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McNamara papers

Correspondence
Ethiopia (1973-1980)

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Contacts with member countries: Ethiopia - Correspondence 02

11.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: February 13, 1973

FROM: Michael L. Lejeune, Director

SUBJECT: ETHIOPIA - H.E. Ato Belai Abbai,
Minister of Land Reform

H.E. Ato Belai Abbai, Minister of Land Reform, paid a brief visit to Washington on October 26, 1972. While here, he talked with me and paid a brief courtesy call to Mr. McNamara. The main topic of conversation was the likelihood of passage of legislation before Parliament on relationship between land owners and tenants. In response to our questions H.E. Ato Belai Abbai said that he felt that the chances of passage were about 50 percent this year and if it was not passed this year it would be a long time before land tenure legislation could be brought to Parliament again.

Mr. McNamara expressed the Bank's interest and said he realized that this was a controversial matter in Ethiopia, but reform of relations between landlords and tenants was essential for economic progress. He greatly hoped that the legislation would be enacted this year. He said he was thinking of writing to the Emperor about it.



MLLejeune:kr

cc: Mr. McNamara's files

President has seen

OFFICE MEMORANDUM

TO: Mr. J. Burke Knapp

FROM: Michael L. Lejeune

SUBJECT: Your Interview With His Excellency Ato Belai Abai,
Minister of Land Reform, Ethiopia

DATE: October 25, 1972

10/26

1. I attach Ato Belai's biographical sketch. We got to know Ato Belai when he was Head of the government's development planning organization. He was an architect of Ethiopia's Third Five-Year Development Plan (1968-1973), and planning in Ethiopia improved steadily and gained credibility under his direction. He worked very closely with us and he puts a high premium on the Bank's relationship with his country. We regard him as a good economist, a progressive and astute politician, and a real ally for progress in Ethiopia. While we still miss him at 'planning', we hope that the added weight of full membership in the Council of Ministers since his appointment as Minister of Land Reform, will improve the chances of appropriate development policies being adopted.

2. His first main task as Minister of Land Reform is to persuade Parliament to pass the draft tenancy reform law. Draft legislation has been before Parliament for sometime, but little progress has been made toward enactment because of the opposition of the many large landowners who are members of Parliament. During the 1970/71 Session of Parliament, debate became so hot that fist fights occurred in the Lower House and further consideration of the draft law was suspended. In opening the 1971/72 Session the Emperor again exhorted Parliament to pass the legislation. However, no action was taken except for agreement that the matter would be considered early in the following session (the one being convened next month).

3. Immediately upon his appointment as Minister of Land Reform, he set up working parties to make thorough studies of various aspects of the land tenure problem. He has been using the results of these studies to try to convince members of Parliament of the merits of the legislation. Although the chances of passage have improved as a result of Ato Belai's efforts, most observers give the law only about a 50:50 chance of acceptance by Parliament.

4. The main departures from the existing system embodied in the legislative proposal are its provisions for limiting the landlord's share of the crop, establishing a minimum period of notice of eviction, and providing for compensation of tenants for improvements made by them on the land. These are fairly mild provisions, yet in the context of Ethiopia's social history they must be acknowledged as a welcome move in the right direction.

5. Opinions vary as to where the Emperor stands. He has the formal authority to put the draft into law and he is said to have the clout to have Parliament pass the draft. There are doubts about how sincere he was when he exhorted Parliament to conclude their discussions of the draft successfully. Also it is believed in some circles that Parliament are delaying because they know that the Emperor does not mean what he says. The facts are that Parliament is full of landowners who are understandably reluctant to lose any of their privileges over land, and that the Emperor traditionally depends on them for support. Dissatisfaction with land tenancy is a perennial complaint of student demonstrators. In a country where the army is known to deal ruthlessly with dissidents it is difficult to know how widespread the dissatisfaction is.

6. Finally, you will recall that when the Country Program Paper for Ethiopia was discussed in Mr. McNamara's office last January, Mr. McNamara agreed to write a personal letter to the Emperor expressing our concern about the likely adverse effects of the land tenure system, particularly at a time when we are planning to increase our assistance to agriculture in Ethiopia. We believe that now is the appropriate time to send the letter, since the new session of Parliament to be convened early next month will once again be considering the draft land reform legislation. A letter has accordingly been prepared for Mr. McNamara's signature. I will be sending it to you before it goes to

Mr. McNamara.

Attachment

cc: Messrs. Evans, Kirmani, Sonley

CPCacho/HETolley:tj

[Handwritten signature]

*Mr McNamara
Mr. Keenan hopes
to see a draft
letter to you as
well before
the meeting.
10/26*

HET

H. E. Ato Belai Abai, Minister of Land Reform

Born: Tigre Province

Educated at Haile Selassie I Secondary School in Ethiopia. He has also studied in University of Manchester, England, and Harvard University, U.S.A.

He joined the Ministry of Finance in the mid-fifties. After a couple of years at the Income Tax Department, he was appointed Director General of the Economic and Technical Assistance Board in May 1959.

After a brief period at the Ministry of Commerce and Industry, he left the Government to join the Economic Commission for Africa. He rejoined the Government as the Vice Minister of a newly formed Ministry of Planning and Development on February 11, 1967.

When the Ministry was converted into a Planning Commission attached to the Primer Minister's Office in February 1969, he was appointed Commissioner of Planning with the rank of Minister of State. In September 1971 he was appointed Minister of Land Reform.

A professional Economist, he was intimately involved in the preparation of the Third Five-Year Development Plan.

He is married and has two children.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: April 10, 1973

FROM: Bernard R. Bell

BRB

SUBJECT: Meeting with His Excellency Dejazmatch Kassa Woldemariam, Minister of Agriculture, Ethiopia

His Excellency Dejazmatch Kassa Woldemariam, accompanied by Ato Teferra Wolde-Semait of the Ethiopian Embassy, called on Mr. McNamara at the Minister's request at 6:30 p.m. on April 9. Mr. Bell was also present.

41/10
The Minister opened the conversation by expressing appreciation to Mr. McNamara for the Bank's efforts to persuade the Government to do the things it ought to do and to assist it in so many of the development activities in which it was currently engaged. He indicated that the Emperor, he and the Executive Branch of the Government as a whole were well aware of the Bank's concern that the absence of land reform would retard agricultural progress in Ethiopia and that the Government fully shared this view. He said that the Government was making a greater effort to obtain enactment of the land reform legislation now before the Parliament than it had made on any other piece of legislation for many years. Nevertheless, he said, prospects for enactment of the legislation at the current session of the Parliament were not good because the Parliament was largely composed of land owners (he remarked that persons elected to Parliament who were not land owners shortly became so), the Parliament was in general less compliant than it had been in earlier years, and this is especially the case in an election year such as this. He said, however, that contrary to views which had been expressed by some others, he believed the legislation would be enacted in the reasonably near future even if not at the present session of Parliament. He also explained that the term land reform was perhaps misleading since the legislation did not provide for the limitation of land holdings and the redistribution of excess holdings but only provided for greater security of tenure for tenants, compensation to tenants for improvements they had made, and maximum rentals.

Mr. McNamara confirmed that he did indeed believe that enactment of the legislation would remove one of the barriers to progress in agriculture and also indicated our understanding of the fact that the matter involved delicate and difficult social relationships in which it was dangerous for outsiders to interfere heavily.

In answer to Mr. McNamara's question, the Minister stated that relations between the Bank and the Government were excellent and that the Government appreciated and looked forward to increasing assistance of all types from the Bank. He said that he had come to Washington in the course of the several loan negotiations in order to meet and develop his acquaintance with Mr. Bell and Mr. Knapp, and that he hoped that Mr. Bell, and also Mr. McNamara, would be able to visit Ethiopia in the near future.

cc: Mr. McNamara's Office

BRBell:ea

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(Through Mr. Bernard R. Bell, Vice President, EAN) BRB

FROM: Howard E. Tolley HST

DATE: April 6, 1973

SUBJECT: Your Interview with His Excellency Dejazmatch Kassa Woldemariam,
Minister of Agriculture, Ethiopia

1. The Minister is here as leader of the Ethiopian delegation for the negotiations of the proposed credit for the Agricultural Minimum Package Project, which began on April 4. He is anxious while here to become acquainted with the Bank generally and to meet key officials of the Bank. He specifically requested appointments with you, Mr. Knapp and Mr. Bell. He met Mr. Knapp and Mr. Bell during the first two days of his visit.

2. He is fairly young (about 40 years), progressive in his outlook, energetic and dedicated to developing Ethiopian agriculture as rapidly as possible. He was the first President of Haile Selassie I University during most of the 1960's following which he was Governor of Wollega Province, a position which he held until November 1972 when he was appointed to his present position. He is married to the Emperor's granddaughter.

3. He is a strong supporter of Land Reform. He indicated to Mr. Bell that the Government has mounted a greater effort to get the Land Reform Bill through Parliament than it has made for any other piece of legislation. He indicated, however, that the Land Reform legislation will probably not pass the current session of Parliament (among other reasons because this is an election year for members of Parliament). The Government, nevertheless, intends to continue pressing the issue, and the Minister is hopeful that possibilities for legislation will be improved under the new Parliament which will convene next November. (For your reference I attach copies of your letter on Land Reform to the Emperor and his reply.)

4. One matter which the Minister may raise with you is his request that the Bank second an experienced staff member to be Senior Adviser for two or three years in the Project Planning and Preparation Unit of the Ministry of Agriculture. We have told him that it would be extremely difficult for us to second a Bank staff member since we are short of agricultural staff in relation to our present and prospective workload. However, we believe that the proposed post is an important one, and we would be prepared to help the Government recruit a suitable person and to provide funds to support the post under the technical assistance component of the proposed Minimum Package Credit.

Attachments: 2

HETolley:tj

November 1, 1972

His Imperial Majesty
Haile Selassie I
Jubilee Palace
Addis Ababa
Ethiopia

Your Imperial Majesty:

In your speech from the throne at the opening of the 1971/72 Session of the Ethiopian Parliament, you referred to the draft law defining the relationship between landlords and tenants and expressed the hope that the deliberations already started on the draft law would be successfully concluded during that parliamentary session and that the draft law would be promulgated.

Those of us in the World Bank Group involved in assisting agricultural development in Ethiopia shared your hope and have followed with interest the progress of the draft law in Parliament. We saw the proposals not only as a welcome beginning in reforming land tenancy and other land use arrangements, but also as an effort to implement the country's Third Five-Year Development Plan which observes that "very little progress in agrarian reconstruction and development, particularly in peasant agriculture, can be made under the existing conditions of tenure and farm size".

Our interest and concern with this problem has been heightened by the findings of a substantial mission from the Bank which made a survey of the Agricultural Sector in Ethiopia in the Fall of 1971. The need for the mission arose out of the recognition of the critical importance of agriculture to the development of Ethiopia and to improving the welfare of the majority who live in the rural areas and depend directly on the land for a living. So close was the cooperation between Ethiopian Government ministers and officials and the members of the Bank's Mission that the resulting report can rightly be regarded as a joint product.

The draft report of the Agricultural Mission is being studied by the appropriate authorities in Ethiopia and will be discussed with them by members of the Bank's staff towards the middle of November. The report proposes a strategy, policies, and projects for agricultural development. It also confirms that the slow rate of progress in agriculture is likely to persist until improvements in the tenure system are made, and it recognizes the great difficulties faced in solving this fundamental

His Imperial Majesty
Haile Selassie I

- 2 -

November 1, 1972

impediment to Ethiopian social and economic progress. All of us appreciate that in a matter of such high national importance your personal support and leadership are the main hope for achieving the needed changes.

In my recent address to the Board of Governors of the Bank, I stressed that our assistance must increasingly be geared to economic development which will benefit the masses of the mainly rural poor in our less developed member countries. We are already assisting the development of agriculture in Ethiopia through a growing number of projects, and I expect the Agriculture Sector Report to provide the vehicle for an expanded program of further assistance.

I am therefore writing to let you know that I strongly share your concern for bringing about changes in the tenure system as soon as possible, and I very much hope that the present Parliament will act favorably on the legislation before it and thereby make possible the expanded assistance to Ethiopian agriculture which we stand ready to provide. We shall follow with interest the progress of the draft law during the parliamentary session.

Sincerely,

Robert S. McNamara

cc: The Prime Minister
Prime Minister's Office
Addis Ababa, Ethiopia

Minister of Finance
Ministry of Finance
Addis Ababa, Ethiopia

Minister of Land Reform
Ministry of Land Reform
Addis Ababa, Ethiopia

Minister of Agriculture
Ministry of Agriculture
Addis Ababa, Ethiopia

Minister of State for Planning
Planning Commission
Addis Ababa, Ethiopia

Office of the President (2)
Messrs. Evans, Kirmani, Sonley

CPCacho/HFTolley/MLLejeune:tj

October 30, 1972

Nov. 27, 1972 cc: Messrs. Crowe and Riezebos
Walton, Dewar, Sassoon



አዲስ አበባ : ቢ.ቲ. : መገንጠያ :
አዲስ አበባ
JUBILEE PALACE
ADDIS ABABA

5th January, 1973.

Your Excellency,

It is with pleasure that We have received Your Excellency's recent letter concerning the draft law defining the relationship between landlords and tenants which is presently being deliberated by Our Parliament.

We deeply appreciate Your Excellency's keen interest and support of Our country's development endeavours. We wish to say that your continued good thoughts will help in further strengthening the areas of cooperation between Our country and the World Bank, to which We attach great importance in Our efforts which are directed for the progress and well-being of Our people.

We wish to assure you that We shall continue to explore all possible ways of fostering rapid economic development. We were pleased to note in your letter of your favourable reaction to the draft law on the relationship between landlords and tenants. The draft has been extensively discussed in the parliamentary session 1971/72. Revision and alterations were found to be necessary and these have been incorporated in a revised draft to which high priority is accorded in the current session of Parliament.

With Our greetings and best wishes.

HAILE SELASSIE I,
EMPEROR.

His Excellency
Mr. Robert S. McNamara,
President of the International Bank for
Reconstruction and Development,
Washington D. C. 20433.
U. S. A.

OFFICE MEMORANDUM

TO: Memorandum for the Record

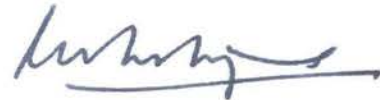
DATE: May 23, 1973

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA - Mr. McNamara's Meeting with the Minister of Education

1. His Excellency Ato Seifu, the Minister of Education, paid a courtesy visit on Mr. McNamara on May 1, 1973. I was present.

2. The Minister took the opportunity to thank Mr. McNamara for the World Bank's interest in education in Ethiopia. He expressed his satisfaction with the conclusion of negotiations for an interim education project and said he was looking forward to the negotiation of another IDA Credit to cover the first phases of an education project based on the findings of the recent educational sector survey. Mr. McNamara congratulated the Minister and his Government on the sector survey. He assured the Minister that the Bank Group would continue to support education in Ethiopia.



cc: Mr. McNamara's Office(2)
Mr. Bell o/r
Mr. Kirmani
Mr. Tolley

MLLejeune:ia

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 1, 1973

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA - Interview with the Minister of EducationGPM today

1. His Excellency Ato Seifu, the Minister of Education, is in Washington as leader of a delegation to negotiate a credit for the Third Education Project. The negotiations commenced on April 25 and were completed this afternoon.
2. Ato Seifu is a dedicated public servant, fairly progressive in his thinking. He is seeking to change the Ethiopian education system as rapidly as possible without causing serious unrest among the people. In his outlook he falls between the conservative "old guard" and the younger, impatient civil servants who are pressing for quicker change.
3. He has considerable experience in dealing with the Bank, having led negotiating teams for two power loans (1964 and 1969) and the Second Education Credit (1971). He was away from Ethiopia at the time of your 1970 visit.
4. Ato Seifu played a leading role in the recent Education Sector Review, which was assisted by IDA and which proposes a major restructuring of the Ethiopian education system to give increased emphasis to rural education. The recommendations of the Sector Review have recently been approved by the Cabinet, and the credit now being negotiated includes technical assistance to help formulate a program to implement the recommendations. It is envisaged that this implementation program will form the basis for our next education project which we hope will be ready for appraisal in the spring of 1974.
5. I do not expect the Minister to raise any major points with you concerning the present negotiations, but for your background information, the main point of disagreement has been our refusal to include in the credit funds for construction of a new Social Sciences faculty at Haile Selassie I University. It was turned down on the grounds that additional information is necessary to justify it, and we have given the delegation a checklist of the required information so that this item may be prepared and considered as part of the next education project.
6. Biographical information on the Minister is attached.

Attachment

cc: Mr. Knapp
Mr. Kirmani

President has seen

H.E. Ato Seifu Mahteme Selassie

Minister of Education and Fine Arts

Born in Addis Ababa, in 1923, the grandson of a former Minister of Pen. His father played prominent roles (as Minister of Finance, among others), in the Cabinet in the late fifties and early sixties.

Seifu was educated in Ethiopia and the United States, where he obtained a B.Sc. degree in Radio Engineering.

On his return to Ethiopia, he was appointed Director General of the then Shoa Electric Light and Power Authority (July 7, 1953).

When the Authority was reorganized and a chartered body was formed, Ato Seifu became General Manager of the new Ethiopian Electric Light and Power Authority on May 19, 1958. His rank was raised to that of Vice Minister on November 25, 1961. The Authority's activities grew significantly and he earned the reputation of an efficient manager.

He was appointed Minister of Education in 1969.

He is married and has children.

Speaks Amharic and English.

14

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 24, 1973

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA: Your Interview with His Holiness, the Patriarch of the
Ethiopian Orthodox Church on May 25, 1973

1. His Holiness Abuna Theophilos, Patriarch of the Ethiopian Orthodox Church arrived in New York on May 15 for a visit to the American churches. This is his second visit to the United States; during his first visit in 1956, as the Archbishop of Harar, he attended the Second Assembly of the World Council of Churches in Evanston, Illinois. He will arrive Washington on May 24 and have breakfast at the U.S. Senate on May 25, followed by your interview with him at 12:10 p.m. and Mr. Knapp's lunch. He departs for Atlanta on May 26. He is sixty-three years of age. The proper way of addressing him is "Your Holiness." He understands English but converses in English through an interpreter. ~~You met him~~ during your visit to Ethiopia. A biographical sketch is attached.

2. He will be accompanied by:

His Excellency Ato Blutten-Getta Mahteme-Selassie Wolde Meska,
Crown Counselor -

His Excellency has held many ministerial posts in the Government of Ethiopia and is the father of the present Minister of Education who called on you early this month at the time of Negotiations for the Third Education Project.

Ato Getaneh Bogale, Interpreter

3. Patriarch Theophilos has worked over the last two decades to strengthen the ties of his church with all other Christians. He is particularly concerned with the education of the clergy and encourages students to go abroad for study. An increase of lay involvement in the church is also among his concerns. A Church Development Commission with lay participation was recently established by him to aid the country's general endeavor for educational, economic and cultural development.

4. In the proposed Third Education Project (scheduled for Board consideration June 26) we propose to support the Church in its rural development endeavors by including a training center for the priests of the Church on the Patriarchate's farm at Menagasha. The centre would provide a six months training course to about 1000 priests annually in numeracy, elementary agriculture, cottage industry, hygiene, and community works. A Board comprised of representatives of the Church and certain Government ministries will operate the center.

President has seen

The Government will cover the capital costs, will maintain the facilities and will provide specialized teachers. The Church will provide the land and will cover the recurrent costs.

5. The subjects which may be raised by Patriarch Theophilos during his meeting with you are:

(i) Post-training support for the priests graduating from the above training center, in the form of agricultural implements, fertilizer and improved seeds for demonstration purposes in the communities where they live;

(ii) Assistance in preparation and financing of a scheme to provide low-cost housing on church-owned land for people now living in slum areas of Addis Ababa;

(iii) Assistance in preparation and financing of projects for agricultural settlement on church land.

6. Regarding (i) above, in our discussions with the Government, the need for locating the trained priests in areas where development activities have been initiated was clearly recognized. The Government has approved introduction of local self-government at the Awraja (sub-province) level on a phased basis with a view to using it as an umbrella for all rural development programs, including agriculture, education and water supply and sanitation. It is intended that the trained priests, who wield some influence in the rural communities, would assist in promoting development objectives of the Government by making their teaching in the network of church schools more relevant to the practical needs of rural life. Their direct participation in agricultural extension work was not envisaged at this stage.

7. Regarding low-cost housing, we are in correspondence with the Government on development of sites and services projects. Government, which is in the middle of preparing its next Development Plan, has not yet indicated the priority it attaches to such projects and there is no clear idea of the legal framework required for initiating projects of this kind. We have tentatively scheduled an Urban Sector Mission in FY1975. However, if the Church with the backing of the Government wants to launch small welfare-oriented projects in Addis Ababa without waiting for a decision on broad sectoral strategy and program, we feel that the Church would need technical assistance. The Urban Projects Department, because of their other commitments, would be unable to spare the required manpower for this purpose within the next 12 months. They suggest that the Swedish Government may be approached for assistance with preparation of projects. We do not as yet have in PMEA experts on housing, but we could offer to send someone from Nairobi to give general advice on how to go about getting the expert assistance they need. Our 5-year operations program includes \$10 million for an Urban Sites and Services Project in FY1978, but it is premature to commit it to any particular project.

8. With regard to agricultural settlement on church land, the Church has large areas of land of which only a fraction is cultivated. However, we do not have information on the type of land, its potential, its location and the legal framework regarding ownership or leases for purposes of settlement.

9. A number of the agricultural projects in our lending program are for settlement or include settlement components. Our PMEA staff has had preliminary discussions with the Government regarding technical assistance requirements for preparation of such a project. In these discussions it has been envisaged that the settlement would be primarily on Government land. However, if Church land is made available and the legal framework is appropriate, we could in principle consider supporting settlement projects on Church land. Such projects would of course have to be acceptable to the Government.

A handwritten signature in dark ink, appearing to be 'K. Kirmani', is written over a horizontal line.

Attachment

MAJalil/HETolley:ndb

cc with attachment: Messrs Knapp and Kirmani

BIOGRAPHICAL SKETCH

His Holiness Abuna Theophilos

Born in Gojjam in 1910.

After receiving early education in his home province, he went to Addis Ababa in 1927 to study theology. A decade later he was received into the monastic life. Following the return of Emperor Haile Selassie to Addis Ababa in 1941 after the expulsion of the Italians, he was one of a selected few clergymen chosen to receive advanced religious education in the palace. He became Administrator of the Holy Trinity Cathedral in Addis Ababa in 1945, and later Archbishop of Harar and Deputy Patriarch. In April, 1971, he was elected as the Patriarch of the Ethiopian Orthodox Church.

He is an historian, theologian and linguist of note. He has translated the Ethiopian Divine Liturgy from Geez, the ancient ecclesiastical language, into the Ethiopian official language, Amharic. He has also authored several books on his church.

Patriarch Theophilos has attended every Assembly of the World Council of Churches since its founding in 1948. He has travelled widely in Africa, Europe and North America.

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 21, 1973

FROM: Michael L. Lejeune

SUBJECT: ETHIOPIA - Mr. McNamara's Meeting with his Holiness, the
Patriarch of the Ethiopian Orthodox Church

1. His Holiness Abuna Theophilos, Patriarch of the Ethiopian Orthodox Church, visited Mr. McNamara on May 25, 1973. He was accompanied by His Excellency Ato Blutton-Getta Mahteme-Selassie Wolde Meska, Crown Counselor, and Ato Getaneh Bogale, Secretary Interpreter for the Patriarch. Mr. Knapp and Mr. Demeska and I also were present. It was essentially a courtesy visit. Mr. McNamara had visited His Holiness when he was in Ethiopia and, partly as a result of that first contact, the Ethiopian Church had become interested in obtaining the help of the Bank in its rural development activities. Mr. McNamara confirmed to His Holiness that within the IDA credit, soon to be put to the Board, there would be an element for assisting the Church's training school. His Holiness thanked Mr. McNamara for this support. He also raised the question as to whether IDA could assist the Church in its establishing a number of centers in the provinces designed to provide further training for teacher priests as well as for local farmers and to provide demonstration plots.

2. It was explained that the IDA credit about to be put to the Board was to finance an interim education project and that early in the New Year we shall be considering a more far-reaching education project based on the plans resulting from the recent education sector review. We should be glad to take into consideration, at that time, proposals which the Church might wish to make.

3. His Holiness presented Mr. McNamara with a Bible. Subsequently, he and other members of his entourage were entertained at lunch by Mr. Knapp.

cc: Mr. McNamara's Office(2)
cc: Mr. Tolley

MLLejeune:ia

President has seen

OFFICE MEMORANDUM

TO: Records

DATE: October 7, 1974

FROM: Stanley Please

SUBJECT: Ethiopia -- Meeting of Mr. Negash Desta (Minister of Finance) with Mr. McNamara

1. The above meeting was held on October 3, 1974. The following other members of the Ethiopian delegation attended: Messrs. Abdul Jelil Mohammed, Teferra Wolde-Semait, Asfaw Damte and Legesse Tickeher. The Bank was represented by Messrs. Knapp, Husain and Please. Mr. Demeksa also attended.
2. Mr. Negash Desta conveyed personal greetings from General Aman Michael Andam to Mr. McNamara and also a personal message to assure Mr. McNamara of the commitment of the Provisional Government to the objectives of economic reform and development. The Minister emphasized that these objectives were widely supported both by the mass of the people and the elite. They had been discussed and studied for many years but now was the time for implementing the reforms. Two central components of these policies were land reform and administrative reform. The Government was giving priority to moving on both these issues. However, in addition to these fundamental problems of the Ethiopian economy if it is to develop more rapidly, the Minister also emphasized the immediate problems faced by the Government. These have resulted from the drought which is spreading to provinces other than Wollo and Tigre and from the steep increase in the price of fertilizer at a time when not only the need and demand for it has increased but the resource position of the government and of the country is deteriorating.
3. Mr. Negash Desta emphasized that the Government required the assistance of the Bank for dealing with both these long-term and short-term problems. In particular the Bank's assistance was required for the implementation of the Government's policies and programs. This did not require, in his Government's view, any interruption in projects at present being implemented. On the contrary the Government wished to maintain continuity with the past and to introduce reform programs as they came to be prepared.
4. Mr. McNamara welcomed the priority being given by the Government to economic development. In particular land reform had always been in the Bank's view a necessary condition both for increased agricultural production and for a more equitable distribution of income in Ethiopia. He emphasized to the Minister, however, that the benefits of land reform could only be realized if the appropriate institutional support for the reform were rapidly introduced. What was required at the moment was a program of action to implement the reforms. The Bank would then stand ready to discuss this program with the Government and to determine what financial and technical assistance was required for its implementation. The Bank would do whatever it could realistically and effectively do to support a reform program aimed at the more rapid development of the economy. Mr. Husain confirmed that in prior discussions with the Minister and his delegation he had agreed that Mr. Please should go to Ethiopia in January 1975 in order to undertake a review of the Government's policies and programs and to determine what assistance the Bank could provide.

SPlease/lo

cc: Messrs. Husain, Adler, Hablutzel
Tolley, Hansen, Johnson, Jalil, O'Brien
Malone

Ethiopia

Negash Desta

Born in 1926, holds B.Sc. from Stockholm School of Economics. He has held various managerial positions in public and private life, lately as General Manager, Ethiopian Shipping Lines. He was appointed Minister of Finance in March 1974.

Teffara Deguefe

Born in 1925. Holds diploma from the University College of Addis Ababa, Bachelor of Commerce from the University of British Columbia. He was Managing Director of the Commercial Bank of Ethiopia from 1964 until his recent appointment as Governor, National Bank of Ethiopia.

Teferra Wolde-Semait

Born in 1938. He holds B.A. in Economics from the Haile Selassie I University, M.Sc. in Economics from the Institute for Social Studies at The Hague. He was head of the Planning and Programming Unit in the Ministry of National Community Development and Social Affairs from 1967-71, Financial and Economic Counselor at the Ethiopian Embassy in Washington D.C. from 1972 to 1973. He is currently the Head of the Finance, Credit and Investment Department of the Ministry of Finance.

Asfaw Dante

Born in 1935. He holds B.A. in Law from the University College of Addis Ababa, M.A. in Economics from Cambridge University, Public Finance Course, IMF, 1965. He was Economic and Financial Attache at the Ethiopian Embassy in Washington D.C. from 1965 to 1972. From 1972 to present he has been Assistant Minister in the Ministry of Finance and is currently Acting Commissioner of Customs.

Abdul Jelil Mohammed

He has been General Manager of the Ethiopian Tourist Hotel Investment Corporation (ETHIC) since 1971.

Legesse Tickher

He became the Economic and Financial Counselor of the Ethiopian Embassy in Washington, D.C. in January 1973. He was formerly the head of the Research Department of National Bank of Ethiopia.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 1, 1974

FROM: S. Shahid Husain *hs*

SUBJECT: Ethiopia - Your meeting with His Excellency Dejazmatch (/1) Zewdie Gebre-Selassie, the Ethiopian Foreign Minister at 5:30 p.m., Monday, November 4, 1974

- 11/4
1. Since the removal of the Emperor and the establishment of the Provisional Military Government on September 12 of this year, there have been no major political developments, and all indications are that the armed forces are maintaining unity and consolidating their power. Insofar as our program is concerned, the Government continues to function effectively, projects under implementation are moving about as expected, and we are proceeding with the appraisal of new projects. An education mission is currently in the field appraising a fourth education project, and we have scheduled the appraisal of two agricultural projects for January.
 2. The major economic problems facing the new government are the mobilization of resources for its development program, and rehabilitation of the areas which were stricken by the drought. The mobilization of resources will be difficult because the pay increases granted to the military, teachers and other public sector employees will cut deeply into the current budget surplus. As for the drought, reports indicate that rehabilitation activities are being initiated. The Government claims, however, and this is disputed by foreign observers, that the drought is spreading to other areas and more relief assistance is required. Because of the poor transportation and communications infrastructure in Ethiopia, the international relief organizations have apparently not yet developed hard information to either affirm or deny the Government's statements.
 3. As you are aware, the Provisional Military Government has announced goals of land reform, including land re-distribution as well as more equitable tenant/landlord relationships, acceleration of the pace of economic development, reduction of income disparity, particularly between urban and rural areas, and reform of the taxation system. During the course of the Annual Meeting we indicated the Bank's willingness to assist the Government in implementing the above reforms and its program of economic development. The delegation at that time informed us that the Government was still developing its policies, stating that when the programs were ready for implementation, the Government would look to the Bank for both capital and technical assistance, particularly in carrying out land reform. We indicated the Bank's willingness to respond affirmatively to such requests, and agreed to send an economic mission to Ethiopia in January to review the Government's programs and to discuss how our program could be adapted to provide assistance for its new programs, including land reform.

/1 Dejazmatch is a title of the Ethiopian nobility.

4. Because Ethiopia has no traditional sources of assistance, IDA has become the major source of development assistance for Ethiopia, contributing just over 40% of gross disbursements in 1970-73. From 1950 to the present Bank Group lending in Ethiopia has totalled \$298.5 million, comprising 18 IDA credits totalling \$189.5 and 12 Bank loans totalling \$109 million. Our lending programs in FY '72, '73 and '74 were \$49.5 million, \$53 million, and \$43.4 million respectively; all but \$10.8 million of this was on IDA terms. In the next five years we propose an average level of about \$105 million per year (mainly IDA credits), with an average of \$90 million per year over the three years FY '75-77. Thus far this year we have approved a credit for the Lower Adiabo Agricultural Development in the amount of US\$9.5 million. Scheduled for approval this year are a \$16 million credit which will be the second tranche of our financing for the Ethiopian Fifth Telecommunications Program, \$30.5 million for a Sixth Roads Project, and an \$8-10 million credit for a D.F.C. IV Project.

5. Insofar as we are aware the Foreign Minister has no specific matters which he intends to raise with you. The apparent purpose of his visit is to take the opportunity of his presence at the U.N. to meet you and to affirm the Provisional Military Government's commitment to reform and development, and its desire for close cooperation with the Bank.

6. A brief biographical summary of the Foreign Minister is attached.

H.E. DEJAZMATCH ZEWDIE GEBRE-SELIASSIE
ETHIOPIAN FOREIGN MINISTER

The Foreign Minister was born in 1927. He is a nobleman and a Tigreian, and a nephew of Ras Mengasha, the popular Governor of Tigre who fled Ethiopia during the wave of arrests this summer. He is also a stepson of the Crown Prince. He studied at Oxford.

Between 1955 and 1963, he held the following posts:

Vice-Minister of Public Works	- 1955-57
Lord Mayor and Governor of Addis Ababa	- 1958-60
Ambassador to Somalia	- 1960-61
Minister of Justice	- 1961-63

It is reported that he tried unsuccessfully to reform the judicial system during his tenure as Minister of Justice. Reportedly because of differences with the regime, he went into unofficial exile in United Kingdom from 1963 until 1971, during which period he attended St. Anthony's College, Oxford both as student and lecturer. In 1972 he was appointed Ambassador to the United Nations and remained in that post until his appointment as Minister of Interior in the Government that was formed following the general military revolt that resulted in the resignation of the Cabinet on February 27, 1974. Later, when the military arrested the Prime Minister of that Government and the Ministers of the previous Government, he was appointed Foreign Minister and Deputy Prime Minister. When the military deposed Emperor Haile Selassie in September of this year and established the Provisional Military Government, he retained his post as Foreign Minister, but gave up the post of Deputy Prime Minister.

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OFFICE MEMORANDUM

DATE: September 19, 1977

TO: Mr. Robert S. McNamara
 (through Mr. J. Burke Knapp)
 FROM: W. A. Wapenhans
 SUBJECT: ETHIOPIA - Your Forthcoming Meeting with the Minister of Finance,
 Ato Teferra Wolde-Semait

1. The Minister of Finance wrote to you on August 20 registering his deep concern that political issues might be "allowed to intrude into the Bank's deliberations". He points in particular to the recent events surrounding the progress - or lack of it - on Grain Storage, Amibara Irrigation and Education V. The attached memorandum from Mr. Tolley to me sets out the specific circumstances for each of these projects and analyses the options for the Bank. It recommends that we proceed with our earlier discussed course of action, namely:

- (i) Amibara would be signed once the audit report has been produced;
- (ii) Grain Storage would be reactivated only after a suitably staffed Bank mission has ascertained that conditions for successful project implementation are present; and
- (iii) The Education V project would be negotiated once a decision has been made to proceed with Grain Storage.

I agree with this recommendation and intend to discuss next steps with Ato Teferra during the Annual Meeting.

2. Meanwhile, a meeting between you and Ato Teferra has been scheduled for September 24 at 2:30 pm. Teferra is bound to raise the same issues with you. I, therefore, propose that you leave a substantive response to the meeting. Meanwhile, we are informing Teferra of the timing of the meeting and will acknowledge receipt of the letter.

Attachment

cc: Mr. Knapp
 Mr. Please

WAwapenhans:rs

OFFICE MEMORANDUM

TO: Mr. Willi A. Wapenhans
 Through: Mr. Stanley Please
 FROM: Howard E. Tolley *HET*
 SUBJECT: ETHIOPIA - Letter to Mr. McNamara from Ato Teferra Wolde-Semait,
 Minister of Finance dated August 20, 1977

DATE: September 15, 1977

1. The attached letter from Ato Teferra asks Mr. McNamara to review the circumstances surrounding three credits to Ethiopia which are presently held up--the Grain Storage and Marketing Project (which was withdrawn from the Board on June 9), the Amibara Irrigation Project (which was approved by the Board on May 10, but which awaits signature) and the Education V Project (which was to have been negotiated in August but which we have said cannot be presented to the Board until after the Grain Storage Project is presented to the Board). Ato Teferra suggests that these credits are being held up for reasons other than normal economic considerations, including United States Government political pressures, based on human rights considerations.

2. The circumstances and considerations involved in each of these three cases are already well known and are summarized below together with the options the Bank has in responding to this request.

Grain Storage and Marketing Project

3. The decision to postpone Board consideration of the Grain Storage Project was made by Bank management on the grounds that the breaking of the Addis Ababa-Djibouti rail link by insurgent action could interfere with the implementation of the Grain Storage and other projects and that it might have broader implications concerning the Government's ability to control the security situation generally.

4. Ato Teferra rejects the contention that the disruption of the rail link (Addis Ababa-Djibouti) has or will have serious implications for the Ethiopian economy or halt the implementation of the Government's development program. He therefore contends that the Bank had no cause to withdraw the project because of the disruption of the rail link. He points out that the bulk of the project's operations will be carried out within Ethiopia. Although this is true, the absence of certain imported items would have been important for its operations; 36% of total costs is foreign exchange, much of it for construction materials and vehicles. The project also provides for the import of 72,000 tons of fertilizers in 1977/78 and about 100,000 tons of grains annually. Ato Teferra also indicates that earlier delays in bringing the project forward were due to our insistence on provisions inconsistent with Ethiopia's choice of a socialist policy. We assume this is a reference to earlier disagreements about the necessity for making Bank credit available to private grain traders and about limitations on the number of state retail outlets. However, these disagreements arose from differing views about the transitional problem of limiting the public sector to what it could efficiently manage, not from differences about ultimate objectives.

5. When the Grain Storage Project was withdrawn from the Board agenda in June, immediately after the Addis Ababa-Djibouti rail link was cut, there was some doubt at least in some circles within the Bank as to how long the disruption would last and how serious the effect would be on project implementation and the normal functioning of the economy generally. However, in view of subsequent developments there can be little doubt now, in September, that the Ethiopian economy is being severely disrupted. Not only is the rail link still broken but there has been a great escalation of the military conflict in the Ogaden and a continuation of the conflict in Eritrea. It is clear that these conflicts have reached proportions which not only interfere with development and other activities in the specific areas of conflict, but are beginning to have a major adverse effect on economic activities nationally.

6. The recent general mobilization order issued by Chairman Mengistu makes possible the diversion of any property or personnel to war purposes; this could clearly disrupt the orderly management of development projects and might even lead to defaults under IDA credits. Recent reports indicate severe grain shortages in Addis Ababa due mainly to truck shortages. Some 20,000 to 30,000 tons of grain are in the port of Assab and more grain is available in the rural areas but cannot reach Addis Ababa for the same reason. All factories and business are required to send about one in every ten workers to fight in the Ogaden. There must be considerable doubt now whether orderly development can continue under the present circumstances. We believe that the only basis for removing this doubt would be a positive report by a high level Bank Group mission which would review the implementation performance of ongoing projects and prospects for implementing new projects. In your memo to the Loan Committee about the Education Sector Project, you pointed out that we would attempt to reach agreement with the Ethiopians on the scope and timing of such a mission during the annual meeting discussions in September 1977. Such a mission should, of course, be sent only when conditions for project implementation are sufficiently favorable as to convince the mission that projects are being effectively implemented and that the future prospects for implementation are favorable; otherwise, if conditions were not favorable and the mission's findings were negative, our relationship with Ethiopia would be set back even further.

Revised Amibara Irrigation Project

7. The only outstanding condition of signing this credit is the receipt by the Association of the accounts of the predecessor to the project executing agency, audited as of June 1976. The audited financial statement had been required under Credit 417-ET (original Amibara Project) and was due to be submitted to the Association in January 1977. Therefore, at the time of negotiations for the Revised Project (January/February 1977), the Ethiopians were already technically in default and we felt we should not sign the Revised Amibara Irrigation Project until this was corrected,

particularly since the new Project Executing Agency (AVDA) was to take over the assets and liabilities of the previous Executing Agency (Awash Valley Authority). Furthermore, during negotiations we were informed that the audited financial statement could be provided without a long delay. Nevertheless, in order to give them as much time as possible we made it a condition of signing whilst going ahead with Board presentation. Since Ato Teferra indicates that the audit is well underway it presumably should not be long before we are provided with the statements and can sign the credit.

Fifth Education Project

8. Ato Teferra states that no explanation was offered why Board consideration of the Education V Project should be held up pending presentation of the Grain Storage Project. Our telex of August 17 (Annex 1 of this memo) however makes the reasons quite clear; that the availability of equipment supplies and other inputs required for project implementation may not be adequate, and that we require reassurance on this point, which will affect all our projects, Education as much as Grain Storage. With respect to the Education V Project our concern is supported by the Semi-Annual Report for the period ended December 31, 1976, of the Construction Agency responsible for our education projects in Ethiopia. This report states that availability of imported materials was having a delaying effect on project implementation in this sector.

9. It is unlikely that delays in bringing this project forward will actually affect the Ministry of Education's operations in FY78 as claimed by Ato Teferra. If negotiations had been held in August, it is doubtful that significant disbursements would have taken place before July 1978, i.e. in FY79. As pointed out in our telex of August 17, approximately \$28 million remains undisbursed out of existing IDA projects and we indicated that disbursements under these projects will continue.

Reasons for the Minister's Letter

10. It is clear that the Ethiopians are reacting to the hiatus in our lending with anger and bitterness. Ato Teferra is aware of IDA's general lending criteria as they relate to situations of general political instability and disorder. However, he has chosen to ignore the explanations offered in our telex of August 17; he offers no indication of compromise with the Bank's position but merely requests us to change our position. He suggests moreover, that we are not merely mistaken in our decisions, but have been subject to improper outside pressures, despite explicit and strong denials of this by both Mr. Knapp at the Board (when Grain Storage was withdrawn) and by Mr. McNamara in discussion with Ato Asfaw Dame.

11. We believe this attitude, though regrettable, is understandable in the circumstances. Since the Revolution began some three years ago there has been a hard core in the Government which strongly opposes any

contact with the Bank, believing that the Bank is an explicitly right-wing, capitalist institution, opposed in effect (though claiming the opposite) to countries seeking to take an independent and/or socialist line. This view has not prevailed so far because of Ethiopia's clear dependence, at least in the short term, on Bank/IDA lending, and because of our generally supportive and sympathetic attitude. This is shown by the Government's positive comments on our economic report (in a letter from Asfaw Damte dated August 26, 1977) which show that officially the Government appreciates our support for them: "In general terms, the Report's analysis of the performance of the economy during the last few years is fair and objectively shows the developments that have taken place since the overthrow of the feudal regime. In particular, the Bank's sympathetic understanding of the Government's efforts in tackling current problems associated with the recent changes in the political, economic and social structure of the country is much appreciated." The views of the hard core are, it should be added, not necessarily based on the Bank's record in Ethiopia itself, but on general left-wing conventional wisdom. As such, it is bound to gather strength from any apparently hostile moves on our part, whatever our record may actually show.

12. A second element of general background is Ethiopian seige mentality, which tends at the best of times to see neighboring countries and other outsiders as potential enemies. This attitude will have taken encouragement from the country's general isolation at the moment and the many attacks which it is now suffering from outside and within. It is a mentality quick to see conspiracies.

13. I believe that Ato Teferra, who we believe has consistently and at considerable personal risk, advocated a continuing close relationship with the Bank, feels that a tough line is required both to protect his own position and, if possible, to show that results can be achieved in terms of a reactivation of IDA support and interest. Perhaps believing that he cannot win the argument on the basis of the situation in Ethiopia, to which he does not really refer in his letter, he hints at further damage to country relations, possibly preparing the ground for a public attack.

Options for the Bank

14. (a) We could respond formally to the Minister's letter, restating our existing position and repudiating his criticisms and insinuations;
- (b) We could take the opportunity to change our position on one or other of the issues raised by the Minister, in order to indicate goodwill. The most obvious gesture would be to waive the need for the AVDA audit as a condition for signing the Amibara Credit. We could also consider negotiating the Education V Credit, though we do not consider it an option to bring it to the Board before Grain Storage, and it would have to be clear to the Ethiopians that this was the basis of negotiations;

- (c) We could continue the strategy we had decided upon, namely, to engage the Annual Meeting delegation in a dialogue over what conditions were necessary to enable a resumption of lending. In particular, we would work towards a cooperative effort aimed at having a high-level mission sent to Ethiopia at an appropriate time to determine what lending was possible. The appropriate time would clearly be the time when such a mission was most likely to report favorably, and a clear understanding of what circumstances would produce such a favorable report should be sought. In order to determine the best moment for such a high-level mission, we might consider a two-step approach, in which a lower-level mission could precede the main mission.

Recommendation

15. We recommend option (c) above, with a possible fall-back to (b) if it appears, during the course of annual meeting discussions, that a palpable gesture is necessary.

16. We recommend against option (a) since, as explained above, we believe that there are understandable reasons for Ethiopian reactions to the hiatus in our lending which deserves our sympathy and restraint. A letter restating our position and repudiating the Minister's criticism would appear argumentative and be counterproductive. Our reason for not preferring option (b) is that we believe we took the right decisions in the two cases mentioned (Amibara and Education V). In the Amibara case, we believe we should take the covenants in our Credit Agreements seriously, and urge the Ethiopians to do so also. From a purely practical point of view, we do not believe that negotiating the Education V Credit would be helpful if we cannot then go on and present it to the Board. We also believe that issuing intentions to negotiate at this time might bring an adverse reaction from certain Part I countries.

17. If you agree that we follow option (c), we will prepare a cable acknowledging Ato Teferra's August 20 letter which will indicate that we will reserve a substantive response for the discussion with the Ethiopian delegation during the Annual Meeting.

Attachment

cc: Mr. Stanley Please

RLiebenthal/KMyint/HETolley/dh



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**THE PROVISIONAL MILITARY GOVERNMENT
OF SOCIALIST ETHIOPIA
MINISTRY OF FINANCE**

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

Dear Mr. McNamara:

During the past few months a situation has arisen whereby we fear there might be some cause to believe that obstacles are being placed in the way of new IDA development credits to Ethiopia. In support of this premise I would like to cite the following cases.

1. Grain Storage and Marketing Project.

The history of this project goes back quite a long time and during the earlier negotiations a number of differences had to be settled between the Ethiopian Government and the Bank, particularly as to the manner in which the project's marketing policies and operations should be carried out in Ethiopia. Nevertheless, the differences were ultimately resolved and the project was scheduled for consideration at the Meeting of the Executive Directors of the Bank and IDA on 9 July 1977.

The next thing we knew was that consideration of the project had been removed from the agenda of the meeting. This action was said to have been taken because of the interruption of Ethiopia's rail link with Djibouti and the sea. It was stated that if the interruption of the traffic were to continue for a long period, or if it were subject to repeated and frequent interruptions, this would clearly have serious implications for the Ethiopian economy and for the Government's ability to implement its development programmes, including Bank/IDA-financed projects.

While it is of course undeniably true that the temporary disruption of the rail link does create certain difficulties, we totally reject the contention that it has, or will have, any unduly serious implications for the Ethiopian economy, or that it will bring to a halt the implementation of the Government's development programmes. Moreover, since the

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**TEFERRA WOLDE SEMAIT
MINISTER**



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THE PROVISIONAL MILITARY GOVERNMENT
OF SOCIALIST ETHIOPIA
MINISTRY OF FINANCE

- 2 -

bulk of the project's operations will be carried out within Ethiopia, it is difficult to understand why it in particular has been singled out for postponement, especially bearing in mind that it had already been delayed earlier on due to the Bank originally including certain provisions that were clearly inconsistent with Ethiopia's chosen path of socialism.

I submit that the Bank had no cause to withdraw the project for the reason given, but that it would have been reasonable to propose ways and means of ameliorating real problems that might hinder the implementation of this project.

2. Revised Amibara Irrigation Project.

This project was approved by the Executive Directors on 10 May 1977. However, the Bank has withheld signature of the development credit agreement on the ground that certain conditions had not been fulfilled. These conditions were: (i) submission of the legal instruments establishing the agencies concerned - Valleys Agricultural Development Authority (VADA) and Awash Valley Development Agency (AVDA), (ii) authorization of the Ethiopian Ambassador in Washington to sign the project agreement and (iii) completion of the audit of AVDA's accounts as of 30 June 1976. In fact at the time of writing this letter, conditions (i) and (ii) have been fulfilled, leaving only (iii) outstanding. The audit is well under way and the audited accounts will be forwarded to the Bank as soon as possible. Nevertheless, the credit agreement still remains unsigned.

We are unable to understand why such a comparatively minor item as an audit report should be held as a reason for not concluding a credit agreement. Here again the matter could much more reasonably be dealt with by taking other measures.

A realistic approach has been taken by both the African Development Fund and the European Development Fund, which are co-financiers with IDA and the Ethiopian Government in this project, inasmuch as the respective agreements with these institutions have already been executed, although their effectiveness is dependent upon the coming into effect of the IDA credit. The Bank's stand on this project will, therefore, cause delays in utilizing the funds made available from the ADF and EDF.


TEFERRA WOLDE SEMAIT
MINISTER



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THE PROVISIONAL MILITARY GOVERNMENT
OF SOCIALIST ETHIOPIA
MINISTRY OF FINANCE

- 3 -

3. Fifth Education Project.

The Ministry of Education has based its plans and budget estimates on the assumption that IDA assistance would become available for this project in the fiscal year 1977-78. In fact some 25% of the capital investment in education in 1977-78 depends on IDA V support.

For the above reasons, the Ministry of Education has been pressing the Bank for negotiations on the project and presentation to the Executive Directors at the earliest opportunity. On 20 April 1977 the Bank suggested August for negotiation and September for Board presentation as the earliest possibility. This timing was accepted, albeit reluctantly, as the best that could be obtained, and all documentation requested by the Bank was submitted in good time for the expected negotiations. It came as a surprise and a shock to us, therefore, when we received the Bank's telegram of 21 July, the final sentence of which read "However we wish to make it clear that we will not be able to present this project to our Board until the Grain Storage Project has been presented". No explanation was offered as to why the consideration of the Education Project should be conditional on the presentation of the Grain Storage Project, presumably since there was none.

All the above projects were designed to deal with some of Ethiopia's fundamental problems, and we find it curious why the Bank should wish to place in jeopardy all the great efforts being made in Ethiopia at the present time to advance the cause of economic and social justice, especially having regard to the excellent relationship that has always existed between Ethiopia and the Bank hitherto.

I have been informed that the Bank uses the following two criteria in deciding whether or not to continue operations in any country that is undergoing basic political, social and economic changes:

- (a) whether or not the government gives high priority to economic development, and
- (b) whether or not projects can be effectively implemented.

I feel sure you will agree that the Ethiopian Government has demonstrated its serious commitment to economic development through the land reform measures it has undertaken and the increasing allocation of investment funds in its capital budgets. Recent analysis of Bank project in Ethiopia has revealed that, although the number of projects with minor problems has increased from six to nine, the number of projects with major problems has decreased from six to three. Disbursements have also shown a significant improvement.

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TEFERRA WOLDE SEMAYI.
MINISTER



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THE PROVISIONAL MILITARY GOVERNMENT
OF SOCIALIST ETHIOPIA
MINISTRY OF FINANCE

- 4 -

I suggest that Ethiopia has fully met the economic criteria referred to above, and am led, therefore, to the conclusion that considerations other than economic ones are being allowed to cloud the discussions when credits to Ethiopia are under review. Particularly, I have in mind the stand taken by one of the Executive Directors on the grounds of so-called "human rights" when credits to Ethiopia have been voted on.

I am sure you would join with me in registering deep concern if political issues were to be allowed to intrude into the Bank's deliberations when considering loans or development credits to its members, which could so easily cause harm to its good intentions and endeavours, as well as its reputation for impartiality. I shall, therefore, be most grateful if you would look into the circumstances surrounding the three credits referred to in this letter, with a view to their receiving the sympathetic and helpful consideration, on economic grounds, that credits to Ethiopia were customarily afforded in the past. As more and more time is lost, not only are the Ethiopian Government's development plans being disrupted, but also costs are escalating due to persisting World inflation, reducing the real value of the credits when they finally become available.

With best regards,

Yours sincerely,



Teferra Wolde Semait
TEFERRA WOLDE SEMAIT
MINISTER

cc: Mr. Timothy T. Thahane
Executive Director
International Bank for Reconstruction
and Development
1818 H. Street, N.W.
Washington, D.C. 20433

OFFICE MEMORANDUM

TO: Files

DATE: September 26, 1977

FROM: Stanley Please, Director, EAI

SUBJECT: Ethiopia - Meeting between Mr. McNamara and Ato Teferra Wolde-Semait,
Minister of Finance

1. Mr. McNamara met with the Minister of Finance on September 24, 1977. Also present were Messrs. Kebede. Temesgen, Head, Finance, Credit Investment Department, Ministry of Finance; Lemma Argaw, Head, Budget Department, Ministry of Finance; Thahane (ED), Knapp, Wapenhans, Please and Burmester.
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2. The Minister emphasized that despite the problems the country was facing as a consequence of the insurrection taking place in Eritrea and the Ogaden, the economy was in "good shape." Logistical problems had arisen particularly in regard to food supplies and some other materials, but these were not interfering with the implementation of development projects except in special cases. The Government had anticipated the problems of keeping the Djibouti railway open and had developed the alternative road route to Assab. Trucking capacity was a bottleneck but this was being taken in hand. As regards fiscal resources for matching external project financing, the Government was pursuing prudent policies and examined the fiscal implications of each project before agreeing to go ahead. Ato Teferra said that the Government found it difficult to accept the reasons given for not proceeding to the Board with the Grain Storage Project. This was the highest priority project in the Government's view, "war or no war." It addressed basic problems of increasing the supplies and distribution of foodgrains and the present food problem itself could be relieved by moving expeditiously with the project. The Government had met all the project conditions for proceeding with the project and no further conditions for doing so were acceptable.
3. Mr. McNamara assured the Minister that the Bank was not only agreeable to moving ahead with its program in Ethiopia but very anxious to do so. The development problems of the country were enormous and the availability of external assistance to help deal with these problems had been inadequate as compared with other developing countries. However, the Bank could only go ahead with its program if there was a "high probability" that the funds committed could be effectively used for the agreed purposes. It would be unwise for the Government to take on credits if this condition were not met quite apart from the Bank's responsibility to ensure the prudent use of IDA funds. Unfortunately, recent events in Ethiopia had made it essential for us to reassure ourselves that the supply situation and other factors made effective project implementation feasible. If the Bank staff were assured of this then Mr. McNamara considered that the Board could also be assured and the project would proceed. He wished to allay the suspicions expressed by the Minister and held by the Ethiopian Government that the decision to delay presentation of the Grain Storage project to the Board had been in response to the U.S. Government's decision to abstain from voting on two previous Ethiopia projects. The Bank had gone ahead with projects in the face of opposition from particular members of the Board, including the U.S., in the past and would do so if necessary in the case of Ethiopia.

In fact the U.S. had not spoken to him on the subject so that he had no idea how they would vote. However, the problem at the moment was that the Bank management was not convinced that it should proceed with the project and until it was the possible reaction of the Board was not immediately relevant. Mr. McNamara proposed that at an appropriate time a mission from the Bank should examine the prospects for the successful implementation of the Grain Storage project. It would not be desirable for such a mission to be mounted until the Government judged that the chances for a positive outcome were reasonably good otherwise Ethiopian Government relationships would receive a further setback. He suggested that the Minister discuss the proposed mission in further detail with Mr. Wapenhans.

SPlease/lo

cc: Messrs. Wapenhans
Adler
Tolley
de Jong
Hablutzel
O'Brien
Burmester

19

OFFICE MEMORANDUM

TO: Files

DATE: September 25, 1978

FROM: Sven Burmester, Division Chief, EA2DB

SUBJECT: ETHIOPIA - Mr. McNamara's Meeting with Mr. Teferra, Minister of Finance,
September 22, 1978

1. Mr. McNamara met with Mr. Teferra Wolde-Semait, the Ethiopian Minister of Finance, on September 22, 1978, at 5:30 p.m. The meeting took place in Mr. McNamara's office and lasted for about 20 minutes. Present were Mr. Teferra, Mr. Lemma Argaw and Mr. Kebede Shoandagh from Ethiopia, Messrs. Thahane and Madinga and Messrs. McNamara, Stern, Wapenhans, Gue, Koch-Weser and myself from the Bank.
2. Mr. Teferra said that Ethiopia had been living through a very difficult year but that prospects for development were now much better. The national territory had been recovered and reconstruction was under way in the Ogaden. Most of the territory had been regained in Eritrea and the major roads were now open. It was likely that industrial production soon would start again in Eritrea. The Government was about to complete its budget for the current fiscal year and the budget included substantial capital expenditures. Furthermore, plans were in front of the Government to increase domestic resources. However, foreign assistance was still essential and in that connection, he was worried that Ethiopia had only received one project from the Bank Group in FY78. He would hope that further assistance could now be forthcoming as discussed with Mr. Wapenhans during his recent visit to Ethiopia.
3. Mr. McNamara said that Ethiopia undoubtedly needed foreign assistance and that it had received less than its fair share in the past. We in the Bank Group were anxious to help Ethiopia, particularly with its efforts to develop the agricultural sector and reach the poorest parts of its population, but it was also necessary for the Ethiopians to help us to help them. To this effect, the Government would have to show reasonable and responsible efforts to make progress on the compensation issue. This very afternoon Mr. McNamara had talked to representatives of a liberal European government who had underlined that they could not support IDA assistance to Ethiopia as long as reasonable settlements with claimants had not been attempted. The credibility of the Government in financial markets was at stake because of the compensation issue. Some parts of the Ethiopian Government might believe that the World Bank was acting under political pressure but such was not the case. We were trying to help Ethiopia establish its reputation for responsible international relationships and we applied our policies on compensation uniformly among countries. We would be willing to show our good faith by issuing a notice to negotiate the MPP II Project by the end of October, 1978 and to

reappraise the Education V Project at the same time, but we would not present either one of these projects to the Board before reasonable efforts had been shown by the Government to move on the compensation issue.

4. Mr. Teferra said that the Government was, in fact, trying to make serious efforts on the compensation issue. The Compensation Commission had suffered from lack of manpower but a new and highly qualified Chairman had recently been appointed, and Mr. Teferra had briefed him before he left Addis Ababa. The Commission had completed some preliminary work on some claims and had corresponded with other claimants some of whom had asked for an extension of time to respond. Others hadn't even responded to the Commission's request for further information. Hence, it was hard for the Commission to move on any specific cases. Mr. McNamara said that he did not want any preference for the two IFC cases but as an example he was convinced that they were ready to be acted upon. He stressed that we would only be allowed to help Ethiopia if we could get the evidence to show the governments which maintain that Ethiopia refused to make reasonable efforts on the compensation issue that they were wrong.

5. Mr. Teferra said that the Compensation Commission could not publicize its work and the Commission maintained that its work was of no interest to any one but the parties directly concerned. Mr. McNamara said that that was wrong. The work of the Commission was in fact of interest to the financial world which required evidence of Ethiopian progress on the compensation issue. He again emphasized that we needed Ethiopian help to be able to help Ethiopia. He expected that we would be ready to present the MPP II Project to the Board by the end of calendar year 1978 and we would need evidence on the compensation issue before then. Mr. Teferra said that he was encouraged by the conversation with Mr. McNamara and that the Government would do its best on the compensation issue.

cc: Mr. McNamara
Mr. Stern (VPO)
Mr. Wapenhans (EANVP)
Mr. Quereshi (CEX)
Mr. Gue (EA2DR)

SB:mm

OFFICE MEMORANDUM

TO: The Records *AR* DATE: October 29, 1979
FROM: André R. Gué, Director, E. Africa II
SUBJECT: ETHIOPIA: 1979 Annual Meeting - Mr. McNamara's Meeting with Minister Teferra

1. On October 4 Mr. McNamara met Mr. Teferra, Minister of Finance of Ethiopia who was accompanied by Messrs. Kebede and Yembere. Also in attendance were Messrs. Madinga, Executive Director, Stern, Wapenhans, Gué and Koch-Weser.

2. Mr. Teferra reported that since the last Annual Meeting Ethiopia had made great efforts to further economic development and more particularly to increase agricultural production.

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3. The compensation issue had been a source of great concern and the Government had examined ways in which solutions could be found. It had asked the Compensation Commission to report to the Government on its activities. A copy of the report had been sent to the Bank and to others. Positive results had been achieved since then with some claimants who had submitted the additional information requested by the Commission. In particular, the Commission had told two of the claimants that it would review their additional submissions promptly and then sit down with them and try to negotiate a settlement. Thus the Government felt that important progress had been achieved and had requested him to inform the Bank accordingly. All countries except one were very cooperative with Ethiopia, particularly since the Commission's report had come out.

4. Mr. McNamara replied that he was delighted to hear about the steps Ethiopia had taken to tackle the compensation issue and that the Bank was prepared to respond positively. He had already asked Mr. Wapenhans to send a mission to Ethiopia to expedite the completion of negotiations of the MPP II Project. He hoped that the Bank could resume lending to Ethiopia soon to help it achieve its socio-economic goals.

cc: Messrs. Stern, Wapenhans, Koch-Weser, Burmester, Adler, Hendry,
Walton
RMEA

ARGué:mjb/cj

OFFICE MEMORANDUM

TO: Memorandum for the Record

FROM: Sven Burmester, Division Chief, EA2DB

SUBJECT: ETHIOPIA - Mr. McNamara's Meeting with the Minister of Finance,
Ato Teferra Wolde Semait, on October 3, 1980

DATE: October 8, 1980

1. The Ethiopian Minister of Finance, Ato Teferra, met with Mr. McNamara at 6:10 p.m. on October 3, 1980, for seven minutes in Mr. McNamara's office. Present were from Ethiopia Ato Mituku Jembere, Head of Credit and Investment Department, Ministry of Finance, Ato Lemma Argaw, Head of Finance and Budget Department, Central Planning Supreme Council, and Ato Kebede Shoandagn, Economic and Financial Counselor, Embassy of Ethiopia; and from the Bank Messrs. Wapenhans, Gue, Lafourcade and myself.

10/09
2. The Minister of Finance first raised the issue of compensation for nationalized industries. He said that the Government had recently reviewed its action on the compensation issue and that a schedule now had been established by the Compensation Commission to invite about ten claimants between October 1980 and June 1981. One claimant had already been invited and others would follow. The Minister felt that a breakthrough on the compensation issue had been reached and that the necessary environment had thereby been created for the Bank to proceed with the projects in the pipeline. Mr. McNamara said that he was delighted to hear about the progress. It was clearly in the interest of the Government to move on the compensation issue. He suggested that we maintain contact and be informed of progress.

3. The Minister of Finance then expressed the appreciation of his government for the efforts that Mr. McNamara had made as President of the World Bank. The Ethiopians, however, did not want to bid farewell to Mr. McNamara in Washington and the Government therefore would like to invite Mr. McNamara to visit Ethiopia and see its problems and progress for himself. Mr. McNamara said that he had visited Ethiopia only once, but had been fascinated by the country. He had been shocked by the marginal existence of many people in Ethiopia. He would therefore like to see the changes the Government had made, particularly in agriculture and education. In principle, he would therefore like to accept the invitation and try to fit it into his travel schedule, subject to whether his work in Washington would permit him to be absent.

Cleared with and cc: Mr. Wapenhans, RVP
Mr. Gue, EA2DR

cc: Mr. McNamara's Office
Mr. Stern, SVP

SB:mm

OFFICE MEMORANDUM

DATE: October 2, 1980

TO: Mr. Robert S. McNamara, President
THROUGH: Mr. Ernest Stern, SVP, Operations
FROM: Willi A. Wapenhans, RVP, EAN

SUBJECT: Annual Meetings: Your Meeting with the Ethiopian Minister of Finance

1. At his request, we have arranged for Ato Teferra Wolde Semait, Minister of Finance of Ethiopia, to meet briefly with you tomorrow at 6:00 p.m. The purpose of the meeting is to afford an opportunity for Ato Teferra to invite you, on behalf of the Ethiopian Government, to visit Ethiopia before you retire next year.

2. As a factor in your consideration of this invitation, I want to alert you that Ato Teferra has provided us with information on the compensation issue that will enable us to present soon another project proposal in Ethiopia to the Board, hopefully before end-November. This will be the first since April 1978. Please refer to my memorandum to Mr. Stern of October 2, 1980 (attached).

3. Provided the visit would fit into your schedule, we would recommend that you accept the invitation on the understanding that we will see continued satisfactory progress on compensation enabling the Bank to move quickly back to a state of normal lending operations in Ethiopia.

Attachment

cc: Messrs. Gue, Burmester, Jordan, Kreuter and Dixon

DNJordan:lrg

OFFICE MEMORANDUM

TO: Mr. Ernest Stern, SVP, Operations DATE: October 2, 1980

FROM: Willi A. Wapenhans, RVP, EAN

SUBJECT: Annual Meetings - Your Meeting with the Ethiopian Delegation
Ethiopia - Compensation Issue

1. I want to alert you to important news on the compensation issue that I received from Ato Teferra Wolde Semait, Minister of Finance, during my meeting with him.
2. He informed me that Ethiopia's Compensation Commission has invited the Fuji Spinning Company of Japan, IFC's nationalized partner in the former Cotton Company of Ethiopia, to begin negotiating Fuji's claims in two former subsidiaries of the Cotton Company -- the Syncotex Company and the Garment Company of Ethiopia -- on October 20, 1980 in Addis Ababa. (Syncotex was the *raison d'etre* of a third IFC investment of US\$1.7 million in the Cotton Company in 1973, and was created to operate an acrylic yarn plant. The Garment Company manufactures clothing.) He handed me a copy of the Commission's invitation letter (Attachment 1) which states specifically that the negotiations are to focus on "the amount of compensation and manner of payment of (Fuji's) claims". Ato Teferra also informed me that the Commission intends to begin negotiations with a number of claimants (ten or more) between October 1980 and June 1981. This intention is highlighted in a brief written report on the Commission's current activities and plans (Attachment 2) which Ato Teferra gave me together with copies of correspondence from the Commission to various claimants.
3. I consider these actions on the part of the Commission to represent sufficient progress on compensation to justify our moving a project proposal in Ethiopia to the Board. Mr. Tobias Asser, Assistant General Counsel, and Mr. C. F. Amerasinghe, Senior Counsel, concurred with my assessment following their examination of the Commission's actions in the context of the Bank's policies on compensation. The actions also meet the requirements of our previous statements to Ethiopia. In this regard, we have informed the Government on various occasions that once the Commission had invited at least one claimant having a bona fide claim to begin negotiations, we would recommend proceeding to the Board with another project proposal.
4. I therefore propose that, in your meeting with Ato Teferra tomorrow morning, we inform him that we will finalize the documentation for the Second Agricultural Minimum Package Project (MPP II) and present it to our Board as soon as possible, hopefully before end-November. You will recall that we negotiated a \$40 million credit

October 2, 1980

for this project in May 1980, but have held up Board presentation pending progress on compensation. We should also inform him that we will move forward with our processing of the Fifth Education Project with a view towards early credit negotiations. This project was reappraised early in 1980. We should add, however, that we will not present the education project to the Board without further satisfactory progress on compensation.

5. I also want to alert you that, at his request, we have arranged for Ato Teferra to meet briefly with Mr. McNamara at 6:00 p.m. tomorrow. The purpose of the meeting is to afford an opportunity for Ato Teferra, on behalf of his Government, to invite Mr. McNamara to visit Ethiopia before he retires next year.

Attachments

Cleared with and cc: Mr. Amerasinghe

cc: Messrs. Gue, Burmester, Asser, Cancio, Kreuter and Dixon (IFC)

DNJordan:lrg

*7 September 23, 1980.

Date

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THE PROVISIONAL MILITARY GOVERNMENT OF SOCIALIST ETHIOPIA

COMPENSATION COMMISSION

Messrs Fuji Spinning Company
No 18 - 12 - 1 - Ghome Ningyocho, Nihonbashi
Chuo - Ku, Tokyo, 103
Japan.

Dear Sirs:

We wish to draw your attention to our letter dated July 14, 1980 and the enclosed questionnaire wherein we requested for materials and information regarding the background of the former Cotton Company of Ethiopia and its affiliates to date of their nationalization.

Since writing of the above letter the Commission has been seriously engaged in trying to secure further materials and documents from local sources and at this stage we feel that some facts and evidences have been obtained regarding subsidiaries of the former Cotton Company of Ethiopia, namely, Syncotex and Garment Company of Ethiopia to enable us conduct preliminary negotiations with your goodselves.

Therefore, in order to convey to you our desire to entertain your claim with understanding and goodfaith we are glad to inform you that we could start to negotiate on the amount of compensation and manner of payment of your claims in the former Syncotex and Garment Co. of Ethiopia at least on the basis of materials and information we have managed to secure from our end.

Consequently, we are now ready to meet your legally designated representative on Monday, October 20, 1980 at 9:00 a.m. local time in Addis Ababa and start the first round of negotiations regarding your claims of your nationalized interests in the 2 subsidiaries.

Kindly advise us therefore, by return mail, of your readiness to send your delegate for negotiations on the above date and in the meantime please rest assured of our desire to reach at a negotiated settlement of your claim.

Finally, as we have not been successful in obtaining additional evidences and materials with regard to the former Cotton Company of Ethiopia, we regret that we cannot invite you for negotiations on settlement of your claims for your



Date

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THE PROVISIONAL MILITARY GOVERNMENT OF SOCIALIST ETHIOPIA
COMPENSATION COMMISSION

- 2 -

nationalized interests in the CCE before we receive full and satisfactory reply to our questionnaire sent out on July 14, 1980.

Thank you for your understanding and immediate response.



Yours sincerely,

Getahoun Terrefe
Getahoun Terrefe

Discussion of the Ethiopian Delegation with
the officials of the World Bank Group during
the 1980 Annual Meeting

The compensation issue:

(a) The principle of fair compensation

1. It is recalled that full recognition of the principle of fair compensation to nationalized interests was declared by the Provisional Military Government of Socialist Ethiopia soon after nationalization.
2. Towards this end the Government promulgated Proclamation No. 70 of 1975, which, inter alia, established a Commission with a full fledged authority to deal with claims of compensation with a view to negotiate the amount and manner of payments. To strengthen the Commission, the legislation was later amended in order to take account of problems of court cases related to loans and debts in connection with nationalized property.

(b) The activities of the Commission

3. A detailed report of the Compensation Commission's activities, namely its performance, since its establishment as well as problems confronted, was made available to all concerned in 1979. Subsequent to the submission of its report, the Commission expressed its intention to invite some claimants for discussions. It should be noted here that the collection and compilation of information as well as the submission of evidence in support of claims were indeed difficult since most claimants had no adequate record in support of their claims or reluctant to submit the required information - which made the effort all the more time consuming and the matter complicated.
4. In spite of various difficulties, however, the Commission addressed claimants persistently, requesting them to submit specific and additional information, and wherever cooperation on the part of claimants was obtained, the Commission acknowledged the receipt of information; and where the level of information available to it so warranted the Commission invited claimants for discussion, and expressed its intention to invite them to start preliminary negotiation as soon as this was practicable.

(c) Change in the leadership of the Commission

5. In the midst of intensive work of the Commission, the Chief Commissioner was removed from his post for reasons unrelated to the activities of the Commission. This naturally held up the momentum that was in the making, although even here the work of the Commission in general and technical studies in particular proceeded without any serious interruption.

6. Recently, the post of the Chief Commission and Associate Commissioner have been filled; this has enabled the Commission to accelerate the pace of its activities.

(d) Present position of the Commission's work

7. In August, the Commission briefed Government Authorities on its work regarding its present activities and future plans - in particular, with regard to the schedule of negotiations it has set up. After studying the report of the Commission, the Government commended the Commission for the work done so far and instructed it to expedite the work even further. This clearly indicates that the Government has paid special attention to resolve the issue of compensation in accordance with its earlier commitment. A letter to this effect signed by the Comrade Fisseha Desta, Assistant Secretary-General of the Provisional Military Administration Council, and Deputy Chairman of the Council of Ministers, is a clear evidence of the Government's intention to resolve this issue as soon as possible - given adequate cooperation on the part of claimants and other interested parties.

8. The latest position is that the Commission has started to invite claimants for negotiation in accordance with the schedules of negotiation. The Commission has envisaged to start negotiation with a number of claimants, estimate of at least ten claimants between October 1980 and June 1981.

9. Seen in the context of a period of revolutionary transformation and all the challenges entailed - waging wars on several fronts, containing political, economic and social problems - the stage that is now reached by the Commission can indeed be considered satisfactory.