

LOAN COMMITTEE

LC/M/86-30
September 12, 1986

Minutes of Loan Committee Meeting to consider
ETHIOPIA - Proposed Peasant Agricultural Development Project
held on September 8, 1986 in Conference Room E-1208

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WBG ARCHIVES

A. Present

Committee:

Chairman: Mr. Stern
Finance: Mr. Asanuma
Legal: Mr. Goldberg
OPS: Mr. Husain
Region: Mr. Jaycox

Other:

Messrs/Mmes. Ashworth	Iman
Byamugisha	Mwine
Clements	Nelson
Donovan	Nooter
Dunn	van Holst Pellekaan
Farmer	Wiehen
Hussain	Wyss

B. Issues

1. The meeting was called to discuss issues raise by the Decision Memorandum dated August 4, 1986 and related documents for a proposed Credit to Ethiopia for a Peasant Agricultural Development Project.

C. Discussion

Agricultural Policy Package

2. Clarification was first sought on the contents of the proposed agricultural policy package to be agreed in the context of this project. The Region explained that the policy package would involve restrictions to quota purchases by the Government's Agricultural Marketing Corporation (AMC), together with incentive prices for the quota purchases based on import parity prices.

DISTRIBUTION

COMMITTEE

Senior Vice President, Operations (Chairman)
Senior Vice President, Finance
Vice President & General Counsel
Vice President, Operations Policy
Regional Vice President concerned*
Vice President, Energy & Industry (for lending
in these sectors and SALs)
Vice President, Economics and Research (for non-
project lending)

OTHERS

Standard (see OMS 9.25 page 7)

*Copy to all other Regional Vice Presidents

The size of the overall annual quota would be fixed for the project period, with restrictions on quota purchases by region and among farmers. Surplus grain would be sold on the open market, and trade barriers within and between regions would be removed. The Region's dialogue with the Government had resulted in a good understanding of the issues and the Government was preparing a study of relevant prices and quotas that would be discussed early in 1987. While agreement was expected, there was no guarantee of success.

3. The Committee was concerned that the interregional movement of grain from surplus to deficit regions would continue to be restricted. The Region responded that licenses would be issued in various regions but only as a means of providing permits to traders for access to private markets, not as a control mechanism.

Villagization

4. The meeting discussed the Government's program to change the residential pattern of peasant farmers who traditionally have lived in dispersed dwellings. The Government's stated purpose is to establish village clusters where it will subsequently be possible to provide improved social and agricultural services more efficiently.

5. Concern was expressed that in the process agricultural land might be collectivized, as had been the case in Tanzania, with deleterious effects on production. The Region explained that this was not the intention in Ethiopia; under this program villagers would continue to cultivate individual plots of land. Furthermore, when it became apparent that the pace at which villages were being established in some regions threatened to disrupt agricultural production, the Government took swift action to slow down implementation. The Government's approach was pragmatic.

6. Speakers were also concerned that, although villagization might be beneficial in some areas, it could be inefficient as a national approach. The Region stated that, at this early stage, it was not in a position to form a judgement or to advise the Government not to proceed with the program, other than to warn against possible disruption to farming activities. As the Government was intent on establishing rural villages, the best way to proceed, in the Region's view, was to monitor the program's progress and recommend adjustments as our knowledge increases. While execution of the program might be a heavy drain on administrative capacity, the drain on financial resources had so far been small; the Government, for example, was not providing assistance to individuals for the construction of their dwellings. The fact that the program would only alter the village structure, and not the structure of agriculture, was emphasized.

7. The Committee foresaw a danger that the social changes and bureaucracy involved in the implementation of the villagization program would erode the benefits expected to accrue from the establishment of an improved agricultural policy environment. The impact of the program on farmer motivation would require close monitoring.

Interest Rates

8. The Region explained that the Government had recently changed the structure of interest rates, lowering them significantly to reflect a sharp drop in inflation and excess liquidity in the banking system. As a result, the Government has asked IDA to consider reducing its covenanted rates under existing Development Credit Agreements as well as those proposed for this project. The Committee noted that some adjustment would be appropriate as long as the new rates were positive in real terms and provided an adequate spread to intermediaries.

Project Complexity

9. A Committee member, noting the institutional complexity of the proposed project, suggested that it would be more effective to undertake separate projects for the seed industry, the extension services and the provision of credit. The Region explained that it had been working with the institutions involved for an extended period under other projects and had a sound basis for addressing the institutional requirements. The Committee agreed with the Region's proposal to undertake the project as designed, with the understanding that adequate institutional treatment would be given to each of the project elements.

D. Conclusion

10. The Committee authorized the Region to proceed with the project as proposed, subject to the points outlined above. The Chairman stressed the importance of adequate institutional arrangements and of a strong policy package to liberalize the pricing and marketing system. The Region should monitor implementation of the villagization program closely to see that it did not evolve in a way that would negate the benefits of the policy improvements. He asked to be kept informed of developments.