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FOOD FOR WORK & FOOD FOR THOUGHT IN ETHIOPIA

Over nearly three decades in Ethiopia, USAID and its NGO partners have provided food relief in the form of grains and cooking oils. Much of this assistance has been delivered through “food for work” (FFW) schemes designed both to help households and communities during periods of short-run shortages resulting from bad crop years and to restore long-run farm productivity and food security by paying for local labor to improve roads, plant trees and install terraces on degraded hillsides, and erect potable water and irrigation systems.

DevTech staff recently participated in an evaluation sponsored by the USAID mission to Ethiopia to assess the impact and performance of U.S. food aid in restoring productive capacity of rural households and communities, particularly in the densely populated highland mountain regions of the country where, at present, food is available to many for only six months of the year. The evaluation documented discernable positive FFW impacts on getting food to people in need and on rebuilding their capacity to meet their food requirements year-round.

The present USAID food security strategy in Ethiopia is predicated on

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BUILDING A PUBLIC FINANCE SYSTEM IN AFGHANISTAN

Prior to the 1979 Soviet invasion, Afghanistan was gradually emerging from being one of the world’s poorest and least-developed nations. Modest progress in developing its irrigated agriculture, education system, and physical and social infrastructure has all since been lost by nearly a quarter-century of resistance against Soviet occupation, internal tribal dissention and conflict, government misrule and collapse, three consecutive years of drought, and destruction wrought by the U.S. anti-terrorist campaign. Afghanistan today must be one of the most miserable places on earth. There are estimated to be about 7.5 million Afghans who have been displaced by drought, bombing, domestic terror, and economic flight. The lack of institutions, collapse of the currency — it is said that the Afghan is more counterfeited than officially produced — dearth of skills, and sheer poverty make it clear that the struggles ahead are gargantuan.

U.S. efforts at nation-building in Afghanistan must include the construction of a system of public finance. This will have to encompass the central government, the regional governments, and some level of local government (cities, municipalities in general). Any system of public finance must be built upon a rationally designed and managed civil service system, with adequate salaries, effective training and supervision, transparent hiring, fairness in firing, and flexibility that does not foster arbitrariness.

The new government must concentrate its efforts in two areas: reconstruction, which should be temporary albeit taking place over many years, and establishment of the means and ways of providing for more permanent governmental functions and services.

RECONSTRUCTION

Reconstruction should last several years, perhaps 10 or longer, and will likely be funded entirely by the international community. Reconstruction needs to be implemented in a fashion that is expeditious, non-politicized, with a high degree of accountability, and fully coordinated among donors and permanent functions of government, and it should be temporary.

It is the temporary nature of this reconstruction effort and the dependence on foreign assistance, as well as the other attributes already mentioned, that call for this program to

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be implemented by a nongovernment agency: A Fund for Social Investment and Reconstruction, for example. This FSIR should be autonomous from government. Its leader should be an Afghan appointed by the donor community and ratified by the President of Afghanistan. The staff of the FSIR should be highly competent Afghans with knowledge of project management, economic and social development, engineering, and building the institutions of democracy.

Staff will need to be recruited and trained. It is entirely unlikely that local Afghans can meet the current challenges. There may be scope for recruiting Afghans in Europe or the United States who could fill many of the staff positions.

The FSIR would have a board of directors composed of representatives of national, regional, and local government and the donor community. The donor community should hold a majority of positions.

Major focuses of the FSIR would include:

- Roads, communications, electricity, water.
- Schools.
- De-mining.
- Resettlement of displaced persons.
- Health facilities.

PERMANENT GOVERNMENT

Afghanistan must immediately begin to build the infrastructure and staff of a permanent government. There is need to focus. Government, for now, should grow carefully and focus on the most important needs of a permanent nature.

These most important aspects of government should include:

- Primary and secondary education (non-capital).
- Primary health care.
- Public security and administration of justice.

- Road maintenance and policy.
- Other infrastructure maintenance and policy, such as water and sewerage systems.

These areas should probably comprise about 90 percent of the new national government's recurrent budget. The rest of the budget would go to international affairs, culture, support to health care and universities, and protecting the environment.

FEDERALISM

One of the best ways to keep a country from blowing apart is to have a solid system of fiscal federalism. Fiscal federalism must go hand in hand with democratic reforms. Since decentralization is in essence about power, under the federal system as much power as possible is devolved to local populations via representative local government rather than to local warlords.

Federalism will take place at the provincial and local levels. There will be certain services that can be provided by local government and, where that is not workable or desirable, by the regional governments. For instance, municipalities should probably run primary schools — under national-level policy strictures. Local street maintenance would be a function of local government, but highways would be the responsibility of regional or national government.

Schooling and health care might be provided by local government but in great part funded by the central government under a system of categorical grants that fund the student or the user of services (i.e., demand funding).

Other transfers to local and regional governments can come from central government to balance out the geographical distribution of resources in the country.

In all cases, transfers to regional and local government must be executed in a way that ameliorates differences but does not discourage local revenue efforts and other efforts at self-help.

TAXATION

Central Government

The Value-Added Tax (VAT) is the worldwide norm for almost all national tax systems. However, Afghanistan is not ready for the VAT yet. Implementing a VAT requires a variety of capabilities among the tax administration and businesses that are not yet available in Afghanistan. However, the tax system that is developed for Afghanistan should allow for a VAT to be implemented later.

The following taxes should probably form the backbone of the Afghan national tax system:

- Import duties, perhaps at the 10–15 percent rate, would be best imposed using one single rate. This would minimize distortions and ease administration while reducing the opportunities for corruption.
- Excise taxes could be imposed on domestic production and imported products, probably including petroleum products, tires, bottled soft drinks, alcoholic production (if allowed), and cigarettes and other tobacco products.
- Vehicle tax should be imposed based on the weight or value of a vehicle. The government should consider earmarking this tax and the tax on petroleum products for highway maintenance.
- Sales tax, which would be essentially a “turnover” or gross revenues tax, is not normally recommended, but Afghanistan is not dealing with normal conditions. The sales tax would be replaced in a few years by a VAT.
- Personal income tax would be imposed on salaries and other personal income. The backbone of this tax for the near future would be a withholding tax on salaries. It is important that donors and embassies participate in this system for national employees.

There probably should not be a corporate or profits tax at this time. It is very difficult to manage. It is open to corruption. In addition, with the sales tax, a part of corporate income or business profits are already being taxed. If a VAT is introduced in the future, the government should consider also imposing a corporate income tax.

Local and Provincial Government

The allocation of taxing authority must be based upon the distribution of expenditure responsibilities. More information is needed to determine what level of government (local or provincial) should impose which tax. That said, there are some taxes and other revenue sources that could be applied at the sub-republic level. Some of these are:

- Real estate taxes, which would probably be mostly on urban properties for the immediate future.

- Real estate sale or transfer tax, which would be imposed on the registration of properties at their sale or transfer. The rate should be low so as not to discourage registration.
- Retail sales tax, which would be phased out when a national VAT is later imposed. At that time other sources of revenue would have to be found.
- Taxes on natural resource extraction should be imposed on the felling of timber.

NEXT STEPS

- Provide immediate assistance to the Minister of Finance, guiding on how to set up the new fiscal system.
- Provide immediate technical assistance to other key ministries.
- Develop an assessment of the state of Afghan key ministries: finance, education, health, public security, and justice.

- Provide immediate cash inflows, but with adequate controls.
- Assess the human resources available for running a modern government and FSIR.
- Identify qualified Afghans available for repatriation.
- Assess the present fiscal system at the republic, province, and local levels. This includes current laws, practices, and institutional capacities.
- Develop with Afghan top officials and the international community a common approach for programming and implementing the reconstruction effort.

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the expectation that beneficiary populations will be assisted *in situ* to improve their food security through health, nutrition, agriculture production, household enterprise, natural resource management, and related livelihood interventions. Troubling in this approach is the sobering finding that many target rural highland and midland areas, with their current population densities, are unlikely to ever achieve levels of household and community assets, or the labor or land productivity, that would ensure food security — access to and availability of food for all at all times — even under the best of growing conditions and with the most modern and appropriate cultivation practices.

Some out-migration seems warranted, even inevitable, in the course of the country's development. According to the World Bank's World Development Re-

port, 2001, Ethiopia has an extremely low urbanization rate (18 percent) compared to sub-Saharan Africa (34 percent) and the world (47 percent), with only three countries in the region — Rwanda, Uganda, and Burundi — below it.

The evaluation found that ample scope exists to coordinate USAID FFW and development assistance for building coping capabilities for livelihoods both within and outside the target highland areas. The evaluation also concluded that USAID's basic education and functional literacy programs could assist that process of social and economic mobility by using food aid to build skills useful to finding gainful employment and improving livelihoods in Ethiopia's emerging urban centers.

USAID's basic education strategic objective, for example, explicitly recognizes that improved health and nutrition are essential to building a sound educational background. Food aid can be targeted to ad-

dress health and nutrition requirements for more effective child learning. Beyond basic education for children, functional literacy is essential to social and economic mobility within a growing and developing economy. That social mobility will in turn relieve pressures of people on the land in those rural areas where population densities exceed their human carrying capacity.

Urban coping skills for adaptation to non-farming livelihoods are just as important as agricultural-based rural livelihood coping skills in facilitating this process. Urban coping skills, of course, differ from those required in rural areas. Basic education, supplemented with functional literacy (and numeracy) training, can equip beneficiaries with job-oriented skills necessary for seeking off-farm livelihoods. Education expands the capacity of motivated rural populations to pursue urban-industrial livelihoods as they emerge in the course of development.

The evaluation noted the added management burdens for USAID mission and NGO partner staffs in any future programming of U.S. food aid resources for school feeding and supportive FFW activities in functional literacy. Still, there is a strong case that there are valuable program efficiencies to be gained by such efforts:

- For achieving household food security objectives: A strong basic education and functional literacy program can provide rural beneficiaries with the capacity to seek out employment opportunities and livelihoods outside the target areas. Populations can often be better served with social services in primary and secondary urban centers where they relocate. They also become consumers for off-farm sales of agricultural commodities produced by remaining rural household beneficiaries.

- For achieving basic education objectives: A well-integrated FFW and school feeding program targeted on providing potable water, treating waterborne diseases, and improving nutrition can certainly enhance the cognitive capacity of school-age children. Integrating food for work activities with functional literacy and skills development programs targeted at adults can further extend the beneficiary reach of USAID's education programs and enhance their cost-effectiveness. Better-educated adults, studies show for example, are more likely to send their kids to school and to keep them there. School feeding programs may also serve to bring more girls into the classroom and better equip them for learning as well.

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