessary financial support. He hoped that ways and means would be found for the new intermediary to finance small farmers, and suggested that perhaps cooperatives or entities like CADU and WADU, might be used for that purpose.

He was now looking forward to receiving a group of experts through the Harvard Advisory Group. There were still obvious shortcomings in the functioning of the Planning Commission, and he was quite certain that early improvements would be realized as soon as the Harvard Group people were in place.

He much appreciated the recent Bank Economic Report. He hoped that external finance would be made available to back it up provided enough viable projects were developed, but even so local financing would present a problem. It would be difficult to curtail non-development expenditures in the Government budget, but in turn he would question whether the Ministry of Finance had made a sufficient effort on the revenue side. In any case, unless the Ministry of Finance proved able to boost Government revenues, then a somewhat hopeless situation would prevail, i.e. unless aid donors were willing to assume materially higher local currency costs. Apart from the problem of Government revenues, he questioned the organization and functioning of the Ministry of Finance, and he also felt that the Ministry of Finance and the State Bank could cooperate more closely than at present. He mentioned the I.M.F.'s assistance to the Ministry of Finance for a survey of Government revenues, and he hoped that this exercise might eventually yield some additional resources.

He felt that the domestic airports along the historic route deserved priority, even though substantial additional infrastructure investments were required. He was quite certain that the three ports serving Ethiopia - Massawa, Assab and Djibouti were necessary, but at this point some basic research and planning in this field was required.

Malaria eradication in the lowlands had been most helpful for resettlement of people from the crowded highlands, which was an accepted and important strategy. The alternative would be to provide more employment opportunities in non-farming communities. In any case the Planning Commission expected a rapid urbanization, and he felt that further development of the industry sector should not be left aside under any circumstances. Finally, the Planning Commissioner expressed the view that the allocation of Government owned land to civil servants and patriots would probably be stopped at an early date, and that instead the remaining Government lands would be distributed on long term leases to landless people who would cultivate it. Unfortunately, great areas of Government land were remote and inaccessible, and for this reason it would be necessary to make additional studies so that allocation of such areas to landless people could eventually be carried out more effectively.

Tuesday, October 20th: Meeting with Mr. H.B. Musa, Assistant Secretary General, Organization of African Unity, and with principal officers of his staff.

Mr. Musa said they appreciated very much that Mr. McNamara had taken the time to visit the O.A.U. Headquarters. He then invited the Director of the O.A.U. Economic Department to comment on activities of the World Bank Group in Africa which, in the opinion of O.A.U., could make the most helpful contributions.

The Director of the Economic Department made a number of points in the following order, i.e.

- a) They considered the Bank's initiative and role towards stabilization of basic commodity prices as very important and helpful for Africa.
- b) They hoped it would be possible for the Bank Group to increase substantially its loans and credits to Africa.
- c) Up to now, Africa had received only 17% of the amounts of IDA credits. This compared poorly with e.g., Asia which had received 73%. They therefore hoped that Africa's share of available IDA funds could be increased in the future.
- d) They had noted that the Bank was joining a study regarding the linking of SDR's to development financing, and they hoped that the Bank would do its best to promote this proposal.
- e) They were very interested in the proposal for supplementary financing.

- f) They hoped that the Bank would continue to take a positive attitude towards the financing of multi-national projects in Africa. (Mr. McNamara explained that the Bank Group is strongly in favor of such projects, and mentioned our contributions for telecommunications projects within the East African community as an example).
- g) The O.A.U. would appreciate very much if there was an opportunity for training at Bank headquarters of some of the staff in their General Secretariat. Mr. McNamara said he would be most glad to make arrangements for that purpose, and he would welcome their sending specific proposals, either to him personally or to the Bank's Resident Representative in Addis Ababa.

In conclusion, Mr. McNamara said that the Bank had initiated the proposals for supplementary financing, but he hoped it was understood that this was a very complex matter.

Wednesday, October 21st: Meeting with his Grace Abuna Teophilis, Acting Patriarch of Ethiopian Churches, and members of his staff.

The Acting Patriarch said the Ethiopian church was the most ancient in the world, and he was very gratified by the fact that Mr. McNamara had come to see him. The activities of the church were very wide, and as an example he mentioned that it was not long ago that the church was the only source of education in Ethiopia. Even today many children received their initial education at some 15,000 church centres throughout the country, each centre having some 2 or 3 priests guiding their activities. The church continued to establish additional church centres, and recently a new theological college had been started at the Haile Selassie I University. They would like to extend their activities further, but frequently they found that they were unable to do so due to financial constraints. At present they were employing 1,680 teachers, all underpaid, and they provided education for some 57,000 children between 7 and 10 years old, most of them living in the provinces. Regarding admittance of children there was no discrimination; even children coming from homes of the Muslim faith were readily accepted. The duration of the courses were approximately 3 years, during which they would learn to read and write, apart from the teaching of religious subjects such as Psalms and the Old Testament. Only some very few children remained in the service of the church, and in those cases they would normally become involved in church education activities. Recently the World Council of Churches had helped to establish a new centre at which the students also received medical and agricultural education. In addition, there were advanced centres of this type in some of the main towns, including two centres in Addis Ababa.

Apart from young people who were educated abroad, there was no problem in Ethiopia with the younger generation turning away from the church. The continued attachment to the church was particularly strong in the countryside. The international phenomenon of "Maoism" had not

taken root in Ethiopia, principally due to the strong national traditions which prevailed. In case there was a rapid urbanization, he did not think this would present a problem to the church. The church could help the people concerned with education, and in any case all Ethiopians were very loyal to their traditions.

Regarding church land, the Acting Patriarch said it was wrongly assumed that the church had extensive holdings. The church had given most of its land away, and the remaining areas totalled only about 120,000 acres, mostly waste land which could be developed and tilled provided it became accessible. The Emperor had given some land to the church from time to time. They were now starting a few development projects, but this activity was only at its early beginning. The church would like to place landless people on its remaining unused land, but again they were hampered by financial constraints. He stressed the importance of a progressive policy by the church, and he thought it was essential for churches of all faiths to work together on a worldwide basis.

In response to the Acting Patriarch query whether the Bank Group would be willing to assist with three or four agricultural projects, Mr. McNamara indicated that provided ways and means could be found, the Bank Group might extend some technical assistance. He also suggested that experiences and methods from the WADU project might be transformed for use on church land.

Finally the Acting Patriarch explained that church land given away in the past was always transferred from one generation to another, and the church was only charging a negligible token fee for such land.

Wednesday, October 21: Meeting with H.E. Ato Tshefatu Tiezaz Aklilu Habtewold, the Prime Minister, and H.E. Ato Mammo Tadesse, Minister of Finance

The Prime Minister said he was interested in hearing what Mr. McNamara's conclusions were.

Mr. McNamara explained it was difficult to say on the spot what needs to be done in Ethiopia. He felt, however, that Ethiopia could use additional external funds, and under certain conditions the Bank Group might be able to expand its lending substantially at reasonably favorable terms. He stressed that one condition would be that Ethiopia made a reasonable effort towards mobilizing additional resources on her own. He had also concluded that agriculture, education and feeder road construction should probably be given the highest priority. Industry would be important on longer term. In the case of education he had been amazed to learn about the high percentages of illiteracy, and also to find that large areas of the country were without secondary schools. In any case it was important to emphasize quality over quantity at this stage in Ethiopia so that the limited resources could be used to the best advantage. He was disappointed to learn that there were some prospects that Sweden might reduce its aid to Ethiopia i.e. unless certain policies were changed so that the advantages of economic development could reach a wider segment of the people. In the case of the Bank Group, it was dependent on the

governments contributing I.D.A. funds, and this was a principal reason why a determined resources mobilization effort by recipient countries was so important. He had incidentally found that Ethiopia was much richer in basic resources than he had expected, and there was no doubt that the local climate, soil, human element, and other resources offered great potentials.

The Prime Minister said he very much appreciated Mr. McNamara's frank opinions. He agreed that the Agricultural sector should be given top priority, and in this context the overcrowded northern highlands were a problem. In any case, to achieve her objectives towards economic development, Ethiopia would need substantial external resources. Unfortunately they had a very complex problem in balancing expenditure for economic development in relation to the need for defence and security. In the recent past, Soviet Russia had provided the Sudan and Somalia with large quantities of arms, and this had placed Ethiopia in a somewhat special and precarious position. They were always trying to solve their problems with their neighbors by peaceful means, but even so it was necessary to preserve a basic defence potential.

The Prime Minister said that he was personally in favor of doing as much as possible to develop agriculture. He was not certain to what extent land reform measures were a pressing requirement since, in the case of Ethiopia, there was enough unused Government land available for distribution. There were no big landlords in the real sense, and the tradition was ownership of smaller plots of land by all levels of the population, even by servants. He thought that land reform should be orientated towards distribution of land to landless people and towards assistance for effective use of land, for example by the provision of access roads and marketing facilities. He was aware that the proposed Land Reform Bill would help to regulate certain relations between the landowners and the tenant farmers, but even so the new measures would merely legalize existing practices in many instances.

The Prime Minister said he understood Mr. McNamara had had some discussions regarding education. His personal view was that for a long time to come, Ethiopia would not be able to provide education to everybody. It was, however, important to increase the contributions towards education by local governments, and a proposal to this end had been pending before the Parliament for some time. In any case he felt it would be important to concentrate on technical and vocational education at this stage. Admittedly literacy figures were shocking, but many people in Ethiopia had learned to read and write through some basic church education, even though they were afterwards unable to get any further education. He certainly hoped the Bank would continue its assistance in the field of education, and meanwhile he thought they would eventually be able to boost their own financial resources through local contributions, particularly in the case of primary education. People in rural areas had come to understand the problem of financing for education more and more. The relevant Bill had already been presented to the Chamber of Deputies. Even though it had been pending for two years, he anticipated that it would get final approval at an early date.

In the case of the Land Reform Bill, the Chamber of Deputies had approved the old version, and he did not see any reason why they should

not now pass the modified Bill.

The Prime Minister confirmed there would soon be a discussion in the Council of Ministers regarding the proposed Consultative Group for Ethiopia. He did not expect any objections to this proposal, and he would confirm the Government's agreement in a letter to Mr. McNamara as soon as he had had formal approval by the Council of Ministers

Wednesday October 21st: Meeting with the Honorable Ato Seyfe Tadesse, President of the Chamber of Deputies

The President of the Chamber of Deputies explained that the members of the Chamber were now elected by the people in the districts they represented, which was a departure from the system which prevailed until about thirteen years ago, under which the representatives were appointed by the Governors. Regarding the proceedings in the Parliament, he said that Bills are first presented to the Chamber of Deputies, then to the Senate, and finally to the Emperor for approval. Joint sessions were normally held only if it became necessary to approve amendments to Bills presented to the Parliament.

Regarding the Land Reform Bill he said he had had the impression that just about everybody seemed to be in favor of it, and he expected an early passage.

The Bill proposing additional financial contributions for education by local governments would in his opinion encourage many communities to build schools on their own. Also in this case he thought that the relevant Bill would be passed by the Parliament. It was introduced about two years ago. Apart from contributions towards education, it might serve helpful to promote road construction in rural communities.

In response to a question about his views on measures to increase government taxes and revenues, he said that most members of the Chamber of Deputies had adopted a progressive outlook. In fact some of them had made proposals on their own to the Ministry of Finance to this end. Many of them thought that foreign aid should not and could not be continued indefinitely.

The Members of the Senate were appointed by the Emperor, and most of them were government officials. There were 250 members in the Chamber of Deputies, and 125 members in the Senate.

The next election would be held in three years, and normally the campaign for seats would be carried on by individual candidates who would say much the same things, except in different words. He would himself expect to work closely with the people in his electorate in Addis Ababa, and he was now serving his second term in the Parliament.

Regarding dissent by students he said that this was a real problem in the cities, particularly since it was difficult to assess what the exact objectives of the students were in those cases.

Wednesday, October 21st: Meeting with H.E Ato Getahun Tessema,
Minister of National Community Development and Social Affairs.

The Minister opened the meeting by saying that economic development was frequently poorly understood in Ethiopia. In the case of his Ministry they put particular emphasis on such matters as rural development, the formation of cooperatives, the promotion of agro-industries, and the expansion of social welfare measures, particularly in the rural areas. There were now more than 100 cooperatives in Ethiopia, and his Ministry had set a goal of 300 cooperatives to cover the overall need. The existing cooperatives were active in all cases, but for a variety of reasons a great number of them were unable to secure any financing. The interest rate charged by commercial banks to the cooperatives was 9%, and on-lending to farmers by the cooperatives was made at 12%.

The Minister said he expected urbanization to become an increasing problem and for this reason he felt that high priority should be given to development of agro-industries in rural areas. The Awassa project had been designed with this objective in view. His Ministry had various other projects they wished to promote, and they would need substantial external assistance for their overall program. To implement their program they planned to open regional development offices in each of the thirteen provinces, and in these cases the heads of such offices would be directly responsible to the Ministry.

The problems of urbanization were becoming increasingly evident, particularly the problems of urban unemployment. The Minister said that about 100,000 or 13% of the population in Addis Ababa was unemployed at present, and that this phenomenon had developed over a relatively short time. Housing was also becoming more and more problematic. It was not possible to distribute land to such people since most of the available land was inaccessible. Large scale relocation would in any case require heavy investments in infrastructure and other minimum facilities for a start.

Finally the Minister explained that the Ministry of National Community Development had 200 professional employees in Addis Ababa, and another 400 in other parts of the country. The total recurrent budget for the Ministry was about Eth. \$4 million, and capital expenditures totalled another Eth.\$1 million.

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Michael L. Lejeune

SUBJECT: Interview with the Emperor of Ethiopia

DATE: November 25, 1970

1. Mr. McNamara had an interview with His Imperial Majesty, the Emperor of Ethiopia on Monday, October 19, 1970, at mid-day. Mr. McNamara was accompanied by Mr. Lejeune. Present at the interview were the Prime Minister, the Minister of Finance, the Minister of Foreign Affairs and the Minister of the Court.
2. The Emperor spoke Amharic, which was translated by the Foreign Minister. We were given to understand that the Emperor understood English. However, some, but not all, of Mr. McNamara's remarks were translated into Amharic.
3. The Emperor welcomed Mr. McNamara to Ethiopia. Speaking with only occasional reference to notes, he cogently set out Ethiopia's economic problems and goals. He explained that Ethiopia had few exploitable natural resources - there was no oil; so far little in the way of minerals had been found; tourism was not likely to assume great importance for a long time. Agriculture was the basic resource, and they were fortunate in that there were large amounts of unused arable land which could be exploited and that land already in use could be made more productive. Land tenure reform was of first importance and the Government had already put proposals before Parliament and expected action soon. Assistance to farmers, particularly those who become new owners as the land tenure reform takes effect, was essential. The provision of credit was also an essential ingredient. The prospects for livestock production and the export of livestock products was mentioned several times as being a potential point of growth for the economy.
4. The Emperor went on to say that all this implied that the development of agriculture gave rise to the need for external finance, and he emphasized the importance to Ethiopia of the World Bank - "which will have sympathy for our cause". He also emphasized that it was Ethiopia's aim to be self-sufficient and to merit financial help not only from the Bank but also from bilateral sources. (He made no direct mention of the Eastern Bloc but it could be read into his remarks that Ethiopia would propose to continue to obtain help from both the East and the West.)
5. In response, Mr. McNamara said he was glad to know of Ethiopia's emphasis on agriculture and education, with both of which he was heartily in agreement. He said the Bank was willing to continue to increase its help to Ethiopia. He spoke in terms of a volume of help over a period in the future which might be three times as great or more than over a similar period in the past. The amount which the Bank could do would depend on

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Ethiopia's need and capacity to help itself. He said that one of the things he wished to find out while he was in Ethiopia was what the prospects were for Ethiopia to raise domestic resources. He said he understood that there were prospects for extensive resettlement of people from the crowded areas of the North to unused lands elsewhere. He asked for the Emperor's comment.

6. The Emperor agreed that there were good prospects for such settlement, and, in response to a further query from Mr. McNamara, spoke particularly of the prospects for livestock.

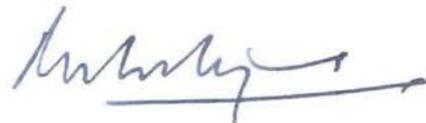
7. Mr. McNamara then asked what other sectors might have some priority. The Emperor replied that minerals might come next but he could mention no others. He had already listed those he felt were of prime importance. He did, however, go on to talk of the need for feeder roads to enable agricultural produce to be brought to market.

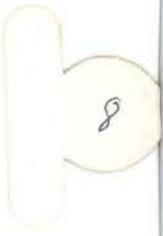
8. Mr. McNamara then asked the Emperor what he thought was going to transpire in the Sudan. The Emperor said it was extremely difficult to tell. There had been many governments over the past years, none of which lasted very long, and it was difficult to assess Sudan's future course. Russia's evident wish to penetrate the Middle East and gain access to the Indian Ocean had complicated the situation, and he was not sure how this new factor would affect Sudan's internal stability and its relationships with its neighbors.

9. This led the Emperor to comment on the need to preserve Ethiopia's security and territorial integrity and hence the need to continue a high level of defense expenditure. He said that he was well aware that applying such a large amount of Ethiopia's resources to defense ate into what was available for economic development, but history showed that Ethiopia had no choice but to look to its own defense and this was unquestionably first priority. Mr. McNamara commented that the defense of one's country was the first responsibility of a Sovereign and the Government. He understood the need for Ethiopia to use such a large part of its resources for this purpose. He mentioned the need to ensure that the resources were efficiently used, as there was always the danger of waste. He then asked about activity on the Somalia and Sudan borders. The Emperor replied that these borders were quiet at present, but Russia was providing arms to both Sudan and Somalia and its long-run intentions were unclear. Ethiopia would have to keep a watchful eye and keep itself prepared.

10. The interview was followed by a large official lunch.

cc: Messrs. McNamara (2)
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OFFICE MEMORANDUM

TO: Memorandum for the Record

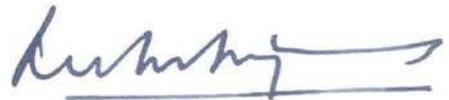
DATE: July 14, 1972

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA - Visit by H.E. Saleh Hinit

1. On May 30, 1972 His Excellency Saleh Hinit, the Minister of Public Utilities, had a brief meeting with Mr. McNamara. I was present. The Minister was in Washington to negotiate the IDA Credit of \$17 million for the Feeder Roads Project.
2. The Minister said that he wished to express the Government's thanks for the considerable increase in Bank and IDA lending during the course of the last twelve months and also for Mr. McNamara's agreement to finance the Road Project with an IDA credit instead of, as previously envisaged, partly a Bank loan and partly an IDA credit. He appreciated that the participation of the U.S. in financing this project had made possible the financing plan which had now been negotiated.
3. The Minister also said that he and the Vice Minister of Finance, who had accompanied him during the negotiations, had taken the opportunity to discuss with the staff ways of facilitating and speeding up the processing of projects. He expressed his satisfaction with the outcome.
4. Mr. McNamara said that the Bank had been consciously endeavoring to increase its program in Ethiopia both in terms of amounts and in terms of diversity. We were particularly interested in helping in the sectors which were fundamental in Ethiopia's economic development, principal among which was the agricultural sector. He felt that this Road Project would make a significant contribution to the development of agriculture as well as other sectors.

cc: Mr. McNamara (2) ✓
Mr. Tolley



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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA - Courtesy Call by the Ethiopian
Ambassador to the United States

DATE: June 26, 1972

1. Ato Kifle Wodajo took up his post as Ethiopia's Ambassador to the United States on April 21, 1972. Prior to coming to the United States, Ambassador Kifle has for fifteen years served in the Ethiopian Foreign Service in various capacities. He was twice Deputy Permanent Representative of Ethiopia to the United Nations and in that capacity also served as Ethiopia's Chief Representative to the Economic and Social Council of the United Nations and as Alternate Representative to the Security Council. From 1959-62 Ambassador Kifle was Head of the Economic Department of the Ministry of Foreign Affairs. In 1963-65 he was Provisional Secretary-General of the Organization of African Unity. In 1970 he was appointed Consultant by Secretary-General of the United Nations on a study on the economic and social consequences of the arms race. Ambassador Kifle received his University education in Ethiopia and the United States. He holds M.A. and M.Sc. degrees from the University of Wisconsin.

Past and Current Bank Group Operations

2. The Bank's first loan in Africa was a \$5 million highway loan to Ethiopia in September 1950. As of today we have made 21 Bank loans and IDA credits to Ethiopia totalling \$174.8 million and IFC has made 4 commitments totalling \$14.1 million. At the Board meeting tomorrow the Executive Directors will be asked to approve another IDA credit of \$17.0 million for the Fifth Highway Project. This, when signed after availability of IDA funds, will bring total World Bank Group commitments in Ethiopia since 1950 to over \$200 million.

3. The pace of our operations and the purposes for which we are lending have changed markedly in recent years. In the first 20 years of lending to Ethiopia we did 16 lending operations. Assuming that the highway credit is approved tomorrow, we will have done 5 operations in the last year alone.

4. Until recently most of our lending was for infrastructure projects, such as highways, telecommunications and power, but in the last two years we have shifted the emphasis heavily in favor of agriculture. In the year just ending, of the four lending operations already approved, three have given direct support to agriculture (Addis Ababa Dairy, Coffee Processing and Agricultural and Industrial Development Bank). The other lending operation was for the Addis Ababa Water and Sewerage Project. The proposed Fifth Highway Project includes roads which have been carefully selected to facilitate and stimulate agricultural development.

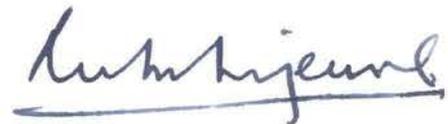
Future Lending for Agriculture and the Problem of Land Reform

5. We intend to continue placing heavy emphasis on agriculture in the future. We have three more important projects for which we hope to lend in the coming year - livestock, for which negotiations are scheduled to begin next week; irrigation in the Awash Valley, which will be ready for negotiation later in the summer; and the Minimum Package Program, which is designed to provide a large number of small farmers with improved inputs and new techniques. The Minimum Package Project should be ready for negotiation at the beginning of 1973. The five-year operational lending program is attached.

6. There are a number of constraints which make rapid agricultural development difficult in Ethiopia, and which present obstacles to maintaining or increasing the current pace of our operations. These include shortage of trained manpower, research, extension services, credit, marketing and transport and the land tenure system, which includes sharecropping with no security of tenure, communal tenure and occupation of nomadic pastoralists. We are aware that solutions will take time and we are and will be giving direct support to the Government's efforts to overcome many of the constraints. However, we are most concerned about the land reform problem, which is the one constraint on which, because of the acute domestic political problems, it is very difficult for outsiders to have effective influence. Within the last two weeks a bill to reform the tenancy system was introduced into Parliament, but since the current session of Parliament is about to end, the bill cannot be considered until the next session beginning in November. Prior to introducing the bill, the Government undertook a campaign among Parliamentarians and landowners to explain the necessity and potential advantages of the proposed measure, and we hope that the present effort will meet with more success than previous ones, when similar legislation was defeated in Parliament. If the bill is passed the Government plans to follow up with proposals for land registration and a cadastral survey. You may wish to mention to the Ambassador how important it is for Ethiopia to complement its and our investments with a change in the basic structure of landholding and tenancy.

Attachment

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OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Michael L. Lejeune

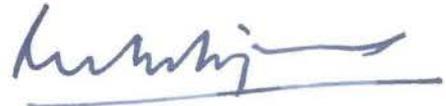
SUBJECT: ETHIOPIA - Visit by H.E. Kifle Wodajo

DATE: July 14, 1972

1. On June 26, 1972 the newly appointed Ambassador of Ethiopia to the U.S. visited Mr. McNamara, as it were "to present his credentials". I was present.
2. The Ambassador expressed his Government's appreciation of the substantially increased number of projects which had been financed by the Bank and IDA over the last year or so. He said the Government hoped that an increasing proportion of the Bank Group's program could be financed from IDA rather than the Bank. Ethiopia was a poor country and already its debts were mounting up. He said he wished to make it clear to Mr. McNamara that if ever there were matters which the Bank wished to discuss with the Ethiopian Government which could be done better face-to-face instead of through correspondence he held himself ready. He would always be prepared to take up any matter Mr. McNamara wished to raise.
3. Mr. McNamara thanked the Ambassador for coming in. He said the Bank had been making a special effort to expand its activities in Ethiopia, and that we were fully aware of the need to finance development with IDA credits rather than Bank loans and had every intention of increasing the proportion of IDA lending to the extent that the availabilities of IDA funds would permit.
4. Mr. McNamara said he appreciated the Ambassador's offer to be an interlocutor on Ethiopian matters. He had nothing at present to raise with the Ambassador but would be glad to keep in mind the Ambassador's availability.
5. Mr. McNamara said the Bank was doing its best to help Ethiopia in the sectors which were of the greatest importance for its economic development. Agriculture was one of these and progress in the agricultural sector rested heavily on progress being made in modernizing the relationship between landlords and their tenants. He knew this was a subject much on the Government's mind and was aware that efforts were being made once again to get legislation enacted by Parliament. He hoped that this time the Government's efforts would meet with success.

cc: Mr. McNamara (2) ✓
Mr. Tolley

Michael L. Lejeune:neb



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